

**GENERAL AGREEMENT
ON TRADE IN SERVICES**

RESTRICTED
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Interim Group on Financial Services

NOTE ON THE MEETING OF 12 OCTOBER 1994

1. The first meeting of the Interim Group on Financial Services was chaired by Mr Frank Swedlove of Canada. The discussion followed the agenda for the meeting contained in Airgram PC/AIR/30.
2. The Chairman began by recalling that the background to the establishment of the Group was the Ministerial Decision on Financial Services which provided that: first, six months after entry into force of the WTO Agreement, any Member was free to improve, modify or withdraw some or all of its scheduled commitments on financial services; and secondly, during that six-month period, MFN exemptions which were conditional upon the level of commitments undertaken by other participants would not be applied; at the end of that period, Members were required to finalize their position relating to MFN exemptions.
3. The Ministerial Decision agreed at the end of the Uruguay Round did not itself provide for the establishment of a negotiating group. This set financial services apart from the situation in Maritime Transport, Basic Telecommunications and Movement of Natural Persons where negotiating groups were called for by the decisions and required to report periodically on the progress of negotiations. In the case of financial services, a supervisory function was assigned to the Committee on Trade in Financial Services, which was called upon to monitor the progress of any negotiations undertaken under the terms of the Ministerial Decision and to report to the Council for Trade in Services no later than four months after entry into force of the WTO Agreement.
4. However, after the Marrakesh meeting it had become clear that many participants were interested in monitoring and making more transparent negotiations in the financial services area which were either underway or foreseen. Following informal discussions about setting up a forum for multilateral discussions in financial services in the period before the entry into force of the GATS - that is for the rest of this year - it was agreed to establish the Interim Group on Financial Services. The decision to do so was formalised at the meeting of the Sub-Committee held on 15 July which laid down the terms of reference for the Group; namely, "to monitor the progress of the negotiations under paragraph 1 of the Decision on Financial Services until the entry into force of the WTO Agreement and the creation of the Committee on Trade in Financial Services".
5. Looking ahead to the continuing negotiations in financial services, the position was that Member countries had a short period in which to review and finalize their market access and national treatment commitments in financial services, after which they would be free to improve, modify or withdraw these commitments. The Chairman noted there was already a very substantial and important body of commitments contained in the schedules and the objective of the Group's work remained a multilateral, MFN-based agreement covering financial services. Withdrawal of commitments in this crucial sector - for so many governments a vital element of the Services Agreement - would be a very unfortunate outcome for the Uruguay Round and a bad start for the WTO. It would run the danger of setting back, perhaps for many years, the possibility of creating in this sector a common set of trade rules with a built in, and mutually agreed, commitment to ongoing liberalization.

Requests for observer status

6. The Chairman recalled that all signatories to the Final Act were participants in the negotiations and that requests for observer status from other governments as well as intergovernmental organisations were to be dealt with on a case-by-case basis. On the basis of requests which had been received it was agreed that Ecuador, Chinese Taipei, Panama and Saudi Arabia as well as the World Bank, IMF and UNCTAD be granted observer status.

Status of the negotiations

7. The Chairman noted that the purpose of this item was for delegations to inform each other of any progress that they might have made in bilateral discussions and welcomed maximum frankness given that transparency was so large a part of the Group's concerns.

8. One delegation announced that it was no longer pursuing the "two-tier approach" to liberalisation in financial services. In view of the opposition this approach had aroused, it was no longer considered to be a constructive basis for moving forward and there was no intention to reintroduce it. This however did not mean that the financial services commitments on the table were considered adequate; on the contrary they needed to be improved. Negotiations to this end had been taken up with several countries. Noting that it did not expect that liberalisation of financial services markets could take place overnight, the delegation had said to the countries concerned that it was willing to consider temporary phase-in arrangements as necessary to address legitimate concerns about the effects of market liberalisation on their own financial services suppliers. His delegation needed to obtain commitments that guaranteed substantially full market access and national treatment within a clearly established time-frame in order to be able to make comprehensive MFN commitments in financial services. Such commitments remained the desired goal of the negotiations. Regarding insurance, the same delegation noted that its goal was to reach a rather more ambitious set of commitments by countries who were important players in the insurance market. One of the key issues was market access and the ability of the foreign company to control its operations in foreign markets.

9. Another delegation, speaking on behalf of a group of countries, stressed that the role of the Interim Group was not to negotiate but to provide a degree of transparency to help the negotiations along. It was the plan of his delegation to visit a number of countries in the near future with the aim of achieving improvements in schedules of commitments in terms of expanded coverage of activities, greater flexibility for different types of commercial presence, as well as improvements in the quality of bindings. The broad overall objective was national treatment both in the right of initial establishment and the carrying on of establishment-based activities and in the area of cross-border provision of services. He urged those countries that had downgraded their offers at the end of the Uruguay Round to reinstate the best offers previously tabled in order to provide a realistic basis for the continued negotiations in financial services.

10. A number of participants emphasised their interest in negotiating a substantially improved package of commitments which would enter into force on an MFN-basis and expressed their intention to participate actively in the work of the Group. It was important to start serious bilateral negotiations as quickly as possible in order to make progress.

11. Several delegations supported the idea of maximum transparency in the area of financial negotiations: one way of achieving this was to coordinate meetings of the Group back-to-back with bilateral meetings in Geneva. From an efficiency and a cost point of view it was pointed out that it would be preferable to pursue bilateral meetings in Geneva around the edges of future multilateral meetings.

12. In response to a request that had been made, the two delegations concerned informed participants of the outcome of their negotiations in the insurance area as contained in the document entitled "Measures by the Government of the United States and the Government of Japan regarding Insurance" which was subsequently circulated as document S/IGFS/W/1. It was confirmed that the measures, which *inter alia* covered approval of insurance products and rates, transparency and procedural protection and competition policy, which were agreed between the parties, would be applied on an MFN basis. The understanding addressed several aspects of insurance that went beyond the scope of the Uruguay Round commitments as it dealt with deregulation issues in a number of critical areas and with transparency requirements beyond those contained in the publication obligation contained in GATS Article III.

Consideration of any technical work that may be needed in support of the negotiations

13. It was requested, and subsequently agreed, that the Secretariat would circulate a compilation of the financial services offers. In view of the fact that a number of countries had taken liberalisation measures since the conclusion of the negotiations last December, it was suggested that it would be useful for transparency purposes, for those delegations that were willing to do so, to inform the Interim Group, through the Secretariat, of such liberalising measures. It was further suggested that a possible agenda item for the next meeting of the Group could concern developments in the financial services sector which would cover the kind of liberalisation measures just mentioned. It was clear that the purpose of such an item would be to exchange information and not to provide a multilateral setting to critique such measures or to try and negotiate changes in the measures being described.

Organisation of future work

14. Several participants agreed that it would be useful to have bilateral contacts and negotiations in Geneva before the next meeting of the Interim Group, keeping in mind that it was necessary to have a sufficient number of governments represented by individuals who could take the decisions to make such an exercise worthwhile. It was necessary to know well in advance how many delegations intended to participate in such a bilateral round in order to make the necessary preparations in capitals. There was considerable support for setting an early date for bilateral discussions in Geneva which would enable capitals to start considering what offers they might be able to make and what requests they would be making of others. Another meeting of the Interim Group after the negotiations would be useful in increasing the transparency of the bilateral discussions.

15. It was suggested that countries who wished to carry out bilaterals with other countries should inform them of their interest as early as possible in order to know to what extent there was a broad interest to have such bilaterals and to gauge the necessity to bring experts from capitals to Geneva. In conclusion, the Chairman proposed to hold the next meeting of the Group on Thursday, 1 December following bilateral meetings, to be set up by and between interested parties, to be held earlier that week. This was made subject to a waiting reserve by one delegation which was subsequently lifted. These arrangements are therefore confirmed.