June 16, 2015

The Honorable Jacob Lew
Secretary
Department of the Treasury
1500 Pennsylvania Ave, NW
Washington, D.C. 20220

Dear Secretary Lew,

The **ENGAGE CHINA**[1] coalition thanks you for your continuing efforts to strengthen one of the most important bilateral relationships in the world today – the U.S.-China economic relationship. We are especially encouraged by the Administration's ongoing efforts to negotiate a Bilateral Investment Treaty (BIT) between the two countries.

In anticipation of the upcoming U.S.-China Strategic and Economic Dialogue (S&ED) meetings in Washington, we write to re-emphasize the critical importance of continued accelerated reform and modernization of China's financial system, including a level playing field for foreign participants in China's financial services marketplace. Additionally, we ask you to raise the mounting urgency of addressing threats to cyber and technology security in the context of China's asserted national security policies.

As part of the Third Party Plenum, China recognized the need to reform its financial system and has since taken a number of important steps to reform and accelerate modernization and liberalization. We hope the upcoming S&ED is an opportunity to take stock of the ongoing BIT negotiation and to re-double both countries' efforts toward achieving an ambitious agreement. A completed high-quality BIT will be an important vehicle for achieving China's financial reform objectives and is analogous to China's 2001 accession to the World Trade Organization – which spurred significant market-opening reforms, accelerated economic growth, and set the stage for a six-fold increase in U.S. exports to China since 2001. Successful conclusion of a treaty will strengthen the bilateral investment climate between our two nations and provide important protections for investors. A BIT also offers a unique opportunity to address remaining market access impediments and equity cap limitations encountered by foreign financial institutions operating in China. Further, we urge the Administration to prioritize negotiations and seek a rapid conclusion to negotiations.

[1] **ENGAGE CHINA** is a coalition of twelve financial services trade associations united in our view that active engagement and cooperation between the United States and China remains the most constructive means of ensuring that the citizens of both nations mutually benefit from the growing bilateral economic relationship.

A modern and competitive financial system, one that includes full participation by non-Chinese financial services institutions – banks, insurers, reinsurers, private pension providers (enterprise and group annuity), securities, futures, and asset managers – is imperative for China to continue to meet its domestic growth needs. Increased competition from non-Chinese financial services institutions would also align with the Third Party Plenum's pledge to allow market competition to play a "decisive role in the allocation of resources." Such competition would naturally allow for increased competition between U.S. and Chinese financial services institutions, as well as institutions from other jurisdictions, as Chinese entities seek to re-calibrate their activities to market-focused activities. This shift will undoubtedly help to drive further market-opening reforms and liberalization.

Further, more fully developed capital markets would help to make the broader financial system more competitive and efficient. Rather than taking market share from Chinese banks, foreign firms can help to grow China's capital markets and increase the range of products and services available for all participants and facilitate the development and growth of alternative retail savings products such as mutual funds, pensions (enterprise annuities), and insurance products. And by broadening the range of funding alternatives for emerging companies, more developed capital markets would greatly enhance the flexibility and, therefore, the stability of the Chinese economy – which, in turn, would mean a stronger U.S. economy.

In our view, U.S. efforts regarding faster reform and modernization of China's financial sector should – through the S&ED, the BIT negotiations, and other channels – focus on the following priorities:

- The clear benefits to China of increased market access for foreign financial services firms – including allowing full ownership of banking, securities, futures, insurance, asset management and other financial companies – which include the introduction of broad financial sector expertise, technology, and best practices;

- The critical importance of open commercial banking, securities, futures, insurance, reinsurance, pension (enterprise annuities), and asset management markets to promoting the services- and consumption-led economic growth that China's leaders seek;

- Furthering China's commitments to non-discriminatory treatment with regard to licensing, corporate form, and permitted products and services – for example, China should issue reports regarding applications and approvals of domestic and foreign-invested insurance providers for concurrent branch licensing;

- Non-discriminatory national treatment with regard to regulation and supervision – for example, U.S. insurance firms should enjoy the same opportunities with regard to Internet distribution of products and services that Chinese companies already enjoy;

- Opening up all categories (asset managers, trustees, record keepers and custodians) of Enterprise Annuity Licenses (China's equivalent to the 401k) to qualified companies, including foreign invested companies;

- Regulatory and procedural transparency; and,

- Further increasing institutional investors' participation in China's capital markets by expanding the Qualified Foreign Institutional Investor (QFII) and Qualified Domestic Institutional Investor (QDII) programs.

By providing the financial products and services that help China's citizens and businesses invest, insure against risk, provide for retirement, raise standards of living, and consume at higher levels, foreign financial institutions – including U.S. providers – would help China develop an economy that is less dependent on exports, more consumption-driven and, therefore, more stable and sustainable over the long-term.

Again, thank you for your continued work to strengthen the relationship between the United States and China. We offer best wishes for a successful and productive S&ED. The **ENGAGE CHINA** coalition looks forward to working with you to ensure that American households, manufacturers, farmers, and services providers benefit from the increasingly important U.S.-China relationship.

Respectfully,

The Engage China Coalition:
American Bankers Association
American Council of Life Insurers
American Insurance Association
BAFT
The Council of Insurance Agents and Brokers
The Financial Services Forum
The Financial Services Roundtable
FIA
Insured Retirement Institute
Investment Company Institute
Property Casualty Insurers Association of America
The Securities Industry and Financial Markets Association

cc:
The Honorable Joseph Biden, Vice President of the United States;
The Honorable John Kerry, Secretary of State, U.S. Department of State;
The Honorable Penny Pritzker, Secretary of Commerce, U.S. Department of Commerce;
Ambassador Michael Froman, United States Trade Representative, Office the United States Trade Representative

The Honorable Nathan Sheets, Under Secretary of International Affairs; Department of the Treasury;
The Honorable Marisa Lago, Assistant Secretary for International Markets and Development, Department of the Treasury;

Chris Adams, Senior Coordinator for China Affairs and the Strategic and Economic Dialogue, Department of the Treasury;
Mark Sobel, Deputy Assistant Secretary for International Monetary and Financial Policy, Department of the Treasury;
Robert Dohner, Deputy Assistant Secretary for Asia, Department of the Treasury