

MEMORANDUM

January 16, 1986

TO: Chairman Shad
FROM: Rick Ketchum *RK*
RE: Meeting with Japanese Ministry of Finance ("MOF")

As you recall, Director-General Kishida of the MOF's Securities Bureau wrote you in November 1985 proposing a meeting between representatives of the SEC and MOF in Tokyo to exchange views on the U.S. and Japanese securities markets. I have attached a copy of his letter and your response supporting such a meeting.

We agree that a meeting with the MOF is timely. An initial meeting held in May 1986 in Tokyo, followed by a meeting six months later in Washington, would seem an appropriate way to begin this dialogue. The proposed agenda prepared by Director-General Kishida of the MOF's Securities Bureau provides a sound basis upon which to proceed, and can be refined through additional correspondence. 1/

We recommend that the following specific topics be discussed in the subject areas outlined by Director-General Kishida.

1. Primary and Secondary Market Disclosure

The MOF's Securities and Exchange Council currently is reviewing disclosure requirements for corporate bond offerings by Japanese and foreign enterprises. The MOF would like to talk about the U.S. and Japanese disclosure systems. The following specific disclosure topics could be included on the agenda:

- Our experience with the shelf registration process;
- Disclosure requirements for foreign issuers whose securities are trading in our secondary markets;
- Disclosure of annual segment information;
- Development of Japanese accounting principles;
- Role of financial analysts in the Japanese market.

1/ It might be helpful to discuss these proposed meetings with the Department of State in order to gain additional insights into both the concerns of the MOF and the relevant activities of the U.S. Embassy in Japan.

2. Foreign Broker-Dealer Regulation

The MOF has noted that the number of Japanese firms doing business in the U.S., like the number of American firms doing business in Japan, is increasing. The MOF would like to discuss the manner in which our respective securities industries are regulated. It would be useful to focus on the conditions under which foreign broker-dealers operate in the U.S. and Japanese securities markets and, in particular, the ability of foreign securities firms to become members of the Tokyo Stock Exchange. Although six foreign firms (including three from the U.S.) have recently been granted Tokyo Stock Exchange seats, other firms are still seeking direct access.

3. Investment Adviser and Investment Company Regulation

The MOF's Securities and Exchange Council will be recommending that the currently unregulated Japanese investment advisory industry be subject to regulation, and would like to know more about Commission oversight of the U.S. investment adviser community. The MOF also would like to discuss the regulation of investment companies in the U.S. and the equivalent securities investment trusts in Japan. The following Commission investment management initiatives could be included on the agenda:

- Proposed amendments to the Investment Company Act of 1940 to make it easier for the Commission to permit foreign investment companies to register and sell shares in the U.S.
- Preliminary consideration of a possible bilateral agreement between the U.S. government and the European Economic Community, which would permit the sale of shares in Europe of U.S. investment companies registered under the Investment Company Act of 1940 and the sale of shares in the U.S. of European investment companies on a reciprocal basis.
- No-action letters facilitating the activities of foreign investment advisers in the U.S.

4. Exchange and OTC Market Regulation

The MOF has recognized that securities from each of our countries increasingly are being traded in the markets of the other, and would like to discuss the regulation of the exchange and OTC markets. Topics that could be of interest to the MOF include:

- National Market System program: Given the fledgling nature of the Japanese OTC market and the dominance of the Tokyo Stock Exchange, the MOF might like to learn how the Commission has facilitated the development of the U.S. OTC market and the integration of the various exchanges and OTC markets.
- International electronic trading linkages and coordinated market information systems (e.g., Amex-Toronto and Boston-Montreal trading linkages, NASD-London quotation sharing).
- International market surveillance and information sharing: Agreements reached between the Commission, the Canadian provincial securities regulators, and the exchanges in connection with the implementation of the American-Toronto and Boston-Montreal linkages are models for international regulatory cooperation.

5. Derivative Instruments

The markets for derivative instruments in Japan are still in their infancy. The Yen bond futures contract traded on the TSE is only three months old, and appears to be the only derivative instrument traded on the Japanese markets. The MOF may be interested in how the U.S. options and futures markets are structured and regulated, the role these instruments play in our economy, and the proliferation of index products. It should also be informed of our efforts to amend our rules to permit the trading of the Tokyo Stock Exchange's yen bond futures by U.S. investors.

You have also requested information on travel expenses. \$2000 per person should cover airfare; per diem in Japan is \$147.00. 2/ In light of the reductions in the travel budget as a result of Gramm-Rudman, this trip will of course have to be evaluated with the other travel needs of the Commission.

We look forward to discussing these ideas with you and would be prepared to coordinate with the other Divisions in drafting a response to Director-General Kishida.

Attachments

cc: Dan Goelzer
John Huber/
Gary Lynch
Kathryn McGrath
Linda Quinn

2/ By coordinating our travel arrangements with the State Department, we might be able to obtain discounts on hotel accommodations.