91-11-11268

Keio Business School

Mitsubishi UFJ Financial Group and Morgan Stanley (B)

Equity Stake in Morgan Stanley

On September 22nd 2008, Mitsubishi UFJ Financial Group announced it had decided to take an equity position in Morgan Stanley. In the same announcement's press release MUFG stated it would obtain approximately a 10 to 20% interest in Morgan Stanley's equity and would send at a minimum one executive director to be on Morgan Stanley's Board. According to various media sources the deal was decided in 4 days. Although, when the equity offer came in from Morgan Stanley on September 19th 2008, the firm's reaction was clearly different. The CEO of MUFG Nobuo Kuroyanagi, who was just settling into his position as head of the firm, stepped up to the negotiation table, and within the allotted response time, on the morning 22nd of September, before the New York Stock Exchange open eastern standard time, had came down with a conclusion with a select team of staff members, hammering out the amount of equity that could be provided to Morgan Stanley and decided that an inspection of more detailed due diligence condition could be ironed out later on.

MUFG had three main points in terms of how they came to the decision regarding the Morgan Stanley deal. The first was that the Federal Reserve (FRB) had decided to recognize and allow Goldman Sachs and Morgan Stanley in becoming Bank Holding Companies under the Bank Holding Company Act. By coming under the supervision of the FRB, if unpredicted conditions were to occur, the firms could be supplied easily with funds and for MUFG this meant the ability to have a form of governmental guarantee. The second point was that among the securities firms, Morgan Stanley had most precise and publicly announced data on its positions relating to sub-prime loans. The fact that although the firm was holding roughly $10.3 billion in sub-prime assets, MUFG was comforted by the fact that these assets were seen as being completely hedged, something that was not the case when Merrill Lynch was absorbed into Bank of America, where the firm later posted $8.89 billion in lost due to credit exposures.[1]

Kei Shotaka (M32), Robert Ings (M32) and Kotaro Inoue (Associate Professor, Graduate School of Business Administration, Keio University)prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

This case is published by Keio Business School. Inquiries about reproducing the case should be referred to Keio Business School (4-1-1 Hiyoshi, Kouhoku-ku, Yokohama-shi, Kanagawa-ken, 223-8526; phone +81-45-564-2444; e-mail case@kbs.keio.ac.jp). To order copies of the case, go to http://www.kbs.keio.ac.jp/

[1] HBR Case: "*Bank of America acquires Merrill Lynch (A)*", 2010.