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Will Unicorns be Born in Japan? A comparative study of private equity market development and policy reforms

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Will Unicorns Be Born in Japan? A comparative study of private equity market development and policy reforms*

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Abstract

This study explores why Japan has produced relatively few unicorns compared with other advanced and emerging economies, despite strong entrepreneurial potential and abundant savings. It argues that the underdevelopment of Japan's private equity markets constitutes a key structural bottleneck. We examine institutional causes and policy directions aimed at strengthening private equity markets and supporting high-growth firms. Drawing on experiences from the United States, the European Union, the United Kingdom, China, and the Republic of Korea, we conduct a comparative institutional analysis of core mechanisms for market-based equity financing: small public offerings, equity crowdfunding (ECF), and private placements, as well as secondary trading. Our analysis identifies structural regulatory constraints that raise entry barriers for issuers and limit investor participation in Japan. Based on these findings, we identify institutional issues that are currently lacking, including simplified disclosure frameworks, higher and tiered thresholds for small public offerings, flexible regimes for ECF, modernized rules for private placements and secondary trading, and the expansion of the scope of qualified investors, as well as digitized capital-raising processes. These measures would lower entry barriers, broaden investment opportunities, and improve risk capital allocation, while maintaining market-based investor protection. By fostering vibrant private equity markets, Japan can mobilize idle capital, stimulate entrepreneurship, and enhance competitiveness, thereby supporting innovation-driven economic growth and increasing the likelihood of more unicorns emerging. This study underscores the central role of institutional design in shaping entrepreneurial finance and offers policy-relevant insights for economies seeking to transition toward innovation-driven growth supported by vibrant private equity markets.

Keywords: Equity crowdfunding, Equity financing, Policy reform, Private equity market, Private placement, Small public offering

JEL classification: G24, G28, P48

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1. Introduction

Japan has produced only a handful of unicorns—the term “unicorn,” originally designated a mythical animal with a single horn on its forehead but now refers to a privately-held firm with a market valuation exceeding USD 1 billion—representing a relatively small number compared with many other advanced and emerging economies.¹ These unicorns have captured the attention of investors and policymakers alike. Symbolizing entrepreneurial success, a unicorn is typically characterized by concrete and ambitious growth targets (Kotha et al., 2022; Kuckertz et al., 2023).

High-growth firms, including those that achieve unicorn status, are expected to play a vital role in job creation and technological development, thereby laying the foundation for new industries and supporting the country’s long-term economic growth (Bisztray et al., 2023; Mason and Brown, 2013). The cumulative market valuation of unicorns has rapidly expanded, often outpacing that of public equity market indices (e.g., S&P 500) over the same period (Brown and Wiles, 2020). Consequently, the question of how to nurture high-growth firms has become a prominent policy issue in numerous countries.

While not all small and medium-sized enterprises (SMEs) pursue rapid growth, young and innovative firms are particularly inclined to pursue rapid growth in the early stages. These firms are more likely to require external financing not only at the early stage but also as they scale, partly due to high research and development (R&D) expenditures as well as other cash-intensive investments and commitments such as hiring, go-to-market spending, capital expenditures, and working capital.

However, the returns from R&D projects are inherently uncertain, and their actual quality can be difficult to evaluate in the market (Müller and Zimmermann, 2009). Such market imperfections influence the cost of external financing (Carpenter and Petersen, 2002). Additionally, young and

¹ The term “unicorn,” which became widely recognized following Aileen Lee’s article, “Welcome to the unicorn club: Learning from billion-dollar start-ups,” originally rested on two initial criteria: (i) market valuation exceeding USD 1 billion, and (ii) starting after 2003. This definition has since evolved in subsequent research to emphasize a temporal constraint of have been founded within the last ten years. This article is available at: <https://techcrunch.com/2013/11/02/welcome-to-the-unicorn-club/> [accessed March 10, 2026].

As of March 2026, CB Insights listed 1,345 venture-backed unicorns worldwide. A count of the CB Insights list shows that only six firms (Sakana AI, SmartNews, Preferred Networks, SmartHR, Spiber, Go) are of Japanese origin. For more details, see the CB Insights website, available at: <https://www.cbinsights.com/research-unicorn-companies> [accessed May 7, 2026].

innovative firms often prefer equity financing to debt financing, primarily because of the absence of collateral requirements and the apprehension of sensitive information being disclosed to competitors (Hall, 2002; Hall and Lerner, 2010; Honjo, 2021). The high risk and cash-flow uncertainty associated with innovation make equity a more suitable instrument than debt for absorbing downside risk (Carpenter and Petersen, 2002; Schäfer et al., 2004).

In addition, if such firms have access to market-based equity financing, they can raise larger amounts of equity capital and, depending on their business stage and risk profile, subsequently leverage such capital to obtain additional debt financing, thereby supporting larger-scale growth investments. Such financing allows firms to alleviate external financing constraints, thereby strengthening their incentives to seek equity financing (Brown et al., 2009; Hall and Lerner, 2010). In this study, we use the term “market-based equity financing” to refer to equity financing that takes place through multi-party transactions among a large number of issuing firms and investors, based on broadly shared information about the securities and their issuers.²

However, for high-growth firms, particularly young firms and SMEs, raising equity through public offerings subject to full and fair disclosure requirements is often difficult because the fixed costs of such disclosure can be disproportionately high relative to the amount of capital sought. Accordingly, they often need exempt transactions with simplified disclosure requirements, together with securities-company intermediation that performs screening, certification, placement, and investor-protection functions, and solicitation functions in reaching a broader customer-investor base.

In other words, a core practical feature of market-based equity financing is that issuers present broadly identical terms and information to a wide pool of prospective investors, typically through a common set of offering disclosure documents. Private equity markets enable unlisted firms—particularly young and innovative firms with growth potential—to raise equity financing at the scale

² Our definition of “market-based equity financing” builds on the broader notion of market-based financing used in policy and academic discussions contrasting bank-based and market-based financial structures (e.g. OECD, 2015). In Japanese policy and academic discussions, a similar distinction is often drawn between “direct finance” (*chokusetsu kinyū*) and “indirect finance” (*kansetsu kinyū*), as well as between “market-based finance” (*shijō-gata kinyū*) and “bank-based finance” (*ginkō-gata kinyū*) (Ikeo and Policy Research Institute, Ministry of Finance, 2006).

required at each stage of their growth from a diverse range of individual and institutional investors, including venture capital (VC) funds and angel investors.³ More generally, extending relationship-based offerings and placements into broader market-based equity financing through simplified disclosure and securities companies' intermediation can improve competition among issuers for capital, competition among investors for investment opportunities, market liquidity, and price formation, while ultimately serving investor protection and fair dealing.

Nevertheless, young and innovative firms in some countries, such as Japan, face difficulties in raising equity financing due to underdeveloped private equity markets. Consequently, these countries exhibit relatively few unicorns, despite high expectations for their emergence. Given that the development of private equity markets is crucial for the growth of young and innovative firms, it is imperative to discuss how these markets can be improved in such countries. In countries with well-developed private equity markets, market-based equity financing allows high-growth firms to raise sufficient capital from a broad and diverse investor base, generating self-reinforcing cycles of capital raising, growth-oriented investment, and increasing market valuations that can eventually give rise to unicorns. By contrast, in Japan, underdeveloped private equity markets make it difficult for young and innovative firms to access such financing at scale, constraining their growth trajectories and limiting the emergence of unicorns.

This study explores the current legal and regulatory framework and the historical evolution that have shaped Japan's private equity markets for unlisted shares, which, in principle, should provide the foundation for high-growth and growth-oriented firms but have not fully done so. We investigate why growth-oriented firms in Japan face greater difficulties in scaling up and, ultimately, why Japan has produced relatively few unicorns compared with other advanced and emerging economies, despite strong entrepreneurial potential and abundant savings. The analysis argues that the underdevelopment of Japan's private equity markets constitutes a key structural bottleneck for both firm-level growth and

³ Private equity markets are broadly defined as markets organized for the issuance and secondary trading of equity securities or fund interests that are exempt from full and fair disclosure requirements, as defined below, and therefore not listed on public exchanges (Fenn et al., 1997). In this study, we use the term "private equity markets" to denote markets for issuing and trading unlisted equity securities of firms, rather than markets for private fund interests.

long-run economic growth. The comparative analysis is grounded in the legal and regulatory frameworks in force as of May 31, 2026; subsequent legislative and regulatory developments therefore fall outside the scope of this study.

Drawing on experiences from the United States (US), the European Union (EU), the United Kingdom (UK), China, and the Republic of Korea (Korea)—collectively, the “surveyed jurisdictions”—we conduct a comparative institutional analysis of core mechanisms for market-based equity financing: small public offerings (*shōgaku kōbo*), equity crowdfunding (ECF), private placements to a small number of investors (i.e., small-number private placements), private placements to investors who meet a higher standard of financial sophistication and capacity (i.e., qualified-investor private placements), and resales and secondary trading related to these offerings and placements (secondary trading).⁴ Focusing on the case of Japan—a country that has faced persistent challenges in fostering high-growth firms as a driver of economic revitalization—we discuss how these firms can raise risk capital from private equity markets.⁵ This study underscores the need for regulatory reforms across multiple institutional arrangements in Japan’s private equity markets, particularly with respect to exempt transactions in unlisted shares, based on a comparative institutional analysis of the core mechanisms for market-based equity financing.⁶

Although credit markets are well established in Japan’s bank-centered financing system, high-growth firms often require substantial equity and other forms of capital. Equity-based financing for start-ups remains modest relative to Japan’s economic scale. Even though VC funds account for a large share of start-up funding domestically, the amount of capital raised from VC is also limited by international standards.⁷ This underdevelopment of private equity markets has been an important

4 In this study, the term “resale” refers to investor-to-investor transactions of already issued securities, and the term “secondary trading” denotes such resales in secondary markets, as opposed to primary offerings by the issuer in primary markets.

5 In this study, the term “risk capital” refers to equity and other loss-absorbing capital invested in high-growth, innovative firms.

6 In this study, the term “exempt transactions” refers to transactions in unlisted equity that are exempt from full and fair disclosure requirements, as defined in Section 3.1, under securities laws in each jurisdiction, including both primary offerings and secondary trading. For more discussions on prospectus exemptions and offerings directed to qualified investors, see OECD (2025). The institutional details of these exempt transactions will be discussed in Section 3.

7 According to the OECD, VC investments as a share of GDP in Japan were estimated at approximately 0.045% in 2023, which is lower than those in several countries, such as Canada (0.225%), France (0.078%), Germany

contributing factor to Japan’s prolonged economic stagnation—often referred to as the lost 30 years—by constraining the growth and scale-up of high-growth firms.

In postwar Japan, unlisted-shares markets developed a multilayered structure, encompassing transactions without intermediation by securities companies (hereinafter, “direct transactions”), and over-the-counter (OTC) trading and markets intermediated by securities companies, organized OTC markets, and exchange-based markets.⁸ However, disclosure regulations for organized OTC markets were tightened. OTC trading and markets outside the organized OTC markets were effectively restricted by the prohibition on solicitation and, as a result, largely disappeared. In addition, direct transactions remained confined to small-scale, relationship-based private placements. Under these regulatory constraints, one organized OTC market, the JASDAQ Market, was reorganized into a junior stock market, while a successor organized OTC market, the Green Sheet Market, remained limited in scope, and was eventually abolished. Through these institutional changes, Japan developed a distinctive pathway to public markets. Firms would raise capital through direct transactions and then move to public status through IPOs on junior stock markets.⁹ As a result, private equity markets in Japan have remained underdeveloped, limiting unlisted firms’ access to investors.

The contributions of this study are outlined below. First, we highlight the importance of equity financing for the emergence of high-growth firms by shedding light on the role of private equity markets, even in countries with bank-centered financial systems, such as Japan. While human capital, including nascent entrepreneurs, is essential for the creation of start-ups, equity capital from private equity markets is likewise necessary for their growth, making the development of such markets crucial for

(0.056%), Korea (0.140%), UK (0.052%), and US (0.464%), although higher than in Italy (0.030%). For cross-country data on VC investment, see the OECD Data Explorer, available at: <https://data-explorer.oecd.org/> [accessed March 11, 2026].

⁸ In this study, we use the term “direct” to refer to transactions conducted without intermediation by securities firms. This contrasts with intermediated transactions where securities firms act as underwriters or brokers. Direct transactions fall into primary transactions by issuers and secondary transactions among investors. Some may have market-like features when similar terms and offering documents are presented to multiple investors in primary offerings, secondary offerings, or private placements.

⁹ Following the literature, we use “junior stock markets” to refer to stock exchange segments or dedicated markets designed for smaller and high-growth firms, typically with lighter listing requirements than the main stock exchanges, and often serving as an entry point or “stepping stone” from private to public equity markets (including MOTHERS, JASDAQ, and, more recently, the TSE Growth Market in Japan). The term has been used in prior studies on SME- and venture-oriented exchange segments, including Honjo and Kurihara (2023).

fostering entrepreneurship in Japan.

Second, we propose specific policy prescriptions based on a comparative analysis of Japan with the other surveyed jurisdictions. To revitalize Japan's private equity markets, we suggest reforms to small public offerings, ECF, and small-number private placements, and highlight the role and scope of qualified investors, as well as the importance of digitalized capital-raising platforms. These proposals offer a useful framework for fostering high-growth firms in other countries facing challenges similar to those faced by Japan.

The remainder of this study is organized as follows. Section 2 introduces Japan's institutional background for private and public equity markets. Section 3 provides a comparative institutional analysis of private equity market regulations and highlights policies for private equity markets in Japan. Section 4 provides a discussion of policy issues regarding how Japan's private equity markets can be improved to promote young and innovative firms. Section 5 presents a discussion of economic growth through equity financing. Finally, Section 6 provides concluding remarks.

2. Institutional background: The case of Japan

2.1. Institutional structure of US private equity markets

While private equity markets in Japan have remained comparatively underdeveloped historically, those in the US have developed into a multi-layered system of trading venues and intermediaries that support firms throughout their growth trajectory.¹⁰ In this structure, US OTC markets constitute the foundational layer of the system. These markets range from state-regulated regional broker-dealer networks to national-level OTC markets operated by securities companies (broker-dealers), including firms ranging from small agents to global investment banks. These securities companies and various types of intermediaries operate ECF platforms, marketplace-type online private share trading platforms (hereinafter, "marketplaces"), and Alternative Trading Systems (ATS) (Tadokoro, 2020).¹¹

¹⁰ For comparative data on the relatively recent size of stock markets and over-the-counter markets in Japan and the US, see Tadokoro (2020).

¹¹ In the US, online platforms used for the issuance and secondary trading of unlisted shares are often referred to as "marketplaces." These platforms are operated by broker-dealers, specialized financial technology firms, and

Secondary trading venues on such platforms seek to provide liquidity for trading in unlisted shares, while stock exchanges, where securities companies trade with one another as members, provide their secondary trading function for listed securities.¹² These markets allow firms to raise equity financing at the scale needed during different stages of growth and provide opportunities for secondary trading. Some unlisted firms that raise financing through these private equity markets may become high-growth firms, including unicorns. This institutional structure provides a useful benchmark for understanding the institutional limitations of Japan's private equity markets.

2.2. Historical background of Japan's private equity markets

The following sections trace the historical development of Japan's unlisted share markets, focusing on the evolution of mechanisms for the primary offering and secondary trading of unlisted shares, including primary and secondary direct transactions, while also tracing the institutional development of securities companies' OTC markets, particularly organized OTC markets such as the OTC Approved Issues System and the OTC Registration System, and OTC transactions and markets outside organized OTC markets and other OTC trading schemes operated by the Japan Securities Dealers Association (JSDA).¹³

With respect to such organized OTC markets and exceptional OTC schemes, the extent of their use and actual trading volumes and transaction counts can be grasped to a certain degree through official records and historical materials.¹⁴ By contrast, records and data documenting direct transactions are

other intermediaries. Relevant online trading venues also include platform-supported organized OTC systems, such as interdealer quotation systems for OTC-quoted securities, including OTC Link ATS, which is operated by OTC Markets Group. Some venues operate as ATS, while others provide marketplace functions without ATS status. Examples include Nasdaq Private Market, Forge, and EquityZen.

¹² The degree of liquidity varies significantly across platforms. Secondary trading on ECF platforms is still characterized by relatively low liquidity, although these platforms also aim to facilitate liquidity.

¹³ In this study, we distinguish conceptually between (i) OTC trading, (ii) the OTC market, understood as the aggregation and concentration of many OTC transactions through securities-company networks, and (iii) organized OTC markets, meaning institutionalized OTC venues supported by eligibility rules, market practices, and, in some cases, quotation mechanisms. In parts of the Japanese literature, however, "OTC market" is sometimes used mainly to refer to such organized OTC venues.

¹⁴ The JSDA is an association functioning as a self-regulatory organization for the securities industry and as its representative body, and its legal status is authorized by the Prime Minister under the Financial Instruments and Exchange Act (FIEA). Currently, the JSDA comprises about 500 members, including securities companies, banks, and other financial institutions engaged in securities businesses in Japan. For more details on the JSDA, see the JSDA website, available at: <https://www.jsda.or.jp/en/> [accessed January 18, 2025].

extremely limited outside such organized OTC markets and exceptional OTC schemes. Accordingly, their scale and actual conditions must be inferred indirectly from two types of indicators: changes in trading volume in those organized OTC markets and exceptional OTC schemes, and the practical constraints due to regulations imposed on issuing companies and investors. These regulations concern small public offerings, ECF, and small-number private placements, qualified-investor private placements, and secondary trading, as well as simplified disclosure requirements.

2.2.1. Historical evolution up to the early 1980s

Japan's equity markets evolved in a historical context in which issuers' solicitation activities—typically conducted through close personal, regional, and business networks—played a central role in financing, particularly from the prewar period through the immediate postwar decades. In the first half of the 20th century, equity financing was the primary source of external funds for Japanese corporations, with equity markets raising more than 50% of external financing (Bank of Japan, 1962; Franks et al., 2009).

Prior to World War II, equity financing and secondary trading in unlisted shares were conducted under relatively light and fragmented regulation, especially when compared with the comprehensive securities laws introduced under the American occupation (Japan Securities Research Institute (JSRI), 2024). It often proceeded through promoter-led solicitation involving local notables, industrial groups, and other closely connected investors—including business coordinators, and zaibatsu-related groups—especially in the formation of local firms and early joint-stock companies (Franks et al., 2009; Morck and Nakamura, 2005; Shimada, 2008). Securities firms also appeared to have performed intermediation functions by soliciting subscriptions, arranging distributions, and facilitating primary offerings and secondary trading of unlisted shares. They helped connect issuers with dispersed investors in their OTC markets. Local stock exchanges played an active role in the prewar period, and OTC transactions and markets among securities companies developed especially in the immediate postwar years when the stock exchanges were temporarily closed (JSRI, 2024). These financing arrangements often depended on close communication among founders, promoters, securities firms, business coordinators, co-investors and dispersed investors, and capital raising was frequently shaped by ongoing coordination within these personal, regional, business, and intermediation networks. Taken together, these practices

indicate that prewar equity financing was deeply embedded in extensive intermediation relationships and networks rather than being organized solely through arm's-length market transactions.

For a certain period immediately after the end of World War II, during the temporary closure of Japan's stock exchanges, there appears to have been a revival of these network-based equity financings, and OTC transactions and markets also reemerged. These OTC transactions and markets developed organically and gradually as precursors to the subsequent evolution of organized OTC markets, serving as mechanisms to provide firms with access to equity financing and investors with investment opportunities.¹⁵ Unlisted shares were traded in informal OTC transactions and markets operated by securities companies, reflecting the strong demand for financing during the postwar reconstruction period. Securities companies gathered in the meeting rooms of stock exchanges to conduct collective transactions, a practice known as “collective trading” (*shūdan baibai*). In 1949, Japan's stock exchanges—such as the Tokyo Stock Exchange (TSE), Osaka Stock Exchange (OSE), and Nagoya Stock Exchange (NSE)—were reopened.

In 1951, to organize collective trading among securities companies, the OTC Approved Issues System (*Tentō Baibai Shōnin Meigara Seido*; hereinafter, the “OTC Approved Issues Market”) was established and managed by the JSDA. Under this organized OTC market, the JSDA approved certain unlisted shares as eligible issues, and securities companies quoted prices to each other and coordinated trades accordingly.

At the time of the enactment of the Securities and Exchange Act in 1948, the exemption threshold for filing requirements for small public offerings (i.e., total amount offered by issuers or sold by existing shareholders to investors) was set at JPY 200,000 and was raised several times in response to rising prices and successive regulatory changes reflecting firms' funding needs. Since 1961, this amount has been set at less than JPY 100 million (i.e., an exemption from the requirement to file a securities registration statement) (Fuchida, 2013), and, in this context, OTC trading in the shares of high-growth firms played an important role (Nikami, 2015). The shares of many leading firms that drove the growth

¹⁵ For more details on the histories of stock exchanges and OTC markets in Japan, see Matsuo (2021, 2023b) and Fukami (2024), as well as the websites of the Japan Exchange Group, available at: <https://www.jpx.co.jp/corporate/about-jpx/history/00-01.html> [accessed May 31, 2026].

of the postwar Japanese economy, including Honda and Sony (then Tokyo Tsushin Kogyo), were traded under the OTC Approved Issues Market managed by the JSDA (Matsuo, 2021). Notably, the OTC Approved Issues Market played an important role in helping high-growth firms raise equity financing during Japan’s postwar period (Matsuo, 2021), while other OTC transactions and markets, and direct transactions outside those markets also appear to have contributed to such financing.

However, the OTC Approved Issues Market was terminated partly due to concerns that it could be interpreted as violating regulations prohibiting exchange-like trading facilities, and partly as part of efforts to strengthen listing requirements and establish clearer delisting criteria. These institutional changes were initiated by the Ministry of Finance and the TSE and were subsequently supported by securities companies. In October 1961, the Second Sections of the TSE, OSE, and NSE were opened, and the OTC Approved Issues Market was formally discontinued. Most firms previously traded in the OTC Approved Issues Market were transferred to the Second Sections of the existing stock exchanges. Trading on the newly established Second Sections was highly active after their launch (Matsuo, 2023a).

Even after these reforms, the demand for equity financing among unlisted firms remained strong, and the issuance of unlisted shares and OTC trading continued to be active (Matsuo, 2023a). Such issuance and trading appear to have been conducted mainly through small public offerings. Accordingly, a new organized OTC market—namely, the OTC Registration System (*Tentō Baibai Tōroku Meigara Seido*; hereinafter, the “OTC Registration Market”)—was created by the JSDA in February 1963. It was designed to facilitate trading in OTC registration issues that satisfied the JSDA’s registration criteria, with disclosure requirements of issuer information, and the JSDA’s publication of trading prices.¹⁶

The OTC Registration Market, however, did not perform as strongly as the earlier OTC Approved Issues Market, and the number of registered issues gradually declined. To strengthen its function as a market for unlisted firms, promote fair price formation, and position it as a market second only to the stock exchanges, the registration criteria were tightened in 1965. In addition, under the 1971 amendment to the Securities and Exchange Act, companies whose shares were registered in the OTC Registration

¹⁶ For the history of OTC trading, see Japan Exchange Group Corporate website, available at: <https://www.jpx.co.jp/english/corporate/about-jpx/history/02-02.html> [accessed March 12, 2026].

Market became required to file ongoing disclosure documents, which increased their disclosure burden.

In 1976, Nihon Tentō Shōken was established in an effort to centralize trading. As a result, the market remained stagnant, and both the number of registered issues and trading volume continued to decline. At the same time, however, given the strong demand for external finance during the high-growth era, the broader OTC market appears to have remained active.

From the late 1970s onward, moreover, the introduction and subsequent tightening of solicitation restrictions through statutory reforms and JSDA's self-regulatory rules progressively reduced market-based equity transactions and reinforced a relationship-based financing structure, particularly for unlisted firms (Osaki, 1999). During Japan's period of rapid economic growth, the number of independent and small firms seeking to realize new technologies and innovative ideas increased, which contributed to the active issuance of unlisted shares and vigorous OTC trading. At the same time, however, a series of investment fraud cases involving securities companies and their employees reportedly prompted a shift toward a stronger emphasis on exchange-centered trading (Kobayashi, 1994).

In response to these problems, the Ministry of Finance issued a series of directives by the Director-General of the Securities Bureau in 1974, 1976, and 1983 concerning securities companies' sales practices and the development and proper operation of OTC transactions in unlisted shares. The 1974 directive addressed the need to ensure an investor-oriented sales posture in securities trading. The 1976 and 1983 directives addressed securities companies' restrained business conduct in connection with OTC transactions, including the solicitation of investments in shares not registered on the OTC Registration Market and in other unlisted shares. These requests were progressively reflected in the JSDA's self-regulatory rules in 1975, 1976, and 1983, which established a general principle prohibiting securities companies from soliciting investments in unregistered or unlisted shares other than OTC registered issues (hereinafter, "JSDA's general prohibition on solicitation").¹⁷

¹⁷ See the Securities Bureau Director-General's directive dated December 2, 1974, "On the thorough implementation of an investor-oriented sales posture"; the Securities Bureau Director-General's directive dated July 1, 1976, "On securities companies' business conduct in connection with the development of the OTC Stock Market"; and the Securities Bureau Director-General's directive dated November 1, 1983, "On the proper operation of the OTC Stock Market." In parallel, the JSDA enacted and amended the following rules: in 1975,

Consequently, from the late 1970s onward, OTC transactions and markets outside the OTC Registration Market were effectively restricted by this prohibition on solicitation and, as a practical matter, largely disappeared in Japan. As OTC trading faded, unlisted-share financing appears to have become more reliant on direct transactions. For unlisted shares other than OTC registration issues, intermediation and other transactions by securities firms were therefore confined to processing transactions arising from an unsolicited customer order. The actual volume of such trading became extremely limited, until the introduction of the Green Sheet system (hereinafter, the “Green Sheet Market”) in 1997, which, as discussed in Section 2.2.3, was the first major exceptional OTC trading scheme under the JSDA’s general prohibition on solicitation and was followed by only a few narrowly defined schemes (Osaki, 1997).¹⁸ Thus, during this period a general framework effectively prohibiting securities companies from soliciting investments in unlisted shares was established.

Japan’s postwar markets for unlisted shares evolved into a three-tier structure consisting of organized OTC markets, other OTC transactions and markets, and direct transactions. The first organized OTC market—the OTC Approved Issues Market—expanded and eventually transformed into the Second Sections of the stock exchanges, while the later OTC Registration Market (and subsequent JASDAQ Market) continued this organized OTC markets’ tier. By contrast, OTC transactions and markets outside

the Rules concerning solicitation for investments and management of customers, etc. by association members (Fair Practice Rules No. 9); in 1976, the Rules concerning sales and purchases and other transactions of securities in the OTC market (Fair Practice Rule No. 1) (hereinafter, the “OTC Securities Rules”); and in 1983, amendments to the OTC Securities Rules. For the published texts of the relevant directives and rules, see JSDA Monthly Bulletin (*Shōken Gyōhō*), Japan Securities Dealers Association, No. 293 (December 1974), No. 311 (July 1976), No. 394 (October 1983), and No. 395 (November 1983). These issues are held at the National Diet Library (call no. Z3-424) and are accessible via the NDL Digital Collections accessible at

<https://dl.ndl.go.jp/pid/2731174>

<https://dl.ndl.go.jp/pid/2731192>

<https://dl.ndl.go.jp/pid/2731275>

<https://dl.ndl.go.jp/pid/2731276> [accessed May 31, 2026].

Moreover, the relevant JSDA self-regulatory framework is currently reflected in the JSDA’s “Rules concerning Over-the-Counter Securities” (*Tentō Yūkashōken ni kansuru kisoku*), established on March 15, 2005. For more details, see the JSDA’s “History of the trading framework and solicitation regulations for unlisted shares” (*Mikōkai kabushiki no torihikiseido oyobi kanyū kisei no enkaku*), Material No.2, Study Group on Revitalizing the Issuance and Secondary Markets for Unlisted Shares on January 29, 2021, available at:

https://www.jsda.or.jp/about/kaigi/jisyukisei/gijigaiyou/files/hijojokon_0129_shiryo.pdf [accessed May 31, 2026].

18 The JSDA enacted and amended the following rules: in 1975, the Rules Concerning Solicitation for Investments and Management of Customers, Etc. by Association Members (Fair Practice Rules No. 9); in 1976, the Rules Concerning Sales and Purchases and Other Transactions of Securities in the OTC Market (Fair Practice Rules No. 1) (hereinafter, the “OTC Securities Rules”); and in 1983, amendments to the OTC Securities Rules, which prohibited investment solicitation with respect to unlisted securities other than OTC registered issues.

these organized OTC markets largely disappeared under the JSDA's general prohibition on solicitation, so that direct transactions in unlisted shares were effectively confined to small public offerings with a total offering amount of less than JPY 100 million.

2.2.2. From the 1980s to the late 1990s

Following the establishment of this general framework, in which the OTC Registration Market remained stagnant and OTC transactions and markets outside the organized OTC market had largely disappeared, equity financing for unlisted firms became largely limited to direct transactions conducted by issuers, namely shareholder and third-party allotments within the framework of small public offerings of less than JPY 100 million. Under these conditions, with issuers relying on direct transactions below the JPY 100 million threshold, the OTC Registration Market remained stagnant, with little growth in newly registered shares, prompting discussions on how to revitalize the market.

In response to these concerns, it was substantially restructured through deregulation—specifically, a “New OTC Market” was opened in November 1983—and the JSDA further relaxed the criteria for registration in it, including requirements related to firm size, profitability, operating history, and shareholder distribution, while also introducing timely disclosure requirements (Matsuo, 2021). In addition, public offerings at the time of the registration of issues to the New OTC Market were introduced in 1984 and this was extended in 1986 to already registered OTC companies. Consequently, equity financing by registered firms expanded during the 1980s.

The upper limit for small public offerings was increased in 1988 from JPY 100 million to JPY 500 million for the first time since 1961, mainly as a nominal adjustment to reflect the substantial rise in price levels and the expansion of firms' funding needs. Moreover, small-number private placements and private placements to qualified institutional investors (*tekikaku kikan tōshika*; hereinafter, “QIIs”) were institutionalized in 1992, as part of a broader redesign of the regulatory boundaries of both public offerings and sales to the public (Baum and Kanda, 2017). These institutional arrangements expanded the scope for primary offerings and secondary trading directly by firms and investors themselves—without the intermediation of securities companies and, as discussed below, through more market-based

offerings and secondary trading conducted on the basis of offering disclosure documents such as private placement memoranda—to a broader range of investors including affiliated or personally connected investors and professionally sophisticated institutional investors.

Also in 1991, the JASDAQ (Japan Association of Securities Dealers Automated Quotations) system, an electronic quotation and trading system, came into operation in the OTC Registration Market.¹⁹ In the 1990s, amid the rise of venture firms, the number of firms registered on the JASDAQ Market increased (Matsuo, 2023b). Such listings were increasingly treated as initial public offerings (IPOs), alongside conventional IPOs on stock exchanges.

However, several high-profile corruption scandals—most notably, the Recruit Scandal, which emerged in 1988 and involved influential politicians, government officials, business leaders, and media figures who received unlisted shares of Recruit Cosmos Co., Ltd. at favorable prices—heightened public awareness of unlisted shares (Kawata, 2011). This period also saw an increase in investment fraud cases, in which perpetrators posed as issuers to solicit investments in unlisted shares. At the same time, the spread of the Internet improved share trading efficiency, raising doubts about the expansion of direct transactions without the intermediation of securities companies for offerings not subject to disclosure obligations (Fuchida, 2013).

Amid growing concerns over investor protection, these developments appear to have contributed to the tightening of regulations and self-regulatory rules on primary offerings and secondary trading of unlisted shares, particularly in relatively flexible but small-scale primary transactions conducted directly by issuers of unlisted shares, which may, at least indirectly, have hindered the subsequent development of Japan’s private equity market in unlisted securities (Kobayashi, 1994).

In response to these concerns, the Green Sheet Market was introduced in 1997, with a view to creating a more transparent secondary market and strengthening the regulatory framework for public offerings in the JPY 100–500 million range. At the same time, the regulatory framework governing fundraising by unlisted firms below the JPY 500 million threshold was also restructured. The Securities

¹⁹ The OTC Registration Market came to be referred to as the JASDAQ Market in 2001, when it came to be operated by the Jasdac Inc.

and Exchange Act (SEA) was amended in 1998 to lower the exemption threshold for small public offerings from less than JPY 500 million to less than JPY 100 million, and to establish the Low-Value Public Offering (*Shōgaku Boshū*). In addition, the JSDA introduced the OTC Handling Scheme (*Tentō Toriatsukai Yūkashōken Seido*) as a limited exceptional OTC scheme for securities-company intermediation in offerings of Green Sheet issues. These institutional arrangements are discussed below. One aspect of the background to this amendment was that the establishment of the Green Sheet Market enabled securities companies to act as intermediaries for offerings by unlisted firms of less than JPY 500 million.

Around the same time, a new regime called the Low-Value Public Offering was introduced. It did not qualify for exemption and therefore required the filing of an offering disclosure document. Under this regime, issuers were permitted to omit certain disclosure items in the offering disclosure documents—namely, those relating to consolidated financial statements.²⁰ However, issuers remained obligated to file an offering disclosure document and comply with ongoing disclosure requirements, including the submission of audited financial statements and timely disclosure requirements, in accordance with the standards of the SEA. In practice, very few issuers used the system because the benefits to unlisted firms of using it without listing were limited and the associated disclosure and compliance burdens remained substantial.

During the 1990s, in the course of discussions on regulatory reform, calls also emerged from industry circles to review the JSDA's general prohibition on solicitation, with the aim of improving financing conditions for emerging firms through intermediation by securities companies in small public offerings with a total offering amount of less than JPY 500 million, small-number private placement, and related resales and secondary trading. In 1996, the Study Group on the Development of the Venture Financing Environment, organized by the Ministry of International Trade and Industry, proposed measures to

20 The Low-Value Public Offering has remained subject to full and fair disclosure requirements (statutory offering and ongoing disclosure requirements), since 1998. Issuers have been required to file offering disclosure documents, namely Securities Registration Statements (*Yūkashōken Todokede-sho*), and ongoing disclosure documents, namely Securities Reports (*Yūkashōken Hōkokusho*), both with audited financial statements. In 2025, amendments to the disclosure regulations further reduced certain disclosure items and shortened the number of fiscal years for which audited financial statements were required to be submitted. See the Cabinet Office Ordinance on Disclosure of Corporate Affairs.

enhance the liquidity of unlisted and unregistered shares (Ministry of International Trade and Industry, 1996). Similarly, the 1997 Government Action Plan for Deregulation recommended that the ban on soliciting investments in unlisted shares should be lifted to meet diverse financing needs (Government of Japan, 1997). Against this background, the Securities Transaction Council of the Ministry of Finance also took the view that securities companies should be permitted to handle unlisted and unregistered shares, provided that rules were put in place to ensure the fairness of transactions (Securities Transaction Council, General Committee, 1997; Securities Transaction Council, General Committee, Market Working, 1997).

In response, a framework for handling OTC securities (*Tentō Toriatsukai Yūkashōken Seido*; hereinafter, the “OTC Handling Scheme”) was introduced in 1997 as a limited exception to the JSDA’s general prohibition on solicitation, under which member securities firms were allowed to solicit for primary or secondary offerings of designated OTC-Handling Securities on the condition that the issuer prepared a prescribed explanatory document referred to as “Company Information Sheet” (*Kaisha Naiyō Setsumeisho*), which functioned as a prospectus-like offering disclosure document, and accepted transfer restrictions. This scheme provided firms whose shares were neither listed on exchanges nor registered in the OTC Registration Market with securities-company intermediation in offerings of such securities, only after they were designated as Green Sheet issues.

Under the OTC Handling Scheme, however, when securities companies were engaged to intermediate small public offerings or small-number private placements, issuers were required to prepare a Company Information Sheet. In addition, issuers seeking to have their shares designated as Green Sheet issues were subject to ongoing disclosure obligations, including the periodic updating of their Company Information Sheets, and, from 2005 onward, the application of insider trading regulations and certain event-reporting obligations similar to those applicable to ongoing disclosure companies. Furthermore, managing securities companies were required to publish at least one quotation for each Green Sheet issue per month. As discussed below in Section 3.1, these requirements imposed a substantial burden on issuers that was disproportionate to typical offering sizes (Osaki, 2005). Consequently, although the scheme was intended to facilitate financing for emerging firms, through securities companies’ intermediation, it proved impractical; the disclosure costs were too high relative

to the expected amount of capital raised, and actual use remained limited.

The organized OTC market—the Green Sheet Market, established in 1997—allowed securities companies to intermediate primary offerings and secondary trading of unlisted shares in amounts of less than JPY 500 million, on the condition that the issuer prepared a Company Information Sheet. In 1998, however, an amendment to the Securities and Exchange Act reduced a total offering amount of small public offerings from less than JPY 500 million to less than JPY 100 million, so that offerings in the JPY 100–500 million range became subject to full and fair disclosure requirements under the Low-Value Public Offering while the upper limit for small public offering—exempt primary offerings and secondary trading—was significantly lowered to less than JPY 100 million.

As a consequence, since 1998, the organized OTC markets came to consist of the JASDAQ Market and the Green Sheet Market. The public offering schemes of the Green Sheet Market were low-value public offerings between JPY 100 million and JPY 500 million, and small public offerings of less than JPY 100 million carried out as OTC transactions on the basis of a burdened Company Information Sheet. Meanwhile, outside these organized OTC markets, direct transactions were largely through small public offerings confined to less than JPY 100 million, as well as through relation-based small-number private placements, and QII private placements. While these direct transactions remained an important practical channel for equity financing by unlisted firms, they were less capable of enabling broader investor participation and expanding the scale of fundraising.

2.2.3. From the 2000s to the present

To summarize the historical trajectory discussed above, in light of the postwar evolution of Japan's organized OTC markets and related regulatory reforms, prior research has highlighted that cycles of transition to stock exchanges tend to recur as such markets expand, providing an important perspective on the structural dynamics of Japan's equity markets (Matsuo, 2023b). These transitions occurred first in 1961, when the OTC Approved Issues Market was transferred to the Second Sections of stock exchanges, and later when the OTC Registration Market evolved into a stock exchange, namely the JASDAQ Securities Exchange. These two markets had served as entry points to listing for unlisted shares and were institutionalized and subsequently integrated into stock exchanges.

A second cycle can be observed in the transition from the OTC Registration Market to the JASDAQ Securities Exchange in 2004. However, this second cycle differed from the first in that it unfolded under a markedly different institutional environment, characterized as follows. First, the registration criteria of the JASDAQ Market had already been substantially relaxed during the 1980s and were further eased in the 1990s through the introduction of special segments in 1995 that allowed even loss-making firms to list (Matsuo, 2023b; Osaki, 1999). Subsequently established emerging markets adopted even more relaxed listing requirements. Second, this second cycle unfolded in a context in which direct transactions outside the organized OTC markets had already contracted largely to direct transactions through small public offerings less than JPY 100 million, and relation-based small-number private placements, under the JSDA's general prohibition on solicitation and the OTC Handling Scheme. As a result, the JASDAQ Market was formally reorganized into a securities exchange, amid growing competition from newly established emerging junior stock markets. The Green Sheet Market, which effectively remained the only organized OTC market for unlisted shares, did not develop into a robust secondary market, still less a venue for vibrant trading volume comparable to the JASDAQ Market.²¹

The Green Sheet Market, established in 1997 as discussed in the previous section, initially attracted some designated issues and was used for equity financing by a limited number of unlisted firms. It continued to stagnate after the beginning of the 2000s. In addition, its function of the organized OTC Market as an intermediate step toward stock-exchange listing was also weakened. Previous research has argued that the main shortcomings of the Green Sheet Market lay in its regulatory design. As will be discussed in Section 3.1, equity offerings were effectively constrained by the low-value public offering and by the OTC Handling Scheme, both of which imposed disclosure and compliance obligations disproportionate to typical offering sizes (Osaki, 2005).²² In addition, as newly established junior stock markets for new ventures with relatively relaxed listing requirements emerged, it did not achieve the expected number of listings.

21 Matsuo (2023b) discussed how the OTC Approved Issues Market functioned as an effective stepping stone to the Second Sections, whereas later OTC arrangements around the JASDAQ Market evolved under different regulatory constraints and did not yield a similarly robust OTC market.

22 See Financial Services Agency, "Secretariat materials," September 27, 2013, available at: https://www.fsa.go.jp/singi/singi_kinyu/risk_money/siryoku/20130927/01.pdf [accessed May 31, 2026].

In response to calls for market revitalization, in 2003 an electronic platform for trading Green Sheet stocks began operating with authorization from the Financial Services Agency, as part of the secondary-market infrastructure for these unlisted shares (Osaki, 2005). After the JASDAQ Market was reorganized into a stock exchange in 2004, Green Sheet stocks were designated as handled securities (*toriatsukai yūkashōken*) under the Securities and Exchange Act in 2005 and became subject to insider trading regulations and certain event reporting obligations similar to those applicable to ongoing disclosure companies. While these measures were intended to enhance transparency and investor protection, and thereby to revitalize the Green Sheet Market, they also increased disclosure and compliance burdens, including timely disclosure obligations, on issuers (Osaki, 2014). Thus, despite these reforms, the market remained marginal and stagnant and was ultimately abolished in at the end of March 2018. This abolition marked a low point in Japan’s institutional framework for unlisted shares.²³

Reflecting on this experience, the Tokyo Pro Market, established as Tokyo AIM by the TSE in 2009, was designed as a market for professional investors (*tokutei tōshika*; hereinafter “PIs”), exempt from the requirement to file a securities registration statement.²⁴ It adopted a simplified disclosure regime, called the Specified Securities Information system, to reduce disclosure costs, without restrictions on the total offering amount. Empirically, however, the market has lacked sufficient depth and breadth because investment has been confined to professional investors. Moreover, until July 2022, off-exchange private placements to professional investors had not yet been fully institutionalized, which limited coordination between the two systems, so that in practice the market was largely used for secondary offerings by existing shareholders rather than primary offerings by issuers.²⁵

As junior stock markets with relatively relaxed listing requirements began to emerge in the late

23 For a detailed comparative analysis of Japan’s regulatory framework at this point, contrasted with the US, see Tadokoro (2020).

24 The Tokyo Pro Market traces its origins to “Tokyo AIM,” a joint venture between the TSE and the London Stock Exchange launched in 2009, explicitly modeled on the London Stock Exchange’s AIM, a growth market segment for smaller firms combining lighter admission and ongoing disclosure requirements with a nominated adviser scheme. For more details, see the Japan Exchange Group website, available at: <https://www.jpx.co.jp/english/equities/products/tpm/outline/index.html> [accessed March 16, 2026].

25 The TOKYO PRO Market, a market segment of a securities exchange for professional investors that handles unlisted shares in exempt transactions rather than operating as an organized OTC market, was introduced later as a professional market and does not prescribe numerical listing criteria for the number of shareholders or tradable shares, instead relying on J-Advisers’ eligibility assessments and restricting participation to professional investors, so that its formal listing requirements are more flexible than those of either JASDAQ or MOTHERS.

1990s, JASDAQ sought to broaden its business domain by transforming itself into a securities exchange, thereby obtaining institutional advantages that had not been available under the OTC Registration Market framework, such as the status of an exchange-based market and a clearer positioning vis-à-vis other emerging market. Since the JASDAQ Market obtained a securities exchange license and was converted into the JASDAQ Securities Exchange in 2004, the Green Sheet Market recorded persistently low trading volumes and investor participation, and remained a marginal OTC framework. While the Tokyo Pro Market has remained a professional market segment of a securities exchange for unlisted securities with very limited liquidity for its listed securities, Japan has effectively lost most of its organized OTC markets for unlisted shares.

In the course of this decline and the eventual disappearance of organized OTC markets, however, the JSDA introduced additional exceptional OTC trading schemes as exceptions to its general prohibition on solicitation for unlisted shares (hereinafter, “exceptional OTC schemes”). In 2003, solicitation to QIIs was introduced as a limited exceptional OTC scheme, subject to a prohibition on resale. In 2005, this scheme was reorganized to permit solicitation to QIIs in both offering and secondary transactions, subject to transfer restrictions, including a two-year restriction on transfers to non-QIIs in certain cases. In the same 2005 reforms, the OTC Handling Scheme was expanded to cover small public offerings with a total offering amount of less than JPY 100 million, small-number private placements, and certain related resales and secondary trading of unlisted shares, each of which was exempt from full and fair disclosure requirements, provided that the issuer prepared and delivered a Company Information Sheet. Other limited schemes were introduced thereafter.²⁶ However, the QII limited scheme was rarely used because of the transfer restrictions and other constraints, and the expanded OTC Handling Scheme was not widely used because the cost of preparing the Company Information Sheet was high relative to the expected size of the offering.

Subsequently, in anticipation of the dissolution of the Green Sheet Market, the Shareholders

²⁶ See JSDA, “Amendments to JSDA rules for the solicitation of Aozora issues and the review of the Green Sheet system” (*Aozora meigara no tōshi kanyū oyobi Green Sheet seido no Minaoshi no tame no honkyōkai kankei kisoku no kaisei-tō ni tsuite*), JSDA Monthly Bulletin (*Shōken Gyōhō*), No. 651, Mar. 2005.

Community was institutionalized in 2015 as a substitute scheme for trading unlisted shares, and equity investment-type crowdfunding was also institutionalized in the same year. Although their use has gradually increased, they have remained very limited schemes up to the present.²⁷ As the Green Sheet system and these exceptional schemes involving securities-company intermediation remained stagnant or limited in scope, equity issuance and trading in Japan have therefore remained largely confined to direct transactions, mainly through small public offerings of less than JPY 100 million, small-number private placements, and private placements to QIIs.²⁸

Primary and secondary OTC trading and OTC markets for private equity capital in Japan remain historically thin and underdeveloped, and the existing stock exchanges and their public offering process have encroached upon the territory of the organized OTC markets and their public offering process by sequentially replacing pre-listing trades that used to take place in these organized OTC markets.²⁹ Japan's traditional organized OTC markets for unlisted shares were largely absorbed into exchange-based markets when junior stock markets with relatively relaxed listing requirements were established, leaving little institutional space for private equity markets for later-stage firms with prospective listings on the main stock exchanges. In these private equity markets, it may be difficult for secondary trading and markets to form for relatively high-risk and low-liquidity issues.³⁰ In this context, the expansion of the existing stock exchanges through junior stock markets may hamper equity financing in private equity markets.

27 See the JSDA's "Shareholders Community," available at:

<https://market.jsda.or.jp/shijyo/kabucommunity/> [accessed May 31, 2026],

and "Equity Crowdfunding," available at:

<https://market.jsda.or.jp/shijyo/kabucrowdfunding/> [accessed May 31, 2026].

28 Strictly speaking, public offerings of securities that are to be listed on stock exchanges are also treated as transactions in the remaining OTC markets at the offering stage.

29 For data on Japan's OTC market for unlisted shares and related institutional arrangements, see the JSDA's "Secretariat materials for the first meeting of the Study Group on Revitalizing the Issuance and Secondary Markets for Unlisted Shares" on November 30, 2020, and for the second meeting, available at:

<https://www.jsda.or.jp/about/kaigi/jisyukisei/gijigaiyou/hijojokon.html> [accessed May 31, 2026].

30 For reference, as for their formal registration and listing requirements, the JASDAQ Market progressively relaxed its registration criteria from the 1980s and, in the 1990s, introduced special segments that even allowed loss-making firms to list, but it still maintained comparatively higher numerical thresholds for size and liquidity than those later adopted by other junior stock markets, typically requiring at least 200 shareholders, 2,000 tradable share units, and a tradable share market capitalization on the order of JPY 10–15 billion (Matsuo, 2023b; Osaki, 1999). By contrast, at the time of its introduction the MOTHERS Market (now the Growth Market) employed relatively lighter quantitative criteria, requiring at least 150 shareholders, 1,000 tradable share units, and a minimum tradable share market capitalization of JPY 0.5 billion.

Given this historical context, Japan’s private equity market has developed within a stock-exchange-centered financial system that has narrowed the scope of exempt transactions and prohibited securities firms from soliciting investments in unlisted shares other than organized OTC market issues, leaving limited institutional space for equity transactions outside exchanges. Brokerage firms (legally, Type I Financial Instruments Business Operators) have been effectively prohibited from soliciting investments in unlisted securities. Such intermediation partially resumed through the development of exceptional OTC schemes—and Shareholders Communities and ECF.³¹ More recently, an exceptional OTC scheme for private placements to professional investors was introduced in 2022. This scheme, known as the JSDA Shares and Investment trusts for Professionals (J-Ships), enables securities firms to intermediate such placements.³² While these mechanisms remain small in scale and are limited to a narrow set of issuers and investors, J-Ships has been steadily growing since its launch (Japan Securities Research Institute, 2024).

As a result, brokerage firms have largely lost their client networks as intermediaries, and equity financing for unlisted firms continues to rely primarily on direct transactions through small number placements or on third-party allocations to business partners and existing shareholders. Japan’s primary market for private equity capital remains nascent and underdeveloped, as the country’s existing stock exchanges have gradually absorbed the traditional domain of organized OTC markets. In this context, the expansion of stock exchanges through junior stock markets and the strict restrictions on off-exchange transactions, including OTC transactions and market and direct transactions, have likely hindered the development of equity financing in Japan’s private equity market.

Since 2022 there have been nascent reforms of unlisted equity offerings and secondary trading aimed at expanding the funding capacity available for start-ups. These include, among the measures that have

31 The introduction of ECF was accompanied by amendments to FIEA. The JSDA also established rules governing equity crowdfunding and shareholder communities.

32 In 2020, an exceptional scheme was introduced that allowed solicitation of OTC securities to professional investors capable of conducting corporate valuation and due diligence. While this framework was designed to facilitate securities firms' intermediation in small-number private placements, it remained largely unused in practice. Subsequently, the J-Ships framework was institutionalized in 2022 and has begun generating actual use cases.

already shown practical uptake, shortening the cumulative period for small-number private placements, broadening the financial-asset-based scope of professional investors, and introducing private placements and secondary offerings to professional investors conducted by securities companies, institutionalized through JSDA self-regulatory rules of the J-Ships framework. Furthermore, in February 2025, the investment limits for investors other than professional investors in equity crowdfunding were expanded, as reflected in the regulatory framework summarized in the table 2-6 below. Among these measures, the expansion of the scope of professional investors and the introduction of J-Ships have already led, since 2024, to concrete cases that demonstrate actual demand for market-based equity financing by issuers, intermediation by securities companies, and investment appetite among high-net-worth individual investors.

2.3. Junior stock markets as partial substitutes for private equity

In the late 1990s, junior stock markets emerged worldwide: for example, Nouveau Marché in France, Neuer Markt in Germany, and Nuovo Mercato in Italy (Vismara et al., 2012). Amid these global developments, in Japan, the Market of the High-Growth and Emerging Stocks (MOTHERS) was launched on the TSE in November 1999, and other junior stock markets such as Ambitious on the SSE, Centrex (currently the Next Market) on the NSE, and Q-Board on the FSE opened around 2000. In addition, the NASDAQ Japan Market was launched by the OSE in 2000 and was later renamed the Nippon New Market—Hercules in December 2002. Moreover, the operator of the JASDAQ Market, Jasdaq Inc., obtained a securities exchange license and opened a stock exchange under the name of JASDAQ Securities Exchange (JASDAQ), in December 2004 (Honjo & Kurihara, 2023; Japan Exchange Group).³³ The subsequent consolidation continued: OSE acquired the Jasdaq Inc. in 2008, introduced the JASDAQ NEO, merged with it in April 2010, and in October 2010 launched the new JASDAQ as an integrated market combining Hercules, JASDAQ, and the JASDAQ NEO.

While many junior stock markets in European countries were closed or merged in the 2000s, both

³³ For more details on the history of junior stock markets, see the Japan Exchange Group website, available at: <https://www.jpx.co.jp/english/corporate/about-jpx/history/02-02.html> [accessed February 16, 2026].

MOTHERS and JASDAQ remained in operation and the number of IPOs on these markets did not decline as sharply as in many European counterparts in subsequent decades. This pattern suggests that Japan has relied more heavily on junior stock markets as an equity-financing venue for young and innovative firms. In an effort to address these and other issues, in April 2022, stock markets in the TSE, including MOTHERS and JASDAQ, were reorganized into three segments: Prime, Standard, and Growth.³⁴ Currently, the TSE Growth Market serves as the typical junior stock market.

Since the late 1990s, the Japanese government has sought to expand financing opportunities for growth-oriented firms, in part by promoting the development of venture capital funds and by establishing junior stock markets with relaxed listing requirements, as well as by easing listing requirements in existing stock exchanges (Honjo and Kurihara, 2023). However, in Japan's junior stock markets, the market value of listed firms is low; that is, small IPOs are prevalent.³⁵

Building on this observation, many of these can be regarded as hasty IPOs, in which firms go public before securing sufficient capitalization, reflecting the underdevelopment of private equity markets in Japan. In this sense, these junior stock markets have not fully compensated for the lack of a deep private equity layer. Rather than providing a pipeline from private to public equity, they may instead encourage firms to list prematurely without an adequate capital base. This institutional structure has important implications for how young and innovative firms in Japan actually raise capital. To clarify this point, the next subsection discusses the current state of Japan's private equity markets, in which primary issuance and secondary trading remain thin and fragmented.

2.4. Inactive private equity markets in Japan

Young and innovative firms in Japan often rely on a narrow set of financing channels. Due to Japan's disclosure and offering regulations, they raise equity through direct transactions using private

³⁴ Stock markets in the NSE, including Centrex, were also reorganized into three segments: Premier, Main, and Next.

³⁵ For instance, Bartlett III et al. (2017) define a small IPO as an IPO raising gross proceeds of less than USD 30 million in 1990 inflation-adjusted dollars (or USD 54.4 million in 2014 inflation-adjusted dollars). See also Honjo and Kurihara (2023) for evidence on IPO firms listed on Japanese junior stock markets and their subsequent graduation to the main market.

placements to a small number of investors (i.e., small-number private placements) and in some cases through small public offerings with a total amount of less than JPY 100 million.³⁶ In the early stages, most firms primarily rely on financing from founders themselves as well as their families and friends (Berger and Udell, 1998; Storey and Greene, 2010). While listed firms (publicly traded firms) can obtain equity financing through seasoned public offerings, third party allotments, and rights offerings, unlisted firms are usually limited to privately negotiated placements and third-party allotments, and they may rely on affiliated business partners or customers for equity financing.³⁷ Consequently, available equity financing options are often confined to personal networks or transactional relationships. In Japan, private equity markets largely consist of direct transactions through privately negotiated placements among closely held investors, as well as syndicated risk capital provided by VC funds, operating companies, and financial institutions.

At the institutional level, one key reason for this situation is that securities companies that are members of the JSDA, which comprise most securities companies in Japan, are subject to the JSDA's general prohibition on solicitation with only limited exceptional OTC schemes. As discussed in Section 2.2, this framework substantially limits the ability of securities companies to broadly market and intermediate transactions in unlisted shares, and they have largely lost their functions in primary and secondary OTC trading, except under a few limited exceptional OTC schemes in which OTC transactions remain very small in scale.³⁸ The organized OTC market (JASDAQ Market) was granted a securities exchange license in 2004, transforming into an exchange-based market. Subsequently, the Green Sheet Market, the only remaining organized OTC market, was abolished in 2018 after having remained sluggish since its launch despite efforts to revitalize it in 2004 (JSRI, 2024).

While some exceptional OTC schemes have been introduced intermittently since the establishment of the Green Sheet Market in 1997 and subsequent reforms in the 2000s and 2010s, they remain limited in scope. Among such schemes are the Shareholders Community, under which designated securities

36 For more discussion on small-number private placement, see also Sections 3.1 and 3.2.

37 For more discussion on equity financing in Japan, see also Japan Exchange Group website, available at: <https://www.jpx.co.jp/english/regulation/listing/equity-finance/index.html> [accessed March 5, 2026].

38 For more details, see the JSDA's "Reference materials for the first meeting of the Study Group on Revitalizing the Issuance and Secondary Markets for Unlisted Shares" on November 30, 2020.

companies intermediate trading in certain unlisted shares among participating investors on a limited scale, and ECF, both of which were introduced in 2015. Since then, ECF has only gradually expanded and remains constrained by its annual offering limit of JPY 100 million, and Shareholders Communities have so far operated only on a small scale. Private placements to professional investors were introduced under J-Ships in 2022. Since 2024, they have also begun to generate tangible amounts of equity financing for startups that are approaching an IPO and whose shares are expected to become tradable in the secondary market on a stock exchange in the foreseeable future.³⁹ In the secondary market for unlisted shares, shares in portfolio companies may be disposed of when VC funds approach or reach the end of their contractual term.⁴⁰

Among these exceptional OTC schemes, the Shareholders Community warrants separate discussion because it was primarily created as an exception to the JSDA's general prohibition on solicitation; thereby raising a different set of institutional limitations compared with the mechanisms, such as ECF and private placements to professional investors. This specific regulatory scheme, under which designated securities companies help unlisted firms facilitate the trading of certain unlisted shares through their intermediation, also operates only on a small scale. This scheme also allows primary offerings by participating firms, enabling small-scale equity financing from those investors, although actual equity-raising transactions of this kind have so far remained rare.

As a rule, the community must be operated by securities companies designated by the JSDA as operating members, and investment solicitation is limited to participants in the relevant community. However, operating members are prohibited from soliciting participation in the Shareholders Community, subject to specified exceptions, which significantly constrains the further development of this mechanism.⁴¹ The Shareholders Community is intended to serve as a system for raising equity capital through the trading of unlisted shares, but it has not yet become widespread. Together with the

39 See the JSDA's "Statistics, surveys and reports" [in Japanese], available at: <https://www.jsda.or.jp/shiryoshitsu/toukei/> [accessed April 3, 2026].

40 See the Chambers and Partners' "Capital 2025 Japan Trends and Developments," available at: <https://practiceguides.chambers.com/practice-guides/venture-capital-2025/japan/trends-and-developments> [accessed March 16, 2026].

41 See the JSDA's "Rules concerning Shareholders Community," Articles 9 and 16, available at: <https://www.jsda.or.jp/en/rules-guidelines/files/E62.pdf> [accessed March 16, 2026].

other limited exceptional OTC schemes, private equity markets, particularly OTC transactions and markets in Japan do not provide a foundational multi-layer beneath stock exchanges, as they do in the US.

In addition, underdeveloped secondary markets for private equity in Japan may discourage investors from acquiring shares in unlisted firms. Early-stage investors, including VC funds and angel investors, do not necessarily hold their shares for a long period of time. Rather, they often seek opportunities to transfer their shares in order to recycle capital into new portfolio companies; in other words, they seek an exit (sellout or liquidity) strategy (De Clercq et al., 2006; Rigamonti et al., 2016). Not surprisingly, they need to ensure liquidity for subsequent investments by selling their shares. In this respect, the existence of functioning secondary private equity markets is essential for the resale of unlisted shares, thereby facilitating subsequent firm growth. As these firms' market valuations increase, investor expectations will rise, attracting larger equity infusions and further growth investment. Rising share prices in secondary markets could further amplify market capitalization, enabling the emergence of unicorns. More broadly, the development of primary private equity markets depends on the balanced development of primary and secondary private equity markets. The resale of unlisted shares is unlikely to become widespread until primary equity trading and markets are developed to a certain extent; however, Japan is still at an early stage of this process.

Consequently, equity financing for unlisted firms is difficult in countries with underdeveloped private equity markets. In Japan, private equity markets are underdeveloped both for the primary offerings and for the secondary transactions of unlisted shares—that is, both primary and secondary markets—and investors face severe constraints in exiting their positions. These markets do not currently serve as a robust institutional foundation to support firms throughout their growth trajectory up to an IPO. This institutional weakness makes it difficult for high-growth firms to obtain enough capital, as the amounts required for growth expand at each successive stage. The current limitations of Japan's private equity markets restrict equity financing and confine market capitalization growth largely to incremental increases associated with successive financing rounds, preventing the growth-accelerating effects of private equity from being fully realized. Thus, the underdevelopment of private equity markets in Japan represents a structural constraint on the creation of high-growth firms, such as unicorns,

highlighting the importance of fostering primary and secondary markets to promote entrepreneurial growth and innovation-driven economic growth.

2.5. Alternative financing and its limits: investment funds and bank-centered financing

Beyond equity markets, Japan's financing system is characterized by a strong reliance on bank lending, extensive public credit guarantees, and relatively small investment funds. Japan's bank-centered financial system has partly substituted for underdeveloped private equity markets. However, it provides only a limited substitute for the kind of risk capital that deep private equity markets can offer. In particular, debt financing and underdeveloped markets for fund interests constrain alternative financing for high-growth firms whose financing needs fundamentally differ from those of mature firms.

It is well known that Japan has a bank-centered financing system (Weinstein and Yafeh, 1998). The main bank system is considered a symbolic feature, and relationship lending—based on close ties with financial institutions, including regional banks—remains prevalent in small business financing in Japan (Honjo et al., 2024; Ono and Uesugi, 2009). More importantly, Japan's public credit guarantee scheme plays a critical role in the supply of small business financing (Tsuruta, 2023). Under this scheme, public credit guarantee corporations established by local governments repay banks on behalf of small business borrowers if guaranteed loans default. This scheme allows banks to provide loans to firms with risky projects, including start-ups, enabling entrepreneurs to increase debt capital and, in some cases, to reduce reliance on personal guarantees.

Moreover, reliance on credit markets presents additional costs. Several studies have emphasized that excessive credit dampens economic growth (Arcand et al., 2015). Financial development, measured by bank lending, does not necessarily indicate a high level of entrepreneurial investment (Gaies et al., 2023). One reason is that debt financing is inherently risk averse. While debt financing is suitable for stable firms with low-risk profiles, it is generally ill-suited for high-growth firms that face substantial uncertainty. Lenders' returns are capped by fixed interest payments, so that they cannot obtain returns commensurate with the high risk of failure. This imbalance motivates lenders to prioritize investing in stable firms with established cash flow. Existing bank-borrower relationships may also discourage banks from supporting young and innovative firms. More importantly, the preference of financial

institutions for stable and predictable loan portfolios may impede competition in credit markets, limiting their capacity to absorb risk and innovation. Consequently, although the development of credit markets, particularly banks, has played an important role in Japan's financial system, it may hinder entrepreneurship in some circumstances. While the bank-centered financial system contributed to efficient production during the period of rapid economic growth, it is less well suited to today's highly uncertain and innovation-driven economic environment.

At the fund level, similar limitations arise. In Japan, primary and secondary markets for fund interests remain limited. Fund managers or registered distributors themselves typically solicit institutional investors, their gatekeepers, financial institutions, and operating companies through small-number private placements of deemed securities.

With respect to disclosure, private placements of fund interests can in practice resemble public offerings in that solicitation can continue so long as fewer than 500 persons come to hold the fund interests as a result of the solicitation.⁴² However, they are not subject to disclosure requirements comparable to those applicable to public offerings, and no statutory prospectus is required, unless they fall within specific disclosure-regulated categories. In practice, the use of private placement memoranda (PPMs) varies depending on the investor base. In Japan, no statutory prospectus is required merely because fund interests are privately placed. In PE fundraising, PPMs are commonly prepared and provided to prospective investors on a voluntary basis in practice. In venture capital fundraising, however, the use of PPMs appears to be less uniform, and they are particularly used when institutional or overseas investors are targeted.⁴³

By contrast, fundraising in the US, the UK, and the EU is more commonly supported by placement

42 Under Article 2(3)(iii) of the Financial Instruments and Exchange Act and Article 1-7-2 of the Enforcement Order of the Financial Instruments and Exchange Act, an acquisition solicitation of Paragraph 2 securities constitutes a public offering where 500 or more persons come to hold the securities subject to the solicitation. Therefore, unlike the 50-offeree test applicable to certain Paragraph 1 securities, the threshold for Paragraph 2 securities is based on the number of persons who come to hold the securities, not simply the number of offerees.

43 See Anderson Mōri & Tomotsune's "Alternative Investment Funds 2024" (Japan chapter), available at: https://www.amt-law.com/insights/articles/publication_0029026_en_001/ [accessed May 31, 2026], Nishimura & Asahi's "Chapter 7–Japan," available at: https://www.nishimura.com/sites/default/files/images/TRER3_Japan_Fundraising.pdf [accessed May 31, 2026], and GLOBIS's "Noting their use in VC fundraising particularly where institutional or overseas investors are targeted Venture capital no fundraise" (*Tōshika o nattoku saseru setsumei shiryō no tsukurikata*), available at: <https://globis.jp/article/57935/> [accessed May 31, 2026].

agents, institutional investment consultant and other gatekeepers, as well as the circulation of a PPM and related due-diligence material. For fund-based and market-based equity financing and regulatory disclosure and reporting requirements applicable to fund managers and fund may impose a substantial compliance burden on private equity funds, with the associated costs ultimately borne by investors through management fees and fund expenses. These disclosure requirements may impose disproportionate costs on emerging private equity funds relative to more established ones. Such compliance costs can be particularly onerous for nascent private equity funds because fixed legal and administrative expenses account for a larger proportion of their total assets under management, while established funds with a successful track record typically face few difficulties in raising additional capital for follow-on funds (Cumming and Johan, 2007).

Consequently, underdevelopment of the fund interest markets and fixed regulatory and compliance costs create entry barriers that disproportionately disadvantage nascent fund managers. Such barriers may reduce competition from new entrants in private equity funds and may constrain the range of fund size and diversity of investment strategies available to investors. Although junior stock markets, as well as the bank-centered financial system, have partially compensated for the weakness of private equity markets in Japan, including the small scale of many investment funds, they do so in ways that provide less risk capital for young and innovative firms. In particular, Japan has thin and fragmented private equity markets; therefore, firms often rely on early listings or risk-averse debt financing rather than raising sufficient equity capital during the pre-IPO growth stage. This configuration may work reasonably well for mature, low-growth firms, yet it fails to provide adequate risk capital for young and innovative firms, including potential unicorns. These limitations highlight the importance of developing well-functioning private equity markets that can support growth and innovation before and alongside public listings, which are critical for innovation-driven growth, particularly in economies that seek to transition toward innovation-driven growth.

2.6. Importance of private equity markets for firm growth

It has been widely debated that a firm chooses its initial capital structure, when starting a business (Berger and Udell, 1998; Storey and Greene, 2010). It is likely that firms finance their needs in a

hierarchical fashion, making choices based on the relative costs of different sources of finance. Under imperfect market conditions due to information asymmetries between investors and entrepreneurs, as well as transaction costs, the traditional approach to interpreting capital structure is often based on the pecking order theory in the corporate finance literature (Myers, 1984; Myers and Majluf, 1984). According to this hypothesis, firms are thought to prefer debt financing to equity financing because it can entail lower overall financing costs, including the cost of capital and agency costs under information asymmetry. Notably, a lower cost of capital does not necessarily ensure that investors will actually provide financing.

Meanwhile, numerous scholars have pointed out the distinctive nature of financing for uncertain business activities, including R&D and innovation (Carpenter and Petersen, 2002; Hall, 2002; Hall and Lerner, 2010). Despite the typically higher cost of capital for equity financing, equity financing has some advantages over debt financing, especially for young and innovative firms. Repaying principal and interest on debt financing, such as bank loans, often imposes a significant burden in the early stages because these firms do not necessarily generate positive cash flow soon after start-up (Honjo and Kurihara, 2024). Moreover, entrepreneurs can pledge tangible assets as collateral when borrowing from external suppliers of capital. However, young and innovative firms often have difficulty obtaining debt financing because they lack tangible assets. In addition, young and innovative firms tend to lack the track records that banks value when making loans.

For these young and innovative firms, equity financing is preferable. This is because equity is provided on the basis of an assessment of business potential and is therefore not constrained, as debt financing often is, by existing cash flows or tangible collateral. Moreover, it does not require repayment and enables firms to survive loss-making periods following growth investment. Equity is therefore a particularly valuable source of funding for firms seeking growth through large-scale or innovative investment.

However, it is unrealistic for most young firms to achieve an IPO soon after their founding. Going public entails substantial direct and indirect costs for issuers—including underwriting fees, legal and accounting expenses, underpricing, and the ongoing burden of disclosure and compliance—which weigh disproportionately on small firms, particularly start-ups in the early and middle stages of their

growth, before they reach a certain scale (Chaplinsky et al., 2017; Iliev, 2010; Pagano et al., 1998). In this respect, well-functioning private equity markets are important for enabling young and innovative firms to raise equity capital before reaching the stage of going public. The underdevelopment of private equity markets limits these firms' access to equity capital and ultimately constrains their ability to undertake innovative activities.

From investors' perspectives, it is difficult to decide whether to invest in unfamiliar firms and emerging technologies that do not necessarily guarantee stable cash flow because of the associated risks. Therefore, investors seek high returns commensurate with such uncertainty and manage them by constructing diversified portfolios with appropriate allocations across other investment products, such as listed shares and corporate bonds, as well as the shares of multiple unlisted firms. While creditors (i.e., debt holders) expect to receive interest payments derived from relatively stable profits, equity investors (i.e., shareholders)—especially early-stage shareholders in high-tech start-ups—primarily aim to obtain capital gains through increases in firm value, rather than dividends based on stable profits. Equity investors must be able to build and rebalance their portfolios. To do so, they must be able to identify primary investment targets from among many issuers through well-functioning primary and secondary private equity markets. Such markets, supported by appropriate disclosure and the intermediation of securities firms, reduce information asymmetries and allow investors to buy and sell unlisted shares at prices formed through market transactions on the basis of the information necessary to exercise their own judgment.

Private equity markets are therefore indispensable for performing these functions, as they provide the necessary platform for investors to implement their investment decisions. Such markets can also play a role not only in facilitating transactions in the shares of young and innovative firms but also in providing trading and financing opportunities for unlisted firms generally, including SMEs, large firms, and subsidiaries of large or listed companies, that seek investment capital or funds to strengthen their financial position, as well as for firms that have delisted from existing markets, including through dedicated schemes.⁴⁴

44 For example, Japan's Phoenix Issues system operated by the JSDA formally provides a framework for trading

Moreover, the availability of well-functioning private equity markets may help mitigate pressures that raise listing costs and tighten listing requirements. From a Japanese historical perspective, it is well known that many manufacturing firms with growth potential, such as Sony and Honda, developed their businesses in the postwar period. These firms could relatively easily raise debt financing because they could enlarge their equity base through equity financing and, on that basis, appear to have been able to obtain debt at leverage levels broadly consistent with their business and financing plans; moreover, manufacturing firms possessed collateralizable assets, that is, tangible assets, even while raising equity financing. In this respect, debt financing was well-suited to economic development focused on industries requiring tangible assets. Moreover, since the target industries and businesses existed in Western economies, Japanese firms could compete by leveraging cost advantages or productivity.

However, the existing financing system, gradually built up in postwar Japan as a bank-centered system in which equity financing was also difficult to obtain, is not always suitable for the development of new industries and businesses. In particular, Internet start-ups have few tangible assets, and their ideas are not necessarily tied to tangible assets. Additionally, biotechnology start-ups have no choice but to compete based on the future potential of technologies, rather than profitability, as it is difficult to expect near-term positive cash flow from the technologies. Rather, these firms anticipate that their technologies will be highly valued in the future. To achieve this, well-functioning markets for the issuance and trading of unlisted shares are required, allowing these firms to raise substantial amounts of equity by communicating their future growth prospects to a broader set of investors.

In the absence of well-functioning private equity markets, high-growth firms, including potential unicorns, face severe constraints in obtaining risk capital, and the pipeline of firms capable of evolving into unicorns remains narrow. Strengthening private equity markets should therefore be understood not only as a financing reform but as a core element of industrial and growth policy.

3. Policies for private equity markets

in delisted shares, although in practice its use has remained extremely limited. See the JSDA's "Phoenix Issues system: Overview," available at: <https://market.jsda.or.jp/shijyo/phoenix/seido/gaiyou/index.html> [accessed February 16, 2026].

Tables 2, 3, 4, 5, and 6 compare the regulatory frameworks across jurisdictions, focusing on the threshold conditions and other key design features of small public offerings, ECF, small-number private placements, qualified-investor private placements, and secondary trading of unlisted shares, respectively. Building on these tables, Section 3 offers a comparative overview of the main exemption regimes that structure equity financing for unlisted firms in Japan and selected major jurisdictions, and considers their implications for raising risk capital by high-growth firms and for the position of the Japanese exemption regime. The tables do not attempt an exhaustive doctrinal analysis or capture all operational nuances; instead, they summarize the core legal parameters that matter most from the perspective of market-based equity financing for high-growth firms.⁴⁵

3.1. Small public offerings

In many countries, securities regulation distinguishes between public offerings and private placements, and for public offerings, full and fair disclosure requirements generally apply when firms raise equity financing from a broad and unspecified investor base.⁴⁶ When firms raise equity financing from a broad and unspecified set of investors, regulators typically require extensive disclosure—such as registration statements or prospectuses, periodic reports, and timely disclosures—to protect investors and ensure fair market practices, reflecting information asymmetries between issuers (i.e., firms) and investors (Healy and Palepu, 2001).

However, these disclosure requirements impose substantial costs (Admati and Pfleiderer, 2000). Providing information to prospective investors generates disclosure costs, including compliance costs, arising from the scope of mandatory disclosure items and audit requirements. In addition, ongoing compliance obligations and investor-relations activities associated with maintaining a shareholder base impose additional costs. Because these costs involve significant fixed components, they exhibit

⁴⁵ As this study is circulated as a working paper, some overlap between Tables 2–6 and Section 3 is intentional. The tables provide a compact statement of the core comparative legal parameters, while the text restates only what is needed to explain the analytical steps, highlight cross-jurisdictional contrasts, and draw out the implications for Japan.

⁴⁶ In this study, “full and fair disclosure requirements” refer broadly to statutory disclosure requirements for ordinary public offerings, including registration statements, prospectuses, offering documents, and, where applicable, ongoing disclosure requirements across jurisdictions.

economies of scale and scope as the amount raised increases, thereby placing a disproportionate burden on SMEs, particularly young and innovative firms seeking to raise relatively small amounts of capital quickly with limited administrative and financial resources. As these firms cannot fully realize such economies, the high fixed costs often discourage them from raising equity capital through public offerings. For SMEs, full and fair disclosure requirements can be prohibitive. Nevertheless, a complete absence of disclosure is neither appropriate from the perspective of investor protection nor conducive to the facilitation of equity financing.

To address this, many regulatory systems provide special exemptions and simplified disclosures for small public offerings. The perceived burden of disclosure costs depends on the amount of capital a firm expects to raise upon a successful offering. For smaller issuers, full and fair disclosure requirements can become burdensome, hindering the efficient allocation of equity capital. Therefore, a simplified disclosure regime is essential, imposing only the level of disclosure obligations that SMEs can reasonably bear. Such schemes are designed to balance investor protection with the need to facilitate equity financing for young and innovative firms with growth potential. They facilitate equity financing by such firms while lowering the regulatory burden associated with capital raising (Cumming and Johan, 2019; Hornuf and Schwiendbacher, 2017).⁴⁷

Small public offerings typically exempt firms from full and fair disclosure requirements and instead subject them to simplified or scaled disclosure for offerings below a specified financing threshold, thereby reducing disclosure costs. These exemptions for small public offerings are subject to an upper limit and apply only to offerings that fall below this threshold. In nascent markets, where the amount of capital firms expect to raise is limited, even a moderate disclosure burden may discourage firms from undertaking public offerings. Whereas the imposition of an upper limit contributes to investor protection, it also constrains firms' ability to raise equity financing beyond a certain scale. Accordingly, holding the level of simplified disclosure requirements constant while increasing the upper limit would

⁴⁷ See Recital 7 of Regulation (EU) 2024/2809, which states that “[f]or small offers of securities to the public, the costs of producing a prospectus might be disproportionate in relation to the total consideration of the offer,” thereby explicitly acknowledging that prospectus costs can become disproportionate for small-scale public offerings.

effectively reduce disclosure costs for a larger number of firms.

Table 2 provides an international comparison of small public offering regimes across Japan, the US, the EU, the UK, China, and Korea. Two key dimensions emerge from this comparison: (i) the maximum offering threshold and (ii) the design of disclosure requirements. Across major jurisdictions, small public offering regimes are generally characterized by higher thresholds than Japan's, combined with tiered and simplified disclosure frameworks, though their design differs across jurisdictions.⁴⁸

In Japan, public offerings generally trigger statutory offering and ongoing disclosure requirements, which constitute the Japanese counterpart to full and fair disclosure requirement; however, small public offerings with a total offering amount of less than JPY 100 million within any 12-month period are exempt from the securities registration statement filing requirement.⁴⁹ From a comparative perspective, the exemption threshold under Japan's small public offerings is strikingly low relative to those in the US, the EU, and the UK. Japan's threshold is also distinctive in that it has remained largely unchanged over a long period, while comparable thresholds in these jurisdictions have been raised or structured in tiers.⁵⁰

With respect to disclosure requirements, in Japan, disclosure obligations for small public offerings are not explicitly specified in statutory law, leading to a regulatory paradox. For offerings of less than JPY 100 million, no simplified offering disclosure document is statutorily required; instead, for

48 In the EU, offerings exempt from the prospectus publication requirement may be subject to Member State-specific simplified disclosure requirements within the framework of the Prospectus Regulation, provided that such requirements remain proportionate. See ESMA, "National thresholds below which the obligation to publish a prospectus does not apply" on 3 July 2023, ESMA31-62-1193; ESMA, "List of prospectus thresholds," ESMA31-62-1193 available at:

<https://www.esma.europa.eu/document/list-prospectus-thresholds> [accessed May 31, 2026].

49 Under the FIEA, a "small public offering" (*shōgaku kōbo*) is a public offering of less than JPY 100 million that is exempt from filing a securities registration statement (FIEA art. 4(1)(v)). By contrast, the Low-Value Public Offering (*Shōgaku Boshū*; literally, "small-price public offering") refers to an offering of JPY 100 million or more but less than JPY 500 million for which only partial alleviation of the registration statement disclosure requirements applies (FIEA art. 5(2); Order for Enforcement of the FIEA art. 15-10-3).

50 In Japan, small public offerings with a total offering amount of less than JPY 100 million within any 12-month period are exempt from the full and fair disclosure requirements (securities registration statement filing requirement). The threshold was originally set at this level in 1961, temporarily raised to less than JPY 500 million in 1988, and reduced back to less than JPY 100 million in 1998. By contrast, several major jurisdictions have raised or tiered their small-offering thresholds. In April 2026, the Korean Financial Services Commission announced a draft amendment to the Enforcement Decree that would raise the small public offering threshold from KRW 1 billion to KRW 3 billion and invited public comment through May 18, 2026. See Financial Services Commission, Rule Notice No. 2026-1888 (proposed amendment to the Enforcement Decree of the FSCMA). A bill submitted to the 221st Diet on April 10, 2026 would raise the exemption threshold for small public offerings from JPY 100 million to JPY 500 million, for the first time since it was reduced to JPY 100 million in 1998.

offerings of JPY 10 million or more, a securities notification (*yūcashōken tsūchisho*), which is not publicly disclosed, must be submitted. In many major jurisdictions, investor protection is achieved through a combination of simplified disclosure requirements and securities companies' proper intermediation. In Japan, however, while the FIEA provides a statutory exemption from full and fair disclosure requirements for small public offerings and private placements, the self-regulatory framework creates a significant bottleneck. Under the System for Handling OTC Securities—an exception to the JSDA's general prohibition on solicitation—issuers are generally required to disclose information through a prospectus-like offering disclosure document known as a Company Information Sheet. The disclosure requirements associated with this document are broadly comparable to those applied in registered public offerings when securities companies are involved in small public offerings and small private placements.⁵¹

As a result, disclosure costs become disproportionately high relative to expected proceeds from the offering. For many years, securities companies were generally prohibited from soliciting investments in unlisted shares. This created a persistent market perception among both issuers and securities companies that securities-company intermediation was unavailable for unlisted shares. Although limited exceptional schemes later made such intermediation possible, these schemes are not widely recognized among issuers, while securities companies often continue to regard the intermediation of unlisted shares as unavailable, reflecting the long-standing self-regulatory prohibition on solicitation. Issuers are, therefore, in practice, unable to rely on the intermediation of securities companies and are instead forced to conduct direct transactions, which in turn severely limit their opportunities for external financing.

Simplified disclosure is a key feature of more successful regimes. Particularly in the US, small public offerings are subject to scaled disclosure requirements, under which disclosure obligations are adjusted according to the size of equity financing.⁵² Such simplified or reduced disclosure requirements are

51 In practice, the Company Information Sheet is prepared largely in accordance with the disclosure items prescribed for the Securities Information (*Shōkenjōhō*) section of a securities registration statement and the Corporate Information (*Kigyōjōhō*) section of a securities report. In addition, issuers are typically required to provide financial statements accompanied by an audit report with an unmodified opinion.

52 For example, Regulation A in the US provides standardized disclosure through Form 1-A, while state-level

regulatory accommodations designed primarily to alleviate disclosure and compliance burdens depending on the size of the offering, thereby easing the fundraising burden for firms, particularly SMEs, while maintaining an appropriate level of investor protection.⁵³

Taken together, Japan's regulatory framework for small public offerings exhibits a distinctive structural distortion. While the maximum offering threshold is set at a lower level, the involvement of securities companies triggers prohibitively high disclosure costs. This structure is inconsistent with the primary objective of small public offerings in other major jurisdictions—namely, to provide SMEs with an accessible and cost-effective means of raising external equity financing. Under this restrictive framework, Japan's small public offerings function primarily as a filing-exemption threshold for issuer-led small-scale equity financing involving existing shareholders, business counterparties, or other identified investors, rather than as a mechanism for facilitating broader access to equity investors.

More fundamentally, Japan, unlike other major jurisdictions, lacks a comprehensive simplified disclosure regime that effectively reduces regulatory burdens on issuers while ensuring adequate investor protection. By contrast, in other major jurisdictions, tiered and proportionate disclosure frameworks facilitate SME financing by lowering compliance costs while maintaining sufficient transparency for investors. A tiered and simplified disclosure regime, scaled to offering size, has the potential to encourage investment while maintaining adequate investor protection. However, in the absence of such a comprehensive framework in Japan, unlisted firms face substantial practical constraints in publicly soliciting investors to purchase their shares. Accordingly, reforming the regulatory framework for small public offerings—particularly through the introduction of a tiered and simplified disclosure regime—would not only stimulate investment in private equity, but also

frameworks such as SCOR allow scaled financial information requirements depending on the offering tier. Regulation D operates as a non-exclusive safe harbor for certain exempt offerings, and Rule 503 generally requires issuers relying on Rule 504 or Rule 506 to file a Form D notice on EDGAR within 15 days after the first sale (17 C.F.R. § 230.503 (2026)). For more details, see the US Securities and Exchange Commission website, available at: <https://www.sec.gov/resources-small-businesses/exempt-offerings/filing-form-d-notice> [accessed February 22, 2026].

⁵³ Empirical studies found that regulatory compliance costs are disproportionately burdensome for smaller firms, including under the Sarbanes–Oxley Act (Ahmed et al., 2010; Kamar et al. 2009; Leuz et al., 2008). For example, in Germany, the preparation and publication, with the approval of the financial supervisory authority, of a Securities Information Sheet of up to three pages for certain public offers above EUR 100,000 and up to EUR 8,000,000 (WpPG § 4 ff.).

strengthen investor protection.

3.2. Equity crowdfunding

In many countries, equity offerings conducted through online platforms that rely on regulatory exemptions applicable to small public offerings are commonly referred to as ECF. With the proliferation of the Internet, ECF has emerged as a recognized channel of financing, and, as a form of private equity financing, it has increasingly attracted the attention of both investors and entrepreneurs. By functioning as an alternative and intermediary financing mechanism, ECF has gained prominence in entrepreneurial finance. However, ECF poses challenges to securities regulation because it operates by relying on exemptions from full and fair disclosure requirements under national regulatory frameworks (Hornuf and Schwienbacher, 2017).

ECF typically involves a large number of retail investors who make small individual investments. Such offerings are generally regarded as occupying the lower tier of small public offerings, as they involve limited equity-raising amount per issuer. At this lower tier, retail investors tend to face more severe information disadvantages, thereby increasing the need for enhanced investor protection. When jurisdictions impose additional regulatory requirements—such as limits on the amounts retail investors may invest or obligations for platform operators to assess investors’ understanding of investment risks—this segment is often described as narrow-sense crowdfunding. Regulation Crowdfunding in the US and the European Crowdfunding Service Providers Regulation (ECSPR) in the EU govern this category, which broadly corresponds to what is referred to as crowdfunding in practice.⁵⁴ Because the profitability of dedicated ECF platform operators is often low in major countries, concerns arise regarding barriers to new entry and the possibility of high equity-financing fees. To mitigate these issues, regulators have established regulatory frameworks with registration requirements that are less costly than those applied to traditional securities companies, thereby seeking to promote new entry and foster the development

⁵⁴ In this study, the term “narrow-sense crowdfunding” is used to denote the subset of ECF that is subject to additional investor-protection requirements—such as investor-level investment caps and suitability assessments or risk-comprehension assessments—beyond the general exemptions applicable to small public offerings. Representative examples include Regulation CF in the US and the ECSPR in the EU.

of the ECF industry (Hornuf and Schwenbacher, 2017).

Table 3 presents an international comparison of ECF regulations. A key point of comparison is that several jurisdictions provide ECF or platform-based small-offering regimes with higher or more flexible offering limits than Japan's practical limit, while imposing investor-protection rules tailored to small-scale retail investment. In Japan, although the statutory upper limit for ECF has been raised, the practical availability of the exemption remains closely tied to the small public offering threshold. More specifically, while the statutory upper limit for ECF is less than JPY 500 million in any 12-month period per issuer, the practical upper limit remains tied to the JPY 100 million threshold for small public offerings. In the US, Regulation A permits offerings of up to USD 75 million, including offerings conducted through marketplaces sometimes referred to as Reg. A+ crowdfunding, while Regulation Crowdfunding permits smaller offerings of up to USD 5 million. In the EU, platform-based small public offerings of up to EUR 8 million are permitted under national regimes, while the ECSPR applies to offerings of up to EUR 5 million. In China, similar platform-based offerings are generally structured as small-number private placements to fewer than 200 offerees, excluding employees, through securities-company platforms, because no dedicated ECF regime exists. In Korea, the small public offering threshold is less than KRW 1 billion for both primary and secondary offerings, while the ECF regime permits issuers to raise up to KRW 3 billion without full and fair disclosure requirements.

Although the statutory upper limit for ECF is set at JPY 500 million in Japan, issuers can rely on the small public offering exemption only for offerings below JPY 100 million. Public offerings of at least JPY 100 million and less than JPY 500 million are effectively treated as Low-Value Public Offerings rather than small public offerings and therefore remain subject to securities registration requirements and full and fair disclosure obligations broadly comparable to those of registered public offerings. As a result, this range of offerings is rarely employed, not only for ECF, but also for small public offerings outside ECF. Accordingly, the practical upper limit for ECF in Japan is essentially the same as that for small public offerings, which is set at less than JPY 100 million.⁵⁵ Moreover, firms cannot qualify for

⁵⁵ For the distinction between “small public offerings” and “Low-Value Public Offerings” under the FIEA, see Section 3.1.

the filing exemption applicable to small public offerings if their total amount of equity raised through public offerings from investors, including VC funds, reaches JPY 100 million or more within a year.⁵⁶ This implies that ECF is structured to function as a substitute for, rather than a complement to, other forms of equity financing from investors (Andrieu and Groh, 2023; D’Ambrosio and Gianfrate, 2016).

In Japan, ECF is expected to be used by young and small firms that do not typically attract VC financing, serving as an alternative or complement to traditional early-stage bank-based financing (Honjo and Kurihara, 2024). It is intended to facilitate small-scale investments in early-to middle-stage businesses and to support early-to mid-stage capital needs for small business owners and other founders across diverse industries, including non-tech sectors. However, these stringent regulations prevent young and innovative firms, such as biotechnology start-ups, from raising larger amounts of capital through ECF. In other words, ECF in Japan is constrained by existing regulations governing the small public offering exemption.

Across jurisdictions, investment limits for equity crowdfunding vary, but are generally much higher than in Japan. In the US, investors who are not qualified (i.e., not accredited investors under the US regulatory framework) are subject to an investment cap proportionate to their annual income or net worth, up to a maximum of USD 124,000. In the EU, retail investors with limited financial capacity must undergo an assessment of their understanding of investment risks when they invest more than EUR 1,000 or 5% of their net assets. In Korea, investment caps are imposed on individual investors other than eligible individuals and professional investors at KRW 5 million per issuer and KRW 20 million per investor within a 12-month period, with higher caps for eligible individuals at KRW 10 million per issuer and KRW 40 million per investor, while no caps are imposed on professional investors and investment funds.

In Japan, the investment amount per investor in ECF must not exceed JPY 2 million and, with a minimum investment amount of JPY 500,000, must also not exceed the greater of (i) 5% of the investor’s net assets or (ii) 5% of the investor’s annual income. Such restrictive investment caps tend to

⁵⁶ Although Japan imposes no disclosure obligations or similar requirements on small public offerings, it has introduced investor-protection regulations and relaxed registration requirements for platform operators, similar to those in the US and the EU.

discourage the participation of experienced investors. Unless a project attracts a limited number of investors with specific interests, ECF campaigns are more likely to result in a large number of small shareholders.⁵⁷ The resulting dispersed ownership structure may complicate and increase coordination and governance costs in subsequent equity-financing rounds, including VC backed rounds (for example, Series B or C), and can make the path toward a future IPO more complex and challenging (Buttice et al., 2020; Walthoff-Borm et al., 2018b). While such small-scale investments enable retail investors to access share ownership, they lead to ownership dispersion. Compared with traditional VC financing, ECF is therefore more likely to result in dispersed ownership structures involving a large number of relatively inexperienced investors. Ownership dispersion entails high agency and coordination costs, as well as greater information asymmetries among multiple shareholders, than ownership concentration (Jensen and Meckling, 1976; Khan et al., 2005). By contrast, concentrated ownership reduces these costs, which may result in improved firm performance (Walthof-Borm et al., 2018a).

In practice, ECF platforms adopt different mechanisms to manage the ownership dispersion inherent in crowdfunding. While some ECF platforms assign voting rights directly to individual investors, others require the involvement of accredited investors for campaign listings (Rossi et al., 2019). Moreover, several ECF platforms adopt a nominee ownership structure, under which crowd investors are collectively represented by a single legal shareholder (i.e., nominee) who holds shares on their behalf. Prior studies suggest that such nominee structures may outperform alternative ownership structures, indicating that the effective management of ownership dispersion plays a crucial role in firm performance (Coakley et al., 2022; Walthof-Borm et al., 2018a).⁵⁸

Furthermore, Table 3 compares the regulatory frameworks for registered operators. Across several major jurisdictions, the regulatory frameworks for ECF are broadly similar to those in Japan. In these

⁵⁷ For instance, raising the maximum amount of JPY 100 million requires at least 50 investors. Until February 2025, the absolute cap was set at JPY 500,000. In this case, at least 200 investors were required to raise the upper limit of JPY 100 million.

⁵⁸ In the UK ECF platforms, we can identify three ownership structures using three leading platforms: direct (Crowdcube), nominee (Seedrs), and co-investment structures (SyndicateRoom). Walthoff-Borm et al. (2018b) found that firms financed through a nominee structure make smaller losses, whereas those financed through a direct shareholder structure have more new patent applications, including foreign patent applications. Coakley et al. (2022) found that the nominee structure dominates the direct and co-investment structures in terms of the probability of first seasoned ECF offering success.

jurisdictions, the registration requirements for ECF platform operators are less stringent than those for conventional securities companies. A notable exception is China, where no dedicated ECF regime exists and securities companies directly conduct ECF activities. In Japan, similarly, specialized ECF operators (Type I Small-Amount Electronic Public Offering Service Providers) are subject to relaxed capital requirements, compared with those imposed on ordinary securities companies (Type I Financial Instruments Business Operators), whose minimum capital requirement is JPY 50 million.

In major economies, small-scale equity offerings are generally designed as mass-market investment schemes that collect modest amounts from a large number of retail investors. Accordingly, enhanced investor protection regulations, such as limits on individual investment amounts, are imposed. As a consequence, ECF platform operators face limited profitability, which makes it important to lower entry barriers for platform operators and keep intermediation costs manageable in order to encourage corporate utilization of ECF. This regulatory rationale underpins the prevailing institutional design across jurisdictions.

In Japan, however, the regulatory framework exhibits a structural inconsistency. The effective maximum offering size for ECF is, in practice, below JPY 100 million, which is equivalent to that for small public offerings. While small public offerings typically entail only the submission of a notification, which is not an offering disclosure document, ECF campaigns require the preparation of a detailed company information document. As a result, issuers may face constraints when delegating solicitation activities to securities companies. Moreover, ECF platform operators are subject to stringent investor protection obligations, including rigorous screening of issuers and extensive information disclosure to investors. Taken together, these features impose relatively high operational costs, despite the limited scale of financing, suggesting that the profitability of Japanese ECF platform operators is likely to be structurally constrained (Matsuo, 2018). Although comprehensive empirical evidence remains limited, the combination of a low effective offering cap and heavy platform obligations may hinder the commercial viability and broader utilization of ECF in Japan.

3.3. Small-number private placements

Private placements of equity to a limited number of offerees (hereinafter, “small-number private

placements”) differ from public offerings along three principal dimensions: the issuance process, the types of investors eligible to participate, and post-issuance resale restrictions (Krishnamurthy et al., 2005). Unlike public offerings, small-number private placements are limited in the number of offerees to whom they are solicited or sold, while qualified-investor private placements are limited by the types of investors eligible to participate. By contrast, the issuance process for private placements is substantially simpler than that for public offerings.

Table 4 presents an international comparison of private placements. In the context of small-number private placements, cross-country differences in the permissible scope of solicitation require careful consideration. The key distinction is not merely the numerical threshold itself, but whether the exemption is structured primarily around the number of offerees, the characteristics of purchasers, or a combination of both. In Japan, the number of offerees, other than QIIs, to whom private-placements solicitations may be made is limited to fewer than 50 (i.e., no more than 49).

At first glance, Japan’s threshold is not, on its face, low when compared with the US limit of 35 non-accredited but sophisticated purchasers. However, a direct numerical comparison between Japan and the US is misleading, owing to fundamental differences in their regulatory design. Under Rule 506(b) of Regulation D, general solicitation and general advertising are prohibited, and sales to non-accredited purchasers are limited to no more than 35 purchasers who meet sophistication requirements, while sales to accredited investors are permitted without a numerical limit.⁵⁹ This US framework places primary weight on the number and characteristics of purchasers together with these solicitation-related prohibitions.

Unlike the US framework, Japanese regulations impose a strict limit on the number of solicitation targets (i.e., offerees). Specifically, if the total number of persons solicited during the preceding three months reaches 50 or more, the offering is legally classified as a public offering, thereby triggering

⁵⁹ In the US, the development of the private placement market was significantly influenced by Regulation D, adopted by the SEC in 1982, and by the National Securities Markets Improvement Act (NSMIA) of 1996. Rule 506 of Regulation D provides a safe harbor for offerings to accredited investors with limited additional sales to sophisticated non-accredited investors, subject mainly to federal conditions such as the filing of Form D and the prohibition of general solicitation and general advertising under Rule 506(b). NSMIA preempts most state “Blue Sky” registration and review requirements for Rule 506 offerings as covered securities, thereby reducing regulatory fragmentation and expanding the supply of private capital.

extensive full and fair disclosure requirements. Consequently, issuers are compelled to restrict their solicitation activities to fewer than 50 offerees. This structure limits the ability of issuers to test investor interest broadly before presenting concrete offering terms. Firms can explain their business plans to an unlimited audience because the legal definition of solicitation is often interpreted broadly in practice (Uesugi, 2019).⁶⁰ However, communications that constitute solicitation, such as the presentation of concrete offering terms, must be limited to fewer than 50 persons. This regulatory structure precludes broad solicitation to an unspecified number of investors and effectively requires issuers to approach investors on an individualized basis, while maintaining internal records of each contact to ensure that the total number of solicitations remains below the 50-person threshold over the relevant three-month period.

Moreover, under the self-regulatory rules of the JSDA, engaging securities companies as intermediaries in private placements typically triggers an obligation to prepare detailed Company Information Sheets. This practical burden has led equity financing to depend heavily on approaches through the issuer's own personal networks, such as acquaintances, relatives, existing shareholders, business partners, and affiliated firms, as well as on sequential, referral-based individual negotiations.⁶¹ This limits access to external equity for unlisted firms without established networks.

In the US, the EU, and the UK, it has become standard market practice in both small-number private placements and qualified-investor private placements to prepare and distribute voluntary private placement documents to prospective investors. In the US, providing a private placement memorandum (PPM) is widely regarded as common market practice, while in the EU and the UK, the distribution of an Information Memorandum (IM) is similarly regarded as standard practice. By contrast, Japan lacks

60 For more discussion on solicitation in Japan, see the following materials submitted to the Working Group on Investment, Regulatory Reform Promotion Council, Cabinet Office, Government of Japan, as well as materials presented at the Financial Law Board meeting, available at:

<https://www8.cao.go.jp/kisei-kaikaku/kisei/meeting/wg/toushi/20200212/200212toushi07.pdf> [accessed March 24, 2026],

<https://www.flb.gr.jp/jdoc/publication31-j.pdf> [accessed March 24, 2026].

61 For a practical description of how issuers manage the “fewer than 50 offerees in any three-month period” requirement by keeping logs of contacts and monitoring cumulative solicitation counts, see, for example, Hidetoshi Nakano’s official website about an attorney specializing IT business law, “How to safely raise funds through private placements to a small number of investors and private placements to qualified institutional investors”(Aug. 24, 2025), available at: <https://it-bengosi.com/blog/> [accessed March 24, 2026].

a statutory prospectus regime for private placements, and such documents have not become common market practice. This difference matters because voluntary offering documents can support broader, more standardized investor communication through market-like processes without converting the transaction into a full public offering.

In Korea, solicitations are generally limited to fewer than 50 offerees over a six-month period, excluding qualified investors, major shareholders, executive officers, and other persons closely related to issuers. While this number of offerees resembles the Japanese framework, Korean regulation excludes certain forms of advertising and promotion limited to basic information about a private placement from the legal definition of invitation (solicitation), thereby potentially enabling issuers to approach a broader investor base by disseminating such information (a similar approach applies to qualified-investor private placements). In this respect, the Korean regulatory framework adopts a more flexible design than that of Japan.

Taken together, these institutional features mean that small-number private placements in Japan rely heavily on solicitations directed toward personal networks, such as acquaintances, relatives, existing shareholders, business partners, affiliated firms, and referral-based contacts, because the strict numerical limit on offerees, the uncertain boundary between permissible business communication and regulated solicitation, and the practical burden of securities-company intermediation encourage issuers to adopt conservative, individualized solicitation strategies. This constrains issuers' ability to use small-number private placements to approach a broad investor base, weakens investor competition, and places firms at a significant disadvantage in raising equity capital through this route.⁶²

3.4. Qualified-investor private placements

We turn to qualified-investor private placements, in which a central issue is the definition and scope of qualified investors. In this context, investors are required to satisfy certain thresholds regarding financial capacity and investment knowledge and experience. In this study, the term “qualified-investor

⁶² Consistent with this pattern, prior studies suggest that private placements in Japan are often undertaken within existing business relationships and may serve strategic objectives, such as capital and business alliances, rather than functioning primarily as arm's-length financing transactions (Otsubo, 2017).

private placements” corresponds, under Japan’s regulatory framework, to private placements to QIIs and to professional investors, and under the US regulatory framework, to accredited investors.

Table 5 presents an international comparison of the scope of qualified investors. It shows that, in the US, the EU, the UK, and Korea, qualified-investor regimes generally extend beyond institutional investors to include high-net-worth individuals (HNWIs) and other investors with sufficient financial capacity, investment experience, or professional knowledge. These criteria collectively suggest that qualified-investor regimes across major jurisdictions are designed to encompass a broad segment of individuals with substantial financial capacity, investment experience, or professional knowledge.

In Japan, under the FIEA, investors are classified into three categories: QIIs, PIs, and investors other than PIs, namely general investors (*ippan tōshika*; hereinafter, “GIs”).⁶³ According to the FIEA, QIIs are defined as individuals or entities possessing substantial knowledge and experience in securities investment. This category includes institutional investors, such as insurance companies, banks, investment companies, and securities companies, as well as corporations and individuals holding securities worth at least JPY 1 billion. PIs include QIIs, in addition to the national government, the Bank of Japan, listed firms, and joint-stock companies with stated capital of at least JPY 500 million. Entities and GIs may opt into PI status, subject to notification to and confirmation by a securities company.

Japan’s regime for private placements to qualified investors is characterized by a dual-track structure: one restricted exclusively to QIIs and the other permitted for PIs. Under the former track, solicitation is strictly limited to QIIs, rendering broad-based solicitation—particularly via the internet—effectively infeasible, in a manner similar to small-number private placements. Under the latter track, certain categories of securities information may be publicly disclosed; however, solicitation can occur only after prospective investors have formally obtained PI status. Consequently, issuers are effectively precluded from broadly disseminating offering information in advance, unlike in public offerings or ECF. Instead, they must first encourage prospective investors to qualify as professional investors before initiating solicitation, thereby creating a substantial entry barrier to participation in qualified-investor

63 In Japan’s FIEA, the term “*tokutei tōshika*” is translated literally as “specified investor,” but in the government’s official English translation it is rendered as “professional investor” to reflect the substance of the regime.

private placements.

The scope of qualified investors in Japan, particularly individual PIs is comparatively narrow. Although the legal criteria are more nuanced, individual PI status generally requires substantial financial assets, investment experience, or professional expertise, with financial thresholds commonly starting at JPY 300 million in net assets or investment-type financial assets. Accordingly, individual PI status is limited to a relatively small segment of the upper tier of HNWIs and highly sophisticated investors. Compared with the US definition of accredited investors, Japan's criteria are considerably more restrictive. Although definitions vary across jurisdictions, the US, the EU, and the UK have progressively broadened access to private asset markets by including a wide range of HNWIs and other financially sophisticated individuals within the scope of qualified investors.

Overall, solicitation activities in Japan's private placement market are subject to stringent constraints, arising not only from the narrow scope of eligible offerees, but also from the absence of securities companies as active intermediaries. Although these solicitation constraints are discussed in detail in the context of small-number private placements, similar practical constraints also affect qualified-investor private placements in Japan: issuers have limited access to securities companies' broad client networks and therefore tend to rely on individualized, relationship-based approaches even when targeting QIIs or PIs.

Furthermore, unlike the US, the EU, and the UK, Japan lacks an established market practice of preparing and distributing voluntary private placement prospectuses, such as PPMs and IMs. This institutional structure suppresses competition among prospective investors, limits price discovery, and places issuers at a systematic disadvantage in private equity financing.

A distinctive feature of Japan's professional-investor framework lies in its regulatory treatment of intermediary obligations. In Japan, transactions involving professional investors are broadly exempt from the suitability principle and certain other conduct-of-business regulations applicable to securities companies, thereby significantly reducing investor protection requirements in recognition of investors' sophistication. By contrast, in the US, the EU, and the UK, intermediary conduct obligations continue

to play a significant role even in transactions involving sophisticated or professional investors.⁶⁴ This regulatory design reflects a balance between reduced intermediary obligations and a conservative definition of professional investors. Intermediary obligations are substantially relaxed in Japan, whereas the scope of professional investor is defined relatively conservatively, thereby limiting participation primarily to the upper tier of HNWIIs and other financially sophisticated investors.

3.5. Secondary trading restrictions

Table 6 presents an international comparison of secondary trading restrictions. Under Japanese law, solicitations for resale of shares acquired through small public offerings, small-number private placements, QII private placements, or professional investor private placements are classified as statutory secondary distributions (*uridashi*) when they are carried out by (i) the issuer, (ii) the issuer's officers, major shareholders, subsidiaries, and other closely related parties (collectively, corporate insiders), or (iii) financial instruments business operators.⁶⁵ In such cases, the resale is subject to securities registration statement filing requirements under the FIEA. By contrast, resales conducted by parties other than those listed above are generally exempt from securities registration requirements under the FIEA, because such transactions do not fall within the statutory definition of secondary distributions of securities under Article 2(4) and therefore do not trigger the filing obligation under Article 4(1). For example, when retail investors who are not corporate insiders resell shares acquired through small public offerings or small-number private placements to other retail investors, such transactions do not constitute secondary distributions and may therefore be conducted without registration.

However, when resale solicitation is delegated to a securities company, the preparation of an offering

64 In the US, broker-dealers remain subject to Regulation Best Interest (Reg BI) when dealing with retail customers, while Financial Industry Regulatory Authority (FINRA) Rule 2111 continues to impose suitability obligations, subject to limited institutional-investor exemption. In the EU and the UK, under the MiFID II/FCA framework, disclosure and conduct-of-business obligations are relaxed for professional clients, and intermediaries remain subject to suitability assessment requirements.

65 Under Japan's FIEA, solicitation in connection with an investor's resale of securities to another investor is referred to as a "solicitation for sale" (*uritsuke kanyū*). Among such solicitations, those conducted by the issuer, its related persons, or financial instruments business operator are legally classified as "secondary distributions."

disclosure document—in practice, a Company Information Sheet—becomes mandatory under the OTC securities regulations. This requirement imposes a substantial burden on issuers and is rarely feasible in practice, effectively requiring investors themselves to conduct solicitation activities. Moreover, when resale solicitations fall within the legal definition of secondary distributions, issuers must conduct such offerings within the corresponding exemption frameworks—namely, small public offerings, small-number private secondary offerings, QII private secondary distributions, or professional-investor private secondary offerings—each of which mirrors the regulatory conditions applicable to primary offerings. Failure to do so triggers the obligation to file a securities registration statement.

In addition, separate regulatory constraints apply regardless of whether a resale constitutes a secondary distribution. Specifically, as a condition for relying on the relevant private placement exemptions, securities acquired through QII private placements may be transferred exclusively among QIIs, while those acquired through professional-investor private placements may be transferred solely among professional investors. Unlike in the US, the EU, and the UK, where voluntary private placement prospectuses are commonly prepared and distributed in both primary and secondary private placements, no comparable market convention has developed in Japan. Even in small public offerings, small-number private secondary offerings, and QII private secondary offerings, simplified disclosure is not required, mirroring the regulatory approach applicable to their corresponding primary offerings. By contrast, professional-investor private secondary offerings require a certain degree of disclosure, including issuer information and specified information on securities, through designated methods.

In the US, resales conducted by parties other than the issuer, underwriters, or dealers are generally exempt from registration under Section 4(a)(1) of the Securities Act of 1933 (the Securities Act). In practice, corporate affiliates of the issuer are often treated as underwriters under Section 2(a)(11) when they engage in distributions, subjecting their resales to registration requirements.⁶⁶ Securities acquired from issuers or their affiliates through private placements are classified as restricted securities, and their

⁶⁶ Under Section 2(a)(11) of the Securities Act, the term “underwriter” includes any person who purchases securities from an issuer with a view to distribution. Corporate affiliates who engage in distributions of the issuer’s securities may accordingly be deemed statutory underwriters, subjecting their resales to registration. See Securities Act § 2(a)(11), 15 U.S.C. § 77b(a)(11), 2018.

resales may be deemed a distribution, potentially subjecting the seller to underwriter liability. Accordingly, in practice, resales typically rely on safe harbor provisions under Rule 144 (as a safe harbor for Section 4(a)(1)) or Rule 144A (for private resales to qualified institutional buyers; hereinafter, “QIBs”) to ensure registration exemption. In addition, private resales may rely on judicially and statutorily recognized exemptions under Sections 4(a)(1½) and 4(a)(7), which complement these safe harbors as alternative routes for exempt resale.⁶⁷

By contrast, resales conducted by issuers or other corporate affiliates, as well as resales of restricted securities that constitute underwriting activities, remain subject to registration requirements. Under Rule 144, restricted securities may generally be resold under a safe harbor after a holding period of six months for reporting companies, or twelve months for non-reporting companies, subject to volume limits and current public information requirements, and, where applicable, notice filing obligations for affiliates.⁶⁸ Under Rule 144A, by contrast, restricted securities may be resold immediately to QIBs without any holding period, and general solicitation is permitted, thereby providing a separate resale route targeted at institutional investors.⁶⁹ In addition, judicially developed Section 4(a)(1½) exemption and the statutory exemption under the Section 4(a)(7) as private placement framework to related investors and accredited investors, complement these safe harbors as alternative routes for exempt private resales

In the EU, subsequent resales of shares acquired through small public offerings or private placements must independently satisfy one of the exemption criteria set forth in Article 1(4) of Regulation (EU) 2017/1129 (the EU Prospectus Regulation) in order to avoid prospectus requirements. These exemptions include, under the amended framework applicable from June 5, 2026, offerings of less than

⁶⁷ The so-called Section 4(a)(1½) exemption has developed through longstanding judicial interpretations and SEC guidance as a framework for private resale of restricted securities, while Section 4(a)(7), introduced by the FAST Act of 2015, provides an explicit statutory exemption for private resales to accredited investors subject to specified conditions; both coexist as non-exclusive alternatives for exemption.

⁶⁸ Once this holding period elapses, resale through securities companies in public markets becomes permissible. When the volume of sales exceeds specified thresholds—5,000 shares or an aggregate sales price of USD 50,000 within a three-month period—affiliates are required to file Form 144 with the SEC. Moreover, resale under Rule 144 is conditioned upon the availability of current public information about the issuer. For non-affiliates, the current public information requirement under Rule 144 may cease to apply once a one-year holding period has elapsed.

⁶⁹ QIBs are defined as institutional investors that own and invest on a discretionary basis at least USD 100 million in securities of unaffiliated issuers.

EUR 12 million over a twelve-month period, offerings directed exclusively to qualified investors, and offerings addressed to fewer than 150 persons other than qualified investors. As in the US, resales are assessed independently of the exemption relied upon in the primary offering. Unlike Japan and the US, the EU framework does not impose prospectus obligations solely based on the status of the seller, such as issuers or corporate affiliates. Instead, any resale conducted as a public offering requires compliance with prospectus obligations unless an exemption applies. Accordingly, resale regulation in the EU is governed primarily by the unified framework of the Prospectus Regulation.

In China, the legal framework governing the resale of shares acquired through private placements remains nascent. While the Company Law of the People's Republic of China limits the number of shareholders of unlisted firms to 200, the Securities Law of the People's Republic of China (2019 revision) provides only limited guidance, focusing primarily on resale restrictions applicable to major shareholders holding at least 5 percent of outstanding shares and on the establishment of regional equity exchanges.

Korea adopts a regulatory framework broadly similar to that of the EU and the UK. Under the current Financial Investment Services and Capital Markets Act (FSCMA), resales of securities acquired through small public offerings or private placements must independently satisfy one of the applicable exemption criteria in order to avoid prospectus requirements.

To synthesize the foregoing comparative analysis, in the US, the EU, and the UK, shares acquired through small public offerings or private placements may subsequently be resold through any of the available exemption mechanisms, including small public offerings, small-number private placements, or qualified-investor private placements. In the US, full and fair disclosure requirements apply to secondary trading by issuers, corporate affiliates, dealers, and underwriters, whereas ordinary investors may, in most cases, resell securities in public markets after satisfying the holding-period and disclosure conditions under Rule 144. The EU framework, by comparison, imposes prospectus obligations broadly on both issuers and investors engaging in secondary trading, unless exemption criteria are satisfied, thereby subjecting such transactions to a comprehensive regulatory regime.

Japan's regulation of secondary trading, which in some respects is even stricter, adopts both (i) an exemption-based framework essentially similar to that of the EU, under which the scope of exempt

transactions is defined in the same way for secondary trading as for primary offerings, and (ii) a framework similar to that of the US, under which disclosure obligations are imposed on secondary trading by corporate insiders and other related parties among existing shareholders.

(i) Japan follows this exemption-based approach in principle and applies similar exemption criteria to secondary trading as to primary offerings, including secondary trading associated with small public offerings and private secondary distributions. It imposes additional restrictions whereby securities acquired through QII private placements and professional investor private placements may be transferred only among QIIs and professional investors, respectively (including secondary trading associated with small public offerings and private secondary distributions). This regulatory architecture restricts secondary transactions to narrowly circumscribed investor categories, reflecting a regulatory emphasis on investor sophistication and risk awareness while permitting securities companies to act as intermediaries without imposing extensive disclosure obligations.

(ii) In Japan, as in the US, comprehensive disclosure obligations attach principally to secondary trading conducted by issuers or their corporate affiliates, as well as to those of privately placed securities. Resales conducted by ordinary investors outside these categories are generally unconstrained. However, unlike in the US, Japan has no mechanism that allows such resales of shares, which are not exempt from these disclosure obligations, to be carried out as exempt transactions through public offerings. In addition, because financial instruments business operators, including securities companies themselves, are subject to these resale-related disclosure obligations, underwriting, selling, and dealing in unlisted shares by securities firms with investors other than the issuer's affiliates would trigger an obligation to file a securities registration statement and comply with related obligations. Accordingly, while securities firms may intermediate trades between issuing companies or existing investors and other investors, they cannot underwrite or purchase such shares on their own account and then resell them to investors, including other financial instruments business operators. This framework effectively suppresses the underwriting of unlisted shares and trading in such shares with investors, including other financial instruments business operators.

Moreover, because even secondary trading in shares that do not constitute secondary distributions may be regarded as requiring the preparation and delivery of a Company Information Sheet when such

shares are treated as OTC Handled Securities. As a result, it is difficult in practice for securities companies to engage actively in investment solicitation. Apart from resales through private secondary distributions to professional investors and transfers within shareholder communities, intermediated secondary transactions are rarely carried out and are economically unattractive under the current regulatory regime.

4. Policy solutions

4.1. Expanding and reforming the scope of exempt transactions

Japan's regulatory framework restricts the scope within which unlisted firms can conduct securities offerings without being subject to full and fair disclosure requirements, both in terms of offering size and the range of eligible offerees. Nor does it, as in other jurisdictions, provide for simplified disclosure within the scope of the exemption. Even within that narrow scope of exempt transactions, when securities companies are involved as intermediaries, firms are also required to provide disclosure at a level equivalent to that of full public offerings. Where no such intermediaries are involved, as is the case in most instances, firms are essentially forced to undertake solicitation activities independently.

For GIs under FIEA, the financial profiles covered by this category are quite heterogeneous, because the statutory criteria for Japan's qualified-investor regime (i.e., PIs) are relatively strict. Capital raising for such investors is largely confined— apart from limited channels, such as ECF, Shareholders Community, and small public offerings below JPY 100 million—to small-number private placements that require solicitation to fewer than 50 offerees over any consecutive three-month period. In such cases, solicitation is in practice almost entirely confined to the issuer's existing relationships and personal referrals. Japan's issuance and offering regime for unlisted firms restricts both investors' access to investment opportunities and firms' ability to solicit investors and raise capital, ostensibly in the name of investor protection.

As discussed in Section 2, the equity financing environment for unlisted firms in Japan has long been shaped by rules that confine solicitation to close personal networks and severely constrain market-based intermediation by securities companies. Historically, the introduction of the JSDA's

general prohibition on solicitation in the late 1970s significantly reduced market-based equity transactions. This regulatory design, which strongly discourages transparent intermediation by securities companies, is inconsistent with investor protection objectives because it impedes professional screening, certification, monitoring, and price discovery. Moreover, the upper limit for small public offerings conducted without full and fair disclosure requirements has long remained fixed at JPY 100 million. While financing needs have expanded, the effective scope of permissible capital raising has narrowed, tightening regulatory constraints over time. In this way, the current rules and overall regulatory architecture hinder unlisted firms in Japan from accessing equity capital. Accordingly, regulatory reforms in securities law—namely, deregulation and the establishment of new market mechanisms—are necessary to expand equity financing opportunities. In the US, following the SEC’s adoption of Regulation D in 1982, Rule 506(b) established a non-exclusive safe harbor for private placements exempt from Securities Act registration, allowing sales to an unlimited number of accredited investors and to up to 35 sophisticated but non-accredited investors. In this type of private placement, general solicitation and general advertising are prohibited.⁷⁰ Under Rule 506, market-based private placements developed through a streamlined regulatory framework requiring a notice filing on Form D with the SEC and permitting its public inspection, while issuers commonly provide a voluntary offering memorandum (PPM) to investors as a matter of market practice. In such private placements, issuers may solicit investors directly, or securities companies and other intermediaries may handle the capital-raising process, connect issuers with investors, and act as placement agents or otherwise assist in the offer and sale of the securities. By presenting the same offering terms and company information to a

⁷⁰ Rule 506(c), adopted pursuant to the Jumpstart Our Business Startups Act and effective September 23, 2013, permits general solicitation and general advertising if all purchasers are accredited investors and the issuer takes reasonable steps to verify such status. For more details, see SEC, “Eliminating the Prohibition Against General Solicitation and General Advertising in Rule 506 and Rule 144A Offerings,” available at: <https://www.sec.gov/resources-small-businesses/small-business-compliance-guides/eliminating-prohibition-against-general-solicitation-general-advertising-rule-506-rule-144a> [accessed May 31, 2026]. For data on the number and amounts of exempt offerings under Regulations A, D, and Crowdfunding, see SEC Division of Economic and Risk Analysis, Market Statistics of Exempt Offerings under Regulations A, D, and Crowdfunding Form 1-A, D, C and C-U Data (Mar. 2025), available at: <https://www.sec.gov/about/divisions-offices/division-economic-risk-analysis/staff-papers-analyses/market-statistics-exempt-offerings-under-regulations-d-crowdfunding-march-2025> [accessed May 31, 2026]. The SEC has also adopted Securities Act Rule 148 (effective March 15, 2021), under which certain communications at “demo days” or similar events sponsored by specified entities are not deemed to constitute general solicitation or advertising for purposes of Rule 502(c) (17 C.F.R. § 230.148).

large number of investors over substantially the same period, either directly by the issuer or through securities companies, the offering takes on a more market-based and competitive character. Solicitation for financing through such private placements thereby develops as part of a primary market characterized by greater fairness and transparency.⁷¹

In the US, the National Securities Markets Improvement Act (NSMIA) of 1996 granted Regulation D Rule 506 offering under preemption over state-level Blue Sky registration requirements, eliminating state registration for covered offerings and thereby expanding the supply of private capital (Ewens and Farre-Mensa, 2020). Building on these US precedents, it is recommended that Japan pursue analogous policy reforms to its stringent private placement and solicitation rules for unlisted firms, accompanied by the development of appropriate market institutions. In particular, introducing a framework analogous to US Regulation D (Rule 506) with simplified disclosure and a PPM that, though not legally required, could be used in practice as a market standard, would help institutionalize a more market-oriented private placement process.⁷²

This would enable unlisted firms, either through securities companies or through direct transactions, to raise capital more easily from a wide range of investors, including angel investors, VC funds and private equity funds, financial institutions, and operating companies. Such reforms would reverse the current principle of prohibition that has eroded transparent intermediation, thereby enhancing capital-raising opportunities and investor protection. Ultimately, regulatory reforms that balance efficient equity-financing for start-ups with strong investor safeguards are indispensable.

4.2. Simplified disclosures and over-the-counter markets

Regarding market-based equity financing for unlisted shares, regulatory disclosure requirements may

71 See SEC’s “Private Placements—Rule 506(b),” available at: <https://www.sec.gov/resources-small-businesses/exempt-offerings/private-placements-rule-506b> [accessed May 31, 2026].

72 See Jason Powell’s “Documenting a private placement offering,” available at: <https://www.foster.com/assets/htmldocuments/WhitePapers/powell-documenting-a-private-placement-offering.pdf> [accessed May 31, 2026].

impose a substantial compliance burden on issuers, and the associated fixed costs can weigh particularly heavily on smaller and nascent firms. As a result, full and fair disclosure regimes can discourage equity issuance by many start-ups, growth-oriented SMEs, and even other high-growth firms.

The introduction of simplified disclosures could mitigate these distortions by lowering entry barriers, enabling issuers to raise capital more efficiently, broadening the range of investment opportunities available to investors, and broadening the overall supply of risk capital available to start-ups with growth potential. At the same time, simplified disclosures should be carefully calibrated to maintain adequate investor protection and ensure transparency in private equity markets. In the absence of such proportionate disclosure mechanisms, fixed disclosure costs effectively set a minimum efficient scale for equity issuance by unlisted firms. Properly designed simplified disclosure regimes do not eliminate disclosure efforts but rather reallocate them, focusing on information that is most relevant for investor decision-making. Additionally, streamlining reporting formats could limit disclosures to material information that is most relevant for investor decision-making, while avoiding duplicative or excessively detailed requirements. Achieving meaningful simplification requires the adoption of more proportionate disclosure mechanisms.

A promising approach involves adopting tiered disclosure requirements based on offering size, thereby reducing fixed costs borne by smaller issuers. International experience suggests that proportionate or tiered disclosure frameworks—where disclosure stringency increases with the scale of capital raising and the sophistication of the investor base—can minimize compliance costs and improve the efficiency of capital raising while maintaining trading fairness and adequate investor protection in OTC markets. At the same time, such a tiered approach would strengthen investor protection by imposing more stringent disclosure obligations on larger issuers, whose failure or misconduct would pose greater systemic risks and potentially cause broader aggregate investor harm, as well as more substantial financial harm to investors in private equity markets.

As noted in Section 3, Japan currently lacks a comprehensive simplified disclosure framework for private equity financing applicable to small public offerings and private placements. For offerings exceeding JPY 100 million, full and fair disclosure requirements remain in place, including the preparation and filing of detailed disclosure materials, public inspection, and mandatory audits of

accompanying financial statements. By contrast, offerings below JPY 100 million are subject only to the submission of non-public securities notifications, leaving regulatory investor protection measures largely absent. The level of investor protection afforded by such small public offerings in Japan remains limited.

Such frameworks are typically complemented by OTC transactions and markets, with their intermediary-based functions such as issuer screening and certification, investor suitability assessments, explanatory obligations imposed on securities companies, information sharing, and competitive interactions among issuers, investors, and securities companies. These intermediaries collectively form a network that can enhance transparency and fairness without imposing undue burdens on nascent market participants. This approach can facilitate participation by a broader range of investors including retail investors and qualified investors, while promoting efficient equity financing for high-growth firms, provided that disclosure standards, intermediary obligations, and anti-fraud safeguards are properly designed.⁷³

In Japan, however, the near-total prohibition on securities companies soliciting investments in unlisted shares, combined with the reinstatement of strict disclosure obligations even for small public offerings when such solicitation occurs, effectively forces issuers to conduct solicitation independently, maintaining financing predominantly within close personal networks. Consequently, market-based equity financing is severely limited, not only for start-ups but also for unlisted firms in general, reducing the absolute availability of equity capital and reinforcing a structural reliance on asset-based or bank-financed lending. Strengthening and properly calibrating a simplified disclosure regime is therefore essential to reduce barriers to equity financing for unlisted firms while maintaining investor protection in a manner that facilitates broader participation in Japan's private equity markets.

4.3. Digitalization, equity crowdfunding, and marketplaces

In Japan, the digitalization of securities markets for unlisted shares remains underdeveloped relative to

⁷³ See SEC, "Statement on Commission Action to Enhance Investor Protections in the OTC Market," available at: <https://www.sec.gov/newsroom/speeches-statements/clayton-otc-2020-09-16> [accessed March 10, 2026].

major overseas markets. This is partly because the historically broad restrictive reach of the regulatory framework for Proprietary Trading System (PTS) has meant that even limited intermediation through electronic platforms for OTC trading could fall within the scope of the PTS authorization requirement. By comparison, the U.S. ATS and EU MTF concepts are also subject to licensing or authorization requirements. However, these requirements are framed around exchange-like multilateral systems operating under established, non-discretionary methods or rules.

By contrast, the Japanese concept of a PTS has historically been defined more broadly to cover systems that use an electronic data-processing system to execute securities transactions—through auctions, limit-order matching, negotiated transactions, and similar methods—among multiple parties at specified prices.⁷⁴ This framework can be understood as one factor that discourages the digitalization of trading in unlisted shares. Moreover, intermediation by securities companies has been largely prohibited. It has instead been permitted only within a tightly regulated framework and thus has not developed to a scale that would necessitate digital solutions for activities such as electronic delivery of disclosure materials, dissemination of price information, and order execution.

In Japan, fully electronic platforms for primary offerings of such securities have only recently emerged with the introduction of ECF in 2015.⁷⁵ As a result, outside small-scale ECF, capital raising for unlisted firms is still heavily reliant on relationship-based financing and non-platform based solicitation, which can entail high transaction costs and limit access to risk capital.

By contrast, the US developed electronic trading and online brokerage services from the 1990s onward, and alongside this development, securities companies and other intermediaries have increasingly leveraged online trading platforms, thereby facilitating the electronic offering and secondary trading of unlisted shares.⁷⁶ Such online trading platforms—including ECF platforms,

74 See FIEA art. 2, para. 8, item (x); FIEA Definitions Ordinance art. 17; FIEA art. 30, para. 1; cf. 17 C.F.R. §§ 240.3b-16(a)(1)–(2), 242.300(a); Directive 2014/65/EU, art. 4(1)(22), 2014 O.J. (L 173) 349. In Japan, recent reforms have excluded certain low-volume auction-based trading methods from the PTS authorization requirement. See FIEA Enforcement Order arts. 15-10-9, 15-10-10.

75 In Japan, ECF was introduced in 2015, as the first fully online platform that enables standardized public offerings of unlisted shares to a broad investor base. By contrast, major overseas markets had already developed multiple electronic platforms for similar offerings (Greene et al., 2021; Wilson and Testoni, 2014).

76 In the US, the diffusion of electronic trading and online brokerage services from the 1990s onwards enabled market participants to use ATS and electronic platforms for trading various securities, including unlisted shares. These developments, together with subsequent regulatory changes, facilitated more efficient information

marketplaces, and ATSS—have improved efficiency, speed, and reliability by enabling information sharing, transaction execution, and record-keeping, thereby supporting the growth of unlisted equity markets.

Similarly, in Japan, while PTSs have primarily been developed to facilitate the trading of listed shares, comparable infrastructure for unlisted shares remains at an early stage of development. The limited stock of shares issued through market-based offerings, together with low liquidity in secondary markets for unlisted shares, constrains the development of PTS-based trading. Without regulatory reform and complementary digital platforms and related market infrastructure, meaningful market expansion may be difficult to achieve. A promising solution for Japan is the promotion of digital platforms for capital raising, investor participation in unlisted firms, and secondary trading among investors, particularly through ECF platforms and marketplaces facilitating small public offerings, private placements and secondary trading. Such platforms can channel small-scale investments from a broad base of retail investors and qualified investors, particularly HNWI, into start-ups and growth-oriented SMEs, lowering participation costs for both investors and entrepreneurs. Over time, these platforms can also play an important role in developing pipelines to larger pools of VC funds and private equity funds, and in expanding small public offerings and private placements, especially as regulations evolve to enable the issuance of digitally transferable securities. In this way, digitalization can contribute to the formation of both primary issuance and secondary markets for unlisted shares, enhancing market efficiency and liquidity.

International experience demonstrates the potential of ECF as a complementary financing channel. In the US and several European countries, ECF platforms have expanded rapidly, enabling a wide range of individual investors to provide substantial capital to start-ups and growth-oriented SMEs under higher equity-raising limits and more flexible per-investor investment caps. These mechanisms efficiently support seed-stage and growth-stage financing.

By contrast, in Japan, strict regulations—such as the practical constraints associated with the JPY

dissemination, order execution, and record-keeping in private markets, the laying groundwork for the later emergence of dedicated ECF and marketplace platforms.

100 million filing-exemption threshold, despite the formal ECF ceiling of JPY 500 million, and a per-investor limit of JPY 2 million—severely restrict the ability of ECF to function as a market-based financing mechanism for unlisted firms, highlighting the need for proportionate reforms to bring Japanese rules closer to international practice.

Overall, promoting digitalization and easing regulatory restrictions on ECF could lower entry barriers, expand capital formation opportunities, and contribute to the long-term development of secondary markets for unlisted firms in Japan.

5. Discussion: Economic growth through market-based equity financing

Private equity markets and private equity financing play an important role in economic growth by facilitating the reallocation of capital, improving firm productivity, and supporting innovation and entrepreneurial activity (Wright et al., 2009). In countries with well-developed private equity markets, firms can leverage market-based equity financing to pursue growth opportunities, and obtain sufficient capital from the market. This creates a self-reinforcing process in which firms undertake capital raising and growth-oriented investing. Markets reflect these activities by driving up share prices and increasing market capitalization, and this attracts more investors, leading to larger subsequent capital raising and growth-oriented investing. Ultimately, high-growth firms that successfully navigate this virtuous cycle can grow to a substantial scale, expanding their market valuations and, in some cases, achieving unicorn status. These virtuous dynamics critically depend on the presence of well-functioning private equity markets, which provide effective price formation mechanisms and informative valuation benchmarks for high-growth firms.

Private equity markets are vital for high-growth firms, particularly for young and innovative ones that often lack tangible collateral and stable cash flows but possess high growth potential, to obtain sufficient risk capital. Well-functioning private equity markets attract diverse investors, improve capital allocation, and support the growth of such firms by enabling promising growth firms, especially young and innovative ones with strong business plans and strong growth prospects, to raise larger amounts of equity capital. The participation of a broader and more diverse investor base, ranging from institutional

and professional investors to financially sophisticated individual investors, can deepen the market, improve price discovery and liquidity, and thereby strengthen the interaction between primary issuance and secondary trading. This, in turn, allows such firms to raise larger rounds of financing and undertake more ambitious growth-oriented investment than would be possible with bank lending alone. Unlike debt financing, which typically requires collateral and generates fixed returns through interest, equity financing allows a broad and diverse range of investors to share in the growth of firm value. By securing initial equity financing, even small firms can leverage debt to expand their overall capital, invest in key resources, including human capital and novel systems, and compete effectively with established firms. A vibrant equity market thus provides continuous funding opportunities to multiple high-growth firms.

Such cycles and the provision of financing opportunities that allow firms to obtain sufficient capital, consistent with their valuations, from a broad and diverse investor base contribute to long-run economic growth and the emergence of new industries in entrepreneurial and regional ecosystems (Gompers and Lerner, 2001, 2004; O'Connor et al., 2017). Through these market-based financing and growth dynamics, firm-level growth, job creation, and innovation generated by high-growth firms accumulate to support broader, long-run economic growth. Market-based equity financing enables innovative high-growth firms to expand dramatically, often pulling along a wide range of other firms. As these high-growth firms scale up, they stimulate the growth of many other enterprises through supply chains, business partnerships, and competitive pressure.

In addition, investment by high-growth firms triggers investment competition among other firms, including established large corporations, thereby expanding growth-oriented investment across the economy. Even relatively small growth-oriented firms can, by raising substantial equity, undertake investment on a scale that rivals or exceeds that of incumbent large firms. In response to the competitive threat posed by such entrants, established firms are induced to undertake proactive, forward-looking and defensive investment. As a result, intense competition in growth-oriented investment emerges, and aggregate investment in capital equipment, human resources, and organizational and IT systems expands at the national level.

Market-based equity financing thus helps to activate a dynamic and creative metabolic process—an

equity-driven process of creative destruction and revitalization led by the expansion of high-growth firms, thereby strengthening international competitiveness. This reallocation of human capital, equipment, organizational systems, and other productive resources is achieved by absorbing resources from both new entrants and incumbent firms—rather than through the mere exit of declining firms. Growth-oriented firms lead the restructuring of businesses and industries, thereby contributing to the regeneration and evolution of the economy and industrial structure as a whole (Tadokoro, 2024a).

In this way, firm-level growth supported by market-based equity financing expands the aggregate capital stock of the economy and increases household wealth, thereby sustaining economic growth through both supply-and demand-side channels. As Solow (1957, 1962) emphasized, while high rates of capital accumulation can raise the level of output and accelerate economic growth in the short-run, long-run economic growth depends on improvements in total factor productivity.⁷⁷ High-growth firms make a disproportionate contribution to aggregate productivity growth and economic development (De Nicola and Muraközy, 2023). In this context, the promotion of equity financing for high-growth firms should be understood not merely as the raising of risk capital, but as the cultivation of future engines of sustained, long-term economic growth.

More broadly, national economic growth is propelled by increases in the capital stock—such as plant, equipment, and IT systems—resulting from firms’ growth-oriented investment. Encouraging the use of equity financing thus drives both corporate innovation and growth investment, and in turn underpins capital-stock-driven and wealth-driven economic growth at the national level—an equity-driven process of innovation and economic development. Moreover, as the prospects of success improve, the unlisted shares of such firms become highly attractive investment opportunities for a wide range of investors, including households. As firms grow and their market valuations expand, household wealth and incomes increase, stimulating household investment and consumption; this wealth effect further supports economic growth.

In Japan, however, the legal and market infrastructure to support such market-based equity

⁷⁷ In his seminal work, Solow (1957, 1962) emphasized that technological progress is important for long-run economic growth. Because capital accumulation is subject to diminishing returns, its marginal effect eventually declines; accordingly, improvements in total factor productivity are indispensable for sustained growth.

financing remains nascent and underdeveloped. The absence of robust private equity market infrastructure limits firms' access to risk capital and impedes the formation of the virtuous growth cycle. While Japan's bank-centered financial system has historically supported financial stability, they tend to favor established firms with tangible collateral and predictable cash flows, placing young and innovative firms—which often rely on intangible assets, such as technology and novel business models—at a disadvantage. Consequently, many start-ups face severe financial constraints that limit their ability to scale and compete.

In the absence of well-developed private equity markets through which firms can obtain critical risk capital, the pipeline of firms capable of evolving into unicorns is severely restricted. Strengthening private equity markets is essential to overcome the limitations of bank-centered financial systems and to enable young and innovative firms to realize their growth potential. Targeted and phased policy reforms are necessary to foster private equity markets. Drawing on the institutional features of well-developed private equity markets in the surveyed jurisdictions, Japan should modernize solicitation rules, facilitate small public offerings and private placements, introduce frameworks akin to the US Regulation A and Regulation D, and implement tiered disclosure requirements based on offering size and investor sophistication. Coupled with the digitalization of capital raising processes, including the expansion of ECF platforms and marketplaces, these measures can significantly reduce transaction costs, broaden investor participation, and enhance liquidity in the secondary market for unlisted shares (Tadokoro, 2024b).

Strengthening market functions through comprehensive and coordinated regulatory reforms—such as expanding exempt transactions for unlisted shares, introducing simplified disclosure frameworks, and promoting digitalization of platforms for capital raising, including ECF platforms and marketplaces—would lower entry barriers, broaden investment opportunities, and improve the efficiency of risk capital allocation. Such reforms are essential to revitalizing Japan's private equity markets and establishing a foundation for innovation-driven economic growth.

6. Conclusions

Japan's long-term economic revitalization is contingent upon establishing a financial system that enables young and innovative firms to flourish. Developing private equity markets—supported by deregulation, simplified disclosure frameworks, and digitalization—is essential for mobilizing idle capital and channeling it toward these firms. By balancing investor protection with efficient capital formation, Japan can foster unicorns, enhance competitiveness, and lay the foundation for sustainable, innovation-driven economic growth. Targeted policy reforms that lower entry barriers, encourage broader participation from both individual and institutional investors, and facilitate efficient secondary markets for unlisted shares are crucial to realizing these outcomes. Moreover, integrating digital platforms and ECF into the regulatory framework can help build a robust pipeline of growth-stage firms, ensuring that Japan's financial system actively supports innovation, job creation, and regional economic development. By learning from international experience, Japan can design reforms that not only expand access to risk capital, but also create a dynamic, competitive, and resilient ecosystem for start-ups and growth-oriented unlisted firms, ultimately contributing to innovation-driven economic growth.

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Table 1: Historical background of Japanese private equity markets

| Category | Subcategory | 1. From the postwar period to the early 1980s: Development of organized OTC markets, Disappearance of other OTC markets | 2. From the 1980s to the late 1990s: Reform of organized OTC markets, Expansion and contraction of direct transactions, Establishment of Green Sheet Market | 3. From the 2000s to the present: Disappearance of organized OTC markets, Introduction of exceptional OTC schemes |
|------------------------------|-------------|--|---|--|
| Securities exchanges | | <p>Postwar closure; reopened in 1949</p> <p>1961 Second Sections of the stock exchanges established</p> | | <p>[Establish junior stock markets with relaxed listing requirements]</p> <p>1998 MOTHERS established</p> <p>From 2000 NASDAQ Japan and other junior markets</p> <p>2004 JASDAQ Securities Exchange</p> <p>2009 Tokyo AIM (later renamed Tokyo Pro Market)</p> |
| Organized OTC markets | | <p>1951 OTC Approved Issues Market established ⇒ 1961 the Second Sections of the stock exchanges</p> <p>1963 OTC Registration Market established; 1965 registration criteria tightened; 1971 disclosure requirements strengthened (→ declining and stagnant)</p> | <p>[OTC Registration Market* reform] (*later referred to as the JASDAQ Market)</p> <p>From 1983 relaxation of registration criteria, liberalization of public offerings, strengthened disclosure (→ registered firms increased)</p> <p>1991 JASDAQ system introduced (→ active during the venture boom) ⇒ 2004 JASDAQ Securities Exchange</p> <p>1997 the Green Sheet (GS) Market established (→ used by limited number of firms)</p> | <p>[GS Market reform]</p> <p>2003 proprietary trading system introduced</p> <p>2005 disclosure obligations strengthened (→ marginal and stagnant)</p> <p>2018 GS Market abolished (→ organized OTC markets disappeared)</p> |

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| <p>OTC markets outside organized OTC markets</p> | <p>Revival of pre-war network-based active equity financing and OTC trading</p> <p>Collective trading active in postwar period.</p> <p>1975/1976/1983 Progressive formalization of JSDA's general prohibition on solicitation by securities firms (→ OTC transactions and markets outside organized OTC markets nearly disappeared)</p> | <p>1997 Public offerings through GS Market introduced with company Information Sheet (CIS) for small public offerings of less than JPY 500 million.</p> <p>1998 public offerings through the GS Market were effectively reduced to less than JPY 100 million; offerings of JPY 100 million to less than JPY 500 million became subject to Low-Value Public Offerings.</p> | <p>[Introduction of limited exceptional OTC schemes]</p> <p>2005 Solicitation to qualified institutional Investors (QIIs); Solicitation for SPOs and small-number private placements other than GS issues with CIS (→ hardly used in practice)</p> <p>2015 Shareholders Community and ECF introduced (→ use remained limited)</p> <p>[Revitalize unlisted share offering and trading]</p> <p>2022 J-Ships (Solicitation to professional investors) introduced.</p> |
| <p>Direct transactions (offerings and trading for statutory exempt schemes)</p> | <p>Revival of pre-war active network-based equity financing</p> <p>Threshold of small public offerings (SPOs): JPY 200,000 in 1948, raised to JPY 50 million in 1953; to JPY 100 million in 1961.</p> <p>From the late 1970s, greater reliance on direct transactions as OTC trading and markets outside organized OTC faded.</p> | <p>[Expansion of direct transactions]</p> <p>1988 Threshold of SPOs raised to JPY 500 million.</p> <p>1992 small-number private placements and private placements to QIIs were institutionalized. (private placement memoranda did not become widespread → mainly used for relationship-based capital raising)</p> | <p>[Contraction of direct transactions]</p> <p>1998 Threshold of SPOs reduced to less than JPY 100 million;</p> <p>1998 Low-Value Public Offerings introduced for offerings of more than JPY 100 million, less than JPY 500 million, with partial simplification of full and fair offering documents (→ hardly used in practice)</p> <p>[Revitalize unlisted share offering and trading]</p> <p>2022 expansion of the scope of Professional Investors. Counting period for offerees of small-number private placements has shortened.</p> <p>2025 increase in the investment limit for ECF</p> |

Table 2: Regulatory comparison of small public offerings in Japan and major countries

| | Japan | US | EU | UK | China | Korea |
|--|--|---|---|---|--|--|
| Offering amount (primary offerings and secondary trading for which full and fair disclosure requirements are exempted) | * Less than JPY 100 million in any 12-month period. [FIEA, Act No. 25 of 1948, art. 4(1)(v)] | * Regulation A (Reg. A): offering amount in any 12-month period, 1) Tier 1: may not exceed USD 20 million, 2) Tier 2: may not exceed USD 75 million. * Affiliate selling limits: For sales by affiliates of the issuer, 1) Tier 1: may not exceed USD 6 million, 2) Tier 2: may not exceed USD 22.5 million. [Securities Act of 1933 (Securities Act), ch. 38, 48 Stat. 74 (1933), § 3(b), 15 U.S.C. § 77c(b) (2018); 17 C.F.R. § 230.251(a)(1)-(2) (2026)] * State-level securities laws (Blue Sky Laws): Requirements vary by state. Some states, such as Arizona, set a lower ceiling than the Regulation D (Reg. D) Rule 504 maximum offering amount of USD 10 million in any 12-month period, while under Small Company Offering Registration (SCOR), the applicable range does not exceed USD 5 million. [17 C.F.R. § 230.504(b)(2) (2026): North American Securities Administrators Association, (NASAA), Statement of Policy Regarding Small Company Offering Registrations (SCOR Statement of Policy), § II (May 19, 2019); § V.D.] | * Member States may exempt offers below EUR 8 million (until June 4, 2026; effective from June 5, 2026, less than EUR 12 million, or less than EUR 5 million where adopted by the Member State, in the European Union over a period of 12 months.) [Regulation (EU) 2017/1129 (Prospectus Regulation), 2017 O.J. (L 168) 12, art. 3, as amended by Regulation (EU) 2024/2809 (Listing Act), art. 1 (effective 5 June 2026)] | * Up to GBP 5 million in total consideration over a period of 12 months [Public Offers and Admissions to Trading Regulations 2024, SI 2024/105 (POATRs 2024), reg. 12, Sch. 1, para. 1, 14.] | * There is no system equivalent to a small public offering under which disclosure obligations are reduced or exempted based on the offering amount, in respect of public offerings of securities in China. | * The aggregate value of securities offered by the issuer and sold by existing investors must be less than KRW 1 billion in any 12-month period. [Financial Investment Services and Capital Markets Act (FSCMA), Act No. 21448, Mar. 6, 2026, art. 119(1); Enforcement Decree of the Financial Investment Services and Capital Markets Act (Decree of the FSCMA), Presidential Decree No. 36288, Apr. 28, 2026, art. 120(1)] |

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| Simplified disclosure | <p>* Exempt from securities registration statement filing requirements.</p> <p>* For small public offerings of JPY 10 million or more but less than JPY 100 million, submission of a securities notification (non-public) is required. [FIEA, art. 4(6)]</p> <p>* JSDA rules require a Company Information Sheet when issuers use broker solicitation of unlisted securities, imposing costs close to registered public offerings. Broker-intermediated small offerings of unlisted shares are therefore rarely used. [Japan Securities Dealers Association, Rule Concerning Over-the-Counter Securities, arts. 2(3), 2(4), 3, 5 (adopted Mar. 15, 2005, as amended May 1, 2025).]</p> | <p>* In small public offerings under Reg. A: The issuer must file Form 1-A. [17 C.F.R. § 230.252(a) (2026)]</p> <p>* Under Tier 1, financial statements in US GAAP generally need not be audited. State registration requirements vary and may accept unaudited financial statements. Some states may impose review, compilation, or certification, as set forth below.</p> <p>* Under Tier 2, preempted from state registration requirements, financial statements in US GAAP or IFRS as applicable, must be audited with an audit report of a certified public accountant (CPA). The issuer must file an annual report on Form 1-K (with audited statements), a semiannual report on Form 1-SA, and a current report on Form 1-U. [17 C.F.R. § 230.257(b) (2026)]</p> <p>* For public offerings under state laws up to USD 5 million under SCOR, requirements vary by state, but issuers using the SCOR integrated form must submit financial statements in US GAAP or Other Comprehensive Basis of Accounting (OCBOA) where permitted by individual state regulations, as follows:</p> <p>* Not more than USD 500,000: financial statements certified by CEO and CFO.</p> <p>More than USD 500,000 but less than USD 1 million: compiled by CPA.</p> | <p>* Each Member State may require its own simplified disclosure provided that the content of any national disclosure document does not exceed the information required for an EU prospectus summary. [Prospectus Regulation, art. 3, 7, as amended by Listing Act art. 1]</p> | <p>* Authorized firms must ensure that communications and financial promotions are fair, clear and not misleading and must pay due regard to the information needs of their clients.</p> <p>* No general statutory provisions for simplified disclosure on small public offerings. In practice, issuers, offerors, and financial intermediaries may use voluntary offering documents to support compliance with applicable communication and financial-promotion requirements. [Financial Conduct Authority (FCA) Handbook, COBS 4.2.1R; Principles for Businesses (PRIN) 2.1.1R(Principle 7)]</p> | | <p>* The issuer should submit a document describing the financial status and business performance of the issuer, which shall be either audited by an auditor or confirmed by a certified public accountant (CPA) with the CPA's opinion attached. [FSCMA, art. 130(1); Decree of the FSCMA, art. 137(1)]</p> |
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| | | <p>* USD 1 million to less than USD 2 million: reviewed by CPA. * USD 2 million or more: statements audited by CPA. [SCOR Statement of Policy § V.D.]</p> | | | | |
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General Note for Tables 2–6:

Jurisdiction tags (e.g., Japan, US, EU, UK, China, Korea) are omitted within each country column unless needed for clarity.

Japan: FIEA (Act No. 25 of 1948); Order for Enforcement of the FIEA (Cabinet Order No. 321 of 1965); Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No. 52 of 2007); Japan Securities Dealers Association Rule Concerning Over-the-Counter Securities (adopted Mar. 15, 2005), JSDA.

US: Securities Act of 1933 and related SEC regulations (including Regulation A, Regulation D, Regulation Crowdfunding, Rule 144, and Rule 144A), Legal Information Institute (LII); North American Securities Administrators Association (NASAA), Statement of Policy Regarding Small Company Offering Registrations (SCOR Statement of Policy), adopted Apr. 28, 1996.

EU: Regulation (EU) 2017/1129, 2017 O.J. (L 168) 12; Regulation (EU) 2024/2809 (Listing Act), O.J. L 2024/2809, 14.11.2024 (relevant amendments applicable from 5 June 2026); Directive 2014/65/EU of 15 May 2014, 2014 O.J. (L 173) 349 (MiFID II); Regulation (EU) 2020/1503 (European Crowdfunding Service Providers Regulation (ECSPR)), 2020 O.J. (L 347) 1, as amended.

UK: Public Offers and Admissions to Trading Regulations 2024, S.I. 2024/105; Financial Conduct Authority Handbook.

China: Securities Law of the People’s Republic of China (中华人民共和国证券法) (as amended Dec. 28, 2019, effective Mar. 1, 2020), Standing Committee of the National People’s Congress of the People’s Republic of China; Regulations on the Supervision and Administration of Private Investment Funds (私募投资基金监督管理条例) (State Council Decree No. 762, promulgated July 3, 2023, effective Sept. 1, 2023) (P.R.C.); Interim Measures for the Supervision and Administration of Privately Raised Investment Funds (私募投资基金监督管理暂行办法), China Sec. Regul. Comm’n Order No. 105 (Aug. 21, 2014).

Korea: Financial Investment Services and Capital Markets Act (FSCMA), Act No. 21448, Mar. 6, 2026; Enforcement Decree of the Financial Investment Services and Capital Markets Act, Presidential Decree No. 36288, Apr. 28, 2026.

As for the EU’s threshold, from June 5, 2026, the Listing Act amendments introduce a harmonized EU prospectus threshold of EUR 12 million, subject to Member States’ option to lower it to EUR 5 million.

The Japanese thresholds in Table 2 describe the current framework as of May 31, 2026, while proposed 2026 amendments are noted separately. A bill submitted to the 221st Diet on April 10, 2026 would raise this exemption threshold from JPY 100 million to JPY 500 million and retain a Low-Value Public Offering for offerings of JPY 500 million or more but less than JPY 1 billion. As for Korea, a draft amendment announced in April 2026 would raise the threshold from KRW 1 billion to KRW 3 billion. See Financial Services Commission, Rule Notice No. 2026-1888.

Table 3: Regulatory comparison of equity crowdfunding in Japan and major countries

| | Japan | US | EU | UK | China | Korea |
|--|---|--|---|--|--|--|
| Regulated crowdfunding (limits on offering amount) | <p>* Less than JPY 500 million in any 12-month period.</p> <p>* Issuers are exempt from full and fair disclosure requirements if the total offering price is less than JPY 100 million. For JPY 100 million to less than JPY 500 million, only partial alleviation of the description requirements of the securities registration statement shall apply (Low-Value Public Offering). [FIEA, arts. 5(2), 29-4-2(9); Order for Enforcement of the FIEA (Order of FIEA), Order No. 321 of 1965, art. 15-10-3(1)(i)]</p> | <p>* No more than USD 5 million in any 12-month period. [Securities Act, § 4(a)(6)(A), 15 U.S.C. § 77d(a)(6)(A) (2018); Regulation Crowdfunding (Reg. CF), Rule 100(a)(1), 17 C.F.R. § 227.100(a)(1) (2026)]</p> | <p>* Not exceed EUR 5 million over a period of 12 months. [Regulation (EU) 2020/1503 of 7 October 2020 (ECSPR), 2020 O.J. (L 347) 1, art. 1(2)(c)]</p> | <p>* Up to GBP 5 million in total consideration over a period of 12 months, the same as the maximum amount raised in exempt public offers.</p> | <p>* With online platform operated by securities business institutions, offerings to no more than 200 specific investors, excluding employees, may not constitute a public offering. [Securities Law of the People’s Republic of China (SL), promulgated by the Standing Comm. of the Nat’l People’s Cong., Dec. 28, 2019, effective Mar. 1, 2020, art. 9]</p> | <p>* No more than KRW 3 billion in any 12-month period under a draft amendment announced in April 2026. Within this limit, the obligation to file a securities registration statement is exempted. (This exemption applies even if the amount exceeds the KRW 1 billion cap for small public offerings up to KRW 3 billion.) *Issuers are limited to start-ups, venture businesses and small or medium-sized enterprises (SMEs). [FSCMA, art. 9(27), art. 117-10(1); Decree of the FSCMA, art. 14-5, art. 118-15(1)]</p> |
| Investment limit | <p>Investor other than professional investors</p> <p>* The amount that an investor other than Professional Investors (PIs) may invest in a year shall not exceed 5% of such person’s assets excluding residential property (in</p> | <p>Investor other than accredited investors</p> <p>* If either annual income or net worth is less than USD 124,000, the investor may invest up to the greater of USD 2,500 or 5 percent of the greater of annual income or net worth.</p> <p>* If both annual income and net worth are at least USD 124,000, the</p> | <p>Non-sophisticated investor</p> <p>* A European crowdfunding service provider (ECSP) authorized shall, before a non-sophisticated investor makes an investment equal to</p> | <p>Restricted Investor (Non HNWIs and Sophisticated investors)</p> <p>* Individual investors, other than high-net-worth individuals (HNWIs) and sophisticated investors (i.e.,</p> | | <p>*Investors with no investment cap:</p> <p>i) Professional investors (table 5);</p> <p>ii) Persons who have invested KRW 50 million in one start-up or venture business, or an aggregate of KRW 20 million in two or</p> |

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| | <p>the case of a corporation, net assets), or 5% of the person's annual income (in the case of a corporation, gross revenue), and must fall within the range of JPY 500,000 or more and JPY 2 million or less. [FIEA, art. 29-4-2(9); Order of FIEA, art. 15-10-3(1)(ii)(2025); Cabinet Office Ordinance on Financial Instruments Business, etc. (Office order on FIB), Office Order No.52 of 2007, art. 16-2(3) (2025)]</p> | <p>investor may invest up to 10 percent of the greater of annual income or net worth, not to exceed USD 124,000. [Securities Act, § 4(a)(6)(B), 15 U.S.C. § 77d(a)(6)(B) (2018); 17 C.F.R. § 227.100(a)(2) (2020)]</p> | <p>or exceeding the higher of EUR 1K or 5% of that investor's net worth, test whether the investor possesses the knowledge and confirm that the investor understands the investment risks. [ECSPR, art. 21(7)] Sophisticated investors * A sophisticated investor means a professional client and any natural or legal person approved by the ECSP that meets criteria: 1) Legal person—at least one of the following: i) Net turnover of at least EUR 2 million; ii) Balance sheet of at least EUR 1 million; iii) Own funds of at least EUR 100,000. 2) Natural person—at least two of the following: i) At least ten transactions at an</p> | <p>restricted investors), must not invest more than 10% of their net assets, excluding their primary residence, pension entitlements, and insurance benefits, in any 12-month period. [FCA Handbook, COBS 4 Annex 5R] Restricted Investors * In this case: 1) A HNWI is a person whose annual income is GBP 100,000 or more, or whose net assets are GBP 250,000 or more. 2) Self-certified sophisticated investor means a person who satisfies one of these criteria: i) experience in working in private equity or in finance for SMEs or in a similar capacity in the past two years, ii) has made more than one investment in unlisted firms in the previous two years, iii) has been a director of a company with an</p> | <p>more start-up or venture businesses, within the past two years; iii) Venture-related investors and accelerators;</p> <p>* Eligible investors: may invest up to KRW 10 million in each issuer in any 12-month period and up to KRW 20 million in total if they satisfy any one of the following: i) Individuals whose aggregate interest and dividend income exceed KRW 20 million; ii) Individuals whose combined business income and employment income for the preceding tax year exceeds KRW 100 million; iii) Individuals who have invested in crowdfunding at least five times in the past two years and whose total investment exceeds KRW 15 million; iv) Individuals meeting the requirements for</p> |
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| | | | <p>average frequency of 10 per quarter over the previous four quarters.</p> <p>ii) Gross income of at least EUR 60,000 in a period of 12 months, or financial instrument portfolio exceeding EUR 100,000;</p> <p>iii) at least 12 months of professional experience in the financial sector, or at least 12 months as an executive in a legal person meeting the criteria in (1) above.</p> <p>[ECSPR, art. 2(1)(j); ECSPR Annex II; Directive 2014/65/EU of 15 May 2014, 2014 O.J. (L 173) 349 (MiFID II), Annex II]</p> | <p>annual turnover of at least GBP 1 million in the last two years, iv) has been a member of a network or syndicate of business angels for at least 6 months, and must complete the relevant statement in the previous 12 months acknowledging the risks.</p> <p>[Financial Services and Markets Act 2000 (FSMA 2000) (Financial Promotion) Order, 2005, SI 2005/1529, art. 48, 50A, sch. 5]</p> | <p>qualified professional personnel, such as investment advisors, analysts, and fund managers;</p> <p>v) Corporations whose equity capital as of the end of the year exceeds KRW 1 billion.</p> <p>* Other individuals: may invest up to KRW 5 million in each issuer in any 12-month period and a total of KRW 10 million.</p> <p>[FSCMA, art. 117-10(6), art. 286(1)3; Decree of the FSCMA, art. 118-17; Regulation on Issuance and Disclosure of Securities, art. 2-2-3, art. 2-2-6]</p> |
| Simplified disclosure | <p>* A person registered for the Type I Small-Amount Electronic Public Offering Service (the crowdfunding platform operator) shall be obligated to provide information, through the website of the ECF</p> | <p>* Under Reg. CF, the issuer must file Form C with the SEC and provide it to investors and the intermediary.</p> <p>* Up to USD 124,000: Financial statements for the most recent fiscal year, certified by the principal executive officer, together with information from the federal income-tax return.</p> <p>* More than USD 124,000 but not</p> | <p>* The ECSP shall provide prospective investors with a key investment information sheet (KIIS), drawn up by the project owner, for each crowdfunding offer, containing the</p> | <p>* Authorized firms operating the ECF platform must provide investors with necessary information and ensure all communications and financial promotions are fair,</p> | <p>The issuer must post a simplified offering document, including the terms and conditions for issuing securities, financial standing, and business plan, on a designated crowdfunding portal.</p> <p>[FSCMA, art. 117-</p> |

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| | <p>platform, on the outline of the issuer and its business, and on the structure of the transaction and associated risks. [FIEA, art. 37; Order of FIEA art. 146-2; Office Order on FIB art. 6]</p> | <p>more than USD 618,000: Reviewed financial statements prepared in accordance with US GAAP by an independent CPA. * More than USD 618,000 up to USD 5 million: Audited financial statements prepared in accordance with US GAAP by an independent CPA, unless the first-offering exception applies. * Exception: If the issuer is conducting its first offering under § 4(a)(6) and the target amount does not exceed USD 1,235,000, reviewed financial statements are acceptable in lieu of an audit. [Securities Act, § 4A(b)(1)(D), 15 U.S.C. § 77d-1(b)(1)(D) (2018); 17 C.F.R. §§ 227.201, .203 (2026)]</p> | <p>information that investors need to make an informed investment decision. [ECSPR, art. 23(2)]</p> | <p>clear and not misleading. * Platforms must provide pre-service information and conduct appropriate assessments for restricted investors. [Financial Services and Markets Act 2000 (FSMA 2000), c. 8, § 19; FCA Handbook, COBS 4.2.1R, 14.2R, 14.3.2R.]</p> | | <p>10(2); Decree FSCMA, art. 118-16(1)]</p> |
| <p>Operation by registered operators</p> | <p>* The business shall be conducted by an operator registered for the Type I Small-Amount Electronic Public Offering Service. The registration requirements such as capital are partially relaxed compared to those for Type I Financial Instruments Business Operators. [FIEA, arts. 29-4-28(1), (5); Order of FIEA art. 15-7]</p> | <p>* Each crowdfunding intermediary must register with the SEC as a funding portal or broker-dealer and must be a member of FINRA or other registered national securities association. * Funding portals are subject to lighter capital, bonding, compliance, and operational requirements than those for broker-dealers. [Securities Act, § 4A(a), 15 U.S.C. § 77d-1(a) (2018); 17 C.F.R. § 227.300 (2026)]</p> | <p>* A crowdfunding service provider must obtain authorization under ECSPR. Crowdfunding providers are subject to simplified capital and governance requirements compared to other investment firms. [ECSPR, arts.11-12, 24-27]</p> | <p>* Operators of ECF platforms must be authorized by the Financial Conduct Authority (FCA). * Crowdfunding platforms may, where they qualify as SNI MIFIDPRU investment firms, be subject to lower prudential requirements in certain respects than full-scope investment firms. [FSMA 2000, c. 8 s. 19; FCA Handbook, COBS 4.2.1R;</p> | <p>* No ECF-specific operator registration exists. Securities companies handling private placements must obtain a CSRC License for Securities Business, and satisfy registration requirements, including capital contribution and personnel qualifications.</p> | <p>* ECF intermediaries must register with the Financial Services Commission. * Registered ECF operators benefit from reduced capital and disclosure obligations compared to full public offering intermediaries. [FSCMA, art. 117-3, 117-4, 117-7, 117-10; Decree of the FSCMA, art. 118-15]</p> |

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| | | | | MIFIDPRU 1.2.1R, 4.4.1R, 5.1.7R, 6.2.1R, 7.1.3R] | | |
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Table 4: Regulatory comparison of private placement to small-number investors in Japan and major countries

| | Japan | US | EU | UK | China | Korea |
|---------------------------------|--|--|--|--|--|--|
| Small-number private placements | <p>Scope of exemption</p> <p>* The number of offerees must be fewer than 50 persons in any 3-month period, excluding Qualified Institutional Investors (QIIs) but including PIs other than QIIs. [FIEA, art. 2(3); Cabinet Office Ordinance art.1-5.]</p> <p>* With respect to the resale of securities acquired through such a private placement, the number of persons to whom the offer for sale is made shall likewise be fewer than 50 persons in any 1-month period (small-number private secondary offering). [FIEA, art. 2(4); Cabinet Office Ordinance art. 1-8-3.]</p> <p>Simplified disclosure</p> <p>* There is no simplified statutory disclosure requirement. However, JSDA rules generally require a Company Information Sheet when securities companies solicit investments in small-number private placements, imposing</p> | <p>Scope of exemption</p> <p>* Under Reg. D Rule 506(b), no limitation on the number of offerees. Purchasers are:</p> <p>1) Non-accredited sophisticated investors: up to 35 purchasers. The issuer must reasonably believe immediately prior to sale that each such purchaser, either alone or with a purchaser representative, possesses sufficient knowledge and experience to evaluate the investment risks. In practice, offerees are often limited to persons with a pre-existing substantive relationship, such as existing clients. [17 C.F.R. § 230.506(b)(2)(i)-(ii) (2026).]</p> <p>2) Accredited investors: unlimited in number. General solicitation or advertising is prohibited. The issuer must reasonably believe that each purchaser is an accredited investor. [17 C.F.R. §§ 230.501(a), .502(c) (2026).]</p> <p>Simplified disclosure</p> <p>* Form D: a notice of sales must be filed within 15 calendar days after the first sale and is publicly available on EDGAR after filing. A private placement memorandum (PPM) is commonly used as market practice. [17 C.F.R. § 230.503(a)(1) (2026).]</p> <p>If any non-accredited investor participates, the issuer must furnish such purchasers with an offering statement containing non-financial</p> | <p>Scope of exemption</p> <p>* Investors addressed limited to fewer than 150 natural or legal persons per Member State, other than qualified investors. [Prospectus Regulation, art. 1(4)(b).]</p> <p>Simplified disclosure</p> <p>* Investment firms must provide appropriate information to clients/investors. It is market practice to deliver an Information Memorandum (IM) to investors in private placements. [MiFID II art. 24.]</p> | <p>Scope of exemption</p> <p>* Offer made to fewer than 150 persons, other than qualified investors. [POATRs 2024, Sch. 1 para. 3]</p> <p>Simplified disclosure</p> <p>* Authorized firms must ensure that communications and financial promotions are fair, clear and not misleading and must pay due regard to the information needs of clients.</p> <p>* It is market practice for issuers, offerors, and financial intermediaries to deliver voluntary offering documents such as Information Memorandum (IM) to investors in private placements to support compliance with applicable communication and financial-promotion requirements. [FCA, COBS 4.2.1R; PRIN 2.1.1R (Principle 7)]</p> | <p>Scope of exemption</p> <p>* An issuance to no more than 200 specific investors, excluding employees under an employee stock-ownership plan, does not constitute a public offering. [SL, art. 9(2)(2)]</p> <p>* In a non-public offering, no advertising, general solicitation, or disguised public promotion is allowed. [SL, art. 9(3)]</p> <p>* Where the offering falls under art. 9, there is no statutory restriction on the investment amount.</p> <p>* In practice, private investment funds are</p> | <p>Scope of exemption</p> <p>* The number of offerees shall be limited to fewer than 50 persons or entities in any 6-month period, excluding professional investors, controlling shareholders, executive officers, and other related parties of the company, for securities of the same class. [FSCMA, art. 9(7)-(8); Decree of the FSCMA, art. 11(1)]</p> <p>Simplified disclosure</p> <p>* Provision of certain advertisements or publicity limited to basic information on a securities offering shall be excluded from the scope of invitation. [Decree of the FSCMA, art. 2(2)]</p> <p>* Basic information including the purpose of the offering, the issuer, and the securities must still be provided, but no full registration statement is required. [FSCMA, art. 130(1);</p> |

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| | <p>costs close to registered public offerings (see Table 2).</p> <p>* In cases where the issuer itself conducts private placement, preparation and distribution of a private placement memorandum (PPM) are limited and not commonly used. [FIEA, arts. 2(3)-(4), 4(1).]</p> | <p>information required by Part II of Form 1-A. If the aggregate offering amount exceeds USD 20 million, such information includes audited financial statements prepared in accordance with US GAAP or IFRS, as applicable, consistent with Part II of Form 1-A.</p> <p>[17 C.F.R. § 230.502(b)(2)(i)(A)-(B) (2026).]</p> <p>* Under state securities laws, limited-offering exemptions (e.g., ULOE) typically cap the number of offerees at roughly 10–40 persons (often 35 or fewer) and may waive or reduce state-level registration and disclosure. Rule 506(b) offerings are preempted from state registration requirements, though states may require notice filings.</p> <p>[17 C.F.R. §§ 230.501, .502, .503, .506(b) (2026).]</p> | | | <p>sometimes used as intermediaries to aggregate investments. In such cases as well, the number of ultimate investors must remain within the 200-person limit. For reference, the definition of qualified investors in private equity funds is provided in the column below.</p> | <p>Decree of the FSCMA, arts. 137(1)]</p> |
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Note: In the US column, SEC Division of Corporation Finance, *Securities Act Rules Compliance and Disclosure Interpretations*, Questions 256.23–256.33, and *Citizen VC, Inc.*, SEC No-Action Letter (Aug. 6, 2015), indicate that, in practice, offerees are often limited to persons with whom the issuer or intermediary has a pre-existing substantive relationship, such as existing clients.

Table 5: Regulatory comparison of the scope of qualified investors in Japan and major countries

| | Japan | US | EU | UK | China | Korea |
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| Scope of qualified investors | <p>* Private placements to QIIs or PIs</p> <p>* Scope of QIIs</p> <p>1) Government, governmental agencies, institutional investors, etc.</p> <p>2) Corporations or individuals holding securities worth JPY 1 billion or more (notification required).</p> <p>* Scope of PIs:</p> <p>1) QIIs, government, and governmental agencies</p> <p>2) Listed companies and joint stock companies with stated capital of JPY 500 million or more</p> <p>3) Corporations or individuals approved by a securities company.</p> <p>* In the case of individuals: those with investment experience of at least 12 months and meeting any one of the following:</p> <p>i) Net assets and investment-type financial assets (investment assets) of JPY 300 million or more.</p> <p>ii) Net assets or investment assets of JPY 500 million or more, and annual income of JPY 100 million or more</p> <p>iii) Trading frequency of four times or more in any 1-month period, and net assets</p> | <p>Private placement to accredited investors</p> <p>* Under Rule 506(c), purchasers are limited to accredited investors only. The issuer must take reasonable steps to verify accredited-investor status; general solicitation and advertising are permitted; the issuer must file Form D. Restrictions on resale apply. A PPM is common market practice.</p> <p>[Securities Act, § 4(a)(2), 15 U.S.C. § 77d(a)(2) (2018); 17 C.F.R. § 230.502(a), .502(d), .503, .506(c) (2026)]</p> <p>Scope of accredited investors</p> <p>* Governmental bodies, government-related entities, institutional investors, and large companies, including listed companies, etc.</p> <p>* Legal entities: total assets or investments, as applicable, more than USD 5 million.</p> <p>* Natural persons:</p> <p>1) net worth exceeding USD 1 million (excluding primary residence) or individual income of</p> | <p>Private placement to qualified investors</p> <p>* An offer addressed exclusively to qualified investors is exempted from the prospectus requirement.</p> <p>[Prospectus Regulation, art. 1(4)(a)]</p> <p>Scope of qualified investors</p> <p>* Eligible counterparties such as governmental agencies and institutional investors.</p> <p>* Professional clients include:</p> <p>1) Government-related entities, institutional investors, and listed companies.</p> <p>2) Large undertakings meeting at least two of the following criteria:</p> <p>i) Total balance sheet: EUR 20 million or more;</p> <p>ii) Net turnover: EUR 40 million or more;</p> | <p>Private placement to qualified investors</p> <p>* An offer addressed exclusively to qualified investors falls within an exempt offer category.</p> <p>[POATRs 2024, Sch. 1 par. 2]</p> <p>Scope of qualified investors</p> <p>* Eligible counterparties such as governmental agencies and institutional investors.</p> <p>* Professional clients include:</p> <p>1) Governments, government-related entities, institutional investors, and listed companies.</p> <p>2) Large undertakings meeting at least two of the following criteria:</p> <p>i) Total balance sheet of EUR 20 million or more;</p> <p>ii) Net turnover of EUR 40 million or more;</p> <p>iii) Own funds of</p> | <p>* There exists no equivalent system for equity securities. For reference, qualified investors in private investment funds are defined as follows: investors who invest at least RMB 1 million in each fund and meet one of the following criteria:</p> <p>1) Institutional investors: Entities with net assets of no less than RMB 10 million.</p> <p>2) Individual investors: Persons meeting either of the following criteria:</p> <p>i) Financial assets of no less than RMB 3 million; or</p> <p>ii) Average annual personal income of no less than RMB 500,000 over the past three years.</p> <p>3) The following investors:</p> <p>i) Pension funds, charitable funds,</p> | <p>Private placement to professional investors</p> <p>* The solicitation of securities shall be limited to professional investors.</p> <p>Scope of professional investors</p> <p>1) The state, the Bank of Korea, public institutions, financial institutions, listed corporations.</p> <p>2) Corporations or organizations that hold investment-type financial assets of at least KRW 10B; a stock company, at least KRW 5B.</p> <p>3) Individuals who must meet all of the following:</p> <p>(a) Submission of relevant documents to a financial investment business entity.</p> <p>(b) Has held financial investment instruments for at least 12 months, with a monthly average balance of KRW 50 million or more.</p> <p>(c) Has financial capacity or professional knowledge: Meet any of the following:</p> <p>i) Has annual income exceeding KRW 100 million (or KRW 150 million on a household basis), and net assets excluding residential</p> |

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| | <p>or investment assets of JPY 300 million or more iv) Persons with net assets or investment assets of JPY 100 million or more, or annual income of JPY 10 million or more, who also possess specific knowledge or experience (e.g., financial industry employees, those engaged for at least 12 months in teaching or research in economics or similar fields, securities analysts, certified SME consultants or management consultants with equivalent expertise) [FIEA, arts. 2(3), 2(31), 4(2)–(3); Cabinet Office Ordinance on Definitions under Article 2 of the FIEA, art. 10; Cabinet Office Ordinance on Financial Instruments Business, etc., arts. 53, 62]</p> | <p>more than USD 200,000 (joint income USD 300,000) in each of the two most recent years with a reasonable expectation of reaching the same level in the current year. 2) possessing sufficient knowledge through SEC-recognized professional certifications, designations, credentials, or specified professional status to invest. 3) family offices with at least USD 5 million in assets under management and their family clients; knowledgeable employees of private funds. [17 C.F.R. § 230.501 (2026)]</p> | <p>iii) Own funds: EUR 2 million or more. 3) Individuals, public bodies or other undertakings not falling under 2) meeting at least two of the following criteria and, at their request and following an assessment by an investment firm, treated as professional clients: i) An average of 10 transactions per quarter over the previous four quarters; ii) Deposits and financial instruments exceeding EUR 500,000; iii) Works or has worked in the financial sector for at least 12 months in a professional position. [Prospectus Regulation, art. 2(e); MiFID II Annex II.]</p> | <p>EUR 2 million or more. 3) Individuals or public bodies meeting at least two of the following criteria and, assessed by an investment firm as professional clients: i) An average of 10 transactions per quarter over the previous four quarters; ii) Deposits and financial instruments exceeding EUR 500,000, iii) Works or has worked in the financial sector for at least one year in a professional position. [POATRs 2024, Sch. 1 par. 15; FCA Handbook, COBS 3.5.2R, 3.5.3R]</p> | <p>and other public welfare funds; ii) Registered investment plans; iii) Fund managers and staff investing in their own funds; iv) Other designated investors. [Regulations on the Supervision and Administration of Private Investment Funds art. 18; Interim Measures for the Supervision and Administration of Private Investment Funds arts. 12, 13]</p> | <p>property exceeding KRW 500 million; ii) Holds investment-type financial assets amounting to at least KRW 500 million; iii) Has financial-related professional expertise; including being a CPA, appraiser, attorney-at-law, certified tax accountant, or patent attorney; passing relevant examinations administered by the Korea Financial Investment Association (KOFIA); or being registered with KOFIA as an analyst, advisor or fund manager. [FSCMA, art. 9(5); Decree of the FSCMA, art. 10; FSC notice on Regulations on Financial Investment Business, art. 1-7-2]</p> |
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Table 6: Regulatory comparison of secondary trading of securities related to small public offerings and private placements in Japan and major countries

| | Japan | US | EU | UK | China | Korea |
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| Secondary trading of securities related to small public offerings and private placements | <p>* Resale solicitations that do not constitute statutory secondary distributions (<i>uridashi</i>)—i.e., those conducted by parties other than the issuer, its affiliates, Financial Instruments Business Operators, etc. —are generally not subject to securities registration statement filing requirements (filing requirements).</p> <p>* Any subsequent resale of securities acquired through such small public offerings or small-number private placements, if it does not constitute <i>Uridashi</i>, is not subject to filing requirements.</p> <p>* Securities acquired through QII and PI private placements may be resold without filing requirements only to QIIs and PIs, respectively.</p> <p>* In such exempt secondary transactions, there are no simplified statutory disclosure requirements. However, JSDA rules require the issuer to prepare and securities companies to deliver a Company Information Sheet when securities companies intermediate such transactions (see Table 2), while PPMs are not commonly used.</p> <p>[FIEA, art. 2(3), art. 2(4), art. 4(1)–(3); Order of FIEA art.1-7-3. 1-7-4, and 1-8-2 to 1-8-4]</p> | <p>* Section 4(a)(1) exempts transactions by persons other than an issuer, underwriter, or dealer, including resales of unrestricted securities by non-affiliates. Resales of restricted securities and resales by affiliates may require a resale exemption, such as Rule 144, Rule 144A, or Section 4(a)(7). Section 4(a)(7) exempts certain resales to accredited investors. [Securities Act, §§ 2(a)(11), 4(a)(1)-(7), 15 U.S.C. §§ 77b(a)(11), 77d(a)(1)-(7) (2018)]</p> <p>* Restricted securities are securities acquired in unregistered, private transactions from the issuer or its affiliate, including those acquired under Rule 506(b) and Rule 506(c). Resales of restricted securities may be conducted under Rule 144 (to the public market after holding period requirements) OR under Rule 144A (without relying on the Rule 144 holding period, to qualified institutional buyers (QIBs))</p> <p>* Rule 144: Reporting issuers: holding period: 6 months, non-reporting issuers: 12 months. Sales are limited by brokers' or market maker transactions. For affiliates, sales may be subject to volume limits and manner-of-sale requirements through brokers' transactions or market maker transactions. Current public information about the issuer must be available, and Form 144 notice filing is required for sales exceeding thresholds.</p> <p>* Rule 144A: General solicitation is</p> | <p>* Any subsequent resale of securities acquired through such small public offerings or private placements shall also comply with one of the exemption conditions set out in Article 1(4) of the Prospectus Regulation, such as small public offerings, offers addressed solely to qualified investors, or offers made to fewer than 150 persons per Member state, so as not to trigger the obligation to publish a</p> | <p>* Any subsequent resale of securities acquired through such small public offerings or private placements shall also comply with one or more of the exempt offer categories, including small public offerings, offers addressed solely to qualified investors, or offers made to fewer than 150 persons. [POATRs 2024, regs. 12, Sch. 1 paras. 1–3, 14–17.]</p> | <p>* China's Securities Law does not contain a general exemption framework for the resale of securities. The Securities Law does include provisions related to resale, Non-publicly offered securities may be transferred on stock exchanges, other national securities trading venues approved by the State Council, and regional equity markets established according to the provisions issued by the State Council. [SL, art. 37.]</p> | <p>* Any subsequent resale of securities acquired through such small public offerings and private placements must also comply with the applicable exemption conditions or transfer restrictions to avoid triggering the registration statement requirement, under the prevailing FSCMA framework. [FSCMA, art. 119(1), 130(1); Decree of FSCMA, arts. 11(3), 137(1)]</p> |

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| | | <p>permitted, but securities may be sold only to QIBs or purchasers that the seller reasonably believes are QIBs. [17 C.F.R. §§ 230.144, .144A (2026)] * QIBs: Institutional investors with at least USD 100 million in securities of unaffiliated issuers, owned and invested on a discretionary basis; dealers with USD 10 million; banks with USD 100 million and USD 25 million audited net worth. [17 C.F.R. § 230.144A(a)(1)(i), (ii), (vi) (2026)]</p> | <p>prospectus under Articles 3 and 5. [Prospectus Regulation (EU) 2017/1129, arts. 1(4), 3(1), 5]</p> | | | |
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Note: In the US column, “affiliates” refers to persons that directly or indirectly control, are controlled by, or are under common control with the issuer.