

**MEMO# 2058**

July 26, 1990

# **INSTITUTE TESTIFIES BEFORE HOUSE TASK FORCE ON INTERNATIONAL COMPETITIVENESS OF U.S. FINANCIAL INSTITUTIONS**

July 26, 1990 TO: BOARD OF GOVERNORS NO. 51-90 SEC RULES MEMBERS NO. 54-90  
INTERNATIONAL FUNDS TASK FORCE NO. 16-90 RE: INSTITUTE TESTIFIES BEFORE HOUSE  
TASK FORCE ON INTERNATIONAL COMPETITIVENESS OF U.S. FINANCIAL INSTITUTIONS

On July 24, 1990, the Institute testified before the Task Force on the International Competitiveness of U.S. Financial Institutions, Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs. A copy of the Institute's written statement is attached. The Institute testified that despite tremendous success in the domestic marketplace in recent years and evidence of substantial worldwide market potential, the U.S. mutual fund industry's overseas sales have been minimal. Impediments to effective market access abroad have included foreign regulatory schemes (which in some cases make it legally impossible to register a U.S. fund for sale) and lack of effective access to distribution channels. The testimony further notes that dramatic changes, such as the integration of European securities markets in connection with "Europe 1992", are currently taking place in foreign markets. Thus, the adoption of the EC directive relating to undertakings for collective investment in transferable securities, or UCITS, which is designed to harmonize the various laws governing European mutual funds under a common scheme of investor protection, could facilitate the U.S. industry's efforts to gain increased access to the European market. However, the integration of the European market could also threaten the ability of U.S. funds to compete unless they gain access to that market as quickly as possible. The Institute's testimony states that developments abroad also are likely to intensify competition within the U.S. market, as foreign money managers grow and develop greater experience and expertise. The testimony emphasizes that a significant barrier to the international competitiveness of U.S. mutual funds is imposed by certain provisions of U.S. tax law which create major disincentives for most potential foreign investors in U.S. funds. In addition, the testimony indicates that certain changes to increase the flexibility of the regulatory regime applicable to mutual funds would facilitate internationalization. We will keep you informed of developments. Frances M. Stadler  
Assistant General Counsel Attachment

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.