

**Statement of the Investment Company Institute
Before the
Subcommittee on Domestic and International Monetary Policy,
Trade and Technology
Committee on Financial Services
April 1, 2003**

The Investment Company Institute is pleased to present its views on the Free Trade Agreements (FTAs) with Chile and Singapore, which have been submitted to Congress pursuant to the Trade Promotion Authority Act. The Investment Company Institute is the national association of the US investment company industry. Its membership includes 8,912 open-end investment companies (“mutual funds”), 554 closed-end investment companies, and 6 sponsors of unit investment trusts. Its mutual fund members have assets of about \$6.254 trillion, accounting for approximately 95% of total industry assets, and over 90.2 million individual shareholders.

The FTAs with Chile and Singapore achieve many of the asset management industry’s specific goals and contain significant benefits for the US asset management industry. Specifically, the agreements contain important market access commitments in asset management, eliminate several key regulatory impediments that prevent effective market access for US firms, and provide for greater transparency in the regulation of financial services. For these reasons, we urge the Subcommittee to support the passage of the FTAs.

The Institute’s statement describes the strides the agreements make in assuring that US asset management firms receive effective market access in Chile and Singapore. Moreover, as described below, many of the achievements in these FTAs will serve as important precedents for other trade negotiations.

I. Specific Market Access Commitments in Asset Management

Chile

The market access commitments obtained from Chile represent a major step for the asset management industry. Chile made no commitments in asset management in the 1997 GATS Financial Services Agreement. The FTA would, for the first time, afford the necessary legal certainty to US firms to establish wholly-owned affiliates in Chile to provide asset management services on a national treatment and non-discrimination basis. Moreover, the agreement specifically would provide national treatment and most-favored nation status to US firms in managing the voluntary portion of Chile’s national pension system and provide US firms with access to manage the mandatory portion of the pension system without arbitrary differences between the treatment of US and Chilean providers.

The agreement achieves another industry priority – it allows US firms to provide portfolio management services to mutual funds on a cross-border basis. This commitment, which is an important precedent for other trade negotiations, addresses a significant issue for US firms establishing affiliates in Chile. With the commitment, US firms will be permitted to use the services of an affiliate outside of Chile in managing Chilean mutual funds, allowing them to achieve economies of scale and use their global expertise in serving Chilean clients.

Singapore

Under the FTA with Singapore, US firms will be accorded most favored nation status when they compete for asset management mandates from the Government of Singapore Investment Corporation, a fund containing over \$100 billion in assets.

The Singapore FTA also contains a commitment, similar to Chile's commitment, to allow the cross-border provision of portfolio management services by asset management firms to mutual funds. This commitment will permit US firms that establish affiliates in Singapore to use the services of their US affiliates in managing Singapore mutual funds, thereby allowing US firms to achieve economies of scale and bring their global expertise to the service of Singapore clients. Singapore also has agreed to liberalize minimum staffing rules that have operated as barriers to entry for US firms.

The specific commitments described above made by Chile and Singapore achieve most of the asset management industry's specific objectives for the negotiations. The United States, however, was not successful in obtaining commitments to liberalize quantitative limits on pension investments outside of the country. Countries that do not impose quantitative limits, but rather allow pension plans to be invested in accordance with the prudent person concept, generally experience higher returns on pension assets. Thus, quantitative investment restrictions are not in the interest of pension participants and we hope that US trade negotiators continue in future negotiations to seek liberalization from Chile, Singapore and other trading partners in this important area.

II. Regulatory Transparency

The specific financial service transparency commitments in the FTAs are of particular significance for highly regulated financial services firms, such as asset management companies. The commitments generally will require that rules not be adopted without appropriate notice and opportunity to comment, that requirements and documentation for applications be clear, that applicants be informed of the status of applications, and that decisions on applications be made in a specified or reasonable time. These commitments are important precedents for other trade negotiations.

III. Capital Controls

It is in the interest of the US asset management industry in serving its clients that trade agreements not reserve the right to impose repatriation restrictions or other types of capital controls. We are pleased that the Chile and Singapore FTAs provide for the

free flow of capital while setting forth the remedies available to industry if a country imposes controls. The provision that requires investors to wait for twelve months after the imposition of controls before submitting a claim, however, is troublesome for the mutual fund industry. The imposition of even short-term repatriation restrictions raises regulatory compliance issues for US mutual funds (which must maintain liquid portfolios and stand ready to redeem on a daily basis) that may affect the willingness of mutual funds to purchase securities in the country. We recognize that the capital control provisions in the FTAs represent a first step in addressing a contentious issue, and we hope the US will continue to pursue this issue in future trade negotiations to make further progress in ensuring the free flow of capital for portfolio investment by mutual funds and other investors.

IV. Conclusion

The FTAs with Chile and Singapore achieve many of the industry's most important objectives and represent significant strides in opening up markets for the US asset management industry. In particular, the commitments on regulatory transparency and on the cross-border provision of portfolio management to mutual funds set extremely important precedents for negotiations for other free trade agreements and in the WTO. We believe that the agreements are beneficial to the US and to Chile and Singapore. We urge the Subcommittee to support the passage of the FTAs.