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U.S. SECURITIES AND EXCHANGE COMMISSION

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* The views expressed herein are those of Commissioner Beese and do not necessarily represent those of the Commission, other Commissioners, or the staff.

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Today, American mutual funds are envied around the globe, and your industry is enjoying prosperity beyond its wildest imaginations. But even so, you and I know that even greater goals and greater challenges lie ahead. Because while mutual funds are in the process of converting the U.S. markets, even greater opportunities present themselves abroad.

From an international business perspective, one conclusion is unmistakably clear - if it sells in America, it has a good chance to sell throughout the world. Whether your product is fast food, soft drinks, fashion, entertainment or some other consumer good, the "Made in America" label increasingly means big sales abroad.

Clearly, this path to profits is one the U.S. mutual fund industry is ready and willing to take. And it should. As the American economy continues to rely more and more on its service sector to carry the burden, the future prosperity of our nation may depend on our ability to export those services in which we have developed expertise. I live in Baltimore, and as our resident philosopher, former Orioles' manager Earl Weaver, likes to say, we have "deep depth" in this area. But regulatory barriers and tax laws are keeping our home team in the dugout.

Your industry has emerged as a dominant force in developing, managing and marketing investment products and services to American investors, and there is no logical reason that foreign investors should not have access to these same goods and services. Whenever I meet with foreign regulators or businessmen, it seems for every person that wants to know about ADR's and Rule 144A, there are ten that want to know about mutual funds.

Yes, there is no logical reason. But unfortunately for you and the rest of the world, logical thinking is not usually a trait one frequently associates with government -- domestic or foreign. And government regulation - or should I say short-sighted regulation -- is one of the big reasons that your industry is having such a difficult time replicating the success enjoyed abroad by Coca-cola, Hollywood, or even the National Basketball Association.

Government action at home

Currently, Americans are pouring money into foreign securities at a pace that is off the graph -- and shows little sign of slowing down. In the second quarter of 1993, U.S. investors bought a record $13.2 billion in foreign stocks, and a record 27.3 in foreign bonds. And U.S. investment *companies investing in foreign securities are currently soaring to the top of the demand charts.*

This flood of money has greater implications beyond the obvious good news for U.S.-based international and global mutual funds. As U.S. investors look overseas to share in booming foreign economies and to diversify their portfolios, no doubt many foreign investors are seeking to do the same. Whether these investors are looking to rapidly-expanding emerging markets, or here to the American markets as the continuous land of opportunity, there clearly is vast potential for U.S. money managers to add to their customer base and increase assets under management even further.

Combine this trend with a rapidly expanding pool of investors in industrialized and developing markets abroad, and there seems to be no limit on your potential growth.

Unfortunately, government regulations are restricting you from exploiting these business opportunities that are so tantalizing. But as we look to foreign governments to eliminate the barriers preventing future expansion abroad, we should not forget that our own illogical government regulations also play a key role.

Let me specifically talk about our tax policy. As many of you know, U.S. tax law subjects a foreign investor in a U.S. fund to U.S. withholding taxes that are not imposed if the investor purchases U.S. securities either directly or through a foreign fund. In essence, our laws impose a prohibitive export tax on foreign investors simply for choosing U.S. mutual funds as their preferred investment vehicle.

This just does not make sense. With our domestic mutual fund industry riding high as a modern business success story, why is our government providing significant disincentives to any foreign investor seeking to purchase this industry's products? How many other foreign countries can you name where mutual funds are taxed differently than the securities they hold?

The end result is that the U.S. fund industry, and its foreign competitors, are satisfying this foreign demand for products and services offshore to the tune of hundreds and hundreds of billions of dollars. True, the industry has enjoyed some success in that arena. But by forcing this business away from home, we are depriving the industry of a significant home field advantage: the seal of approval provided by the U.S. regulatory scheme, a seal of approval recognized around the world.

Because of the commitment to investor protection shared by the fund complexes and their regulators, the U.S. mutual fund industry enjoys tremendous public confidence. But our tax laws prevent you from capitalizing on the marketing advantage this strong reputation provides.

To allow U.S. mutual funds to enjoy the benefits that their good conduct has earned them, I believe Congress should enact legislation such as H.R. 1891, the Investment Competitiveness Act of 1993, recently introduced by Congressman Sam Gibbons. This legislation is similar to a 1991 bill sponsored by Senator Max Baucus, which was part of the Senate version of the tax bill ultimately vetoed last fall.

Passage of this type of legislation would establish comparable tax treatment for U.S. and foreign funds, and thus free U.S. funds to compete on equal footing when courting foreign investors.

I must admit, however, that in today's budgetary environment, the chances for passage of this legislation are not good. Congress must tame a huge federal deficit and also juggle the demands for new and expensive programs. Budget decisions are not being made on a case-by-case basis, but in an all in the pot fashion. If a program costs money, it seems it can not be passed unless something else is cut -- however unrelated. So, it seems *that items like subsidies to mohair and honey bee farmers take precedence over putting mutual funds on equal footing with their foreign competitors.*

This is unfortunate. At some point, our government must realize and acknowledge that spending money is not the same as investing. Although eliminating the disparity between the tax treatment of U.S. and foreign funds will involve some small net revenue loss, this amount is pocket change compared to the potential gains that this modest investment will return.

Investing in the passage of this bill will mean more than simply helping U.S. companies compete for foreign customers. It also means expanding the market for U.S. securities. Our ability to attract foreign capital, an important element of our continued economic growth, would be enhanced. Moreover, this increased indirect foreign investment in the U.S. through U.S. mutual funds would benefit our capital markets without increasing direct foreign control of U.S. businesses.

Finally, satisfying the demand for U.S. securities on-shore would also have a jobs effect by increasing the demand for the fund services provided by U.S. fund managers, custodians, accountants, transfer agents, and others located in the U.S. -- jobs that are now located off-shore.

When all is said and done, our markets will be even deeper and more efficient, American businesses will stay in American hands, and what should be American jobs will be performed here at home. With the potential for these types of returns, it is hard to understand the logic for Congress not passing this legislation.

<u>The Swiss experience</u>

One need only to look to the Swiss experience to see the danger of tax policies that are too revenue-oriented in today's inter-linked global capital markets. Switzerland's stamp tax on securities transactions forced its eurobond business to move to London, and its mutual fund business to Luxembourg. Belatedly, the Swiss partially repealed this tax last April. However, their eurobond business is now firmly entrenched in London, and seems unlikely to return. The prognosis for their mutual fund business is no better. Moreover, the Swiss also have a 35% withholding tax for investment income, which provides still more disincentives.

Although the Swiss are taking other steps to lure business back to their country, the damage from the government's policies has been done, and the road to recovery will be tough.

This is not to say that unless Congress acts and changes our tax policy, our domestic mutual fund industry will suffer irreparable harm. But as the Swiss are learning the hard way, in today's global economy, an ounce of prevention may be worth a pound of cure.

Government action abroad

Of course, Congressional action at home is merely one avenue to attain your ultimate goal. Until you can compete on equal footing abroad, the business opportunities you perceive will remain just that - perceptions, not reality.

And equal footing entails more than just a level playing field, although that's a good start. It also includes an opportunity to play on the level field provided.

As you heard this morning, Japan, for example, is effectively off-limits to U.S. and other foreign money management firms. Though changes are coming slowly, the regulatory barriers still make it prohibitively expensive to a create a new business there. The segmentation of the money management business and its attendant discretionary licensing system impose immense costs, and other regulations, including asset allocation guidelines *and prohibitions against the use of derivative products, limit potential revenues.*

Moreover, structural market barriers, such as the Keiretsu relationships and the lack of any real performance measurements, make it almost impossible for U.S. and other foreign investment advisers to compete in the Japanese money market business.

Obstacles to real competition are not limited to the far east. In Germany for example, the regulatory barriers do not present major difficulties, but the structural market barriers are just as problematic there as they are in Japan.

Some estimate that 80% of the $50 billion invested in German-run mutual funds flowed through local banks. Yet the cozy relationship between German banks and their corporate clients on the one hand, and their individual customers on the other hand, has placed a huge roadblock in the way of U.S. fund managers reaching German customers.

Contrast these examples with the U.S., where major foreign institutions such as Normura Securities and Deutschebank operate fund complexes that invest in the securities of their home country.

Market forces in Japan and Germany

Yet I believe help is on the way, and not from the SEC, Congress, the Japanese Diet or the German Bundestag. Simply put, I believe that the same market forces the have caused the Swiss to re-think their tax policies, may also serve as the driving force to compel other foreign governments to question how business is done in their country. In a competitive environment where capital is king, but owes allegiance to none, favoring the home team may being doing the home country no favor at all.

Although many foreign governments now seem content to shield their domestic mutual fund industries from foreign competition, one can only hide so long. As the fall of the Soviet Union and the liberation of eastern Europe have so vividly demonstrated, ignoring market realities too long can be hazardous to your economic health.

I believe that the market forces currently gyrating throughout the global economy and the world's financial markets are going to play an increasingly larger role in helping achieve your business goals. For example, although Japan has provided some limited access to foreign money managers, *two separate market forces may eventually compel Japan to act faster than they otherwise might.*

First, demographic trends are having a perverse effect in Japan: their population has been less fertile at the same time their life expectancies have increased. The result is that in less than 20 years, 18% of Japan's population will be over age 65. Japanese firms do not have long-established pension funds, and the need to finance the services to be provided their aging population is now being actively discussed by leading Japanese businessmen. Of course, tax hikes and higher corporate pension contributions are possible solutions, but each has potentially damaging economic reprocussions.

Against this backdrop, one has to wonder how long the Japanese can continue to rely on a money management system where performance and results are not the main factor determining who manages the money, and the government dictates when and how risk management tools can be employed. When real results are needed to avert further increases in taxes or the price of their products, Japan may wish it had access to money managers -- foreign or domestic -- who had honed their skills in the heat of competition, rather than through the bonds of back scratching.

Second, Japan is still suffering from the damaging effects of the recent stock market scandals that plagued their markets. Perhaps the presence of another large market player, one independent of the Keiretsu, would have helped restore consumer confidence in the country's financial markets quicker. Certainly, the emergence of the U.S. mutual fund industry has been an incredible boon to the U.S. financial markets. If the Japanese government so chooses, a competitive mutual fund business could also be an effective and efficient mechanism to help restore faith in their financial markets.

Similarly, Germany must also question the role a competitive mutual fund industry might play in helping them develop larger and deeper equity markets. Already, the immense capital needs of one of its marquee companies, Daimler-Benz, has forced that company to turn to the U.S. equity markets for financing.

Certainly, in the past, Germany has enjoyed great economic success based on the inter-relationship of its banks and corporations, and its penchant for debt rather than equity financing. But facing the capital demands imposed by their recent unification with East Germany, and the continued slow economic growth across Europe, one has to wonder if the time will come when the German government and business leaders view a *competitive mutual fund industry -- and the assistance it provides to building deeper and more efficient capital markets -- as a blessing and not a curse. Like Japan, Germany's capital markets have much to gain by adding a large active player to their markets.*

Conclusion

Because of the rapidly changing financial landscape, regulators world-wide must step back and assess the effects of the market forces that have been gyrating through our financial markets over the last two decades. Classic protectionism as a strategy in the money management business appears to make less and less sense in this dynamic environment. Certainly, the SEC has recognized this fact of life. Increasingly, U.S. investors are looking outside our borders for equity investments, and protecting these investors means removing those barriers that potentially denied them access to the best foreign investment expertise they could obtain.

Through our Unibanco line of no-action letters, we have narrowed the application of the Advisers Act to foreign investment advisers. As a result, a U.S. registered foreign adviser may now render advice to non-U.S. clients pursuant to their home country's laws, without any need to comply with U.S. law. Moreover, foreign investment advisers have much greater flexibility in *forming U.S. subsidiaries, and staffing them with their best and brightest local talent. Of course, these changes were made only after we were convinced a framework had been established to adequately protest U.S. investors.*

As the on-going debate over the NAFTA demonstrates, the demarcation between protectionism and protecting the public interest can be a tough distinction to make. But a Congressional thumbs up or down on NAFTA is not going to change any of the realities of the marketplace -- it will only force entrepreneurs and businessmen to find alternative means to satisfy the demand that exists.

The growth of the off-shore fund industry shows that where there is demand, supply is sure to follow. We know the demand exists abroad for the benefits offered by the U.S. fund industry. We can only hope that in the same spirit that Mexico, Canada and the U.S. joined together on NAFTA, other foreign governments will act to harness the advantages a competitive domestic mutual fund industry has to offer.

Ultimately, they will have little choice. In the end, capital will always seek its greatest return, its highest yield, its most efficient use. The good news is, that in this game of cross-border capital flows, time and talent are on your side, and only perseverance separates you from your ultimate goal. Perseverance, and one absolute priority: that you and I must work each and every day to maintain the trust and confidence that so many Americans now place in mutual funds. Because without that foundation, you can put your passports away.

Thank you and good luck.