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# Listing on Tokyo Stock Exchange for Foreign Companies - Single Listing

## 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) 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 on June 29, 2021. OPS is the first Asian company to list JDRs on TSE.
- TSE's Mothers 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 Catalyst
- 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 Catalyst, NASDAQ and TSE's Mothers 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 December, 2021)

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

\*1 Listed on TSE Mothers in 2004 and altered to TSE Second Section in 2015

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

The major reasons for the growing interest among foreign companies seeking to go public on TSE’s Mothers are as follows.

- i. The annual trading volume (Table 1) and turnover velocity (Table 2) of TSE Mothers are significantly higher compared to HKEx’s GEM and SGX’s Catalyst. The average PER of TSE is also higher than that of HKEx’s GEM and SGX’s Catalyst.
- ii. 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.
- iii. 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 Mothers.
- iv. TSE has devoted numerous efforts in attracting foreign companies to consider listing on TSE Mothers, for example, through organizing TSE listing seminars in overseas countries.

Table 1 Annual Trading Value (2020)\*1 (in trillion Japanese yen)

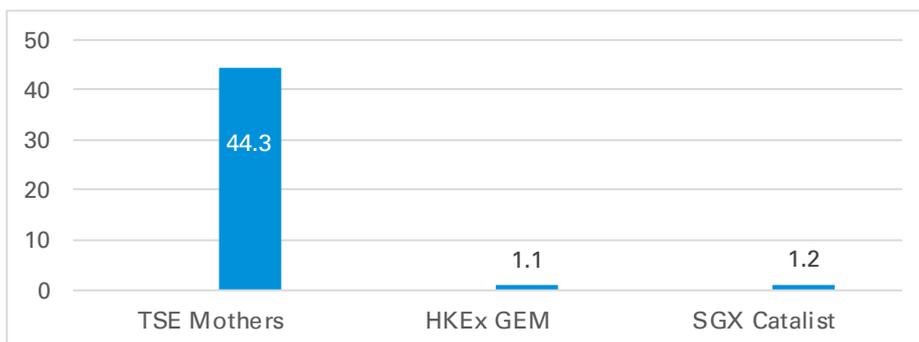
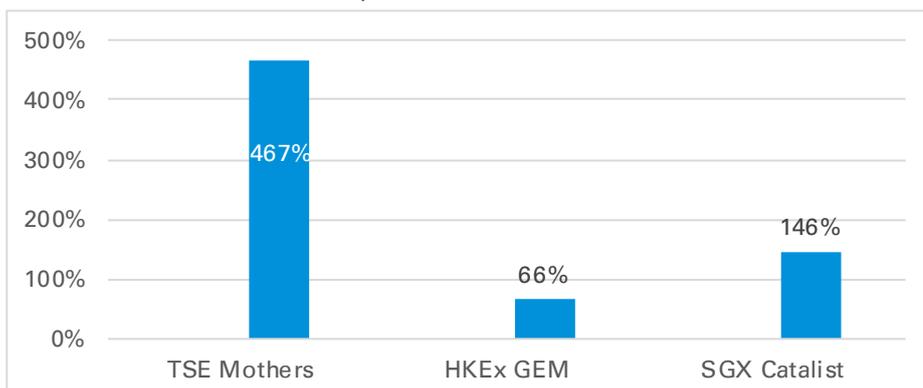


Table 2 Annual Turnover Velocity (2020)\*2



Source: TSE’s “About foreign companies’ listing on Tokyo Stock Exchange (April 2021)”

\*1. Converted using exchange rate as at the end of December 2020

\*2 Turnover Velocity = Annual Trading Value/ Market Capitalization of each market as at the end of December 2020

## 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, 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 (converts to a Japanese Company) through group reorganization (Corporate Inversion) and lists on TSE as a Japanese Company.

When comparing direct listing and JDR listing, the advantages of using JDR (from investors' and from issuers' perspective) 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	Mothers	Cayman Islands
Direct Listing	MediciNova, Inc.	2005	JASDAQ	U.S.
Direct Listing	Kubota Pharmaceutical Holdings Co., Ltd. (formerly Acucela Inc.)*1	2014	Mothers	U.S.
Listing as Japanese Company	SanBio Co., Ltd.	2015	Mothers	U.S.
JDR Listing	Techpoint, Inc.	2017	Mothers	U.S.
Listing as Japanese Company	Kudan Inc	2018	Mothers	U.K.
Listing as Japanese Company	Modalis Therapeutics Corporation	2020	Mothers	U.S.
Listing as Japanese Company	Kaizen Platform	2020	Mothers	U.S.
Listing as Japanese Company	Appier Group	2021	Mothers	Taiwan
JDR Listing	Omni-Plus System Limited	2021	Mothers	Singapore
JDR Listing	YCP Holdings Limited	2021	Mothers	Singapore

\*1 Acucela Inc. (U.S.) listed on TSE Mothers 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 as a Japanese company by technical listing.

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 home country to Japan (convert to a Japanese company), companies should be aware that additional cost will be incurred as the involvement of legal advisors in both the home country and Japan and tax advisor is necessary and the existing stockholders 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 Japanese company, it is necessary to establish organization structure such as Board of Directors, Audit & Supervisory Board and all 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 IR 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

Given the fact that once the foreign company is converted to a Japanese company, standard listing process and requirements applicable for Japanese companies will be applied, we will only focus on the matters related to listing as a foreign company in the following topics.

### 3. 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.

## 4. 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 which the FSA has determined and approved that two jurisdictions namely the U.S. and Singapore 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 standard as the financial statements disclosed in their home country for the purpose of statutory disclosure in Japan and the approval from the FSA is obtained, US companies may adopt accounting principles generally accepted in the United States of America (US GAAP) and Singapore companies may adopt Singapore Financial Reporting Standards (Singapore FRS), Singapore Financial Reporting Standards (International) (SFRS(I)) or International Financial Reporting Standards (IFRS® Standards).

With respect to jurisdictions other than the U.S. and Singapore, 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 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 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.

## 5. 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, there is no mandatory internal control and reporting system for non-listed Singapore companies, Singapore companies applying for listing on TSE are required to comply with the framework of internal controls over financial reporting adopted in Japan (JSOX).

## 6. Audit firms responsible for auditing the financial statements and internal control reports

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, in cases where foreign companies are required to comply with JSOX requirements, there is an issue about which audit firm should perform the audit of Internal Control Report (JSOX audit). In such cases, if the financial statements audit is performed by a foreign audit firm, JSOX audit 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 audit firm locally 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 JSOX audit.

	Audit Report on Financial Statements	Audit Report on Internal Control Report (JSOX)
(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.

## Contact us

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