

COMMUNICATION FROM JAPAN

Transitional Review Mechanism in connection with Paragraph 18 of
the Protocol on the Accession of the People's Republic of China

The following communication, dated 25 October 2004, from the delegation of Japan is being circulated to the Members of the Committee on Trade in Financial Services.

**Questions and Comments of Japan on the Implementation by China
of its Commitments on Trade in Financial Services**

1. Japan welcomes that, in the third year after accession, implementation by China of its commitments on trade in financial services has progressed and entered into a cruising phase. In a transitional period of evolving regulations, the importance of regulatory transparency, predictability, stability and consistency is paramount; the value of market access commitments and the efforts to implement them could be easily clouded out by a shortness of such elements either in regulations themselves or in their application. The transitional review mechanism could be useful for making those transitional efforts more efficient and productive, and it is a pleasure for Japan to contribute to this process.
2. In this context, China is further invited to take the necessary steps to ensure regular and effective application of public comments procedures, well-in-advance publication of laws and regulations, avoidance of abrupt regulatory change, clear demarcation of departmental responsibilities, improvement in inter-departmental and central-provincial coordination and consistency, etc.
3. In accordance with Paragraph 18 of the Protocol on the Accession of the People's Republic of China, which states that "China shall provide relevant information to each subsidiary body in advance of the review" and in the spirit of cooperation to render the TRM process most efficient and effective, Japan requests China to provide in advance of the Regular Meeting of the Committee on Trade in Financial Services responses and relevant information to the following questions and comments.

I. INSURANCE

4. Japan welcomes the specific measures China has taken since the last TRM to implement its WTO commitments with respect to the insurance sector. Japan is pleased to note that geographic and operational restrictions are being lifted in accordance with China's commitments. While not challenging China's right to introduce prudential measures (as defined in paragraph 2 (a) of Annex on Financial Services), Japan remains interested in market access for foreign invested insurers through China's effective implementation of its WTO commitments. To this end:

- (a) Please confirm that transparency in licensing requirements and procedures ensures the effective implementation of the WTO commitments; and
- (b) Please explain the prudential reasoning behind minimum capital requirements for insurance companies, which remain very high compared with international standards.

II. BANKING

5. Japan welcomes the specific measures China has taken since the last TRM to implement its WTO commitments with respect to the banking sector. Japan is pleased to note that geographic and operational restrictions are being lifted in accordance with China's commitments. Also, foreign banks were enabled to submit, within a year of an approval for a branch, an application to open another branch. Likewise, foreign banks were enabled to resubmit the application within a year of a rejection to open a branch. While not challenging China's right to introduce prudential measures (as defined in paragraph 2 (a) of Annex on Financial Services), Japan remains interested in market access for foreign invested banks through China's effective implementation of its WTO commitments. To this end:

- (a) Please confirm that transparency in licensing requirements and procedures ensures the effective implementation of the WTO commitments;
 - (b) Please inform if China is considering to introduce flexibility in the requirement for a newly established branch to engage in local currency business; and
 - (c) Please inform if China plans to introduce flexibility in applying a long-term borrowing quota to foreign invested banks, in light of affording equal competitive opportunities (as defined in Article XVII.3 of the GATS).
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