2010 China-U.S. Symposium

Agenda

FRIDAY, JUNE 18

6:30–6:40 p.m. **GREETINGS**

6:40–7:30 p.m. **KEYNOTE ADDRESS**

- Zhao Kezhi, Executive Vice Governor, Jiangsu Province, China
  Introduced by: Li Jiange, Chairman, China International Capital Corporation Ltd.
- Robert Dohner, Deputy Assistant Secretary for Asia, U.S. Department of the Treasury
  Introduced by: Hal S. Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School

SATURDAY, JUNE 19

8:00–8:05 a.m. **OPENING REMARKS**

- Hou Yunchun, Vice Minister, Development Research Center of the State Council

8:05–8:30 a.m. **PANEL SESSION**

Topic 1: The Macroeconomics of the Post-Crisis Global Financial System
- *Chinese Panelist:* Qiu Jin, Head of Research Department, Managing Director, CICC
- *U.S. Panelist:* Jeffrey R. Bohn, Head of Portfolio Analytics and Economic Capital, Standard Chartered Bank

8:30–9:55 a.m. **SMALL GROUP SESSIONS**

Group	
1	*Facilitator:* Zhang Chenghui, Deputy Director General, Research Institute of Finance, Development Research Center of the State Council *Facilitator:* Satoru Murase, Partner, Bingham McCutchen Murase LLP *Reporter:* William Grimes, Associate Professor of International Relations and Director of the Center for the Study of Asia, Boston University
2	*Facilitator:* Cheng Zhijun, Deputy Director General, Finance Department, Ministry of Finance *Facilitator:* Donald Kanak, Chairman, Prudential Corporation Asia *Reporter:* Michael DeSombre, Partner, Sullivan & Cromwell LLP
3	*Facilitator:* Tang Jinlong, Chief Partner, Zhong Yin Law Firm *Facilitator:* Oliver Weisberg, Managing Director, Citadel Investment Group (Hong Kong) Limited *Reporter:* Laurence W. Bates, General Counsel Japan; Director, International Law and Policy, Asia-Pacific, GE Japan Corporation
4	*Facilitator:* Pei Changhong, Director, Institute of Finance and Trade Economics, CASS *Facilitator:* Gene Huang, Chief Economist and Vice President, FedEx Corporation *Reporter:* Christopher Wells, Partner, White & Case LLP
5	*Facilitator:* Sun Jie, Senior Vice President, PCIP Securities and Futures Commission, HK *Facilitator:* Jeffrey R. Bohn, Head of Portfolio Analytics and Economic Capital, Standard Chartered Bank *Reporter:* Dino Kos, Managing Director, Portales Partners LLC
6	*Facilitator:* Ding Yifan, Research Fellow, Development Research Center of the State Council *Facilitator:* Richard Jerram, Chief Economist, Macquarie Securities *Reporter:* Fang Jin, Research Fellow, Development Research Center of the State Council *Reporter:* Martin Rogers, Partner, Clifford Chance
7	*Facilitator:* Elaine La Roche, Independent Director, China Construction Bank *Facilitator:* Austin Hu, Chief Representative, Goldman Sachs International Bank Beijing Representative Office *Reporter:* James Lin, Partner, Davis Polk & Wardwell LLP

10:05–10:25 a.m. **PANEL SESSION**

Topic 2: Corporate Governance for Financial Institutions: Lessons from the Crisis
- *Chinese Panelist:* Lian Ping, Chief Economist, Bank of Communications
- *U.S. Panelist:* Anthony Stevens, Partner, Head of Asia Pacific, Oliver Wyman

10:25–11:45 a.m. **SMALL GROUP SESSIONS**

Group

1 *Facilitator:* Zhang Chenghui, Deputy Director General, Research Institute of Finance, Development Research Center of the State Council
Facilitator: Paul Speltz, Chairman and Chief Executive Officer, Global Strategic Associates, Inc.
Reporter: William Grimes, Associate Professor of International Relations and Director of the Center for the Study of Asia, Boston University

2 *Facilitator:* Cheng Zhijun, Deputy Director General, Finance Department, Ministry of Finance
Facilitator: Stephen Harder, Managing Partner, China, Clifford Chance
Reporter: Michael DeSombre, Partner, Sullivan & Cromwell LLP

3 *Facilitator:* Tang Jinlong, Chief Partner, Zhong Yin Law Firm
Facilitator: Nicholas de Boursac, Managing Director, Asia Securities Industry & Financial Markets Association
Reporter: Laurence W. Bates, General Counsel Japan; Director, International Law and Policy, Asia-Pacific, GE Japan Corporation

4 *Facilitator:* Pei Changhong, Director, Institute of Finance and Trade Economics, CASS
Facilitator: Marsha Vande-Berg, Chief Executive Officer, Pacific Pension Institute
Reporter: Martin Rogers, Partner, Clifford Chance

5 *Facilitator:* Sun Jie, Senior Vice President, PCIP Securities and Futures Commission, HK
Facilitator: Kha Loon Lee, Head, Standards and Financial Market Integrity, Asia Pacific, CFA Institute
Reporter: Christopher Wells, Partner, White & Case LLP

6 *Facilitator:* Ding Yifan, Research Fellow, Development Research Center of the State Council
Facilitator: Catherine Simmons, Vice President, Government, Regulatory, and Industry Affairs, Asia Pacific, State Street Bank and Trust Company
Reporter: Fang Jin, Research Fellow, Development Research Center of the State Council
Reporter: Dino Kos, Managing Director, Portales Partners LLC

7 *Facilitator:* Austin Hu, Chief Representative, Goldman Sachs International Bank Beijing Representative Office
Facilitator: Jack Murphy, Jr., Partner, Cleary Gottlieb Steen & Hamilton LLP
Reporter: James Lin, Partner, Davis Polk & Wardwell LLP

1:10–2:50 p.m. **PANEL SESSION**

Topic 3: Balancing Regulation and Innovation in the U.S and Chinese Financial Systems
- *Chinese Panelist:* Chen Zongsheng, Deputy Secretary General, Tianjin Municipal Government
- *Chinese Panelist:* Gong Minghua, Deputy Director General, Policy Research Bureau, China Banking Regulatory Commission
- *U.S. Panelist:* Hal S. Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School
- *U.S. Panelist:* Oliver Weisberg, Managing Director, Citadel Investment Group (Hong Kong) Limited

3:00–6:00 p.m. **REPORTERS MEETING**

6:45–7:45 p.m. **KEYNOTE ADDRESS**

- Niu Ximing, President, Bank of Communications
- Stephen Roach, Chairman, Morgan Stanley Asia
  Introduced by: Hal S. Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School

SUNDAY, JUNE 20

8:00–9:00 a.m. **PRESENTATION AND DISCUSSION**

Topic 1: The Macroeconomics of the Post-Crisis Global Financial System
- *Chinese Chair:* Jesse Wang, Executive Vice President and CRO, China Investment Corporation
- *U.S. Chair:* Gene Huang, Chief Economist and Vice President, FedEx Corporation

9:05–10:05 a.m. **PRESENTATION AND DISCUSSION**

Topic 2: Corporate Governance for Financial Institutions: Lessons from the Crisis
- *Chinese Chair:* Mao Yumin, Controller of Investment and Wealth Management Banking, China Construction Bank
- *U.S. Chair:* Marsha Vande-Berg, Chief Executive Officer, Pacific Pension Institute

10:15–11:15 a.m. **PRESENTATION AND DISCUSSION**

Topic 3: Balancing Regulation and Innovation in the U.S and Chinese Financial Systems
- *Chinese Chair:* Tony Neoh, Member of the HK and California Bar
- *U.S. Chair:* Hongbin Qu, Managing Director, Co-Head of Asian Economics Research, The Hong Kong and Shanghai Banking Corporation Limited (HSBC)

Harvard Law School
Program on International Financial Systems
China Development Research Foundation

Symposium on Building the Financial System of the 21st Century: An Agenda for China and the United States

Nanjing, China • June 18–20, 2010

Final Report

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Program on International Financial Systems

Founded in 1986, the Harvard Law School Program on International Financial Systems (PIFS) fosters the exchange of ideas on capital markets, financial regulation, and international financial systems through its acclaimed portfolio of *Symposia on Building the Financial System of the 21st Century.* PIFS also conducts research and organizes special events on these topics.

Each year, PIFS bilateral Symposia bring together senior financial leaders, high-ranking government officials, and distinguished academics from the United States and their counterparts from China, Europe, Japan, and Latin America for intensive dialogue on issues affecting international capital markets.

Off-the-record and closed to the media, the invitation-only PIFS Symposia convene leading market practitioners at off-site retreat venues. The Symposia model features candid, intimate exchanges between global counterparts within small-group discussions. Keynote addresses and panel sessions serve to initiate and enhance the interactive, small-group dialogue, which is conducted under Chatham House Rules in order to foster an open exchange of ideas. These discussions are synthesized and presented on the final day of the Symposium in a plenary session, and then summarized and published in the following Symposium Final Report.

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2010 Symposium on Building the Financial System of the 21st Century: An Agenda for China and the United States

To access the Symposium final plenary presentation and participant concept papers

www.law.harvard.edu/programs/about/pifs/symposia/china/index.html

and click on Final Plenary Presentation and Participant Concept Papers.

Symposium Final Report

The seventh annual China-U.S. Symposium was held at the Purple Palace hotel and convention center in Nanjing, China. With robust growth in China and an apparent recovery in the U.S., participants focused their attention on how to ensure financial stability and continued economic growth in the world economy. Sessions addressed the macroeconomic bases of the post-crisis global financial system, lessons of the crisis for corporate governance of financial institutions, and how to balance financial regulation with promotion of innovation in the two economies.

Session 1

The Macroeconomics of the Post-Crisis Global Financial System

Recognizing robust economic growth in China and elsewhere in emerging Asia and signs of sustained, albeit weak, recovery in the U.S., participants discussed several key macroeconomic issues going forward. These included prospects for growth in the Chinese, U.S., and global economies; issues of rebalancing in the U.S. and Chinese economies; and what "normalcy" would look like in the post-crisis period.

WHAT DOES IT MEAN TO BE "POST-CRISIS?"

Despite general acceptance of ongoing improvements in the global economy since the worst of the crisis, some participants questioned whether it was helpful to think of the crisis as truly over. They pointed to deteriorating fiscal conditions in the developed economies of the U.S., the EU, and Japan, as well as continuing financial fragility. A number of participants expressed concern about the likelihood of a double-dip recession in one or more of those economies; while recession in and of itself would not necessarily lead to a return of crisis, several questioned whether U.S. and European banking and financial systems could handle a major new wave of home foreclosures and loan defaults. They worried that reemergence of a loss of confidence in counterparties could once again lead financial markets to freeze up. Additionally, concerns were raised about the real possibility of sovereign debt defaults in Europe and the continuing large public debt of the U.S. and Japan. While the developed economies were seen to benefit from well-established markets for public debt and the global acceptability of their currencies, participants noted that there was still uncertainty as to whether they could continue to expand debt indefinitely.

In addition to these concerns about known economic variables and trends, many participants observed significant uncertainties about the shape of the post-crisis world. One concern, which was addressed in greater depth in Session 3, was the potential effects of comprehensive financial reform being enacted in the U.S. and potentially other economies as well. From a macroeconomic perspective, there was particular concern about whether increased capital and liquidity requirements, increased regulatory burden, and the sheer uncertainty about how the legislation would be translated into regulation might lead to a reluctance of banks to lend, thus reducing credit at a critical time.

A particular concern was expressed about how long it would take to bring fiscal deficits back onto a sustainable path. This uncertainty was compounded for many participants by doubts about the ability of democratic systems to significantly tighten their belts in the midst of lackluster economic growth. For the U.S., for example, while it was generally agreed that it should be possible to go from deficits of 11%

of GDP to around 6% relatively easily, some participants argued that it would be extremely challenging to bring the deficit down to 3%, which was seen as a roughly sustainable level. In the time that might take, it was suggested, mounting U.S. debt could make markets nervous. The situations of Japan, the UK, and the Eurozone were seen as similar in nature, even though the specifics might differ.

With regard to crisis-era monetary policy, there were relatively few concerns about inflation in the developed economies (indeed, concerns about deflation were much more common). However, many participants worried that the extraordinary injections of liquidity would lead to new bubbles, which would in turn destabilize economies and financial systems. This was seen as less likely in real estate in the developed countries, where significant excess capacity was seen as likely to persist into the medium-term. Rather, the concern was partly about asset classes such as government and corporate bonds in the developed economies, and even more so about real estate and equities in emerging markets.

WHAT IS THE NEW "NORMAL"?

Setting aside the possibility of new crises, participants agreed that the developed world was likely entering a prolonged period of weak growth in credit and GDP, which would create new challenges for fiscal and monetary policy. One participant summarized the situation as the end of the "Great Moderation," during which relatively high growth in U.S. demand had combined with slack in fiscal and monetary policy to dampen global business cycles. He predicted that recessions would be more common in the coming years.

One particular monetary policy challenge observed by a number of participants was that liquidity increases could no longer be expected to translate into increases in lending. The breakdown of the standard monetary policy transmission channels recalled Japan's post-bubble travails.

While Chinese growth and credit demand were seen as much healthier, the changes in developed economies were likely to affect China's prospects for export growth. Thus, for China, a major element of the new normal would need to be a greater dependence on domestic demand.

REBALANCING THE WORLD ECONOMY

Much of the discussion of the macroeconomics of the post-crisis global financial system addressed issues of "rebalancing." It was noted that there are many forms of rebalancing, including international rebalancing (reducing U.S. current account deficits and Chinese surpluses), domestic rebalancing (shifting the share of spending between consumption and investment or government and private), and sectoral rebalancing (shifting the share of income and lending between regions or types of firm). While international rebalancing between the U.S. and China had been a significant focus of global attention, many participants argued that domestic and sectoral rebalancing would be essential components in stabilizing the global economic system.

SAVINGS-INVESTMENT IMBALANCES (INTERNATIONAL FACTORS)

While much of the concrete task of rebalancing the global economy was seen as requiring domestic shifts in China and the U.S., participants also discussed factors that were explicitly international in their impacts. These included the exchange rates and restrictions on cross-border trade and investment. While the role of international forums such as the G20 was brought up, few participants saw multilateral negotiations as being an effective means of reducing imbalances.

RMB Exchange Rate

Participants recognized that a great deal of attention had been paid to the issue of exchange rates, particularly the RMB-U.S. dollar cross-rate. However, the exchange rate was actually not a major topic of discussion at the Symposium. To the extent it was discussed, there was considerable skepticism expressed as to whether RMB appreciation could play a significant role in reducing China-U.S. imbalances. Several points were made in this regard.

First, it was noted by a number of participants that the fundamental cause of imbalances was the relationship between savings and investment in the two countries—in the U.S., relatively high levels of investment were coupled with very low rates of public and private savings, whereas in China high investment combined with even higher levels of savings. While participants accepted that the exchange rate would have some effect on prices, many were skeptical that the shift in relative prices would alter those economic fundamentals. Thus, even if there were to be a reduction in U.S.-China imbalances, the overall current account balances of the two countries would likely remain mostly unchanged. A number of participants expressed considerable skepticism that even U.S.-China imbalances would be reduced by an appreciation of the exchange rate. Two arguments were made in this regard. First, it was noted that the domestic value-added of many goods (such as in IT and consumer electronics) that China exports to the U.S. and around the world was limited: if Chinese factories are primarily assembling components from countries whose currencies are not moving against the dollar to the same extent as the RMB, an appreciation of the RMB would have little effect on the price of final goods. Those goods with a high domestic value-added (such as textiles and toys) were seen as products for which there were few or no U.S. producers. Thus, at best, these participants predicted that there would be a shift away from U.S. imbalances with China to U.S. imbalances with other low-wage producers. Or, given the sheer magnitude of China's share in many of these products, it would just mean higher prices (and thus lower standards of living) for U.S. consumers.

The second argument was empirical in nature. Several participants noted that current account imbalances between the U.S. and China had not improved during the period of 2005-2008, when there had been a considerable appreciation of the RMB versus the dollar. Other participants were skeptical of this evidence, however, pointing out that the appreciation had been fairly limited, that exchange rates are known to affect trade with a lag, and that other factors, such as massive real estate-collateralized borrowing in the U.S., had overwhelmed the price effect.

There were some arguments in favor of RMB appreciation, or at least greater market determination of the RMB exchange rate. One had to do with the emergence of inflation, particularly asset-price inflation in real estate markets, in China. It was argued that the extraordinary accumulation of foreign exchange reserves in China had made monetary policy difficult. It was also noted that market expectations of RMB appreciation had created pressures in the form of inward capital flows that were also contributing to the difficulties of monetary policy. In this regard, some participants expressed the view that reducing capital controls and leaving exchange rate determination to markets might actually lead to a depreciation of the RMB rather than an appreciation, as speculative inflows would subside and domestic firms and investors might seek to purchase foreign assets.

There was also a general consensus among participants that the exchange rate issue had become excessively politicized. Not only did many see this as an inappropriate intrusion of politics into economic policy, but they also worried that politicization of the issue in both countries had increasingly made the exchange rate issue appear to be a zero-sum game of fundamental importance to the relationship, thus making it difficult for either to shift its position. A number of participants specifically bemoaned the tendency of U.S. politicians to focus entirely on the RMB's nominal dollar exchange rate, rather than the more economically meaningful real effective exchange rate.

On Saturday afternoon, midway through the Symposium, the People's Bank of China announced its decision to end the hard dollar peg that had been announced as an emergency measure in 2008, and to increase flexibility and market determination of the RMB rate. Participants had mixed reactions: while most welcomed the reintroduction of limited market determination of exchange rates, several expressed concern that the step would not satisfy the U.S. Congress and that it would thus invite continued political pressure on China.

Role of Trade and Investment Restrictions

The other major topic of discussion with respect to international-level means of addressing savings-investment imbalances in the U.S. and China was the role of trade and investment restrictions. Chinese participants in particular pointed to U.S. restrictions as a major impediment to reducing bilateral trade imbalances and to effectively recycling China's dollar reserves. Some U.S. participants also made a case for the need to lower Chinese barriers.

One of the concerns expressed regarding U.S. policy was over restrictions on export of high-technology goods and patents—including "dual-use" technologies—to China under the rubric of national security. Chinese participants argued that such products would be attractive to Chinese companies and government agencies, which would constitute a large market: by restricting high-tech exports, the U.S. was preventing itself from benefiting from export of its most competitive products. They suggested that if the U.S. government were really serious about expanding exports to China, it would eliminate those restrictions. National security-based restrictions on investment into the U.S. (as well as some European countries) were also seen as a problem in this regard by some Chinese participants, who noted that if Chinese firms were allowed to invest freely in U.S. high-tech firms, they would be likely to export an increased amount back to China or elsewhere.

Another complaint had to do with continuing restrictions on the ability of Chinese banks to establish U.S. branches. This concern was not discussed as extensively as at previous Symposia, and some participants noted a gradual improvement of investment prospects for Chinese banks. Nonetheless, it remained an irritant for a number of participants. This was seen as relevant to the imbalances issue by a number of participants who felt that expanded Chinese bank access to U.S. markets would both improve the efficient recycling of Chinese surpluses and help to facilitate the activities of Chinese firms investing in or importing goods from the U.S.

In addition to the concerns raised about U.S. investment and trade restrictions, some participants focused their attention on China's own trade and investment rules. On the trade front, several noted the persistence of export subsidies in a number of industries as well as the "indigenous innovation" requirements for foreign company participation in Chinese government procurement and continuing issues surrounding intellectual property rights enforcement. With regard to investment, it was noted that foreign-invested firms are more likely to import goods from abroad—while China was seen as generally quite open to foreign investment, some participants noted that local governments were sometimes known to impede new investments. Finally, a number of participants raised the issue of Chinese capital outflow restrictions, which they felt had the effect of reinforcing excess domestic saving.

SAVINGS AND INVESTMENT BALANCING (DOMESTIC FACTORS)

While international factors were seen as one element of rebalancing between China and the U.S., most participants agreed that the most important changes would have to be made domestically within the two countries.

U.S. Domestic Factors

For the U.S., the key issues were seen as longer-term fiscal consolidation and the need to reduce debt-driven household consumption in favor of higher savings and lower leverage.

Participants differed in their assessments of the likelihood that the U.S. government would be successful in reducing its structural deficits. Optimists argued that much of the primary budget deficit could be attributed to cyclical factors related to the crisis—with the U.S. economy shifting to renewed growth, temporary spending increases and revenue declines would be reversed. They also stated that the Obama Administration had laid out a realistic roadmap for addressing structural deficit issues. All in all, they concluded, the U.S. fiscal deficit was likely headed for a sustainable level of around 3%.

Other participants were more skeptical about the ability of the U.S. political system to carry out meaningful fiscal consolidation. Several disputed the claim that the structural deficit would be adequately addressed by the consolidation roadmap, noting the likely rise of government spending associated with an aging population and healthcare. Others argued that U.S. politics had become dysfunctional, and that a polarized Congress would be unable to make the difficult choices needed to reduce deficits significantly. Deficit reduction was seen as particularly challenging given expectations of an extended period of weak economic growth and high unemployment.

With regard to the household sector as well, opinions were mixed. Some participants expressed skepticism that long-term habits of low savings and excessive consumption would be significantly changed by the experience of a brief crisis. Some also noted that continued unemployment and weakness in wage growth might well force many households to continue to deplete their assets in order to maintain even a reduced standard of living.

Other participants argued that several factors were likely to reinforce lower household propensity to consume. One point that was made was about wealth effects. U.S. households' surge of over-borrowing was seen as the result of the rapid rise of asset prices after the mid-1990s—with the market value of Americans' homes and financial assets increasing rapidly during that period, households had been increasingly willing to borrow against their rising wealth in order to increase consumption in the short term. With forecasts suggesting that real estate values would be unlikely to resume their rapid rise any time soon, these participants argued that the propensity to consume would likely revert to historical levels. Also with regard to wealth effects, some participants noted that "baby boomers" who were nearing retirement age would need to redouble their savings in order to be able to afford retirement, or perhaps even work longer. Another factor seen as likely to reduce excessive borrowing was the increasing caution of lenders in making credit available to weak borrowers.

China Domestic Factors

Much of the discussion regarding rebalancing focused on the Chinese economy. While partly animated by the macro picture of reducing China's chronic current account surpluses, the discussion of China's domestic economy addressed several different types of rebalancing—between corporate sector and households, large state-owned enterprises and SMEs, manufacturing and services, and with regard to income distribution. Discussion focused on structural or microeconomic policies rather than macroeconomic policies to address the imbalances.

HOUSEHOLD SECTOR

Participants agreed that improving the conditions of Chinese households would be critical to addressing the savings-investment imbalance. One concern was what they saw as the imbalance between household and corporate income—despite the healthy growth of household income, the much more rapid growth of corporate income had created a situation of declining household share in the economy, and thus a lower relative share for consumption. The second concern was that Chinese households have been saving a high percentage of their incomes, compounding the problem of low consumption growth. Reasons given included precautionary saving and credit constraints.

With regard to the issue of relatively low growth of household incomes, participants pointed to four potential solutions. First, it was pointed out that government spending could effectively increase the incomes of poorer households. Several participants noted that increased government support for rural healthcare and for public education, for example, could have a significant impact on poorer households' discretionary income. Second, a number of participants saw wages as likely to rise more quickly in coming years, as seen in recent high-profile wage hikes and growing anecdotal evidence of tightening labor markets. Although there were some concerns about negative effects of higher wages on Chinese industrial competitiveness, most participants welcomed this trend. Drawing on the previous examples of Japan, South Korea, and Taiwan, they argued that China would benefit from moving up the value-added ladder and suggested that this was already well underway in the East of the country. A third suggestion was that corporations should pay out a higher share of their incomes as dividends as a way of redistributing income and reducing problems of excessive investment. As noted below, this was not universally seen as an effective technique. Finally, and most controversially among participants, some participants suggested that an appreciation of the RMB would have the effect of raising Chinese households' purchasing power—objections to this suggestion were summarized above.

Setting aside the issue of income, many participants saw precautionary saving as a major factor in low household consumption rates. They argued that households were forced to save in order to self-insure against contingencies such as illness, retirement, and educational needs. Thus, they reasoned, improving the social safety net—as the Chinese government had already advocated and begun to make significant progress—would increase households' willingness to consume.

A final issue raised with regard to high household saving was access to credit. Participants agreed that many households were credit-constrained, whether by high collateral requirements for loans (e.g., 40% down payments for residential real estate) or undeveloped credit markets (e.g., lack of consumer credit opportunities outside of the informal sector). Most advocated expansion of credit markets for households as a means of allowing them to consume more.

CORPORATE SECTOR

While much of the discussion of imbalances focused on households, participants also discussed the corporate sector, with a particular focus on what many saw as the need to nurture small and medium-sized enterprises (SMEs). This reflected three complementary concerns: a perceived imbalance between the power of large, often state-owned firms on the one hand and SMEs on the other; a recognition that SMEs formed the backbone of China's service economy; and an assessment that SMEs, many of which are essentially household enterprises, would return a higher share of their profits to households for consumption.

An important theme of this discussion was that large firms, many of them state-owned enterprises (SOEs), had many advantages in the Chinese economy, which constrained the growth opportunities for SMEs. Two main arguments were made in this regard. First, there was concern that the Chinese financial system was not configured to provide credit to smaller, private-sector firms that typically lacked the collateral, industrial policy connections, and perceived stability of large firms. Second, some participants argued that large firms should distribute more of their profits to shareholders rather than just continue to invest at a high rate. Others were skeptical of this argument, noting that most of the shareholders of large firms were in fact government entities and thus higher dividend rates would have little effect on household incomes.

A number of participants argued that part of the rebalancing of the Chinese economy should be a shift away from manufacturing toward the service economy. (Some also saw this as a growth opportunity for consumption.) Since the bulk of firms in the services sector in China as in most countries—much of which requires low levels of capital investment—had been SMEs, they argued that reducing constraints on establishment and expansion of SMEs could have a significant role in addressing the overall problem of savings-investment imbalances.

Finally, an expansion of opportunities for SMEs was seen as potentially contributing to the growth of household incomes. One reason given was that SMEs are often organized on a household basis. Also, since SMEs tend to be less capital-intensive than larger firms, they might return more profits to owners.

BANK LENDING

In addressing the structural issues that contributed to China's structural surpluses, bank lending practices were seen to loom large. Participants agreed that formal financial institutions had skewed their business heavily toward large firms, especially SOEs, at the expense of SMEs and households. This was seen to leave SMEs and households either credit-constrained or overly dependent on informal markets with high interest rates, both of which would retard SME investment, household investment (e.g., in real estate), and household consumption (e.g., of durable goods).

In explaining the causes of banks' preferences for lending to larger firms, several themes arose. The relative lack of development of financial institutions and supporting market institutions was a particular focus of participants' attention. A number of participants noted that, despite its rapid growth, Chinese bank lending had been quite conservative, with a preference for lending to well-established companies on the basis of collateral. This had led almost automatically to a bias toward firms involved in heavy industry: due to their capital-intensive nature, these firms tended to be large and were often state-owned. Real estate investors were also seen to benefit from the preference for collateral-based lending. While most of this discussion focused on the issue of sectoral allocation, some participants also raised concerns about the procyclicality of collateral-based lending, particularly where it was based on holdings of real estate or appreciated stock—they worried that the prevalence of such lending could contribute to asset bubbles on the upside and credit crunches on the downside.

Thus, a number of participants saw one of the major challenges facing the Chinese banking sector as how to shift from a business model where lending was based on collateral to one based on actual and projected cash flow (i.e., "credit-based" lending). While the issue was not addressed in depth at this Symposium, various participants stated what they saw as core reasons for the persistence of the collateral-based lending model, including compensation practices (as discussed in Session 2), lack of technical sophistication, and uneven quality of information concerning potential borrowers' financial conditions and business prospects.

Several other reasons were put forward for the skewed sectoral allocation of credit in China. Some participants noted that in a rapidly changing economy with a relative lack of information about firms' current situations and future prospects, lenders may find it rational to lend to firms with which they had established relationships, thus privileging larger and state-owned firms. Others suggested that financial institutions and markets might have expectations about what types of firms would not be allowed to fail by the government—not surprisingly, this included SOEs (including firms owned partially or wholly by provinces and large municipalities), large firms, and firms involved in industries that had been designated as priorities of the central or provincial governments.

Finally, a number of participants pointed to the underdevelopment of financial markets as constraining the credit available to SMEs and households. One example given was corporate bond markets, which several participants saw as being a potential means by which private firms could access formal credit markets even if bank practices remained conservative. It was suggested, for example, that SME finance could be improved by creating bundled corporate bonds. Other participants saw the lack of financial products (e.g., securitization) that encouraged household economic activities, such as auto loans, educational loans, and installment credit, as impeding China's internal rebalancing. Some also expressed concern that the very high down payments required for residential real estate were depressing household spending,and were higher than necessary from the point of view of lenders.

While much of the discussion of credit markets had to do with their relative underdevelopment, some participants pointed hopefully to the ability of some financial actors to innovate in order to improve the distribution of credit. One example concerned the huge surge in bank lending that had constituted a major part of China's economic stimulus plan in the face of the global financial crisis. Although some analysts had criticized the lending surge as primarily benefiting large, industrial borrowers, these participants pointed out that a significant portion of lending had been directed toward provinces and municipalities outside of the most developed regions of the country. However, local bank branches remained focused on collateral-based lending, while local governments themselves lacked the capability to evaluate, monitor, and service loans. Thus, hundreds of local governments had established semi-autonomous lending agencies to ensure that the credit that was provided to them would reach SMEs and have a maximum impact on the local economies. These participants expressed the hope that such spontaneous financial innovation would expand the availability of credit beyond traditional borrowers.

LOOKING FORWARD

Building on their discussions of mechanisms of domestic and international rebalancing, participants sought to look to the future of China-U.S. imbalances. Two issues arose in particular, both of which were seen as politically, as well as economically, significant. In the short- to medium-term, a key question was what would happen if the domestic rebalancing of the Chinese and U.S. economies were to be asymmetrical. Longer term, some participants wondered about the future reserve currency status of the RMB and dollar.

ASYMMETRIC IMBALANCES

One of the more striking aspects of the discussions of domestic rebalancing in China and the U.S. was the divergence of assessments of the ability of each country to reduce its savings-investment imbalances. Some participants expressed confidence that one or both countries were already shifting to a more sustainable path, but others were pessimistic.

Participants acknowledged that much of the sustainability question to date had concerned the continuation of symmetric imbalances—in other words, persistence of U.S. fiscal and household dissaving on the one hand and of the Chinese export-led growth model on the other. But at this Symposium, the question was also raised about what would happen if imbalances were corrected asymmetrically. What if China were to rebalance savings and investment but the U.S. process stalled? Alternatively, what if the U.S. succeeded in rebalancing savings and investment, but China were unable to shift from an export-led growth model?

A number of participants argued that the first scenario—in which China succeeded in rebalancing its savings and investments but the U.S. did not—was likely. They argued that the government had fully understood the problems of low household income and precautionary spending, and had instituted a set of policies to ensure that those problems were addressed. Indeed, a number of participants felt that the process had already begun in earnest, pointing to the dramatic decline in current account surpluses since the beginning of the year. Many of these participants were skeptical that the political process in the U.S. would be able to discipline either large fiscal deficits or excess consumer spending. They warned that, despite ongoing U.S. demands for reductions of Chinese surpluses, if this scenario were to play out, it could lead to higher interest rates in the U.S., a loss of confidence in the dollar, and a severe worsening of trade frictions between the U.S. and its trading partners, especially China.

Other participants, however, suggested that the opposite scenario was more likely. They noted that U.S. households were cutting their debt burdens along with declines in wealth, and argued that with residential real estate likely to remain stagnant, higher savings rates would persist. With regard to fiscal deficits, they pointed to the Obama Administration's deficit-cutting roadmap and healthcare reform, as well as the increased salience of concerns about deficits across the political spectrum, as evidence of the political will for deficit-cutting. Looking at China, they argued that the recent reductions in current account surpluses were primarily the result of cyclical rather than permanent factors. They noted that even after the crisis, there had been significant investment in the export manufacturing sector that would maintain China's dependence on exports as an engine of growth. They also felt that the basic patterns that advantaged large, industrial SOEs would remain in place despite some steps to improve household incomes and safety nets. For these participants, the likely future was one in which U.S. consumption was no longer the engine of growth for the Chinese (or world) economy, leading to new challenges for Chinese manufacturing as well as the likelihood of rising numbers of bankruptcies, displaced workers, and non-performing loans.

RESERVE CURRENCIES

Some participants also raised the question of the future reserve currency status of the RMB and the U.S. dollar. It was generally accepted that the U.S. dollar would remain the pillar of the world currency system for at least the next decade, although some participants argued that there would be increasing strains on the attractiveness of dollar dominance. There was also general agreement that the RMB would not be ready for reserve currency status in that time frame, although it was likely that there would be increased regional use for settling trade accounts between China and neighboring economies.

Longer term, some participants argued that the forces weighing on the status of the dollar—including their expectations of continued current account imbalances, large fiscal deficits, and mediocre growth—were likely to downgrade it from dominant reserve currency to largest among several reserve currencies. (Others felt that those challenges were likely to be surmounted and that the advantages of dollar-based financing would remain.) As for the RMB, there seemed to be a general consensus among those groups that discussed the issue that in the next 20 years, it would become a reserve currency, at least within Asia. Participants did not, however, discuss in detail the implications of those shifts.

Session 2

Corporate Governance for Financial Institutions: Lessons from the Crisis

The second topic of discussion was corporate governance for financial institutions. Participants discussed how financial institutions should be managed, what the lessons were from the crisis, how corporate governance related to risk management and accounting, and how good corporate governance practices might vary across countries. There was considerable discussion of the alignment of interests of shareholders and managers in Chinese financial institutions.

ELEMENTS OF CORPORATE GOVERNANCE FOR FINANCIAL INSTITUTIONS

Considerable discussion in Session 2 was devoted to general elements of corporate governance for financial institutions. Many participants agreed that the crisis had thrown into doubt many of the previous beliefs about what constituted good governance practices. While most participants appeared to continue to believe in the basic principle that the interests of shareholders and managers needed to be aligned, their understandings of how to ensure such alignment—or even whether there were any hard and fast rules—varied consistently.

RULES VS. JUDGMENT

A basic question was whether any set of rules could substitute for the judgment and character of executives and management. A number of participants pointed out that the success or failure of financial institutions in the U.S. and Europe during the crisis had not varied consistently by corporate governance or compensation practices. Moreover, several asserted that the major reforms that had been enacted in the wake of Enron (e.g., the requirement that CEOs personally sign off on internal control audits) had had no discernible positive impact. Some spectacular failures had occurred in financial institutions where executives' interests seemed clearly aligned with those of shareholders (e.g., Lehman Brothers), while others had occurred in institutions where executives' interests were not so clearly linked (e.g., German Landesbanks). A number of participants also argued that the presence of independent directors and the configuration of board committees had apparently had little effect on which financial institutions survived and thrived during the crisis.

For a number of participants, this led to the conclusion that personal qualities of executives were more important than the specific set of rules by which their relationship to shareholders was defined. This made some uneasy. Other participants argued that there were still consistent lessons to be learned from the crisis about how to address corporate governance from a systemic point of view. Their recommendations centered on the role of directors, compensation practices within financial institutions, and the relationship between information disclosure and market discipline.

Many also argued that financial institutions posed a particular challenge of corporate governance; for some, this suggested the need for banks to be regulated and managed more as utilities than as profit-maximizing corporations. Others were skeptical of the practicality of such a solution.

ROLE OF DIRECTORS

One vexing issue was the role of directors. On an empirical level, many participants questioned whether the existence of independent directors had any real impact on financial institutions' success or failure during either normal times or periods of crisis. Others strongly defended the potential role of independent directors, not only as representatives of shareholder interests, but also as a conduit for bringing in outside perspectives or skeptical questioning about the plans proposed by management, particularly in the case of Chinese financial institutions.

As in previous Symposia, participants discussed at length the asymmetries of information, knowledge, and incentives between directors and managers, particularly independent directors. Much of this conversation focused on the U.S., where the formal role of directors was highly institutionalized. A number of participants pointed to the basic problem that directors were typically part-time and not highly compensated for their work for the financial institutions (or corporations) on whose boards they sat. This raised the possibility that directors would not be adequately informed about the relevant information underlying decisions taken or proposed by management and would not have the incentive to search out the necessary information to assess them. Some participants also pointed to the mismatch between director compensation and the level of responsibility they were expected to take on—although some said that, ironically, the legal liability of directors in the U.S. was such that few would be willing to take on the responsibility without directors' insurance, which in turn eliminated direct financial penalties for failures of oversight or judgment, although reputations, of course, would still be at stake.

These problems were seen to be potentially compounded by ambiguity surrounding the very concept of director independence. It was argued that directors with deep knowledge of the sector were less likely to be truly independent on a personal or institutional basis from management; on the other hand, truly independent directors were seen to be less likely to have sufficient knowledge to assess management proposals or in some cases to fully understand the information they were given. The common U.S. practice whereby directors were selected by the chief executive in conjunction with the board further cast into doubt the whole concept of "independent" directors for some participants.

A number of participants felt that in the U.S., these issues came to a head in the roles of the audit and compensation committees. The audit committee was seen to pose particular problems due to the high level of specific expertise required of members, as well as the significant commitment of time required to really fulfill director responsibilities. Nonetheless, the work of the audit committee was seen by many participants as critical to effective corporate governance. The problem of compensation committees was seen to be more of an issue of independence than information—some participants questioned whether directors who had been proposed by management would really bring a critical eye to compensation packages.

Despite these issues, many participants argued that directors could play a constructive role in the operations of firms. They felt that many individual directors had successfully brought outside perspectives and critical judgments into U.S. financial institutions, but some argued that the personal characteristics of individuals were as important as the formal regulations that governed their behavior. In particular, they argued that, in order to be effective in representing the interests of shareholders, directors had a responsibility to be proactive in seeking out information and asking critical questions rather than simply reviewing information provided by managers. It was also noted in this regard that the quality of board secretariats could make a significant difference in the ability of independent directors to discharge their responsibilities effectively.

Interestingly, a number of participants made the case that independent—especially foreign—directors could play an especially important role in the governance of Chinese financial institutions, even though they were typically a small minority of boards and the rest of the directors were typically chosen by a majority shareholder (i.e., the state for most major financial institutions). The benefits of independent directors at Chinese financial institutions were seen as two-fold. First, they would be able to bring in outside perspectives, often based on many years of experience in more developed financial institutions and regulatory environments. In many cases, outside directors were brought in as part of strategic partnerships with foreign financial institutions, which were specifically meant to bring in new expertise and ways of doing business. Thus, other directors might be particularly receptive to their questions or suggestions, even where the outsiders were a minority of one or two on the board. Second, the fact that most directors in Chinese banks have been chosen by a single entity and often have a common career background as state employees might make outside perspectives particularly important.

COMPENSATION PRACTICES AND RISK BEHAVIOR

The second major element in corporate governance for financial institutions was seen to be compensation policies. Here, the contrast between U.S. and Chinese financial institutions was especially stark, and thus very different topics were discussed with respect to each.

Much of the discussion of compensation focused on the U.S., where it appeared to many participants that compensation practices had contributed significantly to the crisis. In particular, participants raised the possibility that risk-taking was rewarded too highly. A number of them argued that the calculus of risk and reward was asymmetrical in many U.S. financial institutions—while successful gambles would lead to huge performance-based bonuses, the downside of unsuccessful gambles was limited to the possibility of losing one's job (and income) at least temporarily. Others countered that the threat of losing a job was a significant deterrent against reckless behavior, especially since there was no guarantee of finding equivalent employment after being terminated.

Meanwhile, many participants also worried that risk managers were not rewarded enough. They felt that this had at least two negative effects on the risk behavior of financial institutions. First, they felt that it reduced incentives for top employees to enter risk management or stay in it as a career track, and that this might lower the quality of risk management. Second, they worried that the differentials in pay would also reflect differentials in the respect accorded to risk managers versus risk-takers—after all, they wondered, would a fund manager respect the judgment of someone who was being paid a fraction of his own earnings? Or conversely, would risk managers be able to stand up to highly-paid fund managers who were highly incentivized to make risky investment decisions?

There was also discussion of how best to structure performance-based pay. Most participants agreed with the concept that the timing of rewards should reflect the maturity structure of investment decisions taken—in other words, that compensation for risky investments should not be fully paid until the full effects of asset performance were realized. While this had long been the concept behind compensation in the form of restricted stock or options, discussion at the Symposium focused much more on the use of deferred compensation or clawback provisions. Most participants appeared to agree with the concept of deferred compensation, but several raised practical concerns. One question was how long compensation should be deferred. Also, some participants pointed to confusion about whether performance-based pay should be related to the performance of the financial institution or that of a specific manager. From the standpoint of shareholders, they felt that performance of the institution as a whole was key, and thus there should perhaps be a clear linkage to profitability.

From the perspective of fund managers and traders, on the other hand, some felt that it seemed more appropriate to link deferred compensation only to the performance of a given asset, because in many cases individual performance and firm performance would not directly correlate. However, this raised the possibility of high payments to individual traders by failing firms.

The compensation issues for Chinese financial institutions were quite different from those for U.S. institutions. It was noted that, with very few exceptions, executive and managerial compensation at Chinese financial institutions was not only significantly lower than at foreign financial institutions, but also based on fixed salaries rather than on measured performance. Participants worried that the compensation practices of Chinese financial institutions might make managers there *too* sensitive about risk. This was seen as contributing to the preference for collateral-based lending to large, industrial SOEs.

INFORMATION AND THE DISCIPLINE OF MARKETS

The third key element of governance was seen as the discipline provided by markets. Many participants felt that the collective decisions of shareholders, bondholders, and other market actors should be the main line of defense against excessive risk-taking or risk aversion; however, they also agreed that market discipline had failed to avert the crisis. Thus, participants discussed how market discipline could be mobilized to lead to better results. Much of this discussion centered on information disclosure. While participants focused on the U.S., they also noted the need for better accounting and disclosure among Chinese financial institutions and firms in order to improve the quality of market information.

There was a general sense that public disclosure of relevant information had been lacking in the run-up to the crisis and during the crisis itself. This was seen as a problem not only for potential investors and lenders, but also within the firm, where managers had not understood the full dimensions of their risk exposure. In particular, the heavy use of off-balance sheet transactions was criticized as having tended to obfuscate real exposure to risk, and a number of participants argued that any reform of disclosure and accounting rules should insist upon keeping all liabilities clearly on balance sheets.

More broadly, there were calls for improved methods of accounting for risk and valuation, although participants did not discuss these issues in detail. A number of participants also called for clearer disclosure of corporate governance-related practices, in particular compensation policies, in order to give investors more knowledge about the risk proclivities of financial institutions.

Despite the general agreement about the importance of information disclosure, however, a number of participants cautioned about the possible negative effects of mandating still more information disclosure. They noted the difficulty of digesting all the information already available, and questioned whether more would necessarily be better. There were also questions about how useful corporate governance and compensation-related disclosure would really be, given the ambiguous connection between those factors and actual financial institution performance. Furthermore, the very concept of market discipline was seen as problematic if investors (or at least debtholders) and counterparties of systemically important or large institutions could expect to be bailed out in the case of a failure.

MANAGING RISK IN FINANCIAL INSTITUTIONS

The issue of risk management in financial institutions was seen as broader than just a subset of corporate governance, although participants did address corporate governance issues that they saw as particularly relevant to risk management. Participants also addressed the questions of whether risk in large financial conglomerates had become too complex to manage and how better to measure and account for risk.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

For many participants, the key corporate governance issue from the point of view of risk management was how to empower risk managers within financial institutions. A number of participants argued that it was up to boards of directors to ensure that risk managers were fully brought into decision making and were adequately rewarded.

One specific recommendation made by some participants concerned the operation of risk management committees. They noted that special attention had been paid in the U.S. to compensation committees, and suggested that similar attention be paid to risk management committees. This was partly seen as status issue, but it was also suggested that risk management committees should include outside directors with specific risk management expertise and experience. Another idea put forward by one participant at the Symposium was that financial institutions' boards should appoint an "external risk management auditor" who would ensure a comprehensive and objective evaluation of risk management practices on a regular basis.

RISK MANAGEMENT IN LARGE, COMPLEX FINANCIAL INSTITUTIONS

Participants also raised practical questions about risk management in financial institutions, although no clear answers emerged. One major concern was about how financial institutions should account for risk. Participants noted that there was no clear consensus on methods; reflecting the lack of consensus, they also noted the problem raised by a lack of harmonization of rules on how to account for risk across jurisdictions. From the perspective of financial markets, the lack of uniformity was seen to reduce the comparability and thus usefulness of accounting statements and some disclosure of information. Internally, some participants worried that lack of uniformity might lead managers to choose risk management methodologies based on the results rather than the appropriateness of the methods to their financial institutions' business models.

While recognizing the utility of common methods and reporting, other participants cautioned against any attempt to impose uniformity. They noted that the lack of consensus on methods reflected a fundamental problem of lack of understanding of the nature and impact of risk in rapidly changing financial markets. Pointing to the negative impact of widespread reliance on value-at-risk models in the financial crisis, they suggested that pluralism of risk management methods might improve the robustness of the system.

A final stream of discussion addressed the question of whether financial conglomerates had simply become "too complex to manage." Many participants agreed that it was nearly impossible for top management and directors to fully understand, let alone manage the trade-offs among, different business units. Thus, some participants suggested that commercial banks should be regulated and managed essentially as public utilities. Many participants were suspicious of this solution, however. Not only did they argue that there were synergies created within financial conglomerates whose operations spanned various countries and businesses, they were also skeptical of the practical possibility of stripping out commercial banking from other financial activities. Moreover, they predicted that the lower returns on equity that would likely result would move human resources and money out of the commercial banking system and into less regulated and potentially much riskier segments of the broader financial system. They worried that this might make the financial system more susceptible to crises rather than less.

CORPORATE GOVERNANCE FOR CHINESE FINANCIAL INSTITUTIONS

While much of the general dialogue on corporate governance and risk management focused on the U.S., which had been the epicenter of the crisis, participants also discussed issues related to Chinese financial institutions.

Although some of the conceptual bases of discussion were similar, many of the issues discussed with respect to Chinese financial institutions were distinct from U.S. issues.

INTEREST ALIGNMENT

Several differences were seen as central to understanding the specific challenges of corporate governance in Chinese financial institutions. One was the typical ownership structure of Chinese financial institutions, characterized by a single dominant shareholder that was often a government entity. Much of the discussion about corporate governance of Chinese financial institutions focused on the large state-owned institutions. Another relevant characteristic was the highly regulated nature of the Chinese financial system, with many limits on financial products available. Related to this was the low level of complexity of business operations (albeit not size-related complexity) due to the segregated nature of the Chinese financial system.

Participants agreed that ownership structure had significant implications for corporate governance. In this regard, a number of participants made the case that Chinese financial institutions may have achieved a better resolution of the principal-agent problem than U.S. and European ones. Focusing particularly on large, state-owned financial institutions, they argued that there was no meaningful difference between the interests of the state and financial institution managers, many of whom had rotated in from various state organizations and would be expected to move back into regulatory or policy-making positions. They noted that board members also were largely drawn from the same pool and that they typically worked full-time in their oversight capacities. With managers' career tracks within the state and party bureaucracies tied to outstanding performance, it was argued, the basic alignment of interests between managers and shareholders was assured. Moreover, they noted that it would be very difficult under these circumstances to restrict flows of information to directors, thus eliminating the typical corporate governance problem of information asymmetry.

Not all participants were convinced that Chinese financial institutions had resolved principal-agent problems. Some pointed out that the state itself had conflicting interests—not only as shareholder of a given financial institution, but also as steward of the nation's economy. In the past, they suggested, that had made bank lending partly a tool of monetary or structural policies. They also noted that even if Chinese financial institutions' ownership structures effectively aligned interests of owners and managers, the similarity of their backgrounds might impede the introduction of new ideas or critical judgments. More basically, the alignment of interests of management with the state could leave minority private investors unprotected, particularly if the state and its managers sought non-profit objectives in managing their institutions.

In this regard, a number of participants voiced the importance of outside directors for Chinese financial institutions. Although the behavior of individual directors was seen to vary considerably based on personal characteristics and experiences, it was agreed that outside directors could be—and in many cases had been—successful in bringing new ideas and critical questions to decision-making at the top level.

Moreover, it was noted that corporate governance structures were not the whole story. Participants observed that a number of Chinese banks had made conscious efforts to create corporate cultures that emphasized learning and improvement, whether through strategic alliances with top financial institutions or by seeking to hire and nurture capable and educated managers.

COMPENSATION

Another element of the discussion on corporate governance of Chinese financial institutions concerned compensation. Participants observed, as mentioned above, that compensation packages of executives and managers at Chinese financial institutions tended to be far lower and to have much less of a performance component than at U.S. financial institutions, including U.S. financial institutions' operations within China. (Some exceptions were noted among private-sector financial institutions, such as Ping-An, but that was seen as a very exceptional case.) A number of participants raised the question of how those compensation practices might affect managers' behavior.

The discussion revealed a variety of understandings regarding compensation. One had to do with the level of pay. While some participants expressed concern that Chinese executives were underpaid, others argued that Western pay packages in the financial sector were excessive. One suggestion made in small-group discussions was that executive pay at foreign financial institutions' operations in China should be capped at a level much closer to that of Chinese financial institutions, in order to ensure that Chinese financial institutions would be able to hire and retain excellent personnel. Most participants disagreed, however, saying that such decisions should be left to the firms themselves.

Most of the discussion centered on the relationship between pay and behavior. For example, the proposal to cap compensation packages was based on an assumption about personal motivations that higher pay at foreign financial institutions would lead to an internal brain drain as managers sought higher foreign compensation. Other participants—including many associated with Chinese financial institutions or regulatory agencies—disagreed with this assumption, however. They made several points. First, they disputed the idea that excellent personnel were motivated primarily by money. Particularly for the state-owned financial institutions, many executives and managers' primary reward would be advancement within the state and party bureaucracy; moreover, they expressed a basic commitment to contributing to the Chinese economy as a whole. Second, some participants noted that although compensation in Chinese financial institutions was very low relative to foreign financial institutions, it was quite high relative to most other jobs in the Chinese economy, thus offering meaningful financial incentives for good performance. Related to this point, an argument was made concerning cultural norms and the meanings attached to income and wealth. A number of participants argued that, unlike in the U.S., status within the Chinese financial community was not defined primarily by income. They also felt that, in the Chinese context, very high pay packages would be likely to create resentment among other segments of society.

Some participants approached the question of performance-based pay from a different angle, arguing that the jobs of executives at large state-owned financial institutions were fundamentally different from those at foreign or private-sector financial institutions. They felt that, given the level of regulation and state oversight faced by the large state-owned financial institutions, the job of executives was more bureaucratic than entrepreneurial and thus that compensation packages were appropriate. In particular, they saw the purpose of performance-based pay as rewarding successful risk-taking and decisions about the direction of the financial institution. They felt that executives at the state-owned financial institutions had much less discretion in this regard than executives at private-sector or, especially, foreign financial institutions.

MANAGING RISK

One concern that emerged from the discussion of compensation was that there were a variety of factors that created incentives for risk aversion among executives at Chinese financial institutions. In terms of compensation, many participants argued that there were few rewards for successful risk-taking, while penalties for failure (in the form of loss of responsibility or dropping off the fast-track) were severe. While some individuals would be willing to innovate or take risks either because of personal attributes or competitive instincts, it was argued, the overall bias was against such entrepreneurial behavior. This was seen by some participants to contribute to the preference to lend to industrial SOEs at the expense of SMEs and households already noted.

Other participants emphasized the difficulties of managing risks within Chinese financial institutions. They noted the massive scale of the top institutions, which made internal monitoring very difficult, despite significant improvements over the last decade. They also argued that the quality and quantity of information available in general was insufficient to accurately gauge riskiness of loans and investments; while it was not discussed at length, the issue of accounting standards was noted in this regard. Given these challenges, they felt, the relative conservatism of Chinese financial institutions might be appropriate.

Session 3

Balancing Regulation and Innovation in the U.S. and Chinese Financial Systems

The final session addressed the question of how best to balance regulation and innovation within financial systems. This question was closely linked to the topics of the other sessions, and indeed a great deal of small-group discussion in those sessions was devoted to regulatory questions. Participants discussed regulation in both the Chinese and U.S. financial systems, albeit with relatively little overlap. With respect to China, major issues included transparency and how to match the level and pace of regulatory reform to financial development. For the U.S., there was considerable discussion of the new financial reform bill.

FINANCIAL REGULATION IN CHINA

Participants agreed that Chinese financial regulation had helped the country to avoid the worst of the global financial crisis and left Chinese financial institutions in a healthy condition. They were, however, cautious about concluding that the Chinese model of regulation was superior to those of the U.S. and other economies that were hit much harder by the crisis. Rather, the general consensus was that China had avoided financial contagion because its financial system was largely separated from the global financial system. Most participants felt that this reflected good judgment by Chinese regulators and that Chinese financial regulation was well-suited to its level of financial development; however, they cautioned that significant challenges lay ahead as the Chinese financial system and economy developed.

REGULATION, INNOVATION, AND LEVEL OF FINANCIAL DEVELOPMENT

Participants agreed that despite the stability of the Chinese financial system in the face of the global crisis, there was no superior Chinese "model" that offered universal lessons. Rather, they felt that Chinese regulations had been appropriate to the Chinese system at the time; however, they agreed that the system was evolving rapidly and regulation would need to keep pace with it.

Some participants noted that the ideal of financial innovation as a positive force in the economy had taken a beating with the crisis, as derivative products such as collateralized debt obligations and credit-default swaps had helped to destabilize financial systems around the world. They warned that financial innovation should not be an end unto itself or an opportunity to evade taxes and regulations, but rather that financial innovation should serve the legitimate needs of the economy.

Nonetheless, participants agreed that Chinese financial markets needed to allow for greater financial innovation. As in previous Symposia, participants noted the absence of a number of financial products and markets that they felt would be useful to economic actors going forward; again, securitization came to mind. They predicted that interest rates and perhaps exchange rate transactions would need to become more flexible over time, that new financial products would be needed to cater to underserved market sectors such as households and SMEs, and that the activities of Chinese firms and financial institutions would be increasingly global. All these factors called for financial innovation of one sort or another. They were also seen as likely to create new pressures for liberalization as well as new lacunae in existing regulations.

There was also discussion of new forms of financial institutions, including private equity, venture capital, and hedge funds. It was noted that Tianjin, for example, had been experimenting with the establishment of private equity and venture capital funds, although to date the investors had typically been government entities. Even for these funds, there were some ambiguities about how they were registered and which entities would regulate them.

Effective liberalization would be a challenge for regulators in several ways, although many participants were optimistic about the ability of Chinese regulators to adapt regulation and supervision to changing circumstances, based on the effective and methodical process of liberalization seen to date. Several participants also noted that an important task for Chinese financial regulators would be to ensure adequate capacity building, particularly among smaller regional financial institutions.

A particular concern of many participants with regard to balancing regulation and innovation was the persistence of approvals-based regulation. The need to get approvals for any new financial product and even most new issues of approved financial products was seen as a major constraint on financial institutions doing business in China. They urged that regulators should create plans to shift from approvals-based to notification-based regulation.

With regard to the structure of financial regulation and supervision, participants agreed that China had been well-served by having a single regulator for each of the major divisions of the financial sector: banking, insurance, and securities. Unlike the U.S. situation of multiple overlapping regulators, they felt that China had benefited from having clear lines of authority. Moreover, they agreed that the division along functional lines was appropriate, given the configuration of Chinese financial institutions and the lack of ambiguity about the financial products each type of institution was allowed to offer. However, looking to the future, they predicted that the regulatory system would become more complex, as new financial products were introduced and financial conglomerates expanded across existing boundaries. For the moment, it was noted that there were some provisions for councils of regulators across sectors, with one taking the lead. Looking forward, participants urged the regulatory commissions and the People's Bank to create a clear blueprint for how to regulate financial conglomerates and financial products that blurred existing distinctions.

TRANSPARENCY AND PROCESS

One concern voiced by some participants was what they saw as the top-down and non-transparent nature of the Chinese policymaking process and financial supervision. They worried that over time this might lead to policies that harmed either certain groups of financial institutions or the sector as a whole.

A particular concern in this regard was what some participants saw as the closed nature of consultation in regulatory policymaking. Unlike the U.S., where the legislative and regulatory process was seen to provide considerable transparency and multiple points of access, a number of participants noted that the Chinese policymaking process had been largely internal to the state bureaucracy. Participants agreed that under these circumstances, Chinese regulators had actively solicited input from financial institutions and associations; however, some expressed concern that these consultations had been closed in two respects.

First, they were unhappy that the content and timing of consultations were not made public, making it difficult to prepare for regulatory changes. Second, they felt that participation in such consultations was restricted to a relatively small circle, preventing broad interest representation. They worried that this would lead to a tendency to enact regulations that advantaged some financial institutions at the expense of others, including many foreign players. They also felt that the needs of the financial sector and of the economy as a whole would be better served if the regulatory policymaking process were to bring in more outside voices with more varied experiences.

A related complaint had to do with consistency of regulation. Some participants felt that regulations were not necessarily interpreted consistently by regulators, leading to uncertainty and an unlevel playing field among financial institutions. One reason cited for this inconsistency was the prevalence of non-precedent-setting judgments by regulators regarding areas of ambiguity in the rules. These participants expressed concern about what they saw as the apparent preference on the part of some regulatory agencies for making judgments on a one-off basis.

FINANCIAL REGULATION IN THE U.S.

Discussion of financial regulation in the U.S. focused on the comprehensive financial regulatory reform law that was nearing completion at the time of the Symposium. Participants understood that the shape and specifics of the final bill were still in question. Moreover, it was made clear that a long period of administrative rule-making and interpretation would necessarily ensue before the new law was fully implemented. Nonetheless, the legislative process had advanced far enough for participants to identify major new areas of regulation and unaddressed issues, and to discuss several concerns about the shape of the regulatory reform and its likely effects on the U.S. financial system. The balance between stability and innovation was a major theme of the discussions.

NEW REGULATIONS

Given the comprehensiveness of the reform bill, it was not feasible to enumerate all its elements, let alone discuss them in depth. Some of the key areas of new regulation in the bill that were identified by participants included the "Volcker rule," the establishment of a consumer protection bureau, the requirement that most derivatives be cleared through central clearinghouses, and provisions to address the failure of a major financial institution. In all cases, participants noted that any discussion was still preliminary, given uncertainty about specifics of the bill or how it would be applied.

Of these, the most controversial among participants at the Symposium was the Volcker rule. Some participants felt that it was justified, based on the failure of existing regulations to fully insulate financial conglomerates' commercial banking operations from their other operations, which they felt had significantly worsened the crisis. Most appeared to be skeptical, however, based either on the logic of the rule or its practical application. One objection was that, if strictly applied, the prohibition on banks being involved in proprietary derivatives trading would restrict banks' ability to hedge their positions, and thus make the banking system *less* stable. This would also be the effect of the so-called Lincoln Amendment forcing banks to stop all derivatives activities if they wanted to preserve their access to the discount window. Another objection was that the prohibition on the sponsorship or investment in hedge funds or private equity was arbitrary (the Congress has since modified the prohibition to allow banks to invest in up to 3% of a fund). From a practical perspective, some participants felt that the distinction between proprietary trading and trading for clients was an artificial one that would be difficult to apply. Moreover, as with other areas of regulation, many participants worried that the costliness of the Volcker rule to banks would encourage more money to flow into the less-regulated shadow banking system and thus reduce the stability of the system and give an advantage to foreign competitors. Participants also questioned the focus on non-banking activities when the crisis was basically created by making or investing in bad residential loans.

Participants were more unified in their support of the requirement that standardized and liquid derivatives be cleared through central clearinghouses, although they recognized that there was considerable uncertainty about what share of total derivatives trading this would encompass. One cautionary observation was that central clearinghouses would themselves become "too big to fail"—while this may be unavoidable, it was hoped that regulators would keep a close eye on their practices to prevent them from becoming too risky.

Discussion of the proposed establishment of a consumer protection agency or bureau was also generally positive, although it was noted that the creation of yet another regulator in the already-fragmented universe of U.S. financial regulatory bodies would create problems of jurisdiction and coordination. While some participants expressed hope that the coordination problem would be effectively addressed if the bureau were placed in the Fed, others pointed out that the bill gave the Fed no power over it—it was placed there to get funding from Fed seignorage profits.

There was also general support for improving the credit rating and securitization process.

UNADDRESSED ISSUES

While much of the public attention had been focused on new areas and types of regulation, some participants argued that it was at least as important to discuss issues that were not directly addressed by the reform bill. They argued that some of these had been central to the creation and spread of the subprime crisis. The fact that the reform bill had left them largely untouched worried these participants.

One of the major unaddressed issues was how to deal with Fannie Mae and Freddie Mac, which had been at ground zero of the mortgage crisis and whose failure would wind up being the major cost to taxpayers from the crisis. The former government-sponsored enterprises were seen to create complications in terms of both regulation and business model, especially given the new reality of government ownership.

More generally, some participants felt that the issue of "systemically important" institutions had not been adequately addressed, although the reform bills contained language on the resolution of "systemically important" non-bank and banking institutions. While participants generally welcomed the effort to plan for failures of major financial institutions, in a way that would impose more losses on creditors and counterparties, they also expressed unease about how that would work in practice. In particular, some participants worried about how systemically important financial institutions were to be identified, particularly on the eve of their failure. More generally, there was concern about identifying "systemically important" non-bank financial institutions at the front end—a new council was to identify them and remit them to the Federal Reserve Board for regulation. One concern was that identifying financial institutions as systemically important might recreate the very moral hazard problems the resolution procedures were trying to eliminate, *de facto* designating certain financial institutions as "too big to fail." Some participants also expressed concern that neither of the bills sought to define systemic importance in terms of interconnectedness, although they felt that the problems of interconnectedness and counterparty risk had been at least as important as size in creating and sustaining the crisis.

Finally, it was noted that the reform bills had little to say about the consolidation of regulatory agencies or harmonization of regulations. These were seen as major problems by a number of participants. They saw the fragmentation of regulation and supervision as a serious weakness of the U.S. financial system, and felt that fragmentation both increased the costs of compliance for financial institutions and reduced the effectiveness of regulation and supervision. Although they recognized that the legislation allowed for some rearrangement and clarification of regulatory responsibilities, they felt that problems of coordination and communication among regulators would continue to plague the U.S. financial system. Fragmentation also made it more difficult for the U.S. to coordinate its policies with other countries.

UNCERTAINTY, COMPLIANCE, AND COMPETITIVENESS

Beyond the specifics of the legislation, participants expressed deep concern about the uncertainty and costs they would create. A major issue for many participants was uncertainty, of several types. At the basic level, it was noted that the anticipated passage of the final law, which itself had taken a year and a half, ended only the first stage of the legal reform process. Participants predicted a prolonged period of rule-making by regulatory and supervisory bodies to determine how to implement the new law, elements of which might take two to three years to finalize. While the processes of rule-making were seen to provide additional contact points to address concerns in the new law, many participants predicted that the sheer uncertainty about what would be allowed and under what circumstances would make financial institutions much more conservative about new business initiatives as well as making loans.

Participants also worried about the significant uncertainty over the effects of policies even once their parameters were made clear. They noted that the reform was comprehensive, that many of the markets and institutions affected by provisions of the reform were interconnected in complex ways, and that many of the reform's elements were based on unproven expectations about behavior. Thus, they argued, the reforms would have many unforeseen consequences.

Uncertainty also extended to the costs of compliance for financial institutions. Participants agreed, however, that the costs of compliance would be considerable. Revised capital and liquidity requirements, for example, were seen as likely to reduce return on equity. Business restrictions such as the Volcker rule were seen as likely to require some financial institutions to sell off some operations and significantly change their business models. Participants also worried about the legal and organizational burdens of compliance.

LOOKING TO THE FUTURE

As they looked to the future, participants raised several questions about the balance of financial regulation and innovation in the U.S., China, and globally. At the core of many of the forward-looking discussions was the unanswerable question of whether regulators and markets were learning the right lessons from the crisis.

One critical question that arose at several points, although it was not discussed at length, was whether the lack of international coordination on financial regulation would affect global financial stability. Some participants noted that the G20 process had not delivered on its promise of coordinated financial reform, even among the countries with the most developed financial systems. The U.S. financial reform was seen as generally unilateral in nature, while the EU and individual European countries were also engaged in uncoordinated rule-making. Others, however, commented on the remarkable emergence of the G20 and the Financial Stability Board in coordinating a great deal of the regulatory response of the crisis.

For the U.S., participants identified two major questions going forward. Some participants warned of the likelihood of a "regulatory recession." They argued that the tougher capital and liquidity requirements, deep uncertainty about rules, and the organizational and legal costs of compliance would combine to reduce credit in the U.S. economy, weighing on economic growth and possibly even leading to recession.

A number of U.S. participants were also deeply concerned that the increasing uncertainty and costs of doing financial business in the U.S. would injure the competitiveness of financial markets there. Pointing to what they saw as the chilling effect of Sarbanes-Oxley on the U.S. IPO market several years before, they worried that financial institutions would increasingly bypass U.S. markets in favor of markets abroad.

For China, the key question was how regulators would deal with increasing complexity as its financial institutions and economic needs continued to change. Participants generally applauded the deliberate sequencing of market development in China over the previous decades, but some warned that the challenges of regulating a more liberalized system might prove to be significant. They expressed hope that Chinese policymakers would continue to learn from international experience and to seek input from domestic and foreign market players in China. Most participants agreed that as part of the ongoing development of financial markets in China, the authorities should be receptive to financial innovation in terms of products, markets, and actors.

Appendix

Symposium Participants

Symposium Agenda

Symposium Participants

Christopher Alberti
Managing Director and Founder, Taconic Alliance LLC

Emily Altman
Founder, Value Systems, Inc.

Dean Arkema
Economic Officer, U.S. Consulate General, Shanghai

Laurence Bates
General Counsel Japan; Director, International Law and Policy, Asia-Pacific, GE Japan Corporation

Bian Xiaochun
Deputy Director, World Development Institute, Development Research Center of the State Council

Jeffrey Bohn
Head of Portfolio Analytics and Economic Capital, Standard Chartered Bank

Bu Guoxun
President, Nanjing Securities Co., Ltd.

Cao Wenlian
Deputy Director General, Department of Fiscal and Financial Affairs, National Development and Reform Commission

Rick Carew
Columnist, The Wall Street Journal

Patrick Chan
Business Analyst, Asia, CME Group

Shirley Chen
Managing Director, Head of Private Equity Department, CICC; Chief Executive Officer, CICC Investment Group Company Limited

Chen Xuebin
Executive Vice Dean, Institute for Financial Studies, Fudan University

Chen Zongsheng
Deputy Secretary General, Tianjin Municipal Government

Amy Cheng
Managing Director, BOCI Asia Limited

Cheng Zhijun
Deputy Director General, Finance Department, Ministry of Finance

Ping Chew
Managing Director, Head of Greater China, Standard & Poor's

Nicholas De Boursac
Managing Director, Asia Securities Industry & Financial Markets Association

Lieven Debruyne
Chief Executive Officer, Schroders Investment Management (HK) Limited

Michael DeSombre
Partner, Sullivan & Cromwell LLP

Ding Yifan
Research Fellow, Development Research Center of the State Council

Robert Dohner
Deputy Assistant Secretary for Asia, U.S. Department of the Treasury

Christina Ellerker
Vice President, Regulatory Affairs, Moody's Asia Pacific Limited

Marc-Xavier Fancy
Head of Government Relations, Asia, Prudential Corporation Asia

Fang Jin
Research Fellow, Development Research Center of the State Council

Fang Xinghai
Chairman, Shanghai Municipal Government Financial Service Office

Evan Felsing
Economic Officer, U.S. Consulate General, Shanghai

Jacob Fisch
Senior Vice President and General Counsel, Li & Fung Trading Limited

Ge Jun
Assistant President, China Europe International Business School

Gong Minghua
Deputy Director General, Policy Research Department, China Banking Regulatory Commission

William Grimes
Associate Professor of International Relations and Director of the Center for the Study of Asia, Boston University

Han Houjun
Assistant President, Jiangsu Credits Re-Guarantee Co., Ltd.

Sherry Hao
Partner, KPMG China

Stephen Harder
Managing Partner, China, Clifford Chance

Jeanne Hii
Executive Manager, Group Strategy, Commonwealth Bank of Australia

Jeffrey Hine
Chief Operating Officer, CCB Financial Leasing Company Limited

Hou Yunchun
Vice President, Development Research Center of the State Council

Austin Hu
Chief Representative, Goldman Sachs International Bank Beijing Representative Office

Hu Changmiao
General Manager, Public Relations and Corporate Culture Department, China Construction Bank

Gene Huang
Chief Economist and Vice President, FedEx Corporation

Huang Lixin
Deputy Director General, Jiangsu Bureau, CSRC

Timothy Huang
Chief Operating Officer, Bank of America China

Huo Xuewen
Director General, Bureau of Financial Work, Beijing Municipal Government

Richard Jerram
Chief Economist, Macquarie Securities

Jia Kang
Director General, Institute of Financial Science, Ministry of Finance

Jiang Qinghai
Deputy General Manager, Research Department, China Construction Bank

Jiao Jinhong
Director General, Administrative Sanction Committee, China Securities Regulatory Commission

Donald Kanak
Chairman, Prudential Corporation Asia

Young Joon (YJ) Kim
Partner, Milbank, Tweed, Hadley & McCloy LLP

Dino Kos
Managing Director, Portales Partners LLC

David Krasnostein
Head, MLC Private Equity

Daniel Lam
Head of Branch Management and Partners, HSBC

Elaine La Roche
Independent Director, China Construction Bank

Edan Lee
Managing Director, Olympus Capital Holdings Asia

Kha Loon Lee
Head, Standards and Financial Market Integrity, Asia Pacific, CFA Institute

Larry Lee
Managing Director, China Chief Representative, BlackRock Asset Management North Asia Ltd., Beijing Representative Office

Ben Leung
Executive Director and Assistant General Counsel for the Investment Bank, JPMorgan Chase

Li Baiqing
Director, The Legal Department, Ministry of Finance

Li Baochun
Director, Beijing Private Equity Association

Li Jianbo
Head of Public Affairs, China, Standard Chartered Bank

Li Jiange
Chairman, China International Capital Corporation Limited (CICC)

Li Ting
Managing Director, Head of China Market Development, State Street Global Advisors

Li Xiangning
Director, Nanjing Branch, People's Bank of China

Lian Ping
Chief Economist, Bank of Communications

James Lin
Partner, Davis Polk & Wardwell LLP

Liu Changji
Executive Vice President, Bank of Jiangsu Co., Ltd.

Liu Yeqiao
Director, The People's Insurance Company (Group) of China

Long Guoqiang
Director General, Research Department of Foreign Economy, Development Research Center of the State Council

Lu Biao
Managing Director, Head of Hedge Fund Investment, China Investment Corporation

Lu Mai
Secretary General, China Development Research Foundation (CDRF)

Ma Hong
Vice Chairman, Shanghai Municipal Government Financial Service Office

Yvonne Ma
Research Director, Greater China, Elliott Advisors (HK) Limited

Mao Yumin
Controller of Investment and Wealth Management Banking, China Construction Bank

Tomoya Masanao
Managing Director, Chairman of Asia-Pacific Committee, PIMCO Japan Ltd.

Dan McCardell
Deputy Director, Program on International Financial Systems, Harvard Law School

Satoru Murase
Partner, Bingham McCutchen Murase LLP

Jack Murphy, Jr.
Partner, Cleary Gottlieb Steen & Hamilton LLP

Tony Neoh
Member of the HK and California Bar

Niu Ximing
President, Bank of Communications

Pei Changhong
Director, Institute of Finance and Trade Economics, CASS

James F. Peters, Jr.
Chief Executive Officer, Tactical Allocation Group

Qiu Jin
Head of Research Department, Managing Director, CICC

Hongbin Qu
Managing Director, Co-Head of Asian Economics Research, HSBC

Stephen Roach
Chairman, Morgan Stanley Asia

Martin Rogers
Partner, Clifford Chance

Hal Scott
Nomura Professor and Director, Program on International Financial Systems, Harvard Law School

Henny Sender
Chief Correspondent, Financial Times

Shan Jianbao
Executive Vice President, Everbright Bank of China

Shen Fahong
Executive Assistant, ZKING Property & Casualty Insurance Co., Ltd.

Shen He
Director, Research Office of Jiangsu Province

James Shipton
Managing Director and Head of Government Affairs, Goldman Sachs Asia

Catherine Simmons
Vice President, Government, Regulatory, and Industry Affairs, Asia Pacific, State Street Bank and Trust Company

Richard Sokolow
Director of Research, Elliott Management Corp.

Paul Speltz
Chairman and Chief Executive Officer, Global Strategic Associates, Inc.

Annabel Spring
Group Head of Strategy, Commonwealth Bank of Australia

Anthony Stevens
Partner, Head of Asia Pacific, Oliver Wyman

Christopher Suan
President, Matlin Patterson Asset Management LP

James Sun
Managing Director, Charles Schwab Hong Kong

Sun Jianyong
Director General, China Insurance Regulatory Commission

Sun Jie
Senior Vice President, PCIP Securities and Futures Commission, HK

Tan Yongwei
Senior Associate, Strategy Research Department, CICC

Tang Jinlong
Chief Partner, Zhong Yin Law Firm

Tang Min
Deputy Secretary General, China Development Research Foundation, CDRF

Emmett Thomas
Partner, Advantage Partners (HK)

Marsha Vande-Berg
Chief Executive Officer, Pacific Pension Institute

Bruce VonCannon
Chief Representative, Banque Privee Edmond De Rothschild

Jesse Wang
Executive Vice President and CRO, China Investment Corporation

Wang Keming
Head of Strategic and Business Development Department, Harvest Fund Management Co., Ltd.

Wang Songbai
Senior Associate, Research Department, CICC

Wang Xin
Director, Research Bureau, People's Bank of China

Wang Yinghua
Chief Representative, The Cohen Group Tianjin Office

William Weinstein
Deputy Chief of Mission, U.S. Consulate, Beijing

Oliver Weisberg
Managing Director, Citadel Investment Group (Hong Kong) Limited

Christopher Wells
Partner, White & Case LLP

Jeffery R. Williams
China Universal Asset Management Co., Ltd.

Barbara Alexandra Wong
Barrister of the Hong Kong Bar

Chong-Fatt (CF) Wong
Managing Director, Head of Asia, CME Group

Osamu Yamamoto
Partner, Unison Capital, Inc.

Tsung-Tao Yang
Deputy Director, International Affairs, U.S. Department of the Treasury

Yao Yong
Division Chief, China Banking Regulatory Commission

Yu Zhiqiang
Executive Vice President, Bank of Nanjing Co., Ltd.

Yuan Li
Assistant Chairman, China Insurance Regulatory Commission

Zha Binyi
Deputy Director General, Financing Branch of Jiangsu People's Government

Zhang Chenghui
Deputy Director General, Research Institute of Finance, Development Research Center of the State Council

Zhang Hongjiu
Partner, Jingtian & Gongcheng

Zhang Jie
Founding Managing Director, Alwin Capital Limited

Zhang Jiwei
Deputy Managing Editor, Caixin Media

Shane Zhang
Managing Director, Investment Banking Division, Morgan Stanley

John H. Zhao
Chief Executive Officer, HONY Capital

Zhao Kezhi
Executive Vice Governor, Jiangsu Province

Eric Zheng
General Manager, Chartis Insurance Company China Ltd., Shanghai Branch

Eugene Zheng
Managing Director, Chicago Board Options Exchange (CBOE)

Zheng Yan
Deputy Director, Research Office of Jiangsu Province

Grace Yue Zhou
Goldman Sachs Investment Management Division, Hong Kong

Zhou Jingang
Director, Jiangsu Development and Reform Commission

Zhou Yi
President, HUATAI Securities Co., Ltd.

Zhou Yunbo
Professor, Nankai University

Zhu Dantao
Division Chief, Central Financial and Economic Leading Group, CPC

Zhu Shan
Chief Operating Officer, Xinhua Finance Ltd.

Symposium Agenda

FRIDAY, JUNE 18

6:30–6:40 p.m. **GREETINGS**

6:40–7:30 p.m. **KEYNOTE ADDRESS**

- Zhao Kezhi, Executive Vice Governor, Jiangsu Province, China
  Introduced by: Li Jiange, Chairman, China International Capital Corporation Ltd.
- Robert Dohner, Deputy Assistant Secretary for Asia, U.S. Department of the Treasury
  Introduced by: Hal S. Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School

SATURDAY, JUNE 19

8:00–8:05 a.m. **OPENING REMARKS**

- Hou Yunchun, Vice Minister, Development Research Center of the State Council

8:05–8:30 a.m. **PANEL SESSION**

Topic 1: The Macroeconomics of the Post-Crisis Global Financial System
- *Chinese Panelist:* Qiu Jin, Head of Research Department, Managing Director, CICC
- *U.S. Panelist:* Jeffrey R. Bohn, Head of Portfolio Analytics and Economic Capital, Standard Chartered Bank

8:30–9:55 a.m. **SMALL GROUP SESSIONS**

Group

1 *Facilitator:* Zhang Chenghui, Deputy Director General, Research Institute of Finance, Development Research Center of the State Council
Facilitator: Satoru Murase, Partner, Bingham McCutchen Murase LLP
Reporter: William Grimes, Associate Professor of International Relations and Director of the Center for the Study of Asia, Boston University

2 *Facilitator:* Cheng Zhijun, Deputy Director General, Finance Department, Ministry of Finance
Facilitator: Donald Kanak, Chairman, Prudential Corporation Asia
Reporter: Michael DeSombre, Partner, Sullivan & Cromwell LLP

3 *Facilitator:* Tang Jinlong, Chief Partner, Zhong Yin Law Firm
Facilitator: Oliver Weisberg, Managing Director, Citadel Investment Group (Hong Kong) Limited
Reporter: Laurence W. Bates, General Counsel Japan; Director, International Law and Policy, Asia-Pacific, GE Japan Corporation

4 *Facilitator:* Pei Changhong, Director, Institute of Finance and Trade Economics, CASS
Facilitator: Gene Huang, Chief Economist and Vice President, FedEx Corporation
Reporter: Christopher Wells, Partner, White & Case LLP

5 *Facilitator:* Sun Jie, Senior Vice President, PCIP Securities and Futures Commission, HK
Facilitator: Jeffrey R. Bohn, Head of Portfolio Analytics and Economic Capital, Standard Chartered Bank
Reporter: Dino Kos, Managing Director, Portales Partners LLC

6 *Facilitator:* Ding Yifan, Research Fellow, Development Research Center of the State Council
Facilitator: Richard Jerram, Chief Economist, Macquarie Securities
Reporter: Fang Jin, Research Fellow, Development Research Center of the State Council
Reporter: Martin Rogers, Partner, Clifford Chance

7 *Facilitator:* Elaine La Roche, Independent Director, China Construction Bank
Facilitator: Austin Hu, Chief Representative, Goldman Sachs International Bank Beijing Representative Office
Reporter: James Lin, Partner, Davis Polk & Wardwell LLP

10:05–10:25 a.m. **PANEL SESSION**

Topic 2: Corporate Governance for Financial Institutions: Lessons from the Crisis
- *Chinese Panelist:* Lian Ping, Chief Economist, Bank of Communications
- *U.S. Panelist:* Anthony Stevens, Partner, Head of Asia Pacific, Oliver Wyman

10:25–11:45 a.m. **SMALL GROUP SESSIONS**

Group

1 *Facilitator:* Zhang Chenghui, Deputy Director General, Research Institute of Finance, Development Research Center of the State Council
Facilitator: Paul Speltz, Chairman and Chief Executive Officer, Global Strategic Associates, Inc.
Reporter: William Grimes, Associate Professor of International Relations and Director of the Center for the Study of Asia, Boston University

2 *Facilitator:* Cheng Zhijun, Deputy Director General, Finance Department, Ministry of Finance
Facilitator: Stephen Harder, Managing Partner, China, Clifford Chance
Reporter: Michael DeSombre, Partner, Sullivan & Cromwell LLP

3 *Facilitator:* Tang Jinlong, Chief Partner, Zhong Yin Law Firm
Facilitator: Nicholas de Boursac, Managing Director, Asia Securities Industry & Financial Markets Association
Reporter: Laurence W. Bates, General Counsel Japan; Director, International Law and Policy, Asia-Pacific, GE Japan Corporation

4 *Facilitator:* Pei Changhong, Director, Institute of Finance and Trade Economics, CASS
Facilitator: Marsha Vande-Berg, Chief Executive Officer, Pacific Pension Institute
Reporter: Martin Rogers, Partner, Clifford Chance

5 *Facilitator:* Sun Jie, Senior Vice President, PCIP Securities and Futures Commission, HK
Facilitator: Kha Loon Lee, Head, Standards and Financial Market Integrity, Asia Pacific, CFA Institute
Reporter: Christopher Wells, Partner, White & Case LLP

6 *Facilitator:* Ding Yifan, Research Fellow, Development Research Center of the State Council
Facilitator: Catherine Simmons, Vice President, Government, Regulatory, and Industry Affairs, Asia Pacific, State Street Bank and Trust Company
Reporter: Fang Jin, Research Fellow, Development Research Center of the State Council
Reporter: Dino Kos, Managing Director, Portales Partners LLC

7 *Facilitator:* Austin Hu, Chief Representative, Goldman Sachs International Bank Beijing Representative Office
Facilitator: Jack Murphy, Jr., Partner, Cleary Gottlieb Steen & Hamilton LLP
Reporter: James Lin, Partner, Davis Polk & Wardwell LLP

1:10–2:50 p.m. **PANEL SESSION**

Topic 3: Balancing Regulation and Innovation in the U.S and Chinese Financial Systems
- *Chinese Panelist:* Chen Zongsheng, Deputy Secretary General, Tianjin Municipal Government
- *Chinese Panelist:* Gong Minghua, Deputy Director General, Policy Research Bureau, China Banking Regulatory Commission
- *U.S. Panelist:* Hal S. Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School
- *U.S. Panelist:* Oliver Weisberg, Managing Director, Citadel Investment Group (Hong Kong) Limited

3:00–6:00 p.m. **REPORTERS MEETING**

6:45–7:45 p.m. **KEYNOTE ADDRESS**

- Niu Ximing, President, Bank of Communications
- Stephen Roach, Chairman, Morgan Stanley Asia
  Introduced by: Hal S. Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School

SUNDAY, JUNE 20

8:00–9:00 a.m. **PRESENTATION AND DISCUSSION**

Topic 1: The Macroeconomics of the Post-Crisis Global Financial System
- *Chinese Chair:* Jesse Wang, Executive Vice President and CRO, China Investment Corporation
- *U.S. Chair:* Gene Huang, Chief Economist and Vice President, FedEx Corporation

9:05–10:05 a.m. **PRESENTATION AND DISCUSSION**

Topic 2: Corporate Governance for Financial Institutions: Lessons from the Crisis
- *Chinese Chair:* Mao Yumin, Controller of Investment and Wealth Management Banking, China Construction Bank
- *U.S. Chair:* Marsha Vande-Berg, Chief Executive Officer, Pacific Pension Institute

10:15–11:15 a.m. **PRESENTATION AND DISCUSSION**

Topic 3: Balancing Regulation and Innovation in the U.S and Chinese Financial Systems
- *Chinese Chair:* Tony Neoh, Member of the HK and California Bar
- *U.S. Chair:* Hongbin Qu, Managing Director, Co-Head of Asian Economics Research, The Hong Kong and Shanghai Banking Corporation Limited (HSBC)