

MINISTRY OF FINANCE  
THE JAPANESE GOVERNMENT

November 19, 1985

Mr. John S. R. Shad  
Chairman  
Securities and Exchange Commission  
Washington, D.C. 20549  
U. S. A.

Dear Mr. Shad:

It was my great pleasure to meet you during your recent visit to Tokyo. Together with Messrs. Takeuchi, Watanabe and Arai, I really appreciated the opportunity to discuss the matters of our mutual interest.

After that meeting, I had a feeling that it would be useful and desirable to both of our countries if we had regular meetings to exchange our views on the U.S. and Japanese securities markets. This is the reason why I personally asked Minister Utsumi to get in touch with you to convey my tentative proposal.

While the items to be discussed in the proposed meetings should be further considered in consultation with you and your colleagues, I would like to briefly mention the areas of our interest, though they might not cover all.

(1) Disclosure system for the issue and the secondary markets of securities

The Finance Minister's advisory council -- the Securities and Exchange Council -- is now reviewing the bond market of Japan with a view to facilitating corporate finance by domestic and foreign enterprises. The review includes the existing disclosure system for bond floatations. In this context, it would be useful to exchange our views on the disclosure systems of both countries.

(2) Regulatory system of securities industry

The number of Japanese securities companies doing business in the U.S. (at present 9) is increasing. The number of American securities companies in Japan (at present 9) is also increasing. Those numbers are expected to increase further in the future. Therefore, it becomes necessary for both of us to exchange our opinions on the regulation of securities industry.

(3) Regulatory system of investment advisory industry and investment companies

The Securities and Exchange Council is going to finalize shortly a recommendation that investment advisory industry, free from legal controls at present, should be properly regulated. In this connection, the regulatory practice of your commission is of our great interest.

We would also like to exchange information on regulatory practice and policy of investment companies, which are equivalent to securities investment trusts in Japan.

(4) Regulatory system of stock tradings on the exchange and the OTC markets

The number of foreign, especially American firms listed on the Tokyo Stock Exchange is increasing on one hand. The volume of ADR tradings of Japanese firms abroad has also increased considerably on the other. Under these circumstances, it would be useful for us to exchange information on regulatory practice of stock markets. We would also like to exchange our views on the OTC markets.

(5) Others

On stock and stock index option markets, etc.

If it is agreeable and convenient to you, I would propose to have the first meeting in Tokyo in mid-or late May next year and the second meeting in Washington, D.C. in the following year. While the member of the proposed meetings has yet to be decided after the consultation between both sides, I should be very happy if you could kindly attend the first meeting. For the meetings to be effective and fruitful, I would consider, if necessary, to send my staff to Washington for preparatory discussions.

I should be most grateful if you could let me know your response through Minister Utsumi.

With best regards,

Shunsuke Kishida  
Director-General  
Securities Bureau  
Ministry of Finance