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THE EXPECTATION AND CHOICE OF CHINA'S FINANCIAL SUPERVISION ON THE BACKGROUND OF INTERNATIONAL FINANCIAL REFORM

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Abstract

The subprime crisis in 2008 has revealed the flaws in the development strategy of the financial institutions business model and the problems in financial supervision in major developed countries. Effectiveness of financial supervision is important implications for preventing the occurrence of subprime crisis, and also maintaining the stability of the macroeconomic environment, and promoting the sound development of finance. After the subprime crisis, researchers and enterprisers began to re-considerate the original financial regulatory policies. The international financial community started the process of reconstructing the framework of financial regulatory through the G20 and the Basel Committee platform. Major changes have taken place in the governance structure and policy level. Many countries and regions have already carried out reform measures in advance and achieved corresponding results. Analyzing the main concepts of the international financial regulatory reform helps us to grasp the core of international financial regulatory reform and also helps China's financial regulatory reform.

Keywords: Systemic risk, financial supervision, international experience, regulation coordination

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INTRODUCTION

Since the subprime crisis, the Group of 20 (G20) has replaced the Group of Seven (G7) as the most important platform for international economic and financial governance. In 2009,the G20 Summit has defined the objectives and agenda for international financial supervision and regular review of international financial regulatory reforms progress and determined the final plan for international financial reform. The G20 Toronto Summit defined the four pillars of international financial supervision on June 25, 2010: The first pillar is a strong regulatory system that enables the banking system to rely on its own strength to respond to large-scale shocks, expanding the supervision of non-bank financial institutions and Off-exchange transactions(OTC) derivatives; the second one is effectively monitor, which can enhance regulatory capabilities, strengthen supervision, and giving regulators the right to identify risks and take measures as soon as possible; the third pillar is to propose policy frameworks for risk disposition and resolution of institutionally important institutional issues, such as effective risk disposition, enhanced prudential supervision tools and power, etc.; the last but not the least is transparent international assessment and peer review, it can promote the implementation of new international standards for financial supervision.

In order to effectively deal with the fragility of the financial system revealed by the global subprime crisis, this round of financial reforms covers the Micro, Macro and Intermediate level.

So as to enhance the robustness of individual financial institutions, we need to strengthen the micro-foundation of a stable financial system. The micro-level reforms include: improving the risk management capabilities of financial institutions; comprehensively reforming the supervision system for capital adequacy ratios, and greatly improving the ability of the banking system to absorb losses; introducing leverage ratio supervision to restrict the leverage effect of the banking system and alleviating the negative effects of deleveraging， establishing quantitative liquidity supervision standards, to enhance the ability of a single bank to respond to short-term liquidity shocks, and reducing the degree of misalignment of balance sheets of assets and liabilities; reforming corporate governance rules of financial institutions, and guide financial institutions to establish a group-level risk governance structure; financial institutions implement a robust remuneration mechanism to ensure that the number and duration of remuneration distributions are more consistent with the risk exposure and duration of risks that they undertake; improving the transparency requirements of financial institutions and strengthen market constraints.

To strengthen financial market infrastructure construction and to correct financial market failure issue. Intermediate-level reforms include: changing the national accounting standards, and building a single and high-quality accounting system; expanding the scope of financial supervision, quasi-financial institutions ("shadow banking system") that will not be subject to regulatory restrictions or only limited constraints, for example, hedge funds, private fund pools, mortgage loan companies, structured investment entities, money market funds, etc. are included in the financial regulatory framework; the supervision of external rating agencies is strengthened, conflicts of interest are reduced, and financial supervision and financial institutions' dependence on external ratings is also reduced; reforms the OTC derivatives market and promotes the standardization of it contracts, encourages transactions through central counterparties; mean a while, improves the consistency of regulatory standards in different financial sectors, narrows the space for regulatory arbitrage between different financial markets; and reforms the payment settlement system for financial transactions, to reduce the risk of contagious.

The purpose of this paper is to incorporate systematic risks into the financial regulatory framework and establish a macro prudential supervision system. The macro-level reform measures include: establishing regulatory arrangements linked to the macroeconomic and financial environment and the economic cycle, weakening the positive feedback effect between the financial system and the real economy, and strengthening the supervision of systemically important financial institutions, including the implementation of stricter regulation, improving the intensity and effectiveness of supervision, establishing a "self-help" mechanism, and reducing moral hazard caused by "too big to fall"; and strengthen the regulatory authorities for financial institutions with global system importance impact The sharing of information and joint operations, the establishment of cross-border crisis management arrangements to reduce the risk of cross-border transfer.

In general, this round of financial reforms put forward many new ideas and measures, such as systemically important financial institutions and "shadow banking" supervision and macro-prudential, but it failed to solve the fundamental problems of financial markets: For one thing, the shortage of capital adequacy and liquidity exposed by the Western banking in this crisis is only a superficial issue; and these questions that related to financial institutions' complicated organizational system and business structure, emerging and unregulated financial innovation, and crossover of traditional businesses have increased the contagiousness of risks. For another thing, reorganization of organizational restructuring despised structural financial infrastructure. Even if it suffered heavy losses in the crisis, European countries and the United States only increased capital requirements and liquidity supervision and other post-cost mechanisms to promote the prudent operation of financial institutions. This makes the reform focus too concerned about the adjustment of the regulatory organization, and does not emphasize the ability to improve and optimize supervision, and it is unlikely to resolve the crisis at the source.

EXTERNAL INFLUENCE ON THE REFORM OF CHINA'S FINANCIAL SUPERVISION

Financial globalization affects not only the national economy of each country, but also the regulatory system of each country. The financial globalization that accompanies with economic integration has brought new issues and challenges to the changing Chinese financial industry and financial supervision. Future financial supervision needs to renew the regulatory concept, improve the regulatory system. The establishment of a forward-looking financial supervision system is also in line with China's economic development and social progress.

After the subprime crisis, the active reform of the international financial regulatory reform

Prior to the crisis, the developed countries such as the United Kingdom and the United States overly believed the market and deemed that “at least supervision is the best regulation”. After the crisis, it fully rethought the relationship between the government and the market and changed from deregulation to intensified supervision (Zhang & Zhu 2011).

According to *Dodd-Frank Wall Street Reform and Consumer Protection Act*, the United States will extend its regulatory reach to all corners of the financial market and eliminate various "systemic risks" that lead to the crisis. According to the Wall Street Journal, “Overall, legislation is to fill the regulatory gap and end the speculative transactions that have contributed to the subprime crisis in 2008 to some extent” (Detailed interpretation of the US Financial Regulatory Reform Act, n.d.). The new bill emphasizes four aspects: Focusing on macro-prudential supervision, tightening financial supervision standards, expanding supervision coverage, and emphasizing coordination and supervision across agencies, it is not difficult to see that clarifying responsibilities, strengthening supervision, and taking preventive measures are the direction of this financial supervision. We can easy to see that all these practices are aimed at restoring public confidence in the financial system.

Similarly, after the subprime crisis, the Financial Services Authority (FSA)in UKbegan to reflect on the previous supervisory concepts based on market self-regulation. Turner believes that the supervision of financial institutions such as "Shadow" banks and similar banks should be strengthened, and that the economic essence of these institutions should be regulated accordingly rather than rigidly adhered to the legal form of financial institutions. That is, once the financial institution's business is determined to be similar to that of the bank and may affect the stability of the financial system, the regulatory agency can use the relevant provisions of bank supervision to supervise and require the adoption of corresponding accounting treatment standards and information disclosure (Adair 2009).

While other countries, especially the developed countries, have made adjustments to their financial supervision to varying degrees, the new financial supervision has become the reference or even a model for financial reforms in the rest countries. As a major regulator of the world's financial rules, the US's "Raising Bank Capital Standards" and "Supervising Hedge Funds" proposed in the "New Deal" of financial supervision are bound to produce a global financial regulatory system and even a global economic and financial structure in the future. It will have a profound and lasting impact.

Passive change under international convergence of regulatory models

The global financial integration has promoted the convergence of financial supervision modes: the legal supervision of divisions has encountered the mixed operation in fact. Faced with global mixed operations and foreign large financial groups, the difficulty of China's separate industry supervision has become more apparent. After analyzing the game model, Liu Xia and Pu Yongjian believe that the current situation of China's banking, securities, and insurance operations in separate operations and separate operations is related to the level of operation and management of the financial industry, the degree of development of the financial market, the soundness of the financial legal system, etc. The situation is at a relatively low level, which is consistent with the fact that it focuses more on the security and stability of the financial system and the controllability of risks (Liu & Pu 2009). On the other hand, although the financial mixed operation has not yet become the mainstream of the country, and there are still legal obstacles to the financial mixed operation, the signs of mixed operations, such as the cross-sector business between financial departments and the formation of financial groups, have already begun. Obviously. This is not only the need for the development of financial institutions themselves, but also the necessity for financial services to meet the needs of economic development.

As a result, China's financial supervision model and the standard of financial legal also face the task of adjustment and change. It needs to be adjusted and evolved in the direction of international integration. This should be said to be an overall development trend (He 2003). After the evolution of financial markets and the exploration of the regulatory system, the regulatory system of China's financial industry starts with the "great unification" of the beginning of reform and opening to the "central bank and three commissions" (the PBC and the China Banking Regulatory Commission, the China Securities Regulatory Commission and the China Insurance Regulatory Commission jointly Financial markets and institutions supervised). And then in March 2018, the State Council's institutional reform program approved by the First Session of the 13th National People's Congress established the Bank of China's Insurance Regulatory Commission as an institution directly under the State Council. Such institutional changes are conductive to the integration of regulatory power and reduction of regulatory gaps. At the same time, they are also conductive to the development of integrated services for financial institutions and improve the efficiency of financial market conversion.

International Cooperation in Financial Supervision

Economic globalization has brought markets throughout the world. And these markets also require the integrated rules and cooperation of global financial supervision. The subprime crisis in 2008 revealed the lack of transparency in the financial systems of developed countries, the failure of coordination of macroeconomic and regulatory policies, the prevalence of regulatory arbitrage, and the moral hazard of the financial services industry. It also shown that the financial architecture and operating methods that developed countries have always advocated are not to fulfill suitable standards for China and other emerging market countries, this changes provides the need to explore a new global cooperation framework. The convergence of regulatory and regulatory approaches has led to the gradual convergence of financial regulatory models across countries. How does traditional financial supervision become more internationalization? The most important thing is to change the monotonous and introverted management strategy and adopt a comprehensive international regulatory strategy to make the regulatory policies and means consistent with the global development trend; moreover, the second thing is to strengthen the coordination and cooperation of international supervision and prevent from the spread and spread of international financial risks. Maintain global economic and financial stability and development. Consideration should be given to the harmonization of regulatory standards for large multinational corporations and the realization of multinational regulatory cooperation. International regulatory cooperation is not only an important measure to guard against exogenous systemic risks, but it also helps to unify the scale of financial reforms in all economies and avoid the risk transfer in the more loose financial markets of other countries and regions.

THE ENDOGENOUS FORCES THAT AFFECT CHINA'S FINANCIAL REGULATORY REFORM

Requirements for the Development of Financial Markets

After nearly 30 years, China's banking has grown from the unique status of People's Bank of China to the present and has owned nearly 10,000 corporate banking institutions (Jiang n.d.).

The historic transition from the "universal" banking system to the modern banking system has been achieved. Meanwhile, the financial services provided by the Chinese banking institutions have also been continuously improved. From a simple deposit and loan service to the financial service that combines diversity and personalization. In financial services, major changes have taken place in traditional business model of banking, and the functions of financial supermarkets have begun to show up gradually.

Correspondingly, China's banking market structure has experienced the development from complete monopoly to monopoly competition, and the competition subject has changed from a single entity to a compound subject, and the scope of competition has also extended from the domestic market to the international market.

Development of financial services and market development

The need for the development of financial institutions themselves is also an inevitable requirement for financial services to meet the needs of economic development. Thus, China's financial supervision model and financial legal norms also face the task of adjustment and change. It needs to be adjusted and evolved in the direction of international integration. This should be said to be an overall development trend (He 2003).

The opening of financial markets and the competition between Chinese and foreign-funded financial institutions

Under the condition that the legal system is not perfect, opening up to the outside world can greatly reduce the resistance of vested interest groups to domestic changes. Therefore, we must break the resistance of vested interest groups to institutional changes, with greatly promote China's economic reforms and financial development, so China must further open its markets. The full liberalization of banking and other financial services industry not only brings about changes in market players, but also has an important impact on China's relevant policies and financial supervision.

The opening strategy of financial markets means that the inner market is more dynamic, open and full of competition. Rational financial supervision should consider the historical traditions, and also conform to actual Chinese conditions. At the same time, it must also consider financial development trends in the future; it must be technically feasible and cost-effective, and it must have certain flexibility. The choice of which mode of financial supervision or mode of financial supervision changes will depend on the internal and external environment of its economic and financial operations. Reasonable financial supervision should be helpful to prevent the subprime crisis and to achieve financial stability.

THE EXPECTATION OF CHINA'S FINANCIAL SUPERVISION AND DEVELOPMENT SYSTEM

The financial regulatory reform should establish a dynamic and forward-looking macro-prudential framework from the perspective of the interrelationship between economic activities, financial markets, and the behavior of financial institutions. Innovation and competition have always been the focus of financial supervision. However, strengthening financial supervision is not to suppress innovation but to encourage controlled innovations that are allowed under the rules. Financial regulatory reform is not to suppress competition but to strengthen competition and guide. Financial institutions compete legally.

In the short term, owing to the constraints of the transition background and emerging markets, the Chinese characteristics caused by the path dependence of financial development will not be quickly eliminated. Under the government-led institutional changes, the transition of China's economic and social systems during the changing period embodies government-dominated features. Government supervision must be able to promote effective competition among the oligarchs. There is a dual-track competition pattern in China's banking where government-led large banks' and small-bank competition coexist. As a result of this competition, large banking institutions do not feel the pressure of competition in the external market because they can obtain monopoly rents set by government. Self-discipline management that reduces costs and increases returns is not urgent for oligarchic banking institutions; it is in a vicious competition. No one can escape from the Prisoners' Dilemma alone, resulting in the simultaneous increase in the scale of costs and the deteriorating performance of various banking institutions. Thence, it is the policy orientation for the design of the government's regulatory system to promote effective competition among incumbent oligarchs, standardize the competition among small banking institutions, and foster self-discipline management awareness and self-discipline management.

Kane (1981, 1984, and 1998) made a theory of "avoidance of regulation" and a dynamic game model; it demonstrated that financial regulation is an important cause of financial innovation. Kane also believes that financial innovation is mainly caused by financial institutions evading government regulations in order to obtain profits.

Banking regulation and supervision is not a static behavior but a dynamic process; the design of banking supervision system must be changed according to the changing socio-economic environment. Otherwise, it will destroy financial system at either the cost of delaying the development of financial institutions and also the expense of financial stability for the price. Simultaneously, we can also see from a deep level that the financial innovation behavior of financial institutions is not only driven by profit motives, but also due to the lagged behind in the development of financial supervision theory and development, which has hindered financial institutions and financial systems from becoming more advanced than past.

Financial reform can be divided into three ways. First and foremost, disruptive institutional changes, that is, adopting completely different regulatory systems and systems; besides, substantive reforms of regulatory rules; and third, restructuring of regulatory frameworks. However, it must be made clear that what we need is better regulation and not more regulation. Changes in financial supervision should focus on goals beyond the stability of the financial system, such as efficiency and innovation.

Regulation coordination

While there is no fundamental change in the financial supervision model, the micro focus of financial supervision should be adjusted. To avoid regulatory duplication, inefficiency and wasteful regulatory costs, the financial markets may make appropriate adjustments: on the one hand, to strengthen the independence of the People's Bank of China, China Banking Regulatory Commission, Securities Regulatory Commission, China Insurance Regulatory Commission, the "separate operation, separate supervision in under "in the background, to intensify the system of regular meetings between high-level regulatory agencies have established to conduct regular consultations on major issues, coordination; on the other hand, the intersection of business and financial groups in the mixed operation, implementation of joint supervision, the establishment of regulation Information exchange and sharing mechanisms between agencies.

The problems in China's financial regulation coordination mechanism are mainly manifested in the following aspects: To begin with, because of the unclear division of supervisory authority's regulatory border authority, the phenomenon of duplicate information collection is serious. The duplication of survey information and data collection systems has increased the operating cost of financial institutions, created a soft resistance of financial institutions to regulatory agencies, and also caused the waste of regulatory resources; then, the enthusiasm of the major regulatory agencies in participating in regulatory cooperation is not high. It has led to poor information exchange channels, and important regulatory data cannot be accurately and timely obtained, which reduces the effectiveness of regulatory policies and regulatory functions. Furthermore, the regulatory vacuum in the financial innovation field is serious. The institutional design of financial supervision and coordination can’t meet the regulatory needs of the constantly innovative financial markets. The internal regulatory loopholes in financial holding companies and the lack of supervision of financial derivatives all conceal great risks.

Establish an effective coordination mechanism for regulatory agencies to enhance the concrete effects of financial supervision. It is necessary to strengthen information sharing and communication between the Central Bank and the China Banking Regulatory Commission, the China Securities Regulatory Commission, and China Insurance Regulatory Commission. The responsibilities of financial regulators should be clearly defined, a reasonable policy framework should be designed, and the regulatory conflicts at all levels should be properly handled so as to avoid leaving a regulatory vacuum, which can prevent inadequate supervision and overregulation.

The analysis of Li Cheng et al. (2009) states that examining the regulation coordination between the People's Bank of China and the three financial regulatory agencies and taking an examination of the coordination efficiency of China's financial supervision, the basic conclusion is that the current financial regulation coordination mechanism in China is inefficient. In the state, all parties in the supervision have "free-rider" phenomenon in the game (Li, Ma & Li 2009). Enhanced the legal constraints of the coordination of financial supervision, and the force of law can restrain the regulatory bodies to adopt active cooperation strategies to form a positive interaction, thereby reducing the cost of cooperation, increasing the benefits of cooperation, and improving the efficiency of financial supervision and coordination. The responsibilities of the People's Bank of China and the three financial regulatory agencies in the financial regulation coordination mechanism should be clarified. For the non-cooperative regulators' introduction of penalties, they must be held accountable for regulatory dereliction of duties and reduce the cost of regulatory frictions caused by legal vacancies.

International Cooperation in the Reform of Financial Supervision

What is worth noting is that the *Dodd-Frank Act* grant the US regulatory authority the power to extend the supervision of the parent company and branches of financial institutions, which may cause the regulatory authorities of the United States and the host country to have some friction in terms of regulatory policies, etc., thereby weakening the independence of the host country's regulatory policy.

In the face of different global governance frameworks, China also needs to seriously consider its repositioning in the international financial and monetary system. It should not only steadily promote the regionalization and internationalization of the RMB, but also actively participate in the reconstruction of the international financial system depart from reflect the interests of developing countries.

CONCLUSION

The global subprime crisis destroyed the world economy and forced researchers and enterprisers to re-examine the current supervision and to find a balance between financial industry's competition, efficiency and security. There are multiple sources of crisis, which including the acceleration of innovation in the financial market and the avoidance of financial supervision, and also involves the reasons for the deregulation of the financial industry in the countries concerned. Although China's financial industry has not suffered much damage from this crisis, the financial globalization that accompanies with economic globalization and the financial regulatory reforms carried out by various countries after the crisis have imposed higher requirements on China's financial industry and financial supervision. China's financial market development has its own unique course, and corresponding reforms must also consider specific actual conditions. Whether it is a separate operation or a mixed one, financial supervision must be conductive to promote financial efficiency. Meanwhile, financial supervision must also effectively coordinate financial competition regulations and economic and financial policies. While enhancing financial competitiveness and regulating financial competition, it must also focus on maintaining smooth financial operations and promoting sustainable economic development. We are looking forward to the possible future direction of China's financial supervision. What I want to focus on as the first point is that it is more important to use empirical data to examine the actual effects of banking insurance supervision in the following studies. In addition, we should pay close attention to the changes in international supervision and the impact on China. The last point worth our concern and attention is that we must pay attention to analyzing the changes in China's financial supervision from the perspective of institutional economics.

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