

# Japanese Law Explained

## Beyond the Subcontract Act: Navigating the 2026 Amendment

Effective January 1, 2026, the Subcontract Act has been significantly revised and renamed the **Act on Proper Transactions for Small and Medium-sized Entrusted Business Operators**. This transition represents a major shift in Japanese competition policy, aimed at ensuring fair pricing and structural transparency across all supply chains.

This document aims to provide a formal overview of the act's core provisions, outlining the requisite compliance measures and the strategic responsibilities to mitigate legal and reputational risks.

### 1. Recent Amendment of Subcontract Act: Impacts and How to Comply

On January 1, 2026, the Subcontract Act (officially, *the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors*) will be fundamentally overhauled. This amendment intends to enhance protection for small and medium-sized entrusted business operators (SMEs) and ensure fairer practices throughout modern supply chains. These changes reflect growing concerns regarding delayed payments, unilateral pricing decisions, and the expansion of outsourcing arrangements beyond traditional manufacturing sectors.

The purpose of this amendment is described as “rewriting the unfair sports rulebook into a modern version.” Since the previous Act had not been fair, this amendment hopes to create an environment where all teams can play under fair conditions.

### 2. What are the Key Elements of the Amendments?

#### (i) Expanded scope of protection

One of the most impactful changes is the expansion of the law's coverage through new criteria. In addition to traditional capital-based thresholds, the amended Act introduces employee-based criteria. Under this standard, companies with more than 300 employees (or 100 for certain services and information products) will be classified as "Entrusting Business Operators (EBO)," thereby significantly widening protection to companies with whom they choose to entrust.

The new Act also covers transportation and logistics outsourcing related to the delivery of goods that had been previously unregulated. As a result, companies outsourcing delivery or transport services to smaller operators may now fall within the Act's regulatory framework, aiming to resolve long-standing issues in the logistics sector.

#### (ii) Ensuring Fair Pricing through Consultations

The amendments explicitly restricted an EBO from unilaterally determining or maintaining fees without proper consultation with its SMEs. If SMEs request a price review or negotiation, particularly in light of increased costs, EBOs must engage in good-faith negotiations and provide a reasonable justification for their fees.

#### (iii) Modernizing Payment Methods

The Act now prohibits payment via promissory notes while other payment methods, such as factoring or electronically recorded monetary claims, may be banned if they prevent SMEs from receiving their full cash amount when due. These changes are intended to eliminate practices that effectively delay payment and impose financial burdens on SMEs, thereby ensuring that fees are paid in a timely manner.

### 3. Is this Act applicable to Foreign Companies?

Yes. Even where a company is based outside of Japan, this Act may apply if the transaction has a substantial connection to Japan. This is because the Act focuses on the substance of the transaction, such as business relationships and outsourcing arrangements involving Japanese business operators, rather than on the nationality or location of the party. For example, when a foreign company outsources work to a Japan-based company and the service is performed in Japan, the Act may apply to that foreign company.

### 4. What Should Companies Do?

This amendment represents a significant shift toward greater protection of SMEs and increased regulatory scrutiny of supply-chain practices. Companies operating in or with Japanese businesses must take proactive steps, such as:

- Checking the number of employees to see if the Act now applies to their business
- Identifying all transactions involving logistics and transportation related to the delivery of goods
- Establishing fair-price negotiation protocols and respond to price negotiation requests from SMEs in good faith
- Reassessing payment methods and payment cycles to ensure SMEs receive the full amount they are due in a timely manner and eliminate transfer fee deductions

In addition, businesses must train their procurement and accounting departments to prevent noncompliance under the amended Act.

## 5. Why Miyake and Partners?

Our firm has extensive experience on helping companies achieve fair-trade transactions. We provide legal support in English to accommodate foreign clients and businesses operating in Japan.

Mr. Fukuda is a leading partner of the cross-border transaction group. Please do not hesitate to contact him (y-fukuda@miyake.gr.jp) if you have any questions, as it is our pleasure to be at your service.

End.

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