China

(as of April 2014)

Overview

As a member of the FSB, China is committed to implement the principle for reducing reliance of CRA ratings endorsed by the FSB. In the first stage of the peer review on the FSB principles for reducing reliance on CRA ratings, China has completed the stock-taking exercise of the use of CRA ratings in our laws and regulations. Recently, China has made on-going efforts to reduce the reliance on CRA ratings and proposed specific action plans and roadmap to ensure the remaining work arrangement to be done promptly.

1. Action Plans

In general, the main area with reliance on CRA ratings in China mainly relates to the legislation and regulation issued by supervisory authorities, and the extent to the reliance in market practice is weak. According to the feedbacks of the related supervisory authorities, the specific reliance mainly focuses on bank capital regulation, investment funds management, insurance and reinsurance and corporate bond traded in exchange market. There are no references in the following categories: central bank operations, collateral policies for central counterparties and other bond issuance apart from corporate bond traded in exchange market.

In specific action plan, China Banking Regulatory Commission (CBRC) has established capital and liquidity rules in line with Basel III standards, and issued supervisory notice requiring banks to conduct due diligence when using external credit ratings. The CBRC will continue to initiate regulatory amendments to the domestic rules. Regarding to the liquidity management, CBRC will further improve the liquidity rules in accordance with the liquidity coverage framework of Basel III. Meanwhile, CSRC will make amendments and remove the relevant requirement of CRA ratings in public issuance of corporate bonds. In terms of investment fund management, although CSRC has not taken actions to reduce reliance of CRA ratings in laws and regulations as well as the market yet in consideration that funds management companies in China are still building their capacity for self-regulation and internal rating, CSRC will enhance the such capacity of fund management companies in next step and will gradually reduce the reliance according to the process of improvement. For the purpose of reducing reliance on CRA rating, China Insurance Regulatory Commission (CIRC) is reshaping the solvency regulation regime and designing a new system which is called China Risk Oriented Solvency System. The new system will be finalized in the coming 2 to 3 years, and the CIRC is working on acceptable alternatives identified or developed to replace references to CRA ratings in regulations and appropriate incentives for insurers/reinsurers to enhance internal risk management capabilities.

2. Next steps

As one of the emerging market countries, China credit rating industry is still in early stage of development. The main challenge of this industry is to enhance the credibility of CRA ratings instead of over reliance on CRA ratings. Compared with the developed countries, the reliance on external credit ratings is featured by more in the regulatory categories but rarely in the market practices. Against the background, China will take a step-by-step approach and will make reducing the CRA ratings as the ultimate target. Meanwhile, China welcomes further discussion on developing more feasible alternative measures of CRA ratings with FSB and other standard setters. Specifially, China envisages taking the following actions to reduce the reliance on CRA ratings.

- Sort out the references to CRA ratings in laws and regulations by central bank and relevant supervisory authorities, and prudently use the external rating as a regulatory standard or requirement in the future.
- Clarify the requirement for Banks, Insurance Companies, Securities firms, Funds Management and Asset Management Companies to build internal rating systems

and enhance their ability to identify credit risk and makes independent judgment of risk. When the use of the external rating is compulsory, comparability assessment with internal ratings should be strengthened.

- Central bank and other supervisory authorities should clarify the requirement that systemically important financial institutions or larger financial institutions should take an appropriate portion of external credit ratings in their activities.
- Reinforce the consensus and supervisory cooperation on reducing reliance on credit rating through inter-ministerial coordination mechanism, enhancing the coordination of supervision and information exchange further.

Annex I: Banks

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending decisions.			
The main references to CRA ratings in laws and regulations relating to Chinese banks can be found in the regulatory capital framework, which is in line with the Basel III standards and stipulated in the Capital Rules of Commercial Banks published by China Banking Regulatory Commission (CBRC) effective January 1, 2013. In the Capital Rules of Commercial Banks, CBRC has provided both standardized approach and Internal-ratings Based (IRB) approach for banks to make their credit risk assessment and measurement. Next step, The CBRC will continue to initiate regulatory amendments to the Capital Rules of Commercial Banks to reflect changes in Basel standards. Several major banks in China, have implemented the IRB approach with the approval by the CBRC. In addition, the Chinese liquidity rules issued in early 2014 incorporate core elements of the Basel III Liquidity Coverage Ratio (LCR) framework.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a) Remove references to CRA ratings in laws and regulations relating to banks.	CBRC	Chinese banks have implemented Capital Rules of Commercial Banks according to Basel III framework. Removal of references to CRA ratings are depending on the process of the corresponding set of recommendations by the Basel Committee.	Following the Basel Committee implementation agreed schedule
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to banks.	CBRC	According to Capital Rules of Commercial Banks implemented on January 1, 2013, the internal rating system of a commercial bank shall be effective in credit risk identification, categorization, ranking by materiality, and quantification. A commercial bank shall ensure the application of the outputs of internal rating and risk parameter quantification to credit risk management. A commercial bank's internal rating outputs and estimated risk parameters shall play an important role in the establishment of risk management policies and credit approval as well as capital allocation and governance, etc.	Implemented Jan. 1, 2013

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of banks' own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	CBRC	A Supervisory Notice was issued in 2011 by the CBRC, stipulating that banks should take a prudent view toward using external ratings, which cannot be regarded as direct references for granting loans. Banks are required to conduct due diligence when using external credit ratings.	Implemented Jan. 2011
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.	CBRC	According to Capital Rules of Commercial Banks, for commercial banks using IRB approach, the qualitative information to be disclosed shall include the approval of CBRC recognizing the bank's IRB approach, governance structure of rating system, application of rating structure and rating results, definition and data of risk parameters, basic approaches and assumptions for risk measurement, etc.	Implemented Jan. 2013

Action to be taken		Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3.2	***Prudential supervision of banks (Principle III.2)***			
a)	Enhance supervisory oversight of banks to ensure they develop adequate internal credit assessment processes that avoid mechanistic reliance on CRA ratings (differentiating where appropriate between banks subject to the internal ratings-based (IRB), Standardised Approach of other capital regime).	CBRC	The implementation of Standardized Approach and IRB are regulated and supervised in line with the Capital Rules. Also, according to the CBRC Supervisory Notice, if a bank decides to refer to external ratings in its internal rating system, it is required to make comparison between two rating agencies; and the ratings with higher PDs shall be adopted.	Supervisory notice issued in 2011 and Capital Rules implemented in 2013
b)	Revise CRA ratings in other prudential supervisory policies (e.g. relating to liquidity requirements) to reduce reliance on CRA ratings.	CBRC	The CBRC has issued Liquidity Rules in line with the BCBS standards of Liquidity Coverage Ratio (LCR).	Issued in early 2014

Annex II: Central bank operations

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3. Application of the basic principles to particular financial market activities (Principle III)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing changes, including which areas are considered priorities, and the steps authorities intend to take to reduce reliance on CRA ratings in central bank policies and operations.			
In Chinese open-market operations framework, pledged collateral must fall into the category of government bonds. In terms of central bank lending and Standing Lending Facility (SLF), the external credit rating is just one parameter for determining eligible collateral. Hence, there is no mechanical reliance in PBC central bank operations. Specifically, PBC are actively studying on feasibility of establishing the internal credit rating system of central bank for the purpose of reducing over reliance on credit ratings.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3.1 Central bank operations (Principle III.1)			
a) Reduce reliance on CRA ratings in central bank policies (such as investments, asset management frameworks, and conventional and unconventional operations), including the decision to accept or reject an instrument as collateral or for outright purchase and in determining haircuts.	PBC	Not applicable. There is no mechanical reliance in PBC central bank operations. In Chinese open-market operations framework, pledged collateral must fall into the category of government bonds, which is deemed as "risk-free" financial asset and no external credit rating is required. In the process of deciding the eligible collateral for central bank lending and Standing Lending Facility (SLF), the external credit rating is just one parameter and other factors， such as the residual maturity and category of asset are also need to be considered. Hence it cannot be regarded as a mechanical reliance.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Adjust policies for imposing risk control measures (including haircuts) on financial instruments to align with the FSB Principle son CRA ratings.	PBC	PBC took a close look at specific types of different internal risk of collateral debtor. In addition, PBC control the credit and liquidity risk and reduce the procyclical fluctuation of demand-supply relation of collateral through adjusting haircut ratio and making additional requirements on collateral.	
c) Develop the central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness.	PBC	PBC is making research on the internal rating systems but detailed measures are still to be developed.	

Annex III: Insurance/Reinsurance Companies[1]

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions.			
The China Insurance Regulatory Commission (CIRC) has reviewed if there are any areas in laws and regulations about CRA ratings that can be removed or replaced with suitable alternatives accordingly. There are three aspects where the CRA is referred: the regulator's restrictions on some investment vehicles, on choosing reinsurance transaction counterparties, and on deciding the eligible assets when calculating solvency. However, we found that the references of CRA ratings in insurance regulation are minimal and not likely to result in sole or mechanistic reliance on such ratings. China is reshaping the solvency regulation regime and designing a new system which is called China Risk Oriented Solvency System. The new system will be finalized in the coming 2 to 3 years, and the CIRC is working on acceptable alternatives identified or developed to replace references to CRA ratings in regulations and appropriate incentives for insurers/reinsurers to enhance internal risk management capabilities.			

[1] Answers in this section should relate to the prudential regulation of insurance companies and reinsurance companies. Laws and regulations relating to insurance companies in their capacity as institutional investors should be included in the section entitled "Investment Funds Management."

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Remove references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.	CIRC	Some regulations are to be removed, where appropriate, upon the implementation of the new solvency framework.	Around 2016
Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.	CIRC	Additional credit assessment is being considered as part of these alternative standards. The regulator will work on acceptable alternatives identified or developed to replace references to CRA ratings in regulations.	On going
2. Reducing market reliance on CRA ratings (Principle II)			
Enhance supervisory processes and procedures to assess the adequacy of insurers'/reinsurers' own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	CIRC	Insurance companies have strengthened the capacity building of internal credit assessment and reduced reliance on external credit rating. With the improvement of insurers' internal credit assessment capability, the regulator will gradually lower or cancel the restrictions in regulations in external credit rating for investment vehicles and encourage insurers to make investment decisions based on their internal credit judgments.	On going

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Require or incentivise market participants to disclose information about their internal credit risk assessment processes.	CIRC	The CIRC will keep close watch on the developments of international standards on disclosure of appropriate risk assessment process of insurers.	Waiting for related IAIS guidance

Annex IV: Investment Funds Management
(including collective investment schemes, alternative investment schemes, occupational retirement schemes)

<table>
<tr><th>Action to be taken</th><th>Responsible national authority</th><th>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</th><th>Milestones and expected completion date
(e.g. “end-2014” or “one year after new international standards agreed”)</th></tr>
<tr><td colspan="4">1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</td></tr>
<tr><td colspan="4">Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.</td></tr>
<tr><td colspan="4">Considering that the funds management companies in China are still building their capacity for self-regulation and internal rating, CSRC has not taken actions to reduce reliance of CRA ratings in laws and regulations as well as the market yet. Next step, CSRC will enhance the capacity of self-regulation and internal ratings of funds management companies and develop relevant action according to the process of improvement.

For insurance companies, the CIRC has issued regulations in relation to asset management operation of insurers, prescribing the requirements of internal risk management policies and procedures. The CIRC periodically assesses insurance companies' internal limits and investment policies mainly from two aspects: first, whether they are in compliance with certain regulations; second, whether they meet the requirements of asset and liability management and can effectively prevent risks. The CIRC plans to Identify appropriate incentives for insurers/reinsurers to enhance internal risk management capabilities.</td></tr>
<tr><td>a) Remove references to CRA ratings in laws and regulations for investment funds management.</td><td></td><td></td><td></td></tr>
</table>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations for investment funds management.			
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants' own credit assessment processes.			
3. **Application of the basic principles to particular financial market activities (Principle III.3)**			
a) Establish, as appropriate, supervisory review of internal limits and investment policies of investment managers and institutional investors.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a. Insurance companies (in their capacity as institutional investors)	CIRC	The CIRC has issued regulations in relation to asset management operation of insurers, prescribing the requirements of internal risk management policies and procedures. The CIRC periodically assesses insurance companies' internal limits and investment policies mainly from two aspects: first, whether they are in compliance with certain regulations; second, whether they meet the requirements of asset and liability management and can effectively prevent risks.	On going
b. Investment managers (i.e. mangers of collective investment schemes).			
c. Alternative investment managers (e.g. hedge funds, endowments).			
d. Managers of occupational retirement schemes.			
b) Require changes to internal limits and investment policies.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a. Insurance companies (in their capacity as institutional investors)	CIRC	N.A There are no CRA related issues relating to this aspect.	
b. Investment managers (i.e. mangers of collective investment schemes).			
c. Alternative investment managers (e.g. hedge funds, endowments).			
d. Managers of occupational retirement schemes.			
c) Incentivise compliance with the CRA Principles.			
a. Insurance companies (in their capacity as institutional investors)	CIRC	The CIRC plans to identify appropriate incentives for insurers/reinsurers to enhance internal risk management capabilities.	On going
b. Investment managers (i.e. mangers of collective investment schemes).			
c. Alternative investment managers (e.g. hedge funds, endowments).			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
d. Managers of occupational retirement schemes.			
d) Strengthen supervisory oversight to assess whether investments managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers.			
a. Insurance companies (in their capacity as institutional investors)	CIRC	N.A Reference of CRA ratings in insurance investment operation is minimal and not likely to result in sole or mechanistic reliance on such ratings.	
b. Investment managers (i.e. mangers of collective investment schemes).			
c. Alternative investment managers (e.g. hedge funds, endowments).			
d. Managers of occupational retirement schemes.			

Annex V: Collateral Policies for Central Counterparties (CCPs)

<table>
<tr><th>Action to be taken</th><th>Responsible national authority</th><th>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</th><th>Milestones and expected completion date
(e.g. “end-2014” or “one year after new international standards agreed”)</th></tr>
<tr><td colspan="4">Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which CCPs should perform their own due diligence.</td></tr>
<tr><td colspan="4">There are two recognized clearing houses in China, namely Shanghai Clearing House（SHCH）， China Securities Depository and Clearing Corporation Limited（CSDCC）. In addition, the Future Exchanges also play a role of CCP, which is responsible for clearing futures transactions made in its own market. Overall, there is no reference to CRA ratings in laws and regulations relating to collateral policies

For OTC-traded transactions, SHCH has developed the independent credit assessments system for risk management and been put into practice since the foundation of SHCH. In addition, Market Implied Rating (MIR) method is also used by SHCH as a supplement to IRB to enhance the internal risk assessment further.

For exchange-traded transactions, CSDCC is responsible for clearing and settlement of securities transactions and each Futures Exchanges can only take RMB and recognized standard warehouse receipts as transaction margin, which does not use any CRA ratings. Hence, the problem of reducing reliance of CRA ratings for Futures Exchanges is not relevant.</td></tr>
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Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	PBC CSRC	PBC: Not Applicable. There is no reference in the related law and regulations in SHCH CCP transaction. CSRC：According to the relevant laws, regulations and department rules of CSRC, the CSDCC is not required to consider CRA ratings in making collateral policies. “The Practice Guidelines of the Pledged Repo Entry Qualification Standards and the Standard Securities Discount Factor Settings ” (Guidelines) announced by CSDCC regulates that the collateral in the pledged repo transactions should have CRA ratings. The regulation is based on following considerations: First, since securities repo is newly introduced into China’s capital market, the CSDCC is still in the process of developing a comprehensive system of internal ratings.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		Therefore, external ratings are still used at the moment. After the internal rating system is completed, it will become the main source of reference for the valuation of collaterals. Secondly, apart from CRA ratings, the CSDCC also considers other factors such as qualification of issuers of collateral and whether there is external credit enhancement or not. Therefore, it is not mechanistic reliance.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	PBC CSRC	PBC：SHCH is committed to conducting independent credit assessments for risk management and has developed their own internal credit rating system. As a supplement to IRB, SHCH has also developed a Market Implied Rating (MIR) system for securities. The MIR of a particular security is based on the real time market quotes and transaction data in order to reflect the gradual deterioration of the issuers' creditworthiness in a timely fashion. Once the MIR of issuer is not consistent with the external ratings, the internal rating will be modified as necessary after the confirmation by SHCH. CSRC："Guidelines" allows for multiple standards for repo securities used as collateral, and CRA rating is one of the references.	Already in place by PBC

Action to be taken		Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
2.	**Reducing market reliance on CRA ratings (Principle II)**			
a)	Enhance supervisory processes and procedures to assess the adequacy of CCPs'own credit assessment processes.	PBC CSRC	PBC: SHCH is required to report to the PBC any significant change in its credit assessment rules and policies. CSRC: In practice, CSRC supervises the appropriateness of the credit assessment process required by CSDCC via endorsing CSDCC's business rules.	Already in place by PBC
3.	**Application of the basic principles to particular financial market activities (Principle III)**			
3.1	***Central counterparties and private sector margin agreements (Principle III.4a)***			
a)	Conduct stress tests or estimate the procyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities.	PBC CSRC	PBC: SHCH has developed back testing and stress testing methodologies to assess margin requirements for the CCP participants. Meanwhile, SHCH has considered CPSS-IOSCO Principles for Financial Market Infrastructure (PFMI) when developing the margin rules. The confidence levels SHCH adopts for margin requirements are relatively high and extreme scenarios are used in stress tests to	Already in place by PBC

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		measure members' default fund contribution, in order to maintain the procyclical risk at a relatively low level. CSRC: In most of the cases, the CSDCC will not remove the security from the security list simply because it has been downgraded unless the extreme scenario happened. Once the collateral is downgraded, the CSDCC usually adjust the haircuts first accordingly to make sure risks associated are properly reflected. Next step, the CSDCC will constantly improve measures for risk control in the repo market as it grows. For the purpose of addressing potential risks of procyclicality, the CSDCC usually sets haircut coefficients on relevant securities as soon as they are used as collateral for repos. The CSDCC require participants to set higher haircuts for their clients to make sure CSDCC haircuts are stable and conservative.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Assess the reliance on credit ratings in the investment policy of the CCP.	PBC CSRC	PBC: Not Applicable. SHCH is not permitted to conduct proprietary investments. CSRC: According to the laws and regulations, as a non-profit organization, CSDCC cannot involve in investment, and thus this item has no effect on CSDCC.	
c) Review private sector margin agreements to ensure compliance with the Principle.	PBC CSRC	PBC: As discussed in Section 1.a and 1.b, SHCH has already developed alternative standards of credit assessment and does not rely unduly on CRA ratings, thus the margin agreements are already in compliance with the Principle. CSRC: The change of the collateral's rating is not considered as a trigger to adjust the collateral. CSDCC' does not take the change of the collateral's rating as a collateral adjustment trigger in its agreements with its clearing participants. According to the "Guidelines", CSDCC' can adjust the collateral in the pledged repo transactions in various scenarios,	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		including the change of the collateral's CRA rating, however, the collateral could still be eligible even if downgraded, the adjustments could be reflected in the haircuts of the collateral.	
d) Require changes to private sector margin agreements.	PBC CSRC	PBC: Not Applicable. The margin agreements are already in compliance with the Principle and do not require changing. CSRC: Since CSDCC's Guidelines and agreements with the participants are compliant with the Principle, no amendments have been planned.	
e) Incentivise compliance with the CRA Principles.	PBC CSRC	PBC: Not Applicable. The margin agreements are already in compliance with the Principle and do not require further incentive. CSRC: The CSDCC's business rules have Already met the requirement of the Principle, so there are no further incentives provided for compliance with the CRA Principles.	

Annex VI: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.			
For exchange market, under the Administrative Measures for Pilot Corporate Bonds Issuance, companies who has the quality to make public offering should fulfil the requirement of "having obtained good CRA ratings" .CSRC will remove the relevant requirement by the end of 2014. For OTC market, there is no reference to CRA ratings in laws and regulations on Securities Issuance. PBC had been insisting on develop OTC market in institutional investor orientation and emphasis the capability of recognizing and taking credit risk of institutional investors and make judgement by themselves through the market incentive and restraint mechanism, such as strict information disclosure mechanism. Hence, almost all the institutional investors in interbank bond market have already built their own internal risk control system by far. Currently, PBC has adopting re-rating and dual-rating policy in the issuance asset-backed securities and actively encourage the originators to use rating result of CRAs adopting investor-pay model. By encouraging investor-pay rating model, we could cut off the interest with the bond issuer, and ensure the objectivity of ratings. Also, by adopting the policy of re-rating and dual-rating，rating shopping could be constrained.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations related to securities issuance.	PBC	PBC: Not Applicable. There is no mandatory CRA ratings requirement in	End-2014 by CSRC

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
	CSRC	laws and regulations for bond issuance. CSRC: Under the amendments of the Pilot Administrative Measures for Corporate Bonds Issuance (Chapter 2/Article 7 (3)), CSRC proposed to remove the requirement of "having obtained good CRA ratings" before public issuance of corporate bonds.	
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities issuance.	PBC CSRC	PBC: PBC will continue to enhance their ability to recognize risk and make independent judgment by inter-bank institutional investors. In addition, PBC will encourage market participants use credit report of securities issuer from credit service agency in their own credit assessment process and access more credit information to reduce reliance on CRA ratings. CSRC: In process	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants	PBC	PBC: PBC encourage market participants to have internal control system in place	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
own credit assessment processes.	CSRC	necessary for the implementation of due diligence. CSRC: In process	
3. Application of the basic principles to particular financial market activities (Principle III)			
3.1 Central counterparties and private sector margin agreements (Principle III.5a)			
a) Review the role of credit rating in disclosures by issuers of securities.	PBC CSRC	PBC: The reference to credit rating by CRAs is only indentified in disclosure requirement for public-offering of debt instruments. However, disclosed information such financial statements, prospectus are also available for investors. For non-public issuance, investors could request CRA ratings according to their needs. CSRC: In process	
b) Reduce the role of credit ratings in disclosures by issuers of securities (list the steps to take).	PBC CSRC	PBC: Considering that there is still a lack of compelling and effective alternative measures in this aspect, especially for emerging market players with limited capability to develop alternative measure,	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		PBC will make decision based on the development of alternative measures. CSRC: In process	

Annex VII: Securities Firms (broker-dealers)

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes.			
Not applicable, as the use of the CRA ratings within securities firms is not considered reliance.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations relating to securities firms.			
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities firms.			
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of securities firms' own credit assessment processes.			