

# Coping in the International Context

Interview with  
Yoshihisa Tabuchi,  
president of Nomura  
Securities Co., Ltd.,  
by Hiromoto Tanahashi

At 53, Yoshihisa Tabuchi is considered young to be president of Nomura Securities, easily Japan's largest and most profitable investment bank and one of the prime movers and shakers in Japanese finance.

Because he bears the same surname as his predecessor, current Chairman Setsuya Tabuchi, people tend to assume that they are related. Yoshihisa Tabuchi is quick to dispel this misperception. "We are both from Okayama Prefecture, where the name Tabuchi is common, but other than that there is no relation whatever."

Nomura Securities has long picked its leaders for what they know rather than who they know, and Yoshihisa Tabuchi has definitely won the presidency on the strength of his abilities without any help from old school ties or other powerful connections.

Joining Nomura in 1956 right after he graduated from Waseda University with a degree in economics, Tabuchi has worked nearly exclusively with individual clients, a market sector that has been the cornerstone of Nomura's strength. This long involvement with individual investors stands in sharp contrast to predecessor Setsuya Tabuchi's early specialization in corporate finance. While he has consistently been a leader among his peers in climbing the corporate ladder, Yoshihisa Tabuchi has never lost the common touch.

In his ascent from senior managing director to vice president and now to president, Tabuchi has proved himself worthy of the presidency by successfully implementing Nomura's personal-

touch management policies not only with individual investors but also with corporate and overseas clients—and especially with the people who work for him. So strong is his personal appeal that there are many people who have long since left Nomura to work for other companies but still say they would be glad to help out if Tabuchi asked them.

As those who know him and he himself confesses, Tabuchi is not a very colorful character, and his main interest is his work. He is only an average golfer and abhors the almost obligatory *karaoke* singing that marks so much Japanese business socializing.

As the Japanese economy grows more affluent, there is increasing lifestyle diversity in consumer values and corporate styles. The old working monolith must give way to a new pluralism, and this is perhaps the greatest challenge facing Nomura in the years ahead. Nevertheless, Tabuchi insists that Nomura can successfully adapt to a more laid-back Japan and to greater international involvement at the same time. In the process, Tabuchi acknowledges with a wry grin, he himself may have to discard his work-only ethic and loosen up a bit.

**Question:** Japanese capital markets have become much more open in the three years since the Japan-U.S. Yen-Dollar Committee was established. Could you tell us how you view this process?

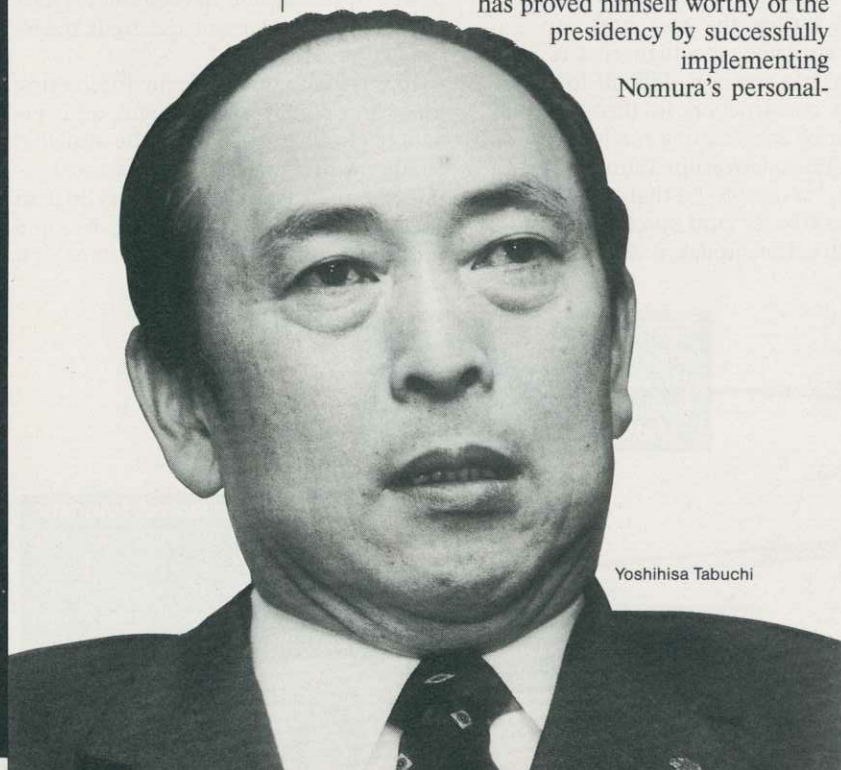
**Tabuchi:** This has been an amazingly smooth and very commendable process. And I think it is also important to recognize that this liberalization and internationalization would not have gone nearly so smoothly if Japan had not had the basic market strengths and structures to accommodate it.

In many ways, this has had a dramatic impact on world money markets. Japanese securities companies and other financial institutions now have a major role to play in the international flow of events and money. But before we get to that, I think it is important to recognize and acknowledge the efforts made by the Japanese authorities and companies, as well as to state the obvious that they were responding to the global quest for business opportunities.

**Q:** Much of the discussion in the international press has focused on whether or not foreign securities companies were able to acquire membership on the Tokyo Stock Exchange. Could you tell us the advantages and disadvantages here? Has this changed the TSE somehow? Has it had any real impact?

**A:** The stock market is basically an open market, and all comers should be able to take part on

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Yoshihisa Tabuchi

an equal footing. In addition, the more players there are, the larger the pie is for everyone. So in that sense, I welcome these foreign companies' participation. And it should also be recognized that this contributes to raising the market's credibility and reliability. So I am very much in favor of having the reputable foreign securities companies here. The authorities have made a very positive effort to respond to the situation as best they can within the Japanese legal framework.

**Q:** *The major overseas markets have been reformed. In the United States, there was a reform about a dozen years ago abolishing commissions and otherwise introducing more competition. Now London has had its Big Bang. What is the impact of this Big Bang on the Japanese market?*

**A:** It is still too early to tell. They are still sorting things out themselves, and I would expect an initial period of uncertainty in London. While it may have long-term ramifications for the world market, the Big Bang is basically a domestic issue for the British. It is an effort to strengthen the London capital markets in the realization that unless this is done the London markets will fall behind.

**Q:** *What about a Japanese Big Bang? This seems to be one of the major questions for 1987.*

**A:** Before we can do anything on revamping the securities market, we have to have a good idea of what we want to do and dispassionate discussion of the advantages and disadvantages these changes will yield. Once that is done, it should be possible to generate some kind of consensus and to provide for a smooth and orderly market opening.

I know there is talk about negotiable commissions and fees, but this has to be considered in the total context of capital market costs. I believe securities trading commissions should be discussed within the total context of Japanese capital market fees and costs. Just concentrating on one facet of this problem will only introduce distortions into the total structure.

**Q:** *In other words, you are advocating reviewing not only securities trading fees but the whole range of financial fees. Is that it?*

**A:** Right. I would have no objection to a review like that. The schedule of stock trading fees that we announced in November 1986 is competitive with the actual fees charged in the American market, which is internationally liberalized. In fact, the burden of deregulation has fallen on the little investor. If you look at American bank fees or securities trading fees, the fact that they are proportionately cheaper for big players means that they are that much higher for the smaller investor. We tried to even this out, with the result that our fees are now much cheaper than the fees that smaller investors are paying in the American market.

**Q:** *It has often been remarked that money knows no borders. In that sense, the massive Japanese current account surpluses and the vast capital outflows have made Japan a much more important player in the international money market over the*

*last few years. As a result, we have people talking about an international triumvirate of New York, Tokyo and London for global trading. What is the outlook here?*

**A:** The advances being made in computers and telecommunications are bound to make the world smaller and to mean that we have basically one global market. This is true of manufactures, but it is even more so of money. The only question is what we can do to accommodate money's intrinsic mobility.

The important thing is to make sure that the rules on the Tokyo money markets are compatible with international practices. Unless this is done, money will find other routes and Tokyo will be left in a backwater. And it is inconceivable that we could have an efficient global market that does not include Tokyo's capital resources.

While the technical aspects of internationalization are important, it is far more important that the rest of Nomura's international network, particularly in New York and London, be status companies in their own right in the countries where they are located. Only when we are able to "localize" will it be possible for Nomura to move information and products from that country globally. It is impossible to consider Nomura a true global financier if we just have a bunch of misfit offices scattered around the world.

**Q:** *Looking back on the process of Nomura's international involvement, I seem to remember that you established a lot of offices around the world before you upgraded to branches. That was back in the late 1960s and early 1970s. Then in the next decade, from 1975 to 1985, you put a lot of effort into beefing up these branches. And now you are talking about turning them into stalwarts of the financial community in the countries where they are located.*

**A:** We are talking about 24-hour trading, about giving Nomura access to the best information available worldwide. There is a vast amount of top-notch information in the global network, and this information is the basis for successful trading in global products. The only question is how successfully we can plug Nomura into this information stream.

We want each of our main branches to be able to be our international headquarters. When the London markets are open, Nomura International in London is our operational headquarters. When the New York markets are open, Nomura Securities International in New York is our operational headquarters. These offices have to have the capability and standing to act as operating headquarters. We at Nomura have to work to ensure that these overseas offices, be it London or New York, are top-flight investment bankers able to cover the world from their respective countries.

**Q:** *One other factor here is that each country has its own legal structure. And as Nomura pursues its globalization, I assume from what you have said that, local laws and regulations permitting, you will try to be a full-service financial institution in*

**The more players there are, the bigger the pie.**

**Basically, we have one global market.**

**Financial markets exist to serve their customers.**

**There should be no difference between domestic and international operations.**

*the broadest sense of the term rather than a narrowly constructed securities dealer, even though the name on the door may read Nomura Securities. Or am I reading too much into this?*

**A:** The regulations and systems that prevail in each country are shaped by that country's history and social mores. Our policy is to follow local practices. We obey the laws of the country we are in with no reservations. That's the only way we can operate.

For example, the Glass-Steagall Act in the United States and Article 65 of Japan's Securities Exchange Law both separate the commercial banking business and the securities business, but Europe's universal banking system does not. Each of these regulations makes sense in its own sociohistorical context, and it is only right that a company that wants to be a good member of the local corporate community should play by the local rules, even if they are different from what you're used to at home. That's the way it is. Of course, I have my own ideas on what *should* be, but these are personal views and do not necessarily represent the views of the Japanese industry as a whole.

**Q:** *Even given that disclaimer, it would be interesting to hear them anyway, if you don't mind.*

**A:** Very few Americans would advocate throwing Glass-Steagall out the window. While new businesses present new problems, there is an effort being made to deal with this friction within the spirit of Glass-Steagall. Japan's Article 65 was patterned after Glass-Steagall, and I think the very vigor of Japanese business activity is a testament to the fact that Article 65 has worked in Japan.

But when you look at Europe, the situation is very different there. Actually, there are a lot of differences, but different financial practices are near the top of the list. German companies have outstanding workers and excellent technology, but they have gotten so big that they have run up against the problems of capital availability and that is limiting their expansion. But even so, they are able to dominate the EC market. So they have this competitive advantage, but I am not sure how competitive they would be if the European market were completely open.

Look at the major Japanese companies. Now they are getting flak for being too competitive. And the big Japanese securities companies are under fire for being too profitable.

But some of the top Japanese business leaders I have talked to have said they appreciate the way Japan has handled the internationalization and liberalization of its capital markets. If the markets had not been liberalized, these big companies would have been hit with high interest payments at the same time as the yen's appreciation was drying up their operating profits. Now they have more opportunities for asset management and lower interest payments when they have to raise money on the markets. This has been especially marked over the last five or six years, and it has given these companies greater

flexibility in raising capital. Of course, there are some institutions in the market that are bemoaning the scarcity of borrowers, but that is a problem specific to those people. Basically, the financial markets exist to serve their customers—manufacturers—and we have to see these changes as a success from the customer's point of view.

At least that's the way it looks to me, and I would not want to get involved in discussions of revising Article 65.

**Q:** *So far, Nomura has been pretty successful. In the year ended September 1986, Nomura earned an unprecedented ¥380 billion (about \$2.3 billion at the rate of ¥165/\$) in operating profits. What do you have in mind for the future—this year in particular and longer term in general?*

**A:** The first issue in my mind is that of internationalization. By this I do not mean so much enabling Japanese companies to compete in the international marketplace as ensuring that Japan is so open that there is no real difference between domestic operations and international operations.

We have to be able to provide international services for our Tokyo clients, just as we provide our international clients access to Tokyo money markets. It has to cut both ways, and internationalization will be increasingly important in this context.

**Q:** *Given the major effort that Nomura is making to further upgrade its computer network, both here in Japan and overseas, would it be safe to say that just as localization internationally was your first goal, computer integration is your second main goal for the years ahead?*

**A:** They are two sides of the same coin. Here in Japan, there has been a considerable amassing of savings and other investment assets, and we need to have the ability to respond to the needs of individuals, corporate investors and institutional investors. This means we need to give all of our salespeople the education and training they need to understand their work in the global context. Overseas too, our people need to understand their own markets and all of the markets that Nomura operates in. This will take a major effort, but it has to be done.

**Q:** *Finally, could you briefly review the outlook for the Japanese economy this year?*

**A:** Basically, I do not expect any real change from the present pattern of yen appreciation and trade friction. As a result, we will see increasing deindustrialization and maybe more unemployment. There is very little precedent for this in the Japanese economy, and it may be a very trying period.

Still, the Japanese are very hard-working, sharp-thinking and adaptable people—all in all a pretty good lot—and I am sure everyone will buckle down and do his best. There may be some deindustrialization and economic dislocation, but I think we will be able to look back on this a couple of years from now with the feeling that we came through it pretty well. ●