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The deregulation of unlisted stock investments through investment trusts in Japan

U.S. Leading Practices in Liquidity Risk Management and the Valuation of Unlisted Stocks

Financial and Capital Market Research Dept.
Shunsuke Mori

Summary

- As part of a measure to provide growth capital to startups, etc., a partial amendment to the self-regulatory rules of the Investment Trust Association, Japan (ITAJ) was implemented in February 2024, which establishes a framework for investing in unlisted stocks through investment trusts.
- This report analyzes the regulatory and practical trends surrounding U.S. mutual funds (MFs), which are leading the way in unlisted stocks investments by investment trusts, from two perspectives: (1) liquidity risk management and (2) valuation of unlisted stocks.
- The median percentage of unlisted stocks in the portfolios of MFs that invest in unlisted stocks is 0.5%, indicating that most funds do not invest in unlisted stocks to the extent that liquidity risk would be a concern. It can also be inferred that funds manage liquidity and other risks through the structure of the preferred stocks in which they invest.
- Regarding the valuation of unlisted stocks, the U.S. Securities and Exchange Commission (SEC) adopted rules in 2020 that provide a framework for valuation practices. However, when examining the valuation practices of unlisted stocks by MFs, several issues have been identified, including the infrequency of review of valuation, discrepancies in valuations between MFs for the same stocks issued by the same company, and the tendency for valuation revisions to lag behind the movements of stock prices of similar publicly listed companies.

Attention

This report is a summary translation. The official document is only in Japanese.