

# Probe Finds Elaborate Cover-Up At 'Rotten' Olympus

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TOKYO (AP) — A panel probing an accounting scandal at Japan's Olympus Corp. said Tuesday an elaborate scheme to cover up \$1.5 billion of investment losses was orchestrated by a group of top executives who were "rotten to the core."

The panel also credited the company's ex-CEO, Michael Woodford, for bringing the deception at the camera and medical equipment maker to light. Woodford, a Briton, was fired in October after questioning the dubious transactions that have become one of Japan's biggest corporate fiascos.

Led by former Supreme Court judge Tatsuo Kainaka, the third-party panel found that as of 2003, Olympus had racked up 117.7 billion yen (\$1.5 billion) in investment losses dating back to the 1990s.

"The management was rotten to the core and contaminated what was around it, creating in the worst sense a group mentality of the typical salarymen," the report said in a reference to Japan's culture of corporate loyalty.

It said it found no involvement of "anti-social groups," a euphemism for Japanese criminal gangs, as some news reports have speculated. The panel said it traced the money and the various funds used to cover up investment losses, and no underworld groups were involved.

Olympus initially denied any wrongdoing, but later admitted it had used a \$687 million fee for financial advice when it bought British medical instruments maker Gyrus Group, as well as overpayments for acquisitions, to hide losses from past investments gone bad.

Olympus said it took the panel's report "very seriously," but also noted that no new off-book liabilities or gangster involvement had been found.

The company was considering measures to restore confidence, it said. President Shuichi Takayama is scheduled to address the panel's findings at a news conference Wednesday.

The panel identified at least six Olympus employees as part of the scheme, including President Tsuyoshi Kikukawa, Executive Vice President Hisashi Mori and auditor Hideo Yamada, all of whom have resigned.

It said other board members were familiar with the cover-up that started from about 2006 and lasted through last year, and recommended they resign too.

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It also said that, when scheme management expenses were added, the loss cover-up ballooned to 135 billion yen (\$1.7 billion).

It urged Olympus to beef up its corporate governance to prevent future problems, pointing to a small group of people who engineered the deception but were protected from scrutiny so that the dubious accounting could be kept secret for so long.

The panel pointed to one board meeting in which a part of the scheme was approved in just 15 minutes.

Woodford praised the panel for calling for a new board, as he had earlier, and said he wanted to work with shareholders and employees to revitalize Olympus.

"Today's report must be the beginning, and not the end, of our efforts to discover what has happened at Olympus," he said in a statement. "Elucidating the full extent of the wrongdoing cited in the panel's report will require a wide-ranging investigation."

The Tokyo Stock Exchange said it is looking at the panel's report for possible reasons to remove Olympus from the stock market. The company was already at risk of delisting after failing to report its earnings. It was given a new deadline of Dec. 14.

The panel stressed its findings, summarized in a 24-page document released at a press conference at a Tokyo hall Tuesday, were based on voluntary hearings and analysis of company computers, but that it was not authorized to pursue a criminal investigation.

Japanese financial and criminal authorities are investigating the Olympus scandal.

Kainaka, the former judge, said that some Olympus people may face criminal charges, while declining to give names. He said none had pocketed the money for personal gain.

Olympus risks being delisted from the Tokyo Stock Exchange if it doesn't rectify past filings with regulators by reporting revised earnings by Dec. 14.

The company's bookkeeping is now under investigation in Japan, the U.S. and Great Britain. Woodford has met with authorities in all three countries.

The scandal has cast a harsh light on Japanese corporate governance, which has been criticized as lagging global standards.

Last week, Economy Minister Yukio Edano defended Japan, saying its corporate governance standards were on par with the U.S. or even better. He didn't specify any cases, but there have been a string of accounting scandals at major U.S. companies, including Enron and AIG.

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Kainaka denied the Olympus scandal exemplified Japan Inc.

"This is not just a Japan problem. It could have happened anywhere in the world," he said.

But others say Japan needs more transparent, accountable and knowledgeable boards at companies.

Nicholas Benes, head of The Board Director Training Institute of Japan, a nonprofit group that specializes in corporate governance training, said the panel was a start but it lacks legal authority under Japanese law.

"I applaud, but obviously its work hasn't been finished," he said.

Tuesday's panel report raps the Olympus board as insular, calling for better outside members.

"Most board members were mere yes-men," it said.

Olympus stock, which at one point lost 80 percent of its value after Woodford's whistleblowing, has recovered over the last three weeks, and surged 9 percent Tuesday amid optimism the company may avoid delisting. The panel released its findings after trading ended in Tokyo.

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