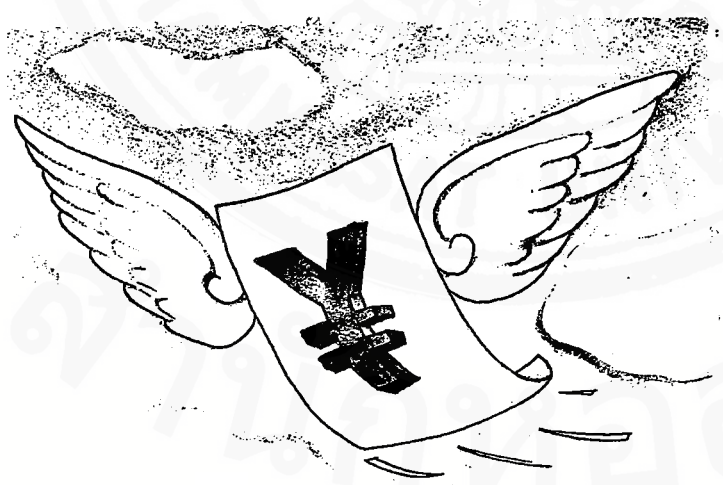
# International Banking & Finance at the Bank of Tokyo and some other Financial Institutions

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From April 1986 to September 1986, I had a good opportunity to observe the practices of, and to be trained at the Bank of Tokyo (hereafter referred to as BOT) and at some other financial institutions arranged by BOT. This chance was made possible through the scholarship provided by the "Association for Overseas Technical Scholarships (hereafter referred to as AOTS) which is, in turn, sponsored by the "Ministry of International Trade and Industry" (MITI), and partly through the funds provided by BOT.

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The purposes of this report are to review and summarize the knowledge received from observing and the experience gained in training at BOT and the other financial institutions. However, it is not an easy task because the training program arranged by BOT is fairly voluminous and includes several detailed aspects of activities in the field of International Banking and Finance. Moreover, there are occasionally a problem with the language, particularly when parts of the training program were carried out exclusively in Japanese. Despite such difficulties, however, I will in the following try to summarize as many aspects as possible of what I observed and of the training I received.

The report is divided into four sections. Section I provides some background, and outlines the purposes of the training. Section II outlines the general scope of the training program. Section III gives a more detailed description of the matters set forth in Section II, with special emphasis on the contents of the training. The final section presents a brief assessment of the training results.

## I. Background to and Purposes of the Training

Before I began my training at BOT and some other financial institutions, I had been a recipient of the "Japanese Government (MONBUSHO) Scholarship" from April 1984 to March 1986. During this time, I was sent to "Osaka University of Foreign Studies" to study the prerequisite Japanese Language Intensive Course for approximately six months, and from October 1984 onwards, to "Hitotsubashi University" to study and do research in the area of Financial Economics under the supervision of Prof. Juro Teranishi.

At the time I was a research student at "Hitotsubashi University", I thought that it probably might be as equally important and useful for me to gain practical experience, rather than simply academic experience, in the areas of "International Banking and Finance" by observing and/or being trained at one of Japan's commercial banks. To achieve this end, I thought BOT would provide the best training for at least two reasons: first, it is commonly known as the only "Specialized Foreign Exchange Bank" in Japan and has a very good reputation in the field of foreign exchange activities; second, it is the most active bank in almost every aspect of International Banking and Financing.

The above is a brief description of the background to my training.

With respect to the purposes of this training, the following four main objectives can be isolated:

(1) To gain experience of funds management in the Japanese exchange and money markets.

(2) To gain insight into recent developments of the Japanese exchange and money market.

(3) To learn how to put economic theory into practice.

(4) To improve our understanding of Japanese management stype in general and the Japanese banking managerial art in particular.

## II. General Scope of the Training Program

In my opinion, this training program could be classified into the following four main categories:[1]

(1) Observing and training at BOT's head office and at one of its "Operations Centres"[2]

(2) Observing and training at the Bank of Tokyo Research International Limited (hereafter referred to as TRI) which is one of BOT's

affiliated institutions.

(3) Observing and training at Niptan A.P. Limited which is the Japanese second largest foreign exchange broker company in Japan.

(4) Observing and visiting certain of Japan's industrial factories.

However, it is worth noting here that there is in fact an additional program which was conducted solely by AOTS. This program, of two-weeks duration, was called "A General Training Course" and was designed to provide a general understanding of various aspects of Japan's culture, society, and economy. Since a detailed description of this general training course falls out of the scope of this report (and, in fact, it has already been reported on elsewhere), it shall be omitted here.

Regarding the training program referred to in the first category, I was sent to be trained at various divisions of BOT's head office and at one of its "Operations Centres". There are altogether seven divisions, including one Operations Centre, and one department which I passed through. These are:

(1) Capital Market Division I

(2) Capital Market Division II

(3) Portfolio Investment and Trading Division

(4) Funds and Foreign Exchange Division

(5) Financial Services Department

(6) International Project Finance Division

(7) Tokyo Office Division

(8) International Division (one of the components of Operations Centres)

With respect to the second category, I occassionally attended the lectures and/or seminars organized by TRI. In general, the topics of these lectures and/or seminars in which I chose to participate centre for the most part on, or related to, the area of foreign exchange business activities.

As for the third category, I was at one point sent to be trained by BOT at Nittan A.P. Limited. This firm is a joint-venture company of an English financial institution, Astley & Pearce (which, inturn, belongs to the well-known world-wide EXCO group), and one of Japan's financial institutions, Nippon Discount & Call Money Limited.

As for the last category, I had an occassion to visit and observe two Japanese manufacturing firms. One is Fujitsu company which is Japan's leader in the area of computers, and the other is Isuzu company which is one of Japan's automaker companies.

Before going on, I would like to note the general methods employed in this training. Based on my own observation, the major feature of these methods was that the training was conducted in the order of an explanation on each training item, lectures, and discussion. However, so-called on-the-job training was rarely used.

## III. Some Further Detailed Descriptions of the Training Program

To gain a better understanding of the training program, some of the contents of the training will be described in greater detail. However, it should be noted that, for reasons mentioned at the very outset, it is difficult, in summary, to do justice to all aspects of the training program. As a result, I have been forced to be very selective, so that not all aspects of the training program are contained in this section.

At the very start, my training began with the **"Capital Market Division I and II"**. It was here that I observed and learned several things concerning the activities of the BOT group in the field of international financing. These included: (1) Syndicated Yen Loans (Samurai Loans); (2) Syndicated Foreign Currency Loans; (3) Euro Yen Loans; (4) Swap Financing; (5) Arrangement

of Bond Issues by Japanese Corporations; (6) Involvement as its Most Active Japanese Tapper in the Euro-bond Market, to name but a few.

From these, I have taken the liberty of choosing those three I consider the most interesting for a more detailed description: "Syndicated Yen Loans"; "Arrangements of Bond Issues by Japanese Corporations"; and "Swap Financing".

The first concerns the bank's activities in the area of "Syndicated Yen Loan". The training method relating to which was conducted in such a way that BOT's arrangement of syndicated Yen loans to the Korean Development Bank (hereafter KDB) formed the basis of discussion. As a result of this discussion, I have gained better understanding about the detailed process of funds raising through the syndicated Yen market, and how this process is carried out from the outset to the conclusion of a loan agreement. This process may be roughly summarized as follows. First, hearing that KDB is planning to raise funds, BOT contacts KDB, checks the market and discusses the subjects of a possible Yen-loan agreement. Second, BOT makes an offer to arrange a Yen-loan agreement for KDB and KDB studies every aspect contained in such an offer. Third, when BOT receives a mandate from KDB to be a lead manager, the mandated bank searches for the support of other Japanese banks by arranging an invitation for bidding. Forth, BOT as a lead manager may arrange a meeting among potential lenders and book the amounts each is prepared to offer. Fifth, BOT is authorized to bargain, on the behalf of borrower, with the other lenders. Sixth, if the process of syndication reaches completion, a loan agreement can be signed by the two parties concerned.

In relation to the "Syndicated Yen Loan Market", there are three points that emerged from discussion that deserve noting. One is concerned with BOT's position in this market. BOT has played a dominant role in the syndicated Yen loan market since its inception in 1971 in the sense that it often receives a mandate as lead manager from a concerned bank. As a result, it often earns from this sort of loan large fees, e.g. management fees as lead manager and underwriting fees as a underwriter and 2/3% (approximately 3/8% per annum respectively). A further point concerns the nature of interest rates charged in this type of loan. Since these loans carry long-term interest rates, principally based on "Japan's Long Term Prime Rates (JLTPM)", BOT is cautious in its approach to this market. At times when there appears to be a significant likelihood that JLTPM will decline, it sometimes concedes the market to the Industrial Bank of Japan or other financial institutions which have a longer-term funding base. The large point to emerge related to Thailand's participation in the said market. Since the debut of this market in 1971, the borrowers from Thailand, including a variety of institutions such as semi-government institutions, large private corporations, and the Government of Thailand etc., has occasionally made use of this market as an alternative source of finance. One very recent example was the loan agreement for ¥ 58 billions made on May 6 this year by the kingdom of Thailand with a combination of Japanese lenders in which BOT was the sole lead manager. (It may be noted that the following Thai institutions have been involved at one time or another in such syndicated Yen loan market operations: (1) National Housing Authority of Thailand; (2) Government Housing Bank of Thailand; (3) IFCT; (4) EGAT; (5) PTT; (6) TOT; (7) MWAK, NHA, PTT, ERTA; (8) the Kingdom of Thailand.

The second area I took of the greater interest deals with BOT's involvement in the "Issue of Bonds by Japanese Corporations in Overseas Markets." Before describing the general aspects of BOT's involvement in the issue of bonds by

Japanese corporations, it is worth noting that the participation of deposit banks, including BOT, in this activity was once prohibited by a rule modeled on America Glass Stegall Act of 1932 which has severely restricted involvement by banks in the securities business. However, as there has been a move toward internationalization of Japanese financial market, the traditional demarcations between financial institutions have recently become less and less clear. Although deposit banks in Japan are not allowed to engage domestically in underwriting activities, they have in recent years been free to do so in overseas markets. Generally speaking, the participations of BOT in the primary markets of international capital markets by way of acting as underwriters (arranging to sell newly-issued securities or buying them outright for sale to others) and as original issuers of securities (that is BOT itself is issuer of securities, the proceeds of which are used to expand the basis of its banking business), as well as its involvement in the secondary markets of international capital markets as buyer and seller of existing securities either for its own account or on behalf of its clients have recently increased dramatically.

Turning to the topic of "Issue of Bonds by Japanese Corporations in Overseas Markets", here I noticed that this is another area in which BOT has played an more important role compared with other Japanese banks in providing a variety of services to comply with its customers' needs. It can carry out this role so effectively because it has an extensive network of branches, subsidiaries, and affiliates in overseas markets, particularly those such as Bank of Tokyo International Limited (BOTI), BOT (Deutschland) AG, BOT (Switzerland) Ltd, and Bank of Tokyo Trust Company in New York, etc. These institutions serve as a source of the latest information concerning the conditions of the bond issue market, as well as being the main means through which BOT accomplishes such tasks as underwriting bonds issued by Japanese corporations.

As for the nature of information BOT received, I learned that the Capital Market Division 1 of BOT receives telexes such as those sent by BOTI concerning the newest Eurobond issues. The contents of these telexes, in general, detail: (1) BOTI's Status (in each of the new issues); (2) the Issuer; (3) the Issue Amount; (4) the Maturity of the Bond; (5) the Coupon Rate; (6) the Issue Price; (7) the Listing; (8) the Denominations; (9) the Total Commission; (10) the Payment; (11) the Lead Manger(s); (12) Other Conditions. The information contained in these telexes together with information received from other sources is analyzed carefully to gain greater understanding about the on-going situation and conditions of bond issues in foreign markets, and above all, to determined its strategy in dealing with such situations. For this reason, the quality of the up-dated situations analysis (i.e. terms of issue, timing of issue, etc.) it carries out for its customers is said to be among the highest of the Japanese banking industry.

In this area of bond issues, I also learned that the "Swiss Capital Market" remains attractive for the majority of Japanese corporations due mainly to the significant factor of its relatively low interest rate on funds raising when compared with that in the U.S. and other markets. In this connection, the BOT (Switzerland) is always an active participant and is almost always chosen (due partly to its good connection with the government) as co-lead manager by government or semi-government entities such as Japanese Development Bank, the Ex-Im Bank of Japan, the Small Business Finance Corporation of Japan, and so forth.

Furthermore, the discussion about the above-mentioned topic enabled me to gain a better understanding, for instance, about: (1) the con-

cept and calculation methods of IRR as well as how to apply it; and (2) the differences between straight bonds, warrant bonds, and convertible bonds.

As noted earlier, the last aspect of my training at the Capital Market Division I and II involved "swap financing". I was at that time able to learn at first hand about the key roles of the BOT as an intermediary bank in the process of swap financing transactions. These roles include, for example, the arrangement of the transaction and the guaranteeing of the performance of all the parties (In return, BOT secures, for instance, an arrangement fee(s) and a performance guarantee fee(s), while also accepting all performance risks e.g. risks concerning credit exposure etc.). There are at present three types of swap (financing) transactions offerred by BOT. These are: (1) "Interest Rate Swap" (consisting of the exchange between a fixed interest obligation/asset and a floating interest obligation/asset in the same currency); (2) "Currency Swap" (which consits of the exchange between a fixed interest obligation/asset in one currency and a fixed interest obligation/asset in another currency); (3) "Cross Currency interest Swap", a combination of the interest rate swap and currency swap.

It should be noted that BOT is in a better position, in my opinion, than its competitors, to offer these new financial services to its customers. This may be attributed to the uses it makes of wealth of expertice in the field of international financing, to the existence of an experienced staff (in fact, BOT has established a special swap team in its head quarter), and to its enormous investment in efficient computers, sophisticated financial software, and advanced communications technologies. Needless to say, computers are indispensible for the sale of financial instruments which requires complex computations of, for example, interest rate, and so on.

Two further points of such swap financing transactions are worthy of note. The first deals with the borrowing strategy involved in this sort of transaction. Swap financing has revolutionalized the concepts of traditional financing. Specifically, most companies traditionally only borrow in currencies that they have either a clear need for, cash flow in, or operate in. Swap financing, on the other hand, has introduced the idea that a borrower can raise funds in the market in which he has the best comparative advantage in regardless of cash flow, international presence, or specific currency need.

As for the second point, it deals with debt management. Once again traditionally most corporations view their debt structures as being relatively fixed. However, swap financing, usually involves off - balance sheet transaction, is based upon an entirely different premise to traditional modes of action; namely depending upon a corporate treasurer's outlook on currencies and interest rates, any debt obligation over its life, might be swapped in and out of, and perhaps even several times.

During the second period of training, I was transferred to the **"Funds and Foreign Exchange Division"**. The elements of the training at this division can be roughly divided into the following 6 areas :

(1) the Methods of Exchange (rate) Quotations (opening rate)
(2) Derivation of Forward Rate
(3) the General Features and Operations of Tokyo's Foreign Exchange Market
(4) Management of Funds by Dealers
(5) Actual Operations in the Dealing Room
(6) Practices Relating to the Foreign Exchange Currency Option

Of these, perhaps a slightly more detailed explanation of the first area may be of interest. Normally, the methods concerned with determining the exchange quotation involved the

following three elements : (1) the spot rates quotation of various currencies ; (2) the kinds of rat (TTB, TTS, at sight buying rate, acceptance rate, usance bill buying rate); and (3) the forward rates quotation of major currencies. All of these rates is used in the bank's transactions with its customers. In practise, the structure of the exchange (rate) quotation varies from bank to bank (except the spot exchange rate between the U.S.$ and ¥ ), due to the different factors (i.e. closing rate in New York or London or the average of the combination of both markets) used as a basis in its calculation by each. However, rate between U.S.$ and ¥ is fixed before each market opening and as such it is same for every bank.

According to market practise, the spot exchange rate between U.S.$ and ¥ is basically determined by a joint action involving the seven largest Japanese banks.[3] More precisely, its determination is carried out under a rotation basis. This rate, a middle rate, is often called an "official rate", and is announced at 10:00 a.m. of every business day. Furthermore, the spot rate quotations of the Yen against U.S.$ of every bank in TTS, TTB, and in the "at sight buying rate", and "acceptance rate" are, in practise, exactly the same. As regards exchange rate quotations in a third currency (other than U.S.$ and Yen), there are also determined by the market, but the rates quoted in every currency (e.g. ¥ and DM) by each bank may be slightly different from each other.

In this connection, I also noticed the substantial differences between my country and Japan. In Thailand, although a more relatively flexible exchange rate system has been adopted and implemented by the Bank of Thailand since November 1986, the exchange rate of Thai Baht against the U.S.$ and some other currencies have, for some reasons, not been determined by market force, but by the manipulation of the Bank of Thailand through Exchange Equalization Funds (EEF) which is responsible for the buying and selling of foreign exchange from its portfolio to maintain stability of the Baht value. In practice, EEF announces daily the buying and selling rates for the U.S. dollar, the intervention currency, for transactions between itself and commercial banks. It also announces daily minimum buying and maximum selling rates that commercial banks must observe when dealing with the public in pounds sterling, Japanese yen, Deutsche mark, Hong Kong dollars, Malaysian ringgit, and Singapore dollars.

It is worth noting explicitely that, in practice, the exchange rate quotation explained so far is the rate applicable to the transactions between banks and their customers. This is, in certain cases, but not often, changed. However, such is not the case for exchange rate quotations in the interbank market. In the latter market, exchange rate quotations are constantly varied basically in response to the prevailing demand and supply conditions.

During the last week in May, my training took me to the **"Financial Service Department"** which is a part of the "Business Planning Division" and which is relatively new department (just set up during the past 4 - 5 years). I stayed here nearly one week.

In this department, a series of lectures and discussions was conducted concerning BOT's business activities in the areas of, for instance, (1) Mergers, Acquisitions, and Joint - Ventures (hereafter referred to as MAJ) ; (2) International Leasing ; (3) Corporate Financing and Management Strategies. Of these, I would like to confine description to a brief survey of the following two areas : "MAJ" and International Financing.

As for the first area, I learned, at least in part, about a variety of services that BOT offers to its customers to help ease the process of "MAJ"

between Japanese and foreign companies, either in Japan or overseas. However, I think I should refrain from writing about these services in detail because I must admit that the contents of the training at this department were not easy for me to understand. To give just one example, I am by no means certain about the basic concepts used and criteria employed by BOT in identifying, arranging, and faciliting "MAJ" between foreign and Japan companies. Therefore, I shall address the general makeup of these services instead.

Some of the services that I observed in this area include :

(1) goal establishment and strategy structuring for "MAJ"
(2) target company identification and selection
(3) company evaluation, valuation, and analysis
(4) documentation of financial and legal relating to the execution of the transaction
(5) analysis of negotiation strategy
(6) advising and arranging financing

Due to the constraints of time and space, a full description of the forces behind and incentives for "MAJ" is unfortunately not possible here, but nevertheless two forces which could probably be seen as being accounted for the recent boom expanded by Japanese corporations in the U.S. in the area of "MAJ" deserve to be noted. The first concerns the recent rise in the strong of the Yen relative to U.S.$. This has helped lower the cost of "MAJ" transactions with the U.S. a substantial amount. The second force behind this boom may be traced to the huge trade surplus of Japan with the U.S. which has thus provided Japanese corporations with an increase in their surplus of funds, and consequently increased their ability to, and willingness to engage in, such transactions.

As for "MAJ" in the Japanese market, as opposed to those in the U.S., these have become easier for some reasons, but principally on account of the growing liberalization of the Tokyo market which has paved the way for foreign firms, especially U.S. companies, to increasingly enter Japan's market, and vice versa.

While training at the "Financial Service Department", I noticed that BOT is in a relatively advantageous position to provide services in the area of "MAJ". This could be attributed to its vast information resources, that arise from its worldwide network, and its versatile staff who have gained a high level of sophistication in international finance (for instance, I observed that the majority of the staff members here are better educated, and have earned an MBA at a prestigious foreign university under BOT's scholarship).

Now let me move on to the second area : international leasing. In discussions on this topic, I learned that BOT has got involved, either directly or indirectly, in leasing activities as well. Like any other city bank, BOT views leasing as another source for expanding its loan volume. By contrast, a company may view leasing as an alternative means of financing with a relative low cost. In Japan, although banks are under the jurisdiction of the MOF and are not allowed to engage directly in near - banking activities such as leasing, they can however circumvent this regulation by setting up their affiliates to pursue leasing opportunities. BOT Lease Limited is one example of this. A note - worthy feature of the activities of this company is its emphasis on the international leasing of vessels, aircraft, and its activities in other large - scale capital investment.

As for the types of leasing (financing) provided by Japanese companies, three principal kinds can be isolated: (1) fullpayout finance leases ; (2) instalment sale type leases ; and (3) operating leases. The first is a lease through which the lessee can acquire use of an asset for

most of its useful life (tax life), and is the most common type of lease used in Japan. The second is a lease that transfers all incidents of ownership of the leased property (i.e. airplanes, factories, and real estate) to the lessee at the end of the lease term. The final type lease mentioned is usually a short - term lease whereby a user can acquire the use of an asset (s) (i.e. data processing equipment and ships) for a fraction of the useful life (tax life) of the asset (s).

Turning to the involvement of BOT in the leasing activities, I have already noted that BOT cannot engage directly in leasing activities, but its affiliate (BOT Lease Limited) can. As stated above, BOT Lease Limited was set up to pursue leasing activities centering on the internal leasing market. Such an emphasis naturally requires substantial knowledge of an experience in the international market, quality BOT possesses. As a result, BOT is in a position to provide not only all the support and information necessary for such transactions (such as an assessment of a country risk or reliable information on the ability of a lessee to meet his obligation) but also to introduce overseas customers to the BOT Lease Limited. (It goes without saying that the BOT will receive fees and other benefits in return for such services. This reflects that financial intermediation was no longer the principal source of income, and hence profits, for several deposit - taking banks like BOT ; foreign exchange and some other activities which produce the so - called fee - based income, such as those in the areas of swap financing and international project financing etc., have become more and more preponderant).

Another division at which I spend a relatively large proportion of may training time, approximately two weeks from the second to the third week of July, was the **"International Project Financing Division"**. Concerning the structure of the training here, I found it well organized and prepared in terms of both the arrangement of the training and the methods used. I had an opportunity to be trained, on a rotation basis, at almost every group (or section) of this division. Although an emphasis was placed on training at Group No. 1 (Asia & Oceania),[4] where I spent almost one week of the two weeks I passed in this section, the training also included time at Group No. 2 (China, USSR, Hong Kong, and Korea), Group No. 3 (Americas, Europe, Middle East, and Africa), Group No. 4 (Infrastructure & Real Estate), and at the "Planning & Project Financing Administration Section".

The training here also involved a series of lectures and discussions on various aspects of international project financing as well as lecture on some selected case studies.

As for the principal terms of reference of these lectures and discussions, they could be roughly classfied under the following three headings: (1) the differences between corporate and project financing ; (2) the driving forces for the recently increasingly popularity of international project finance ; and (3) procedures in international project financing.

With regard to the first heading, I have learned that there are at least three factors which produce the differences between corporate and project financing. Firstly, the analysis of a project - loan proposal is quite different from the analysis of other term - loan proposals since it involves a credit decision based on either or both the review of a projection (or forecast) of the revenue stream generated by the project rather than of the capitalization, reliability, and historical earnings of the company concerned and on the contractual obligations of the third parties. Secondly, much more information is required in the case of project financing than in that of corporate financing. Finally, project financing is more expensive than traditional borrowing (corporate financing). For example, the interest

rate charged in the former case may be LTPM + 0.5%

Regarding the driving forces for the recently growing popularity of international project financing, the benefits derived from "off-balance sheet transaction" are considered to be one of the compelling reasons for the growing reliance on this type of financing since the sponsor can still remain goodwill within the rating system.

With respect to the procedures in international project financing, the principal procedures involved in this sort of financing may be summarized as follows : (1) the identification and evaluation of risks ; (2) the minimization of risks ; (3) the looking into careful account of the concession agreement and local law ; (4) the completion of guarantees ; (5) the establishment of a security package ; and (6) the preparation of an information memorandum.

It may be noted that BOT is one of the handful Japanese banks which has sufficient capabilities to handle the activities of international project financing. Its formidable competitor in this area is the Industrial Bank of Japan.

The last division of BOT's head office to which I was sent to be trained was **"Head Office (Tokyo Office) Division"**. In this division, I had an opportunity to study and observe, at least in part, the operations of various departments, including the Recording Department, the Exchange Contract Dep., the Foreign Remittance Dep., the Ex - Im Dep., and the Foreign Currency Deposit Department.

Without going into the details of the training at this division, I would like to mention that, although several interesting points emerged from observations, one overriding impression of this division remains. This concerns the extensive use of computers in the division's day-to-day operation. The system governing the selection of the paying bank, and the issuance of the remittance instrument at the "Foreign Remittance Department" provides good examples. I noticed that at BOT there is a list showing the names of all banks and their branches with which it maintains correspondence and dealings and the currencies in which transactions can be made with each of them. Each bank or branch mentioned therein is assigned a code number, and when the code number and the currencies used are entered at an EDP terminal, the relevant settlement method is automatically selected and displayed.

Then, the feedback data (or information) is checked. If it is found to be correct, then one of the following three things may happen :-

(1) A cable transfer message is automatically wired, bearing the correct test cypher computed by the EDP system.

(2) A mail transfer order is printed out by the computer, which is then to be inscribed with authorized signature.

(3) Both demand draft and drawing advice are automatically printed out by the terminal (After an authorized signature is inscribed, the former is handed to the applicant, and the latter mailed to the paying bank).

In this connection, however, it should be noted that although the cost involved in the uses of computer and telecommunication systems (like those used by BOT) is considerably high, there is no doubt that these systems have helped and will help enhance the efficiency of all forms of business transactions, particularly those in the areas of foreign transfers and payments management information, and control and follow - up systems.

After the long period of training and observing at the various divisions of the BOT's head office, I was in August transfered to one of BOT's operations centres, the **"International Division,"** for approximate three weeks. This centre is located some distance from the previous places of training.

As its name implies, the main activities of this division are concentrated on an operational level, in particular that relating to the BOT's activities in international trade financing.

During may time with this division, I was trained under various departments. These include : (1) the Export Letter of Credit Dep. ; (2) the Export Bills Dep. ; (3) the Import Bill Dep. ; (4) the Foreign Remittance Dep. ; (5) the Correspondent Bank Account Dep.

I feel that I have spent a great deal of time and used a lot of space to describe some of the detailed nature of my training under the first category, at BOT's head office. Now let me move quickly to discuss the nature of the training program under the second category. As stated earlier, the training program under this category exclusively involves my participation in the lectures and/or seminars organized by Tokyo Research International Limited (TRI).

Before going on, a brief description about the nature of TRI and some of its activities may be of some interest. TRI is a fully - owned affiliate of BOT, established in 1979. Its main activities are to arrange lectures and seminars as well as to conduct research on the subjects presented, in particular those relating to international banking and financing.

Normally there are on average approximately five lectures and/or seminars a month. As for their duration, it may range from one to four days. Needless to say, the number and type of participants vary with the kinds of lectures and/or seminar held. The participants in these courses were usually official from various financial institutions, ranging from regional banks, mutual banks, securities companies, broker companies, trading companies, to large corporations, and so on; and the topics of the lectures and/or seminars included the diverse aspects of international banking and financing such as foreign exchange, foreign trade, international finance, overseas investment, and so forth.

In this connection, I was given an opportunity to participate in some of the lectures and/or seminars which I considered to be interesting. The following are some of those lectures and/or seminars which I attended :

(1) Overseas Correspondent Operations
(2) Fundamentals for Foreign Exchange Operations
(3) Foreign Exchange and Funding Operations
(4) Funding Operation in International Business
(5) System for Management of Funds and Foreign Exchange
(6) Swap Financing

Through my participation in these courses, I have gained a clearer understanding of the contents of international financing and banking. Nevertheless, I sometimes found it very difficult to follow the course of the lectures and/or seminars because of the fact that Japanese was at times the only language used.

As for the third category of the training program, I was given an opportunity for about four days to observe the actual operation of international broking at **Nittan A.P. Limited** which is a joint - venture company between Japanese and English firms and is ranked second among the foreign exchange brokers in Japan.

Through this opportunity to observe brokers and dealers in an actual working environment at Nittan A.P. Limited, I have gained a clearer understanding of the concepts of their work. In this respect, I noticed that the activities carried out by the dealers of commercial banks are quite different from those of brokers. For one thing, brokers are not allowed to take positions in the foreign exchange, dollar call, and international currency markets. Their income is generated solely from broking (fee based). By contrast, dealers can carry out such activities,

while their income are derived from various sources. On top of this, the brokers' role in any transaction is simply as an intermediary between two interested parties, whereas the dealer can carry out his own transactions and can involve himself directly in the foreign exchange market. Finally, foreign exchange trading transactions through brokers generally tend to take a shorter time than through dealers (so-called direct dealing). For this reason, small and medium volumes of transactions are handled by the former, whereas the latter deals with medium and large volumes.

In addition, during my time at the broking room of the said company, I learned that its organizational structure can be said to be roughly composed of the following three main group : (1) The Spot - Transaction Group (dealing with the ¥, £, DM, and SF) ; (2) the Forward - Transaction Group (which also handles the said currencies) ; and (3) the International Currencies Deposit or Lending Group (mainly dealing with the U.S.$). Of these, I was told that the "Spot - Yen Transaction Group" is the biggest in terms of the number of staff and the volume of transactions. However, its volume of transactions may be one thing, but the profits they generate are another. Specifically speaking, there are high risks involved for the company in performing broking activities in this kind of transaction. In many cases, this sort of transaction may incur a loss to the brokering company unless it is handled with all due caution. This is because the broker is not a principal (like a bank), but is supplying firm dealing prices, if the broker is unable to execute an order at the price quoted, the broker is liable for the difference between the price quoted and the price executed (cut price).

Apart from this, I also learn more about how international broking is carried out in Japan. For example, I discovered that this process may start with foreign exchange banks (domestic authorized foreign exchange banks and overseas foreign exchange banks) entering the foreign exchange and dollar call markets in order to control and adjust their foreign exchange and funding positions, and then giving orders to Japanese brokers via a direct telephone line which outlines: (1) dealing currencies and dealing types, and (2) methods of dealing. Then, the brokers concerned will start searching for the counterparty. In recent years, the process of seeking for the counterparty by Japanese brokers has been enlarged rapidly to include transactions with brokers in foreign financial centres such as Hongkong, Singapore, Sydney, Wellington, Bahrain, and so on, centres which operate at nearly the same time as the Tokyo foreign exchange market. Additionally, from Tokyo broker companies deal with the London and European markets, and sometimes with the New York morning market at times when important U.S. statistic are released (viz. GNP, CPI, etc.)

## IV. Assessments and Conclusions

It is time for me to pull together all the results of my training, (described in previous sections), and then to make some judgements based on them. This will be done under the two main headings:

(1) The Structure and Schedule of the Training Program

(2) The Contents of Training at Each Division (or Place)

With respect to the first heading, I found that the "Structure and Schedule of the Training Program" arranged by BOT, particularly by those officers at the Overseas Division, was well organized. Although the schedule did not explicitely specify what sort of topics I would be trained in or would observe each day during the training period, it did indicate clearly where I would be trained and when that

would begin and end. I think that was fairly useful in helping me prepare for each section of training. As a matter of fact, a more detailed specification of the structure and schedule of the training program, was, in most cases, presented to me on the first day I visited each place of training. However, I would like to add that it might have been more useful if BOT's training program had formally included the training at the "Portfolio Investment and Trading Division" and the "Overseas Corporate Finance Division" (Indeed, I had a chance to go to each of these divisions only one day each, but I believe it is fair to say that it was on an informal basis). In addition, it seems to me that training schedule at some divisions was not well balanced (for instance, the training period at the "Funds and Foreign Exchange Division" was relatively too short to appreciate its functions completely, while that at the "International Division" was relatively too long).

Apart from this, I found that the "Structure and Schedule of the Training Program" was broad and flexible enough to allow me to be trained at or observe various institutions (BOT, TRI, and Nittan A.P.), and to change the place of training from one area to another and back again, for example from Capital Market Division I & II to TRI, and vice versa.

Let me now move to the second heading I mentioned. It would be fair to say that the contents of the training program, arranged individually by each division or place of training, touched upon many aspects and issues of international banking and financing. In many cases, it included concepts with which I was not really familiar in their wide span, such as "Swap Financing", "Mergers & Aquicision", "Non-Recourse and Full-Recourse of Project Financing" to name but a few. In addition, I found that the training about "Techniques of Swap Financing" at the Capital Market Division, about "M & A" at the Financial Service Department, about "Techniques of International Project Financing", and about "International Broking" at Nittan A.P. was particularly interesting in the sense that they were all totally new subjects for me. To the best of my knowledge, if we leave aside activities in international broking which are separately performed by a broker firm, no Thai bank is in a position to pursue any of these sorts of activities. However, these should not be viewed as activities which will never be performed in the Thai financial system.

There is evidence to indicate that some of Thai's commercial banks are actively seeking ways and means to introduce new financial services and/or instruments, although they are not introducting the so - called financial innovations, and to expand their operations in the world market to meet their customers' demands which have in recent years become increasingly more and more pronounced and diversed. In addition, there are even sign indications that the new electronic technology (i.e. computers and telecommunications) have been recently and will be increasingly adopted to the Thai commercial banking industry. Above - all, there has been a growing tendency for younger professional managers and well - trained officers with modern outlooks and skills, especially in the field of international banking and financing, to be more and more employed by the public. This tendency is likely to increase its momentum in the near future as there is a growing trend toward world - wide financial deregulation and innovation.

In this respect, the training I have received and the observation I have been able to make during this six - month period are very important. I will take these lessons back home where hope - fully they will be of the greater use in the future.

Despite all these benefits, however, because of the short - term nature of the training together

with the wide - ranging nature of the training topics at each division or place, I must admit that I found it difficult to gain a deepen understanding of, and to accumulate substantial knowledge of each and every topic of training. Time is needed to put them into shape. Yet despite this difficulty, I think, even at the risk of exagerating their importance, that the contents of the training was broad enough to enable almost all the objectives specified earlier to be fulfilled.

This training would not have been possible had it not been for the assistance given me by a number of institutions and persons to whom I would like to acknowledge my debt of gratitude. The AOTS provided me with a six - month scholarship, and, at the same time, BOT not only supplemented the scholarship, but also helped in part with the general cost of training, so that, thanks to both, I was able to complete my training there. I would also like to express here my sincere thanks to the two institutions mentioned above and to Dr. Juro Teranishi, Prof. of Economics at Hitotsubashi University, for his continued support.

My special thanks must go to BOT for arranging the training program, and to its staff members for the warm hospitality and constant help that they gave me during the time I stayed and trained with them. In particular, I would like to thank Mr. Kazuo Itoh and Mr. Seiichi Hara, Senior Managing Officers at the Overseas Division, for the wonderful way they took care of my training.

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Though mention cannot be made of the names of all other organizations and people whose contributions to my training, I nevertheless greatly appreciate their efforts on my behalf. However, I alone bear the entire responsibility for any error in my interpretation and understanding of all that was so kindly explained to me during the course of my training.

All in all, I think that this training was a rare and very broadening experience, and, I am sure, it will bear great fruit in the future.

## NOTES

1 It should be noted that a detailed discussion of each aspect of the training program is not provided in this section as this will be carried out in the next section.

2 At present, BOT's Operations Centres number four: (1) an International Division Centre; (2) Domestic Division Centre: (3) EDP Division Centre, and (4) Telecommunications Division Centre.

3 These include : (1) Daiichi Kangyo Bank; (2) Fuji Bank; (3) Sumitomo Bank; (4) Mitsui Bank; (5) Mitsubishi Bank; (6) Sanwa Bank; and (7) BOT.

4 All the words contained in parentheses refer to the areas under the responsibility of each group.