

## **Administrative Action on The Bank of Tokyo-Mitsubishi UFJ, Ltd.**

### **I. Description of Administrative Action**

#### **Order based on Article 26 (1) of the Banking Law**

1. In order to ensure sound and appropriate business operations in view of customer protection in securities transactions, etc. involving investment trusts, etc., the Bank must develop and enhance its compliance system, internal control system, etc. with due emphasis on the following points:

- (1) An unequivocal statement of commitment by the management to establish a customer-oriented sales system and a compliance system;
- (2) Establishment of a customer-oriented sales system and an operational promotion system in view of ensuring appropriate business operations in accordance with laws, regulations and other rules;
- (3) Development of an accountability system for customers at branches and thorough compliance with laws and regulations;
- (4) Establishment of a compliance system through the enhancement of mutual-checking functions in branches and divisions related to the headquarters;
- (5) Verification of adequacy of various rules and manuals in view of ensuring a customer-oriented sales system, etc.; and
- (6) Clarification of the respective responsibilities of officers and employees who have caused the problems, etc. referred to in “II. Reasons for Administrative Action” below.

2. A plan to improve the business operations pertaining to 1 described above must be submitted by July 11, 2007 and implemented promptly.

3. Subsequent to the implementation of 2 described above, and until the plan to improve the business operations is fully carried out, a summary outlining the progress and implementation of the plan must be prepared every three months, starting at the end of August 2007, and is to be submitted by the 15th day of the following month.

4. Including but not limited to the facts that serve as the reasons for the administrative action, the Bank must verify its governance, compliance system and internal control system in relation to its domestic operations in general while collaborating with Mitsubishi UFJ Financial Group, Inc. and make necessary improvements, in order to engage in business operations and deal with customers in a sound and appropriate manner in the future.

The Financial Services Agency will follow up on the implementation and progress of the improvement measures as necessary.

## **II. Reasons for Administrative Actions**

1. According to the inspection of the Bank conducted by the Securities and Exchange Surveillance Commission (SESC) and the report made by the Bank in response to the report order issued pursuant to paragraph 2-10 of Article 65 of the Securities and Exchange Law and paragraph 1 of Article 24 of the Banking Law, the Bank was found to have handled securities transactions involving investment trusts, etc. (hereinafter referred to as “investment trust sales operations”) in breach of its duty of good faith and fair dealing with respect to customers and have serious problems in its internal control system as described below.

(1) There were many cases in which the Bank was found to have made administrative errors due to negligence—including the failure to place orders and making erroneous orders—and caused losses to customers, and responded inappropriately and unfairly around the time of the inception of the Bank of Tokyo-Mitsubishi UFJ (hereinafter referred to as “new bank”) especially at the branches of former the Bank of Tokyo-Mitsubishi, as exemplified by the following incidents:

1) The Bank repeatedly apologized to customers without explaining the possibility of corrective processes, restitution in integrum and compensation of losses, and attempted to obtain reconfirmation of transactions and thereby resolve the matter; and

2) After the Bank decided that the matter had been resolved by obtaining reconfirmation without giving sufficient explanation of the restitution in integrum and compensation of losses, it carried out restitution in integrum and compensation of losses as a result of complaints filed by customers.

(2) These incidents were attributable to the following underlying factors. In general, serious problems were found in the governance, internal control and compliance systems.

- 1) The former UFJ Bank had explicitly stipulated that in the event of administrative errors, the response to customers was, in principle, restitution in integrum, and apology alone was strictly prohibited, following the suggestions made in an inspection conducted by SESC in the past. On the other hand, the former Bank of Tokyo-Mitsubishi had nothing more than general provisions such as on reports to senior staff, which were insufficient in content. Upon their merger in January 2006, the Bank adopted the rules of the former Bank of Tokyo-Mitsubishi based on working-level judgment without conducting any particular review in consideration of such background. This resulted in the failure to pass on specific procedures that drew the former UFJ Bank's lessons to the new bank.
- 2) Throughout the former Bank of Tokyo-Mitsubishi and the new bank, branches and divisions related to the headquarters held the view that incidents would be resolved by apologizing to customers and obtaining their reconfirmation. Based on such a view, the staff in charge of compliance at branches overlooked inappropriate responses to customers, and checking functions failed to work on the operations floor. Furthermore, as administrative errors in securities operations were subject to demerit points proportionate to the size of losses and the number of cases in the in-house administrative commendation scheme throughout the former Bank of Tokyo-Mitsubishi and the new bank, some branch managers handled incidents by apologizing to customers and obtaining their reconfirmation to prevent demerit points due to losses from affecting their standing in the in-house commendation scheme. As explained here, the Bank is found to have been inadequate in thoroughly enforcing the principle of investor protection in the Bank, including giving priority to business performance over investor protection.
- 3) The new bank had placed different staff members in charge of branches with respect to each former bank in the same administrative divisions of the headquarters that receive reports of occurrences of administrative errors from branches and give them instructions on how to deal with them. However, such staff members did not collaborate with each other adequately and overlooked the discrepancies between branches in their responses to customers. The compliance division left the task of dealing with incidents of administrative errors entirely to the administrative division, and the compliance division's monitoring system was inadequate. Moreover, the audit division failed to identify the actual state of this problem as its audits did not address the appropriateness of branches' responses to customers. As explained here, the systems and responses of the divisions related to the headquarters were generally found to be inadequate.
- 4) The management was not aware of the inadequate headquarters' systems, in addition to the actual state of the operations floor where inappropriate incidents were found sporadically throughout the former Bank of Tokyo-Mitsubishi and the new bank. Furthermore, it overlooked inadequate working-level discussions about reviewing the rules at the time of the merger. As explained here, the management's involvement and awareness were found to be

inadequate.

2. In order to prevent such incidents from recurring, it is important that the management, the divisions related to the headquarters and the sales operations floor fully re-acknowledge the importance of customer protection. With this in mind, it is necessary to take concrete measures to ensure a customer-oriented sales system, including but not limited to investment trust sales operations.

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