

## **CHAPTER TWELVE FINANCIAL SERVICES**

### Article 12.1: SCOPE OF APPLICATION

1. This Chapter shall apply to measures adopted or maintained by a Party related to:
  - (a) financial institutions of the other Party;
  - (b) investors of the other Party, and investments of such investors, in financial institutions in the Party's territory; and
  - (c) cross-border trade in financial services.
  
2. Chapters Nine (Investment) and Ten (Cross-Border Trade in Services) shall apply to measures described in paragraph 1 only to the extent that these Chapters or Articles of these Chapters are incorporated into this Chapter.
  - (a) Articles 9.9 (Health, Safety, and Environmental Measures), 9.10 (Special Formalities and Information Requirements), 9.12 (Expropriation), 9.13 (Transfers), 9.14 (Denial of Benefits), and 10.11 (Denial of Benefits) are hereby incorporated into and made part of this Chapter.
  - (b) Section B (Settlement of Disputes between an Investor and the Host Party) of Chapter Nine (Investment) is hereby incorporated into and made part of this Chapter solely for claims that a Party has breached Article 9.10 (Special Formalities and Information Requirements), 9.12 (Expropriation), 9.13 (Transfers), or 9.14 (Denial of Benefits) as incorporated into this Chapter.
  - (c) Article 9.13 (Transfers) is incorporated into and made part of this Chapter to the extent that cross-border trade in financial services is subject to obligations under Article 12.5.
  
3. This Chapter shall not apply to measures adopted or maintained by a Party related to:
  - (a) activities or services forming part of a public retirement plan or statutory system of social security;<sup>1</sup> or
  - (b) activities or services conducted for the account or with the guarantee or using the financial resources of the Party, including its public entities,

except that this Chapter applies to the extent that a Party allows any of the activities or services referred to in subparagraph (a) or (b) to be conducted by its financial institutions in competition with a public entity or a financial institution.

4. This Chapter shall not apply to laws, regulations, or requirements governing the

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<sup>1</sup> Annex 12A sets out the Parties' understanding with respect to certain activities or services described in paragraph 3(a).

procurement by government agencies of financial services purchased for governmental purposes and not with a view to commercial resale or use in the supply of services for commercial sale.

#### ARTICLE 12.2: NATIONAL TREATMENT

1. Each Party shall accord to investors of the other Party treatment no less favorable than that it accords to its own investors, in like circumstances, with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of financial institutions and investments in financial institutions in its territory.

2. Each Party shall accord to financial institutions of the other Party and to investments of investors of the other Party in financial institutions treatment no less favorable than that it accords to its own financial institutions, and to investments of its own investors in financial institutions, in like circumstances, with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of financial institutions and investments.

3. For purposes of the national treatment obligations in Article 12.5.1, a Party shall accord to cross-border financial service suppliers of the other Party treatment no less favorable than that it accords to its own financial service suppliers, in like circumstances, with respect to the supply of the relevant service.

#### ARTICLE 12.3: MOST-FAVORED-NATION TREATMENT

Each Party shall accord to investors of the other Party, financial institutions of the other Party, investments of investors in financial institutions, and cross-border financial service suppliers of the other Party treatment no less favorable than that it accords to the investors, financial institutions, investments of investors in financial institutions, and cross-border financial service suppliers of a non-Party, in like circumstances.

#### ARTICLE 12.4: MARKET ACCESS FOR FINANCIAL INSTITUTIONS

A Party shall not adopt or maintain, with respect to financial institutions of the other Party or investors of the other Party seeking to establish such institutions, either on the basis of a regional subdivision or on the basis of its entire territory, measures that:

- (a) impose limitations on:
  - (i) the number of financial institutions whether in the form of numerical quotas, monopolies, exclusive service suppliers, or the requirements of an economic needs test;
  - (ii) the total value of financial service transactions or assets in the form of numerical quotas or the requirement of an economic needs test;

- (iii) the total number of financial service operations or on the total quantity of financial services output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test;<sup>2</sup> or
  - (iv) the total number of natural persons that may be employed in a particular financial service sector or that a financial institution may employ and who are necessary for, and directly related to, the supply of a specific financial service in the form of numerical quotas or the requirement of an economic needs test; or
- (b) restrict or require specific types of legal entity or joint venture through which a financial institution may supply a service.

#### ARTICLE 12.5: CROSS-BORDER TRADE

1. Each Party shall permit, under terms and conditions that accord national treatment, cross-border financial service suppliers of the other Party to supply the services specified in Annex 12B.

2. Each Party shall permit persons located in its territory, and its nationals wherever located, to purchase financial services from cross-border financial service suppliers of the other Party located in the territory of the other Party. This obligation does not require a Party to permit such suppliers to do business or solicit in its territory. Each Party may define “doing business” and “solicitation” for purposes of this obligation, provided that those definitions are not inconsistent with paragraph 1.

3. Without prejudice to other means of prudential regulation of cross-border trade in financial services, a Party may require the registration of cross-border financial service suppliers of the other Party and of financial instruments.

#### ARTICLE 12.6: NEW FINANCIAL SERVICES<sup>3</sup>

Each Party shall permit a financial institution of the other Party to supply any new financial service that the Party would permit its own financial institutions, in like circumstances, to supply without additional legislative action by the Party.<sup>4</sup> Notwithstanding Article 12.4(b), a Party may determine the institutional and juridical form through which the new financial service may be supplied and may require authorization for the supply of the service. Where a Party requires a financial institution to obtain authorization to supply a new financial service, the Party shall decide within a reasonable time whether to issue the authorization and the

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<sup>2</sup> Subparagraph (a)(iii) shall not cover measures of a Party which limit inputs for the supply of financial services.

<sup>3</sup> The Parties understand that nothing in this Article prevents a financial institution of a Party from applying to the other Party to request that it authorize the supply of a financial service that is supplied in neither Party’s territory. Such application shall be subject to the law of the Party to which the application is made and, for greater certainty, shall not be subject to the obligations of this Article.

<sup>4</sup> For greater certainty, this Article shall not apply to cross-border trade in financial services.

authorization may be refused only for prudential reasons.

#### ARTICLE 12.7: TREATMENT OF CERTAIN INFORMATION

Nothing in this Chapter requires a Party to furnish or allow access to:

- (a) information related to the financial affairs and accounts of individual customers of financial institutions or cross-border financial service suppliers; or
- (b) any confidential information the disclosure of which would impede law enforcement or otherwise be contrary to the public interest or prejudice legitimate commercial interests of particular enterprises.

#### ARTICLE 12.8: SENIOR MANAGEMENT AND BOARDS OF DIRECTORS

1. A Party shall not require financial institutions of the other Party to engage individuals of any particular nationality as senior managerial or other essential personnel.
2. A Party shall not require that more than a minority of the board of directors of a financial institution of the other Party be composed of nationals of the Party, persons residing in the territory of the Party, or a combination thereof.

#### ARTICLE 12.9: NON-CONFORMING MEASURES

1. Articles 12.2 through 12.5 and Article 12.8 shall not apply to:
  - (a) any existing non-conforming measure that is maintained by a Party at:
    - (i) the central level of government, as set out by that Party in Section A of its Schedule set out in Annex III; or
    - (ii) a local level of government;
  - (b) the continuation or prompt renewal of any non-conforming measure referred to in subparagraph (a); or
  - (c) an amendment to any non-conforming measure referred to in subparagraph (a) to the extent that the amendment does not decrease the conformity of the measure, as it existed immediately before the amendment, with Article 12.2, 12.3, 12.4, or 12.8.<sup>5</sup>
2. Articles 12.2 through 12.5 and Article 12.8 shall not apply to any measure that a Party

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<sup>5</sup> For greater certainty, Article 12.5 shall apply to an amendment to any non-conforming measure referred to in subparagraph (a) only to the extent that the amendment decreases the conformity of the measure, as it existed on the date of entry into force of the Agreement, with Article 12.5.

adopts or maintains with respect to sectors, sub-sectors, or activities, as set out by the Party in Section B of its Schedule set out in Annex III.

3. A non-conforming measure set out in an entry in a Party's Schedule set out in Annex I or II as not subject to Article 9.3 (National Treatment), 9.4 (Most-Favored-Nation Treatment), 10.2 (National Treatment), or 10.3 (Most-Favored-Nation Treatment), shall be treated as a non-conforming measure not subject to Article 12.2 or 12.3, as the case may be, to the extent that the measure, sector, sub-sector, or activity set out in the entry is covered by this Chapter.

#### ARTICLE 12.10: EXCEPTIONS

1. Notwithstanding any other provision of this Chapter or Chapter Nine (Investment), Thirteen (Telecommunications), including specifically Article 13.2 (Relation to Other Chapters), or Fourteen (Electronic Commerce), and Chapter Eleven (Temporary Entry of Business Persons), in addition, Article 12.1 with respect to the supply of financial services in the territory of a Party by a covered investment, a Party shall not be prevented from adopting or maintaining measures for prudential reasons<sup>6</sup>, including for the protection of investors, depositors, policy holders, or persons to whom a fiduciary duty is owed by a financial institution or cross-border financial service supplier, or to ensure the integrity and stability of the financial system. Where such measures do not conform with the provisions of this Agreement referred to in this paragraph, they shall not be used as a means of avoiding the Party's commitments or obligations under such provisions.

2. Nothing in this Chapter or Chapter Nine (Investment), Thirteen (Telecommunications), including specifically Article 13.2 (Relation to Other Chapters), or Fourteen (Electronic Commerce), and Chapter Eleven (Temporary Entry of Business Persons), in addition, Article 12.1 with respect to the supply of financial services in the territory of a Party by a covered investment, applies to non-discriminatory measures of general application taken by any public entity in pursuit of monetary and related credit policies or exchange rate policies. This paragraph shall not affect a Party's obligations under Article 9.7 (Performance Requirements) with respect to measures covered by Chapter Nine (Investment) or under Article 9.13 (Transfers) or 10.12 (Payments and Transfers).

3. Notwithstanding Articles 9.13 (Transfers) and 10.12 (Payments and Transfers), as incorporated into this Chapter, a Party may prevent or limit transfers by a financial institution or cross-border financial service supplier to, or for the benefit of, an affiliate of or person related to such institution or supplier, through the equitable, non-discriminatory, and good faith application of measures related to maintenance of the safety, soundness, integrity, or financial responsibility of financial institutions or cross-border financial service suppliers. This paragraph does not prejudice any other provision of this Agreement that permits a Party to restrict transfers.

4. For greater certainty, nothing in this Chapter shall be construed to prevent a Party from adopting or enforcing measures necessary to secure compliance with laws or regulations that are not inconsistent with this Chapter, including those related to the prevention of deceptive and fraudulent practices or to deal with the effects of a default on financial services

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<sup>6</sup> It is understood that the term "prudential reasons" includes the maintenance of the safety, soundness, integrity, or, financial responsibility of individual financial institutions or cross-border financial service suppliers.

contracts, subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where like conditions prevail, or a disguised restriction on investment in financial institutions or cross-border trade in financial services.

#### ARTICLE 12.11: TRANSPARENCY

1. The Parties recognize that transparent regulations and policies governing the activities of financial institutions and cross-border financial service suppliers are important in facilitating access of foreign financial institutions and foreign cross-border financial service suppliers to, and their operations in, each other's markets. Each Party commits to promoting regulatory transparency in financial services.

2. Each Party shall ensure that all measures of general application to which this Chapter applies are administered in a reasonable, objective, and impartial manner.

3. In lieu of Article 21.1 (Publication), each Party, to the extent practicable:

- (a) shall publish in advance any regulations of general application related to the subject matter of this Chapter that it proposes to adopt and the purpose of the regulation;
- (b) shall provide interested persons and the other Party a reasonable opportunity to comment<sup>7</sup> on such proposed regulations; and
- (c) should at the time it adopts final regulations, address in writing substantive comments received from interested persons with respect to the proposed regulations<sup>8</sup>.

4. To the extent practicable, each Party should allow reasonable time between publication of final regulations of general application and their effective date.

5. Each Party shall ensure that the rules of general application adopted or maintained by self-regulatory organizations of the Party are promptly published or otherwise made available in such a manner as to enable interested persons to become acquainted with them.

6. Each Party shall maintain or establish appropriate mechanisms for responding to inquiries from interested persons regarding measures of general application covered by this Chapter.

7. Each Party's regulatory authorities shall make publicly available the requirements, including any documentation required, for completing applications related to the supply of

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<sup>7</sup> For greater certainty, when a Party publishes regulations in advance as described in subparagraph (a), the Party shall provide an address, whether electronic or otherwise, to which interested persons and the other Party may send their comments.

<sup>8</sup> For greater certainty, a Party may consolidate its responses to the comments received from interested persons and publish them in a separate document from the document setting forth the final regulations.

financial services.

8. Upon request of an applicant, a Party's regulatory authority shall inform the applicant of the status of its application. If the authority requires additional information from the applicant, it shall notify the applicant without undue delay.

9. A Party's regulatory authority shall make an administrative decision on a completed application of an investor in a financial institution, a financial institution, or a cross-border financial service supplier of the other Party related to the supply of a financial service within 120 days, and shall promptly notify the applicant of the decision. An application shall not be considered complete until all relevant hearings are held and all necessary information is received. Where it is not practicable for a decision to be made within 120 days, the regulatory authority shall notify the applicant without undue delay and shall endeavor to make the decision within a reasonable time thereafter.

10. Upon request of an unsuccessful applicant, a regulatory authority that has denied an application shall, to the extent practicable, inform the applicant of the reasons for denial of the application.

#### ARTICLE 12.12: SELF-REGULATORY ORGANIZATIONS<sup>9</sup>

Where a Party requires a financial institution or a cross-border financial service supplier of the other Party to be a member of, participate in, or have access to, a self-regulatory organization to provide a financial service in or into the territory of that Party, the Party shall ensure that the self-regulatory organization observes the obligations of Articles 12.2 and 12.3.

#### ARTICLE 12.13: PAYMENT AND CLEARING SYSTEMS

Under terms and conditions that accord national treatment, each Party shall grant financial institutions of the other Party established in its territory access to payment and clearing systems operated by public entities, and to official funding and refinancing facilities available in the normal course of ordinary business. This Article is not intended to confer access to the Party's lender of last resort facilities.

#### ARTICLE 12.14: RECOGNITION

1. A Party may recognize prudential measures of a non-Party in the application of measures covered by this Chapter. Such recognition may be:

- (a) accorded autonomously;
- (b) achieved through harmonization or other means; or
- (c) based on an agreement or arrangement with the non-Party.

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<sup>9</sup> For greater certainty, an organization is subject to this Article to the extent that membership or participation in, or access to, the organization is required to supply a financial service.

2. A Party according recognition of prudential measures under paragraph 1 shall provide adequate opportunity to the other Party to demonstrate that circumstances exist in which there are or would be equivalent regulation, oversight, implementation of regulation, and, if appropriate, procedures concerning the sharing of information between the Parties.

3. Where a Party accords recognition of prudential measures under paragraph 1(c) and the circumstances described in paragraph 2 exist, the Party shall provide adequate opportunity to the other Party to negotiate accession to the agreement or arrangement, or to negotiate a comparable agreement or arrangement.

#### ARTICLE 12.15: SPECIFIC COMMITMENTS

Annex 12C sets out certain specific commitments by each Party.

#### ARTICLE 12.16: FINANCIAL SERVICES COMMITTEE

1. The Parties hereby establish a Financial Services Committee. The principal representative of each Party shall be an official of the Party's competent authorities responsible for financial services set out in Annex 12D.

2. The Committee shall:

- (a) supervise the implementation of this Chapter and its further elaboration;
- (b) consider issues regarding financial services that are referred to it by a Party; and
- (c) participate in the dispute settlement procedures in accordance with Article 12.19.

3. The Committee shall meet annually, or as otherwise agreed, to assess the functioning of this Agreement as it applies to financial services.

4. The Committee shall report to the Joint Commission on the results of each of its meetings.

#### ARTICLE 12.17: CONSULTATIONS

1. A Party may request consultations with the other Party regarding any matter arising under this Agreement that affects financial services. The other Party shall give sympathetic consideration to the request. The Parties shall report the results of their consultations to the Committee.

2. Consultations under this Article shall include officials of the authorities specified in Annex 12D.



3. Nothing in this Article shall be construed to require financial regulators participating in consultations under paragraph 1 to disclose information or take any action that would interfere with specific regulatory, supervisory, administrative, or enforcement matters.

4. Nothing in this Article shall be construed to require a Party to derogate from its relevant law regarding sharing of information among financial regulators or the requirements of an agreement or arrangement between financial authorities of the Parties.

#### ARTICLE 12.18: DISPUTE SETTLEMENT

1. Chapter Twenty-Three (Dispute Settlement) shall apply as modified by this Article to the settlement of disputes arising under this Chapter.

2. When a Party claims that a dispute arises under this Chapter, Article 23.6 (Request for a Panel) shall apply, except that:

- (a) where the Parties so agree, the panel shall be composed entirely of panelists meeting the qualifications in paragraph 3; and
- (b) in any other case,
  - (i) each Party may select panelists meeting the qualifications set out in paragraph 3 or in Article 23.7 (Qualifications of Panelists); and
  - (ii) if the Party complained against invokes Article 12.10, the chair of the panel shall meet the qualifications set out in paragraph 3, unless the Parties otherwise agree.

3. Financial services panelists shall:

- (a) have expertise or experience in financial services law or practice, which may include the regulation of financial institutions;
- (b) be chosen strictly on the basis of objectivity, reliability, and sound judgment;
- (c) be independent of, and not be affiliated with or take instructions from, a disputing Party; and
- (d) comply with the code of conduct to be established by the Joint Commission.

4. Notwithstanding Article 23.17 (Non-Implementation and Compensation), where a panel finds a measure to be inconsistent with this Agreement and the measure under dispute affects:

- (a) only the financial services sector, the complaining Party may suspend benefits only in the financial services sector;

- (b) the financial services sector and any other sector, the complaining Party may suspend benefits in the financial services sector that have an effect equivalent to the effect of the measure in the Party's financial services sector; or
- (c) only a sector other than the financial services sector, the complaining Party shall not suspend benefits in the financial services sector.

#### ARTICLE 12.19: INVESTMENT DISPUTES IN FINANCIAL SERVICES

1. Where an investor of a Party submits a claim under Article 9.16 (Investor-State Dispute Settlement) to arbitration under Chapter Nine (Investment) and the respondent invokes an exception under Article 12.10 as a defense within 120 days following the date the claim is submitted to the arbitration under Chapter Nine (Investment), upon filing of such a defense by the respondent, the tribunal shall refer the matter in writing to the Committee for a decision in accordance with paragraph 2. The tribunal shall not proceed pending its receipt of a decision of such matter by the Committee or a report of such matter by the panel under this Article.

2. In a referral pursuant to paragraph 1, the Committee shall decide the issue of whether and to what extent Article 12.10 is a valid defense to the claim of the investor. Each Party may make oral and written submissions to the Committee regarding such issue. The Committee shall promptly transmit a copy of its decision to the tribunal and to the Joint Commission. The decision shall be binding on the tribunal.

3. Where the Committee has not decided the issue within 60 days following the receipt of the referral under paragraph 1, either Party may, within 10 days thereafter, request the establishment of a panel under Article 23.6 (Request for a Panel) to decide the issue. The panel shall be constituted in accordance with Article 12.18. Each Party may make oral and written submissions to the panel regarding such issue. Further to Article 23.13 (Report of the Panel), the panel shall promptly transmit its final report to the Committee and to the tribunal. The report shall be binding on the tribunal.

4. Where no request for the establishment of a panel pursuant to paragraph 3 has been made within 10 days after the 60-day period referred to in paragraph 3, the tribunal may proceed to decide the matter.

5. Without any prejudice to Article 9.16 (Investor-State Dispute Settlement), the arbitrators of the tribunal shall have expertise or experience in financial services law or practice, which may include the regulation of financial institutions, in the event that the tribunal proceeds to decide the matter in accordance with paragraph 4.

#### ARTICLE 12.20: DEFINITIONS

For purposes of this Chapter:

**cross-border financial service supplier of a Party** means a person of a Party that is engaged in the business of supplying a financial service within the territory of the Party and

that seeks to supply or supplies a financial service through the cross-border supply of such services;

**cross-border trade in financial services** or **cross-border supply of financial services** means the supply of a financial service:

- (a) from the territory of a Party into the territory of the other Party;
- (b) in the territory of a Party by a person of that Party to a person of the other Party; or
- (c) by a national of a Party in the territory of the other Party,

but does not include the supply of a financial service in the territory of a Party by an investment in that territory;

**financial institution** means any financial intermediary or other enterprise that is authorized to do business and regulated or supervised as a financial institution under the law of the Party in whose territory it is located;

**financial institution of the other Party** means a financial institution, including a branch, located in the territory of a Party that is controlled by persons of the other Party;

**financial service** means any service of a financial nature. Financial services include all insurance and insurance-related services, and all banking and other financial services (excluding insurance), as well as services incidental or auxiliary to a service of a financial nature. Financial services include the following activities:

*Insurance and insurance-related services*

- (a) Direct insurance (including co-insurance):
  - (i) life;
  - (ii) non-life;
- (b) Reinsurance and retrocession;
- (c) Insurance intermediation, such as brokerage and agency; and
- (d) Services auxiliary to insurance, such as consultancy, actuarial, risk assessment, and claim settlement services;

*Banking and other financial services (excluding insurance)*

- (e) Acceptance of deposits and other repayable funds from the public;
- (f) Lending of all types, including consumer credit, mortgage credit, factoring, and financing of commercial transactions;

- (g) Financial leasing;
- (h) All payment and money transmission services, including credit, charge, and debit cards, travelers checks, and bankers drafts;
- (i) Guarantees and commitments;
- (j) Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market, or otherwise, the following:
  - (i) money market instruments (including checks, bills, certificates of deposits);
  - (ii) foreign exchange;
  - (iii) derivative products including, but not limited to, futures and options;
  - (iv) exchange rate and interest rate instruments, including products such as swaps, forward rate agreements;
  - (v) transferable securities; and
  - (vi) other negotiable instruments and financial assets, including bullion;
- (k) Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of services related to such issues;
- (l) Money broking;
- (m) Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial, depository, and trust services;
- (n) Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments;
- (o) Provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services; and
- (p) Advisory, intermediation, and other auxiliary financial services on all the activities listed in subparagraphs (e) through (o), including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy;

**financial service supplier of a Party** means a person of a Party that is engaged in the business of supplying a financial service within the territory of that Party;

**investment** means investment as defined in Article 9.18 (Definitions), except that, with respect to loans and debt instruments referred to in the Article:

- (a) a loan to or debt instrument issued by a financial institution is an investment only where it is treated as regulatory capital by the Party in whose territory the financial institution is located; and
- (b) a loan granted by or debt instrument owned by a financial institution, other than a loan to or debt instrument issued by a financial institution referred to in subparagraph (a), is not an investment;

for greater certainty, a loan granted by or debt instrument owned by a cross-border financial service supplier, other than a loan to or debt instrument issued by a financial institution, is an investment for purposes of Chapter Nine (Investment), if such loan or debt instrument meets the criteria for investments set out in Article 9.18 (Definitions);

**investor of a Party** means a Party or state enterprise thereof, or a person of a Party, that attempts to make, is making, or has made an investment in the territory of the other Party, provided, however, that a natural person who is a dual national shall be deemed to be exclusively a national of the State of his or her dominant and effective nationality;

**new financial service** means a financial service not supplied in the Party's territory that is supplied within the territory of the other Party, and includes any new form of delivery of a financial service or the sale of a financial product that is not sold in the Party's territory;

**person of a Party** means person of a Party as defined in Article 1.4 (General Definitions) and, for greater certainty, does not include a branch of an enterprise of a non-Party;

**public entity** means a central bank or monetary authority of a Party, or any financial institution owned or controlled by a Party; for purposes of Chapter Fifteen (Competition Policy), a central bank or monetary authority of a Party, or any financial institution that performs a financial regulatory function and is owned or controlled by a Party, shall not be considered a designated monopoly or a state enterprise; and

**self-regulatory organization** means any non-governmental body, including any securities or futures exchange or market, clearing agency, or other organization or association, that exercises regulatory or supervisory authority over financial service suppliers or financial institutions, by statute or delegation from central, regional, or local governments or authorities; for purposes of Chapter Fifteen (Competition Policy), a self-regulatory organization shall not be considered a designated monopoly.

**ANNEX 12A**  
**UNDERSTANDING CONCERNING ARTICLE 12.1.3(a)**

1. The Parties understand that this Chapter shall apply to measures adopted or maintained by a Party related to activities and services described in Article 12.1.3(a) only to the extent that a Party allows its financial institutions to supply such activities and services in competition with a public entity or a financial institution. The Parties further understand that this Chapter shall not apply to such measures:

- (a) to the extent that a Party reserves such activities and services to the government, a public entity, or a financial institution and they are not supplied in competition with other financial institutions; or
- (b) related to those contributions with respect to which the supply of such activities or services is so reserved.

2. For greater certainty, with respect to the activities or services referred to in Article 12.1.3(a), the Parties recognize that the taking of any of the following actions is not inconsistent with this Chapter.

A Party may:

- (a) designate, formally or in effect, a monopoly, including a financial institution, to supply some or all activities or services;
- (b) permit or require participants to place all or part of their relevant contributions under the management of an entity other than the government, a public entity, or a designated monopoly;
- (c) preclude, whether permanently or temporarily, some or all participants from choosing to have certain activities or services supplied by an entity other than the government, a public entity, or a designated monopoly; and
- (d) require that some or all activities or services be supplied by financial institutions located within the Party's territory. Such activities or services may include the management of some or all contributions or the provision of annuities or other withdrawal (distribution) options using certain contributions.

3. For purposes of this Annex, **contribution** means an amount paid by or on behalf of an individual with respect to, or otherwise subject to, a plan or system described in Article 12.1.3(a).

**ANNEX 12B**  
**CROSS-BORDER TRADE**

**KOREA**

*Insurance and insurance-related services*

1. Article 12.5.1 shall apply to the cross-border supply of or trade in financial services as defined in subparagraph (a) of the definition of cross-border supply of financial services in Article 12.20 with respect to:

- (a) insurance of risks related to:
  - (i) maritime shipping and commercial aviation and space launching and freight (including satellites), with such insurance to cover any or all of the following: the goods being transported, the vehicle transporting the goods, and any liability arising therefrom; and
  - (ii) goods in international transit;
- (b) reinsurance and retrocession;
- (c) services auxiliary to insurance, such as consultancy,<sup>10</sup> risk assessment,<sup>11</sup> actuarial and claim settlement services; and
- (d) insurance intermediation, such as brokerage and agency as referred to in subparagraph (c) of the definition of financial service in Article 12.20, of insurance of risks related to services listed in subparagraphs (a) and (b).

2. Article 12.5.1 shall apply to the cross-border supply of or trade in financial services as defined in subparagraph (c) of the definition of cross-border supply of financial services in Article 12.20 with respect to services auxiliary to insurance, such as consultancy, actuarial, risk assessment, and claim settlement services.

*Banking and other financial services (excluding insurance)*

3. Article 12.5.1 shall apply only with respect to:

- (a) the provision and transfer of financial information<sup>12</sup>;

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<sup>10</sup> For greater certainty, “consultancy” means activities such as providing advice on corporate strategy formulation, marketing strategy, or product development strategy.

<sup>11</sup> For greater certainty, “risk assessment” means activities such as risk analysis, risk prevention, or expert advice related to difficult or unusual risks.

<sup>12</sup> For greater certainty, “financial information” referred to in paragraph 3(a) does not include general financial or business information that is included within a general circulation publication or provided for a general audience.

- (b) the provision and transfer of financial data processing and related software related to banking and other financial services as referred to in subparagraph (o) of the definition of financial service in Article 12.20<sup>13</sup>, by no later than two years following the date of entry into force of this Agreement<sup>14</sup>; and
- (c) advisory and other auxiliary services, excluding intermediation, related to banking and other financial services as referred to in subparagraph (p) of the definition of financial service in Article 12.20. This commitment shall apply to the supply of credit rating, credit reference and investigation, general fund administration, indirect investment vehicle appraisal, and bond appraisal with regard to securities issued in Korea<sup>15</sup> only to the extent that Korea allows the supply of these services with respect to such assets. This commitment shall not apply to (i) credit rating of enterprises in Korea; or (ii) credit reference and investigation undertaken for purposes of lending and other financial transactions in Korea with respect to individuals or companies in Korea. Once Korea allows the supply of certain of these services, it shall not subsequently prohibit or limit the supply of such services.

## **PERU**

### *Insurance and insurance-related services*

4. Article 12.5.1 shall apply to the cross-border supply of or trade in financial services as defined in subparagraph (a) of the definition of cross-border supply of financial services in Article 12.20 with respect to:

- (a) insurance of risks related to:
  - (i) maritime shipping and commercial aviation and space launching and freight (including satellites), with such insurance to cover any or all of the following: the goods being transported, the vehicle transporting the goods, and any liability arising therefrom, and
  - (ii) goods in international transit;
- (b) reinsurance and retrocession;
- (c) consultancy, actuarial, risk assessment, and claim settlement services; and
- (d) insurance intermediation, such as brokerage and agency, as referred to in

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<sup>13</sup> It is understood that, where the financial information or financial data processing referred to in paragraph 3 of Annex 12B involves personal data, the treatment of such personal data shall be in accordance with Korea's law regulating the protection of such data.

<sup>14</sup> It may be subject to prior authorization from the relevant regulator, as required.

<sup>15</sup> As of March 2007, securities issued in the territory of Korea are denominated solely in Korean won, except in extraordinary circumstances. Where bonds issued outside the territory of Korea are held by a Korean collective investment scheme registered with the *Financial Services Commission*, appraisal of the bond must be undertaken by a bond appraisal company in the territory of Korea.



subparagraph (c) of the definition of financial service in Article 12.20, of insurance of risks related to services listed in subparagraphs (a) and (b);

5. Article 12.5.1 shall apply to the cross-border supply of or trade in financial services as defined in subparagraph (c) of the definition of cross-border supply of financial services in Article 12.20 with respect to services listed in paragraph 4.

*Banking and other financial services (excluding insurance)*

6. Article 12.5.1 shall apply only with respect to the provision and transfer of financial information and financial data processing and related software as referred to in subparagraph (o) of the definition of financial service in Article 12.20<sup>16</sup>, subject to prior authorization from the relevant regulator, as required, and advisory and other auxiliary financial services<sup>17</sup>, excluding intermediation, related to banking and other financial services as referred to in subparagraph (p) of the definition of financial service in Article 12.20<sup>18</sup>.

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<sup>16</sup> It is understood that, where the financial information or financial data processing referred to in paragraph 6 of Annex 12B involves personal data, the treatment of such personal data shall be in accordance with Peru's law regulating the protection of such data.

<sup>17</sup> It is understood that advisory and other auxiliary financial services do not include those services referred to in subparagraphs (e) through (o) of the definition of financial service in Article 12.20.

<sup>18</sup> It is understood that a trading platform, whether electronic or physical, does not fall within the range of services specified in this paragraph.

**ANNEX 12C**  
**SPECIFIC COMMITMENTS**

**SECTION A: TRANSFER OF INFORMATION**

Each Party shall allow a financial institution of the other Party to transfer information in electronic or other form, into and out of its territory, for data processing where such processing is required in the institution's ordinary course of business<sup>19</sup>. Korea shall give effect to this commitment no later than two years after the date of entry into force of this Agreement.

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<sup>19</sup> The provision and transfer of financial information and financial data processing and related software as referred to in subparagraph (o) of the definition of financial service in Article 12.20 may be subject to prior authorization from the relevant regulator, as required.

## **SECTION B: SUPERVISORY COOPERATION**

The Parties support the efforts of their respective financial regulators to provide assistance to the regulators of the other Party to enhance consumer protection and those regulators' ability to prevent, detect, and prosecute unfair and deceptive practices. Each Party confirms that its financial regulators have the legal authority to exchange information in support of those efforts. The Parties encourage financial regulators to continue their ongoing efforts to strengthen this cooperation through bilateral consultations, or bilateral or multilateral cooperative mechanisms, such as memoranda of understanding or *ad hoc* undertakings.

## SECTION C: PORTFOLIO MANAGEMENT

### KOREA

1. Korea shall allow a financial institution organized outside its territory to provide investment advice and portfolio management services to the manager of a collective investment scheme located in its territory, provided that the scope of the services does not include:

- (a) trustee services;
- (b) custodial services; and
- (c) execution services that are not related to managing a collective investment scheme.

This paragraph shall apply to the supply of investment advice or portfolio management services with regard to won-denominated assets only to the extent that Korea allows the supply of these services with respect to such assets. Once Korea allows the supply of certain of these services with regard to Korean won-denominated assets, it shall not subsequently prohibit or limit the supply of such services.

2. For greater certainty, paragraph 1 is subject to Articles 12.1 and 12.5.3.

3. For purposes of paragraph 1, **collective investment scheme** means:

- (a) an investment trust reported to the *Financial Services Commission* in accordance with the *Financial Investment Services and Capital Markets Act*; and
- (b) an investment company registered with the *Financial Services Commission* in accordance with the *Financial Investment Services and Capital Markets Act*.

### PERU

4. Peru shall allow a financial institution organized either inside or outside its territory to provide the following services to a collective investment scheme located in its territory<sup>20</sup>:

- (a) investment advice; and
- (b) portfolio management services, excluding:
  - (i) custodial services, unless they are related to managing a collective investment scheme;

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<sup>20</sup> Notwithstanding this paragraph, a Party may require a collective investment scheme located in the Party's territory to retain ultimate responsibility for the management of the collective investment scheme, including the assets of the collective investment scheme.

- (ii) trustee services, but not excluding the holding in trust of investments by a collective investment scheme established as a trust; and
  - (iii) execution services, unless they are related to managing a collective investment scheme;
- 5. Paragraph 4 is subject to Articles 12.1 and 12.5.3.
- 6. For purposes of paragraphs 4 and 5, **collective investment scheme** means:
  - (a) mutual funds for investments and securities, in accordance with Consolidated Text of the *Securities Market Law* (Texto Único Ordenado de la *Ley del Mercado de Valores*), approved by *Supreme Decree* N° 093-2002-EF (*Decreto Supremo* N° 093-2002-EF) ;
  - (b) investment funds in accordance with *Legislative Decree* N° 862 (*Decreto Legislativo* N° 862); and
  - (c) pension funds in accordance with *Consolidated Text* approved by *Supreme Decree* N° 054-97-EF (*Decreto Supremo* N° 054-97-EF).

## **SECTION D: SERVICES DESCRIBED IN ARTICLE 12.1.3(a)**

### **PERU**

In the context of the maintenance, modification, or adoption of a privatized or partially privatized retirement plan or social security system<sup>21</sup>, and notwithstanding any non-conforming measure(s) of Peru referring to social services and found in its Schedule set out in Annex II or III:

- (a) Articles 12.2.1 and 12.2.2 shall apply, subject to Article 12.1.3(a), including Annex 12A, to the supply by financial institutions of those activities and services described in Article 12.1.3(a) that are not reserved for supply by the government of Peru, a public entity, or a financial institution; and
- (b) Peru shall not adopt or maintain measures that impose limitations on the number of financial institutions in the form of either numerical quotas or the requirements of an economic needs test, with respect to investors of the other Party seeking to establish financial institutions to supply such activities and services.

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<sup>21</sup> For greater certainty, this specific commitment applies only to measures within the scope of this Chapter, as specified in Article 12.1, including Annex 12A.

**ANNEX 12D**  
**FINANCIAL SERVICES COMMITTEE**

*Authorities Responsible for Financial Services*

1. The authorities responsible for financial services are:
  - (a) for Korea, the *Ministry of Strategy and Finance* and the *Financial Services Commission*, or their successors; and
  - (b) for Peru, the *Ministry of Economy and Finance (Ministerio de Economía y Finanzas)*, or its successors, in coordination with financial regulators.

*Elaboration of the Agenda of the Financial Services Committee*

2. The Parties anticipate discussing a range of issues in the Financial Services Committee, including measures adopted or maintained by central, regional and local levels of government that affect the supply of financial services by financial institutions or financial service suppliers of either Party. Prior to any meeting of the Committee, the authorities specified in paragraph 1 will provide their counterparts with a list of financial services issues for consideration of the Committee, including any concerns of financial institutions or financial service suppliers that a Party chooses to raise.

**UNDERSTANDING REGARDING  
FINANCIAL SERVICES AND SERVICES MEASURES**

The Parties confirm the following understandings regarding this Agreement and confirm that this understanding constitutes an integral part of this Agreement. For greater certainty,

- (a) the Parties confirm that, with respect to cross-border trade in financial services, and without prejudice to other means of prudential regulation, a Party may require the registration or authorization of cross-border financial services suppliers of the other Party and of financial instruments.

The Parties further confirm that, without prejudice to other means of prudential regulation, a Party may require a cross-border financial service supplier of the other Party to provide information, solely for informational or statistical purposes, on the financial services it has supplied in the territory of the Party. The Party shall protect such business information that is confidential from any disclosure that would prejudice the competitive position of the supplier;

- (b) nothing in Article 9.6 (Senior Management and Boards of Directors) limits a Party's ability to require the chief executive officer of a financial institution established under its laws to reside within its territory;
- (c) a Party may apply solvency and integrity requirements to branches of insurance companies of the other Party established in its territory, including measures requiring that capital assigned to a branch and technical reserves be effectively brought into the Party's territory and converted into local currency, in accordance with the Party's law;
- (d) notwithstanding Article 12.6 (New Financial Services), a Party may issue a decree, resolution, or regulation by the executive branch, regulatory agencies, or central bank, to the extent that such decree, resolution, or regulation is necessary for authorization of new financial services not specifically authorized in its law;
- (e) the Parties recognize the importance of the cross-border transfer of information by financial service suppliers. Korea has expressed its intent to undertake modification to its regulatory regime that will result in its adoption of approaches that will permit the transfer of financial information across borders while addressing such areas as the protection of sensitive information of consumers, prohibitions on unauthorized reuse of the sensitive information, the ability of financial regulators to have access to records of financial service suppliers related to the handling of such information, and requirements for the location of technology facilities;
- (f) without prejudice to other means of prudential regulation, the Parties understand that Peru may have or adopt similar measures to those included in Appendix III-A that:



- (i) are not inconsistent with Article 12.4 (Market Access for Financial Institutions). Any revision, amendment, or modification of those measures or related laws will not be construed to be inconsistent with Article 12.4 to the extent that it does not conflict with the spirit of the original measure; and
  - (ii) fall within paragraph 1 of Article 12.10 (Exceptions). Therefore, Article 12.2 (National Treatment) does not prevent Peru from maintaining them. Any revision, amendment, or modification of those measures or related laws will also fall within the ambit of paragraph 1 of Article 12.10 (Exceptions); and
- (g) the Parties confirm that the following entities, as currently structured, are covered by Chapter Twelve (Financial Services), but shall not be considered financial institutions for purposes of that Chapter: Korea Deposit Insurance Corporation (KDIC), Resolution and Finance Corporation, Export-Import Bank of Korea, Korea Export Insurance Corporation, Korea Technology Credit Guarantee Fund, Credit Guarantee Fund, Korea Asset Management Corporation (KAMCO), and Korea Investment Corporation (KIC).