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Beijing to Sideline Top Securities Regulator

Planned Move Comes After Official Tried to Clean Up Stock Market, Raising Questions Over Government's Will to Reform

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BEIJING—China's new leaders plan to reassign the country's top securities regulator, who has sought to clean up the country's stock markets and attract foreign capital, after only 18 months on the job, say Communist Party officials with knowledge of the decision, raising questions about how quickly and deeply leaders want to reform the financial sector and take on powerful interests.

Getty Images

Guo Shuqing, seen in Beijing on Sunday, is expected to leave his post to become governor of Shandong.

Since Guo Shuqing took the reins of the China Securities Regulatory Commission in October 2011, he has moved to shore up investor confidence by tackling insider trading and weed out bad candidates for initial public offerings.

Investors have applauded his efforts to bring China's equities markets closer to the Western model and expand bond markets, but they have put him on a collision course with state-owned enterprises looking to go public, state-owned banks worried about competition from domestic bond issuers and other regulatory agencies whose roles have diminished.

Now China's leaders are planning to remove Mr. Guo from the CSRC and make him governor of China's eastern Shandong province, the party officials said. The shift would mean that Mr. Guo, a fluent English speaker who is more comfortable with the media than many other senior Chinese officials, would be absent from the debate on how fast China should open its capital markets as part of a broader plan to transform China's economy so it relies more on domestic demands.

Market Shake-Up

Some steps Guo Shuqing took to reform stock markets and attract foreign investors in his 18 months at the China Securities Regulatory Commission

Mr. Guo's role in lifting the role of stocks and bonds in the financing of growth in China has challenged a model that favors state-owned entities. Corporations in China generally turn to banks for credit, which has

April 2012 Increases investment quotas for qualified foreign investors.

May Releases new stock-listing rules giving underwriters more say in the pricing of initial public offerings.

July Allows foreign institutional investors to buy Chinese bonds.

August Proposes expanding investment scope of Chinese brokerage firms' asset management arms.

December Issues guidelines to simplify approval procedures for Chinese companies seeking to list shares overseas.

underpinned profit of state-controlled lenders that bankroll China's large state-owned companies. The IPO process favors state-owned companies promoted by their provincial-government backers.

That arrangement has led smaller companies to complain in the private sector that they can't raise funds. "The most pressing problem facing the Chinese economy at present is the difficulty in obtaining financing for small and micro enterprises," Mr. Guo wrote in the Chinese magazine Caixin last year.

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"Guo may have threatened the comfortable nexus between large state-owned banks, provincial governments and state-owned enterprises," said Eswar Prasad, a former senior International Monetary Fund China scholar who now teaches at Cornell University. "That could have proved to be his undoing."

Mr. Guo isn't expected to take his new post for several weeks, the party officials say, which could leave time for additional lobbying. "It's all but a done deal," said one of the party officials, who said Mr. Guo isn't contesting the decision. The official said that the fact that Mr. Guo needed to deal with different interest groups was a contributing factor in his planned departure.

Chinese Leaders to Watch

Read more about the Communist Party's new and outgoing leaders.

A Look Inside the Meetings

The South China Morning Post reported on Wednesday that Mr. Guo was headed to Shandong province, one of the biggest agricultural and industrial producers in the country. Mr. Guo couldn't be reached. In a response to a question about the potential reassignment, a CSRC spokesman said "we haven't received any such information."

Bank of China Chairman Xiao Gang is now expected to succeed Mr. Guo at the CSRC, said the party officials.

Initially, the leaders decided to appoint Mr. Xiao to a deputy position at the People's Bank of China, expecting that Gov. Zhou Xiaochuan would groom him to eventually take over, according to several party officials with knowledge of the matter. But that arrangement was later viewed as unworkable.

While Mr. Xiao, 54 years old, is also considered a proponent of financial liberalization, it is far from clear whether he will continue Mr. Guo's policies, or take a

Andy Wong/Associated Press

A hostess arranged the delegates' chairs before the opening session.

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more cautious approach, said several Chinese banking executives. Mr. Xiao couldn't be reached. Officials in Bank of China's press department declined to comment.

"This [personnel] move is telling you, 'Don't be a reformer,' " said Fraser Howie, co-author of "Red Capitalism," a study of China's financial system. "If you're a reformer on the securities beat, you're out of a job in 18 months."

China's stock market has been one of the weakest parts of its economic rise. The Shanghai and Shenzhen stock exchanges, opened in the early 1990s, have been riddled with allegations of fraudulent accounting practices, poor corporate governance and inadequate disclosure. Still, stock prices rose steadily in the 1990s and soared nearly fourfold from 2006 to 2007 before giving back the gains during the global financial crisis that began in 2008. The rise and fall of the market convinced many Chinese that investing in stocks was little different from betting in a casino.

Mr. Guo has long been identified with the forces pushing for market-oriented change. In 1986, at Oxford University's St. Anthony's College, he became "one of the first thinkers in China to discuss the need for an overall plan for economic reform," rather than piecemeal changes, said Pieter Bottelier, a former World Bank chief in China.

At the CSRC, Mr. Guo has pressed to shift more power from government officials to auditors and investment banks. Currently, companies are cleared to launch IPOs when they can win government approval rather than when they need capital. As the CSRC stepped up its scrutiny of IPO applicants, tPartly as a result,here has been only a trickle of new IPOs on Mr. Guo's watch and an outright moratorium since October. The pipeline of companies queuing to list in either Shanghai or Shenzhen has increased to nearly 880 companies at the end of January, up from about 500 when the CSRC first started disclosing such figures in early 2012.

Now, though, at age 56, he has a limited number of years to get another senior central-government job. Ministers and top regulators in China are generally required to retire at age 65, though exceptions are made.

Top party leaders have been engaged in behind-the-scenes discussions for months about filling top jobs. The PBOC's Mr. Zhou appeared headed for retirement when he was passed over last fall for a slot on the 205-member Central Committee, which makes senior personnel and policy decisions. He reached the retirement age of 65 in January.

But Mr. Zhou was able to call on the formidable backing of former Chinese Party leader Jiang Zemin and former Premier Zhu Rongji to keep his job, said party officials. At a Wednesday news conference, Mr. Zhou said it wasn't clear whether he would remain. "There are procedures for deciding" who becomes PBOC chief, he said.

The decision to retain Mr. Zhou created a bottleneck. Mr. Xiao, the Bank of China chairman, had already been promoted to the central committee—meaning he was expected to take a ministerial job, possibly replacing Mr. Zhou as PBOC chief.

In recent days, China's leaders decided to move Mr. Guo to the Shandong governorship, party officials said, a decision that opened the CSRC chairmanship for Mr. Xiao.

The two moves send mixed signals. Mr. Zhou's expected reappointment was widely seen as a move to keep reform moving at a steady pace. Mr. Guo's planned departure is viewed as sending the opposite signal by Chinese financial officials. The conflicting signals may reflect that in Mr. Guo's case, personnel battles inside the party have taken precedence over the desire for financial continuity.

"Every time there's a new political leadership, we put on them our dreams and aspirations for China," said Mr. Howie, "instead of realizing that the officials come up through the party and are subject to the constraints of that system."

In the 1990s, Mr. Guo was a top adviser to Mr. Zhu, who became China's premier and negotiated its entry into the World Trade Organization.

The market has largely shrugged off his efforts. The benchmark Shanghai Composite Index has dropped 4% since October 2011 when Mr. Guo took office, compared with a 19% gain in the NYSE composite index and a 20% gain in FTSE 100. Market capitalization of the Shanghai and Shenzhen stock exchanges is about 23 trillion yuan ($3.7 trillion), less than one-fourth the size of the New York Stock Exchange alone.

In 2012, the CSRC suspended its review of about 70 companies that had applied to launch IPOs. Some of those have since withdrawn their application. Analysts say the backlog of IPOs will take years to clear.

Some of China's leaders may have been growing impatient with Mr. Guo. At last year's National People's Congress, Premier Wen Jiabao promised that the government would better protect investors and improve IPOs—essentially endorsing Mr. Guo's agenda. This year, Mr. Wen, who is retiring as premier, didn't mention the stock market as a priority.

"Guo has done a lot of sensible things and really tried to solve some of the persistent problems in China's market, such as insider trading," said Frank Yao, senior portfolio manager for Neuberger Berman's Greater China team. "But it will take a few years to see what kind of the impact those measures will have on the market."

In the Chinese system, a provincial governor is equal in rank to a regulatory chief, so Mr. Guo's transfer isn't considered a demotion, and he may be able to return to the national stage. The party often dispatches candidates for top jobs to provincial leadership roles to give them a broader experience. Indeed, Mr. Guo was a deputy governor of impoverished Guizhou province from 1998 to 2001 when he was in his early 40s.

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