ENGAGE CHINA COALITION Letter in Advance of S&ED 2016

June 1, 2016

The Honorable John Kerry
Secretary, U.S. Department of State
320 21st St NW
Washington, DC 20451

The Honorable Jacob Lew
Secretary, U.S. Department of Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

Dear Secretaries Kerry and Lew:

The Engage China[1] coalition supports the Administration's continued efforts to deepen the U.S.-China bilateral economic relationship, particularly through the development of cross-border financial services activities. We encourage you to advance several priority issues at the upcoming Strategic and Economic Dialogue (S&ED) to reduce barriers to trade and investment in both the U.S. and China, which would help bolster global economic growth.

Trade between the U.S. and China is increasingly important to both countries and to the world economy. Over the past five years, U.S. exports to China have grown at seven times the pace of U.S. exports to the rest of the world. Continued financial sector reforms and expanded market access are needed to create more opportunity for the people of China and jobs for America. The recent challenges of market volatility should not distract from China's forward looking agenda. Indeed, reducing barriers to entry by foreign institutions can in many ways strengthen economic performance and promote rebalancing. And persisting with market liberalization will help instill market confidence. Committing to this agenda with specific pledges now and acting on those as soon as possible will yield real economic benefits to both sides.

S&ED meetings are excellent opportunities to pursue new opportunities for both economies. But they also provide a platform whereby both sides can constructively address risks and threats to existing access, as well as issues that undermine confidence in the investment climate. Engage China believes such is a risk is being posed at present by the imminent

[1] **ENGAGE CHINA** is a coalition of 12 financial services trade associations united in our view that active cooperation with China remains the most constructive means of ensuring that the citizens of both nations mutually benefit from the growing bilateral economic relationship. Coalition members are American Bankers Association, American Council of Life Insurers, American Insurance Association, Bankers Association for Finance and Trade, The Council of Insurance Agents & Brokers, The Financial Services Forum, The Financial Services Roundtable, The Futures Industry Association, Investment Company Institute, Property and Casualty Insurers Association of America, and the Securities Industry and Financial Markets Association.

introduction of so called 'secure and controllable' ICT regulations by China's Insurance Regulatory Commission (CIRC). We therefore believe addressing this urgent issue should be the single number one priority of the June 2016 S&ED. The Appendix provides more detail.

Our key policy priorities in China are listed below, with specific details included in the appendix:

- Removing ownership limits and licensing moratoriums for financial service providers in Mainland China;
- Opening bond underwriting to foreign banks;
- Further expanding investment channels (QFII, RQFII and QDII);
- Improving regulatory and procedural transparency;
- Ensuring regulatory coherence and coordination with major jurisdictions; and
- Reinforcing the need for a risk-based system for ICT regulation.

We appreciate your efforts to advance these priorities during the upcoming S&ED, and we look forward to future engagement on these important issues. Please feel free to contact Peter Matheson (Pmatheson@sifma.org) should you have any questions about these issues.

Sincerely,

Kenneth E. Bentsen, Jr.
Chairman, Engage China Coalition
President & Chief Executive Officer, SIFMA

cc:
Ambassador Michael Froman, U.S. Trade Representative
Ambassador Robert Holleyman, Deputy U.S. Trade Representative
Nathan Sheets, Under Secretary of International Affairs, U.S. Treasury
Marisa Lago, Assistant Secretary for International Markets and Development, U.S. Treasury
Robert Dohner, Deputy Assistant Secretary for Asia, U.S. Treasury
Christopher Adams, Senior Coordinator for China Affairs and the Strategic and Economic Dialogue, U.S. Treasury
Catherine Novelli, Under Secretary for Economic Growth, Energy, and the Environment, State Department

Appendix – Detailed Policy Priorities

Market Access Issues

Remove Ownership Limits for Financial Services Providers

Continued progress must be made to provide a level playing field for foreign and domestic financial services firms operating in China. Foreign financial services firms still face market access impediments (including limitations on ownership stakes), licensing moratoriums and national treatment issues in China that hinder their ability to fully contribute to developing and modernizing China's financial markets. As such, removing ownership limits for U.S.-based financial firms investing in China is a necessary precursor to developing and modernizing China's financial markets. It is important to level the playing field by allowing U.S. financial services providers to compete on a fair and commercial basis with domestic Chinese firms. Ongoing liberalization of the financial services sector, and allowing full freedom of corporate form – including 100 percent foreign ownership – should remain a cornerstone of the Administration's policy priorities in China. Further, it would be particularly helpful to set out a liberalization schedule by which market access impediments will be removed by Chinese authorities, to improve the predictability and transparency in the Chinese investment climate for American financial firms.

Open Bond Underwriting to Foreign Banks

We commend Chinese policymakers for their efforts to expand access to its domestic bond and capital markets. Still, we encourage further progress in granting foreign banks access to underwrite bonds in China's domestic market. Foreign-owned banks should be afforded national treatment to trade and underwrite medium-term notes and commercial paper, as local Chinese banks do. The current regulatory regime discriminates against foreign banks in this crucial market, despite the fact that foreign banks have extensive technical experience and international best practice to bring to China's growing bond market.

Further Expand Investment Channels (QFII, RQFII and QDII)

The Qualified Foreign Institutional Investor (QFII), Renminbi Qualified Foreign Institutional Investor Scheme (RQFII) and Qualified Domestic Institutional Investor (QDII) platforms help promote inward and outbound investment in (by) Chinese companies. China has gradually raised the quota for QFIIs, including recently with the introduction of the Stock Connect platforms and HK-China fund passport regime. We welcome these important steps in the direction of greater integration with the global capital markets. Still, QFII, RQFII and QDII requirements remain onerous with the effect of substantially limiting the utility of the program as well as the universe of investors that can take advantage of them. We urge China to continue the process of making its securities and futures markets more attractive to investment through the rapid liberalization of current QFII, RQFII and QDII restrictions on an agreed transition schedule. Similarly, we are encouraged by progress towards opening the China Interbank Bond Market. Further liberalization of futures markets will deepen the liquidity of the underlying cash markets, and enhance price discovery to benefit the Chinese real economy. Ultimately, eliminating investment restrictions in consultation with foreign and domestic capital markets participants would help diversify the investor base and strengthen international investor confidence in China, which would help Chinese policymakers achieve their objectives to stabilize its domestic financial markets and bolster economic growth.

Regulatory Process

Improve Regulatory and Procedural Transparency

Fair and transparent regulation plays an integral role in the development of deep and liquid capital markets that attract market participants, increase efficiency, and spur economic growth and job creation. Transparency generally means that the public and industry participants have the opportunity to participate in the rule-making process, to access information about proposed rules, to question and understand the rationale behind draft rules, and to have sufficient opportunity to review and comment on proposed rules. Final rules and regulations should be clearly articulated and easily understood and should reflect the input of all stakeholders. By increasing transparency and predictability in the investment climate, policymakers can improve market confidence which enables firms to invest more consistently and readily in the Chinese economy.

Ensure Coherence and Coordination with Other Major Jurisdictions

We encourage Chinese regulators to monitor reforms and engage in international regulatory efforts to improve cross-border coordination of rules. Conflicting rules and regulations can lead to significant market fragmentation, disruption and hinder the growth and development of capital markets. We applaud Chinese policymakers that have taken on leadership roles at various international fora – such as working groups of the Basel Committee on Banking Supervision – as well as the steps taken by the People's Bank of China to engage bilaterally with its U.S. counterparts regarding regulatory recognition and deference, such as with respect to Chinese central counterparties (CCPs). We encourage such leadership and bilateral engagement to continue to improve cross-border coordination of regulatory reforms and avoid market uncertainty and market disruption.

Other Industry Concerns

Reinforce the Need for a Risk Based System for ICT Regulation

While we recognize each sovereign territory's legitimate right to address the growing risk of cyber threats, we have concerns about the approach taken to impose "secure and controllable" technology requirements on the financial services sector in China. We were encouraged that the draft directive that was originally promulgated by the China Banking Regulation Commission (CBRC) was suspended in April 2015, however the CIRC is moving forward with similar problematic requirements – which we fear will be adopted by other sectoral regulators once finalized. We encourage the U.S. delegation to reinforce the industry's concerns with the ICT requirements both bilaterally at the S&ED as well as through the World Trade Organization's Technical Barriers to Trade Committee that is expected to convene in June. We would appreciate any effort by the U.S. delegation to underscore the importance of taking a principles-based approach to cybersecurity regulation and to reinforce: (i) the need for a risk-based rather than a product-based ICT regulatory regime that will allow firms to source the best technology available to meet their unique cybersecurity needs; (ii) resistance to source code disclosure requirements since they infringe upon firms' intellectual property rights; and (iii) the need for China's policies to be aligned with global security standards and international best practice. Further detail on the international cybersecurity principles supported by the industry can be accessed here: http://www.gfma.org/correspondence/item.aspx?id=807.