

Shedding Light on China's Massive Shadow Banking Market: eUpdate Series

The debt level of the PRC had raised increasing concerns in the non-bank financial market, particularly the shadow banking market. Shadow banking is a term for the collection of non-bank financial activities that provide services similar to conventional commercial banks, sometimes through the conventional commercial banks. In general, shadow banking takes place through three types of institutions. The first includes third-party wealth management products and trust companies, or financial institutions without licenses and regulatory oversight. The second category is credit guarantee companies, microcredit firms, or those without licenses and partially regulated. The last type includes entities with licenses but with inadequate regulation, such as money market funds, securitized products, and off-balance sheet products.

On March 7, 2014, the first onshore bond default occurred in Mainland China. The default concerned an onshore corporate bond issued by a struggling Chinese solar-equipment manufacturing company and was not a product of the shadow banking market. However, the alarm this event triggered was by no means confined to the non-bank corporate bond market, and it had forced reflection upon the threat that the non-bank financial market as a whole, particularly the shadow banking market, in the PRC was posing.

Related Capabilities

- China
- Capital Markets
- Financial Services Regulatory
- Hong Kong

- **Landmark Corporate Bond Default - Part 1**: explores and reflects upon the circumstances pertaining to the landmark default in March 2014, the change it marked and the alarm it triggered for Mainland China's non-bank financial market.
- **China's First Onshore Corporate Bond Default and Its Implications for the Country's Debt Capital Market**: published by the World Securities Law Report, Bloomberg BNA.
- **Regulations: For Better or For Worse...? - Part 2**: discusses regulating the shadow banking market.
- **Shedding light on China's Massive Shadow Banking Market – Regulations: For better or worse ... ?**: published by the Banking Law Journal.