translated the IMF literature *Safeguarding Financial Stability: Theory and Practice,* visited countries that had completed FSAP assessment to draw on their successful experiences, and held the Financial Stability Workshop together with the Bank of England. By earnestly studying FSAP assessment approaches, the PBC has made good information and personnel preparations for participating in the program.

Speeding up the Designing of the Deposit Insurance System

In order to effectively fulfill the requirement by the State Council of speeding up establishment of the deposit insurance system, the PBC continued its efforts in studying key issues concerning establishment of the deposit insurance system in China. Given the intense impact of the international financial crisis, the PBC paid close attention to international and domestic situation changes, and by enhancing communication and coordination with other agencies in the Deposit Insurance System Working Group, it made further research on deposit insurance system in light of evolvement of the international financial crisis, experience and lessons learned from other countries in implementing deposit insurance policies and domestic economic and financial trends. The PBC further studied and improved the design of the implementation scheme for China's deposit insurance system, and basically concluded relevant research and exploration. It also reinforced its research on reform prospects of international deposit insurance systems and the functions of deposit insurance in dealing with the crisis. Meanwhile, the PBC assisted the Legislative Affairs Office of the State Council in its efforts to develop regulations on deposit insurance.

Enhancing the Central Bank Asset Management

The PBC further strengthened the management on its lending associated with financial stability, and protected the central bank's assets. It continued to improve the asset disposal process, and strengthen declaration and registration for the creditor's rights of the central bank. It also endeavored to improve the recovery mechanism and strengthen disposal of assets to minimize related losses. Moreover, the PBC strengthened regulation and examination on the PBC lending to prevent misappropriation, and assisted relevant agencies in implementing the policy-related bankruptcy and debt-for-equity swap of state-owned enterprises.

Promoting Healthy Development of Wealth Management Products

Along with the steady development of domestic integrated financial services, financial institutions stepped up financial innovation, and cross-sector and cross-market wealth management products grew rapidly, which helped to improve financial services and the revenue structure of financial institutions and satisfy the diversified financial demands of the whole society. Since 2008, due to continuous turbulence in the international financial market, dramatic price fluctuations of commodities and financial assets and declining of the domestic capital market, domestic structured wealth management products which were linked to international financial assets such as commodities and foreign exchange, incurred large losses with some products having to be withdrawn ahead of schedule. The public showed great concern about this kind of risks. Within the current segmented regulatory system, the regulatory authorities for the banking, securities and insurance sectors supervised the wealth management business of financial institutions in the three sectors respectively. Financial institutions continued to improve the design and management of wealth management products to enhance risk control. In order to promote the healthy development of wealth management products, the PBC will steadily fulfill its responsibility, further consolidate regulatory rules and standards, avoid homogeneity of wealth management products, enhance information and risk disclosure and prohibit misleading sales, so as to protect fair competition in the wealth management market.

FINANCIAL SECTOR REFORM

Beginning in 2003, the reform of large state-owned commercial banks was carried out in a preemptive manner. By the end of 2006, the shareholding reform of the Bank of China (BOC), China Construction Bank (CCB), Bank of Communications (BOCOM) and the Industrial and Commercial Bank of China (ICBC) (referred to as the four reformed banks below) was accomplished and the reformed banks were listed successfully. In 2008, against the background of the global financial crisis, the central government resolutely launched the reform of the China Development Bank (CDB) and the Agricultural Bank of China (ABC), and injected $20 billion and $19 billion respectively into these two banks, highlighting China's determination and measures to deepen financial sector reform and safeguard financial stability. By then, the reform of China's large state-owned commercial banks was basically completed, with remarkable improvements being achieved both in terms of financial performance and corporate governance structure. Reform of the large state-owned banks helped to improve financial services and competitiveness of the whole banking sector, paving the way for the economy to maintain healthy and stable development, and for safeguarding financial stability and preventing financial crises.

Remarkable Achievements in Financial Sector Reform in 2008

Further Progress in Reform of the Four Large State-owned Banks

The four reformed banks continued to enhance corporate governance and vigorously pursued business transformation and internal reform, with business management, earning capacity and performance being continuously improved. By the end of 2008, the capital adequacy ratios of ICBC, BOC, CCB and BOCOM were 13.06 percent, 13.43 percent, 12.16 percent and 13.47 percent, respectively. Non-performing loan ratios were 2.29 percent, 2.65 percent, 2.21 percent and 1.92 percent, respectively, and pre-tax profits were 145.301 billion yuan, 86.251 billion yuan, 119.741 billion yuan and 35.818 billion yuan, respectively.

Strategic Achievements in the Shareholding Reform of the ABC

In 2008, in close coordination with other agencies, the PBC carried out research on the reform plan for the ABC and steadily advanced the reform process. On October 21, the State Council convened its 32nd Executive Meeting and approved in principle the *Guidelines on the Shareholding Reform of the Agricultural Bank of China.* On October 29, the China Investment Corporation, via the Central Huijin Investment Co., injected USD equivalent of RMB 130 billion yuan into the ABC. The Ministry of Finance and the China Investment Corporation each holds 50 percent of the ABC shares. The ABC consecutively completed the asset assessment, land property rights verification and divestiture of non-performing assets. In the meantime, it continued to expand the pilot projects of multidivisional structure reform at the county level and ratcheted up credit support for agriculture, rural areas and farmers. On January 16, 2009, the Agricultural Bank of China Co. Ltd. was officially inaugurated.

Transformation of CDB from A Policy Bank to A Joint-Stock Commercial Bank

In February and June 2008, the overall plan and implementation measures of the CDB reform were approved in succession, leading to stable progress in the transformation. The overall plan specified management over losses caused by exchange of foreign currency-denominated capital funds in financial restructuring, co-managed funds, and risk provisions; it also specified the management plan for state-owned shares, with the Ministry of Finance and the Central Huijin Investment Co. Ltd. as shareholders holding 51.3 percent and 48.7 percent stakes respectively. On December 16, the China Development Bank Co. Ltd. was officially inaugurated.

In addition, the Export-Import Bank of China and the Agricultural Development Bank of China (ADBC) deepened internal reform, strengthened risk management and internal control, steadily launched new businesses, and paved the way for further comprehensive reform. At present, the PBC and other relevant agencies are in deliberation of the reform and development of the two banks.

Reform of the large state-owned banks helped to improve financial services and competitiveness of the whole banking sector. Milestone changes and significant breakthroughs were made in the Chinese banking sector, thanks to the reform. Capital adequacy ratio and provision coverage ratio of commercial banks escalated remarkably. The number of banks with capital adequacy ratio reaching the regulatory standard increased. The commercial banks' conception, approaches and instruments of providing services further improved, with more diversified functions and much stronger viability and risk prevention capability. All these achievements helped to consolidate the microeconomic foundation for financial stability and effectively overcome the severe challenges of the ongoing international financial crisis, paving the way for the economy to maintain healthy and stable development, and for safeguarding financial stability and preventing financial crises.

Prospects for Financial Sector Reform in 2009

Continue the Reform of the Four Large State-Owned Banks

In view of the impact of the ongoing financial crisis, the PBC will adopt vigorous measures in the following two aspects. First, corporate governance should be further enhanced to improve the decision-making mechanism. Efforts should be made to deepen the reform of corporate governance and clarify the division of duties among shareholders meeting, board of directors, board of supervisors and senior management, so as to make the best of their respective functions, promote unimpeded communication and effective checks and balances, and improve the quality and efficiency of decision-making in coping with the financial crisis. Second, internal control and risk management should be strengthened. Further progress should be made in practicing the principle of prudential operation, setting aside sufficient risk provisions, strengthening capital discipline and improving the capital usage efficiency. The reformed banks should persistently focus on transforming operational mechanism and strengthening internal control and risk management, to prevent non-performing assets from rebounding and operating profits from declining. Accountability mechanism should also be reinforced to crack down on irregularities and dereliction and ensure sound operation.

Step up Reform of the CDB and the ABC

The PBC will continue to push ahead with reform of the CDB and improve its organizational structure of providing financial services. It will also urge the ABC to strengthen corporate governance and risk control, promote multidivisional structure reform at the county level, and effectively improve its financial services provided for agriculture, rural areas and farmers.

Accelerate Reform of Other Banking Institutions

The PBC will further push forward reform and development of the Export-Import Bank of China and the ADBC, urging them to speed up internal reform, transform operational mechanism and enhance risk control. Reform of other banking institutions including the Postal Savings Bank of China and rural credit cooperatives should also be advanced. Moreover, the PBC will accelerate reform and development of asset management companies, helping them to transform to market-oriented operations and bringing into play their specialty in disposing non-performing assets of financial institutions.