Program on Alternative Investments

The Program on Alternative Investments, under the aegis of the Center on Japanese Economy and Business and in cooperation with the Japan Business Association and Private Equity Club of Columbia Business School, hosted its fourth seminar on February 5, 2003. The event featured Ms. Gillian Tett, Former Tokyo Bureau Chief of The Financial Times, and was moderated by Dr. Mark Mason, Director of the Program. Ms. Tett’s presentation focused on the landmark takeover of the Long-Term Credit Bank of Japan by Ripplewood Holdings LLC. Following is Ms. Tetts’ presentation together with selections from the subsequent question and answer period.

The Program on Alternative Investments analyzes several major alternative asset classes—including private equity, hedge funds, distressed investments, and commercial real estate—in Japan and elsewhere in East Asia. The Program meets its substantive goals through a combination of research projects and seminar presentations, the latter led by leading practitioners in each alternative asset classes. Throughout the year, the Program also conducts cutting-edge research on these topics under the direction of Dr. Mason and with the assistance of highly qualified research assistants. For a schedule of upcoming seminar presentations, consult the Center’s web site at http://www.gsb.columbia.edu/japan. Dr. Mason can be contacted at mm412@columbia.edu.

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Introduction

The book I am currently writing grew out of five years of reporting as a financial journalist in Japan. It also grew out of frustration over the way much of the debate about Japan is currently presented. During the last few years there have been any number of books written about Japan, plenty of reporting and a great deal of bafflement about a story that has often seemed akin to the movie Groundhog Day. Year after year we have the same types of headlines, debates and hopes about reform that get dashed and, at the end of the day, the same boredom about why the country is not moving on in a direction that people think it should be moving.

When I was in Tokyo, I often had the sense that on one level much of the analysis and debate was conducted as if it was being viewed from 30,000 feet. Japan has become a laboratory case in macroeconomics, or an experiment to see what happens if there is deflation. There has been a great sense in which the real story of people in this banking saga have been forgotten. So I decided that I would try to write a book which instead of simply prescribing more solutions for Japan's banking problems or more macroeconomic analysis, would give a sense of what the debate was like on the ground and take a bottom-up approach. Above all, I wanted to capture some of the political and cultural micro-level aspects of the whole debate. I decided that the only way to do that was to tell the particular story of a bank and a group of bankers.

The bank that I eventually chose to write about was Long-Term Credit Bank (LTCB). This was interesting since it was the first Japanese bank that collapsed in spectacular fashion and was then taken over by a group of Americans. It was also the first big private equity deal that had been done in Japan and, when the bank collapsed, it was the biggest bank failure to be seen anywhere in the world.

My book, and the way I have constructed the story, is divided into two parts. The first part looks at the story of LTCB and why it went wrong. I go back in history because it's important to look back at where Japan is coming from and to look at the lives of the people who are in decision-making positions in Japan today.

The Long-Term Credit Bank and its Demise

LCB was founded in 1952 just as the Korean War was coming to an end and the Americans were leaving Japan. It was founded to support the revival of Japan's industrial sector by lending to industry. Its position within the Japanese financial system was really like one small cog in a machine. The key points about that period were that the system was closed, tightly fixed and regulated, and the banks dominated the system rather than the capital markets. In many ways, LTCB played a role that replaced the function normally played by a corporate bond market.

The system worked fairly well for two decades, and the Long-Term Credit bankers worked very hard and saw pretty amazing results, both in terms of the growth of their bank and the growth of Japan. But it was really in the mid-to-late 1970s that the problems began to emerge. The fixed interest rate system began to fragment, and Japan's economy began to open up to the outside world partly because many companies started to go overseas and export, and they began to introduce a corporate bond market.

All of this meant that LTCB started to lose its raison d'etre. One of the tragic points about the entire tale—and something that makes it a good parable for Japan as a whole in fact—is that many LTCB bankers realized things were going wrong. Some put together a radical reform plan that in many ways echoed what the Americans tried to do with Shinsei two decades later. They wanted to move away from long-term corporate lending, since they realized that was unprofitable, and develop fee based services, move into the capital markets, etc. They proposed their reform ideas in a radical plan in 1985, but were rapidly blocked by vested interests, and the system gradually became more and more distorted. LTCB lost its original raison d'etre and rushed into real estate. Japan as a whole began to move into the bubble, and LTBC jumped on board enthusiastically. Between 1985-1990, it cultivated a number of real estate companies and lent heavily to companies that wanted to expand to real estate. One of the classic examples is EIE, which managed to borrow about 7 billion dollars between
1985-1989, much of which was from LTCB. It used that to build lots of crazy, spectacular buildings, like the hotel on 57th street, now known as Four Seasons.

When the bubble burst, companies like EIE found that they could not repay the loans and three key things happened. First, LTCB started to double up—when companies like EIE said it could not pay its interest payments, LTBC gave more money. Second, it developed increasingly elaborate ways of covering up its problems. The Ministry of Finance (MoF) and the Bank of Japan (BoJ) knew LTCB was having problems. In the early 1990’s the Bank conducted an inspection and it secretly concluded that problem loans were already about ¥1,600bn, even though at the time the bank was only admitting to ¥21bn of bad loans in its official accounts. The MoF did a similar inspection some time later and came to a similar conclusion. However, they didn’t take action. There was a very strong feeling in Japan and among Western economists that these sorts of problems were temporary and that the Japanese economy would recover. Basically, what was happening at LTCB was typical of what was happening at the other Japanese banks. Indeed, in 1996, when the Ministry inspected LTCB, it effectively agreed with LTCB that it could understate the bad loans on its books by several hundred billion yen.

In 1997, LTCB’s President, Katsunobu Onogi, tried to find an exit from the problems by creating an alliance with the Swiss Banking Corporation (SBC). He hoped that in linking up with SBC he would find a way to remodel his business away from long-term lending into the capital markets and investment banking. It was a path breaking step in many ways. However, in the course of the due diligence process, the SBC bankers found out about the additional billions of dollars of bad loans that were hidden in the subsidiaries. They were horrified and went to the MoF and asked Mr. Eisuke Sakakibara what to do. Mr. Sakakibara told them not to worry and pointed out that was what all the Japanese banks did. They confronted LTCB who said, quite correctly, that under Japanese accounting law it did not have to admit to all of these extra bad loans. As a result, SBC gradually began to withdraw from the alliance. The alliance eventually crumbled and LTCB problems became common knowledge followed by its collapse in autumn 1998.

As LTCB was squirming in its death throes for eight months, the Japanese parliament was holding its first serious set of debates about what to do to cope with the bad loan problem in the legacy of the bubble. Parliament was divided into two camps. One camp wanted to see radical reform. They did not want to see anymore public funds used to bail out the banks and they wanted LTCB to be closed or liquidated. The other camp (conservative LDPs), really wanted to continue propping up the status quo and, above all else, protect the borrowers of LTCB. They were less concerned about what form LTCB should take in the future. The argument lingered for months until they compromised. On a macro level, the compromise was to create a big public fund package for the banks, which was to be used to inject funds into the banks’ capital base, provide a scheme for protecting depositors, and promote reform. As part of that, as far as LTCB was concerned, they decided to sell LTCB to a new bidder after nationalizing it. Many hoped that this would lead to reform, but it was also viewed as a quick fix compromise solution. Essentially, the reformers hoped that by selling the bank they would no longer have to use too many more public funds. The conservative part of the LDP hoped that the corporate borrowers would be protected. They implicitly assumed that if they nationalized the bank and sold it to somebody else, then all of the corporate borrowers would still keep receiving their funds.

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In practice, those were pretty contradictory goals. Like so much else in Japan, the contradiction was fudged over in the hope that everything would sort itself out over time and that if and when the long-awaited recovery came, that would actually make the whole situation much easier.

The Sale of Long-Term Credit Bank

In the beginning of 1999, Goldman Sachs was appointed to manage the sale of the Bank. It was an amazing step because a foreign investment bank had never been given such a politically sensitive role before. There were four main candidates that expressed serious interest; Paribas, Chuo Mitsui, JP Morgan and Ripplewood. Of the four, Ripplewood was regarded as the rank outsider. Indeed, the code name that Goldman Sachs gave to Ripplewood in its internal documents was “cowboy” because there was a perception that it had come riding in from out of the blue and no one quite knew who Ripplewood was.

Ripplewood was a pretty small private equity firm compared to most of the other big Wall Street names. It was founded in 1995. Although they had completed a number of deals mostly in the American mid-West and South, it certainly had not done any really big deals, no less financial deals by that time. Ripplewood made its bid, and the process went on for about 8 months. Eventually, almost against the odds, Ripplewood won the bid. Ripplewood won the bid partly because of a lack of alternatives. Paribas was not very serious, JP Morgan pulled out at a late stage, largely because it did not think it could cope with the reputational risk; and Chuo Mitsui was really a Japanese bid that had been concocted under pressure from the Financial Supervisory Agency (FSA). The Ripplewood team fought very hard, and they fought an extremely powerful and dogged lobbying campaign. Their team included Paul Volcker, former chairman of the Federal Reserve, who was absolutely critical in terms of persuading the Japanese officials to let them buy the bank.

Mr. Masamoto Yashiro, former head of Citibank, Japan, who was one of the few Japanese who felt equally at home with both Wall Street and the Japanese business world. Chris Flowers, who used to run the Financial Institutions Group at Goldman Sachs, and Tim Collins, the founder of Ripplewood. Chris Flowers and Tim Collins are particularly interesting as a team. They are very different in character, yet their skills are complimentary.

The Bank was finally sold for technically ¥1 billion, but the investors agreed to inject another ¥120 billion in equity. The investors were a diverse group. Originally, Ripplewood hoped to get some Japanese on board but, in fact, none of the Japanese they approached agreed to take part because they thought the sale would be politically controversial. Unlike the Japanese, there was strong demand from European and American investors and, in the end, the deal was over-subscribed. The investors include Deutsche Bank, Mellon, Abn Amro, Citigroup, AIG, GE Capital, BSCH, Jacob Rothschild’s investment vehicle, and David Rockefeller, among others. The government agreed to inject ¥240 billion in the form of preferred shares. The Ripplewood team also won a very clever financial deal from the government in that they were allowed to pretend to sell the equities that LTCB had been owing to the Deposit Insurance Company (DIC). In fact, it was not a final sale since they had an option to repurchase later. The DIC took the equities that LTBC had owed and in exchange gave

Dr. Mark Mason, Director, Program on Alternative Investments
them about ¥250 billion worth of capital as well. The government took off most of what it considered to be bad loans on the Bank’s books, which were about ¥4.6 trillion. When all was done, the government had used about ¥3.6 trillion of public funds for the Bank.

When the Bank started, it was left with about ¥7.7 trillion of loans on its books and ¥900 billion in reserves. According to an FSA audit of the Bank conducted at the beginning of 1999, there were about ¥1.9 trillion of non-performing loans (NPL). It was still a troubled Bank. One might wonder why the government did not remove more of the NPLs from the Bank to the Resolution and Collection Corporation (RCC), the government institution used as a repository for bad loans. That was, in fact, precisely the question that Anzai, the president of the bank at the time asked. He lobbied to get the government to redo its audits. However, the government refused because it did not want to have to admit that so many more companies were bad. To keep Ripplewood happy they created a “put”, which was the right to return loans to the government if they lost more than 20 percent of its value. This law was used for LTCB, even though it was a very different situation, to avoid having to pass new laws for the deal, which create parliamentary scrutiny. The government also hoped that Ripplewood would never actually try and use the “put”, because it still kept hoping—as it had done since 1990—that an economic recovery would come and make the bad loans good again.

**Shinsei: Innovation and Success**

The Bank started in March 2000, and called itself Shinsei, which means new life or rebirth. It had plans to change itself from being a business focused on corporate lending to a three-pronged business that Mr. Yashiro sometimes describes as being like a plane—in that one engine is retail banking, another is investment banking, and the fuselage is the old corporate lending business. The Bank also needed to clean up its balance sheet. Although they were supposed to have about ¥1.9 trillion in NPLs, they quickly decided that the real figure was about ¥2.6 trillion.

Almost immediately after Yashiro arrived, a furore exploded about one of the bank’s big borrowers—Sogo. The company had been bankrupt for years but IBJ wanted to organize a bail out scheme. However, Yashiro refused to take part since it would create new losses for Shinsei. That made it clear that Shinsei intended to take a tough line on the deadbeat borrowers. Foreign observers who believed this is what all Japanese banks should do welcomed Ripplewood’s tough stance. However, the Japanese disliked it—some of them eventually labeled Shinsei a “child of evil”. The banks biggest “crime” was to inject transparency into a system based on fudge. But the other problem was that the actions Shinsei was taking tended to make the situation much worse for the other banks, and they did not have the put option to protect them. Shinsei started to try and use the “put” auction to repay loans to the government. The government was very shocked when Shinsei tried to return almost ¥1 trillion worth of loans. The government began to drag its feet, which was followed by a series of very bitter and public disputes. Mr. Yashiro was called into parliament on three different occasions to testify. So was Goldman Sachs—it was asked to explain why it had created this “put” auction. Goldman Sachs refused to appear in parliament, which was followed by an interesting legal exchange.

At the same time Mr. Yashiro was trying to take on the rest of the Japanese banking system, he was also trying to change the culture inside Shinsei, and to move effectively away from the old, hierarchical and rigid culture that used to exist in Japanese banks. He wanted a much more flat hierarchy and international culture where bankers were encouraged to become specialists. This change involved all types of internal battles, which were doubly difficult given the interesting mix of people who work at the Bank. They have the old LTCB bankers, Japanese from other Banks, and gaijin investment
bankers and operation people. There are really four distinct cultures. There has been great progress in terms of Mr. Yashiro trying to glue the Bank together now. After the squabbling, the Bank has emerged with a sense of direction partly because of the external criticism. One of the striking changes Mr. Yashiro did was to abolish the office lady (OL) uniform, and he promoted an OL to become a branch manager. Another innovation he implemented was to emasculate the corporate planning department, and he insisted that separate business divisions should start to set policy with a customer driven approach rather than being top-down and production driven. Other Japanese banks have copied some elements of these innovations. Quite often, the innovations that Mr. Yashiro has made internally are some of the things other banks have wanted to do for some time but have not had the courage.

Another, more visible sign of success is that Shinsei was able to report a ¥62 billion profit last year unlike almost every other bank. 90 percent of this came from the lending business, but the fastest area of profit growth is the non-lending operations, particularly loan trading. Shinsei has also made progress in cleaning up its balance sheet. NPLs were 20 percent in March 2002. However, they are now estimated to be around 10 percent, although we are still waiting for the concrete figure for the current fiscal year. The Bank is perceived to be one of the only honest banks in terms of reporting. They have also shrunk their loan book dramatically—at least one-third in the last two years—which is totally unprecedented. The Bank hopes to do an IPO (initial public offering) this summer. They had hoped to do it last year, but the FSA blocked it. It is still very unclear whether an IPO will go ahead soon and how the Japanese will react. If they do try for an IPO and are seen to be making a lot of money, then it could stir up much more debate and controversy, which is detrimental. Shinsei has become a lightening rod for an anti-American backlash. In many ways, the current debate in Japan is very binary when people talk about reform. There is the status quo, which is perceived as being Japanese, or there is free market reform, change, and hard-landing radical measures of the sort that Mr. Takenaka tried to promote and that has increasingly begun to be identified with “Americaness”. Perhaps this polarization is inevitable. The Japanese themselves constantly say that they need outside pressure to change. However, Shinsei, perhaps not through its own fault, is the most tangible symbol of this polarization, and when people try to articulate the debate about where Japan should be going and what the banks should be doing, Shinsei tends to be the example people reach for. What is lacking, despite Mr. Yashiro’s best efforts, is a truly Japanese sense of change and model of reform. Going forward, I think Mr. Yashiro would like to present himself as the Japanese vision of change. At the end of the day, I truly hope that he can do that. Meanwhile the investors hope that they can sell the Bank.

**Question and Answer:**

**Q:** What has been the biggest surprise to the American investors after two years comparing their initial expectations going into the Shinsei deal and the way things look today?

**Tett:** One disappointment has been how the economy has performed. Also in 1998–99,
the investment team thought that Japan had embraced reform since it was willing to sell LTCB to a foreigner. If they did not want reform, as some have said, why did they sell the Bank? In practice, I think that the decision to sell the bank was based on fudge as much as any real reform vision. I do not think that the Japanese government had thought through the implications much. Later that became clear and that surprised some of the investors.

Q: Why hasn’t the anti-American backlash affected the bidding for the Aozora Bank currently going on?

Tett: Well, I think it has affected the bidding. The rhetoric against Cerberus, another American fund, has been vitriolic—critics have specifically said that they don’t want to sell it to Cerberus because of what happened with Shinsei. The advisors are all still Western but that is partly because there are very few neutral Japanese advisers in the system.

Q: Is EIE a front for Yakuza interests?

Tett: I was fortunate enough to interview at length many of the key players involved in the debacle. I do not think that EIE was directly Yakuza. I think they were linked to many Yakuza, and many parts of the most powerful bits of the Japanese government. The yakuza and politics and finance are entwined in Japan. One important point is that you cannot blame what happened in the 1980s and 1990s just on the Yakuza. LTCB was throwing money at companies like EIE because they wanted to have fancy properties all over the world and because they did not know what else to do with the money. I am often asked whether I think a large proportion of the NPL problem today in Japan is Yakuza related. Yes, some probably is. But in some cases, the purported presence of the Yakuza is used as an excuse for inaction due to cultural reasons rather than a natural physical threat.

Q: What is the role of bankruptcy law reform in this story? It seems like many investors are coming in, buying loans, and then flipping them back to the borrower. Is there a more efficient way to resolve these distressed loans?

Tett: Much of the time, what investment bankers are doing in Japan is actually cultural arbitrage, above all else. They are taking advantage of situations where the Japanese feel too embarrassed to act. I am not a bankruptcy law expert. My understanding is that bankruptcy law is slowly moving closer towards global standards. In the past it has been very difficult for banks to make companies forcibly bankrupt when they did not want to be bankrupt. Shinsei has broken a precedent on that, along with many other things, by actually forcibly pushing one of its big clients into bankruptcy in December 2001/January 2002. It was shocking when it happened. The company in question was called First Credit, and Shinsei owned about half of the outstanding loans. In fact, First Credit had been doing something moderately illegal before that. So, Shinsei was a strong position to force First Credit to go bankrupt. First Credit hated it, and many Japanese bankers squealed very loudly. However, the Tokyo court eventually upheld Shinsei’s action. So, the bankruptcy law is changing. Certainly, ten years ago with EIE one of the problems was that the bankruptcy law was not very clear-cut.

Q: In 1997, Mr. Onogi started to make an agreement with Mr. Volpi of the Suisse Bank Corporation. Just before they actually decided to merge they found a lot more non-performing loans on the books. Mr. Onogi said that he was unaware that there was that much in non-performing loans. At the same time, after he received a three-year prison sentence from the Japanese Court, do you personally think that he is a guinea pig or that he really did some things that justified him getting a three-year prison term?

Tett: This raises themes that are central to my book. The judgment that was delivered against Mr. Onogi in September 2002 is critical for understanding what is happening in Japan today. The judge actually said that Mr. Onogi was a criminal even though he was doing things that were in line with government thinking at the time. That judgment was critically important because it was the first case being brought against the management of a Japanese bank that had collapsed. It set the precedent for how other bank presidents would be treated if their banks collapsed. After that judgment came out, every other bank president in town was thinking, “Well, what about us?”
On the one hand, Koizumi is telling bank presidents they must reform, clean up the NPLs and act radically. On the other hand, the politicians are saying not to cut off the borrowers and to keep lending to FME. They were getting completely contradictory signals from the government and, even if they were in line with government thinking, they could still be judged as criminals at the end of the day. So it is not surprising the bank presidents are paralyzed and terrified.

The judgment also affects the way many bank presidents look at their loan portfolios now, because what Mr. Onogi and the board did in 1997 was to effectively fudge at the limit of the gray area, and they basically pushed things into subsidiaries. So it was not as crude as sticking files into concrete manholes by then. It was much more blurring the rules of accounting. Most of the other big banks today have any number of NPLs sitting on their balance sheet that they have fudged in the past or been a bit too lenient with. Daiei is the case and point. If Daiei collapsed tomorrow and everyone went to the bank presidents and said, have you always judged Daiei according to the strictest possible judgment? They could not say yes. Is that going to make them criminal? To understand why the Japanese bankers have been sitting there in a state of paralysis for the last few years, you have to understand that kind of human incentive right now. I am not trying to defend them, but it certainly puts them in a very difficult position.

In terms of whether Mr. Onogi was criminal or not, and this is critical for looking at what is happening in Japan today, there are a few things to bear in mind. First, unlike Enron, when the Japanese bankers and bureaucrats have engaged in fudging and what you might call lying and deception, this has not been about personal enrichment, but about trying to defend the system. Most of them entered banking 30–40 years ago, believing that their role was to rebuild the nation and to build LTCB. Building the best interest of the group was more important than the individual. In the crucial case between SBC and Mr. Onogi, SBC discovered that LTCB had made no provisions for about two dozen of its largest subsidiaries, even though these subsidiaries had massive problems. In 1997 people did not realize that whereas normally, in Western banks, subsidiaries are almost footnotes to the main bank, in LTCB, subsidiaries were the bank and they were not on the balance sheet. So they went to Mr. Onogi and said, ‘You haven’t made any provisions for these loans to the subsidiaries.’ Mr. Onogi said, ‘Well, we don’t have to make provisions,’ which was actually true. The Swiss said that in Switzerland you have to make twice the provisions because you have to support the subsidiaries in case they collapse. Mr. Onogi said, ‘In Japan it is different.’ So LTCB and Mr. Onogi actually were never lying. He was not telling the entire truth, but he was not lying. That is a pattern often seen in Japan, which explains why foreigners and Japanese often misunderstand each other!

Q. What was the outstanding balance in bad loans LTCB had before Ripplewood acquired the bank? How much did the Japanese government spend do bail out the bank?

Tett. The debate about how many bad loans were sitting in the bank when Ripplewood bought it was never resolved. According to the FSA, it was ¥1.9 trillion. According to Shinsei management three months later it was ¥2.6 trillion. What happened between that period? If you were to ask how many loans in total have gone bad since then, because there are extra loans that have gone bad that were not in that ¥2.6 trillion, you would probably get another figure. How many loans were sitting bad on the balance sheet in 1998-1999? That is anybody’s guess, and that is part of the problem. When SBC due diligence started of LTCB in the summer of 1997, some of the bankers had an internal debate about what figure they should give LTCB for the bad loans. The numbers went from about ¥300 billion to ¥4 trillion. It was an enormous range in what you considered a bad loan and what you counted as subsidiaries. That is really the essence of the Japanese banking problem.

Q. How much money did the government actually inject into LTCB?

Tett. The government is not terribly keen to quantify this number in great detail. That is the way it has been set-up, to
not quantify this number because the sight of gaijin walking off with billions of dollars in profit would be controversial. The government always said it injected ¥3.6 trillion worth into the bank. However, there are multiple figures depending on what is included. What is definite is that the government purchased ¥4.6 trillion face value of bad loans, but that was partly offset by the value of loans they recovered. They injected ¥240 billion into the capital base of LTCB in the form of preference shares. They have since spent approximately ¥500 billion on the “put” option, but that is a moving target. If a loan goes bad, Shinsei gives it back to the Japanese government plus the reserves assigned to that loan, and any additional loss the bank is compensated for. So if they give back ¥100, the government only probably spends ¥30 or ¥40. The figures from the DIC were ¥500 billion, from memory, but I don’t have a precise number to hand.

Q. One of the interesting debates in Japan today is the role of private equity and reform of the industrial system. One way to look at Shinsei bank is a big treasure box of bad loans or good loans to corporate Japan, which in Japan gives you a tremendous influence in a company, much more than in the West. Given that situation, it is surprising that there isn’t more private equity deals out of the Shinsei client base. Do you have a view if that role will ultimately be successful and why it has not been successful to date?

Tett: That is one of the elements present at the beginning of the deal. Ripplewood has gone ahead to do some deals linked to the former LTCB, and the Seagaia resort was a case in point. That was a former LTCB client; LTCB was the second largest lender. What has happened is a combination of political resistance in some cases. When Shinsei tried to take over Life, a consumer company that was a big borrower from LTCB in the past, and restructure and incorporate it into the Shinsei operations in the first few months, it created a huge political controversy. Shinsei had to drop that idea all together. On paper it would have made perfect sense because it is a very good core business. If you take a consumer finance business and incorporate that with Shinsei you get a good business platform. Mr. Imai, the chairman of the Keidanren, who sits on the Shinsei board, was concerned about the political ramifications of going ahead with the deal and told the rest of the board it was a bad idea. I think the reason for the lack of deals is a combination of political foot dragging, the fact that sometimes managers do not want to be involved in that kind of thing. It has happened a bit, but not as much as they hoped.

Q: To what extent do you think Ripplewood’s strategy hinged on its being able to restructure corporate borrowers’ debt for equity spots and exiting via the equity market in Japan? For both corporate borrowers and for themselves, how has the equity market in the past few years thwarted that strategy?

Tett: When Tim Collins first went to Japan, he was initially looking to get into the industrial sector, rather than buy a bank. In the process of doing the research to get industrial companies in Japan, he realized that so much of the industrial problems were tied up in the banking sector. The banks were acting as nails in the
whole rotten structure. The theory was that if you get the nail and shake it, you would have access in much more in way of industrial companies as well. Ripplewood has gone ahead to do a number of industrial deals quite separate from Shinsei. Chris Flowers, who really structured the deal and the driving force in the later stages, was primarily focused on the financial side. His background is in banking. It really was an interesting combination of people. When they went in 1998–99, they thought quite reasonably one of two things would happen in the Japanese economy. If the Japanese economy would recover, that would lift all the boats and Shinsei’s problems would disappear. If it did not recover, they thought there would be a big shake out. They did not think the status quo was sustainable. It should be stressed that was what most people were thinking, myself included! If there had been a huge shake out, if there had been a cataclysmic collapse of several big banks and companies, no one would have time to worry about what Shinsei was doing. If Daiei was going down for lots of other reasons, they could not blame Shinsei for that. The idea that the system could stagger on in crisis, but not quite-crisis, utterly rotten but still not shaken out, was not there as a scenario. It was not what the Financial Times was predicting.

Q. What is your view about the future of the banking sector discussion?

Tett: Since the brief spasm of reform in the autumn due to the Hayami hand grenade and the Takenaka appointment have fizzled out, my guess is that the banks will get over the sandbar of the next March 31 year again and the system will stagger on. These capital-raising plans seem a pretty bad idea. They are either expensive or create double gearing. But the system will stagger on, unfortunately. What I would like to see is somebody arising with a political support base so they can articulate a banking reform program in a proactive, coordinating fashion. That is what the country desperately needs. What you have is a status quo. And what you have once a year is a little burst of frustration, leaking out. Unfortunately, the nature of the status quo is so strong, the sheer energy to become a reformer in Japan means it is very hard to maintain a balance, proactive, diplomatic view.

If you look historically how countries tend to cope with economic distortions, they tend to do one of two things. They either have sufficiently free capital markets that investors are able to weed out the unproductive parts of the economy—like America after the IT bubble where investors removed resources from IT. Or you have a sufficiently strong, coordinated government that can implement painful changes, like Sweden after the Swedish banking problems. In Japan’s situation, it does not have strong enough capital markets to force painful change, nor does it have a bureaucracy or politicians who can actually coordinate policy or are powerful as a group to implement change.

Q. Do you think a general amnesty for business executives would be helpful in unblocking the reform process?

Tett: I think a general amnesty would be helpful. The fact that they keep redefining what criminal is does not really motivate anybody to take risks, or to stick out, or to be bold, or to propose any ideas. Everybody has spent the past five years trying to keep their heads down and trying to batten down the hatches. The critical issue in devising any policy in Japan is to look at incentives. Sometimes people think Japan has fallen into problems because Japanese bankers are really stupid, but they are not at all as the LTCB story shows. People at LTCB have known what was wrong since the early 1980s. The problem has always been that the incentive structure was not in place for people to jump on board with reform. When the
due diligence team for LTCB appointed by Ripplewood went into the bank in autumn 1999, they expected it to be difficult to get LTCB employees to provide data and files because, theoretically, the Japanese government was not allowing them to do due diligence and LTCB had been hiding its problems for years. But, in fact, when they went in there, the LTCB staff realized that it was in their interest to reveal everything they could as fast as possible so they could get as many reserves as possible from the government to have a healthy bank. The team walked into the eighth floor and the LTCB bankers were practically falling all over themselves to produce the files and say what they thought the bad loans were and where all the skeletons were buried. I tell this story to illustrate that I have enormous faith that Japan can change very quickly if only the incentive structure can be put in place to make people feel like they have a stake in reform.

2002年9月、コンピアビジネススクールの日本経済経営研究所と日本ビジネス協会は代替（オルタナティブ）投資講演シリーズをスタートさせました。本講演シリーズでは、本研究所代替投資プログラムのディレクターであるマーチャンズをモデレーターに、毎回ゲストスピーカーを迎え、プライベートエクイティ、ヘッジファンド、不動産、3つの新しい投資分野の東アジアにおける可能性を考えていきます。シリーズ第4弾は、2003年2月5日、新生銀行に関する本を執筆中の元ファイナンシャル・タイムズ東京支局長ジリアン・テット氏によって行われました。
した株式会社を通じて更に12,000億円を出資した。日本政府は優先株購入により2400億円の公的資金注入に同意、リップルワッド側は、さらに預金保険機構(DIC)が保有している長銀株式を一旦売却するふりをして、後に買い戻すというという取引を日本政府と行った。DICは長銀株式を受け取る代わりに、リップルワッド側に2500億円相当の資本を提供、日本政府は4兆6千億円相当のいわゆる不良債権の大部分を極度に、最終的には長銀に3兆6千億円の公的資金をつぎ込んだ形となった。国営化された旧長銀の発行元長銀株式(当時)は1999年初めの金融監査の発覚による1兆9千億円の不良債権を不実に政府に監査のやり直しを迫ったが、長銀以外の多くの問題企業の存在を認めたくない政府は拒否し、長銀譲渡後3年の間に貸出債権が2割以上劣化して政府が賃貸で戻取るという「暗黙(かし)担保条約」を締結した。2000年3月に長銀は新生銀行として営業を開始した。八代政基本社長は、新生銀行を企業金融業を体験に、小口金融業を投資銀行業務をエンジンに飛び飛び飛行機に進化させている。新生銀行がスタートを切る否、否、3兆6千億円の不良債権が実在2兆6千億円に上ることが判明、また旧長銀の大口融資先のそごうの問題が持ち上がった。日本興業銀行は実際に何年も債権状態にあったそごうを救済しようとすると、八代政本社長は要首を絞って残ったという。新生銀行の最大の「非」は、曖昧な日本の金融システムに透明性を持ち込んだことだが、もう一つの問題は、新生銀行の軌道を外れる行動が他の金融機関をより著しい状況へと追い込むことにあった。他の金融機関は新生銀行のように劣化した債務の一部を国が買い戻すという特別な契約がないため、取引先が倒産すれば損を被る。新生銀行が貸出先の法的整理に追い込まれ「暗黙(かし)担保条約」を利用して不良債権を処理したことには、日本政府に多大なショックを与え、新生銀行を損失に挙げた激しい国民的議論を引き起こした。また八代政本社長は、日本の古い体質の銀行文化を変え、銀行員一人一人がスペシャリストになることを推進する国際的な文化を作り出すことにも着手した。新生銀行内には、旧長銀の行員、彼行から移ってきた日本人、外国人投資銀行家、一般業者、の4つの極めて異なるグループが存在するが、八代政本社長の様々な業者をうまくまとめ上げている。外部からの批判をさらにされたことを銀行としてまとまったとも言うが、OICの制限緩和や女性の支店長への昇進、トップダウンなどなく顧客重視の営業部門などの改革が効果を挙げている。これらの改革は他行でも取り入れられた。昨年の報告書によると、新生銀行は620億円の利益を上げた。利益の90%は融資からだが、急成長している分野は、債権トーレーオーなど非融資業務である。2002年3月の時点で不良債権は20%を占めていたが、現在は10%程度である姫推定される。新生銀行は、今夏の新規株式公開を狙っているが、新生銀行がすかっているなど見当たらない問題の再認識を呼ぶと考えられる。政府が新生銀行の三つの一を所有しており、新生銀行が優先されれば日本政府も優先されるといい、リスク報酬の概念が浸透している日本では見当たらない。新生銀行は日本の金融システムの改革を推進すると同時に、改革議論の二極化を招き、反感情に思われる構造的になった。これに対し「日本的」と見られる竹中氏が推進しようとした強行改革路線がある。日本人自身、外圧がなければ日本は変わらない、と言いかけてきたが、新生銀行は、日本の金融システムの方向性を論じる際に重要な「アメリカの改革」の名目になった。これから先、八代社長は真に日本の改革モデルを示して行くことを目指すであろうし、私個人としても、八代社長が日本の改革のビジョンを提示できる日を心から期待する。そんな中、投資家たちは新生銀行を売却する日を待ちにしている。