INVESTMENT COMPANY INSTITUTE

MEMO# 19872

March 21, 2006

Notice of Conference Call to Discuss the FSA's Recommendations on Japan's 5% Rule for Reporting Significant Shareholdings

 [19872] March 21, 2006 TO: INTERNATIONAL COMMITTEE No. 5-06 INTERNATIONAL INVESTING SUBCOMMITTEE No. 4-06 RE: NOTICE OF CONFERENCE CALL TO DISCUSS THE FSA'S RECOMMENDATIONS ON JAPAN'S 5% RULE FOR REPORTING SIGNIFICANT SHAREHOLDINGS Japanese rules generally require shareholders in Japanese securities to disclose certain information, including a sixty-day transaction history, within five business days of crossing a 5 percent ownership threshold. This is often referred to in Japan as the “regular method” of reporting significant shareholdings. Since 1993, mutual funds have been permitted to make quarterly filings that do not include a transaction history, as long as the fund does not intend to control the issuer of the securities and holds no more than 10 percent of the total outstanding shares of the issuer.1 This has come to be known as the “special method” of reporting. As we discussed at the last International Committee meeting and International Investing Subcommittee call, we learned last November that the Financial Supervisory Agency (FSA) was considering eliminating the special method of reporting. In close coordination with the American Chamber of Commerce in Japan, we lobbied the FSA to retain the special method of reporting. We argued that its elimination would significantly increase the costs of reporting significant shareholdings in Japan and the likelihood of undesirable trading strategies (i.e., those based on front running and free riding that seek to take advantage of the increase in information in the Japanese markets). A senior member of the FSA staff recently provided the Institute with the attached powerpoint presentation in an effort to clarify certain points relating to the FSA’s recommendations for changes to the special method of reporting. The FSA staff member indicated that: • The FSA no longer intends to recommend the complete elimination of the special method of reporting. Rather, it will recommend shortening the reporting cycle from three months to two weeks. 1 See Memorandum No. 4728, dated April 23, 1993. 2 • FSA will recommend adopting a clearer definition of the intent necessary to qualify for “special method reporting. The current rule allows shareholders that do not intend to “gain control of the company’s business activities” to utilize the special method. The FSA will recommend that the rule be changed to permit only shareholders that do not intend to “add substantial changes to the company’s business activities, or exert substantial influence on them” to file under the special method. • The FSA will recommend a modification to the method of calculating holdings to determine whether a reporting

threshold has been reached. Under the current rules, Japanese securities lent to an affiliate may be double-counted. The FSA will propose to net out securities lent between affiliated companies in an effort to eliminate the possibility of double-counting. The FSA believes that this change will substantially reduce the filing burden on many large, international asset management complexes. • The FSA will recommend simplifying the required reporting requirements. • The FSA’s recommendations will not be part of the annual budget-related legislation passed by the Diet this month, much of which will take effect on April 1st. Instead, the recommendations will become part of the Investment Services Law, a comprehensive package of financial services legislation that is expected to pass in the Diet this summer with lengthy implementation periods for many of its provisions. The FSA staff member explained that, as a result, the changes to the special method of reporting are not likely to take effect until 2007. The FSA has expressed an interest in the reaction of Institute members to these recommendations. Accordingly, we will have a short conference call to discuss this issue at 1:00 p.m. (Eastern time) on Thursday, March 23, 2006. DIAL IN INFORMATION FOR THE CALL Within the US: 888-425-4795 Outside the US: +517-623-4582 Passcode: 27741 If you plan to participate, please send an RSVP email to Ruth Tadesse at rtadesse@ici.org Robert C. Grohowski Senior Counsel - International Affairs Attachment (in .pdf format)