

MEMO# 7725

March 22, 1996

INTERNATIONAL PRIORITIES -- FOLLOW UP FROM INTERNATIONAL COMMITTEE MARCH 6 MEETING

ACTION REQUESTED March 22, 1996 TO: INTERNATIONAL COMMITTEE No. 10-96 RE: INTERNATIONAL PRIORITIES -- FOLLOW UP FROM INTERNATIONAL COMMITTEE MARCH 6 MEETING _____ The purpose of this memorandum is to ask for your assistance in establishing priorities for the Institute's international efforts in the coming year. As a follow up to our March 6 International Committee meeting, we would appreciate your comments on several matters that are described below. Please consider these matters and provide us with your comments by April 30, 1996. EMERGING MARKET CLEARANCE, SETTLEMENT AND CUSTODY In the portion of the March 6 meeting during which the International Committee and the Securities Operations Subcommittee met together, it was agreed that the Institute should work with the World Bank, International Finance Corporation, and other similar organizations to address clearance, settlement, and custody issues in emerging markets. Staff of the World Bank and International Finance Corporation have indicated that they would welcome the Institutes participation in their efforts to work with countries on these issues. The group also discussed the survey drafted by the Securities Operations Subcommittee to obtain information on how investment advisers minimize risk with respect to local subcustodians and brokers when investing in foreign markets and how they deal with operational issues in those markets. To follow up on these discussions, we are asking members of the International Committee and the Securities Operations Subcommittee to provide a brief description of the countries and the particular clearance, settlement or custody practices of most concern to your funds and any comments you may have on the attached draft Foreign Market Due Diligence Survey. The information on countries and practices of concern will be shared with international organizations such as the World Bank and International Finance Corporation on an anonymous basis. Comments on the draft Due Diligence survey will be used by the Securities Operations Subcommittee to develop a final version of the survey. WTO AND OECD NEGOTIATIONS The WTO negotiations that ended last June produced only an interim agreement. The WTO will start new negotiations next year that will end on December 31, 1997. In order to be prepared for - 2 - the next round of negotiations, and to take advantage of any other trade negotiations that may occur in the meantime, we need to establish current Institute priorities. Please give us your comments on which countries should be priorities for the Institute and which specific investment and access barriers in those countries should be eliminated. Recently, the OECD began negotiations on a multilateral agreement on investment (MAI) that would establish uniform principles on investment. These would include, for example, protection against expropriation and require countries to provide the right to transfer profits out of the

country. It is unclear whether the MAI will be drafted to cover portfolio investment or only cover direct investments. The US serves as Deputy Chair of the OECD negotiating committee. If the MAI is drafted to cover portfolio investing, we would be interested in any comments you might have on what matters should be addressed in this agreement.

FOREIGN SALES REGULATION GUIDE This year the Institute will publish a new country by country guide of general information on when US and other off-shore funds can be sold in various foreign countries. The new guide will cover whether private placement or other types of exemptions allow certain sales, whether these sales must be nonsolicited or are subject to numerical limits or net worth requirements, and what types of communications with investors are permitted. The guide will also indicate whether the countrys tax regime would allow offshore funds to be an attractive investment. Baker & McKenzie is preparing the information for the guide. Baker & McKenzie has drafted the attached questionnaire to use to obtain information for the guide. Please review the attached questionnaire and let us know if you have any comments on it. Baker & McKenzie will use your comments to prepare the final version of the questionnaire.

NOTE: NEXT INTERNATIONAL COMMITTEE MEETING MAY 22 AT 2:30 PM The next meeting of the International Committee will take place on May 22 at 2:30 PM following the Institutes General Membership Meeting. This will be a joint meeting of the International Committee and mutual fund industry representatives from a number of European Union countries. We hope that as many Committee members as possible will attend this meeting.

Mary S. Podesta Associate Counsel - International Please respond by April 30, 1996 by sending your response to my attention by mail or fax at 202-326-5839. If you have any questions, please call me at 202-326-5826.

Attachments 1. Survey of Emerging Market Clearance, Settlement and Custody Issues - 3 - 2. Draft Foreign Market Due Diligence Survey 3. Foreign Sales Regulation Guide -- Questions for Foreign Counsel