

Cabinet of Japan Approves Bill Encouraging Venture Capital Investment in Blockchain Startups

FEBRUARY 23, 2024

On February 16, 2024, the Cabinet of Japan approved a bill to amend, among three other laws, the Limited Partnership Act for Investment (the Act). The proposed amendment provides for crypto assets to be added to the list of assets that investment limited partnerships (LPs) can acquire or hold.

Similar to the United States, LPs are the most common vehicle for investing in startups and mid-sized companies in Japan. Currently, under Article 3 of the Act, Japanese LPs are limited to acquiring and holding equity interests (and derivatives thereof), monetary claims, and intellectual property. These LPs cannot, however, under the current regime invest with, or accept as consideration, crypto assets. Resultingly, many of the nation's crypto and Web3 startups have turned to overseas investment for support. Enactment of the amendment is expected to promote the investment and the creation of new businesses in the industry, particularly among high-growth companies.

The Cabinet's bill is part of the second pillar of the Government of Japan's Startup Development Five-Year Plan (the Plan), which aims to increase startup investment tenfold (from 2022 numbers) by FY2027 by promoting a "new form of capitalism" to keep the industry competitive with that in the United States and Europe. The Plan's second pillar specifically calls for the "[development] of the Web 3.0 environment" by, among other things, confirming LP eligibility to invest in "businesses dealing in crypto assets and other tokens."

The bill, now approved by the Cabinet, will be submitted to the National Diet, Japan's legislature, for deliberation. Winston & Strawn's multijurisdictional Digital Assets & Blockchain Technology Group will continue to monitor developments and provide clients and friends of the firm with updates as they become available.

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