

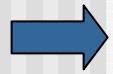


中国银行业监督管理委员会  
China Banking Regulatory Commission

# Back on Sound Development Track

LIU Mingkang  
Chairman of the CBRC  
LSE Asia Forum, 26 March 2010

# Contents



**Three strengthenings**

**Three reductions**

**Three reforms**

**Three challenges**



## Three strengthenings

---

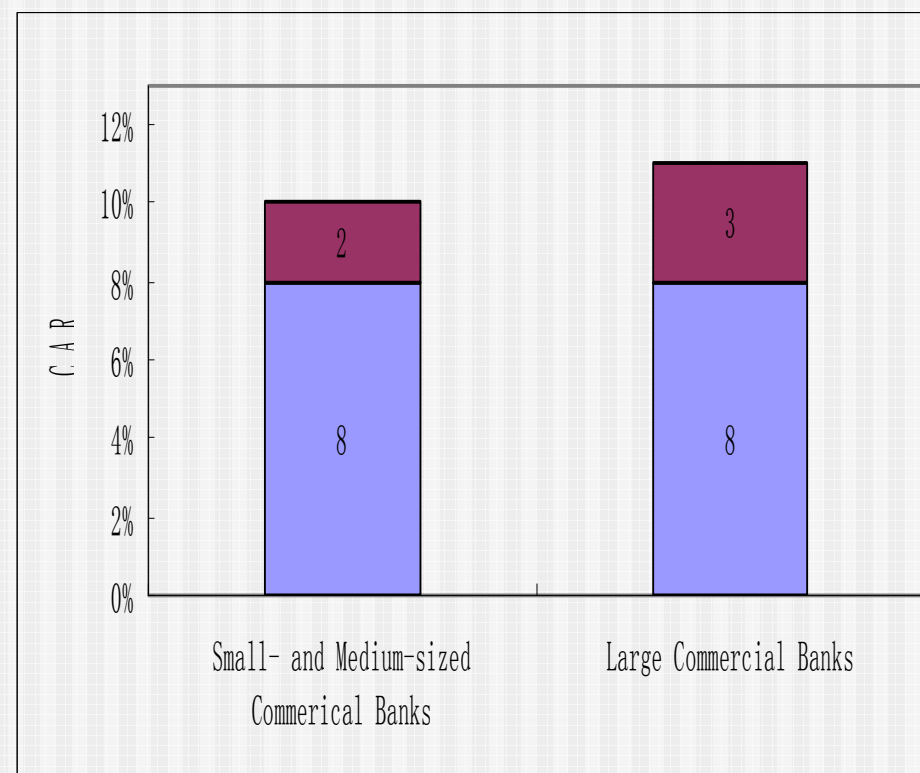
- ❖ **The simple, basic and useful limits, targets and ratios should never be neglected.**



## Three strengthenings

### ❖ Capital Adequacy Ratio (CAR)

- 11% for large banks
- 10% for small and medium-sized banks
- emphasis on quality-  
75% should be common stocks







## Three strengthenings

- ❖ By the end of February 2010, the provisioning coverage ratio of major commercial banks reached 165.1%, a strong buffer for expected losses.



RMB Billion

■ Loan Loss Provisions of Commercial Banks  
● Provision Coverage Ratio of Commercial Banks



## Three strengthenings

---

- ❖ **Large exposure**
  - **China has the world's most stringent large exposure requirement, with the limits of 10% of a bank's net worth to a single borrower and 15% to a business group.**
- ❖ **Monitor the NPLs, leverage ratio, liquidity ratio, LTD, LTV, etc**



## Three strengthenings

---

- ❖ An effective corporate governance should be the first line of defense.
  - duty of care and fiduciary duty check
  - responsibility & accountability
  - firewalls
  - internal controls
  - incentive scheme
  - transparency



# Three strengthenings

---

## ❖ Risk-based supervision

- intensity supervision
- group-wide supervision
- EWS
- enforcement





# Contents

---

Three strengthenings



Three reductions

Three reforms

Three challenges



## Three reductions

---

- ❖ Reduce toxic assets
- ❖ Reduce leverage
- ❖ Reduce reliance on free market dogma



# Contents

---

Three strengthenings

Three reductions



Three reforms

Three challenges



## Three reforms

---

- ❖ It is important to have a better map of reform.
  - A broad vision
  - A building-block approach
  - The right sequence



## Three reforms

---

- ❖ **Financial infrastructures and markets need to be reformed.**
  - **build up one set of capital, reporting and accounting treatments**
  - **set up CCPs for OTC derivatives transactions**
  - **anything or any tranches held outside the regulated system would need to be held either on unlevered basis or backed by capital and provisioning**
  - **ensure legal clarity especially regarding bankruptcy and financial counterparts**





## Three reforms

---

- ❖ **Reform towards adherence to international supervisory standards and strengthened international supervisory cooperation**

**Capital is mobile, while regulation is local.**



# Contents

---

Three strengthenings

Three reductions

Three reforms



Three challenges

## Three challenges

---

- ❖ **Building up social welfare system remains a crucial task.**
- ❖ **Restructuring of the industries weighs high on the government agenda.**
- ❖ **Quality of development should not be compromised for the sake of seeking a fast pace of growth.**



---

# Thank you !