practical achievements in PBC's legal compliance of administration; on the other hand, it indicates that it is necessary to improve the PBC's administration, financial services provided to external parties and internal management, and some cases also reveal the insufficiency in some financial regulations.

Publicity and Training on Financial Regulations Were Strengthened to Improve the PBC Staff's Law Enforcement Competence and Legal Awareness

According to the arrangements of the National Legal Publicity Office, the PBC organized interim supervision and inspection on the Fifth Five-year Plan of Legal Publicity Campaign, and issued *the Guidelines on Interim Supervision and Inspection on the Fifth Five-year Plan of Legal Publicity Campaign.* The PBC also continued its efforts in legal education, including organizing TV lecture courses on *the Emergency Response Law of the People's Republic of China* and the first batch of training courses on in-house lawyers, economic and financial laws and newly issued laws.

PAYMENT AND SETTLEMENT SYSTEMS

In 2008, payment and settlement systems in China operated smoothly. New progress was made in the construction of payment infrastructure. The payment system has been playing an important role in advancing the integration of the urban and rural economy and in promoting sound and rapid development of the national economy.

Payment and Settlement Systems Operated Smoothly and Effectively

In 2008, the PBC LVPS and BEPS both operated in a safe and steady manner. Daily average payment transactions were above 1.2 million with a value of RMB 2.5 trillion yuan. The payment system provided effective and efficient payment services for both banking sector and the financial market. The Check Image Exchange System has been playing an increasingly important role in facilitating the inter-regional check exchange and in increasing the inter-regional economic integration, and the transaction volume increased steadily. The intrabank payment systems of banking institutions were improved further to provide better payment services. Interbank securities transactions were settled completely through the DVP mechanism to minimize settlement risks.

Non-cash Payment Instruments Were Constantly Innovated and Developed

In 2008, 18.327 billion of payment transactions with a value of 633 trillion yuan were made with non-cash instruments, up 18.61 percent and 6.75 percent from the previous year, respectively, which played a very important role in cutting down cash usage. The PBC, in order to popularize the use of paper bills, put into operation a BEPS-based casher's check processing system and a regional bank draft processing system covering three provinces and one city in east China. These greatly promoted electronization of paper bills and increased the coverage of bill circulation. Bankcards have increasingly become the most popular payment instruments for consumers. The value of payment transactions made with bankcards reached 127.16 trillion yuan accounting for 24.2 percent of the total amount of retail sales in 2008. The international business of China UnionPay was vigorously promoted and bankcards with China UnionPay logo were accepted in an increasing number of countries. The business cards reform for budgetary units achieved remarkable success. At the year end, business cards were introduced in more than 100 budgetary units at the central government level, including the Ministry of Finance, the Committee of Discipline and Inspeotion of the CPC Central Committee, the Chinese Academy of Sciences and budgetary units at the Iocal government level of 25 provinces (including autonomous regions and municipalities). The number of business cards holders reached as many as 1.55 million, and the number of payment transactions also increased fast and substantially.

Construction of Payment Infrastructure Advanced Steadily

In April 2008, the PBC built and put into operation a domestic Foreign Currency Clearing System to provide a secure, efficient and cost-effective foreign currency clearing platform for domestic financial institutions. The system offers clearing services for eight oversea currencies, including the Hong Kong Dollar, Japanese Yen, the Euro and the U.S. Dollar, etc. As a result, China's financial infrastructure was further strengthened. The construction of back-up facilities for both CCPC and NPC in CNAPS and the National Check

Image Exchange System was accomplished, further improving the emergency handling system to secure the smooth and safe operation of the payment system and business continuity. The PBC started to formulate strategic planning for the construction of second generation of CNAPS. The basic objectives to be achieved, the principles to be followed and the main functions to be realized as well as the implementation plan were all defined in the expectation that the new version of CNAPS would better meet the new requirements raised by the development of China's financial reform. Both ABS (the PBC Centralized Account Balancing System) and AAS (Accounting Afterwards Supervision System) were up-graded to new versions to improve the functions to ensure the implication and transmission of monetary policy, such as reserve management. The rules and regulations governing the payment system and payment instruments were further developed and improved, and the real-name system of bank accounts was further strengthened. Regular consultative conferences on payment services and policies between the PBC and the commercial banks were formally set up to strengthen information exchange, enhance rules and regulations governing payment and settlement and constant improve the working mechanism.

Remarkable Results Achieved in the Construction of Olympics-friendly Payment Environment

During the period of the 2008 Beijing Olympic Games, the Chinese banking sector provided overseas organizations and individuals with high quality payment services which were convenient, efficient, cost-effective and secure. This clearly showed to the outside world the remarkable achievements in the construction of CNAPS and the high level of payment service in China. In the Olympics-related cities including Beijing, Tianjin, Shanghai, Shenyang, Qingdao and Qinhuangdao, the overall bank account service level was raised greatly, with bank card acquiring environment being widely improved and foreign currency exchange being more convenient. The soft environment of financial services was clearly improved. The development of an Olympics-friendly payment environment had also brought about further improvements in the nation-wide payment environment and consolidated the success achieved in building the payment infrastructure.

Payment Service Environment in Rural Area Improved Continuously

The PBC actively supports financial institutions in the rural area to connect to LVPS and BEPS as well as the Check Image Exchange System in order to make the rural payment channels much more unimpeded and to improve and develop the rural payment environment. By the year end, 17 542 rural financial institutions (accounting for 21.5 percent of system's participants) had connected to LVPS and BEPS, 9825 rural financial institutions (accounting for 17 percent of system participants) connected to the Check Image Exchange System. In addition, the PBC actively and safely accepted some village banks and/or town banks to have an access to its LVPS and BEPS. By the year end, 31 of the 105 village/town banks were accepted as participants of LVPS and BEPS. The Special Bank Card Service for Migrant Workers has been popularized continuously and has already covered Guizhou, Shandong, Hunan and Henan, etc. provinces which have had a large number of migrant workers. The Rural Credit Unions (RCUs) and 64 thousand business offices of the Postal Savings Bank of China jointly provided acquiring service for the Special Bank Card Service for Migrant Workers and successfully handled 12.698 million payment transactions with a value of 7.98 billion yuan, up 378.65 percent and 475.96 percent respectively from the previous year.

Timely and Appropriate Emergency Handling of Major Disasters

In 2008, the CNAPS underwent severe tests exerted by a series of major natural disasters. During the fight against the snow and ice disasters in south China and the devastating earthquake that hit Wenchuan, Sichuan province, the PBC responded quickly and handled events appropriately. The *Urgent Circular on Matters Related to Banking Institutions Handling Payments and Settlements in Earthquake-stricken Areas* and the *People's Bank of China Implementation Program to Support Relief Distribution to the Disaster-hit Masses,* etc. were sent down one after another. The CNAPS contingency plan was timely started and the secure, efficient and smooth operation of the CNAPS was guaranteed. A "green channel" for funds transfer was provided to support economic activities in the quake-hit areas, and strong support was given to disaster-fighting, disaster relief and reconstruction.

Oversight of the Payment and Settlement System Further Strengthened

In 2008, the PBC took a series of measures to gradually establish and improve the rules and regulations governing payment and settlement: to strengthen daily supervision, to set up and improve the check-up system, to intensify the management of system's participants, to timely discover and monitor for potential risks; to improve the real-name management system of individual RMB savings accounts, to standardize the administrative regulations relating to opening and using an account, to establish the customers' identification system and the post responsibility system as well as to strengthen supervisory measures. In addition, the supervision and regulation of irregularities in the area of payment and settlement were constantly strengthened. The banking sector and the Ministry of Public Security jointly carried out a special operation to crack down on bankcard crime. During that period of time, the public security organs investigated and solved 2 388 bankcard-related criminal cases and arrested 1 420 suspected individuals. As a result, an economic loss of 61.61 million yuan was retrieved. Bank card criminals were heavily beath and greatly terrorized. The public sense of security and skills with using a bank card were greatly increased, and public confidence in payment instruments was also raised. In the meanwhile, the PBC inflicted a legal punishment on 136.6 thousand cases of rubber check writing in order to restrain rubber checks writing and to maintain credibility of checks and promote a better social credit circumstance.

International Exchange and Cooperation in the Area of Payment and Settlement Was Constantly Strengthened

In 2008, the PBC, by drawing lessons from abroad, built and started to operate the domestic Foreign Currency Clearing System. It carried out, by following international standards, cross-border cooperation in the oversight of payment systems. The PBC established the initial agreements on cross-border cooperative oversight of the Foreign Currency Payment System with central banks in concerned countries and regions. The PBC signed the agreements on settling border trade by using domestic currency with eight neighboring countries, including Russia, Vietnam, Mongolia, etc. in order to settle border trade smoothly. In the meanwhile, the PBC has actively taken part in the WG/PPS (Working Group on Payment and Settlement Systems) under the EMEAP as well as other international exchange and cooperation in the area of payment. The PBC has constantly learnt from advanced international experience and followed the current international standards and encouraged domestic financial institutions to develop business abroad and develop cross-border cooperative mechanism for payment and settlement.