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積水ハウス、「和田前会長」反旗の声は届くか

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## Sekisui House: Former Chairman Mr. Wada's voice will be heard?

Focuses are governance and truth elucidation of the land fraud

Hiroshi Matsuura, Toyo Keizai reporter

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On February 17, 2020, Isami Wada (second from left), former Chairman and CEO, presented a shareholder proposal and slate directors to Sekisui House's management team

"I have been monitoring this case for two years, but the current management of Sekisui House has desperately been covering up (the truth about the land fraud incident where the company incurred a loss of 5.5 billion yen). It is weird to be so desperate. The truth has to be revealed."

Former Chairman and CEO of Sekisui House, Mr. Isami Wada, said.

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## Stood up for a Governance Reform

Mr. Wada held a press conference in Tokyo on February 17, 2020 where he announced that he had made a shareholder proposal to the current management of Sekisui House. The proposal calls for the election of four internal directors, including Mr. Wada, and seven independent outside directors, for a total of eleven directors, to be elected at the Sekisui House's annual general meeting of shareholders to be held in April. He declined to comment on whether he plans on returning to the leadership (Chairman or President) himself.

At the beginning of the conference, Mr. Wada said that Director Fumiyasu Suguro, who was also present at the conference, had contacted Mr. Wada in January this year and said "Sekisui House is going nowhere. The 24,000 employees will soon lose morale." He therefore stood up to reform the governance of Sekisui House.

Mr. Suguro had been promoting the international business as head of the business under Mr. Wada's initiative until just before Mr. Wada's resignation as Chairman and CEO in February 2018.

Mr. Wada and others pointed out that Sekisui House's current management team including Toshinori Abe, Chairman, and Yoshihiro Nakai, President, is responsible for the land fraud incident, and yet they have been resisting to disclose the investigation report, including information that is inconvenient to them, as well as to elucidate the details. Mr. Abe ignored the proposal made by the Human Resources and Compensation Advisory

Committee which suggested that Mr. Abe should be fired, and Mr. Wada pointed out that Mr. Abe was creating an environment where employees cannot speak freely. Mr. Wada's proposed board consists of a majority of directors being independent outside, and he said he would target to make the company become "new Sekisui House".

At the press conference, Wada and others pointed out two things - Governance and an investigation of the land fraud incident.

Mr. Wada's argument on governance makes sense. According to the investigation report by Sekisui House, the management team at the time of the incident in 2017 (Mr. Wada was Chairman and Mr. Abe was President) executed the transaction despite many red flags, the management failed to properly review and judge risks in that regard, and the Board of Directors as well as the Audit and Supervisory Board did not sufficiently function as a result.

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## Why was Mr. Wada forced to resign?

In addition, the report states that Mr. Wada, the chairman at the time, "has the responsibility to take the lead and to correct imperfections in the personnel and systems in order to prevent recurrence of such an incident."



Former Chairman Wada said at the press conference that he had stood up to reform Sekisui House's governance

The core of the problem starts here. According to Mr. Wada, the Human Resources and Compensation Advisory Committee stated that it was appropriate for Mr. Abe to resign from the company since he was responsible enough for the incident. However, at the Board of Directors meeting later that day, a motion to dismiss Mr. Abe was rejected, and instead Mr. Wada was forced to resign.

The company explained “at the Board of Directors’ Meeting, .....attorneys attended and provided legal advice on the management of the board meeting to ensure the lawfulness of the meeting.” Then, why did the motion to dismiss Mr. Abe result in Mr. Wada's resignation? This lack of transparency must be deemed as governance failure, as Mr. Wada said.

Based on this investigation report, an article was released by “Weekly Toyo Keizai” in its October 19, 2019 issue, and a document that appears to be the same as the investigation report was posted on the “savesekisuihouse.com” website. Nonetheless, the current

management has provided no explanation other than the three-page document released on March 6, 2018.

Outside directors and auditors of the company compiled a 15-page investigation report in January 2018, but the company only released the three-page document mentioned above. Then the company was ordered by the court to submit the investigation report in a shareholder representative lawsuit filed by an individual shareholder pursuing the responsibility of the management team in the land fraud case, but despite the court order, due to privacy protection etc., the company refused to do so by any means. Eventually it became available for viewing in the fall of 2019, but obviously the company did not want to share details with the public.

Another issue that Mr. Wada asserts is what may be behind the land fraud incident.

Mr. Christopher Douglas Brady, Chairman and CEO of the Chart Group, and one of the slate directors, has strong knowledge in finance, national defense and anti-money laundering, etc.

"The investigation report shows that the signs of money laundering are everywhere, and there are a number of facts in the investigation report that suggest terrorists got financed by the incident." said Mr. Brady. "If we join the board, we can figure out the truth. The current management is trying to cover up the facts."

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## What is Mr. Abe afraid of?

Mr. Wada, in relation to the fact that the Sekisui House management strongly resisted disclosing the investigation report, says "The current management has been desperately covering up something. They are too desperate. There must be something behind that. The truth must be revealed."

On February 17, 2020, the day of the press conference, Sekisui House issued a short release saying, "The opinion of the Board of Directors of the Company on the Shareholder's Proposal will be announced as soon as it is determined."

It would be very unlikely that the current management accepts the shareholder proposal by Mr. Wada and others which demands the removal of all directors. The focus will therefore be on how shareholders will judge Mr. Wada's proposal at the April shareholders' meeting.

Sekisui House has been aggressively selling real estate assets with the goal of achieving a record net profit in the fiscal year ended January 2020 (a record net profit so far is 133.2 billion yen in the fiscal year ended January 2018). The general meeting of shareholders in April 2020 is the second election for directors since the 2017 land fraud incident. There is no doubt that Chairman Abe and President Nakai will make every effort to stay in power by appealing the strong business performance broadly.

Sekisui House's financial results for the fiscal year ended January 31, 2020 will be announced on March 5, 2020. President Nakai and the rest of the current management team will also be present at the financial results conference. What will they have to say about the governance and the land fraud incident that Mr. Wada pointed out? If they cannot provide anything that could convince the shareholders, the confusion will only deepen going forward.