

Although abiding by the new capital adequacy standards proved more difficult for Japanese banks than first anticipated, it did not cause any reduction in the banks' share of outstanding corporate equity. In fact, given the reduced value of unrealized capital gains, selling equities would have only made matters worse by further reducing supplementary capital needed to achieve the 8% ratio referred to above.

The Japanese government took two steps in August 1992 to indirectly stabilize equity prices by reducing bank incentives to realize capital gains.¹¹ First, banks were allowed to omit reporting in their interim accounts (September) the losses on equities whose market value had fallen below book value.¹² Typically, banks would have sold other equities to cover the losses, putting further downward pressure on stock prices. Second, the Ministry of Finance relaxed the limit on dividend-payout ratios for banks.¹³ In the past, some banks had avoided cutting dividends by realizing capital gains on their equity holdings to boost profits.

In summary, the two main motives that Japanese banks have had to sell equity holdings in the past few years -- to make up for real estate losses and to boost profits generally -- have likely been at least offset by the contribution of latent profits to supplementary capital (even though that contribution declines along with stock prices) and the government initiatives outlined above. The present share of outstanding equity held by commercial banks is estimated at about 18%.¹⁴

2.2 Degree of Ownership Concentration

The fact that financial institutions hold over 40% of outstanding equity in Japan does not reveal anything about the concentration of ownership. With 11 city banks, 3 long-term credit banks, 7 trust banks, almost 130 regional banks and hundreds of credit associations and cooperatives, it is conceivable that the collective equity held by financial institutions could be quite widely distributed. In terms of management control and business influence over a particular corporation, there is a big difference

¹¹ See International Monetary Fund, *op. cit.*, p. 13.

¹² The book value of shares is calculated by dividing common equity (reported in balance sheets as the difference between assets and liabilities) by the number of shares outstanding. The market value is simply the share price in the market.

¹³ The dividend-payout ratio is the ratio of dividends to corporate earnings.

¹⁴ See R.W. Wright, "Japanese Financial Flows to Canada", in *Japanese Finance in Transition: Implications for Canada*, The Canada-Japan Trade Council, Ottawa, May 1993, p. 36.