Financial Stability Law of the People’s Republic of China

Dan Young Business Consultancy — www.danyoungcpa.com

Unofficial English translation prepared for reference only. The official Chinese text prevails.

Contents

Table of Contents 1

Chapter I — General Provisions 1

Chapter II — Financial Risk Prevention 2

Chapter III — Financial Risk Resolution 2

Chapter IV — Financial Risk Disposal 3

Chapter V — Legal Liability 4

Chapter VI — Supplementary Provisions 5

Adopted at the 10th Meeting of the Standing Committee of the Fourteenth National People’s Congress on June 28, 2024

Effective: January 1, 2025

Table of Contents

- Chapter I — General Provisions
- Chapter II — Financial Risk Prevention
- Chapter III — Financial Risk Resolution
- Chapter IV — Financial Risk Disposal
- Chapter V — Legal Liability
- Chapter VI — Supplementary Provisions

Chapter I — General Provisions

Article 1 — This Law is enacted for the purposes of preventing, resolving, and disposing of financial risks, maintaining financial stability, safeguarding national financial security, protecting the lawful rights and interests of financial consumers, and promoting the sound and sustainable development of the economy and society.

Article 2 — This Law applies to the prevention, resolution, and disposal of financial risks and the maintenance of financial stability within the territory of the People’s Republic of China. For the purpose of this Law, financial institutions mean institutions licensed by the financial regulatory authorities under the State Council to engage in financial business in accordance with the law.

Article 3 — The financial stability work shall adhere to the centralized and unified leadership of the State, with the financial regulatory authorities exercising unified supervision and administration, local people’s governments playing an active role, and overall coordination of financial stability maintenance work.

Source: https://www.danyoungcpa.com/financial-stability-law-prc-2024-english-translation/

Article 4 — The State shall establish a financial stability maintenance system characterized by clear division of responsibilities, coordination and cooperation, and efficient operation, to guard against systemic financial risks. Financial stability maintenance shall adhere to the principles of early prevention, timely resolution, prudential disposal, source accountability, and the maintenance of social stability.

Article 5 — The State shall establish a financial stability guarantee fund as a reserve fund for the disposal of major financial risks. The financial stability guarantee fund shall be raised from financial institutions, the financial market, and other channels, and shall be managed by a specialized institution. The specific measures for the raising, management, and use of the fund shall be prescribed by the State Council.

Article 6 — The financial regulatory authorities under the State Council shall, in accordance with the law, exercise supervision and administration over the financial institutions under their respective supervision, and shall perform their financial stability maintenance duties. The People's Bank of China shall perform the function of lender of last resort and is responsible for macro-prudential management, the prevention and resolution of systemic financial risks, and the maintenance of financial stability. Local people's governments shall, in accordance with their statutory duties, be responsible for the prevention, resolution, and disposal of financial risks within their respective administrative regions.

Chapter II — Financial Risk Prevention

Article 7 — Financial institutions shall establish and improve their internal control systems, strengthen corporate governance, improve risk management mechanisms, and guard against financial risks. Financial institutions shall set up independent risk management departments and internal audit departments, and establish effective checks and balances among decision-making, execution, and supervision.

Article 8 — Financial institutions shall, in accordance with the provisions of laws and administrative regulations, meet capital adequacy requirements, maintain adequate liquidity levels, make adequate provisions for asset impairment losses, and ensure safe and sound operations. Where a financial institution fails to meet prudential regulatory indicators, it shall, in accordance with regulations, formulate a rectification plan and restore such indicators within the prescribed time limit.

Article 9 — The financial regulatory authorities shall, in accordance with the law, conduct ongoing supervision of the business activities and risk profiles of financial institutions, and shall conduct regular stress tests to assess the risk-bearing capacity of financial institutions. The financial regulatory authorities shall establish a financial risk monitoring and early warning mechanism to identify, assess, and provide early warning of financial risks in a timely manner.

Article 10 — A financial holding company shall establish a firewall system to isolate risks among its financial institutions and between its financial institutions and non-financial enterprises. Related-party transactions of financial holding companies and other financial groups shall be subject to strict regulatory requirements and shall be conducted on fair terms.

Article 11 — Financial institutions shall, in accordance with regulations, establish recovery and resolution plans specifying the measures to be taken and the procedures to be followed to restore normal operations or to conduct orderly resolution when a financial institution is under significant financial stress. Systemically important financial institutions shall establish more robust recovery and resolution plans.

Article 12 — The State shall establish a mechanism for sharing financial information and coordinating financial supervision. The financial regulatory authorities shall establish a financial statistics and information sharing mechanism to collect, aggregate, and analyze financial data and information, so as to provide support for the identification and early warning of financial risks.

Chapter III — Financial Risk Resolution

Source: https://www.danyoungcpa.com/financial-stability-law-prc-2024-english-translation/

Article 13 — When a financial institution experiences a significant decline in capital adequacy ratio, a major deterioration in asset quality, a severe shortage of liquidity, a major loss, or other circumstances indicating significant risks, the financial regulatory authorities may, based on the severity of the risks and in accordance with the law, take the following early intervention measures: (1) ordering the financial institution to increase capital; (2) restricting the payment of dividends, compensation, and benefits to directors, supervisors, and senior management personnel; (3) restricting asset growth and new business; (4) ordering the financial institution to dispose of non-core assets and reduce risky business; (5) ordering the adjustment of directors, supervisors, and senior management personnel or restricting their rights; (6) restricting the transfer of property or the creation of other rights over property; (7) ordering the controlling shareholder to transfer its equity or restricting the rights of shareholders; (8) ordering the financial institution to seek a merger or acquisition by another financial institution; (9) taking other early intervention measures conducive to risk resolution.

Article 14 — Where early intervention measures fail to effectively control risks, or the financial institution is under any of the following circumstances, the financial regulatory authorities may take over or restructure the financial institution in accordance with the law: (1) the financial institution is no longer able to pay its due debts; (2) the financial institution has committed serious violations of laws and regulations; (3) the financial institution is insolvent or its capital is seriously inadequate; or (4) the financial institution is under other circumstances that seriously endanger financial order or public interests. The takeover or restructuring shall be carried out by the financial regulatory authorities in conjunction with the relevant local people's governments.

Article 15 — After taking over a financial institution, the takeover team shall exercise the operational and management powers of the financial institution, safeguard the normal business operations of the financial institution, and take measures to restore the normal operations of the financial institution. The takeover team may entrust a specialized custodial institution with the daily operations and management of the financial institution. The members of the takeover team and the custodial institution shall treat all clients fairly and shall not harm the lawful rights and interests of depositors, insurance policy holders, investors, or other financial consumers.

Article 16 — Where a financial institution that has been taken over or restructured experiences serious credit risk and is unable to continue normal operations, seriously endangering the financial order, the financial regulatory authorities may decide to revoke its business license in accordance with the law and may file an application with the people's court for bankruptcy of such financial institution. Where the people's court accepts the bankruptcy application, the financial regulatory authorities may recommend the appointment of a qualified institution as the bankruptcy administrator.

Chapter IV — Financial Risk Disposal

Article 17 — The State shall establish a financial risk disposal mechanism, clarifying the responsible entities, sources of funds, disposal procedures, and safeguard measures for the disposal of financial risks arising in different types of financial institutions and financial markets.

Article 18 — The disposal of financial risks shall adhere to the principles of marketization and the rule of law and shall be conducted in a fair and just manner. When disposing of financial risks, the financial regulatory authorities shall fully consider the impact on financial consumers and the financial market, and shall take necessary measures to protect the lawful rights and interests of financial consumers.

Article 19 — In the course of disposing of financial risks, the financial regulatory authorities may, in accordance with the law, take the following measures: (1) ordering the financial institution to dispose of assets and business; (2) ordering the financial institution to transfer its business to other financial institutions; (3) establishing an asset management company to dispose of the non-performing assets of the financial institution; (4) providing liquidity support; (5) writing down or converting debts; (6) temporarily freezing the

Source: https://www.danyoungcpa.com/financial-stability-law-prc-2024-english-translation/

relevant assets; (7) taking other disposition measures conducive to resolving the financial risk.

Article 20 — Where the disposal of risks of a financial institution involves the use of public funds, the shareholders and creditors of the financial institution shall first bear the losses in accordance with the law, and the directors, supervisors, and senior management personnel responsible for the risks shall be held accountable in accordance with the law before public funds may be used in accordance with the law, the prescribed conditions, and the prescribed procedures. The use of public funds shall comply with the provisions of laws and administrative regulations on fiscal funds, and the principle of cost minimization shall be followed.

Article 21 — In disposing of a financial institution, the financial regulatory authorities may, in accordance with the law, establish a bridge institution to temporarily take over the assets and liabilities of the financial institution under disposal, maintain the continuity of critical financial services, and seek the transfer of assets and liabilities to other financial institutions within a reasonable period of time.

Article 22 — Where the disposal of risks of a financial institution involves the write-down or conversion of debts, the sequence of loss absorption shall be strictly followed: shareholders shall first bear losses, and then the relevant creditors shall absorb losses in accordance with the law and the contract. The write-down or conversion of debts shall not affect the payment of depositor principal and interest within the deposit insurance coverage limit.

Article 23 — The financial regulatory authorities shall establish a mechanism for the recovery of disposal costs. After the disposal of risks of a financial institution, the responsible entities and responsible persons shall be pursued for recovery of disposal costs in accordance with the law, including recovering funds from the majority shareholders and actual controllers who have illegally appropriated or occupied funds of the financial institution, and from directors, supervisors, and senior management personnel who have obtained improper gains.

Chapter V — Legal Liability

Article 24 — Where a financial institution violates the provisions of this Law by failing to establish internal control and risk management mechanisms in accordance with regulations, or by failing to meet the regulatory indicators, the financial regulatory authorities shall order it to make corrections within a prescribed time limit; where the circumstances are serious, a fine shall be imposed in accordance with the law, and the relevant responsible persons may be subject to measures such as warnings, fines, or disqualification from holding positions.

Article 25 — Where a director, supervisor, or senior management personnel of a financial institution violates the provisions of this Law by failing to perform his or her duties faithfully and diligently, or by abusing his or her powers to harm the interests of the financial institution, the financial regulatory authorities may, depending on the circumstances, take measures such as ordering the financial institution to take disciplinary action, imposing a fine, or disqualifying the person from holding a position as director, supervisor, or senior management personnel. Where a crime is constituted, criminal liability shall be pursued in accordance with the law.

Article 26 — Where a shareholder or actual controller of a financial institution violates the provisions of this Law by illegally appropriating or occupying funds of the financial institution, or by abusing his or her shareholder rights or controlling position to harm the interests of the financial institution or other shareholders, he or she shall bear civil liability for compensation in accordance with the law; the financial regulatory authorities shall order corrections and may impose a fine; where a crime is constituted, criminal liability shall be pursued in accordance with the law.

Article 27 — Where a staff member of a financial regulatory authority neglects his or her duties, abuses his or her powers, or engages in malpractice for personal gain in the course of financial stability maintenance

Source: https://www.danyoungcpa.com/financial-stability-law-prc-2024-english-translation/

work, sanctions shall be imposed in accordance with the law; where a crime is constituted, criminal liability shall be pursued in accordance with the law.

Chapter VI — Supplementary Provisions

Article 28 — The provisions of this Law on financial institutions shall apply, mutatis mutandis, to the prevention, resolution, and disposal of risks of financial market infrastructures, payment and settlement institutions, and industry self-regulatory organizations. The State Council shall separately prescribe the scope of specific institutions and the applicable measures.

Article 29 — Where the processing of personal information is involved in financial risk disposal, the provisions of the Personal Information Protection Law of the People's Republic of China and other relevant laws and administrative regulations shall apply.

Article 30 — This Law shall enter into force as of January 1, 2025.

Disclaimer: This English translation is provided for informational and reference purposes only. It is an unofficial translation prepared by Dan Young Business Consultancy for the convenience of foreign investors and businesses operating in or with China. While every effort has been made to ensure accuracy and completeness, this translation is not legally binding. For legal purposes, the original Chinese text as promulgated by the National People's Congress of the People's Republic of China shall prevail. Readers should consult qualified legal professionals for advice on specific matters related to the application or interpretation of this law. Dan Young Business Consultancy assumes no liability for any errors, omissions, or reliance on this translation.