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**A** pilot approach to  
regional development through  
a professionals-only stock market

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## Executive Summary



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*Tokyo AIM, a professionals-only stock exchange, had little success at listing companies before it was recently merged into the Tokyo Stock Exchange Group and renamed the Tokyo Pro Market. In Okinawa, a newly established company aims to contribute to regional development by assisting Okinawan companies list on the Tokyo Pro Market.*

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### Tokyo AIM has been merged into the TSE

In July 2012, Tokyo AIM (Alternative Investment Market), an operator of professionals-only securities markets in which trading activity is generally limited to qualified investors and nonresidents, was merged into the Tokyo Stock Exchange (TSE) Group. Established in December 2008, Tokyo AIM lasted little more than three and half years as an independent exchange.

Professionals-only markets were legalized in Japan by a 2008 amendment to the Financial Instruments and Exchange Act in recognition that the cost of preparing required regulatory filings and other disclosure documents in Japanese was deterring foreign companies from listing their shares on Japanese markets. The establishment of markets that are off-limits to ordinary investors who must be protected by statutory information disclosure requirements was intended to reduce listed companies' regulatory burden.

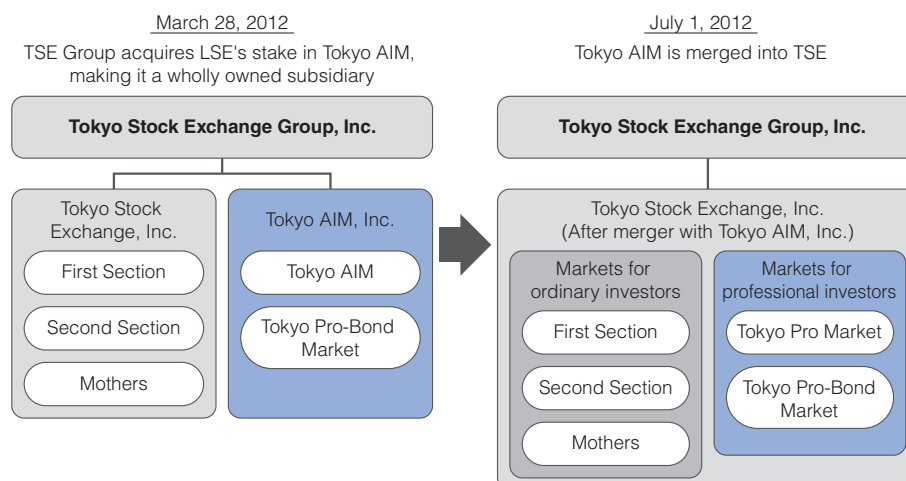
Tokyo AIM was originally a joint venture between the TSE and London Stock Exchange (LSE). The TSE aimed to develop a highly international market by tapping into the know-how that the LSE has gained from operating the London AIM, which has attracted many non-UK companies as listees.

Tokyo AIM, however, succeeded in listing only two companies, both of which are Japanese. Its professionals-only bond market, launched in May 2011, succeeded in listing only one issuer.

Tokyo AIM's poor track record prompted the LSE to abandon the venture. It sold out its stake to the TSE in March 2012, whereupon Tokyo AIM became a wholly-owned

subsidiary of the TSE. In July, Tokyo AIM was merged into the TSE and rebranded as the Tokyo Pro Market for professional investors (see diagram below).

### Exhibit : Management reorganization of Tokyo professionals-only markets



Source: TSE Group

### Why the professionals-only market failed

There are several reasons why this professionals-only market launched with great fanfare failed to live up to the TSE and LSE's expectations.

First, back when the TSE was a popular listing venue among foreign companies, most of the foreign companies that listed on the TSE did so in the aim of cultivating a retail shareholder base in Japan. This is the same objective of companies that have conducted public offerings without listings (POWL). The POWL scheme enables foreign companies to solicit Japanese retail investors by preparing disclosure documents in conformity with Japanese law even though the companies' shares are not listed on a stock exchange in Japan.

However, this objective is not met by professionals-only markets that are off-limits to retail investors. Meanwhile, Japanese institutional investors are already investing internationally by trading foreign companies' stocks in the companies' home markets. They consequently had little interest in a new domestic market for professional investors.

Second, a professionals-only market that relieves issuers of the requirement to

prepare securities regulatory filings could be an attractive listing venue for domestic development-stage companies, but the domestic IPO market has historically been comprised predominantly of retail investors. Many development-stage companies were hesitant to float IPOs in a professionals-only market because they were skeptical that the market was sufficiently liquid.

Third, the idea of launching a professionals-only market was first proposed around the spring of 2007. The TSE and LSE announced their alliance agreement in October 2007. Shortly thereafter, however, the external environment drastically deteriorated as the global financial crisis erupted, plunging much of the world into a pronounced economic downturn. In response, both foreign companies and domestic development-stage companies deferred their listing plans.

### Okinawa J-Adviser's challenge

Although the Tokyo Pro Market's lack of success has forced it to radically change its approach, there has recently been an encouraging development.

Namely, Okinawa J-Adviser commenced operations in September 2012. J-Advisers are analogous to the London AIM's Nominated Advisers (Nomads). Their services include assessing and verifying prospective listee companies' eligibility to list on the Tokyo Pro Market and assisting newly listed companies to appropriately fulfill disclosure requirements. Before Okinawa J-Adviser's inception, all J-Advisers were existing securities firms. Okinawa J-Adviser is the first company that operates exclusively as a J-Adviser.

Okinawa J-Adviser was established by the Okinawa Industry Promotion Public Corporation with equity financing raised from Okinawan companies. It aims to assist Okinawan development-stage companies raise capital through the Tokyo Pro Market. Although not what the TSE had originally envisioned, such an approach is a very interesting way to utilize the Tokyo Pro Market for regional industrial development. Okinawa J-Adviser has already identified its first IPO candidate. It aims to realize two or three more IPOs by Okinawan companies in 2013 or soon thereafter.

Okinawa J-Adviser's strategy can essentially be likened to establishing a stock exchange in Okinawa. Even though stock exchanges are computerized nowadays, IPO support activities remain regional in nature. The Okinawa J-Adviser model is

applicable to regions other than Okinawa. Future developments on this front bear close watching.

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