

Major Changes Underway in Banking Industry

ON Aug. 12, Mitsubishi Tokyo Financial Group (MTFG) and UFJ Holdings signed a basic agreement to merge by October next year. The agreement follows months of twists and turns in an unusual takeover saga in Japan's banking circles involving Sumitomo Mitsui Financial Group (SMFG) and Sumitomo Trust & Banking. The MTFG-UFJ merger was made possible as the Tokyo High Court handed down a ruling the day before in favor of merger talks, reversing a lower court order freezing part of the talks. The deal has cleared the way for the two banking groups to create "a premiere comprehensive global financial group that is competitive worldwide."

Major Japanese commercial banks were integrated into four megabank-led groups after a wave of realignment in 1999-2000. The reorganization was aimed primarily at surviving a storm of financial difficulties that major Japanese banks faced under the heavy weight of non performing loans left behind following the burst of the asset-inflated bubble economy. They expanded through integrations and mergers. As a result, they now match the world's major financial institutions in terms of gross assets. But they remain far behind major U.S. and European banks in such market ratings factors as market capitalization, profitability, investment banking operations like M&A and asset management. The latest takeover saga involving MTFG and SMFG over the struggling UFJ indicates that Japan's megabanks have begun to take an aggressive stance in order to win top global slots in terms of not only scale but market ratings now that they have reached a point where they will soon be able to dispose of the bulk of their bad loans.

SMFG is expected to set forth a new merger strategy in a move to recover from the setback it suffered vis-a-vis MTFG over the takeover of UFJ. Sumitomo Trust is also viewed as "a bank to watch" in the

expected realignment of the trust banking industry. The other main players in the integration drama are Resona Holdings, which was bailed out with the injection of public funds, and Shinsei Bank, which was rehabilitated with the support of a U.S. investment fund. Japanese banks, which had been saddled with a huge amount of bad loans and lower international presence, have now begun to extricate themselves out of 10 years of doldrums and seek to return to the central stage internationally.

In a bid to acquire UFJ, SMFG offered more lucrative merger terms than MTFG's, such as a one-for-one share change, and also indicated an intention to make a hostile takeover bid for up to 51% of UFJ – a move that was seen as unusual for Japanese banks. Sumitomo Trust, meanwhile, opted for a court battle after UFJ abruptly canceled a deal with Sumitomo Trust to sell its trust unit to the latter, claiming the cancellation was a breach of contract. Japanese banks used to move in step under the "convoy system" administered by the Ministry of Finance. They had never employed shareholders' interests or a court battle in takeover bids.



The presidents: Tamakoshi Ryosuke of UFJ Holdings (left), and Kuroyanagi Nobuo of MTFG

Major Japanese banks are taking in U.S.-style financial management strategies under financial advisory contracts with major U.S. financial institutions. SMFG teamed up with Goldman Sachs and MTFG with Morgan Stanley. "Like U.S. and European financial giants, Japanese banks will have to add bold strategic measures such as cross-border M&As to a list of their options," said a top executive at a major commercial bank.

COMING UP

The next issue of JAPAN SPOTLIGHT will take up the theme of "Beautiful Aging." A happy old age is one of the universal human dreams. Japan is already coming to terms with its rapidly aging society and declining birthrate. Articles about aging often tend to be rather gloomy, but our writers will take a more positive view of the subject, with a special focus on advanced activities in the depopulated areas where elderly people are satisfied with "Happy Aging."

TO READERS

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