

# Industrial Bank of Japan hit by scandal

by Kathy Wolfe

Japanese Finance Minister Ryutaro Hashimoto, bending foolishly to foreign and domestic pressure, told a special session of the Japanese Parliament Aug. 27 that he is preparing criminal penalties against hundreds of corporate executives involved in the rash of scandals in Tokyo. This would include executives of Japan's top brokerages, all of their industrial clients who receive compensation for losses from securities companies, and dozens of banks. Hashimoto announced that he is planning to resign as soon as he can implement these "reforms," which are being demanded by Washington and London.

Meanwhile, a half dozen Japanese banks lead by the Industrial Bank of Japan (IBJ) and Sumitomo Bank were hit by scandals, which forced the Bank of Japan to create an emergency bailout fund Aug. 15. For the first time since the end of World War II, a major run could threaten the Japanese banking system.

## Japanese economic miracle targeted

The IBJ, which traditionally makes only long-term industrial loans, is at the center of a dirigist banking system which has created Japan's postwar economic miracle. Sumitomo is the lead bank for the giant Sumitomo industrial combine. The Japanese miracle itself has been targeted for destruction by the monetarist central bankers in London, New York, and Basel, and the sources of credit to Japanese industry are their prime targets.

Hashimoto, who coined the term "Financial AIDS" to describe Anglo-American finance, ought to simply say this openly, instead of caving in to blackmail.

Hashimoto's remarks to the Diet were forced in part by Justice Minister Meguma Sato, who demanded criminal penalties that same day. "The scandals gave the impression to the Japanese people that they are being victimized," Hashimoto said. "This awareness has dispelled trust in the stock market." Indeed, Japan's Nikkei stock index has now collapsed by 14% since the scandals began June 1, to 21,621 on Aug. 28, and is in free fall.

In early September, former Nomura chief Setsuya Tabuchi and former Nikko Securities chairman Takuya Iwasaki, IBJ and other banking executives, and a host of other business leaders, will be paraded before the Diet for interrogation.

The IBJ scandal began Aug. 13, when Japanese prosecutors arrested a former branch manager of the Toyo Shinkin

Bank in Osaka for forging deposit documents for collateral in a \$2.5 billion loan-fraud scheme. The fake deposit certificates were used to borrow money at IBJ.

This came only two weeks after officials disclosed an "unrelated" \$1.9 billion scheme at the Fuji Bank, initiated by a former section chief and two other employees. The Fuji Bank scandal, unveiled July 29, led to the resignation of Tokoki Kobayashi, private secretary to Finance Minister Hashimoto, after it was revealed that Kobayashi helped arrange the loans. This led to Hashimoto's own plans for "retirement."

Fearful of a run on the Toyo Shinkin Bank, the Ministry of Finance and the Bank of Japan hurriedly formed an emergency support system Aug. 15, and loaned \$73.3 million to Toyo Shinkin. Akio Nambara, head of the central bank's Osaka branch, told press that the Bank of Japan is ready to protect deposits. "There has been no sign of panic" among depositors, he protested.

"We have asked the Zenshinren Bank, Sanwa Bank, and the Industrial Bank of Japan to provide funds to Toyo Shinkin Bank," a Ministry of Finance official said.

British bankers in Tokyo spread the rumor that all of Japan's banks are involved in phony loans. "There's clearly a laxity in checking loans," said Stuart Matthews, financial analyst at Barclays de Zoete Wedd Securities Ltd. "The sheer scale of money involved in the bogus transactions is so extraordinary it wouldn't surprise me if more fraudulent cases arise."

Not only Toyo Shinkin and Fuji Bank, but Tokai Bank and Kyowa Saitama Bank were named in similar scams.

The Finance Ministry cautioned Sumitomo Trust and Banking Co. for apparent reimbursements of its favored clients for investment losses, according to documents obtained by the Kyodo News Agency. Fund managers at Sumitomo are alleged to have swapped securities in fund trust portfolios for those in other portfolios to make the compensation payments. A spokesman for Sumitomo denied the allegations.

Inspectors from the Bank of Japan are also expected to brief Western bankers on programs implemented by Fuji Bank and others aimed at preventing future irregularities. The U.S. Federal Reserve Board and the Bank of England have already queried the Bank of Japan on the scandals.

Meanwhile, the demands by the U.S. Federal Reserve and British bankers for criminal prosecution of Japan's elite were met when several top Japanese executives were indicted Aug. 14. Yoshihiko Kawamura, former president of the Osaka-based Itoman Corp., and Sadamu Takagaki, the former vice president, were indicted by the Osaka District Public Prosecutors Office on charges of securing shares in their own company in violation of commercial law. Suemitsu Ito, former Itoman managing director, and Ho Yong Chung, head of a real estate management firm, were indicted on charges of special breach of trust. Kawamura and Takagaki allegedly spent \$73 million in Itoman money to purchase 8 million shares under the names of two fictitious companies from late 1989 to late 1990.