

## Reply to Referee Report 1

We'd like to send many thanks to the first anonymous referee for his (her) invaluable comments and kind recommendation. Our discussion paper No. 2016-4 has been modified according to his (her) some comments.

Replies to Referee's detailed comments:

- (1) We did disaggregate the CNFSI into four sub-FSIs for interbank markets, stock markets, foreign exchange markets and debt markets, respectively. The possible sources of financial vulnerabilities are identified and analysed in Table 1 for the regarding markets. We would like to add more information and explanations.
- (2) The state-owned commercial banks in our paper are composed of the Big-Four and other commercial banks in which the main shareholders or the biggest shareholder are local governments or state-owned corporations. The assets of these commercial banks attained approximately 82% of the total assets of China's commercial banking industry according to the statistics by CBRC at the end of 2015. .
- (3) The definition of financial stress in Table 3 can refer to the definition in Literature review in Section 2.
- (4) Thanks for your checks. We have asked a professional English editing company to modify our paper; this discussion paper 2016-4 is the outcome. We have also improved the presentation of our paper according to your suggestions, and would like to improve it furtherly.
- (5) The order of the figures has been rearranged in the discussion paper. Thank you for your gentle reminders.

Thanks again indeed!

Lixin Sun

The corresponding author of the paper titled "Measuring the instability of China's financial system: indices construction and an early warning system".