

COMMUNICATION FROM THE EUROPEAN COMMUNITIES

Transitional Review Mechanism Pursuant to Paragraph 18 of the Protocol of
Accession of the People's Republic of China ("China")

The following communication, dated 10 October 2006, from the delegation of the European Communities is being circulated to the Members of the Committee on Trade in Financial Services.

-
1. The EC is transmitting comments and questions in advance of the meeting of the Committee on Trade in Financial Services of 27 November 2006, 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 further expansion of geographical scope for foreign-funded financial institutions, as announced at last year's TRM, as well as the further reduction in capital requirements for foreign bank branches, both at the end of 2005.
 4. Minimum working capital requirements for direct branches of foreign banks remain however extremely high, ranging from RMB 100 million to RMB 400 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 based upon prudential principles.

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

5. In its responses to last year's TRM, China said that after the transitional period it would open up its overall banking sector, and that it would consider how to apply the working capital requirement to the overall commercial presence of a foreign-funded bank in China.

Could China please provide some further information on its plans to apply the working capital requirement to the overall commercial presence of a foreign-funded bank in China?

6. China has made full national treatment commitments in banking sub-sector (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 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 sub sector supervised by a financial services regulator?

7. On Sunday, 10 September 2006, China published a new set of restrictive regulations for foreign news agencies.

Could China please clarify whether this new regulatory regime will also apply to suppliers of financial information, and, if yes, how this reconciles with China's full WTO commitments for suppliers of financial information services?

8. Foreign insurance companies in China face difficulties to expand their operations geographically through branches and sub-branches, mostly due to cumbersome and unpredictable licensing conditions. Chinese insurance companies do not seem to experience such problems in obtaining licenses, including obtaining concurrent approvals to open multiple branches.

Could China confirm that domestic and foreign insurance companies have equal treatment with regard to branch/sub-branch licensing? Could China also confirm that it implements branch licensing regulations uniformly across China?
