

**MEMO# 6356**

November 9, 1994

## INSTITUTE VISIT TO JAPAN

\* Pension plan management in Japan is available only to trust banks, insurance companies and licensed discretionary advisers. Most U.S. investment managers seek access to the Japanese pension market as discretionary advisers, although the vast majority of pension assets in Japan are managed by trust banks and insurance companies. November 9, 1994  
TO: BOARD OF GOVERNORS NO. 115-94 INTERNATIONAL COMMITTEE NO. 20-94 RE:  
INSTITUTE VISIT TO JAPAN \_\_\_\_\_

During the week of October 24, 1994, Cathy Heron, Mary Podesta and I were in Japan to step up Institute efforts to obtain increased pension market access for U.S. investment managers. By preparing a paper that highlighted the problems in the Japanese pension market and presenting this paper to Japanese government officials and press just prior to the resumption of the U.S.-Japan trade negotiations, the Institute was able to draw attention to our market access issue at a particularly important time. We also attended the Eighth Annual International Investment Funds Conference. A. INSTITUTE EFFORTS FOR INCREASED PENSION MARKET ACCESS IN JAPAN Background As you know, increased access to the Japanese pension management market has been a priority of the Institute for the past few years. In this regard, we have sought regulatory changes in Japan that would provide discretionary investment advisers\* with (1) improved access to Japan's corporate pension market and (2) access to public plan assets by permitting discretionary advisers to compete with trust banks and insurance companies to manage the portion of public pension plan assets available for non-governmental management. For this purpose, the Institute has worked closely with Treasury Department and other Administration officials on pension market access issues. The Clinton Administration has made access to Japan's pension markets for U.S. advisers a priority in the ongoing trade negotiations with Japan. - 2 - Institute-Sponsored Paper on Japanese Pension Market Most recently, the Institute retained the Employee Benefit Research Institute (EBRI) and Professor Robert Clark to produce the attached special report on the Japanese pension market. (Attachment A) The report, co-sponsored by the Institute and the European Federation of Investment Funds and Companies (the association of our European counterparts), was completed in late October. The report notes that Japan has one of the most rapidly aging populations in the developed world as a result of an extremely low birth rate and a very long life expectancy. For this reason, pension assets should be invested to produce the highest possible return under prudent investment strategies. As the report details, however, Japanese Ministry of Finance regulations inhibit competition among investment managers and constrain pension asset management. These regulations have resulted in lower pension returns than those of most other industrialized nations. The implications of these demographic trends and this poor level of investment return on pension plan assets are quite significant for Japan, but are as yet not well understood by the Japanese public. Discussions in Japan about Pension Market Access The Institute's report proved to be of significant interest in Japan, among both Japanese officials and the media. We presented the report, translated into Japanese, to

officials at the Ministry of Finance (MOF), the Ministry of Health and Welfare, the Pension Fund Association, and Nenpuku, the agency affiliated with the Ministry of Health and Welfare which is permitted to designate managers for the portion of public fund assets permitted to be invested in the securities markets. Immediately following our discussions in Tokyo, U.S.-Japan trade talks resumed in Washington, where pension management issues were a major topic of discussion. In Tokyo and here in Washington (both before and after the trip), we also met with a number of Japanese news organizations to describe both the report and our discussions with MOF. The high level of media interest suggests that market access issues in this area are likely to get significant coverage in the future. Attached are translations of several articles that appeared in the Japanese press regarding the Institute's visit and the report. (Attachment B) In addition to wide circulation to the press, copies of the report have been provided to Administration officials who have indicated that this type of pressure by the U.S. and European money management industries would be helpful in the ongoing trade negotiations with Japan. We have learned informally from Administration officials that, to date, the Japanese have not - 3 - stated what concessions they will make, although they have given indications that they will agree to permit a single firm to be licensed both as an investment trust manager and a discretionary investment adviser. The U.S. has asked the Japanese to be prepared to describe all the changes Japan is willing to make in talks scheduled for November 16-18. The Administration will continue to work for an agreement that includes pension market liberalization. B. EIGHTH ANNUAL INVESTMENT FUNDS CONFERENCE While in Tokyo, we also attended the Eighth Annual Conference of mutual fund industry and association representatives from around the world. The conference, hosted this year by the Japanese Investment Trust Association and attended by representatives from 17 countries, provided an opportunity to discuss issues of common interest and to learn about developments in other mutual fund markets. Attached is a copy of the conference agenda. (Attachment C) On the day before the international conference we met with representatives from the European Union countries to discuss issues of particular interest to the U.S. and the E.U. As a result of these discussions, we agreed to continue to work together more closely on market access efforts, such as the report on the Japanese pension market. Specifically, it was agreed that a coordinated effort should be undertaken with respect to Japan's investment trust market. We expect this will be on the agenda of the Ninth Annual Conference, to be held in France next year. In June, a blue ribbon advisory council to MOF issued a report on the need for reform of investment trust regulation. The report recommended comparatively minor reforms and expressly failed to recommend elimination of the prohibition on dual licensing of discretionary investment advisers and investment trust managers, a prohibition that makes engaging in business in Japan prohibitively expensive for foreign money managers. The U.S. and E.U. delegates agreed to develop a joint response to the report expressing our disappointment with the advisory council's refusal to deal with this and other access issues. The statement will be provided to MOF and trade negotiators in both the U.S. and the E.U. \* \* \* We will keep you informed of further developments on these market access issues. Paul Schott Stevens

General Counsel - 4 - Attachments