and securities firms entry into each other's markets through subsidiaries.[54] Article 65 has not been completely dismantled, as firewalls will be implemented to maintain some distance between banking and securities activities.

While Japan does not prohibit the establishment of direct branches of foreign banks (as Canada does), a separate licence is required for each branch. National treatment is extended to subsidiaries of foreign banks, but Japan, like most OECD countries, reserves the right to approve the establishment of foreign banks on a reciprocity basis.

The European Union

The EU's second Coordinating Banking Directive allows a bank or bank subsidiary licenced in any EU member state to open branches and provide banking services throughout the Community.[55] The entire bank, including its branches located in other countries, is regulated by the home country, i.e., the EU country in which the bank is established.

It has been suggested that a single EU financial market might result in even larger European banking networks, initiated either through mergers and acquisitions or branch expansions.[56] While empirical evidence does not conclusively suggest that banks can benefit from the economies of scale associated with operating large networks, the costs of entering a new market in which large networks already exist might be prohibitive. Canadian banks, for example, might find it difficult to enter into and compete in the EU, particularly if the German universal banking model becomes

[54] Law concerning the Realignment of Relevant Laws for the Reform of the Financial System and the Securities Trading System, Law No. 87 of 1992. Known as the Financial System Reform Law, it amended 15 other laws affecting the financial system and abolished one other. For an analysis of the Japanese financial system and the impact of the Reform Law, see T.F. Cargill and G.F.W. Todd, "Japan's Financial System Reform Law: Progress Toward Financial Liberalization?" *Brooklyn Journal of International Law*. Vol. 19 No. 1. New York: 1993, pp. 47-84.

[55] This is known as the "single passport". The establishment of a single passport for financial service firms is intended to allow institutions licenced in one EU country to operate in any member country without receiving special permission from the countries in which they wish to do business.

[56] See International Monetary Fund, *International Capital Markets Part II. Systemic Issues in International Finance.* World Economic and Financial Surveys. Washington: August 1993, p. 41.