

MIZUHO'S PRESIDENT KNEW OF ORGANIZED CRIME LOANS

Conclusions:

Officials at Mizuho Financial Group, Japan's second-biggest bank, admitted top management knew at least three years ago about loans to criminal groups, highlighting the entrenched position of organized crime in the Japanese business world.

Less than two weeks after Japan's financial watch dog - FSA - has taken administrative action against Mizuho, Top Mizuho officials reversed their previous position that knowledge of the loans had extended only to compliance officers.

Mizuho President Yasuhiro Sato told at a news conference that an internal probe this week showed former president Satoru Nishibori was made aware of the loans in 2010. Nishibori served as president from 2009 to 2011 and is now an adviser to the bank.

"We lacked enough awareness about the matter of anti-social forces," Sato said, using a common euphemism for organized crime. "We have to criticize ourselves for that."

The company issued a statement saying top management were aware, contrary to earlier comments and findings by Japan's financial regulator that only the "executive in charge" had knowledge.

The scandal underscores the ties between yakuza gangs and the Japanese financial industry six years after the Financial Services Agency punished Mitsubishi UFJ Financial Group Inc. for doing business with the groups for decades. Sato apologized today, saying he bears responsibility even though he was only made aware of the loans in March during the FSA's probe.

The bank's reputation risk just got bigger with this report correction. This problem may harm the good reputation that Sato created since he became president in 2011.

The FSA said it's "extremely regrettable" that Mizuho gave incorrect information. It will take appropriate action after the bank and an independent panel complete investigations, the agency said in a faxed statement today.

The regulator ordered Mizuho to improve compliance on Sept. 27, saying the Tokyo-based lender failed to take steps to end loans to crime groups for more than two years after becoming aware of them. The bank made 230 loans, mostly for automobiles, valued at about 200 million yen (\$2 million), through its Orient Corp. consumer credit affiliate.

Sato, 61, said he was in a position where he could have found out about the loans in July 2011, when reports mentioning the transactions were distributed at a board meeting.

The revelation that Nishibori was aware of the transactions is at odds with earlier statements by the bank. Deputy President Toshitsugu Okabe told reporters on Oct. 4 that four senior executives responsible for compliance at the time knew about the loans and didn't inform superiors.

Mizuho's Sato vowed that he is stepping down from one of Prime Minister Shinzo Abe's high-profile economic panels to take responsibility for the scandal, which already led to a reprimand from Japan's banking regulator late last month.

In 2007, the FSA ordered Mitsubishi UFJ's banking unit to suspend some operations for a week after finding that a branch in Hyogo prefecture, western Japan did business with a crime group for more than 30 years.

Nakagome Panel:

Mizuho has set up an internal committee and a panel of three outside experts to improve compliance. Hideki Nakagome, a former High Court chief justice, will lead the external probe, according to today's statement.

Nakagome previously investigated accounting fraud at Olympus Corp. and information leaks by Nomura Holdings Inc. employees to insider traders. The bank must submit a report to the FSA by Oct. 28 showing how it plans to improve operations. It last received a business improvement order in 2011 after a computer glitch delayed transactions following the nation's record earthquake.

Yakuza, TOC, ML/FT, Corruption and Bribery in Japan:

Japanese authorities will have to step up efforts to combat yakuza gangs, whose activities range from extortion to drug trafficking, according to the National Police Agency. The groups are increasingly turning to businesses such as construction, finance, waste disposal and securities markets to supplement their income sources.

The government in the past three years has tried to crack down on business ties to the "yakuza" underworld with a law that criminalizes payments to designated organized crime outfits, increasing the pressure on legitimate businesses not to associate with the groups.

The mob's pervasive influence is even complicating one of Prime Minister Shinzo Abe's economic-revitalization plans to legalise casinos in a legalize bid to ramp

up tourism revenue. The plan includes creating a Las Vegas-style regulator to try to shut out the mob.

The official announcements will remain rhetoric as long as Japan does not enforce the “OECD Anti-Bribery Convention” and fails to ratify the UN Conventions against “Transnational Organized Crime” and “Corruption”.