

# FEDERAL RESERVE SYSTEM

Mizuho Financial Group, Inc.  
Tokyo, Japan

Mizuho Asset Trust & Banking Co., Ltd.  
Tokyo, Japan

## Order Approving the Formation of Bank Holding Companies and Acquisition of Nonbanking Companies

Mizuho Holdings, Inc., Tokyo, Japan (“Mizuho Holdings”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has submitted applications on behalf of Mizuho Financial Group, Inc. (“MHFG”) and Mizuho Asset Trust & Banking Co., Ltd. (“MHAT”) (collectively, “Applicants”) under sections 3 and 4 of the BHC Act in connection with an internal reorganization of the operations of Mizuho Holdings and its subsidiaries. MHFG has requested the Board’s approval under section 3 of the BHC Act (12 U.S.C. § 1842) to become a bank holding company by acquiring Mizuho Holdings and indirectly acquiring Mizuho Corporate Bank of California, Los Angeles, California (“MCB California”); Mizuho Corporate Bank (USA), New York, New York (“MCB (USA)”); and Mizuho Trust & Banking Co. (USA), also in New York (“MTBC (USA)”). MHAT has requested the Board’s approval to become a bank holding company by merging with Mizuho Trust & Banking Co., Ltd., a subsidiary bank holding company of Mizuho Holdings also in Tokyo, and thereby directly acquire MTBC (USA).<sup>1</sup>

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<sup>1</sup> Mizuho Holdings is a top-tier holding company that controls directly three Japanese banks: Mizuho Bank, Ltd.; Mizuho Corporate Bank, Ltd.; and Mizuho Trust & Banking Co., Ltd. Mizuho Bank and Mizuho Corporate Bank each control approximately 28 percent of the voting shares of MHAT, and the remaining shares are widely held by the public. Under the reorganization, MHFG would become the top-tier holding company of Mizuho Holdings. In addition, MHAT would merge with Mizuho Trust & Banking Co., Ltd., with MHAT as the surviving entity to be renamed Mizuho Trust & Banking Co., Ltd. (“New Mizuho Trust”). After consummation of the proposal, MHFG would directly control approximately 74 percent of the

MHFG also has requested the Board's approval under section 4(c)(8) and 4(j) of the BHC Act (12 U.S.C. § 1843(c)(8) and (j)) and section 225.28 of the Board's Regulation Y (12 CFR 225.28) to acquire the existing nonbanking companies of Mizuho Holdings and thereby engage in certain permissible nonbanking activities.<sup>2</sup> Applicants do not propose to expand the banking or nonbanking operations of Mizuho Holdings in the United States or to acquire or control any additional U.S. banks.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 Federal Register 1615 (2003)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in sections 3 and 4 of the BHC Act.

Mizuho Holdings, with total consolidated assets equivalent to \$1.2 trillion, is the largest banking organization in the world by assets.<sup>3</sup> Mizuho Holdings operates depository institutions in California and New York. MCB California, with total consolidated assets of \$592 million, controls deposits of \$323 million, representing less than 1 percent of total deposits of insured depository institutions in California.<sup>4</sup> In New York, MCB (USA), with consolidated assets of \$3.6 billion and deposits of \$1 billion, and MTBC (USA), with consolidated assets of \$118.3 million and deposits of \$48.8 million, together control less than 1 percent of total deposits of insured depository institutions in that

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voting shares of New Mizuho Trust. Applicants represent that the remaining voting shares would be widely held by the public.

<sup>2</sup> These nonbanking activities are listed in the Appendix.

<sup>3</sup> Foreign asset and ranking data are as of September 30, 2002, and are based on the exchange rate of \$1/¥122.6 on that date.

<sup>4</sup> State asset, deposit, and ranking data are as of December 31, 2001. In this context, depository institutions include commercial banks, savings associations, and savings banks.

state.

### Factors Reviewed by the Board

The BHC Act sets forth the factors that the Board must consider when reviewing the formation of bank holding companies or the acquisition of banks. These factors are the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved; the convenience and needs of the community to be served, including the records of performance of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”);<sup>5</sup> the availability of information needed to determine and enforce compliance with the BHC Act and other applicable federal banking laws; and, in the case of applications involving a foreign bank, whether it is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.<sup>6</sup>

The Board has considered these factors in light of a record that includes information provided by Applicants, confidential supervisory and examination information from various federal agencies, and publicly reported financial and other information. The Board also has considered information from Japan’s Financial Services Agency (“FSA”), the primary home country supervisor of Mizuho Holdings. The Board notes that the FSA has issued a preliminary approval of the proposed restructuring. In addition, the Board has considered all the public comments received on the proposal.<sup>7</sup>

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<sup>5</sup> 12 U.S.C. § 2901 et seq.

<sup>6</sup> See 12 U.S.C. § 1842(c).

<sup>7</sup> One commenter objected to the proposal. The commenter asserted that MHAT should, as part of these applications, also file for the planned closure of its representative office in New York. Section 211.25(f) of the Board’s Regulation K establishes the notice requirements for the closure of a foreign bank’s representative office, and its provisions do not require such notices to be filed with a BHC Act application. See 12 CFR 211.25(f).

### Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.<sup>8</sup>

This proposal would effect an internal reorganization of existing operations and would not result in either an expansion of operations or an acquisition of an additional bank in the United States. Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market.

### Financial and Managerial Considerations

The Board has carefully considered the financial and managerial resources and future prospects of Applicants and the banking and nonbanking companies involved in the proposal; the effect the proposed transaction would have on such resources; and other supervisory factors in light of all the facts of record, which include the examination records of Mizuho Holdings and its subsidiary depository institutions by the appropriate federal financial supervisory agencies. The Board has also consulted with the FSA.

The Board notes that the proposal is intended to enhance the overall financial strength and future prospects of Applicants and Mizuho Holdings. The corporate reorganization would be effected through the exchange of shares. No debt would be issued by Applicants, Mizuho Holdings, or any of its subsidiaries as

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<sup>8</sup> 12 U.S.C. § 1842(c)(1).

part of the transactions that would effect the reorganization. Mizuho Holdings' stated capital levels exceed the minimum levels that would be required under the Basle Capital Accord, and its capital levels are considered equivalent to the capital levels that would be required of a U.S. banking organization under similar circumstances. Moreover, no expansion or restructuring of existing U.S. operations would result from the proposed reorganization. In addition, the proposal would not materially affect the management of Mizuho Holdings' operations, including its subsidiary insured depository institutions, in the United States. In this light, and based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of Applicants and their subsidiary banks are consistent with approval.

#### Convenience and Needs Factor

The Board has carefully considered the effects of the proposal on the convenience and needs of the communities to be served in light of all the facts of record, including a comment received during the public comment period, information on the performance under the CRA of the relevant subsidiary insured depository institutions received from other federal agencies, publicly available data, and information submitted by Applicants. As noted above, the U.S. operations of Mizuho Holdings and its subsidiary insured depository institutions would remain unaffected by the proposed reorganization.

The Board has long held that consideration of the convenience and needs factor includes a review of the records of the relevant depository institutions under the CRA. As provided in the CRA, the Board evaluates an institution's record of performance in light of examinations by the appropriate federal supervisors of the CRA performance records. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's

overall record of performance under the CRA by its appropriate federal supervisor.<sup>9</sup>

Mizuho Holdings' subsidiary depository institutions received either "outstanding" or "satisfactory" ratings at their most recent examinations under the CRA by their primary federal supervisor at the time of the examinations, the Federal Deposit Insurance Corporation ("FDIC"). MCB (USA), a state member bank, was established on December 1, 2002, as a result of the merger of two wholly owned insured depository institutions of Mizuho Holdings, Fuji Bank and Trust Company ("Fuji Trust") and the Industrial Bank of Japan Trust Company ("IBJ Trust"). Fuji Trust received an "outstanding" rating, as of June 24, 2002, and IBJ Trust received an "outstanding" rating, as of March 8, 2000.<sup>10</sup> MCB California, which changed its name from Dai-Ichi Kangyo Bank of California on April 1, 2002, received a "satisfactory" rating, as of April 30, 2001,<sup>11</sup> and

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<sup>9</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

<sup>10</sup> Another wholly owned subsidiary insured depository institution of Mizuho Holdings, IBJ Whitehall Bank & Trust Company ("IBJ Whitehall"), was merged into IBJ Trust on March 31, 2002. IBJ Whitehall received a "satisfactory" rating, as of December 11, 2000, from the Federal Reserve Bank of New York. The commenter criticized the overall number of loans originated by IBJ Whitehall and the amount of lending in its assessment area, citing these data as evidence of deterioration in the overall CRA performance of IBJ Whitehall. Examiners found that the community development lending, qualified investments, and community development services of IBJ Whitehall were adequate. Moreover, examiners commended IBJ Trust, which acquired IBJ Whitehall, for the high level of community development loans it originated and described IBJ Trust's responsiveness to the credit needs of its assessment area as excellent.

<sup>11</sup> The commenter pointed out statements in the performance evaluation of MCB California that the bank's overall lending, especially in low-income census tracts, had slowed, and that the bank's level of market penetration among business customers with gross annual revenues of \$1 million or less was poor. However, the examiners also commented that the decrease in lending was due to the reorganization of the bank when it became a subsidiary of Mizuho Holdings, a reduction in lending personnel, and problems in the Asian economy. In addition, the examiners generally commended MCB California for its overall small business lending activities, stating that a high percentage of the bank's small business loans and letters of credit were originated during the review period in the bank's designated assessment areas, and

MTBC (USA) received a “satisfactory” rating, as of June 30, 1998.<sup>12</sup>

In reviewing the effect of the proposal on the convenience and needs of the communities to be served, the Board has carefully considered all the facts of record, including the views of the commenter, the Applicants’ response, and reports of examinations of CRA performance of the institutions involved. Based on the review of the entire record and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor, including the CRA performance records of the relevant depository institutions, are consistent with approval.<sup>13</sup>

#### Other Supervisory Considerations

Section 3 of the BHC Act also provides that the Board may not approve an application involving a foreign bank unless the bank is subject to comprehensive consolidated supervision or regulation on a consolidated basis by

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that the geographic distribution of its small business lending reflected an excellent level of penetration throughout its assessment areas.

<sup>12</sup> MTBC (USA) was named Yasuda Bank and Trust Company (U.S.A.) when last evaluated for CRA performance. The commenter questioned whether MCB (USA) suspended its CRA activities for a portion of 1999 and 2000. At that time, MCB (USA) was a limited-purpose trust company, and this type of institution is not subject to the CRA under the relevant FDIC regulations. See 12 CFR 345.11(c)(3). MCB (USA) was subsequently designated as a wholesale bank for purposes of the CRA and received a satisfactory performance rating from the New York State Banking Department under the New York State Community Reinvestment Act. See N.Y. Banking Law § 28-b (McKinney 2003).

<sup>13</sup> The commenter cited news reports about the level of Mizuho Holdings’ lending in Japan, particularly its small business lending, and asserted that these reports should cause the Board to closely scrutinize its record of lending under the CRA. The Board does not consider the non-U.S. lending performance of an applicant when considering the convenience and needs factor under section 3 of the BHC Act. However, the Board has carefully considered the entire record of lending of Mizuho Holdings’ subsidiary depository institutions in the United States in considering the convenience and needs factor. The commenter also voiced a concern about the manner in which Mizuho Holdings’ predecessor institutions reacted to the terrorist attacks on September 11, 2001. This concern is outside the limited statutory factors the Board is authorized to consider when reviewing an application under the BHC Act. See Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973).

the appropriate authorities in the bank's home country.<sup>14</sup> The Board has previously determined in applications under the BHC Act that certain Japanese commercial banks, including The Fuji Bank, Ltd., The Industrial Bank of Japan, Ltd., and The Dai-Ichi Kangyo Bank, Ltd., were subject to comprehensive consolidated supervision by their home country supervisor.<sup>15</sup> In this case, the Board has determined that MHAT and Mizuho Corporate Bank are supervised on substantially the same terms and conditions as the other Japanese banks. In addition, the Board also has previously considered the supervisory regime in Japan with respect to financial holding companies, including Mizuho Holdings, and determined that supervisory factors are consistent with approval. Applicants have stated that there would be no change in the supervision of the Mizuho group as a result of the proposed restructuring.

In addition, section 3 of the BHC Act requires the Board to determine that applicants have provided adequate assurances that they will make available to the Board such information on their operations and activities and those of their affiliates that the Board deems appropriate to determine and enforce compliance

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<sup>14</sup> 12 U.S.C. § 1842(c)(3)(B). Under Regulation Y, the Board uses the standards enumerated in Regulation K to determine whether a foreign bank that has applied under section 3 of the BHC Act is subject to consolidated home country supervision. See 12 CFR 225.13(a)(4). Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including its relationship to any affiliates, to assess the bank's overall financial condition and its compliance with law and regulation. See 12 CFR 211.24(c)(1).

<sup>15</sup> Mizuho Corporate Bank resulted from the merger of The Fuji Bank, Ltd.; The Industrial Bank of Japan, Ltd.; and The Dai-Ichi Kangyo Bank, Ltd. See Mizuho Holdings, Inc., 86 Federal Reserve Bulletin 776 (2000).

with the BHC Act.<sup>16</sup> The Board has reviewed the restrictions on disclosure in jurisdictions where Applicants would have material operations and has communicated with relevant government authorities concerning access to information. Applicants have committed that, to the extent not prohibited by applicable law, each will make available to the Board such information on the operations of their affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act and other applicable federal law. Applicants also have committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable their affiliates to make any such information available to the Board. In light of these commitments, the Board has concluded that Applicants have provided adequate assurances of access to any appropriate information the Board may request. For these reasons, and based on all the facts of record, the Board has concluded that the supervisory factors it is required to consider under section 3(c)(3) of the BHC Act are consistent with approval.

#### Nonbanking Activities

MHFG also has filed a notice under section 4(c)(8) and (4)(j) of the BHC Act to acquire the U.S. nonbank subsidiaries of Mizuho Holdings and thereby engage in various permissible nonbanking activities. Through these subsidiaries, MHFG would engage in a number of

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<sup>16</sup> See 12 U.S.C. § 1842(c)(3)(A).

nonbanking activities listed in the Appendix that are currently authorized for Mizuho Holdings. MHFG has committed that it would conduct these activities in accordance with the Board's regulations.

To approve the notice, the Board must determine that the proposed acquisition of the U.S. nonbank subsidiaries and subsequent performance of their activities by MHFG may reasonably be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.<sup>17</sup>

MHFG has indicated that it expects that the proposal would improve the financial position and future business prospects of its current banking and nonbanking operations. In addition, as the Board has previously noted, there are public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments and actions are consistent, as in this case, with the relevant considerations under the BHC Act.<sup>18</sup>

The Board also believes that the conduct of the

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<sup>17</sup> See 12 U.S.C. § 1843(j)(2)(A).

<sup>18</sup> See, e.g., Banc One Corporation, 84 Federal Reserve Bulletin 553 (1998) and First Union Corporation, 84 Federal Reserve Bulletin 489 (1998).

proposed nonbanking activities within the framework established in this order, prior orders, and Regulation Y is unlikely to result in any of the adverse effects noted above that would not be outweighed by the public benefits of the proposal, such as increased customer convenience and gains in efficiency.

Accordingly, based on all the facts of record, the Board has determined that the balance of public interest factors that the Board must consider under the standard of section 4(j) of the BHC Act is favorable and consistent with approval.

### Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the applications and notice should be, and hereby are, approved.<sup>19</sup> In reaching its conclusion, the Board has considered all the facts of

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<sup>19</sup> The commenter requested a hearing in connection with the proposal. Section 3 of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for any of the banks to be acquired makes a timely written recommendation of denial of the application. The Board has not received such a recommendation from the appropriate supervisory authority. The Board's regulations provide for a hearing under section 4 of the BHC Act if there are disputed issues of material fact that cannot be resolved in some other manner. See 12 CFR 225.25(a)(2). Under its rules, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 CFR 225.16(e).

The Board has considered carefully the commenter's request in light of all the facts of record. In the Board's view, the public has had ample opportunity to submit comments on the proposal, and, in fact, the commenter has submitted a written comment that the Board has considered carefully in acting on the proposal. The request fails to identify disputed issues of fact that are material to the Board's decision and that may be clarified by a public meeting or hearing. Moreover, the commenter's request fails to demonstrate why its written comments do not present its views adequately or why a meeting or hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing or a public meeting is not required or warranted in this case. Accordingly, the request for a public hearing on the proposal is denied.

record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Applicants with all the representations and commitments made in connection with the applications, and prior commitments referenced in this order, and on the receipt by Applicants of all necessary regulatory approvals. These representations, commitments, and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The banking transactions shall not be consummated before the fifteenth calendar day after the effective date of this order, and the transactions may not be consummated later than three months after the

effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>20</sup> effective February 24, 2003.

(signed)

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Robert deV. Frierson  
Deputy Secretary of the Board

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<sup>20</sup> Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

## APPENDIX

MHFG proposes to engage in the following nonbanking activities:

1. extending credit and servicing loans, in accordance with section 225.28(b)(1) of the Board's Regulation Y (12 CFR 225.28(b)(1));
2. activities related to extending credit, in accordance with section 225.28(b)(2) of the Board's Regulation Y (12 CFR 225.28(b)(2));
3. providing leasing services, in accordance with section 225.28(b)(3) of Regulation Y (12 CFR 225.28(b)(3));
4. owning, controlling, or operating an industrial bank, in accordance with section 225.28(b)(4) of Regulation Y (12 CFR 225.28(b)(4));
5. performing trust company functions, in accordance with section 225.28(b)(5) of Regulation Y (12 CFR 225.28(b)(5));
6. providing investment and financial advisory services, in accordance with section 225.28(b)(6) of Regulation Y (12 CFR 225.28(b)(6));
7. providing securities brokerage, riskless principal, private placement, futures commission merchant, and other agency transactional services, in accordance with section 225.28(b)(7)(i)-(v) of Regulation Y (12 CFR 225.28(b)(7)(i)-(v));
8. underwriting and dealing in government obligations and money market instruments in which state member banks may underwrite and deal under 12 U.S.C. §§ 335 and 24(7), and investing and trading activities in foreign exchange and other eligible derivative instruments, in accordance with section 225.28(b)(8)(i) and (ii) of Regulation Y (12 CFR 225.28(b)(8)(i) and (ii));
9. providing management consulting services, in accordance with section 225.28(b)(9) of Regulation Y (12 CFR 225.28(b)(9));
10. engaging in specific insurance agency activities through a subsidiary that engaged in such activities on May 1, 1982, in accordance with section 225.28(b)(11)(iv) of Regulation Y (12 CFR 225.28(b)(11)(iv));

11. community development activities, in accordance with section 225.28(b)(12) of Regulation Y (12 CFR 225.28(b)(12)); and
12. data processing and transmission activities, in accordance with section 225.28(b)(14) of Regulation Y (12 CFR 225.28(b)(14)).