Principles

Commercial Presence and Cross-Border Services: Under the Agreement, financial service providers of a NAFTA country may establish in any other NAFTA country banking, insurance and securities operations as well as other types of financial services. Each country must permit its residents to purchase financial services in the territory of another NAFTA country. In addition, a country may not impose new restrictions on the cross-border provision of financial services in a sector, unless the country has exempted that sector from this obligation.

Non-Discriminatory Treatment: Each country will provide both national treatment, including treatment respecting competitive opportunities, and most-favored-nation treatment to other NAFTA financial service providers operating in its territory. Under the Agreement, any measure that does not disadvantage financial service providers of another NAFTA country in their ability to provide financial services, by comparison to domestic providers, is deemed to provide equality of competitive opportunity.

Procedural "Transparency": In processing applications for entry into its financial services markets, each country will:

- inform interested persons of its requirements for completing applications;
- provide information on the status of an application on request;
- make an administrative determination on a completed application within 120 days, where possible;
- publish measures of general application no later than their effective date and, where practicable, allow interested persons the opportunity to comment on proposed measures; and
- establish one or more inquiry points to answer questions about its financial services measures.

Prudential and Balance of Payments Measures: The NAFTA ensures that each country retains the right to take reasonable prudential measures notwithstanding any other provision of the Agreement. It also provides that a country may take measures for balance-of-payment purposes under limited circumstances.

Consultations

The Agreement provides specific procedures for NAFTA countries to consult on financial services matters.

Country-Specific Commitments

Canada: Under the Canada-U.S. FTA, U.S. firms and individuals are exempt from the non-resident provisions of Canada's "10/25" rules. Under the NAFTA, Canada will extend this exemption to Mexican firms and individuals who will thus be exempt from Canada's prohibition against non-residents collectively acquiring more than 25 percent of the shares of a federally-regulated Canadian financial institution. Mexican banks will also not be subject to the combined 12 percent asset ceiling that applies to non-NAFTA banks, nor will they be required to seek the approval of the Minister of Finance as a condition of opening multiple branches in Canada.

Mexico: Mexico will permit financial firms organized under the laws of another NAFTA country to establish financial institutions in Mexico, subject to certain market share limits that will apply during a transition period ending by the year 2000. Thereafter, temporary safeguard provisions may be applicable in the banking and securities sectors.

Banking and Securities: During the transition period, Mexico will gradually increase the aggregate market share limit in banking from eight percent to 15 percent. For securities firms, the limit will increase from 10 percent to 20 percent over the same period. Mexico will apply individual market share caps of 1.5 percent for banks and four percent for securities dealers during the transition period. After the transition period, bank acquisitions will remain subject to reasonable prudential considerations and a four percent market share limit on the resulting institution.

Insurance: Under the NAFTA, Canadian and U.S. insurers may gain access to the Mexican market in two ways. First, firms that form joint ventures with Mexican insurers may increase their foreign equity participation in such ventures in steps from 30 percent in 1994 to 51 percent by 1998, and to 100 percent by the year 2000. These firms will not be subject to aggregate or individual market share limits. Second, foreign insurers may establish subsidiaries, subject to aggregate limits of six percent of market share, gradually increasing to 12 percent in 1999, and subject to individual market share caps of 1.5 percent. These limits will be eliminated on January 1, 2000. Canadian and U.S. firms that currently have an ownership interest in Mexican insurers may increase their equity participation to 100 percent by January 1, 1996. Intermediary and auxiliary insurance services companies will be permitted to establish subsidiaries with no ownership or market share limits when the Agreement goes into effect.

Finance Companies: Mexico will permit Canadian and U.S. finance companies, on terms no less favorable than those accorded to Mexican institutions, to establish separate subsidiaries in Mexico to provide consumer lending, commercial lending, mortgage lending or credit card services. However, during the transition period, the aggregate assets of such subsidiaries may not exceed three percent of the sum of the aggregate assets of all banks in Mexico plus the aggregate assets of all types of limited-scope financial institutions in Mexico. Lending by affiliates of automotive companies with respect to the vehicles such companies produce will not be subject to, or taken into account in, the three percent limit.

Other Firms: NAFTA factoring and leasing companies will be subject to transition limits on aggregate market share in Mexico of the same duration and magnitude as those applying to securities firms, except that they will not be subject to individual market share limits. NAFTA warehousing and bonding companies, foreign exchange houses and mutual fund management companies will be permitted to establish subsidiaries with no ownership or market share limits when the Agreement goes into effect.