Multi-Year Expert Meeting on
Services, Development and Trade:
The Regulatory and Institutional Dimension

Geneva, 17-19 March 2009

COUNTRY REPORT:

CHINA

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I. The banking sector of China and the financial market watchdogs

The banking sector has been playing an indispensable role in China’s economic development. Various banking institutions, including state-owned commercial banks, joint-stock commercial banks, urban credit cooperatives, city commercial banks, rural financial institutions, foreign-funded banks, policy banks and non-bank financial institutions, serve different areas and different segments of the economy. Currently, the total assets of the banking sector registered RMB 62.4 trillion. The China Banking Regulatory Commission (CBRC) is the main regulator of the banking sector. Along with the CBRC, there are several other regulators holding different responsibilities.

People’s Bank of China (PBC) and State Administration of Foreign Exchange (SAFE)

The People’s Bank of China (PBC) was established on December 1, 1948. Until 1984, PBC functioned as the central bank as well as a commercial bank. With the promulgation of The Law of the People's Republic of China on the People's Bank of China on March 18, 1995, PBC was granted its central bank status legally and empowered to supervise the financial industry as a whole.

Over the past ten years, the supervisory responsibilities of the PBC for various financial sectors were shifted to a few newly established regulatory bodies, i.e., CBRC, the China Securities Regulatory Commission (CSRC) and the China Insurance Regulatory Commission (CIRC).

Now, the main tasks of PBC are to formulate and implement monetary policy, prevent and resolve financial risks, and safeguard financial stability. Along with that, PBC also maintains the banking sector's payment, clearing and settlement systems, takes responsibility for anti-money laundering work and manages China’s official foreign exchange and gold reserves. It cooperates with the State Administration of Foreign Exchange (SAFE) for setting foreign exchange policies.

China Securities Regulatory Commission (CSRC)

CSRC, the supervisory body of China’s capital market, was established in October 1992. It is mainly responsible for the regulation and supervision of the securities and futures markets, including the following: setting rules for these markets; regulating the behavior of stock exchanges, listed companies, securities houses, futures companies, funds, brokers and settlement institutions; overseeing the issuance, trading,
custody and settlement of various instruments on the market; supervising information
disclosure related to the capital market; and investigating and penalizing activities that
violating the securities and futures laws and regulations.

**China Insurance Regulatory Commission (CIRC)**

CIRC was established on November 11, 1998, to administer, supervise and regulate
China’s insurance market. Insurance companies and their branches, insurance groups,
and insurance asset management companies as well as insurance intermediaries are
subject to the supervision of CIRC. CIRC is also responsible for market admission,
management qualification, and setting of industry standards for the insurance market.
One of CIRC’s duties is to investigate market irregularities and impose penalties. It
also examines and approves the clauses and premium rates of insurance companies,
the business operation of public policy-oriented insurance and statutory insurance,
and supervises organizational forms and the operations such as captive insurance and
mutual insurance.

**II. The role of China Banking Regulatory Commission (CBRC)**

CBRC was established on April 28, 2003, an important step in China’s economic
reform and consistent with the requirements for developing a socialist market
economy. It was also a significant initiative to deepen financial reform, strengthen
financial supervision and improve the financial system, thus helping position the
industry to cope with the demand of economic development.

CBRC comprises the head office and 36 local offices under which 296 field offices
operate. As authorized by the State Council, CBRC is responsible for the regulation
and supervision of banks, asset management companies, and trust and investment
companies as well as other deposit-taking financial institutions. Its major
responsibilities are as follows:

- Formulate supervisory rules and regulations for banking institutions
- Authorize the establishment, changes, termination, branching and business scope
  of banking institutions
- Conduct fit and proper tests for directors and senior managers
- Conduct off-site surveillance and on-site examinations of banking institutions
- Investigate, penalize and take enforcement actions on activities that violate
  relevant laws and regulations
- Compile and publish statistics and reports of the overall banking sector in
  accordance with relevant regulations
- Make proposals on the resolution of problem deposit-taking institutions in
  consultation with relevant authorities
- Be responsible for the administration of the supervisory boards of state-owned
  financial institutions
• Perform other responsibilities delegated by the State Council

**Supervisory Objectives**

• To protect the interests of depositors and consumers through prudential and effective supervision

• To maintain market confidence in the Chinese banking system through prudential and effective supervision

• To promote public awareness and understanding of the banking system and its reform through customer education and information disclosure

• To reduce financial crime

**Supervisory Focus**

• Conducting consolidated supervision in order to assess, monitor and mitigate the overall risks of each banking institution as a legal entity

• Using a risk-based supervisory approach to improve supervisory process and methods, so as to ensure the efficiency of banking supervision

• Urging banking institutions to put in place and maintain a sound and effective system of internal controls

• Enhancing transparency in line with international best practices

**Regulatory Standards**

• Promoting financial stability as well financial innovation;

• Improving the competitiveness of the Chinese banking sector in the global financial market;

• Formulating objective and appropriate regulatory requirements to remove all unnecessary restrictions;

• Encouraging fair competition and preventing disorderly competition;

• Putting in place clear and rigorous accountability systems for both regulators and regulated entities;

• Allocating supervisory resources in a cost-efficient way.

**Concepts and Approaches**

• Concepts -- conducting consolidated supervision, focusing on risk-based supervision, strengthening banks’ internal controls and enhancing transparency

• Approach – prudential risk-based supervision, especially “ensuring accuracy of loan classification, adequacy of loss provisions, the true and fair reporting of profit & loss and meeting the capital adequacy requirements.”
III. What we have achieved so far

Further deepening of reform

For years, CBRC has focused on major reforms in the large state-owned commercial banks and the small massive rural credit cooperatives, which would simultaneously lead to and promote structural changes in the management and operations of the banking system as a whole. Currently, major commercial banks are enhancing their overall competitiveness by successfully listing on the stock exchanges, introducing strategic investors, and streamlining their corporate governance structures. In the sector of non-bank financial institutions such as trust companies and leasing companies, new breakthroughs have been achieved in their reforms, particularly with steady progress being made in their corporate governance.

Steady opening-up of the market

2008 marked the second year since China completed the phase-in fulfillment of its WTO accession commitments. During the opening up process, CBRC steadfastly implemented the four principles of "national sovereign interest, controllable risks, cooperative competition and win-win benefits", placing at the priority the nation's economic and financial safety and interests of financial consumers. The objective is to promote reforms and development through opening-up. By the end of that year, there were 32 locally incorporated foreign banks and 116 foreign bank branches; foreign banking assets in China amounted to RMB1.34 trillion.

Encouraging financial innovation

In the past five years, the capacity of Chinese banks in financial innovation increased dramatically. Under the guidance of CBRC, the main Chinese banks have continued to improve their financial innovation and made significant improvements in the incentive mechanism and corporate risk culture for financial innovation. At the same time, the banks' risk management systems have been continuously upgraded. New innovative products have been introduced to banks and customers to enable them to conduct hedging.

Contributing to economic and social development

In the past few years, the banking sector continued to improve the service mechanisms and capacity to allocate financial resource, and played an active role in supporting the economic and social development. Firstly, significant progress was made in expanding the banking system to cover the under-banked areas and households. Secondly, the financial resource allocation capacity of the banking sector continued to improve. Some banking institutions have been actively engaged in the pilot practices of cross-sector operations, exploring the ways to enhanced cooperation between banking and insurance, establishing pension and fund management subsidiaries, and engaging further in annuity management business with their corporate customers. In addition, the continuously robust development of specialized non-bank financial institutions such as trust companies, leasing companies, auto
financing companies, and money brokerage firms have also contributed to the improved efficiency and liquidity as well as the reduced transaction costs. *Thirdly*, the banking sector has improved in meeting the demand of corporate and individual customers. CBRC continued to guide the banking institutions to provide new types of financial services to various clients, such as small enterprises. *Fourthly*, the banking institutions have been endeavored to adhere to the national macroeconomic measures to achieve stable financial development. Banks have been responded to the macroeconomic adjustment policies by reviewing their credit stance, avoiding credit flowing to the "bubble asset market", and tightening credit to heavy polluting, energy consuming and excess-capacity industries. A set of guidelines on “green lending” was also issued to encourage the banks to manage their risks in the light of government's initiatives on environmental sustainability.