

**GENERAL AGREEMENT
ON TRADE IN SERVICES**

RESTRICTED
S/IGFS/2
21 December 1994

(94-2861)

Interim Group on Financial Services

NOTE ON THE MEETING OF 1 DECEMBER 1994

1. The second 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/45.
2. Following agreement in the Group that Slovenia be granted observer status, the Chairman invited comments on the document entitled "Measures by the Government of the United States and the Government of Japan regarding Insurance" (reference S/IGFS/W/1) which had been circulated since the last meeting. The representatives of the parties to the document confirmed that the commitments therein contained were extended to all foreign providers and were multilateral in nature.
3. Regarding the second item on the agenda, exchange of information regarding recent liberalization measures, the Chairman noted that Switzerland had circulated a communication concerning a recent modification in its legislation in the area of financial services (contained in document S/IGFS/W/2) in line with the agreement of participants in the Group to exchange information on such matters. Concerning a group of countries, the representative of the European Communities noted that the entry into force took place on 1 July 1994 of two important Directives in the insurance area: the 3rd Non-Life Coordination Directive and the 3rd Life Coordination Directive. The Directives set up the supervisory regime permitting the operation of the single licence and the concept of home country control, sometimes referred to as the "European Passport", for insurance companies operating within the single European market.
4. The delegate of the Philippines noted that the new Banking Act which was passed in July 1994 in the Philippines had abolished a very restrictive regime that had been in place for nearly 50 years; access would now be allowed for foreign banks through the acquisition of 60% of the voting stock of existing domestic banks, through locally incorporated subsidiaries or via the establishment of a branch with full banking authority. Complementary reforms had also been undertaken in the insurance sector where insurance had been taken off the negative list of the 1991 Foreign Investment Act, thus allowing for the establishment of majority foreign-owned or wholly foreign-owned insurance, reinsurance and intermediary companies as well as the establishment of a branch in insurance and reinsurance. The delegation of Morocco informed the Group that laws had been passed recently concerning negotiable instruments and investment funds as well as banking and the implementation of such laws would take place shortly.
5. The delegation of the United States informed the Group of the major provisions of the Riegle/Neal Interstate Banking and Branching Efficiency Act of 1994 and the implications of the bill for foreign banks in the United States. The Riegle/Neal legislation afforded foreign banks national treatment in respect of interstate banking and branching and contained other provisions intended to equalize competitive opportunities for US and foreign banks in the US market. Specifically, the bill permitted nationwide interstate banking by acquisition of a bank in any state one year after enactment of the

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legislation, regardless of existing regional compacts or national reciprocal agreements. Second, the bill permitted interstate branching by merger: beginning on 1 June 1997, the responsible banking regulators would be able to approve a merger transaction between a bank and an out-of-state bank; the bank then would convert the merged bank's offices into branches of the bank. Third, the bill also allowed inter-state branching by *de novo* establishment of direct branches. A bank would be able to establish and operate a *de novo* branch in a state in which the bank did not already operate so long as the host state opted-in by expressly permitting in state law *de novo* interstate branching.

6. Regarding the next agenda item on the progress of bilateral negotiations, two delegations said that they had mixed impressions from the consultations they had held: on the one hand, the discussions had been useful from a stock-taking and transparency point of view in terms of clarifying existing commitments; on the other hand, some partners had stated that they were not prepared for various reasons to envisage making improvements in their schedules. This was of particular concern given the short time-frame for achieving improvements in commitments; the effective negotiating period ahead was in fact only four months, rather than six months, after entry into force of the WTO agreement. It was important, therefore, for delegations to use the multilateral forum which Geneva provided and to ensure that the appropriate expertise from capitals was present in future rounds of bilateral contacts. Another delegation underlined that a number of preliminary discussions had been useful and looked forward to intensifying consultations in the near future. One delegation said that it had explored with some of its trading partners the extent to which liberalization could be incorporated in schedules in the form of binding commitments and, on the basis of information that it had received, would formulate further specific requests which would be conveyed to its partners.

7. One delegation noted that some countries had made commitments that were still seriously deficient in certain respects, such as incomplete sectoral coverage, the imposition of screening requirements or economic needs tests, other barriers to entry and expansion, limitations on the form of establishment and the amount of foreign equity, discriminatory capital requirements, onerous restrictions on intra-corporate transferees and discriminatory limitations on the ability of foreign firms to fund themselves or offer certain services. The same delegation underlined the fact that it needed firm commitments from a number of its partners which addressed these kinds of market access and national treatment barriers in order to be in a position to accept a broad MFN obligation in financial services under the GATS.

8. Other delegations noted that preliminary discussions had been useful for transparency purposes and one expressed the intention of making improvements in its current offer. It was important to maintain a sense of urgency about these discussions and to avoid a situation where meaningful commitments would be made in the last few days of the extended period of negotiations. Another delegation said that a number of useful clarifications had been made with regard to scheduled commitments but it was less clear where the process was heading; the overall goal of the delegation was a bigger and improved package in the services area as a whole and not only in financial services.

9. The Chairman concluded that the comments showed that the bilaterals that had taken place were a good stock-taking session - that progress had been made in achieving a better understanding of the financial services regime of countries - but that much work remained to be done. Turning to the subject of future work, the Chairman reminded the participants that the Interim Group was established to monitor the progress of negotiations until the creation of the Committee on Trade in Financial Services. It was not possible at the present time to know when the first meeting of the Services Council would occur, since this depended on the first meeting of the General Council, and therefore when the Committee on Trade in Financial Services would be established. Whatever happened in terms of institutional arrangements, however, the Chairman suggested that it would be useful to have further bilateral contacts in approximately two months. It was therefore tentatively agreed to schedule further bilaterals in Geneva for the week of 23 January, to be followed by a multilateral meeting on 27 January 1995.