FSB FINANCIAL STABILITY BOARD

Press release

Press enquiries:
+41 61 280 8037

press@bis.org

Ref no: 48/2015

13 August 2015

FSB completes peer review of China

The Financial Stability Board (FSB) published today its peer review of China.

The peer review examined two topics relevant for financial stability and important for China: the macroprudential management framework and non-bank credit intermediation. The review focused on the steps taken by the authorities to implement reforms in these areas, including by following up on relevant recommendations in the 2011 Financial Sector Assessment Program (FSAP) report by the International Monetary Fund (IMF) and the World Bank.

The peer review concludes that the authorities have made good progress in addressing the FSAP recommendations on both topics, but that there is additional work to be done. A unifying theme behind the peer review findings and recommendations (see below) is the need for closer coordination and information sharing between the authorities to handle a dynamic financial system. Enhancing inter-agency coordination and developing an integrated risk assessment framework will promote a common understanding of objectives and risks, which will in turn facilitate joint policy actions and public communication.

In particular, the peer review found that the People's Bank of China and financial sector regulatory agencies (China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission) have made important strides in developing a macroprudential management framework. Notable achievements include the elaboration of monitoring frameworks and toolkits by each agency to assess systemic risk in the sectors under their respective mandates; data improvements and ongoing work to develop a shared statistical platform; and enhanced inter-agency coordination through the Financial Crisis Response Group directly under the State Council and the Financial Regulatory Coordination Joint Ministerial Committee (JMC). Importantly, the authorities have a broad range of tools that can be used for macroprudential purposes, and have deployed them frequently in response to economic and financial system developments.

Building on what has been done to date, and as is being grappled with in many jurisdictions, additional work is needed to flesh out and operationalise a comprehensive and coordinated macroprudential policy framework. The peer review recommends:

- Clarifying the mandate and roles of different inter-agency bodies in assessing systemic risks and designing macroprudential policies, and strengthening the supporting infrastructure accordingly.
- Further developing an integrated systemic risk assessment framework that incorporates the views of different agencies and takes into account cross-sectoral policy interactions and implications for the overall stance of macroprudential policy.

- Developing an inter-agency protocol specifically for financial stability monitoring/assessment and related information sharing, based on the respective role of each authority in the macroprudential policy framework.
- Publishing the outcome of key inter-agency meetings and deliberations periodically as a means of communicating the authorities' macroprudential outlook and policy stance.

Non-bank credit intermediation has accounted for an increasing proportion of funding to the Chinese economy – around 20% of new financing flows over the period 2012-14 – although the most recent figures indicate that its growth has moderated. The peer review found that the authorities have improved their monitoring of non-bank credit intermediation in recent years and have taken steps to contain identified risks. Specific examples include the augmentation of data collection, enhanced cooperation between the authorities via the JMC, and policy actions to mitigate identified risks related to the interbank market, the trust sector and banks' wealth management products.

Notwithstanding these accomplishments, challenges remain in assessing and mitigating emerging risks in this sector – both in terms of data collection and, more importantly, in terms of undertaking coordinated and comprehensive risk assessments to inform the use of policy tools. This is not unique to China, as many other jurisdictions are in the process of improving their monitoring and developing policy tools to ensure that non-bank activities develop into a transparent, resilient and sustainable source of market-based financing. The peer review recommends that the authorities:

- Continue to enhance efforts to collect and disclose comprehensive and granular data relating to non-bank credit intermediation (e.g. on various forms of wealth and asset management products), and routinely share them for risk monitoring purposes.
- Enhance their ability to assess systemic risks stemming from non-bank credit intermediation by extending the analytical framework to focus on the liquidity, maturity transformation, credit and reputational risks for banks stemming from these products, the impact of second-round effects, and the use of crisis simulation exercises.
- Develop a more activity-based regulatory approach in order to discourage regulatory arbitrage and ensure a level playing field in non-bank credit intermediation.
- Continue to promote a more diversified and resilient financial system by increasing reliance on market-based pricing mechanisms via the removal of implicit guarantees, and by further developing capital markets and an institutional investor base as an alternative pillar to bank financing.

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The peer review of China is the fourteenth country peer review conducted by the FSB. These reviews are based on the objectives and guidelines set forth in the *Handbook for FSB Peer*

Reviews. FSB member jurisdictions have committed to undergo an FSAP assessment every five years and, to complement that cycle, an FSB peer review two to three years following an FSAP. As part of this commitment, China volunteered to undergo this peer review in 2014. The FSB has also launched country peer reviews for Saudi Arabia and Turkey, and will complete them in 2015. The schedule of completed and planned country peer reviews, as well as all completed peer review reports, is available on the FSB website.

Country peer reviews focus on the implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies agreed within the FSB, as well as their effectiveness in achieving desired outcomes. They examine the steps taken or planned by national authorities to address IMF-World Bank FSAP and Report on the Observance of Standards and Codes recommendations on financial regulation and supervision as well as on institutional and market infrastructure that are deemed most important and relevant to the FSB's core mandate of promoting financial stability. Country reviews can also focus on regulatory, supervisory or other financial sector policy issues not covered in the FSAP that are timely and topical for the jurisdiction itself and for the broader FSB membership. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, or its compliance with international financial standards.

The report published today describes the findings and conclusions of the peer review of China. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Jon Cunliffe, Deputy Governor of the Bank of England. The review benefited from dialogue with the Chinese authorities and private sector representatives as well as from discussion in the FSB Standing Committee on Standards Implementation.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.