

FEDERAL RESERVE SYSTEM

Chuo Mitsui Trust Holdings, Inc.
Tokyo, Japan

Order Approving the Acquisition of a Bank Holding Company
and Notice to Engage in Nonbanking Activities

Chuo Mitsui Trust Holdings, Inc. (“CMTH”), a corporation organized under the laws of Japan, has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)¹ to become a bank holding company by acquiring The Sumitomo Trust & Banking Co., Ltd. (“STB”), Osaka, Japan, a bank organized under the laws of Japan and a bank holding company under the BHC Act, thereby indirectly acquiring Sumitomo Trust and Banking Co. (U.S.A.) (“STBUSA”), Hoboken, New Jersey, a wholly owned subsidiary of STB. In addition, CMTH has requested the Board’s approval under sections 4(c)(8) and 4(j) of the BHC Act and section 225.28 of the Board’s Regulation Y² to retain a CMTH subsidiary and to acquire nonbanking companies of STB and thereby engage in certain permissible nonbanking activities.³

¹ 12 U.S.C. § 1842.

² 12 U.S.C. §§ 1843(c)(8) and 1843(j); 12 CFR 225.28.

³ These nonbanking activities are providing financial and investment advisory activities, in accordance with section 225.28(b)(6) of the Board’s Regulation Y (12 CFR 225.28(b)(6)). Specifically, CMTH has requested approval (i) to retain indirect control of all the voting and equity interests of Chuo Mitsui Investments, Inc. (“CMI”), New York, New York, and (ii) to acquire indirect control of (a) approximately 99 percent of the voting and equity interests of Nikko AM Americas Holding Co., Inc. (“NAHC”), New York, New York, a wholly owned subsidiary of Nikko Asset Management Co., Ltd., Tokyo, of which STB directly owns approximately 99 percent of the voting and equity interests, and (b) approximately 99 percent of the voting and equity interests of Nikko Asset Management Americas, Inc., New York, New York, a wholly owned subsidiary of NAHC (together with NAHC, the “Nikko U.S. Entities”). STB has previously received approval to control the Nikko U.S. Entities and thereby engage in investment advisory activities in the United States. Letter dated September 29, 2009, from Natasha Kosoff, Staff Director, Federal Reserve Bank of New York, to William J. Sweet, Esq.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (75 Federal Register 80501 (2010)). 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.

The transaction will be effected through an exchange of shares (“Share Exchange”) after which CMTH will become the sole shareholder of STB and the indirect shareholder of all the outstanding shares of common stock of STBUSA. Upon consummation of the Share Exchange, CMTH will change its name to Sumitomo Mitsui Trust Holdings, Inc.⁴

CMTH, with total consolidated assets of \$161.1 billion, is the sixth largest banking group in Japan.⁵ Through its subsidiaries, CMTH primarily engages in trust and banking businesses and other financial services in Japan and conducts certain asset management operations in the United States, the United Kingdom, and Hong Kong SAR. The Chuo Mitsui Trust and Banking Company, Limited, Tokyo (“CMTB”), a wholly owned subsidiary of CMTH, accounts for a substantial majority of CMTH’s assets. CMTB maintains a representative office in New York, New York,⁶ but has no other U.S. banking operations.

STB, with total consolidated assets of \$245.6 billion, is a registered bank holding company that primarily engages in trust and banking businesses and other financial services in Japan and conducts commercial banking, asset management or custodial operations in the United States, the United Kingdom, the People’s Republic of China, Hong Kong SAR, Singapore, and Luxembourg. STBUSA, with total assets of \$1.3 billion,

⁴ As a result of the Share Exchange, three Japanese trust banks, STB, CMTB, and Chuo Mitsui Asset Trust and Banking Company, Limited, will be wholly owned subsidiaries of CMTH. CMTH and STB intend that these three banks will be merged on April 1, 2012, with STB as the surviving entity. The combined subsidiary will be renamed Sumitomo Mitsui Trust Bank, Limited.

⁵ Data are as of December 31, 2010, unless otherwise noted.

⁶ See The Chuo Mitsui Trust & Banking Co., Ltd., 86 Federal Reserve Bulletin 702 (2000).

is a state-chartered bank in New Jersey that is insured by the Federal Deposit Insurance Corporation. STBUSA offers custodial and securities lending services primarily for Japanese institutional investors and their overseas branches and affiliates.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking markets. The BHC Act also prohibits the Board from approving a 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.⁷

In addition to operating STBUSA, STB engages in banking operations in the United States through a branch in New York, New York. CMTH does not currently control a U.S. insured depository institution. Based on all the facts of record, the Board concludes that consummation of the proposal would not have any significantly adverse effects on competition and that the competitive factors are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain other supervisory factors.⁸ The Board also reviews the financial and managerial resources of the organizations involved in a proposal under section 4 of the BHC Act.⁹ The Board has carefully considered⁹ these factors in light of all the facts of record, including supervisory and examination information received from the relevant federal and state supervisors of the organizations involved, and publicly reported and other available information, including information provided by CMTH. The Board also has consulted with the Japanese Financial Services Agency (“FSA”), the agency with primary

⁷ 12 U.S.C. § 1842(c)(1).

⁸ 12 U.S.C. § 1842(c)(2) and (3).

⁹ 12 CFR 225.26(b).

responsibility for the supervision and regulation of Japanese banking organizations, including CMTH and STB.¹⁰

In evaluating financial factors in proposals involving bank holding companies, the Board reviews the financial condition of the applicants and the target depository institutions. In assessing financial resources, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has carefully considered the proposal under the financial factors. The capital levels of CMTH exceed the minimum levels that would be required under the Basel Capital Accord and are considered to be equivalent to the capital levels that would be required of a U.S. banking organization. In addition, STBUSA is well capitalized and would remain so on consummation. Based on its review of the record, the Board also finds that CMTH has sufficient financial resources to effect the proposal. As noted, the proposed transaction is structured as a share exchange.

The Board also has considered the managerial resources of the organizations involved and the proposed combined organization. The Board has reviewed the examination records of STBUSA, including assessments of its management, risk-management systems, and operations. As noted, the Board has also consulted with the FSA. In addition, the Board has considered its supervisory experiences and those of the other relevant bank supervisory agencies with the organizations and their records of compliance with applicable banking law, including anti-money-laundering laws.

¹⁰ The FSA approved CMTH's application to acquire STB on March 1, 2011.

Based on all the facts of record, the Board has concluded that considerations relating to the managerial resources and future prospects of the organizations involved are consistent with approval.

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 supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country.¹¹ The Board has determined that other banks in Japan were subject to home country supervision on a consolidated basis.¹² STB is supervised by the FSA on substantially the same terms and conditions as those other Japanese banks. Based on all the facts of record, the Board has determined that STB is subject to comprehensive supervision on a consolidated basis by its home country supervisor.¹³

In evaluating this proposal, the Board also considered whether CMTH is subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in its home country. The system of comprehensive supervision or regulation may vary, depending on the nature of the acquiring company and the proposed investment.¹⁴ As noted, the FSA is the supervisor of Japanese banking organizations,

¹¹ 12 U.S.C. § 1842(c)(3)(B). As provided in Regulation Y, the Board determines whether a foreign bank is subject to consolidated home country supervision under the standards set forth in Regulation K. See 12 CFR 225.13(a)(4). Regulation K provides that a foreign bank will be considered 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 with any affiliates, to assess the bank's overall financial condition and its compliance with laws and regulation. See 12 CFR 211.24(c)(1).

¹² See, e.g., Mizuho Financial Group, Inc., 89 Federal Reserve Bulletin 181 (2003); Mitsubishi Tokyo Financial Group, Inc., 87 Federal Reserve Bulletin 349 (2001); Sumitomo Bank Ltd., 83 Federal Reserve Bulletin 54 (1997); and Sumitomo Bank Ltd., 82 Federal Reserve Bulletin 369 (1996).

¹³ The Board also has previously found that CMTH's subsidiary Japanese bank is subject to comprehensive supervision on a consolidated basis by its home country supervisor. See The Chuo Mitsui Trust & Banking Co., Ltd., 86 Federal Reserve Bulletin 702 (2000).

¹⁴ China Investment Corporation, 96 Federal Reserve Bulletin B31 (2010).

including holding companies such as CMTH.¹⁵ As such, the FSA may conduct inspections of CMTH and its subsidiaries and require CMTH to submit reports about its operations on a consolidated basis. The FSA also may review transactions between CMTH and its subsidiaries and has authority to require CMTH to take measures necessary to ensure the safety and soundness of the CMTH organization. Based on all the facts of record, the Board has determined that CMTH is subject to comprehensive supervision on a consolidated basis by its appropriate home country authorities for purposes of this application.¹⁶

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.¹⁷

¹⁵ See, e.g., Mitsubishi UFJ Financial Group, Inc., 95 Federal Reserve Bulletin B34 (2009); Mitsubishi Tokyo Financial Group, Inc., 87 Federal Reserve Bulletin 349 (2001).

¹⁶ Section 3 of the BHC Act also requires the Board to determine that an applicant has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act. 12 U.S.C. § 1842(c)(3)(A). The Board has reviewed the restrictions on disclosure in the relevant jurisdictions in which CMTH operates and has communicated with relevant government authorities concerning access to information. In addition, CMTH has committed that, to the extent not prohibited by applicable law, it will make available to the Board such information on the operations of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act and other applicable federal law. CMTH also has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable its affiliates to make any such information available to the Board. In light of these commitments, the Board has concluded that CMTH has provided adequate assurances of access to any appropriate information the Board may request.

¹⁷ A commenter asserted that both CMTH and STB have been involved in the subprime and predatory lending industries in the United States and that the proposal could increase such activities in the combined organization. Neither CMTH nor STB engages in any retail lending activities in the United States (including subprime lending). Although both Japanese banking organizations incurred losses before 2009 on subprime-related investments, current financial reports show that both CMTH and STB significantly reduced their holdings in these investments.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served,¹⁸ including, where applicable, the records of performance of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).¹⁹ STBUSA is a special-purpose bank exempt from performance evaluations under the CRA.²⁰ Upon consummation of the proposal, STBUSA would continue to operate as a special-purpose bank and provide global custody and securities lending services as part of a larger organization. Based on a review of the entire record, the Board has concluded that convenience and needs considerations are consistent with approval of the proposal.

Nonbanking Activities

CMTH also has filed a notice under sections 4(c)(8) and 4(j) of the BHC Act to retain its ownership interest in CMI, to indirectly acquire the Nikko U.S. Entities, and to engage in nonbanking activities that are permissible for bank holding companies.²¹ The Board has previously determined by regulation that the financial and investment advisory activities for which CMTH has requested approval are closely related to banking for purposes of section 4(c)(8) of the BHC Act.²² As part of its evaluation of the public interest factors under section 4(j) of the BHC Act, the Board also must determine that the operations of CMI and the Nikko U.S. Entities “can reasonably be expected to produce

The commenter also made several allegations that are outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. See, e.g., The Royal Bank of Scotland Group plc, 90 Federal Reserve Bulletin 87, 88 n.16 (2004); The Royal Bank of Scotland Group plc, 89 Federal Reserve Bulletin 386, 389 n.26 (2003); Western Bancshares, Inc. v. Board of Governors, 480 F.2d 749 (10th Cir. 1973).

¹⁸ 12 U.S.C. § 1842(c)(2).

¹⁹ 12 U.S.C. § 2901 et seq.

²⁰ 12 CFR 345.11(c)(3).

²¹ 12 U.S.C. §§ 1843(c)(8) and 1843(j).

²² 12 CFR 225.28(b)(6).

benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.”²³

The Board has considered the competitive effects of CMTH’s proposed retention of CMI and acquisition of STB’s nonbanking subsidiaries and activities in light of all the facts of record. CMI and STB both engage in financial and investment advisory services in the United States. The geographic market for financial and investment advisory services in the United States is regional or national in scope, with numerous competitors. CMI and the Nikko U.S. Entities compete directly only to a limited extent. Moreover, it is expected that CMI will be liquidated in the third quarter of 2011. As a result, the Board finds that consummation of the proposal would have a minimal effect on competition for these services.

In addition, the Board has reviewed the public benefits of the proposed acquisition. Consummation of the proposal would strengthen the organization and would result in benefits to current and future customers of the U.S. nonbanking operations. For the reasons discussed above, and based on the entire record, the Board has determined that the conduct of the proposed nonbanking activities within the framework of Regulation Y and Board precedent is not likely to result in significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices.

Based on all the facts of record, the Board has concluded that consummation of the proposal can reasonably be expected to produce public benefits that would outweigh any likely adverse effects. Accordingly, the Board has determined that the balance of the public benefits under the standard of section 4(j)(2) of the BHC Act is consistent with approval.

²³ 12 U.S.C. § 1843(j)(2)(A).

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application and notice should be, and hereby are, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by CMTH with all the commitments made to the Board in connection with the application and notice and on the receipt of all other required regulatory approvals for the proposal. The Board's approval of the proposed nonbanking activities is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c),²⁴ and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. These conditions and commitments 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 proposal may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,²⁵ effective March 15, 2011.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

²⁴ 12 CFR 225.7 and 225.25(c).

²⁵ Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, and Raskin. Absent and not voting: Governor Warsh.