

Removal of Restrictions on Upstream Lending, non-resident withholding tax and thin capitalization rules in Canada

Issue: Korea seeks relief from the limitation on lending by foreign banks subsidiaries in Canada to their parent bank or other corporations affiliated with the bank. Korea also seeks removal of non-resident withholding tax and thin capitalization rules in Canada.

Status: The Canadian side indicated that this issue will be reviewed as part of the Canadian withholding tax system.

Financial Services

Issue: (a) Targeted Lending: Canada is concerned that foreign banks in Korea are required to channel a very high percentage of their loans to higher risk categories of borrowers. (b) Won funding for Canadian banks: Access to Won currency funding in Korea is restricted. (c) The establishment of branch offices in Canada of Korea banks is not allowed. (d) Restrictions on the composition of board members of foreign banks in Canada exists.

Status: Ministry of Finance officials of the two countries will continue discussions on liberalization of financial sector markets with a view to eliminating impediments.