SYMPOSIUM ON BUILDING THE
FINANCIAL SYSTEM OF THE 21ST CENTURY:
AN AGENDA FOR CHINA AND THE UNITED STATES

The Four Seasons Hotel Chicago • SEPTEMBER 11-13, 2013

AGENDA *September 9, 2013*

Wednesday, September 11

6:00-6:40p.m. **COCKTAIL RECEPTION** *Lakeview- 7th floor*

6:40-6:45p.m. **GREETINGS** *Lakeview- 7th floor*

- LU Mai, Secretary General, China Development Research Foundation (CDRF)
- Hal S. Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School

6:50-7:50p.m. **KEYNOTE ADDRESS** *Lakeview- 7th floor*

- Marisa Lago, Assistant Secretary for International Markets and Development, U.S. Department of the Treasury
- ZHANG Yujun, Assistant Chairman, China Securities Regulatory Commission (CSRC)

7:50-9:30p.m. **DINNER** *Lakeview- 7th floor*

Thursday, September 12

7:15-8:00 a.m. **BREAKFAST BUFFET** *Pre-assembly area- 8th floor*

Panelists, Reporters, and Facilitators please sit at reserved tables

8:10-8:30a.m. **KEYNOTE ADDRESS** *Ballroom-8th floor*

- The Honorable Rahm Emanuel, Mayor, City of Chicago

8:35-9:00a.m. **PANEL SESSION** *Ballroom-8th floor*

Recent developments in Chinese and U.S. domestic capital markets and SME access to capital markets

- Theresa Han, Managing Director, GCM Investments HK Ltd
- TANG Ning, CEO, CreditEase

9:00-10:25 a.m. ***SMALL GROUP SESSIONS***

Group	Room	Facilitators	Reporter
1	Ballroom 1	Oliver Weisberg, ZHAO Jinping	James Shipton
2	Ballroom 2	Satoru Murase, ZHANG Liping	TIAN Hui, Mark Wu
3	Ballroom 3	Gary Blank, Sherry HAO	Ron Wexler
4	Lasalle A	Richard Neiman, Tony NEOH	Anna Gelpern
5	Lasalle B	Paul Speltz, ZHU Shan	Nick Lardy
6	Oak	Theresa Whitmarsh, BI Mingqiang	Bill Grimes
7	Walton	David Loevinger, CHEN Xiaomin	Marsha Vande Berg

10:25-10:40 a.m. **REFRESHMENT BREAK** *Pre-assembly area- 8th floor*

10:40-11:00 a.m. **PANEL SESSION** *Ballroom-8th floor*

Cross border capital flows between China and the U.S.

- Nicholas Lardy, Senior Fellow, Peterson Institute for International Economics
- ZHANG Lanlan, Chief Executive Officer, CICC US Securities, Inc.

11:05-12:30 p.m. **SMALL GROUP SESSIONS**

Group	Room	Facilitators	Reporter
1	Ballroom 1	Michael Desombre, ZHAO Jinping	James Shipton
2	Ballroom 2	Howard Chao, Deborah Lehr	TIAN Hui, Mark Wu
3	Ballroom 3	David Asher, Sherry HAO	Ron Wexler
4	Lasalle A	Eugene Cheung, Tony NEOH	Anna Gelpern
5	Lasalle B	Apratim Chakravarty, ZHU Shan	Nick Lardy
6	Oak	Ken Dam, BI Mingqiang	Bill Grimes
7	Walton	Brian Kelly, CHEN Xiaomin	Marsha Vande Berg

12:30-1:15 p.m. **BUFFETT LUNCH** *Pre-assembly area- 8th floor*

1:20-1:55 p.m. **KEYNOTE ADDRESS** *Ballroom-8th floor*

- Leo Melamed, Chairman Emeritus, Chicago Mercantile Exchange Group

2:00-3:30 p.m. **PLENARY SESSION** *Ballroom-8th floor*

Internationalization of the RMB: Steps and timing

- Chair: Stephen Roach, Senior Fellow of the Jackson Institute, Yale University and Non-Executive Chairman, Morgan Stanley Asia
- Steven Barnett, Division Chief, Asia and Pacific Department, International Monetary Fund (IMF)
- GAO Jian, Chairman, CDB Securities and Visiting Scholar, Department of Economics, Harvard University
- Christopher Keogh, Global Chief Operating Officer, Third Party Distribution Business, Goldman Sachs Asset Management
- ZHANG Liping, Research Fellow and Deputy Director-General, Research Institute of Finance, Development Research Center of the State Council (DRC), China

3:30-5:45 p.m. **FREE TIME**

** Optional excursion: Guided tour through the Art Institute of Chicago*

3:30-6:00 p.m. **REPORTERS MEETING** *Oak Room-7th floor*

6:00-7:00 p.m. **KEYNOTE ADDRESS** *Ballroom-8th floor*

- WANG Dongming, Chairman, CITIC Securities (*video address*)

FIRESIDE CHAT

- GE Xiaobo, Member of Executive Committee, Chief Financial Officer, Managing Director, CITIC Securities Co., LTD
- Kenneth Griffin, Founder & Chief Executive Officer, Citadel LLC

Moderated by: Andrew Ross Sorkin, New York Times Columnist and Co-host CNBC's Squawk Box

7:05-7:35 p.m. **COCKTAIL RECEPTION** *Lakeview- 7th floor*

7:40-9:30 p.m. **DINNER** *Lakeview- 7th floor*

Friday, September 13

7:30-8:30 a.m. **BREAKFAST BUFFET** *Pre-assembly area- 8th floor*

Chairs and Reporters please sit at reserved tables

8:40-10:00 a.m. **PRESENTATION & DISCUSSION** *Ballroom-8th floor*

The shadow banking system in China and the U.S.

- Chair: Hal S. Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law School
- Rodgin Cohen, Partner, Sullivan & Cromwell LLP
- FAN Hua, Managing Director and Head of Fixed Income and Absolute Return Department, China Investment Corporation (CIC)
- GONG Minghua, Deputy Director-General, Policy Research Department, China Banking Regulatory Commission (CBRC)
- WENG Yong, Managing Director, CITIC Securities International Co., LTD

10:00-10:15 a.m. **REFRESHMENT BREAK**

10:15-11:15 a.m. **PRESENTATION & DISCUSSION** *Ballroom-8th floor*

Recent developments in Chinese and U.S. domestic capital markets and SME access to capital markets

- SONG Gelong, Deputy Director-General, Department of Economic System Reform, National Development and Reform Commission (NDRC)
- Linda Zhang, Partner, KPMG LLP

11:15-12:15a.m. **PRESENTATION & DISCUSSION** *Ballroom-8th floor*

Cross border capital flows between China and the U.S.

- Robert Dohner, Deputy Assistant Secretary for Asia, U.S. Department of Treasury
- LONG Guoqiang, Director-General, General Office, Development Research Center of the State Council (DRC)

12:15-1:00 p.m. **CLOSING BUFFET LUNCH** *Pre-assembly area- 8th floor*

2013 Symposium on Building the Financial System of the Twenty- First Century:

An Agenda for China and the United States

Chicago, USA, September 11-13, 2013

The tenth annual China-U.S. Symposium was held at the Four Seasons Hotel in Chicago. The Symposium was marked by relative optimism about the prospects for Chinese and U.S. economic growth, as well as continued albeit slow growth at the global level. Participants also anticipated important policy decisions, including implementation of the Shanghai Free Trade Zone, the upcoming Third Plenum of the Communist Party of China (CPC) Congress, and the timing of the tapering of the Federal Reserve's quantitative easing program. Major themes of the Symposium included the path and pace of economic rebalancing in China, how financial markets could better support the real economy in China and the U.S., the international role of the RMB, and how to promote cross-border direct and portfolio investment. Sessions addressed recent developments in Chinese and U.S. domestic capital markets and SME finance, cross-border capital flows, internationalization of the RMB, and shadow banking in China and the U.S.

Session 1: Recent Developments in Chinese and U.S. Domestic Capital Markets and SME Access to Capital Markets

In Session 1, participants discussed the issue of SME financing. They agreed that providing adequate financing to SMEs was an essential factor in promoting efficient and balanced growth in any economy. Most of the discussion focused on China, where many participants expressed concern that access to formal financial institutions and capital markets remained limited for many SMEs. Participants considered what measures should be taken to improve access to finance for SMEs, and how that market could constitute an opportunity for Chinese and U.S. financial institutions.

SMEs in China's Economy

Participants highlighted the importance of small and medium-sized enterprises in China's economy. They pointed out that SMEs account for the bulk of employment, GDP, and growth, and that many of the most profitable, fastest-growing firms in China were SMEs. Thus, they agreed that in order for the financial system to support the real economy, support for SMEs would be critical.

A key starting point for many participants in assessing the funding opportunities for SMEs was their heterogeneity. One aspect of heterogeneity was size. It was noted that the Chinese definition of "medium-sized" enterprise was a broad one, and that many firms categorized as medium-sized in China would be considered large in other countries. Many participants judged that medium-sized firms had relatively good access to formal financial institutions, particularly in the form of bank lending. Thus, they felt that discussions of improving SMEs' access to finance should be focused on small and micro enterprises.

Other aspects of heterogeneity included ownership and sector. Among SMEs, it was noted that state-owned enterprises tended to be relatively large, while small and microenterprises were overwhelmingly privately owned. Meanwhile, banks tended to be state-owned; while many did not see this as relevant to lending decisions, others suggested that this constituted a "mismatch" and that state-owned banks might be more comfortable lending to state-owned SMEs than to privately-owned firms. Participants also saw sectoral differences as important. In particular, many highlighted the distinction between services and manufacturing. They argued that SMEs in the services sector were more likely to be small, privately-owned, and credit-constrained than manufacturing SMEs; thus, they felt that efforts to improve SME access to finance should be sure to address the needs of the service sector. Some made the additional point that China's rebalancing would depend crucially on the development of the service sector, and that therefore it was all the more important to improve financing options for services SMEs.

While much of the discussion was premised on the assumption that SMEs faced significant constraints in their ability to obtain financing, some participants questioned whether that was indeed the case. They noted that the bulk of bank lending went to SMEs, that there were substantial avenues for funding in the curb markets and shadow banking, and that the rapid growth of many SMEs suggested that credit constraints were not a major impediment to growth. Others disagreed, pointing to statistics that showed very high reliance by SMEs on retained profits for investment, as well as reported high interest rates in curb markets, both of which suggested credit constraints. Many participants suggested that the two interpretations were not mutually exclusive—i.e., that larger, manufacturing SMEs were not particularly credit-constrained, while smaller or services-oriented SMEs found themselves having to rely on informal markets or their own funds. Some participants also argued that there was an important distinction to be made between the availability of financing for capital investment (for which collateral-based lending was relatively easily available) and working capital (for which finance was difficult to obtain). This too appeared relevant to the differential access to finance between services and manufacturing.

Options for SME Financing

In considering options for improving access to finance for those Chinese SMEs that needed it, participants agreed that it would be best to develop a "multi-level" structure that would include enhanced access to bank loans, capital markets (including securitization as well as listing on stock exchanges), microfinance institutions, and an expanded institutional investor base. Such a multi-level approach was seen as addressing the needs not only of SMEs, but also savers and investors, while also contributing to capital market development and a more robust financial system.

With regard to capital markets, participants noted the efforts of a number of exchanges to provide IPO possibilities for smaller firms. They also observed that many of the companies already listed on Chinese exchanges were in fact medium-sized firms. Still, most agreed that Chinese capital markets were not yet fulfilling their promise as a source of SME financing. A number of participants argued that relatively restrictive listing requirements—in particular, capitalization requirements and the need to demonstrate a track record of profits—made exchanges a less attractive means of raising capital for SMEs. Thus, they recommended that Chinese exchanges and securities law should allow for easing such listing requirements to improve access for SMEs. Others cautioned that easing listing requirements could lead to increased incidence of accounting fraud or misrepresentation, which would be a problem for China's developing capital markets. Some participants brought up the example of the U.S. "JOBS Act," which created a system of graduated listing requirements for SMEs, with increasing stringency for larger firms and over time. They felt that this could be a potential model for China to increase SMEs' access to capital markets.

Participants also noted that Chinese bond markets have not been very accessible to SMEs, and many expressed a hope that they would be a significant funding source in the future. It was noted that the issue of limited SME access to bond markets was common in many if not most economies, and therefore not unique to China. Thus, most of the discussion of the role of bond markets looked to securitization as a more feasible alternative than direct bond issuance. A number of participants noted the China Development Bank's recent pilot project to issue asset-backed securities based on loans to SMEs, and expressed the hope that this would be the first of many.

A number of participants expressed the hope that further development of a base of institutional investors would contribute to SME financing opportunities. Much of the discussion in this regard was about venture capital and private equity. While participants noted the growth in domestic venture capital and private equity funds, many felt that there were impediments to expansion of their role. The major one for many participants was the lack of exit opportunities for such investors in the form of a vibrant IPO market for SMEs and newer firms. This appeared to be more of a concern for foreign institutions than for domestic ones. A number of participants also noted the relative lack of development of other types of institutional investors, such as asset management firms, which could provide an investor base for stocks, bonds, and ABS. In this regard, some participants saw benefits from the popularity of wealth management products (financial products issued by banks and trust companies that offered returns above those of bank deposits, based on loans to relatively risky borrowers). Although often criticized for increasing risk in the financial system—these participants felt that the products might actually contribute to the development of an institutional investor base.

Current Sources of SME Funding

While a multi-level SME funding structure was seen as an important goal for China, participants observed that most SME finance continued to be obtained through bank loans and traditional sources such as family networks and retained earnings. Much of the discussion focused on how to improve access of small and micro-enterprises to the banking sector.

Banking institutions of all sizes engaged in SME lending. Even the largest banks reported that the bulk of their lending was directed toward SMEs (albeit apparently mostly to relatively large "medium-sized" companies), while smaller banking institutions were primarily focused on lending to smaller SMEs. These included regional, municipal, rural, and county banks; credit cooperatives; and a variety of development banks. As in many countries, local banks were seen as having specialized knowledge about local business conditions and the capabilities of local companies and their managers, which could give them an advantage over large banks in lending to fund smaller and newer firms.

Investment in small and microenterprises was seen as largely coming from family networks. Although the number of venture capital and private equity funds was increasing, these institutions were seen as still limited in their impact. In general, they were involved in providing capital to larger SMEs; moreover, the lack of exit options meant that such investors would have to be willing to commit for the long haul, further limiting their ability to nurture new or restructuring small firms.

Several participants heralded several new and innovative mechanisms for credit provision to small and microenterprises. Although many of these mechanisms remained relatively small for the moment, these participants argued that, if successful, they could be scaled up or widely copied and thus have a major impact on availability of funds for small and start-up companies. The most developed of these mechanisms was microcredit, which could build on both domestic and international models. Microcredit companies provided not only essential funding for the smallest firms, but in many cases also business education and mentoring to improve management, accounting and planning. While most microcredit required subsidization of one sort or another, it provided opportunities to experiment with different models of subsidization, including municipal loan guarantees and others.

Another innovation was “value-chain lending,” in which a bank would lend to a group of firms throughout a value chain. By bundling loans along the value chain, this model would reduce the costs associated with small-scale lending while giving access to bank loans (with much lower interst rates than in the curb markets) to small parts suppliers. Participants also described nascent efforts at crowdfunding, which they saw as potentially attractive for tech-savvy start-ups.

Finally, shadow banking (addressed in greater detail in Session 4) was also seen as a major source of funds for SMEs. This included lending from bank-controlled wealth management products as well as traditional curb market lending. Some participants expressed concerns about this situation. SMEs might be negatively affected by higher interest rates in the unregulated markets. Moreover, there were concerns that the lack of reliable statistics on shadow bank lending to SMEs could be concealing systemic risks in the financial system.

Challenges for Lenders and Investors

Participants highlighted a number of challenges that they saw as making SME financing more difficult. Many of these were common to both potential lenders and investors.

Information was seen as a major challenge, particularly for small and microenterprises, where the scale of lending or investment was less likely to compensate for the costs of obtaining and analyzing information. While participants agreed that the quality and quantity of information about Chinese companies was continuing to improve, they still raised several concerns. One was over the quality of accounting and auditing practices, which was seen as a particularly serious problem among smaller and newer companies. In some cases—for example in microfinance, where lending was generally subsidized by other sources of revenue and where lenders had a mission to improve the management practices of borrowers—lenders and investors might commit resources to getting more reliable and accurate data on a given company. However, even in such cases, participants recognized that there would be problems of comparability, that would make it hard to effectively use the data in credit ratings or internal risk management processes. Another basic problem of information was the lack of default data, which would make risk pricing difficult even if high quality financial accounts were easily available.

A second challenge brought up by participants was that of managing defaults. This was of particular concern to direct lenders, but was also seen as stifling the development of bond financing and securitization for SME financing. One issue was how the legal system would handle defaults: a number of participants stated that it was uncertain how consistently or under what circumstances courts would impose bankruptcy on a borrower that had defaulted on its loans. Due to concerns about bankruptcy law, it was noted that loans tended to be highly collateralized. However, there were also questions about the enforceability of contracts surrounding loans and collateral. Moreover, some participants stated that there was no real market for used equipment in China, and that therefore the salvage value of physical capital was likely to be very low, which might lead to a preference for real estate as collateral. Another serious issue for SMEs was that in many cases, particularly for smaller firms, business owners would be required to take personal responsibility for loans made to their companies. Given the relative lack of a social safety net, this could lead to financial ruin for entrepreneurs even beyond the failure of their businesses.

A number of participants also pointed to bank-specific challenges to SME lending. Some participants noted that implementation of Basel III standards reduced the attractiveness of making riskier loans. Others focused on incentives within banks, particularly state-owned banks. They felt that loan officers feared that losses on the loans they approved would damage their careers, making them more conservative. Since smaller, newer, and privately-owned firms were likely to be riskier loan prospects than larger or state-owned enterprises, there would be a built-in tendency to lend to the latter rather than the former. A number of participants disputed this characterization as out of date, however. They pointed out that a majority of loans of even the largest state-owned banks went to SMEs, and that many smaller and regional banks in fact focused their lending on SMEs.

Interest Rates and Bank Lending

A key question for many participants was how interest rate liberalization would affect SMEs' access to finance.

Most participants felt that, under the current system, loans were underpriced, giving borrowers an incentive to borrow as much as possible. This in turn necessitated credit rationing by banks, which preferred to lend to the least risky borrowers, thus relegating SMEs to self-financing or shadow banking. Participants anticipated that market-based interest rates would be higher, reducing the incentives for companies to borrow as much as possible and instead forcing them to evaluate projects more rigorously. At the same time, even if lending rates went up, bank loans would still be attractive to SMEs, which were used to high borrowing costs through the shadow banking system. Meanwhile, liberalization would also lead to rising deposit interest rates, which would mean higher costs of capital for banks. The resulting higher hurdle rate would reinforce banks' incentives to properly risk-price their loans and to lend more efficiently. At the same time, higher deposit interest rates might attract savers to shift some of their money from curb markets into banks. For all these reasons, interest rate liberalization could significantly increase SMEs' ability to borrow from banks.

From a real economy standpoint, this dynamic would improve allocation of capital. It would reduce loan demand among slower-growing companies, and provide new opportunities for SMEs to finance their growth. It would have multiple benefits for SMEs: beyond paying lower rates than through shadow banking, bank loans would also likely be a more stable source of longer-term capital.

Although this logic was convincing to many participants, some asked whether it would necessarily be reflected in banks' behavior. The crux of the question was whether the internal cultures and incentives in banks would change in response to the changes in interest rate structure. These participants, some of whom had observed Japanese banks' conservatism in the face of significant legal and market changes, worried that preferences for loss-avoidance would prevail over the search for new customers. Many participants argued that this was unlikely to be a problem in Chinese banks, which they characterized as profit-maximizing and entrepreneurial. Some suggested that the introduction of a national deposit insurance system could support the shift to making loans to new, potentially riskier borrowers. For bankers, deposit insurance could give them more confidence that they were not jeopardizing depositors' money. For regulators, who have at times encouraged conservatism in lending due to concerns about systemic risk, it could reduce fears about the macro effects of riskier lending.

International Dimensions

While virtually all of the discussion in Session 1 focused on China, some international dimensions were also brought up. These included the potential role of foreign financial institutions in improving SME financing in China, the impact of Chinese firms' experiences in U.S. market, and the applicability of other countries' experiences to China.

Some participants saw good opportunities for foreign financial institutions to profit and to contribute to the Chinese economy by involvement in SME financing. Indeed, some foreign institutions, including venture capital and leasing companies, were already deeply involved. Expanded participation of U.S. venture capital and private equity firms could bring a wealth of experience to China, even as they would need to adapt their business models to the Chinese context. A number of participants also argued that U.S. financial services firms could contribute to the improvement of ancillary services such as accounting, default data collection, and credit ratings that could benefit both foreign and domestic investors and lenders. Foreign investors could also increase demand for and liquidity of SME-issued bonds or securitized SME loans. That said, foreigners would face the same challenges as domestic lenders and investors, including concerns over bankruptcy, property rights, and investor protection.

In addition, foreign venture capital and private equity firms continued to face difficulties in exiting their positions. Some participants noted that many foreign companies had invested in China through variable interest entities (VIEs), which allow contractual control by a foreign firm without conferring legal ownership. They suggested that VIEs might provide a good way for U.S. and other foreign firms to invest in SMEs, either because those SMEs were operating in a restricted sector such as media or in order to avoid running into the legal problems of entry and exit. There were very mixed feelings about VIEs, however, with a number of participants expressing concern that their legal status was ambiguous, that contracts would be unenforceable, and that ultimately they operated on trust.

Additionally, some participants raised the possibility that the increasing exposure of Chinese firms to U.S. financial markets and securities law could contribute to the quality of financial information in China. One suggestion was that Chinese firms and financial institutions that had directly experienced the relatively well-developed U.S. system of SME financing might bring home some of those practices. Some participants also noted that Chinese firms (some of them medium-sized) and financial institutions had carried out IPOs in the U.S., and as a result had been required to bring global standards to their accounting and auditing.

Finally, there was some discussion of whether any country could provide an applicable model for China. While there was general agreement that there was no perfectly comparable case, participants felt that other countries' experiences of SME financing could provide some useful lessons for China. Several participants argued that some aspects of the U.S. model could be instructive, particularly the importance of developing a rich information infrastructure to reduce the risks and transaction costs of SME lending and investment. As noted above, China's microfinance companies could draw on a variety of successes and failures around the world, particularly including emerging market economies. Crowdfunding, an idea that originated in the U.S., was also seen as a potentially useful example of adapting foreign examples.

Session 2: Cross-Border Capital Flows between China and the U.S.

In Session 2, participants discussed cross-border capital flows between China and the U.S. The question was raised whether such flows were as large as they should be given the size of the two economies and their complementarities, with many participants expressing the view that bilateral flows were too low. Much of the discussion focused on the reasons for the relatively low bilateral flows and potential remedies in both countries.

Current State of Capital Flows

Participants remarked that bilateral capital flows between China and the U.S. were relatively low, given the size of the two economies, their interdependence in trade, their status as the world's largest recipients of FDI, and their economic complementarity. This was seen in terms of both FDI and private-sector portfolio investment.

FDI was a significant topic of discussion in Session 2. Participants observed differing trends between U.S. and Chinese investors. For U.S. firms, FDI into China was still a small part of their total external assets. Moreover, FDI into China had essentially plateaued since 2008, with net inflows close to zero. Many participants predicted that this trend would persist, due to a variety of reasons, including rising wages in China, restrictions on investment in some services, and what they saw as lax enforcement of intellectual property rights (IPR). Despite concerns about IPR, however, some participants observed that U.S. firms were still choosing to invest in manufacturing and research facilities in China.

Chinese FDI into the U.S. showed a different pattern, with a rapid rise from 2010 onwards. Although China's share of total FDI stock in the U.S. was still quite low, Chinese investors were becoming increasingly important in certain markets such as real estate. Moreover, Chinese FDI in the U.S. was becoming more diverse. Participants saw Chinese FDI into the U.S. as driven by several factors, including technology acquisition, consumer market access, and supporting other Chinese firms already operating in the U.S. (e.g., banking services and distribution). While many participants expected the growth trend to continue, others were more skeptical. They cited difficulties of doing business, including cultural differences and regulatory hurdles (like CFIUS).

With regard to portfolio investment, while it was observed that China's presence in U.S. equity and especially government bond markets was substantial and growing, participants generally agreed that there were significant opportunities for mutual benefit by expanding China-U.S. flows. Most considered the major constraints on portfolio investment to be the result of Chinese regulation. With regard to Chinese outward investment, they noted the importance of QDII restrictions. One result was that outward portfolio investment was dominated by the Chinese official actors (in the form of foreign exchange reserves and sovereign wealth fund investment) and, to a lesser extent, SOEs. Although capital controls were clearly relevant to the situation, some participants questioned how much they actually curtailed outward portfolio investment, noting that QDII quotas were not being fully utilized by Chinese investors. Others countered that the QDII licensing procedures were cumbersome and also that some potential investors were unaware that they could take advantage of the QDII system.

On the U.S. side, participants cited both regulations and market conditions for their relatively limited portfolio investments in China. Although they recognized the rapid increases in QFII quotas in recent years, rules on portfolio investment by foreigners were seen as very restrictive. Regulations on repatriation of assets were also seen as a disincentive to foreigners to invest in Chinese capital markets even as QFIIs. With regard to market conditions, participants focused on two factors in particular—quality of information and limited financial instruments including derivatives.

Finally, some participants warned that a focus on FDI and portfolio investment statistics could be misleading. They noted that other financial flows, including loans, cash, and deposits, had become a large and rising portion of capital flows from China to the U.S. There was some speculation about the nature of these capital flows, as many participants considered it likely that they were being used for either direct investment (especially real estate) or portfolio investment. Meanwhile, a number of participants saw the statistics as evidence of capital flight from China to the U.S.

U.S. Obstacles to Inward Investments

Participants identified obstacles to cross-border investment in both the U.S. and China. For the U.S., these obstacles were ones that retarded inward direct investment by Chinese firms. They included both market conditions and regulation.

With regard to regulation, one major complaint was the complexity of U.S. rules and legal system, as well as the pro-litigation environment. Participants identified a number of rules that they saw as particularly disadvantaging Chinese investors. While the rules did not specifically target Chinese firms, some participants felt that they affected Chinese firms more than U.S. firms or other foreign investors. For example, under the Recovery and Reinvestment Act, companies in clean energy could receive benefits, but because those benefits were in the form of tax breaks, they provided more advantages for established ventures than for new entrants. A number of participants also complained that the conditions for establishing or taking over a U.S. bank were far too restrictive. Several cited the recent case of CITIC's acquisition of CLSA, a Hong Kong-based investment firm with an office in San Francisco; they observed that the approval process in the U.S. significantly complicated the takeover.

Committee on Foreign Investment in the United States (CFIUS)

The major topic of discussion with regard to U.S. regulatory obstacles to Chinese direct investment was the CFIUS process, which many Chinese and U.S. participants saw as having a chilling effect on potential Chinese investors. These participants complained that the process was non-transparent and the potential definition of national security overly broad. Other participants argued that CFIUS was widely misunderstood. They noted that very few acquisitions were actually disallowed or even modified. Several argued that, despite the secrecy, the process was based on clear standards of security that were well understood by CFIUS bar. Moreover, they claimed that in most cases, review by CFIUS was initiated by the Chinese investors themselves rather than the U.S. government, in order to reduce uncertainty going forward. While submission to CIFIUS review is optional, investors do not want to face a challenge by the government after they have completed a deal. It was suggested that this might be the explanation for why there had reportedly been CFIUS approval for Shuanghui's acquisition of Smithfield Foods. They also noted that CFIUS applied only to acquisitions of existing companies, and emphasized that there were no restrictions on greenfield investments (although statistics demonstrated the vast majority of Chinese direct investment in the U.S. came in the form of acquisitions).

One of the major complaints about CFIUS was its non-transparency. Because of the classified nature of much of the evidence and of the process itself, there was no publicly-available case law, or even basic data on what types of acquisitions were barred or modified. Compounding the problem, companies whose proposed acquisitions had been reviewed by CFIUS were seldom interested in publicizing that fact, so much of the information available outside of the group of US lawyers who handle CFIUS review (the CFIUS bar) appeared to be hearsay. The only exception of which participants were aware was of a Chinese company that had appealed a CFIUS decision to prevent it from building a windfarm in Oregon near restricted Navy airspace. Several expressed the opinion that this appeared to reflect a very expansive view of national security, which would make it much harder for Chinese companies to know if CFIUS would apply to their acquisitions than if the standard were for military-use or dual-use technology.

While acknowledging that the actual number of cases in which Chinese companies had been prevented by CFIUS from making an acquisition was probably very low, a number of participants argued that it nonetheless had a chilling effect on Chinese companies considering making an investment in the U.S. While possibly due to widespread misunderstanding of the process or erroneous rumors, a number of participants argued that legal costs and uncertainties were becoming a significant deterrent to potential Chinese investors. Many participants urged the U.S. government to improve the transparency of the process and to decrease the costs and uncertainty of complying with U.S. national security laws. These participants also understood, however, the likely negative reception for such change in the U.S. Congress.

Market, Cultural, and Political Conditions

Participants also suggested that a variety of market, cultural, and political conditions might make Chinese firms hesitant to invest in the U.S. To some, these were at least as important as legal obstacles.

Some participants argued that Chinese firms' economic incentives to invest in the U.S. were limited because of slow growth in the U.S. economy or because of poor fit with U.S. market conditions. Several pointed out that U.S. growth was significantly slower than that in China or in many of the emerging markets where Chinese firms preferred to invest. Some also pointed out that high wages would deter many Chinese manufacturers, while the U.S. resources sector was both relatively saturated compared to other Chinese FDI target countries and very expensive due to real estate prices, environmental regulations, and other factors. They felt that most Chinese firms interested in investing in the U.S. would be seeking to obtain technology through acquisition of U.S. firms, but that might be complicated by politics and by the CFIUS process.

Other participants disagreed with this assessment. They argued that many Chinese firms would consider the U.S. market to be an attractive one, despite its slow growth at the macro level. They pointed out that major investments in the U.S. could be found in a variety of industries, even including the resource sector. With regard to obtaining intellectual property, many felt that brand acquisition was an equally important goal for many Chinese firms, and a number of participants noted that the barriers to takeover even of high-tech firms were often low. Finally, it was pointed out that there were significant opportunities for service sector firms—particularly in banking and distribution—to invest in the U.S. to support other Chinese firms either investing in or trading with the U.S.

A number of participants argued that cultural and political environment was as important as the economic climate. Several cited cases in which Chinese companies that had acquired U.S. companies had found it difficult to manage the differences in corporate culture and employee expectations. Moreover, many felt that Chinese firms were ill-prepared for the complexities of the U.S. legal environment and the propensity of employees and others to litigate disputes. Most felt that Chinese firms were not at a particular disadvantage, and noted that Japanese firms had had similar experiences when they started entering the U.S. market in large numbers in the 1980s. However, they predicted that there would continue to be such complications until Chinese firms became more accustomed to the U.S. system.

The political environment was also seen by many participants as potentially tricky for Chinese firms. Many participants who had worked with Chinese firms entering U.S. markets noted that they had at times encountered strong political opposition or rhetoric against their investment, and that this made investment in the U.S. less attractive. Others argued that this problem is not nearly as severe as it may at first appear. First, they noted that hostile comments by politicians or in the media did not have any material effect on the ability of companies to invest and do business in the U.S., although they acknowledged that Chinese people who were unaccustomed to American-style democracy might fear negative consequences if a member of Congress denounced them. Second, several commented that there was a large divide between national-level and local-level politics—while members of Congress might fulminate about the negative effects of Chinese investment in the U.S., local and state politicians (who have more direct influence on investors) generally welcomed such investment and might even provide incentives for Chinese firms to locate in their jurisdictions and employ their constituents.

Chinese Obstacles to Inward Investors

Participants agreed that China was, by and large, very open to FDI and increasingly open to portfolio investment and other flows. Still, even with regard to FDI, many participants considered there to be significant obstacles that reduced U.S. firms' desire to invest in China. Participants discussed both legal restrictions and market conditions affecting FDI and portfolio investment.

Legal Restrictions

Participants cited a number of legal restrictions that they saw as affecting U.S. investment into China. Despite the Chinese authorities' generally welcoming attitude toward inward FDI, sectoral restrictions and ownership caps were seen by many participants as reducing the ability or desire of U.S. firms to invest in China. It was noted that many of the formal restrictions that remained were in sectors—such as communications, resources, banking and other financial services—in which U.S. firms might have a comparative advantage.

Legal restrictions on portfolio investment were more severe. Participants noted that foreign investors were generally prohibited from investing in Chinese securities, except through the QFII program. While QFII quotas had been significantly expanded in recent years, the principle of quantitative restrictions remained in place. Moreover, regulations, such as the rule preventing the repatriation of more than 20% of a QFII's position per month were seen as reducing the attractiveness of the program. A number of participants also pointed to the relatively narrow range of financial products available to all investors, which limited their ability to hedge positions. Looking in the other direction, participants noted that the QDII program continued to restrict outbound Chinese portfolio investment, including to the U.S.

There was some disagreement among participants as to whether these restrictions were appropriate or not. Some participants felt that the rules were an unnecessary obstacle to foreign firms' and financial institutions' access to Chinese markets, and that restrictions on portfolio investment were an impediment to the development of Chinese capital markets. Others expressed a more cautious view of the benefits of liberalizing financial markets and the capital account. They pointed out that China's financial markets were still young and that the Chinese economy was still developing. Therefore, they felt that a step-by-step process of financial development that remained focused on the needs of the real economy was more important than financial liberalization *per se*. The negative experience of many countries with open inward capital flows, perhaps typified by the Asian crisis, remained in the background for Chinese policymakers.

Finally, a number of participants predicted significant changes in the regulations that restricted U.S. investment into China. Many looked with anticipation to the establishment of the Shanghai Free Trade Zone, which they expected to be a fully liberalized market that could lead to similar zones elsewhere and eventually to liberalization around the country. Also, many participants pointed out that the PBOC, CSRC, and others had signaled their intention to further liberalize domestic financial markets and rules on cross-border transactions. (See also Session 3 on RMB internationalization.) Moreover, the upcoming Third Plenum was seen by a number of participants as likely to be an important milestone in pushing forward this process.

Market Conditions

Many participants saw market conditions as being as important as legal restrictions in reducing the attractiveness of investing in China.

With regard to FDI, participants cited three main reasons why China might be less attractive to U.S. firms. One was the slowdown in economic growth, particularly in export-oriented manufacturing. Rapidly rising wages, as well as real estate prices in major cities, were also seen as important. Finally, a number of participants cited lax enforcement of intellectual property rights as a reason that some U.S. companies were hesitant to invest (or expand their investments) in China. They argued that, increasingly, U.S. firms with proprietary technology were deciding to locate manufacturing outside of China to avoid theft of intellectual property.

All of these points were disputed to some extent. With regard to the slowdown in growth, a number of participants pointed out that China was still growing faster than most other economies, and that moreover the shift toward middle-class consumption and services could actually benefit U.S. firms and financial institutions. With regard to wages, some participants noted that U.S. firms tended not to be investing in low-tech, labor-intensive manufacturing. Furthermore, while Chinese wages had increased, so had worker productivity. For more skilled workers, the picture was seen as more ambiguous. While financial institutions might be experiencing shortages of English-speaking accountants and financial analysts, they pointed out that there was a glut of trained engineers, which made China an attractive location for manufacturing research and development. Finally, with regard to IPR, a number of participants argued it was not enough to deter leading firms from investing in China for both manufacturing and R&D. They reasoned that, given the size of Chinese markets and the role of China in global IT hardware manufacturing networks, no leading firms could afford simply to stay out. Rather, they would need to recognize the costs associated with loss of intellectual property and adjust their business models accordingly, emphasizing continuous innovation.

Turning to the financial markets, key obstacles for inward portfolio investment included limited variety, scale, and liquidity of instruments (including not only hedging instruments, but also corporate bonds), as well as the continued fact of administered interest rates. Many participants expressed hope that the ongoing reforms toward introducing market-based interest rates would continue to move forward; otherwise, opportunities for portfolio investment would remain limited for both domestic and foreign investors.

Also, many participants felt that the quality of information remained poor. Although accounting and disclosure rules had become stricter over the years, they felt that implementation by firms remained inconsistent. Some Chinese and U.S. participants stated that in order to gain accurate information on a Chinese companies' performance they had to do site visits and develop proxy measures. Even where information was accurate, many felt that it was either incomplete or not timely. Another concern regarding information was the lack of effective aggregation and analysis, such as reliable market statistics and credit ratings.

Some participants also noted continuing concerns about corporate governance standards in China. For portfolio investors and strategic investors, there were concerns that majority shareholders would not respect the rights of other investors. This was also seen as a potential concern for FDI, as many foreign-invested enterprises took the form of joint ventures.

Finally, some participants noted concerns about limited exit options. The difficulty of staging an IPO was seen as reducing the attractiveness of investments by venture capitalists and private equity into new or small firms.

Policy Implications

The discussion of obstacles to cross-border capital flows highlighted several potential areas for improvement. For the U.S. side, many participants felt that it would be essential to improve the CFIUS process; however, there were some disagreements over how that could be done. One general point of agreement over CFIUS was that it would be helpful to improve transparency and reduce misunderstandings about how the process worked. On other aspects, there was some disagreement. For example, some felt that a list of restricted technologies would be preferable to the current, vague criteria, but others thought that would lead to inflexibility and excessive restrictions. And while a number of participants argued that the law ought to be changed to make the guidelines clearer and to reduce uncertainty among foreign (especially Chinese) investors as to whether potential investments might run afoul of U.S. law, others cautioned against efforts to change the legislation, expressing concern that political grandstanding could worsen the situation. They called instead for incremental changes in procedure to streamline the process and improve information about it.

Participants also appeared to agree that U.S. regulatory complexity and the litigation environment were a significant hindrance to Chinese FDI. While there was nearly unanimous support for reducing that complexity, there appeared to be few who were sanguine about the probability of that happening.

For China, many of the participants’ recommendations mirrored ideas that were already being espoused by officials in the PBOC, CSRC, and elsewhere. These included interest rate liberalization and continued expansion of financial instruments. Moreover, a number of participants predicted that significant movement toward those stated goals would be announced at the upcoming Third Plenum.

Participants also recommended that China continue to improve its financial market infrastructure, particularly with regard to information. While there were some differences of opinion regarding how far the quality of financial information had progressed, participants agreed that the authorities should continue to promote accurate accounting and timely exposure. A number of participants also called for redoubling efforts to improve the quality of credit ratings.

There were also calls to ensure that the QFII and QDII system continue to improve, both in scale and quality. While participants generally favored expanding QFII and QDII quotas, some participants expressed a concern that the current quotas (especially for QDII) were underutilized, and argued that it would also be important to make them more accessible to qualified investors. A number of participants expressed the view that access to QDII quotas was unnecessarily restrictive, and that more types of investors should be made eligible. Several also suggested that domestic Chinese investors were insufficiently aware of the QDII program, and that there would be more demand for it if it were better publicized. Meanwhile, a number of participants expressed concern about the complexity of the rules and approval processes for both QDII and QFII, and suggested that the authorities seek to simplify them in order to improve utilization. With regard to the QFII program, it was specifically suggested that limits on repatriation should be eliminated in order to make the program more attractive to U.S. and other foreign investors.

Finally, some participants saw opportunities for U.S.-China cooperation in addressing some of the obstacles to cross-border flows. They encouraged the two governments to improve communication and cooperation over their key concerns, including CFIUS for Chinese officials and QFII restrictions and Chinese sectoral FDI restrictions for U.S. officials. More ambitiously, several participants strongly encouraged the negotiation of a bilateral investment treaty (BIT) in order to reduce uncertainty and improve confidence among investors from both countries. Some also hoped that a BIT would help to encourage streamlined approvals processes for new investments and perhaps to expand the range of allowable investments in terms of both FDI and portfolio.

Session 3: Internationalization of the RMB: Steps and Timing

In Session 3, participants discussed prospects for internationalization of the RMB. It was agreed that international use of the RMB was increasing in a number of ways, although it continued to play a minor international role for the time being. Participants focused on the development of the Chinese financial system as the key determinant of the RMB's future international role.

Participants observed that the growth of international use of the RMB was quite rapid, but had begun from a relatively low base. For example, in the most recent BIS data, the RMB ranked 9th in global foreign exchange transactions, but the level was dwarfed by the U.S. dollar and euro, and was not commensurate with China's weight in global production, trade and foreign exchange reserves. The RMB was seen as having a larger role as a unit of account, as trade transactions with other Asian economies were increasingly denominated in RMB. The RMB was also serving as a peg for other Asian currencies. Other signs of progress of the internationalization of the RMB could be seen in the various bilateral swap agreements, totaling over 2 trillion RMB, that China had concluded with trading partners to facilitate settlement, as well as the small but burgeoning offshore RMB markets (primarily Hong Kong, but also London, Taipei, and elsewhere). It was noted in this regard that RMB-denominated deposits had in fact surpassed 10% of total deposits in Hong Kong.

For most participants, RMB internationalization was not seen as an end in itself, but rather what one participant called a "natural and autonomous process" that would accompany China's reforms and its growing weight in the world economy. Still, there was a general sense that RMB internationalization would be a positive development for China and its neighbors. Among the benefits mentioned were reduction in currency risk for Chinese importers and exporters, reduced costs of settlement between the RMB and most Asian currencies, a reduced need to accumulate dollar reserves, and greater PBOC monetary policy control. At the same time, some participants cautioned that RMB internationalization might also have negative impacts on China. The PBOC would lose some of its ability to control the value of the RMB and increased international demand for the currency would also imply a trend toward appreciation, both of which could complicate monetary policy management and disadvantage exporters. In any case, the discussion generally portrayed RMB internationalization as a second- or third-order interest for China; rather than having policy driven by a desire to internationalize the currency, participants saw internationalization as a side benefit of financial market development.

There was a consensus among participants that currency internationalization would be a market-driven process. In order for the RMB to become a major international currency, China would need to continue its moves toward financial deepening, more flexible interest rates and currency value, and capital account liberalization, all necessary steps to making holding RMB more attractive.. In discussing sequencing, participants generally agreed that all those policies would have to move in tandem, but that it would be best to introduce them incrementally. However, a number of participants emphasized that financial deepening should be a prerequisite to fully opening the capital account. (Actually, it was noted that capital flows in and out of China were already quite large, so some participants preferred to talk about reducing restrictions rather than of “opening” the capital account as an either/or matter.)

In this sense, most participants understood RMB internationalization as one component of China’s broader financial—and economic—reform agenda. This also raised the question of pace. Some participants foresaw a medium-term process in which policies would be introduced gradually in order assess their effects before moving forward. Others called for greater urgency, arguing that the various elements of financial liberalization and capital account liberalization needed to be introduced soon in order to facilitate China’s overall economic rebalancing and to prevent misallocation of savings.

Session 4: The Shadow Banking System in China and the U.S.

Session 4 addressed the shadow banking systems in China and the U.S. By and large, participants considered "shadow banking" to be an unhelpful term, one which was not clearly defined and whose context and composition varied significantly between countries. One participant offered the definition of "financial institutions that offer bank-like services without bank-like rules and structures," but there did not appear to be one single, accepted definition. Moreover, while the term suggested a kind of black, or at least gray, market, in fact a great deal of shadow banking involved legal activities carried out by regulated financial institutions. Participants agreed that, for the most part, the shadow banking issues facing China and the U.S. differed enormously; thus, there was little direct comparison or attempt to draw lessons from one to apply to the other.

Shadow Banking in China

In China, "shadow banking" was seen as referring to a variety of financial institutions and activities that at some level involved lending by non-banks. Shadow banking institutions ran the gamut from informal financial institutions (curb market) to formal non-bank financial institutions (such as leasing companies) to wealth management products offered by banks. In China, all bond market transactions appear to be considered shadow banking because they involve lending outside of banks—of course, other countries would not have such a broad definition. Of these, wealth management products, many of them created by loosely-regulated trust companies, received particular attention from participants. In many cases, trust companies had been created by banks apparently for the purpose of making risky loans without interest rate restrictions. While participants agreed that data were not perfect, estimates were offered that shadow banking, particularly wealth management products, had expanded very rapidly in recent years and that shadow banking now accounted for around 6 trillion RMB in lending, or about one quarter of the total.

Participants raised three major concerns with regard to wealth management products. First, they pointed to the rapid expansion of the products, which were only lightly regulated. Second, much of their lending was seen as carrying more credit risk than regular bank loans, with potentially inadequate risk-management mechanisms. Third, many participants argued that, because the products were mostly being offered by banks (although in many cases they were issued by trust companies controlled by banks, rather than issued by the banks themselves), investors would expect that they could not suffer losses on the products. There was only limited evidence to date on whether investors or the parent financial institution would take the loss in the case of a failure. Thus, they constituted significant off-balance-sheet risk that was not being adequately managed or regulated. In the absence of clear firewalls, some expressed concern that banks' actual capital positions might be much worse than formal accounting suggested.

Some participants saw a more benign side of the wealth management products. In a bank-dominated financial system like China's, they argued, there were significant gaps in the financial system from the point of view of both savers and borrowers. The various pieces of the shadow banking sector helped to provide financing options for credit-constrained SMEs, while also offering a better return (albeit with more risk) than bank deposits. Moreover, several participants noted that banks had been slow to implement risk-based pricing on their loans; they argued that wealth management products could provide a space for experimentation where risk was managed rather than being swept under the rug. Shadow banking in this context represented a step toward liberalization.

Many participants struggled with the question of how to allow for "good" shadow banking that supported the real economy while suppressing "bad" shadow banking that increased systemic risk or that had been created in order to evade regulations or taxes. One challenge in answering that question was that no one was completely sure where the money was going or how risk was being managed, although there was a general sense that loans were being made to SMEs, the real estate sector, and local governments. None of these destinations was seen as inherently problematic, but some participants expressed concern that informal lending to real estate or revenue-starved local governments carried with it potential risks not only to the lenders but also in terms of real estate bubbles or local government fiscal sustainability. Therefore, many participants called for improving formal regulation and data collection in shadow banking.

There were also some suggestions that addressed specific pieces of shadow banking. With regard to the wealth management products, there were quite a few participants who saw them as a positive trend toward risk-pricing in lending. What they saw as the major problem was instead the implicit guarantee that banks would cover any losses in the wealth management products they sold. They saw this as a recipe for moral hazard, excessive risk-taking, and unfairness vis-à-vis regular depositors. However, rather than closing them down, most of these participants called instead for clearer investor education about risks, strict rules prohibiting bailouts using depositor funds, and more accurate accounting of off-balance-sheet products and their potential effects on the main financial institution. With regard to informal or curb lending, some participants argued that it was a culturally appropriate way of addressing gaps in the financial system, insofar as lending was done on the basis of trust-based, long-term personal and family relationships.

Participants also asked the question of whether shadow banking would survive as interest rates were liberalized and the multi-level financial structure continued to develop. Many participants predicted that parts of China's shadow banking system would indeed wither—particularly those that appeared to mimic standard bank activities, such as wealth management products. Informal finance for small and microenterprises, in contrast, was seen as more likely to persist, as high costs of arms-length loan evaluation and monitoring might make trust-based relationship lending a more efficient solution. Others were more cautious about predicting the waning of even those parts of shadow banking whose activities appeared most similar to those of banks. They noted, for example, that the end of Regulation Q in the U.S. did not end the popularity of money market funds. They argued that the shape of financial regulation and the preferences of investors would be the determining factors.

Shadow Banking in the U.S.

Shadow banking in the U.S. (without counting capital markets) comprised a significant portion of the financial system; according to some estimates, possibly accounting for slightly more lending than banks. In contrast to China, “shadow banking” in the U.S. was dominated by a variety of formal, regulated institutions, including money market funds, mortgage companies, leasing companies, insurance companies, and private equity firms. The one thing that all of these entities were seen to have in common was that they were not regulated like banks in terms of capital and liquidity requirements or in having an equivalent to depositor insurance.

Since the financial crisis, shadow banking in the U.S. had received considerable regulatory scrutiny, due to its large size and the key role that some shadow banking entities played in the crisis. However, with a few exceptions such as the designation of three non-banks as systemically important financial institutions (SIFIs) and the creation of the Consumer Financial Protection Bureau to regulate loans to households, shadow banking institutions and activities have not been as heavily re-regulated as banks. As a result, some participants felt that the regulatory system created incentives to shift more activities to the shadow banking sector. Data also remains problematic in some areas of shadow banking, raising questions about whether new risks are building up.

There was also an extended discussion of MMFs. Some MMFs, particularly prime funds held by institutional investors, suffered runs during the crisis, and in some cases net asset values (NAV) dropped sufficiency below a dollar to “break the buck”). The runs were halted by Fed lending and a decision by the Treasury to offer a temporary guarantee to MMF investors. New policies to avoid contagion are being debated. The SEC was currently considering two options: mandating a floating NAV for all prime institutional (and perhaps retail) MMFs and allowing the imposition of redemption restrictions. There were doubts raised as to whether either of these solutions would actually prevent future runs since it was not clear why they would be expected to change the incentives for investors to get out early; indeed the prospect of redemption restrictions might only accelerate runs. One alternative suggested was to enhance the Fed’s lender of last resort function to backstop solvent MMFs facing liquidity constraints; another was the possibility of an insurance fund for the industry. Both were seen as politically difficult in an era in which any official support would like be seen as a bailout.

Overall, while some re-regulation of shadow banking was seen as inevitable and probably desirable, participants urged caution about going too far. They strongly encouraged efforts to improve data collection, but argued that it would be overkill to try to regulate all lending on a uniform, bank-centric model.

HOST SPONSORS

CITADEL

CITIC SECURITIES

LEAD SPONSORS

CME GROUP

CICC

CREDITEASE

HONY CAPITAL

KPMG

GLOBAL SPONSORS

CITI

STATE STREET

SPONSORS

ASIA CENTURY QUEST

BANK OF CHINA INTERNATIONAL

BINGHAM MCCUTCHEN MURASE

CSOP ASSET MANAGEMENT

ELLIOTT MANAGEMENT CORPORATION

GLOBAL STRATEGIC ASSOCIATES

GROVESNOR CAPITAL

PROMONTORY

SHANGHAI QIJUN