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### **Statement by the Governor**

#### **Immediate Guideline for Disposal of Preferred Stocks, etc. Acquired through Capital Injection with Public Funds**

1. The Financial Services Agency has announced today “Approaches to the Disposal of the Financial Assets (Preferred Stocks, etc.) Acquired through Capital Injections with Public Funds”. It demonstrates the concept that, with regard to the disposal of the preferred stocks, etc. acquired through the capital injections, “considering the aspect of asset management with more emphasis on the standpoint of "taxpayers' interest"”, there should be “a basic principle to ensure collection of profits accruing on the public funds as the fruit of the stabilization of the financial system, while maintaining sound management of the Recapitalized Financial Institutions and avoiding negative impacts on markets”.

The Deposit Insurance Corporation of Japan (DICJ) will be required “to stand prepared to take appropriate and flexible actions in view of factors including the terms of preferred stocks and stock price movements at a given point in time, while continuously adhering to the position that the disposal is basically made on a request that each financial institutions which received the capital injections (hereinafter referred to as the “Recapitalized Financial Institution(s)”) makes in accordance with its own capital policy”, adapting to the phase transition in relation to the Recapitalized Financial Institutions.

2. Based on the above approaches, DICJ has revised “Immediate Guideline for Disposal of Preferred Stocks Acquired for Capital Injection to the Third Parties or for Offer of Repaying the Public Funds (announced by DICJ on July 8, 2004)”, and newly published the attached “Immediate Guideline for Disposal of Preferred Stocks, etc. Acquired through Capital Injection with Public Funds” in order to demonstrate the concepts and criteria for judgments for disposing the preferred stocks without any requests for repayment made by the Recapitalized Financial Institutions in addition to the guideline based on the requests for repayment by the Recapitalized Financial Institutions.

3. With changes of the circumstances in that the sound management of the Recapitalized Financial Institutions and the market environment have improved, and the possibilities of early disposal legally expected increasing, DICJ will additionally take appropriate and flexible actions in the disposal of preferred stocks, subordinated bonds and so on (hereinafter referred to as “Preferred Stocks”), consulting with the Recapitalized Financial Institutions, taking into consideration the terms of preferred stocks and stock price movements, while adhering to the position that the disposal is basically made on a request that each Recapitalized Financial Institution makes in accordance with its own capital policy.

In such cases, DICJ will continue to pay full attention to maintaining sound management of the Recapitalized Financial Institutions and avoiding negative impacts on markets.

Upon making the specific disposition, from the perspective of respecting the capital policy of each Recapitalized Financial Institution, DICJ shall see whether there is an intention of the request for disposal of Preferred Stocks from each Recapitalized Financial Institution in advance, and make sufficient discussion with it, based on the appropriate procedures.

## **Immediate Guideline for Disposal of Preferred Stocks, etc. Acquired through Capital Injection with Public Funds**

The Deposit Insurance Corporation of Japan (DICJ) has temporarily been adopting the guideline of disposing of the preferred stocks, subordinated bonds and so on (hereinafter referred to as “Preferred Stocks”) acquired by the Resolution and Collection Corporation (RCC) for the capital injections including the exercise of the conversion right of convertible preferred stocks into common stocks which is made in expectation of selling.

### 1. Basic concept

While the soundness of the financial institutions which received the capital injections (hereinafter referred to as the “Recapitalized Financial Institution(s)”) has steadily improved since the first series of capital injections and the financial environment surrounding such institutions has been changing, such as they are now in most cases able to raise capital from private sources, it is requested to take an approach that places more emphasis on the standpoint of “taxpayers’ interest” in its role of managing the financial assets (preferred stocks, etc.) acquired through the capital injections.

In such circumstances, while adhering to the position that the disposal is basically made on a request that each Recapitalized Financial Institution makes in accordance with its own capital policy, DICJ will take appropriate and flexible actions in the disposal of preferred stock taking into account the terms of preferred stocks and stock price movements at a given point in time, paying attention to maintaining sound management of the Recapitalized Financial Institutions and avoiding negative impacts on markets.

### 2. Where the Recapitalized Financial Institutions have requested the selling of Preferred Stocks to third parties (including sale in the capital market)

#### (1) Concept

DICJ will sell Preferred Stocks to third parties, meeting the request of the Recapitalized Financial Institutions unless there are any special problems in view of the criteria for judgment as mentioned below, including the requirement of not lowering the capital adequacy ratio in principle.

While it is requested that Preferred Stocks be fairly sold to third parties, in view of the purport that financial institutions were recapitalized by issuing preferred stocks, DICJ will give due consideration to the independence in management of the Recapitalized Financial Institutions which issued such preferred stocks.

In the case of selling them in the capital market, DICJ will conduct their sale by considering stock market conditions.

(2) Criteria for judgment

(i) Avoiding public costs

Whether the repayment, etc. is possible at a proper value that is above the acquisition value

(ii) Not damaging financial system stability

Whether the proposed repayment, etc. will have any negative impacts on markets, from the viewpoint of its method or scale, etc.

(iii) Not damaging the soundness of management of the financial institution

Whether there is no problem with, for instance, the progress of the plan of the financial institution for restoring sound management, and with market evaluation, etc.

3. Where the Recapitalized Financial Institution has made a request for repaying the public funds injected

(1) Concept

DICJ will meet the request for repayment unless there are any special problems in view of the criteria for judgment as mentioned below, including the requirement that the financial institution concerned can consistently ensure a satisfactory capital adequacy ratio.

(2) Criteria for judgment

(i) Not damaging the soundness of management of the financial institution

- Whether the financial institution will be able to maintain its capital adequacy ratio at a sufficient level after the repayment, etc.
- Whether there is no problem with, for instance, the progress of the plan of the financial institution for restoring sound management, and with market evaluation, etc.

(ii) Avoiding public costs

- Whether the repayment, etc. is possible at a proper value that is above the acquisition value

(iii) Not damaging financial system stability

- Whether the proposed repayment, etc. will have any negative impacts on markets, from the viewpoint of its method or scale, etc.

4. Where it is very favorably circumstanced to make the dispositions in view of the terms of the preferred stocks and stock price movements

(1) Concept

DICJ will make the disposition of the preferred stocks, unless there are any special problems, if it is deemed proper in view of the criteria for judgment as mentioned below, taking into consideration that it is appropriate for DICJ to ensure collection of profits accruing on the public

funds on the premise of maintaining sound management of the Recapitalized Financial Institutions and avoiding negative impacts on markets when it is considered very favorably circumstanced to sell Preferred Stock at that time in view of the terms of preferred stocks and stock price movements, while a request from the Recapitalized Financial Institution for the sale is still not expected to be offered after consultation with it.

Upon making the disposition, from the perspective of respecting the capital policy of the Recapitalized Financial Institution, DICJ shall see whether there is an intention of request for disposal of preferred stocks from the Recapitalized Financial Institution in advance, and make sufficient consultation with it.

(2) Criteria for judgment

- (i) That it can be estimated to earn profits for certain by selling the Preferred Stock at a fair price in view of the terms and stock price movements of Preferred Stock, and that it is very favorably circumstanced to make the disposition at that time

Note: Concerning the preferred stocks, if the price of the common stock is being maintained for about 30 consecutive trading days at a price of approximately more than 150% of the conversion price, it is judged that profits are estimated to be earned certainly by making the disposition.

- (ii) Not damaging financial system stability

Whether the proposed repayment, etc. will have any negative impacts on markets, from the viewpoint of its method or scale, etc.

- (iii) Not damaging the soundness of management of the financial institution

Whether there is no problem with, for instance, the progress of the plan of the financial institution for restoring sound management, and with market evaluation, and so on.

DICJ shall determine the timing and size of converting or selling of Preferred Stocks, taking into account the timing of the revision of the convertible price, in order to avoid negative impacts on markets.

It is required that the method of making the disposition and conversion of Preferred Stocks is fair. Furthermore, upon converting (see Note) or selling, DICJ shall give due consideration to the independence of management of the Recapitalized Financial Institutions which issued them, in view of the purport that the financial institutions were recapitalized by issuing the preferred stocks.

Note: The conversion is made from the perspective of asset management.