

# WORLD TRADE ORGANIZATION

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## Committee on Trade in Financial Services

### REPORT OF THE MEETING HELD ON 23 NOVEMBER 2004

#### Note by the Secretariat<sup>1</sup>

1. The Committee on Trade in Financial Services held a meeting on 23 November 2004, under the Chairmanship of Ms. Miyon Lee (Republic of Korea). The proposed agenda is contained in airgram WTO/AIR/2447.
2. The representative of Antigua and Barbuda announced his intention to make a statement under Other Business on the following topic: Plurilateral Financial Standards and their Regulation – The experience of Small Developing Members of the WTO. The Chairperson proposed that the agenda be adopted with the addition of that item under Other Business.
3. It was so agreed.
- A. ADOPTION OF THE ANNUAL REPORT TO THE COUNCIL FOR TRADE IN SERVICES
4. Pursuant to the annual reporting requirements to the Council for Trade in Services, the Chairperson drew Members' attention to document S/FIN/W/38, containing a draft report of the Committee's activities in 2004.
5. With regard to paragraph 2 of the draft report, the representative of the United States suggested the deletion of the expression "reported periodically" since some of those three Members did report periodically while others did not. She also suggested that the following sentence be added to the paragraph: "Several delegations expressed their concern that these countries had not yet accepted the Fifth Protocol." Finally, she proposed deleting the second sentence of paragraph 3 or, alternatively, inserting a revised text as follows: "In the meeting held on 25 June 2004, the Chair asked Members to discuss ideas for future work on the basis of an annotated agenda JOB(04)/72."
6. The representative of Brazil had a preference for retaining the reference to periodic reporting, because that reflected the actual situation as far as his country was concerned. He also sought clarification from the Secretariat as to whether the report should make reference to acceptance or ratification of the Fifth Protocol.
7. A representative of the Secretariat said that the technical term used in that context was "acceptance", which was a generic term, because legal requirements varied from country to country.
8. The representative of the United States said she could not accept the reference to periodic reporting, although she would not oppose other formulation that could take care of the fact that Brazil did inform Members periodically. She suggested, as an alternative, to make reference to "some Members provided information on the situation of their domestic acceptance procedures".

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<sup>1</sup> This document has been prepared under the Secretariat's own responsibility and without prejudice to the positions of Members and to their rights and obligations under the WTO.

9. The representative of Brazil said that he could accept a reference to "some Members provided periodically information on the situation of their domestic acceptance procedures."

10. The representative of Philippines said, with regard to the suggestion by the United States for paragraph 3, that it would be more in line with current practice in the WTO to make reference to "some delegations" instead of "several delegations".

11. The representative of the United States said that she could accept the amendments put forward by Brazil and Philippines.

12. The Chairperson read out the amendments to be introduced to the annual report. Paragraph 2 would read as follows: "Three Members have not yet accepted the Protocol: Brazil, Jamaica and the Philippines. At the Committee's invitation, some Members provided periodically information on the situation of their domestic acceptance procedures. Some delegations expressed their concern that these countries had not yet accepted the Fifth Protocol". The second sentence of paragraph 3 would state as follows: "In the meeting held on 25 June 2004, the Chairperson asked Members to discuss ideas for future work on the basis of an annotated agenda contained in JOB(04)/72".

13. The Committee adopted the annual report with those changes.

B. TRANSITIONAL REVIEW UNDER SECTION 18 OF THE PROTOCOL ON THE ACCESSION OF THE PEOPLE'S REPUBLIC OF CHINA

14. The Chairperson recalled that the Committee was mandated to conduct this review of the implementation by China of its commitments in the WTO pursuant to section 18 of the Protocol on the Accession of the People's Republic of China. For this year's review, written communications had been received from the following Members: Japan (S/FIN/W/36); Canada (S/FIN/W/37); the European Communities (S/FIN/W/39); the United States (S/FIN/W/40); Chinese Taipei (S/FIN/W/41); and Australia (S/FIN/W/42).

15. The representative of the People's Republic of China said that in the third year after China's accession to the WTO, China had implemented its WTO commitments to a greater extent. In the past year, Chinese financial authorities had developed and published a series of important regulations, which served to implement the undertaking to open the financial industry and enhance the transparency and efficiency of the financial regulatory work.

16. As part of the process of speeding up legislation, streamlining review and approval procedures and enhancing the transparency of policies, the Law of the People's Republic of China on Banking Regulation and Supervision had been formally put into effect on 1 February 2004. The China Banking Regulatory Commission (CBRC) took advantage from that occasion to clear up rules and regulations for banking supervision, and lay down and amend specific implementing and supplementary rules, including bringing into effect the Regulation Governing Capital Sufficiency of Commercial Banks on 1 March 2004; the Rules on Consolidated Supervision of Foreign Banks on 1 April 2004; and the Methods for Administration of Related Transactions Between Commercial Banks and Insiders and Shareholders on 1 May 2004.

17. In response to the opening-up of the banking sector, the CBRC had amended and promulgated the Rules for Implementing the Regulation Governing Foreign-funded Financial Institutions in China, which took effect on 1 September 2004. The CBRC also modified requirements and procedures for the access of foreign-funded banks to the market, by *inter alia* lowering the requirement on the amount of operating capital, and reducing operating capital grades. According to those rules, foreign banks were now required to simply file for the record when they intended to offer most services and products.

18. In the case of banking, she said that in December 2004 China would open RMB business to foreign-funded banks in Beijing, Kunming and Xiamen, bringing the total number of such cities to sixteen. By the end of 2006, all territorial restrictions would be cancelled, and individual RMB business for Chinese residences would be liberalized. At that time, foreign-funded banks would have the same RMB business scope as domestic banks. By the end of October 2004, foreign banks had established 204 operational entities in China, including 163 branches, 14 foreign-funded corporate bodies, and 223 representative offices of foreign banks. In addition, thus far 105 foreign-funded banks had been approved to operate RMB business, including 61 banks approved to operate RMB business for non-foreign invested enterprises; 13 foreign banks were now permitted to provide online banking services in China; 23 foreign-funded banks were permitted to carry out derivative products transactions in China; and five foreign bank branches were permitted to offer custodian services for securities investment by qualified foreign institutional investors (QFII) in China. Business of foreign-funded banks was also developing rapidly. As of end September 2004, total assets of foreign-funded banks in China reached US\$66.77 billion, 45.28 per cent higher than the same period of last year; among these, assets in RMB reached 91.14 billion yuan, 38.87 per cent higher than same period of last year.

19. In the case of non-bank financial institutions, Chinese authorities had approved the establishment of four foreign-funded auto financing firms, namely, GMAC-SAIC Automotive Finance Company Ltd., Toyota Motor Financial (China) Corporation, Volkswagen Finance (China) Co. Ltd., and Ford Automotive Financing Company. GMAC-SAIC Automotive Finance Company had already started its operation. She noted that currently no domestic non-bank financial institutions had been approved to provide consumer auto financing services in China, which meant that foreign-invested companies had 100 per cent market share in this area. In her view, this indicated China's strong will to open the auto finance market and fulfill its WTO commitments. Furthermore, Chinese financial authorities said more foreign-funded auto financing companies would be approved to operate in China in the future, as long as they satisfied relevant conditions.

20. In the case of insurance, by the end of this year, China would phase out all territorial restrictions to foreign-funded insurers, allowing foreign-funded insurers to set up institutions in any city of China. Meanwhile, foreign life insurers would be permitted to offer health, group and pension/annuity insurance services to Chinese and foreign citizens. At that time, foreign-funded insurers might carry out all kinds of life and non-life insurance business in China.

21. She said that China had made unparalleled efforts in opening up the insurance sector this year. Almost in every month since the beginning of the year there had been new branches of foreign-funded life insurers setting up in China. Just in September, some foreign-funded insurers declared to set up branches in several cities of China. At the beginning of September, ING-CAP was permitted to prepare a branch in Beijing; on 15 September, MANULIFE-SINOCHEM was permitted to prepare its branch in Ningbo; on 16 September, AVIVA-COFCO set up branches in Beijing and Chengdu; on 28 September, the Suzhou branch of CITIC-PRUDENTIAL was opened, while its Shanghai branch would open before December.

22. The Implementing Rules for Regulations on Administration of Foreign-funded Insurance Companies took effect in June 2004, implying that institutions and business of foreign-funded property insurance companies would develop faster in China. The Rules allowed branches of foreign-funded property insurance companies to be changed into wholly foreign-owned property insurance companies. Thus far, several foreign property insurance companies had filed the petition for such change with China Insurance Regulatory Commission (CIRC). According to the CIRC, 39 foreign insurers had set up 70 insurance operational entities in China, including 22 life insurers, 14 property insurers and three re-insurance companies.

23. At the same time, the turnover of foreign-funded insurers was growing dramatically. According to the CIRC, the growth rate of foreign-funded insurers was 100-200 per cent higher than that of domestic insurers. Compared to the same period of 2003, during the first half of 2004 the insurance premium of property insurance companies and life insurers increased 47.1 and 51.2 per cent, respectively. In the same period, the insurance revenue of all property and life insurers in China just increased 23 per cent and 6.5 per cent, respectively.

24. She further said that China was implementing its WTO commitments on securities services in a serious manner. On 16 September 2004, China Securities Regulatory Commission (CSRC) published the Methods for Administration of Securities Investment Fund Management Companies, which entered into force on 1 October 2004, and repealed the Rules for Establishment of Foreign Capital Involved Fund Management Company.

25. The Chinese Government encouraged the establishment of joint venture securities companies and fund management companies involving capital of qualified foreign securities institutions. By end October 2004, the CSRC had approved three foreign capital-involved securities companies and 14 foreign capital-involved fund management companies to be set up in China, including 11 already opened.

26. While substantially implementing its WTO commitments, the financial authorities of China had adopted a series of voluntary liberalization measures.

27. The CBRC had decreased the highest operating capital requirement from 600 million yuan to 500 million Yuan, and the fifth level requirement from 400 million yuan to 300 million yuan. The CBRC had also reduced the six levels of operating capital requirement for solely foreign owned and joint venture bank branches in China to three levels, decreasing the three levels to 100 million, 200 million and 300 million yuan, respectively. And the CBRC had further streamlined the market access procedures.

28. The Tentative Methods for Administration of Derivative Product Transactions of Financial Institutions, put into force on 1 March 2004, permitted foreign-funded banks to carry out derivative product transactions. The Tentative Methods for Overseas Application of Insurance Foreign Exchange Capital, jointly published by the CIRC and the People's Bank of China on 9 August 2004, allowed foreign-funded banks to engage in custodian services for overseas application of foreign exchange capital of insurance companies.

29. In the securities sector, although China only undertook to open securities services but not the capital market in the Protocol (including allowing foreign investment to go into A-share market) in the Protocol, Chinese securities regulatory departments had taken some voluntary liberalization measures, such as enforcing the QFII program. By the end of October 2004, 27 foreign institutions had obtained QFII qualification, with investment limit US\$3 billion. And other 11 foreign institutions (including four foreign-funded banks) had been approved to carry out custodian services in China.

30. In the past year, China had enforced a large quantity of liberalizing measures in the financial area. As a result, the number and market shares of foreign financial institutions had grown dramatically, which indicated that China was implementing its WTO commitments in a serious and positive manner. To her knowledge, most foreign-funded financial institutions were satisfied with the enhanced transparency of Chinese policies, the improvement in the operational environment and the increase of market access opportunities after China's accession to the WTO; and had confidence in the sustainable and stable growth of China's economy.

31. The representative of Switzerland was pleased to hear reports about the progress made in terms of liberalization and the enhancement of transparency in the legal framework. Since the

accession to the WTO, the Chinese financial market had become more dynamic and diversified, and had been attracting a number of foreign investors. That was basically a consequence of the accession to the WTO and the commitments undertaken. The level of commitments taken by China, as well as their beneficial effects, set an example for on-going accessions.

32. The major problem faced by Switzerland was not with the commitments taken by China. The major remaining barrier was the capital requirement for foreign bank entry. For direct branching for foreign banks seeking a corporate banking licence, 300 million RMB (roughly 45 million CHF) was needed. For a retail banking licence, a further 200 million RMB (roughly 30 million CHF) was needed. That meant that for universal banking 75 million CHF was needed. He recognized the progress made, especially the fact that for corporate banking the capital requirement had decreased from 400 to 300 million RMB, but the requirement remained very high by international comparison. In Switzerland for instance, to conduct all banking activities only 10 million CHF were required. Unfortunately, no timetable had been given for the revision of these excessive barriers. He asked the Chinese delegation whether they could provide more information on future plans in that regard.

33. The second difficulty faced referred to the participation in financial institutions. China seemed to limit foreign participation in Chinese banks to 20 per cent in terms of voting rights, and to 25 per cent in terms of capital participation. For securities, the limits were slightly higher - one third of the capital - and, according to his understanding, this limit would be raised to 49 per cent by the end of this year. However, he asked whether there were any plans to raise this limit in order to allow majority foreign participation or even 100 per cent foreign participation.

34. He also sought further information on foreign ownership in investment companies, which was originally capped at 25 per cent if several companies were involved or 20 per cent if a single foreign company was involved. There seemed to be discussions on the possibility of raising this limit to 49 per cent. He sought further information on the status of such discussions.

35. The representative of Canada noted a continued effort on the part of the Chinese government to conform to its accession protocol. A number of concrete examples of progress had been noted in Canada's submission for the meeting. The questions and comments contained in document S/FIN/W/37 addressed issues that continued to concern Canadian authorities and for which Canada had not been able to gather sufficient or satisfactory information on a bilateral basis. Further, these issues were raised in the Committee to support an informed multilateral discussion.

36. Canada sought a better understanding of the prudential reasoning behind certain regulations, and also wished to underline the importance of transparency of the regulatory environment in China. In particular, a fuller explanation of China's motivation behind the imposition of limitations on the amount of foreign exchange funding that foreign banks might acquire from abroad through a new quota system would be helpful. Canada was also interested in garnering a better understanding of the specific aspects of the planned CIRC provincial-level licensing regime for foreign life insurance firms, and how it would ensure licensing on a national treatment basis with Chinese firms. Finally, he said that Canada would welcome any comments on efforts in the past year to improve regulatory transparency, including public consultation processes when drafting new legislation or regulations. He also expressed the hope that a copy of the Chinese statement be made available at the end of the meeting as it had been done in the past.

37. The representative of the United States said that the TRM helped clarify China's implementation efforts. It also served the purpose of conveying other Members' expectations to China. It could also clarify areas of agreement or disagreement on particular issues. The statement just provided by China was very informative. He also hoped that China would respond to the questions raised in document S/FIN/W/40. The questions raised by the United States focused on the areas of insurance, banking, asset management, and pension services. One theme throughout those

questions had to do with capital requirements, which seemed to be unnecessarily high in relation to international norms.

38. In the area of insurance, this was a very important time. On 11 December 2004, all remaining geographic restrictions and all remaining product restrictions would be lifted. The United States welcomed the new regulations in the insurance area that reduced capital requirements. His questions at this meeting focused on three aspects - branching, geographic licences, and capital requirements - where further improvements were sought. With regard to branching, China had issued new regulations and implemented rules calling for non-life insurers to establish subsidiaries. He asked in that regard if China could confirm whether existing branches would be able to continue to operate under the existing conditions without having to revert to a subsidiary. He also asked whether China would allow non-life insurers already established in China as branches to open branches or sub-branches even if they had not first established as a subsidiary. In the licensing area, the United States noted that to date foreign insurers had only been able to apply for one branch at a time, while domestic insurers had been able to apply for multiple branches and had been able to seek approval for multiple branches all at one time. He sought further clarification on that process, particularly in light of China's commitments on national treatment. Other questions raised by the United States referred to the types of geographic licenses available to foreign insurers. The United States' submission also raised other questions about capital requirements.

39. The United States also welcomed the liberalization provided by the provisional measures on the administration of the overseas liberalization of insurance of foreign exchange firms which had been issued on 9 August 2004. However, he noted that the qualifying threshold for insurers seemed to be extremely high, and sought further information on the rationale for that measure.

40. Referring to the regulations on the establishment of insurance asset management companies, he noted that only insurers that had held licences for more than eight years were permitted to apply. He considered that would exclude all foreign insurers that had been established in China since China's accession to the WTO. He sought further clarification on the rationale for that provision.

41. The United States was also interested in any plans the insurance regulators might have for expanding the types of investments that insurance companies might hold beyond bank deposits and various government bonds.

42. With regard to financial holding companies, he noted that approval had been given to Chinese enterprises for financial holding companies to combine insurance, banking and securities services. Once again, he sought clarification on how this would apply to foreign insurers and foreign companies.

43. In the banking area, the United States was seeking clarifications with regard to the branch-by-branch capital requirements applied. He asked in that regard what the current status of the CBRC's review of those requirements was.

44. He also enquired about the capital requirements for joint venture asset management companies. He finally noted that China's schedule of specific commitments included a commitment to open up the pension market by 11 December 2004. He said that the United States had not seen any implementing rule that would allow that commitment to take effect. He sought further clarification on the status of those implementing rules.

45. The representative of the People's Republic of China agreed to have her statement circulated among Members.

46. The representative of Australia encouraged China to continue to ensure transparency in its regulatory environment by disseminating information on its regulations to financial services providers and by permitting consultative mechanisms to assist prudential regulators in developing appropriate standards. He also noted the comments by other Members in relation to the currently high minimum capital requirements across the financial sector. Australia believed that high levels of minimum capital requirements hindered foreign providers' access to the financial services sector. Australia was looking forward to responses to the specific questions raised in document S/FIN/W/42. More specifically, he noted that the procedures on the administration of foreign debts of foreign capital banks issued on 27 May 2004, in addition to the implementing rules released in June by the State Administration of Foreign Exchange, had set limitations on the amount of foreign exchange funding that foreign banks could acquire from overseas through the imposition of a quota system. In Australia's view, these new procedures could have the impact of increasing costs and restricting market access for foreign banks particularly those having small operations in China. Furthermore, Australia felt that it would adversely affect competition in the market and would reduce the access of Chinese businesses to the most competitively priced funding. Finally, he said that answers to the questions raised in paragraph 5 of Australia's submission would be very helpful.

47. The representative of Japan said that, as expressed in document S/FIN/W/36, his country welcomed specific measures taken by China since the last TRM to implement its WTO commitments. Japan remained interested in market access for foreign suppliers through the effective implementation of China's WTO commitments. Japan had no intention of challenging China's right to introduce prudential measures to which all Members were entitled. However, he wondered if some prudential measures were really appropriate in the context of the GATS, that is, if they were really in accordance with the commitments and obligations under the GATS and the Annex on Financial Services.

48. He pointed out that there were still some uncertain and obscure criteria in the regulations and rules dealing with licensing requirements and procedures in insurance and banking. One example was the conversion from branch to subsidiary in the insurance sector. Even though it looked as if China formally ensured liberalization, the Japanese business community complained sometimes that in practice the implementation appeared to hinder liberalization. Therefore, Japan requested China that the licences be granted without delay if the license application met the requirements. As expressed in paragraphs 4(a) and 5(a) of the submission from Japan, he underscored the importance of transparency in licensing requirements and procedures in order to ensure the effective implementation of China's WTO commitments. He also sought clarification about the prudential reasoning for the minimum capital requirements applied to insurance companies, which remained very high by international standards.

49. In order to conduct local currency business, a branch of a foreign financial institution had to meet the qualification of being a three-year business operation in China and being profitable for two consecutive years prior to the application. Japan believed that these qualifications were excessive for a prudential measure. Moreover Japan was of the view that such an examination should not be carried out on a branch-by-branch basis but on a headquarter basis. He asked whether China was considering introducing flexibility requirements for newly established branches to engage in local currency business, as was asked in paragraph 5(b) of Japan's submission.

50. Finally, as Australia had also pointed out, Japan asked if China intended to be more flexible in applying the long-term borrowing quotas to foreign invested banks.

51. The representative of Chinese Taipei thanked the delegate from Beijing for her statement, and highlighted the importance the Chinese authorities attached to the TRM, as evidenced by the presence of capital experts. Since the last TRM session, the Chinese financial authorities had taken a number of steps, as mentioned by the Chinese delegate, to further liberalize the financial market. Chinese Taipei welcomed these steps, was pleased to witness the increasing level of compliance with the

accession commitments, and acknowledged China's efforts in this regard. He finally took note that some of the issues raised in document S/FIN/W/41 had been addressed.

52. The representative of the European Communities expressed his concerns about a number of remaining barriers. Some of these had been mentioned by other delegations, and had been previously raised in the submission from the European Communities (S/FIN/W/39), so he refrained from getting into too much detail. The first concern was the minimum capital requirement for branches in the banking sector. There were two issues in that regard. On the one hand, the extent of those capital requirements, which in his view were excessive; and, on the other hand, the obligation that each branch fulfilled capital requirements, rather than applying them on a consolidated basis.

53. A second concern was the requirement that 30 per cent of the working capital of foreign branches be deposited at a local bank on a list defined by Chinese authorities. A third concern related to the foreign ownership limits in the banking sector, as explained previously by Switzerland. The European Communities had also concerns about the regulations in the insurance sector, as stated in the submission. Finally, he added that the European Communities shared the concerns expressed by Japan about the transparency of licensing procedures and the requirements on long-term borrowing quotas.

54. The representative of the People's Republic of China replied to the questions raised in the following manner. He referred first to two horizontal issues: minimum capital requirements and transparency. He said that according to paragraph 11 of the guidelines for the scheduling of specific commitments under the GATS, minimum requirements, such as minimum capital requirements for the establishment of a corporate entity, did not fall within the scope of Article XVI. The capital requirements applied by China were transparent, non discriminatory, and applied to domestic service suppliers as well. Therefore, they did not fall within the scope of Article XVII either. China's minimum capital requirements were based on prudential considerations and set up according to the level of development of China's financial sector and the regulatory capacity of the financial authority. He reiterated that the determination of minimum capital requirements was a legitimate right of Members when regulating. He further asked the Members that had referred to international standards for capital requirements to tell what those international standards for financial services were. In his view, Members' right to introduce prudential measures should not be challenged according to the Annex on Financial Services. However, certain Members kept on questioning the prudential rationale of China's capital requirements. Having said that, he added that depending on the improvement of the risk management system of foreign banks and the development of China's regulatory framework, China's financial regulatory authorities would relax the minimum capital requirements for foreign banks and insurance companies accordingly. Since December 2003 the amount of operating capital requirements for branches of foreign-funded banks had been reduced and the categories had been simplified. Based on foreign-funded banks' business development and risk control capacity, China would continue to adjust the operational capital requirement in the future.

55. Turning to the issue of transparency, he said that China had done a lot of work after accession to promote transparency in financial services sectors. In the case of insurance services, the CIRC had been implementing its commitments in compliance with the transparency requirements set out in the GATS. The relevant licensing requirements and procedures were stipulated in the Regulation on the Administration of Foreign-funded Insurance Companies and in detailed implementation rules which could be found on the CIRC's web-site ([www.circ.gov.cn](http://www.circ.gov.cn)). In the case of banking services, requirements and procedures for market access of foreign-funded banks in China were illustrated adequately in the Regulation on the Administration of Foreign-funded Financial Institutions, and in the corresponding implementing rules. Both the Chinese and English versions had been published and could be found on the CBRC's web-site ([www.cbrc.gov.cn](http://www.cbrc.gov.cn)). Furthermore, the CBRC had improved the licensing requirements and procedures for financial institutions pursuant to the Law of People's Republic of China on Administration of Licensing which went into effect on 1 July 2004.



56. In the case of securities, the CSRC had adhered to the relevant practices of the People's Republic of China on procedures for public comment when drafting laws and regulations. The CSRC had also had discussions with various interested parties, and had made the relevant draft laws and regulations known on the CSRC website for public comment. Most of the reasonable suggestions from the public had actually been adopted in the final version of the regulations. Furthermore, according to Article 24 of the Provisional Rules on Implementation Procedures on Administrative Licensing Matters of the CSRC, if additional written explanations or responses from the applicant were deemed necessary, the CSRC shall aggregate all those questions in one written document. In addition, all administrative licence procedures and relevant laws and regulations could be found by applicants on the CSRC website ([www.csrc.gov.cn](http://www.csrc.gov.cn)). Or, they could even be found on the touch screen at the entrance of the CSRC premises. Concerning the consultation period for the CSRC rules and regulations, on 1 July 2002, the CSRC had promulgated Rules on the Establishment of Securities Companies with Foreign Shareholding and Rules on the Establishment of Foreign Management Companies with Foreign Shareholding. Prior to the promulgation, the CSRC had published both draft rules on the CSRC official website for public comment. Therefore, as could be seen, China had made tremendous efforts in ensuring transparency in financial services.

57. He then turned to questions raised on specific sectors, starting with insurance. The first question concerned provincial and regional licensing of foreign insurance companies. As of 11 December 2004, there would be no geographic restrictions on foreign insurance companies anymore. By that time, foreign insurance companies meeting certain qualifications would be allowed to apply for the establishment of operational institutions nation-wide. He added that provincial branches of foreign insurance companies would be allowed to conduct insurance business in any city or area within the province pursuant to the relevant CIRC regulations. In other words, branches of foreign insurance companies in China would enjoy the same treatment as domestic ones, and conduct business within a specific province. The approval regulations and procedures could be found in the detailed Rules for Implementation of the Regulation on the Administration of Foreign-funded Insurance Companies. The applicants for branch establishments, both from home or abroad, were equally treated. And foreign companies were entitled to national treatment. Moreover, foreign branches and subsidiaries had the right to branch out within the business scope and business area stipulated in their licences.

58. With regard to the questions on the transformation from branch to wholly foreign-owned insurance company, he said that the Implementation Rules for the Regulations on Administration of Foreign-funded Insurance Companies allowed branches of foreign funded property insurance companies to be changed into wholly foreign-owned property insurance companies. So branches could change to wholly foreign-owned property insurance companies. They could remain as branches or change their status according to this regulation. With regard to the questions on licensing procedures for insurance firms and their branches, he said that according to the relevant CIRC provisions, foreign branches were allowed to apply for conversion to subsidiaries as he had just indicated, and that procedure was shown in the detailed Rules for Implementation of Regulation on the Administration Foreign-funded Insurance Companies. Additionally, China had issued thus far as many as 70 licences to foreign-invested insurers in China. All these licences had been issued on the basis of published licensing procedures. The number of licences that the CIRC could grant to foreign insurers at one time was based on the licensing procedures in the relevant laws and regulations, as well as the prudential principle. The available amount of sub-branches for one application was not statutorily stipulated in the Chinese law, and therefore it was appropriate in his view to set a compulsory number of licences for the CIRC to issue to a particular foreign insurer at one time. In his view, national treatment did not mean strict equivalence in the number of licences for sub-branches issued at one time. What was important for national treatment was that the approval procedure and the requirement for sub-branches were equal for both domestic and foreign applicants.

59. With regard to the questions about further liberalization of insurance services, he said that according to China's commitments, within three years after accession, foreign insurers would be permitted to provide health insurance, group insurance and pension to foreigners and Chinese customers. He explained that the regulations for the implementation of the above-mentioned commitments were being drafted and would come out soon.

60. He then addressed the questions concerning the regulations on investment by insurance companies. He said that all these issues fell under the right of Chinese regulatory authorities to regulate this sector. Firstly, pursuant to CIRC's Provisional Measures on the Administration of the Overseas Utilization of Insurance Foreign Exchange Funds, the qualifying threshold for insurers to be able to invest their foreign exchange funds in overseas funds or equities was applied to both foreign and domestic insurers based on prudential considerations. Secondly, the CIRC's Interim Regulations for Insurance Assets Management Companies required that only insurers that had held licences for more than eight years were permitted to apply to establish an insurance assets management company. This was also non-discriminatory and based on prudential considerations. Thirdly, he said that there were no plans to review existing investment regulations for insurance companies.

61. Fourthly, with regard to the establishment of financial holding companies, the memorandum of understanding signed in June 2004 on the division of responsibilities and co-operation in financial supervision and regulation among the CPRC, the CSRC and the CIRC stipulated how China regulated financial holding companies in case of separate supervision of the different lines of financial business. Article 8 of the memorandum stated that the supervision of a financial holding company should adhere to the principle of separate supervision of different lines of business. The supervision of the financial holding company's parent rested with the relevant commission in accordance with the nature of the company's principal business. The different subsidiaries of a financial holding company were under separate supervision in accordance with the nature of each subsidiary's business activities. If a financial institution had overseas establishments, its respective supervisory commission should exercise the supervision over the overseas establishment and establish a working relationship with the host country supervisory authority. If a financial holding company were established by a commercial business entity, its supervision and regulation should be exercised in accordance with relevant arrangements, jointly worked out by the three commissions. Finally, regarding the recognition of actuaries from other Members, he said that this recognition was subject to mutual recognition agreements and was in conformity with the relevant GATS provisions.

62. He then turned to the questions on banking. Firstly, he said that China required that 30 per cent of the working capital of a foreign bank branch be maintained in the form of interest bearing assets as prescribed by the supervision authorities, including deposits in Chinese commercial banks or RMB government bonds, with a view to keeping a certain amount of funds to pay primary creditors when a foreign bank branch closed. Due to the frequent capital inflows and outflows in foreign bank branches in China, the authorities could not ensure effective supervision of those funds if they were allowed to be lodged with these banks. This was also in line with the common practice of many Members that required a proportion of working capital to be maintained in the form of interest bearing assets being deposited in other banks or used to purchase investment instruments with low risks such as government bonds.

63. Secondly, with regard to the equity participation in existing Chinese domestic banks, he said that China's schedule of commitments only allowed foreign banks to establish subsidiaries, and branches in China without any limitation on foreign equity participation. However, in line with the development of China's banking sector, China gradually relaxed the restriction on the foreign equity share in existing domestic banks. In fact, China believed that was beyond its WTO commitments. Since the end of 2003, China had already increased the equity share of a single foreign investor to 20 per cent from the previous 15 per cent, so long as the equity share of the total foreign investment in a financial institution was lower than 25 per cent. The nature and the business scope of the targeted

bank remained unchanged. In the future, China would continue to relax the limitation on foreign equity participation in domestic banks in line with changing situations and with a view to promoting co-operation between domestic and foreign banks in various fields.

64. The question was also raised as to whether China was considering to introduce flexibility in the requirement for duly established branches to engage in local currency business. He replied that the sector column of China's schedule of specific commitments stipulated specific preconditions for foreign banks and branches of foreign banks to conduct local currency business. Therefore, the requirement was in the schedule and was also in accordance with the regulations on the Administration of Foreign-funded Financial Institutions and the Rules for Implementing the Regulations on the Administration of Foreign-funded Financial Institutions. Foreign-funded banks should meet the following requirements when applying for local currency business: they must have been operating in China for more than three years prior to application; they should remain profitable for two consecutive years; and they should comply with other prudential conditions required by the CBRC. Those qualifications were important foundations for the sound operation and risk control of foreign funded banks. He added that the CBRC had no intention of revising these qualifications.

65. The next questions referred to the administration of foreign debts of foreign capital banks in China. He stated in that regard that the imposition of regulations on foreign debts of foreign invested banks was the sovereign right of the Chinese government to regulate. According to the Administrative Measures on Foreign Debt of Foreign-invested Banks in China, and the notice on several issues related to the implementation of these matters promulgated by the State Administration of Foreign Exchange, China imposed the balance administration over the short-term foreign debts incurred by foreign banks. The balance for the year 2004 was determined by averaging the balances at the end of the last five months or by multiplying the actual received capital or operational fund by five. Generally speaking, the determination of the foreign debt index was quite loose. The determination of the 2005 short-term foreign debt would be conducted by putting the actual demand of foreign banks as a priority. He added that the loans in foreign currency and the capital would be taken into consideration while determining the short-term foreign debt balance. At the same time, the transparency of the determination would be ensured by the strict observance of the procedural regulations of the law on administrative licensing. He added that given the fact that China had not made any commitments on foreign debts and that the balance determination for short-term foreign debt was also imposed on domestic banks, therefore on a national treatment basis, he believed that China had not violated its commitments on market access or national treatment.

66. He then addressed the question on Article 30 of the Administrative Regulation on Foreign-invested Financial Institutions, which set a 70 per cent limit on foreign bank holding of foreign currency deposits. This requirement was based on prudential considerations. Thus far, the competent regulatory committee had not found any single bank having difficulties to meet this requirement. All banks in China easily met this requirement, which did not affect any of their businesses in the country. China did not think that this requirement constituted a market access barrier. He added that this regulation was needed for prudential considerations.

67. He then replied to the question on the remittance of foreign currency and exchange of RMB. He said that since the commitments undertaken on Article VIII of the IMF in December 1996, the Chinese government had been keeping its promises of convertibility of the RMB and the current account. There were no restrictions against payment and transfers in relation to transactions of trade in services. In order to keep in line with the international practice, and with a view to separating the transactions under the capital account from those under the current account, and impeding illegal exchange arbitrage, money laundering and other crimes; the State Administration of Foreign Exchange required that valid certificates or documents be provided when making payment in foreign exchange related to transactions of trade in services. Such practice fully complied with the provisions in Article VIII of the IMF and Article XI of the GATS. With a view to facilitating services trade, the

Chinese government adopted a series of measures to regulate and simplify the procedures of checking and reviewing the authenticity of the payment in foreign exchange. Commercial banks were authorized to check and review the authenticity of the payment in foreign exchange by themselves, subject to the documentation required. Coordination among relevant departments of the government had been enhanced in order to serve foreign companies better. These measures had greatly facilitated the business activities of foreign-invested companies in China. Following the principle of convertibility of foreign exchange and current accounts, the Chinese government would make efforts to improve the administration on purchasing and making payments of foreign exchange related to transactions of trade in services, simplifying the procedures of checking and reviewing the authenticity of payments in foreign exchange, and gradually changing the situation from prior management to management *ex post facto*.

68. Lastly, he addressed the questions on securities services. He said that he had already provided an answer to the question on capital requirement. Regarding equity limitations, he said that the equity sharing was clearly indicated in the Chinese schedule. He stated that further liberalization should be pursued in the current round of services negotiations, and not in the context of the TRM process.

69. The representative of Switzerland said that the answers given by China represented a tremendous effort and showed how seriously China took the TRM. He took note of those answers, particularly the statement by China that it would continue to adjust the capital requirements in the future. That was a very positive signal. He also noted that, with regard to equity participation in Chinese banks, China intended to continue to release the relevant pieces of legislation. Finally, he reacted to one aspect of China's replies referring to prudential measures. He acknowledged that there were very extensive and active discussions on these issues. Switzerland fully accepted the current situation in the GATS in terms of prudential measures. He was convinced that that was the appropriate way. Basically, what the Annex on Financial Services said was that Members were free to introduce any prudential measures that they deemed appropriate. That meant in concrete terms that even if a Member introduced a "none" in its schedule of specific commitments, it still remained free to introduce any prudential measures. However, that did not mean that prudential measures were outside the scope of the Agreement; they were within the scope, but subject to a lax rule. And that did not mean that Members were not allowed to discuss such measures.

70. The representative of the United States said that he understood the position of China with regard to capital requirements. Nevertheless, he urged China's regulators to continue to have a dialogue with interested parties on the level of those capital requirements in various sectors. He further sought two clarifications on the questions raised by the United States. Firstly, he asked China to clarify whether it would allow non-life insurers already established as a branch in China to open sub-branches even if they did not first establish as a subsidiary (question 1(b) in document S/FIN/W/40). Secondly, he asked whether China could confirm that the RMB 200 million capital requirement for initial establishment as a branch included the right to establish sub-branches without limitation on numbers and without having to satisfy any additional capital requirements (question 4(a) in document S/FIN/W/40).

71. The representative of Japan said that his delegation had no intention of challenging China's legitimate right to introduce prudential measures. However, Japan believed that the Member in question should be held accountable for the degree of such prudential measures. In light of paragraph 2(a) of the Annex on Financial Services, Japan was of the view that China had to justify the appropriateness of the prudential means in question in order to attain the prudential objectives. From that point of view, Japan believed that it had the legitimate right to ask for further clarification with regard to excessive prudential measures, e.g., with respect to the requirement for newly established branches to engage in local currency business, and with respect to the application of long-term borrowing quotas to foreign invested banks. Since foreign banks in China relied mostly on financing

from the headquarters, they were facing a serious problem in conducting banking business. Such a long-term borrowing quota was not in line with the commitments on national treatment. He finally asked whether China could circulate the responses just given.

72. The representative of the European Communities said that they respected China's right to prudential regulation. However, he insisted that these rules, especially the capital requirements, should not be excessive. With regard to ownership limits in the banking sector, he noted China's reply that these limits were not beyond its commitments. However, he asked whether China could elaborate further on that matter, since he could not find such a limitation in the Chinese schedule of specific commitments. He welcomed the Chinese intention to relax both types of restrictions in the future.

73. The representative of Canada said that despite the explanation on the licensing procedures for life insurance at the provincial level, it remained unclear whether the provincial licence, once granted, would allow the establishment of multiple branches and sales offices within the territory without prior approval, as was the case at present. Finally, he encouraged standardized and transparent processes across all the financial sector regulatory bodies, particularly with regard to public consultation on draft measures, including implementing rules.

74. The representative of Australia asked whether China would circulate the responses just given.

75. The representative of the People's Republic of China said that the initial statement provided for circulation, together with the oral answers provided in the course of the meeting, were sufficient for a meaningful review. China was of the view that providing written answers to Members' questions went beyond the provisions of paragraph 18 of the Accession Protocol and would be overly burdensome for China. He further clarified that branches or subsidiaries were allowed to branch out in China within the business scope and the business area stipulated in their licences. Additionally, with regard to capital requirements, he said that foreign funded companies were required to have RMB 200 million of capital at initial entry to China. The provisions on sub-branches could be consulted in the detailed Rules for Implementation of Regulations of the People's Republic of China on the Administration of Foreign-Funded Insurance Companies. The capital requirement per branch was in compliance with the prudential principle and intended to provide equal treatment for all insurers, both domestic and foreign. He further considered that the key element in assessing the prudential aspect of a measure was whether it was prudential in that particular Member. Therefore, the most important elements to be taken into consideration to judge what was prudential for a Member were the level of development of that Member's financial sector and the regulatory capacity of that particular Member.

76. By way of conclusion, the Chairperson invited the Committee to take note of all the statements made. Secondly, he requested the Secretariat to prepare a report, to be presented to the Council for Trade in Services. It would be a factual report, stating basically the following:

- (a) that, pursuant to section 18 of the Protocol on the Accession of the People's Republic of China, the Committee had conducted a review of the implementation by China of the WTO Agreement and of related provisions of the said Protocol, in the meeting held on 23 November 2004;
- (b) that written communications had been received from six Members, namely Japan, Canada, the European Communities, the United States, Chinese Taipei, and Australia; and
- (c) that the details of the discussion, including all the interventions made at the meeting, would be found in the meeting report, to be issued as document S/FIN/M/47.

77. The Committee so decided.

C. ACCEPTANCE OF THE FIFTH PROTOCOL TO THE GENERAL AGREEMENT ON TRADE IN SERVICES EMBODYING THE RESULTS OF THE FINANCIAL SERVICES NEGOTIATIONS

78. The Chairperson recalled that three WTO Members had yet to accept the Fifth Protocol, namely: Brazil, Jamaica, and the Philippines. She invited these three Members to provide information on the status of their domestic processes.

79. The representative of Brazil said that the Fifth Protocol was still pending approval by Congress. It was difficult to foresee any precise timeframe for its approval.

80. The representative of the Philippines said that the acceptance of the Fifth Protocol was still undergoing due legislative process in his country, the details of which had been explained in previous meetings. The Senate, which was responsible for the acceptance of the Protocol, had been recently organized following elections in the Philippines. It was not possible to indicate the concrete timeframe for such approval at this stage.

81. The representative of Jamaica said that the process of reform in the financial sector was at an advanced stage. It was Jamaica's desire to have a regulatory framework that contribute to enhance confidence, efficiency and a high level of consumer protection. Jamaica continued to benefit from a highly liberalized environment for financial services, despite the fact that the country had not been in a position to ratify the Fifth Protocol to the GATS. As Jamaica prepared for participation in the current round of services negotiations, the issue of ratification of the Fifth Protocol remained high in the list of priority areas for consideration. She was unable at that point to indicate a precise timeframe for the acceptance of the Protocol. National consultations were being held with a view to finalizing a decision on this issue. She finally added that Jamaica remained committed to an open and liberalized financial sector.

82. The representative of Switzerland said that acceptance of the Protocol by these Members was already very long overdue. Members were currently engaged in another negotiating exercise. It was not clear what timetables were foreseen in these processes. It was not clear either to what extent governments were trying to involve themselves in those internal procedures in order to raise the priority level of the Fifth Protocol.

83. The representative of the United States said that her country remained very concerned about the lack of acceptance of this Protocol. She noted that the three Members had in fact reported that there was no movement whatsoever on this matter. The United States was worried that this situation might continue in a protracted fashion. She urged these delegations to move the process forward.

84. The representative of Canada expressed his concern on this issue. He expressed interest in any information how the Congressional calendars develop in these countries, so that Members might have a clearer sense of when adoption of the Protocol was possible.

85. The representatives of Japan and Norway also expressed their concern for the lack of progress in this agenda item.

86. The Chairperson expressed her appreciation for the information provided by Brazil, Jamaica and Philippines and encouraged these three Members to accelerate their internal procedures for the acceptance of the Protocol.

87. The Committee took note of the statements made and decided to revert to this agenda item at the next meeting.

D. TECHNICAL ISSUES

88. There were no interventions under this agenda item

89. At the suggestion of the Chairperson, the Committee decided to revert to this agenda item at the next meeting.

E. RECENT DEVELOPMENTS IN FINANCIAL SERVICES TRADE

90. The Chairperson recalled that at the last meeting, the Committee continued its consideration of the communications submitted by Norway on marine and energy insurance, and by Turkey on e-insurance initiatives by Turkish companies. In addition, Mexico made a thorough presentation on the Modernization of the Mexican Financial System, in which the most recent changes to the Mexican legal framework were explained. She also recalled that Chinese Taipei announced its intention to make a presentation on the recent changes introduced to its regulatory framework for financial services.

91. The representative of Chinese Taipei, Mr KONG Jaw-Sheng, Chairperson of the Financial Supervisory Commission, took the floor to make his presentation, entitled "A New Era of Financial Supervision".

92. He started by providing an update of the situation in the financial market. In banking, the authorities managed to reduce the NPL ratio from eight per cent in April 2002 to 3.3 per cent in September 2004. This was a significant achievement. The Commission was currently expediting industry consolidation, since Chinese Taipei was overbanked. The challenge was to reduce the number of banks. National champion banks that could play a significant role in the region were needed. At present, the top five banks market share was only 36 per cent. Compared to other financial systems, that share was still not high enough. The trading volume in the capital market ranked second in Asia, after Japan. In terms of market capitalization, Chinese Taipei ranked third in Asia, after Japan and Hong Kong, China. Foreign portfolio investment was also growing. In terms of annual premium income, Chinese Taipei's insurance market ranked third in Asia, after Japan and Korea.

93. The main reasons for establishing the Financial Services Commission (FSC) were the following: the prevalent global trend towards the establishment of single financial regulatory agencies; increasing cross-sector business among banking, insurance, securities and futures industries; and the consequent need to have more professional and focused supervision. The FSC was an independent authority. The Chairperson and the Commissioners were nominated and appointed by the highest levels of government. They all had a professional background, were prohibited from participating in political activities; and had a fixed term of office.

94. The FSC was in charge of supervising banking, insurance, securities and futures industries. It had quasi-judicial power, similar to prosecutor power. A joint regulatory committee composed of the FSC, the Central Bank and the Ministry of Finance, had also been established to coordinate major policy issues. The FSC missions included mainly the promotion of globalization and deregulation of financial services; the maintenance of financial stability; and the development of Chinese Taipei as a premier regional asset management and fund raising center. The main challenges for the future included creating a service-driven supervisory culture; enacting a "Single Financial Services Act"; expediting industry consolidation; and encouraging further foreign participation. Chinese Taipei already allowed foreign ownership in the financial sector up to 100 per cent, and encouraged foreign management in the financial industry.

95. The FSC encouraged further co-operation between the WTO and international standard-setting organizations, as well as further liberalization of trade in financial services. He finally said that the FSC remained firmly committed to the early completion of Doha negotiations.

96. The representative of Japan noted that after the Asian financial crisis in the 1990's, Chinese Taipei made significant efforts to keep financial markets active and open to global financial transactions. He asked whether Mr Kong could elaborate further on the actions taken in liberalizing trade in financial services.

97. The representative of Mexico considered that the presentation highlighted the importance of having single regulatory authorities. He asked what disciplines and procedures the FSC followed to implement its regulations. He further asked whether these procedures were public, and whether it was possible to make comments at different stages of the drawing up of regulations.

98. The representative of the Republic of Korea said that what mattered most was not whether regulation was carried out in an integrated single agency but how efficiently and effectively the regulatory agencies face the challenges imposed by financial regulation and supervision.

99. The representative of the People's Republic of China said that the level of banking regulation and supervision was an important criterium to evaluate a Member's financial development. Only when sound management and effective regulation and supervision were put in place could a Member ensure its banking systems safety and steady economic development. China was making efforts to ensure that foreign banks develop in China, upgrading the supervision expertise and efficiency in the sector. Having said that, he profited from this occasion to give a brief account on the progress made by China with regard to banking regulation and supervision. First, China had promoted financial legislation, simplified licensing procedures and enhanced policy transparency. The Law of the People's Republic of China on Banking Regulation and Supervision entered into force on 1 February 2004. For the first time, the objectives, principles and rules had been defined in order to enhance banking regulation and supervision. This law bound not only financial institutions but also banking regulators. In line with the demands of supervision and banking development, the CBRC had also established a series of regulations and rules. Secondly, learning from international best practices and accelerating the innovations in banking supervision, China established a council of international advisors composed of renowned experts so as to push the adoption of best practices and enhance risk-based supervision in China. China had also embarked in a self-assessment of the implementation of Basel Core Principles for Effective Banking Supervision. Co-operation with other regulators around the world was also promoted in order to improve China's supervisory techniques and measures. Thirdly, as part of the measures and instruments to improve banking regulation and supervision, and pursuant to international best practices, the CBRC established a risk-weighting system for the supervision of foreign banks, through which foreign bank branches were subject to Strength of Support Assessment (SOSA) and Risk Management, Operation and Control, Compliance, and Asset Quality Systems (ROCA weighting systems). The CBRC also insisted on consolidated supervision and risk-based supervision by enhancing cross-border supervision and implementing specific supervision. With the above-mentioned measures, China had been able to establish a framework of effective banking regulation and supervision, and push forward fair competition mechanisms between local and foreign banks.

100. The representative of Switzerland asked what type of policies and initiatives were envisaged in order to promote Chinese Taipei as a regional center for asset management and fund raising. He also added what means were foreseen to attract foreign expertise and presence in that sector in order to make it more dynamic and reach international standards.

101. The representative of Malaysia said that her country was also committed to further strengthening the domestic industry and progressively opening the market. Malaysia was committed



to further liberalization of financial services, but based on progressive liberalization and the strengthening of domestic participation. She encouraged other Members to share their national experiences so as to contribute to the discussion in the Committee.

102. The representative of Chinese Taipei (Mr. Kong, Jaw-Sheng) replied to the various questions raised. Referring to the question raised by Japan, he said that after the initiatives undertaken in the 1990s to open up the market, the emphasis now was on the creation of a service-driven supervisory culture. The regulator needed to know the market needs and pay more attention to communicating with the industry. Following long periods of over-regulation, the priority was now placed on deregulation and globalization of the financial system. The situation in the market was constantly monitored through weekly meetings of all commissioners. Communication with the public and the media was also encouraged. Referring to Mexico's question, he said that regulatory procedures were kept in line with international best practices, particularly in areas such as corporate governance, disclosure, transparency, consumer and investor protection, and supervision of cross-border establishments. On the question raised by Switzerland, he said that the existence of a large trade surplus and important international reserves made Chinese Taipei a suitable center for asset management and fund raising. Foreign participation in the market, as well as the presence of local institutions overseas, was encouraged.

103. The representative of Hong Kong, China considered that the presentation was interesting and said he would comment on it at a future meeting.

104. In concluding, the Chairperson expressed her appreciation for Mr. Kong's presence in the Committee on behalf of the Financial Supervisory Commission of Chinese Taipei. The presentation was very helpful. She encouraged other Members to share their experiences with regard to supervisory aspects, which were an important element for the expansion of trade in financial services.

105. The Committee took note of the statements made and decided to revert to this agenda item at the next meeting.

#### F. DATE OF THE NEXT MEETING

106. The Chairperson suggested that the Committee hold its next meeting during the next cluster of services meetings, probably in February 2005. The exact date would be announced in due course.

107. The Committee so agreed.

#### G. OTHER BUSINESS

(a) Plurilateral Financial Standards and their Regulation: The Experience of Small Developing Members of the WTO

108. The representative of Antigua and Barbuda made a statement with regard to the proposal submitted by Antigua and Barbuda, Belize, Fiji Islands, Guyana, Papua New Guinea, The Maldives, Solomon Islands and St. Kitts and Nevis on "The GATS and the Annex on Financial Services - International Regulations and Financial Services", contained in documents S/FIN/W/29 and Rev.1 of August and October 2003, respectively. In that paper, the proponents sought to address certain specific concerns of small vulnerable economies as they related to the GATS and the Annex on Financial Services. In these Members' view, the multilateral trading system needed to identify and implement responses to the issues raised in that submission to overcome the inherent economic disadvantages faced by small vulnerable economies.

109. In the previous meeting of the Committee, Antigua and Barbuda once again defended this issue, which was simply aimed at ensuring greater fairness and participation by all in the process of setting genuinely international standards for the regulation of financial services. At that meeting unfortunately, very few Members made interventions on the item. He expressed appreciation for the comments by those delegations. He believed that only dialogue and debate on the issue would yield an optimal outcome for the benefit of all.

110. He recalled that, as a result of the insufficiency of formal and/or informal interventions on this proposal at the last meeting, the Chairperson suggested that "further treatment of this issue along the current lines in the Committee may not lead us much further, and that interested Members would better first meet and explore any other possible options. Depending on the outcome, the Committee would then take up the issue again at an appropriate time in the future." He thanked the Chairperson for that wisdom as indeed it would be fruitless to open the item for discussion if silent on the issue. But the question did remain of how to ensure that the international regulation of financial services become an inclusive process for small developing Members of the WTO. Trade in financial services for many of these small countries, in an attempt to diversify their economies, had assumed a paramount importance in securing economic growth and viability.

111. He said that the problem was that while small developing states were invariably excluded from the process of formulation of international financial standards and regulations, they were unwilling objects of international regulatory authorities. This was not because of any lack of solidarity on their part with the stated goals of these bodies in ensuring stability and security within the international financial system. But small developing countries were not part of the standards formulation process, they had no say in the development of these standards or regulations, and many of these had negative effects on their development prospects. This absence from the formulation process had already had important consequences for the development and ultimate legitimacy of the financial standards emerging from these standards-setting bodies and the process of globalization of financial regulations. Further, there was growing evidence that the application of these standards, at times coercive, risked being extended to other international fora, such as multilateral financial and trade institutions like the WTO.

112. He added that he would not press the point further. His intention was only to let the Committee know that while Antigua and Barbuda and the other proponents had not asked for this item to be discussed separately, they nonetheless thought that it was important and wished to return to the item in the future. He took the wise suggestion by the Chair that interested parties should consult on the issue. He went further by suggesting that as some Members had suggested in the past, the issue did need further clarification and further elaboration, which Antigua and Barbuda would provide despite scarce resources and other constraints. In the future however, Antigua and Barbuda wished to ignite interest in a manner that would encourage discussion towards a solution. In spite of knowing the problem, the proponents did not proclaim to have all the answers and as the WTO was a Member-driven institution, they were open to suggestions from other Members on what, from their viewpoints, might be possible approaches to resolving this problem. The aim was to find a solution that would make the proponents comfortable. He thanked again the Chairperson for her leadership, and looked forward to working with her and other Members on this issue in the near future.

113. The Committee took note of the statement.

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