

WORLD TRADE ORGANIZATION

RESTRICTED

S/IGFS/3

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Interim Group on Financial Services

NOTE ON THE MEETING OF 3 FEBRUARY 1995

1. The third 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 WTO/AIR/2.
2. Following agreement in the Group that the Russian Federation be granted observer status, the representatives of Japan and the United States reported on their bilateral financial services agreement announced on 10 January and subsequently circulated to members of the Group in document S/FIN/W/1. It was stressed that implementation of the agreed measures would be on an MFN basis consistent with the approach taken by Japan of not tabling MFN exemptions at the end of the Uruguay Round. Although the agreement was complex, a number of key features were identified relating to: better access for investment advisory companies to pension funds; easier availability of business licenses as well as deregulation in the area of investment trusts; broadening of types of securities that can be transacted; and simplification of approval and notification processes for cross-border transactions.
3. The United States representative confirmed that the agreement was an important step towards the successful conclusion of the GATS negotiations and that the benefits would be extended to all parties on an MFN basis. Appropriately scheduled, Japan's commitments would make a significant contribution to the successful outcome of the negotiations and it was hoped that it would encourage others to come forward to make similar commitments; it was underlined that commitments made by the United States would also be on an MFN basis. The United States considered that these commitments made in the agreement were adequately reflected in its schedule.
4. Other delegations welcomed the agreement and some expressed concern that it should be applied on an unconditional MFN basis which would require confirmation in the appropriate written form and multilateralization in the GATS context by scheduling elements of the agreement. In Japan's view, however, there was no obligation to multilateralize in the sense of including the commitments in the agreement in its schedule; nevertheless depending on the offers made by other participants, the Japanese schedule might be improved at some point in the on-going negotiations.
5. Regarding liberalization measures being undertaken elsewhere, the delegate of Mexico reported that the government had placed before congress new reform measures affecting banks and other financial institutions. These measures included further opening for foreign investment in financial e.g. raising the ceiling for foreign ownership of Mexican banks and the limits on individual ownership as well as making it possible to purchase outright Mexican banks with less than a certain market share percentage.
6. Regarding progress in bilateral negotiations, a number of delegations reported on their bilaterals over the past week. Several expressed satisfaction with what had been discussed although the point was also made that what was on the table still required improvement if the exercise was to succeed, and in the case of one participant in particular, if MFN treatment was to be confirmed in its own market.

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In this respect while some useful reform proposals were being advanced, there appeared to be on the part of some delegations a certain reluctance to schedule those intentions in GATS schedules. This was because for example some governments needed flexibility, in the light of changing circumstances, to amend reform programmes where they were staged over a number of years. A major problem therefore was how to encourage delegations to bind their liberalization plans especially when it involved incremental reform into the future; the binding of market access and national treatment regimes was essential to afford predictability for foreign investors in the financial services sector. The key to a successful outcome of the negotiating process was translating domestic liberalization measures into binding commitments through schedules.

7. In view therefore of the pressing timetable for the rest of the process and the need to rapidly translate what had been discussed at the bilateral level into a more transparent form, it was suggested that verbal intentions should be put into writing as conditional offers. In the absence of any objection to this, the Group agreed to the Chairman's proposal that those delegations who wished to do so should submit on a conditional basis their written intentions or conditional offers to the secretariat by 15 March. In outlining the overall timetable for the remainder of the negotiations, the Chairman reminded participants that the Interim Group was set up to monitor the progress of bilateral negotiations until the Committee on Trade in financial services was established by means of the Decision on Institutional Arrangements for the GATS which the Services Council was due to adopt at its first meeting on 1 March. This meant that the Interim Group would effectively cease to exist and would hand over its work to the Committee.

8. Looking ahead, the key dates were the 30 June deadline for the completion of the negotiations; in addition, 30 April was important for two reasons; first, according to the Second Annex on Financial Services, a two-month period was provided for participating countries to inscribe in their schedules any improvements or modifications to their specific commitments as well as to the relevant parts of their MFN exemption lists; in other words, after 30 April countries might choose to alter their schedules and exemption lists. Second, there was the requirement for the Committee on Trade in Financial Services to report on the progress of the negotiations to the Services Council as called for by paragraph 2 of the Decision on Financial Services. In order to be in a position to meet the requirements of the 30 April deadline, the Chairman suggested that the Group should have two further meetings, one around the end of April and the other on 28 March with a further round of bilaterals to take place during the week of 27 March. It was so agreed.