

Growth Equity Markets in Financial Turmoil

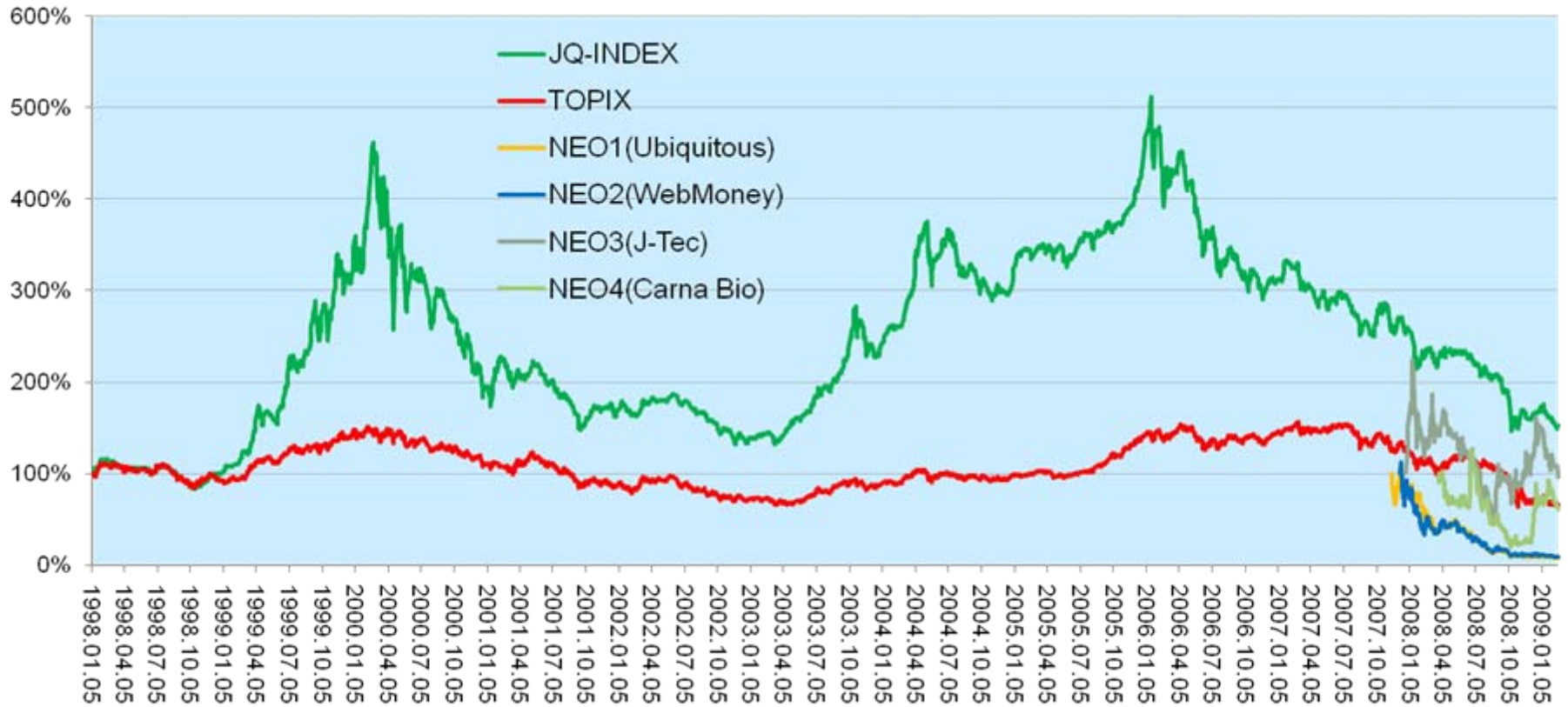
- Endeavoring for Further Developments -

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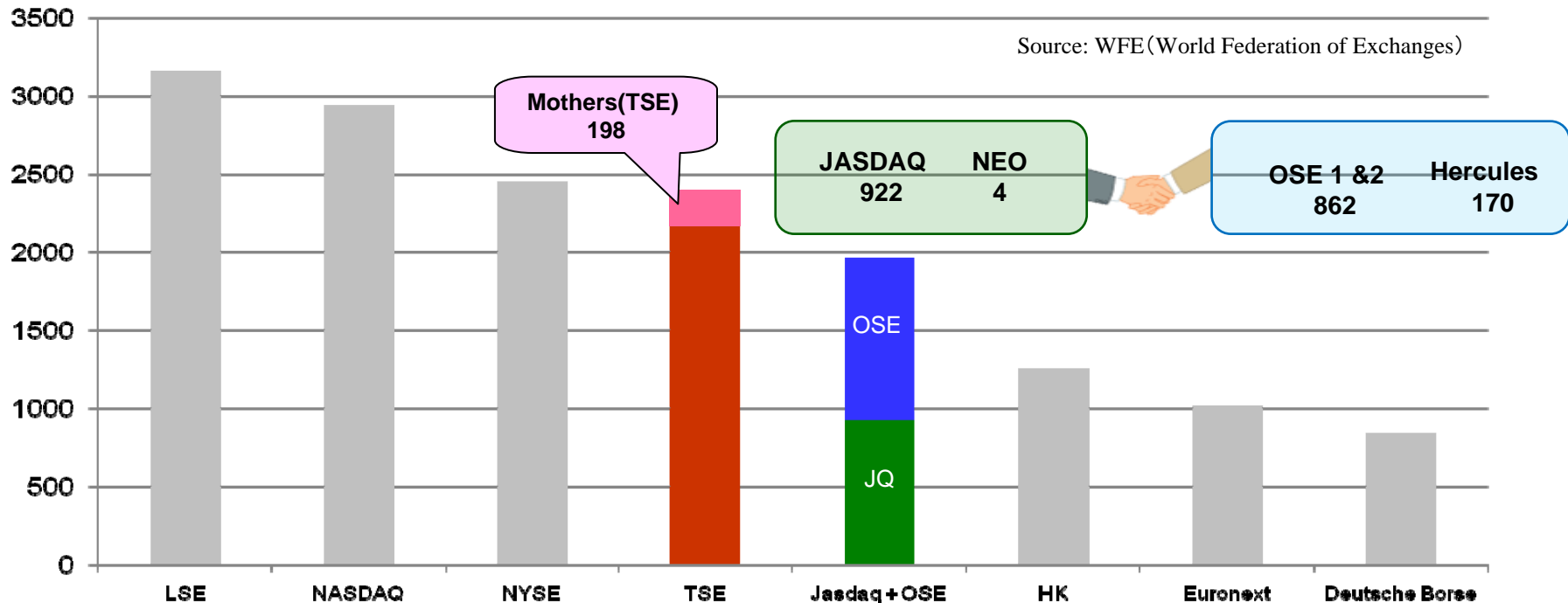
Indices



Comparative table

	monthly trading value (billion ¥)		market value (trillion ¥)		new listing (IPOs)	
	2007(avg.)	Jan,2009	2007 (year-end)	Jan,2009	2007	2008
Jasdaq	920.2	187.1	13.4	7.7	49	19
Mothers(TSE)	1,106.1	213.2	2.8	1.3	23	12
Hercules(OSE)	511.5	60.0	1.7	0.7	25	9

Number of Listed Companies



Reform of Equity Markets for Emerging High Growth Companies in Japan

- (1) Introduction of Japanese AIM
- (2) OSE's Acquisition of JASDAQ (Dec. 2008) ⇒ Largest Growth Equity Markets in Asia
- (3) Creation of NEO by JASDAQ

NEO

NEO is a market newly established in August 2007

- “NEO” is for new companies with high growth potential in new technologies or business models
- Story of its establishment

Jasdaq Securities Exchange has always been a market for venture businesses and SMEs with nearly 1,000 companies listed, many of which are well-established businesses with long history and financial success in the past.

Today, Jasdaq again attempts to support young companies with the potential to innovate Japan’s future economy, by creating a new market for these businesses that display possibility for high growth. Jasdaq has named this market “NEO” which stands for “New Entrepreneurs’ Opportunity / New Evaluation Opportunity”.

JASDAQ and NEO

Jasdaq provides “The Value Creation Market” through the two markets of JASDAQ and NEO.



JASDAQ

Since its inception in 1949, it has continued to contribute to the growth of new companies in Japan and has served as the largest market for new company equity in the country.



NEO
JASDAQ

NEO is committed to supporting companies possessing new technologies or new business model with growth potential.

JASDAQ and NEO --- Listing criteria

	JASDAQ		NEO
Total market value	The volumes shall be (expected to be) ¥1 billion or more on the listing day.	The volumes shall be (expected to be) ¥5 billion or more on the listing day.	The volumes shall be (expected to be) ¥1 billion or more on the listing day.
Profits	Positive net profits or ¥500 million or more ordinary profits on a consolidated basis	Net and ordinary profits are ignored. (approved if they are negative.)	-
Net asset	¥200 million or more		Should not be negative
Number of shareholders	If the number of listed shares is: Less than 10,000 trading units 10,000 or more and less than 20,000 20,000 or more	300 or more shareholders 400 or more 500 or more	300 or more shareholders
Audit opinion, etc.	Audited financial statements for period prior to application with “an unqualified opinion.” Interim audited statements for interim period of application with “an opinion that useful information is expressed.” Quarterly audited statements with “an unqualified decision.” The securities reports and other documents produced for the latest two business years shall be free of any “misstatement”.		
Elapsed years of Business	-		Less than 10 years since the company booked the sales based on a new technology or business model with growth potential.
Others	Designation of a stock-transfer agent, restriction of stock transfer, and deposit and transfer of stocks by a designated depository center.		
Content of listing examination	1. Sustainability and profitability 2. Soundness of business management 3. Appropriate disclosure of corporate information 4. Others that Jasdac acknowledges to be necessary from viewpoint of public interest and protection of investors.		1. Growth potential 2. Soundness of business management 3. Appropriate disclosure of corporate information 4. Others that Jasdac acknowledges to be necessary from viewpoint of public interest and protection of investors.

Note : Total market value is calculated by multiplying the issue price of stocks offered publicly or secondarily on the listing day by the number of stocks for the listing application (except treasury shares).

Background of Growth Markets Decline

- Fading Effects of the Past Markets Stimulus Plan**
 - Slowdown of the Rapid Growth of IT-related Businesses**
 - Sharp Decrease of Corporate Earnings**
 - Down-turn of Stock Markets (both Primary and Secondary)**
 - Stricter Audit and Listing Examination**
 - Decrease of Mega IPOs**
- ⇒ Lost of Credibility and Transparency of the Markets
general capriciousness, unfair disclosures, window-dressings,
wicked transactions, antisocial investors, etc.**

Significance of Growth Markets

Intuition

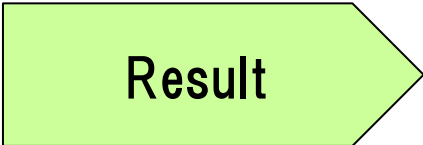
Growth markets enable SMEs to launch out new businesses and/or diversify their business models, which accelerates macro economic growth.

2 hypotheses

- (1) Growth markets relax the “liquidity constraints” of investments on the SMEs having potential for listing.
- (2) Increase in investments to those SMEs accelerates growth of national economy.

Empirical Study on the Intuition

(by Nagasaki Univ. Graduate School of Economics)



Result

- (1) Liquidity constraints bind for the would - be listed companies.
- (2) Growth markets will enable these companies to invest beyond their intrinsic cash holdings.
- (3) Consequently, (foundation of) a growth market will raise GDP growth rate by 0.15% in the long - run.

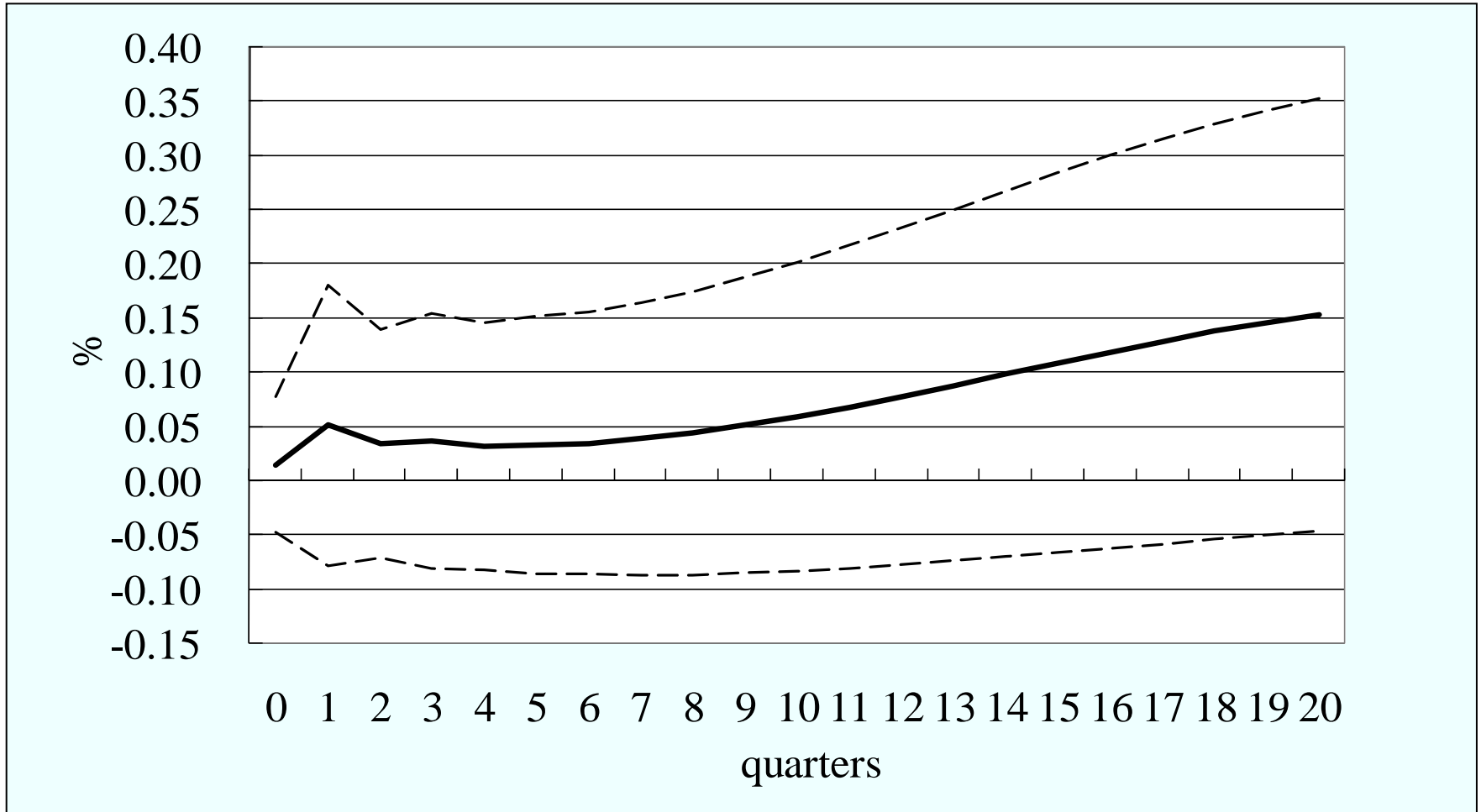
(term) 2003-2007

(terminal accounts)

333 samples from 148 companies listed on the TSE Mothers and 393 samples from 100 unlisted companies extracted from Teikoku Data Bank

The effect of new market foundation on GDP growth

(Cumulative impulse response function)



Note : The solid line indicates the estimate of new market foundation effect on GDP growth rate, and the dashed lines indicate 68% confidence interval of the estimate. (M.Susai, H.Moriyasu, H.Aman and T.Kudo, 2008, Graduate School of Economics, Nagasaki University)

Markets for Growing Companies = Indispensable Social Infrastructure

4 Keys of the Markets

- (1) Fostering SMEs with High Potentiality
- (2) Paving the Way for
SMEs Capital Markets Access
- (3) Keeping High Liquidity and
Mitigating too much Volatility
- (4) Positive Effects on Macro Economy

Not only for a nation but also for all over Asia

Fostering Growth Markets

1) Improving Credibility of the Markets

- Strengthening transparency and accountability of listing
- Reinforcing surveillance by SROs

2) Forming Friendly Framework for Diligent Listed Companies on Growth Markets

- not too much requirements of internal control, corporate governance as larger main-market listed companies
- Cost-effective listing for growing companies



Simultaneous Pursuance of 1) and 2) needed

3) Preparing Sufficient Liquidity

- Nourishing and increasing market-makers and liquidity providers

4) Increasing and Nurturing Expertise IPO Advisors and Underwriters

- At most 30 firms out of more than 300 securities firms in action
- Not highly profitable to Bulge Bracket investment bankers

Reinforcing Regional Cooperation

In Exchanging Information, In Rule-making on IPO, In Holding More Frequent Dialogue, In Harmonizing Listing Standards

- 1) Joint Promotion by Stock Exchanges in Asia
- 2) Considering Mutual Listing amongst Exchanges in Asia and / or Exploiting DRs
- 3) Establishing Asian Database on the Growth Market Listing Companies and would-be IPO Companies
- 4) Operating Active IR of Asian Companies Listing on the Growth Markets
- 5) Standardizing SROs Rules and Practices

As an initial step, *Asia Stock Monitor*, modeled after Asia Bond Monitor, will be fruitful.

Thank you very much