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COMMUNICATION FROM CANADA

Initial Negotiating Proposal on Financial Services

The attached communication has been received from the delegation of Canada with the request that it be circulated to Members of the Council for Trade in Services.

1. Canada reserves the right to modify this proposal at any time. This proposal does not prejudice Canada's position on other service sectors, nor any future offer on this or other sectors. This proposal should be read in conjunction with the principles and objectives as outlined in Canada's initial negotiating proposal.

A. INTRODUCTION

2. Liberalization of trade in financial services provides benefits to the domestic financial sector, as well as the broader domestic economy. As such, Canada believes that further liberalization of financial services will be advantageous to all WTO Members.

3. Financial services liberalization can contribute to the strength of domestic financial systems in many important ways: it can strengthen the capital base and promote state of the art management practices in financial institutions, and improve credit quality control and risk diversification. It also encourages domestic capital market innovation that may help channel foreign and domestic savings to productive investments. In addition, by encouraging transparency and the efficient flow of related financial data and market information, liberalization enhances the functioning of this sector. All of this contributes to increased financial sector stability.

4. Furthermore, financial services are key inputs into all economic activities. Increased competition in the financial sector benefits users of financial services, such as business and individual consumers, by lowering costs, increasing quality and providing a greater variety of products and services.

5. A liberal financial services regime does not mean an unregulated regime. The GATS provides basic and extensive accommodations for the prudential regulation needed to protect the safety and soundness of financial systems to safeguard the integrity of financial markets and to protect investors. It is Canada's aim throughout the negotiations to make certain that a Member's ability to take measures for prudential reasons, as outlined in the Annex on Financial Services, will not be restricted.

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B. NEGOTIATING MODALITIES

6. Canada supports maintaining the practice established during the Uruguay Round of having distinct negotiations regarding financial services. The nature of specialized regulation in the sector, as well as its importance to the economy and macroeconomic stability, warrants the creation of a specific negotiating group for financial services. The direct participation of financial sector experts in the negotiation will ensure that the trade rules take into account the unique aspects of this vital sector.

7. Canada supports using the Committee on Trade in Financial Services (CTFS) as the forum for these distinct negotiations. Canada believes that the new function of the CTFS would not preclude it from managing housekeeping issues that would normally be addressed by the committee.

8. The negotiations should be conducted through the most effective and pragmatic means possible, such as through model schedules, request–offer or other suitable means, including a mixture of approaches if appropriate.

C. OBJECTIVES

9. Canada's objectives for the GATS 2000 round of financial services negotiations include:

- expanding and strengthening market access and national treatment commitments and achieving further reductions in barriers to trade in financial services. Negotiations should examine all four modes of supply (cross-border, consumption abroad, commercial presence, and movement of natural persons) with the aim of improving and expanding liberalization commitments. In addition, scheduled commitments may have to be expanded in certain modes, particularly cross-border supply and consumption abroad, to reflect technological advances. The impact of the development of electronic commerce is particularly relevant in this context.
 - furthering the benefits of liberalization by addressing certain ambiguities in the GATS framework as it applies to financial services. For example, definitional or classification problems may result in uncertainty as to the scheduling and interpretation of commitments. As such, we encourage all Members to use the classification list outlined in the Annex on Financial Services when scheduling commitments in financial services.
 - clarifying transparency disciplines to complement any advances made in market access and national treatment commitments. While recognising the work being done by the Working Party on Domestic Regulation (WPDR) in this area, we believe that disciplines on transparency designed according to the particular needs of the financial sector will need to be considered.
 - recognising the special needs and interests of developing Member countries. As such, Canada supports facilitating greater liberalization by allowing Members to phase in commitments over a specified period. Although a method for phasing in commitments will have to be agreed upon, Canada supports further exploration of this matter.
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