EXECUTIVE SUMMARY

NATIONAL TREATMENT IN THE UNITED STATES

The prevailing policy of the United States has been, and continues to be, to provide national treatment to foreign investors in their establishment and operation of financial institutions within the United States. Several changes in U.S. law and regulation since publication of the 1994 National Treatment Study are relevant to the treatment accorded to foreign financial services firms. National treatment, defined as equality of competitive opportunity between foreign and U.S. firms, has been maintained in financial services, and, in some cases, expanded under U.S. law and regulation since 1994. Equality of competitive opportunity does not require identical treatment of foreign and domestic financial institutions. Differential treatment is sometimes necessary in order to accommodate legal and regulatory systems and banking structures in foreign countries that differ from those in the United States.

A number of key developments in the treatment accorded to foreign financial institutions in the United States have taken place since 1994. In banking, the supervision of the operations of foreign banks has been improved and streamlined, most individual states have enacted legislation that enhances the ability of both domestic and foreign banking organizations to expand geographically, the ability of banking organizations to engage in securities activities has been expanded, and several initiatives have been introduced to reduce regulatory burdens on both domestic and foreign banking organizations.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Riegle-Neal Act), signed by President Clinton on September 29, 1994, established a federal framework for interstate banking and branching in the United States for both domestic and foreign banks. The Riegle-Neal Act affords foreign banks national treatment with respect to interstate banking and branching. More specifically, national treatment is now afforded to foreign banks in relation to nationwide interstate banking by acquisition, interstate branching by merger, and interstate branching by *de novo* establishment of direct branches. As of September 1995, interstate banking by acquisition was in effect in all 50 states and, as a result, any bank holding company including foreign banking organizations may acquire a bank subsidiary in any state without geographic restriction. With respect to interstate branching, in general, a foreign bank may establish and operate a federally or state-licensed branch or agency in any state outside its home state to the same extent as a domestic bank with the same home state as the foreign bank. In addition, a U.S. bank controlled by a foreign bank may establish branches outside its home state to the same extent as other U.S. banks.

The U.S. Congress has been considering and debating modernization of the U.S. financial system for many years. In the 105th Congress (1997-98), financial modernization legislation in the form of H.R. 10, the Financial Services Act of 1998, made significant progress but was not enacted. This legislation would have repealed provisions in the 1933 Glass-Steagall Act that restrict affiliations and interlocking management and employees between banks and firms engaged in securities

underwriting. It would have created a new type of bank holding company – a financial holding company (FHC) – to control a securities underwriting firm and companies engaged in other types of financial activities, including insurance underwriting. Under the legislation, foreign banks could have been deemed to be FHCs, and the FRB would have been required to establish and apply standards that give due regard to the principles of national treatment and equality of competitive opportunity. The legislation also would have created another new type of bank holding company – a wholesale financial holding company (WFHC). A foreign bank that operates an uninsured branch, agency, or commercial lending company in the United States could have requested a determination from the FRB to be treated as a WFHC, subject to certain restrictions. Foreign banks that became FHCs or WFHCs under the legislation would have lost their grandfather rights to engage in nonbanking activities. In addition, the FRB would have been given the authority to impose restrictions on certain foreign banks that operate branches, agencies, or commercial lending companies in the United States that do not become FHCs or WFHCs within two years after H.R. 10 became law. Although H.R. 10 was not enacted, it is expected that the next Congress will again consider and debate legislation relating to financial modernization.

In the securities sector, regulators have taken a number of steps to simplify access by foreign firms and issuers to the U.S. securities markets without compromising protection of U.S. investors. Disclosure requirements have been modified to facilitate access to U.S. capital markets, resales of certain restricted securities have been exempted from SEC registration requirements, and the SEC has issued no-action letters which ease the conditions under which investment advisers can register in the United States and provide advice to U.S. clients.

In addition to the federal regulatory scheme in the securities sector, the 50 states have securities laws known as "blue sky" laws. Most states require that securities offered in the state be registered with the state and, although most states have adopted the Uniform Securities Act of 1956, there are many variations among the states. This means that if an issuer makes a public offering in the United States, it must register or obtain an exemption from registration in each state where the offering will be made. This "blue sky" process does not differ substantially for domestic and foreign issuers. The National Securities Markets Improvement Act of 1996 revised Section 18 of the Securities Act to reallocate regulatory responsibility relating to securities offerings between the federal and state governments based on the nature of the security offering, and the SEC adopted new Rule 146 in connection with this revision. The two provisions apply to both domestic and foreign issuers.

Finally, in December 1997, the United States and other countries successfully concluded a financial services agreement under the General Agreement on Trade in Services (GATS). Although U.S. national treatment and most-favored nation (MFN) commitments as part of that agreement do not affect U.S. laws, those commitments will be potentially enforceable under dispute settlement once that agreement enters into effect. In conclusion, developments in U.S. law and regulation have been consistent with the principle of according national treatment to foreign financial institutions and have improved the access of foreign financial services providers to U.S. financial markets.

OPERATIONS OF FOREIGN FINANCIAL INSTITUTIONS IN THE UNITED STATES

The United States generally offers investor choice with regard to the form of entry that a foreign financial institution may use to establish a U.S. presence. The presence of foreign banks and securities firms has contributed importantly to the depth and liquidity of U.S. financial markets.

As of March 31, 1998, 271 foreign banks from 59 countries operated 469 agencies and branches, 108 U.S. banking subsidiaries, 21 Edge Act Corporations, and 3 New York State Investment Companies in the United States. As these data indicate, agencies and branches are the preferred form of operation, accounting for over 58 percent of the assets of the banking offices operated by foreign banks. Foreign banks also operate 144 representative offices and a variety of nonbanking financial companies in the United States.

Foreign banks initially entered U.S. markets primarily to serve the banking needs of U.S. affiliates of their home-country customers. However, in recent years, foreign banks have become more active in lending to U.S. businesses, often purchasing loans originated by U.S. banks. Since foreign banking offices are involved primarily in wholesale banking and they have only a small presence in retail banking, foreign bank activity is concentrated in the major U.S. financial centers. New York accounts for 71 percent of the U.S. assets of foreign banks, Chicago for 8 percent, and San Francisco and Los Angeles (combined) for 5 percent. The remaining foreign bank assets at U.S. offices are concentrated primarily in Miami, Houston, and Atlanta.

Banks headquartered in industrialized countries account for the predominant share of foreign bank activity in the United States. As of March 31, 1998, the reported assets of banks headquartered in the G-10 countries accounted for nearly 90 percent of all foreign bank assets in the United States. From year-end 1973 through March 31, 1998, the reported assets of U.S. offices of foreign banks increased from US$32 billion to US$2.1 trillion. Foreign banks currently account for about 20 percent of the assets of all banking offices in the United States, and they have booked about 28 percent of all loans to U.S. businesses at these banking offices.

The SEC maintains a policy of equal market access and national treatment, applying the same requirements to all broker-dealers, issuers, investment advisers, and investment companies under its jurisdiction, whether U.S. or foreign. Registered broker-dealers are not required to report to the SEC the extent to which they are owned by foreigners. As of June 30, 1998, over 1,100 foreign issuers representing 55 countries were filing reports with the SEC. Over 500 new foreign companies have entered the U.S. markets since January 1994. As of June 30, 1998, over 800 foreign companies were listed on U.S. stock exchanges.

As of June 30, 1998, approximately 420 foreign investment advisers were registered with the SEC out of a total of about 7,500 SEC-registered investment advisers. A substantial majority of the 420

foreign advisers have 50 or fewer clients, and only 19 have more than 500 clients. These advisers report giving advice to a broad range of clients, including individuals, banks and thrifts, investment companies, pension and profit-sharing plans, and corporations. The largest numbers of foreign investment advisers were from the U.K. (108) and Canada (45). A foreign money manager may organize an investment company in the United States on the same basis as a domestic money manager. As of June 30, 1998, approximately 1,340 U.S. investment companies managed portfolios consisting primarily of foreign securities. Assets of these funds totaled approximately US$470 billion.

According to the CFTC, as of May 1998, the numbers of its registrants who are foreign-based are as follows: 206 commodity trading advisors, 73 commodity pool operators, 1,882 associated persons, and six introducing brokers. In addition, 179 foreign firms were granted relief from registration as futures commission merchants based upon the CFTC's determination of comparability between the foreign jurisdiction's regulatory scheme and that of the CFTC. The majority (85) of these firms were based in the U.K.

IMPROVEMENTS IN NATIONAL TREATMENT ABROAD SINCE THE 1994 REPORT

1995 U.S.- Japan Financial Services Agreement

The Japanese Ministry of Finance and the U.S. Treasury Department concluded a comprehensive financial services agreement on January 10, 1995. The "Measures by the Government of Japan and the Government of the United States Regarding Financial Services" feature an extensive package of market-opening actions.

With respect to Japan's US$1.5 trillion asset management market, the agreement opens a much larger portion of the Japanese pension fund system to investment advisory companies, securing the opportunity for asset managers to manage funds on a specialized basis and reducing the costs of establishment and operation. The agreement also creates greater opportunities for foreign financial firms to participate in Japan's US$500 billion corporate securities market through liberalizing restrictions on the introduction of new financial instruments and introducing a domestic asset-backed securities market in Japan. With respect to cross-border financial transactions, the agreement promotes further integration of Japan's capital market with global capital markets by creating virtually unlimited opportunities for qualifying Japanese corporate investors to invest abroad, and for Japanese issuers to tap capital markets without restrictions on either the size or type of instrument being issued. Finally, the agreement features comprehensive obligations, building on the Japanese Administrative Procedures Law, to provide transparency in financial regulations and protections from administrative abuse.

Taken together, the agreement's commitments correct many of the market access problems experienced by foreign financial services firms in Japan. Implementation of the agreement has been monitored carefully and has been very successful. There is a consultative mechanism in the agreement that provides for regular review of implementation, and it has the capacity to look at new issues as appropriate. In this context, there is a set of qualitative and quantitative criteria by which progress made under the agreement has been assessed.

1997 GATS Financial Services Agreement

Over the past four years, the broadest advance in the treatment of U.S. financial service providers in foreign markets was achieved via the conclusion of a multilateral financial services agreement under the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO) in December 1997. This agreement achieved what previous rounds of negotiations, held under the Uruguay Round and again in 1995, had not: substantially improved market access and national treatment commitments for foreign financial services providers from a broad range of commercially significant countries.

The 1997 agreement covers all financial services and sectors, including: insurance and insurance related services, traditional banking services, securities and derivative related services, asset management, and advisory services. It included improved commitments from 70 members, including five members that made commitments for the first time. This brings to a total of 102 the number of WTO members with financial services commitments, a group which accounts for over 95 percent of world trade in financial services as measured by revenues.

Commitments in the 1997 agreement include significant improvements in terms of: (1) foreign firms' right to establish and expand operations; (2) foreign firms' right to full majority ownership of financial institutions; (3) guarantees that the existing rights of foreign firms in these markets will be preserved ("grandfathering"); and (4) the right to participate on the basis of substantially full national treatment. Several WTO members also either withdrew their broad MFN exemptions based on reciprocity or reduced the scope of such exemptions. These commitments will translate into significant improvements in the ability of foreign financial service to establish and compete in these markets.

The following are illustrative of some of the more significant steps toward financial liberalization under the 1997 GATS agreement.

- Japan bound on an MFN basis certain bilateral financial services agreements that it had reached with the United States.

- Canada committed to change its regime governing establishment of foreign banks to allow foreign banks to establish via direct branches.

- Indonesia grandfathered foreign participation in existing joint ventures, relaxed discriminatory capital requirements, and bound new entry for nonbanks and securities firms.

- Korea, among other things, eliminated ceilings on individual foreign equity participation in securities and asset management companies and allowed the establishment of branches and joint ventures of foreign asset management firms.

- Thailand fully grandfathered existing foreign bank branches and relaxed for ten years its 25 percent foreign equity limit for locally-incorporated banks and finance companies.

- Brazil confirmed and significantly expanded the scope of foreign firm establishment in its market and bound current practice for the entry of securities firms.

- Mexico extended national treatment to foreign pension fund managers and raised the allowable aggregate foreign participation level in the domestic financial sector.

For its part, the United States removed its prior broad MFN exemption and agreed that it would continue to maintain the substantial degree of market access and national treatment afforded under current laws, both federal and state. The United States also included a commitment to national treatment for foreign firms under the Riegle-Neal Act.

As comprehensive as the agreement is, it should be recognized that many participating WTO members did not commit to provide more liberal treatment of foreign service suppliers than was already their practice. Nonetheless, the 1997 financial services agreement guarantees foreign financial services providers certain levels of market access and national treatment and makes their overall operating environment more predictable because commitments are legally binding. The agreement also established basic principles and negotiating mechanisms, as well as a foundation of specific commitments, which could serve as a solid starting point for future multilateral negotiations in the financial services sector.

The 1997-98 Asian Crisis and Financial Services Liberalization

A principal objective of the United States in both bilateral and multilateral negotiations has been to achieve substantially full market access and national treatment in the financial services sectors of commercially important countries. Some Asian countries, as a result of the current economic and financial crisis, have encouraged foreign trade and investment in financial services as an important component of their overall plans for corporate and financial sector restructuring.

In Korea, prior to the current crisis, the government had begun an economic reform program to gradually liberalize financial markets and capital account transactions. Following the onset of the crisis in 1997, Korea entered into a stand-by arrangement with the International Monetary Fund

(IMF) and an economic program that included a significant restructuring of the corporate and financial sectors. As a result, restrictions on foreign investment in domestic equity, bond, and money markets have been eliminated and foreign direct investment has been substantially liberalized. Foreign banks and brokerage firms have been allowed to establish subsidiaries in Korea since March 31, 1998. The government committed to introduce legislation to allow the creation of mutual funds and the issuance of asset-backed securities by August 31, 1998. In addition, the government committed to accelerate the liberalization of foreign exchange transactions by September 30, 1998.

In Indonesia, rapid expansion of the financial sector in the 1980s and early 1990s resulted in a large number of banks with high levels of foreign debt and nonperforming loans. After the onset of the crisis in 1997, the government adopted policies to stabilize the economy, restructure the financial sector, and accelerate structural reforms. Corrective actions included, among other measures, the elimination of a 49 percent limit on foreign holdings of listed shares. The government committed to lift restrictions on branching by foreign banks by February 1998 and to amend the banking law to eliminate restrictions on foreign investment in listed banks by June 1998. It has taken other steps to revise the legal framework for banking operations, improve transparency and disclosure in banking, and eliminate most restrictions on bank lending other than those required for prudential reasons by December 1998.

In Thailand, where the current crisis began in July 1997, foreign entry and private investment in the financial system are being encouraged through the sale of intervened institutions (banks and finance companies) and the preparation of state banks for privatization. In addition, new inflows of foreign direct investment are being encouraged by conversion of the existing Alien Business Law into a new and more liberal Foreign Investment Law, covering a variety of business activities including brokerage services, by October 31, 1998. The government also intends to liberalize existing restrictions on foreign ownership of real property, allowing foreign investors to acquire or lease property under certain conditions, by October 31, 1998.

BANKING AND SECURITIES SECTORS IN PARTICULAR COUNTRIES

Banking

Argentina

The Argentine banking sector has undergone significant transformation in the past four years. Following the contagion effects of the Mexican financial crisis in 1995, Argentina's banking system has been substantially strengthened by economic recovery, consolidation, enlarged foreign bank participation and increased liquidity and capitalization. A ban on the issuance of new bank licenses was lifted in 1994. Foreign banks may establish in branch or subsidiary forms in Argentina, or by acquisition of shares in Argentine banks. Prudential lending limits for foreign bank branches are

based on local paid-in capital, not the parent bank's capital, effectively removing much of the rationale for establishment of a branch. There are no additional restrictions on foreign banks' establishing or expanding their presence in Argentina. Merger and acquisition opportunities are available to U.S. banks on a par with other financial institutions. Rules and regulations governing banking operations are deemed to be transparent according to U.S. banks operating in the country and there is sufficient opportunity for them to comment on proposed changes in bank regulations. Argentina imposes no market access restrictions or capital controls. Central Bank restrictions on remittances by foreign banks have been eliminated.

Brazil

Foreign participation in Brazil's financial sector is regulated by the Brazilian Constitution. The establishment of new foreign branches or subsidiaries is prohibited, although actual government practice has allowed substantial foreign entry and expansion in recent years. Transitional rules permit exceptions on the basis of obligations under international agreements, reciprocity, or national interest. Work on a Complementary Law defining conditions for new or increased participation of foreign capital in the financial sector has progressed slowly, but it may be voted into law in 1999. A government toll is generally levied on newly entering foreign banks, either in the form of an outright payment or in some cases acceptance of doubtful assets of troubled institutions subject to central bank intervention. Trends in the Brazilian banking system since 1994 include: an increasing share of private sector banks and a declining share of government-owned banks in terms of total banking assets; a movement toward greater concentration among private sector banks; and a growing share of foreign bank ownership. In the 1997 GATS agreement, Brazil has offered to provide national treatment in banking, pending approval of the Complementary Law and subject to the provision that all members of senior management of financial services providers must be permanent residents of Brazil.

Canada

Foreign bank entry into the Canadian domestic banking market by branching continues to be restricted. Canada is the sole exception among G-7 countries in this regard. Canada, however, has pledged to introduce and to try to enact legislation that will permit wholesale foreign branch banking (but not retail branch operations) in Canada by mid-1999. Overall, prospects are improving in Canada in banking, as well as in other closely related areas, such as consumer finance, leasing, credit-card issuance, and mortgage insurance. As a result of the NAFTA accord, Canada accords U.S. banks a right of establishment and a guarantee of national treatment.

Chile

A new banking law approved in 1997 substantially enhanced prospects for new banking activity in Chile. The law stipulates objective parameters for new banks to enter the Chilean market, and it expands the types of activities in which Chilean and foreign banks may engage. Banks may establish subsidiaries for securities and insurance brokerage, leasing and factoring. Chilean banks are also permitted to engage in banking business overseas, through cross-border lending, the

establishment of branches and directly investing in foreign affiliates. Many regulations effecting changes in the new law are still pending as of mid-1998. Foreign banks are allowed to establish either as branches or subsidiaries, but the Bank Superintendency apparently prefers branches because the legal liability of a foreign branch extends to the parent institution. Foreign branches are subject to lending limits based on local capital. Foreign banks can trade foreign exchange through the official exchange market. However, Chile retains some controls on international capital movements. One is a reserve requirement on all credit inflows except direct supplier credits. Firms are required to deposit an established percentage of the inflow in a non-interest-bearing reserve for a set period of time, or pay the central bank a tax equivalent to the interest which the government could have earned on the deposit if it had been made. The percentage rate applies for the first year of the transaction, and it pertains equally to domestic and foreign firms. However, the rate was lowered from 10 percent to zero in September 1998. Chilean regulatory practices are transparent and there have been no complaints from U.S. bankers contacted.

China

China's banking system is still heavily influenced by the legacy of the former economy. Treatment of foreign financial institutions is highly restrictive. Foreign banks are not permitted to conduct local currency business except at tightly controlled levels in limited geographical areas in Shanghai and Shenzhen. Participation is allowed only in defined areas of wholesale banking. Foreign branches and subsidiaries are permissible but are subject to several licensing and operating restrictions. The U.S. Treasury Department is engaged in an ongoing dialogue with China concerning an expanded role for foreign financial institutions in China in the context of its desire to join the WTO.

Czech Republic

Each of the three East European countries surveyed in the Report, the Czech Republic, Hungary and Poland, represents a success story in terms of treatment accorded foreign banks. The foreign bank industry in the Czech Republic has been free and growing and foreign banks are generally permitted to engage in the same range of financial activities as domestic banks. European banks currently dominate the foreign bank sector. U.S. bank activity is predominantly in the wholesale or investment banking spheres.

European Union

The European Union banking market consists of fifteen countries. Over ten years ago, the objective was to create a single market for financial services. Today, much of the legal framework has been established. A major step forward toward such a single market will occur at the beginning of 1999 when eleven member states will adopt the euro as their single currency. Within the EU banking market, any bank in any member country gains a "passport" to provide banking services through local branches or cross borders throughout the EU. U.S. bank subsidiaries and direct branches of U.S. banks established in any EU member state receive national treatment. As a result, concerns of U.S. banks in the EU are for the most part quite similar to those of their European counterparts, and they presently relate to different tax structures and differences in tax treatment across borders, which

are still obstacles to full realization of the single market.

Hong Kong

Hong Kong's monetary and financial regulatory structure remains autonomous following Hong Kong's reversion to Chinese sovereignty on July 1, 1997. It is now a Special Administrative Region of China. As of the end of 1997, there were 32 U.S. banks operating in Hong Kong. U.S. financial institutions give Hong Kong authorities high marks for fairness and transparency and say that Hong Kong does not discriminate in terms of competitive opportunities. No major barriers regarding market access or national treatment have been reported.

Hungary

In Hungary, as the privatization process has continued, the presence of foreign banks has expanded. Foreign banks may now establish direct branches, subsidiaries or joint venture banks, or may acquire shares in local banks. Three of the remaining four sectoral exceptions to the principle of national treatment are expected to end by 2000, the single exception being ownership of arable land by mortgage bank branches.

India

Foreign bank entry into India has gained momentum in recent years, after a long period of very limited access. The domestic banking sector, however, continues to be dominated to a high degree by public sector banks. India does not grant national treatment to foreign banks. Entry by foreign banks is based primarily on India's relations with the home country of each applicant bank; capital requirements, tax treatment, and the ability to open new branches are all less favorable for foreign banks than domestic banks. Foreign banks currently operate in India as branches, but the recommendation contained in a recent Banking Committee Report is that subsidiaries become the preferred form and that foreign bank subsidiaries meet higher capital requirements than local banks. According to the 1997 GATS agreement, India has pledged to allow on a gradual basis more liberal treatment of foreign banks.

Indonesia

Indonesia's banking sector is presently in dire condition owing to the economic crisis that swept through the region beginning in mid-1997. A major restructuring plan is now being implemented with the assistance of the IMF, the World Bank, and the Asian Development Bank. The scope of this task is enormous because of the depression-like conditions that undermine the health of previously sound banks, along with the economy as a whole. Currently, four U.S. financial institutions operate wholly-owned branches in Indonesia. All are permitted to provide a full range of banking services, although three concentrate entirely on corporate lending. Eight other U.S. banks have representative offices.

Japan

Foreign banks have long encountered difficulties in the Japanese banking market. These difficulties have been the result of the regulatory environment and the country's exclusionary business practices rather than a lack of national treatment, which has not been an issue in recent years. Some experts believe this situation in Japan could be about to change for the better as the 1996 "Big Bang" initiative to reform the financial system and other possible deregulation measures are introduced. In 1995, the U.S. Treasury Department and the Japanese Ministry of Finance signed a bilateral Financial Services Agreement covering such areas as the pension fund market for trust banks, the removal of restrictions on cross-border capital transactions, and greater transparency. One of the first liberalizing steps under the Big Bang initiative in 1998 was a comprehensive revision of Japan's Foreign Exchange Law. Restrictions on Japanese overseas deposits have been removed and citizens may now freely buy and sell foreign currencies. All of these changes are proving to be of benefit to U.S. and other foreign banks operating in Japan.

Korea

Korea is presently implementing broad-based reforms of its economic and financial system in cooperation with the IMF, the World Bank, and the Asian Development Bank. Included are measures liberalizing capital markets and the banking sector. Changes occurring in 1998 include permission for foreign banks to set up subsidiaries, removal of all restrictions on land ownership by foreigners, permission for foreigners to participate in non-hostile and hostile mergers and acquisitions of domestic financial institutions, and government encouragement of greater foreign investment in the financial sector. U.S. banks are prominent members of the foreign banking community, but total foreign bank assets still account for a relatively small 9 percent of total assets held by deposit money banks. Foreign bank activity is concentrated in wholesale banking as a result of the Korean regulatory environment. Local foreign branch bank capital continues to be the basis for determining a variety of funding and lending limits. The government maintains tight control over the introduction of new financial instruments and foreign banks are disadvantaged in their access to local currency funding.

Malaysia

Malaysia is another of the East Asian countries seriously affected by the economic and financial crisis that arose in mid-1997. Malaysia's response to the crisis changed abruptly in mid-1998 as it instituted selective capital controls aimed at stabilizing its currency and insulating its economy from external risks posed by short-term capital flows. Other policies were adopted to reflate the lagging economy. Malaysia strictly limits foreign bank entry and foreign bank activity within its borders. No new commercial banking licenses have been issued in over 15 years, and acquisition of existing domestic banks is so constrained as to make it unappealing to foreign financial institutions. Since 1994, all existing foreign branch banks have been obliged to incorporate locally, which has been costly. Employment of expatriates by foreign banks is also sharply limited. One example of the restrictions on the expansion of foreign bank activity is the prohibition on foreign banks' establishing new branches or operating off-site ATMs.

Mexico

Implementation of the North American Free Trade Agreement (NAFTA) at the beginning of 1994 and the Mexican financial crisis in 1995 had the combined effect of very significantly liberalizing Mexico's banking sector. The foreign bank presence in the form of subsidiaries, joint ventures, and acquisitions of local institutions has grown sharply in recent years. (Foreign bank entry in the form of direct branches is not permitted.) Foreign bank affiliates are allowed to provide the full range of banking activities, subject to minor exceptions and market share restrictions, with the latter due to expire by 2000. The Mexican government has been working with the Congress during 1998 to enact a financial reform package. Parts of that package dealing with the FOBAPROA bank insurance fund problem may be completed this year, while other parts dealing with regulatory reform will likely be carried over into 1999. As a result of the financial services chapter of NAFTA, Mexico accords U.S. banks a right of establishment and a guarantee of national treatment.

Philippines

The Philippines has a significant foreign bank presence, with foreign banks accounting for some 16 percent of all commercial bank assets. Entry of new foreign banks is restricted, however, and foreign banks must comply with additional restrictions in comparison with domestic banks. Capital adequacy ratios and legal lending limits are based on the locally incorporated capital of the branch. Limits are also applied on branching, ATMs, remittances on profits, and ownership of land and buildings.

Poland

Poland's banking system has also been expanding rapidly and foreign banks are playing a prominent role in this growth. The main national treatment issue for U.S. financial institutions has been the licensing policy of the National Bank, which requires a foreign applicant to either purchase or financially assist a troubled Polish bank. This issue is expected to disappear at the end of 1998 when Poland's OECD commitment to provide national treatment to banks from OECD countries takes effect. Prudential lending limits for foreign bank branches in Poland are based on local paid-in capital, thus effectively removing the advantage of establishing a branch.

Russia

Analysis of Russia's banking system and its treatment of foreign banks in this Study was hampered by the collapse of the country's financial system in August 1998. Very significant restructuring of the banking sector is certain, but the precise role and array of opportunities open to foreign banks remain to be determined. As of mid-1998, there were three wholly-owned U.S. banks and nine others with U.S. participation licensed to operate in Russia. While U.S. banks indicate that *de facto* they have not been subject to discriminatory treatment or restrained from engaging in any planned banking activities, there are Russian laws and regulations that are indeed discriminatory. For example, foreign banks must have higher minimum charter capital requirements, 75 percent of their employees must be Russian nationals, and their chief executive officer must meet specific language

and education criteria. Russia's accession to the WTO has not yet occurred and Russia has not submitted its offer on financial services.

Singapore

There are two banking markets in Singapore: the offshore Asian Dollar Market and the domestic market, with the former being three times as large as the latter. Singapore actively encourages participation by foreign banks in the offshore market, which is dominated by U.S. and other foreign banks. In contrast, the authorities have imposed a freeze on the number of banking licenses issued in the domestic market for over 20 years, claiming it is over-banked. Foreign banks previously established in the domestic market do not enjoy the same market access as domestic banks. Foreign ownership of domestic banks is limited to 40 percent.

South Africa

Many foreign banks currently operate in South Africa, but altogether they account for only about 7 percent of total bank assets. Since 1995, authorities have permitted foreign banks to open branches, but several important restrictions effectively eliminate the benefits that would otherwise result from such an operation. Foreign subsidiary banks are accorded national treatment and are not limited as to the scope of their activities or regulated differently from local institutions. The clearing system is owned and controlled by the four largest South African banks and all other banks must clear through the big four. A U.S. bank along with small domestic banks have been negotiating with the Reserve Bank to obtain membership, but thus far they have not been successful. In commercial banking, but not in investment banking, domestic banks are favored over foreign banks in bidding on government contracts.

Taiwan

Taiwan has substantially liberalized its banking sector over the past four years, but some vestiges of earlier licensing requirements and other restrictions on foreign banks still persist. The banking community is dominated by the public sector, which accounts for 60 percent or more of bank assets, bank deposits, and bank credit. Foreign banks take the form of either branches or representative offices. While there are no foreign subsidiaries, they are legally allowed. Fourteen U.S. banks are presently active in Taiwan. They concentrate on wholesale banking and are very active in the credit card business and foreign exchange trading in the interbank market. A current concern for U.S. banks is the fact that a government test of their ability to act as arrangers for large project loans is based on onshore minimum net worth and total asset requirements. This is a variant of the legal lending limits imposed on foreign banks in many emerging market countries, all of which have the effect of constraining foreign bank involvement in the domestic financial community.

Thailand

Thailand is another of the countries in East Asia to have been seriously affected by economic and financial turmoil since mid-1997. Severe problems in the country's banking sector have been blamed in part on inadequate regulation and mismanagement within institutions. Thailand is

currently implementing a reform program supported by the IMF which involves closure of the weakest financial institutions and recapitalization of those that are more healthy. Overall, the banking system is being restructured and banks that are state-owned or that were taken over by Thai authorities will be privatized. The presence of foreign banks has increased in recent years and they now account for approximately 19 percent of all commercial bank assets. As a result of Thailand's banking crisis, foreign banks have been encouraged to consider acquiring larger shares of existing Thai financial institutions. Nevertheless, several restrictions limit the expansion of foreign bank activities, including a limit on the number of branches, legal lending limits based on locally held capital of the foreign branch, and limits on the number of expatriate managers. Partly because of such restrictions, most foreign banks concentrate on wholesale bank activities in the Thai banking sector.

Venezuela

The Venezuelan banking sector has been recovering from a serious financial crisis in 1994-95 which resulted from, among other things, an economic recession, lax bank supervision, directed lending, and poor credit practices. In response, the government and bank supervisory authorities took various steps to stabilize the banking sector, including: passage of new legislation which strengthened the supervisory authority; termination of government-directed lending to the farm sector; and encouragement of greater foreign penetration of the banking sector. The foreign bank presence in Venezuela now accounts for 48 percent of total banking sector assets. Foreign banks may now enter the market through acquisition of shares in an existing bank or other financial institution, through creation of a new bank or other financial institution wholly owned by a foreign bank or investors, or establishment of a branch of a foreign bank or foreign financial institution. Previous restrictions applied to already-established foreign banks which prevented them from expanding or offering a competitive range of services have been lifted. There are no branching restrictions on foreign banks and they are allowed to establish ATMs. However, local capital of the branch rather than the parent's consolidated capital is used to compute the branch's legal lending limit and other capital-driven thresholds. Under the 1994 bank law, banks can engage in securities activities, although in practice foreign banks participate through separately established securities firms. The only barrier with respect to national treatment is a provision in the banking law that permits the government to take into account "economic and financial conditions, general and local" and insist on reciprocity when deciding on an application for entry. The government has not used these powers to date against U.S. firms.

Vietnam

Vietnam is in the early stages of opening its national banking sector to foreign banks. It currently sharply restricts the ability of foreign banks to provide a full range of services and to expand operations in local currency. Vietnam does not currently apply consistent, transparent criteria in its dealings with foreign banks.

Securities

Argentina
Argentina's securities market is small in comparison to its banking sector. Argentina has no market access restrictions or capital controls, and it does not discriminate on the basis of domestic or foreign ownership. U.S. banks and securities firms participate in the market as branches or subsidiaries. There are no restrictions on Argentine access to foreign markets or foreign access to Argentine markets.

Brazil
Brazil's securities markets are the largest in Latin America. The Sao Paulo Exchange is the largest both in Brazil and regionally, and it has been growing rapidly. Nevertheless, market capitalization as a percentage of GDP remains low and the market for new domestic issues is thin as larger Brazilian firms are attracted to cheaper, more flexible opportunities abroad to offer securities and place commercial paper. The number of American Depositary Receipt (ADRs) offers has increased significantly. Main participants include universal banks, large public and private pension funds, mutual funds, and other banks operating through approved subsidiaries. Foreign firms wishing to enter Brazil's securities markets were barred from doing so by law in 1988, but previously existing foreign firms were grandfathered. A transitional rule provides for exceptions to the law based on national interest, obligations under international agreements, and reciprocity. Expected enactment of a Complementary Law will provide for new foreign entrants and the increase of existing foreign investment. Foreign securities and brokerage firms in Brazil may underwrite, broker and trade in domestic securities and hold seats on the stock exchanges. They face no barriers to doing business in the country. In recent years, new foreign firms have entered the Brazilian securities market primarily as minority partners in joint ventures with domestic companies.

Chile
Chile's securities exchanges have also been growing rapidly during the 1990s, but are still relatively small and also tend to be illiquid and concentrated. There is no legal discrimination or restriction against foreign securities firms, although they are required to operate through Chilean subsidiaries. Direct purchases of Chilean securities by U.S. investors are permitted, but economically discouraged by requirements that foreign investors maintain their Chilean investments for at least one year and deposit some percentage of their capital in a non-interest-bearing account with the Central Bank. Investment in foreign securities by Chilean citizens is limited.

China
Foreign securities firms are severely restricted from involvement in China's securities markets by discriminatory regulations and lack of market transparency. Foreign securities firms cannot establish local branches or subsidiaries but may establish representative offices which are limited to offshore activities and to making transactions on the stock exchange in "B" shares only. Foreign firms are required by regulation to hire their Chinese staff through an "approved labor supplier." China has

still not passed a national securities law and there has been no indication when that may occur. Despite these and other shortcomings, many U.S. securities firms remain optimistic about the longer-term prospects for the Chinese market. In numerous bilateral and multilateral discussion, including in the context of China's application to enter the WTO, the U.S. Treasury Department has sought significant liberalization of China's securities market, including permission for foreign financial institutions to participate in the underwriting and trading of renminbi-denominated securities. However, there are no indications that China will soon allow an expanded role for foreign securities firms beyond setting up joint ventures in tightly restricted markets.

Czech Republic

Securities markets in the Czech Republic are developing but are still characterized by fragmentation, a lack of transparency, and occasional fraud and trading bottlenecks. U.S. securities firms deal in cross-border transactions or government securities and derivatives rather than the equity or corporate bond markets. The Czech government places no restrictions on the entry or establishment of foreign securities firms and foreign investors may purchase Czech equities through brokers. There are no restrictions on foreign ownership of publicly-traded securities. U.S. firms report no cases of discriminatory treatment.

European Union

The European Union is in the process of creating a single market for securities services. The cornerstone of the system is the "single passport" to provide investment services throughout the EU, which is provided by the Investment Services Directive. Taken as a whole, the EU securities market is larger than Japan's but smaller than that of the United States. Anticipation of European Monetary Union at the beginning of 1999 has been prompting further integration among securities markets of member states. Over 50 U.S. firms are involved in EU securities activities, and plans for significant expansion are going forward as the EU securities business is expected to grow rapidly. The EU is committed to provide access to its securities markets on an MFN basis, including the freedom of establishment. To the extent U.S. securities firms have concerns in EU markets, they are concerns that are shared by all institutions in the market, foreign and domestic.

Hong Kong

The Hong Kong Stock Exchange ranked ninth largest in the world in market capitalization in 1997, down from sixth largest in 1993. This drop was due to regional financial turmoil in late 1997. The exchange has been playing a significant and growing role in raising equity capital for China's state-owned enterprises. U.S. financial institutions have a substantial and rapidly expanding presence in Hong Kong. A survey of major U.S. bank and nonbank financial institutions regarding their Hong Kong operations revealed no substantive concerns about national treatment. Respondents generally viewed Hong Kong as the most open environment in Asia within which to do business. The regulatory environment was regarded as fair and transparent. There appears to have been no impact on the treatment of U.S. financial institutions as a result of the July 1997 reversion of Hong Kong to Chinese rule. In recent months, as regional financial market turmoil intensified and Hong Kong

markets came under increasing pressure, the Hong Kong government departed from its usual non-interventionist, market oriented policy and intervened in stock, futures and currency markets, spending some US$15 billion. Some analysts have expressed concern about the government's involvement in markets, both as a regulator and participant. Government spokespersons responded by saying the action which occurred in August was a one-time divergence from their customary policy.

Hungary

The Hungarian securities market has grown very rapidly in recent years, but trading has been volatile. There are some suggestions that market regulation should be strengthened. Foreign firms enjoy discrimination-free access to brokerage licenses and over half of the existing brokerages have some foreign ownership. Banks and other financial institutions must set up dedicated, separate subsidiaries to trade in Hungary's securities markets. Participation by U.S. firms is small relative to that of firms from Western Europe.

India

India's securities markets have grown to significant size in recent years. This is a result in large part of economic reform in the wider economy which freed industry from controls on investment and expansion. At the same time, regulatory reforms and infrastructure development have been taking place in India's securities markets. Companies are now allowed to issue equity at market-determined prices; the issue process has become more flexible; and India's capital markets are open to foreign investors. U.S. and other foreign financial institutions (FFIs) have established joint ventures with local financial institutions in such areas as investment banking, asset management and consumer finance. U.S. firms also underwrite offshore securities issues by Indian companies, and they manage and market mutual funds. U.S. institutional investors account for some 60 percent of cumulative net investment by foreign institutional investors in India. The major barriers to market access in the securities industry that remain to be addressed by authorities include: the removal of discriminatory restrictions on the ability of FFIs to trade for their own account or for the account of customers; and the inability of foreign securities firms to operate on the Indian stock exchanges directly instead of working through registered Indian brokers to execute transactions.

Indonesia

Before the economic and financial crisis began in mid-1997, Indonesia's fledgling capital market had been expanding rapidly. Nevertheless, some analysts blamed the absence of a well-developed bond market in Indonesia as partly responsible for the ensuing financial crisis. Many rapidly growing Indonesian companies had financed their expansion by borrowing abroad during the 1990s, running up large private offshore debts denominated in foreign currency. When the exchange rate crisis hit in 1997, those domestic companies faced loan repayments in domestic currency terms that were suddenly impossible to meet. U.S. and other foreign securities firms enjoy good access to the Indonesian securities market, both as purchasers of securities and as brokers. Foreign securities firms must still operate through joint ventures with domestic firms, but discriminatory capital

requirements on foreign firms are expected to be removed in 1998. Relatively tight limits on the number of foreign personnel who can be employed by securities firms continue to be applied.

Japan

Several developments in the past few years have helped to partially liberalize Japan's securities markets. The 1995 agreement between the U.S. Treasury Department and the Japanese Ministry of Finance was mentioned earlier in this Executive Summary. Another important development was the Japanese government's "Big Bang" deregulation initiative, announced in 1996. Various legal and regulatory changes are now underway as part of a broad effort to achieve "free, fair, and global" financial markets in Japan by 2001. Many barriers to Japanese securities markets, identified in previous National Treatment Study Reports, have been or are now being addressed. Remaining problems include the lack of freedom to offer new securities products due to a discretionary and time-consuming new product approval process, limited access to the domestic lead-underwriting business, and inadequate transparency of the regulatory process.

Korea

The Korean securities market is in the midst of fundamental change as the country is implementing a reform and restructuring program in cooperation with the IMF and other international financial institutions. The program involves significant capital market liberalization. In the course of recent events, foreign participation in domestic equity and bond markets has been substantially liberalized. Government interference with and manipulation of equity market prices has been scaled back and the regulatory authority for the securities industry has been reformed. Foreign firms may now establish subsidiaries as well as branches. Foreign investors play a growing role in stock market trading; bond markets are now open to foreign investors. Many regulatory and legal barriers for foreign securities firms and foreign investors have been removed, although limitations remain on the operations of representative offices. Branch offices have to meet minimal capital requirements depending on their business activities. Consultation with foreign firms about regulatory changes has improved. Current issues of major concern to foreign firms are primarily ones of need for more market liquidity and transparency rather than national treatment.

Malaysia

Prior to the 1997 financial crisis in East Asia, Malaysia's securities market had grown into one of the most active and diverse Asian markets, outside of Japan. Foreign ownership in Malaysian stockbroking companies is limited to 49 percent of paid-in capital. Only one U.S. securities firm holds a large minority stake in such a domestic firm. New licenses for joint-venture securities firms providing brokering and underwriting services are subject to an economic needs test. Up until selective currency controls were implemented in September 1998, U.S. firms interested in a Malaysian portfolio generally operated through subsidiaries in the regional hubs of Hong Kong and Singapore. Foreign firms are permitted to register in Malaysia as investment advisers and to conduct market research for overseas clients. Although there are generally transparent rules governing Malaysia's financial and capital markets, the financial authorities maintain substantial discretionary

authority when approval is required for certain transactions.

Mexico

The implementation of the NAFTA in 1994 opened the Mexican securities market to U.S. and Canadian firms. Under NAFTA's national treatment guarantee, U.S. securities firms and investment funds, acting through local subsidiaries, have the right in principle to engage in the full range of activities permitted in Mexico. U.S. and Canadian firms are subject to gradual relaxation in market share limitations during NAFTA's transitional period, which will end in 2000. In 1995, the Mexican government liberalized regulations governing investment in Mexican financial institutions. The 1995 reforms also permitted foreign institutions to acquire Mexican financial institutions and convert them into affiliates without being subject to capital limits, and there have been two cases where foreign financial institutions have taken advantage of this opportunity. There have been no further developments relative to Mexican securities market regulation since 1995.

Philippines

The Philippine securities market is small and relatively underdeveloped. Trading is concentrated in government securities, with about half of government paper carrying maturities of less than one year. Branches of U.S. banks operating in the Philippines are active traders of foreign exchange and government securities, including futures. Foreign securities broker/dealers may enter the Philippines securities markets as wholly-owned, locally incorporated, broker/dealers. For investment houses, which are allowed a broader range of securities activities, foreign participation is limited to 60 percent ownership. The foreign ownership limit on firms engaged in trust activities and mutual fund management is 40 percent. After entry, there are no further distinctions made between wholly or partially-owned foreign and domestic firms.

Poland

Poland's securities markets continue to grow and develop in sophistication but at this stage they are still thin and are considered to be in the developmental stage. Poland extends national treatment to U.S. firms offering financial services in connection with issuance and trading of securities. A number of U.S. investment banks in Poland provide advisory, underwriting, and fund management services.

Russia

The very considerable progress made in Russia over the last four years with respect to securities market development, legislation, and regulations was overshadowed by the collapse of Russian financial markets in mid-1998. Prior to the 1998 upheaval, Russia's financial sector had become one of the most dynamic and market-oriented in the entire economy. The primary regulator, the Federal Commission for the Securities Market, was established and began to exert its authority through licensing procedures and through creation of a regional network. Regulation and enforcement were hard-pressed to keep up with the explosive growth in securities market activity. Prior to the 1998 market collapse, key issues included: the need for stronger protection of shareholders' rights; an

improved tax regime; and domestically-based clearing and settlement infrastructure. Investment firms with U.S. participation do not report any discriminatory treatment. Only resident firms can be licensed by the securities regulatory agency to conduct professional securities market activities in Russia.

Singapore

Foreign securities firms generally have the same right to establish and offer financial products in Singapore as do domestic firms, with respect to government securities, unit trusts, and financial futures. There are restrictions, however, on the extent to which foreign stockbroking firms can trade in the equity securities markets for Singapore resident clients. Singapore residents face no capital controls or restrictions in obtaining offshore financial instruments. Foreign companies can participate in underwriting foreign issues of local companies without restriction. There are restrictions, however, on the issuance of offshore Singapore dollar-denominated securities. One year ago, the Singapore government set up a Stock Exchange Review Committee to consider and recommend changes in the operation of Singapore's stock exchange as part of a broad effort to liberalize the financial services sector. In May 1998, another government-appointed committee proposed adoption of a U.S. system of regulation based on maximum disclosure and minimum exchange regulation in order to generate greater vibrancy in securities markets. It remains to be seen what changes in law or regulation result from these efforts.

South Africa

Foreign participation in South Africa's securities markets has increased significantly in the past three years. U.S. firms have established a presence in the equities, bond, and derivatives markets and are expanding their involvement. Financial authorities expect to present to Parliament a carefully coordinated array of regulatory proposals within the next year aimed at bringing South Africa's regulatory and supervisory structure into conformity with global best practices. This will facilitate transition to unrestricted cross-border financial transactions based on national treatment.The turmoil in international markets in mid-1998 and a global reassessment of risk by foreign investors is expected to place continued pressure on South Africa's securities markets to bring regulatory, corporate governance, disclosure, and technological standards fully into line with those of major markets abroad.

Taiwan

There has been significant liberalization of Taiwan's securities sector over the past four years. A one-year waiting period to upgrade a representative office to a branch has been dropped; almost all foreign ownership restrictions have been abolished; limits on foreign ownership in futures brokerage firms have been lifted; foreign and domestic securities firms face the same capital requirements, and after establishment may provide the same services; and most restrictions on repatriation of capital and earnings by foreign institutional investors have been removed. Nevertheless, U.S. securities firms continue to face discriminatory treatment in several areas. For example, U.S. and other foreign qualified institutional investors are subject to an investment limit per investor. The US$7.5 billion

limit on aggregate foreign investment in the Taiwan Stock Exchange was replaced by foreign ownership limits in listed firms. (These limits on foreign ownership in a listed company have been raised over the past four years and are due to be removed entirely by 2000.) All in all, however, the overall environment for securities firms operating in Taiwan remains restrictive. Capital and exchange controls are still in effect for large transactions and impede a range of operations, as do limitations on foreign institutional investors.

Thailand

The securities markets of Thailand were among the fastest-growing in the region during the 1980s and 1990s. However, the markets were badly affected by the economic and financial crisis that began in mid-1997. Various measures have been taken to shore up the securities market, including easing restrictions on foreign ownership of domestic securities firms. Until recently, U.S. securities firms did not have a significant direct presence in Thailand, and instead relied on representative offices and several minority holdings in domestic finance/securities companies. U.S. firms have been active in underwriting offshore debt and equity issued by Thai companies for several years and have been involved in underwriting and managing both offshore and domestic mutual funds. U.S. portfolio investors have been active participants in Thailand's equity market. Since the onset of the financial crisis, U.S. securities firms have been involved in advising on financial restructuring for listed companies and on privatization.

Venezuela

Securities markets in Venezuela are relatively small compared to its banking sector, and small relative to Brazil's securities markets. In Venezuela, banks may engage in a full range of securities activities, although participation has typically been through fully-owned securities firms. Reform of The Capital Markets Law, which awaits ratification by the Senate, will strengthen the regulatory environment of Venezuela's equity markets. Foreign banks and securities firms may engage in fund management activities, subject to authorization. There are no barriers to the introduction of new financial products, although some transactions may require prior approval of the regulatory authority.

FUTURE LIBERALIZATION

Although bilateral and multilateral negotiations over the years have improved market access and national treatment for U.S. financial institutions, problems remain in many important markets. The problems identified in detail throughout this study present a challenge for U.S. financial institutions and the U.S. government.

The first step the United States can take to encourage financial market liberalization is to ensure that the commitments contained in the 1997 Agreement on Financial Services within the GATS enter into force on a timely basis. Countries have until January 29, 1999, to ratify the agreement concluded

in December 1997. If ratified in that time frame, the agreement will enter into effect on March 1, 1999. This will start a new era in which U.S. authorities will be able to enforce as obligations countries' commitments using the WTO dispute settlement process. Over time, this process will result in the development of WTO case law which will be an important guide for resolving future conflicts among WTO member countries concerning market access and national treatment.

The 1997 agreement is only the beginning of a process to achieve progressively higher levels of liberalization in the global financial services trade. The GATS provides for successive rounds of services negotiations and requires that a new round of negotiations start by January 1, 2000. Although WTO members will need to decide on the scope and modalities of these negotiations, and their relationship to other efforts, a further round of financial services negotiations is expected to be part of the agenda. In addition, approximately 30 countries are negotiating to accede to the WTO, including Russia, China, Saudi Arabia, and Taiwan. The United States will continue negotiating with these countries to ensure that they make commitments that meet the standards set within the GATS in the financial services sector.

The United States will also continue to promote financial market development and liberalization of financial services trade in various regional fora.

- In the Summit of the Americas process, the United States is working with Latin American countries to promote financial market development, capital market liberalization, and enhanced financial regulatory cooperation. Negotiations will begin in 1999 for a Free Trade Agreement of the Americas that will aim to achieve full liberalization of trade and investment in the Western Hemisphere by 2005. Financial services negotiations will be an integral part of this process.

- Under the NAFTA, the United States continues to consult with Canada and Mexico on the implementation of the agreement and possible further market opening via cross-border trade in financial services and establishment of commercial presence through direct branches.

- Over the past three years, the members of the Organization for Economic Cooperation and Development (OECD) have been negotiating the Multilateral Agreement on Investment (MAI). Although negotiated by OECD countries, the MAI would be open to non-OECD countries willing and able to take on its obligations. Good progress has been made on the basic elements of investment liberalization and protection, but the MAI has also raised some important issues unrelated to investment in the financial services sector, which will need to be addressed.

- Under the Asia-Pacific Economic Cooperation (APEC) forum's Finance Ministers' process, the Treasury Department and U.S. regulatory agencies will continue to engage counterparts from other Asia-Pacific countries on the development and liberalization of domestic capital

markets, improving prudential regulation of these markets, and other policies for promoting financial stability. To date, the APEC Finance Ministers' discussion of these issues has served as an important impetus for financial liberalization.