

**STATEMENT FOR THE RECORD
BY
MARC E. LACKRITZ
PRESIDENT
SECURITIES INDUSTRY ASSOCIATION**

**BEFORE THE
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE AND TECHNOLOGY**

**HOUSE FINANCIAL SERVICES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES**

**OPENING TRADE IN FINANCIAL SERVICES -
THE CHILE SINGAPORE EXAMPLE**

APRIL 1, 2003

Mr. Chairman and Members of the Subcommittee, my name is Marc Lackritz and I am president of the Securities Industry Association ("SIA").¹ SIA appreciates the opportunity to testify in strong support of the just concluded bi-lateral Free Trade Agreements (FTA) with Chile and Singapore.

The FTA's are comprehensive, and represent a key building block of President Bush's drive to open foreign markets to U.S. business, consumers, and investors, resulting in new opportunities to create jobs, and bolster economic growth. Moreover, we believe the Administration's policy to simultaneously pursue the liberalization of trade in financial services on global, regional, and bilateral tracks, is a wise, indeed the best, approach. This provides U.S. industry with multiple opportunities to make commercially meaningful progress and other nations with the opportunity to create the infrastructure for growth in many different ways.

In addressing the specific requests of the Subcommittee, my testimony will address the following key points: 1) the industry's overall goals for the negotiations; 2) the importance of financial services to the U.S. economy; and 3) the securities industry's focus on regulatory transparency.

Open and Fair Markets

We believe that the U.S. bi-lateral agreements with Chile and Singapore represent a "win-win" for all countries involved. Although Chile and Singapore already have well developed capital markets, free trade agreements can play an important role in creating the environment for the entry of long-term capital, advancing best practices, providing cutting-edge technology, and innovative products and services.

Importantly, the increased trade in financial services that will result from these pacts will enhance and strengthen capital market efficiency and bolster financial sector stability. Increased competition stimulates innovation and provides consumers with the broadest range of products

and services at the lowest cost. There are additional special benefits from financial services sector liberalization, which have a "multiplier" effect for economic growth, both in individual countries and globally. This results in enhanced opportunities abroad for all U.S. firms.

U.S. securities industry measures the success of financial services trade agreements by the following key criteria:

- Permit 100% ownership, as well as right to establish in corporate form of choice;
- Provide national treatment (i.e., treat foreign financial sector participants and investors on the same basis as domestic investors for regulatory and other purposes);
- Commit to procedural aspects of regulatory transparency (including commitments on prior comment);
- Eliminate economic needs tests; and
- Permit dissemination and processing (within country and cross-border) of financial information to provide clients with services necessary for the conduct of ordinary business.

We believe that the U.S. agreements with Chile and Singapore meet these criteria, and we therefore support them. Importantly, we believe these agreements are excellent precedents upon which to negotiate ongoing and future bilateral and regional trade discussions.

The Financial Services Sector is a Catalyst for U.S. Economic Growth

The U.S. financial services sector is a key component of the U.S. economy.

Importantly, its continued strength is dependent on unfettered access to foreign markets. Whether firms are raising capital for a new business, extending credit for a corporate acquisition, managing savings for a retail customer, or supplying risk management tools to U.S. multinationals, this sector touches all aspects of the U.S. economy. In light of the financial service sector's unique role in the U.S. economy, its health is essential if the U.S. economy is to continue to show rates of economic growth and job creation it has during this decade.

The strength of the U.S. financial services industry is impressive. Financial services firms contributed \$820 billion to U.S. Gross Domestic Product (GDP) in 2000, or about 8.3 percent of total GDP. More than six-million employees support the products and services these firms offer. Perhaps most impressive is how this industry has increased its relative importance to the U.S. economy. From 1989-2000, the U.S. securities industry's contribution to total output of the U.S. economy increased by 3.2 times - nearly double the 1.8-times increase in GDP.² A vibrant and healthy U.S. financial services sector is key for U.S. and global economic growth and job creation.

Importantly, financial services firms are also exporters. In 2001, exports totaled \$15.2 billion, with a trade surplus of \$6.3 billion. Foreign individuals, institutions and governments eagerly seek cutting-edge services and products - such as portfolio management, advisory work in corporate finance activities, and global custody services - that U.S. financial firms offer.

The reason for the U.S. financial services sector's increasing commitment to foreign markets is clear. Over the last decade, the U.S. economy and securities markets - while still the largest in

absolute terms - have seen their share of the global pie shrink. More than two-thirds of the world's GDP, half of the world's equity and debt markets, and 95 percent of the world's consumers are located outside the United States. Indeed, many of the best future growth opportunities lie in "non-U.S." markets. U.S. investors and corporations have already tapped these new markets, with U.S. securities firms establishing substantial foreign operations to support the growing international focus of their clients.

Expanding Business Opportunities for U.S. Financial Services Firms

The U.S.-Chile FTA will be the first comprehensive trade agreement between the United States and a South American country. The Singapore agreement marks a milestone for Asia. The free trade agreement with Singapore will advance its goal of becoming a key international financial hub, and will provide U.S. firms and their customers with significant opportunities; over half of SIA's top twenty members (ranked by capital) are members of the Investment Management Association of Singapore. Underscoring Singapore's role as an international financial center are the substantial capital flows to the U.S. In 2002, investors from Singapore acquired \$9.2 billion of U.S. securities - in comparison, of EU members states, only UK investors exceeded this total (\$143.3 billion). In addition, purchases and sales of U.S. securities topped \$252 billion, ranking in the top dozen most active countries.

The agreements reinforce Chile and Singapore's predictability and credibility with the foreign investors - an important goal in today's competition for capital. The agreements will result in increased commerce between our respective countries. Already, U.S. companies have substantial investments in Chile, with direct investments of nearly \$11.7 billion; and in Singapore, where U.S. direct investment tops \$27 billion. Moreover, in Singapore, it is estimated that U.S. majority-owned affiliates account for almost 12 percent of local GDP, while employing more than 113,000 people; in Chile, the comparable number is 3.9 percent, with 55,000 employees.

In both cases, the already close economic relationships will be further strengthened, providing new opportunities for U.S. securities firms and additional jobs in the United States. We believe, for example, that the increased opportunities could result in increased interest to list shares in the United States. To date, Chilean companies have 27 listed ADR issues in the United States, while companies from Singapore have 28 listed issues.

SIA's Objectives and Goals

SIA strongly supports the Chile and Singapore bilateral agreements. Both agreements successfully achieve many of the securities industry's specific objectives, and are defined by the following core principles. The major commitments follow:

Permit 100% Ownership/Market Access

Both Chile and Singapore are open markets and provide U.S. securities firms with full market access via the establishment of a subsidiary, or the acquisition of a local firm. Since the conclusion of the 1997 WTO Financial Services Agreement, both countries have undertaken extensive liberalization of their financial services markets. These agreements not only "locked-in" current levels of access, but also produced commitments by both countries to eliminate and reduce some of the remaining establishment barriers.

Specific Commitment

Chile made no commitments in asset management in the 1997 GATS Financial Services Agreement. The FTA would, for the first time, afford legal certainty to U.S. firms to establish a wholly-owned affiliate in Chile to provide asset management services on a national treatment and non-discrimination basis.

Singapore also made commitments guaranteeing U.S. membership on the Singapore Stock Exchange, as well as for the acquisition of equity interests in local securities firms.

Provide National Treatment

Increasingly, services must be delivered through a business presence in the host country. As a result, the ability to operate competitively through a wholly-owned commercial presence or other form of business ownership must be a fundamental element of any agreement. Non-residential financial services companies must be given every opportunity to establish a viable business presence outside their home country. These agreements will guarantee the ability of U.S. securities firms to enter into these markets through the establishment of a subsidiary, or the acquisition of a local firm. Once established, U.S. securities firm will receive the same (i.e., national) treatment as domestic companies.

Specific Commitment

The FTA with Chile provides national treatment to U.S. asset management firms in managing the voluntary portion of Chile's national pension system and the ability to manage the mandatory portion of the pension system without arbitrary differences between the treatment of providers. In Singapore, U.S. firms will now be able to compete for asset management mandates from the Government of Singapore Investment Corporation.

Commit To Procedural Aspects Of Regulatory Transparency

Obtaining commitments on regulatory transparency was the industry's major goal for the agreements with Chile and Singapore. We view the provisions contained in these agreements as excellent. While Chile and Singapore already provide for regulatory transparency, the industry viewed the FTAs as critical benchmarks for future efforts.

Improved regulatory transparency will help eliminate many of the nagging regulatory problems that we face in foreign markets. In both emerging and developed markets, regulatory practice in the financial services industry has developed unevenly and often at odds with the market access and national treatment commitments of WTO members. As a result, the experience of the industry in both emerging and developed markets has been one of increasing frustration with the regulatory process.

In light of that experience, SIA members believe that future trade agreements - whether bilateral, regional, or multilateral - should contain regulatory transparency commitments. In this regard, we applaud the Administration's communication to the WTO that contains proposals on regulatory transparency.

Regulatory transparency is an essential element in making regulation effective and fair - and is

therefore a fundamental underpinning of deep, liquid markets. We have worked with the Administration to seek commitments in regulatory transparency in these bilateral negotiations, as well as trade forums, as part of a wider effort to achieve international regulatory transparency reform more broadly. Lack of transparency in the implementation of laws and regulations can seriously impede the ability of securities firms to compete fairly. Financial services firms, face non-tariff barriers in the form of regulatory restrictions, and lack of transparency in the implementation and application of regulations. These barriers can prevent access in much the same way as tariffs but, unlike tariffs, no quantitative mechanism exists to reduce them.

From a business standpoint, ensuring a high level of transparency is as essential to a successful financial services agreement as tariff cuts are to an agreement on trade in goods. Lack of transparency in the implementation of laws and regulations - including limited public comment periods on proposed regulations, non-transparent approval mechanisms for firms and financial products, or other practices that are not dealt with pursuant to written regulations - can seriously impede the ability of securities firms to compete fairly.

Regulatory prohibitions also limit the ability of U.S. firms to compete in foreign markets. In some cases, the sale of specific products requires regulatory approval. In other instances, the ability to establish is impaired by restrictions on new licenses. Elimination of these barriers is complicated, especially when countries claim that they are "prudential" in nature; that is, they exist to protect the safety of consumers and the soundness of the marketplace. However, we believe that many of these restrictions go beyond any legitimate prudential objective.

Specific Commitments

The specific financial service transparency commitments in the FTAs will require that rules can not be adopted without appropriate notice and opportunity to comment, that requirements and documentation for applications be clear and applicants be informed of the status of applications, and that decisions on applications be made in a specified or reasonable time. These commitments are important precedents for other trade negotiations.

Eliminate Economic Needs Tests

In some markets, national regulators of financial services or other sectors have employed so-called "economic needs tests" to screen and often discourage new foreign direct investment. Economic needs tests, which typically use, the number of existing firms, level of competition, and the size of the domestic market as criteria for granting licenses to establish a commercial presence, are subject to abuse. Such subjective determinations may ignore how a local market will benefit from the introduction of a new competitive entrant or supplier, and the resulting benefits to investors and issuers. As a result, the use of an economic needs test can significantly or even completely eviscerate commitments on market access.

Specific Commitment

In the FTA agreement with Chile, U.S. securities firms will no longer need to meet this test. In Singapore's case, economic needs tests for securities firms had not been previously applied.

Permit Dissemination And Processing Of Financial Information

The ability to freely transfer and process information is essential to the business of modern

financial services firms. Indeed, many products, such as instruments built around market indices that are vital to smoothing out risk, could not function without timely data flows. Nevertheless, too few countries have committed to this key link in the financial services infrastructure. The free flow of financial information acts as an important prophylactic against the build-up of market imbalances and subsequent financial crises. Countries that allow a free flow of financial information across their borders are likely as a result to be rewarded with lower capital and borrowing costs.

Commitments to permit the flow of data without risk of interruption are critical if securities firms are to offer innovative and risk-reducing products, price risk, and respond rapidly to their customers. Apart from its use in product creation, financial information is used to respond to market demand for current prices, for foreign exchange data for currency hedging, for information for use in risk management models, for background information for corporate finance transactions and advice, and to enable the market to react appropriately to breaking news.

Specific Commitments

Financial Information commitments by Chile and Singapore mark a major step forward. Chile made no commitments in financial information in the 1997 GATS Financial Services Agreement, while Singapore made a limited commitment. The FTAs will now give U.S. firms the legal certainty to process and disseminate financial information both domestically and cross-border.

Capital Transfers

I would like to turn briefly to the so-called capital controls provisions of these agreements. Investment and trade flows are interdependent. Therefore an essential element of a free trade agreement is a regime which permits the free flow of investment capital between nations. As a general matter, our members believe that restrictions on those flows deprive both parties of the benefits of cross-border investment. This is of particular concern to financial services companies and others engaged in portfolio investment.

We welcome the general commitment in both agreements to permit the free and immediate transfer of capital related to an investment. However, we regret that both agreements contain significant exceptions to this general commitment - exceptions that, in our view, are unwarranted to meet the motivating concern of addressing so-called hot money flows. While I do not propose to review treaty text with you today, I would say that our members fervently hope that these exceptions to free capital movements will not form a template for future agreements, and that U.S. negotiators will work with our industry to ensure that future provisions relating to the flow of capital and investment are as least restrictive as possible.

Let me reiterate that our members strongly support congressional approval of the agreements with Singapore and Chile. The comprehensive benefits of these agreements are clear. But that broad support should not be interpreted as an endorsement of restrictions on the flows of investment capital.

Conclusion

Mr. Chairman, we believe these agreements offer Congress another opportunity to secure open

and fair access to foreign markets for U.S. firms and their clients. The start of the 21st century finds the U.S. securities industry on the leading edge of international technology, finance and innovation. If it is to remain there, however, it must be able to meet the demands of its U.S. and foreign clients.

The impact of the President's trade promotion authority can be seen immediately with the trade accords reached by the United States with Singapore and Chile.

The pact will result in benefits to consumers and businesses in both countries, as well as globally. SIA looks forward to continuing to work with the administration in developing a fairer, rules-based trading system that enhances U.S. economic competitiveness.

Thank You.

1. The Securities Industry Association brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. Collectively they employ more than 495,000 individuals, representing 97 percent of total employment in securities brokers and dealers. The U.S. securities industry manages the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2001, the industry generated \$280 billion in U.S. revenue and \$383 billion in global revenues.

2. U.S. Department of Commerce.