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Case Analysis of the Reform of the Bank of England after the Crisis and Its Reference to China's Financial Supervision

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Abstract: ***At present, China's financial supervision system is facing restructuring, and various controversies for reform and construction have different opinions and have proposed different reform plans. Since the financial crisis in 2008, the Bank of England has carried out a series of reforms. In the financial regulatory reforms of major countries in the world, the UK has the most reforms and has achieved remarkable results. It is one of the models available for study in China. The obvious feature of the Bank of England reform was the shift from "super regulators" to "super central banks". The UK government split the Financial Services Authority, strengthened the status of the central bank, and continuously strengthened the central bank's functions of implementing financial supervision and maintaining financial stability.***

Keywords: Bank of England, Financial regulation, Super central bank

1. Introduction

At present, China's financial supervision system is facing restructuring. All parties have put forward their own suggestions for reform, and have summarized different reform plans. Since the financial crisis in 2008, in the reform of the financial regulatory system in major countries around the world, the UK's Bank of England has been the most reformed and its effectiveness is quite obvious. It should be one of the models available for learning in China.

The Bank of England is the central bank of the United Kingdom. Founded in 1694 by the British royal charter Scotsman William Paterson. In the early days, the government mainly raised warfare fees and obtained currency distribution rights. In 1844, according to the New Bank Law ("Pil Regulations"), the distribution department and the banking department were divided, and then the commercial banking business was gradually abandoned, becoming the central bank. In 1946, the Labor Party government was nationalized. Its main responsibilities are: issuing currency; managing treasury bonds; cooperating with the Ministry of Finance and the Chancellor of the Exchequer to implement monetary policy; re-discounting existing bills; acting as a financial treasury; through the International Monetary Fund, the World Bank and the Bank for International Settlements Matters related to currency in other countries; proxy government to keep gold foreign exchange reserves, etc.

Let's take a look at the reforms of the Bank of England. The Bank of England reform is characterized by a shift from "super regulators" to "super central banks". Prior to the global financial crisis in 2008, the United Kingdom implemented a single regulatory model, namely the establishment of the Financial Services Authority (FSA) under the Financial Services Market Act of 2000, becoming the regulator of all financial industries, namely "super-regulators". Formed a tripartite regulatory system for the Financial Services Authority, the Bank of England and the Ministry of Finance. Beginning in 2009, the UK undertook a fundamental reform of the financial regulatory system and established a Financial Policy Committee (FPC) under the Bank of England to assume macro-prudential management responsibilities. Split the Financial Services Authority, establish the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA, respectively, to assume financial behavior regulation and consumer protection and micro-prudential supervision duties; PRA and FCA coordinate and cooperate with each other and receive FPC Guidance. The above reforms substantially corrected the system of complete separation of central banks and financial supervision established in the United Kingdom in 1997, strengthened the macro-prudential management functions of the Bank of England, accelerated the structural reform of the banking industry, and established and improved the disposal mechanism of financial institutions.

The reforms carried out by the Bank of England are mainly reflected in the following three aspects:

The first aspect is the simplification of the regulatory system from bimodal to bimodal.

In 2012, the UK government split the Financial Services Authority into two institutions: the Prudential Regulation Authority (PRA) and the Behavioral Supervision Authority (FCA). The Prudential Regulation Authority, as the institution of the Bank of England, oversees the regulation of commercial banks, insurance companies and investment banks; the Conduct Authority regulates the business conduct of all companies and pays more attention to consumer protection. The Bank of England's status has been enhanced and it has begun to combine the functions of macro-prudential supervision and micro-prudential supervision. Its function of maintaining financial stability has been comprehensively strengthened:

The Bank of England's Board of Directors establishes the Financial Policy Committee (FPC), which is responsible for formulating macroeconomic policies, monitoring and responding to systemic financial risks, and maintaining the stability of the financial system.

Give the Financial Policy Committee (FPC) “command rights” and “recommendation rights”.

“Directive” means that the Financial Policy Commission has the power to make decisions on specific macroprudential policy instruments, including countercyclical capital buffers, differential capital requirements, etc., and requires the implementation of the Prudential Regulation Authority or the Financial Conduct Authority.

The “recommendation right” means that the Financial Policy Committee has the right to make recommendations to the Prudential Regulation Authority and the Financial Conduct Authority. If the regulatory body does not implement it, it needs to make a public explanation.

The Bank of England is responsible for the prudential supervision of a systemically important financial market infrastructure while strengthening the ability of the Bank of England to handle the crisis.

The second aspect is the regulatory approach from “three-way decentralization supervision” to “super central bank model”.

Prior to this, the UK had been implementing a “troika” regulatory model: the Financial Services Authority and the Bank of England and the Ministry of Finance jointly assumed the regulatory responsibility of the financial system, but this regulatory system failed in the financial crisis. In order to make up for the gaps in macro regulation, the British Parliament introduced the Banking Law in February 2009, establishing the core position of the Bank of England in the financial system, namely, monetary policy, financial stability, financial market operations and deposit-taking financial institutions. In order to become a "super central bank", it will form a unified and unified power situation.

The third aspect is the transformation of the bank's operations from “all-round banks” to “structured integrated operations”. During the financial crisis, the “universal banking model” implemented in the UK caused many regulatory difficulties and gave rise to systemic risks. In 2012, according to the recommendations of the Independent Bank of England Committee, the British government decided to implement the “fence rule” to carry out structural supervision reform, break the “all-round bank” model, and isolate retail banking and investment banking within the group. The central bank has implemented prudent supervision of financial groups.

2. The problem of supervision and supervision of the three branches in China

China's current "one line, three meetings" separate supervision system originated from the financial rectification in 1993. The legislation was clearly defined in the "Commercial Banking Law" of 1995, which was formally established in 1997. "The CPC Central Committee and the State Council on deepening financial reform and rectifying finance Order, Notice of Preventing Financial Risks. At that time, the government learned the lessons of the 1997 Asian financial crisis and designed such a separate supervision system in order to prevent the transmission of risks across industries. However, with the development of the situation, the drawbacks of this system have become increasingly prominent. Specifically, reforming the current financial regulatory system is necessary because there are many problems with the current financial system:

First, there are problems such as regulatory gaps, regulatory duplication and regulatory arbitrage under the separate supervision system. The financial mixed industry is the trend of the times, but the supervision of the divisions implemented in China at this stage cannot be effectively supervised and cannot adapt well to the mixed trend. For example, in the supervision of shadow banking: as a product of financial innovation, shadow banking has crossed the banking, securities, trust, fund, insurance and other fields, and has continuously broken through the regulatory boundaries, which may cause regulatory gaps, that is, bypass at the same time. The supervision of the three sessions. Some cross-cutting shadow banking products belong to multiple supervisory authorities at the same time, causing repeated regulatory problems, that is, there may be two agencies to supervise it at the same time, which will increase supervision costs. In addition, the unregulated standards and different strengths of the supervision will also cause the market players to make a series of arbitrage behaviors of drilling and smashing the ball, so there are many problems. These problems are forcing the reform of the regulatory system.

Second, the inherent structural contradictions of the financial system are prominent. The current reform of the financial regulatory system is under tremendous pressure. Our country is in the midst of a new economic normal period and the country's overall debt ratio and total social leverage have increased significantly. Financial innovations such as Internet finance and shadow banking have strengthened the risk transmission and intersection of various sub-sectors in the financial industry. At the same time, the formation mechanism of our government bond yield curve and interest rate marketization have not yet been completed. Therefore, the inherent structural contradictions of the financial system urgently need to be resolved.

Third, the innovation of financial means has led to various financial risks. The fuse mechanism at the beginning of the year 16 artificially hindered the market clearing, further exacerbating market panic. This is like the ten escape doors. The stock index futures limit is closed five times, the fuse mechanism is closed four, and only one is left. The result is a stampede. If you do not respect the laws of the market, reduce market distortions, and improve the relevant systems, the phenomenon of stampede (popping and plunging) may occur from time to time. There are also emerging Internet finances. After the popularity of Internet finance, in addition to benefiting people's daily lives, it also brings risks to the financial market. For example, the p2p, which was in the past, has collapsed in the past, and most of its managers are running money. The downfall of these p2p platforms is often caused by poor investment, which leads to a tight capital chain, which has led to panic runs by some investors. Even some p2p platforms are more serious and directly swindle, so the "Ponzi scheme" will be exposed one day. However, because the interest of some private lending institutions is far higher than the law stipulates, investors cannot legally and legitimately defend their rights after the incident. This will cause this part of investors to be dissatisfied with the society, which in turn poses a certain threat to the stability of the financial system and society. So this reflects that our financial regulators should take precautions, even if they identify and prevent these emerging financial risks, and strengthen financial supervision.

Fourth, the impact of cross-border financial trading activities and the spillover effects of China's financial markets are increasingly evident. After the development of the last decade or so, the degree of opening up of China's capital market has gradually increased. For example, the QDII fund caused a large loss in QDII in March 2016. "As of March 15, according to the statistics of "CM Huaxia Wealth Management", there are 111 QDII funds that have reported net performance in China, of which 76 have lost in the past year, accounting for more than 60%, and only 10% of the revenue exceeds 10%. Only." The profit and loss performance of QDII funds is closely related to the global macroeconomic situation. On the one hand, the price of overseas commodities, energy and natural gas plummeted. On the other hand, at the end of February, the SAFE clearly announced the 2016 QDII quota. There are no nearly 150 QDII funds in China, and there is no "live water assistance". So it will inevitably lead to a loss of QDII. Therefore, in the face of the trend of increased volatility in international capital markets and the trend of China's increasing integration into globalization, it is required that our financial regulatory system must enhance its capacity building.

In summary, many factors in China's real financial market have surpassed the existing financial regulatory framework, so the reform of China's financial regulatory system has become a top priority, and there is no time to delay.

3. Drawing on China's financial regulatory reform

3.1 Is the "super central bank" regulation suitable for China's national conditions?

The reform of the financial supervision system must be based on China's actual national conditions, can not be separated from China's actual situation, and must grasp the main problems existing in China's financial system. As far as financial regulatory reform is concerned, the current biggest national situation is the specific historical stage of China's financial market. The main problems to be solved in the reform also have the characteristics of this historical stage, namely how to further rationalize the relationship between the government and the market. Since the national conditions are constantly changing, the financial regulatory system should also be dynamically adjusted. In fact, there is no optimal solution once and for all, and the regulatory system should be constantly adjusted.

On the basis of the above ideas, the objectives to be achieved in the current reform of China's financial regulatory system should include the following

The first point is to maintain the financial stability of the financial system and to maintain the bottom line of non-systematic and regional financial risks. In particular, those factors that may trigger systemic and regional financial risks should be incorporated into the framework of macro-prudential management in a timely manner, properly controlled, firmly adhere to the bottom line, and provide a sound financial environment for the stable development of the economy and structural reforms. Improve the effectiveness of monetary policy and macro financial management.

The second point is to improve the efficiency of supervision and try to balance the interests of all parties concerned, especially to protect the legitimate rights and interests of the weaker party. The efficiency of the allocation of financial resources by mixed operations depends to a large extent on the efficiency of financial supervision. After the financial crisis, strengthening the protection of consumers and small and medium-sized investors in the financial sector should become an important focus of the reform of the financial regulatory system.

3.2 Omparison of reform plans: "super central bank" and "one line for one meeting"

By clarifying the goals that the financial system reform should adapt to, we can compare different reforms. Regarding how to reform the regulatory framework of the "three-line, three-party", the two circles of politics and education have already had a very heated discussion, and have produced a series of dazzling reforms, such as: erecting the Financial Supervision Coordination Committee on the third and third sessions. Comprehensive coordination of the four regulatory agencies; one line remains unchanged, the three meetings are unified to form a financial supervision committee, and comprehensive supervision of "one line and one meeting" is implemented; the three sessions are merged into the central bank to form a so-called "super central bank"; and multiple versions of "one line" The "two sessions" program (some advocated the integration of the CSRC into the central bank, and some supported the CBRC into the central bank)... Although the overall reform plan is numerous, the supporters are more concentrated and considered to be relatively more reasonable and feasible. There are only two, that is, the "super central bank" mode and the "one line one meeting" mode. Next, I will compare these two representative reforms to see if they are better or worse.

Compared with the one-on-one meeting, the "super central bank" reform plan is more in line with the requirements of improving the macro-prudential policy framework and conforms to the latest international trends in the reform of the financial regulatory framework. First of all, the design concept of the "super central bank" model revolves around the macroprudential policy framework, which is a reference to the experience of the Bank of England reform. Second, the "super central bank" model is in line with the latest international trends. We can learn from the practices of advanced countries and combine them with specific national conditions. The "super central bank" model represents the UK's split of the Financial Services Authority, and the establishment of a central bank-based regulatory framework represents the latest international experience and is the direction we can learn.

The one-on-one meeting may lead to an increase in the cost of supervision. Now the coordination cost between the line and the three meetings is already very high. If the three parties are united, the coordination between the next one will be more difficult.

However, there are some problems in the super central bank model. First, if the "super central bank" is responsible for both macro and micro supervision, then not only the neutrality of monetary policy is difficult to guarantee, but also the "super central bank" is more likely to take care of the system. Sex financial institutions, because these institutions are too important to ensure that they are "big but not down". Secondly, the function of the "super central bank" is too concentrated, which may affect the efficiency of supervision and is not conducive to the balance between professional division of labor and overall coordination. Moreover, on the basis of mastering the enormous power of human, material, and financial resources, the "super central bank" may also form a trend of continuous self-reinforcing of institutional interests, thus affecting further comprehensive deepening of reforms.

In summary, there is neither a universal financial supervision model nor a once-and-for-all financial supervision model. The financial supervision system of any country must be compatible with the national conditions and economic development stages, and with the main contradictions. The evolution of the evolution has been dynamically adjusted. As far as the current situation of China's financial regulatory reform is concerned, the "super central bank" is a relatively good solution. Only by determining the strategy of financial regulatory system reform based on the principle of "making the market play a decisive role in resource allocation" can we effectively promote the healthy and orderly development of China's financial market, and also integrate regional superior resources in the future in Asia. Financial discourse rights, strengthen financial governance in the Asian region, promote the reform of the international financial system, and lay a solid foundation.

3.3 Imaginary reform

The reform structure of the "three-party and three-party" (People's Bank, China Securities Regulatory Commission, China Banking Regulatory Commission, China Insurance Regulatory Commission) temporarily decided to follow the British super-central bank model. The People's Bank of China has a "Monetary Authority" with a similar role to Hong Kong's financial affairs and treasury. The bureau will co-ordinate the CSRC, the China Banking Regulatory Commission and the China Insurance Regulatory Commission, which will be responsible for the coordination of policies and supervision of the three associations.

A super-financial regulator can be established to merge the CBRC, the China Securities Regulatory Commission and the China Insurance Regulatory Commission, while the central bank enjoys greater powers in managing the economy. At the same time, the central bank will be upgraded to a sub-national unit, the financial supervision committee is a ministerial unit, and the third meeting is reduced to a sub-department unit.

It is reported that for the specific plan, the central bank not only reported a plan, but also was not limited to the direction of "super central bank". The current discussion focuses on how to better adapt to the macro-prudential regulatory framework, withdraw, integrate and establish corresponding department-level institutions. One of these should consider whether the new system should cope with the economic crisis, whether the financial crisis is strong and strong, and whether it can coordinate and make decisions. Second, we must consider cost issues, incentive mechanisms and confidence, and the powers and responsibilities should be consistent. How the banking security system can integrate with the world, competitiveness and security need to be discussed.

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