

The 12th Five-year Plan for the Development and Reform of the Financial Industry

People's Bank of China

China Banking Regulatory Commission

China Securities Regulatory Commission

China Insurance Regulatory Commission

State Administration of Foreign Exchange

Contents

Contents	2
Foreword	6
Chapter I	Accelerating the reform and the opening up of the financial industry, and propelling transformation of the economic development pattern.....	7
Section 1	Main achievements in the financial reform and development in the 11 th Five-year Plan period.....	7
Section 2	Opportunities and challenges under the 12 th Five-year Plan.....	10
Section 3	Guideline.....	11
Section 4	Main objectives.....	11
Section 5	Policy focuses.....	13
Chapter II	Improving macro adjustment and control and facilitating steady and sound economic development.....	15
Section 1	Establishing a robust financial macro prudential policy framework...	16
Section 2	Enhancing the monetary policy adjustment and control.....	16
Section 3	Bolstering financial support to under-served sectors.....	17
Section 4	Further enhancing the coordination among macro-economic policies	18
Column 1:	Financial macro prudential policy framework.....	19
Chapter III	Optimizing the deployment and establishing the system of modern financial organization.....	20
Section 1	Improving the deployment of the banking industry.....	20
Section 2	Facilitating the regulated development of financial institutions in the securities industry.....	21
Section 3	Encouraging innovative development of firms in the insurance industry.....	22
Section 4	Continuing to drive forward the pilot program of financial institutions' offer of lines of business across multiple financial sectors in an active and stable manner.....	23

Chapter IV	Encouraging innovation, speeding up the development of a multi-layered financial market system.....	23
Section 1	Focus on stock market improvement.....	23
Section 2	Actively developing the bond market.....	24
Section 3	Continuing to develop monetary, foreign exchange and gold markets.....	24
Section 4	Proactively developing the insurance market.....	24
Section 5	Developing the futures and financial derivatives market.....	25
Column 2:	Inter-bank market credit risk mitigation instruments.....	26
Chapter V	Continuously improving financial operational mechanism through reform.....	27
Section 1	Steadily advancing the market-oriented reform of interest rate.....	27
Section 2	Improving the Renminbi exchange rate formation mechanism.....	27
Section 3	Gradually achieving convertibility of Renminbi under capital accounts.....	28
Section 4	Further improving the operation and management of foreign exchange.....	28
Section 5	Continuing to deepen the reform of financial institutions.....	28
Section 6	Encouraging and guiding the entry of private capital into financial service area.....	29
Chapter VI	Deepening the opening-up of the financial sector for mutual benefit and win-win result.....	30
Section 1	Increasing the level of opening-up for financial sector.....	30
Section 2	Expanding Renminbi's cross-border use.....	30
Section 3	Deepening financial cooperation between Mainland China and Hong Kong, Macau and Taiwan.....	31
Section 4	Enhancing international and regional financial cooperation.....	31
Column 3:	Cross-border trade and investment settled in Renminbi.....	32
Chapter VII	Enhancing regulation for financial stability and security.....	33
Section 1	Continuing to enhance financial regulation.....	33

Section 2	Increasing the effectiveness of financial regulatory coordination.....	34
Section 3	Strengthening the prevention and warning of systemic financial risks.....	34
Section 4	Establishing and improving the deposit insurance system and the exit mechanism of financial institutions.....	35
Section 5	Improving the financial oversight system of local governments.....	35
Section 6	Guiding and regulating the healthy development of private lending...35	
Column 4:	Deposit insurance system.....	36

Chapter VIII Consolidating the groundwork and optimizing the environment for financial development..... 37

Section I	Continuing to enhance legal development governing the financial industry.....	37
Section II	Advancing the development of the payment system and the credit history system and initiatives such as the anti-money laundering program.....	37
Section III	Improving the financial accounting system and the statistical system	38
Section IV	Improving the level of IT application in financial industry.....	38
Section V	Protecting the rights and interests of financial consumers.....	38
Section VI	Increasing the level of financial studies.....	39
Section VII	Developing pools of financial professionals.....	39
Section VIII	Advancing the development of industry self-regulatory organizations.....	39

Chapter IX Improving the assurance mechanism for the implementation of the Plan..... 40

Section I	Enhancing the organizational and direction for the implementation of the Plan.....	40
Section II	Enhancing consistency and harmonization with plans in other areas..	40
Section III	Implementing and improving the evaluation mechanism of the Plan.	40
Annex:		42

Indicators for the development of the financial industry during the 12th Five-year

Plan period and their explanations.....42

Foreword

The 12th Five-year Plan for the Development and Reform of the Financial Industry (“the Plan”) is a specific national plan adopted under the 12th Five-year Plan upon the approval of the State Council. It is the second medium term financial development and reform plan issued by the CPC Central Committee ever since the launch of the all-round strategy to build a well-off society and the scientific outlook on development. The Plan has been prepared in accordance with the 12th Five-year Plan for National Economic and Social Development and relevant documents pertinent to the 2012 National Financial Work Conference. The rollout and effective implementation of this plan will have crucial influence on the improvement of various financial regimes and mechanisms and the promotion of steady and sound development of the financial industry.

In September 2010, the State Council approved the 12th Five-year Plan for the Development and Reform of the Financial Industry and officially classified the same as a national thematic plan. Ever since then, the People’s Bank of China (China's central bank), working jointly with the CBRC, CSRC, CIRC and State Administration of Foreign Exchange, has conducted a series of surveys, organizing various expert seminars and soliciting comments from the public, carried out in-depth research on major issues regarding the development and reform of the financial industry under the 12th Five-year Plan.

The Plan aims to provide the guideline, main objectives and policy direction of the reform and development of the financial industry under the 12th Five-year Plan, stating the priorities of financial work and pooling efforts from various stakeholders in order to drive the financial development into a new phase. The Plan consists of nine chapters: Chapter I reviews the main achievements made in the development and reform of the financial industry under the 11th Five-year Plan, analyzing the opportunities and challenges and stating the guideline, the main objectives and the policy priorities under the 12th Five-year Plan. Chapters II through VIII addresses issues such as improving the financial macro adjustment and control, strengthening the organizational structure, developing the financial markets, deepening the financial reform, further opening up the financial industry, safeguarding financial stability and enhancing infrastructure, and specifying the key tasks of the development and reform of the financial industry under the 12th Five-year Plan. The last chapter specifies the safeguard mechanisms to be adopted for the implementation of the Plan.

The implementation period for the Plan is from 2011 to 2015.

Chapter I Accelerating the reform and the opening up of the financial industry, and propelling transformation of the economic development pattern

Under the 12th Five-year Plan, China's financial industry enters a critical period of strategic opportunities. Taking advantage of such opportunities and following the new financial trends home and abroad, China's financial industry will continue to drive forward the financial reform, opening up and development, with a view to building a comprehensive and diversified financial system with efficient services, prudential supervision and proper risk control. The role of financial markets will be strengthened to serve the acceleration of transformation in the economic development pattern.

Section 1 Main achievements in the financial reform and development in the 11th Five-year Plan period

During the 11th Five-year Plan period, under the guidance of the CPC Central Committee and the State Council, China's financial industry withstood the international financial crisis and witnessed significant enhancement in overall competitiveness and risk resilience as well as ever strengthening financial macro adjustment and control and supervision. The financial market enjoyed rapid development with further financial reform and opening up, considerably bolstered financial infrastructure and improved financial services, playing a crucial role in addressing the impact of international financial crisis and maintaining the sound development of national economy.

1) Significantly improved overall competitiveness among financial institutions

Financial institutions witnessed rapid growth in their asset size and risk resilience capability. By the end of 2010, the aggregate assets of financial institutions in banking, securities and insurance industries reached RMB 101.36 trillion, representing an accumulated increase of 158% compared with the end of 2005. Among this, the share contributed by banking industry amounted to RMB 94.26 trillion, representing a 152% growth compared with the end of 2005 with an average capital adequacy ratio of 12.2%. The ratio of provisions set aside by commercial banks stood at 217.7%, exhibiting significantly enhanced overall strength. The share of assets brought by the securities industry reached RMB 2.05 trillion, exhibiting a 583% surge compared to the end of 2005 and substantially enhancing its risk resilience capability. The insurance industry contributed a share of RMB 5.05 trillion in assets, showing a 230% increase compared with the end of 2005 and featuring increasingly sound rules and procedures.

2) Continuously strengthened financial macro adjustment and control and financial supervision

Based on the then prevailing economic and financial operating conditions, corresponding adjustments were made in monetary policies in different periods, using various policy instruments in macro adjustment and control and strengthening the predictability, pertinence and flexibility of monetary policies. Financial supervision was enhanced. China's banking industry demonstrated ever improving supervisory and regulatory capabilities, the securities and futures industry came out with an increasingly solid basic regulatory regime, and the insurance industry equipped itself with a modernized regulatory framework. Financial regulatory coordination and information sharing were reinforced. The prevention and resolution mechanism against systemic financial risks was beefed up. Steady improvement took place in the development of the system of assessment of dynamic financial stability and the deployment of financial safety nets. In addition, the securities investor protection fund, the futures investor safeguard fund and the insurance safeguard fund were established to actively drive forward the development of a deposit insurance system.

3) Considerably bolstered role of financial markets

The bonds market enjoyed rapid growth, with the bond issue (including Central Bank notes) reaching RMB 9.7 trillion in 2010, representing a 120.5% rise compared with 2005. The debt financing tools of non-financial enterprises were launched, including short-term financing notes, Medium Term Notes and SME collective bonds. The monetary, foreign exchange and gold markets developed rapidly, with the relevant arrangements steadily improving and financial innovation picking up speed. The securities markets also witnessed continuous expansion. By the end of 2010, 2063 companies were listed at Shanghai and Shenzhen Stock Exchanges, accounting for an aggregate market capitalization of RMB 26.54 trillion and exhibiting a 50% and 719% increase respectively compared with the end of 2005. The Main Boards became more solid and the SME Board was further strengthened. The GEB was launched with success, while the OTC markets enjoyed gradual development. The futures markets saw a stable growth with 13 commodity futures products listed and the stock index futures launched. The trading volume for commodity futures ranked the top worldwide. The insurance market experienced a speedy development with the premium revenue, climbing to RMB 1.45 trillion in 2010, i.e. a 170% increase on 2005.

4) Breakthroughs in the financial reform

Major state-owned commercial banks completed the shareholding reform and successfully got listed. They showed continuous enhancement in corporate governance structure as well as major development in policy-based banking reform. Small and medium commercial banks were committed to ever deepening reform, while financial asset management companies made steady progress in their transformation. With respect to rural credit cooperatives, new

breakthroughs were made in the property right system reform, with orderly progress accomplished in the development of innovative rural financial institutions. The financial industry has played a more critical role in supporting agriculture, rural areas and farmers. The reform of non-tradable shares came to fruition, with the stock issue system reform further deepened and the program of comprehensive regulation of firms engaging in securities-related activities completed and implemented on a routine basis. The insurance corporate system was modernized, where the insurance, reinsurance, insurance intermediary and insurance assets management activities developed in a balanced manner.

The market-based interest rate reform enjoyed stable progress, with market benchmark interest rate practices such as SHIBOR introduced and the role of market-based pricing mechanism enhanced. The exchange rate formation mechanism underwent further progress, with an enhanced regulated floating exchange rate system put in place based on market supply and demand as well as the currency basket peg.

5) Deepening the opening up and further international cooperation of the financial industry.

Delivering on its agenda of opening up, the financial industry provided foreign financial institutions with national treatment so as to attract overseas strategic investors. Setting up overseas branches and M&As, domestic financial institutions steadily expanded into overseas markets. Foreign exchange administration saw a more rapid change in relevant concept and approach, while implementation of measures aiming at fostering cross border trade and investment was accelerated. The practice of set-off in foreign currency payments relating to import was further improved. Mandatory exchange settlement was abolished, and domestic market participants were allowed to keep foreign exchange revenues under current accounts at their own discretion. The Renminbi capital account convertibility program continued to progress, QDII and QFII regime was steadily implemented, cross-border Renminbi settlement was piloted and bilateral currency swap arrangement enjoyed stable development. With the ever deepening international financial cooperation, China's financial industry actively participated in the setting and revision of international financial standards and regulations, driving forward international financial regulatory reform and reinforcing its say and international position.

6) Notable achievements in the establishment of the legal framework and infrastructure in the financial industry

The legal framework and law enforcement of China's financial industry experienced gradual improvement. Financial products and services became more diversified. Payment system has been equipped with a wider range of rules and regulations, while credit investigation and credit history system gradually came into shape. Currency issue system was further enhanced and treasury management made continuous progress. The financial industry enjoyed

significant development in terms of information technology. Supervision of anti-money laundering was further tightened up. Financial and accounting rules as well as rules governing information disclosure by financial institutions showed steady improvement. Financial statistics consolidation system was created and the human resources development of financial professionals saw notable effectiveness.

Section 2 Opportunities and challenges under the 12th Five-year Plan

During the 12th Five-year Plan period, in the rapid transformation of its development pattern, China will exhibit the characteristics of this new phase of economic and social development. In the post-international financial crisis context, the global economic and financial pattern will also continue to adjust. The 12th Five-year Plan period is a critical period for China's financial industry in terms of strategic opportunities.

We are facing precious opportunities for speeding up financial reform and development.

At the international level, financial crisis changed the world economic and financial pattern. Having successfully absorbed the impact of financial crisis, emerging markets, especially China, will play a much more critical role in international economic and financial affairs. Financial crisis pushes global financial regulators to continuously improve regulatory rules. The international community has reached consensus in heightened financial macro prudential oversight and systemic financial risk prevention, whereby capital, liquidity, systemically important financial institutions and shadow banking must be placed under reinforced supervision. This has further motivated China to learn from international standards and drive forward its own financial reform. During the 11th Five-year Plan period, at domestic level, China has made immense achievements in the development and reform of the financial industry, setting stage for further development; it reached a higher level of industrialization, IT application, urbanization, market-based approach and globalization, with the national income steadily growing and economic structure transforming at a faster pace, thus providing a solid ground for economic development. This has boosted the demand for diversified financial services, and will further help diversify the base of financial institutions and build a multi-layered financial market in China.

We are also facing multiple challenges in accelerating financial reform and development.

On the international front, profoundly influenced by international financial crisis, both developed and emerging countries are feeling the pressure to transform their financial development pattern, while coordination of monetary and financial policies across border are faced with ever more difficulties. The external environment for China's financial development being increasingly complex, China has more responsibilities to shoulder in connection with international financial issues such as the setting of international financial standards and international financial governance. On the domestic front, with China opening up further, it is imperative to establish and improve the financial policy framework that is expected to be

capable of effective adjustments in the context of open economy of China as a major power on the world stage. With the rising cost of factors of production, China's "demographic dividend" starts to wear out while problems inherent to an aging population become increasingly obvious, leading to new changes in the economic infrastructure underlying the financial development. Macro financial control is faced with more complex challenges. Against the backdrop of disequilibrium in economic structure and in the balance of payments, increased foreign exchange inflow forced China to continue to inject money to the economic system. It will take a long and arduous process for the financial industry to change its approach in supporting the economic development and to complete restructuring. SMEs, agriculture, rural areas and farmers remain under-served. The financial industry lacks sophistication, while the governance of state-owned shareholding financial institutions still needs to improve. The overall competitiveness and risk resilience capabilities are yet to be strengthened. These factors cannot be overlooked.

Faced with the aforementioned best ever opportunities and numerous complex challenges, we must take initiatives to adapt to changes in the external environment, anticipate developments in the financial industry and effectively mitigate risks in order to explore new frontiers in financial development and reform.

Section 3 Guideline

Abiding by the principles of socialism with Chinese characteristics, under the guidance of the theory of Deng Xiaoping and "three representatives", we aim to further deliver on the scientific outlook on development, drive forward the financial reform, the opening up and development on all fronts, significantly enhance the overall power, international competitiveness and risk resilience of China's financial industry, considerably strengthen the financial industry's role in serving real economy, beef up financial macro control and regulation system, create a secure and sound modern financial system with a full array of efficient services with reasonable structure, as well as propel financial reform and development into a new phase.

Section 4 Main objectives

Steady and rapid growth of the size of the financial industry shall be maintained. The financial service industry shall be developed on all fronts. During the 12th Five-year Plan period, the value added created by the financial service industry is expected to account for around 5% of GDP, with the size of the overall funding provided to the real economy increasing at a proper rate.

Significant progress in the financial structure shall be accomplished. By the end of the 12th Five-year Plan period, the direct funding raised by non-financial institutions shall make up over 15% of the overall funding provided to the real economy. The structure and organization

of major financial sectors such as banking, securities and insurance shall become more reasonable.

The market shall play a more important role in financial resources allocation. The market-based reform of interest rate is expected to show significant progress and the Renminbi exchange rate formation mechanism to further improve. Renminbi shall be more extensively used cross border. To the extent that information surveillance shall be carried out in a timely and effective fashion and risks remain under control, Renminbi capital account convertibility shall be gradually achieved. Activities shall be conducted in an even more market-based approach in banking, securities and insurance sectors, while further progress shall be secured in the multi-layered financial market development, with significant advances expected in the development of market-oriented mechanisms.

Reform in financial institutions shall be deepened. Major financial institutions shall gradually modernize their corporate systems, improve innovative capabilities and risk management. Firms engaging in securities- and futures-related activities shall develop in compliance with relevant rules and regulations, while insurance firms shall further strengthen their service innovation capabilities. Financial institutions shall further enhance their international competitiveness.

Full coverage of financial services shall be achieved. Sticking to the fundamental requirement of the financial industry serving real economy, money invested shall go to real economy, curbing the flow of capital from real economy to purely speculative activities and preventing the manufacturing industry from losing grounds to other industry sectors. More support shall be given to technological innovation and economic restructuring. Loans extended to sustain agricultural activities, rural areas and farmers and small and micro enterprises shall grow at a rate higher than the average of all loans issued. Systems that underpin capital markets shall be further developed and play a bigger role in economy. The insurance industry shall see significant expansion in its coverage and the range of service offer.

Financial risks shall be maintained under control in general. Major financial institutions in banking industry shall preserve high capital quality and level, while the percentage of non-performing loans shall be kept at relatively low level, with increasingly stronger risk management capability. The risk prevention mechanism of the securities industry shall further improve and the risk alert and surveillance mechanism of the futures markets shall continue to be strengthened. The capital strength and solvency of the insurance industry shall enjoy considerable enhancement. The risk prevention capabilities pertaining to foreign exchange and the balance of payments shall significantly increase. The prevention and warning, assessment and resolution mechanism designed to address systemic financial risks shall further develop, while financial safety nets including the deposit insurance system shall be established.

Section 5 Policy focuses

Financial macro control shall improve. The mix of policy objectives shall be optimized, attaching greater importance to maintaining price stability. A counter cyclical financial macro prudential policy framework shall be established. Mechanisms that enable monetary policy to bring about effects shall be improved, and the mix of instruments and means of financial macro control shall be diversified.

The economic restructuring shall be propelled. Robust financial institution systems and market systems shall help boost financial service capabilities, and drive forward the economic restructuring and the transformation in the economic development pattern. The establishment of a national innovative system shall be facilitated and financial support to technological innovation shall be strengthened, so as to promote the innovative development of strategic emerging industries including new energy and new materials. Green development shall be promoted, speeding up the creation of a green financial system and facilitating energy efficiency and emission reduction. A market for emission trading shall be gradually built and low carbon financial development shall be fostered.

The balance of payments shall be led to general equilibrium. Financial policies including interest rate, exchange rate and foreign exchange administration shall play an important role in achieving the equilibrium in the balance of payments. Stronger support shall be given to the implementation of the strategy of domestic demand expansion, in particular to increase domestic consumption demand, creating a new round of economic growth by consumption, investment and export sustained in a balanced way. Changes in the growth pattern of foreign trade shall be promoted, gradually remedying the trade imbalance. The balance of capital inflows and outflows shall be strengthened in order to facilitate overseas investment by enterprises and individuals.

Further reform shall be conducted in key areas of the financial industry. The profound hurdles caused by relevant rules and procedures to financial development shall be gradually resolved so that the market's financial resources allocation function shall be given full play in such a manner that will further the reform of market-based interest rate and foreign exchange rate formation mechanisms.

Great emphasis shall be given to financial innovation. Guided by the markets and aimed at enhancing financial service capabilities and efficiency, innovation in financial institutions and in product and service approach shall be encouraged and strengthened. Financial innovation shall be pushed forward by adjusting the role of regulators' functions, nurturing institutional investors and building a multi-layered financial market. Limitations of financial innovation shall be determined in a flexible manner and adapted over time, while the awareness of risk prevention shall be incorporated into the entire process of financial innovation.

The role of financial markets in investment and financing shall be enhanced. By optimizing the structure of investment and financing, allocation of capital resources shall be optimized. In addition, the range of financial and investment instruments offered by monetary markets and capital markets shall be broadened, the development of financial derivatives markets promoted, more investment channels created, and the safety, liquidity and profitability of financial investment increased, all with a view to raising households' property income.

The overall risk management capabilities of financial institutions shall be enhanced and the effectiveness of financial supervision and regulation shall be enhanced continuously. The "firewall" between the banking system and capital markets shall be built and improved to prevent risks from spreading. Activities of systemically important financial institutions shall be regulated in such a manner that they shall be prevented from becoming too big to fail. Rules governing information disclosure by financial institutions shall be further strengthened to improve the quality of disclosure. Regulatory cooperation shall be reinforced and regulatory coordination mechanism shall be improved, with a view to constraining regulatory arbitrage, continuously upgrading regulatory instruments and methods, boosting the effectiveness of supervision and regulation, and facilitating oversight by the public.

The protection of financial consumers' interests shall be strengthened. The lawful interests of financial consumers including depositors, investors and insured persons shall be protected, and the public awareness of modern financial product and services shall be enhanced through publicity campaign and education and information disclosure. Relevant risks shall be identified and a tough stance in cracking down on any acts by financial institutions that harm the interests of financial consumers including depositors, investors and insured persons shall be taken.

Chapter II Improving macro adjustment and control and facilitating steady and sound economic development

Financial macro adjustment and control shall be strengthened so as to maintain stable and rapid economic development. Balance between inflation expectation and economic structure adjustment shall be managed. The predictability, flexibility and effectiveness of policies shall be enhanced, in order to ensure price stability and facilitate steady and sound economic development.

Section 1 Establishing a robust financial macro prudential policy framework

Drawing reference from international experience and taking into account China's national conditions, the counter-cyclical macro prudential policy framework shall be further developed and improved in order to effectively prevent systemic financial risks and to maintain steady and rapid financial and economic development.

Combining the control the total size of factors such as monetary credit and liquidity with macro prudential management, financial institutions shall be guided and motivated to operate in a stable manner, to take initiatives in adjusting credit extension and to improve risk prevention capabilities. Counter cyclical capital buffer and forward-looking provision shall be established and enhanced, and instruments such as leverage shall have a greater role to play. The monitoring and assessment framework for systemic financial risks shall be improved and a forward-looking risk alert system shall be created. Research studies shall be conducted to develop the risk assessment methods that shall be adopted by systemically important financial institutions, setting more stringent capital and liquidity requirements. Systemic risk resolution mechanism and liquidation arrangements to be structured in layers shall be developed. Macro- and micro-prudential policies shall coordinate and complement with each other.

Section 2 Enhancing the monetary policy adjustment and control

The monetary policy decision-making mechanism shall be further improved. The Monetary Policy Committee shall play an effective role in national macro adjustment and control and formulation and adjustment of the monetary policy. A multi-layered monetary policy decision-making advisory system shall be developed.

The mix of monetary policy objectives shall be optimized. Stronger emphasis shall be put on price stability, coupled with a broader sense of overall price level stability. A balance shall be struck among economic growth, price stability and financial risk prevention. The total volume of monetary credit shall be properly controlled to maintain the overall funding provided to the real economy at a reasonable level. While focusing on traditional intermediate objectives such as monetary supply and volume of new loans, more reference shall be made to the overall funding provided to the real economy to coin the monetary policy.

A solid monetary policy operating system shall be built. Market-based indirect control mechanism shall be improved, gradually strengthening the function of price leverages such as interest rate and exchange rate, and shifting monetary policy from volume-based control to price-based control. The system of objectives, the mix of instruments and operating methods of open market will be enhanced, with the open market operations playing a bigger role in guiding the interest rates of money market. Coordination between the instruments of deposit

reserve and open market shall be intensified. Meanwhile, focus will be put on the role of refinancing and rediscount to sustain economic restructuring, facilitate the development of under-served sectors, and prevent and mitigate financial risks. In accordance with economic and financial trends, reasonable arrangements shall be made in respect of the mix, the structure of maturities and extent of use of monetary policy instruments, coordination among these instruments and liquidity management shall be strengthened, and the increase of monetary loans shall be adjusted.

Section 3 Bolstering financial support to under-served sectors

The implementation of credit policy shall be enhanced, the effects of adjustment and control of credit policy improved, and the credit structure further optimized. In addition, consumption credit shall be developed, domestic demand expanded and the equilibrium in the balance of payments facilitated. Greater financial supports shall be directed to modern service sectors, technology-related innovative sectors and strategic emerging sectors such as energy efficiency industry, while strengthened financial services will be provided to employment and reemployment, education aid and poverty eradication programs, in order to ensure balanced development of regional economy. Strict restrictions will be set on loans for industries with high energy consumption, high pollution and over capacity, so as to support low carbon economic development.

Financial reform in rural areas shall be deepened and gaps in the availability of financial services in rural areas shall be filled. Based on the objective of serving the agricultural activities, rural areas and farmers, full use shall be made of the policy, commercial and cooperative funding in order to build a multi-layered diversified rural financial service system with appropriate competition. Financial institutions shall be encouraged to actively explore possible approaches in serving agricultural activities, rural areas and farmers and bolster the support provided thereto. In addition, channels and patterns through and under which stock, bonds and futures markets can serve the agricultural activities, rural areas and farmers shall be explored, and agricultural insurance regime shall be improved. More favorable fiscal policy shall be adopted to support agricultural activities, rural areas and farmers.

Financing difficulties of small and micro enterprises shall be addressing and resolved. Financial institutions are encouraged to offer innovative financial products and adopt innovative credit model in respect of small and micro enterprises. Policy support and differentiated regulatory measures in terms of fiscal policy, guarantees, bad debts setoff, risk compensation and insurance shall be reinforced to motivate financial institutions to serve these enterprises. Capital market system shall be improved, and access to the SME Board, the GEB and OTC markets by small and micro enterprises shall be facilitated. Venture capital firms and equity investment firms are encouraged to invest in small and micro enterprises, developing financing tools such as collective bonds of SMEs and private bonds of SMEs in

order to expand financing channels.

Section 4 Further enhancing the coordination among macro-economic policies

Fiscal policy and monetary policy shall be better coordinated. The respective functions of fiscal policy and monetary policy shall be clearly identified, the cooperation mechanism between the finance authorities and the central bank shall be reinforced, and a “firewall” shall be built to prevent fiscal and financial risks from spreading. Fiscal policy and monetary policy shall be coordinated in a rational and justified manner and the relations among fiscal revenue and expenditure, Treasury bond issuance, treasury cash management and monetary policy operations shall be dealt with properly.

Coordination between financial regulation and supervision and monetary policy shall be strengthened. Relevant policies and regulations shall be improved and various mid- and long-term plannings in connection with the development of the financial system shall be prepared in synergy. The respective functions of regulatory policy and monetary policy shall be specified and the information exchange and sharing between regulators and the central bank shall be further enhanced, guiding the financial industry to strike a balance between sustaining economic development and preventing financial risks.

Column 1: Financial macro prudential policy framework

After the eruption of global financial crisis in 2008, the creation of a financial macro prudential policy framework became a priority of international financial reform. Macro prudential policy framework refers to relevant policies with the objective of preventing systemic financial risks through the application of prudential instruments and the support of necessary governance structure. Macro prudential policies are macro-level counter-cyclical policies with the purpose to better prevent and manage cross-temporal and cross-industry risks of the entire financial system, resolve the problem of pro-cyclical and systemic risk concentration, and compensate for the inadequacies of micro-prudential regulation and conventional monetary policy instruments in preventing systemic financial risks. Macro prudential policy framework is a dynamic framework that came into shape as international financial organizations and relevant countries reviewed and improved some generally recognized policy instruments after the eruption of global financial crisis. This framework primarily involves prudential requirements on bank capital, liquidity, leverage ratio and provision, additional requirements on the liquidity and capital of systemically important financial institutions, reform of accounting standards, credit rating and derivatives trading and clearing systems, as well as oversight on "shadow banking". China attaches great importance to strengthening macro prudential oversight and has made positive explorations in the adoption and execution of macro prudential policies. For instance, China has raised requirements on minimum capital ratio and asset quality, implemented measures for the dynamic adjustment of differentiated reserve funds, explored the establishment of counter-cyclical capital buffer, adjusted mortgage loan down payment proportion according to real estate price fluctuations, and moved closer towards international standards in terms of accounting standards and the introduction of central counterparty, etc. In the next step of work, China will draw reference from effective international practices and continuously develop and improve macro prudential policy framework in light of China's national conditions.

Chapter III Optimizing the deployment and establishing the system of modern financial organization

The deployment of financial institutions shall be optimized both from industry and regional perspectives, modern financial organization system shall be established and improved, financial innovative capabilities and service level shall be raised, and the overall strength, international competitiveness and risk resilience of the financial industry shall be significantly boosted.

Section 1 Improving the deployment of the banking industry

A modern banking industry system with robust functions, efficient service, orderly competition, proper profitability and secure and sound operation shall be developed. The banking industry shall be structured in layers, equipped with various types of financial institutions, including policy banks, large commercial banks, national joint stock commercial banks, regional small and medium banks and other non-bank financial institutions, to be deployed in a rational manner. The development of a community financial service organization system shall be sped up, and the rural financial organization system shall be improved. The internal control mechanism of the banking industry centering on capital constraints and risk management shall be reinforced to enhance the operation and management of the banking industry.

Policy banks and commercial banks are designed to develop in such a manner that they enjoy a coordinated, complementary and mutually beneficial relationship. Policy banks will establish and improve governance mechanism, sticking to the operation of policy business as its core business, developing proprietary business in a prudent manner and strictly complying with the scope of business intended. Policy business and proprietary business should be clearly segregated through separate account management and classified accounting methods, so as to prevent moral hazards. Necessary fiscal support shall be given to policy business, while strict capital constraints and prudential supervision shall be adopted in regard to proprietary business.

Large commercial banks with good brand image and international competitiveness shall be established. Small and medium sized commercial banks are encouraged to determine their respective market positioning in a rational manner and to improve the sustainable development capability and competitiveness. The establishment of a community financial service organization system shall be accelerated, motivating regional small and medium sized banks to attach more importance to financial services offered to community residents and small and micro enterprises.

The reform of rural credit cooperatives shall be deepened continuously, reinforcing its role as a major supporting force for rural development. Meanwhile, classified guidance shall be carried out, the reform of property right system promoted, capital strength reinforced, operation and management focused down to the bottom, long-term stability of legal personality at county level maintained and administrative intervention reduced. Novelty rural financial institutions including village banks shall be developed and rural credit cooperatives development shall be regulated, promoting appropriate competition among county-level financial institutions.

The financial service functions of the banking industry shall be fostered, urging financial institutions in the industry to provide financial services in accordance with the development of real economy. More professional, specialized and sophisticated services shall be provided, featuring stronger brand image, promoting the quality of basic financial services and improving the availability of financial services.

Section 2 Facilitating the regulated development of financial institutions in the securities industry

Efforts shall be dedicated to enhancing the governance structure and internal control mechanisms of firms that operate securities- and futures-related business, service providers and asset management firms. Innovation in organization, business and products shall be encouraged, and development capabilities and professional service level of firms that are engaged in securities-related activities shall be further regulated in a continuous manner.

Securities firms shall be actively supported in developing their expertise and strength. They shall be encouraged to carry out innovative activities and strengthen core competitiveness, relying on compliant operations and risk control, and guided by market demand. The regulations relating to securities lending and margin trading by securities firms and rules thereunder shall be strengthened, gradually expanding the scope of underlying securities and timely launching and standardizing the development of refinancing. Securities firms shall be encouraged to increase their strength through listing, and to provide quality service for M&A and restructuring activities of enterprises.

Futures firms shall be encouraged to further increase their size and strength through M&A and restructuring, as well as capital increase and issuance of new shares. Quality futures firms shall be urged to develop overseas futures brokerage business. In assisting real economy to “go global”, these firms will also gradually enhance their own international operation capabilities.

Intermediaries of the securities and futures markets shall operate in such a robust manner that they can assume their responsibilities, develop in an orderly manner and play their due role of oversight and restraints in the process of sound market development.

Asset management firms shall be developed vigorously and the base of institutional investors shall be expanded and diversified. Sound development of venture capital firms and equity capital firms shall be fostered, and private fund firms shall be developed in a regulated manner. Financial institutions including securities firms and fund management firms are encouraged to continuously expand assets management business. Research on promoting futures firms to conduct asset management business shall be conducted in a timely fashion. Meanwhile, research on expanding the business scope of public fund management firms shall be launched. Medium and long-term funds including social security funds and annuity of enterprises shall be further encouraged to participate in capital markets.

Section 3 Encouraging innovative development of firms in the insurance industry

In compliance with economic and social development needs and market demand, a modernized insurance industry shall be established, equipped with a robust market system, extensive service areas, standardized and trustworthy operation, effective risk prevention and strong overall competitiveness, striking a balance among the development speed, quality and profitability.

Focus shall be put on optimizing the organization system of the insurance industry, establishing a dynamic market with diversified market participant base and orderly competition. Insurance groups shall be urged to further reinforce their internal governance, strengthen resource integration, promote business synergy in reliance of their primary insurance business, and increase operation transparency. Insurance companies shall be encouraged to specialize in pension, health, liability, automobile and agricultural insurance, exploring the development of specialized credit insurance firms and fostering differentiated competitive edges of specialized insurance companies. Support shall be given to the innovative development of small and medium sized insurance companies, so that the latter shall develop their respective competitive edges and unique expertise. Regulated development of mutual insurance organizations shall be ensured, captive insurance companies shall be piloted. Management rules and procedures of insurance assets management companies shall be formulated in compliance with applicable regulations. Qualified small and medium sized insurance companies shall be encouraged to set up market-based insurance asset management companies that have robust corporate governance system and reasonable equity structure as well as specialized insurance asset management firms. Insurance intermediaries shall be encouraged to develop their expertise, pushing forward the development of captive insurance agencies and insurance sales companies. Qualified state-owned capital, private capital and overseas capital shall be encouraged to invest in insurance companies.

Section 4 Continuing to drive forward the pilot program of financial institutions' offer of lines of business across multiple financial sectors in an active and stable manner

Qualified financial institutions shall be guided to actively carry out pilot projects of offer of lines of business across multiple financial sectors based on clearly defined relevant operation strategy and effective risk prevention, boosting the quality and level of their offer of a full range of financial services. Pilot financial institutions shall be guided to elect to offer a full range of financial services where their risk control capabilities and competitive edges so permit. Further reform in CITIC Group and China Everbright Group shall be facilitated so that they shall transform into genuinely standardized financial holdings companies.

Supervision on a consolidated basis and overall risk management of financial institutions that offer lines of business across multiple sectors shall be strengthened. Sound risk surveillance system and effective “firewall” arrangements shall be established and applied to those financial institutions that offer lines of business across multiple sectors, specifying the risk limitation and risk tolerance of various business lines concerned and adopting effective risk isolation measures.

Chapter IV Encouraging innovation, speeding up the development of a multi-layered financial market system

Balanced development of financial markets shall be promoted, considerably increasing the share of direct financing. Focus shall be put on the innovation of financial products, continuously widening the range of products and optimizing product structure. Market systems and infrastructure development shall be strengthened and market operation mechanisms enhanced. In addition, the orderly cash flow between different markets shall be fostered, and the linkage and efficiency of markets shall be strengthened. A financial market system with proper layers and mutually complementary functions will be gradually established, playing a more effective role in serving the real economy.

Section 1 Focus on stock market improvement

The Main Boards and the SME Board shall develop in a regulated manner. Access by small and medium-sized enterprises to capital markets shall be facilitated so that they can develop through funds raised therefrom. The GEB markets shall be further developed, boosting operating quality and efficiency as well as supporting innovative economic development. The scope of the pilot program of the Stock Transfer Agent System (STAS) shall be expanded, speeding up the development of national OTC markets under unified supervision. Further research on the International Board shall be conducted. Board transfer mechanism and delisting mechanism between different layers of the market shall undergo further

enhancement, while markets at different layers will be better linked, forming a market environment that operates with competition and elimination. The market-based reform of stock issue system shall be further deepened, exploring innovative approach in stock offering, further reducing the role of administrative review and approval, reinforcing capital, market and integrity constraints, improving price inquiry in new stock issue and rendering pricing more rational. Research on preferred stock shall be made. A sound delisting system shall be set up to ensure market competition and selection, continuously enhance the quality of listed companies and facilitate the balanced development of primary and secondary markets. Furthermore, listed companies' refinancing arrangement and investor return mechanism shall be further improved, with an aim to increase cash dividend distribution.

Section 2 Actively developing the bond market

Rules governing the supervisions of bond issuance shall be improved, the coordination among different authorities shall be coordinated, the requirements for information disclosure shall be toughened, and supervisory responsibilities shall be duly performed. Size of the bond market shall be expanded steadily, product innovation and diversification boosted and market infrastructure reinforced. Sticking to the market-based reform, business integrity shall be promoted, market constrains and risk sharing mechanism reinforced, and transparency of market operation raised, so as to create a favorable policy environment for the development of bond markets.

Section 3 Continuing to develop monetary, foreign exchange and gold markets

Balanced and sound development of various submarkets of the monetary market shall be driven forward vigorously, further enhancing the market infrastructure, improving management system of monetary market, optimizing the structure of institutional investors and fostering the development of the intermediaries. Innovative monetary market instruments shall be encouraged and the market depth and width shall be expanded, boosting the liquidity management function of the monetary market. Foreign exchange markets shall achieve steady progress with a wider range of products and better trading mechanism. More small and medium sized financial institutions shall be encouraged to participate in foreign exchange markets, propelling the opening up of such markets. The steady and standard development of the gold market shall be promoted, improving the service system, and perfecting the warehousing, transportation, delivery and gold account service systems.

Section 4 Proactively developing the insurance market

Greater play shall be given to the service functions of insurance, increasingly broadening the range of insurance product offer, and expanding the scope of insurance service. Life insurance, health insurance, pension insurance and corporate annuity business shall be developed vigorously, together with insurance businesses relating to housing and automobiles. Pilot

program of income tax-deferred pension insurance shall be implemented. The experience and practices of commercial insurance's participation in social security and healthcare systems shall be reviewed and popularized. Liability insurance closely related to public interests such as environmental pollution and public security shall be expedited. Catastrophe insurance system supported by national policies shall be established, with sound mechanisms for catastrophe risk diversification, transfer and compensation. Insurance service level shall be substantially raised, with the insurance market order regulated and outstanding issues such as misleading marketing information and hurdles to payment of claims resolved. Innovation in asset management products shall be encouraged and insurance funds shall be steadily invested into real estate and equity of unlisted enterprises. Insurance funds shall be encouraged to expand investment channels and to invest in the equities of insurance enterprises, non-insurance financial enterprises and insurance-related enterprises in the areas of pension, healthcare and automobile service, to the extent that risk remains controllable.

Section 5 Developing the futures and financial derivatives market

Transition of the futures market from quantitative expansion to qualitative improvement shall be driven forward. Commodities futures market shall develop in a steady manner, continuing to expedite the listing of those commodities futures which are essential to economic development and for which necessary market conditions are available. The development of commodity index futures, commodity options, crude oil futures and carbon emission credit futures shall be promoted. The development of financial futures market shall continue to be strengthened, and on the basis of steady operation of stock index futures, Treasury bond futures shall be launched when appropriate. Other equity financial futures and options, together with financial derivatives such as interest rate and foreign exchange futures and options, shall be developed proactively and steadily.

Institutional innovation and product innovation in financial derivative market shall be proactively and steadily promoted, and the supervisory and regulatory systems for financial derivatives shall be improved. The development of institutional investors shall be strengthened and the base of participants of financial derivatives market shall be expanded. Asset securitization for the convenience of market entities shall be steadily advanced. Fund raising by market participants and asset management shall be facilitated. Exploration of inter-bank credit risk mitigation instruments shall continue. OTC credit derivatives markets shall be developed in a stable manner on the premise of enhanced management and risk control, with the objective to gradually develop effective market pricing and risk management mechanism.

Column 2: Inter-bank market credit risk mitigation instruments

Inter-bank market credit risk mitigation (CRM) instrument is a basic credit derivative product designed to manage credit risks for the development of China's inter-bank market. Inter-bank market has initially established a "2+N" product innovation framework with credit risk mitigation agreement and credit risk mitigation warrants at the core. Of which, credit risk mitigation agreement (CRMA) is a financial contract under which credit protection buyer pays credit protection fees to credit protection seller for the seller to provide the buyer with credit risk protection for the subject obligations. Credit risk mitigation warrant (CRMW) is created by a third party aside from the subject entity as a valuable certificate for the risk protection of holders. It is a tradable, one-to-multiple, standardized and low-leverage product.

Different from credit default swap (CDS) that is commonly adopted internationally, credit risk mitigation instrument is characterized by the principles of "serving actual needs, simplicity, transparency and controlled leverage". CRMW is a highly standardized credit derivative product under "centralized registration, custody and clearing". It is an innovative credit derivative product developed by China's Inter-bank Market Traders Association on the basis of taking stock of the lessons of global financial crisis and in light of China's actual national conditions. The launch of credit risk mitigation instrument is conducive to improving credit risk sharing mechanism and will have a positive and far-reaching influence on the healthy development of financial market.

Chapter V Continuously improving financial operational mechanism through reform

Reform in key financial areas and critical processes shall be driven forward in line with market-oriented direction. Financial operation mechanisms shall be continuously improved, inspiring the vitality of market entities, and giving full play to the fundamental role of the market in the allocation of financial resources. The areas and boundaries of government role shall be further identified, and government intervention in micro-level financial activities shall be reduced.

Section 1 Steadily advancing the market-oriented reform of interest rate

The development of the benchmark interest rate system of the financial market shall be expedited, giving further play to the benchmark role of the Shanghai inter-bank offered rate (SHIBOR). The application of the SHIBOR in market-based products shall be expanded. Mid-and long-term market yield curves shall be improved to provide effective benchmarks for product pricing by financial institutions. Interest rate shall be rendered further market-based according to the level of readiness and through such means as deregulating prices of alternative financial products. Central bank interest rate regulation system shall continue to be improved, mechanisms that enable interest rate to bring about effects shall be enhanced, financial institutions shall be guided to continuously increase their risk-based pricing capabilities, and self-regulatory mechanism for interest rate pricing based on Shanghai inter-bank offered rate shall be established, all with an aim to ensure that the market-based reform of interest rate shall be built on the principles of “deregulation, formation and adjustability”.

Section 2 Improving the Renminbi exchange rate formation mechanism

The reform of the formation mechanism of Renminbi exchange rate shall be conducted in a proactive, controllable and gradual manner. The market-based managed floating exchange rate regime that operates with reference to a basket of currencies shall be improved. The two-way floating flexibility of the Renminbi exchange rate shall be enhanced, so as to ensure the basic stability of Renminbi exchange rate at reasonable equilibrium. The foreign exchange market shall be developed in a coordinated manner, and the range of offer of exchange rate risk management instruments shall be broadened. Research on the establishment of a two-way direct exchange rate formation mechanism between Renminbi and emerging market currencies shall be furthered. The listing of Renminbi's exchange rate against currencies of emerging market economies and neighboring countries on the inter-bank foreign exchange market shall be promoted actively.

Section 3 Gradually achieving convertibility of Renminbi under capital accounts

The control on cross-border capital flow shall be further relaxed in accordance with the overall principles of "emphasizing priorities, overall progress, market-oriented approach, reducing distortions, proactive exploration and leaving leeway", improving the system for the administration of capital inflow and outflow equilibrium, perfecting external debt claims and liabilities administration and steadily advancing Renminbi's convertibility under capital accounts. General convertibility shall be permitted for direct investment with the purpose of facilitating direct investment. Convertibility of securities investment shall be further increased, with the emphasis put on opening up domestic capital market and expanding overseas securities investment. Facilitating cross border financing, the reform of foreign exchange administration in connection with credit business shall be expedited, the reform of external debt management system shall be deepened, and the management and surveillance of external debt claims shall be regulated. Aiming at increasing individuals' discretion on the use of foreign exchange, cross-border transactions by individuals under other capital accounts shall be further opened.

Section 4 Further improving the operation and management of foreign exchange

Channels and means for the multi-level use of foreign exchange reserve shall be proactively explored and expanded, and the operation and management mechanism of foreign exchange shall be improved. Further research and assessment of the risk tolerance resulting from the operation of foreign exchange reserve shall be conducted. Research on various investment areas, products and instruments shall be intensified. Long-term strategic investment philosophies shall be adhered to, adopting a scientific and effective investment benchmark approach. Diversified investment carried out on the basis of prudent assessment shall be steadily advanced, optimizing the allocation of monetary assets, increasing investment return, and achieving the targets of foreign exchange reserve security, liquidity and value maintenance and appreciation. Methods for the use of foreign exchange reserve shall be innovated in order to better support national development strategies and serve national sustainable development objectives.

Section 5 Continuing to deepen the reform of financial institutions

The reform of large financial institutions shall continue to be reformed, further improving corporate governance, clarifying the boundary between shareholder meeting, board of directors, board of supervisors and senior management, and developing effective mechanisms for decision-making, implementation and check and balance. The equity diversification of financial institutions shall be promoted. A review shall be conducted in respect of the reasonable shareholding by the central government in the equity of state-controlled financial institutions and the improvement of the system for the administration of state-owned financial

asset. An effective talent screening and recruitment mechanism shall be established, and the scientific and reasonable incentive and restraint mechanism shall be improved. The commercial reform of China Development Bank shall continue, and issues such as bond credit, fund sources and regulatory standards shall be properly addressed. Relevant reforms at the China Import and Export Bank, the China Agricultural Development Bank and the China Export Credit Insurance Co., Ltd. shall be driven forward, with their governance framework improved. The commercial transformation of financial asset management firms shall be promoted. The corporate governance of insurance institutions shall be improved, advancing the stockholding reform of state-owned insurance companies continuously. Qualified insurance companies shall be encouraged to go public.

Section 6 Encouraging and guiding the entry of private capital into financial service area

Under the precondition of risk controllability, private capital shall be encouraged and guided to participate in the restructuring and capital increase of financial institutions such as banks, securities firms and insurance firms. Support shall be given to private capital in respect to their participation in the establishment of novelty rural financial institutions and small-credit loan companies such as village and town banks, loan companies, rural capital mutual cooperatives. The participation of private capital in financial services shall be further expanded, and capabilities of providing financial services to agricultural activities, rural areas and farmers and small businesses shall be further strengthened on the precondition of enhancing effective regulation, promoting standardized operation and preventing financial risks.

Chapter VI Deepening the opening-up of the financial sector for mutual benefit and win-win result

Domestic development and international cooperation shall be coordinated, adhering to the principle of "prioritizing domestic needs and dealing with competition and cooperation for gradual, safe and controllable progress with mutual benefit and win-win result", balancing "bringing in" with "going global", and deepening international cooperation of the financial sector. The opportunity, intensity and pace of opening-up shall be addressed properly, so as to make the opening-up of financial sector compatible with China's economic development level, market sophistication and financial regulation capabilities.

Section 1 Increasing the level of opening-up for financial sector

The corporate governance of China's financial sector and soundness standards shall be improved in reference to internationally advanced concepts, experience and norms of financial administration. Financial institutions shall be encouraged to conduct in-depth cooperation with overseas institutions. Foreign low-interest loans and international commercial loans shall be effectively utilized and the management of external debts shall be improved. The pace and priority of the improvement of Renminbi exchange rate formation mechanism, Renminbi capital account convertibility and the expansion of Renminbi's cross-border use shall be addressed properly. The opening-up of money market, capital market, foreign exchange market and gold market shall be further advanced.

Relevant systems of "going global" for financial institutions shall be improved, guiding financial institutions to adopt effective strategies for overseas development. The development of reserve of pools of professionals with international experience shall be strengthened, and steps shall be taken to develop China's large multinational financial institutions gradually. Financial institutions shall be encouraged to steadily expand international businesses, increase the level of international operation, expedite the development of international financial service system conducive to the upgrade of export products and the "going global" of enterprises. The regulation of overseas subsidiaries of financial institutions shall be improved. The establishment of a risk resolution mechanism of cross-border financial institutions shall be facilitated.

Section 2 Expanding Renminbi's cross-border use

Renminbi's cross-border use shall be expedited in accordance with the principle of meeting actual needs, giving priority to regions with less difficulties, enhancing surveillance and ensuring risk controllability. Cross-border settlement of Renminbi shall be conducted properly. Renminbi settlement business for cross-border direct investment shall be expanded steadily, supporting domestic banking financial institutions to conduct Renminbi loan

business activities in respect of overseas projects, gradually conducting individual Renminbi cross-border settlement business, exploring the establishment of a framework for the administration of Renminbi's external credits and debts, and continuously expanding the channels of the use of Renminbi funds by overseas institutions. The issuance of Renminbi bonds by domestic institutions in Hong Kong shall be promoted, and overseas institutions shall be further encouraged to issue Renminbi bonds in China. Relevant countries shall be supported to include Renminbi into their international reserve. The statistical and monitoring mechanisms for Renminbi cross-border and overseas flow shall be improved, and a risk prevention and resolution mechanism shall be established.

Section 3 Deepening financial cooperation between Mainland China and Hong Kong, Macau and Taiwan

The development of Shanghai as an international financial center shall be accelerated, and financial cooperation between Shanghai and Hong Kong shall be enhanced. The development of a financial cooperation region centered upon Hong Kong's financial system and supported by the financial resources and services in cities of the Pearl River Delta shall be supported. Hong Kong shall be supported to become an offshore Renminbi transaction center and international asset management center and Hong Kong's status as an international financial center shall be consolidated. A mechanism for closer financial cooperation between Guangdong Province, Hong Kong and Macau shall be established to deepen cooperation among Guangdong Province, Hong Kong and Macau in areas of market, institutions, transactions, regulation and intelligence. Cross-straits financial cooperation shall be reinforced and the establishment of a cross-straits monetary settlement mechanism to be operated in an appropriate manner shall be facilitated, and the development of cross-straits regional financial service center in Xiamen City shall be expedited.

Section 4 Enhancing international and regional financial cooperation

China shall participate in global economic governance proactively, deepening bilateral and multilateral financial policy dialogue and cooperation and enhancing macroeconomic and financial policy coordination with major economies. The reform of international financial system shall be proactively advanced and the reasonable development of international monetary system shall be promoted. China shall also participate actively in the revision and development of financial standards led by international organizations such as the Financial Stability Board and the Basel Committee on Banking Supervision, and shall play a greater role in international economic and financial organizations. Multilateral financial and monetary cooperation shall be deepened, guiding and promoting regional financial cooperation. Cooperation with overseas central banks and regulatory authorities shall be consolidated and information sharing mechanism shall be improved.

Column 3: Cross-border trade and investment settled in Renminbi

Under the impact of global financial crisis, major international settlement currencies such as the US dollar and the euro have experienced significant fluctuations. Enterprises in China and neighboring countries and regions are confronted with significant risks of exchange rate fluctuations in trade settlement using a third country's currency. As a result, many of these enterprises wish to use Renminbi for trade settlement. April 2009, the State Council decided to conduct a pilot program of Renminbi settlement for cross-border trade in Shanghai Municipality and four cities of Guangdong Province, and such pilot program was officially launched in July 2009. In June 2010, the limitation on the scope of overseas territories was eliminated and it was made clear that the business scope covers cross-border trade in goods and services and Renminbi settlement in other current accounts. In August 2011, the scope of domestic territories for cross-border trade settlement in Renminbi expanded to a nationwide scale. By the end of 2011, nationwide cumulative amount settled in Renminbi for cross-border trade was RMB 2.6 trillion yuan.

In order to coordinate with the pilot program of cross-border Renminbi settlement and expand the cross-border use of Renminbi, the People's Bank of China had Renminbi settlement businesses launched for cross-border investment and financing. On the basis of individual cases, in 2011, the People's Bank of China clearly defined its policies on overseas direct investment, foreign direct investment and overseas project financing, with cross-border Renminbi businesses extending from current account such as trade to capital account. In 2011, Renminbi outbound direct investment settlement reached a cumulative value of RMB 20.1 billion yuan and foreign direct investment settlement amounted to RMB 90.7 billion yuan.

During the initial period for the pilot program of Renminbi settlement for cross-border trade, the backflow of Renminbi used to be subject to limited channels and outflow was predominant. As the amount of overseas Renminbi remaining in inventory increased in a gradual manner and with the stable development of Hong Kong's offshore Renminbi transaction center, there has been a growing demand for the backflow of overseas Renminbi and backflow channels such as investment made by overseas investors in China and inter-investment-bank bond market for "three categories of overseas institutions" (overseas central banks or monetary authorities, Hong Kong and Macau's Renminbi clearing banks, and overseas participating banks for Renminbi settlement in cross-border trade) gradually took shape. These developments mark the preliminary establishment of the benign cycle of Renminbi's cross-border flow.

Chapter VII Enhancing regulation for financial stability and security

The eternal theme of preventing and resolving financial risks shall be adhered to. The level of risk management for financial institutions shall be enhanced, strengthening the development of financial supervisory and regulatory capabilities to avoid regulatory gaps and mistakes, and effectively preventing interaction between economic and financial risks, the mutual transmission of financial and fiscal risks, as well as the spreading of external risks to China. Latent risks shall be proactively and prudently mitigated, keeping the bottom line of preventing systemic and regional financial risks.

Section 1 Continuing to enhance financial regulation

The banking sector shall proactively and prudently advance the implementation of new regulatory standards, continuously optimize the system of regulatory instruments and indicators, and effectively enhance the banking sector's capabilities of risk identification, measurement, evaluation, monitoring, control and warning. The requirement of dynamic capital adequacy ratio shall be adhered to, with the leverage level effectively controlled, the regulatory requirements on loan provision ratio and provision coverage ratio strengthened, and liquidity risk regulation continuously improved and enhanced. Regulation of commercial banks classified by capital adequacy ratio shall be implemented. Regulatory requirements on the adequacy ratio of systemically important banks shall be increased, and the establishment of risk measurement and information management systems associated with the implementation of new capital agreement shall be facilitated. Regulation of financial groups on a consolidated basis shall be enhanced. Regulation of the shareholders and actual controllers of financial institutions shall be stepped up. Wealth management and loan business on a principal-to-agent basis of commercial banks shall be carried out in compliance with applicable regulations. Regulation on access to the banking market shall be further strengthened and the effectiveness of off-site supervision and on-site inspection shall be increased.

Regulation on the net capital of securities and futures firms shall be strengthened, and the system of risk control indicators with net capital at the core shall be improved. Dynamic monitoring of risk control indicators and additional net capital mechanism shall be enhanced. The system for the classified regulation of securities and futures firms shall be improved. Firms that are engaged in securities- and futures-related activities shall continue to improve corporate governance and compliance management and raise risk management capabilities. Listed companies shall be directed to continue to enhance their corporate governance. The oversight of the operations and risk prevention of securities and futures market shall be enhanced, and crack down on illegal activities such as market manipulation shall be carried out in a stringent manner.

The solvency regulation system shall be improved for insurance sector, enhancing additional capital and restraint mechanism, and improving risk-oriented classified regulatory system. The regulatory standards and criteria for the governance of insurance companies shall be improved, and the enforcement of corporate governance regulatory rules shall be strengthened significantly. Supervision of the use of insurance funds shall be tightened, and investment risks shall be prevented. The insurance security fund shall play its due role.

Section 2 Increasing the effectiveness of financial regulatory coordination

The coordination mechanism between financial regulatory institutions and macroeconomic regulatory departments over major policy and legal issues and the mechanism of financial stability information sharing shall be improved, making information sharing a standard and regular practice. Criteria for the classification of financial institutions shall be specified, regulatory policies shall be harmonized, regulatory arbitrage shall be reduced, and regulatory gaps shall be filled. Supervisory coordination on activities across multiple lines of business, new products and new businesses shall be strengthened. Functional regulation on financial products shall be explored, and market access of highly-linked and highly complex innovative products shall be overseen in a strict manner. Cross-industry and cross-market risks shall be prevented. The regulatory framework for the cross-border capital flow of Renminbi and foreign currencies shall be established and improved, enhancing coordinated regulation of Renminbi and foreign currencies. Coordinated resolution of financial risks shall be strengthened, and the level of capabilities of disposing systemic financial risks shall be raised.

Section 3 Strengthening the prevention and warning of systemic financial risks

A methodology and operational framework for the monitoring and assessment of systemic financial risks compatible with China's national conditions shall be developed and improved, enhancing cross-industry, cross-market and cross-border financial risk monitoring and assessment mechanism, and strengthening major risk identification and warning. The regulatory responsibilities and rules in connection with cross-industry, cross-market and cross-border financial business and financial holding company shall be specified. The supervision and regulation of systemically important financial institutions shall be strengthened. Financial institutions shall be guided to effectively enhance management of government debts and to closely follow the risks of local government financing platforms, so as to avoid the mutual transmission of fiscal and financial risks. The statistical surveillance, the risk assessment and macro-prudential administration of the "shadow banking system" shall be beefed up. Cross-border capital flow surveillance and warning system shall be improved, and the emergency plan for international balance of payments shall be enhanced.

Section 4 Establishing and improving the deposit insurance system and the exit mechanism of financial institutions

A deposit insurance system shall be established and improved, expediting the legislative progress of deposit insurance. The Deposit Insurance Regulations shall be promulgated as appropriate to define the basic functions and organizational pattern of the deposit insurance system. The administrative system of the securities investor protection fund, the futures investor safeguard fund and the insurance safeguard fund shall be further improved. The Regulations on the Securities Investor Protection Fund shall be adopted. Research and drafting of the Regulations on Insurance Company Risk Resolution shall be conducted. The aforementioned initiatives shall be aimed at establishing a legal system for the bankruptcy of financial institutions compatible with China's national conditions, regulating the procedures of exit of financial institutions and strengthening effective linkage between administrative exit and judicial bankruptcy.

Section 5 Improving the financial oversight system of local governments

The central financial supervisory authorities shall play their role of guidance, coordination and supervision. The consistency and authoritativeness of reform and development strategies of the financial industry, the financial macro-administration policies and regulatory rules and standards shall be maintained. Local governments shall be motivated to properly playing their due role. The awareness and responsibilities of financial regulation shall be strengthened among local governments, further clarifying the administrative responsibilities of local governments in respect of small-credit loan companies and guarantee companies and strengthening the risk resolution responsibilities of local governments. Local governments shall make great efforts to improve financial environment and reduce administrative intervention to facilitate healthy economic and financial development.

Section 6 Guiding and regulating the healthy development of private lending

Institutional frameworks such as laws and regulations shall be improved. Proper guidance and education in the area of private lending shall be strengthened. Private lending shall play their role as a supplement to public financing. Illegal financial activities such as usury, illegal fund raising, underground banks and illegal securities shall be cracked down, strengthening the surveillance and regulation of guarantee companies and pawnshops, and maintaining good financial order.

Column 4: Deposit insurance system

Deposit insurance system is an institutional arrangement for the risk resolution by depository financial institutions such as commercial banks. Under the deposit insurance system, depository financial institutions purchase deposit insurance from depository insurance firms and when any financial institution fails or goes bankrupt, the relevant depository insurance institution will use money advanced from depository insurance funds to satisfy depositors' claims and timely resolve the failing institution. Such a system has the function of protecting the interests of depositors and maintaining financial stability. Compared with government direct aid to financial institutions, the depository insurance system has the advantage of sharing financial losses caused the bankruptcy of financial institutions among the market, shareholders and depositors through the establishment of a market-oriented risk compensation mechanism. Since the US established the first depository insurance system in the world in the 1930s, more than one hundred countries have introduced such a system, which has become an important means for the government to prevent and mitigate systemic financial risks and respond to financial crises.

Chapter VIII Consolidating the groundwork and optimizing the environment for financial development

Efforts shall be made to improve financial laws and regulations, enhance the development of financial infrastructure, standardize financial accounting statistical system, increase the level of IT application in financial industry, enhance financial research, and develop pools of financial professionals for the safe and effective operation of the financial system.

Section I Continuing to enhance legal development governing the financial industry

Efforts shall be made to draw reference from international experience of financial reform and improve the legal framework governing the financial industry in light of the needs of reform and development of financial industry. The adoption of laws and regulations in such areas as offer of lines of business across multiple financial sectors, deposit insurance, bankruptcy of financial institutions, and regulation of listed companies, credit rating and credit investigation shall be expedited. Legislation in agricultural insurance shall be accelerated. Legislation on the protection of financial consumers shall be beefed up. Laws and regulations governing and guiding private lending and crack down on illegal financial activities shall be adopted. The Law of the People's Republic of China on the People's Bank of China, the Law of the People's Republic of China on Notes, the Law of the People's Republic of China on Securities, the Law of the People's Republic of China on Securities Investment Funds, and the Regulations for the Administration of Futures Trading shall be further revised. Actions shall be taken to drive forward the adoption of the Law of the People's Republic of China on Futures and the issuance of judicial interpretations of the Law of the People's Republic of China on Insurance. Regulatory rules on various financial markets, financial products and financial institutions shall be improved.

Section II Advancing the development of the payment system and the credit history system and initiatives such as the anti-money laundering program

The improvement of payment settlement infrastructure shall be expedited. The central bank's second-generation cross-bank payment system and cross-border Renminbi settlement system shall be developed. The application of non-cash payment instruments shall be promoted continuously, further improving the real-name account system, and enhancing supervision and administration of non-financial institutions that engage in payment services. The registration, custody, transaction and clearing systems of financial markets shall be further improved. An information system covering each sector of the society shall be established, the national basic database of financial credit information shall be improved, and the development of a unified platform of credit investigation for the financial industry shall be facilitated. The development of credit rating agencies shall be promoted in China, enhancing

competitiveness and credibility. The development of industry credibility and local credibility must be expedited, with the SME and rural credit systems improved. An anti-money laundering program that is consistent with the international standards and China's national conditions shall be introduced. Research on the establishment of an anti-money laundering system for specific non-financial sectors shall be conducted, and the anti-counterfeiting capabilities in respect of Renminbi shall be increased.

Section III Improving the financial accounting system and the statistical system

Financial enterprises' financial rules and procedures shall be improved. The reform of international financial reporting standards shall be followed up and research shall be conducted thereupon. Convergence between domestic financial and insurance accounting standards and relevant international financial reporting standards shall be promoted. The standardization of financial statistical accounting shall be driven forward, establishing a unified comprehensive financial statistical system. The monitoring of the size of the overall funding provided to the real economy shall be supported. Statistics relating to the balance of payments shall be further improved, revising relevant statistical rules in line with the requirements of the sixth edition of the Balance of Payments Manual, and updating the template of statistical report forms and presentation of tables. An integrated financial statistical information platform shall be created, improving the statistical information sharing mechanism.

Section IV Improving the level of IT application in financial industry

Innovation of financial services and management shall be promoted through technological means and the level of IT application in financial industry shall be increased. The financial information protection system shall be improved and the risk prevention capabilities of information system shall be significantly increased. E-transactions shall be promoted and the penetration of e-transaction in financial industry shall increase continuously. A system of financial IT application standards shall be established, and the testing and certification of IT application standards shall be advanced. Bank card chip-based migration shall be fully implemented. An IT system required for the reform of foreign exchange administration in the new era shall be put in place.

Section V Protecting the rights and interests of financial consumers

The development of the system and institutional organization for protecting the rights and interests of financial consumers shall be strengthened in reference to international experience. Financial institutions shall be urged to comply with laws and regulations on the protection of consumer rights and honor commitments to the public. A complaint processing and sanction mechanism for the protection of the rights and interests of financial consumers shall be deployed. Educational and advisory systems for the protection of financial consumers shall

be reinforced. Financial knowledge and awareness campaigns to increase the security awareness and self-protection capabilities of financial consumers shall be conducted actively.

Section VI Increasing the level of financial studies

Timely analysis and forecast of domestic and foreign economic and financial developments shall be made in order to provide scientific basis for financial macro-regulation. Basic data of financial institutions and markets shall be collected and examined. Systemic financial risks shall be measured and reported. Research on measures to tighten supervision on financial institutions and financial markets shall be conducted. International standards and practices in connection with financial risk management shall be promoted. Financial stability assessment and stress test for financial institutions shall be beefed up. Capabilities for the identification of systemic financial risks shall be increased. Research on basic economic and financial theories shall be increasingly enhanced, and teams of highly qualified researchers shall be developed.

Section VII Developing pools of financial professionals

The mid- and long-term planning for the development of financial professionals shall be implemented. The development of various types of financial professionals shall be advanced in a coordinated manner. The development, recruitment and training of highly qualified professionals with innovative capabilities and international experience shall be enhanced. Industry qualification admission and professional technical qualification certification management shall be regulated, optimizing the allocation of financial human resources and promoting the reasonable flow of professionals. The system for the service in connection with and evaluation of financial professionals shall be improved, creating a grounded reasonable remuneration system for financial industry and improving incentive and restraint mechanisms. Recruitment and training of financial professionals with potentials shall be strengthened and a database gathering their information shall be put in place.

Section VIII Advancing the development of industry self-regulatory organizations

The development of industry self-regulatory organizations shall be enhanced, improving the governance structure of self-regulatory organization, and improving the level of industry self-regulation. The boundaries between financial regulation, self-regulatory organizations and the market shall be further defined. Self-regulatory organizations shall play their role in providing services, reflecting requests and regulating their members' behaviors, enhancing the restraint power of self-regulatory pacts, urging members to operate in compliance with the law, improving service capabilities and protecting the lawful rights and interests of the industry.

Chapter IX Improving the assurance mechanism for the implementation of the Plan

This Plan reflects national strategic intentions in financial development and reform and serves as an important basis for national financial adjustment and control, fulfillment of regulatory responsibilities and provision of public services. Government departments and financial administration departments at all levels shall fulfill their responsibilities in a comprehensive manner, formulate and implement measures for the development and reform of the financial industry, create a favorable policy environment and market environment, guide the behaviors of market entities, and achieve various objectives under the Plan, consistent with the development and reform purposes set forth in the Plan.

Section I Enhancing the organizational and direction for the implementation of the Plan

Accountability for the achievement of the Plan's objectives shall be implemented under the overall coordination of government departments at various levels and financial administration departments. Implementation schemes under the Plan shall be prepared in a timely fashion, identifying inter-department work division, properly assigning work responsibilities, and including the implementation results of the Plan in departments' performance evaluation objectives. All departments concerned shall enhance their respective due role of direction in the implementation of the Plan by ensuring diligent organization, coordination, cooperation and synergy.

Section II Enhancing consistency and harmonization with plans in other areas

Consistency between this financial plan and plans in other areas promulgated by the state shall be enhanced. Communication and coordination between departments at all levels shall be strengthened. Local financial planning shall be consistent with this Plan to a proper extent, so as to develop a financial planning system where national planning on the development and reform of the financial industry plays a leading role and various levels of local government planning on financial development play a complementary role in a consistent and harmonized manner.

Section III Implementing and improving the evaluation mechanism of the Plan

A system designed for the monitoring, examination and evaluation of the Plan's implementation shall be put in place. Relevant policy directions and level of efforts shall be adjusted as appropriate in light of national macroeconomic and financial developments for the purpose of successful achievement of the objectives of the Plan. Countermeasures shall be taken to address new developments and problems emerging during the course of the Plan's implementation and comments on adjusting and revising the Plan shall be raised. Disclosure

of information about the Plan's implementation shall be enhanced and the public shall be encouraged to participate in overseeing the effective implementation of the Plan.

Annex: Indicators for the development of the financial industry during the 12th Five-year Plan period and their explanations

Annex:

Indicators for the development of the financial industry during the 12th Five-year Plan period and their explanations

I. Indicators for the development of the financial industry: during the 12th Five-year Plan period, the value added created of financial services shall be maintained at a level that account for around 5% of GDP.

Explanations on the estimation: 1. International experience shows that the share of value added of financial services in GDP has a tendency of slow growth. For the United States during the 1950s, 1980s and the first decade of the 21st century, this share stood at 3.22%, 5.59% and 8.01% respectively. For Japan during the 1980s and the first decade of the 21st century, this figure reached a level of 5.79% and 6.53% respectively; 2. For China during the 1990s and the first decade of the 21st century, the share of value added of financial services in GDP was 4.46% and 4.42% respectively; 3. During the 12th Five-year Plan period, the value added of China's financial services is expected to experience faster growth compared with GDP growth, with the value added of financial services accounting for about 5% in the GDP.

II. Indicators for the development of financial industry: by the end of the 12th Five-year Plan period, the direct financing of non-financial enterprises will account for more than 15% of the overall funding provided to real economy.

Explanations on the estimation: during the 11th Five-year Plan period, there had been a remarkable growth in the size of overall funding provided to real economy and a remarkable increase in the share of direct financing raised by non-financial enterprises in overall funding provided to real economy. During the 10th Five-year Plan period of 2002 through 2005, this share stood at an annual average of 5.03%; and during the 11th Five-year Plan period, it grew to an annual average of 11.08%. During the 12th Five-year Plan period, under the policy support of continued increase in the share of direct financing, the share of equity and bond financing of non-financial enterprises in overall funding provided to real economy is expected to increase significantly.