MOVE TOWARDS FINANCIAL SERVICES FACILITATION: LATEST UPDATE ON CHINA’S FOREIGN BANKING REGULATION AND OPENING-UP

SESSION 3
Move towards financial services facilitation

- Latest update on China’s foreign banking regulation and opening-up

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Latest open-door measures

• Amended the *China Foreign Banking Supervisory Rules*
• Streamlined the administrative approval items
• Deepen cooperation with other countries and regions
• For the first time opened up inland market to Hong Kong and Macao banking sectors
• Continue to expand cooperation with Taiwan banking sector
Revision to the *China Foreign Banking Supervisory Rules* (taking effect since Jan 1, 2015):

1. Eliminated a requirement that foreign banks transfer a minimum amount of operating funds from their head office in China to each new bank branch opened in the country;
2. Foreign banks no longer need to set up a representative office in China before setting up branches in the country;
3. Decreased the waiting period for foreign banks to apply to conduct RMB business from 3 years to 1 year, and dropped the requirement that a bank be profitable for 2 consecutive years before applying for a renminbi license.
Streamline the administrative approval items:

1. Deleted 11 licensing items in the foreign bank administrative licensing implementation of China Banking Regulatory Commission (CBRC).

2. Further clarified the specific requirements to strengthen the regulation during and after the matter, unifying the regulatory standards.
Deepen cooperation with other countries and regions:

- Bilateral framework;
- Principle of Mutual Benefits

Open up to Hong Kong & Macao banking sectors:

- Since March 1, 2015;
- Pre-establishment NT + Negative Listing
- In Guangdong Province (Southern China): Hong Kong and Macao financial institutions has been entitled to the same favors enjoyed by the inland market player.
Expand cooperation with Taiwan banking sector:

• With the support from preferential policies, Taiwan banking sectors in recent years has sped up its pace into the mainland market.

• Actively provide services for cross-strait economic and financial development

• Laid a foundation for Taiwan’s own future development
Rapid growth trend of foreign banks in China

• After over 30 years of development, foreign banks in China have continued to expand the network along with the rapid business development.

• In the past 5 years, CAGR of total assets of foreign banks reached 23%.

• Their financial services capacity has also been strengthened and played a useful supplement and facilitating role for the development of China's banking sector.
Rapid growth trend of foreign banks in China - Network layout

• As of the end of 2014, 41 foreign banks and 97 foreign bank branches set up in 69 cities of 27 provinces (municipalities and autonomous regions); the total number of business institutions reached 1,000.
• 182 representative offices of 158 banks from 47 countries.
• Gradually expanded from the coastal provinces and large cities to inland provinces including third tier cities.
• Functions also tend to be more diversified, and closer to China's market demand.
• Some focus on providing customized financial services for small and micro businesses, county economy, new rural construction, etc, contributing significantly to local economic development.
Rapid growth trend of foreign banks in China-
Steady development

• The overall capital adequacy ratio has remained above 15%;
• Asset quality is good;
• Liquidity risk under control;
III. Foreign Banks Supervision and Opening-up is moving towards a new stage

As of the end of 2014, foreign banks assets still account for a relatively low percentage of China banking industry’s total assets.

• 1. The outbreak of global financial crisis;
• 2. Foreign banks’ localization process is slow;
• 3. Compared with developed countries, the development of China financial market still lags behind;
• 4. The competitiveness and development speed of Chinese banks’ improves significantly.
III. Foreign Banks Supervision and Opening-up is moving towards a new stage

Since the new leadership of the central government takes office, financial opening-up policies are made clear further.

• 1. Adopt the management model of Pre-establishment National Treatment and Negative Listings, and provide an explicit and clear external supervision environment.

• 2. Promote fair competition between Chinese banks and foreign banks, and encourage differentiation development.

• 3. Reduce limitations and enhance prudential supervision.
Expected Change 1: Adopt the management model of Pre-establishment National Treatment and Negative Listings, and provide an explicit and clear external supervision environment.

- The foreign capital management model of Pre-establishment National Treatment and Negative Listings has gradually become a new trend of international investment rules’ development, which has been taken by at least 77 countries over the world.

- This is not only a reform of foreign capital’s access approach, but all the more a reform of the government’s economic management style.
**Expected Change 1:** Adopt the management model of Pre-establishment National Treatment and Negative Listings, and provide an explicit and clear external supervision environment.

- Over the years, China has always adopting the management approach of *Case-by-Case Approval* and *Catalogue for the Guidance of Foreign Investment Industries*, and meanwhile implemented different laws and regulations for domestic and foreign enterprise in some sectors.

- The foreign capital management model of Pre-establishment National Treatment and Negative Listings could better standardize and restrict government behaviors, and create a stable, transparent and expectable investment environment.
**Expected Change 1:** Adopt the management model of Pre-establishment National Treatment and Negative Listings, and provide an explicit and clear external supervision environment.

- At present, China has tried out the management model of Pre-establishment National Treatment and Negative Listings in Shanghai Pilot Free Trade Zone, stopped the approval for foreign investments in sectors except Negative Listings, and changed into filing management.

- China aims at setting up a foreign banks admission and supervision system which suits both international common practices and China’s national conditions via pilot and exploration.
**Expected Change 2:** Promote fair competition between Chinese banks and foreign banks, and encourage differentiation development.

During the process of orderly advancing banking industry’s opening-up:

- Following the principle of national treatment and fair competition;
- Improving foreign banks supervision laws and regulations as well as risk supervision frameworks continuously;
- Unifying supervision standards for Chinese and foreign banks will

- Provide a fair and transparent supervision environment and legal system guarantee for foreign banks’ development in China;
- Promote foreign banks to make contributions in serving the real economy under favorable policy environments.
**Expected Change 2:** Promote fair competition between Chinese banks and foreign banks, and encourage differentiation development.

Meanwhile, in order to fulfill the guidance role of supervision China will:

- **Prioritize introducing foreign banks** with rich management experiences and comparative advantages in professional and special service fields to **set up branches in China**, and promote the **improvement of financial service differentiation and refinement level**.

- For example, in recent years, China has introduced foreign banks with main business or specialty in custody business, trading business, agency business, serving SMEs, etc.. **By relying on headquarters’ global network, technical expertise and resources advantages, these foreign banks provide high quality and professional service for China’s domestic clients.**
**Expected Change 3:** Reduce limitations and enhance prudential supervision.

In the process of promoting banking industry’s opening-up steadily, China will:

- **Refer to international good practices and experiences;**
- **Combine supervision practices;**
- **Continuously build and improve foreign banks prudential supervision system and supervision frameworks;**
- **Reduce limitation measures;**
- **Intensify prudential supervision measures;**
- **Strengthen cross-border supervision cooperation;**
- **Enhance the effectiveness of foreign banks supervision.**
Thank you for your attention!