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Private CEO Luncheon Panel Briefing

“Opportunities for Cooperation between the Australian and Japanese Financial Sectors “

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Speech by:

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Good Afternoon, I am Kohei Tsushima the head of Bank of Tokyo-Mitsubishi UFJ in Australia and New Zealand. I am honoured to speak to you today and to share the podium with such a distinguished panel.

May I begin by explaining that the Bank is part of the Mitsubishi UFJ Financial Group which is listed on the Tokyo Stock Exchange and comprises the Bank, Mitsubishi UFJ Trust & Banking and Mitsubishi UFJ Securities.

As of yesterday, the Group had a market capitalisation of ¥11 trillion (about A$110 billion), with total assets of ¥195 trillion (about A$ 1.95 trillion). We have over 40 million retail customers in Japan and over 400,000 corporate customers giving us the largest reach in the Japanese financial system.

Having given you a brief introduction to MUFG, let me now talk about Japan and the opportunities in the financial sector for Australia.

Last year Australia celebrated the 50th anniversary of the Japan-Australia Commerce Agreement which provides vivid evidence of how the bilateral relationship has been maintained throughout its history, based on mutual understanding.

In 2006, the largest export item from Australia to Japan was coal at 31%, followed by metallic ore such as iron, copper, and zinc at 19%, with the next in line being natural gas at 16%. These three top items comprise 66% of the total exports from Australia to Japan, and as can be easily recognized, they are all resources and energy related.

This confirms that the bi-lateral relationship has until now been based heavily on resources and to a lesser extent agriculture. However both Australia and Japan have changed significantly over the last 50 years particularly in Australia where the mining and agricultural sectors of the economy are dwarfed by the services sector.

It is time for the Australia Japan relationship to move to a new phase where cooperation in the services sector will compliment the relationship based on Australia's strength in resources and agriculture.

In Japan, total personal financial assets amount to over 1,500 trillion yen. But about half of the assets are invested - or rather left - in ordinary and savings deposits. This was said to be because traditionally Japanese preferred safety over possible high returns.

However, as the baby-boomers - those born in the late 1940s - are beginning to reach retirement age in massive numbers, some of their retirement allowances are beginning to be invested in foreign bonds and foreign currency denominated loan trusts. This may be partly due to the prolonged low long-term yields on traditional investment tools, or perhaps due to anxieties about the soundness of the pension system or strength of the Japanese economy, but in any case, large increases are being observed in investments in relatively high-risk instruments and an increasing outflow of funds from Japan.

An immediate issue for us that with the declining population, the total of these assets will also decline unless we become more adept at creating financial products with the appropriate risk/reward characteristics to maintain or grow our financial assets and ensure that a sufficient proportion of such assets are invested in Japan.

On the other hand, the breakdown of the personal financial assets of Australians shows a very different picture. Close to half of the total is entrusted to professionals for investing in such items as investment trusts, stocks, and pension investments. Only about 20% is placed in deposits.

This is probably because in Australia, such trends as securitization of assets, the evolution of investment banks and development of the asset management business in infrastructure related, and privatization of infrastructure assets began early. Australian financial institutions have become well trained and versed in these types of transactions.

In Australia, advanced financial products and an environment have been established in which general depositors and investors can place their money at ease. There seems to be much that Japan's financial firms can learn from Australia in this regard.

The diversification of financial products and services, the creation of an environment for investing safely, and the solidification of a system to protect the investors, which have all, already been realized in Australia, are essential for Japan in securing the trend of shifting from "savings to investments," in other words, of converting the financial structure centered on indirect-financing to direct financing.

As an indication of the recent trend in Japan of the shift from indirect-financing to direct-financing, the increase of so called "market oriented indirect financing" can be observed. "Market oriented indirect finance" is where the market participants are limited to those with sufficient knowledge of risks and their structures, and individuals are able to access the market managed by the professionals through financial institutions acting as intermediaries. In Japan, the volume of syndicated loans arranged and the total market value of REITs (Real Estate Investment Trust) have grown to five times that of five years ago, indicating the successful efforts exerted by those involved in financial services. If Japan and Australia, the two countries among Asian countries with advanced positions in the development of financial instruments and improved market environments, can learn from each other, provide mutual support, and enhance their financial skills, it will have a productive effect on the development of financial markets throughout Asia.

There are a range of other opportunities such as private sector funding of public infrastructure and funds management which we expect to pursue to together with Challenger our strategic partner in Australia.

One final point which I would like to make is that the financial institutions of Japan and Australia are faced with a difficult challenge of improving the uneven distribution of capital in the Asian region. Currently, a large amount of funds accumulated in Asia are flowing out the region and into Europe and the United States through non-Asian financial intermediaries and settlement systems. The funds are then flowing back to Asia as European or American investments. This is considered as one of the obstacles to effective and self-reliant growth in Asia. The improvement of cash flow within the region is essential as there is no doubt that various financing needs such as infrastructure development and environmental measures will continue to arise in Asia.

To achieve this goal, the financial institutions of Japan and Australia are expected to take the initiative from their respective positions. An example of such actions is to make continuous demands on the deregulation of financial services during the EPA and FTA negotiations within the region.

Thank you for the opportunity to address you today and I look forward to your questions during our panel discussion.