

MEMO# 3782

May 15, 1992

INSTITUTE LETTERS TO TREASURY CONCERNING NAFTA NEGOTIATIONS

May 15, 1992 TO: INTERNATIONAL COMMITTEE NO. 11-92 RE: INSTITUTE LETTERS TO
TREASURY CONCERNING NAFTA NEGOTIATIONS

_____ In the attached letters to the Department of Treasury the Institute expressed its concerns regarding the ongoing negotiations for a North American Free Trade Agreement. The U.S. proposal that the Agreement permit a broad range of cross-border financial services to date has been rejected by both Canada and Mexico. In lieu of the U.S. proposal, Canada recently proposed that the Agreement impose a standstill that would prohibit any new limitations on cross-border activities. However, a standstill may serve to lock the U.S. market into an open position while securing little if any increased access for U.S. advisers abroad. In the absence of an agreement to permit cross-border advisory services, a U.S. investment management firm seeking to advise and distribute Mexican mutual funds may be required to establish a Mexican securities firm subject to a \$10 million capital requirement. In addition, Mexico seeks to limit U.S. and Canadian firms to a specified market share and impose caps on the market participation of individual firms as well. The Institute proposed that U.S. firms should be allowed to establish one or more special purpose subsidiaries in Mexico that would perform investment advisory and fund underwriting services only and that would not be subject to a \$10 million capital requirement. Such special purpose firms should be subject to their own market share caps, determined independently of the caps imposed on securities firms generally. We will keep you informed of developments in the negotiations. Angela C. Goelzer Assistant Counsel - International Attachments

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