

**Inquiry on Initial Public Offering (IPO) Pricing
Process, etc.**

**January 2022
Japan Fair Trade Commission**

Purpose of Inquiry

- In “the Action Plan of the Growth Strategy” (June 18, 2021 Cabinet Decision), it is pointed out regarding IPOs in Japan that the price at which shares begin to be traded in the market (opening price) is much higher than the price at which startups sell their shares to investors (offering price); therefore, there is no direct benefits for startups and they could have more proceeds with the same number of new shares, whilst investors who acquired new shares issued at offering price immediately gain marginal profits. In light of this, the IPO pricing process should be studied and reformed. In addition, a similar recommendation is mentioned in “Outline of Emergency Proposal Toward the Launch of a *New Form of Capitalism* that Carves Out the Future” (November 8, 2021 Secretariat of New Form of Capitalism Realization Headquarters Decision).
- Setting offering prices in proportion to company values of startups and demands, etc., can make it easier for startups to procure necessary funds for the growth of their businesses. This leads to developing an environment promoting their growth in the markets and, consequently, to activating the whole economy of Japan, which is desirable from the viewpoint of competition policy.
- Based on the above understandings, the Japan Fair Trade Commission (JFTC) has inquired actual situation of IPO pricing process, etc. for the purpose of examining possible causes of the phenomenon that opening price is much higher than offering price in perspective of competition policy and the Antimonopoly Act (AMA).

Methods of Inquiry

Questionnaire Inquiry

(i) Startups listed in the last 1 year:

Number of Targets: 97

Number of Responses: 75 (response rate: 77.3%)

(ii) Securities companies; mainly those which have undertaken the role of lead underwriters in the latest IPOs:

Number of Targets: 22

Number of Responses: 22 (response rate: 100%)

Hearing Inquiry

(i) Startups listed in the last 1 year: 15

(ii) Securities companies; mainly those which have undertaken lead underwriters in the latest IPOs:

9

(iii) Tokyo Stock Exchange

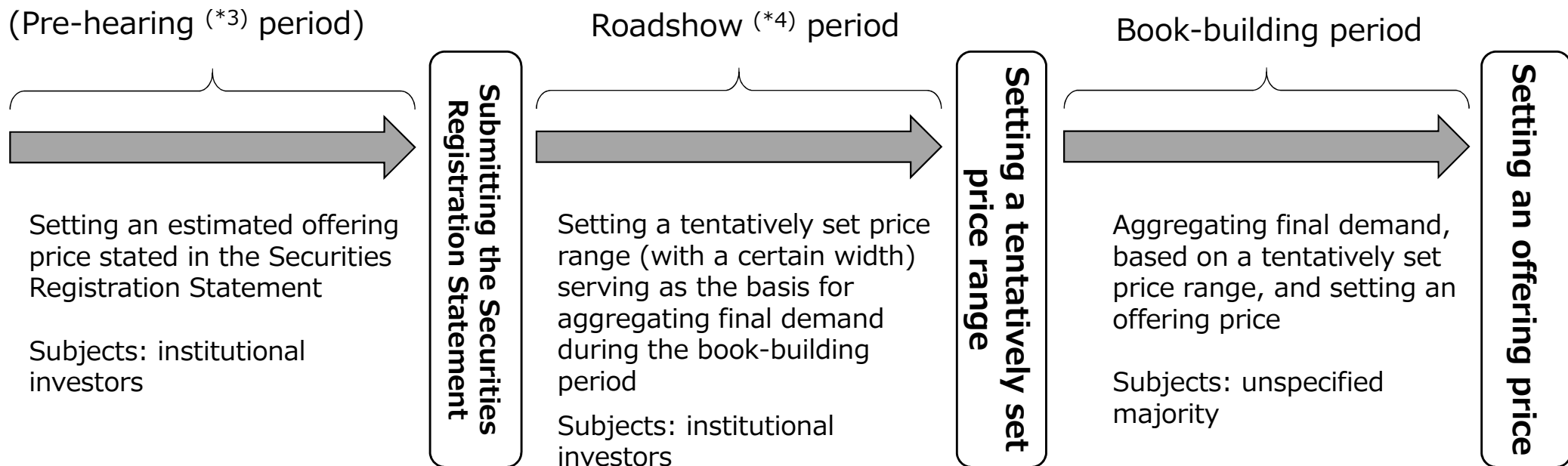
➤ **It is allowed to select Book-building (*1) or Bidding (*2) Process as a procedure for public offering before listing in an IPO.**

➤ **Book-building has been selected in all the IPOs since the method was executed in September 1997.**

(*1) The method that a lead underwriter sets a tentatively set price range while taking into account opinions from institutional investors and others, then, sets an offering price after an inquiry of demand of investors with providing the tentatively set price range (book-building).

(*2) The method that investors make a bid at an asking price for a portion for bidding during a certain period, and based on the results, an offering price is set for those other than the portion for bidding.

Overview of offering pricing process based on book-building



(*3) The inquiry mainly for institutional investors about the potential demand before submission of the Securities Registration Statement. The self-regulatory rules established by the Japan Securities Dealers Association (JSDA) fundamentally prohibit a pre-hearing held upon provision of the judicial person's related information.

(*4) A company information session mainly for institutional investors.

Note: Lead underwriters provide startups with support services for listing preparations, such as preparation of documents related to the application from two to three years before the IPO pricing process.

Number of companies listed on markets of Tokyo Stock Exchange (as of October 31, 2021) and number of startups (2020)

Name of market	Number of listed companies (as of October 31, 2021)	Number of startups (2020)
First section	2,184 companies	6 companies
Second section	469 companies	9 companies
Mothers	394 companies	63 companies
JASDAQ	693 companies	14 companies
TOKYO PRO Market	46 companies	10 companies
Total	3,786 companies	102 companies

Track record on undertaking the role of a lead underwriter of securities companies (2020)

Place	Name of securities company	Number	Share
1	Nomura Securities Co., Ltd.	22	23.9%
2	Mizuho Securities Co., Ltd.	21	22.8%
3	SMBC Nikko Securities Inc.	14	15.2%
3	SBI SECURITIES Co., Ltd.	14	15.2%
5	Daiwa Securities Co. Ltd.	12	13.0%
6	Ichiyoshi Securities Co., Ltd.	5	5.4%
7	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	2	2.2%
8	H.S. Securities Co., Ltd.	1	1.1%
8	Tokai Tokyo Securities Co., Ltd.	1	1.1%
Total		92	100.0%

- **About 60% of companies newly listed on the Tokyo Stock Exchange in 2020 were listed on the Mothers.**
- **Top five companies in terms of track record of undertaking the role of a lead underwriter have a 90.2% aggregate share.**

1 Setting an offering price

(1) Until a listing application to securities exchange

Determination of a lead underwriter and announcement of the average initial return and others

(2) Setting an estimated offering price

Holding a pre-hearing

Implementation method for IPO discount

(3) Setting a tentatively set price range

Holding an effective roadshow

Reflection of requests for subjects of hearing at the roadshow

Setting the standards on the width of a tentatively set price range

(4) Setting an offering price and executing a listing

Setting an offering price exceeding an upper limit of a tentatively set price range and amendment to a tentatively set price range

Involvement of individual investor sales department in offering pricing process

(5) Other

Addition of co-lead underwriter or change of lead underwriter and inhibition factors thereof

Hearing a second opinion

Request from a lead underwriter for giving a high underwriting rate

Entry barrier against undertaking the role of a lead underwriter

2 Reality on the diversity of options for the listing

Diversification of listing methods and the availability of methods other than book-building

3 Issues in AMA on trading practices related to the IPO

Requests for making a specific securities company a lead underwriter and unreasonable interference in other securities companies' undertaking the role of a lead underwriter

Exchange of the information on the underwriting commission rate between securities companies

Unilateral setting offering price and others give a startup unreasonable disadvantage to a lead underwriter with strong bargaining power

1 Setting an Offering Price

«(1) Until a listing application to the securities exchange»

Determination of a lead underwriter and announcement of the average initial return and others

Questionnaire and hearing surveys results from startups

- ✓ In order of high response rate, the matters considered in selecting a lead underwriter are as follows: support system until execution of IPO (78.1%), track record on undertaking the role of a lead underwriter (72.6%), and understanding of business model and potential of business (61.6%)
- ✓ Among the respondent companies, 53.4% said that the average initial return by volume of issuance of individual securities companies, if announced, would be beneficial.



It is good for startups because the announcement makes it possible for startups to have an average perspective.

A stock price six months after listing is proper as a comparison target over an opening price.



This can be a kind of a brake on securities companies.

Many startups probably focus on the support system for listing preparation and the ability to correspond to listing examination of the Tokyo Stock Exchange.



Questionnaire and hearing inquiries result from securities companies

- ✓ Among respondent companies, 40.9% said that the average initial return by volume of issuance of individual securities companies, if announced, would be beneficial for startups.



It is meaningful to provide the average initial return in the form of a list. We would pay attention to the announcement from the viewpoint of a securities company serving as lead underwriter.

An opening price is based on supply and demand at the time, and additionally, it depends on the momentum. Therefore, it does not necessarily reflect the ability of a lead underwriter appropriately. It is not necessarily appropriate to focus on an opening price.



Views from the perspective of competition policy

- **From the perspective of competition policy, it is desirable that the reference information for setting an offering price is announced in the form of a list so that startups can independently select a lead underwriter which, they think, understands their value appropriately.**

It is desired that the JSDA examines and announces which timing's stock price is appropriate for startups and investors as a reference to the average rate of return to be public, as well as the average initial rate of return and others.

«(2) Setting an estimated offering price (i)»

Holding a pre-hearing

Questionnaire and hearing inquiries result from startups

- ✓ Among respondent companies, 39.7% recognized that it was possible to hold a pre-hearing*. Of these, 58.6% answered that they had actually held a pre-hearing.
- ✓ Among respondent companies that actually held a pre-hearing, 62.5% recognized that the results of the pre-hearing had been reflected into the level of an estimated issue price.



(As a result of pre-hearing) An estimated issue price is set in consideration of the demand of institutional investors, and fair competition would work well in the stock markets.

* It may include the information meetings that represent transmission of the information about startups without mentioning offering or second offering of shares.

Questionnaire and hearing inquiries result from securities companies

- ✓ Among respondent companies, only 9.1% said that they had held a pre-hearing.
- ✓ On the other hand, among companies that answered no pre-hearing was held, 27.3% recognized that laws and regulations prohibit the pre-hearing related to the IPO. All of them answered that they would like to hold a pre-hearing if it were clear that laws and regulations did not prohibit a pre-hearing.



We strongly agree to have a pre-hearing. It would be better if it could be secured to hold the pre-hearing with several institutional investors in order to avoid arbitrary pre-hearings.

For institutional investors, it is not beneficial to participate in pre-hearings other than those for deals with a certain level of large issuance volume. It is a burden to enter into a nondisclosure agreement, and it seems that there are few institutional investors participating in pre-hearings for deals with a small issuance volume.



Views from the perspective of competition policy

- **From the perspective of competition policy, it is desirable for the JSDA to clarify that laws and regulations do not prohibit pre-hearings and to inform securities companies of this, and then securities companies can hold a pre-hearing, if institutional investors can participate, to set an estimated issue price in consideration of demand from investors.**

1 Setting an Offering Price

«(2) Setting an estimated issue price (ii)»

Implementation method for IPO discount

Questionnaire and hearing inquiries result from startups

- ✓ All respondent companies answered that they had made an IPO discount, but only a small portion of startups said that they had obtained specific and convincing explanations about the calculation basis for the discount rate from a lead underwriter.



The lead underwriter gave the explanation that the market discount stood at 30% in our industry.

The lead underwriter explained that we should focus on an exit price for the IPO because it was meaningless to dispute the discount rate.



The lead underwriter gave the explanation that it was required to provide a discount of 40% because the spread of COVID-19 had an impact on the market.

We asked the lead underwriter to explain the calculation basis, but no explanation was given, and the lead underwriter left no margin for negotiation.



Questionnaire and hearing inquiries result from securities companies

- ✓ Among the respondent companies, 90.9% said that they had given an IPO discount.
- ✓ There is some degree of variation in the level of the discount, and the most frequent answer (63.6%) was 20% to less than 30%.



The discount rate depends on the existence of risk, market environment, and investors' appetite for the discount. Investors stop considering the purchase when they think an estimated issue price is expensive, and so it is required to set a price that investors would feel like considering the purchase.

In our opinion, the discount should be convinced by startups, and securities companies should be aware of necessity to give a full explanation.



Views from the perspective of competition policy and AMA

- It may constitute an issue under the AMA for securities company to set an estimated issue price low in the name of an IPO discount without explanation, instead of setting the price based on a reasonable basis. From the perspective of competition policy, it is desirable that securities companies sufficiently discuss with startups and set an estimated issue price after the startups fully get convinced of the price.

«(3) Setting a tentatively set price range (i)»

Holding an effective roadshow

Hearing results from startups



Startups would like to hold a roadshow for institutional investors who appropriately assess our enterprise value, hoping that these institutional investors become shareholders.

Presenting startups results of the roadshow with institutional investors names is also beneficial for IR after listing, and it should be done accordingly. It also helps us to understand how investors holding shares for a mid- and long-term have made an evaluation.



Hearing results from securities companies



We hope that institutional investors are in earnest aware that they are supposed to play a role of offering prices and get more serious. We expect that they will be more serious when their name is disclosed.

In Japan, many institutional investors reject the disclosure of their names. There is a risk that institutional investors, if they are forced to disclose their names, could say that they will not respond to a roadshow.



Startups would be further convinced if institutional investors' name is disclosed.

Additionally, it is required to establish a process to obtain consent from institutional investors on the disclosure of their names if the result of the roadshow with their names is to be disclosed.



Views from the perspective of competition policy

- ❑ To make it possible to set a tentatively set price range accurately reflecting demand, it is desirable from the competition policy perspective that securities companies obtain appropriate feedback from institutional investors and hold an effective roadshow in light of the enterprise value and potential growth of startups.

When consent is obtained from institutional investors, it is desirable to increase transparency by disclosing the results of the roadshow with names of institutional investors to startups.

1 Setting an Offering Price

«(3) Setting a tentatively set price range (ii)»

Reflection of requests for subjects of hearing at the roadshow

Questionnaire and hearing inquiries result from startups

- ✓ Among respondent companies, 1.4% said that they had had requests for subjects of the hearing at the roadshow, but the requests were not realized at all.
- ✓ On the other hand, among respondent companies, 61.6% said that they had had no requests for subjects of the hearing at the roadshow.



We think it is virtually difficult for startups with no linkage with institutional investors to select subjects of the hearing at the roadshow.

We had no choice but to leave subjects of the hearing at the roadshow up to a lead underwriter.



Questionnaire and hearing inquiries result from securities companies

- ✓ All respondent companies who said that the requests were shown for subjects of the hearing at the roadshow by startups answered that they had adopted the requests from startups.



We provide startups with a target list of institutional investors and ask them to inform us of subjects that they would like to add to a roadshow.

There are not a few startups that do not understand institutional investors satisfying their demand.



We think it is necessary to hear requests for subjects of the hearing. The fundamental elements of issues on the opening pricing process at the IPO are that in some deals, securities companies give no courteous explanation.

Even if requested by startups, the requests are not always realized because transactions depend on securities companies.



Views from the perspective of competition policy

- From the perspective of competition policy, it is desirable that securities companies explain to startups about institutional investors, which could be subjects of the hearing at the roadshow, by providing startups with a list of institutional investors interested in the roadshow of the startups, so that the startups can further independently select subjects for the hearing. Additionally, securities companies should sufficiently discuss subjects of the hearing at the roadshow for startups to fully get convinced of the subjects before determined.

Setting the standards on the width of a tentatively set price range

Hearing results from startups

- ✓ No startups said that they had received an explanation about the existence of the standards on the width of the tentatively set price range.

Questionnaire and hearing inquiries result from securities companies

- ✓ Among respondent companies, 27.3% said that they had established standards on the width of a tentatively set price range.



Our company has no standards on the width of a tentatively set price range, and the tentatively set price range is purely based on feedback from institutional investors at the roadshow.

When the width of a tentatively set price range is too large, opinions from investors cannot be converged, and the valuation is not appropriately conducted. To avoid such a case, we set the guide width of a tentatively set price range in advance in anticipation of the nature of investors with large demand by issuance volume.



Views from the perspective of competition policy

- From the perspective of competition policy, to make it possible to set tentatively set price range that accurately reflect demand, it is desirable that securities companies establish not standards on a rigid and narrow width of a tentatively set price range but standards on the width of a tentatively set price range more suitable to demand in consideration of results of the roadshow.

1 Setting an Offering Price

«(4) Setting an offering price and executing a listing (i)»

Setting an offering price exceeding the upper limit of a tentatively set price range

Questionnaire and hearing inquiries result from startups

- ✓ Among respondent companies, 5.5% said that they had received the explanation of the impossibility of setting an offering price exceeding the upper limit of a tentatively set price range while 67.1% said that they had received no explanation.
- ✓ Among respondent companies, 49.3% think it is desirable for startups to set an offering price exceeding the upper limit of a tentatively set price range and others.



For startups, such pricing is desirable because it increases the offering price.

An offering price exceeding the upper limit of a tentatively set price range would be a surprise for investors who place a market order. Some investors may not be convinced.



Such pricing would lead to the acquisition of shares by investors hoping to acquire shares even at a high price.

Questionnaire and hearing inquiries result from securities companies

- ✓ Among respondent companies, 22.7% recognized that laws and regulations, such as the Financial Instruments and Exchange Act, prohibited such pricing, while 4.5% recognized that the self-regulatory rules stipulated by the JSDA prohibited such pricing. There was no company that had set an offering price exceeding the upper limit of a tentatively set price range.
- ✓ Among respondent companies, 45.5% think it is desirable to set an offering price exceeding the upper limit of a tentatively set price range from the perspective of accurate reflection of demand.



Market may fluctuate after setting a tentatively set price range.
 In the United States, it is common to set an offering price exceeding the upper limit of a tentatively set price range, which is good.

«(4) Setting an offering price and executing a listing (i)»

Amendments to a tentatively set price range

Questionnaire and hearing inquiries result from startups

- ✓ Among respondent companies, 6.8% received the explanation of the impossibility of amending a tentatively set price range while 57.5% received no explanations.
- ✓ Among respondent companies, 60.3% think it is desirable for startups to amend the tentatively set price range.



In the case startups do not get convinced of a tentatively set price range and a price based on book-building sticks to the upper limit, it is good to make it possible to conduct another book-building on the premise of discussions with a lead underwriter.

We have a concern about a market fluctuation risk arising from an extension of the schedule.



Questionnaire and hearing inquiries result from securities companies

- ✓ No companies answered that laws and regulations, such as the Financial Instruments and Exchange Act and the self-regulatory rules stipulated by the JSDA, prohibited the amendment. At the same time, there was no company that had amended a tentatively set price range.
- ✓ Among respondent companies, 68.2% think it is desirable to amend a tentatively set price range from the perspective of accurate reflection of demand.



In the case of making amendments to a tentatively set price range, it is good that if a price based on book-building is within a tentatively set price range plus a predetermined percentage, it is allowed to make amendments to the tentatively set price range without submission of notification of the amendment and to conduct another book-building.

We know that with submission of the notification of an amendment we could amend a tentatively set price range, but it is difficult to make amendment in a determined schedule. It is unclear whether investors respond to another book building.



Views from the perspective of competition policy

- ❑ **The Financial Services Agency and the JSDA should disseminate the fact that there are no institutional restrictions on setting an offering price exceeding the upper limit of a tentatively set price range. Securities companies should set an offering price exceeding the upper limit of a tentatively set price range and an offering price after amendments should be set more flexibly in light of the results of book-building to reflect demand appropriately. This makes it possible to raise money at an offer price further reflecting demand of investors, which is desirable from the competition policy perspective.**

«(4) Setting an offering price and executing a listing (ii)»

Involvement of individual investor sales department in IPO pricing process

Hearing results from startups



We hear that there is a tendency of letting startups reduce an offering price to make sales to individual investors easy.

We think that our offering price resulted from pressure from the retail sales department while the pressure is actually confirmed.



Questionnaire and hearing inquiries result from securities companies

- ✓ Among respondent companies, 27.3% said that an estimated issue price was under the system reflecting the opinions of sales departments, such as the joint meeting with the sales department, 36.4% said that a tentatively set price range was under such a system and 27.3% said that an offering price was under such a system.



The price can strongly reflect the intent of startups when it is determined only by the underwriting department. To secure transparency, we hold a check meeting in which sales department also participates with the aim of achieving a price level convincing startups.

Targets of sales mainly consist of individual investors, and probably there is the force that the price is set low as much as possible. All securities companies should ask analysts to make analysis before setting an offering price.



Views from the perspective of competition policy

- **Securities companies are required to establish a system to manage conflicts of interest lest reflection of the intent of the individual investor sales department should have an unreasonable impact on the IPO pricing process; due to this impact, an undervalued offering price may be set without reflection of actual demand; then, the undervalued shares may be allocated to customers. When there is doubt about the effectiveness of such management system (for example, share prices after listing that include the opening price are remarkably higher than the offering price) in many cases, it is desirable to examine and review the system from the perspective of competition policy.**

Addition of co-lead underwriters or change of lead underwriters and inhibition factors thereof

Questionnaire and hearing inquiries result from startups

- ✓ Among respondent companies that wanted to add a co-lead underwriter, 33.3% failed to add a co-lead underwriter.
- ✓ Among respondent companies that wanted to change a lead underwriter, 28.6% failed to change the lead underwriter.



The addition of a co-lead underwriter was declined because, according to a lead underwriter, it could not be taken care of.

It was said that the scheduled date of the listing would be extended by about a year if the lead underwriter was changed, and we failed to change the lead underwriter in light of the schedule.



Questionnaire and hearing inquiries result from securities companies

- ✓ Among respondent companies, 63.6% accepted the addition of another securities company as a co-lead underwriter in deals they served as a lead underwriter while 36.4% declined the addition.
- ✓ As regards with factors inhibiting addition of co-lead managing securities companies or a change of the lead underwriter, the responses were often seen in the following order: In changing a lead underwriter and adding a co-lead underwriter, companies executing the IPO bear a huge burden (81.8%); in the IPO process, there are many cases that the IPO is led not by companies executing the IPO but by a lead underwriter initially serving in the role (40.9%).



In deals with a small issuing volume, an addition of a co-lead underwriter makes it impossible to cover the cost for support for listing preparations.



Even in deals wherein several co-lead underwriters serve, the burden is equal to that in deals wherein the lead underwriter solely serves. If all deals require co-lead underwriters, securities companies would start selecting what deals they underwrite.

The materials for listing examinations are not taken over between securities companies, but we do not prevent startups from delivering their materials to the successor of lead underwriter. But the image of the recommendation should be created by individual securities companies. Therefore, naturally the listing day is postponed,



Views from the perspective of competition policy


- ❑ **From the perspective of competition policy, it is desirable that securities companies advance the IPO process after startups have a sufficient understanding through discussing the level of the offering price to be set in future in the early phase of the IPO process and providing the startups with the required materials.**

In order not to prevent the sharing of the required information, it is desirable for securities companies to give consideration to how easily startups can add a co-lead underwriter and change a lead underwriter through providing startups with materials for services for the listing application if required by the startups. Additionally, it is also desirable that securities companies do not prevent startups from adding a co-lead underwriter if requested by startups, unless there are particular problems.


Hearing a second opinion

Questionnaire and hearing inquiries result from startups

- ✓ Among respondent companies, 42.5% heard the second opinion, of which, 38.7% said that the opinion had been reflected in an estimated issue price.
- ✓ Among respondent companies, 75.3% said that it was desirable to get an opportunity to hear a second opinion.




It is desirable for startups to hear a second opinion because it adds to material for negotiating with a lead underwriter.




We were informed from a person in charge of sales of a lead underwriter that a second opinion is not taken into consideration.

Questionnaire and hearing inquiries result from securities companies

- ✓ Among respondent companies, 45.5% said that the second opinion had been shown on deals where they serve as a lead underwriter by startups, of which, 80.0% said that they had taken into consideration the second opinion at the offering price process.
- ✓ Among respondent companies, 50.0% answered that they requested the provision of a second opinion on deals where they did not serve as a lead underwriter.



We think it is beneficial to hear a second opinion.



Even when providing a second opinion, it is required to deeply understand startups. It is difficult to provide meaningful second opinions on deals where we do not serve as a co-lead underwriter.

Views from the perspective of competition policy

- ❑ **From the perspective of competition policy, it is desirable that securities companies do not prevent startups from hearing second opinions during the offering price process when they hope to have a second opinion.**

From the perspective of improving the environment where it is easy to hear effective second opinions, it is desirable that securities companies do not prevent startups from adding a co-lead underwriter if requested by the startups, unless there are particular problems.

Request from a lead underwriter for giving a high underwriting rate

Hearing results from startups

- ✓ No startups answered that they had been requested from the lead underwriter to give a high underwriting rate against their will.
- ✓ However, several startups criticize the current situation.



We were requested from the lead underwriter to give a high underwriting rate of 80-90%.

We would like to hear a second opinion by adding a securities company other than a lead underwriter to the syndicate.



We thought that startups had the initiative on decisions about the underwriting rate, but we could not negotiate the underwriting rate because of the power balance with the lead underwriter.

Questionnaire and hearing inquiries result from securities companies

- ✓ All companies subject to document-based investigation ask startups to ensure that the investigated companies can secure a certain underwriting rate when they undertake the role of a lead underwriter.
- ✓ In many cases, the asking underwriting rate is 80% or more.



It is natural not to force startups to give a high underwriting rate to a lead underwriter.

Securities companies cannot undertake the role of a lead underwriter when it is unlikely to gain a certain revenue amount. But they do not think it is natural to make a underwriting rate of a lead underwriter higher.



Views from the perspective of competition policy

- ❑ From the perspective of competition policy, it is desirable that lead underwriters do not ask startups to give a high underwriting rate to lead underwriters against the will of startups.

Entry barrier against undertaking the role of a lead underwriter

Hearing results from startups

<Securities companies with limited experience in undertaking a lead underwriter for IPO deals>

We would like to undertake the role of a lead underwriter for IPO deals in future.

<Securities companies with no experience in undertaking the role of a lead underwriter>

Our company has only one or two persons in such a section as listing eligibility examination department, and it is difficult to establish an independent section.

Hearing results from Tokyo Stock Exchange

Lead underwriters are required to judge listing eligibility without being bound by the position of supporting the listing. Therefore, it is predetermined to place a person dedicated to the listing eligibility. It is inappropriate to ease the requirements on establishing an independent listing eligibility examination department. On the other hand, from the perspective of expanding the base of securities companies undertaking the role of lead underwriters, we think it is important to clarify the difficulties in the rules mainly through visualization at Tokyo Stock Exchange of items concerning the examination of recommendations conducted by securities companies.

Views from the perspective of competition policy

- ❑ From the perspective of competition policy, it is desirable that the Tokyo Stock Exchange clarify and disseminate specific matters to be addressed according to the Rules concerning Trading ' Listing Eligibility Examination so that a wide range of securities companies can undertake the role of a lead underwriter.

Diversification of listing methods and the availability of methods other than book-building

Questionnaire and hearing inquiries result from startups



It is good that a listing method is selectable from several options.




It is important that a listing method would be selectable according to the characteristics of companies.




The diversification of options is desirable because there is a certain degree of demand that we would like to go public immediately as we separately raise money.

Questionnaire and hearing inquiries result from securities companies



We do not deny the execution of a direct listing* if the issue on the fee that securities companies receive upon examination of the recommendation is resolved.



We have no experienced persons (in bidding method and direct listing). It is unknown how many startups hope for a bidding method and direct listing, so, we would not consider bearing the cost to construct the system.

* It means the direct listing of shares on an exchange with no new shares issued or no shares underwritten by the securities company at the time of the listing.

Hearing results from Tokyo Stock Exchange



Institutionally, direct listing is available at the first section of Tokyo Stock Exchange and prime market (after revision of market segments). On the other hand, the Mothers and Growth Market (after revision of market segments) have the concept that the market is for growth companies, and they set the requirements of growth finance by IPO. Therefore, they do not assume a direct listing.

Views from the perspective of competition policy

- **From the perspective of competition policy, it is desirable that securities companies provide startups with advance explanations about other options about listing method so that newly listed company can select the listing method.**

From the perspective of diversification of options for listing methods that can become options for startups, it is desirable that the Tokyo Stock Exchange and the JSDA examine the ideal of bidding system through the study of similar methods overseas.

- ✓ Through this inquiry, there were no cases clearly being an issue in the AMA. The JFTC clarifies views on the following acts potentially constituting a violation of the AMA.

Requests for making a specific securities company a lead underwriter and unreasonable interference in other securities companies' undertaking the role of lead underwriter

- **If securities companies unreasonably interfere in other securities companies' undertaking the role of a lead underwriter by executing the influence of affiliated banks and venture capital firms on startups, the interference can be an issue under the AMA (trade interference).**

To avoid an issue under the AMA, securities companies are required to note that they execute no unreasonable interference in other securities companies' undertaking the role of the lead underwriter by executing the influence of affiliated banks and venture capital firms upon startups. In addition, it is expected that securities companies will fairly compete for undertaking the role of a lead underwriter by appropriately explaining the details of their services about the lead underwriter's duties to startups.

Exchange of the information on the underwriting commission rate between securities companies

- **An agreement made for the rate of the underwriting commission among securities companies can be an issue under the AMA (unreasonable restraint of trade).**

It is desirable that competition be promoted in the rate of the underwriting commission and the details of the services between securities companies through, for instance, securities companies' flexibly changing the commission rate for each deal in consideration of the size of the issuance volume.

Startups unreasonable disadvantage to lead underwriters with the strong bargaining power due to unilateral offering pricing and others

- **If it is recognized that a lead underwriter at a superior bargaining position unreasonably creates a disadvantage for startups in light of normal commercial practices by executing transactions of a lead underwriter's duties in such a way that they unilaterally set an offering price, this can be an issue under the AMA (abuse of superior bargaining position).**
 - **If an estimated issue price is set low in the name of an IPO discount without an explanation of the reason, and not based on a reasonable grounds, this can be an issue under the AMA.**

To avoid an issue under the AMA, securities companies are required to ensure that the offering price is not unilaterally set, through the following:

- sufficiently discussing the setting of an estimated issue price with startups and sufficiently convincing them of the price before setting it,
- giving consideration to the ease of startups adding a co-lead underwriter and changing a lead underwriter, and not preventing startups from adding a co-lead underwriter if requested by startups unless there are particular problems,
- from the perspective of securing a second opinion hearing, not preventing startups from hearing a second opinion when they hope to have a second opinion,
- not asking startups to give a high underwriting rate against the will of startups unless there are particular problems.

Future Actions of the JFTC

- ❑ This report presents views about IPO pricing process from the perspective of competition policy and the AMA after an inquiry for startups and securities companies. The JFTC suggests the views presented in the report to the Financial Services Agency, the JSDA, and the Tokyo Stock Exchange, and it hopes that these organizations will examine specific measures and take voluntary action, which accelerates fair and free competition in IPO pricing process.
- ❑ The JFTC will respond harshly and appropriately to specific deals that are an issue under the AMA in IPO-related transactions when the JFTC face these deals.
- ❑ From the perspective of improvement of the competition environment, the JFTC indicates issues arising from the market environment during the offering price process for an IPO. It is desirable that an appropriate examination of these issues and resolving issues in competition policy result in diversification of options for startups, easiness of raising funds for their own business, and improvement in the environment for acceleration of market growth, which eventually leads to revitalization of the entire Japanese economy.