

BUSINESS INSIGHT AUTUMN 2004

Business Insight

### **President Makes a Decision to Throw Away, and Commits Himself into the Decision**

– President of Matsui Securities who Provide a Place of Stock Trading to Individual Investors -

**Matsui Securities Co., Ltd. President and CEO**

**Mr. Michio Matsui**



Michio Matsui

1953: Born in Nagano Prefecture

1976: Received his B.A. in Economics from Hitotsubashi University and joined Nippon Yusen Kabushiki Kaisha (NYK LINE)

1987: Joined Matsui Securities, which was run by his father-in-law

1995: Appointed to President and CEO

[Main Awards]

2002: The 5<sup>th</sup> EC Grand Prix 2002 “Net Business Award”

2001: The 1<sup>st</sup> Porter Prize

2000: Toyo Keizai Inc. “Venture Club” Entrepreneur Award and so on.

[Books]

“Go Ahead but It is Boring” (Radio Tampa/Published in 2001)

“KANE yorimo DA” (KK Bestsellers/Published in 2002)

“When Everyone Looks to the West, I Look to the East” (Jitsugyo no Nihon Sha, Ltd./September 2003) and so on

[Introduction]

He, as the 4<sup>th</sup> successor, joined Matsui Securities that was a small local securities company, even though it was founded in 1917. He started restructuring the company as soon as he was appointed, such as abolishment of conventional sales force, reducing

commissions that had been the same in the all securities, and so on. He drove the company without sticking to then industry practice and tradition. He started an internet brokerage service in 1998. After the deregulation of brokerage commissions in 1999, the company grew rapidly. The Company was listed on the first section of the Tokyo Stock Exchange in 2001. In terms of the trading value for individual investors, the company surpasses big securities such as Nomura now.

◇Matsui Securities Home Page <http://www.matsui.co.jp>

Today there is an increasing number of individual investors who trade stocks using the Internet. According to the Tokyo Stock Exchange, the trading value by individual investors exceeded the trading value of domestic financial institutions and corporations in the fiscal year 2003. According to Japan's Securities Dealers Association, three fourths of the trading value of individual investors was traded through the Internet. Internet specialized securities companies provide a place to trade stocks of individual investors and greatly support their deals.

Matsui Securities has been a leading company in the industry and has kept developing new businesses. In this interview, we asked Michio Matsui, President of Matsui Securities about the role of CEO, corporate governance, personnel evaluation, securities market, and so on.

### **Business of Matsui Securities – Internet Stock Trading –**

**Editor:** Thank you very much for your time and cooperation in Top Interview of our magazine "Business Insight". First of all, I would like to ask you about the outline of the business of Matsui Securities.

**Matsui:** The current Matsui Securities is specialized in internet stock trading. Our main business is an Internet brokerage service for individual investors.

**Editor:** What is the difference between internet stock trading and conventional stock trading?

**Matsui:** Stock trading in a securities market with many different kinds of players is done when the price and the number of the same stock of buyers and sellers are matched. The traditional system that had been used for a very long time in order to make a deal is that investors make a deal through “*Badachi*”, or floor brokers, at a stock exchange. In this system, those investors who want to trade stocks firstly go to the counter of the securities companies or give a call to people in charge of them and inform their intention of trade (buy/sell order). Then, people (sales people etc.) of the securities company tell their floor brokers the order to buy/sell from their investors. At the end, the deal is closed after calculating all the buy/sell orders of many different investors that the floor brokers bring together from the securities companies. Now this floor broker system is not used, but now we use “electronic processing system” in which a computer at each securities company sends buy/sell orders of the investors to the host computer at the stock exchange and close a deal. In both the floor broker system and “electronic processing system”, it was necessary for investors to execute sell or buy orders through people from the securities companies. On the other hand, in the Internet trading service that we started in 1998, the personal computers of investors and our computer systems are connected through the Internet. The investors who want to trade stocks can execute buy/sell orders by inputting the information on their computer. The orders the investors make go to the host computer at the stock exchange through our computer systems. They don't need to deal with people from their securities companies. This is the biggest difference between the conventional stock trading and internet stock trading.

**Editor:** Articles have caught my attention that said the increasing number of individual investors increasingly used the Internet trading system. Can you please tell us about the situations of the Internet trading?

**Matsui:** It is estimated that the Japanese individual financial assets is about 1,400 trillion yen and 5% of which, approximately 70 trillion yen, is stock. 30 trillion out of 70 trillion yen has no record of trading during a year. And the rest, 40 trillion yen is traded in the market. About 10%, 4 trillion yen of stock is kept at the accounts of internet brokers and the rest of 36 trillion yen is kept at conventional securities companies. However, this number is based on asset value of stock. This only tells us that 4 trillion yen of stock is for the internet trading and 36 trillion yen of stock is for the traditional face-to-face based trading. If we multiply these asset values with the number of transaction, it gives us annual trading value. In terms of trading value, 80 trillion yen

is executed through internet brokers and 36 trillion yen is through the traditional face-to-face based securities brokers. This means that turn-over of the assets of the investors at the internet securities brokers is about 20 times per year. Turn-over of the investors through the traditional securities brokers is one time per year. From the standpoint of trading value, internet trading exceeds two thirds of the total trading value of individual investors.

It is true that the number of individual investors who trade through the internet has increased. The number of the accounts of investors who use our internet trading system increases every year, and we now have more than 170,000 accounts. As I mentioned, it is estimated that the asset values of the individual investors at the internet brokers is about 4 trillion yen. We deal with one trillion yen of the assets. And our total trading value through the internet including margin transaction is about 30 trillion yen a year<sup>■1</sup>. Those investors who use the internet margin trading are sensitive to the movement of the market, therefore, the number of transaction increases.

**Editor:** What are the advantages of the internet trading for the investors?

**Matsui:** As I mentioned, since they don't have to deal with sales representatives of the securities companies, the transaction fee becomes cheaper. At the same time, it is possible for investors to trade more quickly. The most attractive aspect of internet trading is that they can trade quickly and cheaply. Since the transaction fee is cheaper, investors could gain profit even when stock price fluctuates very subtle. Broadly speaking, the transaction fee of internet trading is about a tenth of the transaction through traditional face-to-face based securities brokers. Investors could execute small lot trades little by little frequently.

■1

Margin trading is transaction in which credit is extended by securities companies to their customers. Investors deposit a certain amount of money or securities as collateral (margin requirements) and borrow money or stocks from securities brokers for transaction.

## **Individual Investors, Stock Market and His View of the Securities Industry**

**Editor:** Do you think individual investors want to execute small lot trades little by little?

**Matsui:** Individual investors tend to take cautiously prudent approach against stock market. Stock trading is risky. Recently, there are significant changes in the industrial structure and companies' financial results, and so those companies that used to be thought of as never going bankrupt actually have gone bankrupt. No one had thought Kanebo was going to be bankrupt, but the price of the stock went down suddenly. In this kind of market conditions, the individual investors tend to frequently buy or sell stocks in order to avoid such risks. Even now no one knows which stocks are good and which stocks are bad. And no one can guess. On top of it, the degree of change is larger than before. Extremely speaking, individual investors are afraid. That is why they trade stocks little by little frequently. If they were not afraid, they would keep their stocks.

It seems like that some people understand this the other way around. Trading stocks is naturally considered to be risk-taking behavior, on the other hand, keeping the same company's stock for a long period of time, for example, keeping the same stock that is expected to be good performance for a long, is not considered to be risk-taking. I think that is the other way around. It could be possible that good performance stock in the past could show bad performance in one year these days.

**Editor:** Individual investors' frequent trades through internet securities companies increase the liquidity of the stock market. The liquidity is an important factor for the stock market. Matsui Securities is providing the individual investors a place to trade and plays a role in increasing the liquidity of the stock market. Isn't it right?

**Matsui:** Yes. Increasing the liquidity of the stock market means the investors can buy or sell anytime. This is positively accepted by not only domestic investors but also foreign investors. If the secondary markets become active, it could give a good influence to the primary markets. So, those companies in Japan that need capital raise money more easily. It is the first thing about the stock market. Matsui Securities provides individual investors with a place where they can trade little by little frequently, and it makes the Japanese stock markets more active. This is our principle.

This is good for the market participants, isn't it? Individual investors trade their stocks

on their own decision, so they do not complain to us or cause troubles even when they make losses. They take full responsibility for their own trading activities. We provide such place of trading.

Through the traditional face-to-face based securities companies, investors tend to receive some recommendations or opinions from sales representatives of the companies. So when investors make losses, they complain to the securities companies and the sales representatives would be in difficult situations with the investors to deal with the settlement of the position or requesting additional margins upon margin calls■2. Sales representatives provide market information, but it will be additional operating cost such as personnel. So the commission charge becomes expensive. If securities companies are specialized in internet trading like us, the amount of operating cost will not be as much. However, since we keep the money of the investors and provide them with a place to trade stocks, we have a division specialized to receive enquiries from customers. We try to provide simple service in order for those investors over the age of 50 to participate easily, who have finished looking after their children and repayment of house loans.

**Editor:** Is your head office one of the floors of this building (Hanzomon First Building) that I saw on the office tour before this interview? Since I used to work for a securities company before, I was very surprised that very small number of employees deals with a great number of customers, 170,000 accounts, though I think my brain might be old now.

**Matsui:** The number of our employees is 170. I cannot remember exactly, but I think Nomura Securities Co., Ltd. has about 12,000 employees. Nomura deals with several operations including investment banking related business and so on, so probably I cannot compare us with them. But if we look at only retail operation, Nomura has about 170 retail branches. The size of the branches varies, but probably they have about 50 employees at each branch office. So they have about 8,500 employees in only their retail operation. We only have 170. As I mentioned previously, in the individual annual stock trading value, we have 30 trillion yen, and it is 6 times more than Nomura has. The number of our employees is about one-fiftieth of that of Nomura in its retail operation, so the annual stock trading value that our employee deals with is 300 times more than that of the trading value that one Nomura employees deals with.

This number, 300 times more, will correspond with the following number. It was 1987 when I quit NYK Line and joined Matsui Securities, and it was the time that the economic bubble began. Matsui Securities was typical small securities company, and the annual stock trading value was 100 billion yen. Now the trading value has become 30 trillion yen so it is 300 times more than that. We had 170 employees at that time too so it also became 300 times more per employee.

**Editor:** So you have grown rapidly because the strategy to increase trading value of the individual investors, in other words, liquidity of markets and the principle that the liquidity is important for the securities market linked with the change of the situations. However, the strategy emphasizing liquidity was unique for a securities company after the economic bubble, I think. The strategy of securities companies back then focused more on stock to increase their customers' assets. Why did your company avoid a stock-focused strategy?

**Matsui:** Based on the strategy to increase clients' assets, the company focus on consulting services to their customers. The strategy is important in terms of increasing in stock of the securities market, however, if we think about the cost to support the operation behind the strategy, we can see its difficulty as going-concern business. Consulting services are basically provided by people. For example, when a sales representative gives advice his customer on investment management of their assets, the annual commission for him is probably around 1% of assets under the customer's account. In that case, when his customer's assets are 1 billion yen, he can earn a fee of 10 million yen. There are not many investors who give us 100 million yen. If the average amount of assets for each of investors is 20 million yen, he needs to manage the assets of 50 customers. The customers vary in age, favorites and characteristics of the assets, so 50 is the maximum number of the customers for one sales representative can deal with. After all, the consulting business can only work well if sales representatives are well performed. Even though a sales representative receives 10 million yen as commission, it can just cover personnel cost for one person. For example, if only 2 million yen in the balance of MMF is increased as a result of that sales person spends one hour in a luxurious room without a stock price board to recommend a customer to increase the assets on deposit, it is totally nothing.

I was not even thinking about business to increase customers' assets on deposit even before internet trading was diffused. I thought Nomura Securities should do it.

■2

Investors need to put additional guarantee money or collateral when evaluation losses in their position of margin balances are lower the margin requirements. It is called a margin call.

### Business Viewpoint that is Customer-Oriented

**Editor:** You were focusing on the liquidity rather than the stock even before internet trading was started in this country and were thinking to provide a place where it would be easier for investors to trade. It is amazing that the amount of trading per employee became 300 times more, isn't it?

**Matsui:** I don't think that this number, 300 times more, could be achieved even if we strove so hard. Probably two or three times more would be the maximum after striving hard. Also, 300 times is not the figure that we could achieve because I did something special despite its risk. I think this is not about a new business model I created or some individuals' talents.

It is because the conditions of the environments have changed greatly; otherwise, 300 times more wouldn't have been achieved. Maybe we could say the world has been changed. But what has been changed? After I have thought about it, its answer is only information technology revolution. The revolution, which is bigger than the industrial revolution, is happening in the world. All we could do next is to consider the real characteristics of the information technology revolution. Information is a part of people's decision-making process in any worlds, such as the business world or the political world. The meanings of information that influence people's actions have been changing, so of course people's actions themselves have to change.

So as a result of my thinking, I reached a conclusion that was the viewpoint of customer-oriented business in which individuals (consumers) were placed in the center. It has become difficult for corporates to enclose customers or consumers.

**Editor:** Can you please tell us about more details of the viewpoint of customer-oriented

business?

**Matsui:** I get along with Hiroshi Mikitani, President of Rakuten, Inc., so I sometimes talk with him. And I asked him, "What sells the most recently?", and he answered me, "We are selling a lot of TVs". A 50 inch plasma TV is sold at the price of around 1,100,000 yen at the department store even though it is an open price. Probably mass-market discounters sell the same TV at the price of 800,000 yen. The price that Rakuten offers for the TV is 650,000 yen. It is not really Rakuten who sells it but a company who sells it through Rakuten. The company has about 20 computers, and when they receive orders from their customers through the internet, they deliver TVs to the customers directly from the manufacturers. Those companies that do such business can sell these TVs for 650,000 yen.

Mass-market discounters cannot compete with those companies by price so they try to compete by services. At the mass-market discounters, sales people take about the minutes to explain to customers the difference between plasma TV and LCD TV, the LCD is made in Taiwan, the home electronic manufacturers only have patents so the manufacturers that make the products are different manufacturers and so on. Their customers get a variety of information first and then decide what TV they will purchase. And the customers get their cell phones out of their pocket, go to the Rakuten website and order a TV. Of course, not all the customers at the retailers do such a thing, but there are some consumers who take such actions when purchasing.

If we use this example to see what's going on in the securities companies, the investors go to Nomura Securities or Daiwa Securities and get information and trade through the internet securities companies because the commission charge is cheaper. Since the commission offered by internet securities companies is really cheap, consumers can take advantage. Now the companies cannot enclose customers. Consumers go from one company to another and select the one that has the best deal for them each time. Consumers can do such things now. The individuals use the developed information infrastructure to get information and they take action on their own free will.

**Editor:** You foresaw the trend of the times and provided various products and services to individual investors. Do you think that foreseeing the trend of the times allowed you to grow 300 times more than before?

## A Role of President/CEO is to Fill the Gap with the Trends of the Times

**Matsui:** I did not foresee the trends. The times are always ahead of the expectation of companies. There is a gap between the trends of times and the expectation of companies. Especially when the world changes dramatically like today, because of the information technology revolution, there will be a huge difference between those companies who try to close the gap and those who never try. The CEO is in charge of filling the gap.

The role of the president is to make an effort to understand the trends of business environment and to think of how to link changes in the environment to business. It is important to reduce the cost and increase sales, but it is not the role of the president. It is the task of the department manager. The role of the president is to think about what kind of business the company should do based on the president's perspective of the world and outlook of on the universe.

I am not genius but I always think such things everyday. I think about how I can close a gap between the expectation of the company and the trend of the times or how we can control our business well in order not to be left behind the trends. What I have done so far is based on such thought. A gap between the expectation of the company and the trend of the times is the biggest cost for the company. If the gap is big, I don't believe that the business go well.

**Editor:** But, it is hard to ignore the history, tradition and precedents in the past, isn't it?

**Matsui:** There is a word, the zero-sum game theory. It means that if you don't give up something you can't get a new thing. Of course we cannot give up everything. We give up something that doesn't fit in anymore and get something new. The choice of what to give up and what to take is the task of the president.

I like a word, "*za-bo*". It means that if you don't forget or give up something, the new thing doesn't come. This word is often used in Zen. If a container is filled up with something, it can't take anything new anymore. So we get rid of the old stuff in the container and put new things in it.

So, a decision that the president makes starts from getting rid of something. I have never taken action in order to get something. I can say that everything I decided was to get rid of something. Getting rid of something at this point means getting rid of something accumulated in the past. It is very difficult to do. However, we have to give up something to get something new. What we can get by getting rid of things is the potential opportunities in the future. We don't really know what the opportunities are, so we don't know what we can get. We know what these things that happened in the past are. So we know how painful it will be to get rid of these things. Since we know how painful it is, it is difficult to get rid of things.

When the change of the times is not significant, there is no big difference between old things and new things. On the other hand, when the change of the times is significant, we don't really know what will happen. We might be able to get something really material. The key is whether or not we can believe in such idea, in other words, whether or not we can convince ourselves to think that way. If we cannot convince ourselves to think that way, we cannot give up anything. Who has to be in charge of this task? It is the president.

In such sense, CEO can be said that they are leaders. I like Nobunaga Oda among the historical characters. He was a leader. Ieyasu Tokugawa might have had a great ability as a commander or controller but I don't think he was a leader.

### **Commitment of President/CEO**

**Editor:** A decision of the CEO can affect the fate of the company. Therefore, the CEO has a great responsibility for the decisions, don't they?

**Matsui:** Off course. The CEO should commit themselves into their decisions. If the CEO set up a goal but couldn't achieve it, the CEO could be fired. This can be applied to politics. It is more important to commit or make them commit themselves into their manifest than to argue about the manifest per se.

**Editor:** I believe that it was a serious decision for you to terminate the face-to-face based brokerage services and to enter the internet brokerage services. Can you please tell us

about the decision when you entered the internet brokerage services?

**Matsui:** Before starting the internet brokerage, what I thought important first of all was to develop the IT system of the internet trading. When I was working for NYK Line more than 20 years ago, NYK Line tried to establish a large-scaled internal operational system in cooperation with a major computer company. Many young employees, including me, from every division of the headquarters participated in the project but the computer company just messed with us and the project failed miserably. If the trading system is once established, the internet brokerage business will become to achieve "the scale of economy" and "gradually increasing return to scale" that doesn't cost us much variable cost (operating cost) even when the number of transaction increases. That is why the business can work, even if transaction fee is reasonable. Therefore it is necessary to establish well-performed IT system of the internet transaction.

It was very hard to find an excellent system engineer who could develop the comprehensive IT system that we wanted. We went to Silicon Valley in United States to seek such engineer. We visited many venture companies and we sought a person who could accept developing what we wanted. I heard that there was an interesting person called Matsushima so I went to see him without making an appointment. We went along with each other and after all I asked Mr. Matsushima to develop the system. It costs 3 billion yen in total. If we had asked a major computer company, it could have been at least 10 billion yen.

3 billion yen was decided considering Mr. Matsushima's estimates for cost of development and the possible investment amount of Matsui Securities at that time. It was a significantly serious decision. We didn't know how it would turn out, but only when the CEO committed, his employees would follow his decision saying, "We follow him because The CEO decided to do so". If his decision didn't work out well and failed, the CEO should be mentally prepared to resign the position of CEO. I was prepared to quit the position of CEO when I decided to invest 3 billion yen for development of IT system.

**Editor:** It is important for CEO to commit, isn't it? Did Mr. Motohisa (ex-Managing Director of Matsui Securities), who was just appointed as the President of Takefuji, learn your theory of management?

**Matsui:** I don't know if he learned it or not. He came to me before the consecutive holidays and told me that he wanted to quit the company. I asked him, "Are you unsatisfied with something?" and he said, "I was asked to be the President of Takefuji so please let me quit". Since he was excellent and my right-hand man, I was shocked to be honest. However, when I was told that he was going to be President, I thought that was understandable. If he had been appointed as Deputy President, I would have argued with him, saying, "You've got to be kidding. You compared us with them" and we would be split up fighting. I always say, "A distance between President and Deputy President is further than a distance between Deputy President and newly hired employees". I believe that he has potential to be a leader so I would like him to do his best. I have just sent him a business bag to celebrate his appointment of the President of Takefuji today.

### **About Corporate Governance**

**Editor:** I think there are not yet many of top managements of Japanese companies who clearly declare their commitments. Maybe that is because they don't really establish a system of corporate governance. What do you think?

**Matsui:** Well. It has been strange to me but I think there are many people who think it is normal that the current president appoints the next president. That is why corporate governance systems didn't develop in Japan. Originally the presidents don't have such authority, since the directors including presidents are hired by the shareholders.

Whether or not a president can close a gap between the expectation of company and the trend of the times depends on whether or not a system of corporate governance functions. There is a person who may be suitable to be a president so let him or her to manage the company. If the person couldn't deliver the performance, fire the person. And if the person looks like the person who matches the trend, give the person more authority. I think if companies have such system, probably they can fill the gap between the trend of times and them. A president has to give up things unnecessary and take many new things in. If the president can't do that the president should be fired.

The achievements of the company depend on its system of corporate governance. A gap

between its president and the trend of the times is a big cost for the company. The corporate governance is a system to decrease its cost by choosing its president and giving the talented president authority or firing the ineffective president.

I am also a shareholder of Matsui Securities so my position is a bit difficult. It's like I am my own employer. There will be a time when I cannot eliminate a gap between the trend of the times and the expectation of the company even if I put forth a lot of effort. When that time comes, I will resign my position and give it to someone else.

### **Unique Ideas of Personnel Evaluation of Employees – Favorites and Not Favorites –**

**Editor:** So far, I have asked you about your thoughts with respect to corporate management. Now I'll like to ask you more about the inside of the company. It is said that at the front line of the actual corporate activities, people, products, and money are important. I have already asked you about products and services. In terms of money, we can check what you do with money such as how you prepare the funding for margin lending to customers in newspaper articles and so on. So I would like to ask about people. As President, what do you expect from your employees?

**Matsui:** I do not expect my employees in a way to "work as hard as they sweat on their forehead". I rather expect my employees to "think to earn money easily". I say, "Don't you think it is better to think of a mechanism that makes the business grow 300 fold than to work very hard to increase only 10% in sales?" Also, "your job is to think hard to come up with a method to work less".

Also I declare, "I don't need people who work because they get paid". I only need "people who work and, then, get paid". However, when the size of a company gets big, this mentality that they work because they get paid becomes chronic. This is an indication of typical cases for large organization. Therefore, I decided to thoroughly decrease the size of the organization. In more detail, I reduced the number of the middle managers and abolished the sections. I am considering abolishing the departments as well in the future. However, I haven't reduced their salaries.

In addition, we moved in this Hanzomon Building from Kabuto-cho this spring. We

united five offices that were scattered around Tokyo into one place in order to activate internal communication more and prevent the company from becoming bloated and bureaucratized.

As you have seen, except the customer support department, all other departments are placed at one floor. Also, the directors' room is surrounded by glass, and anyone can get in. The employees freely have a meeting at the table in front of the directors' seats. If good ideas are created out of the office by making the company disclosed and sharing information with everyone, the company makes money and the employees' hard work will be paid off.

**Editor:** Have you restructured the payroll system?

**Matsui:** We abolished our retirement benefits two years ago. This year we abolish our bonus system and apply a yearly contract system. The bonus we gave last year was 11 months of monthly salary, and if we kept the system going it would be 15 months or 20 months equivalent per year. This would spread throughout the company the mentality of "I work because I get paid". It needs to be changed to a system of "I work and get paid".

The retirement benefits system of Japanese companies has more benefit for those who have worked for the companies longer. When I was secretary-general of the labor union at NYK Line, I studied those issues with regard to salary, bonuses, and retirement benefits properly. I think it is a good idea to implement such a system where each of employees could participate in profit-sharing for growth of company's bottom line profit in case that the profit per employee is increased.

**Editor:** I think it is difficult to evaluate each of employees if you apply such profit-sharing system. What kind of system are you going to apply?

**Matsui:** The biggest concern is evaluation of each employee. I have the experience of when I worked for NYK Line. With respect to goal-setting of performances and evaluation of competence, some kind of questions is easily raised, what level of goal-setting should be or who is going to evaluate. So how can we get rid of unfairness, or what is the best method that doesn't create any unfairness?

We used to have the absolute criteria that couldn't even be changed by anyone but only God: age. The seniority system is one of the methods, but it is against the times. I had been thinking of its solution over and over. And I finally came down to an evaluation method that wouldn't create unfairness. That is "favorite and not favorite".

In successful companies there are many excellent employees who are good at their jobs. I think the judgement of favorite or not favorite by these excellent employees are probably appropriate. Of course, I'm not talking about the judgement by one person. It is not absolute criteria but the judgement of favorite or not favorite by people around him can be criteria to certain degree and we can evaluate our employees. I think this is fair.

As I mentioned previously, apart from the customer support department, the employees work on the same floor without any partitions in our company, so everyone can see each other. Everyone evaluates everyone else, and based on that I would like to decide who gets more and who gets less.

**Editor:** It is a very unique idea and also persuasive. By the way, do you like the word of wisdom with respect to the stock market, "There also are cherry blossoms blooming on the far of the mountains where people don't go"?

**Matsui:** I don't dislike it. I do that. But I don't think what I have been doing is the back of the mountains. The path I took happened to be different from others and it is still the front of the mountains.

### **About Matsui Securities' Recent Business Development and Achievements**

**Editor:** I am going to ask you about your recent business development. You have developed your business such as proactively using off-floor distribution■3, a business tie-up with Risona group, and introduction of unlimited margin transaction ■4.

**Matsui:** We have been considering various things and carrying them out in order to be chosen as a trading place by the customers. There has been the off-floor distribution in place but was not utilized much. In this system, in case of face-to-face brokerage mainly

based on the communication through the phone, the period of time between the disclosure of the distribution and the delivery of its shares is short, the number of customers they can give the information about distribution is quite limited. It is hard to get customers. But, in internet trading, all we have to do is to put information on our web and our customers will be informed. So we can assemble thousands or tens of thousands of customers in one day.

As for unlimited margin transaction, we extended the time of settlement that used to be six months for institutional margin transaction. It becomes popular with individual investors.

We could enter into the alliance with Risona group because we have not participated in extreme price competition among the industry. Our commissions are not much cheaper than other internet securities companies. But because of that, if our customers open their accounts with us through Risona group and start trading, we could pay 1,000 yen to Risona. But we still make a profit. Because the commissions of other internet securities companies are too cheap, if they pay 1,000 yen to a bank, many of them will make a loss.

We are thinking to make a partnership with not only Risona but also other banks in the future. As you know, since the Japanese society is aging, recently the pension financing gets worse every year. So the retirement plan for each of elderly people will not work by just relying on only the pension system maintained by the government. Individual investors strongly wish to take responsibility for managing their own assets since the assets were earned before the retirement.

**Editor:** I thought that the products offered by the securities companies were financial products such as the stocks and investment trusts. However, when I researched Matsui Securities, I was impressed with the fact that securities companies could provide new methods and combinations of different methods of trading. I hope you will provide more opportunities of trading to your customers in the future too. Your financial results are also very well, aren't they?

**Matsui:** Ordinary income per employee is 70 million yen■5. I would like to increase this up to 400 million or 500 million yen. These numbers should be achievable easily if we look at ROE (Return on Equity). ROE depends on benchmark rate of return, but I think

it is between 10-20%. It is worth keeping the business going if we have 20% as ROE after tax basis. For example, foreign investment banks sell its part of businesses which ROE is lower than 10%.

Our equity capital is about 100 billion yen including equity-linked securities (Euro-denominated convertible bonds) and retained earnings. If ROE is 20%, the shareholders expect the return to be 20 billion yen of net income annually, then, the ordinary income is 40 billion yen. And if we divide it by 150 employees, it is a bit less than 300 million per person. It becomes 400 million by adding the compensation of our employees. We make about 300 million yen of net income for our shareholders so it is okay for our employees to get 100 million yen in total. So we can satisfy both shareholders and our employees.

From now on, the baby-boom generation will retire, and they use computers or the internet at work. Probably, the inflow of money to the stock market is going through the internet trading. Therefore, those numbers are not very unrealistic.

However, to make it happen we have to do a lot of things. Especially, it is necessary to have a system that executes a mass of buy/sell orders smooth. We have to solve various problems properly and provide the individual investors with a place where they can trade freely at their own risk. And we hope many individual investors to choose us as their trading platform and the shareholders and our employees are satisfied. I'm thinking everyday in order to make it happen like that.

**Editor:** By the way, how much do you, who is a shareholder as well as President of Matsui Securities, get paid per year?

**Matsui:** Most of my annual salary is a dividend of Matsui Securities stock. It is about 300 million yen but half of it is tax. When my father-in-law transferred his stocks to me, I went into debt so most of my salary goes back to repayment to a bank. So now my family and I live on 6 million yen per year.

■3

Off-floor distribution means that a major shareholder sells his stocks to many investors after the closing of market's trading hour. This is performed for the purpose of

increasing the number of individual investors. The announcement with respect to the timing of its implementation and the price is made one day before its implementation by the stock exchange.

■4

Under the institutional margin transaction regulated by the stock exchanges, investors have to settle the position within six months and needed to pay back margin loans or borrowing stocks to their securities company. Contrary to this, unlimited margin transaction doesn't have the due date for the position settlement. In July 2003, Matsui Securities was the first securities company that started to deal with unlimited margin transaction.

■5

The financial results of Matsui Securities for the fiscal year ended March 2003 were as follows: brokerage commission of the internet trading was 20.2 billion yen (97% increase compared to the previous fiscal year), interest and dividend income from margin transaction was 4.8 billion yen and operating revenue was 25 billion yen (86% increase compared to the previous fiscal year). Ordinary income excluding all the costs was 14 billion yen (298% increase compared to the previous fiscal year) and net income was 7.3 billion yen (390% increase compared to the previous fiscal year).

### **When President Matsui was a Student**

**Editor:** This is the last question. Can you please tell us about yourself when you were a student of at university? And can you give some messages to our readers?

**Matsui:** When I was a student at Hitotsubashi University, I belonged to a Kendo club. And I used to play mahjong between an interval of Kendo training. If I describe myself with one word in those days, I was a bad student. But I had a basic principle, "They have their ways. I have my own ways". I always thought through by myself. I thought on my own and I took action. Maybe there are many great people but I will not model myself upon those people. I don't have any intention to reject a view of a life, "Select a big tree for your shelter ". I don't have such view of my life. So I don't really like

diplomatic people or smart people.

I think it is important for not only university students but everyone to learn the liberal arts such as literature, history, physics and mathematics. Especially math is important. Mathematics was the key factor to pass the entrance exam of university for my generation even for liberal arts students. It doesn't matter whether it is a liberal arts major or science major, the logical thinking of those who studied math is very helpful for everyone. I can get along with such people.

**Editor:** Thank you very much.

[From Editor]

Before we started this interview, I had a chance to go on a tour in the office of Matsui Securities. All the employees of Matsui securities work on the fifth and sixth floors of Hanzomon First Building where they can see the green of the Imperial Palace. I used to work for a securities company but I was very surprised at their office. Securities companies I know have their office at the first floor of a building and a stock board, and have their employees talking with their customers, and sometimes someone shouts something like "Ishikawajima, 1,000 yen" and so on.

At the office of Matsui Securities I didn't see anything like that. There were people who were seriously looking at the computer, looking into some stock trading related laws or discussing in a group in urban atmosphere. What I saw had a big gap from the image I had about the securities companies and securities sales representatives.

The office of Matsui Securities shows the proof that they pursued a securities business that met the trend of the times such as IT and the information society, and they gave up unnecessary things and closed that gap with the trend of the times. I would like to organize my thoughts in order to give up old and unnecessary things and fill the gap with the trend of the times.

