"UNYŌ-AZUKARI" LOAN AND THE YAMAICHI-SECURITIES SCARE

by

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I. *The Mechanism of Unyō-Azukari Loan*

(1) Definition of *Unyō-Azukari* System

In verbal translation *unyō* means operational management on something, and *azukari* keeping on deposit. Actually in the terminology of the securities market in Japan, the combined word specifically denotes a device of financing that securities companies have employed since 1949 — a unique system of borrowing securities from their customers. According to an official definition, "The said UA (in this article hereafter *unyō-azukari* will be written as UA) is one of the businesses conducted by securities companies, in which they borrow discount-bank debentures or other securities from a large number of non-particular persons for the purpose of utilizing them as a means of financing, on paying a certain fee but without giving security to lenders." This is a plain definition of its framework.[1] Securities houses (not all but nineteen authorized houses), therefore, borrow securities from many *non-particular* persons on the bases of borrowing fee and without security, and use them as a means of raising funds. To add a few words, as a matter of fact almost all the securities to be borrowed are discount-debentures issued by long-term credit banks. Occasional cases of the bulk borrowing from *particular* persons — such as corporate undertakings, prefectural credit associations, the Government Employees Mutual Association and other various institutional investors, as well as corporate officers and directors and big stockholders, are not counted to fall under the category of UA system. However, in the booking system of securities houses the securities borrowed, either from numerous non-particular persons or from particular big securities holders, are dealt alike under the same item of "securities borrowed", since both are identical in this sense.

Anyhow, it is generally understood about UA that securities houses borrow discount-bank debentures from a multitude of people to use them as security

1) Ministry of Finance, Annual Report of Securities Bureau, 1966, p.89.

for taking loan. From the viewpoint of securities-business finance, however, an essential point is that UA system tends "to become a kind of basically unstable and undesirable way of raising funds, because securities houses take call loan or borrow money from various sources by depositing borrowed debentures with lenders as a pledge for loan,"[2] and that it tends "to develop to a method which renders possible an easy way of obtaining loan, which is apt to be utilized by securities companies for their own unsound stock tradings."[3] In other words, the essential is the chain of connections involving not only the borrowing of financial means to take loans but also the use of raised funds toward unsound tradings, in short, the mechanism of UA loan.

(2) The Factual Mechanism of UA Loan

The mechanism of UA loan, that is, the structure of financing based on UA system, must be precisely and objectively described on the ground of its actual developments, emphatically with regard to those at the time of the so-called Yamaichi-Securities Scare. It may be proper to analyze the mechanism in eight phases as follows.

1) Authorized debenture-issue banking institutions (including the Industrial Bank of Japan, Long Term Credit Bank of Japan, Hypothec Bank of Japan, Central Corporative Bank of Agriculture and Forestry and Shōkō Chūkin Bank, excluding the Bank of Tokyo) issue two kinds of bonds, namely interest-bearing bank bond and discount-bank debenture. Interest-bearing bond is with maturity of five years and subscriber's yield of 7.3% per annum; discount-debenture, which is sold at a discounted price, one year and 6.224%.

2) Under agreement or in cooperation with the issuer banks, securities houses make efforts for selling of newly issued discount-debenture to individual investors, because 97% of them are purchased by individual persons, in contrast to interest-bearing bonds, 75% of which are sold to financial organizations. In an effort to sell it was stressed to the general public that the returns of discount-debenture were not subject to income tax, whereas the 5.5% interest of bank term-deposit (of one year) reduces to 4.95% after tax of 10%. It is also propagated that discount-debenture serves to keep secrets on one's fortune since it is non-registered.

3) Securities houses make a further appeal to numerous non-particular investors as follows. If an investor deposits the discount debentures he bought — only making signature on application form — he can get daily fee of 0.001 yen (per 100 yen). (At the start of the UA system, Nov. 1949, the rate was 0.01 yen, which later decreased by steps to 0.005 yen, 0.003 yen and 0.001 yen.) This makes his investment return rise to 6.612% per annum,

2) House of Representatives, Proceedings of Standing Committee for Finance, No. 33, April 21, 1965, p. 5, remark of a governmental committee-man.

3) House of Councilors, Proceedings of Standing Committee for Finance, N. 26, May 11, 1965, remark of a governmental committee-man.

namely, 0.388% higher than the ordinary 6.224%, the case not placed on the system. If an investor continues to pay ¥10,000 for discount-debentures each month for 7 years and put them on UA system, he will become a holder of discount-debentures worth ¥1,080,000 by investing a total principal of ¥840,000. They cry: Come and join our investment-accumulation plan on discount-debenture, to make savings on securities and money-building! On this account investors place their discount-debentures on the system, that is, to get a fixed return of 6.612%.

4) In this way so-called "19 UA houses", authorized by the Finance Ministry for the system, borrow discount-debentures from investors, the purchasers, at a cost of 0.388%, without showing the actual certificate to them.

Occasionally securities houses borrow in bulk such securities as government-guaranteed bonds, municipal bonds, bank debentures and corporate bonds from particular investors mentioned above. The daily fees in these cases are reportedly 0.0012 to 0.0013 yen per 100 yen, varying in demand-supply conditions.

5) The securities houses use "securities borrowed" from numerous non-particular investors as well as from big holders to deposit with lenders as collateral for call loan, mostly "unconditional," through open money market. Call loan which securities companies obtain comes from two sources. The first is from its affiliate investment trust. It is so-called *himotsuki* (binded) loan, which the securities company arranges in preference to other borrowers at rates 0.365% higher than market rates. In this case a commission of 0.0913% to 0.1825% is paid to short-term money brokers. The second is from such prominent lenders as the Central Cooperative Bank of Agriculture and Forestry, the National Federation of Credit Associations, credit associations and local banks, at rates 0.365% higher than market rates. The above broker's commission is included in the interest. When discount-debenture is given as security, the collateral value is 100% in either case.

6) On another hand the houses, giving borrowed securities as colateral, also borrow funds from the Japan Securities Finance Company, city banks and other banking organizations or business concerns.

7) Funds thus procured are used to purchase stocks by the securities houses as principal, aiming at speculative gains through tradings on their own-accounts. To explain more concretely, the uses of the funds are as follows:

a) Funds are used to build the inventory of stocks which are expected to rise in prices, in order to use these for "commendable distribution" to customers.

b) They are used to boost stock prices in order to brew up investors' bullish mood and then to sell out shares in hand.

c) They are used to bull those stocks of sheerly speculative nature in order to take advantage of market fluctuations for trading gains.

d) In case a house is serving as underwriting syndicate manager for a company listed in the First Section of the market of the Tokyo (or other) Stock Exchange, it intends to help the company for a successful additional stock issue, and for this aim funds are use to buy old stock of the same issuer to make the market price increase. In such a case the house transfers the purchased shares to its affiliate investment trust and the proceeds thereof in the house's hand are utilized for another buying operation. On the other hand the listed company concerned buys beneficiary certificates of the investment trust that has indirectly supported its additional stock issue by taking up the stock. The company results in paying the price for its old shares from the proceeds of new stock issue. This enables the trust to recover the payment for the shares acquired from the parent securities house.

e) They are used, to boost up market price of stock of a certain unlisted smaller enterprise as a step to achieve distribution of the stocks listed on the Second Section of the exchanges (note: a certain amount of capital stock and number of stockholders are required for listing), or to urge or promote an additional stock issue of a Second-Section enterprise. Usually these manipulations are conducted under agreement with any of the house's financing banks (e.g., Fuji Bank for Yamaichi Securities Co.) and upon the stock of an enterprise to which the bank is providing loans.

In these cases, the financing bank presses the enterprise to apply the proceeds of new stock issue and/or stock distribution to repayment of existing loans. Thus the bank accomplishes collection of existing loan through a process of loan — stock distribution or issue — its proceeds — repayment.

If the stock price of the said enterprise drops due to the selling of speculative investors, who have bought the shares for profiting the difference between offering price and market price, the hoped-for aim on the part of the securities house must come to a failure. Then, the house is compelled to counter the inflow of sellings with its market support effort, even ignoring its own commercial paying, for a successful stock distribution or issue. Ultimately with the end of new issue boom, in the hand of the house remain the increasing holdings of Second Section shares as well as unlisted, less-market-ability shares. The funds raised through UA loan thus turn to a "mountainous heap" of unsalable stocks.

f) Also the money is used by the securities house for buying operation to check or to rebound the decline of market, in the expectation that the house could unload the increased in-hand shares and prevent further increase of UA balance.

8) The house uses the shares which it has bought with UA loans as collateral, again borrows funds from its related banks and other financial institutions and uses them for expanding and launching the aforementioned block stock buying, bull operation and speculative trading. The collateral value of listed stocks is generally 70% of market value. This cycle of buying

stocks — using them as collateral — borrowing from bank — buying stocks — repeats itself over again when necessary. Further, the houses again borrow those securities themselves, which they have once given as security for loan, in order to utilize them twice as security for taking loan to be used for their own stock tradings. In case this course is repeated, say two or three times, the same discount-bank debenture works as security for loans in excess of its regular collateral value, say 200 or 300%, of market value.

II. Characteristics of UA Loan and the Yamaichi-Securities Scare

(1) Logical Characteristics of UA Loan

The actual developments of UA finance have been typically described above. Three features of logical nature may be pointed out by observing the facts.

First, the above explained process as a whole — from the issue of discount-debenture by the banks to the cyclical expansion of tradings by securities houses for their own accounts — formulates an unique mechanism of securities-business financing; a mechanism combined as a concrete and logical chain of links. The borrowing of discount-debentures by securities houses from mass investors cannot be separated from this mechanism as the whole. UA makes the first step, and it should be grasped from a unitary viewpoint covering the whole of the process. In this sense, theoretically spoken, the UA is never a simple and single matter as has been defined by the officials. It is "the mechanism of UA financing" existing just as a peculiar type of the securities-business financing.

To illustrate with an allegory, UA financing must be considered as the entire process of a train journey, for instance, from Tokyo to Osaka. If, as in the official definition, the UA-financing structure is cut at the point where securities houses borrow discount-debentures on paying daily fee, it is equivalent to getting off the train at Shizuoka. Or, if it is taken to represent steps up to borrowing money on the security of borrowed debentures, it means breaking the journey at Nagoya. UA financing, or the mechanism, should contain the whole course of journey, from the issue of discount-debenture at starting point to repeated tradings by securities houses at terminal.

A further examination of the mechanism will reveal, however, that in principle the borrowing fee is paid out from speculative trading gains realized by securities houses. In turn, an increasing rotation of tradings naturally requires an increasing volume of debenture borrowing. In this sense the expanding tradings at terminal and the issue and borrowing of debentures at starting point are actually connected. Hence, in a more exact expression, the mechanism is not of straight line but of circular line.

Secondly, there are numerous and various banking organizations appearing on the stage of the chain of facts, as seen from the above stated eight phases, namely, debenture issue banks — nineteen authorized houses for conducting UA business — numerous nonparticular investors — investment trusts — money brokers — trust banks ◦ agricultural credit institutions ◦ credit associations ◦ local banks. etc. — Japan Securities Finance Co. ◦ city banks ◦ corporations — managing underwriters ◦ listed companies ◦ investment trusts — related banks ◦ related enterprises ◦ Second Section companies ◦ unlisted companies, and so on. All these organizations and institutions are connected each other within the chain. It is just this financial structure — a chain-wise, circular fusion —, within which representative components of the Japanese capitalism are holding inter-relations of economic interests, that makes the structural characteristics of UA loan. And this credit-structure is inseparably tied with the unique structures of the Japanese economy and finance, concentrically reflecting their particularities.

Thirdly, the mechanism of UA loan makes the pillars supporting the continuous cycling of stock tradings of securities companies. Cancellation of UA contracts by investors, therefore, means a blow at the root of financial resources of securities houses. To meet claims for cancellation, securities houses have to sell their securities in hand, make repayment of loan to lender with the proceeds to receive discount debentures, and return these to the customers. The similar procedure applies also either in the case of call loan obtained through money brokers or in that of borrowing from banking institutions. In any case there is no other way for securities houses than to procure money through selling securities in hand. This selling of course exerts downward pressure on the market.

If, in addition, cancellation extends over investment-trust contracts, the trusts are obliged to take back their call loans or sell their holding-securities. This affects even related houses, whose securities in hand must be sold for repayment. Cancellation in investment trust has the same kind of effects as UA contract. In parallel with the pace of cancellation both in UA and investment trust, sharp falls in the market go on. Such situations do imply negation on and collapse of the entire credit-structure supported by UA loan — combined in a chain of concrete and logical connections. There is also involved a logical inevitability of a wide-spread financial panic, and further a general economic crisis. For this reason the crisis of UA loan is nothing but that of the Japanese capitalism.

When securities houses are faced with a wave of cancellation of UA and investment-trust contracts, and almost consequently the market position is too much worsened to allow selling, those houses amidst the wave will irresistably fall into bankruptcy. Especially if any one of influential houses is concerned, its failure inevitably shakens financing banks, to cause general financial turmoil[4] and to cause a financial panic.

4) "In cases customers' requests for cancellation come in a multitude, the situation becomes similar to a run on bank, works effect seriously on the

(2) Yamaichi-Securities Scare and the Bank-of-Japan's Special Loan

The crisis of collapse of UA loan mechanism and the financial panic developed inevitably and rapidly during the several days between the publication of the reconstruction plan for the Yamaichi Securities Co. on May 21, 1965 and the decision of special loan to the Yamaichi on 28 of the month, for the sake of "maintenance and bring-up of financial system" as stipulated in Article 25 of the Bank of Japan Law, (Yamaichi is one of the big four in the business but was faced with a crisis due to indiscrete management early this year.) It was a week of the greatest crisis to the postwar Japanese capitalism, and so the special loan from the Bank of Japan, amounting to a total of ¥28,200,000,000 and given on eight times from June 27 to July 28, was indeed an exceptionally rare case of emergency measure to overcome a crisis. It played a role of camphor injection to prevent explosion of overall securities-business panic and financial painc at the threshold. Before long the responsible executives of Yamaichi resigned and the Second Yamaichi was set up; the old Yamaichi failed in substance. In short, a Yamaichi Scare did occur, yet its development into an overall securities-business panic was held back by the special loan. Beside this, another special loan to the Ôi Securities Co. decided by the Bank of Japan on July 7 also had the same effect.

A critical opinion on the special loan at the time was: "That the Government and the Bank of Japan render relief to big securities houses — private undertakings that should bear managerial responsibilities by themselves — is an unjustifiable protection for big capital, especially in view of medium- and small-sized firms that are being left to failure.[5]

The situation was later described by officials as follows: "The Yamaichi Securities Co. had set forth a reorganization plan, a most through-going one within the bounds of its ability. It had made a request to its eighteen banks for shelving interest payment on loans in order to ease fiancial burden, and on May 21 reached agreement on the matter. This would ensure a cut of ¥150,000,000 a month in interest burden and enabled to find a clue toward balanced current accounts. Such actions, however, caused wide-spread fears on its financial condition, resulting in increased claims of customers to return UA securities and other deposits. The claim extended more or less over other houses, for at that time distressed business of securities companies was almost a common knowledge. The Government as well as the Bank of Japan announced that every action to arrest fiancial anxiety would be taken, and securities houses endeavored to deal the claims as fast as possible in order to eliminate cus-

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securities business and market, and threatens to make the whole financial mechanism fall into confusion." (op. cit., Annual Report of Securities Bureau, p.89.)

5) This point was argued in the Diet also: "At present administrative steps for protection are being concentrically taken on big houses because of UA system they are managing and fear of a run on them." (House of Representatives, op. cit., Proceedings, No.33, p.7.)

tomers' fears. Yet the situation continued to grow worse, even to bear malignant rumours right before the decision of the special loan. The decision was made and released under such a situation, which thereafter rapidly improved."[6]

But it was not with securities houses alone that the situation was serious. As the Yamaichi's fiancial statements show at the end of September in 1964, its short-term money borrowings amounted to ¥58,800,000,000 and long-term ones ¥15,700,000,000 totaling to ¥74,500,000,000; short-term securities borrowings ¥60,300,000,000 and long-term ones ¥7,800,000,000, totaling to ¥68,200,000,000, 70 per cent of the two items of securities borrowings was supposedly "UA securities", and almost all short-term money borrowings were on the security of them.[7] The financing banks of the Yamaichi Securities Co. counted eighteen — important ones only — of which major ones were the Fuji Bank and the Mitsubishi Bank — which were despatching their staffs to Yamaichi's board of directors —, and the Industrial Bank of Japan. By the way, the said reconstruction plan was prepared under cooperation and leadership of these three banks. Outstanding amoont of their loans each appears in the annexed Reference Data (2) of this article.[8]

In accordance with the plan, the special loan amounting to ¥28,200,000,000 was given by the Bank of Japan to the Yamaichi through the three banks. This was worth 47 per cent of short term money borrowings of ¥58,800,000,000. In the financial statements of the three banks as of the end of September in 1965, ¥60,500,000,000 as a whole was appropriated for the reserve for bad debts — Fuji ¥20,200,000,000, Mitsubishi ¥21,100,000,000 and Industrial Bank ¥19,300,000,000. Rigidly speaking, it may be said that the special loan by the Bank of Japan would have been unnecessary, if the three banks had firstly given additional loan to the Yamaichi. But the fact that the Bank of Japan was relied upon was supposedly due to their money positions already worsened, or to a possibility that the situation might go far to exceed the bounds of their financial strength. Anyhow, the special loan was effective in preventing breakup of a securities-business panic and its expansion into a financial panic. This emergency measure was directly a relief to the Yamaichi and the securities market, but indirectly to big banks.[9]

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6) Op. cit., Annual Report, p.89. Ref. also H. Arakawa, Shōken-Kyōkō Zengo (Arround the Securities Panic), 1967, pp.59–175.

7) The total amount of borrowed UA-Securities of all securities houses is said to have been ¥293,000,000,000 at the end of April, 1965 (immediately before the release of the reconstruction plan, ¥277,000,000,000 at the end of May and ¥268,500,000,000 at end of September.

8) At the meeting of all related banks to agree this plan, strong dissatisfication was displayed by some of other fifteen banks against the interest payment postponement suggested by the three banks.

9) Governor Usami of the Bank of Japan stated at the Standing Committee for Finance on April 13, 1966: "As I have repeatedly spoken, this step of special loan was taken not for one Yamaichi alone. We judged the situation as

III. Issues on UA Loan

Now, what problematic points are involved in the mechanism of UA loan — in this case, what is the direct "fuse" of the Yamaichi Scare?

The above stated eight phases of the mechanism can be summed up as follows.

1st phase — including the above 1 to 4, i.e., from the issue of discount debentures to the borrowing of them.

2nd phase — 1 to 6, i.e., up to raising funds on the security of borrowed debentures.

3rd phase — 1 to 8, i.e., up to cyclical expansion of tradings by securities houses and borrowing on the ground of cyclical use of securities.

Significantly there lies a problem inside each of these three phases.

(1) The First Issue Point — discount debenture like a deformed child

"The investment in newly issued bank debentures (notably discount type) is being realized on the base of increased yield, that is, increased by borrowing fee that securities houses pay to the customers."[10] "The public investors, holding discount debentures, are given opportunities to lend them, so the yield rises over the nominal interest, making a help to promote sales."[11] This makes the prime reason for the purchase of discount debenture by public, non-particular investors. At the end of September, 1964, of total ¥249,000,000,000 worth of UA securities about 94.5%, ¥235,500,000,000 was accounted for by discount debenture. This means that UA system would not have been able to exist, if there had not been the investment in discount debenture by general

being very emergent. We believe still now that our judgement was not mistaken. We considered the problem of the Yamaichi would cause a grave turmoil in the securities market, would become a worry of the whole financial business and would severely harm our credit abroad." (Proceedings, No. 31, p. 18.) Also a writer says: "Truely the situation was the eve of a panic... I wonder whether the related banks could not supply more funds previously ... It is reported, Yamaichi's request for an additional loan to the Fuji Bank was rejected... If viewed from this aspect, it could be said that the Bank was driven by the major related banks into giving the special loan to the Yamaichi. But if the Bank resolutely rejected...Yamaichi would close shop, probably extending effects on other UA houses and the whole business... How would have been the fate of smaller houses carrying investment trust or UA system." (M. Tsushima, Nichigin-Yushi Hatsudo no Shiteki Igi (Historical Significance of the Special Loan), Zaisei-Kinyu Jijō, June 28, 1965, p.29.) In short the special loan typically testifies to the fusion of monopolistic private enterprises of modern capitalism and state structures.

10) House of Representative, op. cit., Proceedings No. 33, p. 7.

11) House of Councilors, op. cit., Proceedings No. 25, May 7, 1965, p. 10.

investors. The basic reason for such a mass investment is that the original fixed return of 6.224% becomes a *de facto* fixed return of 6.612% by including the daily fee of 0.001 yen per 100 yen. In principle borrowing fee, whether of bond or of stock, is to be changed in accordance with demand and supply positions. But it has been fixed at the rate of 0.388% per annum, being added to the original rate, i.e., the rate of discount. This is equivalent to negation of the original issue term and alteration to a higher level one. The original interest is born by the issuer bank, the extra part by securities house. The house can pay such a rate only because it expects to utilize borrowed securities for money borrowing, to trade stocks with this funds, to get speculative and uncertain profits, and to apply part of profits to borrowing fee. Thus the extra part of what is called *unyō-rimawari* (yield under UA system) depends entirely on speculative factors. Investors, however, do not consider that borrowing fees stem from such speculative and uncertain profits. The eyes of investors fall on nothing but a secure bank debenture that yields a fixed interest income of 6.612%. And the investing public has been induced to think so. Is this an illusion of the public themselves? No!

The most essential problem lies in the fact that the original issue term, reflecting the Government's policy to keep interest rate artificially low, has been tacitly modified and substituted for a term of higher rate through the borrowing fee born by securities houses. For another point, while the maturity of discount debenture is one year, in the reality it has been prolonged to one year and thirty three days since the sale usually begins thirty three days before the regular issue date.

In respect of these facts, the bank discount debenture must be said to be quite an abnormal deformed child, who was borne non-affiliated, by disordered financial circumstances and is making a factor of confused interest structure side by side with extraordinary high interest rates of call loan.

(2) The Second Debatable Point — transformation of discount debenture into quasi-bank note

The practice of borrowing of securities from general customers on paying fee is legally construed as "deposit for free use contract,"[12] "deposit of securities,"[13] and "a sort of borrowing contract."[14] So "it needs not to return the same certificate to the lender."[15] "By its nature it suffices to return securities of the same features...for instance, not necessarily the certificate of No. 1355 for a No. 1355 borrowed."[16] It is admissible to return a debenture of long-term Credit Bank for a borrowed debenture of Industrial Bank.[17]

12) House of Councilors, op. cit., Proceedings, No. 27, p. 16.
13) House of Councilors, op. cit., Proceedings, No. 25, p. 10.
14) House of Representatives, op. cit., No. 33, p. 5.
15) House of Councilors, op. cit., No. 27, p. 1.
16) House of Representatives, op. cit., No. 33, p. 5.

In other words, there is no legal restriction or prohibition from use of a borrowed debenture in any way until the return date comes or request for return is made. Neither legal restrictions on selling deposited debenture, if immediate after deposit, nor prohibitions from use as security for loan are imposed on the deposit for free use contract.

On the base of these legal characteristics of UA loan, there have been three cases of financing pattern.

(1st case)

This case naturally results in the commercial practice which permits a securities company to sell borrowed securities, since it could return them by means of purchase in the market or use of other borrowed securities.[18]

Concerning this practice which seems to be on the fringe of law, the officials say: "We now rigidly prohibit such a practice but in the past there were cases, as the worst, that some houses sold securities they borrowed."[19] So the Finance Ministry was driven administratively to instruct securities companies to use such securities in no other way than as collateral for loan so far as the characteristics of UA system are not to be deflected, and to keep at least twenty per cent of them in their vault as the reserve for return."[20]

Yet there is nothing to secure that the case of borrowing — sale — cash would be perfectly impossible. In view of the high convertibility into cash or the liquidity of discount debenture, it would be said that, in despite of difference in essence, these securities unsecuredly borrowed are very near to bank deposit in their economic function, because they can always be changed to quasi-bank note at will."[21]

Discount debentures borrowed without security turn themselves to quasi-bank note since they have high convertibility to cash. And the cash can be obtained only by paying the fixed interest of 0.388% per annum. This is not different from deposit as internal liability of bank, which banks absorb without giving security but on paying interest.

(2nd case)

As the second case of UA loan, securities houses utilize borrowed debentures for obtaining call loan or others. This is to be called the ordinary case. Yet also in this case the matter is the same. "In the sense that borrowed securities can be conveniently used for security to borrow money, the thing is similar to collecting deposits from the general public and almost the same with the so-called insecured borrowing."[22]

In short, loan is very easily obtained from call loan market and other

17) On this point it is distinguished from *hogo-azukari* (safekeeping), which is legally "simple deposit" and requires to return the same certificate as deposited.

18) House of Councilors, op. cit., Proceedings, No. 27, p. 1.

19 & 20) House of Councilors, op. cit., Proceedings, No. 25. pp. 10–11.

21) House of Councilors, op. cit., Proceedings, No. 27, p. 1.

22) House of Councilors, op. cit., No. 25, p. 10.

sources by using discount debenture as collateral since the debenture has high liquidity. To convert borrowed securities into borrowed money is very easy, even if it is necessary for them to be channelled through hypothecation. Hipothecation is now a sheerly formal step; again in this case, borrowed securities are nothing but the money borrowed from the public. They become a bank deposit with interest of 0.388% and is transformed into quasi-bank note.

(3rd case)

The third is the case where securities, borrowed and given as security for a loan, are working in many rotations. As stated already, UA loan takes a course of borrowing — given as security — funds. As a matter of fact, major financial resources of securities houses for carrying or expanding securities business conducted through tradings for their own accounts depend heavily upon borrowing discount debentures. So getting discount debentures by borrowing equals expansion of the securities houses' finance and trading on a dealer basis. For this reason every house pursues the quasi-bank note." Discount debentures, once deposited with lender as security for "tied" call loan, are again borrowed. Now securities borrowed by securities houses do not come from the public. Debentures, given to investment trusts as collateral, are again lent out. The same is done on debentures given to financial institutions supplying call loan and other corporations or banks lending money. This cyclical process of reborrowing-and-relending between securities houses and investment trusts or financial institutions is repeated many times in accordance with the pace of the expansion of dealer business of securities houses. "The business of houses in reality revolves on the axis of discount debentures used as security."[23] There can not be this fact unless the money-convertibility of discount debenture exists as a proposition. Thus the discount debenture is playing the role of hormon-like accelerator of the excessive speculation and dealer activity of securities firms.

To summarize, the first and second cases disclose vividly the transformation of discount debentures into quasi-bank notes, while the third is an expanded cycle of the second. Through these factual phenomena, there is underflowing the essence of discount debentures that it is a quasi-bank note with interest of 6.612% including extra 0.388%. And, exclusively this certificate is used as the supreme instrument of securities-business financing. Such a situation was described by a governmental Diet committee-man as "a real situation that debenture-issue banks are issuing currency."[24] Indeed they are issuing "quasi-currency" with interest of 6.612%, depending on speculative profits of securities houses. If such a quasi-bank note was used not solely for changing into cash, namely Bank of Japan's note, but also, as was rumoured, for a means of settling commercial papers, or other aims of debt clearance, it

23) House of Councilors, op. cit., No. 25, p. 11.
24) House of Representatives, op. cit., No. 33, p. 7.

should be said to have transformed itself into currency note in substance. This means coexistence of plural central banks — the Bank of Japan and several banks issuing debentures akin to currency. If the change into quasi-central bank is brought about as a by-product of the prosperous UA loan system, it must be said to cause a remarkable disorder in the money market.

(3) The third Debatable Point — own-account trading and securities-business financing

Needless to speak again, UA loan is one of the methods most generally used by securities houses to trade stocks for their own accounts. Based on this system, discount debentures indicate irrational characteristic of deformed-child and quasi-bank note. They are used to get funds for operating or expanding stock tradings. These tradings, aiming at boundless speculative gains, have been rendered possible only by the method called UA system. Then what comes to the top of the problem is the *excessive* expansion of securities houses' own tradings.

"If the way of UA loan on discount debentures is limitlessly open, there will be a danger of excessive inflow of money into securities market and consequently a fear of imperiling the sound business itself. In fact, in the past slump time following the 1959–61 boom, it was securities houses with the convenient means for excessive trading that suffered the most heavy blow. Though this precious experience we are deliberating restraints on it."[25)]

Concerning how to regulate the excessive speculation, the officials said: pursuant to the Securities and Exchange Law, licence system of securities company will be enforced three years later. Only those companies which can get licence will remain... The licence will be given after statement is precisely written by applicants about routes and size of financing as well as daily way of business. Prior to that time we will try to readjust unfavorable financing methods gradually, and at the same time consider the financial problem of securities companies and the possible change in the issuance terms of bank debenture in cooperation with the Industrial Bank and other issuers."[26)] And concerning securities finance, "we think it is favorable to concentrate finance of securities company on the ordinary route of bank loan and call loan."[27)]

Themes involved herein are as below. 1) to consider and find appropriate route and amount of securities market finance after the enforcement of licence system. 2) to regulate such methods contradictory to the principle of UA system. 3) to reconsider the methods and terms of issuance of discount debentures. 4) bank loan and call loan are preferable for the escurities business as normal ways of financing.

25) House of Councilors, op. cit., No. 27, p. 2.
26) House of Councilors, op. cit., Proceedings, No. 26, p. 8.
27) House of Councilors, op. cit., Proceedings, No. 25, p. 10.

This administrative line of regulation has been embodied step by step. For instance, the daily fee of UA was reduced to 0.005 yen per 100 yen from previous 0.001 yen in October 1966. As for the issue term of discount debenture, the amount of selling and redemption commissions to be received by securities company was lowered from 1.39 yen to 1.19 yen per 100 yen par value; issuer's yield, i.e. the cost to the issuer was changed from yearly 7.7% to 7.5%. Furthermore, subscriber's yield fell from previous 6.224% to 6.022%; hence UA yield, including daily borrowing fee, from 6.612% to 6.215%. Due to a new interest tax in force since June 1967, the above 6.022% was decreased to 5.076% after tax. Through these measures the abnormality of UA loan has been somewhat remedied, while some restraint has been put on the custom of issuer banks to urge securities houses, on paying high commission, to strive for popular absorption. An order of the Securities Bureau, proclaimed in July 1960, that stipulates holding 20% or more of borrowed discount debentures as reserve for return to lending customers, has been so reinforced that actually 30% should be held. UA of long-term Government bonds was strictly prohibited. Then the Finance Ministry aiming at complete extinction of UA system, adopted a policy of gradual decrease of UA securities — the peak figure of ¥293,200,000,000 as of the end of April, 1965 was to be lowered by 40% by the end of March, 1967. A total of UA securities successfully declined to about ¥160,000,000,000 at the end of August, 1967.

Up to the present, however, discount debentures are utilized for UA loan as before. Although restraints on UA are more rigid than was before, its characteristics of deformed-child and quasi-bank note cannot be said to be dissolved. For the complete extinction of UA a new method of securities business fiancing must be devised. Yet, since the UA loan is the means of securities houses in the country to trade stocks for their own account and such dealer activities result from the characteristics of business of securities firms which combine the functions of broker and dealer, the fundamental problem is to decide how the segregation of functions should be achieved.

IV. Conclusion

It appears that at present no plan is proposed either by the Government or the Bank of Japan concerning the loan system to be substituted for UA loan. They seem to think that securities firms should find their way of financing in existing normal methods of bank loan and call loan, because, if their dealer activities would be reduced to the extent that customers' orders might be appropriately executed when the enforcement date of the licence system comes, financing for the dealer business would become much less necessary. Herein lies a debatable point. To find the way of securities-business financing in bank loan and call loan is of course reasonable. But there are fundamental requirements for this way that call-loan rates should be held lower than bond yields; that in bank credit a further progress should be made on collateral loan, especially loan on stocks; and that accordingly call loan market should be so adjusted that its proper function as the money market for the clearance of commercial papers can be perfectly performed. These requirements would not be fulfilled unless the normalization of money market structures makes further advance. It may safely be said that the problems of abnormal UA loan are not solved so long as there remains the present state in which, while UA loan is decreasing, the unsecured or secured borrowing of discount debentures from particular financial institutions or business corporations is increasing. This tells no more than a sheer shift of borrowing from "non-particular" to "particular."

In order to put restraints on securities houses' stock tradings, government authorities, under the revised Securities and Exchange Law, made an announcement about minimum capital amounts necessary to conduct securities businesses: ¥3,000,000,000 for a house that combines business-fields of broker, dealer, distributor and underwriter (being a managing member in a underwriting syndicate); ¥1,000,000,000 for one that engages in underwriting (not being a managing member) as well as other fields; ¥20,000,000 for one that engages in those fields other than underwriting. So far the Law allows the securities company to combine broker's and dealer's business, and then it is not to be expected that the so-called "segregation of function" will be realized on April 1, 1968. It is to be kept in mind, however, how the Finance Ministry Officials exercise their administrative power when they allow the combination of functions to the applicants. To speak of a matter of principle, the Finance Ministry should announce the criteria by which the applicants decide whether they put more stress upon dealers' function or brokers' one in his business, and thus take a step toward functional specialization.

On another hand the Ministry ordered the securities companies to discontinue the practices of *shikiri-baikai* and *tsuke-awase-baikai* after October 1967. (*shikiri-baikai* means that a securities house buys or sells for its own account the securities which its customer ordered to sell or buy on the exchange; *tsukeawase-baikai* means that a securities company execute an order by making a trading with other customer's orders).Hitherto these *baikai* practices have tended to produce such abuses that "a house would rather have a trade with itself than with other houses", that prices on the market floor are disregarded or that orders with priority in time or customer's order are not preferentially dealt.

With the abolition of *baikai* practices, hence-forth all buying and selling orders were to seek separately corresponding counter-orders in the market." As the result "time priority", i.e., preferential execution of an order with time priority, and "customer priority", i.e., placing preference on customer's order, were to be strictly observed. To abolish such practices is a reasonable step to remedy the abuses arisen from tradings of securities houses for their own accounts and so should be given high esteem as an epoch-making action toward normalization of the postwar abnormality of the stock market.

The abolition of *baikai* tradings requires a proper amount of dealer trading to be kept in order to make customers' orders execute smoothly, since each order to buy or sell is required to find the counter part in the market, except orders in large amount for which Baikai is permitted as a tentative measure. Dealer tradings in a moderate amount are, therefore, a requisite for maintaining liquidity of securities in the market. But there is nothing more than approval of the combination of businesses of underwriter, dealer, broker and distributor under the revised Securities and Exchange Law. No opinion has yet been expressed on the problem of bringing up specialized dealers, whether from the officials or from securities business circles. So long as business combination persists, there might be the conflict of interests between securities houses and customers. Further, if official controls would be exercised on dealer activities of securities companies while their combined businesses are approved, self-regulation will not grow forever and unexpectedly, and execution of customers' orders will become unsmooth. It is irrational merely to put restraints on possible excessive tradings of securities companies without clear objective, while business combination is admitted. As the line of policy it would be reasonable to take a tentative measure, for instance, to make distinction between a combined business with weight on dealer's and that on broker's, aiming a gradual growth of specialized dealers, and thus to institutionalize specialized dealer's business and broker's in the organization of the market, maintaining the balance between the two.

In conclusion, while it may be proper to prevent excessive tradings of securities houses backed by UA loan through the abolition of UA financing and the restriction of dealer activity, it is unjustifiable to neglect the institutional bring-up of specialized dealers for the sake of maintenance of liquidity in a sound market and new methods of securities-business financing to back up the activity of specialized dealers. If discrete preparations like these lack, the result would weaken market structure, make it impossible to ease slimming and booming tides of market, and go too far away from normal situations.

The Yamaichi Scare would be a bell announcing the end of the rapid economic growth after the war, particularly since 1953. At the same time it is an alarm bell warning that both money and securities markets have played their historical roles — the money market based upon Japanese particular creation of credit; parallel growth of loan and deposit, that is, increased deposit through loan and increased loan through deposit; and also the securities market backed up by UA loan. Normalization is required of both markets. The Japanese capitalism has come to a stage where, without such a normalization, successful reorganization to cope with liberalization of capital restriction cannot be expected. In fact the securities market has already entered into a process of stepping out of the past abnormal mechanism in face of the licence system of securities company to be enforced in April 1968, preceding reorganization in the money market. The issue of UA loan is the core of the problems arising in the course of this process. Neither UA loan nor *baikai* practices can be left untouched for this issue. On the other hand, the problem of UA loan stands in close relation with the normalization of money market, and so securities market will be essentially affected by movements in the latter. Will the money market move toward normalization through forth-coming reorganization, or extend its past rail of abnormal business? Which course of the two will be taken? In accordance with the course chosen, the characteristics of monopolistic reorganization of the Japanese capitalism and that of structural fusion of financial capital will be determined.

Reference Data (1) Amount of Borrowings and Securities Borrowed by Four Big Houses

Nomura Securities Co. (in million yen)

	As of End-Sept. 1964	As of End-Sept. 1965
Short term borrowings	47,182	42,136
(from Banks)	17,728	23,151
Long-term borrowings	11,954	11,760
(from Banks)	11,717	11,592
1. Long-term borrowing by Banks		
Industrial Bank	2,005	1,545
Daiwa Bank	1,300	1,300
Mitsui Trust & Banking	—	1,100
Daiwa (Nihombashi branch)	800	—
Long-term Credit Bank	4,402	4,361
2. Short-term borrowing by Banks		
Sanwa Bank	3,985	4,820
Daiwa Bank	3,575	4,175
Toyo Trust & Banking	1,360	2,455
Mitsui Bank	1,513	1,943
Gumma Bank	—	1,290
Kobe Bank	—	1,250
Mitsui Trust & Banking	1,345	1,195
Mitsubishi Bank	1,040	1,040
Total brorowings	59,136	53,897
Securities borrowed	55,116	72,135
Total	114,252	126,032

Yamaichi Securities Co.

	As of End-Sept. 1964	As of End-Sept. 1965
Short-term borrowings	58,817	59,369
(from Banks)	14,257	43,892
Long-term borrowings	15,675	12,815
1. Long-term borrowing by Banks		
Yasuda Trust & Banking	3,628	2,700
Mitsubishi Trust & Banking	3,620	2,370
Industrial Bank	3,040	2,890
Long-term Credit Bank	1,510	1,600
2. Short-term borrowing by Banks		
Fuji Bank	3,105	3,105
Mitsubishi Bank	2,207	2,207
Daiichi Bank	1,295	1,290
Sumitomo Bank	1,220	1,220
Tokai Bank	1,080	1,080
Total borrowings	74,492	72,185
Securities borrowed	68,190	47,119
Total	142,682	119,304

Nikko Securities Co.

	As of End-Sept. 1964	As of End-Sept. 1965
Short-term borrowings	50,009	45,270
(from Banks)	11,501	11,222
Long-term borrowings	13,676	11,377
1. Long-term borrowings by Banks		
Industrial Bank	2,840	2,340
Mitsubishi Trust & Banking	2,350	1,628
Tokai Bank	1,700	1,715
Yasuda Trust & Banking	1,500	1,300
Mitsui Trust & Banking	1,470	1,170
Mitsubishi Bank	1,000	1,000
Fuji Bank	1,000	1,000
2. Short-term borrowings by Banks		
Mitsubishi Trust & Banking	3,060	1,060
Mitsubishi Bank	2,179	2,084
Fuji Bank	1,930	1,930
Tokai Bank	1,311	1,320
Industrial Bank	-	2,000
Total borrowings	63,686	56,648
Securities borrowed	54,993	57,594
Total	118.679	114,242

Daiwa Securities Co.

	As of End-Sept. 1964	As of End-Sept. 1965
Short-term borrowings	47,630	30,851
(from Banks)	9,936	9,078
Long-term borrowings	11,534	11,389
1. Long-term borrowing by Banks		
Sumitomo Trust & Banking	3,015	2,347
Sumitomo bank	3,000	3,000
Industrial Bank	1,875	1,380
Long-term Credit Bank	1,731	2,878
Yasuda Trust & Banking	1,300	1,210
2. Short-term borrowing by Banks		
Sumitomo Bank	1,760	2,280
Tokai Bank	1,331	1,330
Fuji Bank	1,250	1,273
Mitsubishi Bank	1,171	1,117
Sumitomo Trust & Banking	800	—
Total borrowings	59,165	42,241
Securities borrowed	45,752	46,583
Total	104,917	88,824

(Compiled from Report on Securities and Annual Report of Securities Bureau.)

Reference Data (2)

(A) Yamaichi's Borrowings and Borrowed Securities at End-March 1965

Short-term borrowings	¥ 58,500 million
Long-term borrowings	¥ 140,000 〃
Borrowed Securities	¥ 853,000 〃
Total	¥1,578,000 〃

(B) Yamaichi's Borrowings from Three Major Banks as of End-April 1965

Fuji Bank	¥ 3,800 million
Mitsubishi Bank	¥ 3,000 〃
Industrial Bank	¥ 2,900 〃

(C) Yamaichi's Balance of UA Securities

as of End-Sept. 1962	¥ 35,100 million
〃 〃 1963	¥ 37,700 〃
〃 〃 1964	¥ 47,700 〃
〃 End-March 1965	¥ 55,500 〃

(Prepared from Data of the Standing Committee for Finance, House of Representatives.)

Postscript

This article has relation to the two articles written by the author under the following titles: "Problems of Securities Finance" on July, 1967 issue of "the Financial Journal" (Kinyu Journal) and "Financial Problems of Securities Market" on No. 6 issue (special edition) of "Shōken Keizai Jihō" compiled by Japan Securities Economics Institute.