



Chapter VII

Financial Infrastructure

In 2009, steady progress has been made in modernizing financial infrastructure in China, establishing payment system, improving financial laws and regulations, effectively implementing enterprises' accounting standards, improving credit environment, promoting AML, fostering a safe and orderly financial ecological environment and advancing sound operation of the financial industry.

Payment System

New Progress Made in Establishing the Payment System

Steady progress has been made in establishing the payment system, which operated normally. First, in October 2009, the electronic commercial draft system was put into operation, marking the inception of e-age in the history of commercial draft business in China. The system will foster market-oriented interest rate formation of short-term funding and foster an integrated commercial paper market nationwide. Second, the LVPS has been upgraded, providing essential infrastructure for the settlement of electronic commercial draft transactions on the payment system and the RMB settlement of cross-border trade transactions. Third, the central bank accounting online statement system was further applied, so that PBC could check the accounts of financial institutions online. This measure has further lowered the risks in accounting.

Fourth, payment systems of several currencies on the main land and in Hong Kong SAR have been linked. The payment of US dollar, Hong Kong dollar, Euro and British pound was launched, marking the formal establishment of an all-dimensional cross-border payment and clearing cooperation mechanism covering both domestic and foreign currencies for the main land and Hong Kong SAR. Fifth, exercise of switching on the back up system for PBC domestic and foreign currency payment system has been successfully organized, making the system better prepared for emergencies. In 2009, 8.82 billion RMB payment transactions with a total value of RMB 1 207.58 trillion yuan have been conducted by various payment systems in China, up 21.4 percent and 6.8 percent y-o-y respectively.

With wider application, non-cash payment instruments were under strengthened supervision. In 2009, relevant authorities collectively launched the program of strengthening security management of bankcards and preventing and combating bankcard-related crimes. PBC and the Ministry of Public Security made concerted efforts in setting up the long-term effective mechanism to fight bankcard-related criminal activities, strengthening the prevention and control of bankcard-related risks and improving the environment of bankcard payment. In 2009, non-cash payment instruments were more widely used and 21.414 billion non-cash payment transactions worth RMB 715.75 trillion yuan throughout the year, up 16.8 percent and 13.1 percent y-o-y respectively. At end-2010, a total of 2.066 billion bankcards had been issued na-

tionwide, an increase of 14.8 percent y-o-y. The inter-bank bankcard payment network covered 1.5665 million merchants, 2.4083 million POS devices and 2.149 million ATMs. The value of bankcard consumption accounted for 32 percent of the total retail sales of consumer goods. The role of the bankcard as the most widely used payment instrument has been further consolidated.

Efforts have been made to improve rural payment environment, and payment services provided for rural areas have been significantly improved. First, the *Guiding Opinion on Improving Rural Payment Environment* was released, defining the guiding principles, goals and detailed requirements. Second, use of non-cash payment instruments has been promoted more widely in rural areas. Services and management of bank settlement accounts in rural areas have been improved, and rural payment services have been enhanced significantly. At end-2009, 20 587 RCCs, 1 035 rural cooperative banks, 1 664 rural commercial banks and 88 village and township banks had access to the PBC payment system, facilitating cross-regional fund transfer in rural areas. During the year, 17.8235 million transactions totaling RMB 22.102 billion yuan were conducted due to bankcard services tailored for migrant workers, up 40.4 percent and 176.9 percent y-o-y respectively, facilitating cross-regional fund transfer for migrant workers.

The legal system, working mechanism and supervision system of payment further improved. First, registration of domes-

tic non-financial institutions providing clearing services has been accomplished, advancing supervision over payment and clearing services provided by non-financial institutions. Second, verification of personal information of those who have already opened settlement accounts at banks has been accomplished, an important step in establishing a real name bank account system. Third, the mechanism of regular public display and disclosure of payment information has been set up to release latest developments of the payment system to the general public and monitoring of the payment system has been more transparent and efficient.

International exchange and cooperation on payment and settlement has been strengthened. In July 2009, China entered the CPSS, becoming one of its 23 official members. PBC and ECB established meeting mechanism of payment and settlement. PBC exchanged information with 8 monetary authorities engaged in domestic foreign currency payment system regularly, improving the understanding of payment risks, especially cross-border risks. A mechanism of supervisory college over cross-border and multi-currency payment has been set up, improving safety and soundness of China's payment system.

Continue to Improve the Payment System in China

At present, the payment system lags behind consumers' increasing demands for payment services and needs of economic and financial reforms and development, exemplified by facts that laws and regulations on payment still

lag behind economic and financial development, the market has not played an adequate role in building the payment system, the central bank needs to further strengthen its coordination for the payment system and regional gaps remain in payment system development. Therefore, payment system building should be enhanced, payment service areas should be broadened, and monitoring and supervision over payment services should be strengthened in the future to meet the requirements of social and economic development.

Further improve payment and settlement infrastructure. Efforts will be made to accelerate the development of PBC's second generation of payment system and the central bank accounting data centralized system and to plan a permanent emergency backup system. Meanwhile, PBC will strengthen monitoring risks of the payment system, establish and improve the assessment system over the payment system and advance supervision over important payment systems so as to ensure safe and stable operation of the payment system.

Continue to promote the application of non-cash payment instruments. Legal framework on payment instruments will be improved by revising the *Bill Law* and issuing *Regulations on Bank Card*. Efforts will be made to foster and standardize the bankcard market, strengthen management of bankcard-related risks, improve the pricing mechanism of bankcard commission charges and promote the development of bankcard business. The electronic commercial draft system will be further improved and applied more widely nationwide.

Further improve real name account system. The RMB settlement bank account management system was linked with the systems of relevant authorities and progress has been made in building a nationwide questioned information feedback and verification network. Legal framework of real name bank account system has been improved and the *Administrative Rules on RMB Bank Settlement Accounts* was formulated to put in place an account management system adapted to the development of market economy.

Improve payment services environment in rural areas. At present, there remain yawning gaps in the development of payment system in various regions. Cash is the major means of payment in the western region, especially the vast rural areas. The underdeveloped payment instrument, low efficiency and inadequate coverage of the network of financial institutions all underpin the necessity to improve payment services. Efforts will be made to incentivize all relevant parties to apply good practices in pilot programs nationwide to better improve payment environment in rural areas and to provide integrated payment services to urban and rural areas.

Strengthen supervision over payment and clearing of non-financial institutions. *Administrative Measures on Payment and Clearing Organizations* would be issued soon to strengthen monitoring and supervision over payment and clearing businesses of non-financial institutions. *Measures on Issuance and Clearing of Electronic Currency* will be formulated to standardize the issuance and

clearing of electronic currencies by banks and certain non-financial institutions.

Make national payment system development plan. A working mechanism will be set up and researches strengthened to issue the *Development Report of Payment System in China* at end-2010 to provide a guideline for the scientific development of China's payment system.

Legal System

In 2009, a series of laws and regulations based on China's economic and financial environment has been launched, further improving the financial legal system and laying a solid foundation for safe and orderly operation of the financial sector.

Legal Infrastructure on the Performance of the Financial Sector Was Further Improved

Amendment 7 of Criminal Law was launched, providing legal basis for penalizing financial crimes. *Amendment 7 of Criminal Law* was approved on the 7th session of the standing committee of the 11th NPC convened in February 2009, which was enacted since its promulgation. Items related to the financial sector in the amendment include: First, the amendment defined more forms of insider trading. Apart from insider information, use of other non-public information for the purpose of gaining illegal proceeds was also defined as a criminal offense. Second, "illegal engagement in funds payment and settle-

ment" fell under the category of the criminal offense of illegal operation. Third, selling or providing private information of citizens obtained from undertaking responsibilities or providing services against relevant rules and regulations was defined as a criminal offense. *Amendment 7 of the Criminal Law* has done appropriate revision to the *Criminal Law* in line with latest economic and social developments, providing legal foundation for penalizing financial criminal offenses.

The Statistics Law was revised and enacted, providing legal support for smooth conduct of statistics work. After revision, the *Statistics Law* was approved on the 9th session of the standing committee of the 11th NPC in June 2009, which was enacted on January 1st, 2010. This revision has further improved the management system of statistics, strengthened the supervisory mandates of statistical agencies, safeguarded the authoritative-ness of statistics conducted by national statistics institutions, held statistics institutions more accountable for statistics manipulation and strengthened the management over all statistical items. Its promulgation has provided solid and forceful legal safeguard for the government to improve the work of statistics by enhancing its quality and to heighten credibility among the general public.

The Insurance Law was promulgated after revision, giving stronger impetus for the development of China's insurance sector. After revision, the *Insurance Law* was approved by the 7th session of the standing committee of the 11th NPC in Febru-

ary 2009, which was enacted on October 1st, 2009. After revision, the law has further standardized common practices of commercial insurance, reinforced the protection provided to policy holders and beneficiaries, strengthened supervisory measures that could be taken by insurance regulators and defined the information sharing mechanism of insurance regulation and management. The enactment and implementation of the new *Insurance Law* further improved the legal infrastructure of the insurance sector, exerting positive and profound influences to the stable and healthy development of the insurance sector.

The promulgation of a series of judicial interpretation has made underlying financial laws and regulations more feasible. The Supreme People's Court made a series of judicial interpretation concerning NPL transfer, risk disposal of securities companies, AML, management of credit cards and the application of the *Insurance Law*. Such interpretations have specified the underlying laws and regulations in the financial sector and strengthened their feasibility and integrity, providing important guidance to the resolution of disputes involving civil law and criminal offences in the financial sector.

Continuous progress made in sector-specific regulation system of financial regulators promoted healthy development of China's financial sector. PBC, CBRC, CSRC and CIRC (referred to as PBC and the three commissions hereinafter) released a series of regulations and administrative measures concerning financial supervision

and regulation, putting in place solid institutional arrangements for healthy development of the financial market. Moreover, in 2009, the financial regulators promulgated a series of regulatory documents in response to the international financial crisis to promote healthy development of the financial sector, laying solid legal basis for the response to maintain stable development of financial system in China.

Press ahead with the Research, Drafting and Revision of Financial Legal System

The outburst of the international financial crisis underpinned the severe consequences of inadequate or unfit financial legal system. Accelerating formulation and revision of laws and regulations in the financial sector and making mature financial regulatory rules into laws are important tasks for building the financial legal system in the future. Greater efforts would be made to strengthen the financial legal system and make progress in the drafting and revision of major financial laws and regulations.

Promote the revision of *Law on Securities Investment Fund*. In 2009, the financial and economic committee under the NPC organized competent authorities to initiate the revision of the *Law on Securities Investment Fund*, which will be carried out in an all-around manner in 2010. The revision involves the legal status of private equity funds, managers of securities investment funds and so on, which would have a profound influence on the development of China's fund market.

Actively study and promote the legisla-

tion on the protection of the rights and interests of financial consumers in China. At present, the legal system on protecting legal rights and interests of financial consumers is still unsound, with the absence of a special law and specialized protection institutions. To solve this problem, relevant authorities have embarked on in-depth and systematic studies on this issue to effectively safeguard legitimate rights and interests of financial consumers.

Expedite issuing important financial regulations. First, *Regulations on Credit Information Management*, *Regulations on Gold Market Management* and *Regulations on Cash Management* will be issued as soon as possible to provide legal basis in the three areas. Second, the design of *Regulations on Deposit Insurance* and drafting of *Regulations on the Bankruptcy of Banking Financial Institutions* would be advanced to establish and improve the market exit mechanism for banking financial institutions. Third, continued efforts would be made to draft and revise *General Provisions on Lending*, *Regulations on Bank Card* and supervisory rules on financial holding companies and to further clarify and improve laws and regulations in the financial sector.

Accounting Standards

The year 2009 marked the third year of the implementation of the new accounting standards for enterprises and most financial enterpri-

ses. The majority of large and medium-sized non-financial enterprises have adopted these standards. After the outbreak of the international financial crisis, international accounting standard setting bodies have made heightened efforts with FSB and other relevant international organizations to make universal and high-quality accounting standards. In this context, China's accounting standards for enterprises face both opportunities and challenges to converge with international accounting standards.

The New Enterprise Accounting Standards Have Been Effectively Implemented and Progress Has Been Made in Converging with International Standards

The new enterprise accounting standards were applied in a wider scope. The new enterprise accounting standards have been effectively implemented in listed companies and have been further applied to unlisted financial enterprises, central state-owned enterprises and the SOEs in a majority of provinces (autonomous regions, municipalities). Comparison of A + H listed companies' annual reports and analysis on the application of specific accounting standard items and implementation of the standards by individual listed companies show that the new enterprise accounting standards have been effectively adopted. At present, steady progress has been made in applying the new accounting standards in the banking, securities and insurance sectors and part of the financial institutions have complied with booking system categorization standards and built the financial reporting system based

on XBRL¹, standardizing the processing of accounting information.

Important progress has been made in converging China's enterprise accounting standards with the international standards. China's enterprise accounting standards have been acknowledged by IASB and the capital markets in Hong Kong SAR and EU. First, China's enterprise accounting standards have been acknowledged by EU capital market. During the transition period from 2009 to end-2011, Chinese enterprises were allowed to make financial statements according to Chinese standards when entering the capital market in EU without adjusting the financial statements according to IFRS. Second, to make China's accounting standards converge with or accepted as equivalent in the US is on the agenda of China-US Joint Economic Committee and China-US Strategic Economic Dialogue. The accounting standard committee in China and FASB in the US signed the second *Memorandum of Understanding on Accounting Cooperation between China and US* in May 2009, materializing bilateral consensus on mutual acceptance of accounting standards as equivalent in both countries and willingness to make active efforts to establish a universal and high-quality financial statement standard system and facilitating financial institutions in China to trade on the international capital market. Third, in the *Assessment Report on Accounting and Auditing in China* issued by WB

in October 2009, it was acknowledged that major progress had been made in improving fundamental and institutional financial framework, such as corporate accounting, auditing and financial statement practices. China's enterprise accounting standards were basically comparable with IFRS and China's accounting standards were considered to be applicable to several jurisdictions outside main land China.

Continue to Promote Effective Implementation of China's New Enterprise Accounting Standards and Convergence with International Standards

Further strengthen implementation of China's new enterprise accounting standards. Constraints still remain when implementing the standards, including: difficulties for some enterprises to apply the concept of fair value and asset loss impairment by some enterprises and their inadequate information disclosure on risks of financial instruments, confirmation of fair value, debt restructuring, base for corporate merger and segment reporting; patchy accounting education and incompetence of certain accounting practitioners; and varied level of observing auditing standards by accountant's firms. Effective measures should be taken to make enterprises better prepared to conduct the accounting standards. First, efforts will be made to improve listed companies' implementation of the accounting standards, advance unlisted large and medium-sized non-financial enterpri-

1 XBRL (Extensible Business Reporting Language) is an XML (Extensible Markup Language) -based specification in information exchange of financial reports. It is a state-of-the-art technology in the processing of financial information. Released by XBRL International, XBRL can be used worldwide for free, which facilitates automatic exchange and reliable access of business information in the application of soft wares worldwide.

ses to comprehensively implement the standards and improve financial institutions' implementation of the new standards. Second, actively promote the financial sector to establish an XBRL-based categorization and financial reporting system to standardize accounting information. Third, accelerate supporting reforms to improve the internal control system of enterprises in China and improve their capacity of governance and risk prevention in a comprehensive manner. Fourth, strengthen capacity building of relevant institutions and advance vocational education and training, so as to enhance the overall competence of accounting practitioners and nurture multi-disciplinary skilled senior talents. Fifth, fine tune the now governing *Accounting System of Small-sized Enterprises* based on the needs and capacity of small enterprises and with reference to IFRS for SMEs issued by IASB to make it more feasible for small enterprises to adopt such accounting standards.

Promote the convergence of China's enterprise accounting standards with international accounting standards. In response to the international financial crisis, a series of measures aimed at establishing a high-quality system of accounting standards has been proposed on the Washington and Pittsburgh G20 summits. In line with the urge of G20 and FSB, IASB has improved the accounting standards concerning fair value measurement, categorization of financial instruments and loan impairment measurement to achieve the goal of an integrated global accounting standard system before June 2011 as outlined on G20 summits. To carry out the in-

itiative of establishing a universal high-quality accounting standard system, MOF launched the *Roadmap for Continued Convergence of China's Enterprise Accounting Standards with International Financial Reporting Standards* on April 1st 2010. The roadmap reviewed the process of how China's enterprise accounting standards converged with IFRS and got accepted as equivalent in some jurisdictions, manifested China's support in establishing a high-quality universal accounting standard system and stance of promoting convergence of China's accounting standards with international standards, put forward China's stand in upholding the interactive principle in convergence of accounting standards and held that a high-quality, authoritative and internationally acceptable IFRS should give due considerations to the realities of developing countries, especially emerging market economies. It was also pointed out in the roadmap that the continued convergence will be synchronized with the progress of IASB to complete revising relevant items in China's enterprise accounting standards before end-2011 and to deliver essential reach-out programs to ensure that all listed companies and unlisted large and medium-sized enterprises be well informed of relevant changes and apply such new standards in their daily operation. Therefore, 2010 and 2011 mark the key period for the continued convergence of China's enterprise accounting standards with IFRS. Moreover, China would continue to establish an information exchange platform for accounting standards setting bodies in Asian and Oceania countries and strengthen the communication and cooperation

with accounting standard setting bodies in the international community and in countries of

key importance.

Box 17 Establishing a Universal High-quality Accounting Standard System

After this international financial crisis, the international community has come to the consensus that procyclicality of fair value accounting and impairment calculation of financial assets by the incurred loss model had heightened economic fluctuations and undermined financial stability. This, therefore, underpins the necessity of having a universal high-quality accounting standard system. Setting the goal of building a universal high-quality accounting standard system, the Washington and Pittsburgh G20 summits required the integration of accounting standards be completed before June 2011.

Basic features of the universal high-quality accounting standard system

In the joint announcement made in November 2009, FASB and IASB defined high-quality accounting standards as those promote the provision of relevant, transparent, neutral and comparable financial information. From the perspective of prudential regulation, high-quality accounting standards should facilitate reporters to truthfully present their business model, avoid over complexity, require more transparent disclosure and be adaptable, logically consistent, precise and easy to understand.

Progress in building a universal high-

quality accounting standard system

The establishment of universal high-quality accounting standards is an important systemic project. At present, a total of 100 jurisdictions have requested or allowed domestic enterprises to apply or converge with IFRS. The EU, Australia and Hong Kong SAR started to apply IAS and IFRS since January 1st 2005 and Canada, South Korea and India announced to adopt the IAS and IFRS since the year 2011. After the outbreak of the international financial crisis, the following measures have been taken by the IASB. First, a Financial Crisis Advisory Group was established to provide suggestions on improving the IFRS and formulating universal high-quality accounting standards, defining the requirements for an effective financial report and the way to build universal high-quality accounting standards. Second, in May 2009, the draft of fair value measurement was released for comments, the final version of which is planned to be released in the first half of 2010. Third, the final version of the first part of IFRS9 (financial instruments) on categorization and measurement of financial instruments was issued in November 2009. The IASB's draft on the measurement of financial asset impairment and accounting for hedging is released for comments. FASB and IASB have

reached preliminary consensus and made detailed work plans on convergence.

Other issues involved in establishing a universal high-quality accounting standard system

First, gaps in economic development and difference in the cultural background and political system of various countries led to difference in the form, degree and pace of their adoption of international accounting standards. Interests of all shareholders should be properly handled and coordinated to ensure the independence of accounting standards setting bodies and broad-based participation of stakeholders. The representation and voice of emerging and developing economies should be strengthened in relevant standards setting bodies and international organizations. Rule making should be sensitive to the realities of various countries, especially the difference of economic and social development in developing countries and should incorporate effective and well-functioning institutional arrangements of developing countries so that the standards can better represent the opinions and interests of emerging market and transition economies. Second, the goal for global conver-

gence of accounting standards is to form high-quality accounting standards applicable worldwide. The acknowledgement of convergence is no problem for countries directly applying such standards but it's not the case for other countries, including China. Their convergence with the IFRS requires assessment by professionals. Despite of making substantive changes to converge, acquiring formal acknowledgement is also of great importance for such countries. At present, however, a worldly accepted acknowledgement standard is yet to be made and it is experts' assessments that count. Third, given the different features of listed companies and SMEs, how to tailor financial reporting standards for SMEs those are not held accountable to shareholders should be on the agenda of relevant standards setting bodies. Providing massive jobs and buoyant in innovation, SMEs are the source of economic growth in various countries. Therefore, great importance should be attached to providing accounting services and financing services to SMEs. In July 2009, IASB released IFRS for SMEs tailor-made for SMEs, curtailing implementation cost and facilitating application of accounting standards.

Credit Environment

In 2009, credit environment in China further improved. The general public were more a-

ware of credit information and the public sectors on both central and local levels have enhanced their input in building the credit environment. The credit information system has played a more important role in promoting credit extension, preventing risks and maintaining economic and financial stability.

The Credit Environment Further Improved

Steady progress has been made in building the social credit system. First, mechanism of inter-ministerial joint-conference for the establishment of a social credit system has been established to enhance coordination. All competent authorities have a well-defined division of responsibilities and a well-functioning mechanism of coordination and cooperation. Due to well-coordinated efforts in improving sector-specific credit recording, building the credit information system and improving relevant legal framework, steady progress has been made in building the social credit system. Second, reach-out programs have been extended to improve the understanding of all relevant rules, regulations and standards, strengthen the sharing and disclosure of information, reinforce coordination and establish credit information exchange mechanism of making penalty and rewarding based on credit by the public sectors on both central and local levels. The value and importance of credit in a market economy began to show.

The role of credit information system has been enhanced. First, it helped improve the management of commercial banks and promote the repaid growth of credit. At end-2009, the corporate and individual credit information system has set up credit files for 15.76 million enterprises and 660 million natural persons, building a platform of sharing credit information of borrowers at various commercial banks. Commercial banks' access to the credit information system has lowered

the cost of investigation, enhanced the efficiency for approval, effectively prevented credit risks, promoted rapid development of credit businesses, especially that of personal consumer credit and ease the financing difficulties for SMEs. Second, the credit information system has made financial institutions more capable of preventing credit risks, which served to keep stable and healthy economic and financial development. At present, all banking financial institutions, micro credit companies and auto financing companies have been linked with the credit information system. Enquiring the corporate and individual credit information system has become an indispensable step for such institutions mentioned above in their examination of borrowers before loan extension, improving their capability of preventing credit risks. Third, it helped improve the efficiency of administrative management and strengthen law enforcement. Incorporating administrative punishment and credit-related information into the credit information system, relevant agencies have leveraged on the credit information system most frequently used by commercial banks to enhance administrative efficiency and law enforcement, which also supplemented the incentive mechanism for enterprises and individuals to abide by law. For example, the credit information system in some provinces has been adopted to urge enterprises to pay wage in arrears to migrant workers.

The public were more aware of credit information. On the one hand, the credit information system served as incentives and constraints mechanism for enterprises and indi-

viduals to value their credit information, honor their commitments and abide by law by recording their credit information and disclosing such information for public display according to laws and regulations, exerting great influence to economic activities of enterprises and individuals. On the other hand, wider application of the credit information system and strengthened education have instilled credit conception to enterprises and individuals as well to automatically change the behavioral pattern and enhance the awareness of honoring commitment. Lots of enterprises and individuals, after enquiring the credit information system, willingly paid back their tax, compensation and debt in due and became more aware of credit information. The number of people enquiring the credit information system for their credit reports has gradually increased, showing care of their credit information. At end-2009, a total of 1.1 million enquiries have been made accumulatively and the number of enquiry in 2009 stood at 766 thousand, registering major growth over the previous two years.

Further Improve the Credit Information and Social Credit System

Continue to improve relevant regulations, rules and standards. Efforts will be made to issue the *Regulations on Credit Information Management* to improve the legal framework, strike a balance among information disclosure and the protection of privacy, business secrets and national information security, protect legitimate rights and interests of stakeholders involved in credit information-re-

lated activities, standardize behaviors of credit information institutions, promote the development of the credit information industry, improve institutional arrangements on credit information by attaching balanced importance to standardization and development and promote healthy development of credit services industry. Efforts will be made to standardize the credit services industry nationwide to form a complete and scientific credit standard system.

Press ahead with building the credit information system. Scientific institutional arrangements and adequate funds will be in place to ensure security and edge of the system, enhance data quality and functions of the system, heighten the level of credit services and satisfy diversified needs for credit information so that the credit information system can lay at the foundation of efforts in building a social credit system, facilitating credit extension, preventing risks and maintaining economic and financial stability.

Further advance management of the credit information industry. Efforts will be made to improve the regulatory framework on credit information, define mandates and responsibilities of various regulators, improve external environment, advocate competition and innovation and promote self-discipline of the credit information industry. Measures will be taken to regulate market access, strengthen regulation over relevant institutions, strictly penalize irregularities and offenses, improve market exit mechanism, standardize the behavior of credit information institutions and keep market order, establish credit information

services complaint and dispute settlement bodies, avert illegal collection and abuse of credit information and promote healthy development of the credit information system.

Continue the establishment of credit information system for SMEs and in rural areas. Strenuous efforts will be made to improve credit services for SMEs and rural households, improve electronic credit information files, and actively conduct credit evaluation for SMEs and participants in rural economic activities and instill credit awareness to SMEs and rural households. Under the guidance of national policies, commercial banks will be encouraged to innovate financial products so as to reinforce financial support for SMEs and participants in rural economic activities.

Conduct in-depth education programs on credit information. Credit information education campaigns in diversified forms will be held in multiple channels to effectively disseminate relevant knowledge on a regular basis and in an institutional manner. Efforts will be made to incorporate credit information and relevant financial knowledge into the compulsory education system, and gradually establish a long-term effective mechanism of credit information education programs. Meanwhile, education programs and advocate on socialist moral codes will be strengthened to build a facilitating social environment for the credit culture.

Anti-money Laundering

In 2009, China reinforced the strategic plan-

ning and coordination of AML, advanced AML legal system, witnessed enhancement in AML measures taken by financial institutions, improved monitoring of suspicious transactions and investigation into money laundering cases and deepened international cooperation. Such AML efforts have played an increasingly important role in consolidating the sound operation of financial institutions and the market.

AML Work Developed Wider and Deeper

China issued the first national AML strategy. To improve the efficiency of AML efforts, PBC began organizing the research on making a national AML strategy in 2007. In December 2009, the AML inter-ministerial joint-conference officially released *Anti-Money Laundering Strategy for China from 2008 to 2012*. The strategy analyzed the current situation, opportunities and challenges of AML in China, made strategic arrangements for the following five years and outlined guiding principles, goals, principles of implementation, steps, specific goals and action points according to China's national condition. The formulation and issuance of the first AML strategy helped coordinate AML efforts nationwide, facilitate relevant authorities to reach consensus and improve the efficiency in coordination, enhance the effectiveness of AML efforts and consolidate China's image of a responsible great power in the AML arena.

The legal system on AML has been improved. In February 2009, the 7th session of the standing committee of the 11th NPC approved the *Amendment 7 of the Criminal Law*, revising Provision 312 and adding a dedicated

provision to combat the criminal conduct of “disguise or hide criminal income or gains on criminal income” . In May, the State Council issued *Regulations on Lottery*, regulating that lottery issuers and sellers shall establish risk management system and reporting mechanism of suspicious funds. The Regulations defined the AML responsibility of the lottery industry for the first time. In November, the Supreme People’s Court launched *Interpretations on Several Legal Issues in the Trial of Money Laundering and Other Criminal Cases*, tackling key problems in convicting money laundering conducts. PBC issued *Guidance for Bankcard Organizations and Clearing Centers on Anti-Money Laundering and Counter Terrorism Financing* and *Guidance for Payment and Settlement Organizations on Anti-Money Laundering and Counter Terrorism Financing* to standardize and regulate AML work of relevant industries and organizations.

AML supervision has been enhanced.

First, AML evaluations were conducted targeting financial institutions to establish a multi-layered AML management system of financial institutions. Second, direction of on-site examinations was changed and a risk-based approach was adopted. On-site examinations were conducted targeting financial institutions that were most vulnerable to money laundering and have records of money laundering and irregularities. Ad hoc examinations were strengthened in areas which were frequently subject to money laundering, such as cash transactions, e-financing and group insurance, effectively improving the efficiency of the examinations. Third, the cooperation mecha-

nism on AML regulation was advanced to facilitate regular sharing of AML information. The mechanism of AML information sharing on a regular basis among PBC and the three commissions has been described in detail and an AML dialogue between regulators and financial institutions has been set up.

Heightened efforts have been made on AML investigations and granting assistance in cracking money laundering cases.

In 2009, greater importance was attached to reports of key suspicious transactions by financial institutions in AML work. In the second half of 2009, PBC successfully carried out the nationwide CTF campaign entitled “Escorting the Navigation through 2009”, which lasted for half a year. During the campaign, PBC urged financial institutions to establish and improve their CTF systems and actively supported the prevention and combating of domestic counter-terrorism activities of competent AML authorities, and thus helped safeguard the security of the ceremony celebrating the 60th anniversary of the foundation of PRC. AML efforts made increasingly important contributions to fighting criminal offenses. In 2009, a total of 10 317 reports of suspicious transactions were discovered or received, among which 9 518, or 92.3 percent were reports of key suspicious transactions handed in by financial institutions of various levels. PBC also filed 654 cases to detecting agencies and helped investigate 970 suspicious money laundering cases.

International cooperation on AML went deeper and wider. First, China has taken

an active part in programs of FATF and regional AML organizations as follows; upgrading domestic AML regulations in line with international standards; participating in the evaluation of international organizations over the money laundering risks and the effectiveness of AML system in relevant jurisdictions worldwide; participating in discussing and formulating new standards on AML and CTF and the researches on crime typology; and making preparations for the fourth round of FATF assessment by taking part in the discussion of setting principles and implementing specific standards. Second, China's membership at the Asia/Pacific Group on Money Laundering (APG) has been reactivated. Meanwhile, China also hosted the 11th plenary session of Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG). Such efforts have helped enhance China's influence in the international AML arena, strengthen cooperation in preventing money laundering risks and maintain the soundness, transparency and security of international financial system. Third, the AML monitoring and analysis center in China has signed AML and CTF MOUs with 16 foreign financial information centers, expanding the scope of bilateral cooperation on sharing financial information. Fourth, China has taken an active part in relevant international cooperation mechanism, effectively supporting the implementation of the UN Security Council's resolutions on financial sanction, prevention of corruption, averting capital flight and strengthening the management over external NGOs.

Continue to Improve Institutional Arrangements on AML and Enhance the Efficiency of AML Efforts

Money laundering risk assessment on national level has been carried out in a timely manner, promoting risk-based AML regulation. Assessment of money laundering risks is the foundation and precondition for carrying out risk-based AML regulation. Analysis on China's money laundering cases will be conducted to detect money laundering risks lying in specific industries, products, channels and regions. Statistical analysis will be conducted to find out the characteristics of money laundering in China on an all-round and ongoing basis to provide adequate practical grounds for making AML strategies and policies and evaluating the effectiveness of AML systems.

AML guidance targeting specific non-financial industries will be formulated to improve AML-related institutional arrangements. AML researches on the real estate, jewelries and precious metal industries will be strengthened to issue AML regulatory provisions at an opportune time and to improve AML regulation over non-financial industries vulnerable to money laundering and innovative payment instruments.

Improve the AML regulation mechanism to enhance efficiency. Efforts will be made to improve AML regulation mechanism by combining on-site examination and off-site regulation, by gradually adjusting AML regulation focusing on on-site examina-

tions and enhancing off-site regulation efficiency through scientific monitoring and effective regulation. Efforts will be made to make financial institutions more aware and capable of AML. Reporting of key suspicious transactions will be improved to provide more valuable clues for competent authorities.

PBC will take an active part in international cooperation and make prioritized efforts to complete the follow-up of FATF assessment. Efforts will be made to summarize the work done in AML in the re-

cent 3 years, complete the follow-up reporting in a comprehensive manner and go through the follow-up reporting procedures after the conclusion of the FATF plenary session in June 2010. Assessment on China's compliance with AML/CTF standards will be conducted. Meanwhile, researches on relevant topics and standard setting assigned by international AML organizations will be carried out to strengthen the follow-up and researches on international AML developments and trends.