Appendix

Guidelines on Macro-Prudential Policies

(Trial)

Chapter I General Provisions

Article 1 This *Guidelines* is formulated to promote the macro-prudential policy framework, improve the capacity to forestall and mitigate systemic financial risks, and enhance the transparency of macro-prudential policies.

Article 2 The macro-prudential policy framework is a crucial safeguard for the effective implementation of macro-prudential policies, comprising, among others, the objectives of macro-prudential policies, risk assessment, policy tools, transmission mechanisms, and governance mechanisms. The macro-prudential authorities will, through practices, enrich and improve the macro-prudential policy framework on an ongoing basis.

Article 3 Under the guidance of the Financial Stability and Development Committee ("FSDC"), the People's Bank of China ("PBC"), acting as the lead authority of macro-prudential regulation ("Lead Authority") and in collaboration with the other relevant authorities, carries out macro-prudential regulation by establishing a sound macro-prudential policy framework; monitoring, identifying, evaluating, forestalling, and mitigating systemic financial risks; facilitating the transmission of macro-prudential policies; and guiding the effective implementation of macro-prudential policy tools.

Article 4 Macro-prudential policies apply to duly-established institutions that are approved by the financial regulatory authorities under the State Council to engage in financial business or provide financial services, as well as to financial activities, financial markets, and financial infrastructures that are prone to the accumulation and contagion of systemic financial risks.

Chapter II Macro-Prudential Policy Framework

Article 5 The objectives of macro-prudential policies are to forestall systemic financial risks, especially to prevent their procyclical accumulation and contagion across institutions, industries, markets, or borders; increase the resiliency and soundness of the financial system; reduce the likelihood and damage of financial crises; and promote the overall health and stability of the financial system.

Article 6 The assessment of systemic financial risks refers to the identification, through the combined use of risk assessment tools and supervisory judgment, of the sources and characteristics of the systemic financial risks in a financial system, and the subsequent measurement of the overall profile, likelihood of occurrence, and potential hazard of those risks. The timely and accurate identification of systemic financial risks is the prerequisite for implementing macro-prudential policies.

Article 7 We shall, in view of the characteristics of systemic financial risks, the realities of China, and the experiences of other countries, develop a series of policy tools appropriate for China and create a sound macro-prudential policy toolkit. We shall apply the appropriate macro-prudential policy tools to the systemic financial risks identified during the assessment to achieve the objectives of macro-prudential policies. The continuous enrichment and improvement of macro-prudential policy tools is essential to raising the effectiveness of macro-prudential policies.

Article 8 The transmission of macro-prudential policies refers to the process of using macro-prudential policy tools to influence financial institutions and financial infrastructure, so as to curb the potential procyclical accumulation or contagion of systemic financial risks and ultimately achieve the objectives of the macro-prudential policies. A well-functioning transmission mechanism is an important safeguard for the effectiveness of macro-prudential policies.

Article 9 The governance mechanisms of macro-prudential policies refer to the organizational structure design and working procedures and arrangements for monitoring and identifying systemic financial risks and coordinating, implementing, and assessing the effect of macro-prudential policies. Sound governance mechanisms provide an institutional safeguard for strengthening the macro-prudential policy framework and implementing macro-prudential policies.

Chapter III Monitoring, Identification, and Assessment of Systemic Financial Risks

Article 10 Systemic financial risks are financial risks that may have a significant impact on the provision of financial services and thus bring serious negative consequences on the real economy. Systemic financial risks broadly come from the time dimension and the structural dimension.

(I) In the time dimension, systemic financial risks generally arise from the congruent financial activities and accumulate over time. The time dimension is mainly manifested as the over expansion or contraction of financial leverage, which may lead to the procyclical self-reinforcement and amplification of risks.

(II) In the structural dimension, systemic financial risks generally arise from the instability of specific institutions or markets, and then spread to other financial institutions, financial markets, and financial infrastructures due to their interconnectedness. The structural dimension is manifested as risk contagion across institutions, sectors, markets, and borders.

Article 11 The monitoring of systemic financial risks shall focus on the macro leverage ratio; the debt level and solvency of the government sector, enterprise sector, and household sector; and the financial institutions, markets, products, and infrastructures that are systemically important and have substantial spillover effects.

Article 12 The Lead Authority shall establish a sound system for the monitoring and assessment of systemic financial risks, carry out such monitoring and assessment in collaboration with the relevant authorities, and publish the results of assessment on a regular or ad hoc basis. For the systemic financial risks in specific domains, the Lead Authority shall additionally organize special assessment.

Article 13 The Lead Authority shall (i) establish a sound framework for the monitoring and assessment of systemic financial risks in view of the characteristics of such risks; (ii) strengthen the design of indicators for the monitoring and assessment of systemic financial risks and establish threshold values, and adjust them when and as necessary to reflect the development and change of risks; and (iii) develop additional risk monitoring methods and techniques; adopt heat maps, systemic financial risk indicators, financial stress indicators, financial conditions indicators, macro-prudential stress tests, special surveys, and other methods and tools for risk monitoring and assessment; and actively experiment with big data applications.

Chapter IV Macro-Prudential Policy Tools

Article 14 Macro-prudential policy tools primarily aim to forestall the overall risk of the financial system. They generally feature a macro, countercyclical, and anti-contagion design, which is what distinguishes them from micro-prudential supervision that mainly targets the sound and compliant operations of individual institutions. Macro-prudential policies share certain tools with micro-prudential supervision, such as setting requirements on capital, liquidity, or leverage. However, the two sets of tools differ in perspective, the issues targeted, and the management methodology, and thus complement rather than replace each other. The macro-prudential policy tools aim to forestall systemic financial risks, chiefly by prescribing requirements in addition to those already under micro-prudential supervision, in order to fortify the financial system against procyclical fluctuations and risk contagion. Macro-prudential regulation is often dynamic, aiming to introduce countercyclical effects in response to the changing state of systemic financial risks.

Article 15 Macro-prudential policy tools can be classified as time-dimension tools or structural-dimension tools in accordance with the type of systemic financial risk they target; some belong to both categories.
Time-dimension tools are for countercyclical adjustment to smooth out procyclical fluctuations in the financial system. Structural-dimension tools seek to prevent the transmission of systemic financial risks across institutions, markets, sectors, or borders by raising the regulatory requirements at key points of the financial system.

(I) Time-dimension tools mainly include:

1. Capital management tools, which aim to curb the accumulation of procyclical financial risks arising from the over expansion or contraction of assets or the over-concentration of asset structure, mainly by adjusting the additional regulatory requirements imposed on the capitalization of financial institutions and the risk weight of assets in specific sectors.

2. Liquidity management tools, which aim to rein in excessive reliance on wholesale funding as well as severe currency and maturity mismatch, mainly by adjusting the additional regulatory requirements on the liquidity level, liquidity of assets, and sources of liabilities of financial institutions and financial products, in order to enhance the resilience and soundness of the financial system against liquidity shocks.

3. Asset-liability management tools, which, mainly by regulating the composition and growth rate of financial institutions' assets and liabilities, thereby influencing the level and structure of debt of market entities, aim to forestall the systemic financial risks that arise from the over expansion or contraction of assets in the financial system, the concentration of risk exposures, and any unreasonable debt levels of market participants.

4. Financial market trading behavior tools, which, mainly by adjusting the additional regulatory requirements on such variables as the margin ratio and leverage level imposed on financial institutions and on the trading of financial products, aim to forestall the systemic financial risks that arise from major price volatility or other similar situations in the financial market.

5. Cross-border capital flow management tools, which aim to forestall the systemic financial risks that arise from the large inflow and outflow of cross-border capital, mainly by imposing restrictions on the factors that affect the procyclical fluctuations of cross-border capital flows.

(II) Structure-dimension tools mainly include:

1. Additional regulatory rules for specific institutions, which, mainly by imposing additional requirements on systemically important financial institutions with regard to capital, leverage ratio, and liquidity and requirements on financial holding companies with regard to consolidation accounting, capital, concentration, and related party transactions, aim to enhance the soundness of these institutions and reduce the contagion effect of their risks.

2. Financial infrastructure management tools, which aim to enhance the soundness of financial infrastructures by strengthening the operational and supervisory requirements.

3. Cross-market financial product management tools, which aim to prevent the transmission of systemic financial risks across institutions, markets, sectors, and borders, mainly by strengthening the supervision and administration of cross-market financial products.

4. Risk resolution tools and other tools, such as recovery and resolution plans, that cut off risk contagion, which aim to forestall systemic financial risks or reduce the impact of such risks mainly

through strengthening the risk resolution protocols of financial institutions and financial infrastructures and requiring relevant institutions to develop contingency plans, such that at the occurrence of a material risk, they can call upon these plans to restore viability or undergo orderly resolution to ensure the continuity of critical businesses and services.

Article 16 Macro-prudential policy tools can be divided into mandatory tools and guidance tools based on the level of binding force on the regulated entities. Mandatory tools are those that must be complied with by the regulated entities under laws and regulations; guidance tools are opinions on the state of systemic financial risks, and suggestions on their prevention, published by the Lead Authority through research reports, information releases, rating announcements, and risk alerts.

Article 17 The Lead Authority shall develop new macro-prudential policy tools in collaboration with relevant authorities in view of the sources and characteristics of specific systemic financial risks.

Article 18 Stress tests can provide important reference and support for macro-prudential regulation. The Lead Authority shall, by testing the financial system's resilience to shocks under extreme conditions, identify and assess systemic financial risks and activate and calibrate the macro-prudential policy tools. Macro-prudential stress tests comprise macro-level stress tests and such institution- and sector-specific stress tests as stress tests for systemically important financial institutions, financial holding companies, and the financial industry.

Chapter V Application of Macro-Prudential Policy Tools

Article 19 The application of macro-prudential policy tools generally involves the three phases of activation, calibration, and adjustment. The specific procedures shall be formulated by the Lead Authority in collaboration with relevant authorities.

Article 20 Where the potential systemic financial risks have reached the activation threshold of macro-prudential policy tools, the Lead Authority shall, in collaboration with the relevant authorities and incorporating supervisory judgment, activate at the appropriate moment the macro-prudential policy tools in response to those risks. The Lead Authority may also activate such tools when the risks have not reached the activation threshold, if it believes, following a comprehensive analysis and assessment with the relevant authorities and based on the supervisory judgement, that systemic financial risks may occur.

Article 21 After activating macro-prudential policy tools, the Lead Authority shall, in collaboration with the relevant authorities, comprehensively evaluate on a dynamic basis whether the tools have met expectations, whether there is regulatory arbitrage, and whether there are any unintended consequences. Based on this evaluation, the macro-prudential policy tools shall be calibrated in terms of scope of application, indicator design, and policy requirements.

Article 22 The Lead Authority shall, in collaboration with the relevant authorities, assess on a dynamic basis the profile of systemic financial risks and, based on this assessment and supervisory judgment, adjust the specific parameters of macro-prudential policy tools at appropriate times.

Chapter VI Governance of Macro-Prudential Policies

Article 23 The Lead Authority shall work with the relevant authorities to promote the formation of macro-prudential policy governance mechanisms fit for China and continuously improve them based on practice.

Article 24 The Lead Authority may push for the establishment of a macro-prudential policy structure based on matrix management. To deal with specific systemic financial risks, it may monitor and assess the risks and give suggestions on the use of macro-prudential policy tools by setting up inter-agency task forces with the relevant authorities or by other means.

Article 25 Based on what fields systemic financial risks are related to, the Lead Authority shall discuss with the relevant authorities on the launch, calibration, and adjustment of macro-prudential policy tools.

Article 26 The Lead Authority shall work with the relevant authorities to carry out macro-prudential management according to their respective mandates and conduct supervision and management of the implementation of macro-prudential policies.

Article 27 The Lead Authority shall work with the relevant authorities to monitor and assess the implementation of macro-prudential policy tools in a timely manner and release the assessment results in an appropriate way.

Article 28 The mechanism for the supervision of macro-prudential policies shall be established and improved under the guidance of the FSDC to strengthen the supervision of the Lead Authority and the relevant authorities with respect to their fulfillment of macro-prudential management responsibilities and to ensure effective performance of duties.

Article 29 The Lead Authority shall establish a sound mechanism for macro-prudential policy communication to effectively guide expectations and communicate with the market through announcements, reports, press conferences, etc. on a regular or irregular basis. The communications shall mainly concern macro-prudential policy framework, policy stance, assessment of systemic financial risks, use of macro-prudential policy tools, and likely policy action in order to enhance the transparency and predictability of macro-prudential policies.

Chapter VII Supports and Safeguards

Article 30 Under the comprehensive statistical system for the financial sector, the Lead Authority shall promote the collection and sharing of data related to macro-prudential policies. The collection, use, and disclosure of such data shall strictly comply with the relevant confidentiality rules.

Article 31 As needed for the prevention of systemic financial risks, the Lead Authority shall establish a system for the collection and supervision of information related to macro-prudential management, maintain and manage the system, and work to achieve data sharing.

Article 32 The Lead Authority shall work with the relevant authorities to formulate and improve the rules and regulations on macro-prudential management.

Article 33 The Lead Authority shall work with the relevant authorities to establish an emergency handling mechanism to prevent and control possible outbreaks of systemic financial risks in a timely and effective manner and to reduce secondary risks.

Chapter VIII Policy Coordination

Article 34 The Lead Authority shall, in collaboration with the relevant authorities, establish coordination mechanisms for macro-prudential management. Major issues encountered during the implementation of macro-prudential policies shall be submitted to the FSDC for decision-making. Matters agreed upon through inter-agency coordination may be clarified through meeting minutes, memoranda, and other means, and those involving the macro-prudential policy framework may be reflected in the subsequent revisions of this *Guidelines*.

Article 35 We shall strengthen the two-pillar macro-management framework of monetary policies and macro-prudential policies and promote the coordination between these policies to achieve both currency stability and financial stability. Macro-prudential policies can rein in procyclical fluctuations in the financial system by such means as limiting the leverage of financial institutions and monetary and maturity mismatch; and keep risk contagion in check and ensure the sound performance of financial institutions and infrastructures by limiting the interconnectedness among financial institutions and the complexity of financial transactions, thereby facilitating the implementation and transmission of monetary policies and enhancing their effectiveness. The monetary policy environment and changes thereof will similarly have a major impact on financial stability and hence are key factors to be considered in formulating macro-prudential policies.

Promoting the coordination between macro-prudential policies and monetary policies entails, among other things, enhancing information sharing and cooperation on the analyses of economic developments and the monitoring of financial risks; in formulating macro-prudential policies, taking into account monetary policy stance, fully soliciting comments from monetary policy makers, assessing the potential spillover and addictive effects of policies, and managing the sequence and pace of new policies; and during policy implementation, regularly assessing the effect of policies in collaboration with monetary policy makers, and calibrating and adjusting the macro-prudential policies as appropriate.

Article 36 We shall strengthen the coordination between macro-prudential policies and micro-prudential supervision to fully tap into the holistic view of the former on the financial system and the attention of the latter on the soundness of individual institutions and thus build policy synergy to maintain financial stability. The macro-prudential policies, from their macro perspective, can deliver countercyclical adjustments to the uniform expectations and the resulting behaviors of financial institutions, and impose higher requirements on the key points in the financial system and on the financial products and financial activities that may bring cross-market risk contagion, thereby complementing micro-prudential supervision. The comprehensive regulatory data possessed by micro regulatory authorities can make the assessment of systemic financial risks more accurate; effective micro-prudential supervision measures can also enhance the effectiveness of macro-prudential policies.

Strengthening the coordination between macro-prudential policies and micro-prudential supervision entails, among other things, enhancing information sharing and cooperation relevant to financial risk monitoring; in formulating macro-prudential policies, comprehensively considering the micro-prudential supervisory environment, fully soliciting comments from the micro regulatory authorities, assessing the potential spillover and additive effects of policies and, for matters that fall within their remit, involving them in developing the macro-prudential regulatory requirements; and during policy implementation, regularly assessing the effect of policies in collaboration with the micro regulatory authorities, and calibrating and adjusting the macro-prudential policies as appropriate.

Article 37 We shall enhance the coordination between macro-prudential policies and national development plans, fiscal policies, industry policies, and credit policies to enhance the capacity of financial sector to serve the real economy. As macro-prudential policies may have spillover effects on the real economy through their influences on the behaviors of financial institutions, we shall, in formulating and implementing those policies, maintain effective communication with other authorities of macro-prudential policies to foster policy synergy.

Chapter IX Ancillary Provisions

Article 38 This *Guidelines* is subject to the interpretation of the PBC and will be revised as appropriate in accordance with the practices of macro-prudential policies.