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# **The Regulation Of Financial Markets In Russia And China Comparison And Analysis**

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## **Abstract**

China and Russia are good neighbourly and friendly relations, and used to belong to a socialist system. Therefore, both countries have a lot of the same points in aspects of economic and social, in this paper i will analysis the respective advantages and disadvantages of financial regulatory model of the two country by comparing the difference between financial market regulation of China and Russia, and absorb the experiences and lessons from the reform of the financial system of the two countries, in order to learn from each other, make the financial supervision modes of the two countries more perfect, it is good for the long-term development of the financial markets of the two countries.

**Key words:** Supervision, financial market, development

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## **Introduction**

The main content of this paper i wrote include the development of financial market in China and Russia, illustrate the importance of financial supervision for the financial markets by analyzing the problems existing in the development of financial markets, finally compare and analysis the regulation of financial markets in Russia and China, and study the advantages and disadvantages between the two, and put forward suggestions for the reform of financial supervision of the two countries.

The reason why I write financial supervision is because China and Russia are one of the BRIC countries, the speed of economy development is very rapid, in the process of the rapid economic development, any small problem can lead to a big disaster, several times of the financial crisis has also confirmed this, Therefore, financial supervision is essential and particularly important in the process of rapid economic development, and how to improve the financial supervision has become the top priority.

# **Chapter 1 China's financial markets and financial regulation**

## **1. Overview of China's financial markets**

### **1.1. Basic theory of financial markets**

#### **1.1.1. Meaning of financial markets**

The concept of "finance" includes all the accommodation of monetary capital in the financial markets, and covers the monetary capital in the market, credit activities, and all economic activities related to finance. Finance and economic development are interdependent, mutual influence and inseparable relationship. This is mainly reflected in: finance has become an important part of the core of modern economic, the healthy development of the financial industry and the rationality of the credit structure directly determines that whether the whole structure of the macro economy can develop rapidly. On the contrary, the development of the economy has an important influence on the financial market, The speed and the overall structure of the macro economic development will directly affect the development speed and level of the financial market. From the mutual relations between the financial market and the macro economy, it can be seen that whether the financial market of a country or region is maintaining a healthy and rapid development momentum, which directly affects the overall macroeconomic development situation of the country or region. China's financial market has many years of development history, in the whole development process, it has experienced continuous changes and accumulation. Especially since the Reform and Opening-up, Financial market has gradually become an important part of China's socialist market economy, with the continuous development of China's economy and the continuous deepening of reform, requires

China's financial market continued reform and continuous improvement, so that it can play a greater and more active role in future development of China's economy.[1]

### **1.1.2 Functions and characteristics of financial markets**

The financial market is also called capital market, which includes monetary market and capital market. The so-called accommodation of fund, refers to the process of economic operation, the supply and demand of funds use of various financial instruments to adjust the capital surplus, it is a general term for all financial transactions. What trading in the financial markets is a variety of financial instruments, such as stocks, bonds, certificates of deposit, etc.. Accommodation of fund is also called financing, which is divided into direct financing and indirect financing. Direct financing is the activity of direct financing of capital supply and demand, It also means that the funds demanded directly financing from the individuals and situation which is fund surplus through the financial market. Corresponding to this, the indirect financing means the financing activity of the bank, which means that the fund demanded needs to apply for the bank and other financial intermediaries to loan. Financial markets have a profound impact on all aspects of economic activities, such as the efficiency of the economic operation, the individual wealth, the operation of the enterprise, all of these are depending on the activities of the financial market.

The financial market is very complex, it's a huge system which is made up of many different markets. However, according to the time limit of the transaction instrument of financial market, the financial market is divided into two categories: monetary market and capital market. Monetary market is the market for short-term (within a year) capital circulation, the capital market is the market for long-term

(more than one year) capital circulation. Monetary market and capital market can be further divided into a number of different sub markets. The monetary market includes the inter-bank lending /borrowing, the Repurchase Agreement Market, the commercial paper market, the bank acceptance bill market, the short term government bond market, the large denomination negotiable certificates of deposit, etc.

The capital market, including the long-term credit market and stock market. Medium and long-term credit market is the market of financial institutions and commercial enterprises. The securities market is the market for financing through the issuance and transaction of securities, including the bond market, the stock market, the fund market, the insurance market, and the financial leasing market.[2]

The speed and the overall structure of the macro economic development will directly affect the development speed and level of the financial market. From the mutual relations between the financial market and the macro economy, it can be seen that the financial market of a country or region is maintaining a healthy and rapid development momentum, which directly affects the overall macroeconomic development situation of the country or region. China's financial market has many years of development history, in the whole development process has experienced continuous changes and accumulation of precipitation. Especially since the reform and opening up, the financial market has gradually become an important part of China's socialist market economy, with the continuous development and reform of China's economy, the continuous improvement of China's financial market, so as to play a bigger and more active role in the future development of China's economy.

## **1.2 The present situation and problems of China's financial market**

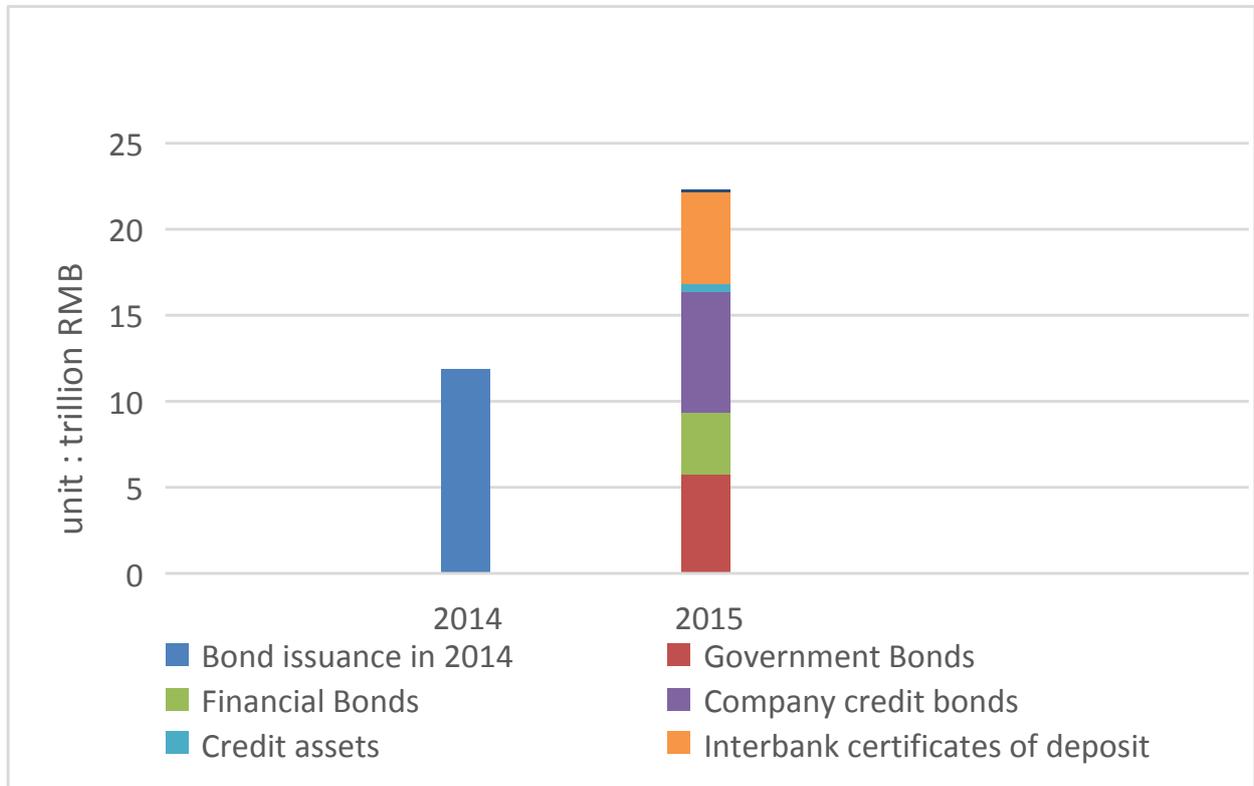
### **1.2.1 The situation of the operation of financial market in 2015**

The central bank released the 2015 financial market operation: In 2015, the issue scale of the bond market is growing significantly throughout the year, trading activity continued to improve, The main structure of participation is further enriched, lower financing costs, the money market interest rates down sharply, significant increase in trading volume, RMB interest rate swap transaction volume increased year on year; Overall stock index rose, a sharp shock during the period, and the volume significantly enlarged.

1. The issue scale of the bond market is increased year on year, Corporate credit bonds continued to grow, the size the of bond market issued throughout the year is 22.3 trillion yuan, compared with the same period last year increased by 87.5% and the growth rate increased by 55.2%. Among them, the inter-bank bond market issued 21 trillion yuan, an increase of 81.3%. As of the end of December 2015, the hosting balance of the bond market was 47.9 trillion yuan and the hosting balance of the inter-bank bond market was 43.9 trillion yuan.

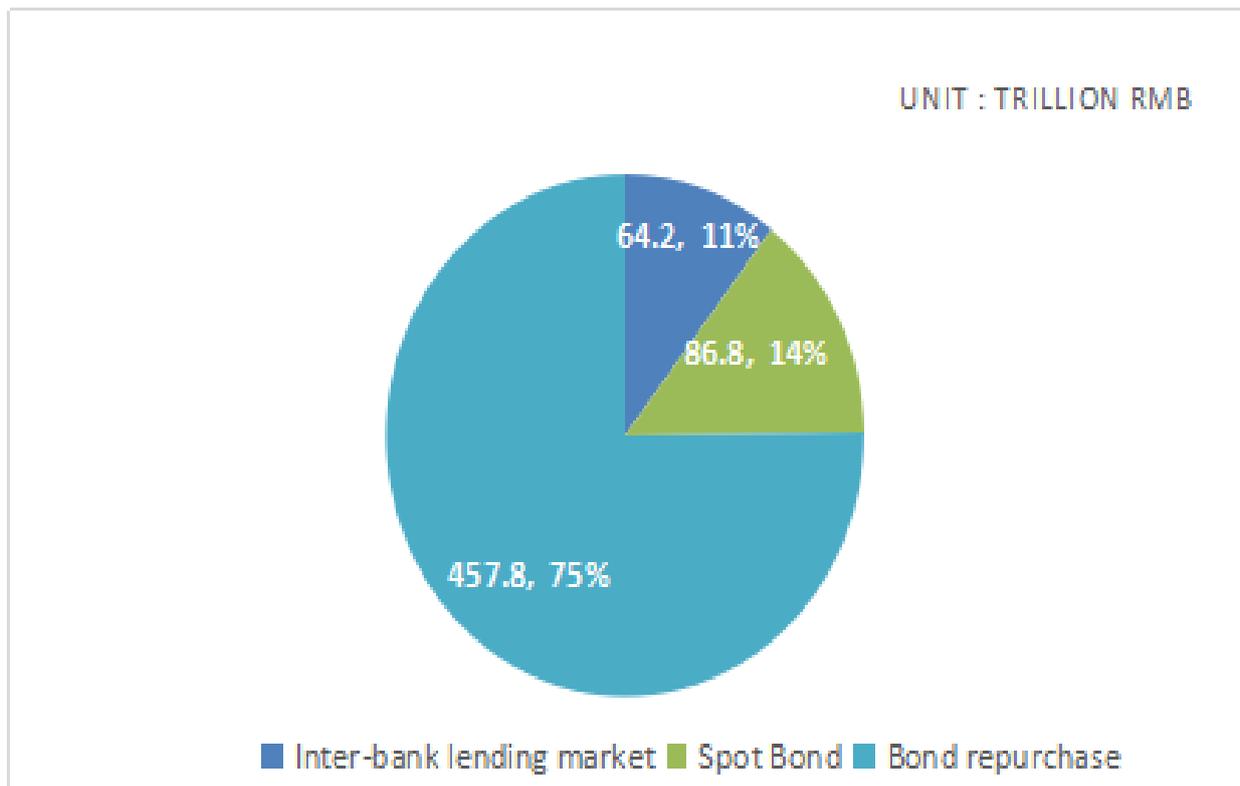
By 2015, Ministry of Finance issued 2 trillion yuan of treasury bonds, local government issue 3.8 trillion yuan of bonds, the National Development Bank, China Import and Export Bank of China and Agricultural Development Bank of China issued 2.6 trillion yuan of bonds, Government support institutions issued 240 billion yuan of bonds, commercial banks and other financial institutions issued financial bonds 629.5 billion yuan, Securities companies issue short-term financing coupons 351.5 billion yuan, credit asset backed securities issuance 405.6 billion yuan,

Inter-bank certificates of deposit issued 5.3 trillion yuan. Corporate credit bonds issued 7 trillion yuan, an increase of 35.8%, the growth rate fell 3.1 percentage points over the previous year.[3]



**Figure1 - Circulation changes of the main bond varieties of inter bank bonds market in 2014-2015**

2. The inter-bank market turnover rose sharply year-on-year and the bond index increased, the inter-bank market lending and bond and bond repurchase accumulated turnover of 608.8 trillion yuan, an increase of 101.3%. Among them, the inter-bank lending market turnover of 64.2 trillion yuan, grow 70.5% compared to the same period; bond repurchase transactions 457.8 trillion yuan, an increase of 104%; bond turnover of 86.8 trillion yuan, up 114.9%.



**Figure2 - The proportion of Inter-bank lending market, spot bond and bond repurchase in the turnover of the inter bank market**

In 2015, the inter-bank market bond index and exchange market bond index rose. Inter-bank bond index increased from the beginning of the 158.77 to 171.37 points at the end of the year, rose 12.6 points, an increase of 7.94%; exchange market bond index by 145.8 points at the beginning of this year rose to 154.54 at the end of the year, rose 8.75 points, an increase of 5.99%.

3.The money market interest rates down sharply, the bond yield curve sharply downward, corporate bond financing costs reduced significantly in 2015, Money market interest rates rise first and then drop, the overall down significantly. December 2015; inter-bank lending weighted average interest rate of 1.97%, compared with the same period last year dropped 152 basis points.[4]

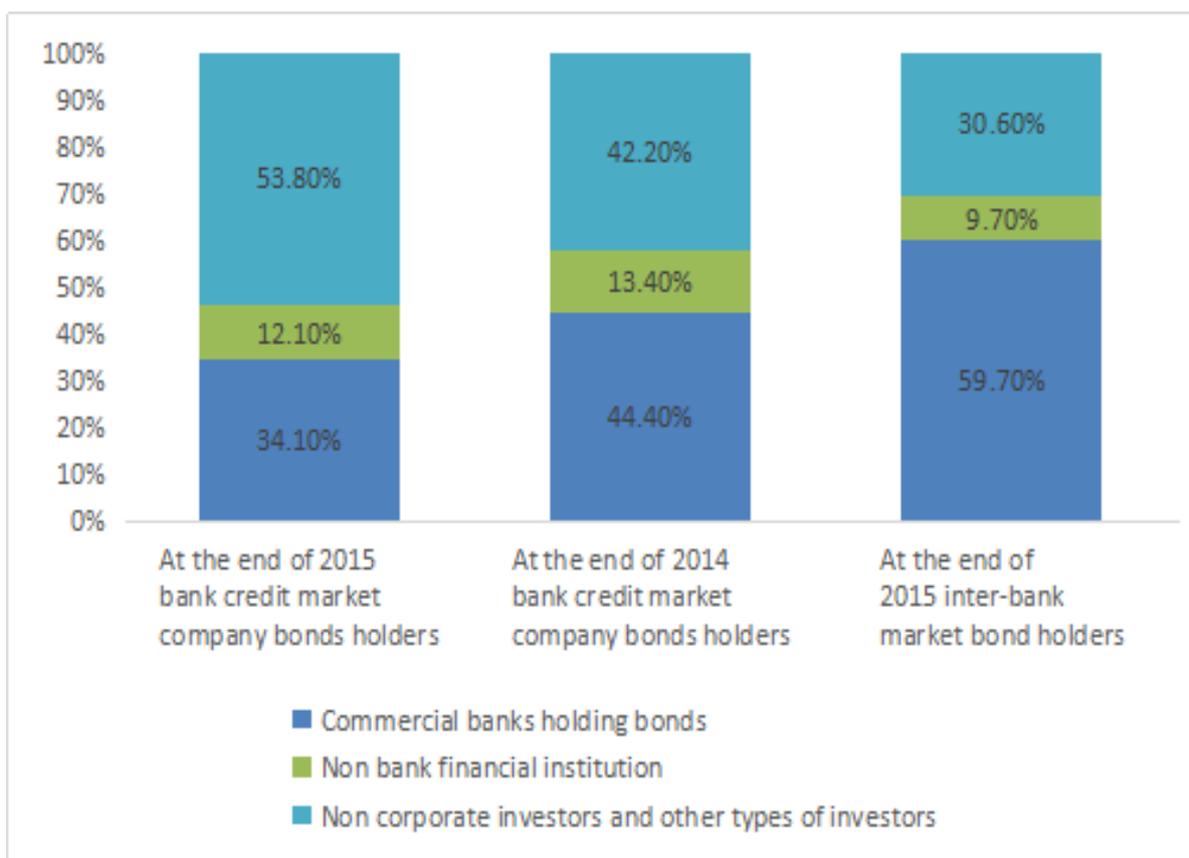
2015 inter-bank market bonds yield curve overall significant downward. At the

end of December, compare with the last year the treasury yield rate of 1 year, 3 years, 5 years, 7 years and the 10 year fell by 96, 82, 81, 77, 80 basis points respectively, the spread of the treasury bonds between 1 years and 10 years is 52 basis points, compared with the end of last year expanded 16 basis points.

#### 4. The types of institutional investors are more diversified

In 2015, the inter-bank bond market lead into the private equity investment funds, Futures Company and asset management products investment in the inter-bank bond market, enrich the choice of investor groups. At the end of 2015, a total of 9642 of Various types of participants in the inter-bank market, compared to the end of last year increased by 3180, an increase of 49.2%. Among them, the amount of participating institutions of the type of domestic legal entities is 2094 and the amount of institution investors of the type of domestic non corporate is 7240. As of the end of 2015, there are 308 foreign central banks, sovereign wealth funds and other oversea institutions got into the inter-bank market investment, compared to the end of the year to increase 128.

Compared with the end of last year, at the end of 2015 among the inter-bank market company credit bond holders that commercial banks hold bonds accounted for 34.1%, down 10.3 percent; non bank financial institutions accounted for 12.1%, down 1.3 percentage points, non corporate institutional investors and other investors holding proportion of total 53.8%, an increase of 11.6 percentage points. From the perspective of the structure of the inter-bank market bond holders, at the end of December, commercial banks, non bank financial institutions, non corporate investors and other types of investors accounted respectively for 59.7%, 9.7%, 30.6%.



**Figure3 - The proportion of credit bond holders of various inter bank market companies in different time**

5. Interest rate derivatives trading activity increased significantly

In 2015, total number of RMB interest rate swap is 66,000 times, the total amount of the nominal principal is 8.8 trillion yuan, an increase of 117.2%. From the perspective of term structure, 1 years and 1 years following transactions are most active, the total amount of the nominal principal is 7.8 trillion, accounting for 88.7% of the total.[5]

6. Stock index have a sharp shock, and the turnover of the stock exchange have increased significantly

In 2015, the stock market index rose overall, but there was a sharp shock, trading volume significantly enlarged. At the end of the year, the Shanghai Composite

Index closed at 3539.18 points, compared with the end of last year rose 9.41%, the highest point in the year was 5178.19, the lowest point was 2850.71 points. The Shanghai stock market total annual turnover was 133.1 trillion yuan, the average daily turnover was 545.5 billion yuan, an increase of 254.3%. SZSE Component Index closed at 12664.89 points, compared with the end of last year rose 14.98%, the highest point of the year was 18211.76 points, the lowest point was 9259.65 points. Shenzhen stock exchange total annual turnover was 122.5 trillion yuan, average daily turnover of 502.3 billion yuan, an increase of 235.4%.

### **1.2.2 The main problems of China's financial market**

1. At present, China's financial market is not mature, the depth and breadth is not enough. The standard of a truly mature financial market is: Good companies can be readily financing through a wealth of financing products and channels; long-term investors can get a suitable stable return; market price is basically reasonable; market participants follow the rules. But China's financial markets are far from reaching these standards. The key to determine the RMB internationalization is the RMB investment pool which has not yet been formed; there are different degrees of segmentation phenomenon in the domestic primary market and secondary market, inside market and outside market, monetary market and capital market; the same rate has not yet become the benchmark interest rate system to guide the entire interest rate system. In short, China has not yet formed a financial market which is highly open, large-scale, wide variety, profitability, security reach the standard and meet the requirements of currency internationalization.

2. Interest rates and exchange rate is lack of market. Interest rate is the price of

using funds and the funds' time value, the exchange rate is the exchange price of monetary, both should be determined by the supply and demand of capital market and the foreign exchange market, otherwise it will be suppressed or distorted, resulting in suppressing the overall economic development and distorting the economic behavior. If interest rates do not reflect the supply and demand of real money lending market, and can not guide the price of other financial products with real market interest rates, if the exchange rate can not truly reflect the supply and demand of local currency and foreign currency, and can not participate in international trade with real market interest rates, the country's currency is difficult to become an international currency, and take on the function of international currency. As China is in the stage of economic transition, the process of interest rate and exchange rate market is restricted by the factors such as the ability of self restraint of financial institutions, the ability of the central bank's macro adjustment and control, the risk of the opening of capital projects, and the risk prevention ability. And there is a big gap to compare with developed countries.[6]

3. Weak competitiveness of financial markets. The modern financial system is the cornerstone of the central bank's effective implementation of monetary policy and exchange rate policy. At present, the main body of China's financial system is still the four big state-owned banks, although it has already completed the shareholding system reform, but to compare with the developed countries there is a big gap in the overall operating mechanism and risk management ability, in particular, the old ideas and behavior patterns that have been formed in the planned economic system for a long time are still hindering the process of the internationalization of the state-owned

banks.

4.The mechanism of financial risk prevention is not perfect. At present, China's financial regulatory agencies, including the China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission, in addition, the people's Bank of China also has the function of financial supervision of department. However, China's financial regulators are usually focus on domestic financial supervision and risk prevention, and the prevention of international financial risks need to be strengthened. In particular, with the acceleration of currency internationalization, the outflow of the currency will become more and more, and the increase of foreign currency will increase the market speculation factors,it will be easy to cause the impact on the domestic market, and weaken the effectiveness of domestic macroeconomic policies in a certain period, even lead to the failure of macroeconomic policies. The 1997 Asian financial crisis and the global financial crisis in 2008 are very good examples. Although they have little direct impact on China, but it does not mean that we already have the effective mechanism to prevent the international financial risk, China has a long way to go in building a financial risk supervision system.

5.Financial markets are not complete. In addition to financing indirectly by the traditional bank credit, only limited to inter-bank lending business and bill acceptance business, and the development is very slow. Mainly in several aspects: influenced by traditional views, there is no investment desire and value concept; bank don't transform into an enterprise, credit funds still supply system, financial institutions and financial business is underdeveloped, lack of credit tool, existing securities do not

circulate; unreasonable price system and can't bring timely and accurate investment information to investors, funds can't rational flow; Financial legislation, incomplete regulations, lack of effective management means etc.

## **2. Development of Financial Markets under Condition of Government Regulation**

### **2.1 The background of financial supervision and its significance to China's financial market**

#### **2.1.1 The background of financial supervision**

With the continuous development of the world economic and financial situation, the financial supervision system in the world is constantly changing. From the perspective of change of the western national regulatory system, the financial supervision has experienced the development process from freedom to regulation to deregulation. The regularity of the development process is not a simple cycle of development, but the inevitable choice under the new situation.[7]

The wave of financial liberalization in 1980s, make the financial derivatives developing rapidly, and due to the existence of a large number of speculation, the market's risk aggravate. On the one hand, financial regulatory authorities in order to adapt to financial innovation led to deregulation. On the other hand, on the basis of a comprehensive and careful assessment of financial innovation, a series of measures are adopted to stabilize the financial system. In this period, the financial supervision is mainly by the rigid constraints, turning to the management of capital supervision as the core which is index and rationalization, focusing on efficiency priority. Since 1990s, Mexico, Brazil and the Asian financial crisis broke out, making people pay

attention to the security of the financial system and its systematic risk. Thus, the objective of financial supervision is gradually turning to coordinate the relationship between safety, stability and efficiency, the focus of regulation is to manage the financial activities and prevent financial risks.

US subprime mortgage crisis broke out in 2007, the global financial crisis began, the world economy is in a slump, the strategic of financial supervision is particularly important. The theoretical circles and the financial circles have carried on the discussion to the related question, the supervision system is playing an increasingly important role in the financial system, the financial supervision authorities of various countries have begun to re-examine the financial supervision system. The global financial industry in the process of continuous innovation and development begins to think about how to build an effective regulatory ideas, improve the regulatory system architecture. The historical changes of the financial supervision of the western countries show that the financial supervision system and the concept of the financial supervision and regulation are constantly adjusted and perfected with the objective reality and the change of the financial practice.[8]

Concept and idea is the first problem to be solved in the implementation of financial supervision. In the last chapter of the classic book *The General Theory Of Employment, Interest And Money*, published in 1936, the author Keynes has left such a word for the future generations: "Ideas of economists and political philosophers are more powerful than the average, whether they are right or wrong.... ". The power of thought is not allowed to be doubted, it permeates every field of economic operation, the field of financial supervision is no exception. The idea of financial supervision

system is the understanding of the regulatory organization system, the market system and the legal system which is formed in the process of economic development in China, these ideas provided a wealth of theoretical support for the reform of China's financial regulatory system, which greatly promoted the reform process of China's financial regulatory system.

The correct supervision concept reflects the determination of the financial development trend and the understanding of the basic functions of the financial industry. The wrong idea of supervision will inevitably lead to the lack of supervision and improve the supervision costs. It can be said that the concept of the regulation determines the positioning, development direction, content, speed and even the behavior of regulators of the supervision. Supervision philosophy comes from practice and serve practice. after world economic crisis in 1930s and the "black Monday" in the world stock market in 1987, the United States and the Hongkong government had established the correct regulatory philosophy through a profound reflection on the crisis. Launched the epoch-making "Glass-Steagall act" and the "Davies report". The above act plays an important role in solving the problem of the market at that time, and also has a profound effect on the healthy development of the future market. From this point of view, the change of Supervision thinking comes from the market reform, and the creation and innovation of the various periods of the system has been inspired by the idea of inspiration, incubation and guidance. Undoubtedly, the reform of the system and the innovation of ideas are mutual promotion.[9]

### **2.1.2 The financial regulatory significance for China's financial market**

Effective financial supervision is an important prerequisite to guarantee the financial security and stability of a country. The course of Chinese financial reform since the founding of the PRC has proved a basic consensus that the development of financial supervision play a important role in the development of the financial industry and the economic growth of a country. After joining the world trade organization, China's financial market will be involved in the tide of economic globalization and global financial integration, China's financial markets have been unable to isolate. The World Trade Organization as the largest multilateral economic organization of international economic trade, which formulated and implemented a set of multilateral trade rules, and it covered a wide range of the fields and contents, which also relates to various aspects of the international financial industry. These rules as the international standard of legal effect, are the legal basis of establishing and improving the new international financial order. After China's entry into the WTO, China's financial industry must follow these rules. Therefore, the financial supervision authorities must establish the concept of having a foothold in the domestic and global supervision in ideology, to explore the means and methods of financial integration, globalization, the globalization and the internationalization of financial risk, and to change the traditional concept of financial supervision of the open type.

#### 1.Theoretical significance:

Since the 20th century, financial regulation gradually became the important issues of the national financial security, international organizations and countries attach great importance to the regulatory authorities. Financial regulation practice

comes from the west, over the past century European and American countries in the aspect of financial supervision system construction to launch attempt and exploration, formed the increasingly abundant theory of financial regulation system; However, the research in this field is relatively mature, developed countries and regions as the research background of market economy, in developing countries were rarely involved in financial regulation, the theoretical circle of popular and cutting-edge research tend to revolve around the developed market economy, and the lack of the universal applicability. In addition, the theory of financial regulation also ignored the many countries of the transition from the planned economy to market economy regulation theory exploration.[10]

Since the 21st century, the international financial community attracts more and more attention in the process of the transition economies during the financial reform of regulatory problems. As a great developing country, China is in the period of planned economy to market economy transition, the practice of reform and opening up to the financial regulatory system research provides a rich research material, the research of this field will bring beneficial reference and enlightenment to transition countries.

In recent years, the academic study of China's financial regulatory issues have made attractive achievements, a large number of articles and monographs from different angles to the financial regulatory system are expounded. Now they will be shown as:

(1) the research by the people's bank of China, led by two agencies of the state council development research center of the researchers, institutions of higher learning

scholars, research team of finance professionals growing;

(2) the research field is no longer constrained by comprehensive study of regulatory system, but to expand to the areas of financial regulation;

(3) research method breaks through the traditional normative analysis, fully draw lessons from the western economic theory, began to widely use all kinds of quantitative analysis;

(4) increasingly fruitful theoretical research results, published in succession, published a large number of journal articles and monographs, translation, compilation of legal documents, materials, etc. Concretely, it is divided into introduction to foreign financial supervision theory and practice; The comprehensive study of China's financial supervision system; including regulatory necessity, the specific content of the regulatory system and pattern, regulation and other aspects of the research. These studies focused on the unitary side of economics theory as the starting point of study; and the study of financial regulatory focus on focusing and descriptive, lacking theoretical research; Local research is more, lack of overall research. From the perspective of the history of economic thought on the financial supervision system evolution course systematically studied and summarized, in domestic is still rare. Therefore, reviewing and summarizing China's financial regulatory system, will make up for the lack of academic research, expand the research field of Chinese and foreign history of economic thought.[11]

## 2. The practical significance

Historical research is not only reproducing the important means of historical facts, but also providing some enlightenment to the reality and the future

development of enlightenment, that is the real charm historical research. Especially since the reform and opening deepening, the reform of the financial system is becoming more and more important. Among them, the concept of financial regulation as well as the corresponding organization system and the perfection of market system become a top priority. Especially since the 21st century, China's financial industry is about to step into the global financial shock period, the concept of financial supervision and the system reform must keep pace with The Times.

China's financial industry is rooted in the planned economy era, before the reform and opening up of the administrative mechanism cannot be completed under the condition of market economy the financial management, financial regulation in the modern sense started relatively late in China. China's financial regulatory system change and the evolution of ideas is a constant in the localization process of modern economic theories. After the founding of newest China's financial supervision, which is accompanied by the planned economy theory to explore relatively stagnant, its guiding idea gene is rooted in traditional culture and modern economic thought background, and deeply public goods income distribution and the influence of the Soviet socialism theory dogma, the result is bad. Since China's reform and opening up, the research on financial regulatory issues are increasingly becoming attention focus in the theoretical circle. Western developed countries nearly hundred years to gradually perfect the system of financial regulation and thoughts, we was involved in a short span of several decades, and on the basis of reference to absorb, to form the accord with China's financial background and level of financial development basic regulatory theory and policy, and will continue to improve and deepen.[12]

The development of the theory and practice of this journey has its internal logic. As professor, in his masterpiece, "structure and the change in economic history" in the preface, puts it: "history is of vital importance, people used to make a choice to determine the possible choices now, to understand the economic performance change over time and the difference of apparent, you need to understand the evolution of the economy.;

2. Therefore, from the perspective of the history of economic thought, since 1949, changes of China's financial regulatory system, can make us understand the ideological root of localization theory of China's financial regulatory system, and is suitable for the situation of China financial supervision the concept of innovation and policy options to provide ideological resources. Based on the economic growth as the main line, elucidates the evolution of financial supervision system is analyzed. So, from the perspective of the history on the evolution of China's financial regulatory system thought systematically comb, reveals the evolution of its inherent law, to explore the path we will continue to improve the regulatory system, promote the reform of financial system to provide a new perspective of thinking.

Financial regulation system change including regulatory organization system, market system, supervision of legal system and so on the various levels of evolution, they connect with each other, complement each other, forming a organic system. Among them, the change of regulatory organization system to promote the reform of several other provides reliable organization safeguard; Regulation of market operation system transformation is the key link in the whole institutional change, provides a solid foundation for all other change and strong support, Legal system is a key link in the institutional change, is to promote the change of other items of the

foothold and focus.

## **2.2 Specific role of financial supervision for financial markets**

Financial regulation can be divided into financial supervision and financial management, and it refers to the monetary authorities of financial institutions to implement comprehensive, regular check and supervision, and to promote the operation and development of financial institutions.[13]

The main purpose of the regulation of the financial institutions is to maintain the financial industry order to minimize the risk of banking, guarantee the interests of depositors promote the health of the banking industry and economic development. To ensure the fair and effective need of loans, so to avoid the strumming scarify and prevent fraud or inappropriate risk shifting. To some extent, financial regulation can also avoid excessive lending to focus on a particular industry. However, the bank failure will not only need much more loss, and will spread to some other areas of the national economy. Financial regulation will ensure that financial services reach a certain level so as to improve social welfare. Financial regulation can ensure that Banks in the conduct of monetary policy transmission mechanism. Financial regulation can also provide the trading account, the risk of default message into the financial market.

The risk of the bank for the influence of social stability is much higher than that of the other industry department. Generally, company losses collapse affect is only related to the enterprise staff, however, the bank problems will affect the quite a lot of people, and even endanger the stability of the society. If only engaged in asset management, currency exchange and payment, we don't need large-scale banking

regulation. But since banks are kept to convert illiquid assets to current liabilities, by monitoring the loan and the signal transmission to reduce the transaction cost, so the banking regulation is necessary. Otherwise, the financial market failure may let the Banks face panic withdrawals. So we should nip in the bud, strictly implement the regulation of financial institutions.

The US subprime mortgage crisis is the international financial market for the first time in the banking system and capital market crisis together over the past more than half a century. So far, the subprime crisis has not yet been completely in the past, but in the current situation analysis, which already can get some help to improve China's important Revelations of the financial regulatory system.

First of all, the financial supervision should deal with dialectical relationship between safety and efficiency. In the financial system, the importance of financial security can't be ignored , financial market is essentially for risk management and market pricing. The emergence of new financial products can improve the operation efficiency of financial markets, but financial innovation is also a "double-edged sword", cannot be ignored in the process of innovation of financial security, to grasp the balance of safety and efficiency. If mishandled, used to guard against the financial risk of financial instruments are also likely to bring new financial risks.

At the same time, the financial market development in the final analysis is to serve for the development of the real economy. In the process of financial innovation we should not only consider the product itself and to the risk of the financial system, but also consider its possible risk factors for the real economy. If one-sided pursuit of innovation efficiency and ignored the security, the event of a crisis, will not only

haste makes waste, reduce the efficiency of financial innovation, and may cause damage to the real economy, affect the efficiency of economic operation.[14]

Secondly, the financial supervision should be constantly with the development of the market adjustment and optimization. The regulation of modern financial system should strengthen the function regulation and supervision in advance. The subprime mortgage crisis shows us that, in the face of increasingly heavy and complicated frequent market innovation and increasingly sophisticated products, relying on information disclosure to protect the interests of investors, have been inadequate. With the complexity of modern financial products, to its potential risk to investors is increasingly difficult to identify. Therefore, regulators do to ensure that only the truthful disclosure of information, or completely dependent on the regulation of transparency, already enough. At the same time, because of mutual conduction in the financial system, regulators if only focus on a product on the surface of the risk, which is not enough, to be able to carefully assess the financial products, insight into the risk of the financial system, achieve the temperament.

For this situation, the regulatory system is necessary to emphasize from the past institutions for regulatory mode transition to a functional regulatory model, for all kinds of financial institutions of the same type of business to unified regulation and the regulation of the uniform standard, so as to reduce the blind spot of the regulation, improve the efficiency of supervision. At the same time, the regulators in advance, and shall have a further research on innovative products, and on this basis, an effective product risk assessment, especially for may cause the system risk of the product, its corresponding supervision link shall be moved forward, in-depth analysis

and evaluation of financial products may bring hidden trouble to the regulatory system.

Thirdly, we should further strengthen the supervision coordination. The sub-prime crisis shows that fully in the increasingly global financial markets, financial innovation has become increasingly active, increasingly complex in financial products, the boundaries between traditional financial markets has been down, cross-market financial products increasingly common coordination and supervision of cooperation is increasingly important.[15]

Fourthly, within the development of the market change, the adjustment of financial regulation and the continuous improvement of the market rules will become the normal state. In the fierce competition of the financial market environment, to enhance the ability of profit, the expansion of new business areas, to promote innovation at the same time, the market participants will inevitably develop new market rules and existing new problems and defects existing in the supervision system, and the presence of these behavior prompted regulators constantly revise and supplement of the rules, objectively promoted the financial market system and financial regulation system of optimization.

Some developed countries on the development of financial markets also consist of constantly breakthroughs and even damage, repair and improve the process continuously. The credit crisis triggered a severe financial market around the world, but also to a certain extent, to promote global financial regulators begin to rethink and examine asset securitization products, derivatives market supervision and regulation of coordination and a series of problems.

In order to improve the effectiveness of financial supervision in our country, give full play to the function of prevention, control and dissolve the risk, financial supervision mode of our country must also make the field more monitoring and site inspection become an organic whole, become a continuous process regulation of the two important link of complement each other. The field monitoring to provide risk information for on-site inspection and target oriented. Site inspection for off-site monitoring provides practical evidence and information feedback, and finally form a unified regulatory conclusions, unified regulatory action, as soon as possible regulatory process of the normalization , institutionalization, and thoroughly. So we can avoid motility and repetitive inspection, to avoid problems or risk and to accumulate and spread. As a result, I think the financial regulation of our country's financial industry is quite necessary!

At the same time, in order to improve the effectiveness of financial supervision in our country, and give full play to the function of prevention, control and dissolve the risk, financial supervision mode of our country must also make the field monitoring and site inspection become an organic whole, become a continuous process regulation of the two important link of complement each other. The field monitoring to provide risk information for on-site inspection and target oriented. Site inspection for off-site monitoring provides practical evidence and information feedback, and finally form a unified regulatory conclusions, unified regulatory action, as soon as possible regulatory process of normalization, institutionalization, and thoroughly. So we can avoid motility and repetitive inspection, to avoid problems or risk to accumulate and spread. **[16]**

So we shall establish a strict and perfect in our country's financial regulator, strictly carry out the various organizations of the financial regulation and measures, and strengthen the financial authorities for the supervision of financial institutions and management, to ensure that our financial market and national economy comprehensive, healthy, normal and orderly development.

### **2.3 The current situation and trend of development of China's financial supervision and regulation**

The history of China's regulation of financial markets

#### 1. After the reform and opening up (1979-1992)

In 1983, the State Council decided that the people's Bank of China shall perform the functions of the central bank, officially became China's monetary and financial authorities. .

In 1984, the ICBC was established, the people's Bank of China has become the central bank in the modern sense, which is responsible for the formulation of monetary policy and financial supervision, and forms a centralized supervision system.

#### 2.1992-2003

In 1992, the State Council Securities Commission and the Securities Regulatory Commission were established. In 1995, promulgated the "Law of the people's Bank of China", this is the first time in China made clear the main body of financial supervision from the angle of legislation.

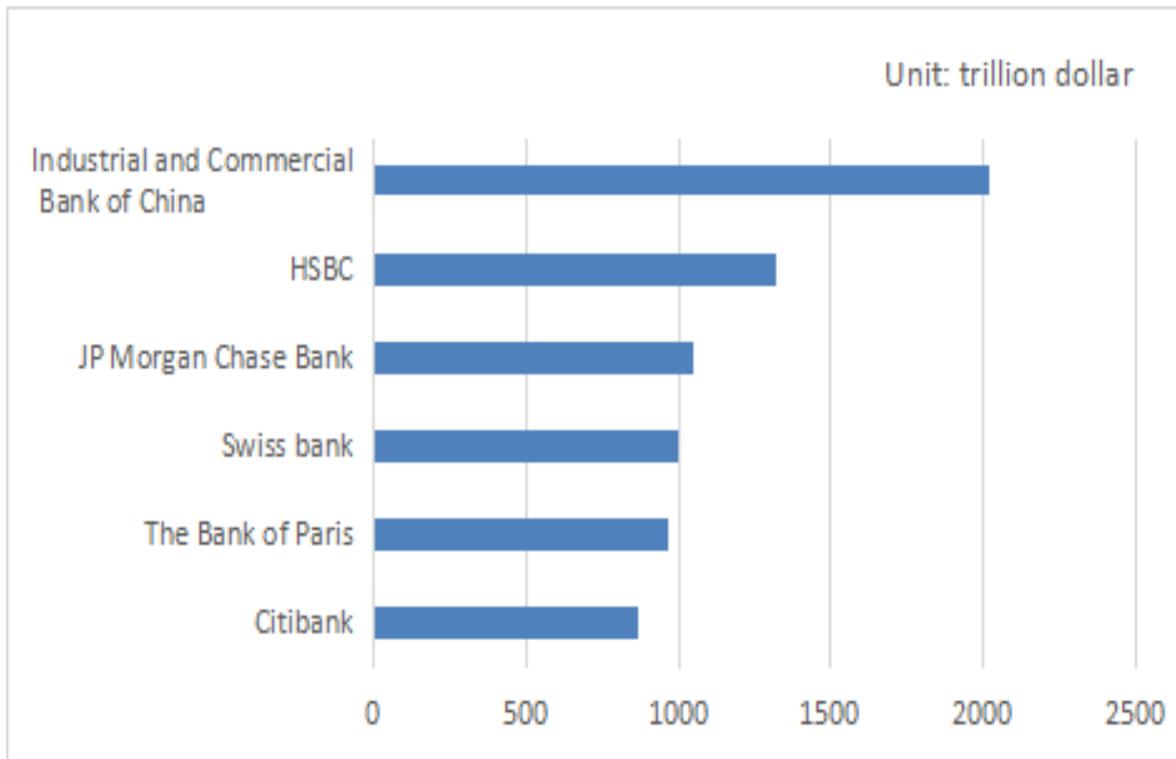
In 1998, the State Council Securities Commission incorporated into the China Securities Regulatory Commission, and all the securities regulatory authority of the

people's Bank of China shall be transferred to the CSRC(China Securities Regulatory Commission). In November of the same year, the China Insurance Regulatory Commission was established, and implement the insurance regulatory authority of People's Bank of China. So far, China financial regulatory system was officially formed. [17]

In April 28, 2003 the CBRC formally operated, it marked the Chinese financial industry has formed a "three carriages" vertical separate supervision system.

### **2.3.1 Financial supervision of banking industry**

Financial data of China's banking industry, including the disclosure of the 2015 annual results, the net profit of China's banking industry had exceeded 1.56 trillion yuan, non-performing loan ratio and the balance fell to a record low. Here is the balance of deposits in the world's seven major international banks in 2015, The Citibank is \$866.3 billion, the Bank of Paris is \$972.6 billion , Swiss bank is \$1002.1 billion, JP Morgan Chase Bank is \$1048.7 billion, HSBC is \$1319 billion, and industrial and Commercial Bank of China absorbed the deposits for \$2027.4 billion in one year. From it, it is not difficult to find a significant feature, the relationship of the balance between China and the west bank deposits is multiple.



**Figure4 The comparison of the balance of absorbed deposits of part of world bank in 2015**

The banking industry in Europe and the United States mainly rely on financial services to obtain profits, such as the issue of bonds, credit cards and derivatives, etc. the revenue of the bonds that some U.S. banks issued account for more than 40% of the total revenue. in 2015, the loan scale of the large United States bank loaned to Usa Inc only accounted for 17% of the total size of the loan, while the volume China’s banking industry loaned to personal credit only accounted for 15% of the total size of the loan, most of the loans inflow to the state-owned enterprises and real estate enterprises. Similarly, the European banking sector and the Chinese banking sector need to undertake the responsibility of 80% of the money supply economic of the national economy.[18]

In this case, once the real estate prices dropped by more than 30%, or China's

economy appeared the decline in GDP growth and high inflation, China's banking industry faced the serious problem of bad debts, and aggressive tightening liquidity, resulting in economic further declines, the economic fall further will cause banking further massive non-performing loans and bad debts, may eventually cause the small and medium-sized banks collapsed which asset condition is not very good.

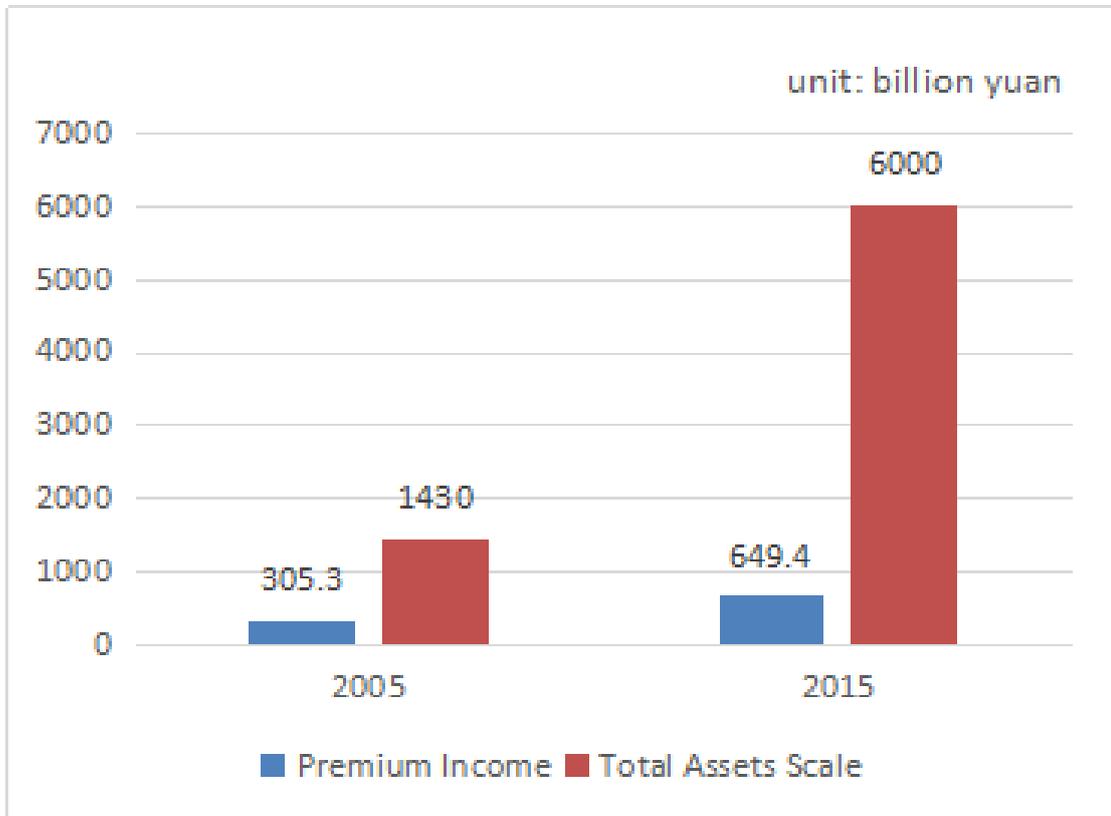
For the China's banking sector, we need to strengthen supervision in order to cope with the possible crises of economic, financial and currency. So how to strengthen the banking supervision, it should be carried out from the following aspects:

- (1) Strengthening the construction of statistical system and management system.
- (2) Improving the analysis ability of macro economic.
- (3) Establish a complete regulatory reporting system and the modern banking supervision system.
- (4) To promote the statistical work of supervision.
- (5) Establish a complete banking supervision and management system.

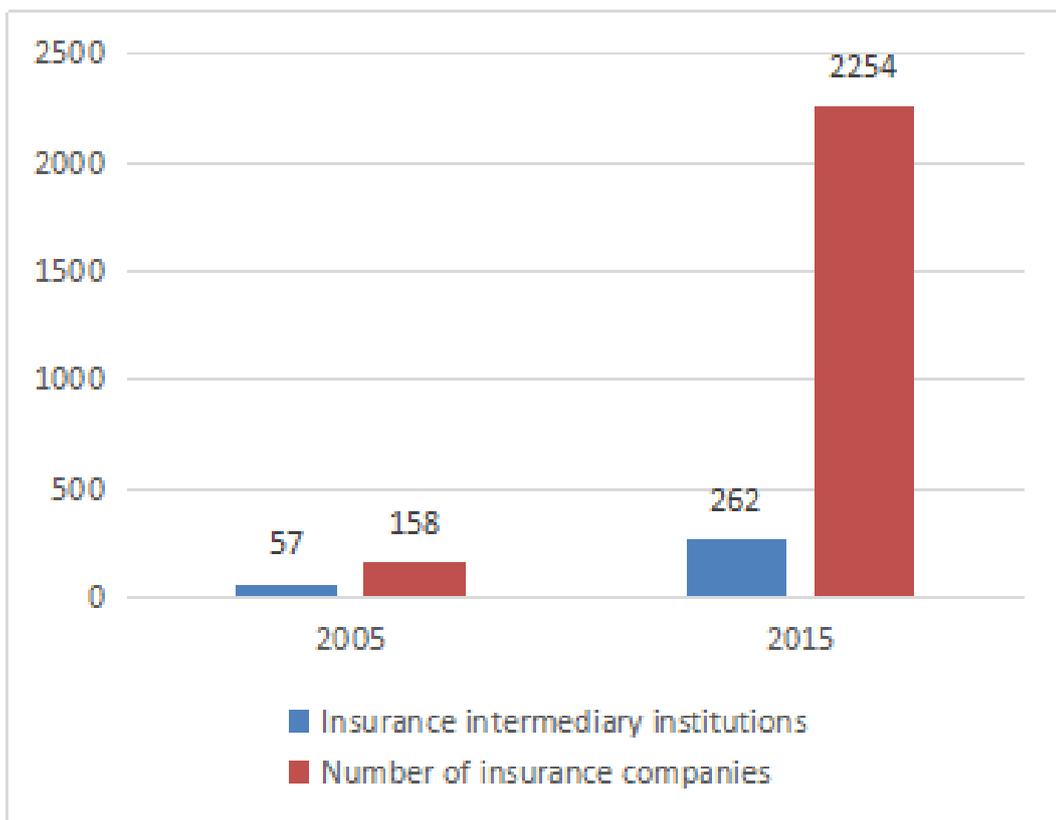
### **2.3.2 Financial supervision of insurance industry**

Data show that the amount of the employment agency of China's insurance industry in 2005 a total of 319, among which there were 262 insurance companies and insurance intermediaries 57, total assets for 649.4 billion yuan, premium income of 305.3 billion yuan. By the year 2015, the amount of the employment agency of China's insurance industry a total of 2412. The number of insurance companies 2254, insurance intermediaries 158, premium income has reached the 4.7 times of premium

income in 2005, and the scale of assets in 2015 is the 9.25 times the scale of assets in 2005, insurance industry has become an important part of China's financial sector with the banking, securities, trust industry.



**Figure5 The development of China's insurance industry for ten years(2005-2015)**



**Figure6 The comparison of the amount of the employment agency of China's insurance industry**

In the course of this 10 years development, although there are a lot of progress, but at the same time the insurance industry itself has the characteristics of risk accumulation, Which brings obstacles to the development of the whole industry, Especially in 2008, the sub-prime mortgage crisis and the European debt crisis of 2010 have a great impact on the insurance industry in China, so the supervision of the insurance industry is particularly important.

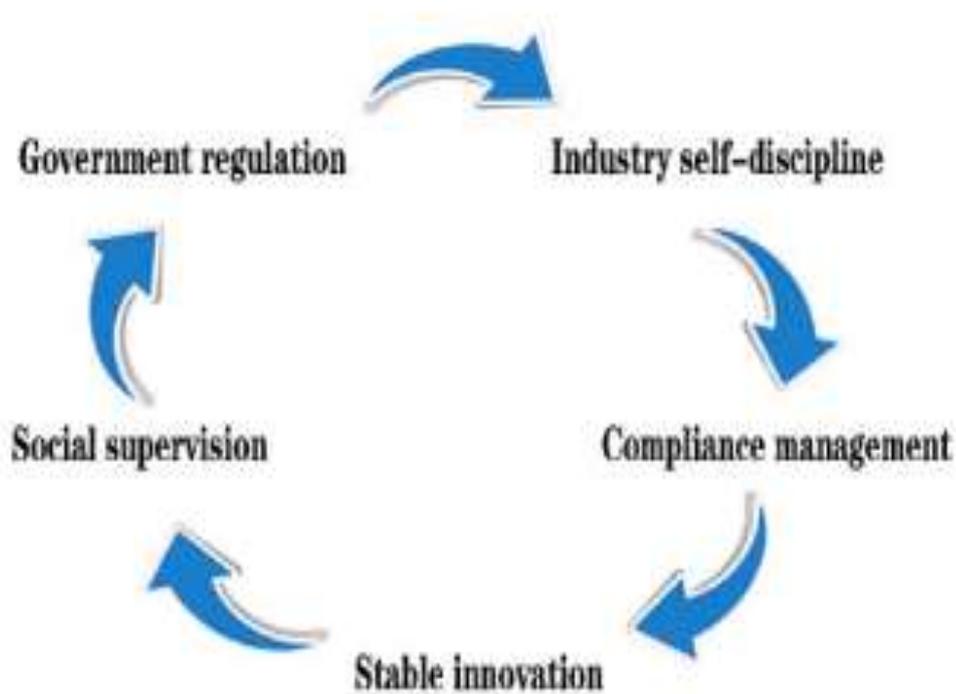
(1) the regulatory focus on financial innovation, encourage and strict prevention and control.

(2) the development of the insurance industry must always revolve around the rationality of the operation and the basic law.

(3) to establish a complete set of assessment system is a very important regulatory task.

(4)The insurance supervision should always take the interests of the insured as the pursuit of the goal.

In view of the above, the measures for the supervision of the insurance industry can be implemented according to the following procedures:



**Figure7 The flow chart of strengthening supervision of insurance industry**

## **2.4 Chinese financial regulation are faced with the problem analysis**

### **2.4.1 The problems existing in the financial institutions**

The problems existing in the state-owned commercial Banks: first, internal control mechanism lag, all levels of management attaches great importance to the national plan, despise their own management, the speed and scale, quality and efficiency of light, in fund management, characterized by imperfect capital approval

procedures, the use of funds, lax monitoring; Loan review is not strict, the procedure is not complete, there is no real do credit investigation, post-loan inspection before, makes credit risks. Followed by the personnel control mechanism is not perfect, the commercial bank staff size, and hierarchical structure is unreasonable, did not set up an effective and perfect performance appraisal and incentive competition mechanism. Then the lack of effective constraints between the superior and the subordinate, due to the branch offices do not have the legal person status, the behavior of all consequences shall be borne by the head office and branches of illegal or not prudent behavior can be disaster to the whole system. Function is the laid-off again lack of authority, functional supervision departments implement "is responsible to line governor at the corresponding level and to the superior administrative department is responsible for" management model, leading to the supervision work, in fact, in a state of disorder and invalid; Internal audit supervision mechanism is not sound, some commercial Banks have not set up internal audit institutions. Problems existing in the securities market and insurance market, as a result of China's securities market is a free market at present, it besides the market itself unique factors, also affected by the political system, traditional ideas, events, and the influence of random factors, China's securities market is still in the early stages of standardized, development degree is low, and not specification. [19]

Stock market is mainly manifested in the following aspects: first is the market main body behavior distortion; The second is distortion pricing mechanism; Is the market again in the split state; The last is the lack of effective market exit mechanism.

In the insurance market, market development is imperfect; Influenced by

planned economy system to the personnel system; Internal management is lax, competitiveness is not strong, there is no set up modern enterprise system in the true sense, philosophy on the basis of the premium scale, light management benefit; Heavy compension insurance amount, light quality, resulting in a decline in enterprise management benefit and in the business process, underwriting, claims, serious damage to the credit insurance company and the whole insurance industry.

#### **2.4.2 The problems existing in the financial regulation itself**

China's financial regulation time is shorter, the method of financial supervision, technical conditions and information disclosure and so on, China still exist many problems, mainly manifested in the following aspects:

1. In the process of financial business cross, involving different areas between the crossing regions are often different regulatory oversight of the weak link. On the one hand, Banks, trust, securities, insurance business mix between weakens the business basis of supervised respectively. Different types of financial institutions to provide alternative financial products. Expanded between Banks, trust, securities, insurance, the foundation of the mixed management. In accordance with the interim provisions on the intermediary business of commercial bank. Commercial Banks can include financial derivatives business, all kinds of investment funds, each kind of fund custody registration, subscription, explain buy and redemptive business, securities business agent, agent insurance business, etc. The intermediary business is closely related to the securities and insurance business, and has a certain alternative. In terms of the insurance industry, since October 1999, the new risks emerge. These new insurance business, has both the functions of investment and saving function.

Banks, trust, securities, insurance, on the other hand, the closer between capital and business increased the difficulty of supervised respectively. Bond between money market and capital market channel is varied. Either through financial institutions and in the use of two markets directly, also can indirectly by asset management enterprises and residents unicom. Capital channel of monetary market and capital market, which makes the commercial Banks, trust investment companies, securities companies and insurance companies has close connection between. Funds, assets and liabilities of restraining each other. Makes the current system is characterized by institutional regulation of industries managed and supervised respectively face greater difficulties. [20]

2. Although has established three system of joint conference for regulators, but coordination regulation mechanism is still not perfect. The main performance is: three between regulators and central Banks did not establish information sharing mechanism, making it difficult to coordinate. Various regulatory administrative levels is the same, a single regulator lack of understanding of the systemic financial risk situation, the establishment of the decision-making mechanism. The central bank did not as members of the joint meeting, go against on the policy of maintaining financial stability and three other regulatory agencies to coordinate. The central bank is ineffective, because the information is difficult to effectively perform the lender of last resort function; Whether for lending for curative, lack of a scientific evaluation criteria. China has not yet established investors risk compensation system. Central Banks use refinancing aid at high risk for financial institutions, the focus of attention is, in fact, social stability. Rather than the macro financial stability, to a certain extent,

the independence of central bank monetary policy.

3. The regulation cost is higher. In terms of cost analysis. Different organizational structure means that different regulatory costs. Due to regulatory present scale (pa of scale) and category (pa of scope). So the smaller the number of supervisors (or even only one) is, the more advantages and class of regulatory fee costs and regulatory coordination costs are low. In China appears unavoidably regulatory target crossing, fuzzy and confused risk control technology and the cultural differences of different industries at the same time may increase the risk of moral hazard, so as to increase the efficiency loss and rent-seeking costs.

4. Not conducive to the scale of the financial innovation and financial industry concentration. Under the current separate regulation system, Banks to participate in the securities business is limited, some of which has the function of transfer of risk and hedging financial products and financial tools to foothold in the market. Affect the operation of the securities institutions and policies, the securities market showed a strong short-term speculative and instability. At the same time, differentiated regulation, is unfavorable to the banking industry to "universal Banks" development, affect the international competitiveness of the improved; Strict restrictions on securities, insurance, financing and the lack of investment channels, traditional monotonous business varieties. Increased trade between the malignant competition, securities, insurance industry less competitive.

5. Lack of effectiveness of financial regulation, financial regulation content is too narrow, China's current supervision content mainly existing in the market access supervision for examination and approval of light management emphatically, heavy

traditional loan business light and other innovation business outside the watch, heavy light other state-owned Banks problem such as Banks and non-bank financial institutions, cannot achieve full supervision effectively. Still focus on the financial supervision and regulation compliance regulation, strict control greatly to curb the financial innovation of space effectively; Daily management for financial institutions risk regulation involves few; Regulatory measures of effectiveness has not been fully exert, violations of the punishment is not enough for financial institutions is tough, violations of the lack of severity, the penalty for violations of the lack of effectiveness.

6. The financial information disclosure lags behind, information disclosure lags behind the regulation and the needs of the external market constraint, Chinese financial institutions of information disclosure legal system idea is not enough, and disclose their conceptions of data is bigger, lack of mandatory information disclosure and normative; Area small, the content of financial information disclosure is a single, incomplete information, the lack of special financial intermediary organization development and dissemination of information, makes the spread and use of financial information in a low level.

## **2.5 Measures to improve the financial regulation in China**

### **2.5.1 Perfect financial institutions internal control mechanism**

Perfect financial institutions with internal control mechanism must go deeply into the financial institutions within the organization, structure, ideas, management and so on. Each link establishes effective internal control mechanism to avoid risks (including operating risk, business risk, unsystematic market risk, etc.), and they maintain the

purpose of security.

First of all, to raise awareness of strengthening the construction of internal control mechanism, financial institution management personnel at all levels should be fully aware of the importance of the construction of internal control, and put it as a key link in the operation and management, constant attention, implement, in order to help financial institutions of establishing and perfecting the internal control mechanism and give full play to the role.

Next, since we want to improve their corporate governance, we should focus on breaking the existing banking monopoly, introducing competition mechanism, the transition of bank operation mechanism, and promote the reform of property rights, establish an effective corporate governance structure, improve the system of internal control, give out the power of the market for banking supervision. Through the implementation of property right system reform and innovation in state-owned Banks, to transform state-owned commercial Banks into perfect governance structure, operation mechanism, clear business objectives, financial situation is good, with strong international competitiveness of the large modern commercial Banks.

Then, we should establish a risk management system, to improve the system of authorization letter, a hierarchical authorization, classification management system, to implement independent due diligence, risk assessment, strict discipline and accountability system as the core of "the trinity" credit decision-making mechanism, and to improve the decision-making person constraint mechanism and system. Establishing and perfecting with the core of the separation of approving loan decision-making risk constraint mechanism, decision-making behavior for effective

constraint of governor, a post loan decision-making responsibility system, which set up the credit risk responsibility decomposed to individuals; Establishing risk responsibility system, the chairman of the board of directors, appointment and removal of directors, President and other senior management staff, rewards and punishments directly linked to the management risk of the bank. To establish a system for regular audit inspection, to the audit supervision of bank internal departments, in major cases and governor of the bank audit can jointly with the banking regulatory commission (CBRC) coalition audit teams. [21]

Finally, for the perfect market mechanism and the distribution mechanism of choosing and employing persons, financial institutions should be introducing competition mechanism as the breakthrough point of the reform of the cadre management system, implement system of middle-level cadres of the competitors and retreated inside bottom elimination system, employee system, through the competition, post communication, take out, realize employees and jobs, ability and the best combination of need. The introduction of the effective incentive and punishment mechanism, is in the process of operation of the internal control system, to insist on rewards and punishments and clear.

### **2.5.2 Improvement to the financial regulatory system**

The government should encourage financial innovation and strengthen the supervision of risk. Financial regulatory authorities to the corresponding technical and policy guidance to financial innovation and enact related regulations, appropriate of restrictions on financial innovation business, and in addition to some extends beyond the current level of regulation to limit the business innovation, business

innovation and banking institutions should be encouraged to strengthen risk management. Cooperate with financial institutions to improve corporate governance structure, regulatory authorities should formulate a set of operable corporate governance structure and internal control evaluation standard and methods, in the daily supervision, bank governance structure and internal control system establishment and implementation of regulation as an important content. To strengthen the supervision of financial institutions off-balance sheet; From institutional supervision to functional supervision for change; To be carried out according to the status quo of financial institutions in different difference regulation, regulatory authorities to establish a unified regulatory framework system, improve the system of financial institutions to market access, implements prudential supervision for financial institutions, business operation, market exit of financial institutions to implement effective; Implementation work center of gravity by compliance regulation to the risk supervision, perfect the system of financial supervision personnel quality.

In addition, in order to regulate the behavior of supervision, realize the continuous stable financial regulation, China must abide by the WTO commitments, with reference to international standards, to speed up the establishment, modification, and perfecting of financial laws and regulations, integrate with the international financial regulations, establish and improve the financial legal system. A sound system of information disclosure, strengthen the regulatory policy transparency. Shall be filed with the financial participants of the public policy adjustments to ensure each policy change of financial market participants to the authorities' right to know; Build

a multi-level information disclosure system; Improve the system of mandatory disclosure of financial information; Enrich the content of the information disclosure, according to the characteristics of the financial sector specific activities, strengthen the accounting information, statistics, and the quantitative information disclosure; Build system of financial regulation information sharing, cultivate the basic condition of information disclosure. In addition, in view of the financial group is engaged in the mixed management, regulators also cope with the need to report to the regulatory authorities and the content of the need to disclose information to the public to make clear rules as much as possible. [22]

### **3. The main financial regulatory model comparison and choice**

#### **3.1 Comparison of main financial supervision mode**

1. A single regulatory model. The typical single regulatory model refers to the different financial industry, financial institutions and financial business all by a unified regulatory agencies responsible for regulation. Single regulation can significantly reduce costs to achieve economies of scale. And on the regulation goal and means with consistency and coordination, that can prevent the regulatory vacuum and cross regulation phenomenon. Single regulation has a strong adaptability. At the same time, a single regulatory approach also has its disadvantages: lack of competition, can't reflect the financial sector of the differences between different business. It is difficult to form concentrated clear regulatory goal and take the correct and reasonable regulation method, can lead to bureaucracy.

2. Pattern differentiated regulation. Pattern differentiated regulation is one of the more general presses a regulation mode, refers to the banking, securities and

insurance business area, respectively, set up a full-time regulators, is responsible for prudential supervision and regulation of business industries. They have the following advantages: (1) professional regulators responsible for different areas of regulation, as we know, it has advantage of specialization, responsibilities clear, detailed division of labor, is advantageous to the regulatory goal, to improve the regulation efficiency. (2) it has a competitive advantage. Pattern differentiated regulatory shortcomings are: (1) hard to coordinate between multiple regulators, prone to regulatory vacuum and cross regulation phenomenon. "regulatory arbitrage", namely the regulated objects free drilling, to avoid regulation. Large institutions, (2) industries managed and supervised respectively higher regulatory costs. (3) supervised respectively to comprehensive assessment of mixed financial institutions risk, cannot be in different types of making the necessary difference between institutions and business. [23]

3. The mixed regulation mode. Mixed regulation mode is the comprehensive management in finance system. The single regulation and a modified model of supervised respectively, both the advantages of the single regulation mode and supervised respectively, its specific form has led regulation and "bimodal type 11 regulations. Led by regulation between multiple regulatory agencies to establish consultation and coordination mechanism in time, specially designated a led regulators responsible for the coordination between the different regulatory bodies." Bi-model "regulatory model refers to according to the regulation goal set up two classes of regulators, a class is responsible for the prudential regulation of all financial institutions to control systemic risk of financial system. The other kind of organization is to monitor different financial business. Mixed regulation has the

following advantages: (1) compared with a single regulatory approach, one is in a certain extent, the competition between the regulator and restriction role; the second is the regulatory body in its regulatory field to keep the consistency of the regulatory rules, can give a full play to the superiority of the various agencies, but also minimize the disadvantage of the multiple agencies. (2) compared with supervised respectively type, mixed regulation mode to reduce the cost of mutual coordination between multiple regulators and difficulty. At the same time, the prudential supervision and regulation of business separately. Avoid regulatory vacuum or cross regulation. (3) mixed regulation has differentiated regulation mode, the advantages of its biggest advantage is through regular consultation and coordination and led regulators to exchange information and work closely with each other. Reduce the regulatory costs, improve the regulation efficiency.

### **3.2 China's financial supervision mode selection**

Estimates are from the degree of financial deepening. In China, only spent less than 20 years he passed through the developed countries use one hundred years to go all the way. But the central bank unified implementation of monetary policy and banking supervision functions of the system is more and more not adapt to the needs of the development of modern economy. Especially in the case of bank bad debts it has become increasingly prominent, the criticism of the central bank regulation gradually increased, it is imperative to establish bank regulators have alone.

In general, a reasonable financial regulatory structure should be considered in both respect tradition and reality, and the future trend of financial development on the basis of the cost of economics principles. This is a fundamental guiding China's

model of financial policy choice principle because of this. China's financial regulatory model should be in the short-term and long-term two aspects to consider:

### **3.2.1. The choice of the short-term**

China's current financial supervision is by the CSRC, CBRC and CIRC on different financial industry regulation, the central bank unified coordination and such a regulatory system design. The main problem is the central bank should not only for the formulation and implementation of monetary policy. There will be overwhelmed. Between the central bank's macro goals and micro is easy to conflict, as a result, often because a goal at the expense of another. [24]

Should, therefore, on the basis of the existing supervised respectively, set up a financial supervisory commission, is responsible for the coordination of financial supervision, determine the major issues and trends of the financial system. The securities and futures commission, insurance regulatory commission, the China banking regulatory commission management system remains the same. Examples have France. The French financial regulatory authorities are of the three individual committees. One is the banking and financial regulations committee, the committee enacts the system that adapted to the credit institutions and regulations. Second, credit institutions and investment company committee. The committee in charge of credit institutions and investment of the company's market access and exit management; Three regulator holds regular meetings to make decisions. The preparing work before decision making and the implementation of decisions and the coordination with the Treasury by the French bank within the department responsible for the secretariat of the total credit institutions. Three institutions budget also comes

from the French bank.

Compared with unified regulatory mode, this kind of regulatory model to a certain extent, the competition between the regulator and restriction role; The regulatory body in its regulatory field to keep the consistency of regulatory rules, can give a full play to the superiority of the various agencies, but also minimize the disadvantage of the multiple agencies. Compared with the fully differentiated regulatory model , this model reduces the multiple regulators coordination each other between the cost and difficulty. At the same time, the prudential supervision and regulation of business respectively, avoid regulatory vacuum or cross and overlap. Secondly, possesses the advantages of pattern differentiated regulation. Its biggest advantage is led by regulators to coordinate on a regular basis, exchange information and work closely with each other, reduce the regulatory costs, improve the regulation efficiency. But, this kind of regulatory model because regulators set is complex, if poor coordination among regulators, can cause the problem such as cost increases.

### **3.2.2 Long-term reform goals**

After market has developed maturely and financial supervision has a certain experience accumulation, we can take into account that regulatory agencies such as CSRC and CIRC can be incorporated into Chinese Financial Supervisory Authority and the latter will be the only regulatory institution in the Chinese financial sector. Examples in this regard are the UK, Japan, etc. In 1997, the British government proposed a reform of the financial regulatory system, which is to establish a new financial services authority. The new financial services authority is merge from the original 9 financial services regulatory agencies and is a combination of three major

regulatory responsibility of banks, securities and insurance. The Bank of England is responsible for implementing the monetary policy and ensuring the stability of financial markets.

The advantage of this model is that the two can realize the integration of financial regulatory agencies, the simplification of supervision personnel, the improvement of the efficiency of supervision, the effective implementation of regulatory objectives and the formulation and implementation of unified financial regulatory policy carrying out. It can prevent the emergence of decision-making and the implementation of "two pieces of skins" or drawbacks of the management system of "fragmentation" of the dispersion, and eliminate the drawbacks at the present stage of multi-story supervision, regulatory duplication, institutional supervision and can also be better for clients to provide supermarket a financial supervision, which reduces the cost of regulators. In addition, it is also beneficial to improve the supervision level. Meanwhile, it can raise the status of the regulatory agencies, which conversely promotes the effectiveness and influence of the financial regulatory organizations in the country and abroad.

## Chapter 2 Russia's financial markets and financial regulation

### 1. Russian Financial Markets

#### 1.1 The Russian credit market

According to Russian law, only the traditional financial intermediaries and the financial institutions with the credit status can issue loans. The laws of the regulation of the credit market in Russia include: the Banking and Banking Act promulgated in 1990 and the Central Bank Act of the Russian Federation promulgated in 2002. On the day of submitting the application of bank registration and issuance of bank business license, the minimum statutory capital of the bank shall reach 180000000 RUB. Credit markets have flourished in recent years. As of January 1th, 2013, the Russian Federation has 1136 credit institutions and 3455 branches.

According to the data released by the Russian National Statistical Commission, the general trend of the total amount of loans issued by the 2011-2015 is increasing (The amount of loans issued in 2015 decreased compared to 2014), an increase of 209%. The vast majority of loans are issued to the organization, followed by credit institutions, the least of which is natural person. Loans to natural persons grew rapidly, 2015 has reached 357.38 billion rubles, an increase of 251.8 billion rubles more than in 2011.[25]

**Table 1 The amount of credit in Russia (At the beginning of the year Unit: billion)**

	2011	2012	2013	2014	2015
Total	6212	9218.2	13923.8	19362.5	19179.6
Including:					

Issued to the organization	4484.4	6298.1	9532.6	12843.5	12879.2
Issued to the credit institutions	668	1035.6	1418.1	2501.2	2725.9
Issued to the credit natural person	1055.8	1882.7	2971.1	4017.2	3573.8

## 1.2 The Russian securities market

Russian securities market - this is a young, booming market. Stock exchange is of great significance in the organization of the securities market. The state-owned stock market plays a leading role in the whole stock market. In spite of the large number of state-owned securities in the Russian stock market, the number of transactions in the first place is the federal debt. Federal debt obligations are divided into: constant interest rate federal debt, fixed rate federal debt, debt installment of the federal debt, the installment of variable interest rate federal debt bonds. According to data released by Russia, According to data released by Russia, the interest rate of the installment of variable interest rate federal debt bonds is the highest in the four bonds, the interest rate of fixed rate federal debt is the lowest, and unstable, 2014 interest rates dropped to zero.

**Table 2 Annual interest rate of main bond (At the end of the year Unit: %)**

	2011	2012	2013	2014
Constant interest rate federal debt	5.30%	6.15%	6%	0%
Fixed rate federal debt	6.20%	6.20%	9.80%	8%

Debt installment of the federal debt	6.60%	6.60%	9%	8.70%
The installment of variable interest rate federal debt bonds	7%	6.50%	10.30%	13.50%

According to the statistics of the Russian National Committee of statistics, the number of Russian Corporation is decreasing year by year. In 2015 the number of shares in the company was less than 8350 in 2008, indicating that small companies can not adapt to the fierce competition has been eliminated. The number of shares issued at the beginning of the year and the end of the year increased. The number of bonds issued at the end of the year has decreased. On the income side, stock income is more than the bond income, And the gap is still widening. In 2008 the stock income is 287.746 billion rubles more than the bond income, in 2015 the stock income is 134.678 billion rubles than the bond income.

**Table 3 Russia's securities market situation**

	2008	2010	2013	2015
The number of joint-stock company	24137	21994	17512	15787
Including:				
Open stock company	14959	12916	9959	8845
Non disclosure of shares	9178	9078	7553	6942
The number of shares issued at the beginning of the year, unit: million	677284. 9	1382176	2199071 1	28297820
The number of shares issued at the end	678818.	1473459	2810451	28482974

of the year, unit: million	2		2	
The number of bonds issued at the beginning of the year, unit: million	5086.5	250.4	336.5	771.4
The number of bonds issued at the end of the year, unit: million	3103.7	302.7	486.2	909.4
Income (dividends and interest) in the addition of securities, unit: million rubles	308603	718660.2	2932394	1505850
Including stock income, unit: million rubles	298133	705566.7	2906244	1361316
Bond income, unit: million rubles	10387	13093.5	26149.5	14533.7

Russia Company stock market is divided into two parts: "Easy cash stock market" and "the rest of the type of stock market". There are about 20-30 companies issue more easy cash stock, these companies belong to oil mining, power, telecommunications, metallurgy, transportation sector, these stocks often buy or sell at market prices. "The rest of the stock market" consists of all local enterprises, and the shares of these companies are not free to circulate. High rate of return on stock investment, macroeconomic situation is stable, and the Russian security market is very attractive, because the exchange rate of the rubles into dollars is stability. To improve the rate of redeemable of Russia's stock market has caused a significant increase in the total amount of the Russia Company funds. As of March 31th, 2011, the total amount of capital of the Russian stock market reached 1072 billion dollars.

According to the data of the Russian National Committee of statistics, in 2011-2013 the number of professional participants in the securities market is constantly increasing, after the financial crisis in 2013, the number declined. Stock exchange trading volume increased significantly. The volume in 2014 is 13592 billion rubles more than in 2011. Shares accounted for a large proportion in the trading volume of security transactions. The trade volume of the futures contract of the securities is the most in the futures contract at the beginning, but from the beginning of 2012 is the fund index futures contract.[26]

**Table 4 Number of professional participants in the securities market and stock exchange trading volume (Unit: million rubles)**

	2011	2012	2013	2014
Number of professional participants in the securities market	1711	1786	1849	1672
Stock exchange transaction amount	15095128	22519451	23131914	28687905
Including:				
shares	12033369	14519503	11958744	15474540
bond	425662.5	707766.5	721028.7	910293.4
Share of investment	3231.1	14087.4	17018.3	11384.7
Futures contract	2321633	5978035	8714352	11855593
Including:				
Fund index futures	751999.7	3588884	7213277	9713716

contract

Negotiable securities and futures contract	1569633	2389151	1501076	2141877
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### 1.3 The Russian foreign exchange market

Foreign exchange regulation agencies of Russian Federation is the Central Bank of the Russian Federation and the Russian Federal government. Now the Russian Federation implement floating exchange rate policy, the exchange rate depends on the demand and supply of foreign exchange market. The currency is not entirely convertible. The main task of Russian bank exchange rate policy is to ensure the stability of the foreign currency exchange rate.[27]

According to data published by Russia, in 2011 and 2013, the inflow of foreign exchange is more than the cost of foreign exchange, 2012 and 2014 are less, but the overall trend is to maintain a relative balance. The main means of foreign exchange inflows is foreign banks receive, purchase and receive the exchange from the natural person. The main methods of expensing foreign exchange is to distribution to foreign banks, to sell to natural persons and to exchange for sale, and to spend on account of natural persons.

**Table 5 The status of foreign exchange flows through authorized banks in**

**Russia(Unit: million dollars)**

	2011	2012	2013	2014
Total inflow of foreign exchange	137602.1	143025.9	173078.9	136196.8

Including:

Through the bank into the Russian Federation	12653.5	12815.3	43998.1	14766.2
From foreign banks	40028.8	37907	36813	27823.1
Purchase and receive the exchange income from the natural person	37667.2	42489.8	31825.5	35373.8
Recorded in the natural person account	33543.9	33550.9	42128.1	46141.2
Accept the remittance of the natural person without opening an account	8232.2	10727.4	13410.1	8764
Other income	5476.5	5535.6	4904.2	3328.5
Total cost of foreign exchange	137052.2	143229.3	168458.1	138190.2
Including:				
Through the bank out of the Russian Federation	12739.4	20629.8	11751.7	18151.7
Distribution to overseas banks	43615.6	43113.6	36811.7	27485.4
Sell to natural persons and exchange	44715.4	45789	79344.8	50317
Expenditure from the natural person account	28853.5	25832.1	31869.8	35239.2
In case of no account to the natural person	1410.5	1653.3	1756.7	1530.6
Other expenses	5717.8	6211.5	6923.5	5466.4

## **2. The main Problems in the Russian financial market**

In the context of the rapid development of the financial market in Russia, some

problems have been gradually accumulated. Many experts acknowledged that these problems will prevent the continued growth of Russian financial investment, so that the Russian domestic capital market suffered losses.

(1) The proportion of the market value of large companies in the stock market is too high

Russia's economic growth depends on oil and other raw materials, which also reflected in the stock market. For a long time, the market value of the top ten (Gazprom, Rosneft, Sberbank, Lukoil, TNK-BP Holding, Surgutneftegas, VTB Bank, Norilsk Nickel, Tatneft, Transneft) accounted for more than 50% of market capitalization. [28]

**Table 6 2013 the market value of the top ten in Russia**

Russia Rank	Company	Sales (\$billion)	Profits (\$billion)	Assets (\$billion)	Market Value (\$billion)	proportion of the total market capitalization
1	Gazprom	144	40.6	339.3	111.4	12.74%
2	Rosneft	68.8	11.2	126.3	73.2	8.37%
3	Sberbank	36.1	10.8	441.1	73.3	8.38%
4	Lukoil	116.3	11	99	55.4	6.33%
5	TNK-BP Holding	43.3	7.6	43.3	33	3.77%
6	Surgutneftegas	23.4	7.2	51.4	33.7	3.85%
7	VTB Bank	16.1	2.8	210	18.9	2.16%

8	Norilsk Nickel	12.8	3.3	18.8	32.9	3.76%
9	Tatneft	13	2.1	19.5	14.8	1.69%
10	Transneft	20.8	5.8	57.8	3.6	0.41%

(2) The concentration of the industry in the stock market is high

Prior to 2012, mining industry, electricity, ferrous metals and non-ferrous metals metallurgy, communications and financial stocks accounted for 84% of the total stock market value, of which more than 60% of them are oil, natural gas and coal mining industry. After 2012, light industry, building materials industry, the coal industry began to enter the capital market financing, the proportion of machinery manufacturing, construction, transport sector began to rise significantly, resulting in proportion of the top six sectors declined for 5%.

(3) The imbalance between domestic and foreign trade

For a long time, the main problem in the Russian capital market is the structure of Russian stock circulation imbalance in the ratio of the domestic trading platform and foreign trading platform, as of the end of the 1990s, foreign trade in the form of depositary receipt greatly exceeded domestic transactions, the domestic transactions and the foreign transactions achieved a balance. From the beginning of the end of 2008, Russian stock market transactions once again appeared the trend of foreign transaction platform as the main, in 2004 the comparative relationship between them again returned to the level of 2009. In 2010, domestic and foreign transactions to achieve a balance. In 2011, the domestic transaction exceeded the foreign transaction. This is profit from the improvement of the Russian securities market law and the

company law in 2010~2011, new law requires a simplified procedure to issue shares in Russia. In addition, the policy of return to the Russian market which is issued by the Federal financial markets administration also played an important role, the policy require to strengthen restrictions on the proportion of permits of the Russia company in foreign markets issued shares in the form of global depositary receipts shall not be higher than 35%, at the same time require the Russian investors to the minimum stock supply for the second time of IPO shall not be less than 30%.

**Table 7 The exchanges proportion of Russian and foreign from 2003 to 2012**

year	Proportion of Russian exchanges	Proportion of foreign exchanges
2003	16.4	83.6
2004	27.9	72.1
2005	46.1	53.9
2006	55.4	44.6
2007	47.7	52.3
2008	45.4	54.6
2009	25.1	74.9
2010	47.1	52.9
2011	65.3	34.8
2012	73.8	26.2

(4) The stock price is obviously undervalued, the market is highly speculative, the

stock index shocks

Due to the lack of market demand and weak institutions, the Russian stock prices are often underestimated, did not reflect the actual financial situation of enterprises, which gave a broad space for speculative trading, thus increasing the stock index shocks.[29]

(5) Greatly behind the major developed market and the developing market

According to the statistics in 2011, the development of Russian capital market not only behind the United States, Britain, Germany, but also behind the three partners in BRIC countries (China, India and Brazil)

**Table 8 Comparison of the capital market in Russia and International**

Countries	Total market value of capital market(unit:billion dollars)	Share in the world capital market
U.S.A	17859	31%
Britain	3849	7%
Germany	1622	3%
China	4087	7%
India	1631	3%
Brazil	1553	3%
Russia	1041	2%

For the above problems in the financial markets, the most effective way is to implement financial supervision

### **3. The supervision of Russia's financial markets**

#### **3.1 The history of Russia's supervision of financial markets**

##### **3.1.1 Predecessor --- The former Soviet Union Bank Supervision System**

Due to historical reasons, Russia's financial system and supervision system directly inherited from the former Soviet Union, the overall framework by the former

Soviet Union construction, the whole framework is constructed by the former Soviet Union.

In December 14<sup>th</sup> of 1917 (Russian calendar), the Russian Central Executive Committee issued a decree, all shares of the private banks and private banks shall be nationalized, and combined with the National Bank for unified Russian Soviet Federated Socialist Republic of the people's Bank, also announced that the banking business is monopolized by the state. The Russian Central Executive Committee established the financial subcommittee in order to supervise the appropriation of the people's Committee, the establishment of the Subcommittee is the first attempt to regulate the private banking business. But because the bank nationalization process occurred under the background of nationalization of the Overall production industry in the whole country, bank nationalization act does not applicable to credit unions, resulting in the part of banking supervision out of control. In October 1921, the new economic policy has been implemented, the Soviet regime established a new central bank, the National Bank (ГосБанк), the development of the banking industry in the Soviet Union began. In the 1920s, to adapt to the new economic policy, regard each industry, each area, each economic of former Soviet economic entity as the basic unit, and establish a independent bank credit organizations to promote their mutual competition, and state have indirect control over them. From the 1930s, the former Soviet nationalization of industry and the movement of agricultural collective began, and the centralized monopoly banking system characterized by administrative management has gradually formed. In 1959, the former Soviet Union's banking system was again reorganized and gradually developed into the four banking system:

(1) The National Bank: integration of the functions of the central bank and commercial banks, is responsible for formulating monetary policy and country's financial plan, supervision other banks, it's at the core of the dominant position; (2) Construction Bank (стройбанк): belonging to the state bank, the specialized bank of national basic construction investment management; (3) Savings bank (Сбербанк): the first established in 1841, 1963 became a part of the National Bank, undertake the citizen savings business; (4) Foreign Trade Bank (Бнешторйбанк): a bank monopoly on foreign trade and economic work that shared by National Bank, the Ministry of foreign trade and some large foreign trade enterprises. We can find that the four big banking system is actually a system, namely the national banking system. The implementation of the centralized management of the former Soviet Union regulation continues until the eve of Gorbachev's reform. In 1990s, the Soviet Union's banking industry recombine again. In December 11, 1990, the Soviet Union passed the "National Bank Law" (Закон о Центральном банке РФ) and the "banking and banking law" (Закон о банках и банковской деятельности) in the form of law to fix the banking regulatory model. thereafter appeared three specialized banks: Agricultural Bank (Агропромбанк), Bank of industrial buildings (Промстройбанк) and housing utilities and social development bank(жилсоцбанк). In this restructuring process, the original national bank gradually transformed into a central bank of western countries(Центральныйбанк), and gradually broke away from the administrative system of the state, to become a financial institution that directly responsible to the highest authority. Unfortunately, with the failure of Gorbachev's overall economic reform, the restructuring of the banking industry did not achieve the

expected results.[30]

### **3.1.2 Establishment of the Russian Federation financial services market supervision mechanism**

Soviet Union collapsed in 1991, Russia inherited the financial legacy of the former Soviet Union, including financial asset and management system. In 1992, the Russian government adopted a "shock therapy" to transform to the market economy rapidly, and the adjustment of the management system of financial market is one of the important content of the reform. Reform mainly refer to the contemporary western financial system, set up to the central bank as the leading, commercial banks as the main body, a variety of financial institutions coexist, and has various types of financial system of financial markets, at the same time, along with the large-scale privatization process. In November 1991, the Russian Federation promulgated the "central bank law" (Закон о центральном банке РФ), began to use legal means to build a new framework for financial supervision. the national bank in history officially reorganized for the central bank, forming a system of division and coordination which is central bank as the leading, commercial banks as the main body, a variety of financial institutions coexist, and makes clear that the central bank's main responsibility is to manage monetary policy. Monetary policy has become the main means of national macroeconomic regulation and control. The form of credit has been developed from a single bank credit to bank credit, commercial credit, consumer credit, credit and private credit, formed the financial instruments and financial instruments which including commercial paper, national bonds and various types of bonds, and establishing a unified foreign exchange management

institution, implemented a mechanism of rouble unified exchange rate which take trade commodity costs as the deciding factor. In July 1993, the Russian Federation issued a decree, strict restrictions on foreign banks in Russia, forbade all or mostly foreign investment banks service for the Russian customers, aimed at protecting the domestic banking industry from the impact of foreign bank competition. At the same time, in the early 1990s, Russia's securities industry has gradually formed the scale. In 1996, Russia issued the "securities market law" ("Закон о рынках бумаг"). In the late 1990s, insurance industry started gradually, until today, the scale of development is still very limited. However, the "Insurance business organization act", but "Insurance Business Organization Law" ("Закон об организации страхового дела в Российской Федерации") promulgated in 1992. In early stage of development of financial service market of Russia, and its regulatory functions mainly concentrated in the central bank, it is directly responsible to the Federal Assembly of the House of Commons (Государственная дума). Although the central bank is a unified regulatory body, but when the banks and other financial markets appear cross operating, regulatory power will also be dispersed, such as Commercial banks operating securities business, it is joint regulated by the central bank and the securities industry management committee. At present, Russia's regulatory agencies still take the central bank as the core, the main function is supervise bank credit business, the Federal Financial Markets Authority (Федеральная служба по финансовым рынкам, referred ФСФР) become the main mechanism of supervision other financial businesses except banking industry. ⑧ After the disintegration of the former Soviet Union, shock therapy also soon failed. Since then, the pace of reform of Russian

financial services market has not stopped, legislative work although appeared later than the market, but it can also be considered to be carried out simultaneously. The two financial crisis occurred in 1998 and 2013 brought a heavy blow to the financial services market in Russia, it disrupted the steps of the Russian national financial system reform in a certain extent, it did not only shake the reform direction, but also accelerated the the legislative process and recombination processes.[31]

### **3.2 Present situation and reform of Russia's Financial Supervision**

Russia's financial regulatory system develop from nothing, after several times adjustments, in general the implementation of independent and separate management mode, it is difficult to form a unified financial policy.

The practice of Russia's economic transition in more than 20 years shows that this financial structure is not reasonable and financial efficiency is low, is the bottleneck of restricting Russian economic growth. Half of the Russian commercial banks established in the course of the transition to the market economy are created by the enterprise or the enterprise group, its funds is mainly from corporate deposits. This is very easy to happen the situation of the bank's activities should be subordinated to the interests of enterprises and share enterprises have priority in obtaining loans. For such a large number of bank internal loans, regulators are completely out of control. At the same time, a lot of funds of commercial banks are not used for the productive loan, and used to engage in financial speculation, that is mainly engaged in stocks and government bonds and other currency transactions. Financial markets have a large number of illegal and criminal problems, the order is very confusing.

In order to improve the stability and efficiency of financial market operation, To elimination the phenomenon of decree from many departments and duplication of Federal law institution functions, the Russian Ministry of Finance proposed, many regulatory functions will be handed over to the Russian Central Bank.[32]

### **3.2.1 Reform of Russian Financial Supervision**

July 24, 2013, Putin signed a presidential decree, Announced the re integration of the domestic financial regulatory system, Change the previous model of separate supervision and multi cross management, to establish a unified mixed financial supervision system, central Bank (Bank of Russia) is given the authority to supervise all financial institutions and financial activities within the territory of Russia. Prior to this, the relevant federal draft law has been passed in the regular meeting of Federation Council and the State Duma in 5th and 10th of this month. In July 25th, President Putin has signed a relevant law, announced the withdrawal of the Federal Financial Services Administration. So far, Russia's new round of legal procedures for financial management system basically completed. The above legal procedures completed in such a short time is rare in the Russian political field, it shows that the attitude of the Russian decision-making level of this financial reform is highly consistent.

#### **(1). The content and purpose of the reform of financial supervision system**

The day that Presidential decree issued, the Russian presidential website published the relevant provisions to do a brief description of financial supervision system reform. Interpretation of the provisions pointed out that the specific contents of the reform include: Federal Bureau of financial markets is no longer as a financial

market regulatory responsibility person, the Ministry of finance will no longer continue to exercise supervision and management of some of the financial markets, The federal government also gave up direct jurisdiction over financial markets, the authorities above all shall be vested in the central bank. After the reform of the central bank will become the only financial regulatory agencies in Russia, Fully responsible for the guidance, management and supervision of the credit, insurance, securities and investment funds, pension funds and other financial industry business; Expansion of the central bank's terms of reference, to extend the term of office of the central bank governor and director of the central bank, to expand the size of the central bank board of directors, the central bank governor and director of the term from four years to five years, the board of directors will be increased from 13 to 15; National Banking Council changed its name to National Monetary Commission, So as to become a macroeconomic policy-making body of the national financial sector. About the purpose of the reform of the financial regulatory system, the president's website is interpreted as such: The establishment of a unified financial supervision system is to improve the stability of financial markets and regulatory efficiency, cancel a duplicate set of institutions, avoids the waste of administrative resources, reduce administrative internal friction.[33]

The characteristics of the financial supervision system reform is mainly reflected in the following aspects: the first is to change the decentralized management and separate management to centralized management and mixed management, change management of multi mechanism, multi levels and cross to the current unified single management; the second is to make the Ministry of finance hand over the supervision

of the financial market, no longer directly control and affect the financial market; The third is to cancel the third party management, direct management by the central bank; the four is to strengthen the financial management specialization, reduce administrative intervention, the federal government is not directly involved in financial affairs, replaced by the national financial committee which is established on the basis of the Bank Committee in responsible for decision making.

After the establishment of the new financial regulatory system, in the next period, the federal law institution will be devoted to the corresponding legal work, it mainly includes the revision, supplement and perfection of a series of relevant laws. For example, the laws of the previous formulated such as Central Bank Act of the Russian Federation、 Russian Federal Securities Market Act、 Russian Federation Corporation Act、 Russian Federal Investment Fund Act、 Securities Market Investor Protection Law of the Russian Federation exist contradictions on provisions and representations in the specific provisions

## (2) The significance of establishing a unified financial supervision institution

In the last 20 years, Russia has experienced two serious financial crises. In 1998, when the financial crisis came, Russia was in the deep recession of the national economy, the whole country is like undefended city, let the intruder rampant, unable to resist, loss is extremely heavy, a large number of credit organizations closed down, the financial markets are in tumult. When the financial crisis broke out in 2008, Russia's economic situation has greatly improved, the government was published a series of anti crisis measures on the basis of strong fiscal reserves, to reduce and alleviate the impact of the crisis in a certain extent, but the national economy still

suffer severe damage. During the post crisis period, Russia to strengthen the financial supervision, the reform of the financial regulatory system was published in this context. Undoubtedly, it is a great change in the history of modern Russian financial development, will have a far-reaching impact on the future development of the financial industry in Russia and even the whole economy.[34]

From the surface point of view, the establishment of mixed supervision system is conducive to the unified and efficient the management and norms. Centralized and unified management, The first can reduce the supervision link, reduce administrative costs, improve work efficiency; and secondly, to avoid so that decree from many departments, reduce unnecessary internal friction, which can efficiently deal with emergencies, enhance the ability to resist risk. From the deep point of view, The establishment of a mixed supervision system, Comprehensively enhance the status of the central bank, the central bank has been completely free from the constraints of the Ministry of finance, thus it can formulate and implement monetary policy and other financial policies independently and objectively without the restriction and limitation from government's financial sector. Before the reform, although the two grade banking system has been established for many years, the central bank already independent exercise of powers on the surface, but in many ways is still subject to the Ministry of finance, even the central bank law is formulated by the Ministry of finance, it can be said, in the past,the functions and authority of the central bank were actually given by the Ministry of finance, rather than the federal government. At the same time, the establishment of the financial supervision system also conforms to the development trend of financial industry. From the point of view of the development

trend of the current international financial industry, separate operation will gradually become history, mixed operation is the development direction and And Russia has formed a reality of mixed operation, in the separate management obviously does not conform to the reality of the situation, the change of separate management to mixed supervision is the trend of the times.

Of course, the current establishment of the Russian financial regulatory model has its limitations. In general, the central bank's main responsibility is to determine the country's monetary policy, regulation and control of the financial market, in order to influence and promote the development of the national economy. handed over the supervision and management of the market to the central bank, This means that it also plays two roles at the same time, not only the policy makers, but also a supervisor for the implementation of the policy. This is a contradiction with the current supervision concept, at present, most countries generally choose to exercise market supervision and management by the third party.[35]

## **Chapter 3 The Regulation Of Financial Markets In Russia And China**

### **Comparison And Analysis**

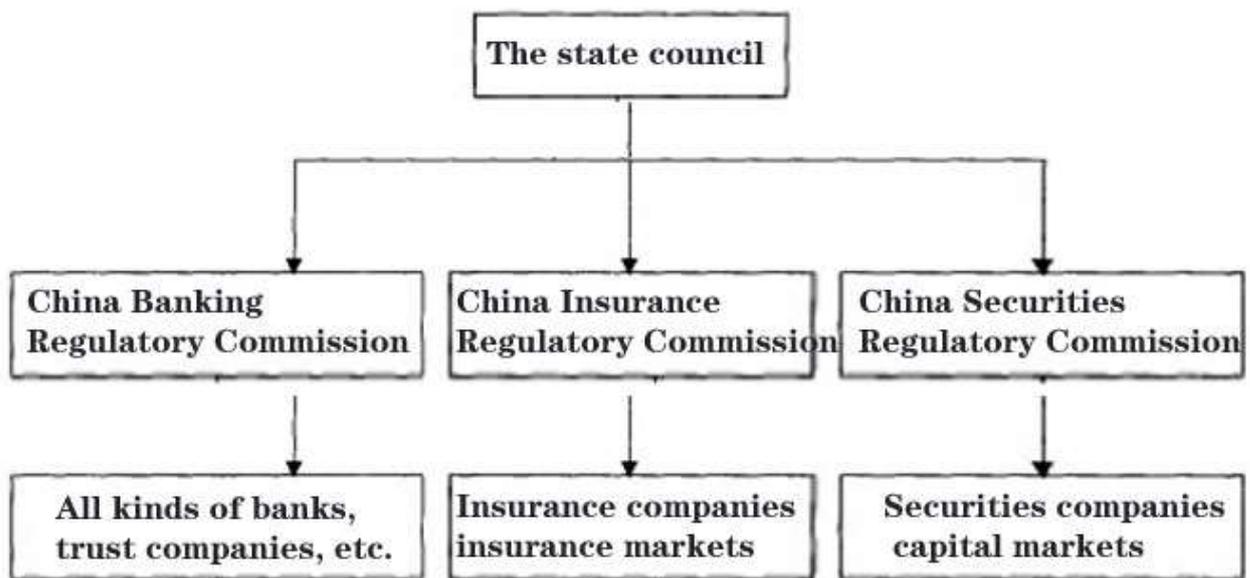
China and Russia are good neighborly and friendly relations, and they both belong to a socialist system. They are the historical tasks of economic reform and opening up. Although the development of financial regulatory system of China and Russia is not the same, but they all have their own characteristics. In the transition process of the two countries, there is successful experience and frustrated lesson, to study of their financial supervision system has a very important reference to the development of the financial supervision of the two countries.

#### **1. China's operation model and supervision model**

The development of China's financial industry has experienced a process from "mixed" to "separate". In mid 1980s, China's four major state-owned commercial banks had opened securities, trust, leasing, real estate, foreign investment and other business, which is the actual sense of the mixed operation. However, the four major state-owned banks lack the corresponding internal control mechanism and risk prevention awareness, since the second half of 1992, there is a phenomenon in society that security investment and real estate investment are very popular, a large number of bank credit funds poured into the securities market through interbank lending, disrupting financial order. At that time, the consequences attributed to poor management of the mixed operation of the bank, so from the beginning of July 1993, China vigorously rectify the financial order, and in the end of 1993, formally proposed separate business policy. The commercial banking law of the people's Republic of China, promulgated by the people's Republic of China in 1995,

established the pattern of the separated operation of China's financial industry in the form of legal. By the end of 1997, the State Council further emphasized the principle of separate operation and separate supervision, promulgation and implementation of the financial laws and regulations such as *Securities Law*, *insurance law* and so on, finally from the legal framework established the operation model and financial development pattern of financial industry implement the separate operation and separate management.

Under the environment of the separate operation system, Although China already has a number of rudiment of integrated financial holding companies, but so far, the supervision of the financial holding group still carry out the standard of separate supervision.



**Figure 8 Structure of financial supervision in China**

### **1.1 The positive role of separate supervision in China**

For China, the separate supervision mode of China has played a positive role in preventing financial risks, at this stage the prices of the real estate industry of China

soared, some bubbles appeared, and a large amount of money flowing into the stock market and real estate. If the bubble burst, the bank's non-performing assets increase, and convert to potential financial risks. However, the implementation of separate supervision mode, make the The relationship between banks and securities and insurance industry weaken, it's good for guarding against financial risks. At the same time China is still an emerging financial market, laws and regulations of financial supervision are not perfect and lack of financial supervision experience, The current system of "one bank three Commissions" can effectively regulate the financial management behavior and prevent the financial risks. But there are also a series of problems of China's financial supervision, for example, with the deepening of globalization, the integration of banking, insurance and securities industry is becoming more and more frequent, the existing supervision system can not handle the contradiction caused by the fusion, and China's financial supervision system caused many regulatory gaps and supervision overlapping between China Banking Regulatory and central bank, which seriously affect the healthy development of the financial industry.[36]

## **2. Russia's operation model and supervision model**

### **(1) Russia's financial regulatory model before reform**

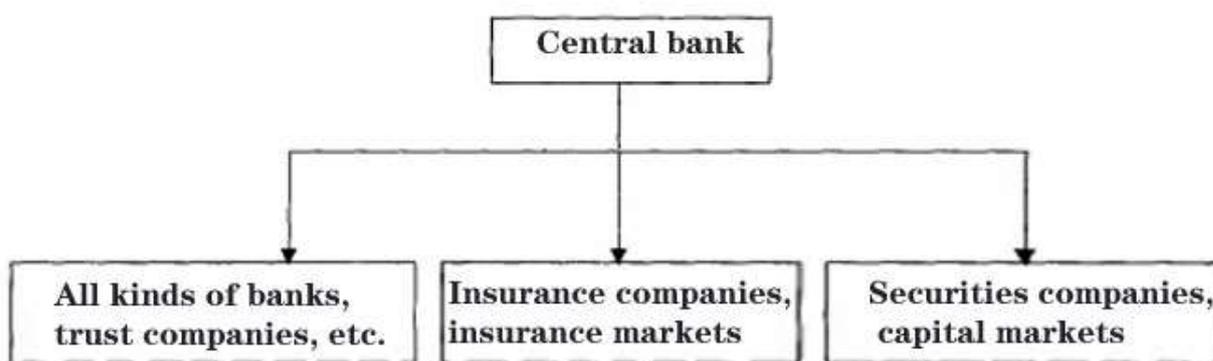
Before the reform of financial supervision, the financial industry in Russia had both separate operation, separate supervision, mixed operation and mixed supervision. In Russia, the insurance industry and banking are separate operation and separate management. Insurance industry by the Ministry of finance, Insurance department of internal organs of the Ministry of finance is in charge of the supervision task of the

insurance industry, and responsible for the supervision of insurance companies of the far east area. Mixed means that commercial banks are allowed to operate securities business, that is, the securities industry is not independent. The supervision of the securities business of commercial banks is completed by the CSRC and the central bank.

However, a large number of bank collapsed in the 1998 crisis, the banking industry faces a series of crisis, in order to get rid of the crisis, restore the vitality of the banking industry, the Russian government has set up the banking system and the banking supervision system which is more suitable to the market economy, the banking system and banking supervision system, it is the banking system of the central bank as the leader, commercial banks as the core and the coexistence of a variety of financial institutions, the central bank gradually appeared its independence, it is no longer responsible for commercial bank business, started as a bank. But throughout the Russian transition process, the radical reform of the way, also produced some problems, Russia was eager to weakening control, and wanted the financial industry develop in a short term, make the government give up the effective supervision of internal and external of the financial industry, anxious for measures to make the financial sector is too fragile, it's easy to make the financial crisis break out. Central bank holdings in commercial banks also caused the central bank be not objective and unfair while dealing with the problem. Although the Russian Central Bank independent from the government and directly responsible for the Duma, but in practice is still subject to government control, the independence still need to be improved.[37]

(2) The Russian financial regulatory model after the reform

After the financial reform, the central bank will replace the Federal Bureau of financial markets to implement the mixed supervision mode for the operating activities of securities firms, insurance companies, financial organization, exchange investment, pension fund and other financial institutions. In addition, the central bank will take over a portion of the power about financial market supervision standards that formulated by Russian Federal Ministry of Finance and the Russian government, and participate in the process of drafting relevant laws and regulations. At the same time, the central bank will be responsible for the approval of the accounting standards, and the right to manage the banking and non credit financial institutions, securities issuance and registration management.



**Figure 9 Structure of financial supervision in Russia**

**Table 9 Comparison of financial market and financial supervision between China and Russia**

	China	Russia

Name of the bodies	China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission	Central Bank of Russia
supervision mode	separate regulation	Mixed supervision
Authorities	Each responsible for their own regulatory aspects	Sole charge of the regulatory authority
operation mode	Mixed operation, separate operation	Mixed operation, separate operation

### **3. Analysis and comparison of the characteristics of separate supervision and mixed supervision**

#### **3.1 Analysis of the advantages of mixed supervision**

(1) The organization structure of the mixed supervision mode can obtain the "supervision scale economy" and "supervision scope economy"

"scale economy" refers to the economic benefits brought about by the reduction of average cost when the scale of production of a certain product is expanded. Mixed supervision mode is to maximize the use of existing resources by sharing infrastructure, administrative management, information systems, and centralized deployment of professional personnel. Due to the financial institution data collection and use has great synergy, execution of the behavior regulation also has strong unity, avoids the repeated examination and report, fewer bodies can effectively reduce

operation cost, can make full use of "resource sharing", and achieve the supervision scope economy. "Scope economy" refers to the reduction of unit costs by extending the scope of business, increasing product variety, producing two or more than two kinds of products. Mixed supervision can provide a variety of regulatory services to the market subjects with different needs at a lower cost, and achieve the financial supervision scope economy.[38]

(2) It Can avoid the regulatory conflict and regulatory vacuum generated by separate supervision

Regulatory conflict is a common problem of separate supervision. Different regulatory agencies have different regulatory objectives, related regulators claim they all have jurisdiction, which may lead to regulatory duplication and overlapping; At the same time, When a financial institution or one event faced with multiple regulators, and each regulator insists on its own, the results of the supervision may be protracted or not know what course to take, which may lead to a decline in the effectiveness of supervision, but also will bring difficulties to the regulator. Regulatory vacuum may be because there is no jurisdiction of regulatory agencies are clearly defined, resulting in the unclear responsibilities of regulators; And mixed supervision will bring financial institutions and instruments into its regulatory responsibility within its regulatory scope, can curb regulatory arbitrage, resolve the issue of regulatory ownership dispute, avoid the loopholes in the supervision, also won't appear to shirk responsibility, thus increase the sense of responsibility of the supervisor, achieve effective supervision. If the regulatory conflict is due to regulators fight for power, then the regulatory vacuum is due to regulatory agencies

abdicate; regulatory conflicts result in regulatory protracted, regulatory vacuum regulators lead to mutual shirk.

(3) It is conducive to fully and truly reflect the operational risk and behavior of financial institutions.

Financial institutions has become increasingly diverse, the traditional division of functions has disappeared between different types of organizations. Although there are many ways to solve the overall supervision of diversification institutions, but a single, comprehensive regulatory agencies may more effective supervision of all the business and products of mixed financial institutions and it can be better aware of parts potential payment crisis in different business. According to the core principles of effective banking supervision: a key element of banking regulation is the supervision ability of regulators to supervise the banking group. This is required to examine the overall grasp of the group's operating risk and behavior. In the process of dealing with financial risks, the mixed supervision institutions have the consistency of the policy, the authority of the coordination, the timeliness of the response, and it can be more effective use of regulatory resources.

(4) It's easy to be understood and recognized by financial institutions and the public

For the regulators, especially for the large number of public, regulatory agencies of simple organization are more conducive to be identified by public, reduce the cost and difficulty of public recognition. From the market point of view, many financial institutions have a lot of complaints about the coexistence of multiple regulatory agencies, the cross and duplication of regulatory content, we can concentrate, reduce the cost and improve efficiency if only deal with one regulator. And mixed regulatory

agencies can maximize the continuity of regulatory policy, to ensure that the regulatory policy has stability, and bring stable expectations of supervision to the people that is regulated by regulators. Therefore, mixed supervision is easy to be understood and recognized by financial institutions and the public.[39]

(5) It can be more effective to save and use of talents

For this, economists such as Nartmann and Goodhart had specifically pointed out that the conservation and efficient use of talents have an important meaning for developing country which is short of talents, because these countries do not have enough high-level supervision personnel, Integrated regulatory agencies are conducive to the concentration of these scarce talent resources. If the financial supervision talent shortage, to concentrate the talents in a comprehensive regulatory institution can improve the efficiency of the use of these human resources, it is also better to avoid the loss of professional talents.

### **3.2 Analysis of the advantages of separate supervision**

In spite of the establishment of a comprehensive mixed supervision organization have been paid more and more attention by the economists, however, there are still a lot of scholars who are skeptical about this. The main points of view of support separate supervision mode are:

(1) Although the division of business in the traditional financial institutions has changed, it does not mean that all financial institutions have formed a unified financial mixed situation. However, Not all financial institutions that carry out the mixed operation form the internal organizational structure of the integrated management mode. In fact, although a handful of large financial carriers accounted

for the vast majority of the entire financial, There still exist the enterprises that specializing in a financial business and financial products and and these enterprises exceeds the financial aircraft carrier in quantity. Even a number of operations within the financial carrier may be operated by different departments. So the difference between the financial industry will still continue to exist in quite a long period in the future, the different characteristics will not immediately disappear within the transformation of banking, securities, insurance companies and derivative market intermediaries, the nature of the three risks is different, so they need different regulatory methods of supervision.

(2) Separate supervision can implement specialized supervision of the target

Different financial regulatory agencies have different regulatory philosophy and objectives. The securities regulatory body does not guarantee the risk of the securities companies and the securities market, its goal is maintain fair and orderly market, With special emphasis that the security issuer and the broker must full disclosure of information, there must be no fraud. Banking supervision should focus on the safety and soundness of the banking system, Regulators as a lender of last resort or a credit supporter of deposit insurance, their inspection of the banking system should go deep into every aspect of the banking operation. Insurance regulators should pay attention to the solvency of the insurance companies, in order to ensure the steady operation of the insurance industry and the interests of the insured person. Due to the different starting point of various regulatory, different index system and operation mode, mixed supervision institutions may lack a clear, focused goals and principles from preventing systemic risk to protecting a single consumer from fraud, the differences

between financial institutions and financial products also not given enough recognition and distinction. Therefore, It is impossible to properly formulate the necessary regulatory differences between financial institutions and businesses in different categories, and the regulatory effectiveness may be greatly reduced. And if unified regulatory body responsible for comprehensive regulation of systemic risk, prudent supervision and business behavior, there may be a significant differences of regulatory philosophy and the interests because of the conflict between these regulatory objectives and responsibilities. But each separate supervision institution has its own specific regulatory objectives and regulatory principles to avoid the obstacles of regulatory differences. So, there is a clear definition of the specialized regulatory responsibilities of the separate regulatory agencies are considered to be responsible for its behavior, but also can reduce the possibility of inappropriate expansion of the scope of regulation.[40]

(3) The internal mixed supervision may avoid the regulatory conflict and overlap in the separate supervision, however, when mixed supervision eliminates the above phenomenon, another problem appears: Mixed supervision will lead to the internal conflict of regulatory objectives and regulatory culture, which is the internal conflict of the external. Banking, securities and insurance industries have very important differences in their core business, so the choice of their regulatory objectives and regulatory instruments should be greatly different. When a regulatory body take more than a financial business and financial institutions into its regulatory scope, Regulators are difficult to determine the diversified regulatory objectives, and debate endlessly on whether to establish unified regulatory indicators.

(4) It can reduce the loss of regulatory information

In the case of the coexistence of separate regulatory agencies, due to the existence of competition of different levels between multiple regulators, therefore, it can provide more information from a broader perspective, as in a competitive market can produce more and more real and effective information. However, once the financial supervision mechanism is set up, The "competition" mechanism use for collecting and analyzing the regulatory information from the multi angle and multi levels will be lost, regulatory information acquisition will have to rely on the research of a few people, and the study is a comprehensive, true, accurate and complete. And the comprehensiveness, authenticity and integrity of the research is not guaranteed.

(5) It can avoid regulatory bureaucracy

Mixed supervision put the different category of financial economy under the unified supervision of a body, will cause the lack of internal supervision and external constraints. Excessive concentration of power, lack of competition and supervision of power, will lead the regulatory agencies to be prone to arbitrary interference. And due to the lack of regulation of the regulatory bodies, regulators can not be responsible for the consequences of these arbitrary behavior. The more dangerous thing is that in the implementation of regulatory functions may appear extreme bureaucracy, reflect slowly on the existing problem , reduce regulatory efficiency. In terms of power restriction and supervision, there is a certain degree of power restriction and balance mechanism between separate supervision institutions. Therefore, comparing with mixed supervision, separate supervision has a natural advantage in avoiding the monopoly power.

#### **4.The necessity of establishing mixed supervision mode in China**

The development of the financial industry has made the mixed supervision become the trend of world's financial regulatory system, and it's just ten years of time from China has just set up a separate regulatory model to now, world financial situation has occurred great changes. it brought huge impact to the financial supervision system of Chinese because a lot of almighty financial institution appeared and China joined WTO, what kind of regulatory model should be chosen has become a problem that needs to be solved urgently. For rational and practical considerations, China should adopt mixed supervision mode, for the following reasons:

(1) Mixed supervision can adapt the objective needs of the development of China's financial industry

Although the current operation mode that Chinese legal provisions is separate operation, but in a strong competitive situation, China's financial base has changed a lot, the commercial banks are moving towards the Almighty bank. For example: Industrial and Commercial Bank of China in Hong Kong bought East Asia Securities, China Construction Bank and Morgan Stanley and other financial institutions joint venture of China International Finance Co., Ltd. in 1996, Bank of China owned investment bank in London; China Everbright Bank has become a comprehensive financial institutions which owed an insurance company, a bank and two securities companies. It can be said that many financial policies of the Chinese monetary authorities have shown the trend of changing to the mixed operation. The financial system has loosen gradually, such as allowing the securities companies to enter the inter-bank lending market, allowing individual shares of commercial banks into the

stock market, as well as allowing insurance companies to invest in securities funds and so on. These reforms will undoubtedly promote the development of financial institutions and financial institutions business integration, in order to adapt to this need, mixed supervision has become an inevitable choice for China.[41]

(2) mixed supervision is conducive to China's response to the challenges of foreign financial institutions

After joining WTO, China's financial services market will be fully opened in five years. Foreign financial groups are mostly comprehensive financial group, it's an aggregate of banking, securities and insurance, if don't take the mixed operation, China's financial institutions in the competition with them will be in very adverse position. Therefore, fundamentally change China's regulatory mode, Comprehensive adjustment of the financial institutions of foreign capital and Chinese capital, maintaining China's financial stability, safety and efficiency, implementation of mixed supervision mode is our inevitable and rational choice.

(3) mixed supervision is the need of financial innovation

With the development of modern science and technology, the operation philosophy is constantly updated, and financial products are constantly innovating and developing. For example: Securities company shareholders margin account has the function of bank savings deposits in a certain extent; some of the insurance company's insurance premiums have investment function, savings deposit insurance is not uncommon.the traditional separate supervision system that classify by the types of financial institutions will be difficult to adapt to the development trend of the Increasingly integration of financial institution business in the condition of mixed

supervision. Under such conditions, cross industry financial products continue to emerge. At present, the implementation of separate supervision system is lack of scientific basis and judgment standard for the supervision of financial innovation products with cross phenomenon, it will appear the phenomenon of financial regulatory agencies mutual shirk or competition for different financial institutions that jointly participate in the trading activities, which will affect the efficiency and effect of supervision, but mixed supervision can be timely and effective supervision through coordination, regulating the more effectively, can avoid regulatory duplication and regulatory vacuum.

## **5. Suggestions on financial supervision in China**

It's not the best choice to transition to mixed operation and mixed supervision in a hurry under the condition of imperfect supervision model and immature development of the capital market in China. Because there is a close relationship between the gradual improvement of the separate supervision system and the whole government structure, establish and perfect the three supervision and management committees cannot be done in a short time, it's diseconomy from a cost standpoint if we want to achieve consolidation in a short time. And drastic changes in personnel institutions may have impact on the stability of the capital market. At present, for the China's financial situation and the specific conditions of the country, taking the financial holding company's regulatory requirements as an opportunity, integration of the functions of the various regulatory agencies on the basis of the existing system, addition of relevant institutions or increase the functions of the relevant agencies, the resistance and risk from these measures are much smaller than reform the separate

supervision system completely.

From this point of view, there are the following recommendations:

First of all, establish a long-term professional integrated regulatory agencies. China can establish a financial regulatory coordination committee on the basis of three party meeting of the China Banking Regulatory Commission, China Securities Regulatory Commission and the China Insurance Regulatory Commission. Financial regulatory coordination committee as the competent authority and responsible for supervision the financial holding company and regulation and policy decision of cross industry. For financial holding companies in different financial business areas of subsidiaries, supervision by the original regulatory agencies. So in keeping the current separate supervision system, the implementation of effective separate supervision of the subsidiary, also ensures that the financial holding company group's regulation.

Secondly, to establish a comprehensive and systematic supervision system. Regulatory agencies must start from the approval of the company access market to its withdrawal from the market, to Implement continuous and full supervision of the financial holding company from the establishment, the organization, the service, the system construction, the financial index and other business activities, in the process of supervision, The various regulatory agencies should cooperate with each other and coordinated action under the leadership of the authority, to implement the comprehensive and systematic supervision of cross industry, cross regional business activities and innovative financial products of the financial holding company.

Third, Make the relevant laws that can reflect the normative development of

China's financial system. In view of the financial mixed operation and business diversification of financial institutions is an inevitable trend, and foreign financial institutions enter will accelerate this process, legislation in the bank should also pay attention to create a equal competitive platform for foreign capital financial institutions and Chinese capital financial institutions.

Fourth, to encourage innovation in financial regulation. First of all, Introducing the concept of incentive regulation in the current financial supervision, and fully respect the innovation ability of financial institutions. Secondly, financial supervision should encourage financial innovation, and improve the current situation of administrative examination and approval and the suppression of financial innovation. Third, we need to introduce the concept of Cost Benefit and accountability mechanisms of financial supervision. Fourth, to adapt to the development trend of mixed operation, and gradually create conditions for the financial supervision system from separate supervision to mixed supervision, from institutional supervision to functional supervision.

Fifth, strengthen the coordination of financial institutions, to achieve information sharing. From the point of financial market operation, China's regulators should emphasize the coordinated development of the whole financial market based on the appropriate division of labor, to establish a comprehensive large-scale database, thereby reducing the cross and repetition of business, reducing regulatory costs. In addition, from the point of view of banking supervision should not be one-sided understanding of the separation of monetary policy and banking supervision, and reasonable hold the monetary supervision of people's Bank and the coordination

relation and institutional supervision function of Bank supervision and Management Committee.

Sixth, establish and improve the automatic control mechanism of the financial institutions, and pay attention to the supervision by public opinion. Compare to the supervision of the regulatory authorities, the internal control system focused on is the safety and efficiency of the micro individual, but a good internal control can play a endure role than external supervision, and become the basis for effective financial supervision.

Seventh, the establishment of emergency rescue mechanism. As the capital market is different from the physical trading market, so a slight move in one part may affect the situation as a whole. When a certain size of a financial holding company is facing liquidity crisis, or its important subsidiary is facing a risk of collapse, regulators must have a complete set of emergency plans to implement the effective relief measures. Otherwise, the capital market will be faced with the rish that is difficult to expected, the production of the rescue measures or emergency plans depends on the communication and cooperation of the various regulatory agencies in advance, relates to the internal regulatory mechanisms of financial holding companies.[42]

## **6. Suggestions on financial supervision in Russia**

### **(1) Make perfect legal system of financial supervision**

After ten years of development, Russia's financial regulatory system is gradually perfect, but in general, the legislation of financial supervision in Russia still exist many drawbacks, it is lagging behind the practice development needs. Therefore it

requires the joint efforts of the legislature and the regulatory authorities, adapt to the trend of international financial regulation, to consider the level of Russia's financial market opening, gradually achieve the perfection of financial legal system. Specific from the following four aspects: first, the establishment and improvement of financial laws and regulations system. The perfect financial legal system should take the central bank law as the core, take the common law bank law, insurance law, securities law, trust law, security law etc. as the main body, also includes a number of individual business rules and regulations, composition of the contents of the hierarchy, the convergence of the laws and regulations system by these laws and regulations; Second, to clean up and revise the existing laws and regulations of Russia, Some of the Russia's existing financial laws and regulations made earlier, we should clean up and revise the part that unable to adapt to WTO rules and international conventions; The third, in line with the new trend of the development of international financial industry, accelerate the financial supervision legislation, Accelerate the legislation of mixed supervision, establish and perfect the financial legal system which is adapt to international and domestic financial market, financial institutions, financial products and financial management. The fourth, improve the level of enforcement of financial work and carry out effective evaluation, and establish a perfect and efficient financial legal system.

(2) Strengthen the training of the comprehensive quality of financial supervision personnel

Financial supervision requires the financial supervision of the staff should have a strong business ability, but also have a higher ideological and moral quality.

Especially after Russia joined in WTO, the banking will open completely in a short period of time, Foreign Banks have strong business innovation ability and have a lot of financial products, it will inevitably increase the difficulty of the work of financial supervision. This is bound to require staff who engage in financial supervision to strengthen their professional skill, and constantly update the knowledge, learn and understand the relevant knowledge of financial innovation business. At the same time, the relevant institutions should pay attention to the cultivation of the moral quality of financial supervision staff, improve the justice of law enforcement of the whole supervision team

Mixed supervision is a long-term and ultimate goal of the Russian financial system reform, its achievement is affected by many factors, it can not be done in a short time, we should ultimately to achieve this goal gradually in the process of reform. Therefore, In the process of gradually promoting mixed supervision, we should consider the actual situation in Russia, speeding up financial supervision legislation, strengthening the supervision of foreign financial institutions and the financial holding company, guiding, regulating and promoting from the legal aspects, finally, make Russia's financial supervision model accord with the Russian national conditions, so that Russia's financial supervision into a healthy and orderly development stage.

(3) Establish and improve the mechanism of collection, storage, exchange of information

All parties involved in the information sharing should carry on the division of labor according to the actual work of the supervision, Clear the duties of information

collection, summary, analysis, communication, feedback and so on, responsibilities and make the data needs from all aspects can be achieved in a low cost way; through the establishment of announcement system, reporting system, supervision system, inquiry system of financial supervision, to achieve the standardized operation of information exchange; Gradually expand the scope of information sharing mechanism, establishing the financial regulatory information database, speed up the exchange frequency of regulatory information, maximize the effectiveness of regulatory information.

(4) Give full play to the advantages of science and technology of computer network, build a modern information sharing platform

Financial regulatory information can be divided into four categories: regulatory decision-making information, regulatory measures information, regulatory information information, and other regulatory information. The first two kinds of information related to the formulation and implementation of regulatory measures, with a certain degree of confidentiality, can only achieve communication in senior management or related departments in the form of report, a copy of the documents and other forms. For the last two types of information, you can achieve sharing through the computer network link and transmission of supervision departments, of course, it is necessary to adopt scientific and technological means to carry out the necessary confidential treatment, to ensure that such information only serve implementation of the supervisory duties, no leakage to any other units and individuals. After the financial supervision and administration information sharing mechanism gradually be mature and perfect, further convergence with the enterprise,

personal credit system, bank credit registration consulting system, and form a modern financial regulatory information sharing system which covers more area, more agile, more smooth communication, and more scientific and technological content.

### **Conclusion**

The following conclusions can be drawn through the analysis of the previous chapters:

(1) Mixed operation is the development trend of the financial industry in China and Russia

Compare with separated operation, mixed operation has the advantages of economies of scale and economies of scale, financial institutions through the methods of financial innovation and change the structure of its organization in order to improve their competitive ability and achieve mixed operation. Now the western developed countries in the financial sector has achieved mixed operation, China and Russia's financial industry is moving in this direction, and some financial institutions in fact has been mixed operation.

(2) The content and methods of financial supervision have also changed in the transformation to the mixed operation: compliance supervision is changing to prudential regulation, and use the supervision method of incentive compatibility of financial institutions, strengthen the role of market constraints.

Generally, the financial risks bring by the mixed operation conditions are greater than the risks under the separate operating conditions, therefore, in the transformation process of financial industry to mixed operation, more attention should be paid to the supervision of financial risks. Traditional regulatory compliance is not enough to

guard against financial risks and the international trend is that: make Prudential Supervision instead of regulatory compliance. Prudential supervision focus on the prevention of financial risks, such as credit risk, market risk, operational risk, liquidity risk, legal risk and so on. Emphasized on the external supervision at the same time, strengthen the financial institutions internal self-discipline supervision, adopting incentive compatible regulation is a trend of world financial regulation, this regulatory approach can reduce conflict between the financial authorities and institutions and get a good regulation result. Strengthening market discipline is a very effective method to supervise financial institutions. It is also one of the three pillars of the new Basel accord.

(3) In the process of supervision of financial institutions, financial institutions and regulatory authorities are carrying out a dynamic game

As the value orientation of financial institutions and regulatory authorities are different, so their behavior standards are not the same. Financial institutions to maximize value as the highest criterion, if found that some of the provisions of the financial regulatory impact on the realization of its objectives, it will bypass the regulatory law through innovative ways. If the regulatory authorities believe that certain financial innovation has the potential financial risks, it will develop or modify the law to plug the loopholes. Financial institutions will be re innovation and the financial authorities will choose to re regulation, the two dynamic game.

(4) Financial regulatory philosophy of China and Russia is from the stability as the first shift to stability and efficiency

Due to the important position of financial industry in the social and economic life,

and the great harm of the financial crisis, the financial supervision authorities of all countries have to ensure the stability of the domestic financial industry as the primary supervision goal. But due to the world economic situation has undergone great changes, the possibility of emerge big financial crisis is small, various countries financial supervision concept is also changing, under the premise of ensuring financial stability, as far as possible to ensure the efficiency of financial institutions, encourage financial innovation to improve the competitiveness of domestic financial institutions, to achieve both stability and efficiency.

(5) China's financial regulatory system needs to be reformed in order to reduce the financial regulatory vacuum and guard against potential financial risks.

Now, China's financial sector appears the trend of mixed operation, such as CITIC Group and China Everbright Group in fact is a financial holding company. China's current financial supervision system is separate supervision, this model has a good effect under the condition of financial industry implement fully separate operation. In the situation of the permitted financial institutions to carry out quasi mixed operation in the form of franchising, China's current financial regulatory system exists regulatory vacuum and lacks of supervision of financial holding company. In order to adapt to the trend of mixed operation of financial industry and improve the efficiency of financial supervision, it need to change the mode of China's financial supervision, to change institutional regulation to functional regulation, and establish regulatory institutions to supervision the parent company of financial holding company. At the same time, improve the supervision method, improve the ability of risk supervision, establish a regulatory method of incentive compatible with financial

institutions, strengthen the role of market mechanism, and improve the efficiency of financial supervision.

#### (6) Issues to be further studied

This paper mainly analyzes the financial supervision problems in the transition to the mixed operation from the whole body, but there is no research on the content and method of the specific financial regulation. Due to the financial industry is related to many fields, such as banking, securities, insurance, trust and fund industry, this article focuses on the research of supervision in various financial sectors from the common aspect, does not do analysis from the characteristics of each field have. In fact, there is a great difference in various fields, the regulatory issues in these areas will be studied in future . On financial supervision mode selection problem, this paper mainly studies the trend of the changes of financial regulatory, due to the different different national conditions of each country, it is not possible to have a universal model, it requires detailed analysis of the various countries to draw a satisfactory conclusion, this article has not carried on the thorough research to this question.

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