

Some Opinions of the State Council on Promoting the Reform, Opening and Steady Growth of Capital Markets

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The people's governments of all provinces, autonomous regions, and municipalities directly under the Central Government, all ministries and commissions of the State Council, and all agencies under the direct control of the State Council:

As of the distribution of the Notice of the State Council on Further Enhancing the Macro-control of the Securities Market (GuoFa [1992] No. 68), China's capital markets have embraced rapid growth and rapid stunning achievements. With scale-forming on a preliminary basis, continuous improvement of the market infrastructure, gradual perfection of the legal system, and further upgrading of market standardization, China's capital markets have become an important component part of the socialist market economy by contributing greatly to the reform and development of state-owned enterprises and the financial market, to the optimization of resources allocation and to the promotion of economic restructuring and growth. With a view to carrying out the spirit of the 16th CPC National Congress and the 3rd Plenary Session of the 16th CPC Central Committee and vigorously promoting the reform, opening and steady growth of capital markets around the strategic goal of building a well-off society in an all-round way, the opinions are hereby put forward as follows:

I. Fully Understanding the Importance of Developing Capital Markets

Developing capital markets is a task of strategic importance linked to the fulfilling of the strategic goal of quadrupling China's GDP within the first two decades of this century. First, it will facilitate the improvement of the socialist market economy, bring into fuller play the role of capital markets in optimizing resources allocation, and effectively turn social capital into long-term investment. Second, it will facilitate the restructuring and strategic transformation of the state-owned sector of the economy and accelerate the development of the non-state-owned sectors. Third, it will facilitate the increase of the ratio of direct financing, improve the structure and efficiency of the financial market, and maintain financial security.

China's financial markets have been developing step by step with the course of economic restructuring. Due to the lack of coordination during the primary stage of the restructuring as well as flaws in the system design, there remain with the capital markets some underlying problems and structural conflicts, which have hampered the way in which market functions could be brought into effective play. These problems arise from, thus must be solved through, the development of capital markets. The 16th CPC National Congress has put forward the strategic goal of building a well-off society in an all-round way; the 3rd Plenary Session of the 16th CPC Central Committee has adopted the Decision of the Central Committee of the Communist Party of China on Some Issues concerning the Improvement of the Socialist Market Economy, which has set plans for developing capital markets and clarified the orientation towards the reform, opening and steady growth of such markets. We should, by having a correct understanding of the current situation, seizing opportunities and changing our mentality, vigorously develop capital markets, increase the ratio of direct financing, create and cultivate a sound investment environment, bring into full play the

role of capital markets in promoting capital formation, optimizing resources allocation, propelling economic restructuring, improving corporate governance, etc., in an effort to make new contributions to the sustained, coordinated and healthy development of the national economy in a fast speed and the building of a well-off society in an all-round way.

II. The Guidelines for and Tasks of Promoting the Reform, Opening and Steady Growth of Capital Markets

The guidelines for promoting the reform, opening and steady growth of capital markets are: taking Deng Xiaoping Theory and the important thought of the "Three Represents" as our guidance, fully implementing the spirit of the 16th CPC National Congress and the 3rd Plenary Session of the 16th CPC Central Committee, following the principle of openness, fairness and impartiality and the policy of the rule of law, supervision, self-discipline and standardization, upholding the serving of the overall situation of the national economy and its coordinated development, upholding the rule of law in the regulation of markets, and the protection of the lawful rights and interests of investors or individual investors in particular, upholding the unleashing of market forces in capital markets and the optimal play of the role of market, upholding the coordination of the momentum of reform, the speed of development and the sustainability of the general public, and the correct handling of relations among reform, development and stability, upholding the development-based solution of problems cropping up on our way forward and the correct handling of relations between development of capital markets and prevention of market risks, and upholding the principle of progressiveness and the continuous upgrading of opening to the outside world.

The tasks of promoting reform, opening and steady growth of capital markets are: building transparent and efficient capital markets featuring a rational structure, a sound mechanism, perfect functions and safe operations while aiming at the expansion of direct financing, improvement of the modern market system and the fuller play of the basic role of market in resources allocation. To fulfill such goals, we must establish an efficient capital markets system in helping enterprises of various types raise funds and in satisfying diverse investment needs. We must improve the market-oriented products innovation system and form a products structure of capital markets by giving due consideration to both price discovery and risk management and by coordinating stocks financing and bonds financing. We must cultivate a whole set of listed companies and market intermediaries featuring good faith, standardized operation and a sound governance mechanism, and strengthen the mechanism for restraint of market players and survival of the fittest. We must improve the market supervision and administration system featuring clearly defined duties and responsibilities, effective control of risks and good coordination and cooperation, in a way to best protect the lawful rights and interests of investors.

III. Further Improving the Relevant Policies and Promoting the Steady Growth of Capital Markets

Appropriate policy guidance and support are a must for the steady growth of capital markets. All departments must further improve the relevant policies in an effort to create a sound environment for the steady growth of capital markets.

The approval system for the issuance and listing of securities must be improved. We should better the mechanism under which quality enterprises of all types can utilize capital markets on an equal footing, thus improving the efficiency for resources allocation.

Investment returns on capital markets must be highlighted. We should take effective measures to reverse the situation in which some listed companies focus excessively on listing and fund raising while paying inadequate attention to

restructuring and investment returns, improve the overall quality of listed companies and offer investors chances of sharing the benefits of economic growth and increasing their wealth.

Qualified capital is encouraged to go to the market. Continuing efforts will be given to the development of securities investment funds. We should support the multi-form direct investment of insurance funds on capital markets and gradually increase the ratios of social security funds, enterprises supplementary pension funds, commercial insurance funds, etc. involved in capital markets. We should cultivate a group of faithful, law-abiding and professional institutional investors, and see to it that institutional investors mainly composed of fund management companies and insurance companies are to become the major forces on capital markets.

Financing channels of securities companies must be expanded. Continuing support will be given to the qualified companies' efforts in raising long-term funds through public offering of shares and bonds. We should improve the administrative measures for pledged borrowing of securities companies as well as their entry into the inter-bank market, and formulate the review and approval standards for acquisition and merger of securities companies as well as loans for securities underwriting. We should, on the basis of improving the mechanism for risk control, create favorable conditions for securities companies to use loans and raise funds. Experiments will be steadily conducted on the financing of fund management companies.

The issue of equity separation must be settled in a positive and reliable manner. We should regulate the transfer of untradeable shares of listed companies so as to prevent the loss of state-owned assets. While steadily making tradeable the presently untradeable shares of listed companies, we should respect the law of market, maintain the stability and growth of the market, and effectively protect the lawful rights and interests of investors or individual investors in particular.

The tax policies towards capital markets must be refined. Tax policies shall be worked out that can encourage individuals to invest, and improve the administrative measures for the collection of circulation tax and income tax on securities and futures companies. Concentrated collection and administration of income tax will be adopted for qualified securities and futures companies.

IV. Improving the System of Capital Markets and Diversifying Securities Products

A multi-layer stock market system must be established. We should, on the basis of coordinating the rational layout and the function fixing of capital markets, gradually establish a multi-layer stock market system which can satisfy the financing needs of different types of enterprises. We should work out the corresponding conditions for issuance and listing of securities, and establish the supporting company selection mechanism. We should continue to regulate and develop the main board market and gradually improve the structure of listed companies thereon. We should propel the construction of the start-up board market in steps, improve the mechanism of venture capital investment, and expand the financing channels of small and medium-sized enterprises. The stock transfer system under unified supervision and administration will be positively explored and improved.

The bonds market must be developed in a positive and reliable manner. We should, on the basis of tightening risk control, encourage qualified enterprises to raise funds through the issuance of corporate bonds. We should reverse the sluggish growth of bonds financing and diversify products on the securities market, in a way to promote the coordinated development of capital markets. We should adopt and improve the regulations and rules concerning the issuance,

trading, information disclosure, credit rating, etc. of corporate bonds, and establish and perfect the secured loan repayment mechanism including assets mortgage and credit guarantee. We should gradually establish a networked bonds market which is under concentrated supervision and administration.

The futures market must be developed in a reliable manner. We should, on the basis of tightening risk control, gradually introduce commodity futures products which carry functions of price discovery and hedging for manufacturers and consumers of bulk commodities.

The market-oriented products innovation mechanism must be established. We should research and develop stocks and bonds-related new products as well as the derivative products thereof. We should make greater efforts in developing low-risk securities products with fixed returns and provide investors with deposit-replacing securities products. Securitized assets products will be positively explored and developed.

V. Further Upgrading the Quality of Listed Companies and Promoting the Standardized Operation of Listed Companies

The quality of listed companies must be upgraded. The quality of listed companies is the source of value for securities market investment. Board directors and senior managing personnel should take the optimization of stockholders' interests and sustained improvement of profitability as the starting line and standpoint for their work. Further efforts should be made to improve the administrative system for stock issuance, promote the recommendation system for issuance and listing of securities, support companies with strong competitiveness, standardized operation and good returns to go public, therefore upgrading the quality of listed companies at root. Listed companies will be encouraged to conduct merger, acquisition and restructuring which are guided by market forces and can facilitate the sustained corporate development. While further refining refinancing policies, we should encourage listed companies of excellence to utilize capital markets in accelerating development and growing stronger.

The operation of listed companies must be standardized. We should improve the structure of corporate governance of listed companies, and by following the requirements of the modern corporate system, form a check and balance mechanism among the power organ, the decision-making organ, the supervisory organ and corporate managers. Board directors and senior managing personnel are urged to demonstrate greater integrity during further improvement of the system of independent directors. We should regulate the acts of controlling shareholders and prosecute those committing acts to damage the interests of listed companies or those of small and medium-sized shareholders. We should burden listed companies and other entities liable for disclosing information with heavier responsibility for transparency, so as to effectively ensure the authenticity, accuracy, integrity and timeliness of information disclosure. We should establish and improve the incentives and restraint system for senior managing personnel of listed companies.

The market disqualification system must be improved. We should take effective measures to further improve the market disqualification system in concert with the construction of the multi-layer market system. While ensuring the survival of the fittest among listed companies, we should establish a mechanism for prosecuting the senior managing personnel of disqualified companies for dereliction of duty, so as to effectively protect the lawful rights and interests of investors.

VI. Promoting the Regulated Development of Intermediary Institutions on Capital Markets and Upgrading their Practicing Level

Securities and futures companies must be built into competitive modern financial enterprises. We should follow the principle of prudent supervision and administration in improving the market admittance system for securities and futures companies. While urging such companies to improve the structure of governance, we should regulate the acts of their shareholders and extract a higher level of integrity from the directors' board and managers. We should reform the administrative system for transaction settlement funds of securities and futures clients, and study and improve the deposition and management mechanism for such funds. Unauthorized appropriation of clients' funds is strictly prohibited in a way to effectively protect the lawful rights and interests of investors. Securities and futures companies shall improve the internal control mechanism and strengthen the unified control over their subsidiaries and branches. While enhancing the risk monitoring index system with net capital as its core, we should urge securities and futures companies to implement sound financial policies. Such companies are encouraged to grow stronger through merger, acquisition, restructuring and optimized integration. The market disqualification system for securities and futures companies will be established and improved.

The administration of other intermediary institutions must be enhanced. We should regulate and develop securities and futures investment consultancy institutions and securities credit rating institutions, enhance the administration of accounting firms, law firms and assets assessment institutions, so that the professional services offered by intermediary institutions shall be upgraded.

VII. Enhancing the Construction of Sound Legal and Credit Systems and Improving the Supervision and Administration of Capital Markets

The legal system for capital markets must be improved, and credit building enhanced. We should follow the overall planning for capital markets development to improve the system of laws and regulations which can facilitate the steady growth of capital markets and the protection of investors' rights and interests. We should remove such administrative regulations, regional and departmental rules and policy statements as impeding the market development, so as to create a sound legal environment for the growth of capital markets. We should, in accordance with the requirements of improving the social credit system in the context of a modern market economy, formulate the bona fide norms for capital markets, safeguard the bona fide order, and resolutely impose a ban of market access on institutions and individuals in serious violation of laws and regulations or in serious loss of trustworthiness.

The rule of law in public administration must be propelled, and the supervision and administration of capital markets enhanced. We should follow the requirements of deepening the reform of the administrative approval system and implementing the Administrative Licensing Law to improve the personal quality and law enforcement capacity of the law enforcement personnel. We should foster the updated concepts of supervision and administration, establish and perfect the supervisory and administrative pattern in compatibility with the specific stage of capital markets development, and improve methods and increase efficiency, of capital markets. We should further consolidate the supervision and administration forces, integrate the relevant resources, and cultivate a contingent of administrative and supervisory personnel who are politically and professionally qualified. We should, through effective market supervision and administration, ensure the market to be fairer, more transparent and efficient, lower the systemic risk of the market, and safeguard the lawful rights and interests of market participants.

The role of guild discipline and media supervision must be brought into full play. We should give space to self-regulation through securities and futures exchanges, registration and clearing companies, securities and futures associations, and guilds of law firms, accounting firms, assets assessment institutions, etc., and guide and enhance the news media's reporting and supervision of the securities and futures market.

VIII. Enhancing Coordination and Co-operation and Preventing and Defusing Market Risks

A sound environment for capital markets development must be created. Prevention of risks on capital markets bears on the financial security of the nation and the healthy growth of the national economy. All localities and departments should care for and support the regulated development of capital markets, take into full consideration the sensitivity, complexity and uniqueness of capital markets during the formulation of capital markets-related policies and measures, and establish a coordination and co-operation mechanism featuring sharing of information, easy communication and specified duties and responsibilities, so as to create a sound environment and conditions for the steady growth of the market.

Market risks must be prevented and defused with common efforts. All localities and departments shall earnestly perform duties and responsibilities specified in the relevant laws and regulations such as the Company Law, and take effective measures to prevent and rectify in good time acts such as feigned capital contribution by initiators and encroachment on assets of listed companies by major shareholders or de facto controllers. All localities and the administrative departments concerned shall enhance the administration of companies disqualified from the market, and ensure the disqualification process to be smooth. For those securities and futures companies that involve major operation risks and thus must withdraw from capital markets or are subject to other administrative disposal measures, the local people's governments, the financial regulatory departments and the departments of public security, justice, etc. shall enhance coordination and co-operation, follow the laws, regulations and the relevant policies and take positive and effective measures to do a good job on risk disposal. All localities and departments shall establish a quick reaction mechanism against capital markets emergencies as well as a long-term mechanism for preventing and defusing risks.

Illegal acts on securities and futures markets shall be subject to harsh crackdown. All localities shall implement the State Council's guidelines concerning rectification and regulation of the market economic order, and strictly prohibit under their jurisdiction illegal issuance of securities, illegal establishment of business institutions on securities and futures, illegal proxy of securities and futures trading, illegal or disguised establishment of securities and futures exchanges, and other illegal acts connected with securities and futures. The government departments in charge of finance, public security, audit, industry and commerce, etc. and the institutions for the supervision and administration of state-owned assets should enhance coordination and co-operation in their efforts to sharpen the crackdown and maintain the order of capital markets.

IX. Earnestly Summing Up Experiences and Promoting Opening in a Positive and Reliable Manner

China will strictly carry out the commitments it has made on opening the sector of securities services during its accession to the World Trade Organization (WTO). Qualified foreign securities institutions are encouraged to hold shares of securities companies and fund management companies. The system of

qualified foreign institutional investors will continue to be trial-operated.

Foreign capital markets should be vigorously utilized. Qualified domestic enterprises are encouraged to issue securities and get listed overseas by following the law of market and international common practice. Qualified domestic institutions and personnel are encouraged to conduct capital markets investment-related services and futures hedging overseas. The system of qualified domestic institutional investors will be earnestly studied.

Exchange and cooperation should be enhanced. We should implement the Closer Economic Partnership Arrangement with Hong Kong and Macao and further enhance ties and cooperation with the relevant international organizations and foreign securities regulatory agencies.

Developing capital markets is an important decision made by the CPC Central Committee and the State Council from an overall and strategic perspective. All localities and departments must pay sufficient attention to capital markets development, foster concepts by having the overall situation in view, fully understand the importance of such development, enhance confidence, seize opportunities, make innovations in a pioneering spirit, work together to create conditions for developing capital markets, vigorously promote their reform, opening and steady growth, and contribute to the great goal of building a well-off society in an all-round way.

