

Tokyo to establish alternative stock exchange based on London's AIM

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Onerous disclosure and reporting requirements for listing on the Tokyo Stock Exchange have been held largely to blame for a fall in the number of foreign companies listing on it in recent years. To address this, a new streamlined exchange based on London's AIM is being established. Its key features are discussed here.

The past few years has seen a decline in the number of foreign companies listing their shares on the Tokyo Stock Exchange. This has been due mainly to the plethora of disclosure documents that need to be submitted and the requirement to report in accordance with Japanese GAAP.

This downturn led the Financial Services Agency of Japan (JFSA) to propose in 2008 that the Financial Instruments and Exchange Act be amended to permit the establishment of a streamlined exchange. The Tokyo Stock Exchange is now in the process of acting on this recommendation and is working in conjunction with the London Stock Exchange on establishing a new exchange (Tokyo AIM) modelled on the London Alternative Investment Market (AIM).

The Tokyo AIM is expecting to obtain a licence from the JFSA by the beginning of May and after that will accept applications from securities companies wishing to be the entity that will play a substantive role in reviewing listing requirements. This entity will be called "J-Nomad".

The new exchange will be for Japanese professional investors and non-residents (whether professional or not) and will adopt a flexible regulatory approach to the listing of both Japanese and non-Japanese companies.

Tokyo AIM's main features are as follows:

Principle-based rather than rules-based regulation will apply.

J-Nomad will determine whether applicants meet listing requirements and minimum corporate governance standards.

Disclosure documents may be in English or Japanese and prepared in accordance with International Accounting Standards, US GAAP or Japanese GAAP.

Listed companies do not have to submit internal control reports based on J-SOX regulations (that is, Japanese regulations imposing similar reporting requirements to the US Sarbanes-Oxley Act) or quarterly financial reports.

After listing, J-Nomad will continue to monitor listed companies' compliance with market regulations and support their corporate governance.

Disclosure will need to be timely (based on the London AIM's requirements).

Although Japanese market conditions are currently not good, Tokyo AIM is expecting to attract not only foreign emerging companies but existing companies listed on current emerging markets.

Source: Tokyo AIM (Japanese and English).

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