FSB- G20 - MONITORING PROGRESS – China September 2010 [For Publication in March 2011]

#			G20/FSB RECOMMENDATIONS	DEAD-LINE	PROGRESS TO DATE Explanatory notes: In addition to information on progress to date, specifying steps taken, please address the following questions: 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? Also, please provide links to the relevant documents that are published.	PLANNED NEXT STEPS Explanatory notes: Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?) Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps? What are the key challenges that your jurisdiction faces in implementing the recommendations?
I. Building high quality capital and mitigating procyclicality						
1	(Pitts)	Basel II Adoption	All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011.	By 2011	Regulations on adoption of the Basel II have been basically completed by China Banking Regulatory Commission (CBRC), and pilot assessment is now being conducted on the internal rating system and risk measurement mechanism in large commercial banks. The relevant regulations and rules in China have fully met the requirements of the Basel Committee, and the measures taken have broadly achieved the desired targets.	The CBRC will accept the formal application by commercial banks of Basel II adoption by end 2010, and the Basel II capital framework will be adopted by 2011.
2	(FSB 2009) (Tor)	Basel II trading book revision	Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at least doubling by end-2010. We welcomed the BCBS agreement on a coordinated start date not later than 31 December 2011 for all elements of the revised trading book rules.	By end-2011	Measurement methodology of capital requirements in banks' trading books has been revised by the CBRC in line with the documents issued by the Basel Committee in July 2009.	

3	(Pitts)	Build-up of capital by banks to support lending	We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending.	Ongoing	The People's Bank of China (PBC) is exploring ways to promote build-up of capital buffer by banks, with an aim to guide banks with excessive credit growth to gradually establish dynamic capital buffer based on rules, and release capital buffer under the guidance of the PBC, so as to better manage financial risks and enhance the resilience of the banking sector. According to the BCBS countercyclical capital buffer proposals, the CBRC set out additional capital requirements on commercial banks (capital conservation buffer and countercyclical buffer) as well as specific implementation plans, with the minimum CAR of large banks and small and medium-sized banks no lower than 11.5% and 10% respectively. Meanwhile, it was required that the tier 1 core capital should account for at least 75% of the net capital, and the cross-holding of subordinated debt by banks be deducted from the subsidiary capital. With regard to loan loss provisioning, the CBRC established countercyclical dynamic provisioning requirements, with the provision coverage ratio of commercial banks staying at least 150%.	China's plan is broadly in line with the objective and framework of *Guidance for National Authorities Operating the Countercyclical Capital Buffer* of the BCBS, but varies in indicator selection and measurement methodology based on China's specific circumstances. The PBC is establishing a capital buffer mechanism based on the specific circumstances of China's banking sector and with reference to international rules. Going forward, the CBRC will establish guidance on dynamic capital regulation, urge commercial banks to build and improve capital replenishment mechanism, further improve dynamic provisioning rules and establish supervisory indicators for loan loss provisioning.
4	(FSF 2009)	Basel II – Pillar 2 enhancement	1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement.	End-2009 and ongoing	The *Guidance on the Monitoring and Examination of Capital Adequacy Ratio of Commercial Banks* issued by the CBRC has integrated the BCBS stress testing practices as an important component.	
5	(Lon)	Supplementation of Basel II by simple, transparent, non-risk based measure	Supplement risk-based capital requirements with a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system.	Ongoing	The *Guidance on the Supervision of Commercial Bank Leverage Ratio* has been formulated by the CBRC according to relevant principles in *Strengthening the Resilience of the Banking Sector* issued by the BCBS on December 17, 2009, with preliminary calculations accomplished. A leverage ratio of 4 percent has been set out in August 2010 as the regulatory standard, and will be implemented at end-2011.	As required by the CBRC, the leverage ratio of systemically important banks should meet regulatory standards at end-2012, and other banks should meet the standards no later than 2016.

6	(Pitts) (Tor)	Development of international rules to improve quantity & quality of bank capital	We commit to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012. We agreed that all members will adopt the new standards and these will be phased in over a timeframe that is consistent with sustained recovery and limits market disruption, with the aim of implementation by end-2012, and a transition horizon informed by the macroeconomic impact assessment of the FSB and BCBS.	End-2010, implement over a timeframe that is consistent with sustained recovery and limits market disruption	The *Notice on Improving Capital Replenishing Mechanism of Commercial Banks* issued by the CBRC in October 2009 tightens requirements on commercial banks in issuing and cross-holding long-term subordinated bond and demands commercial banks to establish capital replenishing mechanism mainly on core capital and further enhance their loss absorption ability by using capital instruments. The CBRC will impose capital buffer requirements on all banks to enhance their capability to withstand fluctuations of economic cycles and set capital surcharge for systemically important banks.	The CBRC will revise the existing capital regulatory rules (the quality, quantity and standard of capital) in 2011 according to BCBS new recommendations. The new capital regulatory regime will be implemented from the beginning of 2012, with the transition period shorter than that stipulated by the BCBS.
7	(FSF 2008)	Monitoring of banks' implementation of the updated guidance	II.10 National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices.	Ongoing	In 2009, the CBRC issued the *Guidance on Liquidity Management of Commercial Banks*. The Guidance meets the requirements of the *Principles for Sound Liquidity Risk Management and Supervision* issued by the BCBS in September 2008.	Assessment on commercial bank implementation will be carried out in the first half of 2010.

8	(Lon)	Development of liquidity framework	The BCBS and national authorities should develop and agree by 2010 a global framework for promoting stronger liquidity buffers at financial institutions, including cross-border institutions.	By 2010	The Liquidity Coverage Ratio and the Net Stable Funding Ratio will be introduced by the CBRC with reference to a regulatory standard of 100%, according to the *International Framework for Liquidity Risk Measurement, Standards and Monitoring* issued by the BCBS on December 17, 2009, to improve domestic bank liquidity supervision standards and monitoring instruments.	Relevant rules will be implemented at end-2011.
9	(FSB 2009)	Enhancement of supervision of banks' operation in foreign currency funding markets	Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.	Ongoing	At present, regulators impose limits on leverage ratio of foreign exchange businesses conducted by banks. The State Administration of Foreign Exchange (SAFE) manages banks' foreign exchange risks through measures such as short-term external debt quota and foreign exchange purchase and sales position. In 2006 and 2007, foreign exchange swaps and currency swaps were introduced on the inter-bank foreign exchange market. The SAFE issued the *Trading Rules on RMB Foreign Exchange Swaps in National Interbank Foreign Exchange Market* in 2006, which requires domestic financial institutions to fund foreign exchange swap trading through China's Foreign Exchange Trading Centre closely monitored by SAFE. In March 2009, the PBC announced the introduction of Master Agreement for Financial Derivatives Transactions on the Inter-bank Market. The PBC requires that, to reduce credit and clearing risks and risks arising in the wording of contract, uniform master agreements must be signed for trading foreign exchange swaps, currency swaps and other derivatives.	The *Guidance on Inter-bank Foreign Exchange Market Makers* will be formally implemented as of January 1, 2011, which will strengthen the supervision over market marking for foreign exchange and currency swap transactions through lifting the CAR threshold for market makers in foreign exchange and currency swap transactions, and strengthening monitoring and assessment. The Shanghai Clearing House was established in November 2009 with an aim to introduce net clearing of inter-bank foreign exchange and currency swap transactions with itself acting as the CCP, so as to collectively manage risks, enhance the transparency of OTC financial markets, give regulatory authorities access to complete and timely information on clearing risk exposures, and reduce systemic risks in the foreign exchange funding market.
10	(FSF 2008)	Strengthening of regulatory and capital framework for monolines	II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.	Ongoing		

II. Strengthening accounting standards

11	(WAP)	Consistent application of high-quality accounting standards	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.	Ongoing	The system of Accounting Standards for Business Enterprises (ASBEs), established in 2006 and converged with the IFRSs, has been applied continuously and effectively by all listed companies, state-owned enterprises, financial institutions and most of the other large and medium-sized enterprises in China since January 1, 2007. Meanwhile, China's accounting standard setter has established an effective supervision mechanism together with supervisory authorities to ensure the quality of implementation. For instance, in its routine supervision, the MOF and CSRC have established an efficient accounting supervision system with clear division of labour and efficient cooperation, which focuses on annual reports of listed companies and counts on accountability of regional supervision offices. This has ensured the implementation of accounting standards in capital markets. For those listed companies which have problems in their financial statements and disclosure of financial information, the MOF and CSRC have required them to amend such financial statements, provide explanations and release implications in a timely manner. The MOF and CSRC have taken regulatory measures, imposed administrative punishment or transferred the cases to judiciary agencies depending on the nature and severity of such misconduct Since 2007, the MOF has tracked and analyzed the implementation of all listed companies by way of "real time monitoring the stock market, analyzing the target group company by company", and reported the Analysis Report on the Implementation of ASBEs by Chinese Listed Companies every year. The analysis shows that the implementation of the ASBEs by all listed companies has been smooth and effective. Since 2007, the MOF has set out the requirements for preparing the annual reports every year, and pointed out the concerns that all listed companies should focus on, such as fair value measurement, impairment, business combinations. At the same time, the Finance Bureau of each province also tracked and supervised the implementation of the ASBEs by the listed companies and medium-sized enterprises in the region. According to the implementation of ASBEs and supervision practise, the MOF and CSRC have updated and improved the rules on listed companies' information disclosure in a timely basis to enhance consistency between the implementation of ASBEs and information disclosure.	The Ministry of Finance (MOF), as the accounting standard setter in China, issued the Roadmap for Continuous Convergence of the Chinese Accounting Standards for Business Enterprises with the International Financial Reporting Standards on April 2nd, 2010. According to the roadmap, the revision of ASBEs will keep pace with the progress made by IASB On April 26th, 2010, the MOF, the CSRC,NAO, CBRC and CIRC jointly issued the Supplement Guidance on Enterprises' Internal Control, and would promote its implementation in listed companies step by step. The system of Enterprises' Internal Control will be set up in companies which listed both at home and abroad from 1 January 2011. Then it will be expanded to all companies listed at the main board of Shanghai and Shenzhen stock exchanges from 1 January 2012. On this basis, it will be gradually applied to companies listed in the SMEs board and the growth enterprise board. At that time, in accordance with the information disclosure requirements of the MOF and the CSRC, listed companies should disclose the annual self-evaluation report of internal control, and employ certified accounting firms which have qualification certification on securities and future business to audit the validity of financial reports' internal control.

12	(FSF 2009)	The use of valuation reserves or adjustments by accounting standard setters and supervisors	3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak.	End-2009	Since 2007, the MOF has set up the system to track, analyze and monitor the implementation of ASBEs, particularly the fair value valuation of the financial instruments when the data or the models could not support its valuation. The MOF interviewed the companies with improper accounting practices and corrected them to ensure the consistent and comparable implementation of ASBEs. At the same time, regulators also have set up a system to track and monitor the application of fair value accounting on a real-time basis. For instance, when a listed company first adopts the new ASBEs, MOF, CBRC and CSRC will require the company to put in place a decision-making mechanism concerning fair value accounting, adopt fair value measurement models in a prudent and moderate manner, and fully disclose the methodology of fair value measurement, assumptions of valuation and the principles for choosing main parameters. In terms of fair value measurement of financial instruments, the MOF, CBRC and CSRC require listed companies to choose related parameters strictly according to the requirements of the ASBEs and fully disclose relevant information when using valuation models to calculate the fair value in subsequent accounting. In the supervision over 2009 annual reports of listed companies, the CSRC focuses on impairment provisioning of financial instruments, especially of assets available for sale.	The MOF and related regulatory agencies are to strengthen and improve the system of tracking and supervising the application of the fair value, so as to ensure effective implementation of ASBEs. The MOF and CSRC have kept an eye on the progress made by the IASB, and made response to the IASB's exposure draft actively together with the prudential regulators, in order to prepare for the convergence between the ASBEs and international standards at the implementation level.

13	(FSF 2009)	Dampening of dynamics associated with FVA.	3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements.	End-2009	The MOF will keep pace with the IASB in developing standards of fair value measurement, financial instruments (including hedge accounting) and etc. It has established working groups on fair value measurement and financial instruments, employing expert from prudential regulators, auditors and accounting practitioners, and has begun to revise and improve the standards of fair value measurement and financial instruments. The MOF, CBRC and CSRC have always closely supervised deliberate adjustment of profits across periods using re-classification of financial instruments, and have required the enterprises to classify and re-classify the financial instruments strictly according to the requirements of ASBEs, and fully disclose them in the notes to financial statements.	The MOF has tracked the revising progress of international accounting standards on fair value measurement and financial instruments since 2009. The revision of ASBEs will keep pace with the progress of IASB

14	(FSF 2008)	Enhanced disclosure of securitised products	III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.	Ongoing	According to related information disclosure rules issued by the CSRC, listed companies shall disclose main transactions and accounting treatment for securitization of financial assets and non-financial assets, and explain in details bankruptcy remote clause about asset backed securitization. For SPE (special purposes entity) that are not controlled by listed companies whereas their risks are born by listed companies, the listed companies should disclose the name and main information	In January 2010, the CSRC completed the revision of the *Compilation Rules for Publicly offered securities and Corporation Information Disclosure (No. 15)——a General Rule of Financial Report*, which clearly prescribes the disclosure content of securitization business and has been implemented in the 2009 annual report of listed companies. CSRC also planned to issue a series of rules on information disclosure for financial sector, including the specific disclosure requirements for securitization business and products, in order to regular the information disclosure of banks and insurance companies. At present, the *Compilation Rules for Publicly offered securities and Corporation Information Disclosure (No. X)——a General Rule of Financial Report* is been developed, and will be issued by the end of 2010. At current stage, asset backed securitization is not yet a widespread business in China's capital market, with limited varieties and simple structure. As the business grows, regulators in China will formulate specific information disclosure rules in light of related disclosure principles set out by the IOSCO

III. Reforming compensation practices to support financial stability

15	(Lon) (Pitts) (Tor)	Implementation of FSB/FSF compensation principles	National supervisors should ensure significant progress in the implementation of FSF sound practice principles for compensation by financial institutions by the 2009 remuneration round. We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately. We encouraged all countries and financial institutions to fully implement the FSB principles and standards by year-end, We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of 2011.	End-2010	Against the backdrop of global efforts to cope with the financial crisis and strengthen management on compensation of senior executives in financial institutions, the Ministry of Finance issued the *Notice on the Compensation of Heads of State-owned and State-holding Financial Institutions* and the *Notice on Compensation Allocation for Senior Executives of State-owned Financial Institutions for 2008* in January and April of 2009 respectively. These documents require relevant financial institutions to regulate their compensation management, appropriately control the compensation of senior executives, and encourage appropriate reductions in compensation of senior executives. In particular, the compensation of senior executives in financial institutions reporting a deteriorated performance shall be cut by at least 20%, while that of senior executives in other financial institutions shall be reduced by at least 10%. These policies have produced evident results. State-owned and state-holding financial institutions as well as their subsidiaries are required to follow these rules, and other non-state-owned financial institutions are called on to take similar measures. In order to strengthen compensation management in central government-owned enterprises, the Ministry of Human Resources and Social Security, the Ministry of Finance and the State-owned Assets Supervision and Administration Commission jointly issued *The Guidance on Further Regulating the Compensation of Head of Central Government-owned Enterprises* in September 2009, which define principles on incentives and discipline mechanism, striking a balance between short-term and long-term incentives and aligning the compensation growth of senior executives to that of the staff. In accordance with the *Guidance* mentioned above, the Ministry of Finance launched *Administrative Regulations on Audit of Compensation of Head of Central Government-owned Financial Enterprises* and established a long-lasting mechanism for regulating compensation of head of Central Government-owned financial enterprises. All these regulations have been taking full consideration of FSB Principles for Sound Compensation and requirements for implementation. In line with international standards prescribed in the FSB *Principles for Sound Compensation Practices*, the CBRC issued *The Supervisory Guidance on Sound Compensation in Commercial Banks, requiring the whole banking industry* to follow. The CBRC has conducted two ad-hoc assessments on implementation of *Principles for Sound Compensation Practices by Small & Medium-sized Commercial Banks* and urged every bank to comply with the *Principles*. The CSRC encourages the establishment of appropriate and effective performance assessment and incentive mechanisms, and has issued the *Code of Corporate Governance for Securities Firms (Provisional)* and the *Regulations on Supervision over Securities Firms,* which stipulate the remuneration system of securities and futures financial institutions in line with the FSB *Principles for Sound Compensation Practices* and *Implementation Standards*. The CIRC has adopted a series of measures to regulate the compensation management procedures and performance assessment in insurance companies.	Taking the implementation in 2009 into account, the Ministry of Finance will make revision and improvement on regulations on the assessment and management of compensation in Central Government-owned financial enterprises. The CBRC will monitor and assess the implementation of *The Supervisory Guidance on Sound Compensation in Commercial Banks* soon. The CIRC is working on formulating *Guidance on Regulating Compensation Assessment in Insurance Companies,* to standardize key elements such as performance assessment, hiring and termination and compensation payment. With risk and compliance management linked assessment results, insurances companies are guided to establish a compensation system with scientific indices, appropriate standards and compliant processes so that incentive and restraint mechanism can play a better role in corporate governance and risk control.

16	(Pitts)	Supervisory review of firms' compensation policies etc.	Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.	Ongoing	The *Guidance to Internal Control of Securities Companies* stipulates that securities company should establish appropriate and effective incentive mechanism and strict accountability system. Performance evaluation systems of securities companies should incentivise legal compliance on part of their staff members. Board of directors is responsible for urging, investigating and assessing the build-up and implementation of internal control regimes of securities companies. *Regulation on Supervision and Administration of Securities Companies* stipulates that for those securities companies which have problems of unsound corporate governance, incomplete internal control and etc., CSRC should urge them to make correction within stated time span and can take regulatory measures accordingly. The CBRC is going to issue *The Guidance on Corporate Governance of Commercial Banks* soon, which includes articles on supervisory review of compensation policies.	
IV. Improving OTC derivatives markets						
17	(Lon)	Development of action plan on the standardization of CDS markets (eg CCP)	We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardization by autumn 2009.	Autumn 2009	In October 2010, credit risk mitigation instrument was introduced in the inter-bank bond market of China. Advanced by the PBC, the Shanghai Clearing House was incorporated on November 28, 2009, laying the foundation for the centralized clearing of derivatives in the future.	Shanghai Clearing House will provide centralized clearing for the financial market.

18	(Pitts)	Trading of all standardized OTC derivatives on exchanges etc.	All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.	By end-2012 at the latest	At present, China's OTC foreign exchange derivatives, OTC RMB interest rate derivatives and credit derivatives are traded on the electronic trading platform, and those derivatives not traded on the platform are reported to relevant departments. Thanks to efforts made by the PBC, the Shanghai Clearing House was established in November 2009, laying the foundation for the centralized clearing of derivatives in the future. Currently, according to Article 5 of the *Regulation on Futures Trading*, the futures supervisor conducts unified supervision over the futures market.	China will phase in the centralized clearing of OTC derivatives by taking into consideration the nature and degree of standardization of various OTC derivatives.
V. Addressing cross-border resolutions and systemically important financial institutions						
19	(Pitts)	Consistent, consolidated supervision and regulation of SIFIs	All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.	Ongoing	The PBC is studying how to strengthen supervision over domestic systematically important financial institutions as well as deeply involved in policy making on G-SIFIs initiated by FSB and BCBS, decide identification standards, and propose well-targeted regulatory measures and instruments based on China's specifics. The PBC has provided proposals on establishing more stringent regulations on capital, leverage ratio, liquidity and risk provisions, etc, and setting up clear settlement arrangements and risk resolution. The CBRC has proposed additional capital adequacy requirements for systemically important banks, and are studying specific programs setting higher dynamic provision ratio, leverage ratio and liquidity ratio for systemically important banks.	

20	(Pitts)	Development of resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future	We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.	October 2010	The PBC is promoting the establishment of an explicit deposit insurance system together with other authorities. Meanwhile, PBC proposed to set up three-level mechanism to share loss caused by failure of financial institutions among shareholders/creditors, deposit insurance institution and central bank, which means shareholders/creditors rather than taxpayer should take the loss in the first place, deposit insurance institution play the role as resolution platform, central bank provide back-up support and resource to deposit insurance institution and should be empowered flexible means to implement duty of lender of last resort. The CIRC has promulgated several regulatory rules on or involving supervision against insurance group companies, organized comprehensive checks on risks thereof, and set up a responsible unit, the Insurance Group Company Supervision Division. In the Measures on the Administration of Insurance Group Companies (for Trial Implementation issued in 2010), existing provisions and practices of CIRC for supervision on insurance group companies were summarized systematically, and the overall framework, basic contents and procedures for supervising over insurance group companies are determined.	

VI. Strengthening adherence to international supervisory and regulatory standards.						
21	(Lon)	Adherence to international prudential regulatory and supervisory standards	We call on all jurisdictions to adhere to the international standards in prudential, tax and AML/CFT areas. We are committed to strengthened adherence to international prudential regulatory and supervisory standards.	Ongoing	China always supports the efforts of the international community in enhancing the taxation transparency and exchanging information. On the one hand, China has signed over 90 agreements on avoiding double taxation and on the exchange of intelligence, all of which are in line with the international standards on taxation information exchange. On the other hand, in an effort to implement the G20 requirement on improving taxation transparency and information exchange, China has actively participated in the restructuring of the Global Forum on Taxation and in peer review. For the time being, China continues to take concrete actions according to the *Action Plan to Improve AML/CTF System* submitted to the FATF in June 2007 to address weaknesses and improve related work. In light of the follow-up process of FATF mutual assessment, China has provided six follow-up reports to the FATF on actions taken to address the deficiencies identified and progress achieved to improve China's AML/CFT regime. At the same time, China has actively taken part in activities of FATF, APG, EAG and other regional multilateral platforms, thus making due contribution to the implementation of AML/CTF standards across the world.	China will further engage in the work of the Global Forum on Taxation, promote peer review, and create a more equitable, open and transparent taxation environment. Meanwhile, domestic laws and regulations will be improved according to new supervisory standards issued by the FSB and BCBS. China will continue to improve its AML/CTF system in light of the international AML/CTF standards and China's realities. China will also promote the implementation of AML/CTF standards around the world through its involvement in multilateral platforms.
22	(Lon)	Periodic peer reviews	FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports.	Ongoing	China's financial supervisory laws and regulations aim at maintaining financial stability, and include requirements on openness and transparency in the financial sector. In 2010, the PBC completed the assessment templates of three FSB thematic reviews on compensation, risk disclosure and mortgage underwriting with the joint efforts made by the MOF, CBRC, CSRC, CIRC and China Investment Company China started its FSAP in 2009 and conducted its self-assessment and two rounds of on-site assessment meetings in 2010 with the joint efforts by its financial regulatory agencies, the IMF and the World Bank.	China will actively participate in the three thematic peer reviews in 2011 as well as other national assessments by the FSB.

23	(WAP)	Undertaking of FSAP	All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.	Ongoing	China formally launched FSAP on August 17, 2009. In September 2009, the IMF/WB FASP scoping mission visited China. After negotiations on the assessment scope, schedule and other relevant issues, the *China Financial Sector Assessment Program (FSAP) Memorandum on the Scope of Work* was signed as China FSAP's guideline. In January 2010, the IMF/WB technical team visited China for training and technical issues. The Chinese authorities filled FSAP questionnaires, carried out self-assessments, and provided feedbacks to the FSAP mission team on time. From June 7 to 25 of 2010, the FSAP team visited China for the first on-site assessment, during which the detailed reports on China's observance of selected international standards and codes were completed. The Chinese authorities and IMF/WB FSAP team have jointly conducted stress test covering 17 major commercial banks. The second on-site assessment by the FSAP team was conducted from November 30 to December 15 of 2010, during which various modules of work were finalized and integrated. The FSAP team has provided the final drafts of detailed assessment reports, the drafts of Aide-Mémoire and other FSAP notes to the Chinese authorities for review and comment since then.	The Chinese authorities are working on the *Authorities' Response* to the detailed assessment reports, updating and correcting the factual items of the reports, and reviewing the Aide-Mémoire and other FSAP notes.

24	(FSF 2008)	Additional steps to check the implementation of int'l guidance	V.11 National supervisors will, as part of their regular supervision, take additional steps to check the implementation of guidance issued by international committees.	Ongoing	Chinese financial supervisors have referred to the international guidelines and standards released by international standard setters when formulating domestic laws and regulations. The supervisory authorities have conducted FSAP self-assessment, including assessment based on *the Core Principles for Effective Banking Supervision*, *the Objectives and Principles of Security Regulatory of IOSCO* and *the Core Principles for International Insurance Supervision*. On April 30, the CBRC's assessment team on core principle submitted the report on self-assessment and relevant rules to the assessment team. From June 7 to June 25, a meeting on the assessments of core principle was held. On June 24, FSAP assessment team provided the CBRC with *the Draft Assessment Report*, which was formally replied on July 27. In the middle August, CBRC staff visited the U.S. and attended a meeting on the assessments of core principle. The CSRC has submitted the Report on *the Self-assessment of the IOSCO's Supervision Objectives and Principles of Securities.* From May 15 to 29, the IMF/WB FSAP mission visited China and held a meeting with the CSRC on the self-assessment. On July 26, CSRC provided a feedback on the FASP assessment team's draft report of the detailed assessment. On August 17, FSAP assessment team provided the CSRC with *the Report on the China's Implementation of Standards and Rules, IOSCO Securities Market Assessment*. To meet the FSAP mission's requirement, the CSRC provided the feedback on *the Report on the China's Implementation of Standards and Rules, IOSCO Securities Market Assessment.* *The CIRC had conducted its self-assessment from January to April 2010 based on the IAIS Insurance Core Principles and submitted its self-assessment report to the WB/IMF assessors. The CIRC held a number of assessment meetings with the WB/IMF assessors in June, September and December 2010 to review its observance of the international standards. The CIRC had reviewed and commented on Detailed Assessment of Observance on the IAIS Insurance Core Principles, Insurance Sector Technical Note and other technical papers prepared by the WB/IMF assessors and provided data/information as required.*	The CBRS assessment team on core principles will carefully assess its recent work and, by referring to the assessment report, recognize the shortcomings of China's supervision the banking industries. CBRC will then develop a medium and long term strategy to improve the effectiveness of China's supervision on the banking industry. The CIRC will carefully study the assessors' recommendations and take them into considerations in supervisory practices and the formulation of rules and regulations.

VII. Other issues						
Developing macroprudential frameworks and tools, realigning and ensuring an adequate balance between macroprudential and microprudential supervision						
25	(Lon)	Amendment of regulatory systems to take account of macro-prudential risks	Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of systemic risk.	Ongoing	In order to prevent systemic risks, the PBC is studying how to establish macro-prudential policy framework, and is formulating regulatory rules on financial holding companies as well as standards on cross-sector financial business together with financial supervisory authorities so as to have a well-defined division of work in regulating financial holding companies, strengthen supervision over systemically important financial institutions, and reduce vacuum of supervision. Moreover, the PBC regularly monitors risks in the banking sector, paying close attention to foreign banks and locally incorporated median and small-sized banks and has carried out ad hoc analysis in the operation and major risks of guaranty companies and pawning houses. The CBRC, the CSRC and the CIRC have signed MOU on information sharing and supervisory cooperation. The CBRC has implemented strict market access requirements and ongoing supervision over banking institutions, and established information sharing arrangement with the PBC, the MOF, the NDRC and the National Bureau of Statistics so as to identify and address various risks affecting banking system stability in a timely manner, and conducted effective supervision over financial system jointly with the PBC. The CSRC closely monitors risks faced by securities companies, fund management companies, futures companies and listed companies, by scrutinizing their securities and derivatives investment, and taking strict measures on major risks. The CIRC strengthened supervision over insurance institutions, established supervisory framework focusing on solvency, market behaviour and corporate governance, and conducted supervisory cooperation with overseas supervisory authorities to strengthen supervision over cross-border insurance corporations.	The authorities responsible for supervision of securities companies should be given macro-prudential supervisory mandates. Consolidated supervision of securities companies should be implemented step by step, so as to better assess, monitor and judge systemic risks of the securities industry and provide consistent data of the industry's business operation.

26	(Lon)	Powers for gathering relevant information by national regulators	Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions.	Ongoing	The PBC, CBRC, CSRC and CIRC have a statistical information sharing and communication system and have made great efforts to share basic data and information concerning financial stability and financial risks, fill up information loopholes and strengthen coordination on monetary policies and financial supervisory policies. According to the *Law on Banking Regulation and Supervision*, the CBRC is authorised to collect all information of banks in terms of finance, risks and organisational structures. The CBRC has established a sound off-site and on-site regulation system to collect and analyse risks of banks. According to the *Insurance Law*, the insurance supervisory authorities are entitled to collect information on the business, financial status, risk control, organizational structure and management of all insurance companies. The CIRC has established an operational system for on-site and off-site supervision, as well as data/information reporting system. The CIRC promulgated the Administrative Measures on Information Disclosure of Insurance Companies in 2010, requiring insurers to regularly disclose information on their financial position and the risks to which they are subject so that stakeholders can obtain such information as basis for decision making in time.	
27	(Lon)	Review of the boundaries of the regulatory framework	We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level.	Ongoing	The existing laws have explicit stipulations on the regulatory responsibilities of CBRC, CSRC and CIRC, and the three authorities have signed a regulatory MOU to implement effective regulation on financial system. PBC is authorized by PBC law to mitigate and fend-off systemic risk including monitoring and assessing the overall financial system.	The PBC has been working with other authorities to improve financial supervisory coordination mechanism, to make concerted efforts in supervision and avoid supervision vacuum.

28	(FSF 2009)	Use of macro-prudential tools	3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macroprudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macroprudential (system-wide) level. On leverage ratios for banks, work by the BCBS to supplement the risk based capital requirement with a simple, non-risk based leverage measure is welcome. Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions.	End-2009 and ongoing	The Chinese government attaches great importance to strengthening the macro-prudential management. The national “12th Five-year” plan requires that “a counter-cyclical macro-prudential management framework be established”, and the 2011 government report also requires that “a macro-prudential policy framework be well established”. According to relevant arrangements, the PBC has started to study on the counter-cyclical management mechanism in line with the international financial reforms and the international efforts to speed up the establishment of macro-prudential policy framework. The framework requires that financial institutions, on the basis of the lowest capital adequacy requirement, establish capital buffers in line with their systemic importance and the deviation of credit growth from the economic growth, in order to strengthen their resilience against shocks and cyclical systemic risks, promote the soundness and stability of the financial system, and ensure a steady and adaptive credit growth. At present, the PBC is exploring the use of dynamic differentiated reserve requirement ratio in facilitating financial institutions to meet the macro-prudential requirements. A number of simple, effective and applicable indicators have been used by the CBRC, including both risk indicators like capital adequacy and loss provision coverage ratios, and simple indicators such as liquidity, loan to deposit, collateral and large risk exposures ratios to control risks of individual bank and the whole banking system. The CBRC has revised relevant regulatory standards, and set forth consultative documents of supervisory guidance on dynamic capital regulation, dynamic loan loss provisioning and leverage ratio, which will be formally released in 2011 and fully implemented in 2012. In addition, the CBRC will continue to strengthen the monitoring of banks’ management of non-performing loans, and intensify regulation over the divergence and changes of the quality of loans. The CBRC also strengthened supervision over systemic important financial institutions and has employed dynamic indicators in regulating large banks since the beginning of 2010. To strengthen risk supervision and urge securities companies enhance internal control and fend off risks, the CSRC has issued the *Administrative Measures on Risk Control Indicators of Securities Companies*. The CSRC is promoting establishment of a risk control indicator system with net capital as the core, improving the dynamic risk monitoring mechanism, strengthening methodology, instrument and system of risk management, and streamlining the procedures of risk identification, assessment and control in securities companies, so as to make sure their business activities and size are commensurate with their management capacities and net capital levels. In addition, the CSRC intends to establish a monthly reporting system in which securities companies reports their operational data on a monthly basis, so as to conduct industry-wide performance and risk analysis.	The PBC will continue its research on concepts and measures of the macro-prudential management, follow closely with the latest findings of the macro-prudential policy framework and tools developed by FSB and BCBS, and further study on the macro-prudential policy framework adaptive to the Chinese conditions in line with the economic and financial developments and the guidance that would possibly be published by international organizations. Supervisory guidance on leverage ratio, counter-cyclical capital buffer and dynamic loan loss provisioning are being formulated by the CBRC, and liquidity coverage ratio and net stable funding ratio will also be introduced for supervisory purposes. The CSRC is going to improve the risk control indicator system and the sensitivity analysis and stress testing mechanism of liquidity and financial performance of the securities industry, conduct regular monitoring, assessment and early-warning of risks, and monitor on an on-going basis the industry’s resilience in changing market situations, to enhance forward-looking risk supervision and pre-empt systemic risks.

29	(WAP)	Monitoring of asset price changes	Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system.	Ongoing	According to *the Law of the People's Bank of China*, China's monetary policy aim is to maintain stable currency value so as to promote economic growth. Besides, the PBC also takes the responsibility of addressing financial risks and maintaining financial stability. Asset prices are not directly targeted by monetary policies. However, in order to maintain the stability of the overall price level and the soundness of financial system, the PBC has been watching changes of asset prices. By doing so, the PBC aims to be better understand macroeconomic trend and economic aggregates by analyzing changes in asset prices, analyze the implications of such changes on monetary policy transmission, price level and the soundness of financial system, and warn commercial banks of risks through window guidance to promote their sound operations. The CBRC closely monitors movements of stock prices and real estate prices and provides window guidance to commercial banks through quarterly meetings on economic and financial developments and briefings on potential risks. Meanwhile, the CBRC dynamically adjusted loan-to-value ratios of mortgage loans, and conducted stress tests to prevent the adverse effects of real estate market fluctuations on the banking system.	

30	(FSF 2008)	Supervisory resources and expertise to oversee the risks of financial innovation	V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks.	Ongoing	The CBRC has established a department to regulate financial innovation and made it clear that commercial banks should be well informed of their counterparties, businesses and risks, and estimate related costs. The CBRC has issued rules on conducting prudential regulation over specific businesses, to guide banking financial institutions, including the *Guidance on Financial Innovation of Commercial Banks* and *Guidance for Supervision and Management of Asset Backed Securitisation*. In accordance with the *Securities Law* and the *Regulation on the Supervision and Administration of Securities Companies*, the CSRC fulfils the responsibility of supervision and administration of securities companies. Securities companies and their domestic subsidiaries shall not be engaged in a certain business unless approved by the CSRC. In order to effectively control risks, the financial innovation of securities companies should also be supervised by the CSRC. The CIRC regulated various businesses and the use of insurance funds, encouraged innovation by market participants in line with regulatory requirements, and built up institutional arrangements to prevent relevant risks. Administrative Rules on the Appointment Qualifications of Directors and Senior Managers of Insurance Companies and the Guiding Opinions on Corporate Governance Structure of Insurance Companies specify that directors must meet qualification requirements and have the operation and management capabilities required to assume their risk positions. The Guidelines on Risk Control over Management of Insurance Funds specify that the board of directors is responsible for making major investment decisions, developing investment strategy for new investment categories, reviewing risk control system and monitoring implementation of risk control measures.	

31	(FSF 2008)	Supervisory communication with firms' boards and senior management	V.2 Supervisors and regulators should formally communicate to firms' boards and senior management at an early stage their concerns about risk exposures and the quality of risk management and the need for firms to take responsive action. Those supervisors who do not already do so should adopt this practice.	Ongoing	The CBRC holds regular meetings with board members and senior management of commercial banks, so as to timely communicate on changes of banks' risks and vulnerabilities in risk management, and requires them to take corrective measures. The CBRC supervisors also participate in board meetings and supervisory board meetings of commercial banks as observers, and hold regular meetings with their external auditors so as to understand their risks. The CBRC will promulgate the *Guidance on Commercial Bank Corporate Governance*, which will strengthen regulations on the communication between board of directors and senior management in commercial banks.	
32	(FSF 2008)	Improved cooperation between supervisors and central banks	V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain.	Ongoing	PBC has been strengthening corporation among agencies and financial supervisors by all means pursuant to law and regulation, including an information sharing system among the PBC, CBRC, CSRC and CIRC. Amidst the spreading and deepening of the global financial crisis, the PBC and the CBRC signed memorandums on establishing mechanisms to jointly supervise foreign banks in China and small and medium commercial banks respectively at the end of 2008, aiming to strengthen supervision over foreign banks and small & medium commercial banks and stabilize financial markets. The PBC and the CBRC have made regular information sharing arrangements and emergency response arrangements to handle liquidity crisis. The CSRC is responsible for assessing and monitoring risks of individual securities company and industry-wide risks, and taking effective measures to prevent and mitigate such risks. Meanwhile, the CSRC provides other macro-prudential regulators with data on the operation of the securities industry on a regular or ad-hoc basis to ensure timely communication and coordination. The CIRC is responsible for the identification, monitoring and early warning of risks in the insurance sector, formulating and implementing emergency plans for risk resolution. Meanwhile, the CIRC will provide relevant data and information to central bank and other regulatory authorities, and cooperate with the PBOC (Anti-Money Laundering Bureau) on AML issues.	There has been more effective coordination and cooperation among regulatory agencies to prevent cross-sector contagion of risks.

Hedge funds						
33	(Lon)	Registration of hedge funds	Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management.	End-2009	Currently, there is not a mature environment for operation of hedge funds in domestic capital markets. The chance is slim for domestic capital market to be directly impacted by overseas hedge funds, and the indirect impact exerted through financial instruments traded overseas on domestic market is relatively small.	China will closely watch regulatory reform on hedge funds worldwide and take active actions to strengthen risk supervision. While steadily expanding the QFII program, China will improve the management of QFII qualification and the regulation of their investment. Ex post regulation and penalty will be strengthened against QFIIs that violate quota rules or fail to fulfil the obligations of filing required documents for disclosure purpose or cooperating with regulators. China will also reinforce the monitoring and punishment of illegal cross-border flows arising from hedge funds and other international speculative capital.
34	(Lon)	Effective oversight of cross-border funds	We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures that implement these principles by the end of 2009.	End-2009	(see the above item)	China will further strengthen information exchange and supervisory cooperation with international organizations, improve the coordination mechanism on information sharing, monitoring and early warning of cross-boarder capital flows so as to better identify and crack down on cross-border market manipulation.

35	(Lon)	Effective management of counter-party risk associated with hedge funds	Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures.	Ongoing	(see the above item)	
36	(FSF 2008)	Guidance on the management of exposures to leveraged counterparties	II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties	Ongoing	The CBRC requires commercial banks to strengthen risk controls on highly leveraged counterparties and that commercial banks' overall risk exposure to an individual institution shall not exceed the credit line ratio assigned to a single customer.	

Credit rating agencies						
37	(Lon)	Registration of CRAs etc.	All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals.	End-2009	The PBC enacted the *Credit Rating Guidance* in 2006 to impose filing requirements over credit rating agencies as well as requirements on practices, internal control, rating procedures, rating notches, prohibitions, avoiding interest conflicts, information disclosure and file management. To further refine the management, the PBC issued the *Regulations on Credit Ratings in the Credit Market and the Inter-bank Bond Market* in the same year. The Regulation is consistent with IOSCO's basic principles, some of which are more stringent and in line with China market realities. According to the *Securities Law* of the People's Republic of China, the CSRC issues licenses to CRAs doing rating businesses in the securities market. Any entities and individuals are not allowed to conduct securities rating business without licenses. *The Provisional Rules on the Administration of the Credit Rating Business in the Securities Market*, which took effect in Sep 2007, provides regulations on 11 businesses including information disclosure, interest conflicts prevention, internal control and compliance management, rating quality control, staff management, prohibited behaviours, confidentiality system and archives management, and clarifies supervisory approaches such as regular reporting, on-site inspection and accountability. These rules are basically consistent with *The Code of Conduct Fundamentals for Credit Rating Agencies* issued by the IOSCO, and contain requirements on due diligence and accountability, which are not covered by *the Code*. From the institutional perspective, China's rules on securities rating business are more rigorous than *the Code* issued by the IOSCO.	Securities Association of China set up the Professional Committee of Securities Ratings. The securities rating agencies signed a "self-discipline Convention", to strengthen self-discipline.

38	(Lon)	CRA practices and procedures etc.	National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO.	End-2009	In August 2009, the PBC kicked off the revision of the *Specification for Credit Rating* according to the IOSCO standards. The *Specification for Credit Rating* includes provisions on conflicts of interest, rating procedures, rating methods and information disclosure. The Provisional Rules on the Administration of the Credit Rating Business in the Securities Market clarifies situations where withdrawal of the CRAs is required in securities rating business out of concern of conflicts of interests. The Provisional Rules stipulates that the CRAs shall establish a rating result disclosure system to verify the accuracy and stability of rating results through effective statistical methodology, and publish the results on their own website as well as on the CSRC's website. Currently, basic information of the CRAs has been disclosed to enhance the transparency. As prescribed in the Provisional Rules, the CRAs shall designate a staff member to examine the compliance of securities rating business. Regulations on the rating of structural products will be included in the industry-wide standards.	The revision of the *Specification for Credit Rating* has been finished by 2010, which is in the consultative process.
39	(FSB 2009)	Globally compatible solutions to conflicting compliance obligations for CRAs	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010.	Ongoing	The CSRC has become a member of the IOSCO, and will actively participate in the rule-setting process of the IOSCO. PBC pays close attention on reforms in regulatory policies on CRAs taken by regulators in other countries, U.S. and Europe in particular, research on relevant issues combining with China's reality and actively participate in international exchange and cooperation in this field.	China will continue to take part in international discussions to achieve consensus on a globally agreed solution of the CRA issue.

40	(FSF 2008)	Review of roles of ratings in regulations and supervisory rules	IV. 8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation.	Ongoing	At present, China is reviewing related issues.	China will formulate regulations depending on the development of credit rating business in the future, to promote the role of ratings.
Supervisory colleges						
41	(Lon)	Supervisory colleges	To establish the remaining supervisory colleges for significant cross-border firms by June 2009.	June 2009	The supervisory college for the Industrial and Commercial Bank of China (ICBC) was established in 2009, and regulators for the ICBC overseas subsidiaries are invited to join in. In September 2010, CBRS held a supervisory college meeting for the Bank of China. After the outbreak of financial crisis, based on the IAIS and bilateral cooperation agreements, the CIRC established contact with regulators in countries and regions where important financial institutions are located to timely exchange information and prevent the spillover of financial risks. At the same time, as an executive member of the IAIS, the CIRC has actively participated in formulating principles of supervision over cross-border insurance groups, which has not been finished yet. In December 2010, the CIRC invited a number of overseas insurance supervisors from home countries of the foreign-funded insurers operating in China, and conducted its first supervisory college in Beijing.	CBRC will promote the supervisory colleges for other large domestic commercial banks to improve the effectiveness of the cross-border information sharing and of the collaborated supervision. Building on existing cooperation mechanisms, the CIRC will continue to participate in joint supervision over cross-border insurance groups and play a greater role in the standard-setting of international supervision principles.

42	(FSF 2008)	Supervisory exchange of information and coordination	V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels.	Ongoing	The PBC and other financial regulators in China have endeavoured to establish a sound financial supervision coordination mechanism, which includes: 1. regular meetings attended by heads of the PBC, CBRC, CSRC, CIRC and SAFE, to report latest developments and discuss most current issues related to financial stability. 2. a financial coordination mechanism that brings together the PBC, CBRC, CSRC and CIRC in the form of joint meetings to strengthen coordination between monetary and supervisory policies and coordinate on related supervisory rules and regulations. 3. an information sharing system among the PBC, CBRC, CSRC and CIRC. The *Provisional Measures on Information Sharing among the PBC, CBRC, CSRC and CIRC* was issued in Sept 2008 by PBC and the regulators to strengthen financial information sharing and communication among them. At the international level, the CBRC, CSRC and CIRC signed bilateral cooperation MoUs with their counterparts across the world to improve information sharing and cooperation. CBRC included in the MOU, signed with cross-border regulators, a clarification of each regulator's duty in time of crisis.	The PBC is promoting establishment of joint ministerial financial supervision conference mechanism. The financial regulators in China will further strengthen cooperation home and abroad.
Crisis management						
43	(Lon)	Implementation of FSF principles for cross-border crisis management	To implement the FSF principles for cross-border crisis management immediately. Home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.	Immediate	The CBRC has signed supervisory MOUs with international and regional supervisory authorities, and established regular meeting mechanism with its counterparts in USA, UK, Japan, Singapore, Canada and Hong Kong SAR to exchange information.	The Supervisory MOUs will be expanded in 2010 to incorporate information sharing during crises.

44	(Pitts)	Development of contingency and resolution plans by SIFIs and the establishment of crisis management groups etc.	Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress.	End-2010	PBC is now working on establishing a clearly-layered risk resolution and payment arrangement for SIFIs, strengthening responsibilities of institutions, shareholders and creditors, quickening the establishment of deposit insurance mechanism, and giving full play of its supportive role as the central bank. PBC is also negotiating with foreign authorities on the establishment a cooperative mechanism of cross-border bank resolution. The CBRC is guiding large domestic commercial banks to set up contingency plans.	

45	(Tor) (WAP) (FSF 2008)	Implementation of BCBS recommendations on the cross-border bank resolution	We endorsed and have committed to implement our domestic resolution powers and tools in a manner that preserves financial stability and are committed to implement the ten key recommendations on cross-border bank resolution issued by the BCBS in March 2010. National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions. VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks.	Ongoing	When establishing bankruptcy regimes, the regulators are working on how to include the BCBS's recommendations and principles set out in March 2010 about the resolution of cross-border banks. The *Law of the People's Republic of China on Enterprise Bankruptcy* applies to the bankruptcy of financial institutions. Regarding different sectors, *Risk Resolution Regulations of Securities Companies* regulates bankruptcy of securities companies while the *Administrative Measures of Insurance Protection Fund* regulates that of insurance companies.	The CBRC will further improve relevant rules and regulations in China, including those on the bankruptcy of financial institutions, bank's bail-in, contingent debts and living wills. At the same time, the regulators' early interference and their institutional arrangements for resolvability of large and complicated financial institutions should be set up. Regarding the bankruptcy cases in banking industry, the CBRC and PBC are drafting the *Bankruptcy Regulations on Banking Financial Institutions.*
46	(FSF 2008)	Review of national deposit insurance arrangements	VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed.	Ongoing	The PBC and CBRC are working together with other related departments, sparing no time in revising the implementation plan of deposit insurance scheme and drafting the *Deposit Insurance Regulation*.	Once the implementation plan is approved, the deposit insurance scheme will be set up immediately.

Risk management						
47	(WAP)	Development of enhanced guidance for banks' risk management practices	Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management.	Ongoing	The CBRC has established a set of risk management guidelines that cover key areas such as credit risk, market risk, operational risk, liquidity risk, reputation risk, interest rate risk in banking book, internal control and compliance risk. In terms of credit risk, the CBRC has issued a series of operation guidelines including fixed asset loans, working capital loans and project finance. The CBRC will strengthen rules and regulations on the risk management with the coming *Guidance on Commercial Banks and Firms Management*.	

48	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	The CBRC has issued *Guidance on Stress Testing Practices of Commercial Banks*, requiring banks to use stress testing as an important risk management instrument. Its *Guidance on Examination of Capital Adequacy of Commercial Banks* requires that *the target of internal capital adequacy management be closely linked to the stress test results.* Stress testing mechanism in China's securities industry is included in risk supervision system focused on net capital. The CSRC requires securities companies to establish dynamic monitoring and supplementing mechanism of risk control indicators according to their balance sheet positions and business development, so as to ensure that net capital and other risk control indicators meet the requirements at any point of time. Securities companies shall conduct sensitivity analysis on risk control indicators before business operation and profit allocation to appropriately determine the maximum size of relevant business and profit allocation. Securities companies shall establish and improve stress testing mechanism, and timely conduct stress testing on risk control indicators according to market changes. Industry-wide stress testing has been conducted by securities companies, focusing on calculating capital adequacy ratio of securities companies under various scenarios.	Risk supervision system focusing on net capital will be improved, and securities companies will be urged to further improve risk monitoring, early-warning, prevention and control mechanism. First, risk supervision system focusing on net capital will be improved for securities companies. Risk capital reserves calculation criteria will be linked to market indicators and adjusted dynamically so as to properly and effectively constrain business scale and investment. The counter-cyclical feature of risk control indicators will be strengthened. Second, efforts will be made to promote securities companies to improve dynamic monitoring mechanism of risk control indicators, appropriately identify internal risk control indicators, optimise risk monitoring system, enhancing the timeliness and accuracy of data collection and analysis, and define the reporting route and handling of abnormal situations. Third, securities companies will be urged to improve and strengthen sensitivity analysis and stress testing exercises, and explore ways to establish industry-wide stress testing mechanism.

49	(Pitts)	Efforts to deal with impaired assets and raise additional capital	Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.	Ongoing	With an aim to strengthen risk supervision in securities companies, to urge them to strengthen internal control and prevent risks, and to enhance their capital adequacy, the CSRC has established a capital supplementing mechanism as well as a risk control indicator system focusing on net capital, designed a two-layered risk control indicators system, and defined absolute indicators and relative indicators of net capital and relevant standards, so as to align the company's net capital adequacy with its business scope. When conducting business or establishing branches, securities companies shall calculate risk capital reserves according to certain standards and ensure various risk capital reserves are supported by net capital correspondingly, so as to indirectly control business scale. Meanwhile, they shall directly control the scale of high risk business in order to dynamically link business scale to the level of net capital to effectively prevent business risks.	The net capital regulation conducted by the CSRC in securities industry has effectively promoted sound development of the industry. As the next step, efforts will be made to further improve the indicator system, make dynamic adjustment, and compare the system with international practices.
50	(FSB 2009)	Implementation of BCBS/IOSCO measures for securitisation	During 2010, supervisors and regulators will: • implement the measures decided by the Basel Committee to strengthen the capital requirement of securitisation and establish clear rules for banks' management and disclosure; • implement IOSCO's proposals to strengthen practices in securitisation markets.	During 2010	According to the requirement of the BCBS, the CBRC revised capital requirement on risk exposure to asset securitisation, and clearly noted requirements on due diligence and information disclosure of commercial banks. Where a commercial bank fails to fulfil due diligence requirement, the risk exposure to securitisation will be totally deducted from the capital. On May 20, 2009, the CSRC issued the *Note on Pilot Securitisation Practices of Securities Companies* and the *Guidance on Pilot Securitisation Business of Securities Companies (Provisional)*, and set clear requirements for securities companies conducting securitisation business on a pilot basis. For instance, these companies shall have a rating above A level, and their net capital in recent 12 months shall not exceed 2 billion yuan. Securities companies shall disclose information according to law, including releasing asset management report and asset custodian report quarterly. Earnings allocation report shall be published before the allocation. Temporary events shall be timely disclosed. Information disclosed shall be reported to the local CSRC branch offices.	CBRC is going to implement related regulations from the end of 2010.

51	(Lon)	Improvement in the risk management of securitisation	The BCBS and authorities should take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements by 2010.	By 2010	According to the requirement of the BCBS, the CBRC revised capital requirement on risk exposure to asset securitisation, and clarified regulation on due diligence and information disclosure of commercial banks. Where a commercial bank fails to fulfil due diligence requirement, the risk exposure to securitisation will be totally deducted from the capital. For the time being, enterprise asset-backed securitization is still on a pilot basis. CSRC local offices have undertaken first-line supervision over asset backed securitization, including checking rules and procedures of securitization of securities firms, making judgement on their institutional arrangements, business performance and eligibility for asset-backed securitizations, monitoring implementation of rules and regulations and making on-site inspection, establishing supervision files on related businesses of securities firms, guiding securities firms to make contingency plan, and investigate in and impose penalty on cases suspected of illegal conducts and irregularities.	
52	(Pitts)	Retainment of a part of the risk of the underlying assets by securitisation sponsors or originators	Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently.	Ongoing	According to Article 21 of the *Guideline on Pilot Project of Enterprise Asset-backed Securitization by Securities Companies (Provisional)*, securities companies can use their own fund to subscribe to beneficiary certificate so as to hold part of the underlying assets throughout the duration.	

53	(WAP)	Enhanced risk disclosures by financial institutions	Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate.	Ongoing	According to the requirements of BCBS, CBRC amended the capital requirements for risk exposure to asset securitization, and clarified the requirements for the due diligence investigations and information disclosure. For those banks that fail to implement due diligence investigations, the full amount of asset securitization risk exposure will be deducted from the capital. The capital securitization of enterprises is still in trial. According to Article 66 of the *Regulation on the Supervision and Administration of Securities Companies* issued by the State Council, securities companies should disclose their basic information, join-stock situation, liabilities and contingent liabilities, business performance, financial conditions, compensation of senior management and other related information. In addition, independent review is a key instrument in supervision over securities companies. The content of the review covers not only financial information, but also internal control and risk management process. Securities companies submit audit reports signed by members of their senior management to regulators. The PBC is able to reach anticipated goals by implementing *the Administrative Measures on the Pilot Program of Credit Asset Securitization*, which is in line with international practices. On May 12, 2010, the CIRC issued *Administrative Measures on Information Disclosure of Insurance Companies,* which was brought into effect on June 12, 2010. It clearly noted that insurance companies should disclose their information of basic facts, finance and accounting, risk management, insurance products, solvency, significantly interconnected transactions, and important events.	CBRC will start to implement the Guideline from the end of 2010. CSRC has been working to drafting rules to require securities companies to enhance information disclosure. During this process, the CSRC will draw on international principles and guidelines.
54	(FSF 2008)	Strengthening of supervisory requirements or best practices fir investment in structured products	II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.	Ongoing		

Others						
55	(Pitts)	Development of cooperative and coordinated exit strategies	We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures.	Ongoing	Since the international financial crisis, China has taken a range of measures to counter the crisis, implemented active fiscal policy and accommodative monetary policy, actively promote the restructuring of the economy and change its pattern of development, and played an important role in the recovery of the domestic economy and in supporting the global recovery. With the recovery of the economy in 2010, the PBC proactively made the policy more targeted and flexible, while basically keeping the monetary policy accommodative. By using the OMO, reserve requirement and monetary policies, the PBC strengthened its liquidity and inflationary expectation management and guided the credit activities back to normal in line with the new economic conditions. The influence of these measures began to show up. In 2011, as the global economy continues to recover and the momentum of China's economy is strengthened, China began to implement a prudent monetary policy in order to ensure a relatively rapid and sound economic growth and, particularly, to ensure a stable price level.	The PBC will continue the prudent monetary policy by the use of OMO, reserve requirements and interest rate, in line with domestic and international economic and financial developments as well as the domestic price level. It will strengthen the liquidity management, keep a reasonable scale and pace of the social financing, guide a moderate credit growth, optimize the credit structure, actively deal with the relationship between sound economic growth, economic restructuring and preventing inflation, and to prevent large economic fluctuations. Meanwhile, the PBC will speed up the establishment of the macro-prudential framework, steadily promote market-based RMB interest rate and the reform of the RMB exchange rate regime, increase the consistence to the fiscal and industrial policies, and promote the economic restructuring and change of development patterns.

Origin of recommendations:

Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)
Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)
Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)
WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)
FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)
FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)
FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)