

# When Shadow Banking Can Be Productive: Financing Small and Medium Enterprises in China

KELLEE S. TSAI\*, \*\*

\*Division of Social Science, Hong Kong University of Science & Technology, Kowloon, Hong Kong SAR; \*\*Johns Hopkins University, Baltimore, MD, USA

## Online Appendix

### A. Official definition of businesses by size and industry in China

Industries	Category	Big	Mid	Small	Micro
Agriculture, forestry, fisheries; Industry	Revenue	≥ 200 mil	5 mil to 200 mil	500 K – 5 mil	< 500 K
	Employees	≥ 1,000	300 – 1,000	20 – 300	< 20
Construction	Revenue	≥ 400 mil	20 mil – 400 mil	3 mil – 20 mil	< 3 mil
	Total Assets	≥ 800 mil	60 mil – 800 mil	3 mil – 60 mil	< 3mil
Wholesale	Revenue	≥ 800 mil	50 mil – 800 mil	3 mil – 50 mil	< 3 mil
	Employees	≥ 200	20 – 200	5 – 20	< 5
Retail	Revenue	≥ 400 mil	50mil – 400 mil	10 mil – 50 mil	< 10 mil
	Employees	≥ 300	50 – 300	10 – 50	< 10
Transportation	Revenue	≥ 200 mil	5 mil – 200 mil	1 mil – 5 mil	< 1 mil
	Employees	≥ 1,000	300 – 1,000	20 – 300	< 20
Storage	Revenue	≥ 300 mil	30 mil – 300 mil	2 mil – 30 mil	< 2 mil
	Employees	≥ 200	100 – 200	20 – 100	< 20
Post	Revenue	≥ 300 mil	10 mil – 300 mil	1 mil – 10 mil	< 1 mil
	Employees	≥ 1,000	300 – 1,000	20 – 300	< 20
Hotel & Accommodation	Revenue	≥ 300 mil	20 mil – 300 mil	1 mil – 20 mil	< 1 mil
	Employees	≥ 300	100 – 300	10 – 100	< 10
Restaurant	Revenue	≥ 100 mil	20 mil – 100 mil	1 mil – 20 mil	< 1 mil
	Employees	≥ 300	100 – 300	10 – 100	< 10
Telecommunications	Revenue	≥ 100 mil	20 mil – 100 mil	1 mil – 20 mil	< 1 mil
	Employees	≥ 2,000	100 – 2,000	10 – 100	< 10
Software and IT	Revenue	≥ 1 bil	10 mil – 1 bil	500 K – 10 mil	< 500 K
	Employees	≥ 300	100 – 300	10 – 100	< 10
Real Estate Development	Revenue	≥ 100 mil	10 mil – 100 mil	500 K – 10 mil	< 500 K
	Employees	≥ 2 bil	10 mil – 2 bil	1 mil – 10 mil	< 1 mil
Property Management	Total Assets	≥ 100 mil	50 mil – 100 mil	20 mil – 50 mil	< 20 mil
	Employees	≥ 1,000	300 – 1,000	100 – 300	< 100
Lease and business services	Revenue	≥ 50 mil	10 mil – 50 mil	5 mil – 10 mil	< 5 mil
	Employees	≥ 300	100 – 300	10 – 100	< 10
Others	Total Assets	≥ 1.2 bil	80 mil – 1.2 bil	1 mil – 80 mil	< 1 mil
	Employees	≥ 300	100 – 300	10 – 100	< 10

Source: [http://www.gov.cn/zwgk/2011-07/04/content\\_1898747.htm](http://www.gov.cn/zwgk/2011-07/04/content_1898747.htm) (关于印发中小企业划型标准规定的通知工信部联企业〔2011〕300号)

## B. Overview of NBFI regulations in China

### B.1. Small loan company regulations.

Date	Regulation name	Issuing entity	Main purpose
2008	<Interim Measures for Small Loan Companies>	CBRC <sup>a</sup>	Defines the nature of SLCs, specifies conditions for establishing SLCs, SLC financial sources and uses, as well as their management and supervision.
2008	<Notice of Policies Related to Rural Banking, Small Loan and Mutually Financial Cooperation>	CBRC	Regulates statistical reporting, supervision, and risk management of rural banks, loan and small loan companies, and mutual financing cooperative organisations.
2014	<SLC Management Measures (exposure draft)>	CBRC, PBOC <sup>b</sup>	Extends SLC business scope, specifies that SLCs financing into banking financial institution is a type of general credit business, and requires SLC to implement a supervision model similar to banks.

### B.2. Loan guaranty regulations.

Date	Regulation name	Issuing entity	Main purpose
2001	<Interim Measures for the Risk Management of Financing Guaranty Agencies for SMEs>	MOF <sup>c</sup>	Clarifies the definition of ‘financing guaranty agencies for small and medium-sized enterprises’; stipulates their operation mode, business scope and fund application; and promotes scaling up of the SMEs credit guaranty and re-guaranty system.
2010	<Interim Regulation for the Administration of Financial Guaranty Institutions >	CBRC	Regulates the entry and exit, business scope, operations, leverage, capital usage, investment and risk management of guaranty companies.
2011	<Notice Stipulating the Cooperation between Banking and Guaranty Institutions>	CBRC	Calls for long-term close cooperation between banking and guaranty institutions, especially in the areas of SMEs and peasant households financial services. Requires banking institutions to optimise SME loan approval procedures and implement the corresponding preferential policies on interest rates.
2011	<Notice Promoting the Regulated Development of the Credit Guaranty Industry>	CBRC	Calls on local governments at all levels to perfect supporting policies, optimise the external environment and strengthen scientific supervision of the credit guaranty industry to achieve its sustainable development.
2014	<Revised Regulations for the Administration of Financial Guaranty Institutions (Draft)>	CBRC	Adds clarifications to existing rules and calls for higher requirements for the establishment, operation, and expansion of financial guaranty companies.

### B.3. Financial leasing regulations.

Date	Regulation name	Issuing entity	Main purpose
2005/2/3	<Foreign Investment in the Leasing Industry Administration Procedures>	MOC <sup>d</sup>	Specifies the administrative department and administrative regulations of foreign-invested leasing companies.
2010/9/8	<Notice about Tax Issues of Assets Sale of Lessees in Sales and Lease Back>	SAT <sup>e</sup>	Specifies the tax issues of asset sales of lessees and lease back.
2011/12/15	<Guiding Policy about the Promotion of Financial Leasing in 12 <sup>th</sup> Five Year Plan>	MOC	Promotes the financial leasing industry in the 12 <sup>th</sup> Five Year Plan.
2013/9/18	<Measures for the Supervision and Management of Financial Leasing Companies>	MOC	Specifies the supervision department and management of financial leasing companies.
2013/12/10	<Interim Measures of Commercial Banks Factoring Management>	CBRC	Specifies the regulated measures of banks' factoring businesses.
2013/12/12	No.106 document <Notice of Incorporating Railway Transport and Postal Industry into the VAT Pilot>	SAT	Announces the incorporation of the railway transport and postal industries into the VAT pilot.
2013/12/15	<Notice on Strengthening Shadow Banking Supervision>	State Council	Emphasises the importance of non-banking credit intermediation's regulation, risk control, and division of responsibility.
2013/12/16	<Financial Leasing Company Administration Measures>	CBRC	Specifies the regulatory management of financial leasing companies.
2013/12/20	<Policy on Accelerating the Development of the Aircraft Leasing Business>	State Council	Establishes policies that support the aircraft leasing businesses to promote the country's aircraft industry.
2014/3/1	<Interpretation of Laws Applicable Disputed Cases of Financial Leasing Contracts>	SPC <sup>f</sup>	Explains disputed legal problems in financial leasing businesses.

Notes: <sup>a</sup> CBRC: China Banking Regulatory Commission. <sup>b</sup>PBOC: People's Bank of China. <sup>c</sup>MOF: Ministry of Finance. <sup>d</sup>MOC: Ministry of Commerce. <sup>e</sup>SAT: State Administration of Taxation. <sup>f</sup>SPC: Supreme People's Court.

## Appendix C: Timeline of China's Interest Rate Liberalisation Reform

	Capital market interest rates	Foreign currency lending and deposit interest rates	Renminbi (RMB) lending rates	RMB deposit rates
1996	Interbank offered rate becomes fully market-priced.			
1997	Interbank bond repo rate becomes fully market-priced.			
1998	China Development Bank issues the first market-priced policy bonds.		The PBOC introduces a floating range of lending rates.	
1999	Government bonds are issued through open bid.		Floating range of lending rates is set at (0.9x, 1.1x) for large enterprises, and (0.9x, 1.3x) for SMEs.	
2000		Controls of foreign exchange (FX) deposit rates for large accounts and all FX lending rates are removed.		
	<i>2001: China joins the WTO and promises to open up capital markets in five years.</i>			
2003		Lower limit of small-account FX deposits rates is removed.		
2004		Upper and lower limits for small-amount FX deposits rate with maturity >1 year are removed.	Upper limit of lending rates is removed.	Lower limit of deposit rates is removed
2006			Lower limit of mortgage loan rate is set at 0.85x benchmark.	
2008	<i>December 2006: China fulfills its commitment to opening up capital markets.</i>			
			Lower limit of mortgage loan rate lowered to 0.7x benchmark.	
	<i>2008: China enacts a \$580 billion rescue package in response to the global financial crisis</i>			
	<i>2010-2011: The PBOC raises bank reserve requirement ratios for 12 times.</i>			
2012			Lower limit of lending rate lowered to 0.8x benchmark (June), then 0.7x benchmark (July).	Upper limit of deposit rates is raised to 1.1x benchmark.
2013			Lower limit of lending rate removed.	

(continued)

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Capital market interest rates	Foreign currency lending and deposit interest rates	Renminbi (RMB) lending rates	RMB deposit rates
		Allow nine commercial banks to submit the lending rate they charge their best quality clients each day to set the prime rate.	
		Allow the issuance of large negotiable certificates of deposit on the interbank market.	
2014			Upper limit of deposit rates raised to 1.2x benchmark.
2015			Upper limit of deposit rates raised to 1.3x (March), then raised to 1.5x (May). August: Upper limit of deposit rates removed for fixed deposits > 1 year. September: Upper limit of deposit rates removed for commercial banks & rural cooperative financial institutions.

Sources: Federal Reserve Bank of San Francisco, 'China's Interest Rate Liberalization Reform' (May 2014); and People's Bank of China, at <http://www.pbc.gov.cn/zhengcehuobisi/>.

## References

Federal Reserve Bank of San Francisco. (2014, May). *China's interest rate liberalization reform. Asia Focus*. Retrieved from <http://www.frbsf.org/banking-supervision/publications/asia-focus/2014/may/china-interest-rate-liberalization-reform/Asia-Focus-China-Interest-Rate-Liberalization.pdf>