

# A Comparative Study of the Bank Supervisory Systems of China and the United States from an International Perspective

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**Abstract:** This research delves into a comprehensive analysis of the banking regulatory systems of China and the United States, highlighting both the convergences and divergences. It aims to understand the profound implications these systems have on the global financial landscape. Recognized as economic powerhouses, the financial regulatory frameworks of these nations are pivotal for ensuring stability and fostering sustainable economic growth. Utilizing empirical data and descriptive methodologies, this paper presents a detailed comparative analysis of the historical progression, underlying philosophies, policy mechanisms, and market reactions of the banking regulations in both countries. Key findings reveal that the United States banking regulatory structure is distinguished by its robust legal framework and industry-specific regulation, while China's system is characterized by its macro-prudential oversight and coordinated financial regulatory mechanisms. The evolution of these regulatory architectures not only charts the financial development path of each nation but also mirrors their economic structures' idiosyncrasies. In terms of strategy, the United States prioritizes regulation's binding nature and the market's self-regulatory capabilities, whereas China reinforces the central bank's leadership within its regulatory framework. The study concludes that an efficient regulatory structure should be tailored to fit the unique context of each country, balancing regulatory rigor with market agility. It suggests that China could benefit from the United States's regulatory insights while upholding its regulatory strengths. The insights contribute to the development and refinement of global financial regulatory policies and serve as valuable references for addressing financial market challenges.

**Keywords:** Banking regulatory systems, Comparative analysis, Financial stability, Regulatory strategies, Macro-prudential oversight.

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## 1. Introduction

In the tide of globalization, the integrity of a nation's financial system has emerged as a vital gauge of its economic vitality. The banking regulatory system, at the heart of this system, is intrinsically linked to the stability of financial markets and the economy's sustainable progression. As the world's foremost economic entities, the banking regulatory frameworks of China and the United States not only influence their domestic economies but also significantly shape the global financial landscape.

The 2008 global financial crisis brought the banking regulatory system into sharp focus on the international stage. Banking supervision transcends financial security; it is the bedrock of economic fairness and societal equilibrium. The economies of China and the United States exhibit notable differences in scale, financial market maturity, and regulatory ethos, which are reflected in their respective banking regulatory frameworks. A comparative examination of these systems from an international perspective can unveil the strengths and limitations of varying regulatory models and offer invaluable insights into global financial governance. This study seeks to explore the disparities in the historical development, regulatory ideologies, methodologies, tools, and enforcement efforts of the banking regulatory systems of China and the United States, and to scrutinize how these differences resonate with the stability of financial markets and the banking sector's health. The research inquiries encompass the historical trajectory of the banking regulatory systems in China and the United States, the motivations behind them, and the significant contrasts in regulatory philosophies,

strategies, tools, and enforcement. It further investigates how these contrasts affect financial market stability and the banking sector's sustainability. Employing empirical and descriptive research methods, this paper constructs a comprehensive comparative analytical framework by examining regulatory legislation, policy documents, scholarly works, and market data from both nations.

The structure of this paper is as follows: Initially, the literature review will synthesize existing research, establishing the theoretical underpinnings and research context. Subsequently, the paper will introduce the banking regulatory systems of China and the United States, comparing their similarities and differences. It will then assess the regulatory systems' effectiveness and their impact on financial market stability and the banking industry's development. The conclusion will summarize the findings, offering policy recommendations and suggesting directions for future research.

Through an in-depth comparative study, this paper not only uncovers the regulatory systems' characteristics and strengths but also provides insightful references for shaping future regulatory policies. In the dynamic global financial market of today, this study's significance extends beyond academic contributions to offering practical guidance for navigating financial market challenges.

## **2. Research Content**

### **2.1. Coping Strategies and Historical Evolution of the United States and Chinese Banking Regulatory Systems**

#### **2.1.1. Historical evolution of the United States banks regulatory system**

The origins of the United States banking regulatory system can be traced back to the early twentieth century, especially after the "Great Depression" of the 1930s, which catalyzed the enactment of several seminal legislations. The Glass-Steagall Act established the banking industry as a separate business. However, this paradigm shifted with the 1999 Financial Services Modernisation Act, facilitating the convergence of banking, securities, and insurance operations. Post the 2008 financial crisis, the Dodd-Frank Act was instituted to fortify the financial system's regulation, specifically to avert systemic risks and uphold consumer rights. The United States regulatory system also includes state-level regulators, which supervise banks incorporated in their states, reflecting the decentralized and multi-layered nature of the regulatory system. The complexity of the United States regulatory system is mainly reflected in the regulators at the federal and state levels and their coordination mechanisms. The main regulators at the federal level include the Office of the Comptroller of the Currency (OCC), the Federal Reserve (FRB), and the Federal Deposit Insurance Corporation (FDIC). The OCC regulates national banks and federal savings associations, while the FRB regulates member banks and bank holding companies. The FDIC is entrusted with deposit insurance regulates state banks not affiliated with the FRB, and acts as a receiver in the event of a bank's failure.

#### **2.1.2. Historical evolution of China's banking regulatory system**

China's banking supervision system has transformed single central bank supervision to sectoral supervision. Since the reform and opening up, China has gradually established a separate regulatory system comprising securities, insurance, and banking regulators. The establishment of the CBRC in 2003 marked the formation of the "one line, three chambers" regulatory pattern. In 2018, the establishment of the CIRC further integrated the regulatory functions of the banking and insurance industries, forming a new regulatory pattern of "one committee, one line, two chambers" regulatory pattern. In 2018, the CBRC was established to further integrate the regulatory functions of the banking and insurance sectors, forming a new regulatory pattern of "one committee, one line, and two chambers" regulatory structure. During the reform and opening up and the transformation of the market economy, China's regulatory system has continued to evolve, strengthening macro-prudential supervision and the protection of the rights and interests of financial consumers.<sup>2023</sup> The Party and state institutional reforms of 2023 further optimized the financial regulatory structure with the formation of the State Financial Supervision and Administration Bureau (SFSAB), which is united in its responsibility for the financial supervision of the financial sector, except for securities, and strengthens the management of risks and preventive and disposal measures.

#### **2.1.3. Analysis of the financial crisis and its drivers**

The evolution of the banking regulatory system in both countries was driven mainly by the response to the financial crisis, the development of financial market innovations, the

challenges posed by globalization, and changes in the structure of the domestic economy and financial markets. For example, the evolution of the United States banking regulatory system reflected the response to the Great Depression and the 2008 financial crisis, while the development of China's regulatory system reflected the need to reform and open up the financial market and adapt to international financial regulatory standards.

In summary, the banking regulatory systems of both China and the United States reflect a response to historical developments and market changes, with continuous optimization and adjustment to maintain financial stability and promote market development. The United States regulatory system is characterized by its decentralization and multi-tiered nature, whereas the Chinese regulatory system is progressively integrating and bolstering its macro-prudential regulatory capabilities.

### **2.2. Differences in Regulatory Philosophy and Practice**

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#### **2.2.1. Characteristics of the United States Bank Regulatory System**

The United States banking regulatory system is characterized by its emphasis on market self-regulation and innovation, and its advocacy of reduced government intervention while emphasizing the self-regulatory and risk management capabilities of financial institutions. Through the Office of the Comptroller of the Currency (OCC), the Federal Reserve (FRB) the Federal Deposit Insurance Corporation (FDIC), and other institutions, the United States implements a strategy that combines functional and institutional regulation to achieve comprehensive supervision of the banking industry. In addition, the United States uses regulatory tools such as capital adequacy requirements, liquidity coverage ratio (LCR), and net stable funding ratio (NSFR) to ensure the soundness of banks. In the aftermath of the financial crisis, the regulation of the banking sector, in particular systemically important financial institutions (SIFIs), was strengthened through the Dodd-Frank Act, which increased the stringency and coverage of regulation.

#### **2.2.2. Characteristics of China's banking regulatory system**

China's banking regulatory system, on the other hand, has the core objectives of serving the real economy, preventing and controlling financial risks, and deepening financial reform, with an emphasis on financial security and stability. China adopts a strategy that combines sectoral and comprehensive supervision, regulating the banking sector through institutions such as the CBRC and emphasizing the role of policy-based finance. China's regulatory system similarly employs regulatory tools such as capital adequacy

ratios and liquidity coverage ratios and formulates regulatory rules that are tailored to the characteristics of the domestic financial market. In recent years, China has strengthened risk prevention and control and the disposal of non-performing assets in its banking supervision and has improved the enforcement and effectiveness of supervision.

### **2.3. Impact of Discrepancies on Financial Market Stability and Banking Sector Sustainability**

The market-driven nature of the United States banking regulatory system has obvious advantages in promoting market innovation and rapid response, but this model can also lead to a lag in regulatory measures, which poses potential risks. In contrast, China's regulatory system is more focused on preventing and controlling risks, which may make the market react more cautiously but also helps to maintain financial market stability. The United States banking regulatory system focuses on self-risk management by financial institutions, a strategy that promotes market flexibility and innovation but can also lead to a concentration of risk during a financial crisis. Meanwhile, China's regulatory system focuses more on preventing and reducing the occurrence of systemic risks through enhanced supervision and risk control measures.

In terms of regulatory coherence, the United States has a multitude of regulatory agencies, which, while helpful in examining and solving problems from multiple perspectives, could also lead to challenges in regulatory coordination. China, on the other hand, had improved regulatory coordination and consistency by establishing a unified regulatory body to ensure coherent and effective implementation of regulatory policies.

Against the backdrop of globalization, the United States regulatory system has shown strong adaptability and influence and has been able to respond quickly to changes in the international financial market. China's regulatory system, on the other hand, despite its late start, is actively promoting the integration of its regulatory model with international standards by continuously opening up its markets and learning from international experience, to enhance its competitiveness and influence in the global financial market.

The differences between the banking regulatory systems of China and the United States not only reflect their respective economic, legal, and cultural characteristics but also have a significant impact on the stability of the global financial markets and the sustainable development of the banking sector. Through careful comparative analyses, we can gain a deeper understanding of the characteristics and strengths of the regulatory systems of the two countries, as well as their roles and impacts in the global financial markets.

### **2.4. Interaction under Globalisation**

In today's wave of globalisation, the regulatory policies of the two global economic giants, China and the United States, are intertwined with each other, creating an intricate pattern of interaction. As leaders of the world economy, the monetary policies of both countries have had a profound impact on the global economic landscape. For example, at the onset of the global financial crisis in 2008, both China and the US adopted loose monetary policies to stabilise the volatile financial markets, and these measures played a key role in the recovery of the global economy. However, the time lag and differences in monetary policy adjustments between the two countries

have generated significant volatility in global capital flows and currency values.

The United States, in the wake of the financial crisis, has comprehensively revamped the capital requirements and risk management of the banking sector through the implementation of the Dodd-Frank Act. At the same time, China has also made corresponding policy adjustments in strengthening financial regulation and preventing systemic risks, which have been inspired and influenced to some extent by the financial regulatory reform in the United States.

In the arena of global financial governance, China and the United States play a crucial role. The United States has long occupied a leading position in global financial governance, while China's influence in global financial governance has been expanding with its growing economic strength. The cooperation and coordination between the two countries in international financial institutions, such as the International Monetary Fund (IMF) and the World Bank, have played a crucial role in the stability and development of the global financial governance system.

The rapid development of financial technology has brought unprecedented challenges and opportunities for financial regulation. In emerging areas such as digital currencies and blockchain technology, the regulatory policies of China and the United States are interacting with each other, and regulators in both countries are actively exploring the development of effective regulatory frameworks aimed at promoting financial innovation while ensuring the safety and stability of financial markets.

As financial markets continue to evolve and the international environment continues to change, regulatory policies in China and the United States are constantly being adjusted and optimised. For example, in 2017, during the Trump administration, the U.S. pushed for revisions to some regulatory policies to enhance the competitiveness of the financial sector. China, on the other hand, has been optimising its regulatory structure in the reform of its financial regulators to better meet the needs of financial innovation and risk management.

## **2.5. An In-Depth Analysis of Regulatory Effectiveness: Empirical Assessment and Optimisation Paths in The US And Chinese Financial Systems**

### **2.5.1. U.S. bank regulatory system**

The United States underwent a major restructuring after the 2008 financial crisis with the enactment of the Financial Regulatory Reform Act and the Dodd-Frank Wall Street Reform Act and Consumer Protection Act, which significantly enhanced the regulatory role of the Federal Reserve and established the Financial Stability Oversight Council (FSOC) to strengthen the regulation of systemic risks. The United States regulatory system is a complex regulatory model of multiple, umbrella and compartmentalised regulation, with multiple regulators with overlapping functions and a dual federal and state regulatory system.

### **2.5.2. China's financial regulatory system**

China is committed to promoting financial innovation while ensuring risk control. Regulators promote six core regulatory principles aimed at incentivising innovation, reducing unnecessary administrative constraints, and gradually promoting the diversification of commercial banking. In the area of financial technology, regulators are

actively exploring innovative regulatory strategies such as regulatory sandboxes. In the construction of the innovation regulatory framework, regulators emphasise compliance, consumer protection and adopt an inclusive and prudent regulatory posture, while establishing a set of fault-tolerance mechanisms that allow innovation attempts within risk control.

In terms of innovation in regulatory mechanisms, the United States amended the Dodd-Frank Act during the Trump administration to raise the threshold for systemically important financial institutions and relax regulatory requirements for small and medium-sized banks, but still maintains its decentralised "umbrella" model of multi-pronged regulation. China's regulatory system was endeavouring to address regulatory incoherence between central and local authorities and between sectors, and to improve the precision and comprehensiveness of regulation, while filling regulatory gaps and shortcomings and clarifying responsibilities for dealing with illegal financial activities. China has also emphasised the importance of the rule of law in finance, proposing the enactment of a financial law to strengthen the rule of law in finance and improve the financial legal system. For example, macroprudential supervision and prevention of systemic financial risks had been strengthened through the establishment of the National Financial Stability Development Committee. At the same time, regulators have used technology to enhance regulatory effectiveness and regulate the development of fintech through regulatory technology. In addition, regulators have strengthened their scrutiny of financial ethics to ensure that financial innovations do not overstep the boundaries of traditional financial ethics and to maintain market order and the balance of the financial ecology.

Overall, both China and the United States are seeking a balance between innovation and risk management in their financial regulatory systems. The United States has strengthened its regulation through legislation and adjustments to regulatory agencies, while China has focused more on prudent regulatory innovation within the regulatory framework, while emphasising controllable risks and the protection of consumer rights and interests. Looking ahead, the banking regulatory systems in both China and the US will continue to adapt to financial innovation and market changes, and optimise and strengthen regulatory measures to ensure the stability and healthy development of the financial system.

### 3. Literature References

Foreign studies may focus more on the structural reform of banks and the integration of global financial markets [1], while domestic studies may pay more attention to the stability of the banking system and the improvement of the regulatory framework [2]. Domestic and foreign scholars have conducted a wide range of studies in the field of banking supervision, covering a variety of aspects such as supervisory models, supervisory efficiency, and supervisory policies to improve supervisory efficiency, strengthen risk management, protect consumer rights and interests, as well as respond to new challenges posed by fintech [3].

Problems may include regional differences in regulatory policies and the updating of regulatory frameworks lagging behind the pace of financial innovation. The breakthrough of this study may lie in providing a more comprehensive and forward-looking analysis of domestic and international banking regulation by incorporating the latest international

regulatory developments, such as the impact of fintech on regulation, as well as China's new initiative in removing the restriction on the ratio of foreign investment in banking and insurance.

Theoretical significance: by placing bank regulation in the different economic, political, and cultural contexts of China and the United States for comparison, this study provides academics with a cross-cultural and interdisciplinary research perspective, which helps to understand the internal logic and external influencing factors of the regulatory systems of different countries, and through the comparative analyses of the banking regulatory systems of China and the United States, this study can enrich the existing theories of financial regulation, especially in the context of how different national regulatory systems interact and influence each other in the context of globalization.

Practical Implications: The study's outcomes are instrumental for financial professionals in comprehending regulatory policies and enhancing their risk management acumen, thereby enabling more informed decision-making. It offers regulatory compliance guidance to banks and financial institutions, ensuring their competitiveness amidst a shifting regulatory landscape. Additionally, it aids in protecting consumer and investor interests, fostering stable socio-economic progress.

By comparing the similarities and differences between the banking regulatory systems of China and the United States, this study provides a unique perspective to analyze and understand the global trends and local characteristics of financial regulation. Adopting a multi-dimensional analytical approach and incorporating the latest financial regulatory policies and market data, provides a new theoretical framework and empirical analytical tools for financial regulation research.

### 4. Conclusion

This study provides an in-depth analysis of the commonalities and differences between the banking regulatory systems of China and the United States, while exploring the potential impact of these differences on the global financial markets. The key points of the study cover the fact that the US banking regulatory system is notably characterised by the completeness of the legal system and the independence of industry regulation, while China's regulatory structure shows its uniqueness in terms of macro-prudential regulation and financial regulatory coordination mechanisms. The United States emphasises the normative role of the law and the ability of the market to self-regulate, while China continues to consolidate the dominant position of the central bank in the regulatory system. The trajectory of the regulatory systems in the two countries reflects the history of their financial development and the characteristics of their economic structures. The study also assessed the effectiveness of the regulatory systems in safeguarding financial stability, promoting the healthy growth of the banking sector and protecting the rights of consumers and investors.

In addition, the construction of an efficient financial regulatory architecture should be tailored to the country's specific circumstances in order to achieve harmony between regulatory stringency and market flexibility. The complementary nature of the US and Chinese regulatory systems suggests that China should absorb the US regulatory experience while maintaining the unique strengths of its

regulatory architecture. Regulatory policies in both countries need to continue to adapt to financial innovation and market changes, and optimise and strengthen regulatory measures.

This paper starts from an international perspective and compares in-depth the banking regulatory systems of China and the United States, filling a gap in cross-cultural and cross-system comparative analyses in academia. This comparative analysis provides new perspectives for understanding the differences and characteristics of bank regulatory systems in different countries, and has far-reaching implications for the diversity and complexity of global financial regulation. The paper adopts a macro-prudential regulatory perspective to analyse the role of the banking regulatory systems of China and the US in maintaining financial stability and preventing systemic risks. Against the backdrop of increasingly stringent global financial regulation, this analysis is of great practical significance for understanding the macro impact of the regulatory systems and strategy formulation.

This paper not only provides an empirical analysis of the US and Chinese bank regulatory systems, but also proposes targeted strategic recommendations based on the results of the analysis. These recommendations are intended to assist policymakers and bank managers to gain a deeper

understanding of the regulatory challenges and to formulate effective coping strategies.

In addition, this paper explores how fintech is reshaping the banking regulatory system, which has important implications for understanding how the regulatory system adapts and changes in the emerging technological environment. In the current stringent financial regulatory environment, the paper provides an in-depth analysis of banks' risk management and compliance, and explores how banks can maintain their competitiveness and market viability while meeting regulatory requirements.

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