

the fact that *kampo* is not subject to the same kind of regulatory oversight, or operating costs, as private sector life insurers. *Kampo* is not subject to the Insurance Business Law, the Law on Sales of Financial Products or the Commercial Code. Moreover, it is not supervised by the Financial Services Agency. Finally, its products are fully guaranteed by the government, thus *kampo* is not required to contribute to the Policyholders Protection Corporation (PPC). It is Canada's view that *kampo* should be made to operate on the same basis as private life insurers, both foreign and domestic.

As well, to ensure that *kampo* as presently constructed does not encroach further on private sector activities, it should be instructed not to create new products that could be provided by private sector insurers. Failing this, any new financial services activities proposed for the Postal Financial Institutions (whether *kampo* or *yucho*) should be subject to full public notice and comment, and the responses given due consideration by officials before their introduction. Any proposed report or legislation relating to the financial services activities of *yucho* should be subject to full public notice, comment and consideration before policy decisions are taken by the government.

With regard to funding of the aforementioned Policyholders Protection Corporation, the current scheme will expire in early 2006. The Japanese government should consult closely with domestic and foreign life insurance firms, in a transparent and open manner, when developing and implementing any legislation associated with reform of the PPC.

With the purported goal of ensuring consumer transparency, the Financial Services Agency applies a micro-level analysis to product and rate approvals. This supervisory approach hinders competition because it is time-consuming and stifles innovation. There has been some progress since the establishment of the FSA, but Canada requests that greater efforts be made to move from a system of prior product approval to a system of notification combined with clear standards of disclosure. Supervision should move to a focus on solvency ratios, capital adequacy and appropriate modern accounting practices.

It is also worth noting that the Reserve Basis and Solvency Margin calculation used for variable annuities currently does not follow accepted international

practice. The Canadian reserve method is one that may prove useful in moving toward one that does.

Finally, there has been progress in deregulating the distribution of insurance products: this is a positive development that should be built upon, by expanding the scope of previous reforms to new product classes. Specifically, the so-called *kosei-in* rule, which limits the products that agencies can sell in-house, should be eliminated, and commissions paid by life insurers to corporate agencies that sell insurance policies to the agency itself (or affiliated companies) should be allowed.

Legal Services

Canada applauds the enactment of legislation that substantially eliminates restrictions on freedom of association between Japanese lawyers and foreign lawyers qualified under Japanese law. We will follow closely the development of rules and regulations to implement this legislation.

In the context of the market access phase of the ongoing GATS negotiations, Canada has requested that Japan improve its market access commitments with respect to legal services. Canada has requested, in particular, that Japan eliminate its commercial presence requirements and the limitations on the duration of stay for foreign legal consultants advising on foreign and public international law.

Investment

In his general policy speech to the Diet on January 31, 2003, Japanese Prime Minister Koizumi strongly welcomed foreign direct investment as a way to help revive the country's economy and achieve sustained growth. He stated, "Foreign direct investment in Japan will bring new technology and innovative management methods, and will also lead to greater employment opportunities. We will take measures to present Japan as an attractive destination for foreign firms, with the aim of doubling the cumulative amount of investment in five years."

This was the first time a Japanese Prime Minister had mentioned foreign direct investment in an opening annual policy address. Following this address, the Japanese government took some positive steps to support inward foreign direct investment. In April