

Listing on Tokyo Stock Exchange for Foreign Companies - Single Listing

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KPMG in Japan

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Highlights

- The listing of the U.S.-based company, Techpoint Inc. on the Tokyo Stock Exchange (TSE) in 2017 has set the scene for foreign companies' TSE IPO journey. There has been growing interest in seeking an initial public offering (IPO) on the Market of the High Growth and Emerging Stocks (Mothers) (currently known as "Growth" Market) of TSE among foreign startups, after the successful listing of Techpoint's Japanese Depository Receipt (JDRs).
- Singapore-based Omni-Plus System Limited (OPS)'s JDRs debuted on TSE's Mothers Market (currently known as "Growth" Market) on June 29, 2021. OPS is the first Asian company to list JDRs on TSE.
- TSE's Growth Market is a promising emerging enterprise market with larger annual trading volume and higher turnover velocity and average price-earnings ratio (PER) compared to its Asian counterparties, Hong Kong Stock Exchange (HKEx)'s GEM and Singapore Exchange (SGX)'s Catalist.
- Foreign companies can choose to go public on TSE by way of listing of foreign stocks (direct listing) or using foreign stock JDRs. Listing on TSE by JDRs has become more popular recently.
- It is possible for foreign companies to use the financial statements disclosed in their home country (adopting the same accounting standard as in their home country) for listing on TSE if certain requirements are fulfilled.
- It is possible for foreign companies to engage the same external auditors as in the home country (foreign audit firm) if the financial statements disclosed in the home country are used for TSE listing purposes.



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1. Reasons for the growing interest among foreign companies seeking to go public in Japan

The choice of listing venue is an important consideration for an IPO. For Asian startups, emerging enterprise markets such as HKEx's GEM, SGX's Catalist, Nasdaq and TSE's Growth Market are the options.

Listing on Nasdaq could be very difficult for startup unless it is a unicorn. With the high initial listing costs and high recurring and compliance costs after listing, Nasdaq may not be a cost-efficient option for smaller scale startups.

Among the foreign companies currently listed on TSE, the companies that are single listed on TSE (including company that was single listed on TSE in the past) are as follows.

(as of June 2024)

Company name	Year of listing	Market	Place of domicile
Beat Holdings Limited	2004	Standard* ¹	Cayman Islands
MediciNova, Inc.* ²	2005	Standard	The United States of America (U.S.)
Techpoint, Inc.	2017	Growth	U.S.
Omni-Plus System Limited	2021	Growth	Singapore
YCP Holdings Limited	2021	Growth	Singapore
AnyMind Group Inc.	2023	Growth	Singapore

*1 Listed on TSE Mothers (currently known as "Growth") Market in 2004 and altered to TSE Second Section (currently known as "Standard Market") in 2015

*2 Listed on JASDAQ (formerly Osaka Stock Exchange Hercules) in 2005 and subsequently dual listed on Nasdaq in 2006

- i. The annual trading volume (Table 1) and turnover velocity (Table 2) of TSE Growth Market are significantly higher compared to HKEx's GEM and SGX's Catalyst. The average PER of TSE Growth Market is also higher than that of HKEx's GEM and SGX's Catalyst.
- ii. TSE has devoted numerous efforts in attracting foreign companies to consider listing on TSE Growth Market, for example, through organizing TSE listing seminars in overseas countries.
- iii. In the past, the post-IPO trading volume (liquidity) of foreign companies listed on TSE through direct listing tended to be sluggish. The listing of the U.S.-based company, Techpoint Inc, using JDRs in 2017 showed improvement in liquidity of foreign stocks.
- iv. Japanese venture capital firms are stepping up their investments in US and Asian startups. As exit strategy, Japanese venture capital firms advise and encourage their portfolio companies to go public on TSE Growth Market.

Table 1: Annual Trading Value (2023) (in US\$ billion)

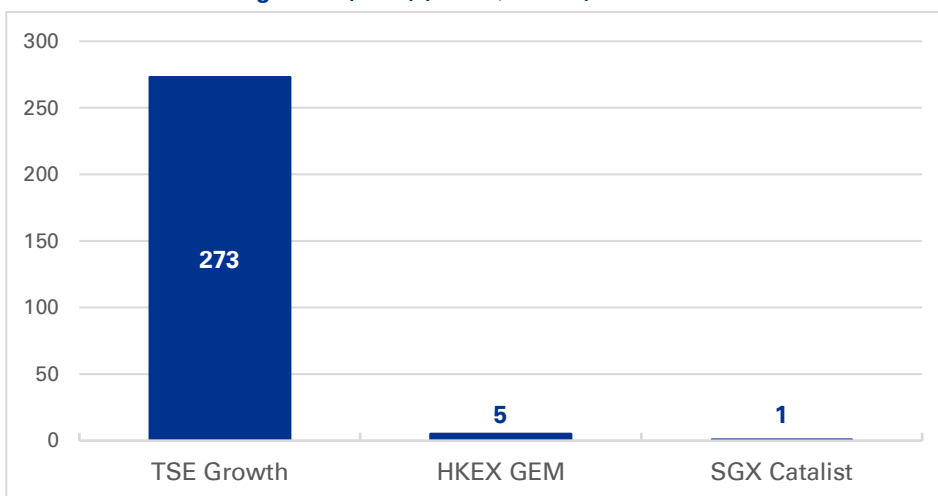
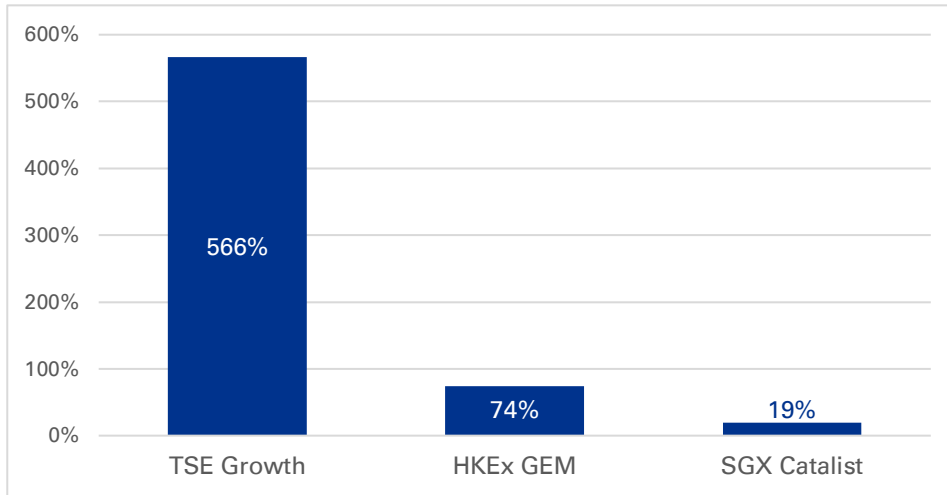


Table 2: Annual Turnover Velocity (2023)*1



Source: TSE’s “New Listing on Tokyo Stock Exchange (May 2024)”

*1. Turnover Velocity = Annual Trading Value/ Market Capitalization of each market as at the end of December 2023

2. Methods of listing on TSE for foreign companies

Foreign companies can choose from the following 3 possible methods for listing on TSE.

(1) Listing as a Foreign Company

- i. Listing directly with foreign stocks (direct listing)
- ii. Listing of foreign stock JDRs (JDR listing)
 JDR listing is a scheme whereby the stocks issued by the foreign company (issuer) to the Japanese securities company (settlor) are kept by the custodian in the home country and entrusted to the trust bank in Japan, and the trust bank issues JDRs for the trading on TSE.

(2) Listing as a Japanese Company – foreign company changes its place of domicile to Japan (conversion to a Japanese company) through group reorganization (corporate inversion) and the Japanese holding company is listed on TSE

The advantages of JDR listing compared to direct listing (from investors’ and issuers’ perspectives) are as follows.

From investors’ perspective

	JDR Listing	Direct Listing
Handling by securities companies	Available at major securities companies	Not available at some securities companies
Opening of a foreign securities trading account	Not necessary	Necessary
Use of margin trading	Available at major securities companies	Not available at some securities companies

From issuers’ perspective

	JDR Listing	Direct Listing
Access to investors	Almost the same as Japanese stocks	Limited compared to Japanese stocks
Post listing liquidity	High due to availability of margin trading	Not high due to limited availability of margin trading

Source: Mitsubishi UFJ Trust and Banking Corporation

Given the merits of JDR listing over direct listing mentioned above, there has been no case of direct listing and JDR listing has become a trend after the listing of Techpoint, Inc.'s JDR in 2017.

Foreign companies which are currently listed on TSE and their method of listing are as follows.

Method	Company name	Year of listing	Market	Place of domicile
Direct Listing	Beat Holdings Limited	2004	Standard	Cayman Islands
Direct Listing	MediciNova, Inc.	2005	Standard	U.S.
Direct Listing	Kubota Pharmaceutical Holdings Co., Ltd. (formerly Acucela Inc.) ^{*1}	2014	Growth	U.S.
Listing as Japanese Company	SanBio Co., Ltd.	2015	Growth	U.S.
JDR Listing	Techpoint, Inc.	2017	Growth	U.S.
Listing as Japanese Company	Kudan Inc.	2018	Growth	U.K.
Listing as Japanese Company	Kaizen Platform	2020	Growth	U.S.
Listing as Japanese Company	Appier Group ^{*2}	2021	Prime	Taiwan
JDR Listing	Omni-Plus System Limited	2021	Growth	Singapore
JDR Listing	YCP Holdings Limited	2021	Growth	Singapore
Listing as Japanese Company	AnyMind Group Inc.	2023	Growth	Singapore

*1 Acucela Inc. (U.S.) was listed on TSE Mothers (currently known as "Growth") Market in 2014 through direct listing and subsequently, in 2016, changed its place of domicile from U.S. to Japan through corporate inversion and changed its name to Kubota Pharmaceutical Holdings Co., Ltd. and listed on TSE Mothers (currently known as "Growth") Market as a Japanese company by technical listing.

*2 Appier Group was listed on TSE Mothers (currently known as "Growth") Market in 2021 and altered to TSE Prime Market in 2022.

3. Matters which foreign companies should consider for listing as a Japanese company

For listing as a Japanese company, the foreign company has to go through the process of corporate inversion to change its place of domicile from its home country to Japan (conversion to a Japanese company). Therefore, the foreign company should be aware that additional costs will be incurred as the involvement of legal advisors in both the home country and Japan as well as tax advisors is necessary. Also, the existing shareholders before corporate inversion could potentially be exposed to tax risks depending on their nationality and place of domicile. In addition, if the listing vehicle is a Japan-domiciled holding company, it is necessary to establish organization structure, such as a Board of Directors, an Audit and Supervisory Board, and any other functions required for a listed company.

Regardless of whether listing as a Japanese company or as a foreign company, from a practical perspective, it is preferable setting up a Japan based investor relations function, but the greatest benefit of direct listing and JDR listing is that the existing group structure can be used for TSE listing without going through group reorganization.

In the case of listing as a Japanese company, the same listing process and requirements applicable for listing of Japanese companies will be applied but the following points should be noted.

(1) Timing of corporate inversion

Assuming that the company will be listed on TSE Growth Market, corporate inversion must be completed by the end of N-2 fiscal year. However, as an exceptional treatment, special provisions for corporate reorganization may be

applied. Companies are recommended to have prior consultation with the underwriter and TSE on whether to adopt the special provisions for corporate reorganization.

(2) Functions of the Japan-domiciled holding company

It is important to consider the functions of the Japan-domiciled holding company after corporate inversion. Considering the effectiveness of corporate governance and for the listing examination purposes, it is preferable for the Japan-domiciled holding company to have certain level of management functions in addition to the investor relations function. Companies are recommended to consider their own circumstances and the substance of their corporate governance structure when determining what the functions of the Japan-domiciled holding company are. Moreover, companies should consult with the underwriter and TSE before establishing the structure.

4. Reasons for listing on TSE

It is one of the key areas during the listing examination process that the underwriters and the TSE will assess the reasons why the foreign company considers listing on TSE. Therefore, it is crucial to have a clear Japan-focused equity story, for example, potential growth in business in Japan, plans to expand into the Japanese market, business partnership with Japanese companies, Japan-based key shareholders/ investors and conducting R&D activities in Japan.

5. Parties involved in the listing of a foreign company

The major parties involved in a direct listing or a JDR listing are as follows:

- i. Law firm
- ii. Audit firm
- iii. Lead underwriter (securities firm)
- iv. Translation company
- v. Japanese trust bank (JDR trustee) – for JDR listing only

i. Law firm

Compared to the listing of a Japanese company on TSE, not only the law firm in Japan, the involvement of law firm in the foreign company's home country and the collaboration between the law firms in both countries are essential. For example, it is necessary to provide an outline of the legal system of the home country in the legal documents such as Securities Registration Statement and to include a legal opinion letter from the attorney of the home country of the foreign company's home country in the Securities Registration Statement.

ii. Audit firm

There are cases where audit firms in both the foreign company's home country and Japan are required. Details of involvement of audit firm will be described later. In many cases, the foreign company engages local audit firm for statutory audit purposes but when the foreign company is preparing for TSE listing, it is necessary to engage an audit firm which has global network.

iii. Lead underwriter

Given the procedures are more complicated than those of a domestic Japanese company's TSE IPO and communication in foreign language such as English is required, not all the securities companies which handle listing of Japanese companies can take up the role as the lead underwriter for listing of foreign company on TSE.

iv. Translation company

It is necessary for foreign companies to prepare Japanese translations of listing examination documents such as Part I of the Initial Listing Application Securities Report and Prospectuses upon listing application and Annual Securities Report and other timely disclosure related documents after the listing.

6. Accounting standards

Foreign companies may adopt the same accounting standard as the financial statements disclosed in their home country for the purpose of statutory disclosure in Japan if the Financial Services Agency of Japan (FSA) determines that the following 2 requirements are fulfilled.

- where there is a disclosure system in the foreign companies' home country which the private (non-listed) companies are required to disclose their financial statements
- where the Commissioner of the FSA determines and approves that the financial statements disclosed in the home country are not to be inadequate in consideration of the public interest or investor protection

Notwithstanding the fact that, as of the date of this publication, there are cases in which the FSA has determined and approved that the U.S., Singapore, Malaysia and South Korea meet the above requirements, as the circumstances of each company differ, it is necessary to have prior consultation with the FSA. If the foreign companies apply for using the same accounting standards as those used for the financial statements disclosed in their home country for the purpose of statutory disclosure in Japan and the approval from the FSA is obtained, the following standards may be adopted.

Place of domicile	Accounting standards
U.S.	Accounting principles generally accepted in the United States of America (US GAAP)
Singapore	Singapore Financial Reporting Standards (Singapore FRS), Singapore Financial Reporting Standards (International) (SFRS(I)) or International Financial Reporting Standards (IFRS [®] Accounting Standards)
Malaysia	Malaysian Financial Reporting Standards (MFRS)
South Korea	Korean International Financial Reporting Standards (K-IFRS)

With respect to jurisdictions other than the U.S., Singapore, Malaysia and South Korea, even there is a system which non-listed companies are required to disclose their financial statements, the determination and approval by the Commissioner of the FSA on whether financial statements disclosed in the home country are not to be inadequate in consideration of the public interest or investor protection will be made on a case-by-case basis. If it is not approved by the FSA, foreign companies are required to prepare their consolidated and company level financial statements in accordance with accounting principles generally accepted in Japan (JGAAP). For Japanese companies listed on TSE, voluntary adoption of IFRS Accounting Standards, which is the Designated International Accounting Standards, for the preparation of their consolidated financial statements is permitted if certain conditions are fulfilled. However, the adoption of IFRS Accounting Standards is not permitted for foreign companies. It creates heavy burden on the foreign companies for preparing JGAAP financial statements as they are not familiar with JGAAP.

Therefore, foreign companies should consult TSE, Japanese attorneys, securities companies, trust banks and audit firm in advance in respect of prior consultation with the FSA as FSA's decision is made on a case-by-case basis.

7. Internal control and reporting system

Regardless of whether there is internal control and reporting system in the foreign companies' home country, foreign companies listed on TSE are required to submit an internal control report which is prepared by the management for the purpose of evaluating the effectiveness of the internal controls over financial reporting (Internal Control Report).

For U.S. companies that are not listed on the U.S. stock markets but listed on overseas stock exchanges, if they submit Form S-1 to the U.S. Securities and Exchange Commission (SEC) and obtain the approval from the SEC, the SEC registrants are subject to the U.S. Sarbanes-Oxley Act (US-SOX). Therefore, U.S. companies can prepare the Internal Control Report based on US-SOX for TSE listing purposes.

On the other hand, since there is no mandatory internal control and reporting system for non-listed companies in jurisdictions other than U.S. or their internal control and reporting systems differ from that of Japan, companies applying for listing on TSE are required to comply with the framework of internal controls over financial reporting adopted in Japan (J-SOX).

8. Audit firms responsible for auditing the financial statements and internal control

If financial statements disclosed in the home country cannot be used for TSE listing purposes, foreign companies are required to prepare both the consolidated and company level financial statements in accordance with JGAAP and, in principle, audit certificate issued by a Japanese audit firm is required.

If financial statements disclosed in the home country are used for TSE listing purposes, audit certificate issued by either a Japanese audit firm or an audit firm in the home country (foreign audit firm) are acceptable.

Even if the financial statements disclosed in the home country can be used for TSE listing purposes, there is an issue about which audit firm should issue the internal control audit report. If the financial statements audit is performed by a foreign audit firm, audit of internal controls over financial reporting may be performed by either (1) the same foreign audit firm or (2) a Japanese audit firm which belongs to the same global network as the foreign audit firm. Since each audit firm may have different policy in handling such cases, when considering listing on TSE, it is recommended to consult with the local audit firm in the home country or with its Japanese affiliate at an early stage.

The following table illustrates the combination of audit firms (Japanese audit firm or foreign audit firm) for financial statements audit and audit of internal controls over financial reporting.

	Audit Report on Financial Statements	Internal Control Audit Report
(1)	Foreign audit firm	Foreign audit firm
(2)	Foreign audit firm	Japanese audit firm *1
(3)	Japanese audit firm	Japanese audit firm

*1 Japanese audit firm which belongs to the same global network as the foreign audit firm

This publication discussed the matters which foreign companies should consider when seeking a single listing on TSE. However, there are only a few cases of foreign companies single-listed on TSE. If you have any questions or need further information on the matters discussed in this publication, please feel free to contact us.

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Contact us

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