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Yen for dollars

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taken to broaden the capital market is the sale of securities in the United States. Securities of the Japanese company are deposited with a Japanese bank acting as agent for a U.S. bank, and American Depository Shares are then sold to investors in the U.S. These securities must, of course, be registered with the SEC.*

There are two business customs of particular interest that act to deter expansion through equity capital and cause a generally heavy dependence of industry on bank loans. One is the custom of paying out a relatively large portion of profits in dividends. The other is that in raising money through new issues it is common practice to allow present shareholders to subscribe to the new shares at par, even though par is substantially less than market. This limits the capital obtainable through each issue, and requires companies to make frequent trips to the capital markets.

On the Kansai engagement, the one with which I was more familiar, we encountered a number of situations I had not met before. One of these was the absence of customary posting media and the manner in which transactions are tabulated in Kansai's bookkeeping system. Instead of a general ledger as we know it, "accounting slips"—thousands of paper forms bound in many books, and each normally representing a single transaction — comprise the monthly source of postings. The postings are made to a trial balance, not to a ledger. All the details are accumulated by clerks using the soroban (the Japanese equivalent of the abacus), and there are no intermediate written accumulations. This lack of audit trail is similar to the situation faced in examining accounts recorded in an EDP system before obtaining printouts.

*A recent adverse factor is the proposal by President Kennedy to impose an "interest equalization" tax on new foreign-portfolio investments by United States citizens.

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Most of the major analyses were prepared by the client on work sheets having side captions and column headings preprinted in both Japanese and English. Because of the rather formidable volume of these yellow sheets and the fact that a goodly number of the company's staff worked on them, our audit was characterized as the "Yellow Sheet Typhoon."

The individual Japanese householder's thrift is legendary. Even for purchasing automobiles and houses, many people in Japan save and pay cash. Since most of Kansai's bills are collected within 15 days from the meter reading date, the company's accounts receivable generally amount to only about one-half of a month's billings. Meter readers give each of the almost four-million customers a note of their consumption of electricity at the time of meter reading, and shortly after each day's bills are prepared, the corps of collectors is back at the customers' doors collecting cash. The system is made easier by the heavy concentration of users, and it works very well indeed.

We had an exacting task in explaining to the client all the accounting requirements of SEC Regulation S-X. This is a difficult job at best in the case of U.S. companies registering for the first time. For Japanese companies it is an even greater problem because of the difficulties of communication. Instead of regarding this as a "language barrier," I prefer to think of it as a challenge to clear expression. Many times I worked through a company interpreter and found that I had to use simple, basic language, that is easy to translate. For example, at a meeting with several client officials I mentioned that an income statement item should be shown "net of taxes." This puzzled them, and I then realized the term was not directly translatable into Japanese. It took several sentences to describe "net of taxes" understandably for my listeners, although of course the concept was not strange to them.

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These notes have been put together mostly at odd hours during my stay at Skytop for the 1963 principals' meeting. Now, as I finish them in my 30th floor New York hotel room, awaiting the start of a 10,000-mile flight back to Tokyo, I am looking out over huge buildings straining vertically for the sky. Soon I shall be in Tokyo, where I shall see buildings that also are very large. But Tokyo's buildings have low, horizontal lines to conform with building code restrictions designed for protection against earthquakes.

I have become accustomed to change over the past year and a half—change in professional technique, and the stimulating change in outlook that comes from living in Japan. A year filled with so much adventure makes me eager to fly west to Japan again tonight, with a short stop at "home" in Hawaii.

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a Most of Kansai's hydroelectric plants, unlike this one, are run-of-river type, without storage dams.

b Osaka at night. Laced with canals, Osaka is often called "The Venice of the East."

c Mitsui's polyvinyl chloride manufacturing plant in Portugal, a joint venture.

d Japanese farmers wring a high yield from the land, less than 20 per cent of which is suitable for cultivation.

Japan has developed a lusty appetite for foreign capital to nourish its economy, now the fastest growing in the world. In the past ten years Japan has quadrupled industrial production, tripled export and import dollar volume at current prices, and almost tripled her gross national product. The rate of investment by the Japanese in their own plant and equipment is five times that of a decade ago. Yet investment from domestic sources is not enough to meet all of Japan's needs.

To seek funds in the United States through public offering of securities, Japanese companies are obliged of course to meet the requirements of the U.S. Securities and Exchange Commission. A little over a year ago we were engaged by two of these companies to make audit examinations for their SEC registration statements, and I was temporarily assigned from our Honolulu office to assist in these engagements. This "temporary" assignment has consumed about ten of the last fifteen months, affording me an opportunity to travel and observe the energy and artistry of the Japanese people.

The two companies were the Kansai Electric Power Company, Incorporated, which audit I supervised, and Mitsui & Co., Ltd., on which audit I did quite a bit of the review.

Mitsui, one of Japan's largest trading companies, has at present an annual sales volume in excess of the equivalent of two billion dollars. This is double the Company's volume of five years ago, and represents almost ten percent of Japan's total international trade. The importance of Mitsui's trading to the entire Japanese economy is underscored by the fact that less than 20 percent of the land is suitable for cultivation, and 60 percent of all industrial raw materials have to be imported.

The work of this complex company is carried on by eight thousand employees in Japan and 48 other countries, directed from headquarters in Tokyo. In addition to trading, shipping, and related financial services for the company's more than ten thousand customers, Mitsui maintains a staff of specialists who provide a technical development service that locates and utilizes new industrial techniques throughout the world.

The company is active in the world's commodity markets, trading on its own account in raw cotton and wool, sugar, and food grains in anticipation of customers' requirements. To be assured of sources of supply, it also owns timberlands and enters into long-term contracts with suppliers of iron ore, pig iron, coke and coal, non-ferrous ores, and certain chemicals.

Mitsui also brings together and acts as the agent for buyers and sellers in other countries. For example, it has arranged for the sale of Canadian wheat to the Philippines and United States soya beans to Taiwan and Germany. The company is engaged in joint ventures, such as financing and building a hydroelectric plant in Peru, supervising an irrigation project in India, organizing strip-coal mining in Australia, and erecting sugar refineries in Malaya.

By contrast, the operations of Kansai Electric Power Company, Incorporated, Japan's second largest electric utility, are entirely domestic, producing about twenty percent of the electricity used in Japan, the world's third largest producer of electricity—the U.S.A. and U.S.S.R. ranking first and second.

Kansai's territory covers the heart of industrial Japan, stretching from coast to coast across the waist of Honshu, the largest island, and serving the cities of Osaka, Kyoto, and Kobe. Over fourteen million people live in the area, about the size of Maryland. The territory also includes the ancient cultural centers of Japan and has some very beautiful countryside. I visited the temples and gardens at Kyoto and Nara, and for a period commuted daily past hillsides ablaze with cherry blossoms. My train passed fields of wheat, which I learned were to be transformed to rice paddies after the spring harvest.

Kansai was incorporated in 1951, at the time of the postwar reorganization of Japan's electric power industry, and now employs 23,000 people. The company's assets, including 13 steam and 136 hydroelectric plants, are in excess of the equivalent of one billion dollars in book value, and annual revenues are at about the $350 million level. Despite its size, Kansai, in common with all Japanese electric utility companies, has little excess capacity, and now seeks additional capital to expand its facilities. The large amounts of capital that are required have increased the company's dependence on external sources of funds. While 50 percent of its funds come from internal sources, 30 percent are obtained through bank loans and debt securities, and 20 percent are sought through sale of stock. In the next five years Kansai is planning to spend slightly over the equivalent of a billion dollars for new equipment and transmission lines.

The extent of Kansai's planned capital outlays gives a clue to the large aggregate demand for capital that constantly is faced by the entire Japanese economy. One of the steps that industry and the Japanese government have