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**Committee on Trade in Financial Services**

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**COMMUNICATION FROM THE EUROPEAN COMMUNITIES**

China's Transitional Review Mechanism 2005

The following communication, dated 27 July 2005, from the delegation of the European Communities is being circulated to the Members of the Committee on Trade in Financial Services.

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1. The EC is transmitting comments and questions in advance of the meeting of the Committee on Trade in Financial Services in September 2005, in order for the Chinese authorities to have sufficient time to provide complete replies.

2. Once the information to be provided by China in accordance with paragraph 8 and paragraph IV.3 (a) of Annex 1A of its Accession Protocol has been received, the EC might come back with additional questions.

3. The EC welcomes the expansion of geographical scope for foreign-funded financial institutions at the end of 2004, as announced at last year's TRM, as well as the lifting of the remaining geographic and product restrictions in the insurance sector.

4. The EC also welcomes the simplification of the application process for foreign financial institutions wanting to set up representative offices in China, the preferential review and approval procedures for the applications submitted by foreign banks to establish new entities or offer new lines of business in China's western and north-eastern regions, and the expedition of foreign bank applications for setting up intra-city sub-branches.

5. Minimum working capital requirements for direct branches of foreign banks remain however extremely high, ranging from RMB 100 million to RMB 500 million per branch depending on the business scope. These requirements are much higher than minimum capital requirements in most other countries and effectively limit market access for foreign banks. At last year's TRM, China said it would continue to adjust the operational capital requirement in the future.

**Considering the still extremely high level of capital requirements, could China please indicate when it intends to further reduce minimum capital requirements for branches?**

6. Moreover, minimum working capital is required for each direct branch in China from the same bank, irrespective of the number of branches, and capital adequacy ratios have to be met for each individual branch, in isolation from the other branches. This still appears excessive as Chinese authorities also require that the head office abroad of the foreign bank guarantees all liabilities of its branches in China.

**Could China please indicate whether it would consider applying these requirements to the overall commercial presence of a bank in China, and not to each of its branches?**

7. China requires that 30% of the working capital of foreign branches at any time be deposited at a local bank on a list defined by Chinese authorities or, in case of Renminbi, alternatively be used to buy Government bonds.

**Could China please explain why it considers that the requirement that those funds be lodged with a local bank (excluding foreign banks established in China) would be in line with its national treatment commitment? Would China be willing to reconsider whether it is really necessary for such a large proportion of working capital to be deposited with another bank?**

8. China has made full national treatment commitments in banking subsector (k) *Provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services*. China's regulatory regime in this subsector is, however, applied only to foreign suppliers, and the current regulator, through an affiliate, appears to be engaged in competition with other suppliers.

**In light of China's national treatment commitments and the potential for conflicts of interest, would China be open to considering alternative supervisory approaches covering both domestic and foreign suppliers, e.g. having the subsector supervised by a financial services regulator?**