This revised Note by the Secretariat is for consideration by the Committee at its meeting on 12/13 October 2000. Changes are in bold text.

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CMIT PROGRAMME OF WORK AND BUDGET 2001-2002

I. Introduction

1. OECD Committees are required every two years to establish their Programme of Work and Budget, taking into account the broad priorities of the Organisation [see C(2000)36 and C(2000)166]. The biennial process allows for mid-term corrections and hence decisions made now can be reconsidered in a year’s time. However, Committee decisions on the programme of work are in the nature of proposals, final decisions being the prerogative of the Council. On the basis of the Committee’s deliberations, the Secretariat will prepare the relevant sections of the Proposed Programme of Work and Budget of the Organisation for 2001-2002 which the Secretary-General will submit to the Council.

2. On this occasion, committees are required to attach priorities to their various proposed activities and to identify the impact of a possible reduction or increase of resources. The OECD budget context for the year 2001 is one of zero-volume growth overall. The possibility of shifting resources from low to high priority activities will be considered by the Council on advice from the Budget Committee.

3. This Note focuses on the activities of the CMIT, including activities carried out jointly with the CIME. It draws on earlier discussions on the programme of work as described in the CMIT Status Report on Ongoing Activities [DAFFE/INV(2000)3]. Activities funded by the Centre for Co-operation with Non-Members (CCNM) will be reviewed by the Committee on Co-operation with Non-Members (CCN). Unlike the CIME, the CMIT’s mandate is defined in the Code of Liberalisation of Capital Movements and the Code of Liberalisation of Current Invisible Operations (see Annex 1) and is ongoing.

4. Over the past year, the Committee’s efforts have been dominated by three main activities:

- **Accession and Post-Accession issues**

5. A comprehensive examination of Slovakia has been undertaken with respect to its candidature for accession to OECD membership. Post accession reviews have been carried out for each of the five members (Czech Republic, Hungary, Korea, Mexico, Poland) that joined the Organisation since 1994. Progress Reports are expected from Hungary (mid-2000), Poland (end 2000) and Mexico (2001-2002).

- **Monitoring Compliance with the Codes of Liberalisation and Updating Country Reservations**

6. The CMIT has been continuing with its normal surveillance activities with respect to the Codes, including regular discussion of recent measures affecting the position of member countries under the Codes and reports to Council as required. This core activity will obviously continue.
7. The CMIT has been continuing to examine horizontal issues under the Codes having implications for the position of Member countries under the Codes, in particular the cross-border provision of professional services and the provision of financial services by branches of foreign banks.

II. Activities in a Medium-term Context

8. Delegations are invited to consider the CMIT’s activities and their funding in a medium-term context.

9. The CMIT has a well-defined task as guardian of the OECD Codes of Liberalisation, and a related role as a forum for promoting progressive liberalisation in the areas of capital movements and current invisible operations (see Annex 1). The primary tasks of the Committee include:

   i. monitoring compliance with Code obligations;
   ii. conducting examinations, country by country or horizontal, to enhance progress towards progressive liberalisation;
   iii. interpreting the Codes to ensure transparency and equal treatment of member countries.

10. In addition, the CMIT has to ensure the effective implementation and extend the influence of the Codes. To this purpose, the tasks of the CMIT include:

   i. outreach to non-members to share experiences and encourage consensus-building on policy approaches;
   ii. sharing information widely to facilitate the effective application of the Codes.

11. The OECD remains the only international organisation having jurisdiction over capital movements among its members. The CMIT has built up an invaluable knowledge base, recently reinforced through the review process of new Members. We now need to consider how to strengthen, and, as necessary, develop this expertise, how to preserve its relevance, and how best to share it with non-members. The OECD continues therefore to be uniquely placed to lead by example to a wider audience.

III. Activities for 2001-2002

1. Post Accession

12. CMIT/CIME held a second examination of Slovakia’s proposed position under the Codes on 27 April 2000 in the context of Slovakia’s candidature for OECD membership. Post-accession reviews – undertaken two years after accession – have been completed for Mexico, Hungary, the Czech Republic and Korea. The post-accession review report on Poland is still to be approved under written procedure.

13. The Slovak Republic has been invited to join the Organisation and an interim report on ongoing liberalisation is expected one year after the date of accession. A full review will be held two years after accession.
2. Monitoring Compliance with the Codes of Liberalisation and Updating Country Reservations

14. Member countries have a duty under the Codes to notify the Organisation of any new measures having a bearing on their legal position under the Codes of Liberalisation and the CMIT has an ongoing duty to monitor compliance with Code obligations.

15. The Committee thus reviews new developments, in particular via the “Recent Measures” item. It could also consider in due course an incremental re-appraisal and update of national reservation lists. As necessary, reports to the Council are prepared to enable the Organisation to make any necessary recommendations and to keep member countries’ reservations up-to-date. Furthermore, it is planned to issue a new edition of the Codes in 2001.

3. Strengthening the Provisions and Application of the Codes

16. To ensure that the Codes adapt to evolving conditions, the CMIT conducts horizontal reviews of all member countries with respect to specific provisions of the Codes. These reviews normally result in the adjustment of Member country reservations, and in Council recommendations designed to encourage progressive liberalisation. They may also result in recommendations to Council to change the nature and scope of the liberalisation obligations themselves. In several cases, CMIT work is undertaken to ensure that all member countries, including new members, will be treated equally under the Codes. Work is currently under way – or could be envisaged – in the following areas:

a. Activities of Branches of Non-Resident Financial Institutions

17. This issue relates to the authorisation of branches by non-resident institutions to render certain financial services (custodial, asset management, etc.) to certain resident institutions (mutual funds and other collective investment institutions, pension funds, etc.). It appears that these activities might be restricted in more countries than suggested by the current list of reservations under the Code. The issue was raised for the first time during the last examination of Hungary under the Codes. A questionnaire was sent to all CMIT delegates in August 1998 [DAFFE/INV/IME(98)15]. A revised analytical note by the Secretariat was discussed in CMIT on 15 November 1999, taking into account the answers received from delegations so far [DAFFE/INV/IME(98)15/REV1]. The Secretariat will prepare a further revision. A report to Council is expected for early 2001.

b. Financial Derivatives and Similar Instruments

18. On the occasion of the Korean review, the Committee agreed that the application of Code provisions on derivatives and similar instruments (item VI of the Capital Movements Code) should be revisited. Following discussion of an outline of the project, the Secretariat will prepare a draft questionnaire for discussion as soon as possible, asking Member countries to indicate how they regulate the cross-border admission and trading of financial derivatives. This project could result in a Committee report in 2002.

c. Insurance Services

19. The objective of this activity is to review and update reservations to items D1 to D6 of the Code of Liberalisation of Current Invisible Operations, as necessary, to ensure that the Code provisions continue
to reflect the reality of changing market activities and regulations. Country reservations will then have to be reviewed to ensure conformity with the new Code provisions.

20. The review will be completed in two stages: A report with recommendations for amending the Code provisions will be completed by early 2001. Revised country reservations will be submitted to Council in 2002. This project will be undertaken in co-operation with the Insurance Committee.

d. Professional Services

21. The objective of this project is to restore consistency in the application of the Code’s disciplines among Member countries. The study could be extended to cover measures affecting inward direct investment and right of establishment in the professional services sector (item I/A of the Capital Movements Code). The project could possibly also include analytical work on less burdensome measures; review of Member countries’ positions in light of developments in the WTO, and reciprocity measures related to cross-border trade in professional services.

22. This work is expected to result in amendments to Code reservations to ensure consistency of treatment among Member countries regarding their reservations to item L/6 of the Code of Liberalisation of Current Invisible Operations and item I/A of the Code of Liberalisation of Capital Movements. Policy recommendations may also be formulated. This project may be finalised in 2001.

e. Cross-border Financial Services

23. At its March 2000 meeting, the CMIT took note of a recent report by the Committee on Financial Markets on “Cross-border trade in financial services: Economics and Regulation”. The CMIT will draw on the information in this report to conduct a horizontal review of the Codes provisions on cross-border financial services E1 to E6. Member country reservations would need to be adapted accordingly. The possible output could be a Committee Report and Recommendations.

f. Admission of Foreign Mortgage Bonds on Domestic Markets

24. Following the Hungarian and Polish examination, the Committee agreed to undertake a horizontal review of the issue of admission of foreign mortgage bonds on domestic markets, including the extent to which special rules apply to the issuance of mortgage securities by branches of foreign banks. As it appears, there may actually exist more restrictions in member countries than are reflected in reservations. The Secretariat could prepare an analysis of the legal and regulatory considerations relevant to this issue before addressing a questionnaire to Member countries. This work could result in a report to Council and amendment of country reservations.

g. Prudential measures and exchange controls

25. The Committee may wish to examine the interface between prudential regulation and exchange controls to ensure that the obligations of the Capital Movements Code are being respected. This work could start from specific examples identified in the course of recent accessions to OECD [DAFFE/INV(99)11]. This project could result in an analytical report.
h. Exchange controls and corruption

26. An examination of the extent to which some exchange control regimes can contribute to the corruption of officials and to business malpractice (this would be part of the broader outreach effort at the OECD and elsewhere to promote proper regulation and the rule of law). This could result in an analytical report.

i. User’s Guide to the OECD Codes of Liberalisation

27. The objective would be to provide an updated user-friendly guide to member countries, non-members and other users to help make the Codes better understood and better known. This could increase the effectiveness of the Codes. This project would result in a committee report for declassification and publication in the year 2002.

4. Outreach

a. Experience with liberalisation under the Codes

28. In support of potential outreach with non-member countries, a study could be undertaken of the experience with liberalisation of member countries. Particular attention could be given to the experience of recently joined members. The scope of the study could be limited to FDI, to FDI and portfolio operations, or focus on capital movements generally.

b. Russia

29. A study on the enabling environment for investment in the Russian Federation is being carried out under the auspices of the CCN and the CIME. This work includes a component relating to exchange controls in Russia which is of interest to the CMIT. A report is due in early 2001 and follow-up activities are anticipated.

IV. Working Methods

30. The CMIT will meet twice a year in 2000. It is proposed to continue with this schedule in the period ahead. Meetings could take place in March and October of each year. Meetings would normally last 1-2 days. Bureau meetings could be held between full committee meetings as well as informal Bureau consultations with Committee members. Extensive recourse to written procedure would continue.

V. Priorities and Resources

31. The Committee has indicated its priorities to the Secretariat. The results are shown in the table in Annex 2. It is evident that not all the projects listed can be carried out during 2001-2002 on the basis of existing resources. This consideration is strengthened by the need to limit the number of issues to be considered at each meeting. Also, past experience suggests that the CMIT should retain some flexibility in planning ahead to be in a position to accommodate unforeseen calls on its time and resources.

32. In accordance with the internal guidelines developed to implement the resource allocation system, the total budget allocated to the servicing of the CMIT can be estimated at one million francs (on the basis of the proposed 2000 budget, that serves as baseline indicator in this process). This total includes
the cost of dedicated staff (around 90 per cent of the total), an allocation of DAFFE management costs, and the so-called decentralised financial resources (basically funding for missions and consultants).

33. Council has agreed on a new, reinforced system of prioritisation by committees [see C(99)204/FINAL] including the identification of the impact of a possible 3 per cent reduction or increase in resources. The primary objective of the mechanism is to facilitate the identification of high and low priority activities and thereby the scope for potential resource reallocation among (Part I) activities of the OECD.

34. For the CMIT, 3 per cent of baseline resources amounts to 30 000 FF. On the basis of the survey results shown in Annex 2, an additional 3 per cent (30 000 FF) over the baseline 1 000 000 FF could be allocated to reinforce work on experience with liberalisation (Activity 4 a.) drawing on the Committee’s experience with the accession of new members to the OECD. (Activities 1 and 2 attracted more points but these activities are mandated by the Codes.) A 3 per cent cut would delay work on exchange controls and corruption.
ANNEX I
COMMITTEE ON CAPITAL MOVEMENTS AND INVISIBLE TRANSACTIONS
GENERAL TASKS

Article 18  Code of Liberalisation of Capital Movements

a. The Committee on Capital Movements and Invisible Transactions shall consider all questions concerning the interpretation or implementation of the provisions of this Code or other Acts of the Council relating to the liberalisation of capital movements and the use of non-resident-owned funds and shall report its conclusions thereon to the Council as appropriate.

b. The Committee on Capital Movements and Invisible Transactions shall submit to the Council any appropriate proposals in connection with its tasks as defined in paragraph (a) and, in particular, with the extension of measures of liberalisation as provided in Article 1 of this Code.

Article 19  Code of Liberalisation of Current Invisible Operations

The Committee on Capital Movements and Invisible Transactions shall consider all questions concerning the interpretation or implementation of the provisions of this Code or other acts of the Council relating to the liberalisation of current invisible operations and shall report its conclusions thereon to the council as appropriate.

1. In addition, a number of specific tasks are set out in other articles of the Codes, including examination of reservations, derogations, and consultations with other Committees.
ANNEX 2
PROPOSED ACTIVITIES/PROJECTS

The Committee was invited to comment under written procedure on the activities/projects listed in Annex 2 and, in particular, to indicate its priorities. To this purpose, delegations were invited to express their priorities from 1-13 by distributing points among the 13 activities. The top ranked project received the greatest number of points (13), the following 12, and so on.

Responses were received from Belgium, Canada, Denmark, Finland, Germany, Hungary, Norway, Poland, Spain, Sweden, Switzerland, the United Kingdom and the United States. The results are shown below.

<table>
<thead>
<tr>
<th>Activities/projects</th>
<th>Resource Intensiveness</th>
<th>Expected Outputs</th>
<th>Allocated Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Accession and Post-Accession (1)</td>
<td>H</td>
<td>Reports to Council</td>
<td>141</td>
</tr>
</tbody>
</table>
| 3. Strengthening the Provisions and Application of the Codes  
a. Activities of Branches of Non-resident Financial Institutions (3) | L | Report to Council be early 2001 | 97 |
| e. Cross-border financial services (7) | H | Report to Council | 113 |
| f. Admission of Foreign Mortgage Bonds on Domestic Markets – possible new project (8) | H | Report to Council and Amendment of country reservations | 69 |
| g. Prudential measures and exchange controls – possible new project (9) | H | Analytical Report | 91 |
| h. Additional possible future projects  
– Exchange controls and corruption (10) | M | Analytical Report | 46 |
| 4. Outreach  
a. Experience with Liberalisation (12) | H | Analytical Report | 113 |
| b. Russia* (13) | – | Analytical Report | 66 |

1. H = high; M = medium; L = relatively light.
2. Funding by CCN or voluntary contributions.