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Statement by

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before the

Subcommittee on Financial Institutions, Supervision,
Regulation, and Deposit Insurance
of the Committee on Banking, Finance and Urban Affairs

U. S. House of Representatives

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I appreciate the opportunity to present the views of the Federal Reserve Board on the proposed legislation on Fair Trade in Financial Services (H.R. 3248). Given our role, as the central bank, in ensuring a healthy and efficient environment for the provision of financial services, the Federal Reserve has a special interest in this legislation.

On a number of previous occasions, before other committees, I have presented the views of the Federal Reserve on various proposals for legislation on Fair Trade in Financial Services. I will, therefore, keep my testimony brief and confine myself to those key points we consider to be of critical importance.

As I have emphasized before, the Federal Reserve shares the objectives of the proposed legislation. These objectives are important and their achievement desirable. U.S. financial firms deserve to have the same opportunities to conduct operations in foreign financial markets as domestic firms have in those markets. They do not now have those opportunities in all markets. According U.S. firms such treatment would benefit not only them, but also the host foreign countries themselves and the world financial system in general.

However, while sharing these important objectives, the Federal Reserve continues to oppose this kind of legislation. We oppose it for essentially two reasons. First, the existing U.S. policy of national treatment has served our country well. The

U S. banking market, and U.S. financial markets more generally, are the most efficient, most innovative, and most sophisticated in the world. Consumers of financial services in the United States are provided with access to a deep, varied, competitive, and efficient banking market in which they can satisfy their financial needs on the best possible terms. Foreign banks, by their presence in the United States and with the resources they bring from their parents, make a significant contribution to our market and to our economic growth; they enhance the availability and reduce the cost of financial services to U.S. firms and individuals, as well as to U.S. public sector entities.

For these reasons, we simply do not consider legislation like that proposed to be in our own self-interest. If we were to adopt such legislation, we must be prepared to forego the considerable benefits of foreign banks' participation in our market if U.S. banks are not allowed to compete fully and equitably abroad.

Second, I note that the multilateral negotiations on trade in financial services will continue over the next two years, as agreed in the just concluded Uruguay Round. We believe that these negotiations offer the best hope for achieving further progress in the opening of foreign financial markets for U.S. financial firms and we strongly support the Treasury in its efforts in those negotiations.

We believe that the upcoming negotiations are at a critical juncture. It is incumbent upon the United States to

continue to provide leadership by example in this area for the rest of the world in order to preserve the principle of free, rather than reciprocal, trade. The former must continue to be our ultimate goal. Therefore, we do not agree with those who assert that the proposed Fair Trade in Financial Services legislation is desirable or necessary in the context of those negotiations. Indeed, it is our view, based upon experience, that market forces and the desire of foreign officials to enhance the functioning of domestic financial markets are often the most potent forces to induce financial market liberalization; the negotiations provide a valuable framework for guiding that liberalization.

That said, however, if other views prevail on the need for Fair Trade in Financial Services legislation, we would prefer the current proposal (H.R. 3248) over other proposals because it clarifies the possible sanctions authority and procedures in a number of important respects.

First, we believe that, as between financial and trade policy officials, it is more appropriate that the Secretary of the Treasury should have authority to make determinations regarding whether denial of national treatment to U.S. banking organizations by a foreign country has a significant adverse effect on such organizations, as well as recommendations regarding sanctions in appropriate cases. The Treasury Department is better positioned to make such determinations, in

view of the information available to the Treasury regarding the needs of both providers and consumers of financial services.

Second, the requirement that the Secretary consult with other relevant officials, including appropriate banking officials, before making such determinations helps to ensure that broader perspectives are incorporated in the decision-making process.

Third, the proposed legislation recognizes, in the residual discretion granted to the banking agencies, that imposition of sanctions in some circumstances, even if otherwise warranted, might be inconsistent with other objectives, such as the safe and sound operation of the financial system or the least-cost resolution of a failed bank.

Fourth, the proposed legislation excepts from its procedures countries that have provided the United States a binding and substantially full market access and national treatment commitment in financial services. This language seems to make clear that the legislation is intended to be an adjunct to the ongoing negotiations with countries that have not yet made such commitments and is not a rejection of the principles of free trade and national treatment.

Finally, we believe that it is appropriate and important that no provision is included for retaliation across financial services sectors. As a consequence, even if, for example, U.S. securities or mutual funds might be having problems

in other countries, U.S. banks and banking markets should not be jeopardized.

CONCLUSION

The desirability of market liberalization as an objective in the financial sector, as in other sectors, is virtually universally accepted. The United States has the opportunity to continue to exercise leadership in this area. I sincerely hope we take that opportunity. If not, any Fair Trade in Financial Services legislation should include the important improvements noted above in the current proposal. I would also like to echo the hope, recently expressed in a joint statement by the Bankers' Association for Foreign Trade, the Bankers Roundtable, and the American Bankers Association that the retaliatory mechanism of any Fair Trade in Financial Services Act will never have to be used.