

so except through some limited mergers or acquisitions in which already existing retail networks are taken over.⁸³ There has been no interest on the part of foreign banks in establishing retail banking networks in Japan.⁸⁴ As of March 1989, Japan's city and regional banks together had over 15,000 branches.⁸⁵

Until the financial reform law was passed by the Diet in June 1992, Japanese commercial banks had limited securities powers beyond underwriting and trading in government securities.⁸⁶ Foreign banks, which had pushed for reciprocal access rather than national treatment, had more extensive business powers with respect to securities. Licences were granted for foreign firms to underwrite, distribute, trade and broker debt and equity securities, as long as they conducted similar business in their home countries or elsewhere. Article 65 of the Securities and Exchange Law, which prohibits Japanese commercial banks from becoming engaged in investment banking, was only partially dismantled in the 1992 reform. There remain a number of barriers between banking and securities activities, and the impact of the changes will be staggered over several years.⁸⁷

In addition to the written laws that govern Japan's banking sector, the Ministry of Finance has other means to oversee the business of banking, including cabinet orders (*seirei*), ministerial orders (*shorei*), subsidiary regulations (*kisoku*), circulars (*tsutatsu*) and directives (*kunrei*).⁸⁸ There are also important oral directives, known as "administrative guidance" (*gyosei-shido*), issued during consultations between

⁸³ See OECD, *Banks Under Stress*, Paris, 1992, p. 118. An example of international bank expansion by the acquisition of an already existing retail network is the Bank of Montreal purchase of Harris Bankcorp. Bank of Montreal plans to aggressively expand Harris' retail banking and small-business banking operations in Chicago and throughout the Midwest.

⁸⁴ See B.W. Semkow, *op. cit.*, p. 355.

⁸⁵ By comparison, Royal Bank of Canada, the country's largest, has about 1,700 branches.

⁸⁶ The 1992 reform law is known as the Law Concerning the Realignment of Relevant Laws for the Reform of the Financial System and the Securities Trading System, Law Number 87 of 1992.

⁸⁷ See T.F. Cargill and G.F.W. Todd, *op. cit.*, p. 49.

⁸⁸ See B.W. Semkow, *op. cit.*, p. 340.