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## **FTI-INTERNATIONAL RISK**

# **JAPANESE ANTI-SOCIAL FORCES: CURRENT STATUS**

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## JAPANESE ANTI-SOCIAL FORCES: CURRENT STATUS

Recent months have seen the emergence of more sophisticated activities by Japanese organised crime syndicates, with large numbers of domestic and also some international companies targeted by Japan's yakuza groups. In response, Japanese regulators are strengthening their compliance requirements, especially regarding international financial institutions, encouraging companies operating in the country to take more proactive steps to mitigate the risks associated with anti-social forces (ASF), a broader term which includes organised crime and right wing groups and religious sects.

The Japan Securities Dealers Association (JSDA) has been particularly rigorous in its demands, placing increased responsibility on member firms to ensure that no past, present or potential clients have connections with ASF. The tougher regulations, effective as of 1 July 2010, oblige member firms to implement their own company rules in order to eliminate any relationships with ASF, reinforcing their commitment through internal structures, staff education and liaison with law enforcement authorities.

As financial institutions may face increased penalties for not employing effective methodologies to screen out potential ASF, it is essential to both understand the issues regarding organised crime activity in Japan and to adopt appropriate measures to expose any potential ASF concerns.

### **Growing Yakuza Power in Financial Markets**

According to the latest National Police Agency (NPA) report regarding organised crime, there are over 80,000 known affiliated organised crime members, just under half of whom are associated with the Yamaguchi-gumi. However, it has become harder to identify these individuals, with many crime syndicates having removed known signs and symbols from their activities, and concealing their business as social movements, political activists or Non-Profit Organisations for example. This has been particularly apparent in the real estate industry, where yakuza influence is often behind commonly recurring problems in this sector including in relation to loan-sharking, bid-rigging and infraction of environmental regulations, such as sale of contaminated land. There have been several recent examples of Japanese listed real estate firms being unable to obtain financing due to widely circulated reports of organised crime connections and subsequently filing for bankruptcy.

Operating through a network of around a thousand apparently legitimate front companies, the Japanese yakuza have also made significant inroads into the country's financial sector in recent years. Previously known for more traditional crime rackets

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such as drugs, prostitution and gambling, recent FTI-International Risk investigations suggest that organised crime groups have now turned to the more lucrative world of corporate finance, and now control vast business interests. These gangsters have become diversified investors in Japan's capital markets, with ASF groups holding major stakes in many companies whose management are not aware of the association. There have also been reported instances of traders, laid off by large financial houses, subsequently being hired to support the illicit trading floors operated by some yakuza groups. Given the presence of these skilled former financiers, organised crime groups have a greatly enhanced income stream, and it is becoming increasingly difficult to distinguish easily between legal and illegal funds flowing through the Japanese market.

The extent of organised crime activity in Japan has been exposed recently with substantial publicity over the close relations between yakuza and the sumo world, and the arrest of several senior Yamaguchi-gumi affiliate members for unlicensed money lending activities. Other recent events, such as changes in the hierarchy in the Inagawa-kai and ongoing confrontations in the Kyushu region, as well as the upcoming release from prison of the head of the Yamaguchi-gumi, are likely to encourage organised crime syndicates further to infiltrate the financial sector and increase potential for manipulation of the stock market. Not only is this white-collar crime activity supported by the yakuza's extended payroll, but the groups are also emboldened by recent weakening of internal controls at many financial institutions; this partly as a cost saving exercise, despite the growing threat from organised crime activities.

### **Mitigating Steps**

FTI-International Risk has extensive experience in assisting our corporate clients effectively to deal with organised crime related issues, and has a range of services which can assist companies in mitigating the growing potential risk to their business operations, especially in the financial sector, and respond to specific requirements set out in the recent JSDA regulations. Our services include:

- **Compliance.** FTI-International Risk assists clients to develop, review and test relevant internal compliance procedures, including codes of conduct/ethics and whistleblower programmes, to ensure controls are in line with international standards and regulations. In relation to the JSDA requirements regarding the introduction of ASF-related rules, we are able to conduct regular audits to ensure continued compliance. Deployment of a comprehensive screening programme for example enables our clients to obtain a suitable level of comfort regarding any ASF-links to support strategic decisions, or for deals to be structured in an appropriate matter to mitigate identified reputational issues.

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- *Intelligence.* FTI-International Risk has significant experience in identifying business risks that are not visible or immediately obvious from financial or legal reviews. We are able to conduct in-depth due diligence investigations into potential transactions or individuals to ensure no links with ASF or other potential reputational issues. Our investigations go beyond the low level and often fruitless results of mere online research and database checks; we undertake discreet inquiries with a wide range of knowledgeable sources to enable our clients to gain a deeper insight into possible risks.
- *Monitoring.* FTI-International Risk is assisting clients with the development and maintenance of comprehensive proprietary databases in English and Japanese, containing details of companies and individuals associated with organised crime and other anti-social forces. These databases are compiled using targets identified through investigative research, case experience and intelligence from knowledgeable sources, and are an example of an effective internal structure required by the JSDA to implement ASF-related rules. We update the databases through regular monitoring of relevant resources to ensure that all current and relevant details are captured, enabling financial institutions to check all existing and potential account holders or those they are transacting with in an efficient and proactive manner.
- *Training.* FTI-International Risk also provides associated compliance training which enables understanding of relevant regulations, the prompt recognition of suspect transactions/behaviour, and also appropriate levels of awareness of high risk factors relevant to our clients' business operations. This educational process, required under the JSDA regulations, ensures that both employees and senior management are aware of the existence, rationale and implications of the new ASF-related rules.

In our experience, regulators now look favourably on the engagement of specialist external risk consultants, such as FTI-International Risk, by corporations seeking to develop an effective, anticipatory, and holistic risk mitigation programme.

FTI-International Risk ([www.intl-risk.com](http://www.intl-risk.com)), formerly the regional investigative arm of a major global accounting and professional services firm and now a wholly-owned subsidiary of NYSE-listed FTI Consulting Inc ([www.fticonsulting.com](http://www.fticonsulting.com)), is the leading risk mitigation consulting and investigative organization in Asia. We have extensive experience in the delivery of timely, cost-effective risk solutions and extensive on-ground capabilities in Japan, and are well positioned to assist investors and financial institutions contain and manage these ASF and other risks as effectively as possible.

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