

# WORLD TRADE ORGANIZATION

RESTRICTED

**S/FIN/M/19**

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## **Committee on Trade in Financial Services**

### REPORT OF THE MEETING HELD ON 8 DECEMBER 1997

#### Note by the Secretariat

1. The twentieth meeting of the Committee on Trade in Financial Services was chaired by Mr. Yoshio Okubo of Japan. The agenda for the meeting was contained in WTO/AIR/738 of 19 November 1997, and consisted of four items: exchange of views on progress in bilateral negotiations; recent developments in financial services trade; organization of future work; and other business.

Item A:            Exchange of Views on Progress in Bilateral Negotiations

Item B:            Recent Developments in Financial Services Trade

2. The Chairman reported on the status of the submission of offers; in total 45 offers had been submitted by the morning of 8 December. Thirteen of them had been presented since the previous meeting in November by Senegal, Chile, Poland, Cyprus, Bulgaria, Jamaica, Mexico, Ghana, Kuwait, Pakistan, Malaysia, Dominican Republic and Nicaragua. The Secretariat had circulated the offers as documents S/FIN/W/12/Add.33 to Add.45. Switzerland, Australia and Hungary had submitted revised offers, also since the previous meeting. He indicated that a list of the offers had been made available, which in its final form would be adopted as the results of the negotiations on Friday. The Chairman invited those delegations that had submitted offers or revised offers since the previous meeting to introduce them.

3. The Dominican Republic said that its offer included commitments in insurance and insurance related services as well as in banking and other financial services, with no MFN exemptions. Senegal was convinced that liberalization in the financial sector must be done in a way which was compatible with the level of economic development of each country. It indicated that its offer covered life, accident and health insurance; non-life insurance; reinsurance and retrocession; services auxiliary to insurance; acceptance of deposits and other repayable funds from the public; lending of all types including consumer credit, and all payment and money transmission services. The offer might be improved further as soon as possible. Australia indicated that its revised offer incorporated a significant improvement consisting of the removal of a blanket prohibition on foreign acquisition or takeover of its four major banks. The offer was being made to encourage other Members to submit new and improved offers. Nicaragua said that its offer had been designed to substantially liberalize its financial services market and provide ample access to foreign investment. The offer included new commitments in a full range of insurance services, as well as commitments in a large number of banking and other financial services. Those commitments represented a major effort aimed at bringing its financial services in line with international practices. Hungary said that the revision represented an improvement in its offer by withdrawing a discretionary government licensing requirement previously contained in its MFN exemption list.

4. Poland indicated that its offer represented an improvement of its existing commitments in financial services, particularly in regard to market access for the supply of insurance services. It reflected legislative and regulatory changes that had occurred since 1995, including new laws in banking, public trading in securities and investment funds. It also covered certain liberalization commitments for the future in line with Poland's obligations at the OECD. More specifically, the offer included full liberalization of modes of supply 1 and 2 in reinsurance, retrocession, and insurance of goods in international trade; market access through licensed branches in insurance and banking sectors as from 1 January 1999; market access through licensed branches for securities companies would be possible as from 1 January 1998, and the removal of residency requirements for brokers and advisors active in the capital markets.

5. Brazil indicated that its offer improved its 1995 commitments, not only reflecting changes already incorporated in Brazilian legislation but also introducing commitments relating to future liberalization in areas such as reinsurance. Regarding insurance, the offer covered subsectors that had not been included in 1995 such as body, machinery and civil liability insurance for vessels, and work accident insurance. The latter was an area still in the hands of the public sector but would be liberalized to allow private sector participation. Regarding reinsurance, the number of limitations had been reduced and the transitional character of the monopoly of the Brazilian Reinsurance Institution had been clarified. In that regard, future regulations would allow private sector participation in reinsurance services which Brazil would reflect in its schedule within two years after the adoption of legislation. Regarding banking, the offer allowed commercial presence of foreign banks, based on a case-by-case authorization by the Executive Branch. Regarding capital markets, changes had also been introduced, for instance, to allow commercial presence of suppliers not characterized as financial institutions by the Brazilian law for activities such as trading and clearing services for securities and derivatives, public offerings of securities, advisory services, and portfolio management of investment funds. Brazil also commented on the issue of financial sector liberalization and restructuring. Recent economic events had demonstrated the importance of a sound and strong financial system in support of macroeconomic policy. In its view, liberalization was not a panacea; it would have a value added to the extent that it was carried out in a broad context of financial sector restructuring. Moreover, restructuring encompassed much more than liberalization; it covered appropriate rules, adequate capitalization of institutions and good supervision, among other factors. In addition, the process of building up a financial system was not uniform in all countries; it had to be adjusted to the choices behind macroeconomic policy and there was no general rule. Brazil had initiated in 1995 a process of financial restructuring based on three pillars: first, a process of liquidation of banks and mergers of financial institutions; second, a reduction of public sector participation in the financial sector; and third, the opening up of the market. As a result, 3 public sector banks had been privatized, the insurance market was broadly liberalized, a large number of foreign banks had also entered the market, and the capital market also had foreign participation.

6. Israel introduced its offer which had been submitted in November. The offer reflected legal changes and liberalizing actions that had taken place since 1995, and contained full bindings regarding mode 3 with respect to market access and national treatment in most financial services sectors, in accordance with the Annex on Financial Services.

7. The Chairman invited delegations who had not been able to submit offers or revised offers to give any indications or progress reports.

8. Côte d'Ivoire stated that its offer might not be submitted by 12 December due to procedural delays; nevertheless, it would be submitted to the Committee as soon as the internal procedure was completed. Indonesia announced that its offer had been approved by Ministers, and might be submitted the following day. Its main features had been indicated at the previous meeting of the Committee. Egypt announced that a final offer containing further improvements would be submitted within three days, which would include further improvements in both the banking and insurance sectors. Romania stated that, despite a delay due to a change in the Cabinet, its offer would be submitted in the next few days. The offer had been designed to broaden its commitments in financial services to securities services in addition to insurance and banking services.

9. Thailand announced that its offer was ready to be tabled by the end of the day. The offer would grandfather foreign commercial presence and allow greater foreign participation, including majority ownership in Thai financial institutions, in line with the programme of the IMF to rehabilitate its financial system. Colombia indicated that its offer was being finalized in its capital, but due to logistical reasons, would not be presented before Thursday 11 December. The Czech Republic stated that as a result of bilateral consultations it had prepared a revised draft schedule with the intention of submitting it at this meeting. Unfortunately, due to a change in government it was unable to do so. It hoped to obtain the necessary mandate on Wednesday 10 December.

10. The Chairman repeated his appeal to delegations that new offers or revised offers should be submitted immediately. He then invited delegations to comment on the general course of the negotiations. The European Communities reiterated that it sought an MFN agreement on a permanent basis, at the highest achievable level. It expressed some concern, because timing was becoming a substantive issue, as the Director-General had mentioned in a statement made in the previous week. Sufficient time was required to scrutinize the offers and to decide on their acceptability. Time was also needed for internal procedures. There was also concern about the clarity and the level of the offers. It called for offers at a high level to be tabled quickly. Although the possibility of a substantive package was clearly in prospect, time was perilously short. If a package was not delivered, the effort on countries having currency crises, and the effect on the world trading system could undoubtedly be negative.

11. Hong Kong, China reiterated the message delivered on many occasions such as the APEC Meeting of Economic Leaders and the Finance Ministers' Meeting in Kuala Lumpur that Members remained fully committed to the process of financial liberalization and a successful conclusion of the negotiations. It added that the different stages of development of Members needed to be recognized and the political realities of what was possible, particularly under the current circumstances, needed to be understood. It urged all Members to approach the final days of the negotiations with a realistic and pragmatic mind. If Members failed to reach agreement, everything from 1993 onwards could evaporate. This was not a position that Members would allow themselves to be in. Japan, although encouraged by last-minute developments, recalled that only five days remained for the negotiations. It urged Members that had not tabled offers yet to present them as soon as possible. It pointed out that the negotiating environment was very different from that of summer 1995, particularly due to the financial turmoil. This made it even more imperative to succeed this time. It emphasized the importance of being reasonable at the time of assessing each other's offers; in particular, specific bilateral issues should not be made an impediment to the success of the multilateral exercise. Japan had decided to take a most constructive position by tabling a further improved offer. It was ready to consider incorporating in its offer all of the major elements of the bilateral measures agreed with the United States on condition that its major trading partners also made substantial additional commitments, and that the final result would be an MFN-based deal. Switzerland saw a constructive attitude among delegations, and appreciated the new submission of offers and the announcements of forthcoming ones. In its view the momentum of the negotiations was accelerating; nevertheless, it was putting Members in the difficult situation of having only a short period of time not only to assess the offers but also

to follow their internal decision-making procedures. It urged those Members that had not yet tabled offers to materialize their contributions to the process for the sake of all Members. It recognized that major progress had been made since 1995, and underlined that Switzerland would judge the result by what had been achieved so far and what remained to be achieved by 12 December. Judging by the positive spirit present in the negotiations during the previous two weeks, Members could count on certain flexibility that would permit a successful conclusion on 12 December.

12. The United States appreciated the efforts of those countries which had come forward with improved offers. It had hoped to see more offers on the table at this stage, particularly given that only five days remained before the deadline, and hoped that the situation would change in the coming hours because they did not have the luxury to wait much longer. It remained committed to achieving a successful outcome of the talks, but for success to be achieved, it needed to see good offers immediately. It announced the tabling of a revised offer. This revision consisted of changes to reflect the Riegle-Neal Interstate Banking legislation in a manner fully consistent with the GATS. It also reflected the removal of some restrictions in the 50 States, and the addition of some minimal reservations that had been omitted in 1995. The delegation indicated that the U.S. financial market remained very open, providing national treatment and aggressively inviting foreign participation. Canada was pleased with the positive comments made, but shared the concerns previously expressed by others about some offers coming later in the week. It joined the request for delegations to consider making offers as soon as possible.

Item C:            Organization of Future Work

13. The Chairman indicated that as to the date of the following meeting, an airgram (WTO/AIR/743) had been sent for a meeting on 12 December 1997 at 10.00 a.m. to conclude the negotiations. However, it seemed necessary to have a meeting in the middle of the week for transparency purposes. Therefore, he suggested that a short informal meeting of the Committee be held in the afternoon of Wednesday, 10 December 1997, at 14:30 p.m., to conduct a stocktaking of the situation.

14. The Committee so agreed.

Item D:            Other Business

15. No other item was raised under this agenda item.