

# REGULATION ON SIMPLIFIED AND FOREIGN COMPANIES IN JAPAN

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## I. INTRODUCTION

For many years, the international business community has paid little attention to small- and medium-sized companies. Given the highly globalized capital market, investors as well as governments are interested in the corporate governance of publicly held corporations in other states.<sup>1</sup> In contrast, small- and medium-sized corporations have been regarded as a local legal institution governed by domestic laws that may not necessarily be unified or harmonized.

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<sup>1</sup> For example, the Organisation for Economic Co-operation and Development (OECD) published its principles of corporate governance in 1999, which is periodically reviewed. See Organisation for Economic Co-Operation and Development [OECD], *OECD Principles of Corporate Governance* (May 1999, rev. Nov. 2004).

Therefore, it was a little surprising that the United Nations Commission on International Trade Law (UNCITRAL) launched a project on “Micro, Small, and Medium-sized Enterprises.”<sup>2</sup> The motivation behind the project was the recognition that creating an appropriate legal environment for micro-, small-, and medium-sized enterprises could contribute to sustainable development and inclusive finance.<sup>3</sup>

This paper intends to provide information on Japanese law regarding the following two issues. First, it explores the corporate forms available for small- and medium-sized enterprises under Japanese law and explains the applicable corporate law rules. Given the large number of small- and medium-sized companies incorporated and carrying out business in Japan, it is worth looking at how Japanese law meets the demand for small- and medium-sized firms.

Second, the paper provides a quick review of the regulation of foreign companies under Japanese law. In a global context, it is very important to know how small- and medium-sized companies incorporated in one jurisdiction are treated under another. Is a company established in a foreign country automatically recognized as a legal person under Japanese law? If it is, is there any special regulation for foreign companies? Although it is impossible to identify all regulations that might apply to them, this paper explains the general treatment of foreign companies under the Civil Code and the Companies Act.

## II. REGULATION OF MICRO-, SMALL-, AND MEDIUM-SIZED ENTERPRISES UNDER JAPANESE LAW

### A. The Background

There is no specific statute designed for small- or medium-sized companies under current Japanese law. Historically, such a statute did exist: the Limited Liability Companies Act 1938.<sup>4</sup> Modeled on Gesetz betreffend die Gesellschaften mit beschränkter Haftung 1892 (Law Regarding Companies with Limited Liability, 1892) in Germany, the Act provided flexible regulations for

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<sup>2</sup> The issue has been discussed at the UNCITRAL Working Group I since its 22nd session. See U.N. Comm’n on Int’l Trade L., Working Group I, *Rep. of the Working Group I (MSMEs) of the Work of its 22nd Session*, U.N. Doc. A/CN.9/800 (Feb. 28, 2014).

<sup>3</sup> See U.N. Comm’n on Int’l Trade L., Working Group I, *Selected Activities of International and Intergovernmental Organizations to Promote Micro, Small and Medium-Sized Enterprises*, U.N. Doc. A/CN.9/WG.I/WP.81 (Feb. 28, 2014).

<sup>4</sup> Yūgen gaisha hō [Limited Liability Companies Act], Law No. 74 of 1938, translated in (Japanese Law Translation [JLT DS]), <http://www.japaneselawtranslation.go.jp/> (Japan). The translation of the text of Japanese statutes in this paper is based on the Japanese Law Translation Database System (JLT DS). JAPANESE LAW TRANSLATION, <http://www.japaneselawtranslation.go.jp/> (last visited Dec. 14, 2015). The Japanese law Translation Database System provides an unofficial, but the most widely used, translation of Japanese statutes.

companies with a relatively small amount of capital and non-transferable shares. The Japanese 1938 Act was repealed in 2005 when the Companies Act<sup>5</sup> was promulgated. However, this does not mean that flexible treatments for small- or medium-sized companies disappeared under Japanese law. The regulations under the Limited Liability Companies Act were incorporated into the provisions on closely held Stock Companies in the Companies Act, which will be explained in this Section.

The Companies Act of 2005 recognizes four types of companies: Stock Companies (Kabushiki-gaisha), General Partnership Companies (Gomei-gaisha), Limited Partnership Companies (Goshi-gaisha), and Limited Liability Companies (Godo-gaisha) (Art. 2(i)).<sup>6</sup> Partnership companies consist of members with unlimited liability for company debt,<sup>7</sup> while limited partnership companies consist of members with both unlimited and limited liability.<sup>8</sup> Members of stock companies and limited liability companies have limited liability.<sup>9</sup> Although partnerships do not have a legal personality in many countries, they can be incorporated as a company with a legal personality in Japan.<sup>10</sup> Table 1 shows the number of companies of each type. It is immediately evident that the overwhelming majority of companies (approximately 98%) take the form of a Stock Company.

**Table 1: Number of Companies<sup>11</sup>**

Type of Company	Numbers
Stock Company	2,469,378

<sup>5</sup> Kaisha hō [Companies Act], Law No. 86 of 2005, *translated in* (Japanese Law Translation [JLT DS]), <http://www.japaneselawtranslation.go.jp/law/detail/?id=2455&vm=04&re=01&new=1> (Parts I- IV of the Act); <http://www.japaneselawtranslation.go.jp/law/detail/?id=2456&vm=04&re=01&new=1> (Parts V–VIII of the Act) [hereinafter Kaisha hō [Companies Act]]. For general information on the Companies Act, see ICHIROU KAWAMOTO, YASUHIRO KAWAGUCHI & TAKAYUKI KIHARA, CORPORATIONS AND PARTNERSHIPS IN JAPAN (2012).

<sup>6</sup> The English translation, combined with the above history, could cause confusion. The Companies Act 2005 has a company form called a “Limited Liability Company” (Godo-gaisha). This is a completely different form of company than companies with the same English translation under the Limited Liability Companies Act. A “Limited Liability Company” (Yūgen-gaisha) under the Limited Liability Companies Act is currently a type of stock company under the Companies Act 2005. When we find a “Limited Liability Company” in the literature, we should be careful as to which corporate form it refers to.

<sup>7</sup> Kaisha hō [Companies Act], art. 576(2).

<sup>8</sup> *Id.* art. 576(3).

<sup>9</sup> *Id.* arts. 104, 576(4).

<sup>10</sup> Entrepreneurs may keep a partnership unincorporated if they wish. In this case, the business entity remains as a contractual arrangement among its members without a legal personality.

<sup>11</sup> National Tax Agency, *The Results of Corporate Sample Research 2013*, JAPANESE NATIONAL TAX AGENCY, <https://www.nta.go.jp/> (last visited Oct. 14, 2015).

General Partnership Company	4,092
Limited Partnership Company	20,553
Limited Liability Company	28,370

Table 2 shows the size of stock companies. More than 85% of stock companies have legal capital not exceeding ten million yen (approximately \$80,000 USD).<sup>12</sup> Ten million yen of legal capital is a very modest amount for doing business in Japan.

**Table 2: Size of Stock Companies<sup>13</sup>**

Legal Capital (yen)	Numbers
To 10 million	2,110,271
Over 10 million to 100 million	336,571
Over 100 million to 1,000 million	16,948
Over 1,000 million	5,588

From both tables, one can safely conclude that the vast majority of Japanese firms do business as a Stock Company and that most of them are small- or medium-sized. It is curious that the Limited Liability Company legal form is rarely used. Limited Liability Companies, which were introduced by the Companies Act of 2005, have the advantages of partnership and Stock Companies. They have flexibility of internal structure like partnerships and limited liability for members like Stock Companies. Despite the fact that Limited Liability Companies appear to be the ideal company form for small- and medium-sized firms, most of them choose to incorporate as Stock Companies. It is not certain whether Limited Liability Companies under the Companies Act of 2005 was a failure or if we are still in a transition period.<sup>14</sup>

<sup>12</sup> Calculated on the basis of the exchange rate 1 U.S. dollar = 125 yen.

<sup>13</sup> National Tax Agency, *The Results of Corporate Sample Research 2013*, *supra* note 9.

<sup>14</sup> The number of Limited Liability Companies is increasing, although it is not comparable with that of Stock Companies.

Number of Limited Liability Companies	
2009	10,206
2010	14,338
2011	16,882
2012	20,804
2013	28,370

National Tax Agency, *The Results of Corporate Sample Research 2009-2013*, *supra* note 11.

The rest of the paper focuses mostly on the rules on Stock Companies because they are the most common company form used for small- or medium-sized enterprises in Japan, although I refer to provisions on Limited Liability Companies when they differ from those of Stock Companies.<sup>15</sup> Based on the “key considerations” identified in the discussion of the UNCITRAL Working Group,<sup>16</sup> the following issues will be examined:

- (1) Organizational structure, including the possibility of “one-person incorporation”
- (2) Limited liability of members
- (3) Flexibility and contractual freedom
- (4) Incorporation requirements, including minimum capital, and purpose requirements
- (5) Corporate registration
- (6) Fiscal Transparency and Simplified Accounting

## **B. Organizational Structure**

Each company needs at least one member (or shareholder for Stock Companies) and there is no limitation on the maximum or minimum number of members. One-person incorporation is possible. A company can increase the number of members by issuing new stock or accepting new contributions.

Stock Companies should have two basic corporate organs: a shareholder’s meeting and a director (or directors).<sup>17</sup> They may have a board of

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<sup>15</sup> Partnership Companies and Limited Partnership Companies are ignored because company forms that allow investors to limit their liability are more important for our purpose.

<sup>16</sup> The UNCITRAL Secretariat identifies the following 10 items: (1) permitting participation by one or more persons; (2) providing for full-fledged limited liability; (3) establishing simple registration and formation requirements; (4) enabling maximum freedom of contract for participants while establishing clear default rules for less sophisticated entrepreneurs; (5) providing for a flexible organizational structure; (6) making minimum capital an optional requirement; (7) making a statement of an entity’s purpose optional; (8) allowing the use of intermediaries to be optional; (9) providing for fiscal transparency and simplified accounting; and (10) building on the presumption that a ready-made business form statute should focus on the needs of the smallest entities first (the “think-small-first” principle). U.N. Comm’n on Int’l Trade L., Working Grp. I, *Micro, Small and Medium-Sized Enterprises—Legal Questions Surrounding the Simplification of Incorporation*, ¶ 2, U.N. Doc. A/CN.9/WG.1/WP.89 (Jan 28, 2015).

Points (1) and (5) above are discussed in II.B; (2) in II.C; (4) in II.D; (3) and (6)-(8) in II.E; and (9) in II.F, *infra*.

<sup>17</sup> Article 295 presupposes that every Stock Company has a shareholders’ meeting. *Kaisha hō* [Companies Act], *supra* note 5, art. 295 (Japan). Article 326(1) requires a stock company to have one or more directors. *Id.* art. 326(1).

directors,<sup>18</sup> but it is not always a requirement.<sup>19</sup> Therefore, one can incorporate a simple Stock Company with one shareholder and one director. There are many optional corporate organs, such as an auditor, an accounting auditor, and an accounting advisor. Small- and medium-sized firms often lack such optional corporate organs<sup>20</sup>.

The structure of Limited Liability Companies is even simpler. Each member can manage the business of the company, and no director is required (Art. 590). There is no specific corporate organ necessary for this corporate form.

### **C. Limited Liability of the Members**

Shareholders of Stock Companies enjoy limited liability. Article 104 of the Companies Act declares the shareholder's liability: "a shareholder's liability shall be limited to the amount of the subscription price of the shares he/she holds." Shareholders are not required to make a new contribution even if a Stock Company goes bankrupt.<sup>21</sup> The same applies to the members of Limited Liability Companies.<sup>22</sup>

However, there is an exception to the rule. Although there is no specific provision in the Companies Act, the doctrine of piercing the corporate veil has been established in case law. In the Supreme Court case, *Hoshihara Co., Ltd. v. Yamayoshi Shōkai*,<sup>23</sup> the Court formalized the doctrine as follows: the corporate veil can be pierced when "a legal personality has no substance at all or is misused to avoid an application of law." Therefore, in theory, one cannot completely preclude the possibility that a controlling shareholder may be held liable for a company's debt based on this doctrine. In reality, there have been few cases in which Japanese courts have denied the shareholder's limited liability.<sup>24</sup>

One should also note that creditors of insolvent small companies often seek protection under Article 429(1) of the Companies Act,<sup>25</sup> which provides for a

<sup>18</sup> *Id.* art. 326(2).

<sup>19</sup> Stock companies should have a board of directors if they are (1) a Public Company, (2) a Company with Board of Company Auditors, or (3) a Company with Committees. *Id.* art. 327(1).

<sup>20</sup> These corporate organs are required for certain types of stock companies. *See id.* arts. 327(2)-(5), 328.

<sup>21</sup> Shareholders should contribute the full amount of the subscription price when they acquire shares. *Id.* arts. 34(1), 63(1), 208(1). Therefore, there is no amount to be paid to the company once they become a shareholder. The same applies to the members of Limited Liability Companies. *Id.* art. 578.

<sup>22</sup> Kaisha hō [Companies Act], *supra* note 5, art. 580(2).

<sup>23</sup> [Hoshihara Co., Ltd. v. Yamayoshi Shōkai] Saikō Saibansho [Sup. Ct], Feb. 27, 1969, 23 SAIKŌ SAIBANSHO MINJI HANREISHŪ [MINSHŪ] 511 (Japan).

<sup>24</sup> Although there have been a number of cases in which the court "pierced the corporate veil," most of them have very little to do with a shareholder's limited liability.

<sup>25</sup> Article 429(1) provides, "[i]f Officers, etc. are in bad faith or show gross negligence in performing their duties, such Officers, etc. shall be liable to a third party for

director's liability to a third party. The director of a Stock Company may be held liable to aggrieved creditors for the company's debt when the company goes bankrupt due to his or her mismanagement. Although this is not exactly an exception to a shareholder's limited liability, it is often pointed out that Article 429 serves as a substitute for piercing the corporate veil because the director of a Stock Company is often its controlling shareholder.

#### **D. Flexibility and Contractual Freedom**

Regulations applicable to Stock Companies include many mandatory provisions. Although such mandatory regulations make more sense for Stock Companies with many small investors, they make less sense for closed ones. Therefore, if Stock Companies limit the transferability of their shares (Non-Public Company),<sup>26</sup> the Companies Act allows a greater degree of freedom of contract (autonomy by articles of incorporation) in many respects.<sup>27</sup> In practice, the rules on Non-Public Companies are flexible enough to satisfy the needs of small- and medium-sized firms. Limited Liability Companies enjoy a broader range of freedom of contract. Provisions on corporate internal affairs for Limited Liability Companies are mostly non-mandatory rules.

#### **E. Incorporation Requirements (Including Minimum Capital and Purpose Requirements)**

A Stock Company is formed by the registration of the incorporation at the location of its head office.<sup>28</sup> If companies follow the formal procedure required by the law, registration is automatically granted. The procedure for incorporation of a Stock Company is not very burdensome and even simpler for a Limited Liability Company. Judicial scriveners can and often do help the incorporator to prepare all necessary documents and submit them to the authorities.<sup>29</sup> According to a judicial scrivener's website,<sup>30</sup> a Stock Company can

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damages arising as a result thereof." Kaisha hō [Companies Act], *supra* note 5, art. 429(1) (Japan).

<sup>26</sup> Kaisha hō [Companies Act], *supra* note 5, art. 2(v). A company without limitations on the transferability of shares is called a "Public Company." *Id.* art. 2(v). I use "Non-Public Company" in this article to refer to a company that is not a "Public Company," i.e., a company subject to limitations on the transferability of all its shares.

<sup>27</sup> *Id.* art. 109(2). For example, a "Non-Public Company" (i.e., a company which restricts the transferability of shares) can flexibly determine the rights of the holder of each share through its articles of incorporation *Id.* A Public Company is required to have a board of directors, while a Non-Public Company is not. *Id.* art. 327(1).

<sup>28</sup> Kaisha hō [Companies Act], *supra* note 5, arts. 49, 579.

<sup>29</sup> Shiho shoshi hō [Judicial Scrivener Act], Act No. 197 of 1950, art. 3(1) (Japan). A judicial scrivener is a legal professional who mainly performs the procedures for registrations and prepares the documents submitted to the relevant authorities. *Id.* art. 3(1).

be incorporated within two weeks at a cost of \$240,000 yen (approximately \$2,000 USD).<sup>31</sup> Another website<sup>32</sup> provides for an incorporation within one day, although one would pay an extra fee.<sup>33</sup> Of course, if an entrepreneur does the paperwork for incorporation himself or herself, the cost would be even lower.

The articles of incorporation should be drafted and signed by all incorporators.<sup>34</sup> They should include: (1) the purpose of the company; (2) the trade name of the company; (3) the location of the head office; (4) the value of the property to be contributed at the incorporation (or the lower limit thereof); and (5) the name and address of the incorporator.<sup>35</sup> Certain items included in the articles of incorporation should be approved by an examiner appointed by the court.<sup>36</sup> The need to obtain the examiner's approval might delay the incorporation process, but carefully drafted articles of incorporation would effectively make the examiner's approval unnecessary.

Although the articles of incorporation should include the value of the property to be contributed at the incorporation, there is no minimum capital requirement. Therefore, it is possible to incorporate a company with a capital of one yen. The Companies Act of 2005 abolished the minimum capital requirement that existed under the Commercial Code.<sup>37</sup> The legislation providing for a

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Although there is no reference in the Companies Act to judicial scriveners, they are often involved in an incorporation process.

<sup>30</sup> *Wakabayashi Shiho Shoshi Jimusho* [*Wakabayashi Shihoshoshi Lawyer's Office*], <http://www.kaisha-shien.jp/> (last visited Feb. 14, 2016).

<sup>31</sup> *Id.* The amount includes all expenses including registration fee, tax, and the fee for the judicial scrivener. It does not include the initial contributions to the company which are borne by the incorporator or investors. The initial contribution can be nominal since there is no minimum capital requirement under the Companies Act. *See infra* note 37 and accompanying text.

<sup>32</sup> *Ishikawa Kazushi Jimusho* [*Ishikawa Kazushi Judicial Scrivener Office*], <http://www.square1.jp/service> (last visited Feb. 14, 2016).

<sup>33</sup> *Id.* The whole cost for "one-day incorporation" is 372,970 yen (including registration fee, tax, and the fee for the judicial scrivener).

<sup>34</sup> *Kaisha hō* [Companies Act], *supra* note 5, arts. 25(2); 26. An incorporator is a person who takes the initiative to incorporate a company. Each incorporator should subscribe at least one share. *Id.* art. 25(2).

<sup>35</sup> *Id.* art. 27.

<sup>36</sup> *Id.* arts. 28, 33. For example, if an investor contributes property rather than cash for his/her shares, the value of the property should be examined and approved by the examiner. *Id.*

<sup>37</sup> The minimum capital requirement was introduced by the 1990 Revision of the Commercial Code and Limited Liability Companies Act (Art. 9). SHŌHŌ [COMM. C.] 1899 as revised in 1990, art. 168-4 (Japan); Yūgen gaisha hō [Limited Liability Companies Act], 1938 art. 9 (Japan). The amount was ten million yen for Stock Companies and three million for Limited Liability Companies. These requirements existed only for 15 years until their deletion in the 2005 Revision. However, there remains something reminiscent of a minimum capital requirement under Companies Act 2005: although there is no minimum capital requirement when incorporating, Stock Companies cannot pay dividends to shareholders if their net assets are below 3 million yen. *Kaisha hō* [Companies Act], *supra*



minimal capital requirement put an unnecessary burden for the incorporation of small firms while the requirement had not provided significant protection for their creditors.

The articles of incorporation of a company should include the “purpose of the company.”<sup>38</sup> The purpose should be concrete, and an open-ended clause such as “any lawful business” is not allowed. Purpose of the company limits the legal capacity of the corporation, and any transaction outside the stated purpose is null and void.<sup>39</sup> However, courts have interpreted the purposes of companies liberally,<sup>40</sup> and there have been no cases in which a company’s transaction was actually rendered null and void as violating this rule.

## **F. Fiscal Transparency and Simplified Accounting**

A Stock Company must give public notice of its balance sheet.<sup>41</sup> In certain cases, a summary of the balance sheet is sufficient.<sup>42</sup> Shareholders and creditors of a Stock Company can inspect the financial statements and request a transcript of them.<sup>43</sup> Shareholders having at least three percent of the shares can inspect account books or materials and request a transcript of them.<sup>44</sup>

The Companies Act of 2005 does not contain detailed accounting rules for Stock Companies and leaves them to “the business accounting practices generally accepted as fair and appropriate.”<sup>45</sup> The Japan Federation of Certified Public Tax Accountants’ Associations, the Japanese Institute of Certified Public Accountants, the Japan Chamber of Commerce and Industry, and the Accounting Standards Board of Japan jointly published “Guidelines on the Accounting of Small and Medium Enterprises” (2012) and “Fundamental Guidelines on Accounting for Small and Medium-sized Enterprises” (2012), which are expected

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note 5, art. 458.

<sup>38</sup> Kaisha hō [Companies Act], *supra* note 5, arts. 27(i), 576(1)(i).

<sup>39</sup> MINPŌ [MINPŌ] [CIV. C.] 1896, art. 43, no. 89 (Japan). Article 34 of the Civil Code (provides that “[a] juridical person shall have rights and assume duties to the extent of the purpose provided in the applicable articles of incorporation or other basic agreements subject to the applicable provisions of the laws and regulations.” *Id.* art. 34. The *ultra vires* doctrine stated in this article is applicable to all legal persons, including companies incorporated pursuant to the Companies Act. *Id.*

<sup>40</sup> [Kurozumi v. Shiomi] Saiko Saibansho [Sup. Ct.] Feb. 15, 1952, 6 SAIKO SAIBANSHO MINJI HANREISHŪ [MINSHŪ] 77.

<sup>41</sup> Kaisha hō [Companies Act], *supra* note 5, art. 440(1)

<sup>42</sup> *Id.* art. 440(2). Despite the legal requirement, many small- and medium-sized companies are said not to give public notice of their balance sheet or a summary of it, since there is no sanction against non-compliance.

<sup>43</sup> *Id.* art. 442(3). Members and creditors of Limited Liability Companies have the same rights (arts. 618(1), 625), although a member’s rights may be restricted by the articles of incorporation (art. 618(2)).

<sup>44</sup> *Id.* art. 433(1).

<sup>45</sup> *Id.* art. 431.

to form “the business accounting practices generally accepted as fair and appropriate” for small- and medium-sized companies.

### III. REGULATION OF FOREIGN COMPANIES IN JAPAN

Once small- and medium-sized companies are incorporated in accordance with the legislation of a certain jurisdiction, a number of questions naturally arise regarding their treatment in other jurisdictions. Such questions include, for example: are companies established in a foreign country automatically recognized as legal persons or is there any special regulation for these companies? This Section examines how companies incorporated in foreign states are treated under Japanese law. Although there are many public law regulations applicable to foreign companies (e.g., the Foreign Exchange and Foreign Trade Act),<sup>46</sup> this Section focuses on general regulation under the Companies Act and Civil Code.

#### A. Recognition of Foreign Companies and Applicable Law

A foreign company is automatically recognized as a legal person under Japanese law.<sup>47</sup> The definition of “foreign company” under Japanese law is formalistic. Any company incorporated under the law of a foreign country is a “foreign company.” Neither the location of the principal place of business nor the place where the corporate decisions are made is relevant.

What law applies to foreign companies? According to choice of law rules in Japan, the law of the state of incorporation governs corporate internal affairs.<sup>48</sup> In addition, provisions in Book VI of the Companies Act of 2005 (titled “Foreign Companies”) apply to foreign companies. Let us look at two important regulations.

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<sup>46</sup> Gaikoku kawase oyobi gaikoku bōekihō [Foreign Exchange and Trade Act], Law No. 228 of 1949, *translated in* (Japanese Law Translation [JLT DS]), <http://www.japaneselawtranslation.go.jp/law/detail/?ft=2&re=02&dn=1&yo=foreign+trade&x=0&y=0&ia=03&ky=&page=1>.

<sup>47</sup> MINPŌ [CIV. C.] 1896, art. 36 provides that “[w]ith the exception of any state, any administrative division of any state, and any foreign companies, no establishment of a foreign juridical person shall be approved, provided, however, that this shall not apply to any foreign juridical person which is approved pursuant to the provisions of a law or treaty.”

<sup>48</sup> Hōritsu no tekiyō ni kansuru tsūsoku-hō [Act on General Rules for Application of Laws], Law No. 78 of 2006, *translated in* (Japanese Law Translation [JLT DS]), <http://www.japaneselawtranslation.go.jp/law/detail/?id=1970&re=02>. Although there is no explicit provision stating the rule in the Act on General Rules for Application of Laws (Law No.78. 2006), which provides the choice of rules, it is generally accepted that the law of incorporation applies corporate internal affairs in Japan.

## **B. Requirements for Foreign Companies Carrying out Transactions Continuously in Japan**

Foreign companies carrying out transactions continuously in Japan are required to choose representatives in Japan and register as a foreign company.<sup>49</sup> If a person has carried out transactions without choosing representatives in Japan or registering as a foreign company, such a person is held liable to the counterparty, jointly and severally with the foreign company, to fulfill any obligations arising out of the transaction.<sup>50</sup>

## **C. Pseudo-Foreign Companies**

A foreign company that has a (de facto) central place of business in Japan or whose primary purpose is doing business in Japan is called a “pseudo-foreign company.” “Pseudo-foreign companies” are not allowed to continuously carry out transactions in Japan.<sup>51</sup> If they do so, the representative of the company is jointly and severally liable to the other parties to these transactions.<sup>52</sup>

The regulation of “pseudo-foreign companies” has a great deal to do with the formalistic definition of “foreign company” and the applicable law. As was mentioned earlier, the definition of “foreign company” under Japanese law is quite formal, and the law of the state of incorporation governs corporate internal affairs.<sup>53</sup> Without a regulation on pseudo-foreign companies, a company that is established based on a foreign legislation is not subject to the Japanese Companies Act even if all contributions are made by Japanese investors, the management is all Japanese, and the company’s only purpose is doing business in Japan. Entrepreneurs can easily evade regulations under Japanese law by choosing a foreign company law as governing law, which provides far less protection for investors. Legislators thought such incorporation was a kind of misuse of freedom of incorporation and therefore introduced the “pseudo-foreign companies” regulation.<sup>54</sup>

## **IV. CONCLUSION**

As is indicated in Part II, although we have no specific statute for small- or medium-sized firms, the Japanese law on Stock Companies is flexible enough

<sup>49</sup> Kaisha hō [Companies Act], *supra* note 5, art. 818(1).

<sup>50</sup> *Id.* art. 818(2).

<sup>51</sup> *Id.* art. 821(1).

<sup>52</sup> *Id.* art. 821(2).

<sup>53</sup> See Hōritsu no tekiyō ni kansuru tsūsoku-hō [Act on General Rules for Application of Laws], Law No. 78 of 2006 (Japan), and accompanying text.

<sup>54</sup> See Tomotaka Fujita, *International Corporate Law in Japan: Recent Development*, 48 JAPANESE ANNUAL OF INTERNATIONAL LAW 44, 61-63 (2006).

even for such firms. Most provisions in the Companies Act seem to be in line with the “key considerations” for small- and medium-sized companies indicated by the UNCITRAL Secretariat.<sup>55</sup> Part III shows that companies, including small- and medium-sized companies incorporated in a foreign country, can do business in Japan without many obstacles unless they are regarded as pseudo-foreign companies. Although it is completely descriptive and does not intend to draw any normative implications, the author hopes that this Article provides information that could contribute to the ongoing deliberation on micro-, small-, and medium-sized enterprises in the UNCITRAL Working Group.



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<sup>55</sup> See UNCITRAL, *Micro, Small and Medium-Sized Enterprises—Legal Questions Surrounding the Simplification of Incorporation*, *supra* note 16.