# Chapter 10
# Research on Several Major Financial Reform Issues in the Medium and Long Term

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President Xi Jinping emphasized that the financial system is an important fundamental system for economic and social development. In the new historical period, with the reconstruction of international political and economic order, the efficient and stable operation of the financial system is crucial to the steady growth of China's economy and the smooth transformation of its economic structure. The fundamental tasks of financial work in the future include: preventing and resolving systemic financial risks, implementing the new development concept, serving the real economy and people's lives, deepening the structural reform of the financial supply side, further expanding financial opening, and embarking on the road of financial development with Chinese characteristics.

## 10.1 Current Situation of Financial Reform and Development

Since the 3rd Plenary Session of the 18th Central Committee of the Communist Party of China in November 2013, the financial reform has been further deepened and achieved significant progress. The ability of the financial industry to serve real economy and resist risks has been greatly improved, and a financial system compatible with the socialist market economy has been basically established.

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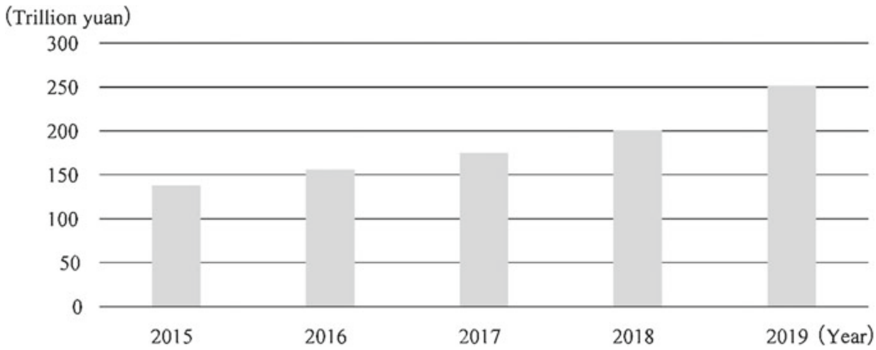


**Fig. 10.1** Changes of the stocks of China's social aggregate financing since 2015. *Source* People's Bank of China

### *10.1.1 Financial Scale Growth and Financial Depth*

In recent years, China has made positive progress in the establishment of a multi-level capital market system with complete financing functions, solid basic system, effective market supervision and effective protection of investors' legitimate rights and interests. The bond market has developed rapidly, the stock market science and technology innovation board successfully opened, and the registration system reform has been accelerated. At the end of 2009, the stock of social aggregate financing in China was 251.31 trillion yuan, up 81.74% from 138.28 trillion yuan at the end of 2015. Among them, the balance of RMB loans granted to real economy was 151.57 trillion yuan; the balance of foreign currency loans granted to real economy was 2.11 trillion yuan; the balance of entrusted loans was 11.44 trillion yuan; the balance of trust loans was 7.45 trillion yuan; the balance of undiscounted bank acceptance bills was 3.33 trillion yuan; the balance of corporate bonds was 23.47 trillion yuan; the balance of government bonds was 37.73 trillion yuan; and the balance of domestic stocks of non-financial enterprises was 7.36 trillion yuan.[1] (Fig. 10.1).

At the end of 2019, the total assets of China's financial institutions reached 317.32 trillion yuan, including 290 trillion yuan of banking institutions, 7.26 trillion yuan of securities institutions and 20.06 trillion yuan of insurance institutions. Compared with the scale in 2015, it increased by 45.35, 45.47, 13.08 and 59.97% respectively. It is clear that the banking industry still occupies a dominant position in China's financial system.

In order to better depict China's financial depth, the author adopted three groups of financial indicators to compare with GDP scale, i.e. the stock of social aggregate financing, the total assets of financial institutions, and credit loans of private non-financial sectors. It is also clear that the ratio of first two to GDP is similar to the Financial Interrelations Ratio index, while the ratio of private non-financial sectors'

[1] People's Bank of China (2020) People's Bank of China website. http://www.pbc.gov.cn/zhengcehuobisi/125207/125227/125957/4021036/4021012/index.html.

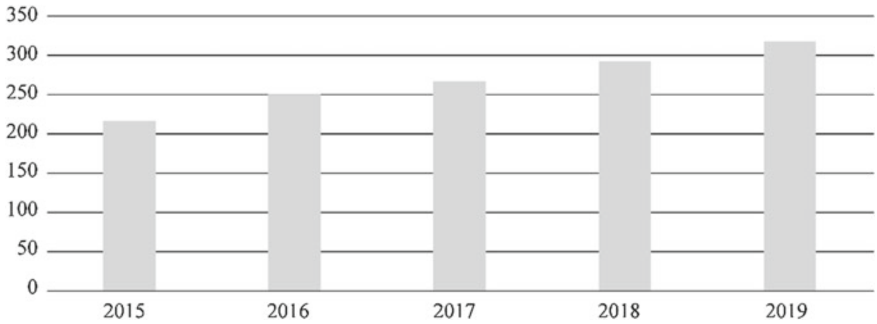


**Fig. 10.2** Changes of total assets of Chinese financial institutions since 2015. *Source* People's Bank of China, Insurance Regulatory Commission of Bank of China, and Securities Association of China

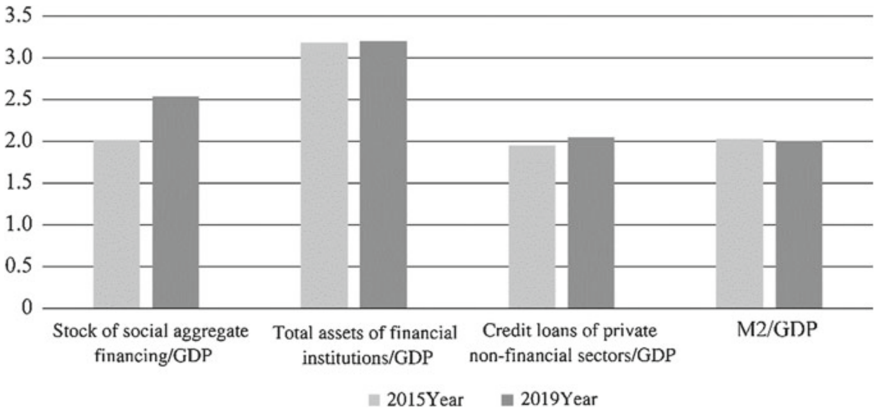


**Fig. 10.3** Shows the changes of some indicators of China's financial depth. *Source* People's Bank of China, Insurance Regulatory Commission of Bank of China, Securities Association of China, and BIS

credit loans to GDP is similar to the Financial Depth index. As a reference, the author also calculated the ratio of M2 to GDP to reflect the monetization situation in China (Figs. 10.2 and 10.3).

Among above four groups of indicators, the highest is the ratio of total assets of financial institutions to GDP, 3.20, which is followed by the ratio of social aggregate financing to GDP, 2.54, while the ratio of credit loans of private non-financial sectors to GDP and the ratio of M2 to GDP are 2.05 and 2.00 respectively.[2] Accordingly, in 2015, China's stock of social aggregate financing, total assets of financial institutions, credit loans of private non-financial sectors and the ratio of M2 to GDP were 2.02, 3.18, 1.95 and 2.03 respectively. If we make international comparison based on

[2] The ratio of credit to GDP in China's private non-financial sector is sourced from the Bank for International Settlements, data by September 1, 2019.

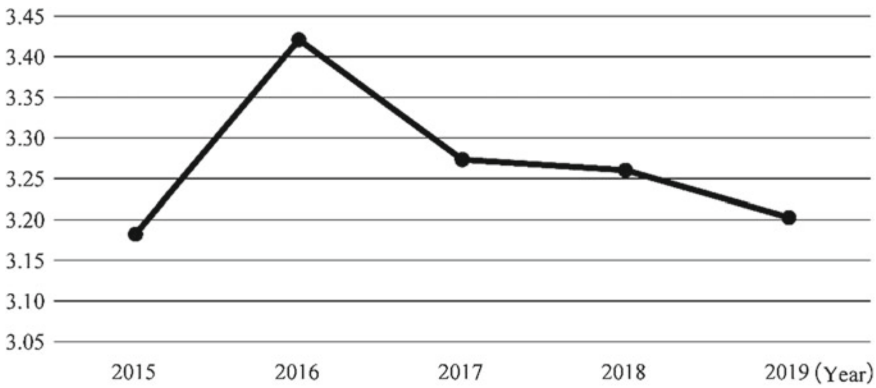


**Fig. 10.4** Changes of the ratios of total assets to GDP of financial institutions. *Source* People's Bank of China, Insurance Regulatory Commission of Bank of China, and Securities Association of China

these indicators, China's financial depth stays at a higher level. For example, China ranks 12th in the world in terms of credit loans of private non-financial sectors as a percentage of GDP, according to BIS. According to statistics of the World Bank, in 2018, the ratio of domestic credits to GDP and the ratio of broad money stock to GDP provided by China's financial sectors were among top three in the world (Fig. 10.4).

It is worth noting that above indicators are only a reference for understanding financial operations, and their values greatly depend on the financial structure of various countries and on the relationship between finance and real economy, so they are far from accurate measurements of the financial development. For example, in terms of the ratio of M2 to GDP, China's data in 2019 were lower than data in 2015, but this obviously does not mean that the monetization level has regressed. Exactly the opposite is true. With the rise of third-party payment, especially mobile payment, the monetization of China's economic operation has greatly deepened, and the change of the ratio of M2 to GDP is more a reflection of the adjustment of monetary policy and the change of currency circulation mode. Similarly, due to effective "deleveraging" policy of the central government, the ratio of total assets to GDP of Chinese financial institutions experienced a gradual decline from 2016 to 2019, but the stability and efficiency of the financial system were greatly improved, which reflects the complexity of measuring the level of financial depth.

### *10.1.2 Structure of Financial Industry*

While giving full play to the leading role of state-owned banks and the guarantee function of non-commercial "policy banks", China has improved the small and medium-sized banking system; in particular, the approval of the establishment of private banks has not only introduced private capital to improve the capital strength of banks, but also injected vitality into the banking system and improved the efficiency of serving private enterprises. By the end of December 2019, there were 4607 legal persons of banking financial institutions in China, including: 1 development financial institution, 1 housing savings bank, 2 non-commercial "policy banks", 6 large state-owned commercial banks, 12 joint-stock commercial banks, 18 private banks, 41 foreign-funded corporate banks, 134 city commercial banks, 68 trust companies, 70 financial leasing companies, 24 consumer finance companies, 25 auto finance companies, 5 money brokerage companies, 258 enterprise group finance companies, 4 financial asset management companies, 13 loan companies, 1630 village banks, 1478 rural commercial banks, 722 rural credit cooperatives, 44 rural mutual fund cooperatives, 28 rural cooperative banks, and 23 other financial institutions. At present, China has basically established a multi-level, wide-coverage and differentiated banking institution system. The reform of policy banks has been put in place, breakthroughs have been made in the establishment and development of private banks, and various institutional formats such as banks, securities, insurance, trusts, futures, funds and financial technology enterprises have flourished.

Generally speaking, the asset composition of China's banking financial institutions presents the following features. First, since 2015, the asset composition of different types of banking financial institutions in China has remained basically stable, with insignificant fluctuations of asset proportion of various financial institutions. Second, large commercial banks still occupy a dominant position in banking financial institutions. In 2019, the assets of large commercial banks accounted for 40.3%, 22.4% points higher than that of joint-stock banks. Third, after a slow decline in previous years, the asset share of large commercial banks rebounded to a certain extent in 2019, which shows that the financial de-leveraging policy has led to regression of the shadow banking system in recent years, and this regression was mainly absorbed by large commercial banks (Table 10.1).

In terms of capital market, at the end of 2019, there were 3757 listed companies in Shanghai and Shenzhen Stock Exchanges, including 1953 listed companies on the main board market, 943 listed companies on small and medium-sized board, 791 listed companies on ChiNext Market and 70 listed companies on STAR Market. At the end of 2019, the market capitalization of listed companies totaled 48.34 trillion yuan, with an average price-earnings ratio of 17.50 times, and the annual cumulative turnover reached 126.83 trillion yuan. The normal, law-based and well-regulated operation of the New Third Board market has effectively expanded the depth and breadth of the capital market. By the end of 2019, there were 8953 listed companies on the New Third Board, with a total listed share capital of 561.6 billion shares, including 335.4 billion tradable shares. In 2019, listed companies completed 567 additional issuances of shares, with a total financing of 24.012 billion yuan. In terms of regional equity market, as of the end of 2019, there were 112,900 listed enterprises in 34 regional equity markets in China, with total assets of 2.48 trillion yuan and operating income of 278.9 billion yuan. The bond market has become a debt financing market next only to the banking system. By the end of 2019, there were 49,400 bonds on the market, with a balance of 97.10 trillion yuan, including 16.65 trillion yuan of

**Table 10.1** Proportions of total assets of different types of banking financial institutions in China (*unit %*)

| | Large commercial banks | Joint-stock commercial bank | City commercial bank | Rural financial institutions | Other types of financial institutions |
|---|---|---|---|---|---|
| 2015 | 39.2 | 18.6 | 11.4 | 12.9 | 18.0 |
| 2016 | 37.3 | 18.7 | 12.2 | 12.9 | 19.0 |
| 2017 | 36.8 | 17.8 | 12.6 | 13.0 | 19.8 |
| 2018 | 36.7 | 17.5 | 12.8 | 12.9 | 20.1 |
| 2019 | 40.3 | 17.9 | 12.9 | 12.8 | 16.2 |

*Source* Wind information

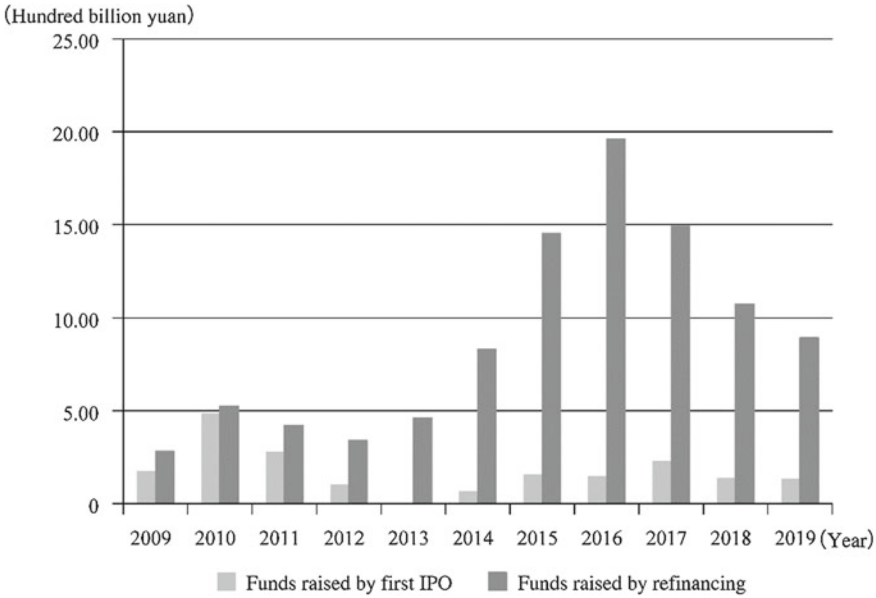


**Fig. 10.5** Scale of equity financing on China's capital market. *Source* Wind information

national debt, 21.12 trillion yuan of local government bonds, 22.83 trillion yuan of financial bonds and 6.90 trillion yuan of corporate bonds (Fig. 10.5).

At the end of 2019, there were 12 insurance group companies, more than 90 property insurance companies, slightly over 100 life insurance companies, 12 reinsurance companies and more than 20 insurance asset management companies on the Chinese market. The distribution channels of Chinese insurance companies are divided into direct sales, personal agency, part-time agency, insurance agency, insurance brokerage agency and insurance assessment agency. The premiums contributed by Internet and telephone sales are also included in these six categories according to practicing entities of the sales behaviors. By the end of 2019, there were 6 insurance intermediary groups, more than 1700 insurance professional agencies, about 500 insurance brokerage companies and about 350 insurance assessment companies on the Chinese market. Among Fortune Global 500 in 2019, there are 55 insurance companies, with 7 in mainland China, including China Ping'an, China Life Insurance, PICC, China Pacific Insurance, Taiping Life Insurance, Taikang Life Insurance and Huaxia Life Insurance. In 2019, the original insurance premium income on China market was 4.26 trillion yuan, including property insurance premium income of 1.16 trillion yuan, life insurance premium income of 2.28 trillion yuan, health insurance premium income of 0.71 trillion yuan and accidental injury insurance premium income of 0.12 trillion yuan.

### *10.1.3 Reform of the Financial Regulatory System*

Since 2015, with the increasing downward pressure on the domestic economy, there has appeared the pro-cyclical effect in the financial sector; the financial risks previously concealed under the background of high growth have become explicit; and the threat of systemic financial risks is increasing. Faced with this situation, the CPC Central Committee and the State Council quickly carried out prevention and resolution of systemic financial risks. Measures include monetary policy, fiscal policy and regulatory policy as well as policies on cutting overcapacity and excess inventory, deleveraging, reducing costs, and strengthening points of weakness, strengthen financial regulatory, aggregate deleveraging, shadow banking disposal, local government debt management, macro-prudential evaluation system, and unified regulatory of asset management, so as to effectively reduce the risk correlation within financial sector and between the financial sector and the real economy. Since the Third Plenary Session of the 18th CPC Central Committee, financial reform has been deepened step by step and made great progress. We established the Financial Stability Development Committee of the State Council to coordinate major issues of financial stability, reform and development. The CBRC and the CIRC were merged to form the local financial regulatory framework. We also established a new framework of financial regulatory coordination. The ability of the financial industry to serve real economy and resist risks has been greatly improved, and a financial system and regulatory framework compatible with the socialist market economy have been basically established.

### *10.1.4 Development of Financial Inclusion*

We will improve the financial supply system, increase financial products, promote the availability of financial services, meet financial needs of small and micro-sized enterprises (SMEs), farmers and socially vulnerable groups, and enhance people's access to and satisfaction with financial services. The *Plan for Promoting Development of Financial Inclusion (2016–2020)* (referred to as the Plan) is a programmatic document for the development of China's inclusive finance at present. It consists of three major contents: the overall goal, the realization path and the measures to guarantee the development of financial inclusion during the 13th Five-Year Plan period. At present, the *Plan* proposed to establish a service system and guarantee system in inclusive finance that is compatible with building a moderately prosperous society in all respects by 2020, so as to ensure that the development of inclusive finance in China ranks in the middle and upper levels of the world. From the effect of policy implementation, China's diversified and wide-coverage organizational system is taking shape. Large and medium-sized commercial banks have successively set up business divisions of inclusive finance with different models; inclusive financial institutions have been widely extended downward to lower levels; the inclusive financial organization system on the capital market has been gradually established; the infrastructure construction in inclusive finance has been steadily advanced; the scientific and technological innovation for inclusive finance has been actively carried out; and the demonstration pilot projects in inclusive finance and the construction of national pilot zones have been put into practice in an orderly manner. By the end of 2018, the coverage rates of banking financial institutions and insurance institutions in China were 96 and 95% respectively; the coverage rate of basic financial services in administrative villages in China was 97%[3]; the coverage rate of agricultural insurance grassroots service outlets in villages and towns was 95%; and the coverage rate at village level exceeded 50%. With the establishment of 24-h self-service banks and other outlets, the service quality and efficiency of financial inclusion in urban communities in China have been continuously improved, and the availability and convenience of residents' financial services have been significantly enhanced.

### *10.1.5 Construction of Financial Infrastructure*

Payment and settlement, credit reporting, statistics, information, professional services and legal system have been continuously improved; financial technology represented by third-party payment has achieved explosive growth; and the application and business development of financial technology are at the leading level in the world. Since China National Advanced Payment System (CNAPS) was put into operation, China's payment and clearing system has been continuously improved; the online clearing platform has been registered and officially put into operation; the Shanghai Commercial Paper Exchange Corporation Ltd has been established and actively explored and innovated its business; the bond default transfer mechanism is under active exploration; and the RMB cross-border payment system has been officially put into operation. At present, the payment systems of the People's Bank of China include: High Value Payment System (HVPS), Bulk Electronic Payment System (BEPS), Internet Banking Payment System (IBPS), Intra-city Clearing System (ICCS), and China Foreign Exchange Payment System (CFXPS), among which HVPS is the main system of China's payment systems, covering banking institutions nationwide and connecting financial markets and real economy. In 2019, 1094 million transactions were processed on the HVPS, with an amount of 4950.72 trillion yuan; namely, 4,376,800 transactions were processed on a daily basis, totaling 19.80 trillion yuan. From the number of processed transactions and the processed amount, the HVPS ranks in the forefront of the real-time full settlement system in the world. Besides these payment systems of the People's Bank of China, other payment systems such as the intra-bank payment system, the bank card inter-bank payment

[3] Bank of China Insurance Regulatory Commission, "China Insurance Regulatory Commission issues the Notice on Ensuring Banking and Insurance Serve Rural Vitalization and Help Poverty Reduction in 2019". March 18, 2019, the website of Bank of China Insurance Regulatory Commission. http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?DocId=211870.

system, the bill processing system of city commercial banks, and the payment and clearing system also play an important role in economic and financial operation.

In regard to the credit system construction, China's 2G credit reporting system has been initially established which has not only updated credit information but also contained more information. The People's Bank of China issued a number of documents, and further standardized the credit system construction of small and medium-sized enterprises and rural areas, so as to provide solutions to the problems of financing difficulties and high financing cost caused by insufficient assets and imperfect financial information of small and medium-sized enterprises, improve the construction of farmers' personal credit information system, and provide assistance for targeted poverty reduction. In the establishment and supervision of laws and regulations, the *Work Plan for Overall supervision and Management of Financial Infrastructure*, which was reviewed and approved in September 2019, proposed to establish unified access standards and information disclosure standards for platforms undertaking financial basic work. Regulation of operation rules will facilitate the connectivity between financial infrastructures, the establishment of financial information sharing mechanism, help establish dynamic supervision and management mechanism for financial activities, and strengthen applications of modern information technology and realization of thorough supervision.

### *10.1.6 Innovation and Development of Financial Technologies*

Since 2013, China's financial technology has entered a stage of rapid development, and raised more investment and funds for financial technology. A large number of financial technology enterprises have been established in various places, covering various business types such as P2P lending, Internet banking, equity crowd-funding, third-party payment, blockchain, insurance technology and consumer finance. In addition, there have emerged an increasing number of financial technology service providers, third-party intermediary service institutions, financial technology industry organization alliances, and financial technology research institutions in various places, which provide business solutions and necessary support for the development of financial technology. Some financial technology applications represented by mobile payment are at the world leading level. Driven by market demand and innovation of technology application, China's financial technology has achieved important breakthroughs in the research and development and application of key core technologies in some fields, and the penetration rate of users has increased rapidly. Some financial technology applications represented by mobile payment are at the world leading level. Scientific and technological means, such as artificial intelligence, big data, cloud computing, and the Internet of Things are adopted by financial institutions to innovate financial products, change business methods and optimize business processes. The value of financial data has become more prominent, and financial

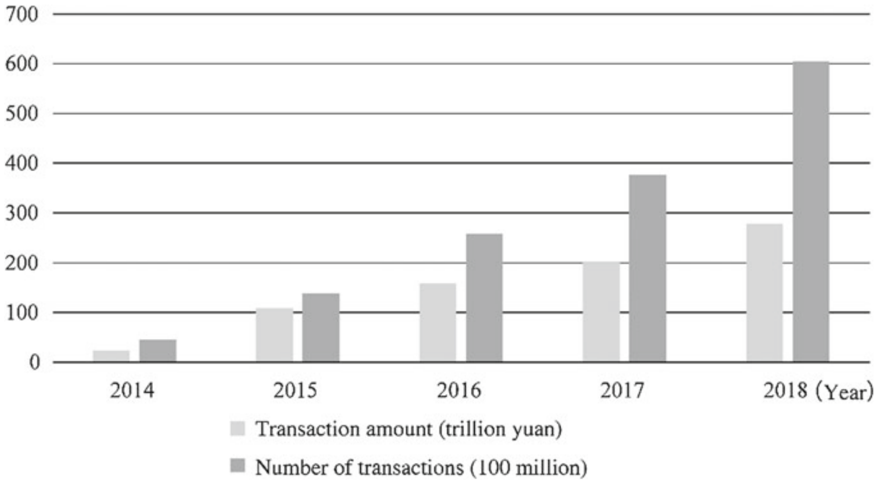


**Fig. 10.6** Development of mobile payment in China. *Source* People's Bank of China

products and services have moved towards intelligence, refinement, diversification and application in specific scenarios. Financial technology has become a new driving force for practicing financial inclusion and developing digital economy (Fig. 10.6).

### *10.1.7 Two-Way Opening-Up of Financial Market*

We have relaxed restrictions on foreign investment in financial services, and promoted two-way opening up of financial markets in an orderly manner. Some open and innovative mechanisms are launched, such as Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Bond Connect and Shanghai-London Stock Connect. The quotas of QFII, RQFII and QDII have been continuously increased until they are completely abolished. Since 2015, RMB has become an SDR basket currency, and A shares have been included in MSCI Emerging Markets Index. This is a landmark event of China's financial opening to the outside world. During this period, we promoted the reform of RMB exchange rate formation mechanism, enhanced the flexibility of RMB exchange rate against US dollar, and improved the formation mechanism of exchange rate central parity, which has effectively coordinated and promoted economic opening to the outside world, promoted macroeconomic internal and external balance, and provided assistance for RMB internationalization. The reform of foreign exchange management system with capital account opening as the core has reached a new height, The management follows the idea of "giving priority to inflow capital, long-term project, direct investment and investment from institutions" to promote the opening of capital projects. In this process, we should take the "Belt and Road" Initiative as an opportunity to cooperate with countries along the route to actively promote the cross-border use of RMB. The turnover of foreign exchange market has expanded year by year, and the macro-prudential regulatory framework has been continuously improved, which has played an active role in improving exchange rate flexibility, promoting market-based reform of exchange rate, optimizing resource allocation, and preventing foreign debt risks, cross-border capital flow risks and exchange rate speculation risks.

The achievements of financial reform since the 3rd Plenary Session of the 8th Central Committee of the Communist Party of China have benefited from deepening the understanding of the nature and laws of finance, of the national conditions, and of financial development with Chinese characteristics. First, we will strengthen the Party's leadership over financial work. President Xi Jinping emphasized that finance is an important core competitiveness of the country, financial security is an important part of national security, and financial system is an important basic system in economic and social development. Persistent efforts will be made to strengthen the centralized, unified leadership of the CPC in financial work, perfect the system and mechanism for the Party's leadership in financial work, carry out regular research on the financial development strategy, and make sure that the financial reform advances along a correct direction. These are the key to the breakthrough progress of China's financial reform. Second, we will ensure the purpose of finance to serve the real economy. To achieve this purpose, we will improve the efficiency and level of financial services, allocate more financial resources to key areas and weak links of economic and social development, and better meet the diversified financial needs of the people and the real economy. Third, we will give play to the decisive role of market in the allocation of financial resources. While giving full play to governments' role, we will strengthen market mechanism, market function and market discipline, further promote market-based financial elements, establish financial market systems, financial institutional systems and financial products and services system, and form a financial system with a higher level of resource allocation. Fourth, we will adhere to worst-case scenario thinking. With focus on controlling systemic financial risks, we will accurately and effectively deal with risks in key areas, resolutely fight against major risks including financial risks, prevent both "black swan" and "grey rhinoceros", and firmly ensure that there will be no systemic financial risks.

## 10.2 Main Problems in Financial Reform and Development

Under the leadership of the CPC Central Committee and the State Council, China's financial reform has achieved great progress. However, China's financial reform and opening-up were carried out only in specific department or sector due to lack of overall coordination. In addition, there existed omissions in implementation of document, policy and reform measures, which has affected the pace and implementation effect of reforms.

### *10.2.1 The Imbalanced and Inadequate Development of Capital Market Remains an Outstanding Problem*

First, compared with the banking system, the capital market is weaker than the banking system in the financing ability and capital allocation efficiency. In 2019, RMB loans, foreign currency loans, entrusted loans and trust loans accounted for 68.7% of aggregate social financing, while corporate bonds, government bonds and non-financial enterprise stock financing accounted for 27.3%, far lower than the proportion of loan financing. In recent years, the increasing proportion of direct financing is mainly due to the increasing proportion of government bond financing. It is still difficult to issue bonds across markets, especially cross-market issuance. The limited amount of bonds issued is distributed in two markets, thus leading to a decline in the issuance of a single bond, which is not conducive to the improvement of bond liquidity. The development of the New Third Board market encountered bottlenecks, such as insufficient liquidity and restricted financing function, moving away from the basic orientation of serving SMEs (Table 10.2).

Second, a unified and efficient bond market system has not really been established. As the main support of direct financing market and the second largest bond market in the world, China's bond market are faced with such problems as multiple, segmented management without overall coordination. The bond market lacks transparency and uniform information disclosure rules, and there are different requirements for information disclosure among institutions and regulatory agencies. The differences in regulatory norms and disclosure systems may lead to the inefficiency of investment institutions in collecting public information, which also increases the bond issuer's own issuance and information disclosure costs in the process. Moreover, the lack of transparency on the bond market will give issuers the opportunity for regulatory arbitrage.

Third, there are still many problems in the basic system of stock market. First, the listing standards need to be improved. The current listing standards and rules may attract more enterprises that will cash out soon, so quite a few innovative enterprises can only go to overseas market for listing. Second, there are many deficiencies in the orientation, players, requirements and quality of information supply in market information disclosure. Under the current approval system, the information disclosure of market players is orientated to meeting the substantive audit requirements of regulatory agencies, while tedious information is difficult to understand and it mostly involves the rules and regulations of regulatory agencies, and effective information for investors is short of supply. Third, the delisting efficiency is low. Complicated delisting procedures and low delisting rate of listed companies crippled the formation of delisting mechanism. The fluctuating stock prices of some low-quality listed companies distorted the pricing function of capital market, and the delisting mechanism played an insignificant role.

Finally, the framework of capital market regulatory system needs to be improved. First, the issuance audit and listing audit have not been separated. The role of exchanges in listing audit and market self-discipline needs to be confirmed and

**Table 10.2** Changes in the composition of aggregate social financing in China from 2017 to 2019 (*unit %*)

| | RMB loans | Foreign currency loans converted into RMB | Entrusted loans | Trust loans | Undiscounted bank acceptance bill | Corporate bonds | Government bonds | Stock financing of non-financial enterprises | Asset-backed securities of deposit financial institutions | Loans written off | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 57.8 | 1.2 | 6.8 | 4.1 | 2.2 | 9.2 | 3.7 | 3.2 | 0.3 | 1.0 | 100 |
| 2018 | 59.3 | 1.0 | 5.5 | 3.4 | 1.7 | 9.1 | 14.5 | 3.1 | 0.6 | 1.3 | 100 |
| 2019 | 60.3 | 0.8 | 4.6 | 3.0 | 1.3 | 9.3 | 15.0 | 2.9 | 0.7 | 1.6 | 100 |

*Source* People's Bank of China

strengthened, and the effective supervision of market transactions needs to be deepened and enhanced. Second, the regulatory coordination between securities regulatory authorities and monetary policy and fiscal policy management departments, as well as between macro-prudential management and local and enterprise micro-behavior supervision need to be strengthened. Third, grass-roots regulatory forces and local supervision need to be strengthened to prevent risks before they occur. Fourth, the regulatory accountability system needs to be established. The education, supervision and management of the principal responsible persons and senior and middle-level managers of financial regulatory authorities need to be strengthened, so as to avoid behaviors that may cause major risks, such as ineffective regulatory, concealment and failure to report, and mistakes in decision-making. Fifth, the strength and effectiveness of law enforcement need to be strengthened. Light punishment of illegal players by securities regulatory agencies is not conducive to the establishment of authority and seriousness of supervision and law enforcement.

### *10.2.2 Regulatory System of Comprehensive Operation Needs to Be Established and Improved*

Since the reform and opening-up in 1978, China's financial industry has experienced a cycle from "mixed operation to separate operation and once again back to mixed operation". In the twenty-first century, the tide of mixed operation in financial industry is irresistible and bred four types of financial holdings companies, including financial holding platform (the group company is a pure financial control platform that does not operate specific business but is responsible for strategy formulation and equity investment management), bank holding companies (subsidiaries established or invested by commercial banks as parent companies to expand their integrated operations and form an "all-round banking financial holding company model"), local financial control platform, and industrial financial holding platform. Integrated operation has become a basic fact and development direction of China's financial system. However, after the institutional reform, the financial supervision system of "each railway police in charge of a section" has not been fundamentally changed, and it is difficult to cope with the regulatory challenges brought about by the integration and collectivization of financial institutions and the cross-border development of financial technology. The reform of the financial regulatory system still needs to be further deepened.

The deepening of mixed operation makes the organizational structure of financial institutions increasingly complex, and the risks of different businesses may cross-infect within financial groups. Specifically, the complexity of organizational structure will produce the following risks: First, principal-agent risk. Compared with conventional financial institutions, financial holding companies have diversified organizational structures and numerous internal levels, so the principal-agent problem is correspondingly more prominent. The principal-agent relationship of financial holding companies includes two types, namely, the principal-agent relationship between shareholders and operators, and the principal-agent relationship between parent companies and subsidiaries. Among them, the principal-agent relationship between a parent company and a subsidiary company is not available in conventional financial institutions, because of excessive credit granting by parent company to subsidiary company. The second is the risk of related party transactions. The complexity of organizational structure leads to numerous internal institutions of financial holding groups, and relationships are more complicated and related transactions are more frequent. The risk of related party transactions caused by this is also more prominent. Meanwhile, once the funds of a subsidiary under the financial holding company rupture, the existence of related party transactions will strengthen the spread of risks and have an impact on the capital situation of the whole group and lead to a crisis. The third is the risk of transparency. The complexity of organizational structure makes it difficult for the overall financial information of financial groups to be transparent, which makes it difficult for investors and regulators to clarify the internal relations of the group, thus unable to accurately grasp the real business situation. The fourth is the risk of regulatory arbitrage. In China, commercial banks are subject to stricter supervision and restrictions than other financial institutions. However, financial holding companies with complex organizational structure can take advantage of their own particularity to transfer some strictly regulated businesses from bank subsidiaries to other loosely regulated subsidiaries for free operation. This protects the overall interests of the group to a certain extent, but it also increases the risks faced by the group.

### *10.2.3 Division of Central and Local Financial Regulatory Responsibilities and the Definition of Risk Disposal Responsibilities Need to Be Clarified*

China's financial regulatory system is changing from central single-supervision to double-supervision mode, but there is a vague division of powers between central and local governments in the field of financial supervision, and the boundaries between central and local governments are unclear. First of all, this situation exists due to the lack of relevant legal basis. At present, there is no law to clearly stipulate the entity, content, means and methods of local financial supervision, which leads to the failure of local financial regulatory authorities to rely on their functions, powers and responsibilities. In addition, there is a lack of unified system design in local financial supervision, and local governments set up their own regulatory organization system. There is a conflict of interests between local financial development and overall financial stability, resulting to the lack of integrity of local regulatory system, unclear organization orientation and unclear regulatory function.

Another important problem is the poor coordination mechanism of local financial supervision. First of all, the coordination between the central and local regulatory authorities is not smooth. Due to the existence of geographical distance and the lack of relevant institutional arrangements, it is difficult for the central regulatory authority to understand the local financial information and give effective guidance to the local regulatory work. On the contrary, this difficulty in communication and coordination makes the regulatory policies formulated by the central government easy to be compatible with the local actual situation, and it is difficult to respond to the local financial risks in time. The coordination mechanism between local government and central regulatory agencies has not been institutionalized. The local finance office takes the lead, and the joint meeting mechanism established by the agencies of the People's Bank of China, the Banking Regulatory Bureau, the Securities Regulatory Bureau and the Insurance Regulatory Bureau is arbitrary in time, theme and content, which limits its role. The coordination problem between the central departments is also reflected on the supervision of local financial activities, which leads to the phenomenon of multiple government departments, duplication of supervision and vacuum of supervision. In addition, there are coordination problems between local regulatory authorities and other local government departments and within them. Regulatory authorities are subject to authority and resources, and it is difficult to independently undertake the responsibility of risk disposal without the cooperation of other departments, but they lack corresponding coordination ability and mechanism.

### *10.2.4 Unbalanced Financial Innovation and Supervision*

Although China has made certain achievements in financial technology, we must be soberly aware that there still exists the problem of insufficiency and imbalance in the development of financial technology in China, e.g. lack of top-level design and overall planning, imbalance of various market players in scientific and technological capabilities, innovation impetus, talent team, system and mechanism, etc. In addition, weak industrial base led to the failure in forming an ecosystem with international influence and creating foresight in R&D arrangement. The infrastructure, policies, regulations and standard system that adapt to the development of financial science and technology need to be improved urgently.

With the rapid development of financial technology represented by Internet finance, the boundaries of financial businesses are gradually blurred; the number and heterogeneity of market participants are greatly increased; and the transmission channels of financial risks are more complex. All these have raised new challenges to monetary policy, financial market, financial stability and financial supervision. The illegal operation of P2P online lending institutions and a large number of defaults in 2019 not only revealed aforesaid risks that financial technology may bring, but also exposed shortcomings in China's financial technology supervision. Internet finance has developed rapidly, but the corresponding financial regulatory system is extremely imperfect, which has caused a lot of financial risks and losses. At present, the crucial stage of stockpile clearing and risk mitigation in the special rectification and rectification of Internet finance has come to an end and is entering the final stage. However, the end of stockpile clearing and risk mitigation does not mean that Internet financial risks will no longer erupt. To standardize the development of financial science and technology, we find that the key lies in establishing effective institutional arrangements. Fundamentally speaking, standardizing the development of financial science and technology in the medium and long term will depend on deepening financial reform and opening-up and providing mechanism guarantee and power support through reform. Optimizing the governance system, establishing a long-term mechanism, improving the regulatory capability and preventing the resurgence of original problems will be China's central tasks in the next step.

### *10.2.5 Insufficient Financial Consumer Protection Mechanism*

First, there is the lack of special financial consumer protection laws. The *Law on Protection the Rights and Interests of Consumers* is a basic law to protect consumers' rights and interests in China, but there are some problems such as insufficient pertinence in protecting financial consumers. The *Guiding Opinions of the General Office of the State Council on Strengthening the Protection of Financial Consumer Rights and Interests*, the *Implementation Measures of the People's Bank of China on the Protection of Financial Consumer Rights and Interests* and the *Administrative Measures of the People's Bank of China on the Protection of Financial Consumer Rights and Interests* have been promulgated in recent years. In addition, traditional financial legal systems such as the *Law* of C*ommercial Banks*, *Regulatory Measures for Banking Business Operation*, *Insurance Law*, *Complaints Handling Measures* and *Securities Law* are also partly related to financial consumer protection. However, most of these guiding programs and departmental rules and regulations are principle-based, abstract and not operable, or mainly aim at the norms of financial institutions' business behavior, and do not provide clear and specific protection for financial consumers.[4]

Second, the regulatory authorities lack an effective coordination mechanism. Although consumer protection departments are set up in major financial regulatory agencies, it is difficult to achieve the goal of financial consumer education and protection by a single institution due to complex structure of financial investors and consumers in China and relatively low level of financial awareness, and it is necessary to establish a more systematic and comprehensive consumer protection mechanism. Meanwhile, the laggardness of financial technology application, especially of Internet financial supervision, has objectively brought new problems such as information security and privacy protection to consumer protection, which needs to be dealt with by relevant departments in a unified and coordinated manner. Take online loan consumer protection as an example. In April 2018, the China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC) were

[4] He (2019).

merged, and in November, the P2P online loan industry was formally brought under the jurisdiction of the CBRC, and its regulatory systems were formulated by inclusive finance department for its business activities. However, the supervision in the fields of direct financing and indirect financing still lacked an effective coordination mechanism.[5]

Third, there is a lack of effective mechanism for resolving financial consumer disputes. At present, the settlement of financial disputes in China mainly depends on the internal treatment of financial institutions, complaints filed to financial regulatory authority, arbitration or litigation, etc. It is costly and time-consuming to resolve financial disputes through arbitration or litigation. In addition, financial consumers as individuals have limited ability to provide evidence, so there is high risk of failure in arbitration or litigation. Complaints filed to financial regulatory authorities are often handed over to relevant financial institutions for treatment under the supervision of regulatory authority. When financial consumers are infringed, there are few authoritative institutions and effective systems to protect their interests, and they can only adopt sporadic and spontaneous measures for rights protection, which makes it difficult to realize their rights and interests.

Finally, there is the lack of a financial consumer education system. At present, China lacks systematic financial consumer education. As a result, the overall level of national financial literacy remains low, and investors have an immature mentality and lack the awareness of risk and responsibility. Chinese financial institutions have also carried out various consumer education activities, such as the publicity of the People's Bank of China before and after "March 15 (Consumer Rights Day)"; however, due to lack of systematicness and resultant force of the financial industry, these activities often become formalistic and achieve poor results. In recent years, financial consumers have improved the awareness of safeguarding their rights, but they still lack financial and legal knowledge to effectively safeguard their rights, and even fail to realize that their rights and interests have been infringed.

## 10.3 Policy Suggestions on Further Deepening Financial Reform

In the future construction of financial system, we should further consolidate the existing reform achievements. Efforts will be continued to implement various financial reforms since the 19th National Congress of the Communist Party of China so as to achieve goals of system integration, coordination and high efficiency. We will deepen the structural reform of the financial supply side, dredge the transmission mechanism of monetary policy, and comprehensively promote the construction of financial system and mechanism.

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[5] He (2019).

### *10.3.1 Accelerating Modernization of the Financial Governance System and Capacity*

It was pointed out at the Fourth Plenary Session of the 19th CPC Central Committee that upholding and improving socialist system with Chinese characteristics and promoting modernization of the national governance system and capacity are major strategic tasks of the whole Party, of which the financial governance system and capacity are important components. Under strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, we will constantly improve the financial macro-control mechanism and build a modern central bank system, so as to improve the modern financial system with high adaptability, competitiveness and inclusiveness, further enhance the governance capacity of the financial industry, and promote the sustained and healthy development of the financial industry by supporting high-quality economic development, preventing and resolving various risks in time.

First, we will further integrate and improve the financial regulatory framework. Based on the development trend of comprehensive operation of financial sectors in the future, we will integrate the regulatory functions of banking, securities and insurance to establish a unified micro-prudential regulatory institution, explore establishment of market behavior regulatory institutions, and strengthen the protection of consumers' rights and interests. The coordination mechanism of financial supervision will be improved to strengthen coordination among various regulatory bodies under the leadership of the Financial Stability Board (FSB). Corresponding incentive mechanism will be established to effectively restrain the behaviors of all parties of financial regulatory institutions, and be accountable to the financial regulatory institutions that do not cooperate or cooperate negatively in the process of regulatory cooperation. We will clarify the design principles and use principles of financial regulatory tools to form a dynamic adjustment mechanism of financial regulatory tools, and evaluate and analyze the existing financial regulatory tools. We will also make further detailed classification, eliminate inapplicable regulatory tools, and explore and supplement new regulatory tools suitable for the new era and new characteristics through international reference and research.[6] Emphasis will be placed on the consistency and continuity of financial regulation. With regard to consistency, we should emphasize the principle of penetrating regulation and substantive regulation. For similar financial business, the regulatory efforts must be consistent to prevent excessive evasion of regulation. With regard to sustainability, while strengthening regulation of quantitative indicators, we should emphasize the supervision of risk management and corporate governance framework of financial institutions to ensure long-term sustained and stable operation of financial institutions.

[6] Ma and Liu (2019).

Secondly, we should further rationalize the responsibility relationship between the central and local financial supervision, support reform of local financial supervision, and focus on the implementation of laws, talents, funds and technical support for local supervision. Promote the legal system construction of local financial supervision, determine the division of responsibilities between central and local financial supervision, and avoid the problems of long-term supervision and lack of supervision. At the same time, we will clarify the regulatory object, legal status and scope of powers and responsibilities of local financial regulatory authorities, integrate financial management responsibilities scattered in multiple functional departments, and ensure clear powers and responsibilities of local financial regulation. Local financial supervision guidance and regulations will be introduced to form a unified national legal supervision system, and enhance the operability and authority of supervision. Cooperation mechanisms between the central and local governments and between local governments will be established to promote information communication and experience sharing.[7]

Thirdly, we will establish a long-term mechanism to manage financial risk. The policy decision-making and coordination functions of the Financial Stability Board of the State Council will be strengthened, with focus on dealing with systemic financial risks and financial risks with significant social stability impacts, so as to build an effective risk early warning system and comprehensive risk treatment mechanism. We will strengthen expected management of financial regulation by setting up expected management mechanisms in various supervision agencies. We will enhance communication and coordination between financial regulators and the market, release relevant financial regulatory policy or information in advance according to supervision requirements, and then adjust financial regulatory policy according to the market's response. We will publish the minutes of government meetings related to supervision policies, disseminate the original intention and goal of policy formulation of the FSB through the media, and strengthen the information exchange between the public and the government to guide the public's policy expectations.

Finally, we will further improve the financial legal system. (1) We will take a long-term perspective, global perspective and macro perspective in the legislative concept, strengthen combination of institutional legislation and functional legislation, and improve the long-term applicability of financial laws. (2) In the legislative co-ordination, we should abandon the prejudice among industries, departments and institutions, and strive to build a financial legal system that is unified with functional supervision, so as to ensure that different departments have unified supervision standards for the same or similar financial businesses. (3) We will strengthen consumer protection legislation, with focus on improving consumer rights protection, and build a legal environment with fair market environment, stable market operation mechanism and strong consumer protection. (4) The system design and disciplinary punishment of supervision and punishment in the financial sector will be strengthened to increase the intensity of administrative punishment and increase the cost of violating laws and regulations. (5) We will strengthen legislation of risk disposal,

[7] Jin (2019).

institutional recovery and exit mechanism of financial institutions or enterprises, smooth the mechanism of survival of the fittest in the market, and let market play a decisive role in resource allocation. 6)With focus on core laws and key areas, we will effectively make up for our shortcomings or gaps in regulatory legislation, such as improvement of the *Law on Commercial Bank*, *Securities Law*, *Insurance Law*, *Law on Administrative Punishment*, *Measures for Punishment of Financial Violations*, *Regulations on Management of Banks*, and regulatory legislation in emerging innovative fields such as financial technology. Seventh, we will improve the legislation of local financial regulation and risk control. There is a need for special laws to apply to the supervision, guidance and law enforcement inspection of local financial supervision and management, and it is necessary to accelerate the promotion of local financial legislation. (7) We should promote the *Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation and Other Measures* to deal with external shocks and long-arm jurisdiction, so as to explicitly deny the applicability of unilateral laws of other countries to Chinese entities in legal form, and break the effectiveness of unilateral sanctions of other countries through legislation.

### *10.3.2 Improving Basic Systems of the Capital Market*

First, we will make clear that the construction of capital market must fully implement the principles of innovative, coordinated, green, open, and shared development. These new development principles should be fully reflected in systems such as the market basic system, regulatory system, and product and service system. Innovative development should focus on getting rid of simple imitation of developed markets, promoting market system construction and product innovation in line with China's national conditions, and better adapting to the needs of the transformation of the real economy. Green development should emphasize the promotion of socially responsible investment and provide convenient and low-cost financing channels for eco-environmental projects. Coordinated development should highlight coordination of the interests of various market players to achieve win–win cooperation. Open development should stress high-level opening of the capital market, encouraging integration of domestic and foreign markets, and providing more choices for Chinese enterprises and investors. Shared development should emphasize that the fruits of capital market development are shared by all participants, and it is not allowed to harm the public interest for the benefit of a small number of people.

Second, we will actively promote reform of the basic systems of capital market. In terms of listing system, on the basis of existing pilot reform of registration system on the STAR market, the issuance and listing system on STAR market will be improved step by step. We will clarify differences and connections between issuance audit and listing audit in terms of work objectives, work contents, work processes and working mechanisms. On the premise that the reform plan is basically incubated, we will organize stock exchanges such as Shanghai and Shenzhen Stock Exchanges and National Equities Exchange and Quotations to establish a unified audit process and quantifiable audit standards, so as to connect with the audit procedures of China Securities Regulatory Commission (CSRC). Meanwhile, according to the principle of separating issuance from listing, each trading venue is organized to put forward its own listing system reform plan, so as to promote the differentiation and diversification of listing systems on stock markets at all levels. We will conduct strict oversight over the information disclosure behavior of listed companies to minimize irregular information disclosure and frequent correction of information. We will carry out quality evaluation of information disclosure of listed companies, and link it with the audit of major issues such as refinancing of listed companies, and urge listed companies to pay attention to information disclosure. By organizing advanced market sector and limiting qualifications of investors in high-risk stocks, the number of public shareholders of delisting risk stocks will be gradually reduced, and the transfer system will be improved to lower the delisting threshold of the advanced market sector in an orderly manner. The delisting process will be simplified to allow exit of low-quality companies from the market.

Third, we will integrate the bond market, clarify the internal mechanism, investor structure, transaction methods and regulatory requirement of different bond markets, and improve the financial infrastructure construction of bond market, such as registration and custody, clearing and settlement, transaction report database, central counterparty, rating agencies and information disclosure platform. We will continue to improve the information disclosure and credit rating system, and deepen the bond issuance mechanism based on information disclosure. The standardized and legal credit risk disposal system will be perfected to optimize and improve the market restraint mechanism and risk sharing mechanism, strengthen supervision and coordination, and safeguard the legitimate rights and interests of investors. We will constantly improve the bond yield curve, especially the national debt yield curve as the market benchmark, continuously improve the price index system that reflects the operation of bond market, and do a good job in market leverage and risk monitoring.[8]

Finally, we will prevent and resolve potential risks on the capital market. A response plan for systemic risks in the capital market will be put in place. Its main contents include maintaining high transparency on the progress of market risk disposal, risk isolation for defaulting institutions and related financial instruments, conditionally rescuing financial institutions by the People's Bank of China, purchase of a fixed amount of credit bonds when necessary to maintain market liquidity by the People's Bank of China, and punitive measures for the main unit and principal responsible person held accountable. We will establish a monitoring system for stock pledge financing, and strengthen counter-cyclical management. The charging mode of accounting firms' authentication business and securities companies' verification business will be rationalized to implement separate charging for single business, clarify and raise the charging standard, ensure that the charging can cover the business cost of intermediaries, and establish a compensation mechanism for breach of contract of listed companies. We will effectively guard against the risk of stock price collapse of listed companies, and improve and optimize the system of rules

[8] Chen (2017).

on the internal control of listed companies. We will explore the establishment of a long-term mechanism to deal with default risk on the bond market. An effective standard procedure will be established for dealing with default risk, which should include several key links, such as establishing a list of high-risk enterprises under dynamic management, mandatory information disclosure, supervision and government assistance, compensation of investor protection funds and judicial disposal. The responsibility for handling bond default risk will be borne by specific organization.

### *10.3.3 Enhancing the International Competitiveness of the Financial Industry Based on Breakthroughs in Financial Technologies*

First of all, a national strategy for the development of financial technology will be formulated to support the development of financial technology, with an open and inclusive attitude, and further consolidate the leading level of financial technology of China. More emphasis will be placed to basic theory, applied theory and frontier theory research of financial technology, and form a research consensus and a stable analysis framework, so as to effectively guide innovation practice and policy making. Universities, scientific research institutions and financial technology enterprises will be encouraged to cooperate, set up related disciplines or majors, so as to promote cross-border exchanges and integration of government, industry, university and research in financial technology. We will consolidate major infrastructure of financial technology, strengthen the construction of innovative facilities, focus on supporting enterprises and research institutions, carry out R&D of key technologies and cutting-edge technologies, so as to create a batch of intellectual property rights and patents in new technologies as soon as possible, and accelerate the transformation of scientific and technological achievements. We will promote the standardization of financial technology, judge the feasibility of financial technology application through the construction of corresponding technical and business standards, promote the launch of innovative projects, and ensure safety and controllable risks. The first-tier cities will be encouraged to give more support and guarantee policies to financial technology professionals, and promote the education, training and international exchange mechanism construction of financial technology professionals at the national level.[9]

Second, we will clarify the boundary of cooperation between financial institutions and technology companies. First, businesses that are essentially consumer finance and require licensing by existing laws and regulations, including payment and clearing services, fund absorption, loan issuance, credit enhancement and data credit reporting, must be operated by licensed institutions. Second, for businesses that are not required to be licensed by existing laws and regulations, licensed institutions should be allowed to cooperate with various non-licensed institutions with

[9] Yang (2019).

professional advantages, such as customer acquisition, credit technology and post-loan management, and encourage market competition to improve efficiency. Finally, different supervision policies can be adopted for inter-agency cooperation according to the nature of cooperation. The cooperation between one licensed financial institution and another shall be managed separately by corresponding regulatory authority, but it is necessary to maintain the coordination of policies. For cooperation between a licensed institution and a non-licensed one, the licensed institution shall be the object of supervision, which can be required to establish a white list system according to the principle of prudence, excluding institutions with poor qualifications and high potential risks.[10] For the loan assistance mode (licensed institutions provide funds to borrowers, and loan assistance institutions provide customers and data services, etc.), please refer to relevant document requirements of the regulatory authorities on outsourcing business regulation, e.g. outsourcing business cannot hinder the core capacity building of banks, and responsibilities of information technology management cannot be outsourced.

Third, we will properly handle the risks of developing financial science and technology innovation. (1) We will adhere to the concept that science and technology serve finance. We will explore the ways and paths of integration of finance and technology from reducing the cost and improving the efficiency of financial services. (2) We will rationalize applications of science and technology. For innovative ways that can't accurately manage risks for the time being, we should adopt a phased implementation method, namely, experimented in a small scale and then carried out in a large scale. We can learn from the experience of Britain, Australia and other countries to attract the "regulatory sandbox" mechanism. (3) We will regularly check and evaluate the effect of science and technology applications. In particular, the setting of models and parameters should be diagnosed regularly, and problems should be found and dealt with in time. (4) We will establish a risk disposal plan. When using scientific and technological means to innovate financial products and business models, we should make risk disposal plans, and in particular protect the legitimate rights and interests of financial consumers. (5) We will strengthen oversight of network mutual assistance, peer-to-peer lending (P2P) and network wealth management. Relevant government departments should check the platform qualifications for consumers, and integrate regulatory resources to strengthen the supervision of qualification access, capital security, information security and privacy protection.

Finally, we will improve China's international voice in the field of financial technology, establish a dialogue and communication mechanism between Chinese regulatory authority and international organization, and promote financial technology companies to actively go global and play a more important role in the international market. We will actively formulate technical and data standards for China's financial technology development, improve the regulatory and management system and technical standard system, and promote them globally in due course. On the basis of learning from international experience, we will actively promote the Chinese version

[10] Zeng (2020).

of the “regulatory sandbox” plan, and select projects with controllable risks and innovative value to enter the sandbox for pilot projects. We will guide application and development of regulatory technology, and take the lead in the formulation of regulatory technology standards. The financial technology laws and regulations will be in place to improve the legal environment and privacy protection level in the field of financial technology.

### *10.3.4 Building a Policy System to Deal with External Risks*

First, we will step up efforts in the two-way opening of financial markets to promote financial institutions to “go global” and make effective use of both domestic and foreign markets. To implement the management system of pre-establishment national treatment and a negative list, we must first steadily push forward the abolition of share ratio restrictions, and completely abolish the shareholding ratio restrictions of insurance securities companies in 2020 according to the plan, and then, when time is ripe, we will fully liberalize restrictions on business scope but retain restrictions on a few high-risk businesses through negative list. However, it should be noted that widening market access does not mean lax regulation. Efforts will be made to ensure regulatory efficiency matches the degree of openness, strengthen operational and post-operational oversight of foreign-funded financial institutions, and prevent short-term speculative institutions from entering and disrupting the market order. The pre-establishment national treatment needs to equally treat Chinese-funded institutions and foreign-funded institutions. On the one hand, same rules will be adopted in terms of shareholding ratio, establishment form, shareholder qualification, business scope and number of licenses. As long as it is outside the negative list, both Chinese-funded and foreign-funded financial institutions, especially some domestic-funded private institutions, can have access on an equal footing, that is, “market entities can do anything which is not prohibited by the law”, without discrimination. At the same time, same standards should be set for regulatory indicators such as capital adequacy ratio and provision coverage ratio, that is, foreign-funded financial institutions should “do as the Romans do when in Rome” and accept the same regulatory requirements. On the other hand, in terms of preferential policies and tax incentives, we will neither favor Chinese-funded enterprises nor provide “super-national treatment” to attract foreign investment; instead, we will provide a level playing field so that they can compete fairly and not damage the enthusiasm of any party. This will improve the international competition and strength of Chinese-funded financial institutions.

Second, we will coordinate the reform process of RMB exchange rate formation mechanism, capital account opening and RMB internationalization, with focus on controlling capital account management as the “last firewall”, and promoting capital account opening in a progressive way. We will steadily push forward the reform of RMB marketization mechanism, so that the exchange rate can fully reflect market supply and demand, and then realize more efficient allocation of foreign exchange resources to promote the balance of international payments. We will create an integrated account management system of local and foreign currencies for the reform of foreign exchange management system. First, we will effectively improve the convertibility of RMB, and promote the internationalization of RMB while promoting cross-border use of RMB. Second, local and foreign currency funds will be managed in accordance with unified business rules, and aligned with international rules, subjects and calibers for balance of payments. Third, we will unify relevant policies, including trade credit, foreign debt management and other policies, without differential treatment of local and foreign currencies, and prevent market players from using policy differences to speculate. Finally, relevant regulatory authorities should jointly unify information collection and monitoring, eliminate regulatory duplication and make up for regulatory gaps.

Third, we will speed up the establishment of credit rating agency with international voice. China has been committed to promoting the construction of credit information system and cultivating credit rating agencies. At present, however, the credit rating is still in its infancy, and there are some problems, such as insufficient credibility, low independence, doubtful rating quality and inconsistent regulatory rules. In the "new eleven measures for opening financial sector to the outside world" published in July 2019, foreign-funded institutions are allowed to carry out credit rating business in China. Therefore, it is urgent to establish a rating agency that gives China a bigger voice and greater influence in the international arena, so that China has the pricing power of products in the international financial market. First, we will establish a unified rating standard system as soon as possible with reference to scoring indicators and processes of international rating agencies, so as to standardize the behavior of rating agencies, improve the independence and credibility of ratings, strengthen operational and post-operational oversight, and severely punish credit agencies that maliciously manipulate and buy and sell ratings. This will form enough deterrence and ensure the rating quality. Second, under the background of big data technology maturation and the gradual popularization of mobile payment, there are diverse sources of available information, so we need to change the way of thinking by giving full play to the positive role of financial technology in credit rating, and strive to improve the rating quality and credibility.

Fourth, there has formed the trend of long-term international trade friction and future conflicts may extend to the financial sector, so it is necessary to make policy plans. From the opening of financial sector to the opening of capital account and further to the building of international financial center, the construction of payment and clearing system is a key link. At present, external uncertainty is increasing, so it is risky to rely blindly on external payment and clearing system. China's initiative to establish the Cross-border Interbank Payment System (CIPS) is of great forward-looking and strategic significance. But at present, it is small in scale, and still impossible to completely get rid of the dependence on SWIFT system in the short term. In the future, based on the "Belt and Road" Initiative, we will seize the opportunity of "de-dollarization" in some countries and overseas expansion of third-party payment platforms such as Alipay to make the best of China's leading advantages in mobile payment, and continue to promote the construction and use of CIPS system by adopting new technologies such as blockchain, artificial intelligence and cloud computing. Specifically, we will promote connectivity between CIPS system and more overseas financial infrastructure as soon as possible, and minimize settlement intermediate links to realize direct processing, optimize CIPS message transmission system, develop new products and services for financial opening measures to attract more enterprises and individuals to use RMB for settlement, and increase the use ratio of CIPS system in RMB cross-border business. In a word, we aim to create a safe, efficient and independent international payment and settlement system, so as to realize the global development of CIPS system and firmly grasp the initiative in international trade. Meanwhile, in order to cope with external shocks, we should speed up the establishment of a dynamic exchange rate emergency mechanism, and build a timelier, complete and effective balance of payments risk monitoring system and a balanced management mechanism for cross-border capital flows.

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