
China starts legislative procedure on bankruptcy of banking institutions

BEIJING, Feb. 8 (Xinhua) -- A special ordinance on the bankruptcy of banking and financial institutions is being devised so as to establish a market-oriented bail-out mechanism, according to the China Banking Regulatory Commission (CBRC).

The legal instrument would provide a supplement to the revised corporate bankruptcy law that came into effect last June and target the specialities of financial areas, CBRC sources said.

No time frame for the legislative process of the ordinance is available yet.

Given banks serve as the stabilizer of the economy, the ordinance must be able to minimize the aftermath of bankruptcy of banks and financial institutions and simultaneously provide the maximum protection to the interests of depositors, creditors and taxpayers, industry analysts say.

With the fully opening-up of financial areas, local banks and financial institutions will face fiercer competition. Only by allowing incompetent and highly risky players to withdraw from the market can a country defuse any financial crisis and safeguard domestic financial system, they say.

The process of bankruptcy for Chinese banks over the past decades have been referred to as "administrative closure" because most banks are state-owned and virtually became an arm of governmental departments.

With the central bank serving as their last creditor and rescuer, banks and financial institutions prosper on government credits but also tend to be less sensitive to risks than their western peers.