Firmly Fight the Critical Battle of Preventing and Defusing Financial Risks

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Abstract: At the 19th CPC National Congress, it was stated that in order to secure a decisive victory in building a moderately prosperous society in all respects, we must win three critical battles, one of which is preventing and defusing major risks. Safeguarding financial security is crucial to China's overall economic and social development. In line with the decisions and arrangements made by the CPC Central Committee, remarkable achievements have been made in the critical battle of preventing and defusing financial risks. The reckless expansion of financial assets has been fundamentally reversed, the risks of shadow banking have continued to fall, the recognition and disposal of non-performing assets (NPAs) has been vigorously advanced, illegal activities and corruption have been punished, Internet financial risks have been reduced substantially, the debt risks of large and medium-sized enterprises have been defused in an orderly manner, the growing tendency of real estate financialization and bubbles has been contained, the implicit debt risks of local governments have been brought under control, a long-term mechanism which tackles both symptoms and root causes has been gradually improved, and the quality and efficiency in serving the real economy has improved markedly. Since the outbreak of the COVID-19, new big challenges have emerged in the financial sector. Measures need to be taken to "maintain overall stability and take a coordinated approach" to further enhance the quality and efficiency of financial services and bring economic development back on track as soon as possible; at the same time, efforts should be made to "take differentiated measures and defuse risks with precision" so as to resolve major risks in key areas in an orderly manner and achieve a long-term balance between stabilizing growth and preventing risks. Steps will be taken to extend full support to the normalization of economic activity, as well as to accelerate supply-side structural reform of the financial sector, dispose of NPAs as early as possible, prevent the resurgence of high-risk shadow banking, resolve risks of different types of institutions in a timely way, steadily further opening-up of the financial sector, enhance financial consumer education and protection, and strengthen Party leadership in the work of finance.

Keywords: financial risks, critical battle, financial stability, financial regulation

At the 19th CPC National Congress, it was stated that in order to secure a decisive victory in building a moderately prosperous society in all respects, we must win three critical battles, and one of the battles is to prevent and defuse major risks. General Secretary Xi Jinping stressed that preventing financial risks is a priority in the critical battle of preventing and defusing major risks. In recent years, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at its core, crucial progress has been made in preventing and defusing financial risks. The unexpected outbreak of the COVID-19 has severely compromised the normal functioning of both domestic and international economies, and brought about many new financial risks and challenges. Nevertheless, as there is no turning back, we must calmly cope with the situations, confront difficulties head on, and strive to achieve a long-term equilibrium between ensuring stable growth and preventing risks, thus providing solid financial support for building a moderately prosperous society in all respects.

I. Safeguarding financial security is crucial to China's overall economic and social development.

General Secretary Xi Jinping pointed out time and again that finance is the core of modern economy, providing the lifeblood for the real economy; that financial vitality will lead to economic vitality, and financial stability is of vital importance to economic stability; and that financial security is an important part of national security, and safeguarding financial security is a strategic and fundamental matter for China's social and economic development. It is of great responsibility to ensure sound functioning of the financial system, and no negligence or slacking is allowed.

Finance and risks always go hand in hand. According to Marxian economics, financial risks are rooted in the internal contradictory features of commodities, namely the contradictory unity of value and use-value. After money appeared, the internal contradictory features of commodities were externalized into the external contradiction between commodities and money. The commodity economy is comprised of the real economy and the money economy, which are interdependent and mutually reinforcing; but they may also deviate from and contradict each other. An unbalanced production structure or excessive credit deviation can lead to accumulation of financial risks. After states emerged, governments began to intervene in economic activities in various ways. In particular, the conversion of money from non-governmental universal equivalents to government fiat currencies can easily bring about enormous new risks associated with government misconducts, although it greatly facilitates production and exchanges at the same time.

From a global perspective, the rise and fall of some countries is usually closely related to their financial strength. In the 17th century, the Netherlands secured naval supremacy, in which process its financial system with nascent modern features played an essential role. Later, the Financial Revolution sprang up in the UK and pushed forward the Industrial Revolution, which brought about "the empire on which the sun never sets." Likewise, examples of how the spread of financial risks led to economic crises and national turmoil can be found throughout history. In the 16th century, Spain sought reckless overseas expansion and carried huge piles of debt, which eventually resulted in a fiscal and economic crisis and drove the country from boom to an abrupt bust. The tulip mania of the Netherlands in 1637 and the South Sea Bubble of the UK in 1720 dealt a huge blow to the economic and national strength of the two countries respectively.

People around the world still shudder to recall the Great Depression in the 1930s. The US stock market crash in 1929 and the wave of bank runs and failures in 1930 evolved into a global economic crisis, and led to government change in many countries. After the World War II, the Western countries experienced multiple serious financial crises. In the international financial system dominated by the US and Europe, developing countries often fell into unfavorable situations characterized by inflows of hot money and mounting external debts, which triggered economic recessions many times. The Latin American debt crisis and the Asian financial crisis in the last century have taught us a sobering lesson. Since the beginning of the 21st century, the US and Europe have been expanding fiscal expenditures and easing money supply on a continuous basis, with an aim to get rid of economic and social woes. As a result, they piled up huge amounts of debt and asset bubbles, which eventually led to the subprime mortgage crisis and the European debt crisis.

Subsequently, they adopted quantitative easing (QE) policies, and the negative effects still have not been completely released.

Since the reform and opening-up, China has made historic progress in its financial sector, and established a modern financial system with Chinese characteristics. By relying on Party leadership and leveraging the institutional strength of socialism, in the spirit of self-revolution, we have taken the initiative to eliminate hidden dangers and successfully overcome various hits and shocks, including the serious inflation in the late 1980s, economic overheating in the mid-1990s and a number of external risks. In this way, we have not only provided a relatively stable financial environment for China's economic and social development, but also contributed to the world's financial stability and development.

Since the global financial crisis in 2008, the international economic and financial situations have become more complex and volatile, and a combination of cyclical, structural and institutional problems in the Chinese economy have made the landscape of financial risks more complex and challenging. As the balance of payments gradually improved, the leverage ratios of domestic enterprises, governments and the household sector rose rapidly. Financial products and market structures became increasingly complex with a low degree of transparency. More and more funds circulated within the financial system without entering the real economy or were diverted out of the real economy. Some illegal financial groups and illicit financial activities grew frantically. Moreover, corruptions and violations of disciplines and regulations within the financial system continued to spread. If these problems had been left unattended to, they would certainly have bred systemic risks, produced disruptive effects and severely endangered the sustainable economic development and China's political security.

Since the 18th CPC National Congress, faced with the challenging landscape of risks, the CPC Central Committee with Comrade Xi Jinping at its core has gained profound insights into the situations, made keen judgments, and acted resolutely in decision-making. Shortly after the closing of the 18th CPC National Congress, General Secretary Xi Jinping exhorted the whole party that we should attach great importance to the risks and hidden dangers in the fiscal and financial sectors, and hold the bottom line that no systemic financial risks should occur. At the Central Economic Work Conference in late 2016, it was explicitly required that "greater priority should be given to preventing financial risks." In 2017, General Secretary Xi Jinping personally planned and arranged a series of major measures to "prevent risks, address irregularities and shore up weak links," launching a preliminary campaign for the critical battle against risks. The important remarks made by General Secretary Xi Jinping on the financial work shed light on the fundamental and strategic issues in the financial sector, constituted a systemic and general plan for preventing and defusing financial risks, and provided us with a cardinal principle for securing good performance in financial work in the new era.

II. Substantive breakthroughs have been made in the critical battle of preventing and defusing financial risks.

In line with the decisions and arrangements made by the CPC Central Committee and under the guidance of the State Council and the Financial Stability and Development Committee (FSDC) under the State Council, all local authorities, all government departments and the financial system made concerted efforts to push forward the work, and made remarkable achievements in the critical battle of preventing and defusing financial risks.

The reckless expansion of financial assets has been fundamentally reversed. From 2017 to 2019, the annual growth rates of credit funds and bond investments of the banking sector in support of the real economy reached as high as 12.1 percent and 13.9 percent, respectively. In contrast, the average annual growth rate of assets registered only 7.7 percent, less than half of that from 2008 to 2016, indicating an increase of RMB64 trillion funds injected into the real economy and a decline of RMB88 trillion in the asset growth of the banking sector. The aggressive investment and wealth management businesses in the insurance sector were curbed, and the proportion of short and medium-term premiums in the life insurance business dropped from a historic high of 31 percent to 4 percent. The leverage ratio of the corporate sector remained generally stable with a slight decline, and those of the household and government sectors grew at a slower pace. The macro leverage ratio, reversing the average annual growth of over 10 percentage points from 2008 to 2016, basically stabilized at around 250 percent in the past three years.

The risks of shadow banking have continuously receded. Shadow banking in China used to be exposed to high risks. Featuring multi-layer nested investment and elusive risks, shadow banking was closely intertwined with real estate bubbles, implicit debt of local governments, and illegal Internet financing, etc. Starting from 2017, intensive measures have been taken to rectify market disorder related to interbank wealth management and off-balance-sheet businesses. After the implementation of the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions* in 2018, preliminary results have been achieved in making a fundamental improvement of the market with efforts made over the past years. At end-2019, the size of shadow banking decreased by RMB16 trillion from its peak. The interbank wealth management business, interbank investment business and asset management business of securities companies shrank by 87 percent, 26 percent and 42 percent, from their peaks, respectively. Entrusted loans, trust loans and various types of cross-market financial investment products continued to shrink. Some international organizations and specialized institutions spoke highly of these efforts, noting that China had achieved the most significant progress in mitigating the risks of shadow banking and fundamentally safeguarded the stability of its financial system.

Vigorous steps have been taken for the recognition and disposal of non-performing assets (NPAs). To address the widespread problem of false asset quality, examinations and evaluations were conducted on financial institutions (FIs) from multiple perspectives, and stringent requirements were laid out for the prudential classification of risk assets. Stepped-up efforts were made to crack down on the misconducts of covering up NPAs or cooking the books. The ratio of loans overdue for more than 90 days to non-performing loans (NPLs) of commercial banks once exceeded 128 percent in 2016, and fell to 82 percent at end-2019. From 2016 to 2019, RMB5.8 trillion worth of NPLs were disposed of in the banking sector, which exceeded the sum of NPLs disposed of in the previous eight years. In the meantime, sped-up capital replenishment and increased provisions comprehensively strengthened the capability of various FIs to respond to external shocks.

Rigorous measures have been taken to punish illegal activities and corruption. We resolutely clamped down on illegal financial groups and illicit financial activities, and pushed forward asset liquidation, corrupt proceeds and loss recovery and risk isolation in an orderly manner. Efforts were also made to protect legitimate incomes, ban illegal incomes and deal with problem shareholders who maliciously manipulate FIs in accordance with laws. The Baoshang Bank was taken over according to the law. During the takeover, measures were taken to sufficiently protect the legitimate interests of depositors, break the rigid payment, promote credit stratification and strictly enforce market discipline. Enterprises which seriously violated laws and regulations, such as Anbang Insurance Group Co., Ltd. and CEFC China Energy Co., Ltd., were addressed according to the law, and several holding companies suspected of being illegally engaged in financial businesses were restructured, reorganized and liquidated in a timely manner. Small and medium-sized banks and trust companies with high risks have undergone restructuring and risk resolution with “targeted measures for each enterprise.” A number of corrupt officials engaged in business collusion, tunneling or embezzlement have been brought to justice, including some from financial regulatory authorities.

Internet financial risks have been reduced substantially. There used to be a great number of “unlicensed” platforms illegally engaged in financial activities, and many of them operated in the name of financial innovation or “Internet Plus” initiatives to confuse the public. After intensive rectifications, Internet financial risks decreased significantly, and rampant unlicensed businesses were curbed. An array of illegal Internet wealth management, insurance and securities companies, funds and token institutions were cracked down on. The number of peer-to-peer (P2P) Internet lending institutions in operation nationwide fell from the peak of around 5,000 to 29 at end-June 2020, and both the size of P2P Internet lending business and the number of participants dropped for 24 consecutive months.

The debt risks of large and medium-sized enterprises have been defused in an orderly manner. By end-2019, around 20,000 creditors’ committees of banking FIs had been established across the country, and the volume of investment in market-based and law-based debt-for-equity swaps reached RMB1.4 trillion, which helped many enterprises with development potentials to tide over difficulties. The risks of bond default and stock pledge of many enterprises with liquidity difficulties were mitigated, and a considerable number of “zombie enterprises” with outdated production capacity or poor management exited the market in an orderly way. Approximately 500 large and medium-sized enterprises have implemented pilot programs of joint credit extension, which enhanced the endogenous motivation of debt restraint.

The growing tendency of real estate financialization and bubbles has been contained. Real estate bubbles are the biggest “gray rhino” threatening financial security. In recent years, local authorities and government departments have acted on the principle that houses are for living in, not for speculation, employed city-specific measures, optimized the allocation of financial resources, and strictly guarded against the illicit flow of funds into the real estate market. In 2019, the growth of real estate loans and its share in total new loans dropped 12 percentage points and 10 percentage points, respectively, compared with that in 2016. This can not only satisfy the needs for stable development of the real estate sector, but also avoid bigger risks arising from an excessive concentration of funds.

The risk of local government implicit debt has been brought under control. Implicit debts are a potential trigger of financial risks. In recent years, China has exercised strict control over the financing increments of local governments, and prohibited illegal provision of financing. Meanwhile, measures have been taken to allow proper forms of financing while curbing irregularities, and to unwind the outstanding implicit debts in an orderly manner. The financial system has also worked actively to cooperate with local governments on debt replacement. The sale of local government bonds over the counter of commercial banks to individual investors has been encouraged, which provided a variety of funding support for local government debt newly issued according to law. In the past three years, banking and insurance institutions have accumulatively increased their holdings of local government bonds by RMB11 trillion.

A long-term mechanism for addressing both symptoms and root causes has gradually improved. From 2017 to 2019, regulators held FIs and financial professionals strictly accountable for their violations of laws and regulations, imposing 8,818 penalties on banking and insurance institutions and 10,713 penalties on persons liable, with the volume of fines and confiscation amounting to RMB7.24 billion, more than the sum over the past dozen years. With efforts to shore up institutional weaknesses, the regulatory work has been further integrated into the framework of rule of law. Since 2017, a total of 209 pieces of regulations and normative documents for the banking and insurance sectors have been rolled out. The FIs' development philosophy and business models, which tend to prioritize speed over quality, have been largely corrected.

The quality and efficiency in serving the real economy has been raised markedly. From 2017 to 2019, RMB loans registered a growth of RMB46 trillion. Specifically, loans issued to infrastructures, affordable housing projects and the manufacturing sector grew by RMB8 trillion, RMB3.3 trillion and RMB1.6 trillion, respectively. The average annual growth rates of loans to scientific and technological research, information software, and eco-environmental protection reached 31.2 percent, 20.8 percent and 19.5 percent, respectively, remarkably higher than the growth of total loans in the same period. The goal of increasing volume, expanding coverage and lowering price for financing of micro and small businesses (MSBs) has been generally achieved. Inclusive MSB loans registered an average annual growth of 23.2 percent. The coverage rate of basic financial services in impoverished regions neared 99 percent. In 2019, serious illness insurance covered over 1.1 billion urban and rural residents, and agriculture insurance provided over RMB3.8 trillion of risk protection nationwide. Insurance proceeds have become an important source of funding for recovery and reconstruction after various types of natural disasters.

After continuous efforts, financial risks have receded and the financial system has become more resilient. We have not only prevented risks from evolving into a financial crisis, but also created valuable policy space and room for maneuver to cope with various complexities. Past practices have proved that the CPC has made perfectly right and timely decisions and arrangements on preventing and defusing financial risks. If we had spoiled the opportunity and delayed rectifications, headwinds would have become much stronger and the adverse consequences would have been immeasurable.

III. Major challenges have emerged in the financial sector since the breakout of COVID-19.

During a critical period of transition to high quality growth, the Chinese economy is facing difficulties such as faster population aging, lower savings rate and greater environmental and resource constraints. The once-in-a-century COVID-19 directly caused a sharp decline of the Chinese economy in the first quarter this year. Though growth turned positive in the second quarter, the economy still faces many uncertainties in the near and medium term. In its June *Global Economic Prospects*, the World Bank projected the global economy to contract 5.2 percent in 2020. For some time to come, the Chinese economy will suffer from the pressure from both the supply and demand sides, and in both the domestic and overseas markets. The financial system will undoubtedly encounter great difficulties.

To curb the recession, when economic activities sharply contract, financial activities must expand instead. Previously, the policy target was to ensure that the growth of broad money supply (M2) and total social financing is slightly higher than the nominal GDP growth. In the first half of this year, there was a positive margin of over 10 percentage points. It is estimated that the overall leverage ratio and sectoral leverage ratios will see a big rebound in 2020, and the bad debts of FIs may increase sharply. In 2019, the new NPLs of the banking sector recorded RMB2.7 trillion. After the outbreak of COVID-19, a black swan event, the quality of assets in the banking sector will only deteriorate on a larger scale. Since there is a time lag for financial accounting to reveal such influence, the current asset classification has not fully reflected the risk. The spot book profits of banks are largely overestimated. Nevertheless, this will not last long, and more NPAs will be exposed.

With the rapid development of economic globalization for years, the economy and the financial sectors of different countries have become highly interdependent. Regrettably, the environment for international cooperation is unfavorable at present. In recent years, a few developed countries have suffered from sustained deterioration in economic structures. As a result, divisions and antagonism between social classes have emerged, extremism and populism grown, trade protectionism prevailed, and cases of “withdrawal”, “decoupling” and “supply-chain disruption” increased. Meanwhile, these countries have overtly employed suppression and containment strategies against China. After the outbreak of COVID-19, some countries failed to take effective measures in response, but sought to shift problems overseas. The US, by adding corporations and institutions of China and some other countries to its Entity List, has repeatedly caused troubles worldwide. These moves have jeopardized the normal economic and trade cooperation, added more uncertainties to the global economic recovery, and hampered both financial stability and financial security.

It is essential to take macro countermeasures to offset the impact of the

COVID-19. If any fresh abnormal situations arose in the process of implementation, efforts in this regard would be further intensified. But we must not ignore that, in a loose financing environment, enterprises, households and governments are all likely to become more indebted. The strengthened homogeneous expectations for lower interest rates may fuel leveraged deals and speculations, thus giving birth to another round of asset bubbles. As real estate prices in some regions have started to pick up, financial resources may be once again concentrated in high-risk areas. Borrowers with relatively poor credit ratings may exploit deferred repayments or other preferential policies to maliciously evade repayment obligations for bank loans, and the high-risk shadow banking with complex structures may return easily.

Currently, many countries in the world, especially the most developed ones, have resorted to strong stimulus. Some countries have introduced the policy of unlimited QE and stepped up both fiscal and monetary policies, releasing massive liquidity into the market and providing funds directly or guarantees for individuals and enterprises. In the short term, this is conducive to stabilizing the economy and the financial sector, but in the medium and long run, there are great uncertainties when it comes to policy effects. There is no free lunch in the world, nor is there a feast that never ends. In the international monetary system dominated by the US dollar, the unprecedented policy of unlimited QE adopted by the US consumes the creditworthiness of the US dollar in effect and erodes the foundation of global financial stability, which may produce unimaginable adverse effects. The emerging economies are likely to face multiple pressures, including imported inflation, contraction of foreign currency-denominated assets, foreign exchange rate fluctuations and the volatility in capital markets. More severely, the world may once again be pushed to the verge of a global financial crisis.

Furthermore, after years of rapid development, FinTech has presented many opportunities and big challenges. Ranking high globally in the development of FinTech in some fields, China has no ready-made experience for reference regarding risk prevention and control. The widespread application of big data, cloud computing, artificial intelligence and other advanced technologies has profoundly changed the forms and transmission pathways of traditional financial risks, and made non-traditional risks such as those concerning data security ever more prominent. As these risks may break out suddenly and are highly hidden and destructive, they deserve our great vigilance.

IV. The financial system should be committed to ensuring that the targets for economic and social development are achieved as scheduled.

In the face of the complicated and grave economic situation, the CPC Central Committee with Comrade Xi Jinping at its core has made deployments for the next stage in a timely manner. While effectively strengthening the awareness of opportunities as well as risks, we should maintain overall stability and take a coordinated approach to further enhance the quality and efficiency of financial services and bring economic development back on track as soon as possible; at the same time, we should take differentiated measures and defuse bombs with precision so as to resolve major risks in key areas in an orderly manner and achieve a long-term balance between stabilizing growth and preventing risks. The following tasks are especially important for the current stage.

We should spare no effort in bringing the circulation of the national economy back to normal. The financial sector and the real economy share common stakes. Serving the real economy is not only the duty and purpose of the financial sector but also the fundamental means to guard against financial risks. Just as an old saying goes, with the rise of agricultural, industrial, and commercial trades emerge currencies in various forms. Currently, the overarching task is to fully restore the industrial cycle, the market cycle as well as the economic and social cycle under the precondition of strictly preventing a resurgence of COVID-19. Committed to ensuring stability on six fronts, namely, employment, the financial sector, foreign trade, foreign investment, domestic investment, and expectations, and to maintaining security in six areas, namely, employment, people's basic livelihood, operations of market entities, food and energy, stable industrial and supply chains, and the normal functioning of primary-level governments, we should fully take advantage of China’s huge market potential, abundant savings, and wide-ranging international cooperation, and harness the enthusiasm and initiative of government agencies at all levels. We should strengthen the synergy among fiscal, financial, employment, and industrial policies to serve the needs of all types of market entities, such as those of MSBs, and remove the obstacles to production, distribution, circulation, and consumption so as to foster a new development pattern with the domestic circulation as the mainstay and domestic and international circulations boosting each other,.

The supply-side structural reform of the financial sector should gain speed. Finance is the heart and lifeblood of the economy in modern times. It is also an important tool for resource allocation and macro regulation. As long as finance works well, it is like a right chess move making a difference across the board. Therefore, the financial supply-side structural reform plays a pivotal role in the economic supply-side structural reform. While sticking to the direction of reform to develop the socialist market economy, we should quicken the pace in transforming the development pattern of the financial sector. We should adapt the financial structure in line with economic and social development, promote funding facilitation, reduce costs for the real economy, and increase the efficiency of resource allocation. FIs should improve corporate governance to redress insider control as well as manipulation by large shareholders. We should keep improving the fundamental institutions of the capital market and guide wealth management, trust and insurance companies to step up stable long-term funding for the capital market. Moreover, we should speed up the building of the second and third pillars for old-age insurance, and increase the share of pension funds in the capital market towards the global average.

NPAs should be disposed of as early as possible. As credit risk is the most fundamental risk in the financial sector, toxic assets are like lesions that must be removed resolutely. Any attempt to conceal the problems or procrastinate the treatments only leads to missing the optimum timing of disposal, and ultimately causes severe consequences. The FIs need to adopt a more prudential financial and accounting system, effectively implement asset classification and fully expose NPAs. In routine supervision, we cannot simply take the rise of NPA ratio as the assessment criterion. FIs shall step up the disposal of NPAs by leveraging the financial space set aside according to regulatory requirements on provisions. In addition, they need to make realistic income and profit plans, and increase provisions and capital replenishment. The policy obstructions of NPA disposal should be removed so as to create more favorable conditions for greater soundness of the financial system.

We should take measures to prevent the return of high-risk shadow banking. The risk of shadow banking can easily materialize with huge impact. Even the rustle of leaves in the wind may trigger a prairie fire and cause endless fallout. At present, owing to intensive efforts, we have somewhat put the risk of shadow banking under control. However, the soil nurturing the shadow banking has not been fully cleaned. Any slight regulatory relaxation will probably lead to a big revival, wasting all of our previous efforts. We should maintain a strategic resolve and tough stance toward high-risk businesses. By emphasizing the principle of simplicity and transparency and regulating cross-market financial products, FIs must draw a clear dividing line between publicly offered and privately offered products, separate the risks of on-balance-sheet businesses from those of off-balance-sheet businesses, ensure separate-account management of entrusted and proprietary businesses, and differentiate savings products from investment products. We should clearly define the function of stock market, bond market, credit market and money market with orderly division of work, while continuing to rectify Internet financial risks and crack down on illegal fund-raising and other financial activities violating laws and regulations.

Risks of different types of institutions should be resolved in a timely manner. We should take targeted and effective measures to address institutions with different risks. For high-risk financial groups, their risk resolution should, in line with laws and regulations, be advanced according to existing plans and division of work. Maintaining a generally stable status of county-level incorporated bodies, rural FIs are encouraged to replenish capital and introduce strategic investors in various forms. For city commercial banks, trust companies and other locally incorporated institutions, provincial governments will be supported in formulating and implementing resolution plans with strengthened professional guidance of financial regulators. A list of domestic systemically important banks should be developed as soon as possible, along with recovery and resolution plans for institutions on the list. For problematic institutions, an effective risk resolution mechanism should be set up. FIs shall perform primary responsibilities with the shareholders, especially major shareholders, assuming important responsibilities. Local

Party committees and governments shall fulfill jurisdiction duties by integrating the responsibility of Party leadership at the local level, the responsibility of managing local state-owned financial capital, and the responsibility of resolving local risks and safeguarding social stability within their jurisdiction. Financial regulators shall assume primary regulatory responsibilities. The deposit insurance scheme and institutional system shall be perfected to fully leverage the role of early intervention, early warning and early resolution.

We should further open up the financial sector. Following the guideline of autonomy, orderliness, equality and security, we will pursue a higher-level opening-up of the financial sector without compromising financial sovereignty. We will step up efforts to build an open, transparent, stable and predictable regulatory policy environment, and encourage domestic and overseas FIs to compete on an equal footing, to deepen cooperation, to learn from each other and to promote innovation. While opening up the financial sector, we should strengthen the capability of macro financial management as well as risk prevention and control so as to identify in time and effectively contain the spread of external shocks into domestic markets. We will actively engage in international financial governance and regulatory rule-making, promote international coordination on macro policies, and increase China’s voice.

Solid work should be done to enhance financial consumer education and protection. We should make greater endeavors to publicize financial knowledge, helping both urban and rural residents understand that investment is not risk-free and there is no financial product featuring high returns yet low risks, let alone the so-called wealth management program that guarantees profits. In other words, any product advertised to ensure protected principal with high yields is a financial fraud. Both institutional and individual investors should develop the awareness of value investment, rational investment and risk prevention. We should promote the spirit of contract, consolidate the awareness of rule of law, act in strict accordance with the law, and increase the costs for violation of laws. Product structures should be simplified, client layering strictly implemented, and risks honestly reported. Information disclosure should be enhanced to make a more transparent market. The construction of the social credit system should be advanced and the mechanism for joint punitive action against bad faith further improved, so as to correct all kinds of violations that mislead financial consumers in a timely way.

Party leadership for the work of finance should be further enhanced. To deliver good work, the most fundamental principle is to uphold the centralized and unified leadership of the Party, which is our greatest institutional advantage. Practices in recent years reveal that risk events and corruption cases in the financial sector are mainly attributed to the severe weakness or absence of Party leadership and Party building. Meanwhile, our experience in eliminating financial risks in recent years shows that the most fundamental and effective solution in this regard is to enhance Party leadership. In principle, all financial institutions under risk treatment and restructuring should set up an ad hoc Party organization. For risk institutions with complicated equity relationships, the leadership responsibilities of the Party shall be assumed in the first place. Efforts should be made to crack down on financial corruption, to resolutely investigate and punish collusions behind risks, and to integrate case investigation, risk prevention and control and loss recovery with closing loopholes and reshaping culture, so as to accelerate the building of a long-term mechanism for the sound development of the financial sector.