Over the course of the 1980s, however, there was a shift from Japanese firms relying almost exclusively on financial institutions to more market-based, North American style financing. In the late 1980s, for example, convertible bonds appeared to be a particularly attractive, and low-cost, mechanism for raising funds in Japan.[47] In 1988 and 1989, Japanese companies raised nearly 15 trillion yen through domestic convertible bonds.[48] From the issuer's point of view, convertible bonds allow access to cheap capital since they normally offer a lower yield to compensate for the conversion privilege. They appealed to buyers because the Japanese stock market was continuously appreciating, and the options to convert usually became profitable.

It has been suggested that, since the banks provide long-term debt financing in order to ensure the commercial viability of *keiretsu* affiliates over extended periods of time, their relationships more closely resemble those of equity holders than creditors.[49] To some degree, this would account for the control Japanese banks seem to enjoy in excess of that which would normally be associated with their level of shareholdings, which are limited to 5% (any given bank in any given non-financial firm).

The close relationship *keiretsu* firms have with creditors is cemented by the equity that creditors hold.[50] Prowse found that in his sample of 85 *keiretsu* firms, the largest creditor was also the largest shareholder in 55 cases.[51] They held an average of 21.9% of the firm's debt and 6% of the firm's equity.

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control.

[47] See K. Otaki, "The Changing Role of Japanese Banks", in *Japanese Finance in Transition: Implications for Canada,* The Canada-Japan Trade Council, Ottawa, May 1993, p. 21. A convertible bond provides the holder with an option to exchange the bond for a specific number of shares of common stock of the firm.

[48] See "Corporate Japan Reins In Its Costs", in *AsiaMoney and Finance,* Euromoney Publications, London, February 1993, p. 53.

[49] See E. Razin, *op. cit.*, p. 371. Actually, the debt issued by Japanese banks is typically short term, in the form of promissory notes with maturities of 90 to 120 days. The notes are continually rolled over for years. See W.C. Kester, *op. cit.*, p. 7.

[50] For a discussion of the efficiency gains from issuing debt and equity to a single investor, see S.B. Kim, *op. cit.*, pp. 41-9.

[51] S.D. Prowse, *op. cit.*, p. 1128.