

Lessons from Olympus problem

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The fraud

- It is another Satyam-only slightly longer!
- Olympus is a 92 year old Japanese endoscope and digital camera maker
- Olympus admitted in Nov 11, that it kept investment losses off its books **for two decades.**
- **There is one other difference from Satyam.**
- Several European banks provided inaccurate or misleading statements of the company's accounts. This was used by the Company to hide the losses. In Satyam, the Company *printed* the bank statements, like Parmalat did!

The key man

- The key man who helped Olympus hide its losses is Akio Nakagawa, Japanese ex banker
- He worked for the New York-based firm that won a stunning \$687 million fee for purchase of UK medical equipment firm Gyrus!
- This is a whopping one third of the transaction value of \$2B and makes it the biggest M&A fees in history!
- Normal fee is 1 to 2%!
- This was part of elaborate loss hiding scheme over many years

The whistle blower

- The President of the company Mr. Michael C. Woodford questioned a \$1.4 B irregular payments made in connection with mergers before his time and was fired!
- Olympus admitted that these payments were part of the cover up
- He has demanded the entire board resign and has offered to come back to take back the reins.
- Olympus said it sacked Woodford for his management style and misunderstanding of Japanese culture! (Some culture, this!)

Modus operandi

- Similar to Enron
- Only, the Japanese have a name to it!
- Tobashi!
- Tobashi, translates loosely as “to blow away”
- Here company hides losses on bad assets by selling those assets to other companies, often dummies, only to buy them back later. (Exactly what Fastow did in Enron except that he himself was part of those companies)
- This allows the company with the bad assets to temporarily mask losses, and pay them off (Usually as acquisition fees or write downs) when company finances improve.
- Tobashi was itself the fall out of ‘Zaitech’ which stood for Financial techniques , to hide losses arising due to surge in value of yen after 1985.

Tobashi is not new

- Tobashi was used by Yamaichi Securities, which hid over \$2 billion in losses before collapsing in 1997.
- Interesting fact- Yamaichi was then Olympus's preferred broker!
- Yamaichi previously admitted to making improper payments of about 1 billion yen to Olympus to cover stock market losses!

The rumor of the past

- In June 1998, there was a rumor that Olympus had suffered colossal losses on **derivatives** trading. The company's shares spiraled down 11 percent in three days.
- However the Company said that it was incorrect and went on to post record profits!
- Now we know how they managed it!

The aftermath

- Company has lost 70% of its market value
- Investigations by Tokyo stock exchange , Japan Securities Exchange Surveillance Commission, Tokyo Metropolitan Police, UK serious frauds office and the US FBI
- Investigators also looking at links Olympus may have had with Japanese Mafia
- Three executives (including Chairman Tsuyoshi Kikukawa) who were part of cover-up have resigned
- Olympus has delayed its Apr-Sep results announcement

The aftermath contd.

- Hundreds of employees at Olympus have signed petitions urging the company's top management to resign and calling for Mr. Woodford to return — a rare uprising in a nation that values company loyalty above all

Banks under cloud

- No. of European banks are under investigation to see if they helped Olympus hide the payments.

In sum...

- It is possible to hide huge losses for many years if there is collusion among many
- Financial re-engineering and not operations have become the mainstay in many companies
 - And always there are middle men offering exotic products to keep your losses and debts out of your Financial statements for a hefty fee
- World over the names differ but frauds are same or similar and they recur with sickening regularity
- World over there are corporate governance problems

Sources

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