



Lecture on Self Regulatory Organization (SRO)

**Hiroyuki Kaneko, JICA Consultant
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**19 May 2015
Daiwa Institute of Research
Japan Economic Research Institute**

Contents of the lecture

1. What is an SRO?
2. Different Types of SROs and Functions
3. Potential SROs in Mongolia
4. Prerequisites and Requirements for SROs
5. Comparison of Asian SROs
6. Q&A

What is an Self Regulatory Organizations (SROs) ?

- Self Regulatory Organization (SROs) is an organization that is organized to regulate the market operations and the ethical standards of practice and business conducts of its members as for the purpose to promote investor protection and market development.
- SROs are usually stipulated by relevant laws and registered / regulated by the government / authorities.
- SROs function as a semi-regulator as they monitor the market operations to minimize any wrong doings and frauds .
- SROs also functions as a promoter of industry development via providing necessary training s and education to those professionals working for the industry.

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IOSCO's Principles for SROs and Benefits

Principles for SROs

- The regulatory regime should make appropriate use of SROs that exercise some direct oversight responsibility for their respective areas of competence and to the extent appropriate to the size and complexity of the markets.
- SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.

Benefits from SROs

- SROs may require the observance of ethical standards which go beyond government regulations.
- SROs may offer considerable depth and expertise regarding market operations and practices, and may be able to respond more quickly and flexibly than the government authority to changing market conditions.

Source: International Organization of Securities Commissions (IOSCO)

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Different Types of SROs and their Functions

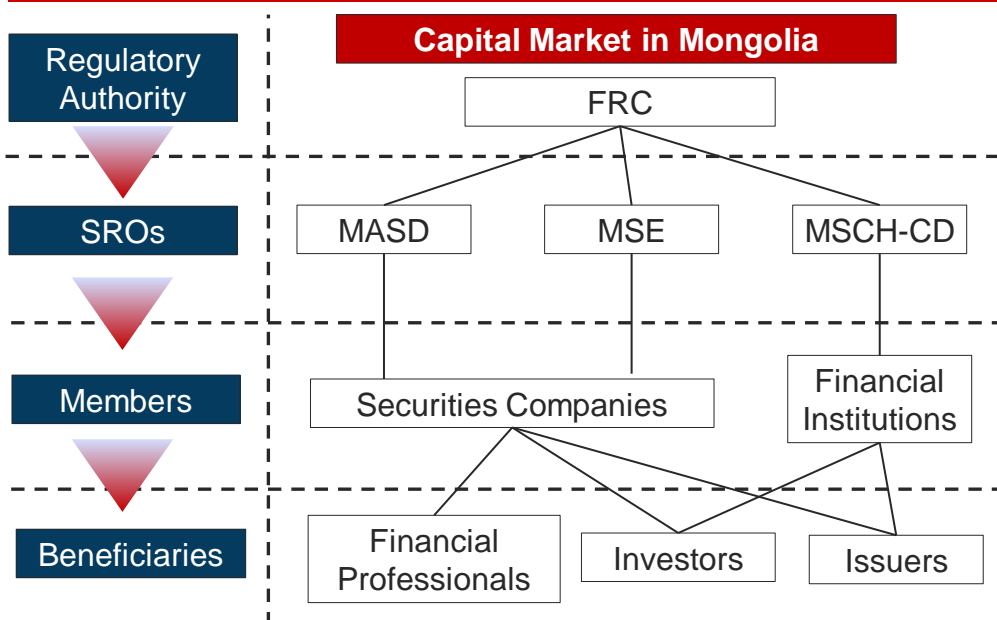
- There are mainly four different types of Self Regulatory Organizations and each with different functions and responsibilities
- Three institutions namely MSE, MASD, and clearing house are stipulated in Mongolia to become SROs under the Securities Market Law (May 2013)

Major categories	Functions	Possible Institutions
Securities Exchange	<ul style="list-style-type: none"> ✓ Monitor and control the market transactions ✓ Report misbehaviors and misconducts ✓ Educate and train industry participants 	<u>MSE</u> , Commodity Exchange
Industry Associations	<ul style="list-style-type: none"> ✓ Promote standards and ethical practices ✓ Provide guidelines and best practices ✓ Educate and train the professionals 	<u>MASD</u> , MBA, other industry associations
Independent SROs	<ul style="list-style-type: none"> ✓ Promote standards and ethical practices ✓ They may provide OTC bond trading facility 	example: Forum of Issuers, Investors' Summits, etc.
Clearing House	<ul style="list-style-type: none"> ✓ Usually, Central Securities Depository (CSD) and/or independent clearing houses ✓ Could have both private or NGO types. 	former <u>MSCH&CD</u>

Note: institutions underlined are the three SROs designated under the Mongolia's Securities Market Law (May 2013)

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Typical governing structures of the capital market



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IOSCO Recommended Requirements for SROs

- Have the capacity to carry out the purposes of governing laws, regulations and SRO rules, and to enforce compliance by its members and associated persons with those laws, regulations, and rules;
- Treat all members of the SRO and applicants for membership in a fair and consistent manner;
- Develop rules that are designated to set standards of behavior for its members and to promote investor' protection;
- Submit to the regulator its rules for review and/or approval as the regulator deems appropriate, and ensure that rules of the SRO are consistent with the public policy directives established by the regulator;
- Cooperate with the regulator and other SROs to investigate and enforce applicable laws and regulations;
- Enforce its own rules and impose appropriate sanctions for non-compliance;
- Assure a fair representation of members in selection of its directors and administration of its affairs;
- Avoid rules that may create uncompetitive situations; and
- Avoid using the oversight role to allow any market participant unfairly to gain advantage in the market.

Source: "Objectives and Principles of Securities Regulation", IOSCO (May 2003)

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SRO Registration Criteria in Mongolia

Provision 3: SRO Registration Criteria	
3.1.1	Legal entity registered in Mongolia;
3.1.2	Have a membership base of at least 50% of the total licensed and regulated entities that participate in the securities market;
3.1.3	Have professional/specialized personnel/structure for ensuring professional ethics, and conducting disciplinary measurements and internal control;
3.1.4	The Chair of the Board, any member of the Board, and the Executive management must not have any history/record of serving as an authorized personnel of any regulated entity in the securities market within the last 5 years where the license of the entity was revoked due to a violation
3.1.5	The following items that are required by the Article 72 of the Securities Market Law must be included/reflected in the Charter and Procedures and be approved by the General Meeting of the Members;
3.1.6	Have operational history of at least 5 years in the securities market;
3.1.7	Have full time market analysts and research and training staff.

Source: "SRO Registration Procedure", FRC

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Comparison of Asian SROs : Stock Exchange Type

1. Stock Exchanges in Asia

Country	Name of Stock Exchange	Organization Type
China	Shanghai Stock Exchange (SSE) Shenzen Stock Exchange (SZSE)	a non-profit organization directly administered by the China Securities Regulatory Commission (CSRC)
Hong Kong	Hong Kong Exchanges (HKEx)	Exchange SRO
Japan	Japan Stock Exchange (JPX)	Exchange SRO
Korea	Korea Exchange (KRX)	Exchange SRO
Mongolia	Mongolian Stock Exchange (MSE)	Government Organization - Ministry of Finance (MOF)
Singapore	Singapore Exchange (SGX)	Exchange SRO
Thailand	Stock Exchange of Thailand (SET)	Exchange SRO

Source: "4th & 5th Comparative Analysis of Asian Securities Regulators & SROs and Market Characteristics"

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Comparison of Asian SROs: Industry Association Type

2. Industry Associations SRO Type, Statutory Basis

Country	Name of Organization	Organization Type	Statutory Basis
China	Securities Association of China (SAC)	SRO & Industry Association	Established by Law
Hong Kong	Hong Kong Securities Association (HKSA)	Industry Association	Established spontaneously in 1978, HKSA is the first securities industry association in Hong Kong
Japan	Japan Securities Dealers Association (JSDA)	SRO & Industry Association	Established pursuant to Financial Instruments and Exchange Act
Korea	Korea Financial Investment Association (KOFIA)	SRO & Industry Association	Established pursuant to Financial Investment Services and Capital Markets Act
Mongolia	Mongolian Association of Securities Dealers (MASD)	Non-Government Organization	Established by Securities Market Law of Mongolia

Source: "4th & 5th Comparative Analysis of Asian Securities Regulators & SROs and Market Characteristics"

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Comparison of Asian SROs: Industry Association Type

3-1. Number of Staff, Funding Source and Number of Member Firms

Country	Name of Organization	No. of Full Time Staff	Funding Source	Number of Member Firms
Hong Kong	Hong Kong Securities Association (HKSA)	3 full-time staff	Membership Fee and other sources (CPT courses, sponsorship, members activities and advertisement income from HKSA publication)	Approximately 1,100 individual members (comprising of securities and derivatives brokers/dealers, research analysts, asset managers and corporate finance advisers)
Japan	Japan Securities Dealers Association (JSDA)	348	Membership Fee, Fees for Examination and Training Course	(As of Sep.1, 2014) 254 Regular Members consisting of securities companies including 16 foreign securities companies 211 Special Members consisting of 185 banks, 14 insurance companies and 12 other financial institutions

Source: "4th & 5th Comparative Analysis of Asian Securities Regulators & SROs and Market Characteristics"

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Comparison of Asian SROs: Industry Association Type

3-2. Number of Staff, Funding Source and Number of Member Firms

Country	Name of Organization	No. of Full Time Staff	Funding Source	Number of Member Firms
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Mongolia	Mongolian Association of Securities Dealers (MASD)	4	Membership Fee, Funding from capital market projects and programs, Training course fee	46 regular members - securities companies

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Comparison of Asian SROs: Industry Association Type

4-1. Major Rule Making Function of Each Organization

Country	Name of Organization	Major Rule Making Functions
Hong Kong	Hong Kong Securities Association (HKSA)	<p>The SFC is statutory securities regulator set up to regulate the securities and futures markets in Hong Kong. It delegates part of its functions in respect of prospectus vetting to The Stock Exchange of Hong Kong Limited ("SHEK") for companies seeking a listing on SHEK.</p> <p>The HKSA is an industry association functions as a bridge between market practitioners, the Government, SFC, Hong Kong Exchanges and Clearing Limited ("HKEx") and public investors. HKSA liaises with Government and SFC through regular meetings and responses to consultation papers. Directors of the HKSA sit in various committees and panels of the SFC and advisory board/panel of Government or statutory bodies concerning financial markets. HKSA's directors also sit in all three consultative panels of the HKEx.</p>
Japan	Japan Securities Dealers Association (JSDA)	JSDA makes and enforces a wide range of self-regulatory rules covering the securities business in Japan that control the conduct of its member firms.

Source: "4th & 5th Comparative Analysis of Asian Securities Regulators & SROs and Market Characteristics"

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Comparison of Asian SROs: Industry Association Type

4-2. Major Rule Making Function of Each Organization

Country	Name of Organization	Major Rule Making Functions
Korea	Korea Financial Investment Association (KOFIA)	KOFIA make and enforce self-regulations to perform the business based on FSCMA, which is to maintain sound trade practice among the members and to protect the interest of investors.
Mongolia	Mongolian Association of Securities Dealers (MASD)	<p>According to the Securities Market Law, the responsibilities of the MASD include formulating rules and regulations that MASD members must abide by, supervising and examining members' activities and taking measures to the members not complying the law, regulation or MASD rules.</p> <ol style="list-style-type: none"> 1. membership admission criteria, membership fees, and rule on membership suspension and termination; 2. code of professional ethics of its members and officials to be followed due course of its operations; 3. rule on supervision of members' operations and resolving complaints and disputes; 4. rule on management, administration and operation of the self-regulatory organization; 5. rule on training members and organizing other measures to improve the professional skills of the officials; 6. rule on coordination of actions to promote fair trading practices such as to prevent market manipulation and insider trading; and 7. other matters as stated in legislation

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Comparison of Asian SROs: Industry Association Type

5. Qualification System for Market Professionals

Country	Name of Organization	Qualification Systems for Market Professionals
Japan	Japan Securities Dealers Association (JSDA)	Under the FIEA, Japan has adopted a registration system for sales representatives, and unqualified people are excluded from the sales activities of securities companies, etc. For this reason, and being delegated by the FIEA, JSDA requires member firms' officers and employees to obtain qualification as a Sales Representative, which is a prerequisite for being engaged in the securities business in Japan. This rule ensures that market professionals have adequate skills and knowledge. For this purpose, JSDA holds the qualification examinations for Class-1 Sales Representative and Class-2 Sales Representative for employees of regular members involved in securities business operations. Class-1 Examination became open to the public starting from January 2012, in addition to Class-2 Sales Representative which has been open to the public since September 2004. It also holds the qualification examinations for Special Member's Class-1 Sales Representative, Special Member's Class-2 Sales Representative. In addition, JSDA introduced a Sales Manager and Internal Administration system in April 1992 whereby member firms must appoint a "Sales Manager" and an "Internal Administrator" for each sales unit. To become a "Sales Manager" or an "Internal Administrator", candidates must pass the Internal Administrator examination (or Special Member's Internal Administrator in case of officers and employees of special members). JSDA has been offering computerized examinations since April 2002, which enable candidates to take those examinations on any business day. The qualification examinations for regular members are conducted in English as well.

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**JICA Project on Capacity Building of
Capital Market in Mongolia**



Mongolian Stock Exchange (MSE)

Lecture on Self Regulatory Organization (SRO)

**Hiroyuki Kaneko, JICA Consultant
Akifumi Nakanishi, JICA Consultant**

**21 May 2015
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Japan Economic Research Institute**

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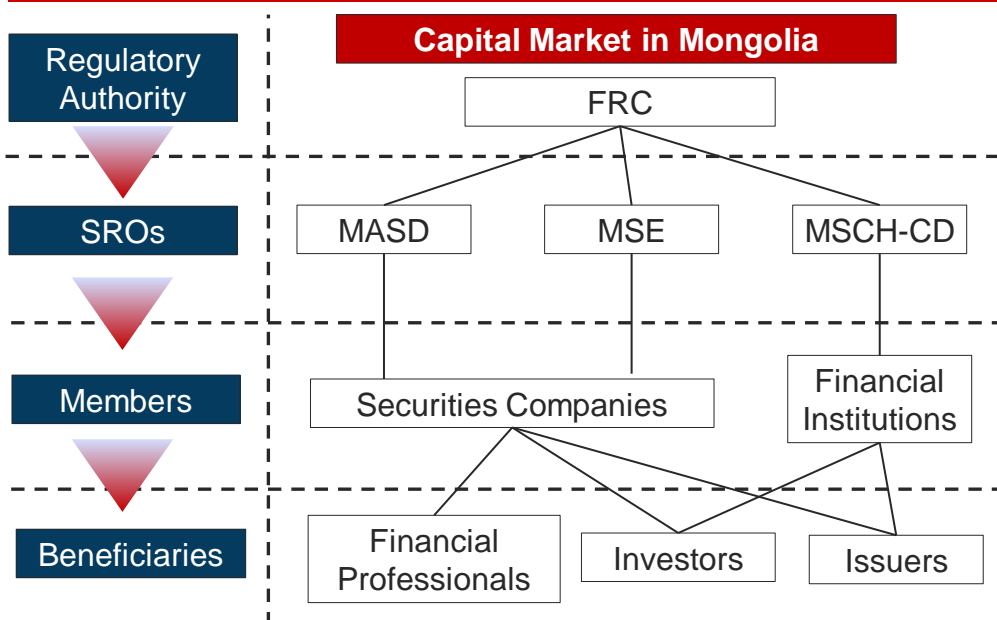
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Typical governing structures of the capital market



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3.1.6	Have operational history of at least 5 years in the securities market;
3.1.7	Have full time market analysts and research and training staff.

Source: "SRO Registration Procedure", FRC

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Advantages / Benefits for MSE to become an SRO

- ✓ Maintain the quality of the listed companies through obtaining the right and responsibility to regulate them to reinforce disclosure rules and transparencies
- ✓ Enforce compliance by its market participants and associated individuals by establishing the trading rules and regulations in line with the governing laws
- ✓ Earn confidence of the market participants by investigating and enforcing applicable laws and regulations with close cooperation with the FRC and other SROs (i.e. MASD, clearing house) as well as together imposing appropriate sanctions for non-complied activities/institutions
- ✓ Retain credibility and trustworthiness from the public and market by avoiding rules that may create unfair competitions and treat all market players and listed companies as well as new applicants for membership and listing in a fair and consistent manner
- ✓ Gain reliance from the market participants by disseminating relevant market information and disclosure documents in a real time basis and promoting investor' protection scheme
- ✓ Obtain rights to determine effective management operation as well as the budget settings (i.e. source of income and fundraising scheme, allocating expenses)

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Regulatory Responsibilities of Exchange Type SROs

Level of regulation	Responsibilities	Regulatory activities
Overall market regulation	Overall supervision of markets and intermediaries' market conduct and trading practices	<ul style="list-style-type: none"> • Rule making • Supervision • Enforcement
Market conduct standards	Principles of fair dealing, regulation of insider trading, deceptive and manipulative Trading	<ul style="list-style-type: none"> • Rule making • Supervision • Enforcement
Exchange trading rules	Market integrity rules and trading practice rules for each Marketplace	<ul style="list-style-type: none"> • Rule making • Supervision • Enforcement
Market surveillance	Monitoring of trading in each marketplace for compliance with rules	<ul style="list-style-type: none"> • Supervision (market surveillance, trading analysis) • Investigations and enforcement

Source: The World Bank/Self-Regulation in Securities Markets

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Comparison of Asian SROs : Stock Exchange Type

1-1. Stock Exchanges in Asia

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Thailand	Stock Exchange of Thailand (SET)	Exchange SRO

Source: The World Bank/Self-Regulation in Securities Markets

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Comparison of Asian SROs : Stock Exchange Type

1-2. JPX main activities as an SRO and associated responsibilities

Activities	Responsibilities
Lists of New Listings and Section Transfers	An introduction of companies which were newly listed or whose market sections were changed.
Disciplinary Action on Listed Companies	An introduction of status of measures against listed companies and designation of issues as Securities on Alert/Securities to be Delisted, etc.
Disciplinary Action on Trading Participants	An introduction of disciplinary actions against trading participants.
Implementation status of the examination and market surveillance	Disclose an overview of the activities every quarter.
Development of support system for the prevention of violation of law	Prevent activities undesirable action taken up in the market and provide Seminars on compliance, dispatch instructors, such as the issue of case studies etc.

Source: Japan Exchange Group (JPX)

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Comparison of Asian SROs: Industry Association Type

2. Industry Associations SRO Type, Statutory Basis

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Project for Capacity Building of Capital Market in Mongolia: Listing Rules

30 June 2015

Daiwa Institute of Research
Japan Economic Research Institute

1-1. Quantitative requirements and qualitative requirements

Listing requirements are categorized into two: quantitative requirements; and qualitative requirements.

Quantitative requirements

Quantitative requirements are numerical criteria that an applicant needs to meet after listing for sufficient liquidity. For example:

- No of shareholders
- No of floating shares
- Market capitalization
- Profitability in the past several consecutive years
- Shareholders' equity

Listing department of a stock exchange examines quantitative requirements first.

Qualitative requirements

Qualitative requirements are non-numerical criteria that an applicant needs to meet. For example:

- Business continuity
- Sound financial status
- Management
- Disclosure
- Corporate governance and internal control

Listing department interviews an applicant and also visit its facilities (factories, retail shops etc. The listing department also interviews management including CEO, and accountants in charge.

1-2. Quantitative requirements (1)

Minimum profit, share capital (or net assets), and number of shareholders are common for listing requirements.

Comparison for quantitative requirements among stock exchanges in Asia

	Sales	Profit	Total assets/ fixed assets	Share capital/ net assets	Market cap	No. of share- holders	Shareholder distribution
Cambodia	No	Yes	No	Yes	No	Yes	Yes
Indonesia	No	Yes	Yes	No	No	Yes	No
Lao PDR	Yes	Yes	No	Yes	No	Yes	Yes
Malaysia	No	Yes	No	No	Yes	Yes	No
Philippines	No	Yes	No	Yes	Yes	Yes	No
Singapore	No	Yes/no	No	No	Yes/no	Yes	Yes
Thailand	No	Yes	No	Yes	No	No	No
Vietnam (HCMC)	No	Yes	No	Yes	No	Yes	Yes
Japan (Tokyo)	No	Yes/no	No	Yes	Yes/no	Yes	Yes

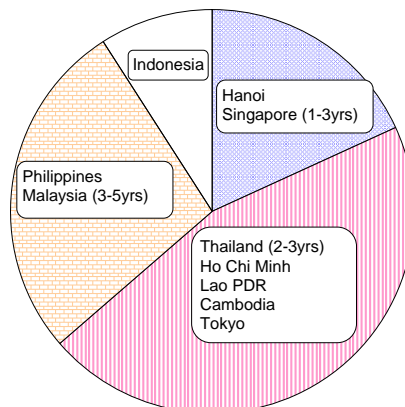
Source: JICA Consulting Team

3

1-2. Quantitative requirements (2)

Profit requirements for Thailand, Ho Chi Minh, Lao PDR, Cambodia as well as Tokyo are track records for the past two consecutive years.

Consecutive years of profitability

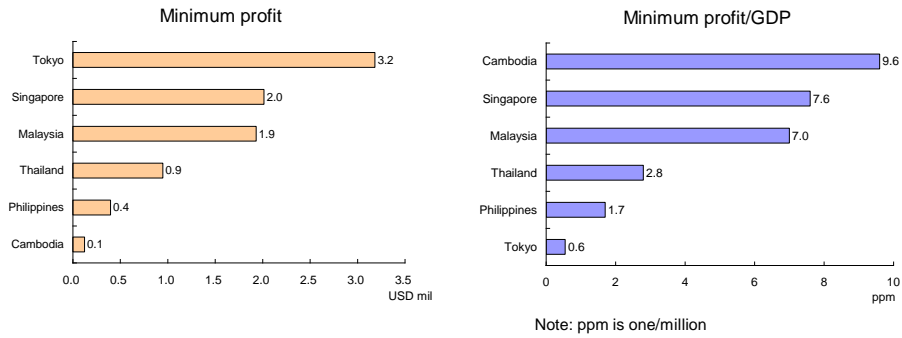


Source: JICA Consulting Team

4

1-2. Quantitative requirements (3)

Minimum profit requirement is made in six markets out of eleven.

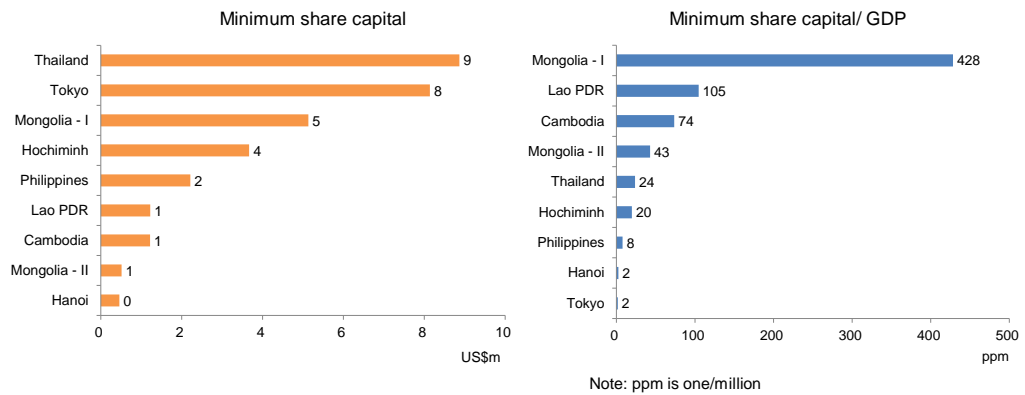


Source: JICA Consulting Team

5

1-2. Quantitative requirements (4)

Minimum share capital requirements are mixed.



Source: JICA Consulting Team

6

1-2. Quantitative requirements (5)

Number of shareholders are 100 or above in other Asian markets.



7

1-2. Quantitative requirements (6)

Minimum requirements by Tokyo Stock Exchange started with quite low level in early 50s, then tightened in accordance with Japan's economic growth.

Historical changes in minimum share capital and no of shareholders requirements by TSE

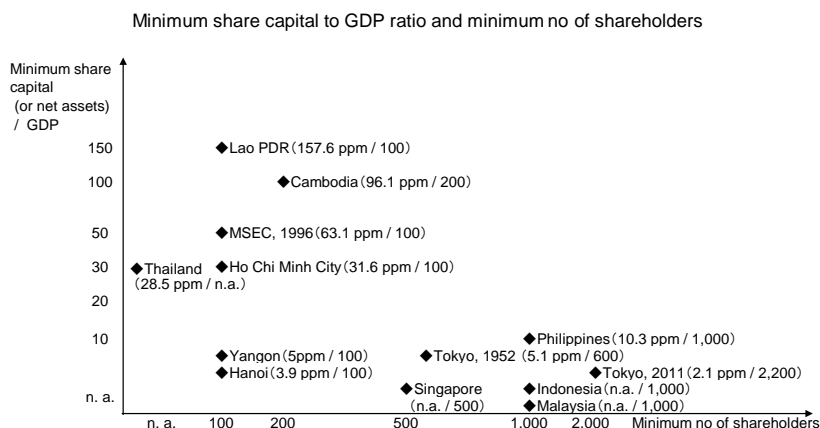
	Minimum share capital		Minimum no. of shareholders
	JPY mil	Share capital/GNP (ppm)	
Dec 1951	30	5.1	600
May 1953	50	7.3	1,000
Apr 1954	100	13.6	1,000
Dec 1957	300	26.0	2,000
Oct 1962 (First Section)	700	28.6	2,500
Oct 1962 (Second Section)	100	4.1	250

Source: JICA Consulting Team

8

1-2. Quantitative requirements (7)

Quantitative requirements should be set in accordance with Myanmar's GDP so that it will be not too difficult for companies to be listed, in our view.



Source: JICA Consulting Team

9

1-3. Qualitative requirements

Quantitative requirements should be set in accordance with Myanmar's GDP so that it will be not too difficult for companies to be listed, in our view.

Qualitative listing requirements in ASEAN and Japan

	Business continuity	Financial status etc.	Management	Disclosure	Corporate governance and others
Cambodia		No change in largest shareholder for last one year before listing			
Indonesia			No criminal record and no personal bankruptcy for past 10 years.		
Lao PDR	Going concern and profitability		No disputes that may materially affect managerial activity	Preciseness of corporate disclosure	Soundness of corporate governance and internal controls
Malaysia	Identifiable core business in which it has majority ownership and management control over	Sufficient levels of working capital for at least 12 months			Transactions with related parties not unfavorable to company
Philippines	Appropriate quality and company size		Integrity and capability of top management	Adequate, precise, timely and accurate information about issuers to be widely and equitably distributed to public investors	
Singapore	Substantially same business and management throughout period for which relevant profit test applies	Not take advantage of extraordinary or seasonal profits to show better profit record by changing financial years	Appropriate qualities to manage company		
Thailand		Sufficient levels of working capital. Provident fund needs to be established.	Appropriate qualities to manage company		Soundness of corporate governance and internal controls
Japan (Tokyo)	Stable revenue sources for continuing operations		Soundness of management	Preciseness of corporate disclosure	Soundness of corporate governance and internal controls

Source: JICA Consulting Team

10

1-4. Delisting rules at Tokyo Stock Exchange

Criteria for Delisting of Stocks listed on the Tokyo Stock Exchange (1st and 2nd Section)

Number of Shareholders	Less than 400 (1 year grace period applies)	
Tradable Shares	Number of tradable shares	Less than 2,000 units(1 year grace period applies)
	Market Capitalization of tradable shares	Less than ¥ 500 million (1 year grace period applies)
	Ratio of tradable shares to listed shares	Less than 5% (excluding cases where predetermined documents are submitted) (No grace period)
Market Capitalization	In the event that it is less than ¥ 1 billion, it does not increase to ¥ 1 billion or above within 9 months (or in 3 months if predetermined documents are not submitted) or in the event that it is less than 2 times the listed number of shares, it does not increase to the said numerical value within 3 months	
Liabilities	Liabilities exceed assets and this state remains unchanged for 1 year (as a general rule, based on consolidated balance sheets)	
Trading Volume	1.For the last 1 year: Average monthly trading volume: less than 10 units, 2.or No trades during the last 3 months	
Others	Suspension of bank transactions, bankruptcy/rehabilitation/reorganization proceedings or liquidation, suspension of business activities, inappropriate merger, etc., impairment of soundness of transactions with a controlling shareholder(in case of change in the controlling shareholder due to a third-party allotment), delay in submission of securities reports/quarterly reports, false statement in securities reports, etc., violation, etc. of the listing agreement, failure to delegate shareholder services to an agent, restriction on transfer of shares, becoming a wholly-owned subsidiary, failure to be subject to handling by the designated book-entry transfer organization, unreasonable restrictions on shareholders' rights, acquisition of all shares, involvement of anti-social forces, and others (public interest and investor protection)	

Source: JPX

11

1-5. Reverse stock split

- ✓ Reverse stock split is relative common in the U.S., by companies' attempt to keep their share prices higher above a certain level. At NASDAQ,
- ✓ In Japan, reverse stock split is not common, because there is no minimum share-price requirement for listed stocks.
- ✓ An issue that we need to consider upon a reverse stock split is that shareholders with small number of shares may lose shareholders' rights.

Example:

Mr Urade owns 2 shares of Sugi Corp. Sugi Corp plans a reverse stock split of 1-for-3. Mr Urade's shareholding will be 0.67 shares (2 shares / 3). Given his holding will be below 1 share, he will lose his rights as a shareholder, instead he will receive cash.

- ✓ In Japan, Company Act stipulates that a reverse stock split needs to be approved as an extraordinary resolution at a shareholders' meeting.

Source: JICA Consulting Team

12

Introduction to Project for Capacity Building of Capital Market in Mongolia

8 September 2015

Ryota Sugishita, JICA Consultant

Current status of Mongolia's Capital Market

Cyclical issues:

- 1) Economic downturn – Slower growth due largely to weak commodity prices

Structural issues:

- 1) Lack of blue chips - Market wants IPOs for blue chips with high growth potential, good corporate governance, reliable accounting and excellent disclosure
- 2) High interest rates
- 3) Relatively expensive trading cost
- 4) Others

A “pilot IPO” for a quality state-owned company or a major private sector unlisted company will be a key for revitalization of the market, in our view.

Project overview: IPO and dual-listing is our overall goal

Project description	
Duration	Nov14 to Jul17 (1 st Project Year: Nov14-Jul15, 2 nd PY: Aug15-Jul16, 3 rd PY: Aug16-Jul17)
Overall goal	Developing active primary market at MSE by increasing IPO for unlisted Mongolian companies with sound fundamentals, as well as promoting dual-listing, as a result of improving market confidence.
Project purpose	Capacity building for stakeholders in regulation and supervision of the Mongolian capital market.
Mongolian counterpart	FRC, MSE
Japanese counterpart	Japan International Cooperation Agency, Financial Services Agency, Japan Exchange Group, Consultants

Source: JICA Consulting Team

3

Project overview: Expected outputs

- 1) Effective Policy Committee for vitalization of the capital markets
- 2) Implementing risk-based supervision for securities companies
- 3) Supporting self-regulatory function for the relevant stakeholders
- 4) Increasing IPOs and promoting dual-listing of Mongolian companies
- 5) Enhancing financial literacy for general public

4

Project overview: Schedule

- 1) Consultants provide technical cooperation, together with Financial Services Agency (FSA) and Japan Exchange Group (JPX).
- 2) FSA, JPX and Consultants plan to conduct training programs and seminars for capacity building.
- 3) Consultants are planning to visit UB 4-6 times a year.

Our proposals for major events

	2014	2015				2016				2017		
	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9
Report for the current status of regulation and supervision	✓	✓	✓									
Training course in UB	Regulation and supervision		✓				✓				✓	
	SRO				✓							
	IPO/dual listing								✓			
Training course in Tokyo	Regulation and supervision				✓							
	SRO									✓		
	IPO/dual listing						✓			✓		
Seminar in UB	SRO										✓	
	IPO/dual listing			✓		✓			✓			
	Financial literacy			✓			✓				✓	

Note: Schedule will be subject to change, depending on discussions between the Japan and Mongolian parties.
Source: JICA Consulting Team

Project for Capacity Building of Capital Market in Mongolia: Requirements for listing and disclosure

23 November 2015

Ryota Sugishita, JICA Consultants
Takayuki Urade, JICA Consultants

Listing requirements

- ✓ Listing requirements consist of 1) quantitative requirements and 2) qualitative requirements.
Typical quantitative and qualitative requirements are as follows:

Quantitative requirements	Profitable for the last two consecutive years
	Minimum share capital
	Minimum number of shareholders
Qualitative requirements	Business continuity with profitability
	Quality management
	Good corporate governance and internal control
	Disclosure

Listing requirements: quantitative requirements by country

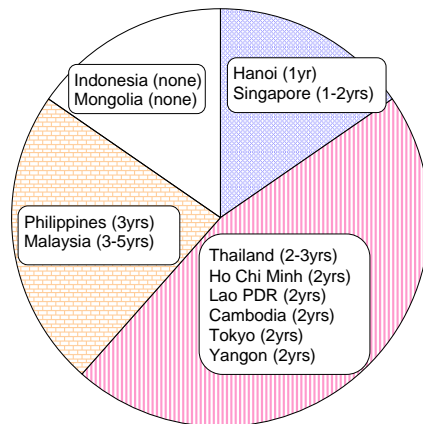
- ✓ Typical quantitative requirements are 1) profitability, 2) share capital and 3) number of shareholders.

	Sales	Profit	Total assets/ fixed assets	Share capital/ net assets	Market cap	No. of share- holders	Shareholder distribution
Cambodia	No	Yes	No	Yes	No	Yes	Yes
Indonesia	No	Yes	Yes	No	No	Yes	No
Lao PDR	Yes	Yes	No	Yes	No	Yes	Yes
Malaysia	No	Yes	No	No	Yes	Yes	No
Philippines	No	Yes	No	Yes	Yes	Yes	No
Singapore	No	Yes/no	No	No	Yes/no	Yes	Yes
Thailand	No	Yes	No	Yes	No	No	No
Vietnam (HCMC)	No	Yes	No	Yes	No	Yes	Yes
Japan (Tokyo)	No	Yes/no	No	Yes	Yes/no	Yes	Yes

3

Listing requirements: profitability for consecutive years

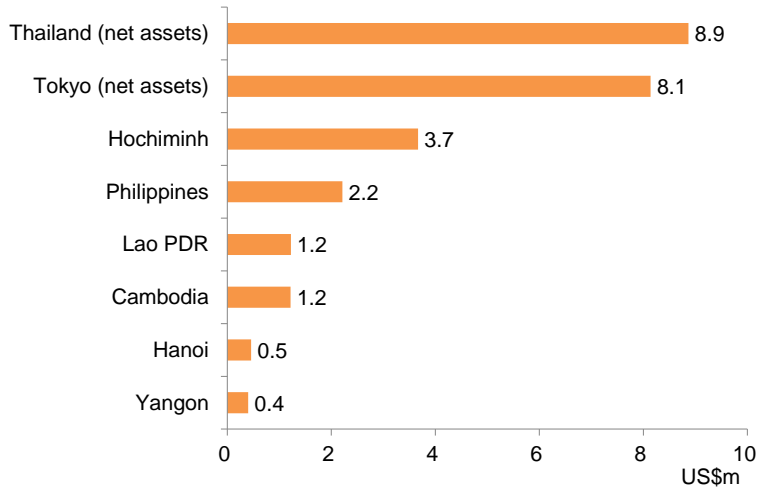
- ✓ Profitability for two years or longer is a standard as a quantitative requirement.



4

Listing requirements in Asia: minimum share capital (or net assets)

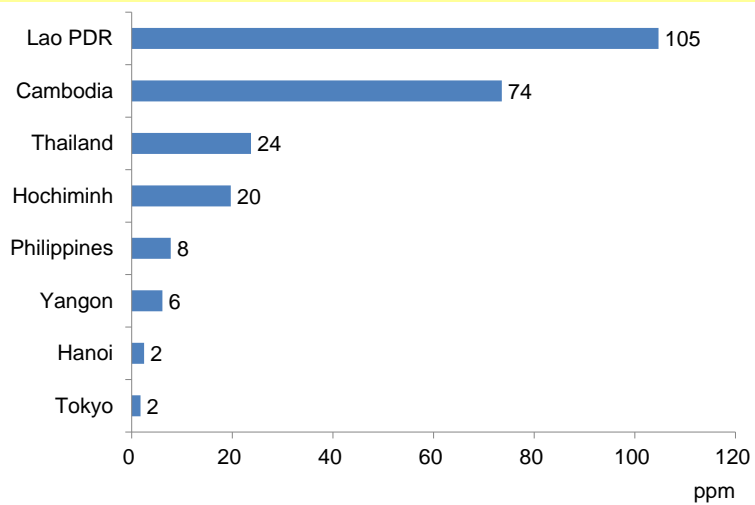
✓ Minimum share capital (or net assets) is one of quantitative requirements in many markets.



5

Listing requirements in Asia: minimum share capital (or net assets) / GDP

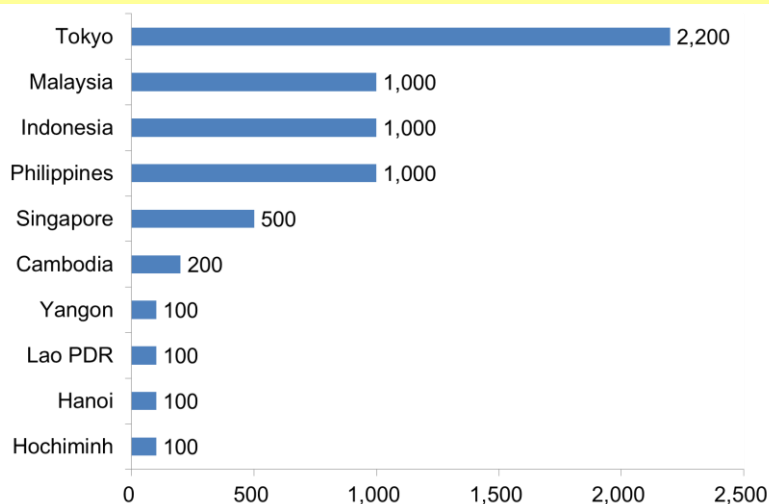
✓ Minimum share capital requirements in Lao PDR and Cambodia appear to be too stringent in terms of ratio to GDP, compared to other markets in Asia.



6

Listing requirements in Asia: number of minimum shareholders

- ✓ Minimum number of shareholders should be included in listing requirements for a liquidity reason.



7

Listing requirements: qualitative requirements

	Business continuity	Financial status etc.	Management	Disclosure	Corporate governance and others
Cambodia		No change in largest shareholder for last one year before listing			
Indonesia			No criminal record and no personal bankruptcy for past 10 years.		
Lao PDR	Going concern and profitability		No disputes that may materially affect managerial activity	Preciseness of corporate disclosure	Soundness of corporate governance and internal controls
Malaysia	Identifiable core business in which it has majority ownership and management control	Sufficient levels of working capital for at least 12 months			Transactions with related parties not unfavorable to company
Philippines	Appropriate quality and company size		Integrity and capability of top management	Adequate, precise, timely and accurate information about issuers to be widely and equitably distributed to public investors	
Singapore	Substantially same business and management throughout period for which relevant profit test applies	Not take advantage of extraordinary or seasonal profits to show better profit record by changing financial years	Appropriate qualities to manage company		
Thailand		Sufficient levels of working capital. Provident fund needs to be established.	Appropriate qualities to manage company		Soundness of corporate governance and internal controls
Tokyo	Stable revenue sources for continuing operations		Soundness of management	Preciseness of corporate disclosure	Soundness of corporate governance and internal controls

8

Listing requirements: announcement of Yangon Stock Exchange, Aug 2015

Announcement of YSX's Listing Criteria

Yangon Stock Exchange (YSX) hereby issues the following Criteria for a Public Company to list on YSX in accordance with the Article 41- (b) of Myanmar Securities and Exchange Law

1. It shall be a registered company limited by shares in accord with the Myanmar Companies Act, conducting the business in line with the public company's features and procedures.
2. It shall have at least 100 shareholders and above.
3. Paid-up capital shall be the minimum of kyat 500 million on the date of application.
4. It shall have the profit at least 2 years during the period of before the date of application.
5. The business shall have the stable basic income and conduct in accordance with the existing laws.
6. The Board of Directors and the heads of the company shall be in good character and have had not been having any punishment by a court, in addition, have not been facing any lawsuits. They shall perform their duties and responsibilities with well-prepared, in good-faith and fairly in line with the laws.

9

Listing requirements: announcement of Yangon Stock Exchange, Aug 2015 – cont.

7. The Board of Directors and the heads of the company shall not act any deceptive manners by the public for the interest of the company and self-interest.
8. Each Director of the public company shall not do any business which has the same interest carrying out by the public company, except with the approval of Shareholder meeting.
9. The company, the Board of Directors and the heads of such company shall not be included in the black list of any public and government organizations.
10. Book-keeping of accounts and auditing of the company shall be undertaken in accordance with the Myanmar Accounting Standards and Myanmar Standards on Auditing.
11. The company shall fulfill tax duties in accordance with existing tax laws of Myanmar.
12. The disclosure of relevant corporate information and the facts that the public should be known, shall be disclosed and submitted to the Securities Exchange Commission of Myanmar and Yangon Stock Exchange, besides it shall be disclosed and announced to the public by means of easy understandable and best suitable ways in timely manner. For disclosure of corporate information, it shall prescribe especially and precisely on the matters which have a considerable impact on investment decisions of the investors, such as the risk factors for the potential loss and the basic potential business activities.

10

Listing requirements: announcement of Yangon Stock Exchange, Aug 2015 – cont.

13. It shall set up an effective system to comply with laws, rules and regulations by appointing the compliance officer.
14. It shall have business plan containing business design, business process environment and the risk factors.
15. It shall set up a system to prevent the insider trading.
16. It shall continuously operate and manage stably without any influence by keeping soundness of good corporate governance, internal management and internal control system.
17. It shall have rational expectation to get a profit base upon stable revenue.

The criteria above are minimum standards to be referred as a general guideline for public companies. YSX will grant listing permission only after YSX receives listing application submitted by a public company and YSX confirms the company's eligibility of listing in term of protecting interests of general public through conducting examination.

11

Disclosure

✓ Disclosure requirements consist of 1) legal disclosure and 2) timely disclosure. Typical legal and timely disclosure is as follows:

Legal disclosure	Securities registration reports, prospectus
	Annual report, quarterly report
	Other documents
Timely disclosure	Management decision (change of top management, equity financing, M&A etc.)
	Important events (new product launch, impact by disaster etc.)
	Financial information (Earnings release, earnings forecast change, announcement for dividend increase/decrease etc.)
	Others (information on major subsidiaries, information on major shareholders etc.)

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Disclosure: Earnings release

	Annual results	Semi-annual results	Quarterly results	Monthly sales
Tokyo (FY: various, mainly Mar)	To be announced within 45 days after the end of each financial year	To be announced within 45 days after the end of each half-financial year	To be announced within 45 days after the end of each quarter	Not necessary, only limited number of companies disclose monthly data (telecom, retail stores, component manufacturers etc.)
Taiwan (FY: Dec)	To be announced by 30 Apr (within four months)	To be announced by 31 Aug (within two months)	Within one months after the end of 1Q and 3Q	Parent company's sales to be announced by 10 th of each month for the previous month
Hong Kong (FY: various, mainly Dec)	Within three months after the end of each financial year	Within two months after the end of each financial year	Not necessary for Mainboard	Not necessary, only limited number of companies disclose monthly data (telecom etc)

Financial Market - New Investment Environment: Challenges for Potential Issuers & Intermediaries

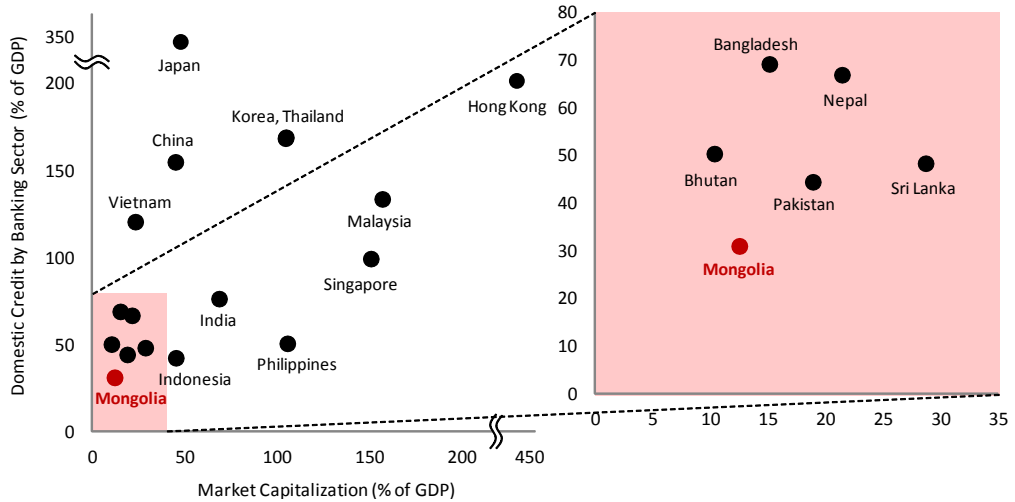
January 15, 2016
Financial Market Development National Forum 2016

Takayuki Urade
JICA Consulting Team

Current Status

Size of the Capital Market

One of the smallest in the region...

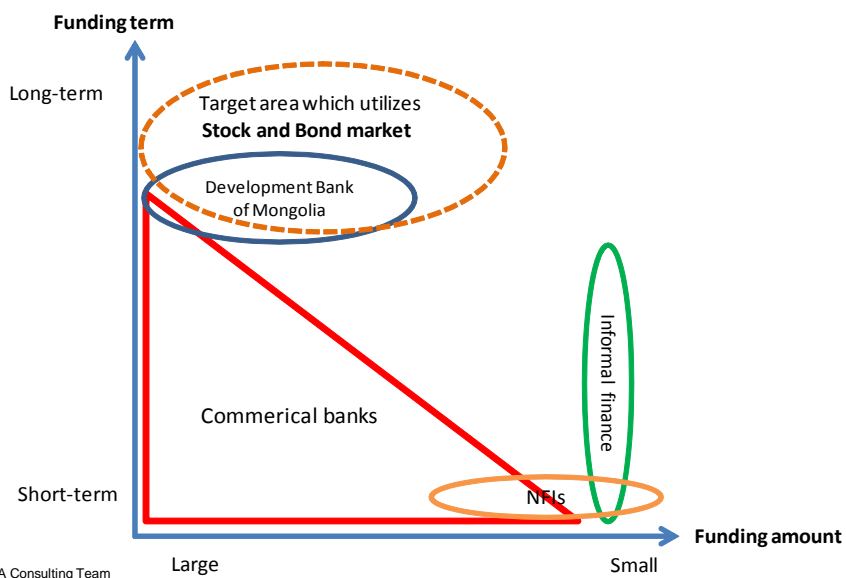


Sources: JICA Consulting Team from the World Bank database

3

Role of the Capital Market

Missing tools for 'long-term' & 'large-scale' financing



Source: JICA Consulting Team

4

Issuers (1): Current Shortfalls

Companies with funding needs use bank loans or go to foreign capital markets, and do not have much interest in listing @MSE.

- **Out of 200+ listed companies, only 20-30 are traded in small volumes.**

- Many dormant companies should be delisted.
- There is only a few IPO deal since 2010.

- **Info disclosure of listed companies is very limited.**

- Insufficient disclosure for potential investors.



Lack of both issuers' interest & investor confidence in domestic securities market

Number of listed companies & trading value

	Listed domestic companies	Stocks traded, total value (% of GDP)	Stocks traded, turnover ratio (%)
Mongolia	329	0.4	2.8
Bangladesh	229	10.8	61.2
China	2,494	70.8	164.4
Indonesia	459	10.4	23.3
Japan	3,470	60.5	99.8
Korea	1,767	134.0	139.2
Malaysia	921	40.8	28.6
Singapore	472	57.0	43.3
Vietnam	311	2.2	13.2

Source: The World Bank database. 2012 data.

Availability of English information for MSE Top 20 companies

	website in English	Availability of financial reports in English
Company A	○	×
Company B	○	×
Company C	×	×
Company D	×	×
Company E	○	×

5

Issuers (2): Mongolian Businesses Financing Abroad

Company Name	Market Cap (US\$m) as of Dec 31, 2015	Exchange	Business
Turquoise Hill Resources	5,085	TSX	Copper, Gold
Banpu	1,146	SET	Coal
Centerra Gold	1,128	TSXV	Gold
Peacemap Holding	395	HKEx	Coal
Central Asia Metals	253	AIM	Molybdenum, Gold
Mongolian Mining Corp	209	HKEx	Coking coal
Asia Coal	140	HKEx	Coal
North Asia Resources	93	HKEx	Gold
SouthGobi Resources	80	HKEx	Coal
Mongolia Energy Corp	41	HKEx	Coal
Xanadu Mines	36	ASX	Copper, Gold
Entrée Gold	31	TSX	Copper, Gold
Khan Resources	22	CSX	Uranium
Tian Poh Resources	20	ASX	Coal, Copper
Petro Matad	13	AIM	Oil
Erdene Resource Development Corp	12	TSX	Gold, Mo, Cu
MNP Petroleum	10	TSX	Oil
Mongolia Growth Group	9	TSXV	Property
Prophecy Development Corp	9	TSX	Coal
Origo Partners	8	AIM	Coking coal, Mo, Cu
TerraCom	6	ASX	Coal
Aspire Mining	5	ASX	Coking coal
Kincora Copper	4	TSXV	Copper
Viking Mines	3	ASX	Coal, Zinc
Draig Resources	1	ASX	Coal
Haranga Resource	1	ASX	Iron ore
Wolf Petroleum	1	ASX	Oil
Eumeralla Resources	1	ASX	Tungsten
Altan Rio Minerals	1	TSXV	Copper, Gold
East Asia Minerals Corp	1	TSXV	Uranium
Minecorp Energy	0.1	TSXV	Coal

 : Mongolian companies. (All the others are the companies with projects in Mongolia.)

6

Issuers (3): Future Challenges

Potential Businesses for Financing through MSE

SOCs' privatization, with a view to; 1) improving efficiency, & 2) reducing fiscal burden.

Growth-oriented private companies (e.g. agriculture, tourism, construction...)

Mining companies listed at MSE or overseas, which can utilize dual listing scheme

Financial institutions which need long-term & diversified funding sources

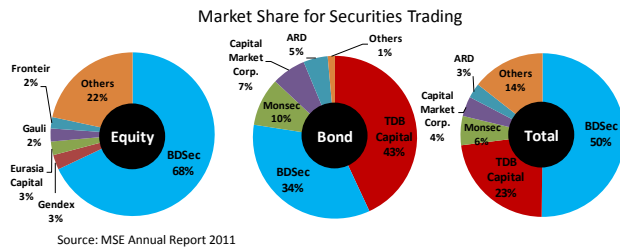
Just a few successful, symbolic deals will be desired to vitalize the future market activities.

7

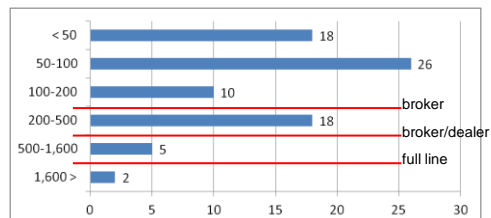
Intermediaries (1): Current Shortfalls

Characterized by a few dominant players & many other small brokers/dealers, calling for the need for further consolidation...

- Market has been dominated by limited number of players.
- Many firms have been struggling financially due to the recent stagnant markets.
- Industry consolidation will be required through;
 - ✓ Minimum capital requirements
 - ✓ Measures for smooth business transformation e.g. Tax incentives for M&As.



Distribution of MSE members by owners' equity as of 2013 2Q (MNTmn)

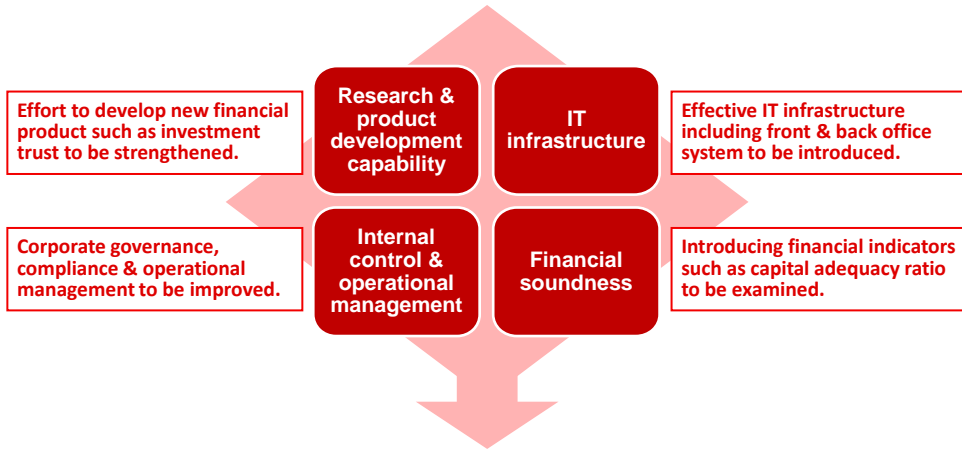


Source: MSE's website

8

Intermediaries (2): Future Challenges

Capability of security companies are not sufficient...

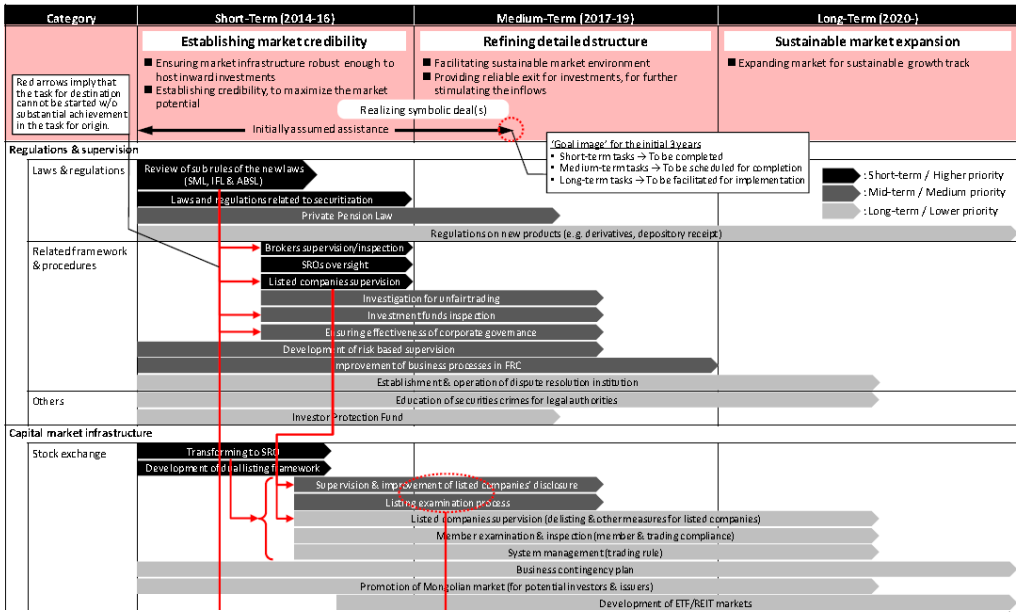


- Attract investors' interest
- Ensure investor confidence in the securities market & intermediaries

9

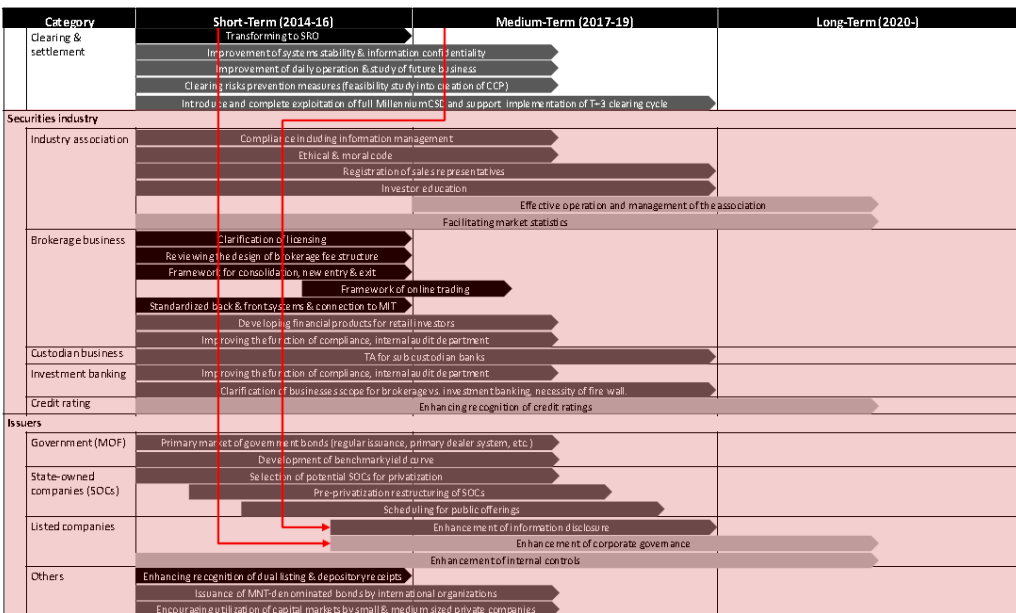
What To Be Done?

Roadmap for Capital Market Development (1)



11

Roadmap for Capital Market Development (2)



12

Roadmap for Capital Market Development (3)

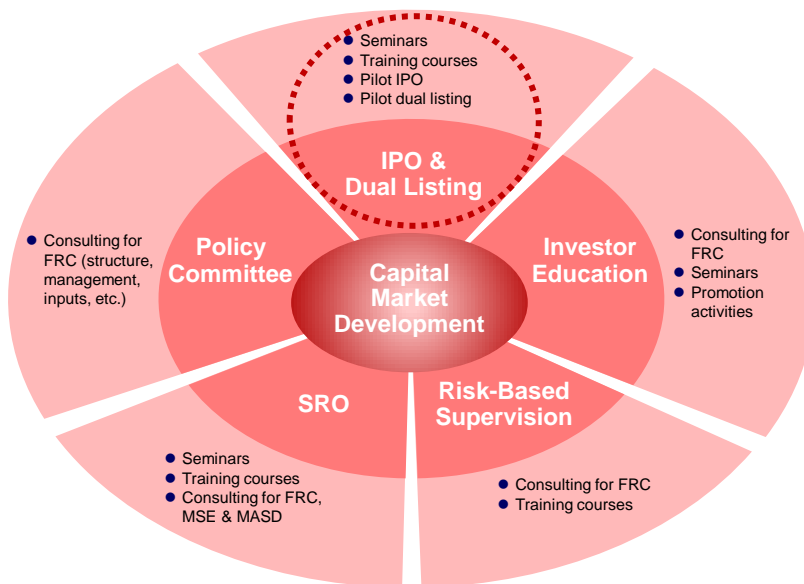
Category	Short-Term (2014-16)	Medium-Term (2017-19)	Long-Term (2020-)
Investors			
Institutions: Banks	Improving fund management skills		
Institutions: Insurance & pension funds	Designing pension fund system		
	Establishment of legal environment for pension fund		
	Improving skills for fund management, ALM & risk management		
Institutions: mutual funds (MFs)	Improving fund management skills		
	Proliferation of MFs		
Institutions: others	Establishment of SWF		
	Management of state-controlled funds (pension, health etc.)		
Retail investors	Investors' education		
	Encouraging the shift of retail investors from savings to investments		

Key Issues

1. **Balanced development** (between 5 categories)
2. **Appropriate measures** for the economy size
3. **'Sequencing'** in market development

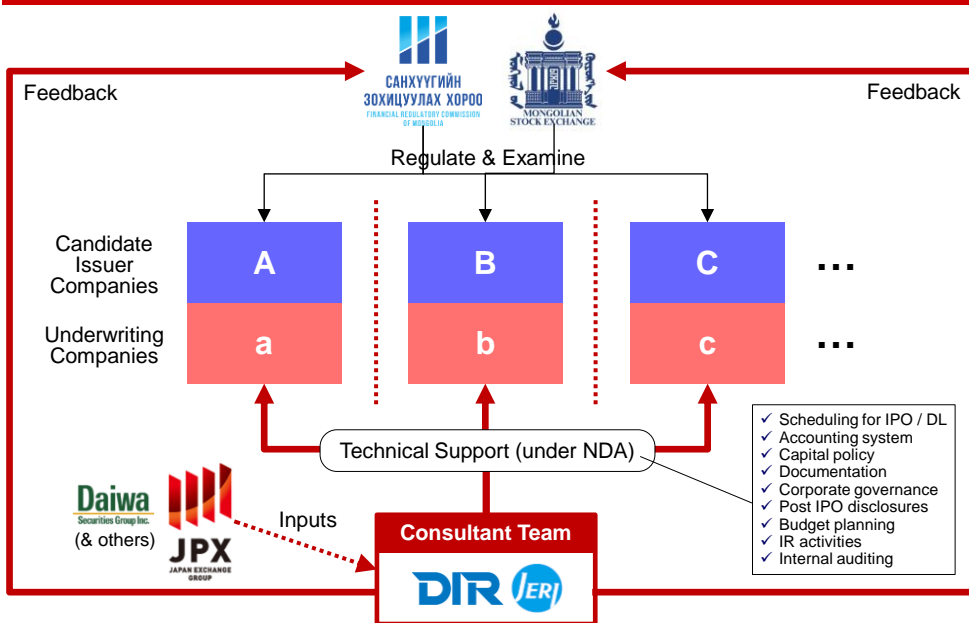
13

JICA's Technical Assistance (TA)



14

Pilot IPO & Dual-Listing

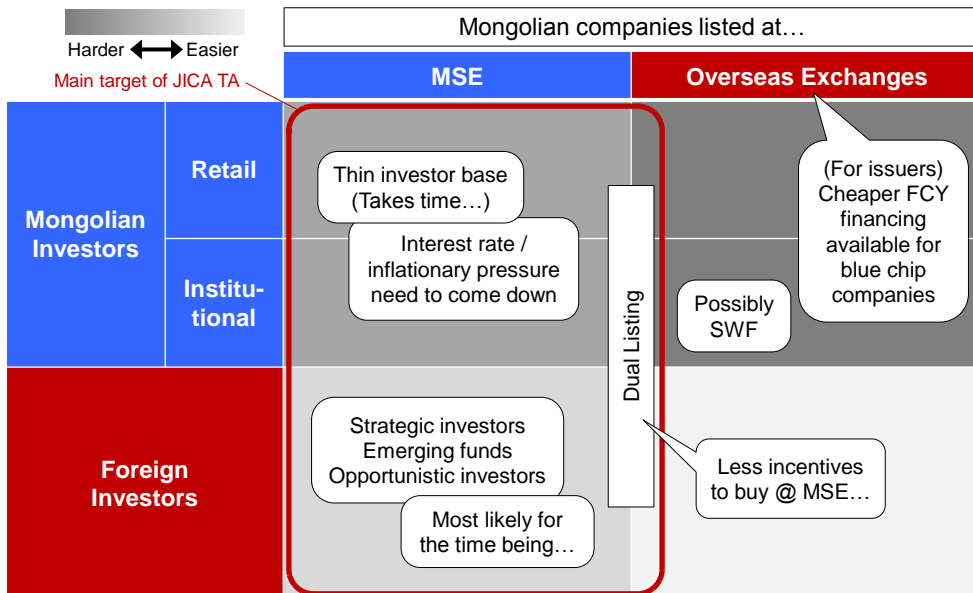


15

For a Successful IPO...



Equity Financing in Mongolian Context



17

Takeaways for Potential Issuers & Intermediaries

- 1 Appropriate **market size & simplicity** for the economy
- 2 **Globally compatible transparency** for market credibility
- 3 Just a few **successful role model cases** as catalysts

c.f. Introducing Facebook Group for the Project

The screenshot shows a Facebook group page for 'JICA Capacity Building for Mongolian Capital Market'. The page features a header with the group name and a search bar. Below the header is a navigation menu with options like 'Discussion', 'Members', 'Events', 'Photos', and 'Files'. The main content area includes a post with a welcome message and a link to the group's page. A red box in the bottom right corner contains the URL: <https://www.facebook.com/groups/mgicm/>

Thank you!



Japan International Cooperation Agency

JICA Project on Capacity Building of Capital Market in Mongolia

**Annual “Banker’s Day” 2016
Improving People’s Financial Literacy and Sufficiency**

Japanese Experience on Financial Literacy

02 June 2016

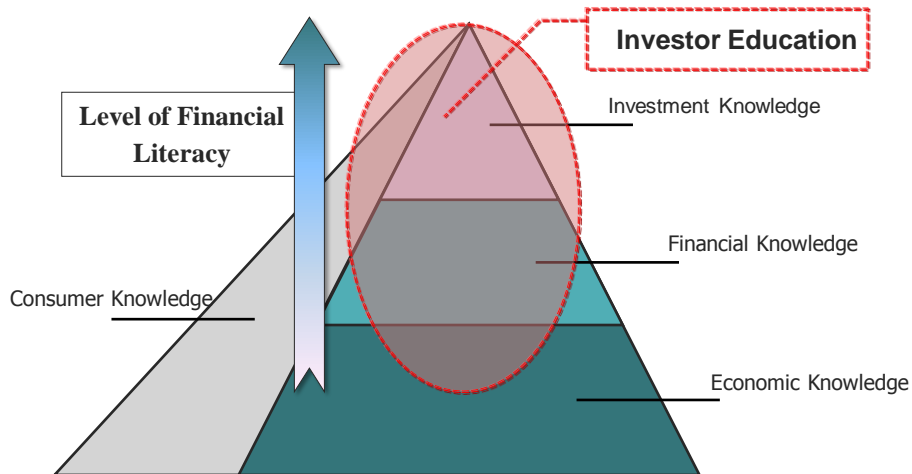
Akifumi Nakanishi
JICA Consultant
Director, Daiwa Institute of Research Ltd.

Contents

1. Financial Literacy: concept and its importance
2. Financial Literacy in Japan
3. Recommendation to Mongolia
4. Q&A

1-1. Financial Literacy - Concept

- ◆ Improving financial literacy requires multiple level of understandings
- ◆ Investor education covers advanced knowledge of finance and investment



2

1-2. Financial Literacy – Importance

- ◆ Improving financial literacy will help develop public awareness which is a very important factor and step towards market oriented economy.
- ◆ Why important in Mongolia?
 - Prerequisite for a stable and credible financial market
 - Promote investment hence stimulating economic growth
 - Increase awareness leads to widening the investor base
 - Diminish all kinds of anxiety towards capital market and gain confidence.

3

1-3. Relevant Institutions – Roles and Objectives

◆ Financial institutions are responsible to educate the public

Group	Institution	Role and Objectives	Legal Enforcement	Target Stakeholders
Financial Authority	Ministry of Finance	Decide on the issuance schedule and provide public announcement	○ mandatory	public, financial institutions
	Central Bank	Conduct monetary operation via bond intervention, financial education	○ mandatory	bankers, financial institutions
	Securities Exchange Commission	Supervise and monitor via rules and regulation, financial education	○ mandatory	brokers, dealers, financial professions, investors
Financial Institutions / Intermediaries	Stock Exchange	Control stock market operation,	△ certain extent	market participants, investors
	Commercial Banks	Provide macro-economic and market information,	△ certain extent	investors
	Securities House / Asset Management	Provide information on financial services and instruments, seminars	△ certain extent	investors
Associations	Securities' Dealers, Banking, CPAs etc.	Provide updated market information and benchmarks	△ certain extent	market participants, investors
Educational Institutions	Universities, Higher education	Provide relevant academic knowledge and educational materials	× voluntary	students, educators, potential investors

1-4. Specific actions ① Financial authorities

◆ Efforts in providing information at real time basis

- Establish framework of timely disclosures of relevant information.
- Consult necessary market data to financial institutions.
- Announce any policy changes and amendments to the public.

◆ Activities for improving public awareness

- Utilize financial institutions, market participants and medium equally to reach the public.
- Establish investor protection scheme.
- Conduct social networking programs.

1-5. Specific actions ② Financial institutions

◆ Efforts in updating information and data

- Gather relevant data and market information on daily basis.
- Inquire necessary details to the financial authorities.
- Provide any changes and amendments to the clients.

◆ Activities for information dissemination

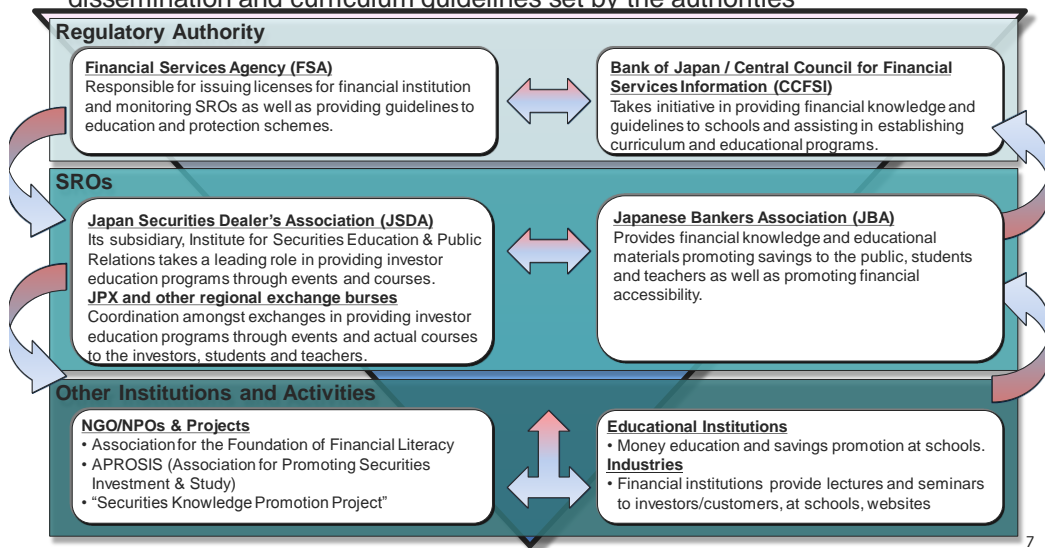
- Inform the public using all kinds of medium such as newspapers, magazine, television programs, banners, post letters, internet website, mobile gadgets, etc.
- Socialization activities via seminars and events at regular basis.

6

2-1. Financial Literacy in Japan: Initiators and Providers



- ◆ Financial knowledge, educational materials and programs provided by the SROs, financial institutions and educational institutions are based on information dissemination and curriculum guidelines set by the authorities



7

2-2. History of Financial Literacy in Japan

- ◆ The first official financial education in Japan started during the Meiji Era back in 19th century. With more than 100 years of history, the national framework on financial literacy and education has been formulated.

Period	Development
1868- Savings promotion	Promoted by government mainly to finance new industries and preparation for military actions
1946-51 Savings campaign for economic salvation	Developed by government initiative mainly to control inflation
1952-58 Special savings movement	The Central Council for Savings Promotion established (Apr. 1952) Various movements developed to promote savings for capital accumulation and exports at the Central Council's initiative
1958-61 Consolidation	Framework of current system completed
1961-73 Expansion	Additional activities for children

Source: Central Council for Financial Services Information (CCFSI) , FSA, JSDA

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2-3. History of Financial Literacy in Japan (continued)

- ◆ Recent challenges in Japan is how to shift “savings to investment”





Period	Development
1974-80 Support of Energy-Saving Campaigns	Energy-saving campaigns and movements to review consumption actively supported (1st and 2nd oil crises)
1981- 2002 Review of savings promotion and promote investments	Three mainstays established (since 1983): --to provide financial and economic information --to encourage the drafting of life plans --to disseminate pecuniary education Savings Districts were renamed to Study Group on Financial and Economic Matters and Savings Promoters were renamed to Study Adviser on Financial and Economic Matters (2002)
2003- present Enhance investment promotion campaigns	Tax incentives introduced (2003) Tax-free Nippon Individual Savings Account (NISA) introduced (2014) Junior NISA introduced targeting young generation (2016)

Source: Central Council for Financial Services Information (CCFSI) , FSA, JSDA

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2-4. Financial Literacy: Cross-country comparison

- ◆ Different approaches amongst countries in improving financial literacy and promoting activities at the national level

	Mongolia 	UK 	Japan 	USA 
Approach	–	Top-down	Top-down / Bottom-up	Bottom-up
Legal Acts	Securities and Exchange Law	Financial Services and Markets Act	Financial Instruments and Exchange Law	Securities Act
Responsible Supervisory Agency	BoM / FRC	BoE / FSA	BoJ / FSA	Fed. / SEC
Program Resources	very limited	○	○	◎
Program Providers	MBA/BFA, financial institutions, educational institutions, NGOs	LSE, associations, financial institutions, educational institutions, NGOs	JPX, JSDA, financial institutions, associations, educational institutions, NGOs	stock exchanges, financial institutions, educational institutions, associations, NGOs
Financial Resources	Limited	○	◎	◎
Fund Providers	Limited	FSA, industry associations, educational funds and donations	SROs, industry NPO/NGOs, educational funds	FINRA, industry associations, NPO/NGOs, donations and funds

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2-5. Various Channels for Investor Education

- ◆ Investor education can be delivered through various channels as an extension of the ordinary activities done by the securities companies
 - ✓ Direct contact: sales and marketing activities such as at the branch, customer's property, as well as via post mails, emails, phones, faxes, text messages, etc..
 - ✓ Publication and reports: information dissemination activities such as the market data (indices, forex, trade stats, etc.) macroeconomic reports, industry outlooks, instruments, etc..
 - ✓ Socialization events: socialization activities targeting the existing and potential investors via seminars, workshop, lectures, webinars, "investor day", etc..
 - ✓ Media: advertisement and promotion activities via media such as the television, radio, newspapers, magazines, websites, SNS (YouTube, Facebook, Twitter, etc.) , etc..

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3-1. Financial Literacy: International promoters and forums

- ◆ Improving financial literacy is an ongoing concern amongst international community
- ◆ Setting up national framework can be done in line with the best practices promoted by the international institutions

OECD (Organization for Economic Co-operation and Development)

Through established IGFE (International Gateway for Financial Education), OECD has been raising awareness on financial education issues worldwide and ensuring dissemination of research, best practices and guidelines as well as promoting exchange of information, knowledge, experiences and expertise.

IOSCO (International Organization of Securities Commission)

A pioneer institution in recommending the importance of promoting financial knowledge and education at the government regulators level since the late 1990s. Its complementary objectives of investor protection, efficient and fair markets and financial stability have made internal studies on the role of investor education and the effectiveness of regulation of collective investment scheme possible.

IFIE (International Forum for Investor Education)

A non-commercial private sector organization established by the ICSA (International Council of Securities Associations) in 2003. Its objective is to improve investor education on a global basis to ensure all investors are capable in making informed choices on investments and financial products.

Source: OECD, IOSCO, IFIE

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3-2. Recommendations for Mongolia

Financial literacy can be improved and enforced via:

- ✓ in line with the national program on “Strategy on Financial Knowledge”, setup a national standard for textbooks/materials and working group to maintain certain level of quality and ensuring quantities to be distributed to the public
- ✓ sharing awareness and challenges in coordination amongst the regulators and the industry participants
- ✓ utilizing existing financial institutions channels, media and educational institutions to widen the accessibility and delivery channels of necessary information and knowledge
- ✓ establishing a common website/portal focusing on financial literacy related contents and update necessary information and educational materials
- ✓ improving both the quantity and quality of the materials being published and delivered to the public
- ✓ introducing a guideline/code of conduct for financial professionals

13

JICA Project on Capacity Building of Capital Market in Mongolia

Баярлалаа!

Та бүхэн асуулт асуух, өөрийн санал, зөвлөмжөө илгээхийг хүсвэл
доорх хаягаар хандаарай.

Akifumi Nakanishi

Жайка Зөвлөхийн Баг
Офис (орон нутгийн): өрөө #204, FRC



Japan International Cooperation Agency

Project for Capacity Building of Capital Market in Mongolia

Lecture on Investor Education

28 June 2016

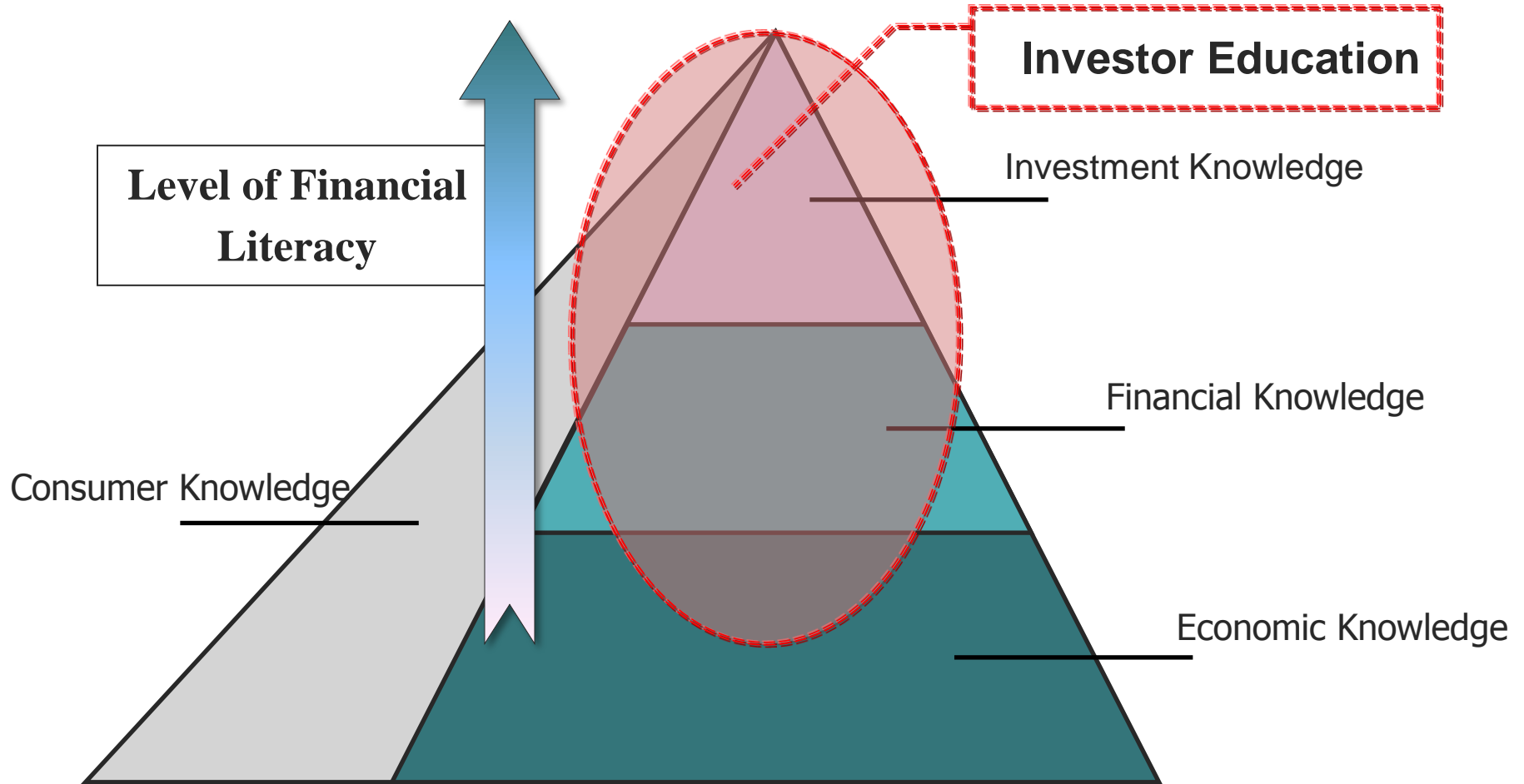
Akifumi Nakanishi
JICA Consultant, Daiwa Institute of Research

Contents of the lecture

1. Investor Education (IE): Why important?
2. Various channels for IE
3. Actual contents and menus for IE
4. Basic knowledge: Valuation tools
5. Q&A

1-1. Investor Education - Concept

- ◆ Improving financial literacy requires multiple level of understandings
- ◆ Investor education covers advanced knowledge of finance and investment



1-2. Investor Education and Financial Literacy – Importance

- ◆ Improving financial literacy will help develop public awareness which is a very important factor and step towards market oriented economy.
- ◆ Why important in Mongolia?
 - Prerequisite for a stable and credible financial market
 - Promote investment hence stimulating economic growth
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1-3. Relevant Institutions – Roles and Objectives

◆ Securities companies are most responsible to educate investors

Group	Institution	Role and Objectives	Legal Enforcement	Target Stakeholders
Financial Authority	Ministry of Finance	Decide on the issuance schedule and provide public announcement	○ mandatory	public, financial institutions
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1-4. Specific actions ① Financial authorities

- ◆ Efforts in providing information at real time basis
 - Establish framework of timely disclosures of relevant information.
 - Consult necessary market data to financial institutions.
 - Announce any policy changes and amendments to the public.
- ◆ Activities for improving public awareness
 - Utilize financial institutions, market participants and medium equally to reach the public.
 - Establish investor protection scheme.
 - Conduct social networking programs.

1-5. Specific actions ② Securities companies & financial institutions

◆ Efforts in updating information and data

- Gather relevant data and market information on daily basis.
- Inquire necessary details to the financial authorities.
- Provide any changes and amendments to the clients.

◆ Activities for information dissemination

- Inform the public using all kinds of medium such as newspapers, magazine, television programs, banners, post letters, internet website, mobile gadgets, etc.
- Socialization activities via seminars and events at regular basis.

2-1. Various Channels for Investor Education

- ◆ Investor education can be delivered through various channels as an extension of the ordinary activities done by the securities companies
 - ✓ Direct contact: sales and marketing activities such as at the branch, customer's property, as well as via post mails, emails, phones, faxes, text messages, etc..
 - ✓ Publication and reports: information dissemination activities such as the market data (indices, forex, trade stats, etc.) macroeconomic reports, industry outlooks, instruments, etc..
 - ✓ Socialization events: socialization activities targeting the existing and potential investors via seminars, workshop, lectures, webinars, "investor day", etc..
 - ✓ Media: advertisement and promotion activities via media such as the television, radio, newspapers, magazines, websites, SNS (YouTube, Facebook, Twitter, etc..) , etc..

2-2. Various Channels for IE (1): Direct contact

- ✓ The advantage of the direct contact is that you may know better about the Investors' preference, objectives and risk taking level directly from face to face communication.
- ✓ One may also explain better regarding the possible investment opportunities as well as the actual products.

お金の経済について楽しく学べる学習ウェブサイト
「おカネのミカタ」のご紹介

お金のなぜ?どうする?が解る!

お子さま・お孫さまが、将来自分自身で生活設計やお金の管理をする上で必要となる、金融・経済や投資に関する基本的な知識を楽しく学ぶことができるウェブサイトです。

ウェブサイトURL edu.daiwa.jp

お取引にあたっての手数料等およびリスクについて

ご投資にあたっての留意点

未成年者少額投資非課税制度(ジュニアNISA)に関する留意事項

大和証券 Daiwa Securities

0120-030303

www.daiwa.jp

家族で使おう みんなのNISA
2016年4月、ジュニアNISAスタート!

ジュニアNISAとは

- 子・孫の将来に向けた資産運用のための制度です
- 日本に住む0歳～19歳の未成年者が口座開設できます(親権者等が代理で資産運用)
- 投資上限額は、毎年80万円
- 投資した商品から得られる利益(売却益・配当等)は非課税
- 非課税期間はNISAと同様、投資した年から5年間

NISAとの比較

ジュニアNISA	NISA
0歳～19歳の居住者など	20歳以上の居住者など
80万円	120万円
上場株式・公募株式投資等	上場株式・公募株式投資等
2016年4月～2023年12月末*1まで	2023年12月末まで
投資した年から最長5年間	投資した年から最長5年間
非課税期間	非課税期間
本人	本人
本人	本人
本人	本人

※1 2023年12月末以前、当初の非課税期間(5年間)の満了を迎えても一定の金額までは、2024年1月1日現在まで非課税期間が延長されます。
※2 3月31日時点で18歳である年の前年12月31日まで。 ※3 実家等々を得意な場合は、親権者での申し込みが可能です。

ジュニアNISAの活用法

教育資金の準備に!

お子さまの教育には、おきな資金が必要です。大切な方のための資金計画に、ぜひジュニアNISAをご活用ください。

お孫さまへの資産移転に!

生前贈与の方法のひとつである贈与を行う、ジュニアNISAを活用して投資することで、効率的に資産の移転と運用を行うことができます。

■小学校から大学までの平均的な教育費用

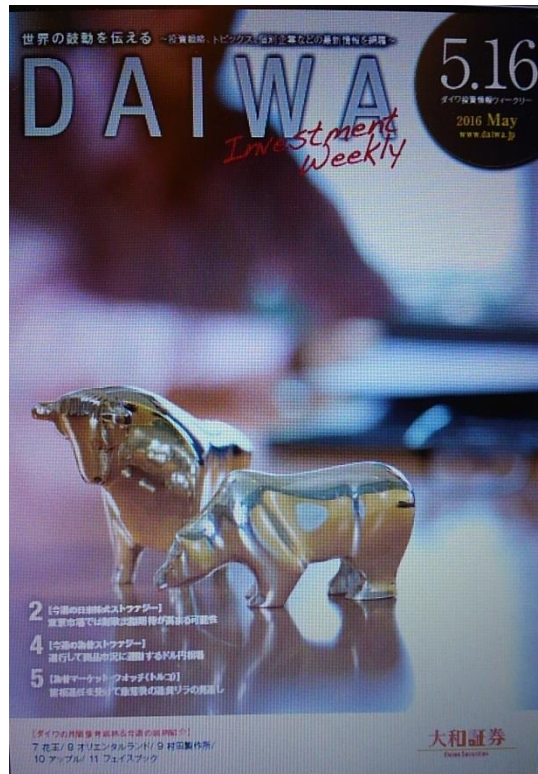
学級	約	約
小学校	183万円	853万円
中学校	135万円	389万円
高校	116万円	290万円
大学	511万円	692万円

※1 国立・公立学校(私立の中等教育機関(中学校)を除く)、日本私立学校連盟「教育費別の教育費調査(平成26年度)」(平成26年度)を参考とします。
※2 私立学校(私立の中等教育機関(中学校)を除く)、日本私立学校連盟「教育費別の教育費調査(平成26年度)」(平成26年度)を参考とします。

Brochures on Investor Education and new products

2-3. Various Channels for IE (2): Publications and reports

- ✓ Investors usually gain confidence if they have access to various information that they need to know before the actual investment activities.
- ✓ Reports may vary from market analysis, macroeconomic status, industry based, and/or individual companies or product based.



Japan Strategy 20 May 2016 Japanese report 20 May 2016 Daiwa Securities

Market Review for 3rd Week of May

Japanese stock strategy memo

- TOPIX up 1.76% vs. last Friday on yen depreciation, higher commodity prices
- Financials outperformed sharply and materials, capital goods outperformed slightly; consumer goods, transportation & utilities, technology underperformed; with return reversal effect notable, high-beta, low-P/E, low-P/E, and low-priced stocks outperformed

Masahiro Suzuki
masahiro.suzuki@daiwa.co.jp

Market review: In the third week of May, the April FOMC minutes suggested a potential rate hike in June, driving the yen weaker. TOPIX gained 1.76% from last Friday to 1,343.40, reflecting higher commodity prices and favorable economic data. Top performers included nonferrous metals, marine transportation, mining, insurance, and banks, while the worst performers included rubber products, air transportation, information & communications, electric power & gas, and foods.

16 May: TOPIX rebounded. The index opened lower in the wake of overnight weakness on Wall Street, but it then picked up, reflecting yen depreciation vs. the dollar and soft crude oil prices. Expectations for government measures sent a broader range of sectors higher.

17 May: TOPIX closed up. A broad range of sectors, particularly auto and other export-driven sectors, attracted buying interest amid a favorable shift in the external environment, such as yen depreciation and higher commodity prices.

18 May: TOPIX closed higher. Financials advanced as better-than-expected GDP data for Jan-Mar worked to reduce expectations for additional monetary easing by the BOJ.

19 May: TOPIX pulled back. Japanese stocks, particularly foreign demand-driven firms, opened higher, reflecting stronger-than-expected machinery orders and yen depreciation. However, the index then fell back as investors moved to lock in gains. Basic materials lost ground on lower natural resource prices.

20 May: TOPIX rebounded. The index opened lower in the wake of a sell-off in US shares. That said, it then gained ground, reflecting expectations for the G7 finance ministers' meeting and Japan's government measures. Stocks that announced share repurchase programs gained ground.

Outperformers/underperformers: Financials outperformed sharply, and capital goods and materials did so modestly. Consumer goods were notable underperformers, and transportation & utilities and technology also underperformed. By subsector, top performers were electric wire, shipping/trucking, trust banks, system equipment, and sports & leisure activity. Among the worst performers were department stores, auto tires, airlines, traffic signals/signs, and other foods. By factor, high-beta, undervalued (low-P/E, low-P/E), and low-priced stocks outperformed amid a strong return reversal effect.

Important disclosures, including any required research certifications, are provided on the last two pages of this report.

Strategy

Japan Fixed Income 20 May 2016 Japanese report 20 May 2016 Daiwa Securities

Outlook for domestic economy (update, May)

Economic Memorandum REPE727

Economy remains in a soft patch

- Preliminary Jan-Mar GDP estimate raises concerns over the economy. Based on weak price data, we expect additional easing in July.

FICC Research Dept., Fixed Income Research Group

Yoshihiko Nagai
yoshihiko.nagai@daiwa.co.jp
Makiko Hasegawa
makiko.hasegawa@daiwa.co.jp

- The economy is still weakening. We think the preliminary Jan-Mar GDP estimate will raise concerns over the economy.
- We still think the most likely scenario is that the government goes through with its consumption tax hike.
- We expect an additional 10bp rate cut around July as it becomes clear that prices are rising slower than it expects.

* This report is a revision to reflect the preliminary Jan-Mar GDP data. Our growth estimates are unchanged: +0.3% for FY2016 and -0.3% for FY2017.

Forecast for Japan's Economy

	FY2016			FY2017			FY2018			FY2019		
	Actual	Change	Delta	Actual	Change	Delta	Actual	Change	Delta	Actual	Change	Delta
Real GDP Growth (GDP chg)	-0.4	0.4	-0.4	0.4	-0.3	0.2	0.2	0.5	-	-	-	-
Domestic Demand (GDP contrib)	-1.7	1.6	-1.7	1.7	-1.1	0.7	0.8	1.9	-0.9	0.8	0.3	-0.3
Private Consumption (GDP chg)	-0.1	0.3	-0.5	0.2	-0.1	0.2	0.2	0.8	-1.6	0.7	0.4	-0.4
Capital Investment (GDP chg)	-0.8	0.5	-0.8	0.5	-0.1	0.3	0.3	1.5	-2.9	-0.3	0.7	-1.3
Government Consumption (GDP chg)	-1.6	0.7	1.2	-1.4	0.1	0.3	0.4	0.7	0.1	1.6	0.3	0.8
Foreign Demand (GDP contrib)	-0.4	0.1	0.1	0.2	-0.3	-0.1	-0.1	-0.3	0.8	0.1	-0.1	0.1
Exports (GDP chg)	-4.8	2.0	-0.8	0.8	0.1	1.1	1.2	0.8	7.0	0.4	2.4	-1.2
Imports (GDP chg)	-2.6	1.7	-1.1	0.5	1.5	1.5	3.0	3.4	-0.1	3.7	4.0	4.0
Unemployment Rate	3.4	3.4	3.3	3.2	3.1	3.0	3.0	2.9	3.5	3.3	3.0	3.0
Core CPI (FY chg)	0.1	-0.1	0.0	-0.1	-0.4	-0.1	-0.2	-0.3	2.8	0.0	0.1	1.7
Consumer Price Index on Excess Inflation	0.1	0.1	0.1	-0.1	-0.1	-0.2	-0.3	0.1	-0.1	-0.3	-0.5	-0.5
10Y JGB Yield	0.30	0.31	0.28	-0.12	-0.20	-0.25	-0.25	-0.30	0.20	-0.15	-0.30	-0.35
US Real GDP Growth	0.04	0.03	0.03	0.27	0.00	0.00	0.00	0.00	0.00	0.04	0.00	0.00
US Real GDP Growth	3.0	2.0	1.4	0.5	1.8	2.2	2.3	2.5	0.0	2.3	2.2	2.4

Source: Cabinet Office, Ministry of Internal Affairs and Communications (MIC), BOJ, Daiwa Securities. Data Sources: FICC Research Dept.
 Note: (1) FY 2016 year-to-date strategy. (2) Actuals are annualized QoQ changes, and annualized QoQ changes are calendar-year basis.
 (3) FY 2016 GDP growth rate, quarterly figures are annualized QoQ changes, and annual figures are calendar-year basis.
 (4) FY 2016 GDP growth rate, quarterly figures are annualized QoQ changes, and annual figures are calendar-year basis.
 (5) Data are preliminary for FY2016 and FY2017, and actual for FY2018.

Important disclosures, including any required research certifications, are provided on the last page(s) of this report.

FICC

Various reports published by Daiwa Securities Group

2-4. Various Channels for IE (3): Socialization events

- ✓ Seminars and workshop type events will definitely help investors to understand the current market situation, investment opportunities and investable products.
- ✓ Such event will also allow securities companies to widen the networks on potential investors as well as promote products to the clients.



大和証券
口座開設はこちら

インターネットライブセミナー

大和証券では、インターネットライブセミナーを毎月開催しています。
毎回大変好評で、多くのお客さまにお喜びいただいております。

毎月好評開催中!

人気の理由

- ✓ 自宅で大和証券が誇るストラテジストやアナリストのセミナーを視聴できる!
- ✓ 従来版画面を使って講師に直接質問ができる!
- ✓ スマートフォンやタブレットからも気軽に視聴ができる!

空席しよライブセミナーも、空からオンデマンドを視聴できます!

今後のライブセミナースケジュール

※お取引の月曜日から開始予定です。

5月							6月							7月						
日	月	火	水	木	金	土	日	月	火	水	木	金	土	日	月	火	水	木	金	土
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
22	23	24	25	26	27	28	29	30	31											

5/18(水) 20:00~
テーマ: 視察した企業
ありがとうございました
石月 幸雄

6/15(水) 20:00~
テーマ: 日本株
株主の権利
橋井 秀司

7/20(水) 20:00~
テーマ: 日本株
ETFの活用
佐藤 光

Seminars and Webinars by Daiwa Securities Group

2-5. Various Channels for IE (4): Media sources

- ✓ Media sources is also a very powerful channel to reach potential investors and promote sales and marketing.
- ✓ One may differentiate which type of media to be utilized depending on the targeted audience (i.e. by gender, age, location, nationality, etc.).

証券情報をわかりやすく <http://www.daiwa-tv.jp/>
ダイワインターネット TV

大和証券グループでは、絶力を結集して、マーケット解説を中心とする映像コンテンツを配信しています。

「注目!投資ストラテジー」
最新の重要マーケット情報をいち早くお届け!!

9:30 ▶ ON AIR 10:30

注目のセクター、海外市場、債券銘柄など、物の投資テーマで株式市場にアプローチします。

注目!投資ストラテジー 5月のTIME TABLE

日時	出演者	テーマ	日時	出演者	テーマ
5/20(日)	解説	今週の相場見通し	17:00	北原 聖	大株動向
5/20(日)	■解説	■週刊株式マーケット	18:40	森本 雅美	週刊株式マーケット
5/21(月)	解説	5/20の振り返り	18:40	佐藤 光	シニアテクニカルアナリスト
5/22(火)	解説	5/21の振り返り	18:40	森本 雅美	週刊株式マーケット
5/23(水)	解説	5/22の振り返り	18:40	佐藤 光	シニアテクニカルアナリスト
5/24(木)	解説	5/23の振り返り	18:40	森本 雅美	週刊株式マーケット
5/25(金)	解説	5/24の振り返り	18:40	佐藤 光	シニアテクニカルアナリスト
5/26(土)	解説	5/25の振り返り	18:40	森本 雅美	週刊株式マーケット
5/27(日)	解説	5/26の振り返り	18:40	佐藤 光	シニアテクニカルアナリスト
5/28(月)	解説	5/27の振り返り	18:40	森本 雅美	週刊株式マーケット
5/29(火)	解説	5/28の振り返り	18:40	佐藤 光	シニアテクニカルアナリスト
5/30(水)	解説	5/29の振り返り	18:40	森本 雅美	週刊株式マーケット
5/31(木)	解説	5/30の振り返り	18:40	佐藤 光	シニアテクニカルアナリスト

マーケット情報

最新情報

株価指数

大和証券ツイッター

@daiwa_jpさんのツイート

大和証券「ツイッター」
@daiwa_jp

大和証券の場です。5月20日(金)のハンセン指数は157pt高。指数が約2カ月半ぶりの安値圏にあるため、値ごろ感からの買いが後勢の展開。セクター別では、商業銀行が不良資産の証券化を正式に始めると伝わったことで、不良債権処理の取り組みを好感し、本土系銀行株が買われ相場の上昇を牽引。

大和証券「ツイッター」
@daiwa_jp

GET部の沖高です。5月20日大引けの日経平均は89円高。政策期待にサポートされた日本株は米利上げ観測が誘発する不透明感(ポジティブ:為替のドル高・円安基調/ネガティブ:グローバルベースでの景気や市場への影響に対する懸念)によって方向感が欠如。日経平均は「三角持ち合い」が継続。

週刊株式マーケット

18:40 更新(金曜)

15分間の日米株式相場の動きを分析し、相場を動かした材料銘柄についてもお伝えします。そして来週の注目点と相場展望についても解説します。

Daiwa TV programs and Twitter sites

3-1. Actual Contents of Investor Education

- ◆ Investor education can be delivered depending on the investors' investment needs and level of financial literacy
- ◆ Prepare necessary materials to maintain and assure the quality disseminated

Investment needs
First time investment
Retirement Plans
Short-term / Long-term horizon
Asset Management
Diversification
Inheritance Plans

Product types (currently available in Mongolia)
Stocks
Government bonds/corporate bonds
Foreign Currencies
Commodities
Foreign products

3-2. Return vs. risk of available product (current Mongolia)

- ◆ Bank savings is the most attractive opportunity and favored in current Mongolia
- ◆ Government bonds have also attracted certain amount of investors due to high yield compared to other investable products

Product	Annual return	Risk
1-year max. bank deposit rate	18.00%	Low
Weighted avg. bank deposit rate	13.30%	Low
12-week Government securities yield	13.19%	Lowest
1-year return for a stock	?	High
Annual USD/MNT depreciation	5-10%	High

3-3. Underlying Risks for Investments

- ◆ Ability to explain the risks behind the investment activities is very important

Types of Risks	Description
Political / Legislative Risk	Risk occur when changes in the government ruling parties and associated policies and legislative matters realized.
Inflation Risk	The chance that the value of an asset or income will be deflated (inflated) as inflation rate shrinks (widens).
Foreign Currency Exchange rate Risk	Risk that arises from the possible fluctuations in the prices between local and foreign currency exchanges.
Interest Rate Risk	Possibility of a fixed-rate debt instrument will decline in value as a result of a rise in interest rates.
Credit Risk	Possibility that a particular debtors will no be able to pay the interest rate payments and/or principals.
Market Risk /Systematic Risk	Risk that cannot be avoided such as the natural disasters, economic recessions, changes in the natural resource prices, terrorist attacks.
Liquidity Risk	Risk that an investor may not be able to buy (sell) the securities product when desired due to insufficient quantities and/or opportunities are limited.

3-4. Example of Educating Investors (1): First time investors

1) For first time investors

- ✓ If a new client of yours does not have any experience in investments, first of all you have to explain differences between saving and investing.

Example

- Unlike bank deposits, you may lose your money when you invest in stocks.
- Even when a bank goes bankrupt, your deposit, to a certain extent, will be secured by Deposit Insurance Corporation of Mongolia. The money you invest in stocks is not insured. A share price decline means the value of your stocks falls.
- But you may earn more from your investment than your saving.

3-5. Example of Educating Investors (2): Experienced investors

2) For non first-time investors

- ✓ If your client understands the differences between saving and investing, now you can promote a certain product to your client, by your own idea.

Government bonds

- Under the current interest rate environment, it is very difficult to promote stocks.
- The government bond is perhaps the first choice for many of your clients.
- You need to appeal what kind of advantages a client of yours can take from government bond investment.

3-6. Example of Educating Investors (3): Experienced investors

2) For non first-time investors - cont.

Stocks

- How can you promote stocks under the current difficult situation?
- Bottom fishing is a phrase that is often used in the downcycle.
- What indicators can be implications for a turnaround of share prices?

4-1. Basic Knowledge: Valuation

- ✓ Before an investor makes investment decisions, he/she measures if the price of a stock is overpriced (expensive) or undervalued (cheap) by calculating valuation.
- ✓ Most commonly used valuation is the price-earnings ratio (P/E ratio).
- ✓ P/E ratio is simple and easy to use. It is applicable if a company is profitable. Institutional investors and analysts mostly uses the P/E ratio.
- ✓ Another well-known valuation is the price-book ratio (P/B ratio). P/B ratio is often used in the downturn of the market. Theoretically you can say the stock is oversold if its P/B ratio falls below $x1.0$.
- ✓ Dividend yield is often used for long-term investors, especially when interests rates are low.

4-2. Basic Knowledge: Price-earning ratio (P/E ratio)

- ✓ When you calculate P/E ratio for a stock, you should use an estimate EPS for the current year or the next year, not previous year's actual EPS.
- ✓ In Mongolia, it appears to be quite difficult to estimate EPS of a listed company due to poor disclosure. What you can do could be, at best, looking at the past earnings and making a bold estimate.
- ✓ Interviewing listed companies is also a part of your job, although most of them may refuse to comment. You need to get to know listed companies' information to be familiar with them. Your better knowledge on listed companies will contribute to investor education.

4-3. Price-earning ratio (P/E ratio)

- ✓ P/E ratio cannot be applied if a company reports a loss.
- ✓ Mining companies' earnings momentum is quite dynamic. Is P/E ratio good enough to value mining companies' valuation?
- ✓ In the exploration stage, mining companies do not have revenue, thus they are loss-making companies. When a loss-making mining company in the exploration stage makes an IPO, what valuation should we use?
- ✓ Perhaps you need a bold long-term estimate for the company's financials, based on probable reserves, company's long-term exploration and production plan as well as price forecast of mining products.

4-4. Basic knowledge (1): Price-earning ratio (P/E ratio)

Price - earnings ratio = share price / EPS (earnings per share)

EPS = Net income/total number of shares outstanding (period average)

Sugi Corp's FY2015 earnings forecast:

Revenues	MNT 100 million
Expenditures	MNT 70 million
Income before tax	MNT 30 million
Net income	MNT 20 million

Total number of shares: 100,000

Sugi Corp's EPS forecast for FY 2015
= MNT 20 million / 100,000 shares
= MNT 200

(1) When Sugi Corp's share price is MNT 4,000
P/E ratio = MNT 4,000 / MNT 200 = **20x**

(2) When Sugi Corp's share price is MNT 2,000
P/E ratio = MNT 2,000 / MNT 200 = **10x**

- ✓ P/E ratio compares the current share price with its earnings.
- ✓ Whether the company's share price is trading at a premium or a discount is judged from the comparison with the P/E ratio of companies in the similar sector, or a historical range of its P/E ratios.
- ✓ P/E ratio trends may vary amongst sectors or the economic trends of the country and timing.

4-5. Basic knowledge (2): Price-book ratio (P/B ratio)

Price - book ratio = share price / BPS (book value per share)

BPS = shareholders' equity (net assets) / total number of shares outstanding

Sugi Corp's FY2015 financial forecast

Total assets	MNT500 million
Liabilities	MNT300 million
Shareholders' equity	MNT200 million

Total number of shares: 100,000

BPS = MNT 200 million / 100,000 shares
= MNT **2,000**

(1) When the share price is MNT 4,000
P/B ratio = MNT 4,000 / MNT 2,000 = **2x**

(2) When the share price is MNT 2,000
P/B ratio = MNT 2,000 / MNT 2,000 = **1x**

- ✓ P/B ratio is a ratio that is often used in a down cycle to judge downside potential of the a stock.
- ✓ When the P/B ratio is 1x or below 1x, it suggests that the price may be undervalued.

4-6. Basic knowledge (3): Dividend yield

$$\text{Dividend yield (\%)} = \text{dividend per share} / \text{share price} \times 100$$

Sugi Corp's FY2015 dividend forecast

Dividend per share	MNT150
Share price	MNT4,000

(1) Dividend yield for Sugi Corp
= MNT150 / MNT4,000 = **3.75%**

(2) Dividend yield for Urade Trading
= MNT100 / MNT2,000 = **5.00%**

Urade Trading's FY2015 dividend forecast

Dividend per share	MNT100
Share price	MNT2,000

-> Investors can receive more dividends from Urade Trading when investing the same amount of money.

- ✓ Generally, dividend yields of companies in a growing stage are lower, some even pay no dividends (for example Microsoft did not pay any dividends until FY2003).
- ✓ On the other hand, there are cases where institutional investors claim more dividends against companies that profit growth become moderate or those have too much cash.

Баярлалаа!

Та бүхэн асуулт асуух, өөрийн санал, зөвлөмжөө илгээхийг хүсвэл доорх хаягаар хандаарай.

Akifumi Nakanishi

Жайка Зөвлөхийн Баг
Офис (орон нутгийн): өрөө #204, FRC



Japan International Cooperation Agency

Introduction to Listing Management

7 July 2016

Ryota Sugishita
JICA Consultant, Daiwa Institute of Research

Today's topics

- 1. MSE's issues**
- 2. Just in case**
- 3. Listing requirements**
- 4. Disclosure**
- 5. Public float**

1. MSE's issues: Our view (1)

Foreign investors' share ownership at MSE is small, implying unfavorable market condition.

In our view:

- 1) Interest rates are too high: banking sector's issue
- 2) Securities companies are too small: securities cos' issue
- 3) Major Mongolian companies are not listed: marketing issue
- 4) Disclosure by the current listed companies are too poor for foreign investors to forecast earnings: **listing issue**
- 5) MSE's average public float is below 10%, resulted in very low liquidity, which cannot meet foreign institutional investors' requirements: **listing issue**

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1. MSE's issues: Our view (2)

History matters

- ✓ We presume that poor disclosure and too low public float are attributed to MSE's history.
- ✓ State-owned companies became listed companies without appropriate listing approval process. It appears that many of them were just told to become listed companies. They did not list their shares for a financing purpose.
- ✓ It is no wonder if many of the current listing companies are reluctant to meet listed companies' obligations.
- ✓ In our view, the current situation is crucial. We think that MSE can revamp the market by setting new rules and enforcement actions.

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2. Just in case: Basics for listing

Why do companies opt for listing?

- ✓ Seeking an alternative source of funding, possibly raise more funds than borrowing at a cheaper cost
- ✓ Improving balance sheet
- ✓ Gaining better credibility, transparency and brand recognition
- ✓ Providing incentives to employees etc.

What will happen after listing?

- ✓ Price discovery
 - ✓ Anyone can be shareholders
 - ✓ Share prices move any time
- Shareholders (investors) may incur losses

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2. Just in case: Basics for listing

Two important tasks to protect investors, with regard to listing:

- 1) Approve **only good companies** for listing
 - ✓ Set appropriate **listing requirements** – only limited number of companies are eligible to list their shares
- 2) Monitor listed companies' **eligibility**
 - ✓ Enforce continuing listing obligations – **disclosure** and **public float** are two of the major obligations
 - ✓ Set **delisting rules** – ineligible companies need to leave the market

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For your information: Comparison with other Asian markets

Country	GDP per Capita (USD, 2016e)	No of listed companies (Dec15)	Market Cap (US\$bn, Dec15)
Japan	34,871	Section1+2: 2,477 Mothers: 220 JASDAQ: 791	4,700
Malaysia	9,811	Main Market: 794 ACE Market: 109	391
Thailand	5,940	SET: 517 mai: 122	341
Mongolia	3,866	MSE: 235	0.6
Indonesia	3,620	IDX: 521	352
Philippines	2,978	PSE: 265	285

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3. Listing requirements: General

Listing requirements consist of 1) **quantitative requirements**, and 2) **qualitative requirements**. Typical quantitative and qualitative requirements are as follows:

Quantitative requirements	Profitable for the last two consecutive years
	Minimum share capital / market cap
	Minimum number of shareholders
	Minimum public float
Qualitative requirements	Business continuity with profitability
	Quality management
	Good corporate governance and internal control
	Disclosure

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3. Listing requirements: Profitability

Market		Minimum profit requirements
Philippine Stock Exchange (PSE)	Main Board	3-year cumulative EBITDA of PHP50m(\$1.1m)
	SME Board	3-year cumulative EBITDA of PHP15m(\$0.3m)
Indonesia Exchange (IDX)	Main Board	1 year
	Development Board	-
Stock Exchange of Thailand (SET)	SET	3-year cumulative net profit of THB50m(\$1.4m), latest FY THB30m(\$0.8m)
	mai	1 year
Bursa Malaysia (BM)	Main Market	3-5 year cumulative net profit of RM20m(\$4.9m), latest FY RM6m(\$1.5m)
	ACE Market	-
Japan Exchange Group (JPX)	TSE Section 1, 2	2-year cumulative net profit of JPY500m(\$5m)
	Mothers	-
	JASDAQ	Latest FY JPY100m(\$1m)

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3. Listing requirements: Share capital/market cap

Market		Minimum share capital requirements
Philippine Stock Exchange (PSE)	Main Board	Paid-up capital PHP125m(\$2.6)
	SME Board	Paid-up capital PHP25m(\$0.5m)
Indonesia Exchange (IDX)	Main Board	Net tangible assets IDR100bn(\$7.5m)
	Development Board	Net tangible assets IDR5bn(\$0.4m)
Stock Exchange of Thailand (SET)	SET	Net assets THB300m(\$8.5m), market cap THB5bn(\$142m)
	mai	Net assets THB20m(\$0.6m), market cap THB1bn(\$2.8m)
Bursa Malaysia (BM)	Main Market	Market cap RM500m(\$122m)
	ACE Market	-
Japan Exchange Group (JPX)	TSE Section 1, 2	Net assets JPY1bn(\$10m), market cap JPY25bn (Section 1), JPY2bn (Section 2)
	Mothers	Market cap JPY1bn(\$10m)
	JASDAQ	Net assets JPY200m(\$2m)

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3. Listing requirements: No of shareholders

Market		Minimum number of shareholder requirements
Philippine Stock Exchange (PSE)	Main Board	1,000
	SME Board	200
Indonesia Exchange (IDX)	Main Board	1,000
	Development Board	500
Stock Exchange of Thailand (SET)	SET	1,000
	mai	300
Bursa Malaysia (BM)	Main Market	1,000
	ACE Market	200
Japan Exchange Group (JPX)	TSE Section 1, 2	2,200 (Section1) 800 (Section2)
	Mothers	200
	JASDAQ	200

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3. Listing requirements: Public float

Market		Minimum public float
Philippine Stock Exchange (PSE)	Main Board	10-33%
	SME Board	10-33%
Indonesia Exchange (IDX)	Main Board	10-20%
	Development Board	10-20%
Stock Exchange of Thailand (SET)	SET	20-25%
	mai	20%
Bursa Malaysia (BM)	Main Market	25%
	ACE Market	25%
Japan Exchange Group (JPX)	TSE Section 1, 2	35% (Section1), 30% (Section2)
	Mothers	25%
	JASDAQ	10%

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3. Listing requirements: MSE (1)

Classification 1

1. Company must have fully operated last three years.
2. The issuer must have produced last three full financial years' statements that comply with the "Accounting Law of Mongolia" and audited by independent auditor registered by FRC that defined in 32.2.3 of SML. As for foreign issuer, must have produced financial statements that comply with either IFRS or GAAP.
3. The issuer must have revenue no less than MNT10bn and MNT1bn profit in the last financial year.
4. Issuer's holders of controlling interest, CEO and members of Board must have no tax debt or expired debt, if they are in debts information must be disclosed in the prospectus.
5. Authorized person of issuer must have adequate knowledge and experience and must not have been no changes to CEO or 2/3 of management team in the last two year and no changes have been made to holders of controlling interest in the last financial year.

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3. Listing requirements: MSE (2)

Classification 1 (cont.)

6. Must be complying with principles of corporate governance that accepted in domestic and international.
7. Issuer must have contractual agreement with underwriter.
8. At the time of trading, company's market capitalization must be more than MNT10bn.
9. No less than 25 percent of issued shares must be offered to the public.
10. No less than 2 years traded at the stock exchange.
11. Issued securities must be freely transferable and tradable and must not be in deposited.

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3. Listing requirements: MSE (3)

Classification 2

1. The issuer applying to listing at classification “II” must be meet the following requirements:
2. Must have satisfied 12.1.4 and 12.1.7 of this rule.
3. **Company must have fully operated last two years.**
4. The issuer must have produced last two full financial years’ statements that comply with the “Accounting Law of Mongolia” and audited by independent auditor registered by FRC that defined in 32.2.3 of SML. As for foreign issuer, must have produced financial statements that comply with either IFRS or GAAP.
5. **Company must have adequate working capital 12 month period of time after its listed.**
6. Must be complying with principles of corporate governance that accepted in domestic and international, or explain why it has not.
7. Authorized person of issuer must have adequate knowledge and experience.

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3. Listing requirements: MSE (4)

Classification 2

8. **At the time of trading company’s market capitalization must be more than MNT1bn.**
9. **No less than 15 percent of issued shares must be offered to the public**
10. Must be satisfied 12.2.4 of this rule.

Note 1: 12.1.4 - Issuer’s holders of controlling interest, CEO and members of Board must have no tax debt or expired debt, if they are in debts information must be disclosed in the prospectus.

Note 2: 12.1.7 - Issuer must have contractual agreement with underwriter.

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3. Listing requirements: MSE (5)

Minimum requirements	Classification 1	Classification 2
Profitability	Latest FY MNT1bn(\$0.5m)	-
Share capital / market cap	Market cap MNT10bn(\$5m)	Market cap MNT1bn(\$0.5m)
No of shareholders	-	-
Public float	25%	15%

What do you think ?

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4. Disclosure – Most important obligations for listed cos

Types of disclosure
1) Legal disclosure <ul style="list-style-type: none">✓ Annual financial reports (not only numbers)✓ Semi-annual/quarterly financial reports (not only numbers)
2) Timely disclosure <ul style="list-style-type: none">✓ Earnings releases✓ Material facts (earnings forecast change, dividend increase/decrease, M&A, financing, stock split, new product/service launch, change of CEO etc.)
3) Voluntary disclosure <ul style="list-style-type: none">✓ Production volume, product/material prices, sales breakdown by product etc.

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4. Disclosure – Deadlines for periodical reports

	Annual financial reports	Semi-annual/quarterly financial reports
PSE	105 days	45 days
BM	4 months	2 months
JPX	105 days	45 days

Note: The deadline can be extended when companies face difficulties, for instance upon disaster

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4. Disclosure – Timely disclosure

1) What should be disclosed

- ✓ In other countries, quarterly **earnings releases** are submitted by listed companies, usually within 1-2months
- ✓ Definition of material information is commonly used

2) How should be disclosed

- ✓ Information should be disclosed so that anyone can access immediately
- ✓ It should be in an electronic format
- ✓ It should be uploaded on the exchange's website
- ✓ All the listed companies should upload information on their websites
- ✓ It will be friendly to investors if periodical reports can be also downloaded from the exchange's website

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4. Disclosure – If a company cannot submit timely

- ✓ Companies that failed in timely submission of information can possibly be delisted
- ✓ Those that delayed in submitting annual and quarterly financial reports were delisted at PSE, IDX and SET in the recent years
- ✓ Please see delisting statistics

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4. Disclosure – Voluntary disclosure

- ✓ Earnings is the most important factor for investors
- ✓ Investors do not only look at actual earnings results, but they forecast listed companies earnings
- ✓ Based on their earnings forecasts, investors make investment decisions
- ✓ Listed companies should better disclose relevant information so that investors can forecast listed companies' earnings
- ✓ We believe MSE needs one model listed company with excellent disclosure

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4. Disclosure – APU’s case (1)

DISCUSSION ITEM NO.1

PLAN AND ACTUAL PERFORMANCE FOR 2015

4th QUARTER 2015	UNITS	2014 ACTUAL PERFORMANCE	2015 PLAN	2015 ACTUAL PERFORMANCE
1 Total number of employees	People	953	908	893
2 Total products	SKU	107	109	116
3 Total production	Million liters	106.3	110.2	94.5
4 Total sales	Million liters	98.9	104.8	90.6
5 Total revenue	Billion MNT	358.7	404.7	327.4
6 Total project and investment cost	Billion MNT	22.0	9.4	4.5
7 Net profit	Billion MNT	(14.2)	25.6	11.2

ANNUAL PRODUCTION PLAN FOR 2015

- To increase total production by 4 percentage compared to 2014
- To decrease total vodka production by 1 percentage compared to 2014
- To increase total beer production by 8 percentage compared to 2014
- To decrease total soft drink production by 17 percentage compare to 2014
- To increase total dairy and juice product production by 18 percentage compared to 2014

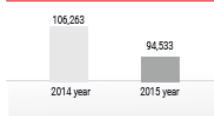
2015 ACTUAL PERFORMANCE

- Total production decreased by 11 percentage compared to 2014
- Total vodka production decreased by 21 percentage
- Total beer production decrease by 6 percentage
- Total soft drink production decreased by 30 percentage
- Total dairy and juice product production decreased by 4 percentage

PRODUCTION AND OPERATIONS REPORT

PRODUCTION

Total production in thousand liter



SALE

Total sales revenue in thousand liter



Source: APU Annual Report 2015

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4. Disclosure – APU’s case (2)

SUMMARY OF THE 2015 REPORT:

- In 2015 95 million liter products were produced, total sale reached 327 million MNT and net profit was 11,2 billion MNT.
- Total investment was 4.5 billion MNT.
- Repayment of loan to international banks was made for 19,7 million USD.
- New products Alpha, Seruun, Deej were launched, line extension for Bolor Mint, Orgilun carbonated water with orange flavour, and Sain yogurt in cup filler packaging, and Bolor in 1 liter bottling and ARKHI in silver edition was launched.
- Compared to the beginning of the year share price has risen by 4 percentage compared to the end of the year.

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GOAL AND STRATEGIC OBJECTIVES FOR 2016

APU JSC will lead the market, operate with dignity and be financially transparent and accountable and run our operations sustainably.

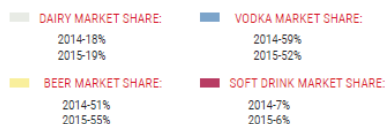
Within our strategic objectives we set following goals:

- Improve investment efficiency and effectiveness;
- Optimize market positioning;
- Standardize business processing;
- Improve communication and transparency;
- Optimize human resources efficiency;
- Settlement of bank loans.

In 2016 we plan to:

- Run our operations with 873 employees and produce 150 different products;
- Produce 104 million liter products and reach sale of 351 billion MNT;
- Pay 16 million USD for international lenders, banks;
- Run our operation smoothly without any interruptions;
- Run our operation in a most efficient way.

MARKETSHARE



Source: APU Annual Report 2015

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5. Public float: MSE

- ✓ MSE's public float is **below 10%**, in our understanding
- ✓ Too low public float adversely impacts minority investors' interest
- ✓ Listed companies with too low public float should understand meaning of listing
- ✓ For instance, a listed company with 95% of shares outstanding held by certain investors, such as founders' family, cannot be called a "public company"
- ✓ Foreign investors do not invest in those with low public float, as they are afraid of **difficulty in selling their shares**
- ✓ We believe that **companies with too low public float should be delisted**

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5. Public float: PSE

PSE's case

- ✓ PSE implemented revised rules of Minimum Public Ownership in 2012
- ✓ According to the rule, listed companies need to comply with the **minimum public float of 10%**, otherwise they will be delisted
- ✓ In 2012, 10 companies' public float was below 10%
- ✓ Those that cannot meet the requirement were suspended
- ✓ By early 2013, 8 of the 10 companies chose to delist voluntarily, while the rest 2 were delisted by PSE
- ✓ PSE plans to increase the rate to **15%, then 25%** eventually from 10%

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5. Public float: SET

- ✓ SET uploads a list of companies with public float below requirement for more than 2 years

	Symbol	Company	Free Float	
			No of shareholders	%
1	CIMBT	CIMB THAI BANK	5,654	6.29
2	INOX	POSCO-THAINOX	931	4.92
3	MAKRO	SIAM MAKRO	2,872	2.12
4	MPIC	M PICTURES ENTERTAINMENT	984	7.50
5	PRG	PATUM RICE MILL AND GRANARY	536	5.87
6	Q-CON	QUALITY CONSTRUCTION PRODUCTS	1,152	8.40
7	ROH	ROYAL ORCHID HOTEL (THAILAND)	632	2.12
8	SHANG	SHANGRI-LA HOTEL	4,067	13.03
9	SMK	SYN MUN KONG INSURANCE	715	13.51
10	SSC	SERMSUK	969	14.15
11	SVH	SAMITIVEJ	1,160	4.23
12	TPC	THAI PLASTIC AND CHEMICALS	2,345	9.26
13	UMS	UNIQUE MINING SERVICES	1,582	11.32
14	WR	WE RETAIL	972	2.65

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5. Public float: JPX

JPX's case

- ✓ Companies with public float of below **5%** will be delisted from Section 1 and 2
- ✓ There appear to be none in the recent years
- ✓ JPX's minimum public float requirement is not strict, but **there are additional requirements**
- ✓ In the Section 1 and 2, companies with **market cap below JPY500m(\$5m) for more than nine months** will be delisted
- ✓ If number of shareholders of a company in the Section 1, 2 and Mothers is **below 400**, it will be delisted

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6. Delisting: PSE

	2011	2012	2013	2014	2015
No of Public Listed Companies	253	254	257	263	265
No of New Listings	6	7	9	7	4
No of Delistings	6	6	7	2	1

Year	Company	Reason for delisting	Year	Company	Reason for delisting
2013	Eton Properties Philippines, Inc.	Public float	2013	Highlands Prime, Inc.	Becoming a wholly-owned subsidiary of the largest shareholder
	San Miguel Properties, Inc.	Public float		SM Development Corporation	Becoming a wholly-owned subsidiary of the largest shareholder
	San Miguel Brewery, Inc.	Public float	2014	Chemrez Technologies, Inc.	Acquisition
	Cosmos Bottling Corporation	Public float		Alphaland Corporation	Violation for disclosure requirements
	PNOC Exploration Corporation "A"	Public float	2015	Marsteel Consolidated, Inc.	Dormancy, not submitted financial reports

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6. Delisting: IDX

	2011	2012	2013	2014	2015
No of Public Listed Companies	440	459	483	506	521
No of New Listings	25	23	31	24	16
No of Delistings	5	4	7	1	3

Year	Company	Reason for delisting	Year	Company	Reason for delisting
2013	Amestelco Indonesia	License revoked by BAPEPAM	2013	Dayaindo Resources International	Bankruptcy report by media, delay in financial report submission
	Panasia Filament Inti	Going private	2014	Asia Natural Resources	Doubt on going concern, delay in annual exchange fee payment
	Indosiar Karya Media	Share price surge	2015	Davomas Abadi	Default reported by media, delay in financial report submission
	Pana Wiratama Sakti	Bankruptcy report by media, delay in financial report submission		Bank Ekonomi Raharja	Going private
	Indo Setu Bara Resources	Doubt on going concern		Unitex	Going private
	Surabaya Agung Industri Pulp & Kertas	Bankruptcy			

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6. Delisting: SET

	2011	2012	2013	2014	2015
No of Public Listed Companies	471	477	490	502	517
No of New Listings	3	8	13	17	23
No of Delistings	6	5	2	7	9
Violating SET rules	1	-	-	3	2
Merger	2	-	-	1	4
Bankruptcy	-	-	-	2	1
Voluntary delisting	4	5	2	1	2

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6. Delisting: BM

		2011	2012	2013	2014	2015
No of Public Listed Companies	Main Market	822	809	802	799	794
	ACE Market	119	112	109	107	109
No of New Listings	Main Market	17	14	16	12	9
	ACE Market	11	3	1	3	4
No of Delistings	Total	43	36	27	20	14

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6. Delisting: JPX Section 1,2

		2011	2012	2013	2014	2015
M&A	Going private	36	37	37	25	26
	Merger with another company	3	6	7	3	1
	Acquired by another company	-	-	-	-	3
	Reverse stock split	-	-	-	-	2
	Due to inappropriate merger	1	-	-	-	-
Bankruptcy or concerns on bankruptcy	Due to bankruptcy proceedings	-	1	-	-	-
	Due to civil rehabilitation proceedings	1	2	-	-	3
	Due to corporate reorganization proceedings	-	1	-	-	-
	Suspension of bank transactions	1	-	-	-	-
Delisting by the exchange	Securities on alert	-	-	-	-	1
	Auditor stated "no opinion" in the audit report	1	-	-	-	-
	Market cap below requirement	1	-	-	-	-
Other	Voluntary delisting	1	-	-	-	2
Total		45	47	44	28	38

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6. Delisting: JPX Mothers

		2011	2012	2013	2014	2015
M&A	Becoming a wholly owned subsidiary of its largest shareholder	4	8	7	-	4
	Reverse stock split	-	-	-	-	-
	Due to inappropriate merger	-	-	-	-	1
Bankruptcy or concerns on bankruptcy	Due to civil rehabilitation proceedings	-	1	-	-	-
Delisting by the exchange	Breach of listing agreement	-	-	-	-	1
	The listed market capitalization is less than the required value	2	-	-	-	-
	Market cap below requirement	1	-	-	-	-
Total		7	9	7	-	6

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6. Delisting: JPX JASDAQ

		2011	2012	2013	2014	2015
M&A	Going private	-	-	8	13	15
	Merger with another company	-	-	1	-	-
	Acquired by another company	-	-	-	-	4
	Reverse stock split	-	-	-	-	1
	Due to inappropriate merger	-	-	1	-	-
Bankruptcy or concerns on bankruptcy	Due to bankruptcy proceedings	-	-	1	-	-
	Due to civil rehabilitation proceedings	-	-	1	-	-
Delisting by the exchange	Breach of listing agreement	-	-	-	-	1
	In the public interest and for investors' protection	-	-	-	-	1
	Securities on alert	-	-	1	-	-
	Delay in submission of a securities report	-	-	-	1	-
Total		-	-	13	14	22

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Appendix: PSE

	Company	Market Cap PHP bn	Share
1	SM Investments	775	5.3%
2	SM Prime Holdings	741	5.0%
3	JG Summit	600	4.1%
4	Ayala Land	562	3.8%
5	Ayala Corp	527	3.6%
6	Universal Robina	445	3.0%
7	Philippine Trust Company	445	3.0%
8	PLDT	443	3.0%
9	Aboitiz Equity	413	2.8%
10	BDO Unibank	390	2.6%
11	Bank of Philippine Islands	381	2.6%
12	Manila Electric Company	352	2.4%
13	Globe Telecom	313	2.1%
14	Metrobank	277	1.9%
15	GT Capital	256	1.7%
16	Jollibee	252	1.7%
17	San Miguel Corporation	183	1.2%
18	Metro Pacific Investments	184	1.2%
19	LT Group	172	1.2%
20	DMCI Holdings	165	1.1%
	Top 20 total	7,877	53.4%

As of 24 Jun 2016

	No of listed companies	Market Cap US\$ bn	Share
Top 20	20	178	53%
Others	252	155	47%
Total	272	333	100%

Avg market cap

Top 20 US\$ 8.9bn

Others US\$ 0.6bn

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Appendix: IDX

	Company	Market Cap IDR tn	Share
1	H.M. Sampoerna	427	8%
2	Telekomunikasi Indonesia	385	7%
3	Unilever Indonesia	332	6%
4	Bank Central Asia	312	6%
5	Astra International	271	5%
6	Bank Rakyat Indonesia	252	5%
7	Bank Mandiri	209	4%
8	Gudang Garam	127	2%
9	Indofood CBP Sukses Makmur	99	2%
10	Bank Negara Indonesia	90	2%
11	Kalbe Farma	65	1%
12	Indofood Sukses Makmur	62	1%
13	Charoen Pokphand Indonesia Tbk	60	1%
14	Matahari Department Store	58	1%
15	Indocement Tunggul Prakarsa	58	1%
16	Perusahaan Gas Negara	58	1%
17	United Tractors	53	1%
18	Semen Indonesia	52	1%
19	Elang Mahkota Teknologi	52	1%
20	Surya Citra Media	48	1%
Top 20 total		3,070	59%

As of 24 Jun 2016

	No of listed companies	Market Cap US\$ bn	Share
Top 20	20	266	59%
Others	511	183	41%
Total	531	449	100%

Avg market cap

Top 20 US\$ 13.3bn

Others US\$ 0.4bn

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Appendix: SET

	Company	Market Cap THB bn	Share
1	PTT	880	7%
2	SCC	564	4%
3	AOT	547	4%
4	ADVANC	470	3%
5	SCB	448	3%
6	CPALL	440	3%
7	KBANK	397	3%
8	BDMS	366	3%
9	PTTEP	317	2%
10	BBL	302	2%
11	CPN	261	2%
12	PTTGC	258	2%
13	KTB	228	2%
14	CPF	215	2%
15	TRUE	175	1%
16	INTUCH	175	1%
17	MINT	170	1%
18	IVL	144	1%
19	BH	133	1%
20	HMPRO	129	1%
Top 20 total		6,618	49%

As of 24 Jun 2016

	No of listed companies	Market Cap US\$ bn	Share
Top 20	20	190	49%
Others	498	197	51%
Total	518	387	100%

Avg market cap

Top 20 US\$ 9.5bn

Others US\$ 0.4bn

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Appendix: BM

	Company	Market Cap IDR tn	Share
1	MAYBANK	427	8%
2	TENAGA	385	7%
3	PBBANK	332	6%
4	IHH	312	6%
5	PICHEM	271	5%
6	AXIATA	252	5%
7	SIME	209	4%
8	MAXIS	127	2%
9	PETGAS	99	2%
10	CIMB	90	2%
11	DIGI	65	1%
12	MISC	62	1%
13	GENTING	60	1%
14	IOICORP	58	1%
15	TM	58	1%
16	GENM	58	1%
17	KLK	53	1%
18	HAPSENG	52	1%
19	YTL	52	1%
20	BAT	48	1%
	Top 20 total	3,070	59%

As of 24 Jun 2016

	No of listed companies	Market Cap US\$ bn	Share
Top 20	20	200	50%
Others	722	199	50%
Total	742	399	100%

Avg market cap

Top 20 US\$ 10.0bn

Others US\$ 0.3bn

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Appendix: MSE

	Company	Market Cap MNT bn	Share
1	APU	333	23%
2	MIK HOLDING	267	18%
3	TAVANTOLGOI	76	5%
4	BAGANUUR	76	5%
5	GOBI	65	4%
6	SUU	51	4%
7	UB BUK	42	3%
8	SHARYN GOL	38	3%
9	SHIVEE OVOO	36	2%
10	BDSEC	31	2%
11	MONGOL POST	30	2%
12	GUTAL	27	2%
13	MONGOL SECURITIES	27	2%
14	TAKHI KO	23	2%
15	STATE DEPARTMENT STORE	21	1%
16	TALKH CHIKHER	20	1%
17	DARKHAN NEKHII	18	1%
18	HAI BI OIL	17	1%
19	BERKH UUL	16	1%
20	BAYANGOL ZB	16	1%
	Top 20 total	1,229	83.5%

As of 24 Jun 2016

	No of listed companies	Market Cap US\$ m	Share
Top 20	20	635	84%
Others	190	125	16%
Total	210	760	100%

Avg market cap

Top 20 US\$ 31.7m

Others US\$ 0.7m

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Appendix: Ho Chi Minh Stock Exchange

	Company	Market Cap PHP bn	Share
1	VNM	164	13%
2	VCB	124	10%
3	GAS	115	9%
4	VIC	101	8%
5	CTG	62	5%
6	BID	61	5%
7	MSN	51	4%
8	BVH	40	3%
9	HPG	28	2%
10	MBB	24	2%
11	FPT	19	2%
12	MWG	18	1%
13	EIB	14	1%
14	DPM	11	1%
15	PVD	11	1%
16	NT2	10	1%
17	HT1	10	1%
18	SSI	10	1%
19	CTD	9	1%
20	DHG	8	1%
Top 20 total		889	71%

As of 24 Jun 2016

	No of listed companies	Market Cap US\$ bn	Share
Top 20	20	39	71%
Others	288	17	29%
Total	308	56	100%

Avg market cap

Top 20 US\$ 1.9bn

Others US\$ 0.06bn

Policy Committee

Project for Capacity Building of Capital Market in Mongolia

November 1, 2016
Masayoshi TATEWAKI
JICA Consultant Team

Contents

1. A Concept of Policy Committee (Council)
2. Japan's Financial System Council
3. Current FRC Policy Committee*

*According to acquired information by JICA Consultant Team

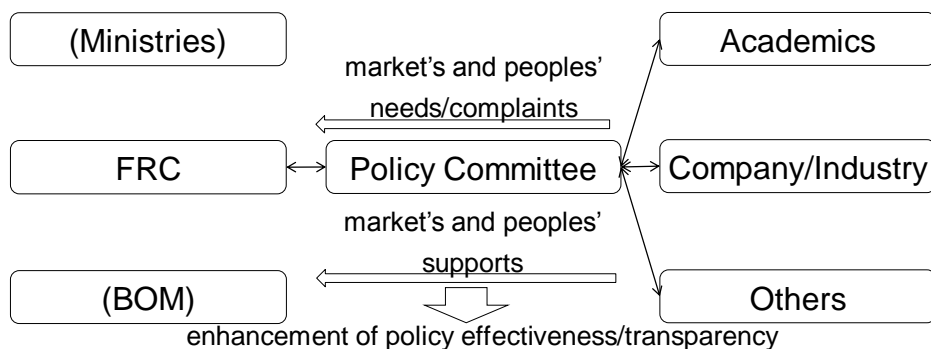
1. A Concept of Policy Committee (Council)

2

1. A Concept of Policy Committee (Council) (1)

Definition and Merits for FRC

- Definition: An advisory, deliberative, or administrative body of people formally constituted and meeting regularly
- For FRC, a tool to draw up needs, complaints and supports on certain issues, thus enhance policy effectiveness, transparency

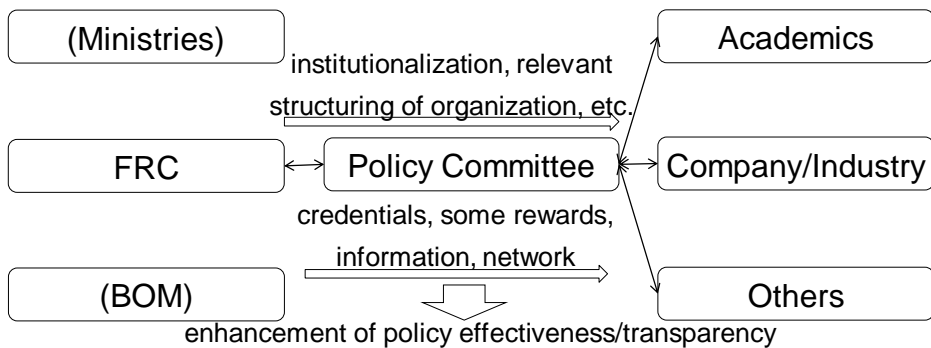


3

1. A Concept of Policy Committee (Council) (2)

Precondition and Merits for Company/Industry, Academics

- Precondition: FRC should ensure of institutionalization, relevant structuring of organization, member, etc.
- Company and Industry, Academics can gain credentials, some rewards, alongside with information and network.



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2. Japan's Financial System Council

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2. Japan's Financial System Council (1)

Institutionalization

- Based on Financial Services Agency (FSA) Establishment Act, 1998, with organization, member, etc. stipulated
- To have deliberation and deliver an opinion on important issues
 - ✓ related to financial system improvement, etc.
 - ✓ based on a request from the Prime Minister, the Commissioner of FSA, the Minister of Finance

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2. Japan's Financial System Council (2)

Organization

- Financial System Council is one of FSA's many advisory bodies.

<p>Panel of Experts on Fin-Tech Start-ups</p> <p>Advisory Council on the Systems of Accounting and Auditing</p> <p>Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code</p> <p>Council of Experts Concerning the Corporate Governance Code</p> <p>Financial System Council</p> <p>Business Accounting Council</p> <p>Study Group on Regulation of Financial Benchmarks</p> <p>Panel for Vitalizing Financial and Capital Markets</p> <p>Council of Experts Concerning the Japanese Version of the Stewardship Code</p> <p>Public-Private Financial Roundtable</p> <p>Study Group on Financial Education Report</p> <p>Compulsory Automobile Liability Insurance Council</p> <p>Financial service dispute resolution liaison group</p> <p>Study Group on taxes related to financial markets and financial transactions</p> <p>Roundtable Committee on the Vision of the Japanese Financial System and Policies in the Future</p>

Source: FSA's website

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2. Japan's Financial System Council (3)

Agenda

- Financial System Council has Working Groups for market /company needs, operating according to the definite scheduling.

•July 19, 2016
Publication of the Report by the "Working Group on Corporate Disclosure" of the Financial System Council

•June 21, 2016
Publication of the Final Report by the "Working Group on Payment and Transaction Banking" of the Financial System Council

•June 21, 2016
Publication of the Report by the "Working Group on Financial Group" of the Financial System Council

•July 13, 2015
"Working Group on Investment Management" of the Financial System Council

•December 25, 2013
"Working Group on the Provision of Risk Money to Emerging and Growing Companies" of the Financial System Council

Source: FSA's website

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2. Japan's Financial System Council (4)

Member

- Totaling less than 30 with ad hoc members when needed
 - ✓ Appointed by the Prime Minister with approval from the Diet
 - ✓ Basically, Not from government ministries or political party
 - ✓ Primarily from Private company, Academics, etc.
 - ✓ Banks, securities company and their affiliates included
 - ✓ Foreign company invited (foreign nationals Not excluded)
 - ✓ Credentials bestowed with some rewards
 - ✓ Significant for information retrieval and network

<Financial System Council Member as of Oct. 2016>

- Totaling 19 members
- 11 from Academics including the chairman
- 5 from Private companies including bank and securities group (Boston Consulting, Nomura Research Institute, Japan Research Institute, Mitsubishi Corp., Recruit Holdings)
- 1 lawyer, 1 from labor union, 1 from consumer organization

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2. Japan's Financial System Council (5)

<Working Group Member: examples>

Name of the Working Group (WG)	Term / # of meetings	# of members / Head of the Group	examples of outside lecturers
WG: Investment Management	Oct 2014 - / 6	17 / Mr. Kanda, prof., Univ. of Tokyo, Graduate school of law and politics	Nomura Institute of Capital Markets Research, SESC, National Consumer Affairs Center, Nippon Technology Venture Partners, The Japan Academic Society for Ventures and Entrepreneurs, Japan Federation of Bar Associations, Japan Venture Capital Assoc., etc.
WG: Sophistication of Payment and Settlement Operations	Oct 2014- / 10	23 / Mr. Iwahara, prof., Waseda Univ. Law School	NTT Data Group, Japan Bankers Assoc., The Japan Research Institute, Fujitsu, Bank of Japan (BoJ), Deloitte Tomatsu Consulting, JCCI, National Consumer Affairs Center, The Center for Financial Industry Information Systems, etc.
WG: Mid- and Long-Term Roadmap of the Financial Industry in Japan	Jun 2011 - May 2012 / 14	21 / Mr. Yoshino, prof., Keio Univ. Economics Dept.	Bank of Tokyo-Mitsubishi UFJ, Tokio Marine Holdings, Daiwa Securities, Japan Center for Int'l Finance, Sumitomo Chemical, Mitsubishi Corp., HSBC, JPMorgan, Goldman Sachs, Citigroup, BoJ, Dogan Advisors, The Kagoshima Bank, Sumitomo Mitsui Asset Management, Japan Assoc. for Financial Planners, MorningStar, Carlyle Japan, A.T.Kearney, Nomura Research Institute, etc.

Source: FSA's website

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2. Japan's Financial System Council (6)

Number of Meetings

- Financial System Council: A few times a year
- Working Groups: Frequently
 - ✓ Investment Management WG: 5 times in 3 months
 - ✓ Provision of Risk Money to Emerging and Growing Companies WG: 11 times in 6 months

Management

- Financial System Council & Working Groups:
 - ✓ FSA secretariats implement research on issues and prepare materials beforehand for members' use.
 - ✓ After the meeting, minutes & materials of every meeting are web-disclosed.
 - ✓ FSA reflects meeting results to policy amendment and new legislation, while continuously following up pending issues.

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2. Japan's Financial System Council (7)

July 19th, 2016
Financial Services Agency

Publication of the Report by the “Working Group on Corporate Disclosure” of the Financial System Council

The “Working Group on Corporate Disclosure” of the Financial System Council (chairman Hideki KANDA, Professor, Law School, Gakushuin University) has discussed and deliberated on corporate disclosure five times since November 2015.

Based on the results of the discussions, the Working Group has compiled and published the “Report - Promoting Constructive Dialogue”.

The “Report” (as attached hereto) is a provisional translation of the original Japanese report.

[Report - Promoting Constructive Dialogue \(PDF:220KB\)](#)
[Summary of the Report - Promoting Constructive Dialogue \(PDF:61KB\)](#)

Contact

Financial Services Agency
Tel +81-(0)3-3506-6000(main)
Corporate Accounting and Disclosure Division, Planning and Coordination Bureau
(ext. 3665, 3802)

Source: FSA's website

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3. Current FRC Policy Committee

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3. Current FRC Policy Committee (1)

Institutionalization

- By the Order of the FRC Chairman, September 2014
- To have deliberation and to issue recommendation on important issues on the relevant policy and regulations
- FRC Law does not clarify roles/functions of Policy Committee
 - ✓ which could strengthen its position and influence in the policy process, and
 - ✓ which could ensure of credentials and some rewards for participating Company/Industry and Academics.

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3. Current FRC Policy Committee (2)

Organization, including Number of Meetings

- In September 2014 FRC decided to establish Policy Committee.
- In March 2015 FRC amended its decision into establishment of 6 Policy Councils.
- Since then, Orders of the FRC Chairman were issued for establishment of each Policy Council.
- 4 Policy Councils have been working until March 2016, followed by a current standstill, reflecting change in the political situation.

(Council name)	(hosted month/year)
✓ Capital Market	(6,9/2015, 3/2016)
✓ Mining Investment and Minerals	(4,6,8,10/2015)
✓ Commodity Exchange	(4,5,9/2015)
✓ Insurance	(no meeting)
✓ Microfinance	(6,7,7/2015)
✓ Risk Management	(no meeting)

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3. Current FRC Policy Committee (3)

Agenda

- Capital Market Council, at first, planned to discuss 6 areas:
 - 1) new financial products
 - 2) raising of institutional investors
 - 3) securities infrastructure
 - 4) legislation
 - 5) taxation
 - 6) investor education

- Actually, meetings were held ad-hoc, depending on the current and urgent issues which FRC thought should be addressed:
 - 1) split of function of CSD (Clearing, Settlement, Deposit)
 - 2) tax policy to promote the capital market
 - 3) privatization of SOEs listed in MSE
 - 4) private pension funds, etc.

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3. Current FRC Policy Committee (4)

Management

- Capital Market Council
 - ✓ Documents for discussion were sent to members by FRC.
 - ✓ After the meeting, summary of the meetings was disclosed on the FRC website in Mongolian but not in English.
 - ✓ Although FRC submitted recommendations of the Committee to the Parliament and Ministries, it is not certain if they were considered seriously by them, possibly because:
 - 1) Policy Committee was not regarded as officially institutionalized advisory body yet, and also,
 - 2) More importantly, thorough discussions with a wide range of viewpoints were not made within a very short time-frame of the past meetings.

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3. Current FRC Policy Committee (5)

Member

- Capital Market Council (totaling 13)
 - ✓ Assigned by FRC Chairman
 - Appointment by Prime Minister/Diet should be considered.
 - ✓ 3 from Government-related organizations (FRC/MOF/BOM)
 - Government-related sector can be reduced.
 - ✓ 7 from Company/Industry and 1 from DBM
 - 1) Financial Market Association and Golomt Bank
 - 2) MASD, Ard Capital Group Securities Company
 - 3) Mongolian Bankers Association, Deposit Insurance
 - 4) BDSec
 - 5) Energy Resource <Lawyer>
 - 6) TDB
 - 7) MNCCI
 - Primarily from Company, Academics, etc.
 - Affiliates of banks/securities company should be increased.
 - (ex: TDB Capital, Golomt Securities, Tulgat Chandmani B)
 - Foreign company and foreign expats should be utilized.
 - ✓ 3 from Academics
 - ✓ 1 from others
 - ✓ Merits: Credentials ? Some rewards? Information ?

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Thank you!

For further questions, comments & suggestions, please contact:

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Project for Capacity Building of Capital Market in Mongolia: 'Accounting & Finance 101'

November 9, 2016

Takayuki Urade
JICA Consulting Team

Contents

1. Financial Statement Analysis

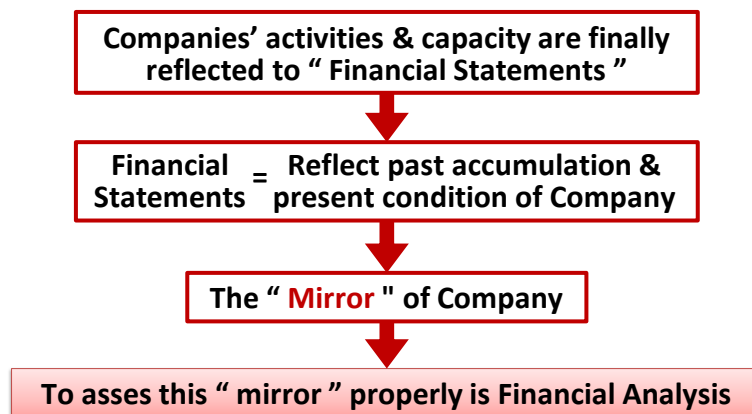
- Structure of Financial Statements
- Key Points of Financial Statement Analysis
- Ratio Analysis (Profitability, Stability, Efficiency, Growth)
- Other Analysis Methods
- Window-Dressing

2. Corporate Finance

- Objectives
- Investment Decision Making
- Equity Financing vs Debt Financing
- Financing Decision
- Corporate Finance vs Project Finance

1. Financial Statement Analysis

Why Analyze Financial Statements ? (1)



(Major Financial Statements)

- ✓ **Balance Sheet (B/S)**
- ✓ **Income (or Profit & Loss) Statement (I/S or P/L)**
- ✓ **Cash Flow Statement**

Why Analyze Financial Statements ? (2)

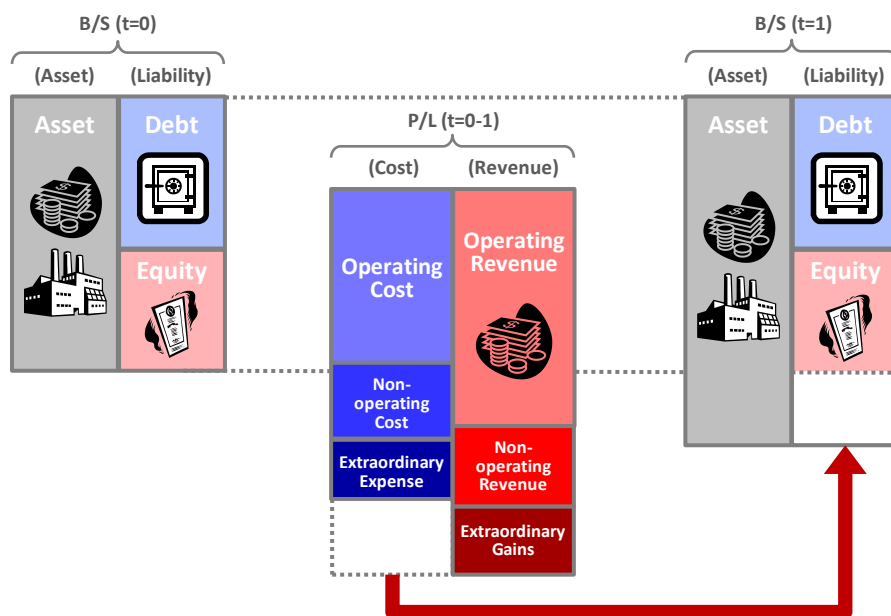
Financial statements are used for financial analysis to understand the company's present strengths & weaknesses through its activities & capacity.

There are several objectives of financial analysis:

User	Purpose
Corporate managers	To formulate management strategies
Financial managers	To make investment/fund raising decisions
Banks	To examine the creditability of customers (credit analysis)
Investors	To investigate possible acquisitions

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Structure of Financial Statements



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Structure of Financial Statements: B/S (1)

Prepared to show **financial situation** as of the end (=closing date) of the accounting period

(Unit Million JPY)

Assets			Liabilities				
	FY2009	FY2010	FY2011		FY2009	FY2010	FY2011
Current Assets	5,279,382	5,580,410	6,345,835	Current Liabilities	3,988,694	3,856,858	4,380,545
Cash	3,632,714	802,410	998,822	Account payable	621,904	1,001,287	1,181,469
Accounts Receivables	429,078	641,154	738,950	Short-term borrowings	660,956	349,427	593,095
Securities	126,968	50,641	158,012	current portion of long term borrowings	770,494	695,655	933,976
Inventory	760,070	802,278	982,233	Commercial paper	639,152	174,393	256,601
Other	429,228	3,375,380	3,549,773	current portion of bonds	220,884	407,130	87,280
Allowance for Doubtful	(98,676)	(91,453)	(81,955)	Others	1,075,304	1,228,966	1,328,124
Fixed Assets	4,960,158	4,634,410	4,390,858	Long term liabilities	3,324,793	3,342,857	3,082,365
Property, Plant and	4,110,047	3,858,129	3,637,042	Bonds	595,309	507,142	640,850
Buildings	668,943	679,829	645,414	Long term borrowings	1,700,015	1,791,983	1,422,478
Machinery	2,149,693	1,980,991	1,841,480	Others	1,029,469	1,043,732	1,019,037
Land	688,704	675,029	659,985	Total Liabilities	7,313,487	7,199,715	7,462,910
others	602,707	522,280	490,163	Net Assets			
Intangible Fixed Assets	167,218	143,911	133,769	Shareholders' Equity	3,556,479	3,598,966	3,981,513
Investment and other assets	682,893	632,370	620,047	Accumulated other	(930,846)	(891,615)	(1,040,098)
				others	300,420	307,754	332,368
Total Assets	10,239,540	10,214,820	10,736,693	Total Net Assets	2,926,053	3,015,105	3,273,783
				Total Liabilities and Net Assets	10,239,540	10,214,820	10,736,693

(source : Nissan Motor Co., Ltd)

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Structure of Financial Statements: B/S (2)

- Good Assets on the left side (**debit**), and Bad Assets & Net Assets on the right side (**credit**) of the balance sheet

Assets	Liabilities
	Equity

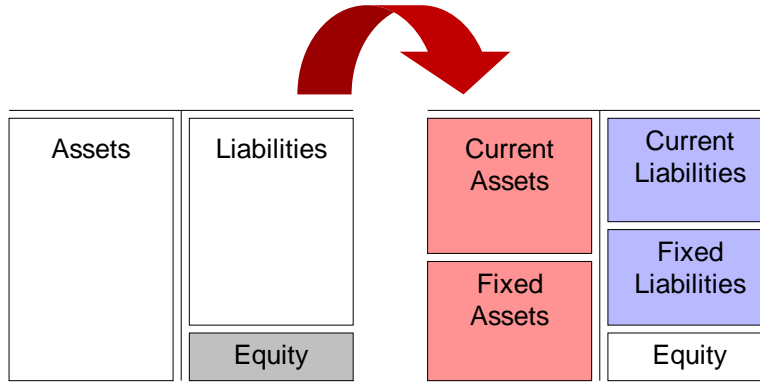
$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

- 「**Assets**」・・・Good assets
(Ex) Cash, goods, equipment
- 「**Liabilities**」・・・Bad assets
(Ex) borrowings
- 「**Capital**」・・・Net assets
(Ex) Share capital, Retained earnings

8

Structure of Financial Statements: B/S (3)

The left side (Debit) : shows how you spent money
 The right side (Credit): shows how you collect money



Assets = Current Assets + Fixed Assets
 Liabilities = Current Liabilities + Fixed Liabilities

9

Structure of Financial Statements: B/S (4)

The point to divide current/fixed is **one year**



Assets		Liabilities	
	FY2011		FY2011
Current Assets	6,345,435	Current Liabilities	4,380,545
Cash	998,822	Account payable	1,181,469
Accounts Receivables	738,950	Short-term borrowings	593,095
Securities	158,012	current portion of long term borrowings	933,976
Inventory	982,233	Commercial paper	256,601
Other	3,549,773	current portion of bonds	87,280
Allowance for Doubtful	(81,955)	Others	1,328,124
		Long term liabilities	3,052,358
Fixed Assets	4,399,899	Bonds	640,890
Property, Plant and	3,637,042	Long term borrowings	1,422,478
Buildings	645,414	Others	1,019,037
Machinery	1,841,480	Total Liabilities	7,442,910
Land	659,985	Net Assets	
others	490,163	Shareholders' Equity	3,981,513
Intangible Fixed Assets	133,769	Accumulated other	(1,040,098)
Investment and other assets	620,047	others	332,368
Total Assets	10,736,693	Total Net Assets	3,273,783
		Total Liabilities and Net Assets	10,736,693

Current assets:
 cash, accounts receivable,
 inventories, etc.
 → Convertible into cash within one year

Fixed assets:
 building, equipment,
 (right to use) land, etc.
 → Useful life more than one year

Current liabilities:
 accounts payable,
 short-term debt, etc.
 → Payment due within one year

Fixed liabilities:
 Long-term debts/
 bonds, etc.
 → Repayment due later than one year

(source : Nissan Motor Co., Ltd)

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Structure of Financial Statements: P/L (1)

P/L are prepared to show
the results of operations (Revenue – Expenses = Profit)
 for the year ended the closing date.

Unit : Million JPY

	FY2009	FY2010	FY2011
Net Revenues (Sales)	8,436,974	7,517,277	8,773,093
- Cost of Sales	7,118,862	6,146,219	7,155,100
Gross Profit	1,318,112	1,371,058	1,617,993
- Selling General and administrative expenses	1,456,033	1,059,449	1,080,526
Operating Income	▲ 137,921	311,609	537,467
+ Non operating income	38,121	29,126	86,603
- Non operating expenses	72,940	132,988	86,256
interest expense	33,798	28,995	28,357
Ordinary Income	▲ 172,740	207,747	537,814
+ Special gains	62,156	20,552	27,989
- Special losses	108,187	86,679	85,662
Income before income taxes and others	▲ 218,771	141,620	480,141
- Income taxes and others	14,938	99,230	160,920
Net Income	▲ 233,709	42,390	319,221

(source: NissanMotor Co., Ltd)

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Structure of Financial Statements: P/L (2)

- Revenue on the right side (**credit**), and Expenses & Profit on the left side (**debit**) of the P/L
- P/L shows how profits are generated.

Expenses	Revenue
Profit	

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

- 「**Revenue**」・・・Resources of Profit
 e.g. sales
- 「**Expenses**」・・・Items required to acquire profit
 e.g. cost of sales, rents, salaries
- 「**Profit**」・・・Revenue – Expenses > 0
- 「**Loss**」・・・Revenue – Expenses < 0

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Structure of Financial Statements: P/L (3)

Five Stages of Profits

1. **Gross Profit;**
→ Sales minus the cost of Sales
2. **Operating Profit;**
→ Income by main profession
3. **Ordinary Profit;**
→ Consider non-operating accounts
after Operating Profit
4. **Profit before Taxes;**
→ Consider extraordinary accounts after
Ordinary Profit
5. **Net Profit;**
→ Income less all expenses

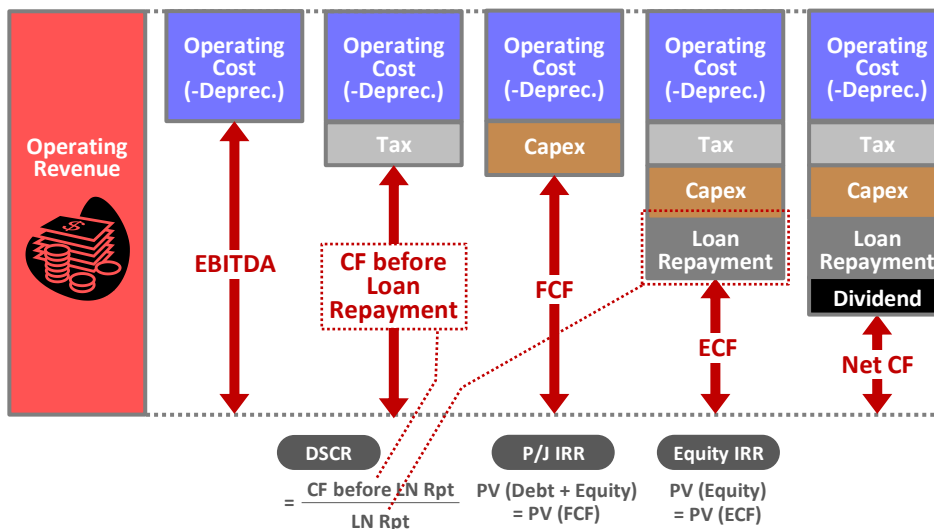
Unit : Million JPY

	FY2011
Net Revenues (Sales)	8,773,093
- Cost of Sales	7,155,100
Gross Profit	1,617,993
- Selling General and administrative expenses	1,080,526
Operating Profit	537,467
+ Non operating income	86,603
- Non operating expenses	86,256
interest expense	28,357
Ordinary Profit	537,814
+ Special gains	27,989
- Special losses	85,662
Profit before income taxes and others	480,141
- Income taxes and others	160,920
Net Profit	319,221

(source: NissanMotor Co., Ltd)

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Structure of Financial Statements: Cash Flows



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Key Points of Financial Statement Analysis (1)

After seeing the Forest, checking the Woods

1. To check the sales figure
2. To check the profit level
3. To check the equity
4. To check the repayment capacity

	FY2011		FY2011		FY2011
Net Revenues (Sales)	8,773,093	Assets		Liabilities	
- Cost of Sales	7,155,100	Current Assets	6,345,835	Current Liabilities	4,380,545
Gross Profit	1,617,993	Cash	998,822	Account payable	1,181,469
- Selling General and administrative expenses	1,080,529	Accounts Receivables	738,956	Short-term borrowings	993,095
Operating Profit	537,467	Securities	158,812	Current portion of long term borrowings	933,976
+ Non operating income	86,603	Inventory	982,233	Commercial paper	254,601
- Non operating expenses	86,258	Other	3,549,773	current portion of bonds	87,286
Interest expense	28,357	Allowance for Doubtful Accounts	(81,955)	Others	1,328,124
Ordinary Profit	537,814	Fixed Assets	4,390,858	Long term liabilities	1,022,365
+ Special gains	27,989	Property, Plant and equipment	3,637,042	Bonds	640,850
- Special losses	85,662	Buildings	845,414	Long term borrowings	1,422,478
Profit before income taxes and others	480,144	Machinery	1,841,766	Others	1,019,037
- Income taxes and others	160,920	Land	659,885	Total Liabilities	7,462,910
Net Profit	319,224	Intangible Fixed Assets (Investment and other)	620,917	Net Assets	
				Shareholders' Equity	3,981,513
				Accumulated other	(1,041,002)
				Others	(858,562)
		Total Assets	10,736,693	Total Net Assets	3,272,763

(Unit: Million JPY)
(source : Nissan Motor Co., Ltd)

Image the company

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Key Points of Financial Statement Analysis (2)

Balance Sheet

- Account fluctuations
- Relation between Sales and Account Receivables
- Obsolete Inventory
- Transactions with other banks (loan size, conditions)
- Irrecoverable Investments and loans
- Balance between long-/short-term Liabilities and Assets

Income Statement

- Breakdown of Production Costs
- Breakdown of Expenses
- Depreciation ⇒ Life Span for Fixed Assets by Type and Depreciation Method
- Ratio of Interest Expense to Sales ⇒ Conditions of Loans
- Ratio of Dividends to Profit

Common Check Point

(Financial Balance)
Check the account of big outstanding in each account, Assets (cash, etc.)/Liabilities (loan, etc.)/Equities.

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Ratio Analysis

Major Index for Ratio Analysis

Profitability	Efficiency	Stability	Growth
<ul style="list-style-type: none"> Gross Profit Margin Operating Profit Margin Return on Assets Return on Equity 	<ul style="list-style-type: none"> Account Receivables Turnover Period Inventory Turnover Period Total Assets Turnover Working Capital Required 	<ul style="list-style-type: none"> Current Ratio Quick Ratio Debt to Total Asset Ratio Debt/Equity Ratio Interest Coverage Ratio 	<ul style="list-style-type: none"> Growth Ratio

(Purpose of Ratio Analysis)

To understand actual condition of business & business efficiency by analysis linking B/S & P/L

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Ratio Analysis: Profitability (1)

Gross Profit Margin

Gross profit

Sales (%)

		Unit : Million JPY
		FY2011
Net Revenues (Sales)		8,773,093
-	Cost of Sales	7,155,100
Gross Profit		1,617,993
-	Selling General and administrative expenses	1,080,526
Operating Profit		537,467
+	Non operating income	86,603
-	Non operating expenses	86,256
	interest expense	28,357
Ordinary Profit		537,814
+	Special gains	27,989
-	Special losses	85,662
Profit before income taxes and others		480,141
-	Income taxes and others	160,920
Net Profit		319,221

Nissan Case
Gross Profit :1,617,993

Sales:8,773,093

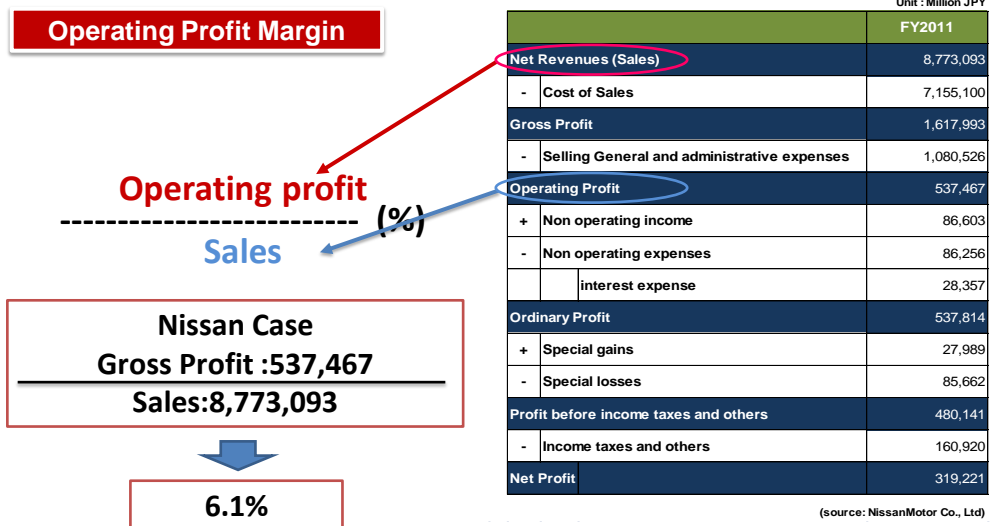
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18.4%

(source: NissanMotor Co., Ltd)

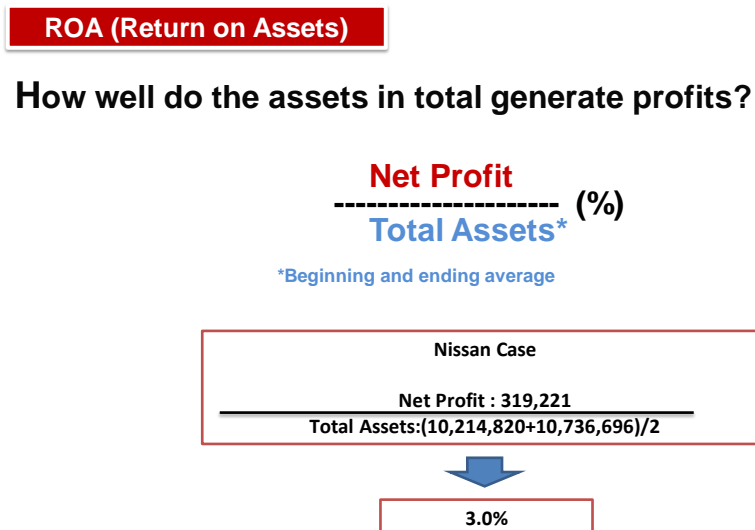
18

Ratio Analysis: Profitability (2)



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Ratio Analysis: Profitability (3)



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Ratio Analysis: Profitability (4)

ROE (Return on Equity)

How well does the stockholder's equity generate money?

$$\frac{\text{Net Profit}}{\text{Shareholder's Equity}^*} (\%)$$

*Beginning and ending average

Nissan Case	
Net Profit : 319,221	
Shareholder's Equity: (3,598,966 + 3,981,513) / 2	

↓

8.4%

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Ratio Analysis: Stability - Liquidity Ratio (1)

Current Ratio

How Liquid are the current liabilities?

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} (\%)$$

Nissan Case	
Current Assets : 6,345,835	
Current Liabilities: 4,380,545	

↓

144.9%

(Unit Million JPY)

Assets		Liabilities	
	FY2011		FY2011
Current Assets	6,345,835	Current Liabilities	4,380,545
Cash	998,822	Account payable	1,181,469
Accounts Receivable	738,950	Short-term borrowings	593,095
Securities	158,012	current portion of long term borrowings	933,976
Inventory	982,233	Commercial paper	256,601
Other	3,549,773	current portion of bonds	87,280
Allowance for Doubtful	(81,955)	Others	1,328,124
		Long term liabilities	3,082,365
Fixed Assets	4,390,658	Bonds	640,850
Property, Plant and	3,637,042	Long term borrowings	1,422,478
Buildings	645,414	Others	1,019,037
Machinery	1,841,480	Total Liabilities	7,462,910
Land	659,985	Net Assets	
others	490,163	Shareholders' Equity	3,981,513
Intangible Fixed Assets	133,769	Accumulated other	(1,040,098)
Investment and other assets	620,047	others	332,368
Total Assets	10,736,693	Total Net Assets	3,273,783
		Total Liabilities and Net Assets	10,736,693

(source : Nissan Motor Co. Ltd)

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Ratio Analysis: Stability - Liquidity Ratio (2)

Quick Ratio

Can the current liabilities be covered by assets immediately convertible into cash?

(Unit Million JPY)

$$\frac{\text{Cash} + \text{Marketable Securities} + \text{Account Receivable}}{\text{Current Liabilities}} (\%)$$

Nissan Case

$$\frac{998,822 + 738,950 + 158,012}{\text{Current Liabilities: } 4,380,545}$$

43.3%

Assets		FY2011	Liabilities		FY2011
Current Assets		6,345,835	Current Liabilities		4,380,545
Cash	998,822		Account payable	1,181,469	
Accounts Receivables	738,950		Short-term borrowings	593,095	
Securities	158,012		current portion of long term borrowings	933,976	
Inventory	982,233		Commercial paper	256,601	
Other	3,549,773		current portion of bonds	87,280	
Allowance for Doubtful	(81,955)		Others	1,328,124	
Fixed Assets		4,390,858	Long term liabilities		3,082,365
Property, Plant and	3,637,042		Bonds	640,850	
Buildings	645,414		Long term borrowings	1,422,478	
Machinery	1,841,480		Others	1,019,037	
Land	659,985		Total Liabilities		7,462,910
others	490,163		Net Assets		
Intangible Fixed Assets	133,769		Shareholders' Equity	3,981,513	
Investment and other assets	620,047		Accumulated other	(1,040,098)	
			others	332,368	
Total Assets	10,736,693		Total Net Assets	3,273,783	
			Total Liabilities and Net Assets	10,736,693	

(source : Nissan Motor Co., Ltd)

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Ratio Analysis: Stability - Debt Utilization Ratio (1)

Debt to Total Asset Ratio

How is the whole company financed?

(Unit Million JPY)

$$\frac{\text{Total Liabilities}}{\text{Total Assets}} (\%)$$

Nissan Case

$$\frac{\text{Total Liabilities: } 7,462,910}{\text{Total Assets: } 10,736,693}$$

69.5%

Assets		FY2011	Liabilities		FY2011
Current Assets		6,345,835	Current Liabilities		4,380,545
Cash	998,822		Account payable	1,181,469	
Accounts Receivables	738,950		Short-term borrowings	593,095	
Securities	158,012		current portion of long term borrowings	933,976	
Inventory	982,233		Commercial paper	256,601	
Other	3,549,773		current portion of bonds	87,280	
Allowance for Doubtful	(81,955)		Others	1,328,124	
Fixed Assets		4,390,858	Long term liabilities		3,082,365
Property, Plant and	3,637,042		Bonds	640,850	
Buildings	645,414		Long term borrowings	1,422,478	
Machinery	1,841,480		Others	1,019,037	
Land	659,985		Total Liabilities		7,462,910
others	490,163		Net Assets		
Intangible Fixed Assets	133,769		Shareholders' Equity	3,981,513	
Investment and other assets	620,047		Accumulated other	(1,040,098)	
			others	332,368	
Total Assets	10,736,693		Total Net Assets	3,273,783	
			Total Liabilities and Net Assets	10,736,693	

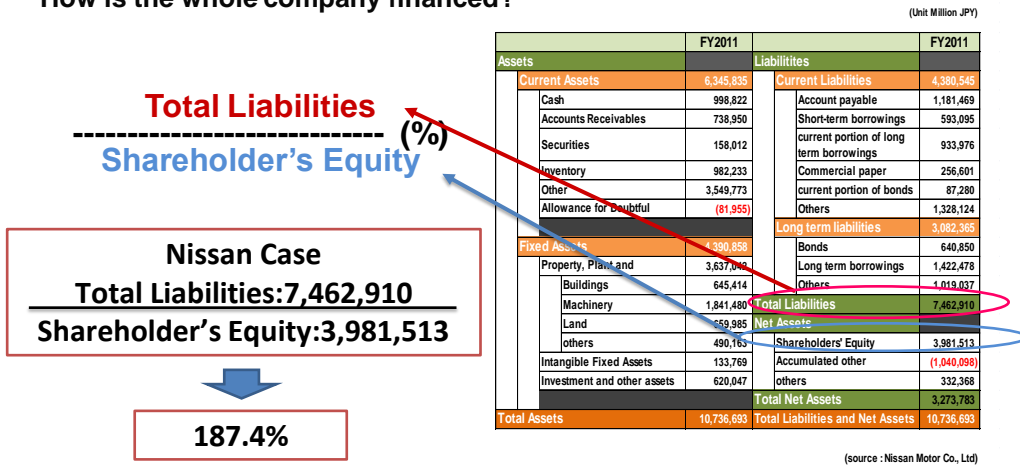
(source : Nissan Motor Co., Ltd)

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Ratio Analysis: Stability - Debt Utilization Ratio (2)

Debt/Equity Ratio

How is the whole company financed?

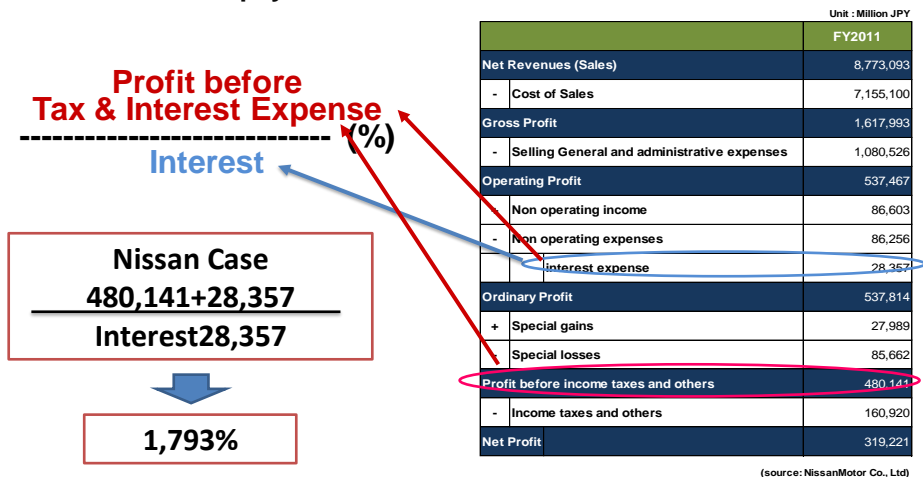


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Ratio Analysis: Stability - Debt Utilization Ratio (3)

Interest Coverage Ratio

How are the interest payments assured?



26

Account Receivables Turnover Period

Are Account Receivables properly collected ?

$$\frac{\text{Account Receivables}^*}{\text{Average Sales per month}} \quad (\text{month})$$

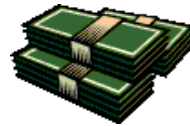
*Beginning and ending average

Nissan Case

$$\frac{\text{Account Receivables: } (641,154+738,950)/2}{\text{Average Sales per month : } 8,773,093/12}$$



0.9 month



27

Inventory Turnover Period

How large are the inventories in terms of monthly sales ?

$$\frac{\text{Inventory}^*}{\text{Average Sales per month}} \quad (\text{month})$$

*Beginning and ending average

Nissan Case

$$\frac{\text{Inventory: } (802,278+998,822)/2}{\text{Average Sales per month : } 8,773,093/12}$$



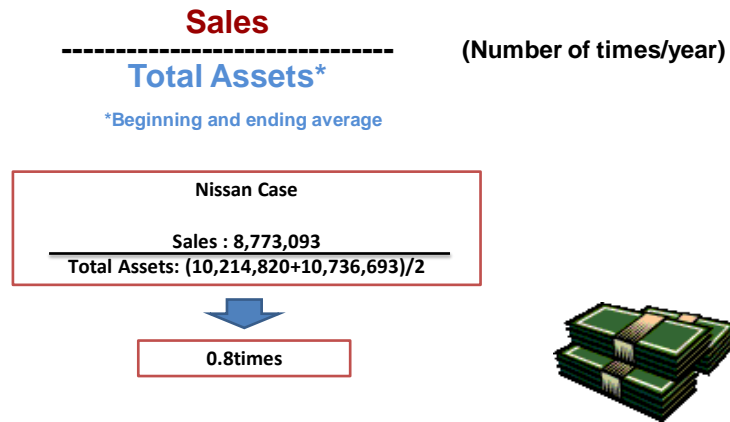
1.2 month



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Total Assets Turnover

How do the total assets generate sales? (asset utilization efficiency)



Working Capital Required

Cash is the lifeblood of a business. It keeps operation going. Required cash balances should be set aside for operating needs. Working capital required is calculated as follows.

Calculation Formula of Working Capital	
1. Account Receivables Turnover Period(months)	A
2. Trade-Payables Turnover Period(months)	B
3. Inventory Turnover Period (months)	C
4. Working Capital Required (months) =	A - B + C

Ratio Analysis: Growth

Growth Ratio

How well is the company growth?

	FY2009	FY2010	FY2011
Net Revenues (Sales)	8,436,974	7,517,277	8,773,093
- Cost of Sales	7,118,862	6,146,219	7,155,100
Gross Profit	1,318,112	1,371,058	1,617,993
- Selling General and administrative expenses	1,456,033	1,059,449	1,080,526
Operating Income	▲ 137,921	311,609	537,467
+ Non operating income	38,121	29,126	86,603
- Non operating expenses	72,940	132,988	86,256
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Ordinary Income	▲ 172,740	207,747	537,814
+ Special gains	62,156	20,552	27,989
- Special losses	108,187	86,679	85,682
Income before income taxes and others	▲ 218,771	141,620	480,141
- Income taxes and others	14,938	99,230	160,920
Net Income	▲ 233,709	42,390	319,221

Unit : Million JPY
(source: NissanMotor Co., Ltd)

Current Figure ←
Previous Figure ← - 1 (%)

Nissan Case (sales)

$$\frac{8,773,093}{7,517,277} - 1(\%)$$

↓

16.7%

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Other Analysis Methods (1): Trend Analysis

Method

Compare the past 5 years order (If possible, 10 years)

Purpose

Assess the actual condition of the company by understanding tendency of performance through checking business activity in a continuous year

Point

Determine causes of those tendency

Example of Analysis

- ✓ Protracted account receivables turnover period
 - it is impossible to collect account receivables due to financial trouble of customers (Bad debt)
- ✓ Protracted inventory turnover period
 - Record dummy products, obsolete products as inventory, and report window-dressing profit

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Other Analysis Methods (2): Cross Sectional Analysis

Methods

Comparison with the target company and sector peer/benchmarking companies in the field of profit level, financial ratio, turnover period.

Purpose / Background

Competition in the field of same sector is severe. Therefore, it is important to assess whether the target company can survive in this sector or not through comparison.

Example of Analysis

- ✓ **Low profitability : High procurement cost, Low productivity**
- ✓ **Inventory turnover period is longer : Low productivity, dead-stock, bad production plan**
- ✓ **Low total assets turnover : Low assets efficiency, the company doesn't make good use of assets**

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Window-Dressing

Some examples...

1. Large fluctuation in sales

- Sales should be recognized in next fiscal year unless it is booked this fiscal year's sales.
- Book the dummy sales etc.

2. Large fluctuation in profitability

- Expense should be recognized in this fiscal year unless it is booked next fiscal year's expense.
- Price adjustment to subsidiaries
- Change of evaluation method of assets.

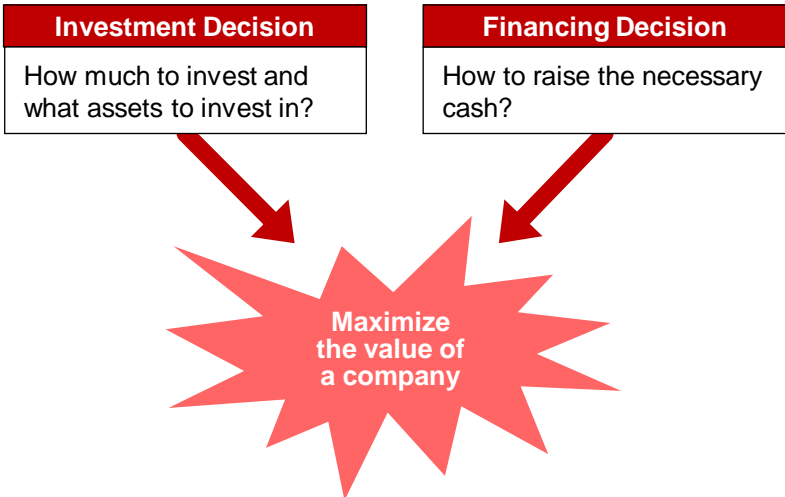
3. Interest

- High interest rate
the possibility of loan from loan shark and off-balance sheet debt
- Low interest rate
the possibility of delinquency or transfer of account (expense - assets).

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2. Corporate Finance

Corporate Finance: Objectives



Investment Decision Making (1)

	<u>Project A</u>	<u>Project B</u>
Year 0	-100	-100
Year 1	50	10
Year 2	40	30
Year 3	30	40
Year 4	10	60

- Suppose you are a CFO of company X.
- Now company X needs to choose one of two projects, Project A and Project B.
- Which project do you choose and why?

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Investment Decision Making (2)

	<u>Project A</u>	<u>Cumulative CF</u>	<u>Project B</u>	<u>Cumulative CF</u>
Year 0	-100	-100	-100	-100
Year 1	50	-50	10	-90
Year 2	40	-10	30	-60
Year 3	30	<u>20</u>	40	-20
Year 4	10		60	<u>40</u>

Payback

- The payback period of a project is found by counting the number of years it takes before cumulative forecasted cash flows equal the initial investment.
- The payback period of Project A is 3 years, while that of Project B is 4 years.
→ Then, you will choose Project A when you apply payback period.
- This approach might underestimate future cash flows after the payback period.

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Investment Decision Making (3)

	<u>Project A</u>	Total future CF	<u>Project B</u>	Total future CF
Year 0	-100		-100	
Year 1	50		10	
Year 2	40		30	
Year 3	30		40	
Year 4	10	Year 1-4: 130	60	Year 1-4: 140

Simple Addition of CF

- Total future cash flows of Project A is 130, while that of Project B is 140.
→ Then, you will choose Project B.
- This approach does not consider the concept of time value of money.

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c.f. Present Value

“A dollar today is worth more than a dollar tomorrow.”

- Suppose you have \$100 now (Year 0) and deposit this \$100 in a bank with 10%/year interest rate.
 - In Year 1, your \$100 now will be \$110. ($100 \times 1.1 = 110$)
 - In Year 2, your \$100 now will be \$121. ($100 \times 1.1^2 = 121$)
- The present value of \$100 one year from now is \$90.9. ($100 / 1.1 = 90.9$)
The present value of \$100 two years from now is \$82.6. ($100 / (1.1)^2 = 82.6$)
- Present value is sum of discounted future cash flows.

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Investment Decision Making (4)

	<u>Project A</u>	<u>PV of future CF</u>	<u>Project B</u>	<u>PV of future CF</u>
Year 0	-100	-100	-100	-100
Year 1	50	45.45	10	9.09
Year 2	40	33.06	30	24.79
Year 3	30	22.54	40	30.05
Year 4	10	6.83	60	40.98
NPV		7.88		4.92

Net Present Value (NPV)

- Present value is calculated by multiplying discount factor, $1/(1+r)^n$. In this case, $1/(1+0.1)$ in Year 1, $1/(1+0.1)^2$ in Year 2,...
- NPV is sum of current cash flows and discounted future cash flows.
- NPV of Project A is 7.88, while NPV of Project B is 4.92.
→ Then, you will choose Project A.

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Investment Decision Making (5)

	<u>Project A</u>	<u>IRR</u>	<u>Project B</u>	<u>IRR</u>
Year 0	-100		-100	
Year 1	50		10	
Year 2	40		30	
Year 3	30		40	
Year 4	10	14.5%	60	11.8%

Internal Rate of Return (IRR)

- The internal rate of return is defined as the rate of discount which makes NPV=0.
- IRR of Project A is 14.5%, while IRR of Project B is 11.8%.
→ Then, you will choose Project A.

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Investment Decision Making (6)

	<u>Project A</u>	<u>Project B</u>
Year 0	-100	-100
Year 1	50	10
Year 2	40	30
Year 3	30	40
Year 4	10	60
<u>Year 5</u>	<u>5</u>	<u>70</u>
NPV	<u>10.98</u>	<u>48.38</u>
IRR	<u>16.0%</u>	<u>23.2%</u>

- Your choice of project will change when future cash flows in Year 5 is added.
- Hence, projection of future cash flows is very important!

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Investment Decision Making (7)




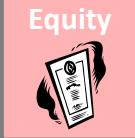
	<u>Project A</u>	<u>Project B</u>
Year 0	-100	-100
Year 1	50	10
Year 2	40	30
Year 3	30	40
Year 4	10	60
Year 5	5	70
<u>NPV</u>	<u>-6.4</u>	<u>9.4</u>
IRR	<u>16.0%</u>	<u>23.2%</u>

- Your decision making will change when a discount factor is $1/(1+0.2)^n$, instead of $1/(1+0.1)^n$.
- Hence, picking an appropriate "r", a rate of return, is also very important.

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Equity Financing vs Debt Financing (1)

Basic understanding on the differences...

		From?	Repay principal?	Term?	Collateral, guarantor	Costs?	Priority in waterfall?
 <p>Asset</p>	 <p>Debt</p>	Banks, (Bond) Investors	Yes	Long Short	Necessary	Interest, Fees	
	 <p>Equity</p>	(Equity) Investors	No	Long	Not Necessarily	Dividend, Fees	

Source: JICA experts

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c.f. IRR & Cost of Capital

- Cost of Capital refers to the cost of a company's funds (both debt and equity).
- If IRR is smaller than Cost of Capital in a project, you will reject the project. If IRR is larger than Cost of Capital, you will go for it.
- Weighted Average Cost of Capital (WACC) is the weighted average of cost of debt and cost of equity.

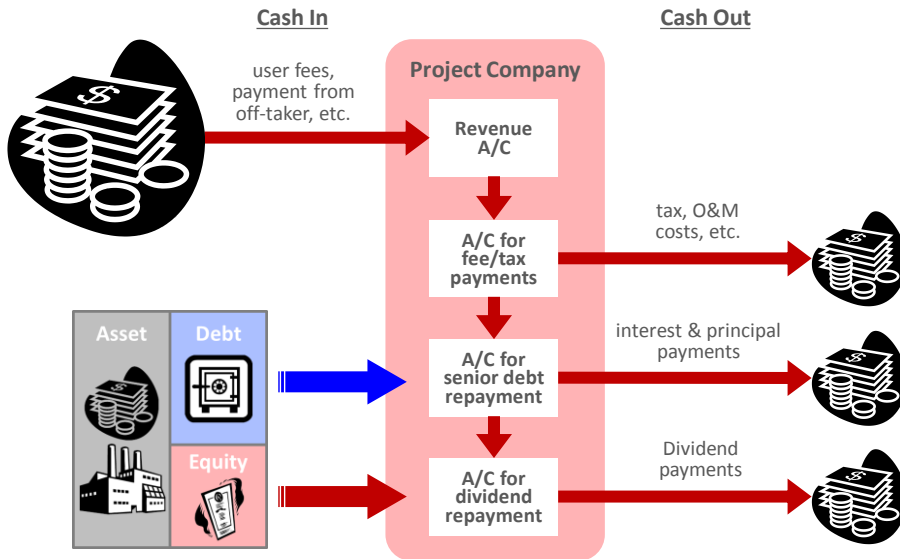
e.g.) Debt: 20, Equity 30, Cost of debt: 8%, Cost of equity: 15%
 $WACC = 8\% \times 20/50 + 15\% \times 30/50 = 12.2\%$

- In general, cost of debt is cheaper than cost of equity, because debt holders tend to be secured by collateral and have higher priority of being paid in case of bankruptcy, i.e., less risky compared to equity holders.
- Cost of debt of company X is higher, when the amount of debt increases and the default risk rises.

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Equity Financing vs Debt Financing (2)

Flow of cash under waterfall distribution



Source: JICA experts

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c.f. Scenario Analysis

- In today's rapidly changing world, precise projection is very difficult.
- You could attempt to forecast several possible scenarios depending on the state of the economy, etc., and assign probabilities to each scenario.
- For example, NPV of Project A will be one of the following.

	<u>Base</u>	<u>Best</u>	<u>Worst</u>
NPV	50	200	-100
Probability(%)	50	25	25

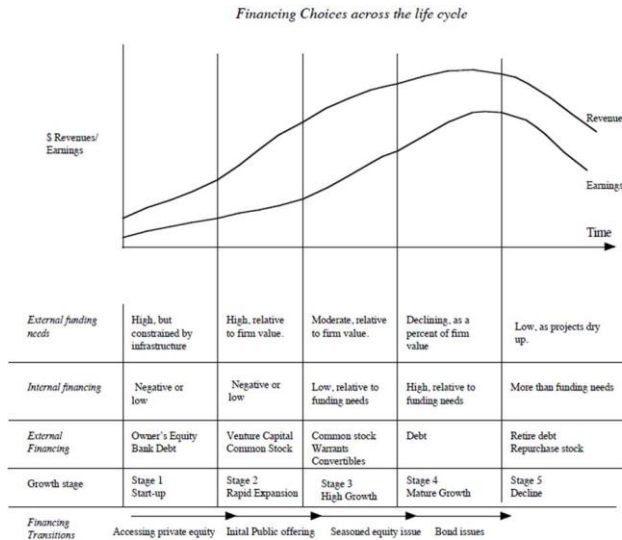
Then, the expected average NPV is 50. ($= 50 \times 0.5 + 200 \times 0.25 + -100 \times 0.25$)

What if probability of each scenario would be Base: 50%, Best: 5%, Worst: 45%?

Then, the expected average NPV is -10. ($= 50 \times 0.5 + 200 \times 0.05 + -100 \times 0.45$)

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Financing Decision (1)



Source: Aswath Damodaran's "Corporate Finance Lecture Note" (http://w4.stern.nyu.edu/~adamodar/New_Home_Page/cflect.htm)

When company X needs funds for a new project, two common options for financing are **equity** and **debt**.

Equity: Owner's equity, venture capital, common stock

Debt: Bank loan, corporate bond, CP

Financing needs of a company will change depending on its growth stage.

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Financing Decision (2)

	Advantages	Disadvantages
Equity financing	<ul style="list-style-type: none"> No need to pay back money invested. Involvement of high-profile investors may help the credibility of a business Possible to have valuable assistance from investors. 	<ul style="list-style-type: none"> Dilution of ownership interests and possible loss of control.
Debt financing	<ul style="list-style-type: none"> Interest paid on debt financing is tax deductible. Lenders do not gain ownership interest. Adds discipline to management 	<ul style="list-style-type: none"> Too much debt increases the perceived risk and reduces ability to raise additional funds. For new businesses, in which cash flows are not stable, it is difficult to get bank loans.

The best mix of debt and equity financing depends on various factors such as:

- current debt-to-equity ratio
- the long-term goal of business
- the amount of control managers would like to maintain
- condition of financial market.

Types of debt financing (duration, currency, fixed/floating rate) should be considered based on nature of businesses.

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c.f. Debt-to-Equity Ratio

Debt-to-equity ratio varies depending on the industry.

e.g.) Listed companies in Japan

	<u>1999</u>	<u>2009</u>
<u>All industries:</u>	254.4	168.3
Manufacturing:	183.4	143.7
[]:	56.3	43.8
Cement:	422.1	389.6
Iron & Steel:	407.3	161.3
Automobiles:	243.0	199.1
Non-Manufacturing:	394.2	209.5
Wholesale Trade:	1,295.2	323.3
Retail:	181.0	160.8
Railroads:	812.9	378.6
[]:	1,767.5	291.2

Source: DBJ "Handbook of Industrial Financial Data 2010"

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c.f. Bank Loans & Bonds

	Bank Loans	Bonds
Borrower	Size does not matter	Should be larger in size
Creditors	Banks	Bond holders (institutional investors, banks, general public, etc.)
Repayment	Regular installments in general	Bullet payment in general (Early redemption option could be included, but after a certain number of years)
Collateral	Required in general	Not required in general
Covenants	More strict (Violation of covenant could lead to request for immediate repayment by banks)	Less strict
Procedure	Quicker	Time consuming

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c.f. Credit Ratings & Default Risk

Sample numbers

2000 コホート

	1年後	2年後	3年後	4年後	5年後	6年後	7年後	8年後	9年後	10年後	サンプル数
AAA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	18
AA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	92
A	0.00	0.38	0.76	0.76	0.76	0.76	0.76	0.76	0.76	1.15	263
BBB	0.00	0.36	0.73	0.73	1.46	1.46	1.46	1.46	1.83	2.21	279
BB	0.00	0.00	1.39	5.62	7.05	8.48	9.91	9.91	11.36	11.36	74
B以下	18.18	36.36	54.55	54.55	54.55	65.91	65.91	65.91	65.91	65.91	11
BBB以上	0.00	0.31	0.62	0.62	0.93	0.93	0.93	0.93	1.09	1.41	652
BB以下	2.35	4.71	8.32	12.04	13.30	15.81	17.07	17.07	18.34	18.34	85
全体	0.27	0.82	1.51	1.92	2.34	2.62	2.76	2.76	3.05	3.33	737

Source: Rating and Investment Information, Inc. "The Relationship between Credit Ratings and Default" (June 30, 2011)

For a company with lower credit rating, default risk will be higher, and hence, cost of borrowing will be more expensive.

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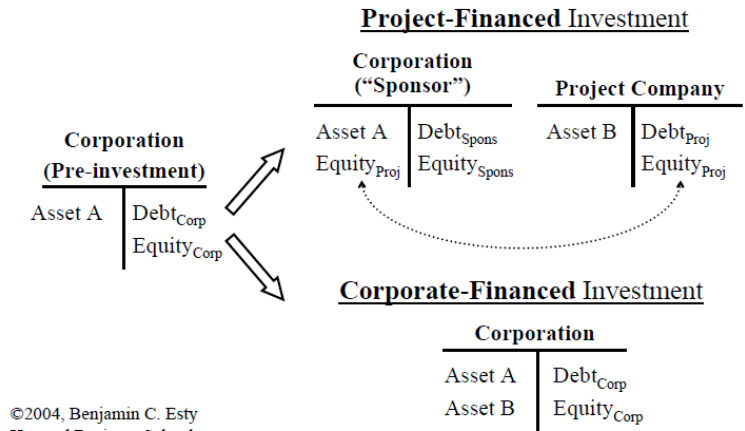
Corporate Finance vs Project Finance (1)

	Corporate Finance	Project Finance
Financing vehicle	Multi-purpose organization	Single-purpose entity
Type of capital	Permanent --- an indefinite time horizon for equity	Finite --- time horizon matches life of project
Dividend policy and reinvestment decisions	Corporate management makes decisions autonomous from investors and creditors	Fixed dividend policy --- immediate payout; no reinvestment allowed
Capital investment decisions	Opaque to creditors	Highly transparent to creditors
Financial structures	Easily duplicated; common forms	Highly-tailored structures which cannot generally be re-used
Transaction costs for financing	Low costs due to competition from providers, routinized mechanisms and short turnaround time	Relatively higher costs due to documentation and longer gestation period
Size of financings	Flexible	Might require critical mass to cover high transaction costs
Basis for credit evaluation	Overall financial health of corporate entity; focus on balance sheet and cashflow	Technical and economic feasibility; focus on project's assets, cash flow and contractual arrangements
Cost of capital	Relatively lower	Relatively higher
Investor / lender base	Typically broader participation; deep secondary markets	Typically smaller group; limited secondary markets

Source: The Wharton School "Project Finance Teaching Note" (<http://finance.wharton.upenn.edu/~bodnarg/ml/projfinance.pdf>)

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The Definition of Project Finance:
 Comparison of Project- vs. Corporate-Financed Investment



For Further Questions/Inquiries...

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Project for Capacity Building of Capital Market in Mongolia: 'Accounting & Finance 101'

November 9, 2016

Takayuki Urade
JICA Consulting Team

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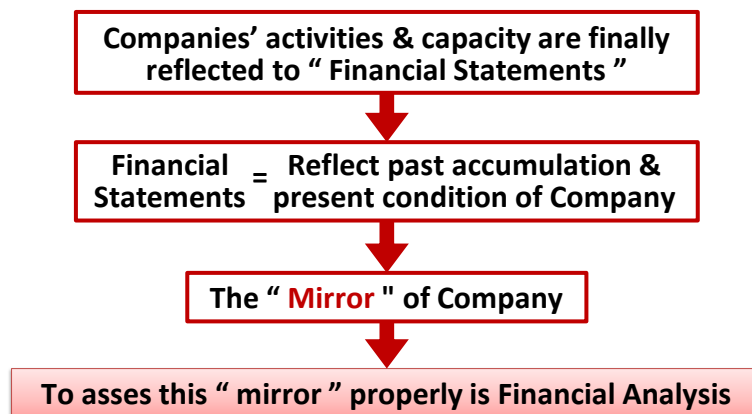
- Structure of Financial Statements
- Key Points of Financial Statement Analysis
- Ratio Analysis (Profitability, Stability, Efficiency, Growth)
- Other Analysis Methods
- Window-Dressing

2. Corporate Finance

- Objectives
- Investment Decision Making
- Equity Financing vs Debt Financing
- Financing Decision
- Corporate Finance vs Project Finance

1. Financial Statement Analysis

Why Analyze Financial Statements ? (1)



(Major Financial Statements)

- ✓ **Balance Sheet (B/S)**
- ✓ **Income (or Profit & Loss) Statement (I/S or P/L)**
- ✓ **Cash Flow Statement**

Why Analyze Financial Statements ? (2)

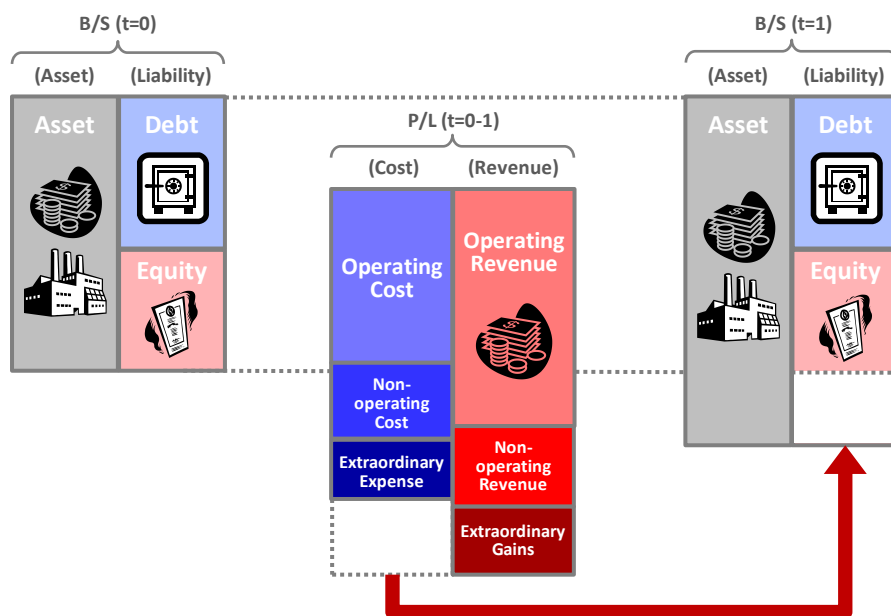
Financial statements are used for financial analysis to understand the company's present strengths & weaknesses through its activities & capacity.

There are several objectives of financial analysis:

User	Purpose
Corporate managers	To formulate management strategies
Financial managers	To make investment/fund raising decisions
Banks	To examine the creditability of customers (credit analysis)
Investors	To investigate possible acquisitions

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Structure of Financial Statements



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Structure of Financial Statements: B/S (1)

Prepared to show **financial situation** as of the end (=closing date) of the accounting period

(Unit Million JPY)

Assets			Liabilities				
	FY2009	FY2010	FY2011		FY2009	FY2010	FY2011
Current Assets	5,279,382	5,580,410	6,345,835	Current Liabilities	3,988,694	3,856,858	4,380,545
Cash	3,632,714	802,410	998,822	Account payable	621,904	1,001,287	1,181,469
Accounts Receivables	429,078	641,154	738,950	Short-term borrowings	660,956	349,427	593,095
Securities	126,968	50,641	158,012	current portion of long term borrowings	770,494	695,655	933,976
Inventory	760,070	802,278	982,233	Commercial paper	639,152	174,393	256,601
Other	429,228	3,375,380	3,549,773	current portion of bonds	220,884	407,130	87,280
Allowance for Doubtful	(98,676)	(91,453)	(81,955)	Others	1,075,304	1,228,966	1,328,124
Fixed Assets	4,960,158	4,634,410	4,390,858	Long term liabilities	3,324,793	3,342,857	3,082,365
Property, Plant and	4,110,047	3,858,129	3,637,042	Bonds	595,309	507,142	640,850
Buildings	668,943	679,829	645,414	Long term borrowings	1,700,015	1,791,983	1,422,478
Machinery	2,149,693	1,980,991	1,841,480	Others	1,029,469	1,043,732	1,019,037
Land	688,704	675,029	659,985	Total Liabilities	7,313,487	7,199,715	7,462,910
others	602,707	522,280	490,163	Net Assets			
Intangible Fixed Assets	167,218	143,911	133,769	Shareholders' Equity	3,556,479	3,598,966	3,981,513
Investment and other assets	682,893	632,370	620,047	Accumulated other	(930,846)	(891,615)	(1,040,098)
				others	300,420	307,754	332,368
Total Assets	10,239,540	10,214,820	10,736,693	Total Net Assets	2,926,053	3,015,105	3,273,783
				Total Liabilities and Net Assets	10,239,540	10,214,820	10,736,693

(source : Nissan Motor Co., Ltd)

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Structure of Financial Statements: B/S (2)

- Good Assets on the left side (**debit**), and Bad Assets & Net Assets on the right side (**credit**) of the balance sheet

Assets	Liabilities
	Equity

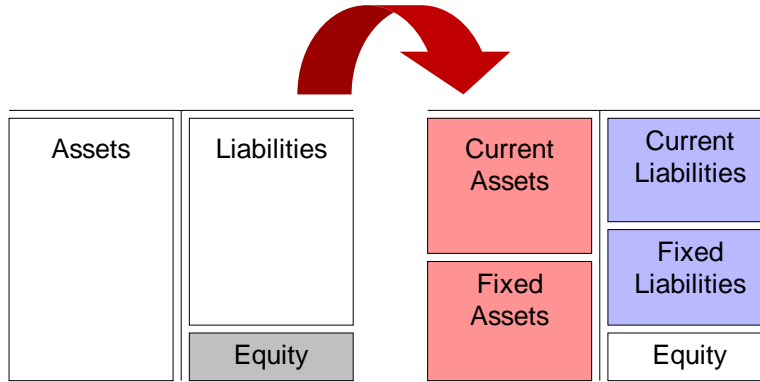
$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

- 「**Assets**」・・・Good assets
(Ex) Cash, goods, equipment
- 「**Liabilities**」・・・Bad assets
(Ex) borrowings
- 「**Capital**」・・・Net assets
(Ex) Share capital, Retained earnings

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Structure of Financial Statements: B/S (3)

The left side (Debit) : shows how you spent money
 The right side (Credit): shows how you collect money



Assets = Current Assets + Fixed Assets
 Liabilities = Current Liabilities + Fixed Liabilities

9

Structure of Financial Statements: B/S (4)

The point to divide current/fixed is **one year**



Assets		Liabilities	
	FY2011		FY2011
Current Assets	6,345,435	Current Liabilities	4,380,545
Cash	998,822	Account payable	1,181,469
Accounts Receivables	738,950	Short-term borrowings	593,095
Securities	158,012	current portion of long term borrowings	933,976
Inventory	982,233	Commercial paper	256,601
Other	3,549,773	current portion of bonds	87,280
Allowance for Doubtful	(81,955)	Others	1,328,124
		Long term liabilities	3,052,358
Fixed Assets	4,399,899	Bonds	640,890
Property, Plant and	3,637,042	Long term borrowings	1,422,478
Buildings	645,414	Others	1,019,037
Machinery	1,841,480	Total Liabilities	7,442,910
Land	659,985	Net Assets	
others	490,163	Shareholders' Equity	3,981,513
Intangible Fixed Assets	133,769	Accumulated other	(1,040,098)
Investment and other assets	620,047	others	332,368
Total Assets	10,736,693	Total Net Assets	3,273,783
		Total Liabilities and Net Assets	10,736,693

Current assets:
 cash, accounts receivable,
 inventories, etc.
 → Convertible into cash within one year

Fixed assets:
 building, equipment,
 (right to use) land, etc.
 → Useful life more than one year

Current liabilities:
 accounts payable,
 short-term debt, etc.
 → Payment due within one year

Fixed liabilities:
 Long-term debts/
 bonds, etc.
 → Repayment due later than one year

(source : Nissan Motor Co., Ltd)

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Structure of Financial Statements: P/L (1)

P/L are prepared to show
the results of operations (Revenue – Expenses = Profit)
 for the year ended the closing date.

Unit : Million JPY

	FY2009	FY2010	FY2011
Net Revenues (Sales)	8,436,974	7,517,277	8,773,093
- Cost of Sales	7,118,862	6,146,219	7,155,100
Gross Profit	1,318,112	1,371,058	1,617,993
- Selling General and administrative expenses	1,456,033	1,059,449	1,080,526
Operating Income	▲ 137,921	311,609	537,467
+ Non operating income	38,121	29,126	86,603
- Non operating expenses	72,940	132,988	86,256
interest expense	33,798	28,995	28,357
Ordinary Income	▲ 172,740	207,747	537,814
+ Special gains	62,156	20,552	27,989
- Special losses	108,187	86,679	85,662
Income before income taxes and others	▲ 218,771	141,620	480,141
- Income taxes and others	14,938	99,230	160,920
Net Income	▲ 233,709	42,390	319,221

(source: NissanMotor Co., Ltd)

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Structure of Financial Statements: P/L (2)

- Revenue on the right side (**credit**), and Expenses & Profit on the left side (**debit**) of the P/L
- P/L shows how profits are generated.

Expenses	Revenue
Profit	

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

- 「**Revenue**」・・・Resources of Profit
 e.g. sales
- 「**Expenses**」・・・Items required to acquire profit
 e.g. cost of sales, rents, salaries
- 「**Profit**」・・・Revenue – Expenses > 0
- 「**Loss**」・・・Revenue – Expenses < 0

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Structure of Financial Statements: P/L (3)

Five Stages of Profits

1. **Gross Profit;**
→ Sales minus the cost of Sales
2. **Operating Profit;**
→ Income by main profession
3. **Ordinary Profit;**
→ Consider non-operating accounts
after Operating Profit
4. **Profit before Taxes;**
→ Consider extraordinary accounts after
Ordinary Profit
5. **Net Profit;**
→ Income less all expenses

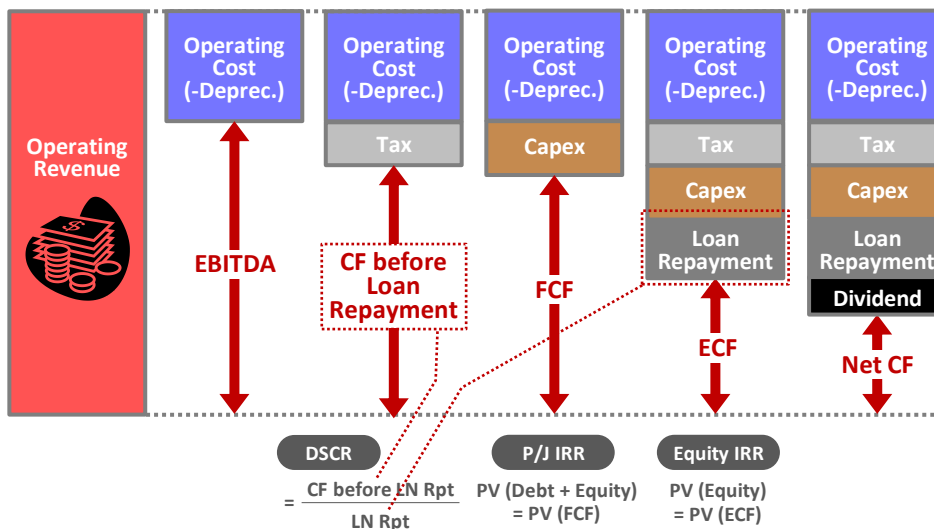
Unit : Million JPY

	FY2011
Net Revenues (Sales)	8,773,093
- Cost of Sales	7,155,100
Gross Profit	1,617,993
- Selling General and administrative expenses	1,080,526
Operating Profit	537,467
+ Non operating income	86,603
- Non operating expenses	86,256
interest expense	28,357
Ordinary Profit	537,814
+ Special gains	27,989
- Special losses	85,662
Profit before income taxes and others	480,141
- Income taxes and others	160,920
Net Profit	319,221

(source: NissanMotor Co., Ltd)

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Structure of Financial Statements: Cash Flows



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Key Points of Financial Statement Analysis (1)

After seeing the Forest, checking the Woods

1. To check the sales figure
2. To check the profit level
3. To check the equity
4. To check the repayment capacity

	FY2011		FY2011		FY2011
Net Revenues (Sales)	8,773,093	Assets		Liabilities	
- Cost of Sales	7,155,100	Current Assets	6,345,835	Current Liabilities	4,389,545
Gross Profit	1,617,993	Cash	998,822	Account payable	1,181,469
- Selling General and administrative expenses	1,080,529	Accounts Receivables	738,956	Short-term borrowings	993,095
Operating Profit	537,467	Securities	158,812	Current portion of long term borrowings	933,976
+ Non operating income	86,603	Inventory	982,233	Commercial paper	254,601
- Non operating expenses	88,258	Other	3,549,773	Current portion of bonds	87,286
Interest expense	28,357	Allowance for Doubtful Accounts	(81,955)	Others	1,328,124
Ordinary Profit	537,814	Fixed Assets	4,390,858	Long term liabilities	1,022,365
+ Special gains	27,989	Property, Plant and equipment	3,637,042	Bonds	640,850
- Special losses	85,662	Buildings	845,414	Long term borrowings	1,422,478
Profit before income taxes and others	480,144	Machinery	1,841,766	Others	1,019,037
- Income taxes and others	160,920	Land	659,885	Total Liabilities	7,462,910
Net Profit	319,224	Intangible Fixed Assets (Investment and other)	620,917	Net Assets	
				Shareholders' Equity	3,881,513
				Accumulated other	(1,041,002)
				Others	(8,996,344)
		Total Assets	10,736,693	Total Net Assets	3,273,763

(source : Nissan Motor Co., Ltd)

Image the company

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Key Points of Financial Statement Analysis (2)

Balance Sheet

- Account fluctuations
- Relation between Sales and Account Receivables
- Obsolete Inventory
- Transactions with other banks (loan size, conditions)
- Irrecoverable Investments and loans
- Balance between long-/short-term Liabilities and Assets

Income Statement

- Breakdown of Production Costs
- Breakdown of Expenses
- Depreciation ⇒ Life Span for Fixed Assets by Type and Depreciation Method
- Ratio of Interest Expense to Sales ⇒ Conditions of Loans
- Ratio of Dividends to Profit

Common Check Point

(Financial Balance)
Check the account of big outstanding in each account, Assets (cash, etc.)/Liabilities (loan, etc.)/Equities.

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Ratio Analysis

Major Index for Ratio Analysis

Profitability	Efficiency	Stability	Growth
<ul style="list-style-type: none"> Gross Profit Margin Operating Profit Margin Return on Assets Return on Equity 	<ul style="list-style-type: none"> Account Receivables Turnover Period Inventory Turnover Period Total Assets Turnover Working Capital Required 	<ul style="list-style-type: none"> Current Ratio Quick Ratio Debt to Total Asset Ratio Debt/Equity Ratio Interest Coverage Ratio 	<ul style="list-style-type: none"> Growth Ratio

(Purpose of Ratio Analysis)

To understand actual condition of business & business efficiency by analysis linking B/S & P/L

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Ratio Analysis: Profitability (1)

Gross Profit Margin

$$\frac{\text{Gross profit}}{\text{Sales}} (\%)$$

Unit : Million JPY		FY2011
Net Revenues (Sales)		8,773,093
-	Cost of Sales	7,155,100
Gross Profit		1,617,993
-	Selling General and administrative expenses	1,080,526
Operating Profit		537,467
+	Non operating income	86,603
-	Non operating expenses	86,256
	interest expense	28,357
Ordinary Profit		537,814
+	Special gains	27,989
-	Special losses	85,662
Profit before income taxes and others		480,141
-	Income taxes and others	160,920
Net Profit		319,221

Nissan Case
Gross Profit :1,617,993

Sales:8,773,093

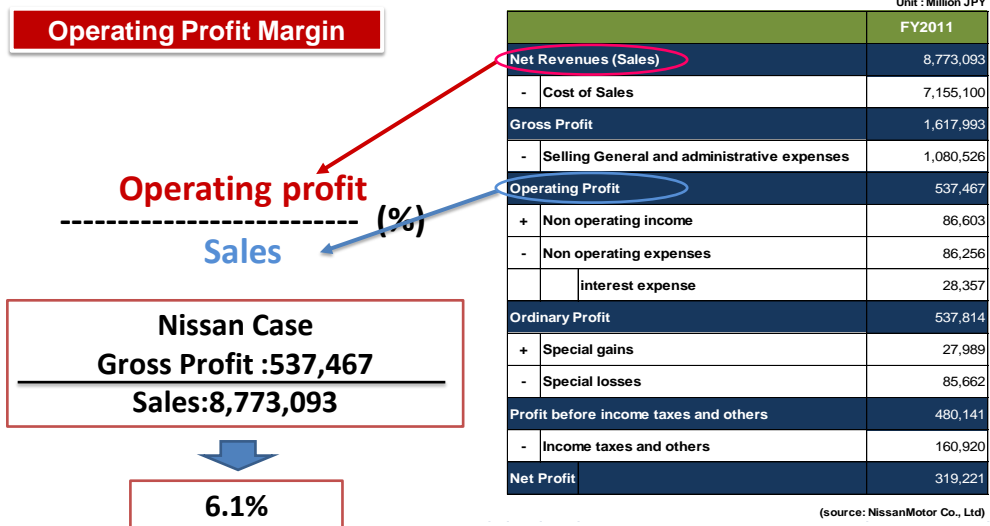
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18.4%

(source: NissanMotor Co., Ltd)

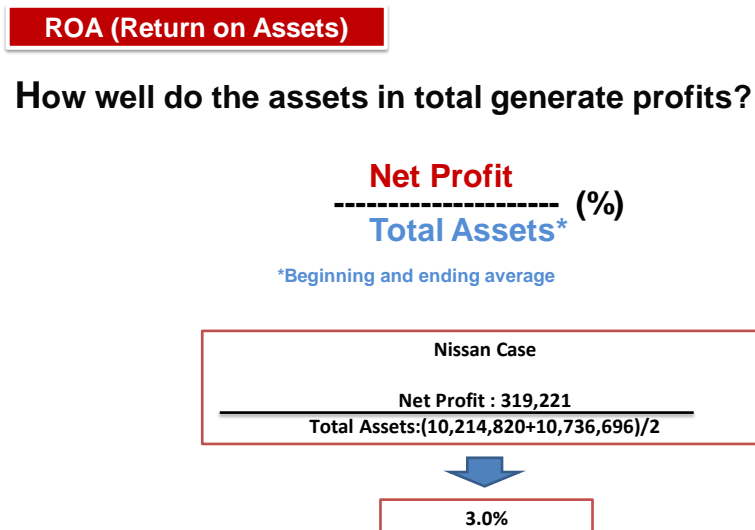
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Ratio Analysis: Profitability (2)



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Ratio Analysis: Profitability (3)



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Ratio Analysis: Profitability (4)

ROE (Return on Equity)

How well does the stockholder's equity generate money?

$$\frac{\text{Net Profit}}{\text{Shareholder's Equity}^*} (\%)$$

*Beginning and ending average

Nissan Case	
Net Profit : 319,221	
Shareholder's Equity: (3,598,966 + 3,981,513) / 2	

↓

8.4%

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Ratio Analysis: Stability - Liquidity Ratio (1)

Current Ratio

How Liquid are the current liabilities?

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} (\%)$$

Nissan Case	
Current Assets : 6,345,835	
Current Liabilities: 4,380,545	

↓

144.9%

(Unit Million JPY)

Assets	FY2011	Liabilities	FY2011
Current Assets	6,345,835	Current Liabilities	4,380,545
Cash	998,822	Account payable	1,181,469
Accounts Receivable	738,950	Short-term borrowings	593,095
Securities	158,012	current portion of long term borrowings	933,976
Inventory	982,233	Commercial paper	256,601
Other	3,549,773	current portion of bonds	87,280
Allowance for Doubtful	(81,955)	Others	1,328,124
		Long term liabilities	3,082,365
Fixed Assets	4,390,658	Bonds	640,850
Property, Plant and	3,637,042	Long term borrowings	1,422,478
Buildings	645,414	Others	1,019,037
Machinery	1,841,480	Total Liabilities	7,462,910
Land	659,985	Net Assets	
others	490,163	Shareholders' Equity	3,981,513
Intangible Fixed Assets	133,769	Accumulated other	(1,040,098)
Investment and other assets	620,047	others	332,368
Total Assets	10,736,693	Total Net Assets	3,273,783
		Total Liabilities and Net Assets	10,736,693

(source : Nissan Motor Co. Ltd)

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Ratio Analysis: Stability - Liquidity Ratio (2)

Quick Ratio

Can the current liabilities be covered by assets immediately convertible into cash?

(Unit Million JPY)

$$\frac{\text{Cash} + \text{Marketable Securities} + \text{Account Receivable}}{\text{Current Liabilities}} (\%)$$

Nissan Case
 $\frac{998,822 + 738,950 + 158,012}{\text{Current Liabilities: } 4,380,545}$
43.3%

Assets		FY2011	Liabilities		FY2011
Current Assets		6,345,835	Current Liabilities		4,380,545
Cash	998,822		Account payable	1,181,469	
Accounts Receivables	738,950		Short-term borrowings	593,095	
Securities	158,012		current portion of long term borrowings	933,976	
Inventory	982,233		Commercial paper	256,601	
Other	3,549,773		current portion of bonds	87,280	
Allowance for Doubtful	(81,955)		Others	1,328,124	
Fixed Assets		4,390,858	Long term liabilities		3,082,365
Property, Plant and	3,637,042		Bonds	640,850	
Buildings	645,414		Long term borrowings	1,422,478	
Machinery	1,841,480		Others	1,019,037	
Land	659,985		Total Liabilities		7,462,910
others	490,163		Net Assets		
Intangible Fixed Assets	133,769		Shareholders' Equity	3,981,513	
Investment and other assets	620,047		Accumulated other	(1,040,098)	
			others	332,368	
Total Assets	10,736,693		Total Net Assets	3,273,783	
			Total Liabilities and Net Assets	10,736,693	

(source : Nissan Motor Co., Ltd)

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Ratio Analysis: Stability - Debt Utilization Ratio (1)

Debt to Total Asset Ratio

How is the whole company financed?

(Unit Million JPY)

$$\frac{\text{Total Liabilities}}{\text{Total Assets}} (\%)$$

Nissan Case
 $\frac{\text{Total Liabilities: } 7,462,910}{\text{Total Assets: } 10,736,693}$
69.5%

Assets		FY2011	Liabilities		FY2011
Current Assets		6,345,835	Current Liabilities		4,380,545
Cash	998,822		Account payable	1,181,469	
Accounts Receivables	738,950		Short-term borrowings	593,095	
Securities	158,012		current portion of long term borrowings	933,976	
Inventory	982,233		Commercial paper	256,601	
Other	3,549,773		current portion of bonds	87,280	
Allowance for Doubtful	(81,955)		Others	1,328,124	
Fixed Assets		4,390,858	Long term liabilities		3,082,365
Property, Plant and	3,637,042		Bonds	640,850	
Buildings	645,414		Long term borrowings	1,422,478	
Machinery	1,841,480		Others	1,019,037	
Land	659,985		Total Liabilities		7,462,910
others	490,163		Net Assets		
Intangible Fixed Assets	133,769		Shareholders' Equity	3,981,513	
Investment and other assets	620,047		Accumulated other	(1,040,098)	
			others	332,368	
Total Assets	10,736,693		Total Net Assets	3,273,783	
			Total Liabilities and Net Assets	10,736,693	

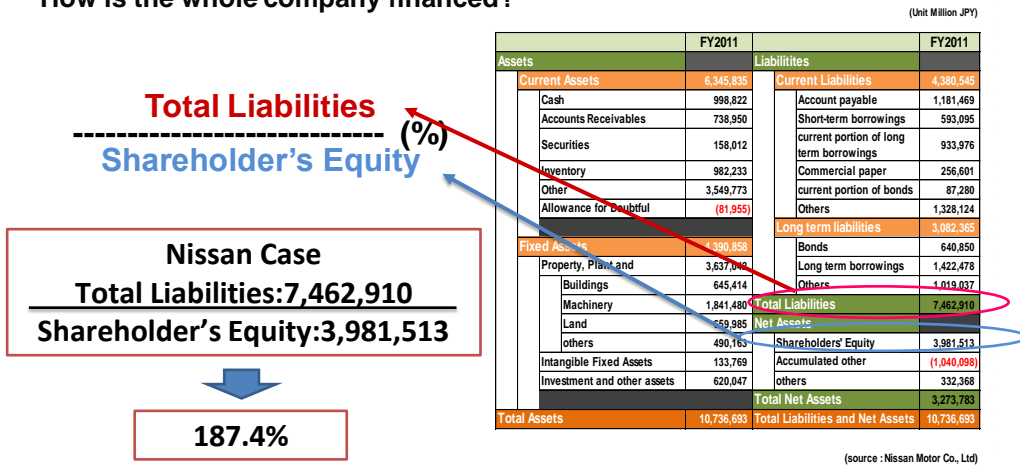
(source : Nissan Motor Co., Ltd)

24

Ratio Analysis: Stability - Debt Utilization Ratio (2)

Debt/Equity Ratio

How is the whole company financed?

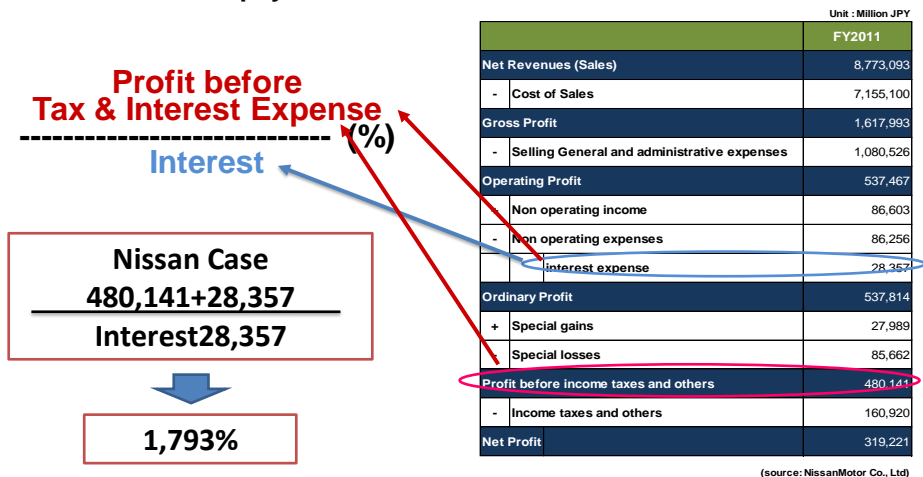


25

Ratio Analysis: Stability - Debt Utilization Ratio (3)

Interest Coverage Ratio

How are the interest payments assured?



26

Account Receivables Turnover Period

Are Account Receivables properly collected ?

$$\frac{\text{Account Receivables}^*}{\text{Average Sales per month}} \quad (\text{month})$$

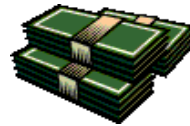
*Beginning and ending average

Nissan Case

$$\frac{\text{Account Receivables: } (641,154+738,950)/2}{\text{Average Sales per month : } 8,773,093/12}$$



0.9 month



27

Inventory Turnover Period

How large are the inventories in terms of monthly sales ?

$$\frac{\text{Inventory}^*}{\text{Average Sales per month}} \quad (\text{month})$$

*Beginning and ending average

Nissan Case

$$\frac{\text{Inventory: } (802,278+998,822)/2}{\text{Average Sales per month : } 8,773,093/12}$$



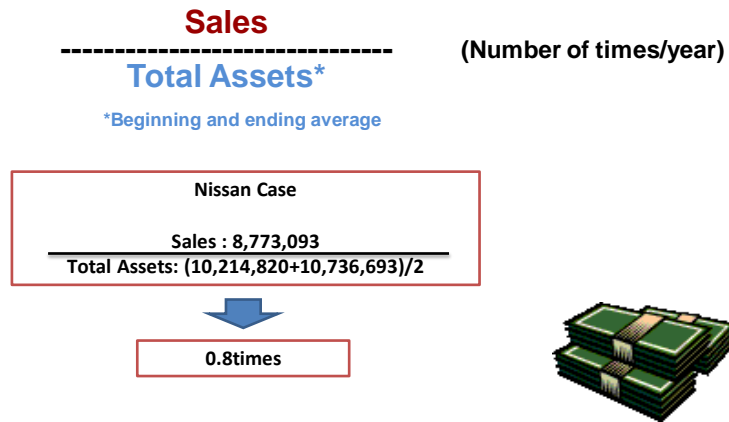
1.2 month



28

Total Assets Turnover

How do the total assets generate sales? (asset utilization efficiency)



Working Capital Required

Cash is the lifeblood of a business. It keeps operation going. Required cash balances should be set aside for operating needs. Working capital required is calculated as follows.

Calculation Formula of Working Capital	
1. Account Receivables Turnover Period(months)	A
2. Trade-Payables Turnover Period(months)	B
3. Inventory Turnover Period (months)	C
4. Working Capital Required (months) =	A - B + C

Ratio Analysis: Growth

Growth Ratio

How well is the company growth?

	FY2009	FY2010	FY2011
Net Revenues (Sales)	8,436,974	7,517,277	8,773,093
- Cost of Sales	7,118,862	6,146,219	7,155,100
Gross Profit	1,318,112	1,371,058	1,617,993
- Selling General and administrative expenses	1,456,033	1,059,449	1,080,526
Operating Income	▲ 137,921	311,609	537,467
+ Non operating income	38,121	29,126	86,603
- Non operating expenses	72,940	132,988	86,256
interest expense	33,798	28,995	28,357
Ordinary Income	▲ 172,740	207,747	537,814
+ Special gains	62,156	20,552	27,989
- Special losses	108,187	86,679	85,682
Income before income taxes and others	▲ 218,771	141,620	480,141
- Income taxes and others	14,938	99,230	160,920
Net Income	▲ 233,709	42,390	319,221

Unit : Million JPY
(source: NissanMotor Co., Ltd)

Current Figure ←
 Previous Figure ← - 1 (%)

Nissan Case (sales)

$$\frac{8,773,093}{7,517,277} - 1(\%)$$

↓

16.7%

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Other Analysis Methods (1): Trend Analysis

Method

Compare the past 5 years order (If possible, 10 years)

Purpose

Assess the actual condition of the company by understanding tendency of performance through checking business activity in a continuous year

Point

Determine causes of those tendency

Example of Analysis

- ✓ Protracted account receivables turnover period
 - it is impossible to collect account receivables due to financial trouble of customers (Bad debt)
- ✓ Protracted inventory turnover period
 - Record dummy products, obsolete products as inventory, and report window-dressing profit

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Other Analysis Methods (2): Cross Sectional Analysis

Methods

Comparison with the target company and sector peer/benchmarking companies in the field of profit level, financial ratio, turnover period.

Purpose / Background

Competition in the field of same sector is severe. Therefore, it is important to assess whether the target company can survive in this sector or not through comparison.

Example of Analysis

- ✓ **Low profitability : High procurement cost, Low productivity**
- ✓ **Inventory turnover period is longer : Low productivity, dead-stock, bad production plan**
- ✓ **Low total assets turnover : Low assets efficiency, the company doesn't make good use of assets**

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Window-Dressing

Some examples...

1. Large fluctuation in sales

- Sales should be recognized in next fiscal year unless it is booked this fiscal year's sales.
- Book the dummy sales etc.

2. Large fluctuation in profitability

- Expense should be recognized in this fiscal year unless it is booked next fiscal year's expense.
- Price adjustment to subsidiaries
- Change of evaluation method of assets.

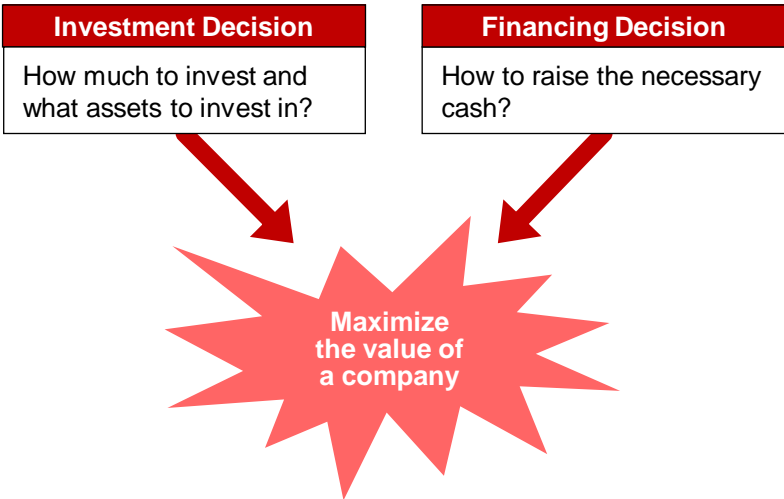
3. Interest

- High interest rate
the possibility of loan from loan shark and off-balance sheet debt
- Low interest rate
the possibility of delinquency or transfer of account (expense - assets).

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2. Corporate Finance

Corporate Finance: Objectives



Investment Decision Making (1)

	<u>Project A</u>	<u>Project B</u>
Year 0	-100	-100
Year 1	50	10
Year 2	40	30
Year 3	30	40
Year 4	10	60

- Suppose you are a CFO of company X.
- Now company X needs to choose one of two projects, Project A and Project B.
- Which project do you choose and why?

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Investment Decision Making (2)

	<u>Project A</u>	<u>Cumulative CF</u>	<u>Project B</u>	<u>Cumulative CF</u>
Year 0	-100	-100	-100	-100
Year 1	50	-50	10	-90
Year 2	40	-10	30	-60
Year 3	30	<u>20</u>	40	-20
Year 4	10		60	<u>40</u>

Payback

- The payback period of a project is found by counting the number of years it takes before cumulative forecasted cash flows equal the initial investment.
- The payback period of Project A is 3 years, while that of Project B is 4 years.
→ Then, you will choose Project A when you apply payback period.
- This approach might underestimate future cash flows after the payback period.

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Investment Decision Making (3)

	<u>Project A</u>	Total future CF	<u>Project B</u>	Total future CF
Year 0	-100		-100	
Year 1	50		10	
Year 2	40		30	
Year 3	30		40	
Year 4	10	Year 1-4: 130	60	Year 1-4: 140

Simple Addition of CF

- Total future cash flows of Project A is 130, while that of Project B is 140.
→ Then, you will choose Project B.
- This approach does not consider the concept of time value of money.

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c.f. Present Value

“A dollar today is worth more than a dollar tomorrow.”

- Suppose you have \$100 now (Year 0) and deposit this \$100 in a bank with 10%/year interest rate.
 - In Year 1, your \$100 now will be \$110. ($100 \times 1.1 = 110$)
 - In Year 2, your \$100 now will be \$121. ($100 \times 1.1^2 = 121$)
- The present value of \$100 one year from now is \$90.9. ($100 / 1.1 = 90.9$)
The present value of \$100 two years from now is \$82.6. ($100 / (1.1)^2 = 82.6$)
- Present value is sum of discounted future cash flows.

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Investment Decision Making (4)

	<u>Project A</u>	<u>PV of future CF</u>	<u>Project B</u>	<u>PV of future CF</u>
Year 0	-100	-100	-100	-100
Year 1	50	45.45	10	9.09
Year 2	40	33.06	30	24.79
Year 3	30	22.54	40	30.05
Year 4	10	6.83	60	40.98
NPV		7.88		4.92

Net Present Value (NPV)

- Present value is calculated by multiplying discount factor, $1/(1+r)^n$. In this case, $1/(1+0.1)$ in Year 1, $1/(1+0.1)^2$ in Year 2,...
- NPV is sum of current cash flows and discounted future cash flows.
- NPV of Project A is 7.88, while NPV of Project B is 4.92.
→ Then, you will choose Project A.

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Investment Decision Making (5)

	<u>Project A</u>	<u>IRR</u>	<u>Project B</u>	<u>IRR</u>
Year 0	-100		-100	
Year 1	50		10	
Year 2	40		30	
Year 3	30		40	
Year 4	10	14.5%	60	11.8%

Internal Rate of Return (IRR)

- The internal rate of return is defined as the rate of discount which makes NPV=0.
- IRR of Project A is 14.5%, while IRR of Project B is 11.8%.
→ Then, you will choose Project A.

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Investment Decision Making (6)

	<u>Project A</u>	<u>Project B</u>
Year 0	-100	-100
Year 1	50	10
Year 2	40	30
Year 3	30	40
Year 4	10	60
<u>Year 5</u>	<u>5</u>	<u>70</u>
NPV	<u>10.98</u>	<u>48.38</u>
IRR	<u>16.0%</u>	<u>23.2%</u>

- Your choice of project will change when future cash flows in Year 5 is added.
- Hence, projection of future cash flows is very important!

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Investment Decision Making (7)





	<u>Project A</u>	<u>Project B</u>
Year 0	-100	-100
Year 1	50	10
Year 2	40	30
Year 3	30	40
Year 4	10	60
Year 5	5	70
<u>NPV</u>	<u>-6.4</u>	<u>9.4</u>
IRR	<u>16.0%</u>	<u>23.2%</u>

- Your decision making will change when a discount factor is $1/(1+0.2)^n$, instead of $1/(1+0.1)^n$.
- Hence, picking an appropriate "r", a rate of return, is also very important.

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Equity Financing vs Debt Financing (1)

Basic understanding on the differences...

		From?	Repay principal?	Term?	Collateral, guarantor	Costs?	Priority in waterfall?
 <p>Asset</p>	 <p>Debt</p>	Banks, (Bond) Investors	Yes	Long Short	Necessary	Interest, Fees	
	 <p>Equity</p>	(Equity) Investors	No	Long	Not Necessarily	Dividend, Fees	

Source: JICA experts

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c.f. IRR & Cost of Capital

- Cost of Capital refers to the cost of a company's funds (both debt and equity).
- If IRR is smaller than Cost of Capital in a project, you will reject the project. If IRR is larger than Cost of Capital, you will go for it.
- Weighted Average Cost of Capital (WACC) is the weighted average of cost of debt and cost of equity.

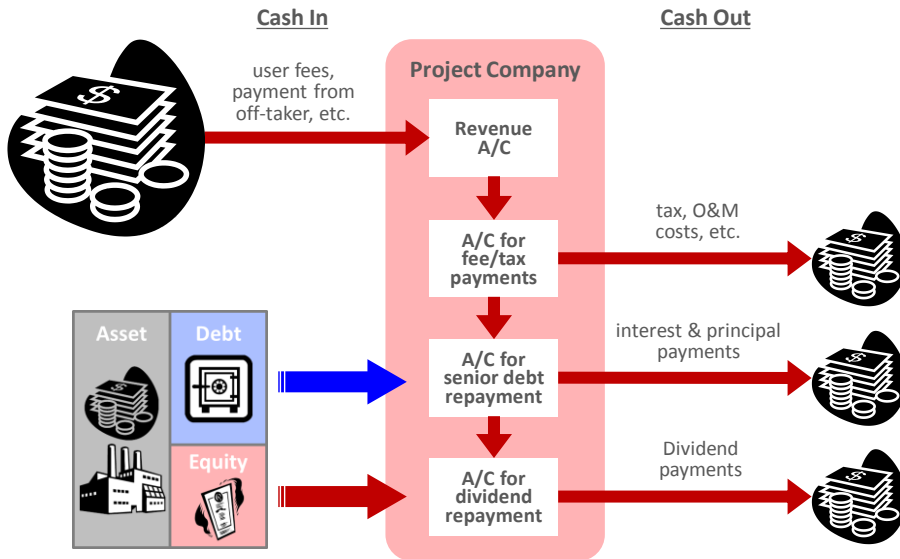
e.g.) Debt: 20, Equity 30, Cost of debt: 8%, Cost of equity: 15%
 $WACC = 8\% \times 20/50 + 15\% \times 30/50 = 12.2\%$

- In general, cost of debt is cheaper than cost of equity, because debt holders tend to be secured by collateral and have higher priority of being paid in case of bankruptcy, i.e., less risky compared to equity holders.
- Cost of debt of company X is higher, when the amount of debt increases and the default risk rises.

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Equity Financing vs Debt Financing (2)

Flow of cash under waterfall distribution



Source: JICA experts

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c.f. Scenario Analysis

- In today's rapidly changing world, precise projection is very difficult.
- You could attempt to forecast several possible scenarios depending on the state of the economy, etc., and assign probabilities to each scenario.
- For example, NPV of Project A will be one of the following.

	<u>Base</u>	<u>Best</u>	<u>Worst</u>
NPV	50	200	-100
Probability(%)	50	25	25

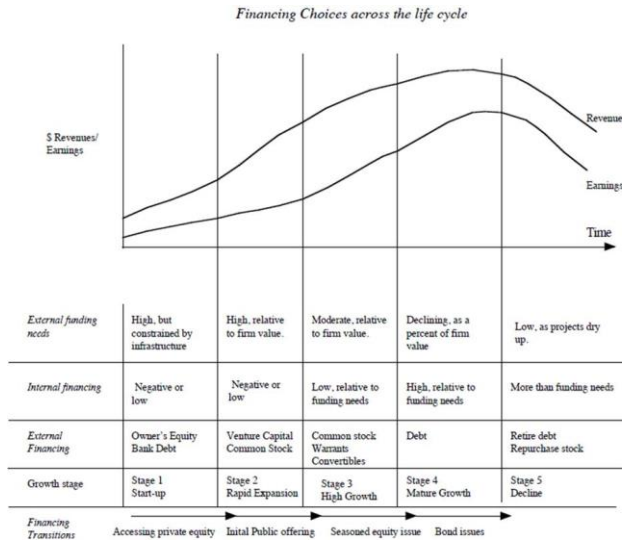
Then, the expected average NPV is 50. ($= 50 \times 0.5 + 200 \times 0.25 + -100 \times 0.25$)

What if probability of each scenario would be Base: 50%, Best: 5%, Worst: 45%?

Then, the expected average NPV is -10. ($= 50 \times 0.5 + 200 \times 0.05 + -100 \times 0.45$)

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Financing Decision (1)



Source: Aswath Damodaran's "Corporate Finance Lecture Note" (http://w4.stern.nyu.edu/~adamodar/New_Home_Page/cflect.htm)

When company X needs funds for a new project, two common options for financing are **equity** and **debt**.

Equity: Owner's equity, venture capital, common stock

Debt: Bank loan, corporate bond, CP

Financing needs of a company will change depending on its growth stage.

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Financing Decision (2)

	Advantages	Disadvantages
Equity financing	<ul style="list-style-type: none"> No need to pay back money invested. Involvement of high-profile investors may help the credibility of a business Possible to have valuable assistance from investors. 	<ul style="list-style-type: none"> Dilution of ownership interests and possible loss of control.
Debt financing	<ul style="list-style-type: none"> Interest paid on debt financing is tax deductible. Lenders do not gain ownership interest. Adds discipline to management 	<ul style="list-style-type: none"> Too much debt increases the perceived risk and reduces ability to raise additional funds. For new businesses, in which cash flows are not stable, it is difficult to get bank loans.

The best mix of debt and equity financing depends on various factors such as:

- current debt-to-equity ratio
- the long-term goal of business
- the amount of control managers would like to maintain
- condition of financial market.

Types of debt financing (duration, currency, fixed/floating rate) should be considered based on nature of businesses.

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c.f. Debt-to-Equity Ratio

Debt-to-equity ratio varies depending on the industry.

e.g.) Listed companies in Japan

	<u>1999</u>	<u>2009</u>
<u>All industries:</u>	254.4	168.3
Manufacturing:	183.4	143.7
[]:	56.3	43.8
Cement:	422.1	389.6
Iron & Steel:	407.3	161.3
Automobiles:	243.0	199.1
Non-Manufacturing:	394.2	209.5
Wholesale Trade:	1,295.2	323.3
Retail:	181.0	160.8
Railroads:	812.9	378.6
[]:	1,767.5	291.2

Source: DBJ "Handbook of Industrial Financial Data 2010"

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c.f. Bank Loans & Bonds

	Bank Loans	Bonds
Borrower	Size does not matter	Should be larger in size
Creditors	Banks	Bond holders (institutional investors, banks, general public, etc.)
Repayment	Regular installments in general	Bullet payment in general (Early redemption option could be included, but after a certain number of years)
Collateral	Required in general	Not required in general
Covenants	More strict (Violation of covenant could lead to request for immediate repayment by banks)	Less strict
Procedure	Quicker	Time consuming

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c.f. Credit Ratings & Default Risk

Sample numbers

2000 コホート

	1年後	2年後	3年後	4年後	5年後	6年後	7年後	8年後	9年後	10年後	サンプル数
AAA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	18
AA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	92
A	0.00	0.38	0.76	0.76	0.76	0.76	0.76	0.76	0.76	1.15	263
BBB	0.00	0.36	0.73	0.73	1.46	1.46	1.46	1.46	1.83	2.21	279
BB	0.00	0.00	1.39	5.62	7.05	8.48	9.91	9.91	11.36	11.36	74
B以下	18.18	36.36	54.55	54.55	54.55	65.91	65.91	65.91	65.91	65.91	11
BBB以上	0.00	0.31	0.62	0.62	0.93	0.93	0.93	0.93	1.09	1.41	652
BB以下	2.35	4.71	8.32	12.04	13.30	15.81	17.07	17.07	18.34	18.34	85
全体	0.27	0.82	1.51	1.92	2.34	2.62	2.76	2.76	3.05	3.33	737

Source: Rating and Investment Information, Inc. "The Relationship between Credit Ratings and Default" (June 30, 2011)

For a company with lower credit rating, default risk will be higher, and hence, cost of borrowing will be more expensive.

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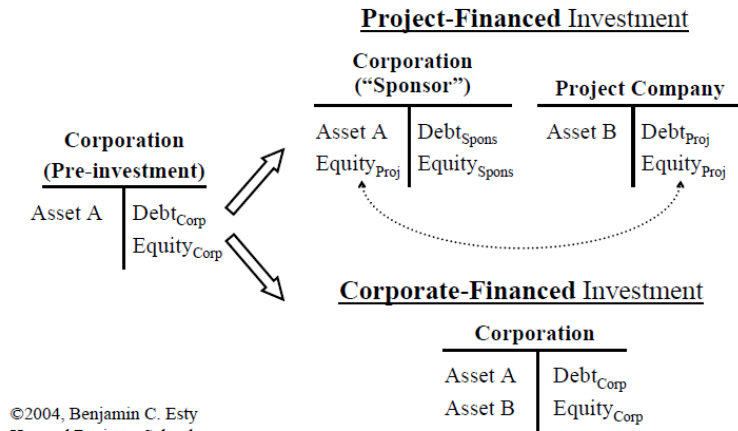
Corporate Finance vs Project Finance (1)

	Corporate Finance	Project Finance
Financing vehicle	Multi-purpose organization	Single-purpose entity
Type of capital	Permanent --- an indefinite time horizon for equity	Finite --- time horizon matches life of project
Dividend policy and reinvestment decisions	Corporate management makes decisions autonomous from investors and creditors	Fixed dividend policy --- immediate payout; no reinvestment allowed
Capital investment decisions	Opaque to creditors	Highly transparent to creditors
Financial structures	Easily duplicated; common forms	Highly-tailored structures which cannot generally be re-used
Transaction costs for financing	Low costs due to competition from providers, routinized mechanisms and short turnaround time	Relatively higher costs due to documentation and longer gestation period
Size of financings	Flexible	Might require critical mass to cover high transaction costs
Basis for credit evaluation	Overall financial health of corporate entity; focus on balance sheet and cashflow	Technical and economic feasibility; focus on project's assets, cash flow and contractual arrangements
Cost of capital	Relatively lower	Relatively higher
Investor / lender base	Typically broader participation; deep secondary markets	Typically smaller group; limited secondary markets

Source: The Wharton School "Project Finance Teaching Note" (<http://finance.wharton.upenn.edu/~bodnarg/ml/projfinance.pdf>)

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The Definition of Project Finance:
 Comparison of Project- vs. Corporate-Financed Investment



For Further Questions/Inquiries...

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**Project for Capacity Building of Capital Market in Mongolia
- Lecture for FRC Management Team (3) -**

November 14, 2016

**Takayuki Urade
JICA Consulting Team**



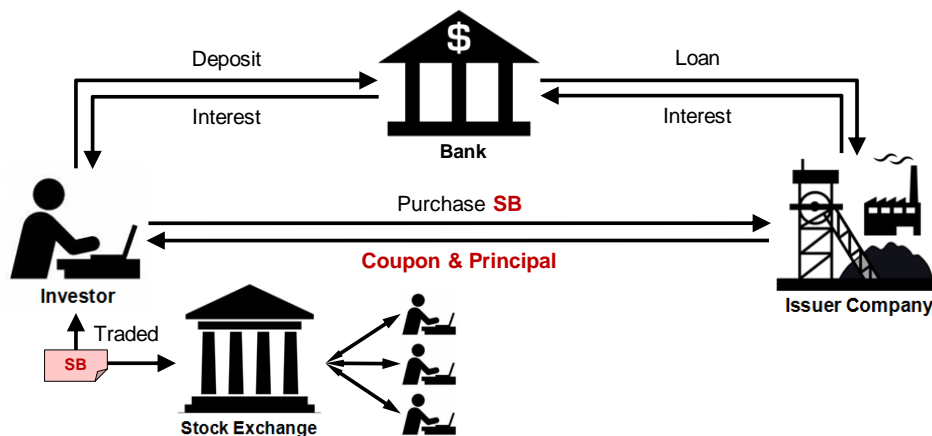
**New Products with Potentials
in Mongolian Capital Market**

Potential Products/Schemes for Mongolian Capital Market

Issuer	<ol style="list-style-type: none"> 1. Corporate (Straight) Bond (SB) 2. Convertible Bond (CB) 3. Warrant Bond (WB) 4. Depository Receipt (DR) 5. 'Carving Out' & 'Holding Company Structure' for Privatization
Investment Management	<ol style="list-style-type: none"> 6. Real Estate Investment Trust (REIT) 7. Exchange Traded Fund (ETF)
Retail Investor	<ol style="list-style-type: none"> 8. Investment Savings Account (e.g. NISA in Japan)
Intermediaries	<ol style="list-style-type: none"> 9. Syndicated 'Firm Commitment' Underwriting

3

1. Corporate Straight Bond (SB) vs. Bank Loans

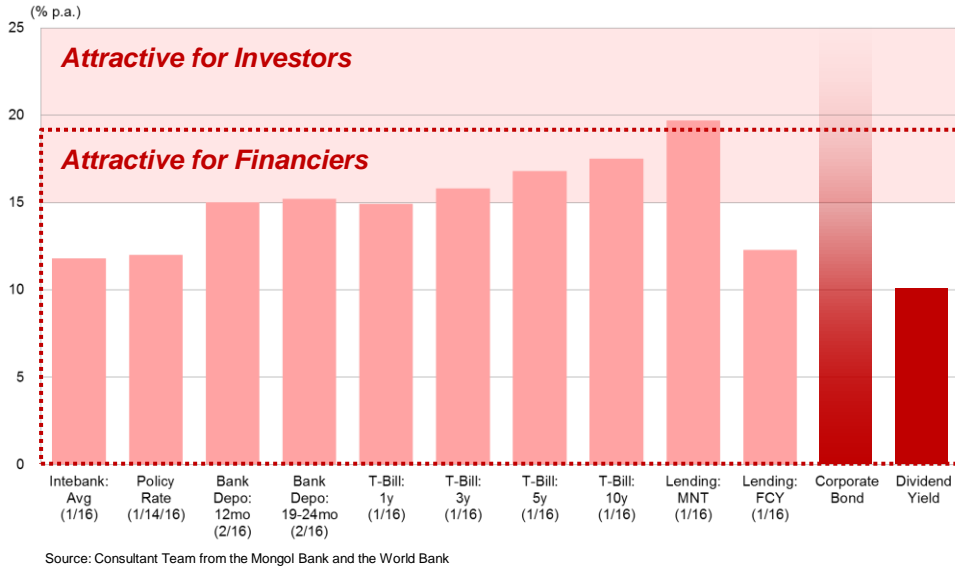


Benefits	Difficulties/Shortfalls	Requirements
<ul style="list-style-type: none"> ● 'Fixed Income' ● Long-term financing (':') Not bound by financing side ● Borrower is visible ● Tradable (if listed) 	<ul style="list-style-type: none"> ● Cash flow relies on the credit of issuers, not banks 	<ul style="list-style-type: none"> ● Benchmark (gov't bond) ● Credit rating agency ● Clearing & settlement ● Custodians (for foreigners)

4

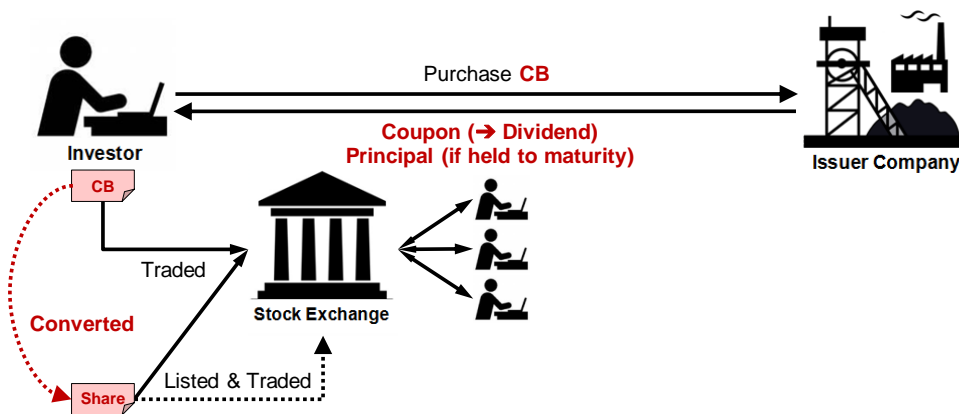
c.f. Cost of Financing

Is there a room for capital market financing?



5

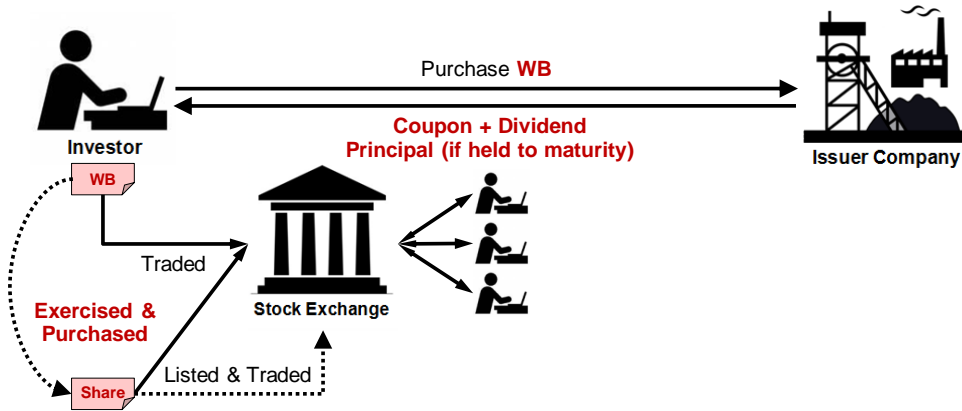
2. Convertible Bond (CB)



Benefits	Difficulties/Shortfalls	Requirements
<ul style="list-style-type: none"> Downside protection (∴) Bond Upside (capital gains) Low cost financing (under low int rate) High return (under high int rate) 	<ul style="list-style-type: none"> Generally lower coupon & liquidity < SB Compulsory conversion Repayment burden if not converted 	<ul style="list-style-type: none"> Enough knowledge on investors' side

6

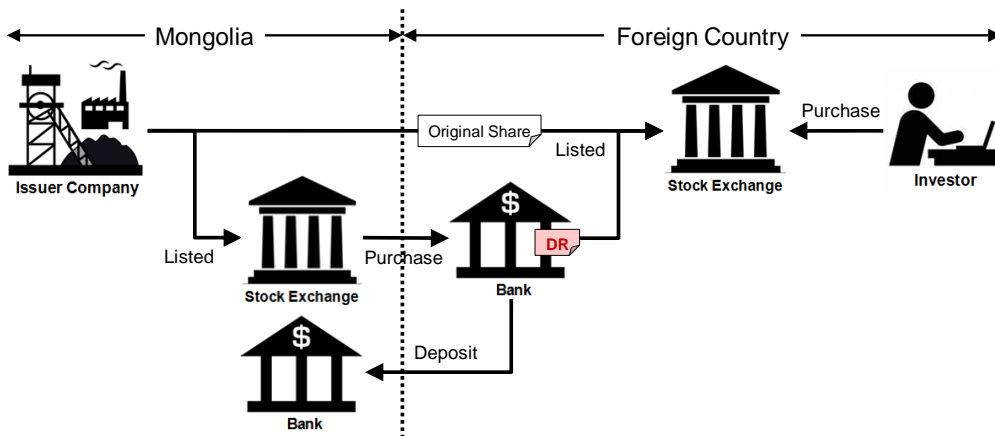
3. Warrant Bond (WB)



Benefits	Difficulties/Shortfalls	Requirements
<ul style="list-style-type: none"> Downside protection (∴) Bond Upside if shares are purchased May be able to purchase shares @discount Low cost financing (under low int rate) High return (under high int rate) 	<ul style="list-style-type: none"> Generally lower coupon & liquidity < SB Volatile price Repayment burden (∴) Debt 	<ul style="list-style-type: none"> Enough knowledge on investors' side

7

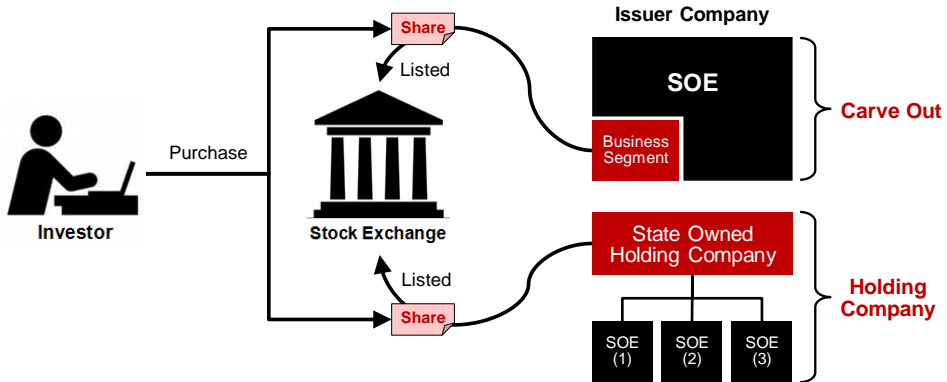
4. Overseas Financing through Depository Receipt (DR)



Benefits	Difficulties/Shortfalls	Requirements
<ul style="list-style-type: none"> Can get around the domestic regulations, settlement restrictions, etc. Liquidity can be enhanced through greater investor base Easier access to Mongolian market 	<ul style="list-style-type: none"> Transaction cost (e.g. Fees) Price can be higher than original shares 	<ul style="list-style-type: none"> Local disclosure requirements

8

5. 'Carving Out' & 'Holding Company Structure' for Privatization

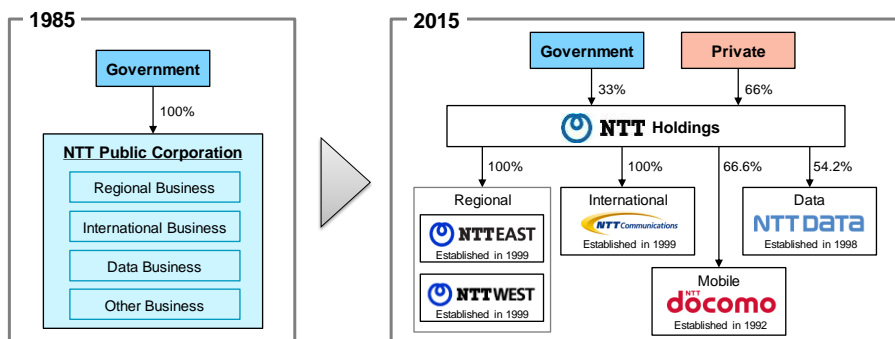


Benefits	Difficulties/Shortfalls	Requirements
<ul style="list-style-type: none"> Valuable/profitable parts can be presented to investors 	<ul style="list-style-type: none"> Complicated valuation for the holding company 	<ul style="list-style-type: none"> Real synergy necessary for holding company structure Enough time for pre-privatization restructuring Persuasive equity story for IPO

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c.f. Japanese Case (Telecom): NTT

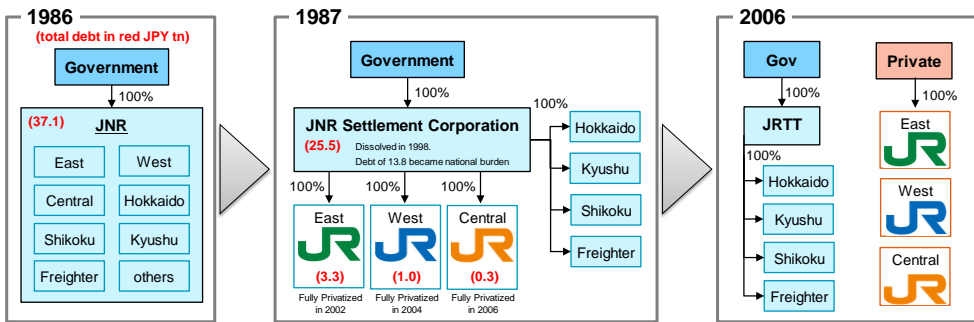
- Why privatized?
 - To enhance efficiency by ensuring management independence
 - To introduce competition through liberalizing telecom market
- Since the listing in 1987, gov't gradually sold its holdings until 2005 for JPY14tn.
- Still gov't has to hold over 1/3 of total outstanding, and foreign ownership is restricted to 1/3.



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c.f. Japanese Case (Railway): JR

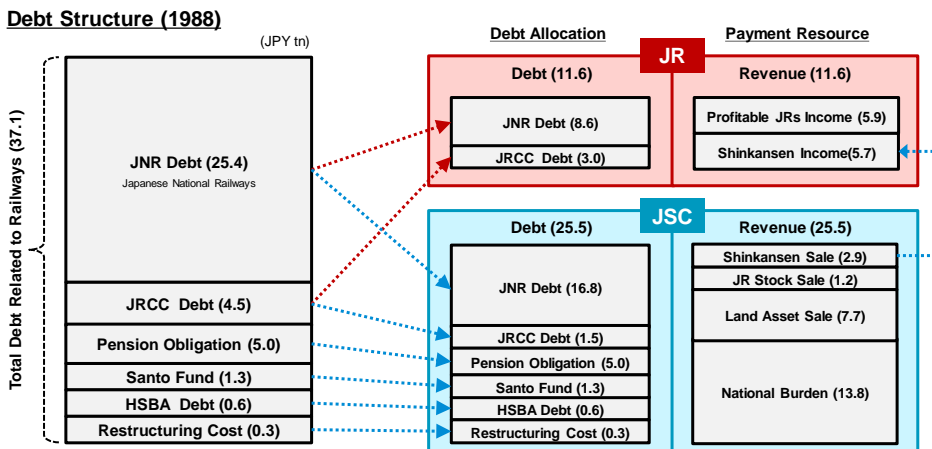
- Why privatized?
 - To reduce huge deficit of JPY 37.1tn of Japanese National Railways (JNR)
 - To optimize management policy suitable for each region
- JNR was divided into 6 regional companies and 1 freight company, of which 3 profitable companies were listed and all the shares were sold for JPY 4.0tn.
- Privatization effort has overcome extremely strong union and the operation was successfully improved with a reduction of over 30% of employees.



11

c.f. Japanese Case (Railway): JNR Settlement Corporation (JSC)

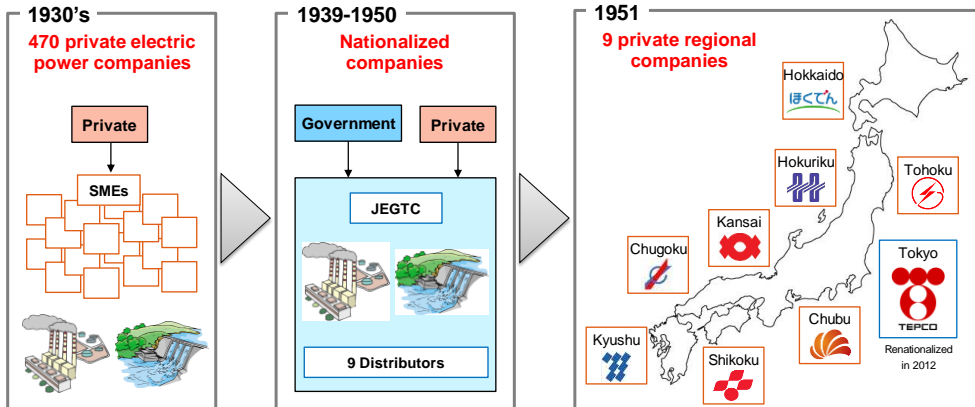
- JSC was established for restructuring B/S of JNR.
- Only profitable four JR companies took over the debt related w/own assets and JSC succeeded the rest of all debt.



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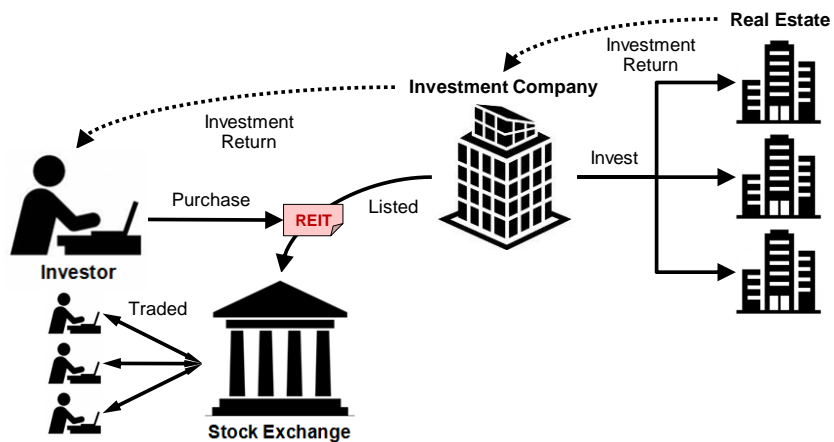
c.f. Japanese Case (Electricity): Electric Power Companies

- There were many private electric power companies before WWII.
- During the war, gov't forced to merge them into Japan Electric Generation & Transmission Co. (JEGTC) and 9 distributors under National General Mobilization Act.
- GHQ divided JEGTC into 9 regional companies in 1951, while TEPCO was renationalized in 2012 due to the nuclear accident caused by the earthquake.



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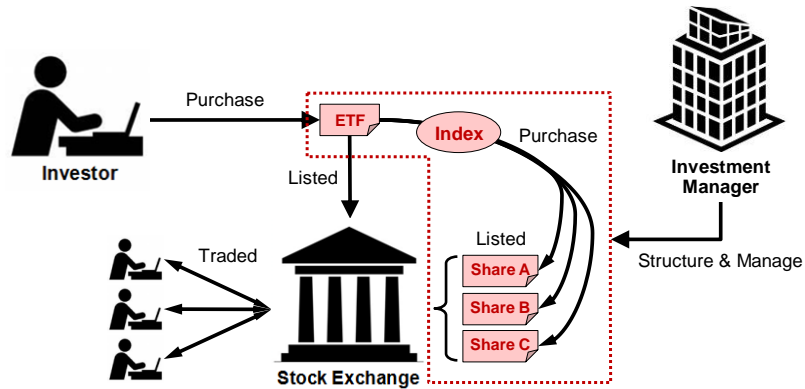
6. Real Estate Investment Trust (REIT)



Benefits	Difficulties/Shortfalls	Requirements
<ul style="list-style-type: none"> ● Address off-balance needs of asset-rich companies ● Can invest multiple real estate properties ● Real estate investment return 	<ul style="list-style-type: none"> ● Bankruptcy/delisting risk for the investment company ● Return subject to the leverage of investment company, property market performance, etc. ● Disaster risk 	<ul style="list-style-type: none"> ● Enough assets to be included

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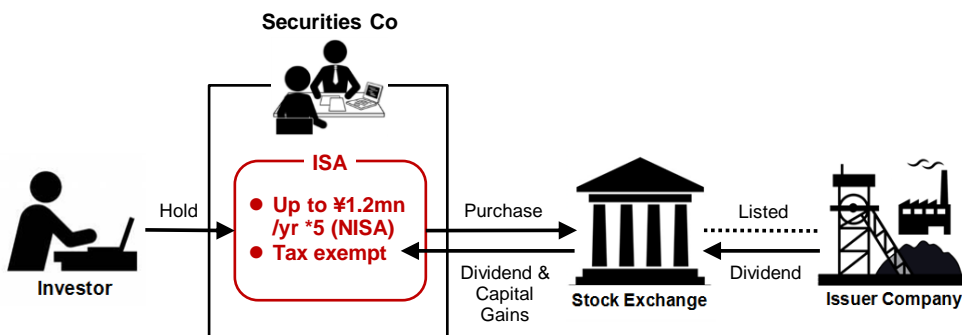
7. Exchange Traded Fund (ETF)



Benefits	Difficulties/Shortfalls	Requirements
<ul style="list-style-type: none"> • Can be traded on a real-time basis • High liquidity • Low custodian/trust fee (∴) Traded @stock exchange • Margin trading is available 	<ul style="list-style-type: none"> • Minimum trading unit is generally larger than investment trusts • Initial fee @purchase > investment trust (usually no load) 	<ul style="list-style-type: none"> • Enough liquidity in original shares

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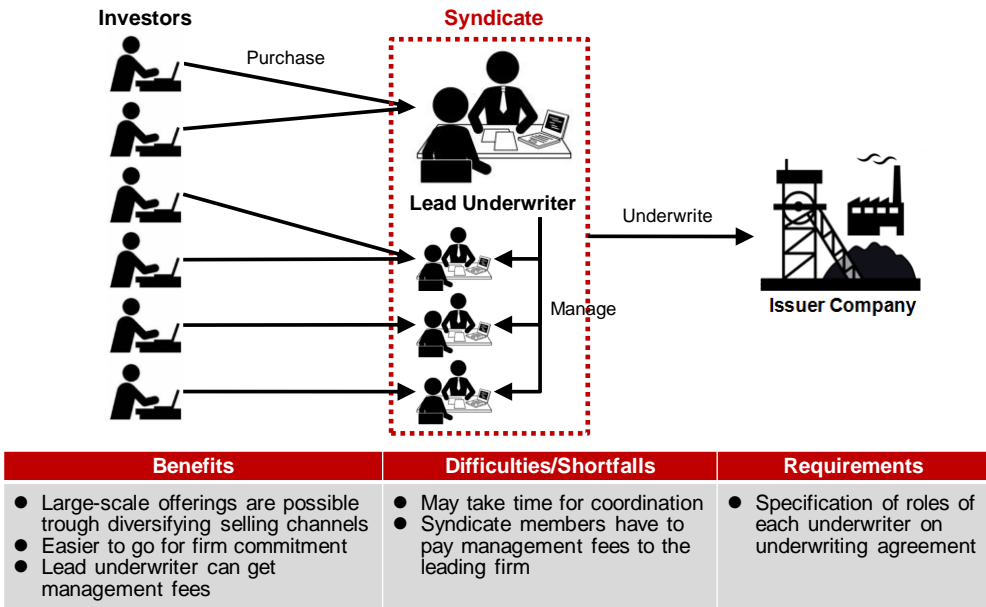
8. Investment Savings Account (e.g. NISA in Japan)



Benefits	Difficulties/Shortfalls	Requirements
<ul style="list-style-type: none"> • Tax exempt for dividends & capital gains 	<ul style="list-style-type: none"> • Profits & losses cannot be offset (NISA) • Losses cannot be carried over (-do-) • Margin trading is not available (-do-) 	<ul style="list-style-type: none"> • 1 account per person & up to ¥1.2mn/yr *5yrs (NISA)

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9. Syndicated 'Firm Commitment' Underwriting

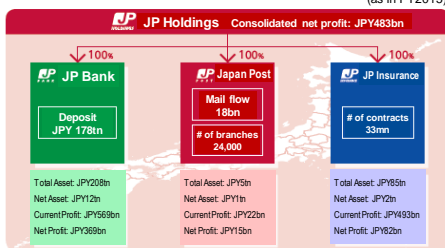


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c.f. Privatization of Japan Post Group (Nov 2015)

【 Group Outline 】

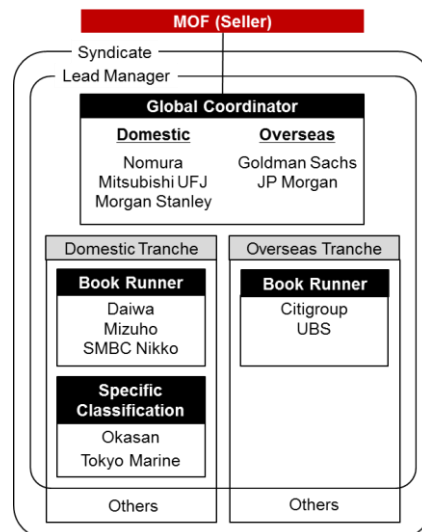
(as in FY2015)



【 Far-Reaching Retail Network... 】



【 Syndicate Structure for Offering 】



Source: JP Holdings

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Thank you!

For further questions, comments & suggestions, please contact:

Takayuki Urade

JICA Consulting Team

Office (Local): Training Room II, 4F, FRC

Privatization and IPO

An introduction

16 February 2017

JICA Consultant Team

Contents

- 1. What is privatization?**
 - 2. Why does your government want to privatize?**
 - 3. Can privatization benefit SOC employees?**
 - 4. What should the government do before privatization?**
 - 5. What is IPO?**
- Appendix**

1. What is privatization

Rough description

- ✓ Transferring ownership of a state-owned company (SOC) to the private sector from the government
- ✓ For transferring ownership, corporatization is the first step if it is not a company
- ✓ **Selling shares owned by the government**, partly or entirely
- ✓ Listing of a SOC at a stock exchange by initial public offering (IPO) is expected to help transformation into a profit-oriented privatized company

3

2. Why does your government want to privatize

- ✓ The reason behind privatization is mostly **improving government budget deficit**

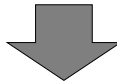
Quick win	✓ Capital gains - additional government revenues by selling SOC shares for the year of divestment
Later	✓ Reducing government expense, typically staff cost including pensions
Long-term	✓ Privatization is expected to make the company profitable, providing more corporate taxes to the government

4

3. Can privatization benefit SOC employees?

Negative impression

- ✓ In many cases, SOC employees are against government's privatization plan, at least in the beginning, being afraid of retrenchment
- ✓ Even if not retrenched, still being concerned of losing their status as a civil servant



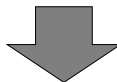
- ✓ The government often faces difficulties in labor issues upon privatization

5

3. Can privatization benefit SOC employees?

Positive expectation

- ✓ Salaries and bonuses may increase once your ex-SOC becomes profitable after privatization, in the medium-to-long term
- ✓ You may have a chance to increase your financial assets by owning your company's shares, if it is listed

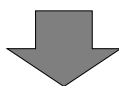


- ✓ Employees may feel that new management from the private sector are demanding, but at the same time incentives are usually given to the employees

6

4. What should the government do before privatization?

- ✓ Privatization is selling shares of a SOC owned by the government
- ✓ In other words, privatization is a kind of business deal
- ✓ **Selling prices are determined by the market (investors)**
- ✓ Government sometimes cannot find buyers (investors) if the SOC's business potential is not promising, or the price is too high



- ✓ It is important to **increase value** of a SOC so that the government can easily find investors and sell its shares at a higher price

7

4. What should the government do before privatization?

Increasing value

- ✓ Rationalization and reorganization to **make the company look better** is part of necessary process before privatization
- ✓ Revision of relevant laws are sometimes necessary

Example:

- 1) Spin off unprofitable assets and **privatize only profitable business**
- 2) Merge two SOCs in the same sector

Example:

- 1) Revise the utility price calculation formula

8

4. What should the government do before privatization?

Auditing

- ✓ Without **reliable financial statements**, investors will not be motivated to buy
- ✓ If a SOC wants a foreign investor, the company should be audited by **one of the big four international houses**
- ✓ In other words, if your SOC's auditor is one of the big four, it can prove that your financial statements are reliable
- ✓ Big four's auditing cost is much higher, but this is necessary expense, if your SOC wants foreign investors' money

9

4. What should the government do before privatization?

Disclosure

- ✓ **Good and fair disclosure** is necessary, otherwise investors cannot know if they should buy or not
- ✓ Disclosure is not one-time requirement, your SOC needs to disclose a lot of information for your investors
- ✓ You may feel bothered by disclosing company's information, but investors, especially foreign investors, do not invest in a company with poor disclosure

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- ✓ In many countries, major SOCs or ex-SOCs are listed, typically those in the utility sector, for instance power, telecom, transportation etc.
- ✓ They became listed companies by initial public offerings (IPO)
- ✓ Upon IPO, **shares are sold publicly** through a stock exchange, in other words, not for a few particular investors, but substantial number of investors
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Pricing is the key

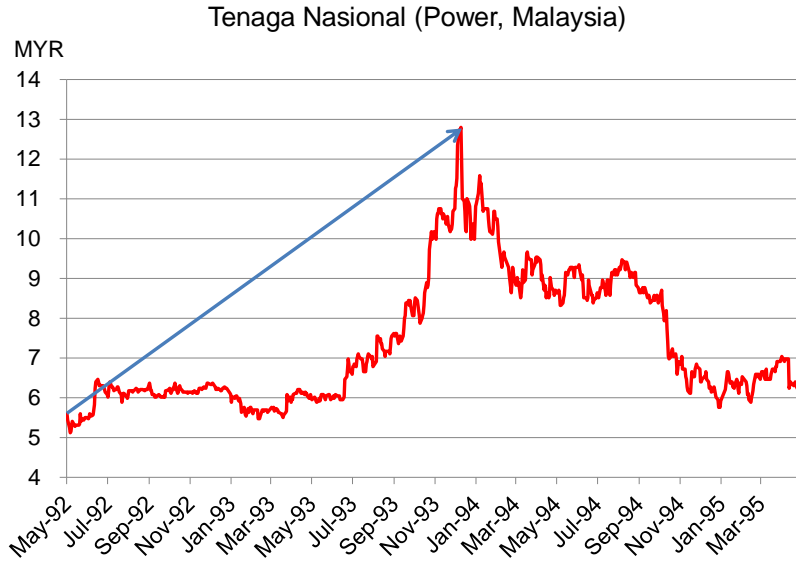
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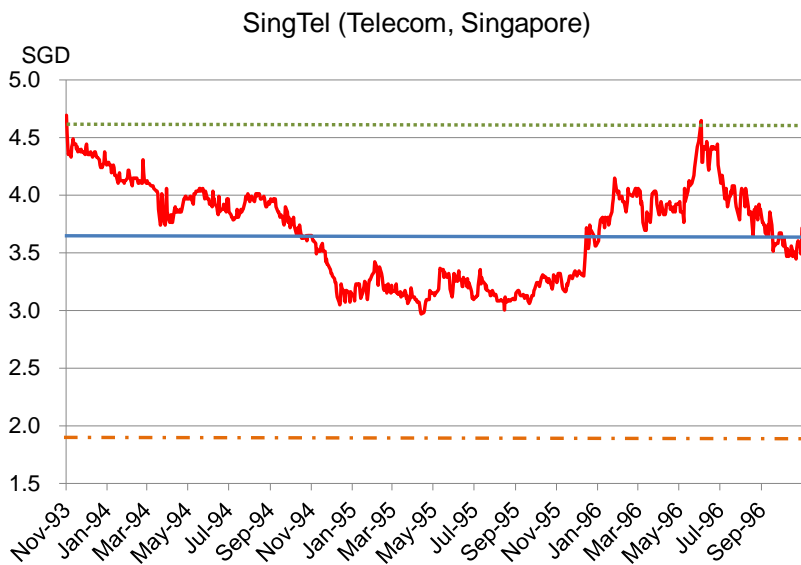
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Appendix: Three year share price performance since IPO



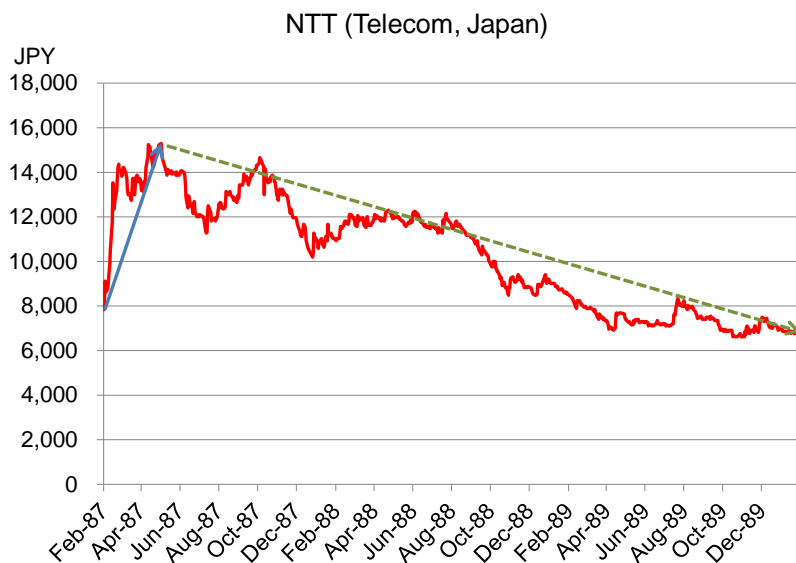
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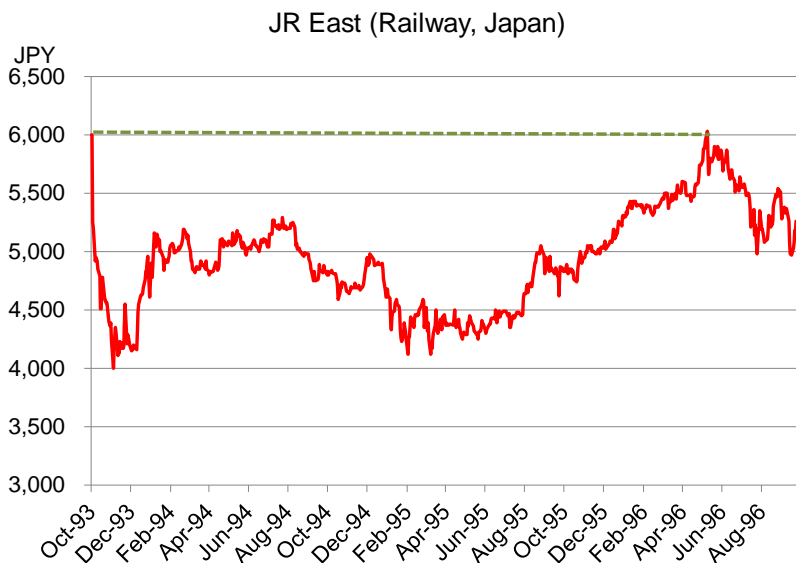
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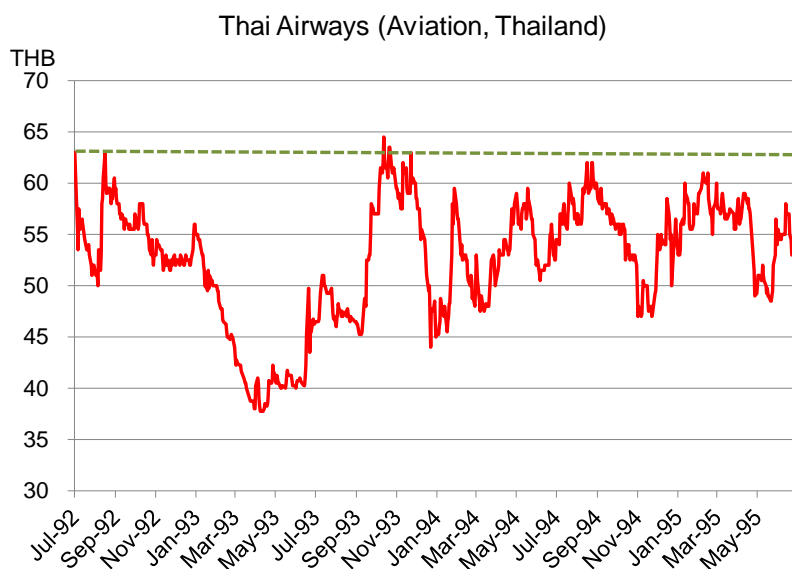
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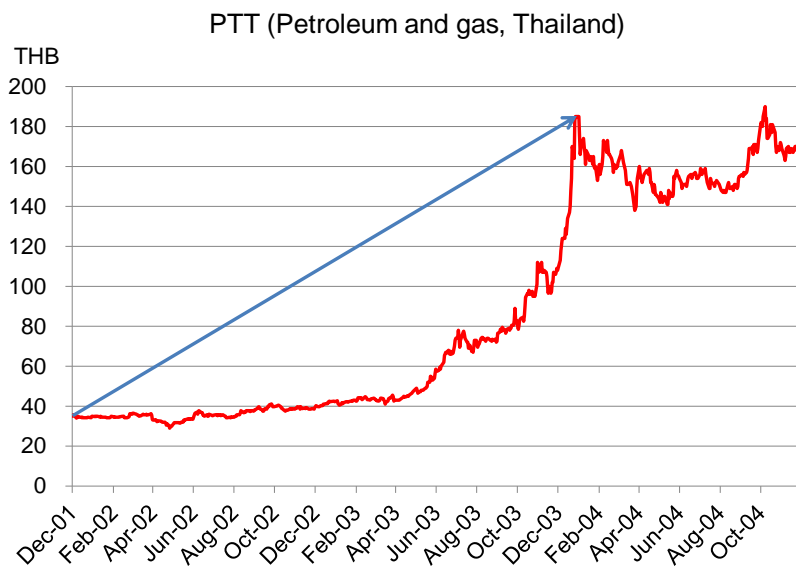
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Privatization and IPO

An introduction

20 February 2017

JICA Consultant Team

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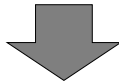
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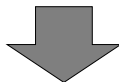
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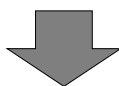


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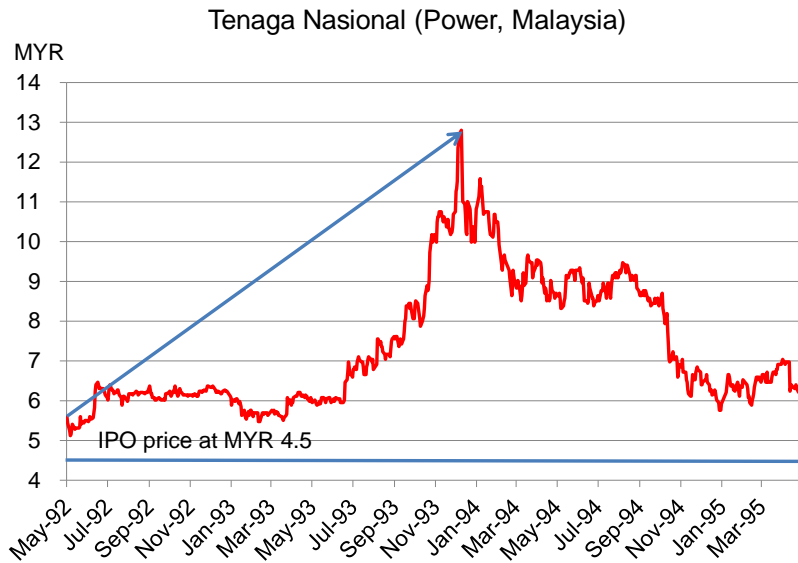
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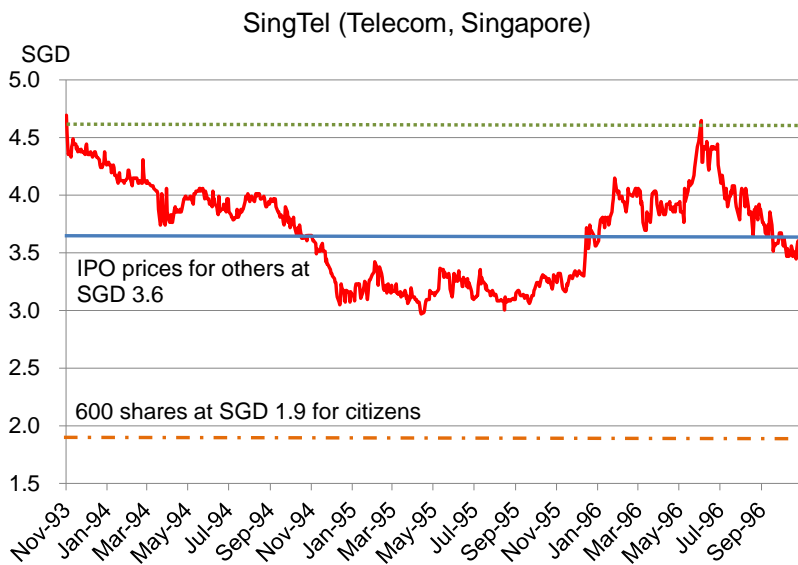
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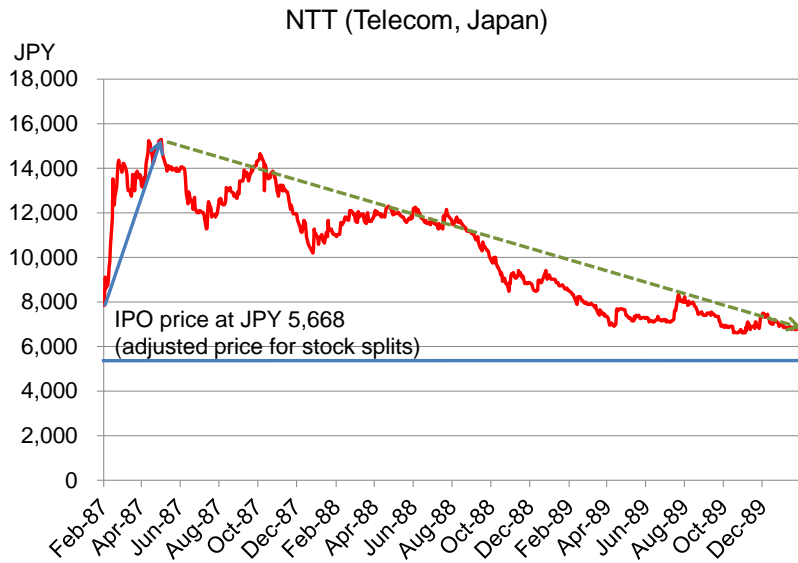
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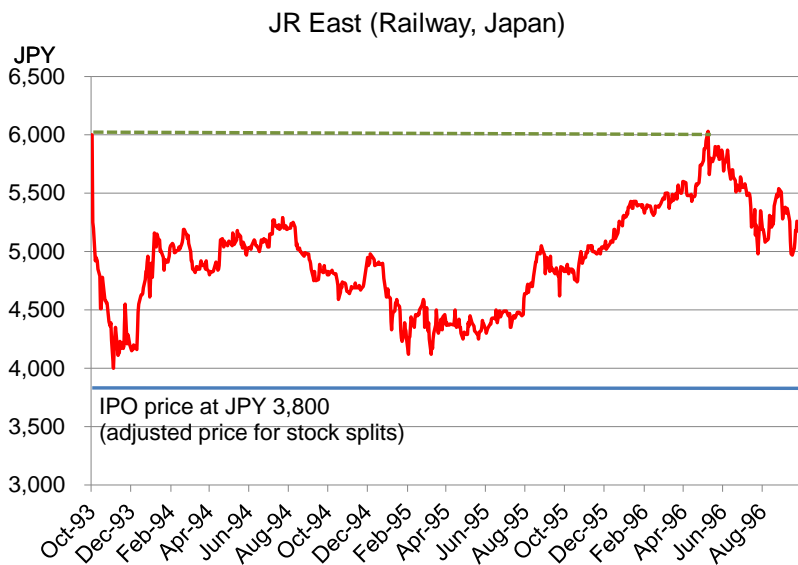
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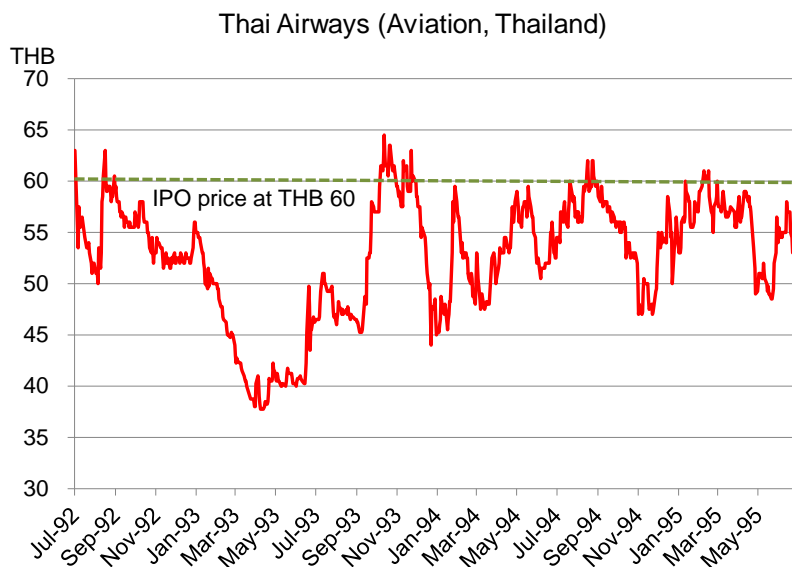
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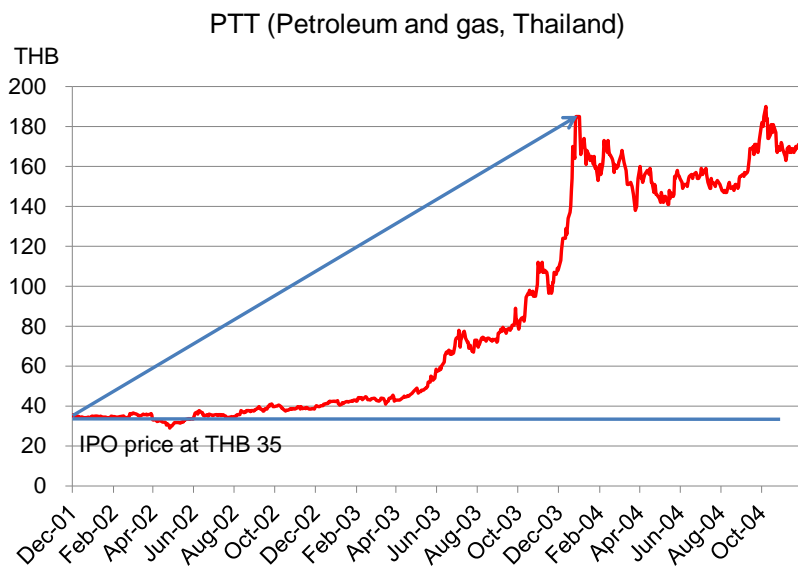
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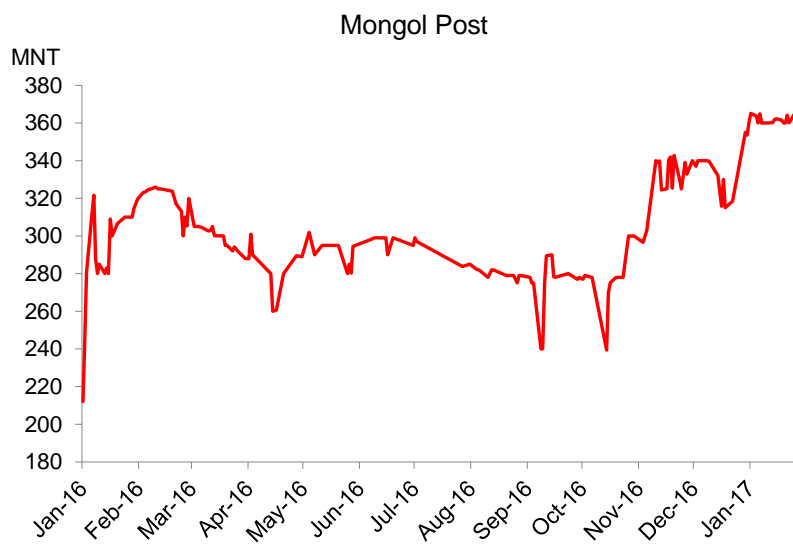
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Appendix: Three year share price performance since IPO



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Appendix: Share price performance since IPO



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Investor protection fund

An introduction

13 April 2017

JICA Consultant Team

1. Investor protection: a concept

Credibility first

- (1) It is riskier to invest in the stock market than putting your money in a bank account.
- (2) Prices of securities are variable. You may lose your money easily.
- (3) In addition, fraud and misconduct have been seen in the stock market globally.
- (4) Credibility is the very basic ground of the stock market development. If the market is lack of credibility, investors are not motivated to invest. The main purpose of investor protection is to make the market credible.

1. Investor protection: a concept – cont.

Investor protection should be considered from various aspects:

- ✓ Regulations for financial institutions
 - Sufficient explanation and reporting for clients
 - Ethics for securities companies etc
- ✓ Regulations for financial transactions
 - Licensing to securities companies
 - Disclosure requirements for listed companies etc
- ✓ Prudential regulations for financial institutions
 - Offsite and onsite monitoring of securities companies
 - **Investor protection fund** etc

3

2. Investor protection fund: basics

Safety net for retail investors

- (1) In many countries, the banking sector has a protection scheme for depositors – deposit insurance. In a country where there is deposit insurance scheme, your deposit will be insured to a certain amount if your bank goes bankrupt.
- (2) **The investor protection fund is similar to deposit insurance.** If your country has an investor protection scheme, your shares, bonds etc. will be insured to a certain amount if your securities company goes bankrupt. The investor protection fund is a safety net for investors.
- (3) The safety net means that investors' loss can be insured in case of bankruptcy of a securities companies. **Loss caused by other reasons are not usually covered.** For instance, investor's loss from fraud by a securities company mostly cannot be covered. Obviously investment loss by bankruptcy of a listed company cannot be covered.
- (4) Actual scheme of an investor protection fund depends on a country, such as fund contributors, fund size, coverage of protection etc.

4

2. Investor protection fund: basics

Question

- (1) You are an investor and bought shares of a listed company ABC Trading with MNT 5m.
- (2) A year later, ABC Trading was filed bankruptcy.
- (3) Can your MNT 5m shares be insured by the investor protection fund?

Answer

- (1) No.
- (2) Even if you think that you are cheated by ABC Trading, the investor protection fund cannot help you.
- (3) Instead, you should seek legal advice or dispute resolution.

5

2. Investor protection fund: basics – cont.

Question

- (1) You are an investor and strongly recommended by your securities company to invest in a listed company XYZ Corp.
- (2) You did not want to buy, but your securities company was too aggressive to say no. Finally you bought XYZ Corp's shares with MNT 5m.
- (3) A year later, XYZ Corp was filed bankruptcy. You believe that it was your securities company's fault that you lost your money and that you should be compensated.
- (4) Do you think that your MNT10m shares be insured by the investor protection fund?

Answer

- (1) No, even if you believe that the securities company was responsible for your loss.
- (2) Instead, you better seek legal advice or dispute resolution.

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2. Investor protection fund: basics – cont.

Question

- (1) You are an investor and bought shares of a listed company ZZZ Company with MNT 5m.
- (2) There was misconduct by your securities company after the transaction. You found that your ZZZ Company shares went missing.
- (3) You somehow lost all of your MNT 5m. Can you claim to the investor protection fund?

Answer

- (1) In Japan, no, unless the securities company goes bankrupt.
- (2) In case you are cheated by a securities company, you better ask for legal advice or dispute resolution.

7

3. Japan Investor Protection Fund

Legal framework in Japan

- (1) Japan Investor Protection Fund (JIPF) is stipulated by the Financial Instruments and Exchange Act (FIE Act), enacted in 2007.
- (2) There are two important points with regard to the investor protection fund: **categorizing investors**; and **separating clients' accounts**.
- (3) Under the FIE Act, investors are divided into i) amateur investors (i.e. most of retail investors) and ii) professional investors (i.e. institutional investors).
- (4) The FIE Act also stipulates that securities companies must separate client accounts from their own accounts.
- (5) Securities companies are checked by their auditor if clients' accounts are separated.

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3. Japan Investor Protection Fund- cont.

Why we need JIPF

- (1) In Japan, **client accounts are separated from securities companies' own accounts**, thus it is quite safe and even if a securities company goes bankrupt, its clients financial assets are supposed to be returned safely.
- (2) Why do we still need JIPF in Japan?
- (3) JIPF is in case that clients' financial assets are not safely kept at the separate accounts. For instance, securities companies' calculation on clients' financial assets may be wrong. In the worst case, clients' financial assets may be illegally transferred to another account.
- (4) JIPF compensates clients' financial assets if they are not properly returned.

9

3. Japan Investor Protection Fund- cont.

Overview

- (1) Established in 1998, JIPF is the investor protection fund in Japan.
- (2) All the licensed securities companies, including foreign securities companies, are members of JIPF and contribute to the fund.
- (3) JIPF compensates investors upon bankruptcy of a securities company **up to JPY10m**.
- (4) **Professional investors are not insured by JIPF**.
- (5) Stocks, bonds, mutual funds, cash etc can be compensated by JIPF, but **not for OTC derivative products**.
- (6) Securities companies contribute to JIPF by entrance fee, compensation charge and annual membership fee.

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3. Japan Investor Protection Fund- cont.

Initial charge and annual membership fee

- (1) A securities company pays an entrance fee of JPY1m and a compensation charge of JPY4m when it becomes a member of JIPF.
- (2) Before 2002, all the JIPF members had to pay a compensation charge every year. JIPF stopped collecting an annual compensation charge from its members as the fund size grew to a sufficient level. Only a new comer is required to pay.
- (3) The members have to pay an annual membership fee of JPY100,000 to 18m, **depending on their size.**
- (4) JIPF is not funded by the government. All the expenses are covered by the contributions by the members.

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3. Japan Investor Protection Fund- cont.

JIPF's accounts are also separated

- (1) JIPF has two accounts: **general account** and **investor protection fund account.**
- (2) The general account is used to control the balance of payments related to fund management by the secretariat. Running costs such as labor costs and office rental are recorded in general account. Entrance fees and membership fees are deposited in the general account.
- (3) The investor protection fund account is used to accumulate compensation charges. Compensation is recorded in the investors protection fund account. Compensation charges are deposited in this account.
- (4) JIPF is restricted by law **not to expose its fund to securities rather than Japanese government bonds.**

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3. Japan Investor Protection Fund- cont.

Calculation for JIPF members' contributions

Annual membership fee = (a) Fixed amount membership fee (10%) + (b) Fixed rate membership fee (90%)

$$(a) \text{ Fixed amount membership fee} = \frac{\text{Estimated amount of annual membership fee of fiscal year} \times 10\%}{\text{Total number of members as of April 1 (beginning of fiscal year)}}$$

$$(b) \text{ Fixed rate membership fee} = \text{Estimated amount of annual membership fee} \times 90\% \times \frac{\text{Cumulative charge of each member}}{\text{Cumulative charge of present members}}$$

Most common case

$$\text{Annual membership fee} : (a) \text{ JPY64,000} + (b) \text{ JPY35,000} = \text{JPY99,000}$$



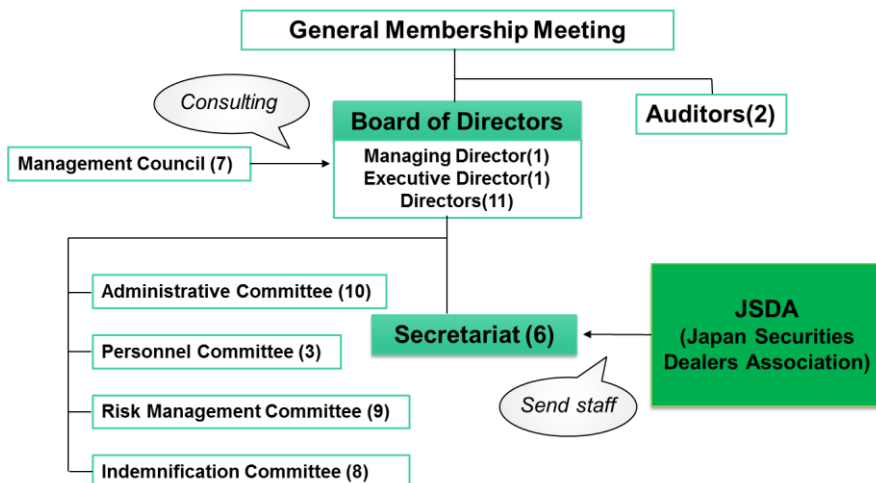
$$(a) \text{ Fixed amount membership fee} = \frac{\text{JPY160m} \times 10\%}{250 \text{ members}} = \text{JPY64,000}$$

$$(b) \text{ Fixed rate membership fee} = \text{JPY160m} \times 90\% \times \frac{\text{JPY4m}}{\text{JPY16.2bn}} = \text{JPY35,555} \approx \text{JPY35,000}$$

13

3. Japan Investor Protection Fund- cont.

JIPF's organizational structure



14

3. Japan Investor Protection Fund- cont.

Compensation procedure

- (1) JIPF checks a securities company in bankruptcy if clients accounts were properly separated.
- (2) Before bankruptcy, JIPF can lend money to the targeted securities company. JIPF cannot lend money to the securities company if it is compensated by the fund.
- (3) JIPF can be a proxy for clients of the securities company if necessary.
- (4) If requested by the securities company before bankruptcy, JIPF can also be a proxy for returning financial assets to its clients.
- (5) JIPF lists up clients who keep their financial assets of more than JPY10m and are compensated only up to JPY10m. JIPF supports those clients in procedure of the bankrupted securities company.

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4. What happened in the past in Japan (1)

Minami Securities

- (1) In November 1999, Minami Securities Company sold fraud bonds.
- (2) In December 1999, Ministry of Finance made an order to stop selling these bonds, but the company ignored.
- (3) In March 2000, Ministry of Finance ordered to stop its business and be ready for the bankruptcy procedure, but the company also ignored.
- (4) The President of the Minami Securities went into the office in the midnight and disappeared with customers' stocks and bonds.
- (5) The police searched the president, and three years later, he was finally arrested for another fraud in Okinawa in November 2003. After the trial, he was sentenced to 11 years in prison.
- (6) Number of client accounts was around 1,400. Total amount of compensation amounted to JPY 3.5 bn. There was no upper limit of compensation amount at that time.

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4. What happened in the past in Japan (2)

Marudai Securities

- (1) In March 2012, Marudai Securities Company forged accounting books and embezzled (stole) customers' money.
- (2) Ministry of Finance made an inspection and found the forged accounting books. Marudai stole JPY200m from customers' deposit. Ministry of Finance rescinded Marudai's registration and made an order to stop the business.
- (3) JIPF made an audit and confirmed that customers' money was left only JPY100m, although customers deposited JPY300 m. Therefore, JPY200 m disappeared. On the other hand, all the securities deposited by customers were safely kept.
- (4) JIPF recognized that Marudai was impossible to pay back customers' money, so JIPF decided to compensate.
- (5) Total amount of compensation was JPY 173 m.

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4. What happened in the past in Japan (2)

Marudai Securities – cont.

- (6) JIPF, Japan Securities Dealers Association and Ministry of Finance made an accusation against the CEO and the financial director to the Metropolitan Police Department in May, 2014.
- (7) They were arrested for the violation of Financial Instruments and Exchange Act in September, 2014.
- (8) In December, 2014, they were found guilty. The CEO was sentenced to 1 year and 2 months imprisonment with work (3 year suspension of sentence). The financial director was sentenced to 1 year imprisonment with work (3 year suspension of sentence).

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4. What happened in the past in Japan (3)

Initia Star Securities

- (1) In November 2012, Ministry of Finance made an inspection of Initia Star Securities Company and found the company forged accounting books.
- (2) Initia Star pretended as they had JPY21.4 m in cash, but in fact the company had only JPY1.4 m.
- (3) After that, Ministry of Finance found that Initia Star embezzled (stole) JPY12.5 m from customers' money.
- (4) In January 2013, Initia Star Securities was filed bankruptcy.
- (5) JIPF did not pay compensation. All the securities deposited by customers were safe. The missing cash was not related to securities trading but to foreign exchange margin trading.

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5. Investor protection fund for Mongolia

- (1) In Mongolia, securities companies were supposed to allocate some of their cash to the risk fund, in our understanding.
- (2) We have impression that the risk fund is somewhat similar to the investor protection fund.
- (3) What do you think Mongolia's investor protection fund is like ?

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