WEEK 1 · MODULE 1

Overview of the Financial System

Financial Institutions and Markets · MF50004.01

Prof. Jiajun Jiang · School of Economics, Fudan University · Semester 1, 2026–2027

Financial Institutions and Markets

What this course is

A financial system moves money from the people who have it to the people who can use it. This course is about the machinery that does the moving — markets, banks, funds, and the rules they operate under — and about why that machinery is built differently in different countries.

How we will work

Start from a rule — who may issue a security, who may lend, whose deposits are guaranteed — and follow it through to a price or to the size of a market. This week's example: China moves savings mainly through banks and the United States mainly through securities markets, by a factor of about four either way.

Theory

What a market or an institution is *for*, and what it would look like with no frictions

Developed-market evidence

What the US, Europe and Japan actually look like, and where they depart from the theory

China evidence

The same questions asked of a system built in a different order, under different constraints

Your instructor

WHO

Jiajun Jiang 江嘉骏
Associate Professor of Finance, School of Economics

- Ph.D. Economics, Peking University (2018)
- B.S. Mathematics, Peking University (2013)
- Visiting scholar, NYU Stern (2016–17)
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RESEARCH FIELDS

- Behavioral finance
- Household finance
- FinTech
- Narrative economics

Logistics

When	Monday and Thursday, periods 6–7
Where	H6508
Course materials	elearning.fudan.edu.cn — slides posted before each class. You are registered automatically; tell me if you are not
Teaching assistant	Yiwei Meng — 25300680197@m.fudan.edu.cn
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Textbook

Required

Frederic S. Mishkin and Stanley G. Eakins, *Financial Markets and Institutions*, 9th Global Edition. Pearson, 2018.

The weekly reading is short — two chapters at most. Its data stop around 2016, so read it for how things work and take the current numbers from the slides.

Supplementary, for the China half

Marlene Amstad, Guofeng Sun and Wei Xiong (eds.), *The Handbook of China's Financial System*. Princeton University Press, 2020. Free to read online.

The institutions it describes still hold. Its numbers are 2019–20 and several are now wrong; where that happens the slide carries the current figure and its source.

Every number in this course carries a date and a source. That is also the habit your research paper will be marked on.

How the course is assessed

Component	Weight	What it is
Attendance	5%	You are expected in the room
Participation	5%	Discussion, polls, cold calls, case debates
Assignment 1	part of 40%	Asset valuation and risk measurement — set Week 2, due Week 4
Assignment 2	part of 40%	Financial markets and investment instruments — proposed set 5 November, due 19 November (pending confirmation)
Group case study	part of 40%	Presented 26 November (semester Week 12)
Research paper	**50%**	On a Chinese market or institution you choose

Ten teaching decks across twelve semester weeks

	Teaching week	Topic	Textbook
Module 1	1	Overview of the financial system	Mishkin 1–2
Module 2	2–3	Interest rates, risk, return, market efficiency	Mishkin 3–6
Module 3	4–5	Intermediation, crises, central banking, FinTech	Mishkin 7–10
Module 4	6–7	Money and bond markets (6); stock markets (7)	Mishkin 11–13
Module 5	8–9	Banks (8); funds and non-depository institutions (9)	Mishkin 17–22
Module 6	10	Synthesis (23 November); presentations (26 November)	—

What this course covers, and what it does not

COVERED

- Weeks 1–3 — overview, interest rates, risk and return
- Weeks 4–5 — intermediation, crises, central banking, FinTech
- Weeks 6–7 — money, bond and stock markets
- Weeks 8–9 — banks, funds, non-bank institutions
- Week 10 — synthesis and group case presentations

NOT COVERED

- Derivatives markets in depth
- Commodity markets
- Real estate and mortgage markets
- Foreign exchange and the international monetary system
- Insurance as a standalone industry

These exclusions are other courses, not judgments about importance.

This week

MEETING 1 · MARKETS

1. Why financial markets and institutions matter
2. How financial markets are organized

MEETING 2 · INSTITUTIONS

1. Why financial intermediaries exist
2. China’s financial system and its regulators

Both meetings end on a real, named case with a decision to make. That is the shape of every week from here.

MEETING 1

Session 1 · Why financial markets and institutions matter
Session 2 · How financial markets are organized

90 minutes · theory and developed-market evidence · closes on the stablecoin classification case

SESSION 1 · 45 MINUTES

Before anything else

AHASLIDES WORD CLOUD · 4 MIN

In one word: what does a financial system actually do?



SCAN TO JOIN

Two questions this course keeps returning to

MARKETS

Where claims on future income are priced and traded.

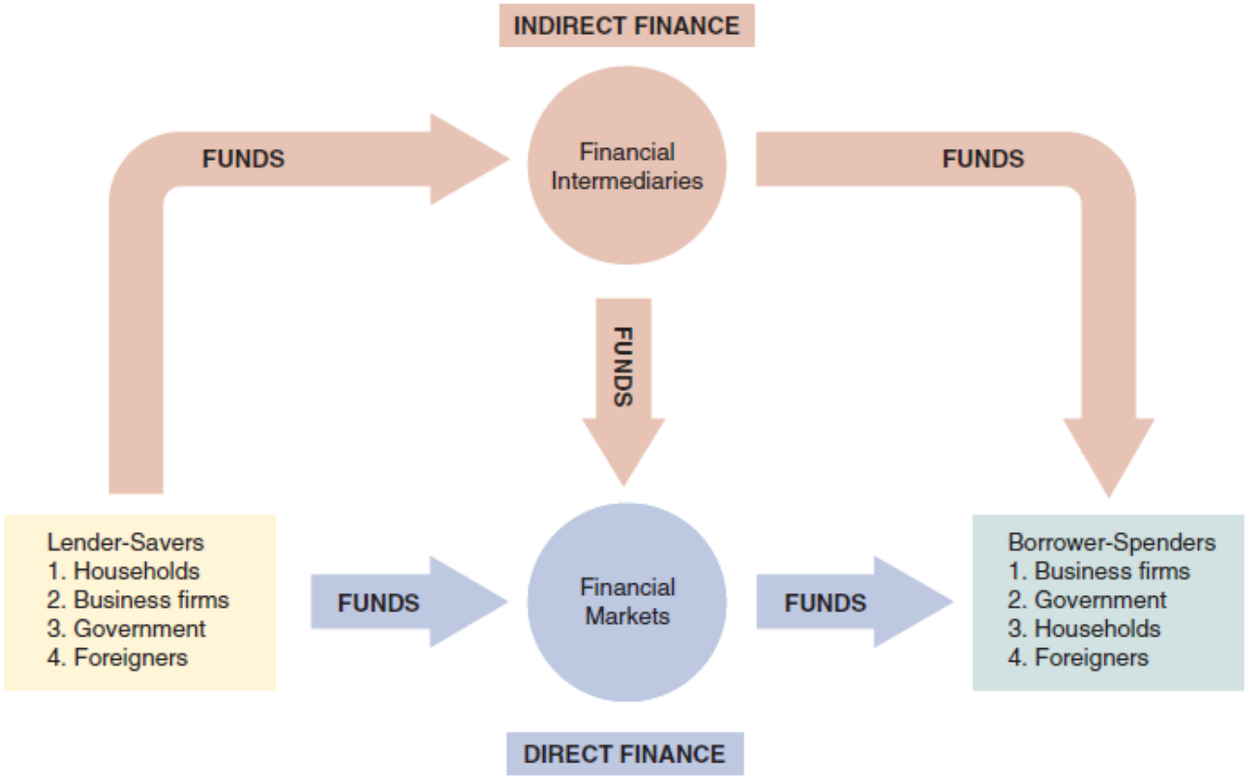
- How are prices set?
- What makes a market liquid?
- Why do identical claims trade at different prices in different places?

INSTITUTIONS

Who stands between savers and borrowers, and why.

- Why not just trade directly?
- What does an intermediary actually produce?
- What happens when one fails?

Overview of the financial system



Two routes, the same two parties at each end. Which of the two an economy leans on is the first thing that differs between the systems in this course.

Mishkin & Eakins, Financial Markets and Institutions, 9th Global Edition, Figure 2.1.

Predict before we look

AHASLIDES POLL · PREDICT BEFORE REVEAL · 4 MIN

Chinese bank assets are worth how many times China’s GDP?

A. about 0.8× — roughly the US level

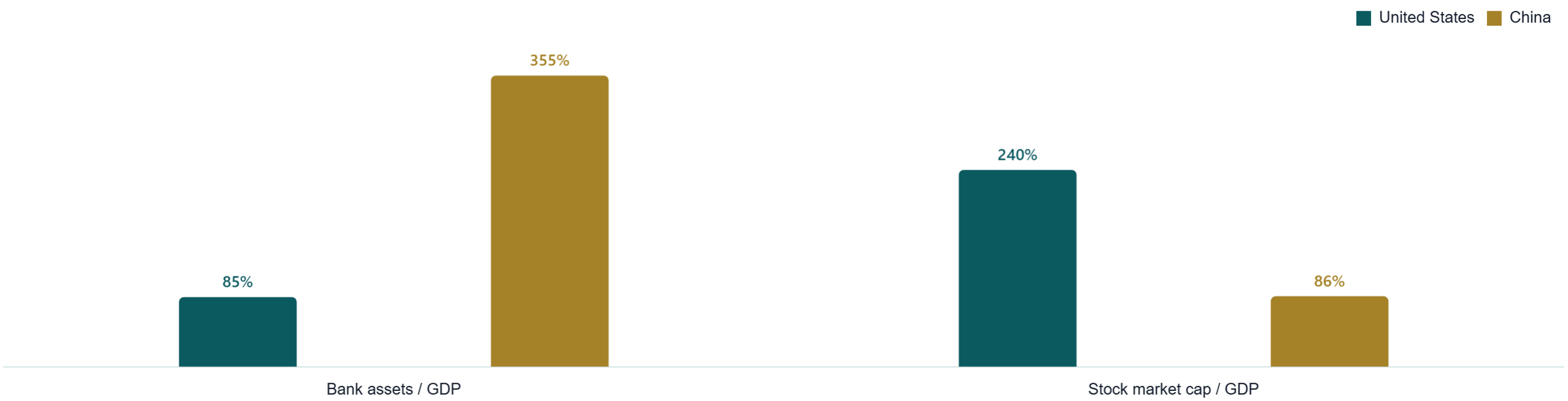
B. about 1.5×

C. about 2.5×

D. about 3.5×

SCAN TO JOIN

The same two ratios, inverted



China’s banks hold assets worth about **3.5× GDP** while its stock market is worth about **0.9×**. The US has the mirror image. That pair of numbers is the usual shorthand for the bank-based versus market-based distinction.

US bank assets: FDIC Q1 2026 ($26.1tn) over 2025 GDP (BEA, $30.76tn). China: NFRA Q2 2026 (¥498tn) over 2025 GDP (NBS, ¥140.19tn). Market cap / GDP: US ≈238–244% (14 Aug 2026 — providers differ by about 6pp depending on whether the Wilshire 5000 or Fed Z.1 corporate equities is used); China A-share ≈¥120tn (May 2026) over 2025 GDP. Treat the equity ratios as approximate.

What that difference means in practice

~4×

China’s bank-assets-to-GDP ratio versus the US

~1/3

China’s market-cap-to-GDP ratio versus the US

60%

of China’s total social financing is still plain bank loans

Why the channel matters

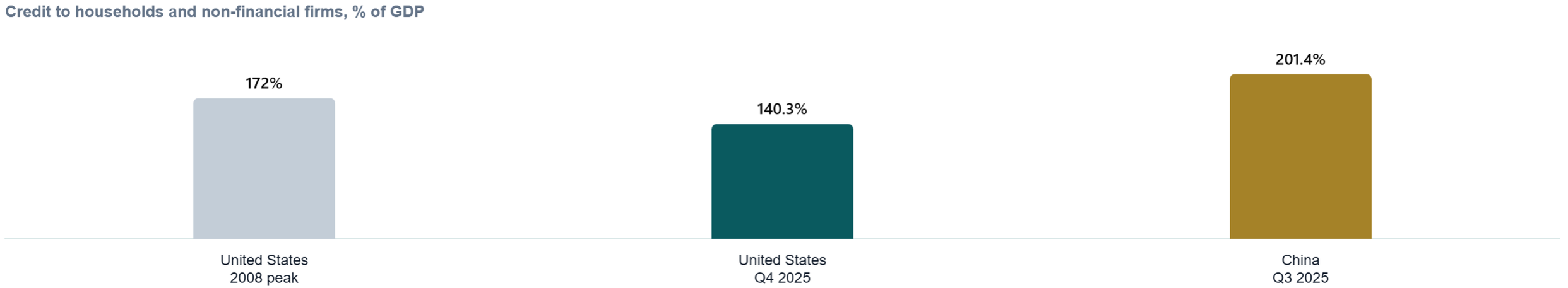
Who monitors the borrower changes with it: a loan officer in one system, a bond market and a ratings process in the other. So does what happens when the borrower gets into trouble.

AFRE share: PBoC, end-July 2026. Ratios derived from FDIC / BEA / NFRA / NBS as on the previous slide.

How much credit does the real economy carry?

What the bars measure

Everything households and non-financial companies have borrowed — bank loans plus bonds — divided by that country's GDP. *Private* means it excludes what the government borrows; *non-financial* means it excludes what banks and funds borrow from each other.



The US peaked at **172%** in 2008 and has deleveraged since. China now sits about **60 percentage points** above the current US level.

BIS credit to the private non-financial sector; US Q4 2025 and China Q3 2025 are one quarter apart. Whether credit has a level beyond which it stops helping growth is contested.

Case — does a financial system have to look like this?

SITUATION

In August 2026 US equities are worth roughly 2.4× US GDP, near a record. Chinese banks hold assets worth roughly 3.5× Chinese GDP, also a record.

FRICTION

Finance theory says nothing about which of the two channels a country's savings should travel through. What differs between these two countries is a short list of rules: whether the state stands behind bank deposits, how hard a company finds it to get listed on an exchange, and who is permitted to hold a risky asset at all. Each of those rules pushes savings towards one channel or the other.

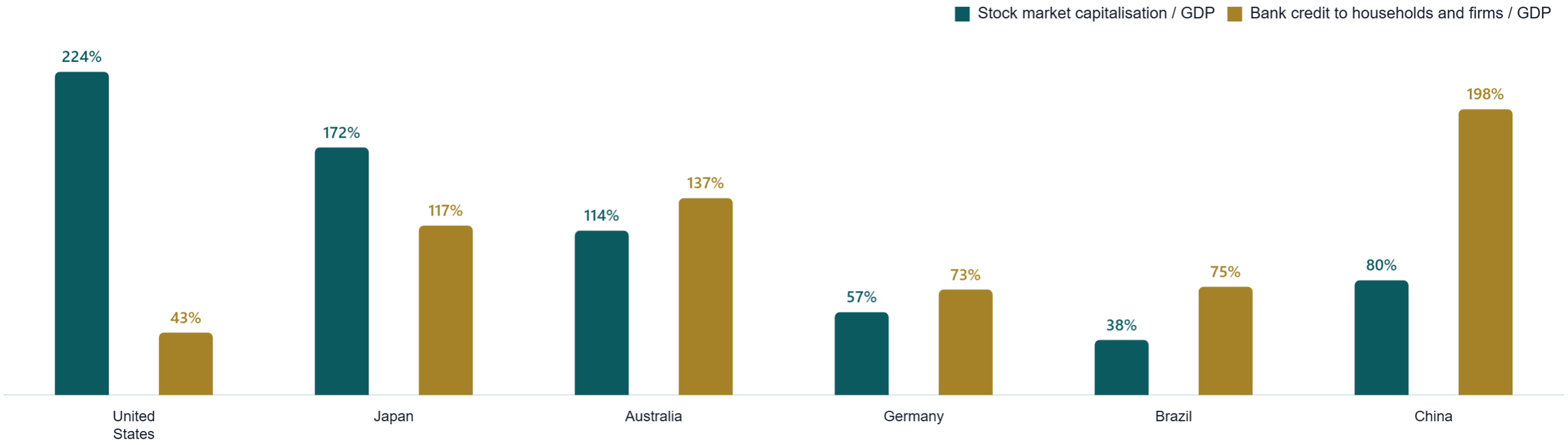
DECIDE

You advise a mid-sized Chinese manufacturer that needs ¥2bn for a five-year expansion. In which system is that firm better off — and what would you need to know about the firm to answer?

THINK – PAIR – SHARE · 7 MIN

Think about it on your own first, then talk it over with the person next to you. We will share after that.

What five other economies look like



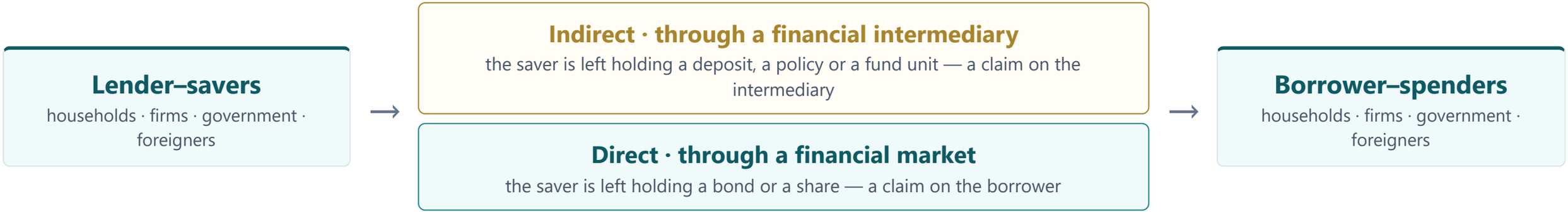
Only the United States has a stock market worth several times its bank credit — about **five times**. In Japan, Australia, Germany, Brazil and China the two are the same order of magnitude, and in four of the six bank credit is the larger of the pair.

Stock market capitalisation of listed domestic companies, % of GDP: World Bank CM.MKT.LCAP.GD.ZS, 2025. Bank credit to households and non-financial firms, % of GDP: BIS via FRED, Q4 2025. Both series are narrower than the two ratios shown earlier in this session, which used total bank assets and the whole A-share market; use this page for the pattern across countries and the earlier page for the levels.

SESSION 2 · 45 MINUTES

How financial markets are organized

Direct and indirect finance



DIRECT FINANCE

The borrower sells a security straight to the lender. The security is a claim on the borrower's own future income, so the lender carries the borrower's credit risk.

INDIRECT FINANCE

The intermediary issues *its own* claim to the lender and separately holds the borrower's, so the lender carries the intermediary's credit risk instead.

Both routes start and end at the same two parties. What differs is *whose* promise the saver is left holding.

Debt and equity

	Debt	Equity
What the holder owns	A contractual promise to pay	A residual claim on what is left
Life	Finite — there is a maturity date	Indefinite
If the firm does well	Fixed; you get what you were promised	Unbounded
If the firm does badly	Enforceable claim, paid before equity	Paid last, often nothing
Control	None until default	Voting rights

That asymmetry in the payoff is where the capital-structure literature starts.

Three ways to cut the same market

By maturity

Money market — debt maturing in under one year
Capital market — longer debt, and all equity

By whether it is new

Primary — new issues sold to first buyers; where money is raised
Secondary — existing securities change hands; where prices are made

By where it trades

Exchange — orders meet in one central venue
OTC — dealers quote from separate locations

The three cuts are independent, so every instrument sits on all three

A Treasury bill you buy from a dealer this morning is **money market** (it matures in under a year), **secondary** (it was issued weeks ago, so the government receives nothing from your purchase), and **OTC** (there is no exchange for it). Change any one of the three and the other two still hold.

An instrument that is hard to place on all three at once is usually a new one.

What trades where

Market	Typical instruments	Covered in
Money market	Treasury bills, repurchase agreements, negotiable CDs, commercial paper	Week 6
Bond market	Treasuries, agency debt, municipal and corporate bonds	Week 6
Stock market	Common and preferred equity, exchange-traded funds	Week 7

One year of maturity is the conventional line between money and capital markets. It is a convention — nothing economic happens at it.

Predict before we look

AHASLIDES POLL · 3 MIN

Globally, which is larger — total equity market capitalisation, or total fixed income outstanding?

A. Equities, by a wide margin

B. Equities, narrowly

C. Fixed income, narrowly

D. Fixed income, by a wide margin



SCAN TO JOIN

How big are these markets

	Value	As of
Global fixed income outstanding	$160.7tn (+10.6%)	2025
Global equity market capitalisation	$157.8tn (+18.9%)	2025
US fixed income outstanding	$50.5tn	Q1 2026
US Treasuries	$30.8tn	Q1 2026
corporate bonds	$11.7tn	Q1 2026
commercial paper	$1.4tn	Q1 2026
US equity market capitalisation	**$76.9tn** (+22.4% y/y)	Q2 2026
Global financial assets, all sectors	≈ $503tn	2024

Globally the two are almost the same size. Inside the United States, equities are about **half as large again** as all fixed income outstanding.

SIFMA Fact Book 2026 and Research Quarterly; the three indented lines are the largest parts of US fixed income and do not sum to it. Global financial assets from FSB 2025.

What these markets delivered to the people in them



1,565 → 7,749

S&P 500, October 2007 peak to 11 August 2026

6,092 → 3,904

SSE Composite, October 2007 peak to 20 August 2026

Almost nineteen years on, the Shanghai index is **36% below** its 2007 peak, over a period in which China's nominal GDP grew roughly fivefold. A stock index is not a reading of the economy behind it.

Index levels: S&P 500 record close 1,565.15 (9 Oct 2007) and 7,748.5 (11 Aug 2026); SSE Composite record close 6,092.06 (16 Oct 2007) and 3,903.7 (20 Aug 2026), checked 21 August 2026 — the two current readings are nine days apart. Price indices, excluding dividends; including them narrows the gap but does not close it. Allen, Qian, Shan & Zhu (2024, JF) trace the A-share shortfall to listing, delisting and governance institutions rather than to China's growth — Week 7 takes it apart.

Case — where does a payment stablecoin belong?

SITUATION

The GENIUS Act, signed 18 July 2025, created the first US federal regime for payment stablecoins: one-for-one reserve backing, redeemable on demand — and a jurisdictional carve-out placing them outside both SEC and CFTC oversight. They are not FDIC-insured.

FRICTION

The instrument behaves like a deposit, settles like cash, and is issued like a fund share. The three classifications we just drew have no box for it, and neither does the regulatory perimeter.

DECIDE

Is it a money-market instrument, a deposit, or a fund share — and which regulator should have it?

THINK – PAIR – SHARE · 9 MIN

Take a position and defend it. There is no settled answer.

MEETING 2

Session 3 · Why financial intermediaries exist
Session 4 · China’s financial system and its regulators

90 minutes · intermediaries in general, then China · closes on the regulatory architecture case

SESSION 3 · 45 MINUTES

If markets work, why is anyone in the middle?

A saver can lend to a firm directly by buying its bonds or its shares. Most do not. In Germany and Japan indirect finance runs at roughly **ten times** the size of direct finance, and China's tilt is larger still.

Transaction costs

Scale and expertise; liquidity services

Risk sharing

Pooling and diversification; asset transformation

Information

Adverse selection, moral hazard — Week 4 takes this apart properly

Transaction costs and risk sharing explain why intermediaries are *useful*. Information explains why they are hard to replace. One page each.

Why intermediaries exist — 1. Transaction costs

SCALE AND EXPERTISE

Writing a loan contract, checking the borrower and enforcing repayment costs roughly the same whether the loan is small or large. An intermediary does it thousands of times, so the cost per contract falls, and it can employ people whose whole job is credit assessment.

LIQUIDITY SERVICES

Low transaction costs are what let the intermediary promise your money back on demand. A deposit earns interest and can still be spent this afternoon. Very few securities do both, and the ones that come close are the subject of Week 6.

On the board

Suppose the legal and credit-checking work on one loan costs **$2,000**, whatever the size of the loan. A household lending **$10,000** directly pays **20%** of its principal for that work. A bank that pools 500 such households into one **$5m** loan pays the same $2,000 — **0.04%**.

The intermediary's profit is the gap between what the transaction costs it and what it would have cost you.

Why intermediaries exist — 2. Risk sharing

Asset transformation

The intermediary buys risky assets from borrowers and sells safer assets to savers. The two sides of its balance sheet carry different amounts of risk, and that difference is the service it sells.

How the risk falls: diversification

Take 100 loans, each with a **2%** chance of default, failing independently of one another. Lend to one of them and you either lose nothing or lose everything: the standard deviation of your loss is **14%**. Hold one-hundredth of each of the 100 instead and the expected loss is still 2%, but the standard deviation falls to **1.4%**, and the chance of losing more than 6% is **0.4%**.

Same expected return, one tenth of the risk. The intermediary sells that reduction to people who could not achieve it on their own.

Why intermediaries exist — 3. Information

The problem

In a financial transaction one side usually knows more than the other. The borrower knows whether the project is sound; the lender does not.

ADVERSE SELECTION — BEFORE THE DEAL

The borrowers most eager to pay a high interest rate are the ones most likely to default, so raising the rate can make the pool of applicants worse.

The intermediary screens applicants before lending.

MORAL HAZARD — AFTER THE DEAL

Once the money is borrowed, the borrower keeps the upside of a risky use of it while the lender carries the downside.

The intermediary monitors the borrower after lending, through covenants, collateral and a continuing relationship.

Screening and monitoring are expensive, and their cost falls with scale in the same way. This is the reason an intermediary is hard to replace.

Four things an intermediary changes about a claim

Denomination	Many small deposits fund one large loan
Maturity	Liabilities redeemable on demand fund long-dated assets
Liquidity	A claim you can exit today funds one nobody could sell quickly
Risk	A diversified pool is safer than any single loan inside it

> **This is what a bank produces**
>
> A deposit and the loan it funds differ in every one of these four dimensions. The difference is the product.

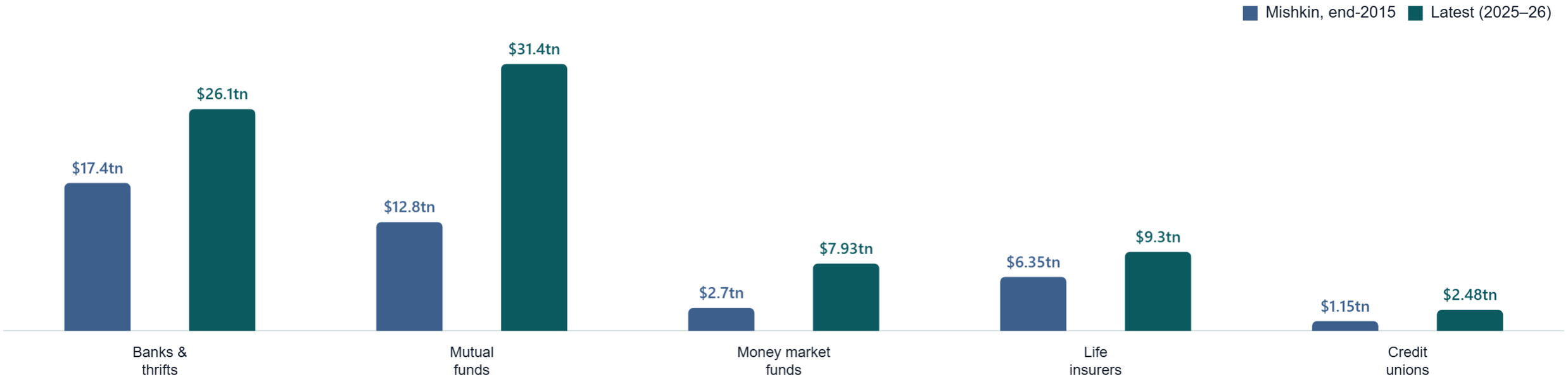
Every one of the four is a promise the intermediary can fail to keep. A bank run is one of them failing.

The three types of intermediary

	How they raise funds	What they hold	Examples
Depository institutions	Deposits, redeemable on demand	Loans, securities, reserves	Commercial banks, savings institutions, credit unions
Contractual savings	Contractual periodic payments	Long-dated bonds, equities, mortgages	Life insurers, pension funds
Investment intermediaries	Shares, commercial paper, bonds	Diversified securities portfolios	Mutual funds, money market funds, finance companies

The predictability of the liability side sets what the asset side can safely be.

US intermediaries, then and now



US mutual funds now hold **$31.4tn** against **$26.1tn** for every FDIC-insured bank combined. In Mishkin's edition the ranking is the other way round.

FDIC Quarterly Banking Profile Q1 2026; ICI Investment Company Fact Book 2026 and weekly MMF statistics; ACLI Life Insurers Fact Book; NCUA Q1 2026. End-2015 column from Mishkin & Eakins Ch. 2, Table 2.2.

Non-banks now hold more than half of global financial assets

51%

of global financial assets are held outside the banking system

$256.8tn of an estimated $503tn · +9.4% in 2024 against banking's +4.7%

WHY THE GAP OPENED

Prices

Funds are valued at market, bank loans are not. Over **85%** of 2024's equity-fund growth came from prices alone

Rates

Money left deposits for money market funds when policy rates passed deposit rates. US money market funds hold **$7.93tn**

Rules

The capital and liquidity requirements written after 2008 applied to banks, so some lending moved to institutions they did not reach

Read it carefully: this counts *assets held*, not credit created — the FSB's narrow measure of bank-like credit intermediation is **$76.3tn**. Either way, Mishkin introduces intermediaries bank-first and the aggregate data point the other way.

FSB, Global Monitoring Report on Nonbank Financial Intermediation 2025 (December 2025; 29 jurisdictions, over 90% of global GDP).

Fewer depositories, by merger

4,278
FDIC-insured banks and savings institutions

4,250
federally insured credit unions

−34%
fewer depositories than Mishkin’s edition reports

Roughly 8,500 depositories, down about a third from the count Mishkin reports, and the fall has come through merger rather than failure.

FDIC Quarterly Banking Profile Q1 2026; NCUA Q1 2026 (2,672 federal and 1,578 state-chartered). Mishkin Ch. 2 gives roughly 5,000 commercial banks, 900 savings institutions and 7,000 credit unions.

Case — Silicon Valley Bank, 10 March 2023

SITUATION

SVB held $209bn of assets at end-2022, with 94% of its deposits uninsured. In one day it lost a quarter of its deposit base. Signature Bank and First Republic followed within eight weeks — three of the largest failures in FDIC history in a single spring.

FRICTION

Deposit insurance exists to stop runs. Its cap was designed for retail depositors in an era before instant transfers and group chats. Regulators invoked the systemic-risk exception and covered uninsured depositors in full.

DECIDE

Which of the four transformations broke here — and could a rule written in advance have stopped it?

FDIC failure records and Q1 2026 Quarterly Banking Profile. The 94% uninsured share and the industry-wide mark-to-market loss are from Jiang, Matvos, Piskorski & Seru (2024), Journal of Financial Economics 159, which marked every US bank's assets to market for 2022Q1–2023Q1 and found an average 10% decline, about $2tn in aggregate.

COLD CALL · 6 MIN

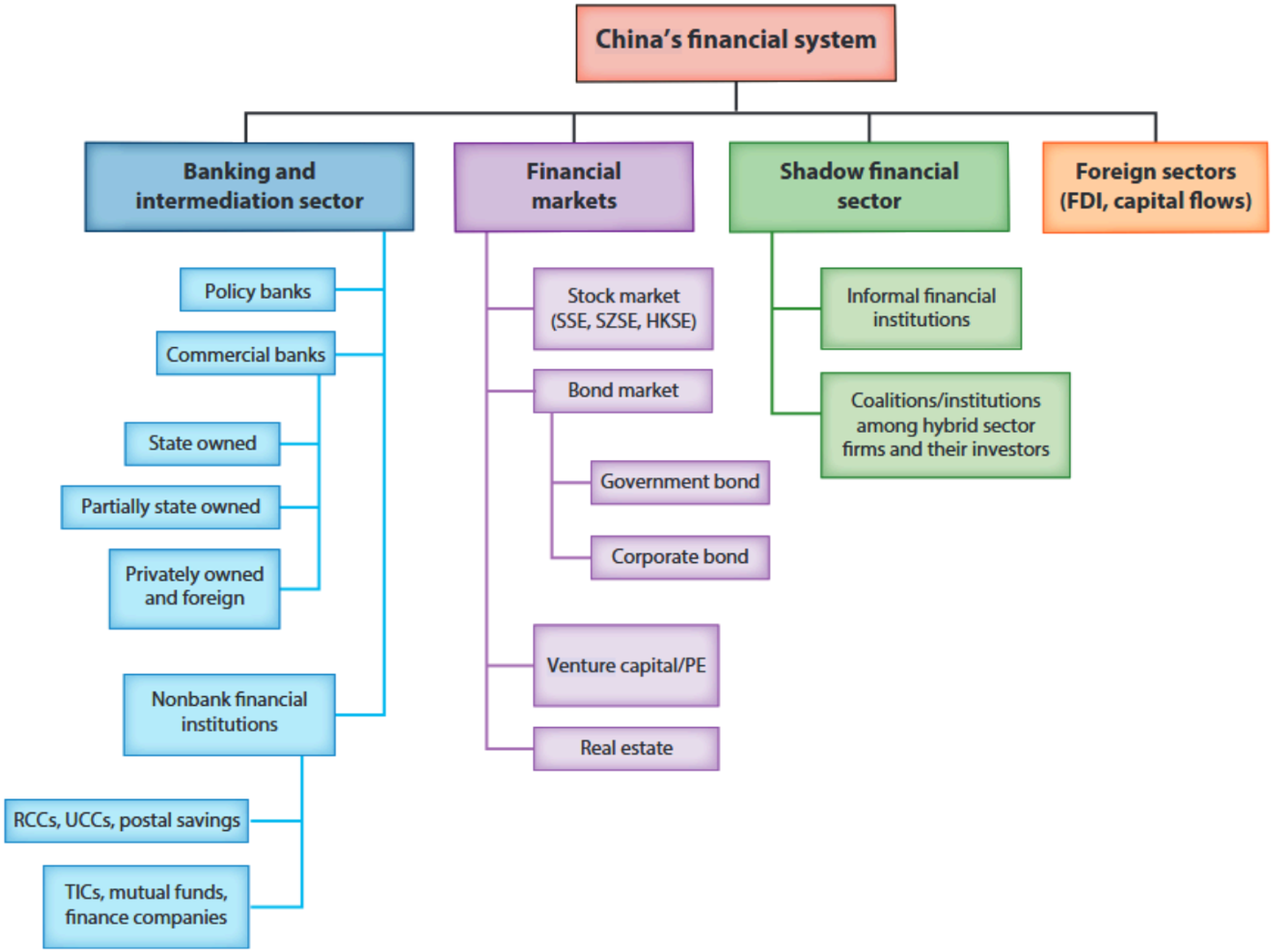
Look back at the four transformations. Take one, and say what SVB promised and what it could not deliver.

SESSION 4 · 45 MINUTES

China’s financial system and its regulators

> **Everything here is measured against Session 3**
>
> Same questions, different answers: how large is the intermediary sector, who is in it, and who supervises it.

The shape of China's financial system



Allen, F., Qian, J. "QJ" & Gu, X. (2017), "An Overview of China's Financial System," Annual Review of Financial Economics 9: 191–231, Fig. 1. Structure holds; the magnitudes on the following slides are August 2026.

Scale

¥498tn
banking system assets, +6.6% y/y, end-Q2 2026

~90%
of Chinese financial-system assets sit in banks

¥463tn
total social financing stock, +7.4% y/y, end-July 2026

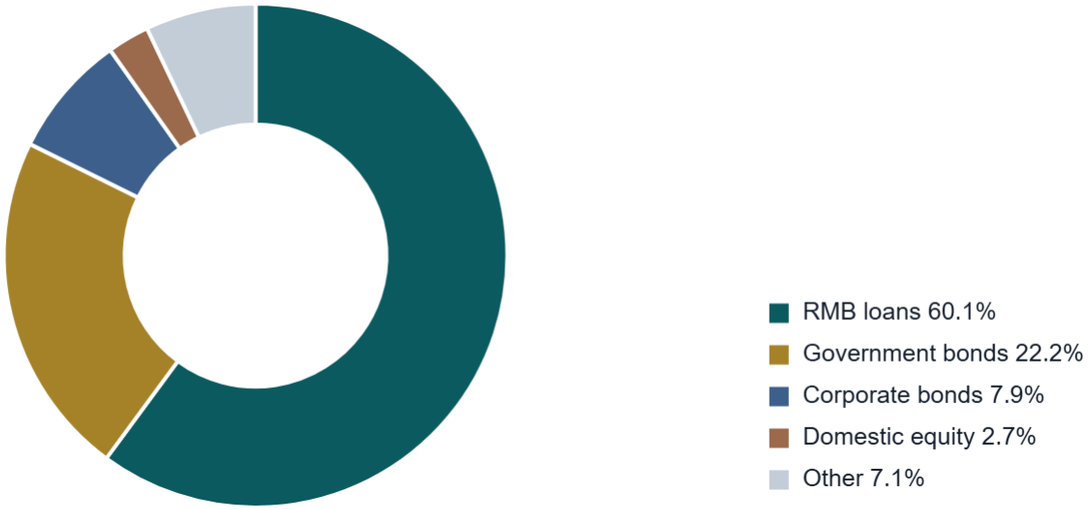
The Handbook reports **97%** of system assets in banks for 2018. Eight years of capital-market development moved it to roughly 90% — real movement, and slow.

NFRA Q2 2026 indicators; PBoC AFRE release, end-July 2026; OMFIF (March 2026) for the asset-share estimate.

Aggregate financing to the real economy

What it measures

Every route by which money reaches households and non-financial firms in China, added up in one number: bank loans, plus bonds, plus new equity, plus the off-balance-sheet channels. The central bank publishes it every month, as a flow and as a stock. Also called total social financing.



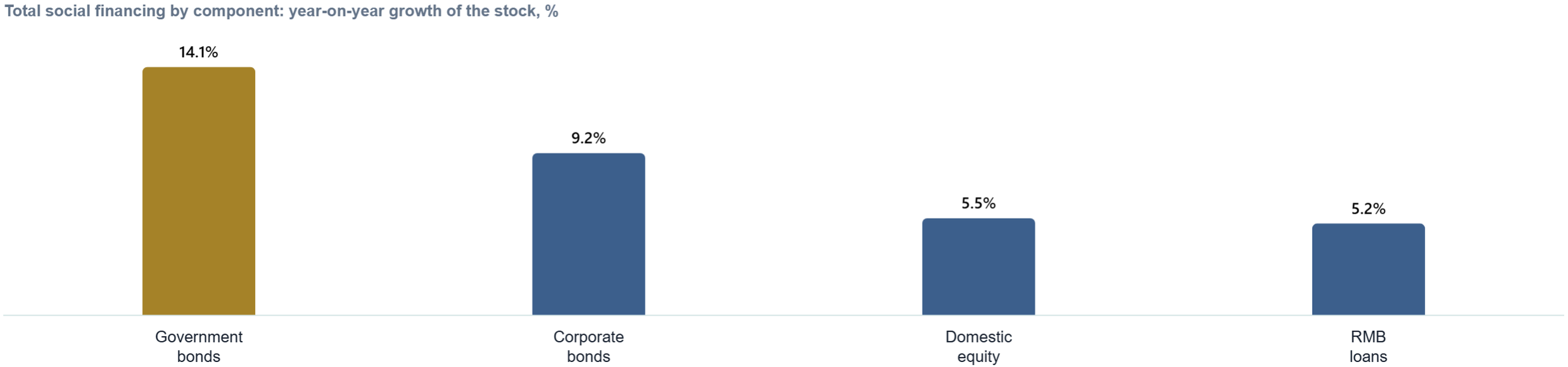
Is there a US equivalent?

Nothing published this way. The nearest is the Federal Reserve's Financial Accounts, which is quarterly, comes out with a lag, and is a statistical release rather than a headline the central bank steers by.

Stock **¥463.27tn**, of which bank loans **60.1%**, government bonds 22.2%, corporate bonds 7.9%, domestic equity 2.7%.

PBoC, AFRE stock at end-July 2026, reported 14 August 2026.

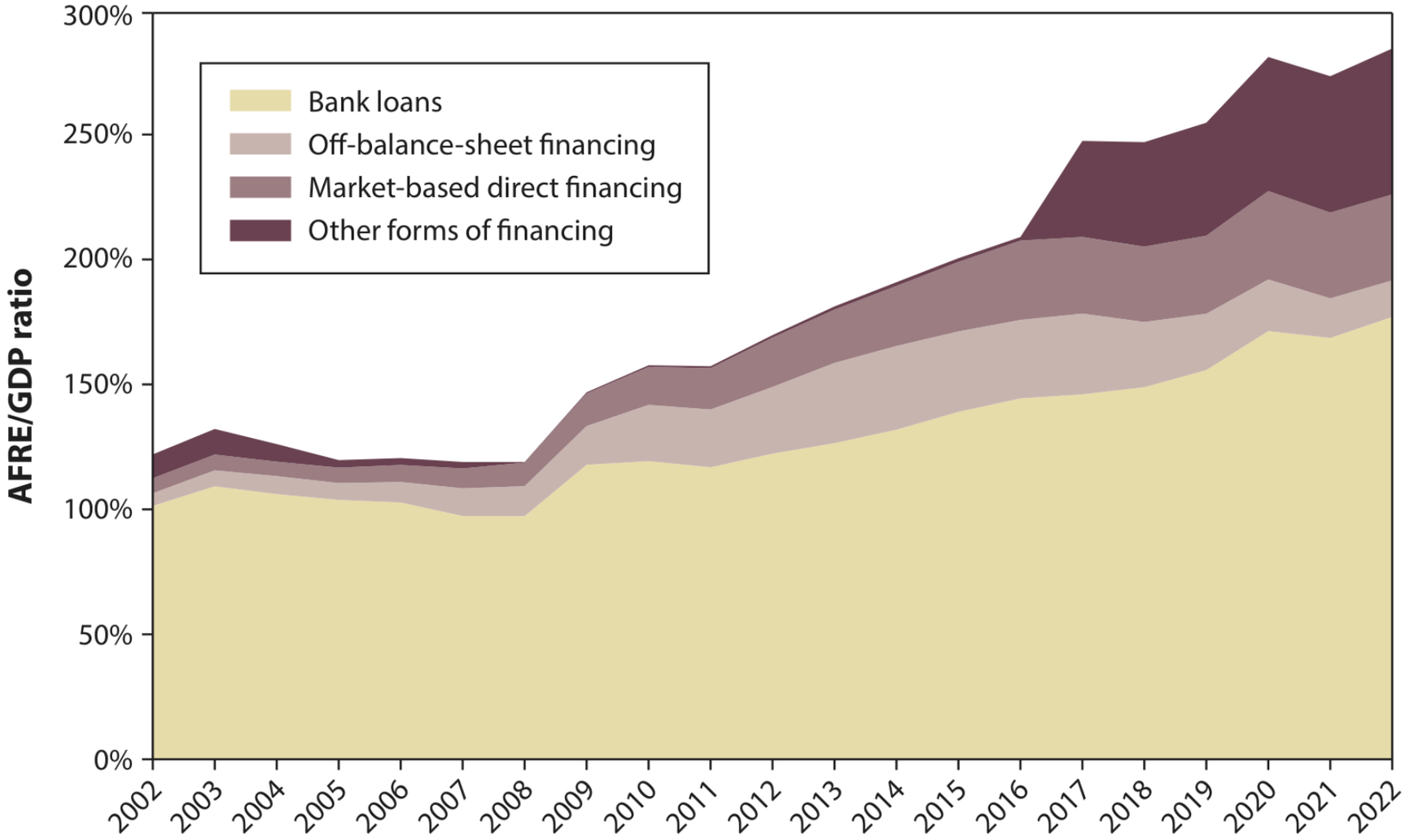
The direct-financing share is rising, and it is mostly government bonds



Corporate bonds and equity together are **10.6%** of total social financing. The rise in direct financing is overwhelmingly sovereign issuance.

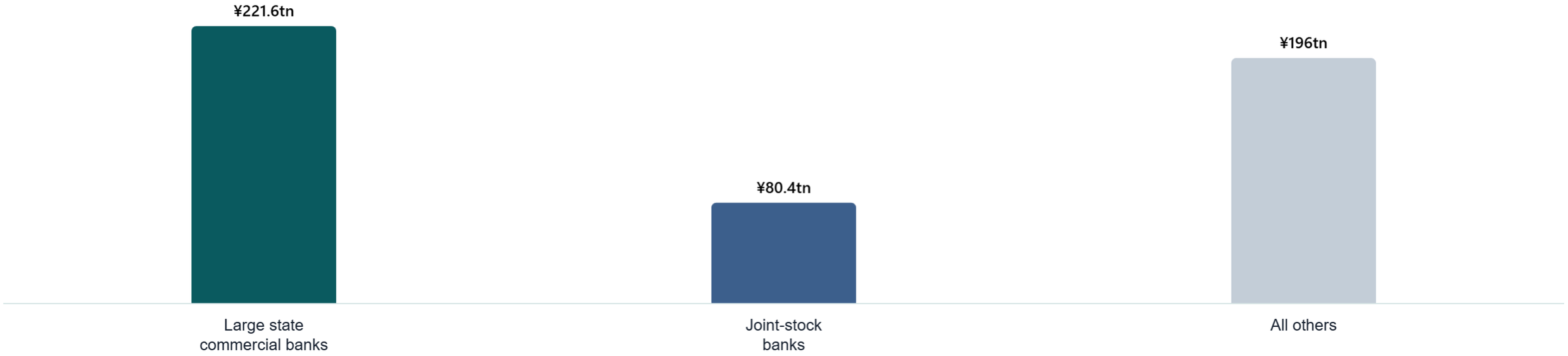
PBoC, end-July 2026. Raising the direct-financing share is a stated objective of the 15th Five-Year Plan (2026–2030).

The same measure over twenty years



He, Z. & Wei, W. (2023), "China's Financial System and Economy: A Review," Annual Review of Economics 15: 451–483, Fig. 1. Series ends 2022; the July 2026 composition is on the preceding slides.

The banking system is tiered



Six large state commercial banks hold **44.5%** of all banking assets; joint-stock banks add another **16.1%**. City, rural, private and foreign banks share the remaining 39.4%.

NFRA Q2 2026 indicators. Total banking-institution assets ¥498tn; the residual is computed as the balance. Week 8 returns to the bottom of this distribution, where the small-bank consolidation programme is running.

RMB internationalization: three different questions

Is it used to pay?

What share of cross-border payment messages are denominated in the currency. A currency can score here on trade alone

Is it used to store value?

What share of central banks' reserves are held in it. This needs deep, liquid, freely sellable assets to hold — a much higher bar

Can it be moved?

Whether the settlement infrastructure reaches the banks that would use it. This one is built rather than earned

	RMB	For comparison	As of
Share of global payments (SWIFT)	**3.10%** (5th)	USD 50.10% · EUR 21.88% · GBP 6.71%	June 2026
Share of allocated FX reserves (COFER)	**2.0%**	USD 56.8% — a 31-year low	Q4 2025
CIPS participants	**210** direct + **1,619** indirect	of the indirect: Asia 1,157 · Europe 267 · Africa 103	June 2026

The rails reach **1,829** institutions and the currency settles **3.10%** of payments, but only **2.0%** of reserves. The three questions have three different answers, and they get harder in that order.

SWIFT RMB Tracker (June 2026); IMF COFER Q4 2025; CIPS participant list, June 2026. The payments share moves month to month, so always quote the month with it.

Two regulatory maps

UNITED STATES — SET BY STATUTE, REVISED BY RULEMAKING

- **Federal Reserve**, **Office of the Comptroller of the Currency** and **Federal Deposit Insurance Corporation** — banks and systemic firms
- **Securities and Exchange Commission**, **Commodity Futures Trading Commission** — securities, derivatives
- **National Credit Union Administration**, **Federal Housing Finance Agency** — credit unions; the housing agencies (2008)
- **Consumer Financial Protection Bureau** — consumer protection (2010)
- **Financial Stability Oversight Council** and **Office of Financial Research** — systemic risk (2010)
- State banking and insurance commissions

CHINA — REBUILT ADMINISTRATIVELY IN 2023

- **People's Bank of China** — the central bank; monetary policy and system-wide risk. The **State Administration of Foreign Exchange** sits under it
- **National Financial Regulatory Administration** — banking, insurance, financial holding companies, consumer protection
- **China Securities Regulatory Commission** — securities markets; also enterprise bonds since 2023
- **Central Financial Commission** — coordination above all three

Short names from here on: Fed, OCC, FDIC, SEC, CFTC, NCUA, FHFA, CFPB, FSOC, OFR; PBoC, SAFE, NFRA, CSRC. The full US table is in the Appendix.

One bank, one administration, one commission

一行一局一会 *yī háng yī jú yī huì*

State Council

国务院

guó wù yuàn

Central Financial Commission

中央金融委员会

Coordination above the three; created in 2023

PBoC — the “bank”

中国人民银行 *yī háng*

Monetary policy · system-wide risk · foreign exchange sits under it

NFRA — the “administration”

国家金融监督管理总局 *yī jú*

Banking · insurance · financial holding companies · consumer protection

CSRC — the “commission”

中国证券监督管理委员会 *yī huì*

Securities markets · enterprise bonds, moved from the planning agency in 2023

Structure as of August 2026. The NFRA runs 27 departments and is absorbing roughly 1,600 county-level PBoC branches into its local network. Director since 5 June 2026: Ding Xiangqun 丁向群.

Three reasons any government regulates finance

1 · Increase information

Savers cannot tell a good borrower from a bad one, so the state compels the borrower to say. Mandatory disclosure, audited accounts to a common standard, restrictions on trading by insiders. This attacks adverse selection *before* the transaction

2 · Ensure soundness

Savers cannot tell a sound intermediary from an unsound one either, so at the first sign of trouble they pull money out of both — and a panic damages people who were never party to the bad loans. Six kinds of rule follow; the next slide takes them

3 · Improve monetary control

Banks create money when they lend, so a central bank that wants to control the quantity of money has to regulate the institutions that make it. Reserve requirements are the clearest case

The first two protect the saver. The third protects the policy, and it is the reason the central bank is a regulator at all.

Reason 2 in detail — six kinds of rule

Restrictions on entry	You need a charter to open a bank, and it is granted only with adequate capital and acceptable owners
Disclosure	Prescribed accounting, periodic inspection of the books, and information the public can see
Restrictions on assets and activities	Limits on what an intermediary may hold and what businesses it may enter
Deposit insurance	The state repays small depositors if the institution fails, so they have no reason to run
Limits on competition	*Branching and entry restrictions. The evidence that competition causes failures is weak*
Restrictions on interest rates	*Ceilings on deposit rates, imposed after the 1930s. Largely abolished; China removed its own ceiling in 2015*

The first four are the standard toolkit and every one returns in Week 8. The last two were imposed on a belief the evidence did not support, and both have largely been undone.

Main takeaways

What we covered

1. What a financial system does, and how the US and China do it differently
2. How financial markets are classified: by maturity, by new or existing, by where they trade
3. Why financial intermediaries exist, and what a bank actually produces
4. China’s financial system, how it is measured, and who supervises it

The points to remember

- China sends savings through banks, the US through securities markets: bank assets **3.5×** GDP against **0.85×**
- Theory does not say which channel to use. The *rules* differ — deposit insurance, listing requirements, who may hold risk
- Intermediaries exist for three reasons: **transaction costs, risk sharing, information**
- A bank changes four things about a claim: **denomination, maturity, liquidity, risk**
- Non-banks hold **51%** of global financial assets; US mutual funds hold more than all US banks
- China is bank-dominated — loans are **60.1%** of aggregate financing — and three bodies supervise it

Questions to Think About

1. The US and China route savings to investment through opposite channels. Name one cost of each arrangement that the other avoids.
2. A payment stablecoin is redeemable on demand, fully reserve-backed, and not insured. Which of Mishkin's three reasons for regulation applies to it most strongly?
3. Non-banks now hold more than half of global financial assets. Which of this week's arguments for why intermediaries exist still applies to an institution that takes no deposits?
4. China raised its direct-financing share mostly by issuing government bonds. Does that count as capital market development?

These are for you to think about, not to hand in.

Before Next Class

Required

- Mishkin & Eakins, *Financial Markets and Institutions*, 9th ed. — Chapters 1 and 2
- Amstad, Sun & Xiong (eds.), *The Handbook of China's Financial System* — Introduction and Chapter 1. Free from Princeton's open-access page

Optional

- He, Z. & Wei, W. (2023). China's Financial System and Economy: A Review. *Annual Review of Economics* 15: 451–483 — the best single survey, and the source of two figures today
- FSB, *Global Monitoring Report on Nonbank Financial Intermediation 2025* — skim the summary tables

Week 2 is interest rates and valuation. **Assignment 1 is set at the end of that week**, so Chapter 3 matters more than usual.

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- He, Z. & Wei, W. (2023). China's Financial System and Economy: A Review. *Annual Review of Economics* 15: 451–483.
- Jiang, E. X., Matvos, G., Piskorski, T. & Seru, A. (2024). Monetary Tightening and U.S. Bank Fragility in 2023: Mark-to-Market Losses and Uninsured Depositor Runs? *Journal of Financial Economics* 159.
- Mishkin, F. S. & Eakins, S. G. (2018). *Financial Markets and Institutions*, 9th Global Edition. Pearson.
- SIFMA (2026). *Capital Markets Fact Book*.

APPENDIX

Optional depth

Covered in class only if time allows. The results you need are in the body.

Appendix — US regulatory agencies in full

Agency	Supervises	Created
Federal Reserve	Bank holding companies, state member banks, systemic firms	1913
OCC	Nationally chartered banks and thrifts	1863
FDIC	Insured depositories; resolution; the Deposit Insurance Fund	1933
SEC	Securities issuance, exchanges, disclosure	1934
CFTC	Futures, options and swaps markets	1974
NCUA	Federally insured credit unions	1970
FHFA	Fannie Mae, Freddie Mac, the Federal Home Loan Banks	2008
CFPB	Consumer financial products and services	2010
FSOC / OFR	Systemic risk identification; supporting research	2010

The last three rows are absent from Mishkin Ch. 1–2 entirely. Since July 2025 a further regime sits outside all of them: the GENIUS Act carves qualifying payment stablecoins out of SEC and CFTC jurisdiction. Agency heads as of August 2026: Fed chair Kevin Warsh (sworn in 22 May 2026), FDIC chair Travis Hill, Comptroller Jonathan Gould, SEC chair Paul Atkins.

Appendix — three models of supervisory architecture

Model	Organising principle	Examples
Sectoral	One regulator per industry — banking, securities, insurance	China, and still the most common model worldwide
Integrated	A single regulator for the whole financial sector	Japan, Singapore
Twin peaks	One regulator for prudential soundness, one for conduct and consumer protection	Australia, the Netherlands, the UK

China’s 2023 reform moved consumer protection into the NFRA, borrowing one element of the twin-peaks design without adopting the model.

Appendix — the numbers on one page

Indicator	Value	As of
US GDP, nominal	$30.76tn	2025
China GDP, nominal	¥140.19tn (~US$20.13tn), +5.0%	2025
US FDIC-insured banking assets	$26.1tn, 4,278 institutions	Q1 2026
China banking system assets	¥498tn, +6.6% y/y	Q2 2026
China AFRE stock	¥463.27tn, +7.4% y/y	end-July 2026
China AFRE: loans / govt bonds / corp bonds / equity	60.1% / 22.2% / 7.9% / 2.7%	end-July 2026
Global NBFI assets	$256.8tn = 51% of global financial assets	2024
US money market funds	$7.93tn	12 Aug 2026
FDIC Deposit Insurance Fund	$153.9bn, reserve ratio 1.43%	Q1 2026
RMB share of global payments	3.10%, 5th	June 2026

Each figure carries its own source on the slide where it appears. All values checked August 2026.