

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. **10809** ]  
November 6, 1995 ]

**Closing of The Daiwa Bank Trust Company, New York**

*To All Depository Institutions, and Others Concerned,  
in the Second Federal Reserve District:*

The following statement has been issued by the Board of Governors of the Federal Reserve System, the New York State Banking Department, and the Federal Deposit Insurance Corporation:

Federal and State banking regulators have announced Consent Orders terminating the United States operations of The Daiwa Bank, Limited, Osaka, Japan.

Consent Orders terminating the bank's operations within 90 days were announced by the Federal Reserve Board, the New York State Banking Department and the Federal Deposit Insurance Corporation, as well as state supervisory authorities in California, Illinois, Massachusetts, Florida and Georgia.

The Consent Orders apply to The Daiwa Bank, Limited, and its U.S. subsidiary, The Daiwa Bank Trust Company, New York.

Printed on the following pages is the text of a Joint Statement issued by the agencies regarding that action.

WILLIAM J. McDONOUGH,  
*President.*

**Board of Governors of the Federal Reserve System  
Federal Deposit Insurance Corporation  
New York State Banking Department**

JOINT STATEMENT

The Federal Reserve Board, the New York State Banking Department, and the banking departments of the States of California, Illinois, Massachusetts, Florida, and Georgia have issued a joint order terminating the banking operations in the United States of The Daiwa Bank, Limited, Osaka, Japan. The New York State Banking Department and the Federal Deposit Insurance Corporation have also issued orders against Daiwa's New York state-chartered trust company, The Daiwa Bank Trust Company, requiring the termination of the bank's operations and federal deposit insurance, which may be accomplished through the sale of the institution. The Daiwa Bank, Limited, Osaka, Japan, and The Daiwa Bank Trust Company, New York have consented to the issuance of these orders.

The agencies have taken these actions on the basis of information indicating that Daiwa and The Daiwa Bank Trust Company and their officials engaged in a pattern of unsafe and unsound banking practices and violations of law over an extended period of time that are most serious in nature. This information includes the following:

- On September 18, 1995, Daiwa reported a loss exceeding \$1 billion as a result of trading activities conducted at its branch in New York from 1983 to September 1995. These losses were not reflected in the books and records of the bank or in its financial statements, and their existence was concealed through liquidations of securities held in the bank's custody accounts and falsification of its custody records.

- Daiwa has indicated that, while its senior management learned about the trading losses at the New York branch on July 24, 1995, the senior management of Daiwa and its New York branch directed that those losses be concealed from U.S. bank regulatory and law enforcement authorities and the public for almost two months and also directed the continuation of transactions designed to avoid the disclosure of Daiwa's losses.
- In 1992 and 1993, the senior management of the New York branch of Daiwa undertook a series of actions designed to deceive bank examiners regarding Daiwa's trading activities, including providing written notice to the Federal Reserve that actions had been taken to separate the custody and trading functions at the branch, while continuing to operate without such controls in place.
- In early October 1995, following the commencement of governmental investigations into trading losses incurred by a Daiwa branch in New York, Daiwa reported that The Daiwa Bank Trust Company incurred losses of approximately \$97 million as a result of trading activities, at least some of them unauthorized, during the approximate period of 1984 through 1987. These losses should have been, but purposefully were not, reflected in the books and records and financial statements of the trust company, and were otherwise concealed from federal and state examiners and regulatory authorities through a series of transactions by which the losses were absorbed by off-shore affiliates. The senior management of Daiwa and the trust company participated in these actions.

The orders require Daiwa to terminate its banking activities, which are conducted in the United States at The Daiwa Bank Trust Company and at Daiwa's branches, agencies, and representative offices in 11 states, by February 2, 1996. This period can be extended by the agencies in order to achieve an orderly resolution of this matter.

Daiwa has also agreed to cooperate with the Federal Reserve Board, Federal Deposit Insurance Corporation, and New

York State Banking Department and the other state regulatory authorities in their review of Daiwa's banking activities in the United States. In this regard, the agencies' orders also require that Daiwa maintain its books and records in New York and elsewhere throughout the United States to facilitate the agencies' reviews.