

**COMMUNICATION FROM JAPAN**

Transitional Review Mechanism pursuant to Paragraph 18 of  
the Protocol of Accession of the People's Republic of China

The following communication, dated 15 October 2007, from the delegation of Japan, is being circulated to the Members of the Committee on Trade in Financial Services.

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

1. Japan recognizes and welcomes China's continuous efforts to implement its WTO commitments for financial services. Japan believes that liberalization of the financial services sector will not only enhance the efficiency of the sector, but also contribute to China's overall economic growth. In this context, Japan continues to encourage China to make further efforts to ensure regulatory transparency, thus maximizing the benefits of liberalization. Japan is of the view that there is still room for further improvements in this area, in view of China's commitment to transparency as described in the Report of the Working Party on the Accession of China.

2. In accordance with paragraph 18 of the Protocol of 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 that China 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**

**A. LIMITATION ON REINSURANCE**

3. Article 11 of the Administration of Reinsurance Business Regulations requires direct insurance companies to solicit, from at least two reinsurance companies in China, reinsurance offers amounting to more than 50 percent of the reinsurance to be ceded. While China stated in the last TRM that this provision did not "force" direct insurance companies to offer the reinsurance to reinsurance companies in China, in practice this is considered as compulsory. In light of Article 28 of GATS which stipulates that "supply of service" includes the marketing of a service, please explain how this limitation can be justified, given that no limitations regarding cross-border trade in reinsurance are scheduled.

4. Article 22 of the Administration of Reinsurance Business Regulations prohibits foreign insurers from engaging in the reinsurance business with their affiliates. Please explain how this limitation can be justified when no limitation is scheduled regarding cross-border trade in reinsurance.

**B. MINIMUM CAPITAL REQUIREMENTS**

5. When asked about the minimum capital requirements for foreign insurers in the last TRM, China responded that this was for prudential reasons. However, this requirement is high in light of international standards. Please indicate whether China plans to relax minimum capital requirements for foreign insurance companies.

**II. BANKING**

**A. FOREIGN EQUITY CAP**

6. Please explain why China limits foreign equity participation to a maximum of 20 percent for a single foreign investor at existing Chinese domestic banks. This limitation is a limitation on market access and appears to be in conflict with China's schedule of commitments where no limitation on foreign equity participation is scheduled.

**B. LOCAL CURRENCY RETAIL BUSINESS**

7. China requires foreign banks to be locally incorporated if they are to engage in the local currency retail business. Please explain how this can be justified in light of China's accession commitments, and please inform us as to whether or not China is considering introducing flexibility to the requirements for newly established branches to engage in the local currency business.

**C. LONG-TERM BORROWING**

8. Please inform us as to whether or not China plans to introduce flexibility in applying long-term borrowing quotas to foreign invested banks, in light of the provision of equal competitive opportunities (as defined in Article XVII of the GATS).

**III. PROVISION AND TRANSFER OF FINANCIAL INFORMATION AND FINANCIAL DATA PROCESSING AND RELATED SOFTWARE BY SUPPLIERS OF OTHER FINANCIAL SERVICES**

9. The "Measures for Administering the Release of News and Information in China by Foreign News Agencies" prohibit consumers in China from directly subscribing news and information services provided by foreign news agencies. Please explain how this can be justified in light of China's commitments to the "provision and transfer of financial information and financial data processing and related software by supplier of other financial services" in the financial service sub-sector, even if the objective of this measure is to restrict mass media.

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