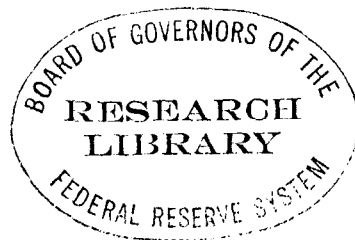


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Statement by

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Chairman

Board of Governors of the Federal Reserve System

before the

Subcommittee on Financial Institutions and Consumer Credit

of the

Committee on Banking and Financial Services

U. S. House of Representatives

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I appreciate the opportunity to discuss with you today the issues raised by the recent events relating to the U.S. operations of Daiwa Bank and to provide you with our preliminary conclusions on these issues. As you requested, my testimony will be presented in two parts. I will first address the events that culminated in the issuance of Consent Orders requiring Daiwa to terminate its banking operations in the United States. I will then summarize for you the present system of supervision of the U.S. offices of foreign banks and explain a number of initiatives the Federal Reserve has implemented in this area in the last two years.

I. Events relating to Daiwa Bank

I believe the basic facts surrounding this incident are fairly well known but I will briefly summarize the key events. A more detailed chronology is provided in an attachment. Of course, I would be pleased to answer, to the extent that I can, any questions that you might wish to ask regarding these events.

On September 18, 1995, Daiwa Bank met with a Federal Reserve representative and reported that Daiwa's New York branch had incurred losses of \$1.1 billion from trading activities undertaken by Toshihide Iguchi, a branch official, over a period of 11 years. These losses were not reflected in the books and records of the bank or in its financial statements, and their existence was concealed through liquidations of securities held in the bank's custody accounts and falsification of its custody records. Although Daiwa indicates its senior management learned

about these trading losses in July, they concealed the losses from U.S. banking regulators for almost two months thereafter. Moreover, they directed Mr. Iguchi to continue transactions during the two month period that avoided the disclosure of the losses.

We understand that some officials at the Japanese Ministry of Finance were informed in early August about Daiwa's losses. They did not instruct Daiwa to inform the U.S. authorities; nor did they themselves do so. This lapse on the part of the Ministry of Finance is regrettable because open communication and close cooperation among supervisory authorities are essential to the maintenance of the integrity of the international financial system. Finance Minister Takemura has acknowledged the Ministry's failure in this regard and has pledged that in the future the Ministry will promptly and appropriately contact U.S. authorities on such matters of U.S. interest. We have been assured that the Ministry is taking steps to implement this pledge. In addition, we have been pleased that once the Daiwa problem was disclosed, the Japanese authorities have fully cooperated with U.S. supervisors in dealing with the consequences.

On October 9, Daiwa also announced that its separate federally insured bank subsidiary in New York had incurred losses of approximately \$97 million as a result of trading activities, at least some of them unauthorized, between 1984 and 1987. These losses should have been reflected in the books and records and

financial statements of the subsidiary but were not. Instead, the losses were concealed from federal and state regulatory authorities through a device which transferred the losses to offshore affiliates, apparently with the knowledge of senior management.

On October 2, 1995, the New York Superintendent of Banks and the FDIC, together with the Federal Reserve, issued cease and desist orders against Daiwa requiring a virtual cessation of trading activities in the United States. On November 2, Daiwa was indicted on federal criminal charges. At the same time, the Federal Reserve, the FDIC, the New York Superintendent and a number of other state banking authorities jointly issued Consent Orders under which Daiwa must terminate its banking operations in the United States by February 1996.

This matter has troubling implications for supervision and regulation in a world of multinational banking and increasing interrelationships of financial systems. Not only were bank employees able to conceal massive losses over an extended period of time, but senior management of Daiwa also took steps to conceal the events in question from U.S. regulatory authorities. This is particularly disturbing given that it would obviously have been in the best interest of both the bank and its management to have dealt with the problems openly and in compliance with host country regulations and operational standards.

The action taken by the Federal Reserve and the other regulatory authorities in terminating the U.S. operations of Daiwa was quite stern, particularly given that no U.S. depositor or U.S. counterparty ultimately lost any money. We, however, were united in the belief that this supervisory response was necessary because actions such as Daiwa's carry the threat of significant damage to a major asset of our nation -- the integrity of our financial system.

Trust is a principle of central importance to all effective financial systems. Our system is strong and vibrant in large part because we demand that financial institutions participating in our markets operate with integrity and that any information made available to depositors and investors be accurate. When confidence in the integrity of a financial institution is shaken or its commitment to the honest conduct of business is in doubt, public trust erodes and the entire system is weakened.

The need to trust other participants is essential in a complex marketplace. For example, on the basis of trust, counterparties typically trade millions of dollars on an oral commitment that may not be formalized for hours. A breach of that trust by failure to honor such commitments -- presumably because markets turn adverse -- would inevitably lead to an institution being drummed out of the marketplace. There is no set of statutes that can ensure the effective functioning of a market if a critical mass of financial counterparties is deemed

untrustworthy. Any risk that counterparties will not honor their obligations will be reflected in a widening of bid-ask spreads, a reduction in liquidity and, as a consequence, a less efficient financial system. Consequently, actions such as I have recounted in the Daiwa case cannot be tolerated. The potential cost to our financial system and hence to our economy is too large.

What is true for the financial system in general is particularly true for the supervision of financial institutions. Indeed, the whole system of supervision proceeds upon the basis of trust, whether in terms of the veracity of representations or reports filed by management or transparency with regard to any material developments affecting the financial condition of the institution. Supervisors need to trust the ability of bank management to carry out their duties in a responsible and honest manner with adherence to systems and operational controls designed to ensure the safe and sound conduct of business.

This is not to say that supervision can be based solely on trust. Supervisors must test a bank and its management in its compliance with law and sound business practice. This is, after all, one reason for the conduct of on-site examinations. An appropriate balance, however, must be struck between a supervisor's reliance on the institution's systems and management to function properly and the need to verify that its systems are being appropriately implemented and that management is addressing any significant problems. Without reliance on trust, an army of permanent resident examiners would be necessary to assure that

the operations of a bank are conducted in a manner that is safe and sound and otherwise consistent with the requirements of law. Such an approach to supervision clearly would be counter-productive to the desired support of a vibrant, innovative banking system. For a supervisor to become a bank's internal auditor would either stifle the independence of management in the bank or create an unacceptably adversarial supervisory process.

In this context, we have sought to review the examinations in question in an effort to determine whether supervision of Daiwa should have proceeded on a different basis and how such problems, to the extent that it is feasible, might be avoided in the future. Accordingly, we have reviewed the steps taken to implement the authority vested in the Federal Reserve Board in December 1991 in the Foreign Bank Supervision Enhancement Act ("FBSEA") with regard to the examination and supervision of the operations of foreign banks in the United States. (A summary of these steps is set out in the second half of this testimony.) We have carefully reviewed the examination reports and other relevant documents that are presently available to seek to determine what, if anything, could or should have been done differently that might have brought to light the events in question at an earlier date.

A review of the Federal Reserve's three examinations of Daiwa's New York branch in the period between 1992 and 1994 indicates that the examiners identified and instructed management to address a number of internal control weaknesses at the branch.

Specifically, when the examiners learned that a single person, Mr. Iguchi, was responsible for both securities trading and custody operations and some related back office functions, branch management was told that his duties should be separated. The examiners explored whether Mr. Iguchi was able to use his position as overseer of the custody account to gain improper advantage in carrying out the bank's own trading activities. The examiners, however, did not focus on the possibility that this breakdown in internal controls had the potential for the misappropriation of customer and bank funds.

The Federal Reserve accepted statements by branch management that the basic internal control problems, which in retrospect helped Mr. Iguchi to carry out his illegal activities, had been corrected. Obviously, the examiners and their supervisors did not at the time believe that employees of Daiwa's New York branch would be engaged in criminal activities.

With the benefit of hindsight, there were some clues that were missed in the examination of Daiwa. With a more robust follow-up, the problem might have been found sooner. Our examinations were conducted after the passage of the FBSEA in the context of a rapid build-up of examination staff in 1992 and 1993 to meet our new responsibilities under that Act. It is possible that we had not yet developed adequate experience to implement our new responsibilities. The Federal Reserve was still in the process of developing improved examination procedures and assessment systems (including, as I discuss below, an improved



supervisory program, rating system and examination manual). This was being done, following enactment of the legislation, to assure that the U.S. banking operations of foreign banks are supervised with the same attention to safety and soundness issues as are domestic banks. Nonetheless, the bottom line is that we did not succeed in unearthing Daiwa's transgressions where we might have. Hopefully, this event will stiffen our resolve.

You have also asked us to discuss whether Daiwa was subject to comprehensive consolidated supervision in Japan as well as the arrangements between the U.S. and Japanese banking authorities for sharing supervisory information. I believe that it is fair to say that the system of supervision in Japan is detailed and extensive and requires substantial financial reporting. As with the U.S. supervisory system, however, false information provided by a bank or its officers to supervisors will inevitably hinder the effectiveness of supervision. In this case, there was clearly a breakdown of internal controls at Daiwa, especially in the internal audit function, that resulted in an incomplete picture of Daiwa's overall operations. Moreover, the regulators in Japan have announced certain measures that are intended to improve overall supervision of Japanese banks.

With respect to information sharing, the Basle Supervisors Committee, beginning in 1975 with the adoption of the Basle Concordat, established a series of agreements recognizing the need for cooperation and information sharing among

supervisors. When the Committee issued a supplement to the Concordat in 1990, the G-10 countries agreed that parent authorities should inform host authorities of supervisory measures which have a significant bearing on the operations of their banks' foreign establishments. The 1990 supplement stated that parent authorities should be ready to take host authorities into their confidence when a particular bank faces problems. Consistent with this standard, as I noted earlier, the Ministry has pledged to promptly inform U.S. authorities in the future of any material information on matters of U.S. interest.

## II. Regulation of foreign banks

I will now turn to the general issue of how branches and agencies of foreign banks are supervised in the United States.

The Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA"), passed by Congress in December 1991, increased the responsibilities of the Federal Reserve over the U.S. offices of foreign banks in the following key ways.

- First, a foreign bank may no longer establish a state or federally licensed branch or agency without prior approval from the Federal Reserve.
- Second, FBSEA sets out uniform standards for approval of such applications, which feature, among other things, the need for comprehensive, consolidated supervision by the home country authorities and the adequacy of financial and managerial resources.
- Third, the Federal Reserve may terminate the license of a state branch or agency, after appropriate notice to the licensing state, and may recommend to the OCC the

termination of the license of a federal branch or agency.

- Fourth, the Federal Reserve was given full examination authority over branches and agencies.
- Finally, each such office is required to be examined at least once during each twelve month period, with coordination as appropriate among the other relevant federal and state supervisory authorities.

Commencing in 1992, the Federal Reserve took a number of steps, which I describe further below, to implement its expanded authority in this area and improve the supervision of the U.S. offices of foreign banks. As indicated by these initiatives, the Federal Reserve recognized early in the process that increasing emphasis was required to be placed upon the assessment of the adequacy of risk management systems and internal controls of foreign banks. Many of the improvements focus in particular upon these areas.

In order to fulfil its expanded role under FBSEA over the U.S. offices of foreign banks, the Federal Reserve has significantly increased staff dedicated to examining and monitoring the activities of these offices. Federal Reserve examiners devoted primarily to the examination of U.S. offices of foreign banks now number 252, up from 106 in 1991. Total examination and other professional supervisory staff dedicated to supervision of these activities have increased from 119 in 1991 to 288 currently.

While internal controls have long been a focus of examinations, the growth in bank trading activities in the early 1990s also led to Federal Reserve initiatives to enhance our

examination of trading activities. A number of these examination procedures address the need to have a proper separation of duties between the front office and back office, as well as effective audit procedures.

In the aftermath of Barings and Daiwa, our supervisory sensitivities have been heightened to the potential magnitude of the risks associated with a combination of trading and back office functions. Barings confirmed the importance of the increasing emphasis the Federal Reserve's supervisory staff had been placing upon the review of foreign bank's internal controls and risk management systems. The circumstances of the Daiwa case reinforce the need to pay close attention to these areas during examinations and to take heed of potential red flags that might suggest the possibility of rogue employees or a breakdown of internal controls. Both cases demonstrate the need, once serious deficiencies in internal controls are identified, to ensure that relevant books and records are reconciled and verified in an expeditious and thorough manner. This is true in the domestic, as well as foreign, banking context. Careful attention to controls can reduce the potential for fraud such as occurred in the Daiwa case, although such potential can never be fully eliminated.

In the past two years, the Federal Reserve has implemented a number of initiatives that address these concerns. The Federal Reserve, together with the state banking departments and other federal regulators, has worked to coordinate better and

enhance further the supervision of the U.S. activities of foreign banks. To that end, we have developed a new supervisory program for the U.S. operations of foreign banks. One important aspect of this program is to ensure that the information available to the U.S. supervisors is utilized and disseminated in a logical, uniform and timely manner. The program was formally adopted earlier this year and the implementation phase is now under way.

The new supervisory program also emphasizes enhanced contacts between U.S. supervisors and the home country supervisors of foreign banks. This case and the effect that it has had on Daiwa's activities, both in the United States and abroad, illustrate that problems of a bank in one market ultimately will affect its operations globally, including in its home country. In the end, there will be a mutuality of interest between home and host country supervisors, which underscores the need for effective communication and increased cooperation. In this regard, although there were delays in the disclosure of Daiwa's problems to the United States authorities, once the matter was disclosed there was effective cooperation among U.S. and Japanese regulatory authorities in dealing with the consequences in an orderly manner that avoided losses to customers and systemic disruption.

I believe that, like ourselves, supervisors throughout the world recognize that more needs to be done to ensure better coordination and timely communication of material information. The Basle Committee on Banking Supervision has emphasized the

importance of such international cooperation through issuance of international standards for supervision of multinational banking organizations and is discussing ways to broaden further and strengthen lines of communication. We will support those efforts and will continue our own initiatives to improve communication with foreign supervisors under the new supervisory program.

The Federal Reserve also has committed extensive resources over the past few years to enhancing the supervisory tools available to examiners and financial analysts in order to improve further our supervision of the U.S. operations of foreign banks. In 1994, the federal and state banking supervisory agencies adopted a new uniform examination rating system for U.S. branches and agencies of foreign banks that places higher priority on the effectiveness of risk management processes and operational controls. The new rating system, commonly referred to as the ROCA system, focuses on: Risk management, Operational controls, Compliance with U.S. laws and regulations, and Asset quality. The first three of these components evaluate the major activities or processes of a branch or agency that may raise supervisory concerns. The ROCA system will direct examiners' attention to the combination of front and back-office duties, such as occurred in Daiwa, as a significant flaw in internal controls. We believe the ROCA system focuses more clearly on the important areas of a foreign bank's U.S. operations than would the previous AIM system.

Another new supervisory tool is the "Examination Manual for the U.S. Branches and Agencies of Foreign Banking Organizations." The Federal Reserve, in cooperation with state and other federal banking agencies, has developed the manual for conducting individual examinations of the U.S. branches and agencies of foreign banks. The manual serves as a primary, comprehensive reference source for examination guidelines and procedures and is beneficial to both new and experienced examiners. The manual also is being widely used as a reference tool by the foreign banking community in the United States in order to improve their own internal systems of controls.

In addition, in 1994, the Federal Reserve adopted a new "Trading Activities Manual." Although developed primarily for U.S. commercial banks, the trading activities manual also applies to the U.S. branches and agencies of foreign banks, many of which are actively engaged in transactions involving trading activities. This manual includes detailed examination procedures for evaluating controls in trading activities and emphasizes the importance of separation of duties in a trading operation such as Daiwa's.

The Federal Reserve also has taken steps to enhance training of examiners. For example, we have developed an Internal Controls School that was designed initially for examiners of branches and agencies of foreign banks and expanded to meet the needs of other examiners. We also are initiating a comprehensive capital markets examiner training program covering

risk assessment, trading exposure management, and advanced derivative products. This program addresses skill needs at a variety of levels and utilizes instructors from the financial sector to supply expertise to train our examiners in these specialized areas.

Even given the new supervisory program and tools as well as our heightened sensitivity to possible red flags, no system of supervision will uncover all fraud. As the Board stated in 1991 in support of the FBSEA, fraud is very hard for any regulatory authority to detect, especially when bank employees actively conspire to prevent official scrutiny. But if, after the fraud is discovered, swift and stern corrective action is taken by the supervisory authorities, financial institutions hopefully will recognize that deception pays no dividend. The FBSEA legislation was designed to minimize the potential for illegal activities by establishing uniform standards for entry by foreign banks, and if illegal activities are suspected, to provide as many regulatory and supervisory tools as possible to investigate and enforce compliance. The Daiwa matter illustrates that the 1991 legislation provided the appropriate remedial tools to address serious failures to comply with law and regulation.

I believe that there are valuable lessons to be learned by bankers and supervisors from this unfortunate case. The over \$1 billion loss suffered by Daiwa and the catastrophic losses suffered by Barings in Singapore because of a rogue trader



illustrate the enormity of the damage that can be incurred by global trading banks when internal control systems are less than adequate. These losses and the institutional injury incurred are far greater than the losses banks have encountered from their authorized proprietary risk-taking positions. The lesson forcefully taught by these cases is that management must pay as much attention to such seemingly mundane tasks as back office settlement and internal audit functions as to the more exotic high technology front-end trading systems. Banks that neglect making the requisite investments in these areas do so at their peril. While the adequacy of internal controls has long been a point of major emphasis of supervisors, these recent events reinforce the need for supervisors to pursue rigorously the expeditious correction of internal control deficiencies in financial institutions. Moreover, in an era of mergers and aggressive cost control, supervisors must clearly emphasize to bank officials that key control and processing areas in banks must remain fully staffed by competent and experienced personnel.

Looking more broadly at the supervisory system and its functions within the international banking system, I would like to conclude by discussing a few general points that are raised by this case. No supervisory system can, nor should endeavor to, stop all losses. Any system that attempted to be fail safe would impose intolerable costs on the public and the banking industry and almost certainly would stifle legitimate financial innovation. Moreover, in any supervisory regime, the ultimate

responsibility for the protection of a privately owned bank must rest with the top management of the bank and its directors. After all, it is in their long-term interest to operate the bank in a safe and sound manner and to obey the law. Supervisors must, to some extent, rely on this mutuality of interest in performing their tasks. While good examiners are not naive, and don't expect bankers to bare their souls, normally they must rely on a basic trust that they will not be deceived as they raise issues through successive layers of management. An assumption that most bankers are truthful should remain the rule not the exception. However, when a bank has shown through repeated actions that it cannot be trusted, even at the highest levels of the corporation, supervisors should resort to extraordinary regulatory measures.

In such circumstances, Congress has provided the supervisors with what I believe to be a full and appropriate range of powers, including cease and desist authority, civil money penalties and, in the case of foreign banks, the authority to terminate their U.S. operations. This episode demonstrates that the supervisors will use these powers when, through a pattern of unacceptable behavior, the basic bond of trust that needs to exist between banks and their regulators is irreparably broken. However, if our further review of the events in question suggests additional authority is needed, we will of course convey that view to this Committee.

We are considering a number of initiatives that may be implemented at an administrative level, especially with respect to internal and external audit standards. For example, we are presently reviewing our general policies in this area to determine the extent to which more specific guidance can be given to examiners for purposes of evaluating the adequacy of audit coverage. Consideration also will be given to requiring targeted external audits in banking institutions, whether foreign or domestic, where deficiencies in operations or concerns over the adequacy of internal audit have not been addressed.

Clearly, we also need to implement fully our enhanced supervisory program in an expeditious manner. In doing so, the Federal Reserve will be reviewing the Daiwa case, Barings, and other major international banking events to identify further specific improvements to the supervisory process as it applies to both foreign and U.S. banks, as well as our existing statutory authority. We will report to Congress on the conclusions of our review.

Attachment A

**Daiwa Chronology**

- November 1992           ○   Federal Reserve Bank of New York conducts first Federal Reserve examination of Daiwa's New York branch after the enactment of the Foreign Bank Supervision Enhancement Act.
  
- January 1993           ○   New York Reserve Bank issues Supervisory Letter to Daiwa addressing asset quality concerns, internal audit enhancements, and other matters.
  
- November 1993         ○   New York Reserve Bank and New York State Banking Department conduct joint examination of Daiwa.
  
- Daiwa branch management advises New York Reserve Bank examiners that it had purposefully deceived them about the location of the branch's securities trading operations in 1992. In this regard, New York branch management moved the securities traders during the 1992 examination from their downtown location to the midtown office in order to conceal the branch's trading operations at its downtown office. The Federal Reserve was told by Daiwa that this was done in order to prevent the Federal Reserve from alerting the Japanese Ministry of Finance (MOF) that trading was being conducted at the downtown office without the authorization of the MOF.
  
- Examiners learn of Mr. Iguchi's dual capacities as senior vice president in charge of custodial services and securities trading at the branch.
  
- New York Reserve Bank examiners request written explanation of the movement of traders, discuss Daiwa's obligation to inform the MOF about the relocation of traders, and identify potential conflict of interest associated with Mr. Iguchi's custody and securities trading duties. Senior official of the branch provides written confirmation to examiners that the supervision of securities trading

and custodial services have been separated at the branch and that the traders were relocated to comply with MOF's approval of trading only at Daiwa's midtown office.

- December 1993 to  
May 1994                    0     Federal Reserve staff consider an enforcement action against Daiwa because of the misrepresentation of information concerning the location of securities traders during the November 1992 examination. An action is not taken based on staff's then current understanding about the nature of the misconduct of the New York branch management.
- January 1994                    0     New York Reserve Bank confirms that Daiwa branch management alerted the MOF about the unauthorized downtown New York trading location.
- April 1994                    0     New York Reserve Bank and New York State Banking Department issue Action Letter against Daiwa, which supersedes the 1993 Supervisory Letter. The Action Letter addresses the misrepresentation about the location of traders, internal audit deficiencies, credit administration practices, and other matters.
- September 1994                    0     New York Reserve Bank and New York State Banking Department conduct joint examination of Daiwa. During the examination, New York branch management provide examiners with an organization chart showing the separation of Mr. Iguchi's duties, with Mr. Iguchi responsible for custodial services, and another senior officer responsible for the securities, investments, and trading functions of the branch. Based on a determination that its problems had been corrected, the regulators terminate the 1994 Action Letter and upgrade its rating.

July to  
September 1995

- o On or about July 17, Mr. Iguchi sends his confession letter to senior management of Daiwa in Japan.
- o Daiwa indicated that its senior management learned about the trading losses at the New York branch in July; transactions are undertaken during the two-month period that avoided the disclosure of the losses.
- o On July 31, Daiwa files its quarterly Call Report as of June 30, 1995 for the New York branch and parent foreign bank financial report with the Federal Reserve. The parent foreign bank's and branch's regulatory reports fail to reflect the misappropriation of securities from Daiwa's custodial accounts, which was undertaken to cover and conceal Mr. Iguchi's trading losses.
- o The MOF has reported that it was advised about Daiwa's losses on August 8 at a meeting with Daiwa senior officials.
- o On September 15, the U.S. counsel for Daiwa telephones the New York Reserve Bank asking to arrange a meeting to discuss a loss at the bank.
- o On September 18, Daiwa advises New York Reserve Bank about Mr. Iguchi's trading losses.
- o New York Reserve Bank alerts the U.S. Attorney for the Southern District of New York about the reported misconduct.
- o On September 21, Daiwa files a revised Call Report as of June 30, 1995 for the branch with the Federal Reserve that was also misleading.

October 1995

- Daiwa reports that its insured bank in New York, The Daiwa Bank Trust Company, suffered trading losses of about \$97 million between 1984 and 1987, some of which were unauthorized, and that transactions were undertaken through a Cayman Island subsidiary to conceal the trading losses from regulators and the public.
- New York Reserve Bank and New York State Banking Department begin coordinated on-site examination of the New York branch, and the Federal Deposit Insurance Corporation, along with the New York State Banking Department, begin examination of The Daiwa Bank Trust Company.
- On October 2, the Federal Reserve, in coordination with the New York State Banking Department and the FDIC, issue enforcement orders restricting, inter alia, Daiwa's trading operations and lines of business in the United States.
- Mr. Iguchi pleads guilty to various federal crimes. Charges include bank fraud and the purposeful concealment of information from examiners.

November 1995

- On November 2, the Federal Reserve and New York State Banking Department, along with state bank supervisors from five other states, issue a consent order terminating Daiwa's banking activities in the United States. The FDIC issues a consent order against The Daiwa Bank Trust Company terminating the bank's federal deposit insurance. The termination of Daiwa's U.S. operations is to be completed by February 2, 1996.
- On November 2, the U.S. Attorney for the Southern District of New York issues a 24 count indictment of Daiwa charging the bank with conspiracy to defraud the Federal Reserve, mail and wire fraud, obstructing bank examinations, falsification of bank records, and the concealment of felonies. A former general manager of Daiwa's New York

branch, Mr. Masahiro Tsuda, is also charged.

- o Daiwa pleads not guilty to federal criminal charges.
- o The MOF informs the Federal Reserve about the steps that it is taking to improve contacts with foreign supervisory authorities and to strengthen its inspections of the overseas offices of Japanese banks.