

MEMO# 6547

January 13, 1995

U.S. AND JAPAN REACH ASSET MANAGEMENT TRADE AGREEMENT

January 13, 1995 TO: BOARD OF GOVERNORS No. 8-95 INTERNATIONAL MEMBERS No. 1-95
INVESTMENT ADVISER MEMBERS No. 5-95 RE: U.S. AND JAPAN REACH ASSET MANAGEMENT
TRADE AGREEMENT

We are pleased to inform you that U.S. and Japanese trade negotiators reached an agreement earlier this week that is expected to expand significantly the opportunities for U.S. firms seeking to enter the pension management and investment trust (mutual fund) markets in Japan. The principal features of the agreement are described in the attached Institute press release. Since 1992, the Institute has placed a high priority on liberalization of Japanese restrictions that prevent U.S. investment advisers from obtaining meaningful access to the Japanese market. As we previously advised you, the Institute has worked closely with U.S. trade negotiators on these issues, and, in October 1994, the Institute co-sponsored a paper that documented the adverse effect these market access restrictions have had on pension plan performance in Japan. See Institute Memorandum to the Board of Governors No. 58-93 and International Members No. 19-93, dated June 28, 1993 and Institute Memorandum to the Board of Governors No. 115-94 and the International Committee No. 20-94, dated November 9, 1994. While the agreement does not eliminate all regulatory barriers, it represents an important step in opening the Japanese pension and investment trust markets to increased competition. The agreement provides access to a significant portion of Japan's public pension assets, amends the asset allocation rules applicable to pension plans to permit the use of specialized managers and requires the development of mark to market accounting rules and performance evaluation systems that will permit managers to compete based on performance. The agreement promises a gradual increase in the amount of private pension assets that can be managed by discretionary advisers. Nevertheless, a significant portion of these assets will remain reserved exclusively for trust banks and insurance companies to manage. The agreement also liberalizes investment trust (mutual fund) regulation in several important respects. As reported previously, Japan has agreed to permit the same firm to obtain a license as both a discretionary investment adviser and an investment trust manager without requiring separate capital, facilities, and personnel; expand the range of permissible investments for investment trusts; and implement a system of performance reporting for investment trusts. See Memorandum to Board of Governors No. 128-94 and International Members No. 10-94 dated December 23, 1994. We will keep you advised of developments. Catherine L. Heron Vice President & Senior Counsel
Attachment

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