

October 2009

Welcome to the Nikkei NEEDS quarterly newsletter for October 2009, providing you with news on the Japanese economy and updates on NEEDS. We hope that you find it informative and we welcome your comments and suggestions for future issues. Alternatively, if you no longer wish to receive this in the future, please reply unsubscribe to this email address.

Below are links to the topics covered in this edition. To see the full version, please click on the links that will take you to our main website.

[Nikkei 225 Index update](#)

[Parent Subsidiary Listing May Enhance Corp Value and Earnings](#)

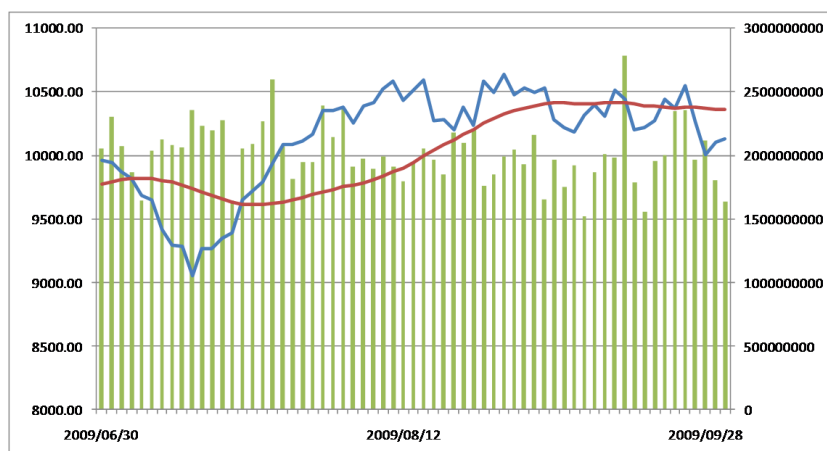
[TSE Introduces New T-Dex System to Revitalize the TSE Derivatives Market](#)

[Nikkei Europe Co-Sponsoring FIMA 2009](#)

[FinancialQUEST 2.0 News](#)

Nikkei 225 Index Update

Nikkei 225 Close: 10133.23



3 Month High: 10639.71

3 Month Low: 9050.33

Largest 1 Day gain: 342.85 (24/8/2009)

Largest 1 Day loss: -328.72 (17/8/2009)

P/E Ratio: 44.6562

The Nikkei rose 25% in the first half of fiscal year 2009, closing at 10133.23 for the end of the quarter after a large fall earlier in the week due to the rising value of the yen.

The Index Management Committee met earlier in the month to discuss changes to the constituents in the Nikkei Indices. Snow Brand Milk Products (2262) has been removed from the Nikkei 300 Index and replaced by Asics Corp (7936) due to Snow Brand Milk Products establishing a joint holding company with Nippon Milk Community in early October.

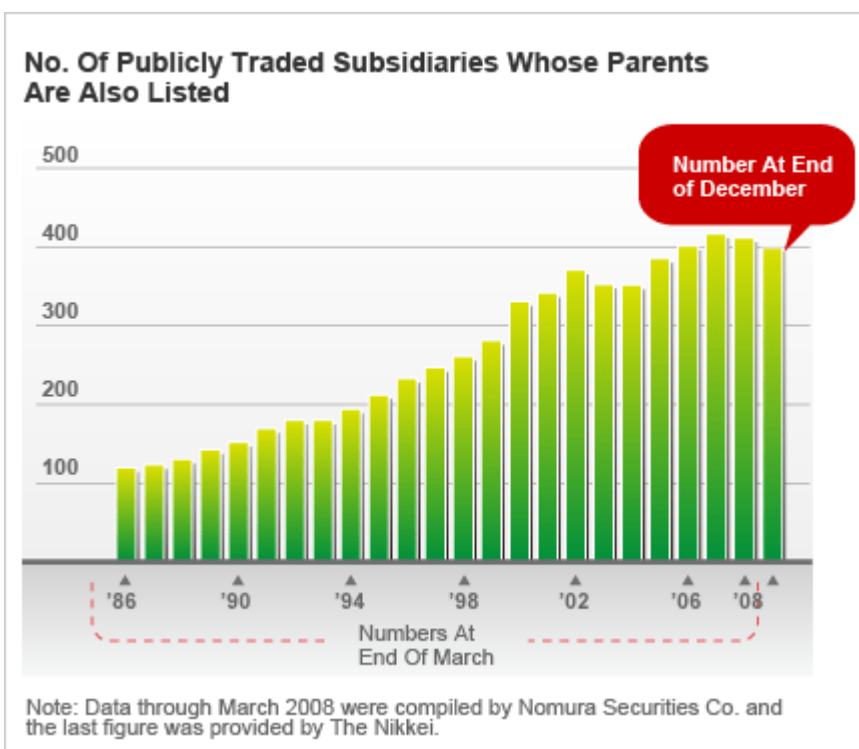
From 2nd October, following a parent company buyout, Hitachi Software Engineering (9694) will be delisted and replaced by Megmilk Snow Brand Co (2270). Hitachi Ltd (6501) is purchasing four of its subsidiary companies to bring it under full control.

Parent Subsidiary Listing May Enhance Corp Value

The number of "parent-subsubsidiary listings" and "listed subsidiaries" -- long a feature of Japan Inc. -- has begun decreasing as parent companies are increasingly turning listed subsidiaries into wholly owned units to enhance the efficiency of group-wide management.

The decrease also reflects an increase in stock market participants who recognize adverse effects of subsidiary listings and thus hold a negative view on parent-subsubsidiary tandems.

As an unfavourable effect, a subsidiary's profit and corporate value may be adversely affected by its parent.



This report analyzes how or whether subsidiaries' earnings and corporate values are actually affected by parent-subsubsidiary listings.

The number of consolidated subsidiaries listed in tandem with their parents, which own equity stakes of at least 40% in them, totalled 399 at the end of December 2008, down 13 from the end of March the same year.

Parent-subsubsidiary listings had kept increasing almost consistently since the 1980s, with the number of listed subsidiaries in such tandems reaching a peak of 417 at the end of March 2007, according to Nomura Securities Co.

The number then began to decrease, the Nikkei reported in its Jan. 21 edition this year.

Market Paying Attention To TSE's View

Parent-subsubsidiary listings and listed subsidiaries are decreasing as an increasing number of subsidiaries are being delisted in line with their parent companies' strategy of converting them into wholly owned units to strengthen group-wide management, analysts say. They also point out that the cost of keeping subsidiaries listed has increased due to toughened requirements for internal control.

It should be noted, furthermore, that the spread of negative views on parent-subsubsidiary tandems among market participants is also behind the recent trend.

More market participants have come to see the tandems negatively, reflecting the Tokyo Stock Exchange's opinion that the listing of companies which have parent firms "is not necessarily a desired policy of capital management."

Specifically, the TSE points out that the profit and corporate value of publicly traded subsidiaries whose parents are also listed may be adversely affected for a number of reasons such as:

1. A subsidiary may be forced by its parent to carry out operational adjustments in an unfavourable manner because there is a potential conflict of interest between their shareholders.
2. A parent company in need of funds may opt to raise them from its subsidiary.
3. Rights and benefits of shareholders in a subsidiary may be impaired if it is taken private within a short period of time after listing.

Following is an analysis of whether the profit and corporate value of listed subsidiaries are actually adversely affected, using data from the Nikkei Economic Electronic Databank System and its Corporate Governance Evaluation System.

ROA, Tobin's Q Used To See Effects Of Corp Tandems

The analysis covered nonfinancial companies that are listed in Japan and have parent companies, according to their financial statements, and compared them with companies which neither have listed subsidiaries nor are related to parent-subsidiary listings. As of the end of 2008, there were some 440 companies in the first group of listed subsidiaries and 3,000 in the second group of independent firms.

Indexes used for the analysis were return on assets (ROA), which is calculated by dividing a company's pretax profit by its total assets to give an idea of how efficient management is at using its assets to generate earnings, and Tobin's q, calculated by dividing a company's total liabilities plus market capitalization by total assets to compare the company's market value with its total assets.

The analysis made comparisons at six time points between 2004 and 2009 -- the end of March for 2009 and the end of August for the other years.

On a simple average basis, the ROA and Tobin's q of listed subsidiaries in the first group were found higher than those of independent companies in the second group in all years. The ROA of the first group was substantially higher at the latest three points of time, while Tobin's q was higher at more points.

Indexes Found Higher For Firms Named After Parents

The analysis also examined listed subsidiaries whose names have the names or abbreviations of their parent companies as a symbol of the parents' strong influence on them. While there were some 150 such subsidiaries in 2008, their ROA and Tobin's q were much higher than those of independent companies in all years but 2004.

Profitability & Corp Value Of Listed Units					
	Units not sharing parent's name			Firms Unrelated To Parent-Subsidiary Listings	
	ROA	Tobin's q		ROA	Tobin's q
'09	4.25%	1.12	>	3.46%	1.00
	5.88%	1.17			
'08	6.92%	1.15	>	5.46%	1.08
	7.93%	1.21			
'07	7.74%	1.49	>	6.75%	1.35
	8.42%	1.51			
'06	7.61%	2.06	>	7.24%	1.73
	8.21%	2.03			
'05	7.47%	1.74	>	6.67%	1.48
	8.22%	1.57			
'04	6.25%	1.59	>	5.85%	1.34
	5.84%	1.33			

Note 1: "Units sharing parent's name" are companies whose names include the names or abbreviations of their parents.

Note 2: Figures for 2004 to 2008 were as of the end of August and those for 2009 were as of the end of March.

Note 3: For 2009, the ROAs of companies that close their books in February and March are based on projected pretax profits as of the end of March.

Findings by the survey indicate that listed subsidiaries' earnings and corporate values are not impaired by parent-subsidiary listings but are possibly benefiting from their parent firms' brand power and management resources.

Nevertheless, listed subsidiaries have more "stable shareholders" than other firms and tend to lack disciplinary supervision by shareholders, a key factor for reinforcing corporate governance.

Priority, therefore, should be given to the reinforcement of corporate governance at publicly traded subsidiaries over parent-subsidiary listings by facilitating disciplinary control through outside directors and shareholders. Specifically, listed subsidiaries need to actively introduce outside board members and enhance their independence while increasing shareholdings, other than those of stable shareholders, by both Japanese and overseas institutional investors.

-- Translated from an article written by Takehiko Kato of Nikkei Digital Media Inc.

TSE Revitalises Derivatives Market with T-dex+

In an effort to revitalise the Tokyo Stock Exchange derivatives market, the TSE will launch a new options trading market called Tdex+ – **T**okyo **D**erivatives **E**xchange to increase the volume of individual securities options and Index options on the TSE. It is hoped the move will revitalise the options market in Japan and open the door to a variety of new investment opportunities to a wider range of investors. NEEDS clients were informed earlier on in the year about the new rules that will affect the market in order to enhance the liquidity and to improve the investment opportunities after the change to the new system.

The new system will reduce the minimum tick size for individual securities options and the number of strike prices will be increased from 9 strikes to 13 with 50 point intervals for quarterly contract months and contract months equal to 5 months, and from 9 to 19 with 25 point intervals for contract months other than quarterly which have an expiration period equal to 4 months. The options premium for Index Options will also be widened, with tick sizes of 0.1 point if the option premium is at or less than 20 points.

Strategy trades will also be permitted via the new system and investors will be able to execute strategy trading such as delta neutral trading.

In addition to the new regulations, the new system adopts a popular matching system to match buy and sell quotes from across the options market which has been used successfully in the US markets to increase liquidity in their options markets.

The system is due to go live later this month and NEEDS BULK users who receive options data will receive files that reflect the changes in the trading system.

For a detailed outline of all of the new trading rules, please visit the TSE homepage or contact a Nikkei representative.

FinancialQUEST 2.0 Online Demonstration

Nikkei Europe is now able to offer online demonstrations of its popular FinancialQUEST 2.0 ad hoc data download software. FinancialQUEST 2.0 enables users to download large amounts of Japanese corporate

fundamental, equities and macroeconomic data with ease and export it directly into MS Excel. Using the latest screen sharing technology, Nikkei can provide one to one demonstrations of the software highlighting the unique features of FinancialQUEST and demonstrating its ease of use. To book a demonstration today, please visit the NEEDS website and complete the Enquire form.

Nikkei Europe co-sponsoring FIMA 2009

From 10th-11th November 2009, Nikkei will be co-sponsoring the FIMA Reference Data conference at the Guoman Hotel in London. The Digital Media team will be on hand to discuss the challenges facing the Financial Data industry. If you are thinking of attending, please contact Nikkei Europe as we are able to offer 15% discounts as co-sponsors. For more information about the event, please visit the FIMA website www.wbresearch.com/fimaeurope/

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