Remarks by Deputy Assistant Secretary for International Financial Markets Nicholas Tabor on Recent Developments in U.S.-China Financial Regulatory Engagement, in Cambridge, Massachusetts June 6, 2024

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Thank you very much to Harvard Law School, the Program on International Financial Systems, the China Development Research Foundation, and Professor Hal Scott for inviting me to speak. I'm honored to join this week's symposium.

My remarks will focus on one element of the evolving U.S.-China relationship, the Financial Working Group co-chaired by the U.S. Treasury and People's Bank of China, and the important progress that group has made in the last year. But first, I will provide some background on the nearly two-year-long efforts towards improving bilateral communication and engagement on U.S.-China economic and financial issues.

BACKGROUND

When President Biden met President Xi in Bali in November 2022, he emphasized that the US and China must manage our competition responsibly and that such competition should not veer into conflict. Both sides agreed to empower key senior officials to enhance communication on the macroeconomy and cooperation on issues like climate change and debt distress.[1]

Secretary Yellen has since laid out a roadmap for future Treasury engagement with China, following this vision and involving three principal objectives.[2]

- First, the United States will secure its national security interests and those of its allies and partners, and the United States will protect human rights.
- Second, the United States seeks a healthy economic relationship with China that provides a level playing field for firms and workers in both countries.
- Third, the United States and China have a pressing responsibility to tackle the urgent global challenges of our day—including the key items of macroeconomic stability, climate change, and debt distress laid out by President Biden and President Xi in Bali.

Last July, Secretary Yellen took her first official trip to Beijing as Treasury Secretary, and had productive talks with senior Chinese officials on opportunities and challenges in the U.S.-China relationship. She noted the importance of frank and in-depth discussions, especially on areas where there is disagreement, because it gives each side a better understanding of the other's actions and intentions. Following these talks, she noted her hope that the U.S. and China could move to "a phase in our relationship where senior-level diplomacy is simply taken as a natural element of managing one of the world's most consequential bilateral relationships."[3]

During the trip, Secretary Yellen and Vice Premier He Lifeng also agreed that their teams should have more structured and consistent communication between these high-level meetings.[4] That fall, they established two bilateral mechanisms for such communication: an Economic Working Group (EWG) and a Financial Working Group (FWG). Since then, these two groups have worked in parallel to advance the objectives set by President Biden and Secretary Yellen.

RATIONALE FOR ENGAGEMENT ON FINANCIAL POLICY ISSUES

Shortly after the Secretary's trip, at another PIFS symposium last September, Assistant Secretary of the Treasury for International Finance Brent Neiman explained the rationale for the creation of these working groups.[5] Since then, the FWG has met four times, with additional technical meetings in between each session. I've had the opportunity to join each of those sessions, and to develop the group's agenda with colleagues from across Treasury and the U.S. government. That experience has clarified that regular, frank engagement between U.S. and Chinese financial authorities is valuable for promoting mutual understanding.

A strong, well-functioning financial system is a public good.[6] Its benefits accrue to all, because stable, resilient, well-functioning, and efficient markets contribute to stronger, more durable economic growth. Its maintenance requires contributions by all, because risks in one country and corner of the global financial system can travel, quickly and unexpectedly, to many others.

Maintaining a public good —in this case, keeping the financial playing field stable, level, and safe—requires ongoing and active coordination. In normal times, cooperation helps identify and address vulnerabilities as they emerge. In crisis, it helps contain stress and restore calm. In both contexts, cooperation requires both technical engagement and political accountability and support; it requires the hard work of identifying and understanding risks, and the equally hard work of marshaling support to address them. Without either one, problems tend to grow faster; to spread to other parts of the financial system; and to become harder and costlier to solve.

For this reason, the United States has an interest in international financial stability, and U.S. authorities engage actively to advance that interest. This includes our membership and participation in multilateral groups, many of which China is also a member, like the Financial Stability Board (FSB), which the G20 created after the Global Financial Crisis to better address systemic risk. However, for large, interconnected economies, bilateral engagement is an essential complement to multilateral engagement. It lets us better understand each other's policies, discuss their cross-border implications, and identify areas of mutual interest and concern. Importantly, it has value even when agreement is lacking or communication is halting, because it lets each party convey information about its positions and its priorities.

Above all, bilateral dialogue is an investment in navigating international financial crises. Such crises are—to put it mildly—a bad time to meet new people and try new things. They are moments when the actions of financial authorities become relevant to a much wider range of people, organizations, and jurisdictions. They broaden the scope, and raise the stakes, of ongoing, immediate, and clear communication. Navigating them requires strong working links between finance ministries, central banks, resolution authorities, and supervisors and regulators. Those, in turn, take repeated, concerted, and early engagement, with the goal of spotting and working through challenges ahead of time. The goal—always, and at best, a work in progress—is that "we know our counterparts, we know their system, they know ours," and "if something were to go wrong, we know who to call."[7]

Treasury has long held regular financial dialogues with other jurisdictions. Given the stakes, it's natural for us to also hold one with China. The U.S. and China are two of the largest economies in the world. Together, we account for some 40% of global banking assets, and we are the home authority to twelve of the world's thirty global systemically important banks. [8] The domestic financial stability of the U.S. and China has significant implications for global financial stability, and our policies have an outsized effect on how financial risks evolve globally. Working directly with our Chinese counterparts can help advance many of Treasury's priorities, including our financial stability objective, our climate goals, and the effectiveness of our global efforts to combat money laundering and illicit finance. This is true even when our views on those priorities diverge.

PROGRESS OF THE FINANCIAL WORKING GROUP

These goals informed the first virtual meeting of the Financial Working Group last October, where Treasury and the PBOC were joined by participants from their respective domestic regulatory agencies.[9] The two sides discussed global financial stability, financial supervision and regulation, sustainable finance, and anti-money laundering.

The second FWG meeting took place in November, on the margins of Secretary Yellen's meetings with Vice Premier He in San Francisco and was the first time members of the FWG met face to face. Participants continued conversations on financial and macroeconomic stability, and financial regulation and supervision—including non-bank financial intermediation—and began a new discussion on capital markets issues. Following these meetings, Secretary Yellen and Vice Premier He agreed to intensify communication going forward, with three major objectives: to advance work on common solutions, to address disagreements where possible, and to avoid misperceptions contributing to unintended escalations. They committed to work together on shared challenges, including economic growth, financial stability, regulatory issues, and climate change.

Following this direction, the FWG also began a series of technical exercises. These exercises are detailed working-level dialogues, which bring together senior staff and subject-matter experts from both countries, with the goal of developing a more detailed understanding of how authorities approach and operationalize their policy objectives. Through these technical exercises, the FWG started—or in some cases, restarted—necessary conversations at the technical and operational level, which it could continue at its regular meetings.

The first two technical exercises were on climate scenario analysis and resolution planning frameworks for Global Systemically Important Banks, priority items identified by the FWG. The exercises allowed for a broader set of participants than those that normally attend the FWG, including staff from other agencies, like the Federal Deposit Insurance Corporation for the discussions on resolution planning. These technical exercises have continued to take place between subsequent meetings of the FWG.

The PBOC hosted the third FWG in January of this year, in Beijing.[10] The U.S. delegation, led by Assistant Secretary Neiman, also included Undersecretary for Domestic Finance Nellie Liang, FinCen Director Andrea Gacki, as well as other Treasury staff, and representatives from the Federal Reserve and the Securities and Exchange Commission. This meeting took place over two days, which let the FWG further discuss previous topics and add new topics, including international financial institutions, cross-border payments and cross-border data. The Treasury delegation also met with Vice Premier He and discussed the importance of continuing to deepen communication and cooperation between the two sides.

In April, Secretary Yellen took her second official trip to China. Building on recent progress, she announced a new Joint Treasury-PBOC Cooperation and Exchange on Anti-Money Laundering. This cooperation is intended to facilitate the sharing of best practices and information exchanges to address money laundering in our respective financial systems. The inaugural session on anti-money laundering occurred in late April and will meet going forward under the auspices of the FWG. Secretary Yellen also announced additional technical exercises for the FWG, including one on operational resilience in the financial sector, and one on financial stability implications from the insurance sector's exposure to climate risks.[11]

Later in April, Treasury hosted the fourth FWG meeting in Washington DC. The session opened with a readout of a recent technical exchange that covered each jurisdictions' approach to financial stability oversight.[12] There were also sessions on banks' liquidity risk management, financial stability and market developments, swap arrangement practices, cross-border payments and data, among other topics. At this meeting, Treasury and the PBOC highlighted progress from their sustainable finance talks, and identified several areas of mutual interest in this space. Both sides agreed on the importance of transition finance to support the decarbonization of various sectors, including as part of the voluntary commitments financial institutions may make to decarbonize. The meetings concluded with both sides agreeing to continue to meet regularly and to hold additional technical exercises, including on the supervision and regulation on cross-border supply of financial services.

CONCLUSION

In these descriptions, you can hopefully see the beginnings of a cadence. In a little over a year, both countries have begun to establish new channels for communication on financial policy, across more parts of government, and moved engagement from the Presidential level to their subject-matter experts. This process has let FWG participants begin building the relationships necessary for a mutual understanding of policy, identify areas where cooperation can yield mutual benefits, and provide the space to communicate clearly about areas of disagreement. We have made progress, and there is still much work to be done.

These are important steps towards realizing the vision outlined by President Biden and Secretary Yellen, of how to responsibly manage the U.S.-China relationship. Doing so requires a common understanding of each other's systems and priorities; a common willingness to express disagreement, even where serious; and a willingness to find and act on areas of mutual benefit. The FWG is a valuable forum to pursue all three. Through it, the U.S. stands to advance its interest in a stable, well-functioning financial system—an interest we share with many other countries.

Thank you.

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[1] Readout of President Joe Biden's Meeting with President Xi Jinping of the People's Republic of China | The White House

[2] Remarks by Secretary of the Treasury Janet L. Yellen on the U.S. - China Economic Relationship at Johns Hopkins School of Advanced International Studies | U.S. Department of the Treasury

[3] Janet Yellen, Remarks after Beijing economic meetings, July 8, 2023 | US-China Institute (usc.edu)

[4] US Treasury relations with Chinese economic officials - OMFIF

[5] Remarks by Assistant Secretary for International Finance Brent Neiman at the Program on International Financial Systems' U.S.-China Symposium in Hong Kong | U.S. Department of the Treasury

[6] Remarks by Secretary of the Treasury Janet L. Yellen at the Open Session of the meeting of the Financial Stability Oversight Council | U.S. Department of the Treasury; *see also* Masaaki Shirakawa, International Financial Stability as a Public Good (boj.or.jp) PDF.

[7] Yellen Heads To China Eying 'Overcapacity' Concerns | Barron's (barrons.com)

[8] 2023 List of Global Systemically Important Banks (G-SIBs) - Financial Stability Board (fsb.org)

[9] READOUT: First Meeting of the Financial Working Group Between the United States and the People's Republic of China | U.S. Department of the Treasury

[10] READOUT: Third Meeting of the Financial Working Group Between the United States and the People's Republic of China | U.S. Department of the Treasury

[11] Remarks by Secretary of the Treasury Janet L. Yellen at a Press Conference in Beijing, the People's Republic of China | U.S. Department of the Treasury

[12] READOUT: Secretary of the Treasury Janet L. Yellen's Bilateral Meeting with the Leadership of the U.S.-People's Republic of China Economic and Financial Working Groups | U.S. Department of the Treasury