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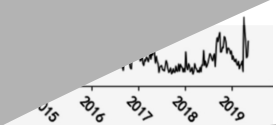

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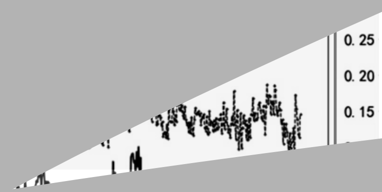

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Abstract: It is critical for financial regulators to assess the overall level of stress in the financial system in a timely manner, but various financial markets often send mixed signals. To address this problem, this paper presents a single composite indicator of system stress "China CISS# based on 13 financial indicators of the equity market, the bond market, financial institu# tions and the foreign exchange market. To capture the stylized fact that co–movements between markets are much stronger during times of financial stress, the paper uses the time–varying correlation matrix between sub–indices as a dynamic weight# ing mechanism and identifies the episodes when both the covariance and co–extremeness across markets are jointly high as $ systemic % stress events. Multiple robustness checks have been conducted and China CISS proves to be a kind of remarkably robust statistic in the time dimension.

Keywords: Systemic Financial Stress; Stress Indicator; CISS