

and facilities owned or controlled by utilities and facilitating construction and expansion of infrastructure over public land and facilities. Canada urges Japan to continue to lower the interconnection rates by adopting a Long-Run Incremental Cost (LRIC) system, a pro-competitive methodology for interconnection fees. Canada is also concerned about the independence of the regulator and is monitoring any changes in its role as a result of the former Ministry of Posts and Telecommunications becoming part of the larger general-affairs ministry with the implementation of administrative reform on January 6, 2001.

Financial Services

Japan's financial sector, as a result of ongoing substantial reform through deregulation and restructuring, offers enhanced opportunities for Canadian financial services companies. The elimination of fixed securities commissions in the fall of 1999, in combination with the introduction of internet trading technology, has produced an enormous growth of interest in on-line trading. Relevant developments in the financial sector in 2000 include: efforts to reduce non-performing loans in the banking system; the establishment of a new Financial Services Agency (FSA), which combines both policy and supervisory responsibilities; a new Insurance Business Law (as of June 1, 2000), and legislation under development on deposit insurance. Further efforts at reform and deregulation will lead to a more efficient and sound financial system.

The level of transparency in Japan's financial sector is still a concern. While accounting standards are improving, through moves to mark-to-market accounting and Generally Accepted Accounting Principles standards, further progress can be made, for example, in accounting standards of life insurers. In addition, foreign financial institutions should be consulted systematically on regulatory changes proposed by either the Financial Services Agency or industry associations. Moreover, while recent improvements away from the previous "administrative guidance" approach are welcome, the Financial Services Agency should take greater steps to regulate in a transparent way; the implementation of the "no-action letter" system will promote such a development.

Japan's financial sector is dominated by the banks. The government has taken steps to diversify financial intermediation by adopting measures to create a level-playing field between banks, insurance companies, and securities and investment advisory companies. To the extent that Japan is able to foster a retail investor culture this will increase the efficiency and transparency of the financial system. The Japanese authorities should adopt measures which will strengthen the role of individual retail investors by, for example, introducing tax-advantaged defined contribution pension plans, and eliminating the requirement that a client must physically receive a prospectus before a trade can be confirmed.

Specific concerns in the financial services market have been flagged by Canadian companies with respect to: the need to cease government loan guarantees to incite credit risk pricing in the industry, the need for savings to be shifted from banks to the security market, and a desire to see enhanced protection for foreign investments, including measures that would protect foreign joint venture investors in case of failure of local partners.

Banking

The announcement that the so-called "firewalls" separating operations of financial institutions engaged in more than one financial service (e.g. a bank that conducts both banking and securities activities) will be eased is a positive development, allowing financial groups to centralize certain activities and, thus, benefit from economies of scale. However, Canadian financial institutions are concerned that their relatively small size in Japan means that the added cost of the remaining "firewall" system will pose an undue burden on them. The new rules should be sensitive to smaller institutions' need to contain costs.

Securities and Investment Advisory Companies

Canadian financial institutions see many opportunities in the fund management and brokerage business. But fund registration costs appear to be high compared to other jurisdictions and they could be lowered by further regulatory streamlining. Moreover, the authorities should conduct a fundamental examination of the investment trust disclosure process, to simplify procedures so that they promote the use of electronic delivery.