The International Conference

"The Role of the Financial Sector in Promoting Economic Growth in Asia"

Session II The Current State of the Financial Sector and the Regulatory Framework in Asian Economies

The Current State of the Financial Sector and the Regulatory Framework in Asian Economies—Case of China

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Abstract

The reform of financial regulation comes as a priority on the international reform agenda. At the call of G20 leaders, a number of new international standards have been issued, most notably Basel III. As a member of G20, the FSB and the Basel Committee, China is now on a faster track in adopting international standards. However, the key issue for China, perhaps for many other emerging markets as well, is to how to keep focused on the domestic policy agenda while adopting the new global standards. Fortunately, China's financial system has proved resilient to the current recent crisis. As a result, banks in China find it quite comfortable to meet the new capital standard and liquidity standards under Basel III. It is important to note that Basel III is only part of an effective regulatory framework. While phasing in Basel III, China also needs other prudential tools such as a new provision ratio, in addition to the provision coverage ratio. In addition, activity restriction will be another effective tool that has the potential to prevent banks from getting too complex for bankers to manage and for the regulator to supervise. As we work hard to improve the effectiveness of the regulatory system at both global and national level, we should always remind ourselves of the importance of keeping the right balance between enhanced regulation and promoting financial innovation.