

Statement of
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Subcommittee on International Monetary Policy and Trade
Committee on Financial Services
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Hearing on Trade in Financial Services – Current Issues and Future Developments

Mr. Chairman and Members of the Committee:

I am pleased to accept your invitation to present the views of the U.S. banking industry on the subject of "Trade in Financial Services."

I speak in my capacity as General Counsel of the Bankers' Association for Finance and Trade – known as BAFT – whose voting membership includes virtually all U.S. banks that are active in international finance. BAFT has been in continuous operation for the past 80 years and has, throughout that period, acted as the principal spokesman for the international operations of the U.S. banking industry.

When we speak of trade in financial services we refer to the ability for U.S. and non-U.S. financial institutions to deliver their services across national boundaries. That means access of foreign financial firms to the U.S. market as well as access of U.S. firms to foreign financial markets. Unfettered financial flows into and out of the U.S. are not only beneficial to the U.S. economy but also essential to its continued vitality.

In this connection let me stress that U.S. financial institutions occupy a preeminent place in global finance and are thus a unique national asset. There are many reasons for this preeminence, but let me mention a few:

1. First of all, the home market for U.S. financial firms is the largest and richest economy in the world.

2. For the past 50 years the dollar has been the strongest and the only truly global currency. In providing global clearing and payments services, U.S. banks have, as a result, advantages over foreign banks.
3. The U.S. capital markets are the deepest, most liquid, transparent and open capital markets in the world and provide a large interconnected structure for all types of financial institutions and financial instruments.
4. To a considerable extent, delivery of financial services means delivery of information. As a result, the most efficient financial service providers rely heavily on the IT industry. U.S. preeminence in information technology also benefits the competitive position of U.S. financial firms.

All of these factors contribute to the low cost and broad availability of capital to U.S. enterprises and thus constitute an essential element of the strength of the U.S. economy.

Furthermore, the ability of U.S. financial firms to market their services abroad helps to stimulate foreign economies and makes them better prospects for U.S. exports.

Additionally, the strength and efficiency of U.S. financial firms has over a period of many years has assisted the U.S. balance of payments by providing a very substantial surplus on current trade account.

You asked that we address “The most important policy issues facing the financial services industry in relation to international trade.” Undoubtedly number one in that category is to ensure that the U.S. government – whether it be the legislative or executive

branches or the regulatory agencies-- is careful to avoid any measures that would curtail the openness or vitality of the U.S. capital markets thereby lessening the attractiveness of the U.S. for foreign lenders or investors.

The success of the U.S. capital markets has been the principal tool for U.S. official negotiators – the Treasury, USTR, the Department of State and the Board of Governors of the Federal Reserve System – in their efforts to persuade numerous countries to grant better access for U.S. financial services providers. What has loosely been called the Anglo-American model for financial services has in recent years gained adherents in other countries which constitute important markets for U.S. financial services. As a result, U.S. negotiators have met with considerable success in gaining access in recent years for U.S. banks in continental Europe, Japan, Mexico, Canada, Chile and Korea.

These successful market-openings have resulted from a blend of bilateral and multilateral negotiations. Since the U.S. had elected long ago to make its financial markets fully accessible to foreign financial services providers, promises of additional access to U.S. markets were not a tool for U.S. negotiators for obtaining additional opportunities in foreign markets for U.S. firms. Rather, it was the economic success of the open U.S. financial markets that provided the leverage for the U.S. negotiators. An outstanding example of this was Canada which, until recently, had firmly resisted repeated U.S. efforts to induce Canada to permit cross-border bank branching into Canada – even after the conclusion of the NAFTA agreement. Then, in 1995, the Canadian authorities concluded on their own that the Canadian capital markets were shrinking in large part due

to Canadian restrictions on foreign bank activities. As a result, Canada in the 1997 GATS agreement undertook to authorize foreign banks to operate branches of their home office in Canada. This change was subsequently authorized by legislation passed by the Canadian Parliament.

Looking ahead one must conclude that the most significant remaining barriers to expanded U.S. bank operations abroad are not foreign governmental barriers on entry but weak local banking systems, poor regulatory regimes generally characterized by insufficient transparency, inadequate laws regarding bankruptcy and corporate governance and other weaknesses of the local legal system and, very importantly, underdeveloped accounting practices.

While these concerns relate mostly to countries outside of the G-7 groups they do affect some markets that are rapidly assuming major economic significance such as China, Russia, Eastern and Central European countries, India, Korea and other Asian and Latin American countries. Even if U.S. banks are authorized to operate in countries that are characterized by such deficiencies in their banking and regulatory structures, the risk for U.S. banks in such countries is disproportionately high and therefore makes such operations unattractive for U.S. and other foreign banks.

Therefore, our suggestion is that U.S. negotiators concentrate their efforts on persuading the relevant countries to improve their banking and regulatory and legal regimes and that the Congress encourage such efforts.