

The three lessons from the Olympus debacle

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The [unfolded story at Olympus is quite extraordinary](#).

What seems to have happened, based on reports that I've read, is that fraudulent fees paid at the time of acquisition of new investments were filtered through tax havens to support the valuation of investments previously made on which losses had been incurred. The precise details of the shenanigans are, of course, not yet known but it seems likely that this process has been going on for at least 20 years. Three observations seem pertinent at this moment.

The first is to note that a situation where an overly strong board of directors with weak or non-existent nonexecutive directors, none of them accountable to effective shareholder scrutiny gives rise to a situation where corruption and abuse is far too easy. We should not be complacent and think that this applies to Japan alone. This is also an accurate description of the UK quoted company environment where boards are almost entirely unaccountable, whether to non-executive directors (almost all of whom are recruited from the same small coterie of people) or to shareholders, where institutions dominate. Since, however, those institutions show no willingness to act on behalf of those whom they are supposed to represent, but do instead align their self-interest with the City of London and in turn with the companies they are supposed to be monitoring, we have no effective governance of these arrangements in the UK either, so we have no reason to take comfort from this situation by pretending it is peculiar to Japan alone.

Second, and inevitably, questions will be asked about the role of Ernst & Young as auditors, and rightly so. How can such a situation have persisted for so long in the accounts of a major company? Surely the time has come when the competence of these firms has been proven to be non-existent and massive reform of the audit environment is put on the international agenda to ensure that a suitable financial architecture but the 21st-century is created?

Thirdly, and very obviously, it's obvious that the use of disguised ownership facilitated by tax haven entities made this whole arrangement possible. How

many times do we have to say that these structures exist to facilitate corruption, abuse, fraud, and tax evasion before the world's major states take action to close them because of the costs they impose upon the ordinary people that democratic governments are meant to represent? The cost of the Olympus failure will inevitably fall upon its shareholders, many of whom will in turn be pension funds. The argument that tax havens impose cost upon these people is surely proven now, and yet the counter-argument is persistently put forward by those who argue that these places facilitate international trade and the free movement of capital. There's no doubt they might facilitate the free movement of capital, but only in the pursuit of abuse, fraud and the debasement of shareholder worth.

In that case the time to demand that every country require that the beneficial ownership of every single corporation that it allows to be created be put on public record, and be proven beyond doubt, has surely arisen. This fraud proves yet again that the company registries of the world are a simple mechanism for the facilitation of such fraud because of the lax standards of regulation that they impose. We cannot any longer tolerate this abuse and sustain effective capital markets. The choice is either that capital markets fail, or that transparency and accountability is required, not just in the major centres, but within every single jurisdiction in which limited liability entities are allowed to trade, or companies must automatically be banned from engaging with companies located in those places. That is the only option that is tenable. And now is the time for reform.