

# Session 2 Summary & Comment

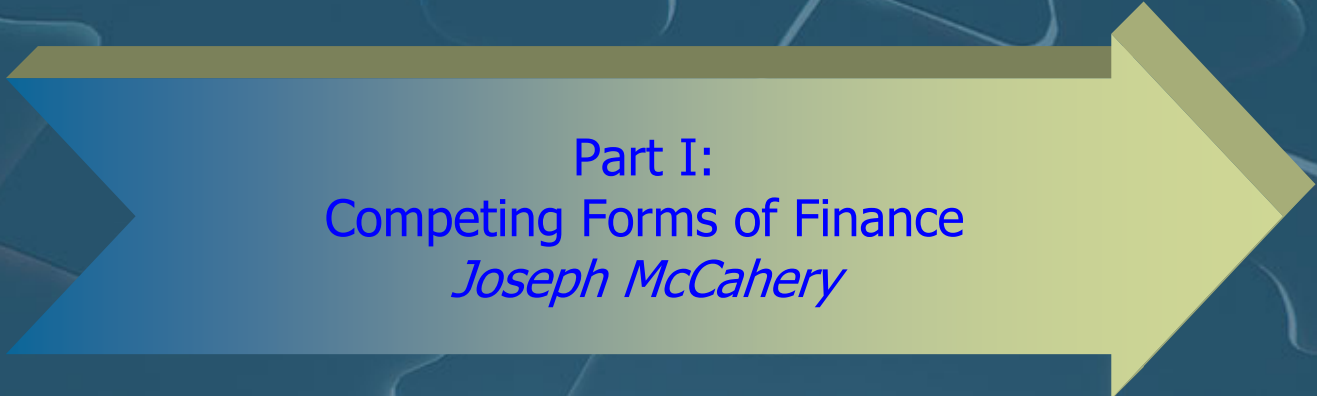


Investors' Perspective: Examining their Motives

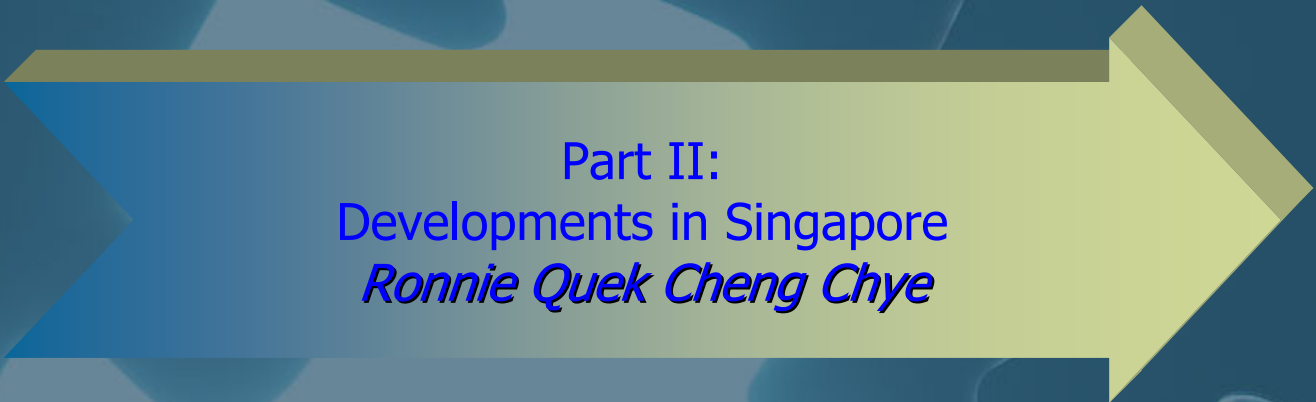
Joseph McCahery  
Ronnie Quek Cheng Chye  
and Jun Saito



# Setting the Theme



Part I:  
Competing Forms of Finance  
*Joseph McCahery*



Part II:  
Developments in Singapore  
*Ronnie Quek Cheng Chye*



# Forms of Finance

Debt

Asset-Backed  
Securitization

Equity

# Debt

4



Loans  
= *DEBT*

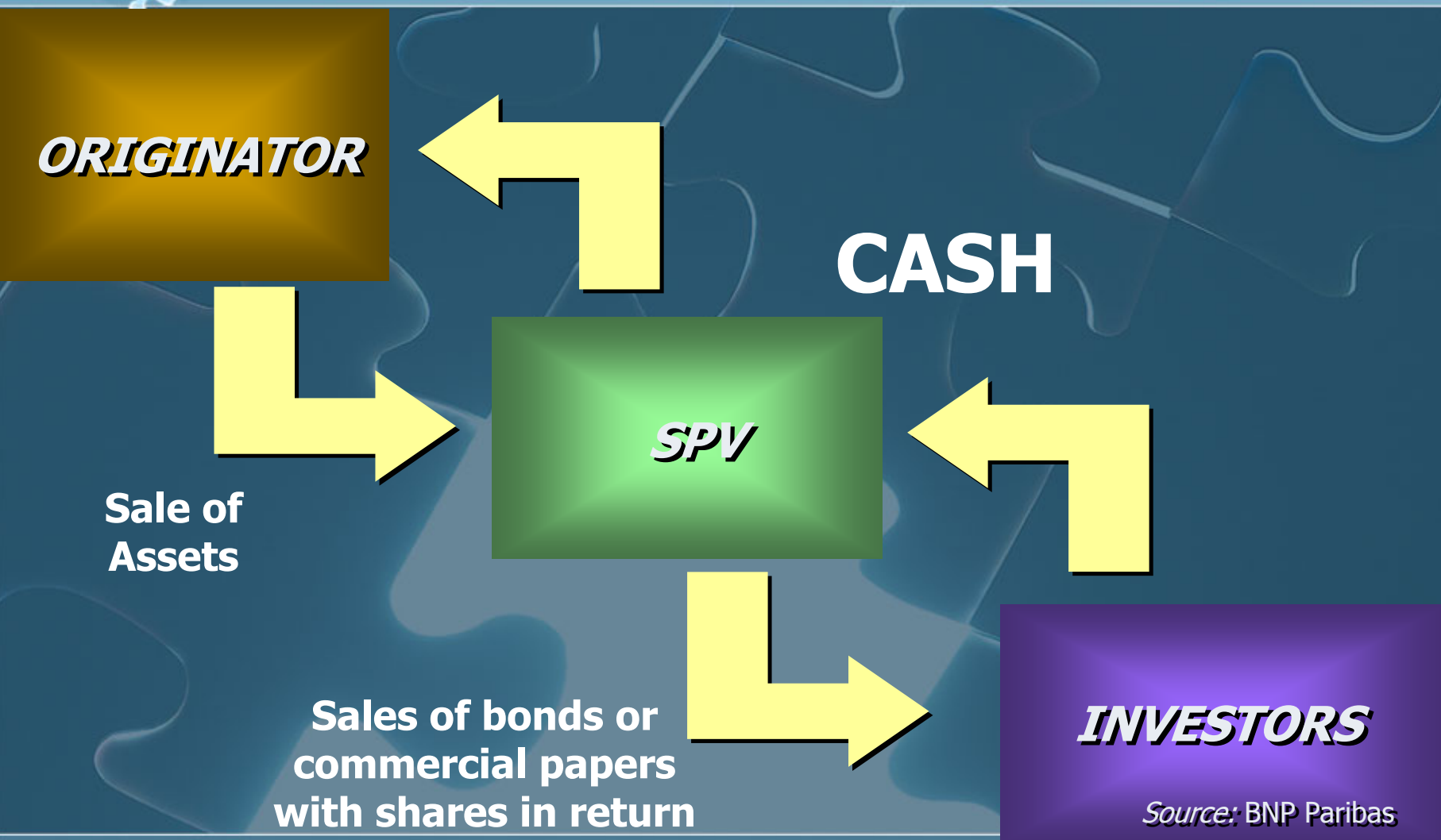


Entrepreneur

Collateral = loss of ownership

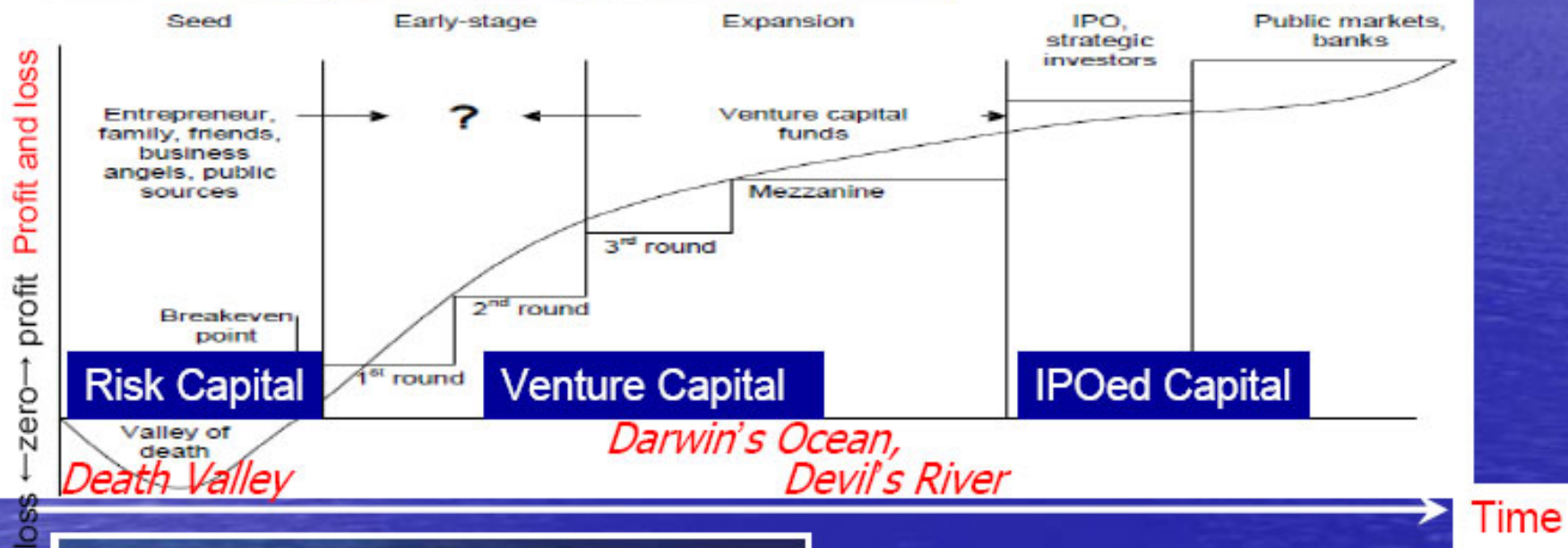
Payback + interest  
Bankruptcy + minimum capital (?)

# Asset Securitization



# Equity-Finance

## Transition of "person who supply funds."



## Transition of mode of enterprise

Partnership

Unlisted

Listed

Corporate



# Empirical Analysis

- Kaplan and Stromberg(2003)
  - Hellman(1998)
  - Lerner and Merges(1998)
- etc....


“separately allocate cash flow rights, board rights, voting rights, and other control rights.” (Kaplan and Stromberg)



# My argument

- informed entrepreneur or workers who has special knowledge
  - ⇒ too strong (ex post) bargaining power
  - ⇒ investors should have more control rights
    - however, investors have only “formal” control rights





# Importance of Human Capital

- Human capital is a key factor for innovation
- Allocation of formal control rights is important
- Public company is the best?  
One share/one vote?  
strong formal control rights?

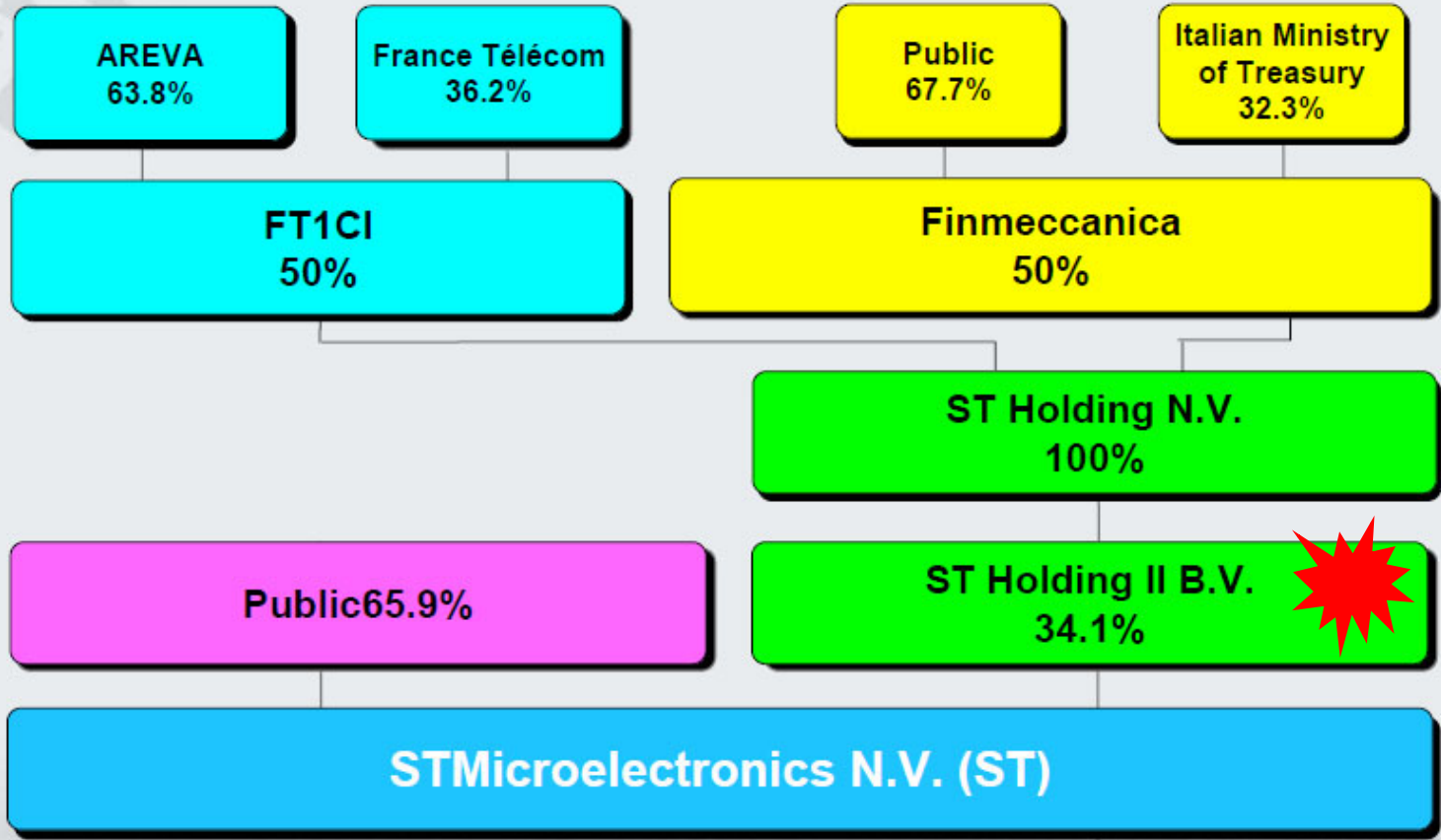


# partial public company

In Japan, we should reconsider

- meaning of “listing”,  
and
- merit and demerit of closed (non-listed) companies.
- We should examine “partially public companies”.

# Shareholding structure\*



\*On September, 30th., 2004

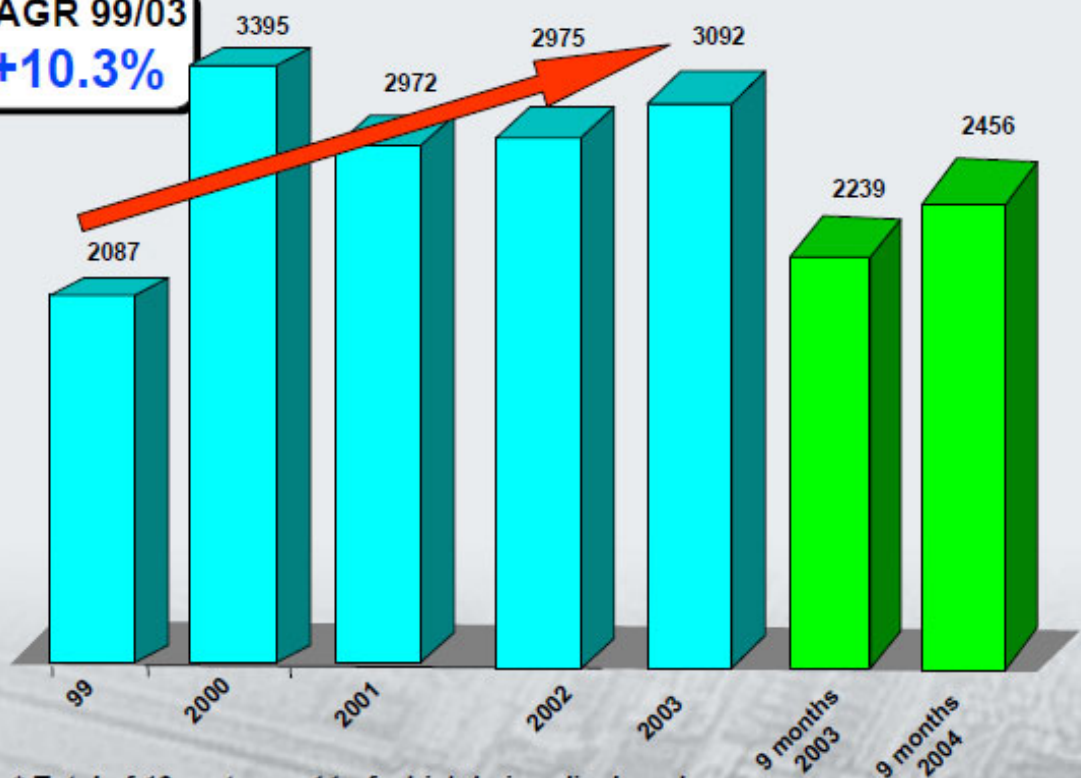
- FT1CI and Finmeccanica currently share 50/50 voting rights in ST Holding N.V.
- Shares owned by Areva, France Telecom and Finmeccanica directly or indirectly through ST Holding II BV
- New York Stock Exchange, Euronext, Paris and Borsa Italiana, Milano



# Global strategic alliances

Revenues from Strategic Partners\* (MUS\$)

**CAGR 99/03**  
**+10.3%**



## Communications

- Alcatel
- Nokia
- Nortel Networks

## Automotive

- Bosch
- Marelli
- Siemens VDO

## Computer

- HP (printers)
- Seagate
- Western Digital

## Consumer

- Thomson
- Pioneer

\* Total of 12 partners, 11 of which being disclosed





# Advantages of Singapore LLP

- Advantages of Singapore LLP
  - Limited liability
  - Privacy
  - Pass through taxation



# Accounts and Records

- The LLP is required to
  - Keep such accounting and other records as will sufficiently explain the transactions and financial position of the LLP and enable profit and loss accounts and balance-sheet to be prepared from time to time which give a true and fair view of the state of affairs of the LLP S25(1)
  - They must be open at all times to inspection by the partners S25(3)



# Comparative Table

	<b>Japan LLP</b>	<b>Singapore LLP</b>
<b>Corporate Status</b>	<b>No</b>	<b>Yes</b>
<b>Limited Liability</b>	<b>Yes</b>	<b>Yes</b>
<b>Partnership Agreement</b>	<b>Required to be filed</b>	<b>No need. Privacy</b>
<b>Management</b>	<b>All partners must manage partnership affairs</b>	<b>No need.</b>
<b>Taxation</b>	<b>Pass Through</b>	<b>Pass Through</b>
<b>Equity Transfer</b>	<b>All partners must agree</b>	<b>No transfer but can instead provide for admission of new partner on retirement.</b>



# Features of J-LLC

- Because J-LLC is an incorporated entity,  
it is likely to be taxed as a corporation  
(and its members are double-taxed).

On the other hand,  
Members of J-LLC enjoy LL,  
And almost unlimited flexibility of  
governance structure





# Features of J-LLP

- Partners of J-LLP enjoy both LL and pass through status
  - In exchange of those benefits, J-LLP is “handicapped” in terms of its legal status and inflexible governance structure
- Legal status: J-LLP is not incorporated, not an “entity” (legally its is “aggregate” of its members)
- Governance structure: all partners **MUST** manage partnership affairs (LLP, Art 13) ← a mandatory rule




# J-LLP not as corporation

- Registration (e.g., real property): cannot be registered not in the name of J-LLP. Must be registered as all partners jointly own such property
- J-LLP cannot convert/ merge into corporations (J-LLC or stock corporations)

In order to change its organization status, partners must set up new corporation and contribute assets/debts of J-LLP into the corporation

← capital gain realized and taxed



# Mandatory participation in partnership management

- J-LLP Act, art.13

If any partner does not participate in management,

There is a risk that LLP agreement is made void, and all partners have unlimited liabilities for partnership debts.



# Why mandatory participation?

- To prevent “unfair” avoidance of tax?  
Cf. IRS sec.469 (passive loss rules)

If partners share profits/losses of businesses, is it unfair for them to deduct the losses from their income?



**Thank you!**