

**MEMO# 1693**

February 1, 1990

## **INSTITUTE TESTIMONY BEFORE WAYS AND MEANS COMMITTEE ON THE IMPLICATIONS OF EUROPE 1992**

- 1 - February 1, 1990 TO: BOARD OF GOVERNORS NO. 8-90 TAX MEMBERS NO. 6-90  
ACCOUNTING/TREASURERS MEMBERS NO. 5-90 INTERNATIONAL FUNDS TASK FORCE NO.  
2-90 RE: INSTITUTE TESTIMONY BEFORE WAYS AND MEANS COMMITTEE ON THE  
IMPLICATIONS OF EUROPE 1992

On January 30th, the Institute testified before the House Ways and Means Committee on the "Implications of Europe 1992 for the Mutual Fund Industry." Attached are both the oral and written testimony. The testimony notes that, although the mutual fund industry has met with striking success in the domestic marketplace, sales of U.S. funds abroad present a stark contrast. Currently, two bodies of law effectively bar American mutual funds from the export scene--foreign securities laws and U.S. tax laws. With respect to the barrier created by multiple European securities laws, the testimony notes that this problem may be nearing resolution. The EC Directive on undertaking for collective investment in transferable securities ("UCITS"), permits the European analogue to American mutual funds to be authorized for sale throughout Europe under one consistent body of regulation. A reciprocity agreement that would permit cross- marketing between the U.S. and the EC on the basis of the UCITS Directive is currently being discussed. However, U.S. funds will not be able to compete in Europe in a meaningful way unless relief from certain U.S. tax provisions is obtained. Thus, the U.S. tax laws should focus on the goal of putting the European investor in an American mutual fund in the same tax position as if that investor purchased a European fund. The testimony further notes that changes in the U.S. tax - 2 - laws that would permit the export of American mutual funds would enhance capital formation. Moreover, attracting foreign investment in the U.S. securities markets through mutual funds will not lead to foreign control over U.S. businesses, as may be the case with direct foreign investment. We will keep you informed of developments. Catherine L. Heron  
Deputy General Counsel Attachments