

Abstracts

Empirical Tests of Historical Volatility and Implied Volatility Forecasting

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This paper presents an investigation into the forecasting accuracy of historical volatility (HV) and implied volatility (IV). According to the results of an analysis that utilized data from June 12, 1989 to March 31, 1998, HV is not thought to contain information that is meaningful for the purpose of volatility forecasting, while IV appears useful for making forecasts. An additional analysis was performed to ascertain how the accuracy of volatility forecasting changed after February 14, 1994, which was the date when the orientation of the revision of option market regulation was switched from tight regulation to deregulation. Results based solely on looking at coefficient determination indicated lower forecasting accuracy for both HV and IV during a time of deregulation than during a period of tight control. Empirical testing was therefore carried out to determine whether a shift in volatility term structure had occurred due to deregulation. The results show structural shifting occurring during times of deregulation and tighter control.

The Silent Revolution in Container Logistics: Traceability and Security

Hiroyuki Goda

In the eyes of consumers, the reinforcement of traceability in the world of container logistics has been promoted as logical from the standpoint of suppliers. The objective of this action has been to improve the efficiency of the distribution of goods, that is, to reduce costs. The further promotion of this kind of activity by companies is now visible in the form of the development of information technology expertise, chiefly in the area of electronic tags.

In recent years the reinforcement of traceability has been characterized by a consumer-driven movement to trace and track down goods. The occurrence of what is thought to be the extension of government support for this purpose is a noticeable phenomenon. One form of such support is the devising of institutional arrangements in order to protect consumers, that is, the enactment and enforcement of appropriate laws. In other words, the philosophy behind the promotion of cargo traceability has done an about-face. Traceability now encompasses cargo traces in connection with food safety, the management of toxic chemicals, and the elimination of high-risk goods from the supply chain on the basis of homeland security requirements.

In particular, a major aspect of moves to ensure and reinforce traceability from the standpoint of security is that these activities are being motivated by the policies of U.S. customs authorities. One can see a trend as various countries follow those policies in the context of the superior position of the United States in the area of container logistics. Moreover, the U.S.-spearheaded drive on the technology front for demonstration experiments is an issue that involves port operators around the world. In this regard there is concern about the practical advancement of the establishment of world standards for supply chain management. The collection of information on international commercial transactions for homeland security purposes is another issue. The fact is that governments and port operators (a group of large corporations that is comparable to a global oligopoly) tend to amass this kind of information. This is presumably a state of affairs that significantly alters the relationship between foreign governments and trading companies as well as current relations between ports and shipping companies.

Given that scenario, major changes in various respects are foreseen for business practices in the area of regular liner traffic. In that sense it is thought that a silent revolution is taking place.

The Road to Creation of Private Banks in Present-day China

Yoshio Kojima

The reason why there is such a strong demand for the creation of private banks in present-day China is because even though private businesses form one of the three main pillars supporting today's Chinese economy (i.e., publicly owned businesses, foreign-owned businesses, and private businesses), it is extremely difficult for private businesses to obtain investment funding from the existing state-owned banks not only for expanding their business operations but also for simply maintaining ordinary reproduction levels. It is for this reason that private businesses are forced to borrow money from unlicensed private-sector lenders (many of which provide loans at exorbitantly high interest rates) and many of these businesses find themselves confronted with the danger of possible business failure.

Many private companies are small and mid-sized grass-roots firms with strong ties to their local communities. While small-scale grass-roots lending organizations existed under the socialist regime in the form of credit cooperatives, ownership under that system consisted of group ownership and funding for local governments was incorporated into capital funding, thus making the amount of funding available for lending to private businesses extremely limited. This led in turn to the dishonest business practice of even private businesses registering as publicly owned ones so as to be able to obtain financing from credit cooperatives. As the market economy developed, it became necessary to normalize this anomalous state of affairs.

The most appropriate types of lending institutions for small and mid-sized grass-roots businesses are grass-roots private banks with strong ties to their own communities. Economists and financial research centers in the private sector began work in 2000 on the creation of concrete plans for establishing private banks, and some initial proposals were put forth in 2001. Although it was impossible at that stage to obtain approval from the People's Bank of China, in 2002 experiments began with the creation of incorporated rural commercial banks belonging to rural credit cooperatives which fully incorporated the use of private-sector financing. In 2003 a similar experiment was begun with corporate entities making heavy use of financing from the private sector. In 2003, through the cooperation of private research centers, noted economists, and many private businesses, a new proposed design for private banks was submitted to the central government. Now in 2004, we have probably reached the point at which it will be decided whether or not the creation of fully privately owned and operated banks can actually become a reality.

The Recent Behavior of Sogoshosha

Iwao Kubo

Amid the advancement of Japan's deflationary economy in recent years and the country's accompanying domestic slump, the business performance of *sogoshosha*, or general trading companies, has also been unavoidably sluggish. Some of these trading companies have even taken down their so-called *sogoshosha* signboards. However, Japan's fundamental position as a country that is built upon importing raw materials and exporting advanced manufactured products has remained intact, and *sogoshosha* have carried out trade and a host of related functions. It can be pointed out that Japan's industrial and employment structures have at the same time tilted toward tertiary industries. In conjunction with the country's shift to a so-called consumption economy, there has emerged a need for *sogoshosha* themselves to execute the transformation of their operations. Meanwhile, with the rise of China and other Asian countries, one can see a shift in the foreign investment endeavors of *sogoshosha* as they move away from their traditional focus on the United States. Given the above developments, the recent business structures of *sogoshosha* have also been undergoing a major change. This paper endeavors to make a survey of current conditions.

A Short History of Fukuroi Bank and its Management, 1881-1896

Kazunobu Okada

This paper examines the management of the Fukuroi Bank, which was founded in July 1881 in Fukuroi-juku in Yamana county, Totoumi (now the city of Fukuroi in Shizuoka prefecture). In May 1930, the 50-year history of the bank ended when it merged with the Morimachi Bank (based in the town of Morimachi in Shuuchi county, Shizuoka prefecture) and the Iida Bank (based in Iida, also in Shuuchi county, Shizuoka prefecture) to form the Chuwa Bank (based in Fukuroi, Iwata county, Shizuoka prefecture). During this time, the Fukuroi Bank served the commercial and agricultural production district centered around the present-day city of Fukuroi (originally known as Fukuroi-juku and later Fukuroi-machi, before being upgraded to city status after World War II). The history of the bank can be divided into three distinct phases: establishment, development, and stagnation. This paper covers the first phase, the establishment period, which lasted from 1881 to 1896.

The Fukuroi Bank was founded following the abolition of the system of authorization for establishing national banks, primarily by the same landowner ranks responsible for setting up the Shizuoka 35th National Bank, which was the middle of the financial system in Shizuoka prefecture. The Fukuroi Bank was thus in a position to attract investment from a wide variety of sources. Much was expected of the bank at a time when people were looking to the future and anticipating rapid industrial expansion. From the outset, the bank enjoyed strong demand for funds from shareholders and others.

However, this period also coincided with the Matsukata deflation policy and a time of considerable economic hardship among landowners and many other sectors of society. Some of the senior figures at the bank, and many of those to whom the bank provided finance, failed to adhere to proper economic management principles. The Fukuroi Bank was not spared from the generally difficult economic conditions, and was beset with problems from its early stages. The bank's management restructuring strategy involved eliminating nonperforming assets through capital reduction and casting off bad loans having land as collateral. The primary objective of the establishment period was to get the bank's assets in order and normalize its operations. It was not until the first decade of the 20th century that the bank was finally able to settle into normal operations.

Although the Fukuroi Bank was founded in the midst of exceptional circumstances, it provides a very valuable example of bank operations in Japan during early Meiji period of establishment. The aim of this paper is to gather together as many such valuable examples as possible in order to form an accurate picture of bank operations during initial start-up periods.

The Changing Cultural Context and Practicability of Current Auditing Standards in Japan

Kiyoshi Aoyagi

In general, history shows that the Japanese national character is rooted in the collective consciousness typical of an agricultural people and the emphasis on effective communication as a means of promoting harmony and maintaining the integrity of the collective as a whole. This aspect of the Japanese psyche is reflected in the commercial model established during the Edo period, which represents the origin of the modern Japanese corporate management style – namely, an emphasis on effective communication and human relations designed to maintain harmony. This model remained intact right through until the end of the war in 1945, when new production conditions arose. As a result, the mutual social relations of the collective were comprehensively broken down and reconstituted. The process of reconstituting these relations brought economic interests to the surface, and the nature of these interests gradually started to change. The national task of rebuilding after the war defeat meant that conflicts of economic interests underlying economic growth had to be put aside. It was in this context that auditing standards were drawn up in 1949.

In the early stages following the introduction of the auditing standards, the inherent tendency of the Japanese to strive for maintaining harmony meant that audits based on these standards were not seen as particularly relevant. However, this emphasis on harmony was steadily eroded by the combined forces of economic advancement, rising demand for financial capital for business expansion, and economic globalization. The inevitable result was a shift towards individual awareness and the transformation of the national psyche from an agricultural people to a hunting people. It was in the context of this major cultural shift that the auditing standards were revised in 2002.

This paper considers the extent to which the auditing system, imposed in the context of an overall abstraction of the traditional character of the Japanese people, is acceptable in the context of an increasingly diverse and complex national psyche – in other words, the extent to which the current auditing standards are capable of providing guidance over current practices in Japanese corporate society. It should be remembered that this paper examines only a very fragmentary aspect of the relationship between auditing and culture.