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Government Policy's Influence on Shadow Banking in China

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Abstract:

Shadow banking in China has been viewed by government officials and industry experts as illegitimate finance, but as a key means of financing by others. For the former, the industry has been seen as overly risky, potentially undermining the formal financial system. The latter see shadow banking as an increasingly important part of the financial system, filling a gap in the provision of finance to particular sectors and smaller firms.

In this paper, we seek to understand the effect of government views on shadow banking by analyzing the impact of government regulation on the shadow banking and non-shadow banking financial sector (i.e., the stock market). Using a unique data set based on data collected from various sources, we find that shadow banking regulation plays a strong role in China's financial sector. We also discuss ways in which China's shadow banking sector has not gone far enough in deepening Chinese finance, and make suggestions as to how regulators could lead the way in improving direct and market-based finance.

JEL codes: G0, O17

Key words: shadow banking, stock market, China, financial crisis, financial instability

Introduction

Shadow banking in China has been viewed by government officials and industry experts as illegitimate finance, but as a key means of financing by others. For the former, the industry has been seen as overly risky, potentially undermining the formal financial system. The latter see shadow banking as an increasingly important part of the financial system, filling a gap in the provision of finance to particular sectors and smaller firms.

The reason for the divergent views on shadow banking relates to its dual impact on the financial system, particularly on commercial banks. The size of the shadow banking sector in China positively impacts the profitability of banks, but weakens stability in the short run (Cao and Wang 2019). These different impacts on the financial system have resulted in either opposition toward shadow banking or opposition toward regulation. The government itself has taken both views over the development trajectory in this industry, sometimes at the same time. Within our analytical framework, we find that the dominant government risk outlook results in a direct impact upon shadow banking as well as in stock market activity.

In the following article, we discuss the origins, need for, and risks of shadow banking. We then perform a time series analysis on shadow banking and stock market statistics, looking at the impact of government policy and media hype surrounding the sector. We and with a discussion about our unique findings on government influence upon shadow making activities.

Origins of shadow banking

The origins of shadow banking in China are well told. We summarize the events below. Shadow banking arose after the global financial crisis in 2008, mainly to serve the needs of local governments and corporations that were attempting to fulfill government policy in order to stimulate the economy. As bank finance was constrained, particularly toward riskier sectors, alternative means of financing became prominent. In some cases, shadow banking was even endorsed by the government.

For example, Chen, He and Liu (2017) assert that the central government encouraged local governments to borrow through local government financing vehicles. Other financial channels used included trust loans, entrusted loans, peer-to-peer financial platforms, bankers' acceptance notes, and wealth management products. The government allowed these to rise without excessive regulation, as they were necessary to bolster China's growth trajectory. At the same time, excessive risks were condemned.

Shadow banking was accepted in the beginning. In 2012, the Governor of the PBC, Zhou Xiaochuan, stated that 'shadow banking is inevitable when banks are developing their business … but there are fewer problems here than the shadow banking sector in some developed countries that have been hit by the global financial crisis'.

Hu Xiaolian, Vice Governor People's Bank of China, stated in September 26, 2014, "we can't just say 'no' to shadow banks, because to some extent, they satisfy some financing demands of a diversified economy,"

Some officials, however, voiced their concerns over shadow banking. Xiao Gang, Chairman of the Bank of China, stated in November 2012, "because the number is so large and difficult to manage, China's shadow banking sector has become a potential source of systemic financial risks in the coming years" (Zhao 2012).

Differences in regulators' viewpoints on shadow banking were made public in 2013, as banks fought against Regulation 9, a rule that was to be issued by the CBRC (Wei and Davis 2014). The rule limited banks' off-balance sheet lending activities, preventing commercial banks from using the interbank market to make corporate loans. After a meeting between regulators and bankers in October 2013, the CBRC altered its plans in order to accommodate bankers. Because of this, the People's Bank of China became concerned that the CBRC would protect the interests of banks over the rest of the financial system and regulate too lightly. The CBRC itself believed that regulators should balance bank profitability and stability.

In general, however, regulators understood that rules needed to be implemented in step with rising risks. For example, in August 2010, banks were restricted in terms of bundling loans off balance sheet through trust companies into wealth management products. Wealth management funds were restricted in terms of how much could be invested in non-standardized debt assets as of March 2013. In December 2013, banks were required to separate wealth management product funds from their own funds. In April 2014, trust companies were forbidden from carrying out business with shadow banking characteristics, and interbank business was standardized. Entrusted loan rules were laid out in January 2015. Internet guidelines were implemented in July 2015. In July 2016, the market value of securities held by wealth management products was restricted.

After the entrance of Guo Shuqing in February 2017 as head of the China Banking and Insurance Regulatory Commission, shadow banking was more strongly constrained in order to reduce risks. Guo had an order to audit the risky assets of China's banks. He stated that, "rules aren't being followed. Those who were caught before have been repeating their offenses" (Yap 2017). From the start, Guo uncovered violations of Chinese regulations, including those by China Minsheng Bank, which had obtained 1.65 billion yuan ($239 million) illegally from investors for nonexistent wealth management products.

Other officials agreed with the need to regulate shadow banking. In July 2017, Wang Zhijun, an official with the Office of the Central Leading Group on Finance and Economic Affairs, stated that China's financial grey rhinos include shadow banking, property bubbles, state and local government debt, and rampant illegal fundraising. Yi Huiman, the Chairman of the Industrial and Commercial Bank of China, stated in March 2017 that "if we do not deal correctly with shadow banking, the risks could be huge" (Bradsher 2017).

However, the conflict between government regulators and banks did not end then. As regulators tightened their grasp on shadow banking in November 2017, opposition was laid bare after the central bank published draft rules for new regulations on wealth management and trust products. The rules required financial institutions to set aside 10% of management fees as risk provisions. Ten banks met in Shanghai to complain about the new regulations. The banks noted that a sudden stop in the current distribution of wealth management products could trigger systemic financial risks. The banks requested a longer period of three years to adjust to the new measures. Banks felt ill prepared for the strict new rules.

By this time, however, banks and other shadow banking institutions have little choice but to face stricter new regulations as risk tolerance had plummeted. Peer to peer lending platforms incurred increased scrutiny starting in mid-2017, with regulations that prohibited illegal fundraising. In July 2018, the CBIRC announced draft measures for the of the asset management business of commercial banks, while the

People's Bank of China announced a notice regarding the guidance of the financial asset management business of financial institutions.

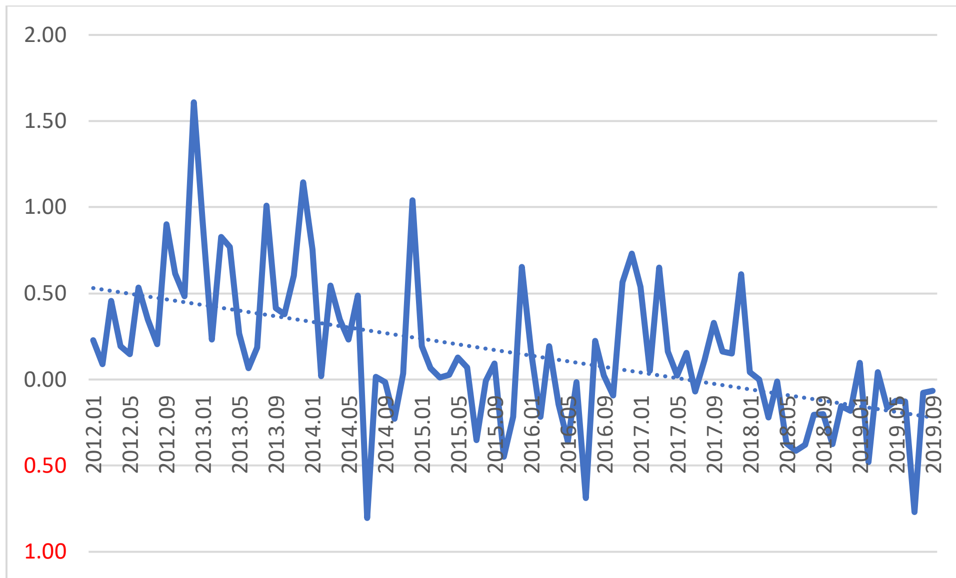
The size of trust and entrusted loans declined in 2018 due to tightened regulations. Guo's crackdown on the shadow banking industry reduced the risk of contagion and increased the potential for financial stability. Sheng Songcheng, Advisor to the People's Bank of China, said in August 2018: "at the beginning of this year, regulators made it clear that they included regulation of risks associated with shadow banking and cross-sector financial products into the priorities of this year's crackdown on the financial market. The business of trust loans and entrusted loans has shrunk significantly since January" (Jiang 2018).

Importantly, the aim of regulation has not been to quash shadow banking altogether. As a result, some officials have voiced their support for shadow banking as long as risks are controlled. According to Wang Zhaoxing, vice-chairman of the China Banking and Insurance Regulatory Commission, regulators are trying to distinguish between good and bad shadow banking in order to balance benefits and risks (Zhou 2019). Wang Zhaoxing stated further, "we need to have an accurate understanding of shadow banking. For those [institutions] whose financing benefits the real economy and which have good internal risk controls, we may continue to allow them to exist and support them," in his view, one of the main risks is that shadow banking funds will enter the real estate market. Xiang Songzuo, former deputy director at the People's Bank of China, stated in March 2019 that "I think this year, regulators will encourage more shadow banking financing, particularly to the private sector." Finally, Yi Gang, governor of the central bank, has stated that shadow banking is not a completely negative word.

These recent statements mark a break from the division in views from the past. At present, there appears to be a compromise about the shadow banking industry, which aims to make use of the additional financing channel without sacrificing overall financial stability. We explore the extent to which this view is realistic below.

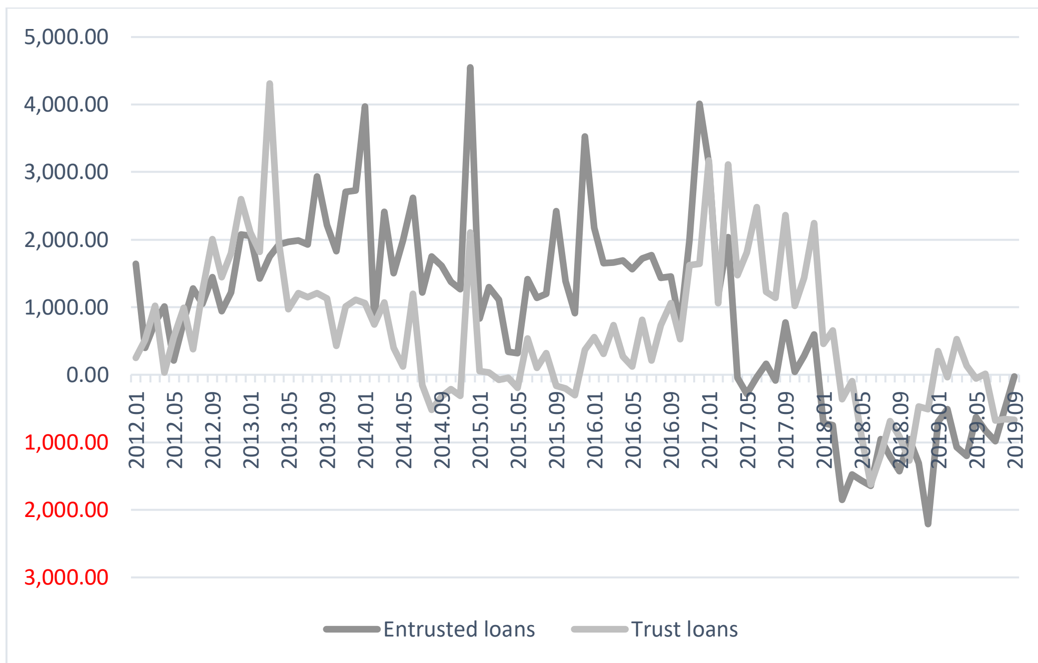
The figures below show the rise and fall of shadow banking, first as a percentage of RMB bank loans, and second in terms of trust and entrusted loans for the period of 2012 through fall 2019. One can see the impact of regulations on the shadow banking sector taking effect in 2017 through 2019, particularly in the second figure.

Figure 1. Shadow banking to RMB bank loan ratio



Source: People's Bank of China

Figure 2.Trust and Entrusted Loans



Source: People's Bank of China

A necessary evil?

Now that we have discussed the origins of shadow banking, we ask, is shadow banking a necessary evil?

To understand this, we should point out some aspects of the industry that are stated in the literature and some that have not been highlighted.

First, as is known, shadow banking in China can only be understood in the context of the banking industry. As shadow banks cannot accept depository funds, they are closely tied to the banking system. Banks are closely regulated, and the larger state-owned banks are often relied upon to carry out government policy. Initially, shadow banks took on the role of channeling funds to the riskier sectors that banks were not permitted to lend to. They also provided an alternative channel of investment for retail investors who had few profitable options outside of the stock market.

Second, the financial system's lack of well-developed corporate bond, stock, and other asset markets has resulted in a lack of liquidity and profitability in Chinese investments. Shadow banking provided alternative forms of investment, especially when underlying assets, such as junk bonds, risky loans, stocks, and a panoply of higher yield investments were bundled together. The rise of trust and entrusted loans, bankers' acceptance notes, and P2P lending platforms imitated a better developed financial market that offers a variety of instruments with different risk levels. The effect was the same: funds could be made available to riskier borrowers, and buyers could purchase the instruments as investments.

However, there were a couple of major differences between the non-bank financial markets in China versus in the West. One of these is that many of those holding the risky investments were retail, rather than institutional investors, such as pension funds or life insurance companies. Another difference is that the underlying Chinese assets often were associated with fewer covenants that restricted debtor activities, such as taking out a number of additional loans even as repayment capacity declined.

The implications of the first are that investors, mainly individuals, did not understand risks. It didn't help that many times, products sold to these individuals lacked transparency about the underlying assets. Because investors did not understand the risks of their investments, and would protest when and if they failed, causing social instability, the government frequently stepped in to cover the losses. This meant that there were really two investors-households, which enjoyed the upside of shadow banking products, and the government (often local governments) which absorbed the downside of shadow banking products. This resulted in excessive investment in risky products due to investors' intentional or unintentional awareness of moral hazard.

The second difference regarding lack of restrictions on debtor activities resulted in overleveraging of borrowers. This led to the excessive buildup of debt throughout China's economy. For state-owned companies, the issue of moral hazard arose again, since financial firms were amenable to lending to institutions protected by the state. The state would likely assist state-owned enterprises in trouble.

Despite these differences with the West, shadow banking played a couple of roles that were conspicuously absent in China, and badly needed: lender to riskier entities, and provider of higher yields to investors. Some of the riskier borrowing entities were state-related firms building up infrastructure under the post-stimulus policy directive, while others, particularly private small and medium sized enterprises (SMEs), have provided and continue to provide the bulk of GDP production. This bifurcation in types of borrowers is particular to the Chinese economy, which has promoted the state sector to

carry out policies, and has permitted the growth of the private sector, in the form of private, often family-run SMEs that are not encouraged to grow too large.

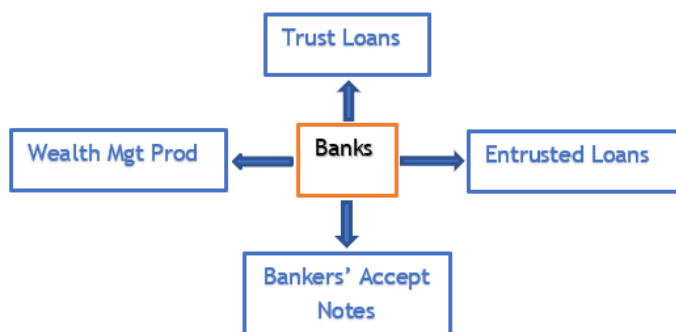
Shadow banking's promise of higher returns was attractive to households with increasingly higher incomes. This is because China's banking system, the main source of finance, has not been able to provide significant returns on deposits. Even after deposit interest rates were liberalized, they remained close to official benchmark rates set by the central bank. Other investments, such as stocks and bonds, were not well developed and often incurred high risks. Wealth management products promised far higher returns than bank deposits and appeared to enjoy implicit repayment guarantees.

Shadow banking thus burst out of China's financially repressive system in several permutations. There were shadow banking institutions with high barriers to entry, such as trust companies and, indeed, banks, and those with low barriers to entry, such as P2P lending companies. Despite the variety of shadow banking institutions that arose, many products were loan-centric and did not incorporate direct financing methods that might have better aligned investors and borrower incentives. Trust loans, entrusted loans, even peer to peer loans dominated the industry and comprised the basis of securitization. The need for short-term loan repayments frequently led to Ponzi-like financing to repay investors when loans wobbled. Because of this, the structure of these alternative financial channels was not a strong complement to bank loans, and was possibly even a poor substitute.

It can therefore be said that China's shadow banking system did not go far enough in diversifying its financial system. Certainly, some borrowers who could not receive funds from banks were able to obtain loans from the shadow banking sector, but the new types of finance did not increase the sophistication or the depth of China's financial landscape.

The shadow banking system was successful in reassigning the uses of bank finance but not in creating new, sustainable sources of finance. For example, funds raised by banks for wealth management products often came from bank customers looking to obtain a higher yield for their savings. Retail customers may shift funds from deposits to wealth management products. The same can be said for entrusted loans; company funds that might have been used as deposits are lent, through banks, to another firm. In both cases, the shadow banking system reassigns potential loanable funds from banks to riskier borrowers, taking advantage of high savings rate on the part of firms and households.

Figure 3. China's bank-centric shadow banking system



Source: Author's own

In addition, shadow banking was not always efficient, as it often diverted funds to less productive sectors. While it makes sense to have alternative lenders who have the capacity to lend to riskier borrowers, it cannot be justified if those higher risks are not balanced with higher returns stemming from real productivity rather than Ponzi finance. A large percentage of the funds were lent for the construction of infrastructure and real estate in places that were not seeing returns. It was unclear whether some of these projects would ever enjoy returns, or whether they would simply add to China's mountain of bad debt.

Things might have been different. New sources of finance might have included private equity (including venture capital) or well-priced corporate debt. These areas of finance are far less developed in China than in developed nations. Private equity and corporate debt may both allow for longer payment periods than loans and would have injected more stability into China's capital markets than wealth management products.

Hence, in our opinion, Chinese shadow banking in its current form is a poor cousin to the financial deepening and development that is part of Western financial systems. Although the industry provides some much-needed benefits to firms, financial institutions, and investors, the way in which it has developed threatens financial stability without providing sufficient added value. It is in desperate need of being restructured and would benefit from regulator involvement from the outset to shape the permitted financial activity.

Risks of shadow banking

China's shadow banking sector has frequently been in the news for its associated risks. While we do not attempt to enumerate the extensive list of risks here, we describe several major types of risks that arose in the past ten years.

One major risk was created by the use of implicit guarantees in the sales of wealth management products. Indeed, Dang, Wang, and Yao (2014) show that Chinese shadow banking is built on implicit guarantees, and operates mainly through banks, rather than through capital markets as in the US. Implicit guarantees lead to moral hazard, as financial institutions participate freely in shadow banking activities, such as issuance of wealth management products, because they themselves (not only the retail customers) believe they will be bailed out by the government if the products collapse.

Another major risk was created by the existence off-balance sheet transactions. Between 2010 and 2015, wealth management business, entrusted loan business, and undiscounted bill business were dealt with to a large extent off banks' balance sheets. Risks were compounded when assets were overpriced. Dangers arose as wealth management products incorporated nonperforming loans, or later, trust beneficiary rights or directional asset management plans which could include overvalued nonperforming loans. Other overpriced assets included corporate bonds, which faced an asset price bubble in 2016. Corporate bonds were mispriced, since default risks were not properly priced in. In addition, many corporate bonds were issued by local government financing vehicles, and were in danger of potential default. In April 2016, the corporate bond market was upset when several state owned enterprises defaulted on corporate bonds, leading to a large corporate bond selloff and cancellation of bond sales.

Maturity mismatches created the need to issue ever-more wealth management products. Short maturities reflected the desire by households for short-term returns, but did not meet the funding needs of issuers. Luo et al (2019) have suggested that such mismatches were created so that banks could disguise non-performing loans by recapitalizing their balance sheets before the end of each

quarter. While in developed countries, asset maturity periods were originally aligned with liquidity requirements by financial institutions, in China this was not the case. Loans bundled among other underlying assets in a wealth management product often had longer maturities. Some of the projects associated with such loans had even longer horizons until profitability could be reached, as they were anchored in the infrastructure or real estate sectors where demand was slack. This meant that loans were often taken out to repay existing loans.

Due to maturity mismatches in particular, banks often turned to interbank borrowing in order to fund shadow banking activities. Certificates of deposit grew as a percentage of interbank liabilities, with joint-stock and city commercial banks issuing most of them, since most retail deposits are concentrated at the largest five state-owned banks. From the beginning of the CD market in 2014, the volume of outstanding CDs increased to 8 trillion RMB at the end of the first quarter of 2017 (Chui and Upper 2017). The central bank imposed a cap on CDs starting in 2018, which dampened this phenomenon.

Systemic risk rose until Guo's crackdown on shadow banking, as wealth management products became increasingly interconnected through banks and trusts. What is more, a lack of transparency in shadow banking transactions, particularly in the area of entrusted loans, created the potential of transmitting financial fragility between and within industries.

Chinese banks had also engaged in taking structured deposits, which amounted to 10.8 trillion yuan ($1.5 trillion) as of September 2019. The yields on these deposits are linked to prices of other assets. Smaller banks in particular used the structured deposits in order to attract funds. These accounted for 8.2% of deposits at such small and medium sized banks.

Transmission of dominant risk sentiment

The Chinese government has significant power in controlling shadow banking activity by making known its risk sentiment; that is, whether government risk fears are high or low, whether the government wishes to allow shadow banking to run its course or not, is rapidly transmitted to the shadow banking industry as well as to the financial industry overall.

There are two major mechanisms in which this works. The first is through the media. State media sets the tone for risk aversion by discussing shadow banking risks, which the public reads and acts upon.

The second mechanism is through policy curbing shadow banking activities. This has an immediate effect on the shadow banking industry. Government policy may be a direct command given to institutions, but this is most commonly reserved for banks. For example, in February 2019, a Circular issued by the Communist Party Central Committee and the State Council required banks to lend to private firms (Tang 2019). For other institutions, failure to comply with regulations can mean dissolution or severe punishment. In Hunan province in October 2019, P2P lenders were entirely banned due to their failure to comply with new regulations (Liu 2019).

One major reason that the government risk sentiment is transmitted so effectively, as we will see in our empirical analysis, is because the state has the ultimate power in the financial sector to either quash or encourage activity. All institutions are ultimately subordinate to governmental power. However, it is not that institutions and households react solely to government media statements or policies directly (such as, "the government will curb entrusted loans, so our institution will not invest in entrusted loans) but also that these entities react to government actions as an overall policy toward shadow banking ("the government is cracking down on shadow banking, so we must avoid it.")

Very little has been written on this topic. There are papers which discuss the impact of monetary policy on the shadow banking sector, but not on government regulation. Within the monetary policy/shadow banking literature, one finding shows that contractionary monetary policy brought about shadow banking after the global crisis (Chen, Ren and Zha 2016).

Model and data

We test whether government opinion on shadow banking risks impacts holdings of entrusted loans to find out whether changing government opinions impact investors' actions. As a proxy for government opinion on shadow banking risks, we use the incidence of the phrase "shadow banking risks" in Chinese in the People's Daily, considered the mouthpiece of the Communist party. Data is from January 1, 2012 through December 31, 2018. We test whether government regulation on shadow banking impacts holdings of entrusted loans for the January 1, 2012 to December 31, 2018 period. We hypothesize that regulations WILL reduce holdings of entrusted loans as investors view some shadow banking channels as being shut down by the government. Furthermore, entrusted loans have usually been made between state-owned enterprises, which are normally held responsible for carrying out government policy, although dynamics between central-local regulation and SOEs may add another layer of complexity that we do not discuss here.

We also test whether government regulation and media mention of shadow banking risks will dampen stock market activity. We hypothesize that these factors will not dampen stock market activity due to the mainly retail makeup of stock market clientele and their belief that investors are given implicit guarantees by the government.

To begin with, we test for stationarity in both models using the Dickey Fuller test for unit root. We find that both models are stationary, with results as follows:

Variable	T-statistic	Lags used	Observations	Critical value (1%)	Critical value (5%)	Critical value (10%)
Entrusted loan first difference	-14.329	0	82	-3.535	-2.904	-2.587
Shanghai Composite second difference	-85.059	0	2554	-3.430	-2.860	-2.570

Then we turn to the first test, of government regulation and mention in the media of shadow banking risks on entrusted loan activity.

Our first model is a moving average model of first order, MA(1).

$y_t = \mu + \varepsilon_t + \theta_1 \varepsilon_{t-1}$, where $-1 < \theta_1 < 1$.

Where μ is the mean of the series, ε_t is white noise, θ is a parameter.
In our equation, y represents the first differenced entrusted loans.

Independent variables indicate whether a shadow banking regulation was made and how many times the People's Daily discussed shadow banking risks.

The model used is a moving average model of first order, or MA(1).

We use monthly data for the period 2012-2018.

	Coefficient	Standard Error	Z	P>|z|
Constant	60.48	67.49	0.90	0.370
SB Rule made	-222.47	100.07	-2.22	0.026
PD SB risks	5.22	10.1	0.52	0.605
ARMA MA(1)	-0.74	0.07	-10.79	0.00

The results show that shadow banking regulations have a large, negative impact on entrusted loan activity, which is what was expected. Mention of shadow banking risks in the media do not have a significant impact on entrusted loan activity.

We then turn to the impact of shadow banking regulations and media mention of shadow banking risks on the Shanghai Composite, controlling for monetary policy by using the second differenced daily level of open market operations.

The model is as follows:

The second model is a moving average model of twelfth order, MA(12). Data used is daily data, with the second difference of the Shanghai Composite closing value as the dependent variable, and daily mentions of shadow banking in the People's Daily, second difference of open market operations, and indicator of whether shadow banking regulations were implemented as independent variables.

$$y_t = \mu + \varepsilon_t + \theta_1 \varepsilon_{t-1} + \cdots + \theta_{12} \varepsilon_{t-12}$$

	Coefficient	Standard Error	Z	P>|z|
SB Rule made	-11.78	5.82	-2.02	0.04
Open market operations	.00	.012	0.07	0.94
PD SB risks	2.51	3.63	0.69	0.49
ARMA MA(12)	0.03	0.12	2.18	0.03

According to the results, shadow banking regulations have a significantly negative on the stock market. This is contrary to what we hypothesized, which is that regulations would not have a significant effect on the stock market due to investors' belief in implicit guarantees. However, it is an interesting result because it shows that the stock market is sensitive to an environment of increasing perceived risks and associated government tightening.

Both models reveal that both the shadow banking sector as well as the stock market are impacted by tightening government regulation on shadow banking. This reveals the importance of the shadow banking sector in China's overall financial system.

Discussion

It is interesting that government policy tends to curb both stock market and entrusted loan activity, despite the fact that the shadow banking system of entrusted loans is mainly a bank-based system, whereas the stock market system is a direct financing system. While these systems are not altogether separate, they are not immediately tied together. Ehlers, Kong and Zhu (2018) demonstrate this aspect in their shadow banking map, which does not explicitly include the stock market. Even though stocks may be incorporated into asset management products, the stock market is not well integrated into the shadow banking sector per se. Certainly, both sectors are affected by similar factors, such as interest rates, external shocks such as the US-China trade war, economic growth, and monetary policy, but it is an aspect of China's lack of financial deepening in non-bank related finance that the two areas continue to face segregation.

As a result of our analysis, it appears that government regulation on shadow banking affects both the shadow banking industry and the stock market. Talk of "shadow banking risks" in the People's Daily does not seem to play an important role in the real activity of these industries. From this, we can gather that, while officials may support or oppose shadow banking, as noted above, it is regulation itself that investors pay attention to.

We have also noted above that shadow banking is not, in our view, a necessary evil. The Chinese financial system is deeply flawed, and shadow banking has failed to fix these flaws. If investors pay attention to regulations, regulators should attempt to encourage direct and market-based finance that will improve the efficiency and reach of the financial sector. Even though officials have given lip service to promoting direct finance, the corporate bond sector, stock market, and private equity sector remain underdeveloped and insufficiently market-based.

Conclusion

This paper contributes to the shadow banking literature by analyzing the impact of government regulation on the shadow banking and non-shadow banking financial sector (i.e., the stock market). Using a unique data set based on data collected from various sources, we find that shadow banking regulation plays a strong role in China's financial sector. We also discuss ways in which China's shadow banking sector has not gone far enough in deepening Chinese finance, and make suggestions as to how regulators could lead the way in improving direct and market-based finance.

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Appendix I. Shadow banking regulations, 2012-2018

Name of regulation	Issue date	Content
Guidance on strengthening the risk supervision of local government financing platform loans in 2012	2012-2-21	strict control of new financing platform loans.
Notice of the China Banking Regulatory Commission on Relevant Issues Concerning the Regulation of the Investment Operation of Commercial Banks' Wealth Management Business	2013-3-25	The balance of wealth management funds invested in non-standardized debt assets is at the upper limit of 35%.
Central Bank internal meeting - Discussion on the regulation and development of inter-bank bond market	2013-4-24	Introduce new management rules for the holding transaction, and gradually cancel or upgrade the C-class account
Announcement on Further Regulating the Management of Related Transactions	2013-5-14	It is forbidden for the same financial institution legal person to conduct related transactions in the interbank market among all its bond accounts.
People's Bank of China Announcement [2013] No. 8	2013-7-2	All bond transactions in the inter-bank market were reached through the National Interbank Funding Center System.
General Office of the State Council issued the "Notice on Some Issues of Strengthening the Regulation of Shadow Banks" (Doc 107)	2013-12-31	classifies China's shadow banking activities into three categories: credit intermediaries without a financial license which are totally unregulated; credit intermediaries without a financial license which are under inadequate regulation; and credit intermediaries with a financial license which have inadequately regulated or unregulated businesses
Measures for the Management of Liquidity Risks of Commercial Banks (Trial)	2014-1-17	The liquidity coverage of commercial banks should reach 100% by the end of 2018.
Guidance on risk supervision of trust companies	2014-4-8	Trust companies may not carry out business with shadow banking characteristics such as non-standardized wealth management funds pool
Notice on Regulating the Inter-bank Business of Financial Institutions	2014-4-24	Define and standardize interbank borrowing, interbank deposits, interbank borrowing, interbank payment,
Notice of the General Office of the China Banking Regulatory Commission on Regulating the Management of Interbank Business of Commercial Banks (Doc 127, 140)	2014-5-8	Other departments and branches other than the franchise department of commercial banks shall not engage in inter-bank business.
CSRC: Securities company and fund management company subsidiaries asset securitization business management regulations	2014-11-19	Regulates and clarifies responsibilities of institutions doing asset securitization business

CBRC Draft Rules on Entrusted Loans	2015-1-16	States that five categories of funds must not be used for entrusted loans, mainly banks lending to companies and funds raised from other investors
PBC Notice 7 Simplify management of credit asset securities issuance	2015-4-14	Describes requirements for credit asset securities and management
China Banking Regulatory Commission, non-bank financial institution: Administrative licensing matters	2015-6-5	Regulates licensing of financial asset management companies, enterprise group finance companies, financial leasing companies, auto finance companies, currency brokerage companies, consumer finance companies, and overseas non-bank financial institutions
China Banking Regulatory Commission Trust Company Administrative licensing matters	2015-6-5	Describes regulations for establishment, change, and termination of trust company
China Banking Regulatory Commission Administrative Penalty Measures	2015-7-9	Administrative penalties are laid out for banks, trusts, and other financial institutions.
Guiding Opinions on Promoting the Healthy Development of Internet Finance	2015-7-18	Encourages innovation while controlling for risks in internet finance.
Notice on matters relating to the cleanup of the insurance asset management company's channel business	2016-6-1	Key inspections on the channel business of insurance asset management companies.
Notice on Strengthening the Supervision of Portfolio Insurance Asset Management Products Business	2016-6-13	It is forbidden to issue products of the "fund pool" nature, it is forbidden to issue classified products to non-institutional investors, and it is forbidden to issue equity-type and hybrid classified products to institutional investors more than 1 times leverage.
Interim Provisions on the Operation Management of Private Equity Asset Management Business of Securities and Futures Operating Agencies	2016-7-14	The leverage ratio of stocks and mixed assets management shall not exceed 1 time at most, and the leverage of futures, fixed income and non-standard asset management plans shall not exceed 3 times.
Banking Financial Management Supervision and Management Measures	2016-7-27	The market value of all securities issued by one wealth management product held by one institution shall not exceed 10% of the balance of the wealth management products.
China Banking Regulatory Commission (CBRC), Ministry of Public Security, Cyberspace Administration of China and the Ministry of Industry and Information Technology P2P Regulation	2016-8-24	China imposed limits on lending by peer-to-peer platforms to individuals and companies.
Bank off-balance sheet financing will be included in the MPA generalized credit monitoring scope	2016-10-27	The central bank will adjust the scope of the “macro-prudential assessment system” to include bank wealth management in the broad credit range of the MPA system.

Notice on Further Strengthening the Relevant Matters Concerning the Supervision of Investment in Insurance Funds	2017-1-24	Targeting the stock investment behavior of insurance group (holding) companies, insurance companies and insurance asset management companies
Notice on the special governance of the illegal behaviors of the banking industry	2017-3-28	Strengthen the compliance management of the banking industry, check the bank's compliance with existing laws, regulations and rules, and conduct special treatment on "violation of financial laws, violation of regulatory rules, violation of internal regulations".
Banking financial institutions regulatory arbitrage special governance work points	2017-3-28	For the current cross-market and cross-industry cross-financial financial services such as interbank business, investment business, and wealth management business of various banking financial institutions, special governance is carried out on issues such as high leverage and arbitrage.
Notice on the implementation of the special governance work of the bank's "inappropriate innovation, improper transactions, improper incentives, improper charges"	2017-4-6	Whether wealth management products directly invest in credit assets, whether to assist banks in circumventing regulatory requirements by arranging explicit or implicit repurchase clauses in the cooperation
Notice on Focusing on the Reorganization of the Banking Market	2017-4-7	Banking financial institutions and supervisory departments at all levels are required to conduct comprehensive self-examination.
Guidance on the risk prevention and control of the banking industry	2017-4-7	Require the banking industry to effectively resolve outstanding risks and strictly adhere to the bottom line of systemic risks
Notice on effectively making up for the short-term supervision and improvement of supervision effectiveness	2017-4-10	follow-up supervision and risk containment.
Notice on Further Regulating Local Government's Debt Financing Behavior	2017-4-26	The focus is on organizing the clean-up and rectification of local government financing guarantees, effectively strengthening the financing management of financing platform companies, standardizing the cooperative behavior of government and social capital parties, further improving the standardized local government debt financing mechanism, establishing cross-sector joint monitoring and prevention and control mechanisms, and vigorously promoting six aspects of information disclosure
CBIRC Notice 6 2017, Guiding Opinions of the China Banking Regulatory Commission on Banking Risk Prevention and Control	2017-4-10	Reduce bank risks, including of wealth management products
Office of the Leading Group for the Special Remediation of Internet Financial Risks Circular 64, Notice on the Cleanup and Rectification of the Cooperation between Internet	2017-6-30	required provincial groups to submit summary reports by the end of the month on violation of laws

Platforms and Various Trading Places in Violation of Laws		
Office of the Leading Group for the Special Remediation of Internet Financial Risks, Circular on Regulating "Cash Loans" Business	2017-12-1	Prohibited illegal fundraising
P2P Network Loan Risk Special Remediation Leading Group Office, Document 57, Notice on Doing a Good Job in P2P Network Lending Risk Special Rectification and Reconstruction and Acceptance	2017-12-8	Regulators required local governments to improve the P2P industry in their areas, registering major online lending platforms
CBIRC Administrative Measures for Commercial Bank Entrusted Loans	2018-1-5	Regulate source and use of entrusted loans
CBIRC Notice on Further Deepening the Reconciliation of the Banking Market	2018-1-13	Reduce risks of banking, including shadow banking aspects
PBOC, CBIRC, SAFE, CSRC, Guiding opinion on regulating the asset management business of financial institutions	2018-4-27	Regulate asset management products, no explicit or implicit guarantee, simplify products
CBIRC Order No. 6 2018 Commercial Bank Financial Management Supervision and Management Measures	2018-9-26	strengthen the supervision and management of the wealth management business of commercial banks, promote the healthy development of commercial banks' wealth management business, and protect the legitimate rights and interests of investors