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Financial regulation: The G20's missing Chinese dream

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Executive summary

CHINA'S RECENT EMERGENCE as a leading global economic and financial powerhouse has implications for all aspects of global governance. While a growing body of literature has analysed the consequences for international trade arrangements, the International Monetary Fund (IMF) and Multilateral Development Banks (MDBs), fewer studies have focused on the cluster of institutions that oversee financial regulatory standard-setting and policy development at the global level, referred to here as the global financial regulatory system.

IN SPITE OF significant crisis-induced changes in the last decade, this system has not sufficiently adapted to the new reality of China's prominence, and has remained unsustainably centred on incumbent North Atlantic financial systems[1]. This lagging pattern is in the interest neither of the incumbents, nor of China, nor of the world as a whole.

IN ORDER TO move towards a better institutional balance, global financial regulatory bodies should increase the presence and prominence of Chinese participants in their governance and operations. China should correspondingly offer greater engagement, and promote institutional improvements to address some of the challenges that the global system in its current form has been unable to tackle.

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1 'North Atlantic' is used here as shorthand for Europe and North America.

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The global financial regulatory system: taking stock

International financial institutions were an innovation of the second quarter of the twentieth century. In particular, the Bank for International Settlements (BIS) was created in 1930 and the IMF was created in 1945. But international arrangements on financial regulatory matters remained minimal until the early 1970s. At that time, and in the context of incipient internationalisation of financial markets and financial turmoil in advanced economies, several new international bodies were created: notably the Euro-currency Standing Committee of the BIS (1971), now the Committee on the Global Financial System (CGFS); the International Accounting Standards Committee (1973), now the International Financial Reporting Standards Foundation (IFRS Foundation); the Inter-American Regional Association of securities regulatory authorities (1974), expanded in 1983 to become the International Organisation of Securities Commissions (IOSCO); the Committee on Banking Regulations and Supervisory Practices at the BIS (1974), now the Basel Committee on Banking Supervision (BCBS); and the Group of Six (1975), now the G7. More specialised bodies were created in the 1980s and 1990s, particularly in the wake of the 1997-98 Asian Financial Crisis. That crisis led to the emergence of the G20, which at that time (1999) was a group of finance ministers and central bank governors, and of the Financial Stability Forum (FSF), also in 1999.

Further change and strengthening came in the immediate aftermath of the financial panic of September-October 2008. In November 2008, the G20 held its first summit meeting of heads of state and government, in Washington DC, with an agenda that was dominated by financial regulatory issues (Rottier and Véron, 2010). The FSF was subsequently enlarged to include most major emerging economies and non-Western international financial centres, and was renamed the Financial Stability Board (FSB) in April 2009 at the G20's second summit meeting in London. At the subsequent G20 summit, in Pittsburgh in September 2009, the US Treasury Secretary described the FSB and its constituent international financial bodies as a *"fourth pillar"* of the global economic architecture, complementing the IMF, the World Bank and the World Trade Organisation (WTO)[2]. The Washington, London and Pittsburgh meetings defined an ambitious and, at the global level, unprecedented agenda that has come to be referred to officially as *"G20 financial regulatory reforms"* (FSB, 2015b).

In this context, the global financial regulatory system can be defined as being formed by the FSB and its members that have a global (as opposed to national, or in the case of European institutions, regional) remit. In addition to the already mentioned BCBS, BIS, CGFS, IFRS Foundation[3], IMF, IOSCO and World Bank, the system thus defined also includes the BIS's Committee on Payments and Market Infrastructures (CPMI), the International Association of Insurance Supervisors (IAIS) and the Organisation for Economic Co-operation and Development (OECD). Additional relevant bodies, which are not formally members of the FSB but participate in the global system, include the Financial Action Task Force on Money Laundering (FATF), Global Legal Entity Identifier Foundation (GLEIF), the International Association of Deposit Insurers (IADI) and the International Forum of Independent Audit

2 *"[T]he important thing we did in London (…) is to add, in effect, a fourth pillar to the architecture of cooperation we established after the second world war. After the second world war, we came together and established the IMF, the World Bank, the GATT which became the WTO. But the Financial Stability Board is, in effect, a fourth pillar of that architecture. And that forum, just for those of you who are not familiar with it, again brings together central banks, finance ministers, supervisors of banks, market regulators like the SEC and the CFTC, the accounting standard setters – brings them together and tries to forge consensus on standards, so we can have, again, common standards applied globally."* Press briefing by US Treasury Secretary Timothy Geithner on the G20 Meetings, White House, 24 September 2009.

3 Formally the membership of the FSB is held by the International Accounting Standards Board (IASB), which is hosted by the IFRS Foundation.

Regulators (IFIAR)[4]. As Table 1 illustrates, these bodies vary widely in terms of membership and mandate.

Table 1: The global financial regulatory system

Body	Creation	HQ/Secretariat	Summarised mandate	Jurisdictions [a]	Members [b]
BIS	1930	Basel (CH)	Central bank cooperation	60	60
IMF	1945	Washington (US)	Financial stability of countries	189	189
World Bank	1945	Washington (US)	Development	189	189
OECD	1948	Paris (FR)	Economic sustainability	34	34
CGFS	1971	Basel (CH)	Monitoring market developments	22	23
IFRS Found.	1973	London (UK) [c]	Financial accounting standards	not relevant [d]	not relevant [d]
BCBS	1974	Basel (CH)	Banking supervisory standards	28	45
IOSCO	1974/83	Madrid (ES)	Securities markets regulation	123 [e]	126 [e]
CPMI	1980	Basel (CH)	Financial infrastructure standards	24	25
FATF	1989	Paris (FR)	Combating the financing of crime and terrorism	37	37
IAIS	1994	Basel (CH)	Insurance supervisory standards	195	210
FSB	1999	Basel (CH)	Financial regulation	25	68
IADI	2002	Basel (CH)	Deposit insurance standards	79	80
IFIAR	2006	Tokyo (JP) [f]	Audit oversight	51	55
GLEIF	2014	Basel (CH)	Legal entity identifiers	not relevant [d]	not relevant [d]

Source: Bruegel based on institutions' websites, consulted May 2016. See main text for the explanation of acronyms. Notes: [a] Jurisdictions include sub-sovereign entities (eg Guernsey, Hong Kong SAR, or US states and territories) and regional groupings (such as the European Union). [b] There is one member per jurisdiction at the BIS, IMF, World Bank and OECD. In other bodies, some jurisdictions have several members, such as the US Federal Reserve Board and Federal Reserve Bank of New York in the CGFS and CPMI. Global institutions such as the IMF and World Bank are members of bodies such as the FSB and IAIS, but are not counted as separate jurisdictions. [c] The IFRS Foundation is incorporated in the United States (Delaware), but its operations are almost entirely in London. [d] The IFRS Foundation and GLEIF are not organised across jurisdictional lines. [e] Only ordinary members. [f] The establishment of a permanent secretariat in Tokyo was announced by IFIAR in late April 2016, and is expected in 2017. NB The People's Republic of China is a member of all jurisdiction-based bodies except IADI and IFIAR.

Eight years on from the Washington Summit, the G20 financial regulatory reforms can be judged as having mixed results. Assessing the success of financial reforms is always somewhat judgmental to start with, as there is no objective way (yet?) to measure financial stability. Furthermore, many of the reforms entail long transition periods and have thus not yet been fully implemented. There have been a number of successes (see also GAO, 2014; Véron, 2014). In particular, the BCBS's Basel III accord of 2010, with new rules for capital, leverage and liquidity, and complementary reforms such as requirements for additional loss-absorbing capacity at large financial institutions designated by the FSB as Global Systemically Important Banks (G-SIBs; see FSB, 2015a), have significantly strengthened the prudential framework for large

4 Other potentially relevant organisations, such as the International Auditing and Assurance Standards Board (IAASB) and the International Public Sector Accounting Standards Board (IPSASB), both hosted by the International Federation of Accountants, are not included in the list because their standards have not yet been adopted by a critical mass of jurisdictions. Coordinating committees and other groups that don't have a permanent secretariat, including the G20 itself, are also not included.

internationally active banks. The BCBS has also developed a pioneering framework to assess to what extent the laws and regulations adopted by individual jurisdictions are compliant with its standards, thus greatly enhancing its authoritativeness[5].

Other reforms have had questionable impact, or have failed entirely. One failed reform was the global convergence of financial accounting standards, initially heralded by the G20 as an important objective but later quietly abandoned after several successive deadlines were missed[6]. The implementation of the G20's ambitious reforms of over-the-counter (OTC) derivatives markets has been delayed in many jurisdictions, and it is therefore too early to assess its full impact. Specifically, the G20-fostered move towards more central clearing is leading to the concentration of systemic risk in derivatives central counterparties (CCPs) or clearing houses (eg Boissel *et al*, 2016), creating new forms of systemic risk which in turn call for policy responses still to come, and may also lead to initially unintended market fragmentation across currency areas. Separately, the reporting of OTC derivatives transactions to trade repositories is still far from fully delivering on its promise to help supervisors assess developments of relevance for financial stability (DTCC, 2015).

Perhaps unsurprisingly, the success or lack thereof of G20 financial regulatory reforms is strongly correlated with the strength of the corresponding global institutional framework (Rottier and Véron, 2010). In particular, the long-established cooperation between the world's main central banks through the BIS and its various committees has generally resulted in decent effectiveness of reforms within their remit, such as Basel III. By contrast, cooperation between securities regulators is of a more *ad-hoc* nature, and IOSCO has generally found it difficult to agree on strong common standards and ensure their general adoption, as is illustrated by the G20's failure on financial accounting standards convergence[7]. One of the reasons why the design and implementation of OTC derivatives reforms have been so lopsided is because there is an awkward overlap of responsibilities in this area between central banks with a financial stability mandate (represented in CPMI) and securities regulators with a market integrity mandate (represented in IOSCO). Some standards have been jointly issued by CPMI and IOSCO (eg *Principles for Financial Market Infrastructures*, first published in April 2012), but they have often been less specific and/or effective than global standards in other financial regulatory areas.

5 See successive Regulatory Consistency Assessment Programme reports published by the BCBS. Under this programme, the People's Republic of China was assessed in 2013 as 'compliant,' while in 2014 the United States was 'largely compliant' and the European Union 'materially non-compliant.'

6 The People's Republic of China still maintains its own set of accounting standards, and (unlike eg Japan) does not allow the use of IFRS by listed companies as an alternative to its national standards. Local accounting standards in Hong Kong SAR, though not in Macao SAR, are identical to IFRS. The United States allows IFRS as an alternative to its national standards for foreign issuers, but not for domestic ones. The European Union has endorsed all IFRS standards as domestic law, with the only exception of a limited 'carve-out' in the standard for financial instruments. Overall, a majority of the world's sovereign jurisdictions, representing close to half of global GDP, have mandated IFRS for publicly listed companies. Most of the corresponding policy decisions were made in the decade before the first G20 summit (Pacter, 2015, and own calculations).

7 Choices of mandatory accounting standards are typically, though not universally, within the scope of responsibility of securities market regulators.

The global financial regulatory system retains North Atlantic characteristics

The panic of September-October 2008 led to a welcome shift of venue from the G7 to the G20 for the global coordination of economic and financial policy. This shift was echoed in early 2009 by the enlargement to major emerging economies and non-Western financial centres of the membership of the FSB (succeeding the FSF) and of several key BIS committees including the BCBS, CGFS and CPMI.

Nevertheless, the membership and governance of many of the bodies that form the global financial regulatory system remains deeply unbalanced. There is abundant analysis of this issue with respect to the IMF (eg Truman, 2015). Similar and sometimes even greater distortions exist in other bodies. For example, even after the 2009 enlargement, European Union (EU) member states, plus the EU itself, represent no fewer than 10 of the 28 jurisdictions represented in the BCBS. Of these, seven are euro-area countries whose representation in the Committee no longer appears justified, since the European Central Bank (ECB) has been in charge of setting supervisory policy for the entire euro area since November 2014, as part of the broader EU reform known as banking union[8].

Similarly, Europeans are overrepresented in the FSB's Steering Committee (FSB, 2015d), both among the member jurisdictions (especially those with more than one representative, and with similarly questionable inclusion of euro-area national central banks as noted above about the BCBS[9]) and among the global bodies, whose 10 representatives include 8 Europeans, one American, one Australian, and no Asian at all.[10]

The system's North Atlantic bias is even more pronounced, indeed overwhelming, when looking at the bodies' leaderships, as opposed to memberships. Table 2 illustrates this by listing all top positions in the bodies mentioned in Table 1, including the chairs of decision-making bodies (such as an executive board) and heads of permanent staff, where separate. The right-hand column does not require much comment.

Moreover, another distortion inherited from history is that, as Table 1 indicates, all these bodies are also headquartered and mainly based in the North Atlantic region (Basel, Paris, Madrid, London and Washington DC), with the only exception being IFIAR's still-to-be-established secretariat in Tokyo[11].

Thus, the global financial regulatory system retains a North Atlantic bias in its governance and operations that has only been very partly eroded by initiatives since 2007. A separate question, however, is whether this bias results in regulatory outcomes and decisions that are tilted in favour of North Atlantic interests. On this, the evidence is far from clear. While the G20 has regularly paid lip-service to the notion that regulatory outcomes need to be better tailored to the specificities of developing and emerging economies, this aspiration has mostly been rhetorical rather than practical. There is no clear case, for example, that Basel III is less beneficial to emerging economies than it is to the European Union or the United States. Moreover, there are also cases of successful advocacy by non-Western jurisdictions of special interests in global financial regulatory processes: examples include the exception made by the IASB for long-held shares from fair-value measurement in the IFRS 9 standard on financial instruments accounting, which was a Japanese request, and the exception made for large

8 The ECB and its banking supervisory arm became full members of the BCBS shortly before this transition, in October 2014.

9 National central banks in the euro area retain policy autonomy in several areas including macro-prudential policies, but no longer in either monetary policy or banking supervision.

10 In this calculation, Mark Carney is labelled as from the EU in his capacity as Governor of the Bank of England, even though he is a Canadian National.

11 Several of the bodies have regional offices that complement their North Atlantic headquarters. For example, the BIS has an office in Hong Kong (and another one in Mexico City); the IMF and World Bank have offices in numerous locations worldwide; the IFRS Foundation has a small office in Tokyo.

banks from emerging economies in the FSB's term sheet for Total Loss-Absorbing Capacity (TLAC), a request made in particular by China (FSB, 2015c).

Table 2: Leadership positions in the global financial regulatory system

Body	Position	Holder	Workload	Nationality	Region
BIS	Board Chairman	Jens Weidmann	Part time	German	North Atlantic
	General Manager	Jaime Caruana	Full time	Spanish	North Atlantic
IMF	Managing Director	Christine Lagarde	Full time	French	North Atlantic
World Bank	President	Jim Yong Kim	Full time	American	North Atlantic
OECD	Secretary General	Angel Gurria	Full time	Mexican	North Atlantic
CGFS	Chair	William Dudley	Part time	American	North Atlantic
	Head of Secretariat	Kostas Tsatsaronis	Full time	Greek	North Atlantic
IFRS Foundation	Chair of Trustees	Michel Prada	Part time	French	North Atlantic
	IASB Chair	Hans Hoogervorst	Full time	Dutch	North Atlantic
BCBS	Chair GHOS [a]	Mario Draghi	Part time	Italian	North Atlantic
	Chair	Stefan Ingves	Part time	Swedish	North Atlantic
	Secretary General	William Coen	Full time	American	North Atlantic
IOSCO	Board Chairman	Ashley Ian Alder	Part time	British [b]	North Atlantic
	Secretary General	Paul Andrews	Full time	American	North Atlantic
CPMI	Chair	Benoit Coeuré	Part time	French	North Atlantic
	Head of Secretariat	Morten Bech	Full time	Danish	North Atlantic
FATF	President	J.M. Vega-Serrano	Part time	Spanish	North Atlantic
	Executive Secretary	David Lewis	Full time	British	North Atlantic
IAIS	Exec. Committee Chair	Victoria Saporta	Part time	British	North Atlantic
	Secretary General	Yoshihiro Kawai	Full time	Japanese	Other
FSB	Chair	Mark Carney	Part time	Canadian	North Atlantic
	Secretary General	Svein Andresen	Full time	Norwegian	North Atlantic
IADI	President	Thomas Hoenig	Part time	American	North Atlantic
	Secretary General	Gail Verley	Full time	American	North Atlantic
IFIAR [c]	Chair	Janine van Diggelen	Part time	Dutch	North Atlantic
GLEIF	Board Chairman	Gerard Hartsink	Part time	Dutch	North Atlantic
	CEO	Stephan Wolf	Full time	German	North Atlantic

Source: Bruegel based on institutions' websites, consulted July 2016. See main text for the explanation of acronyms. Notes: [a] GHOS: Group of Governors and Heads of Supervision. [b] Mr Adler heads the Hong Kong Securities & Finance Commission, but is a British citizen. [c] The head of IFIAR's future permanent secretariat has not at the time of writing been appointed.

Even so, the extent of the system's North Atlantic bias, more than seven years after the shift from G7 to G20, remains remarkable. There is no question that the willingness of incumbent participants, especially Europeans, to preserve a status quo that they perceive as beneficial to them is one of the reasons for this situation. But the lack of change is probably not attributable only to resistance from incumbents. Evidence is missing of any strong advocacy for rebalancing coming from the other stakeholders, especially large emerging economies, many of which – including often China – have acted as status-quo participants, in financial regulatory matters (Walter, 2010; He, 2015) and more generally on global governance reform (Swaine, 2016). Instead, the evidence rather points to China taking global financial regulatory standards 'off the shelf' for use as a lever for domestic financial reform (Kempthorne, 2015), similarly to what was often the case in the EU before the crisis, for example in its adoption of IFRS in the early 2000s (Véron, 2007).

The global financial regulatory system needs a Chinese dream

The state of affairs described in the previous section might be acceptable if the North Atlantic region was expected to dominate the global financial system for the foreseeable future. But this is no longer a valid assumption. The pace of financial development in China has been so rapid in the last few years that, on some indicators, the move of the global system's centre of gravity towards China has already happened. For example, and as Table 3 illustrates, China is now the world's largest single banking jurisdiction in terms of total assets, ahead of the euro area, a fact that few would have predicted only a decade ago. This is even more striking when keeping in mind that 'shadow banking' assets are mostly excluded from this calculation[12].

Table 3: Banking systems in comparative perspective, end-2015

Banking system	Total assets (US$ trillion)	Domestic assets (US$ trillion)	Foreign assets (US$ trillion)
China	32.1	30.7	1.4
Euro area	31.6	25.9	5.7
United States	16.3	14.8	1.5

Source: Schoenmaker and Véron (2016). Calculations based on SNL data and ECB (2016b) for the euro area, China Banking Regulatory Commission (CBRC) for China, and Federal Reserve for the United States. Notes: total assets comprise consolidated assets of domestic banking groups and domestic assets of subsidiaries and branches of foreign banks. To calculate the size of the respective banking system (labelled as domestic assets), the foreign assets of domestic banks are deducted. The concentration ratio of the largest five banks (CR-5) is based on their domestic assets as percentage of total domestic assets.

China's increasing heft in the global financial system is not limited to banking. The aggregate market capitalisation of its listed companies has become too large to ignore, as has the size of its corporate bond markets. Furthermore, China's financial development should not be seen only from a quantitative standpoint. While capital allocation remains largely policy-driven, there have been significant moves towards more market discipline in recent years, including liberalisation of bank deposit rates and the more recent willingness of the authorities to tolerate corporate defaults even of state-owned companies. One also assumes that lessons from the massive government intervention in China's equity markets around mid-2015 will lead to a more restrained future stance in this area as well, allowing equity prices to be increasingly driven by the interplay of supply and demand. It is also unlikely that the recent dramatic rise in indicators such as China's share of global banking assets or of global market capitalisation could be entirely reversed by future adverse market developments. Even in a scenario of systemic crisis, the evidence from past experience suggests that total banking assets would stop growing but would remain broadly at their current high level over an extended period of time[13].

Furthermore, China's financial system will most likely become increasingly interconnected with the rest of the global financial system. Size is a major driver of this: even if the Chinese banking system is less open to cross-border activity than the systems of other jurisdictions (as also illustrated by Table 3), its sheer magnitude implies global systemic

12 Banking systems are defined here by the geographical scope of banking supervision. Under this definition, the euro area is now a single banking system, while different banking systems coexist in the European Union.
13 Such a 'plateauing' pattern was observed, among other cases and with limited variations, in Japan after 1990 and in the euro area, the UK and the US after 2008.

significance. Furthermore, Chinese banks are increasingly active outside mainland China, together with non-financial companies driven both by individual firm strategies and by policy projects such as the Belt and Road Initiative. Meanwhile, Chinese authorities are gradually lifting restrictions on international investors' access to its domestic equity and bond markets, including the Shanghai-Hong Kong Stock Connect, started in 2014, and the forthcoming Shenzhen-Hong Kong Stock Connect. International financial integration is gradually linking China together with other countries like a financial 'Grand Canal' that interconnects different economies, fosters cross-border interdependencies and increases aggregate wealth, but can also be a channel for the propagation of shocks – very much as China's own Grand Canal has linked its provinces together since ancient times[14].

China is also, and increasingly, at the frontier of some aspects of contemporary financial development, ahead of North Atlantic jurisdictions. This is particularly the case for internet- and smartphone-enabled financial services business models (referred to in China as internet finance), several segments of which are more developed in China than in Europe or the United States. Internet finance, like cross-border financial integration, illustrates the reality that with financial development comes great wealth creation but also the possibility of increased financial disruption, including the risks of fraud, cybersecurity violations and uncontrolled herd behaviour in a market downturn.

For all these reasons, the current fairly peripheral (or at best, discreet) role of China in the global financial regulatory system is increasingly problematic. The system needs a guiding vision in which China becomes much more central – a 'Chinese dream.' The system's (largely North Atlantic) protagonists should not count only on China's initiatives aimed at increasing its own salience in global financial-services policy discussions, but should rather be proactive in introducing reforms that give China a position and responsibility commensurate with its present and predictable future importance. Not doing so will increasingly carry risks for all stakeholders involved, such as being caught unprepared by a globally relevant materialisation of risks that involve Chinese financial system participants among others. A foot-dragging approach, encapsulated in the Chinese expression *yu guo ji jie gui* (与国际接轨, 'catching up with the world' – see He, 2015), will not be sufficient to address this challenge. Front-loading the rise of China in global finance in the global financial regulatory infrastructure is evidently a challenging political proposition, for different reasons in Europe (collectively the most overrepresented incumbent), in the United States (given domestic political dynamics at the time of writing) and perhaps even in China itself. But there is little doubt that it would ultimately be in the best interest of the North Atlantic jurisdictions, as well as of China and of the rest of the world.

Making the dream come true

The vision of a global financial regulatory system in which China holds a major position can of course not be realised in one single step. It may entail at least three clusters of initiatives, to be developed and implemented over an extended period.

First, the relevant global bodies should reform themselves to increase the presence and prominence of Chinese participants in their operations, and specifically in their membership, leadership and location. As for membership, national central banks from the euro area, which in the aftermath of banking union no longer have significant policymaking autonomy, should renounce their individual representation in the Basel Committee for Banking Supervision and in the Financial Stability Board, thus freeing space for a more bal-

14 The author is indebted to Professor He Liping of Beijing Normal University for the Grand Canal metaphor of cross-border financial integration.

anced discussion in a more compact format; conversely, the FSB should welcome the China Securities Regulatory Commission (CSRC) as an additional member organisation, perhaps together with the US Financial Deposit Insurance Corporation (FDIC); and China's quota at the IMF should further increase beyond the implementation of the 2010 reform package[15]. As for leadership, relevant global financial regulatory bodies should promote qualified Chinese officials to succeed the current North Atlantic incumbents when their terms expire (see Table 2), and should actively nurture a growing cadre of Chinese professionals among their staff. As for location, further steps should be envisaged to rebalance the current landscape, including the relocation of the FSB's permanent secretariat to a suitable jurisdiction in Asia, eg Hong Kong or Singapore (Véron, 2014).

Second, greater Chinese engagement is also needed. While observers often refer to the age-old precept of *tao guang yang hui* (韬光养晦, 'hide brilliance, favour obscurity'), China's authorities actually need to be more assertive in their participation in international financial regulatory bodies. This should include presenting suitable candidates for leadership positions, for the global system's common good. The adoption by China of relevant global standards, including IFRS, should be completed, if not in full then with a much more limited number of exceptions and variations than is currently the case. China should also reform its public auditing policy framework to enable its participation in IFIAR and to allow effective professional cooperation with other jurisdictions' audit oversight authorities. More generally, progress is needed on a range of issues involving the sharing or exchange of financial data, both in terms of the willingness of China and its international partners to give each other data access, and in terms of their respective abilities to guarantee each other that data that needs to remain confidential will stay so.

Greater Chinese engagement could help unlock reforms in key areas of the global financial regulatory agenda. For example, as mentioned above, the centralisation of derivatives clearing in CCPs is creating new types of systemic risks, but initiatives to oversee and manage these risks are hampered by special interests and turf considerations among North Atlantic financial authorities. Since China is exposed to these risks even as it does not have (yet) a significant derivatives market on its own, Chinese officials would be ideally placed to play a constructive 'honest broker' role to advance an effective reform agenda in this area (see also below). Similarly, China could push for steps towards international supervision of financial firms that are pure information intermediaries, such as credit rating agencies, trade repositories and audit firms. These do not carry a fiscal or quasi-fiscal risk in case of failure, unlike banks, and their public supervision can thus be entirely disconnected from matters of fiscal sovereignty[16]. Such a push would be in line with past suggestions by Chinese officials, eg the proposal made in 2010 by the head of China's banking supervisor for dealing with systemically important international financial firms with *"an international treaty which sets fundamental rules for information-sharing, equal treatment of stakeholders across jurisdictions and depositor protection"* (Liu, 2010). Of course, China should simultaneously continue on its path of vigorous domestic financial reform to enhance market discipline in its financial system and more efficient capital allocation in its economy (Posen and Véron, 2015).

Introducing the Chinese presidency of the G20 in late 2015, President Xi Jinping wrote that *"China will work with all other parties to pull in one direction in the spirit of win-win partnership. We should pool wisdom, form synergy (…) and jointly advance international economic cooperation"* (Xi, 2015). Formulating and achieving a 'Chinese dream' for global financial regulation would be a prime application of these principles, involving the world's major juris-

15 One recent constructive step in the same spirit was the long-delayed extension to China of membership of the IFRS Foundation's Monitoring Board, achieved in 2016. The Monitoring Board is not formally part of the IFRS Foundation, but oversees its activities including (by voluntary agreement) the appointment of the Foundation's Trustees.

16 Credit rating agencies and trade repositories, though not (yet) audit firms, are now supervised supranationally in the European Union (by the Paris-based European Securities and Markets Authority, established in 2011), in a framework that, unlike banking union, covers all 28 EU member states including the United Kingdom.

dictions. As presented above, such an ambition would preserve the bulk of financial regulation and supervision under national sovereignty, bound by the international rule of law. But it would also require vision, courage and perseverance to put the global financial regulatory system on a sustainable path – one in which China plays a major role.

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