

## TECHNICAL ASSISTANCE COMPLETION REPORT

Division: EARG

TA No., Country and Name TA 4349-PRC: Strengthening of the Statistical System of the China Banking Regulatory Commission			Amount Approved: \$400,000 Revised Amount:	
Executing Agency China Banking Regulatory Commission	Source of Funding TASF	Amount Undisbursed: \$62,518.51	Amount Utilized: \$337,481.49	
TA Approval Date: 18 June 2004	TA Signing Date: 28 July 2004	Fielding of First Consultants: 21 October 2004	TA Completion Date Original: 30 June 2005    Actual: 31 May 2006 Account Closing Date Original: 30 June 2005    Actual: 24 July 2006	
<b>Description</b>				
<p>China Banking Regulatory Commission (CBRC) was established in April 2003 as part of the restructuring of the financial supervisory framework to strengthen banking supervision in the People's Republic of China (PRC). This step was taken to draw a line between banking supervision and monetary policy by transferring banking supervision responsibilities from the People's Bank of China (PBC), PRC's central bank, to CBRC. CBRC is mandated by PRC's Banking Supervision Law to perform the banking supervision responsibilities, including, inter alia, the on-site and off-site supervision of banking organizations and non-bank financial institutions (NBFIs) with a view to achieving better risk control.</p> <p>An effective and comprehensive financial statistical system is indispensable for macroeconomic management and financial sector supervision. When CBRC was set up, however, such statistical system was not in place to meet CBRC's supervisory needs in general and to enable CBRC to conduct off-site surveillance with early-warning features in particular. CBRC inherited from PBC a system which lacked comprehensive design, was compartmental in structure, did not consolidate information, and did not allow quick inquiry and information sharing.</p> <p>CBRC gave high priority to establishing a new risk-based statistical system which would meet international standards and be able to comprehensively reflect the credit, market, liquidity, and operational risks of commercial banks. The TA was in line with ADB's PRC country operational strategy, one objective of which was to support the Government's efforts to reform the financial sector by strengthening CBRC's capability in prudential supervision and to facilitate integration of the financial sector into the global financial market.</p>				
<b>Expected Impact, Outcome and Outputs</b>				
<p>The expected impact of the TA was to support the reform of the PRC banking industry to meet the demands of a market economy, focusing on improving the CBRC's performance in banking regulation and supervision.</p> <p>The intended outcome of the TA was to strengthen the institutional capacities of CBRC as the banking regulator by establishing a statistics system that is consistent with risk-based supervision principles and meets the needs of supervisory authorities for off-site surveillance and on-site inspection, risk assessment, early warning, and information disclosure.</p> <p>The envisaged outputs included (i) new statistical indicators, data submission criteria and reporting formats designed for the statistical system; (ii) instruction books prepared and training activities conducted for banking supervisors and commercial banks; and (iii) a prudent analytical framework recommended for risk-based supervision based on new statistical information.</p>				
<b>Delivery of Inputs and Conduct of Activities</b>				
<p>The TA design framework was adequately formulated to support CBRC's efforts in building a sound statistical system, and the TA contributed significantly toward achieving this goal. In accordance with the terms of reference outlined in the TA paper, four consultants (two international and two domestic) were contracted and fielded on time. The team of consultants conducted a detailed study of the current situation of the statistical system and the information requirements of the CBRC regulators. Based on international standards and best practices, the team designed a set of statistical indicators, developed an instruction book for training, and recommended a decision tree model as a prudent analytical framework for risk-based supervision. During implementation, the consultants developed a constructive working relationship with their CBRC counterparts, and the cooperation between two sides was effective. The performance of all the four consultants was satisfactory.</p> <p>The Executing Agency and other Government agencies concerned were actively engaged in designing and implementing the TA, and were committed to achieving the TA objectives. The EA provided all the support needed by the consultants to complete the assignment. There was good coordination among government agencies in respect of implementing the TA. The overall performance of the EA was satisfactory.</p>				

ADB conducted extensive consultations with the EA and other government agencies in designing the TA. ADB also provided timely supervision. During the implementation, regular review missions were fielded and discussions with the EA and the consultants were effective in addressing various issues. ADB's performance was also satisfactory.

In response to the changed work agenda and the new capacity building needs of the EA, the consultants' contracts were extended by different lengths to facilitate the delivery of course materials and the conduct of training workshops. The TA completion date was extended by about eleven months mainly to accommodate the need of CBRC to send its senior staff for overseas training in the United States (US). The TA was financially closed on 24 July 2006.

#### **Evaluation of Outputs and Achievement of Outcome**

The TA was successful in enhancing the capacity of CBRC with regard to the statistical system. The consultants' reports, including the instruction books, were submitted to CBRC on time with good quality. The feedback from CBRC and other government agencies were all positive. The recommendations of the consultants were seriously considered by CBRC and were fed into CBRC's work. The TA was completed within the budget.

Three workshops were organized to introduce various technical aspects related to the establishment of the statistical system. Participants included senior staff of CBRC, PBC and National Bureau of Statistics, the general managers of statistics and risk management departments of major commercial banks, and reporters and compilers of statistical data. The workshops were effective in producing a good understanding of the structural and operational aspects of the new statistical system by the banking supervisors and commercial bank officers.

Senior staff members of CBRC gave highly positive feedback on the intensive training they received in the US in the area of legislation and institutional structure of an advanced supervisory system; good practices of data requirement, quality control, data processing and information dissemination; and advanced techniques and analytical framework for bank regulators in analyzing bank performance, particularly in the field of off-site surveillance. The knowledge and experience they gained from the training and the interactions with their US counterparts were put to use, and contributed to the improved performance of CBRC as a relatively new institution.

#### **Overall Assessment and Rating**

Despite the delay in completion, which was deemed necessary to allow sufficient time for the overseas training, the TA is rated successful. A major achievement was the adoption by CBRC of a set of carefully-designed statistical indicators and reporting formats, and a prudent analytical framework for risk-based supervision, which formed a solid base of a sound statistical system tailored to the needs of CBRC in regulating and supervising the rapidly developing banking sector in PRC. By strengthening CBRC's statistical system, the TA also contributed to CBRC's broader efforts in its initial migration from the Basel I accord to embrace the second and third pillars of Basel II, representing a fundamental change in the supervisory principle, from regulatory compliance to risk-based supervision.

#### **Major Lessons**

- The success of the TA was attributed largely to the strong ownership of the Government, especially CBRC as the EA.
- The in-depth consultation with the Government and the EA during the TA design and implementation also contributed to the success of the TA.
- This TA was the fourth of a series of ADB TAs and part of a wider range of efforts supporting the strengthening of the banking supervision in PRC. ADB's previous TAs in this area had targeted liquidity risk management, foreign bank rating and risk control, and preparation improvement of banking laws and regulations. ADB's consistent and continuous support proved effective.

#### **Recommendations and Follow-Up Actions**

Further strengthening regulation and supervision will be of critical importance for the healthy development of PRC's financial sector, which in turn is a key to sustaining robust economic growth. Per the terms of the PRC's accession to the WTO, foreign banks were allowed to engage in local businesses starting in December 2006, increasing competitive pressure on the domestic banks. ADB should continue its support to PRC's efforts in enhancing financial regulatory and supervisory capacities, especially in strengthening internal controls in financial institutions to maintain financial stability and decrease risks. ADB should also support strengthening cooperation and coordination among subsector supervisors. In this respect, a TA is planned in 2008 for the further improvement of effectiveness of banking supervision in the country.