banks. If reciprocity was lacking, the application was to be suspended pending negotiations with the concerned country to achieve reciprocity.

The Commission has since made its position more flexible and does not expect treatment of EC institutions in non-EC countries to be equivalent to that granted in the Community to institutions from those countries. Rather, it is now looking for treatment identical to that afforded to nationals of those countries; thus it is requiring only non-discrimination in foreign states. This more workable reciprocity provision will be carried into the Investment Services Directive and the Directives in the insurance field. According to Sir Leon Brittan, EC Commissioner: "We will only seek to hit back if there is in effect national discrimination against us."

The Commission has indicated it is aiming principally at countries that clearly discriminate against foreign banks, such as Japan, Korea, Brazil and to a lesser extent the United States. Canada is far down on the "hit list."

The Commission will examine national policies in countries such as the United States and Canada and also identify regulations affecting foreign banks that appear to be "burdensome" or "discriminatory." However, a degree of discriminatory treatment may be acceptable for the operations of foreign banks; the Commission's criterion is whether "effective market access" is provided. In the United States, Ron Lindhart at the office that controls the currency admits there may be some areas where the United States will "have to make adjustments." The Japanese, under the threat of reciprocity, have permitted foreign banks to participate in various profitable sectors of Japan's financial markets in return for permission to participate in banking and securities markets in the United States and Europe. Disputes over discriminatory policies will likely lead to negotiations. The industrialized countries are constantly negotiating to resolve differences and to reach harmonization via such arrangements as the FTA and GATT.

The Commission believes that non-discriminatory treatment in foreign states should in practice ensure effective market access to non-EC countries. The Commission's initiatives are directed at achieving a single European market by abolishing existing barriers; it does not want to create new ones. In response to cries of "Fortress Europe," the EC insists on "Partnership Europe." To become a more powerful economic and financial centre, the EC needs to attract as many players as possible.

2.3 Related Issues

As barriers are removed to give access to a unified market, it is necessary to ensure a "level playing field" for competitors. The main inequalities will be corrected through a series of Directives.

a) Solvency and Capital Ratios Directives

The Solvency Ratios Directive must be incorporated into the domestic laws of EC Member States by January 1, 1991. The Own Funds Directive (lists in detail what a bank can include in its calculation of capital), adopted in April 1989, deals with the numerator of the solvency ratio. It harmonizes the composition of a bank's own funds.

These two directives and the Second Banking Directive incorporate the conclusions of the Basle Committee, also known as the Cooke Committee. A minimal solvency ratio of 8 per cent will be mandatory as of January 1, 1993. The harmonization of capital adequacy will not be completed by then; the Basle Committee dealt only with credit risk and did not cover other forms of risk, such as interest rate risk.

A country can impose stricter standards than the agreed minimum, as is the case