

We have had an excellent seminar here with a lot of issues, a lot of talks, and a lot of experience. These are very valuable to the People's Bank of China, and to the people sitting here, people staying here, with regard to China's policy-making and banking reform.

What I should say is that all these points are very helpful, but on hearing them, I can draw the conclusion that there is no perfect recipe for strengthening the banking system of a country like China. We have got to deal with our own problems according to the international standards and experience. And, more important, we have got to combine all of these with our country's situation. Nowadays, we are facing a lot of challenges. We know we need rules and laws, and we know we need a quicker response and thorough reform of our SOEs, and we know we need good governance in state-owned banking and in all the commercial banks and non-bank institutions of China.

Of course, we acknowledge the opportunities and risks involved in every step of the reform. They are just like strawberries and cream, always going together. So what I should say is what we can do. The PBC has got to concentrate on mobilising its resources as much as possible to make supervision better. Eddie George once told me that, according to the British way, the regulators used to keep half a step behind the market changes in order to maximise the creativity in the market. But our philosophy is that the central bank has got to keep half a step ahead of the changes, because we must keep up the pressure on the banks and their customers all the time. This is the management of change. And we have got to face change and accept the challenges in the future.

To put these challenges in perspective, I think it is very, very important to bear in mind that the bank supervisory process in the near future will entail no fewer than eight related tasks or functions, and these supervisory functions in China must include the following:

- first, granting charters for banking institutions and non-bank institutions and approving major changes in their activities, strategies, ownership or other important structures of such institutions;
- second, establishing and adapting essential prudential norms in such areas as capital, total bank lending to a single customer, liquidity, etc.;

- third, establishing and adapting rules for the regular reporting of key statistical information to us and, as a related matter, establishing rules for the public disclosure of key statistics and other information;
- fourth, the ongoing and systematic analysis of all such information by us and by our experts, as part of an “early warning” system to detect problems before they become serious;
- fifth, the semi-annual on-site examination of all banking institutions, with particular emphasis on the quality of their assets and the adequacy of internal controls, audits, risk management and credit due diligence systems, must be built up;
- sixth, the regular, systematic and timely communication of the results of examinations and other supervisory initiatives to the top management and boards of directors of all banking institutions, and all shareholders of non-bank institutions;
- seventh, a well-defined framework for initiating remedial actions against banks or non-bank financial institutions that have, or are developing, problems that might threaten their viability;
- eighth, clear rules and procedures in explicit form for dealing with insolvent banks and non-bank financial institutions.

I think all these functions have been elaborated by the Basel Committee on Banking Supervision in framing its “Core Principles for Effective Banking Supervision”. China’s central bank should be, and remain, strongly committed to full compliance with the letter and the spirit of these Core Principles.

More generally, as part of the reform effort in our country, a substantial upgrading of supervisory capability is needed in order to ensure that the banking system is not confronted with a new wave of systemic problems in the future. Consistent with this, and as noted earlier, the objective of bank supervision is to protect the wellbeing of our whole banking system, not to protect the shareholders and managers of poorly managed institutions, or those which are committing market malpractice, or even suffer failure.

To attain a goal like this, we need a lot of resources, we need a lot of highly professional experts in our bank and we need firm backup in technical and strategic fields. That is the reason why we value this seminar highly, that is the reason why I should like to extend my heartiest thanks to every single expert we invited for your rich contributions to the seminar. That is the reason why I should like to extend my

particular thanks to Andrew Crockett, who sponsored and initiated the meeting, and that is the reason why I should like to reiterate our confidence and commitment to strengthening our ties with the BIS, because we need your help, and we need our friends. China’s tomorrow, as Governor Dai mentioned yesterday evening, will definitely be better, but we know that China’s tomorrow can be better only if we think harder, we learn harder and we respond quicker.