

# **Guidelines for Strengthening Supervision and Administration of the Building of the Mechanism of Financial Services for “Agriculture, Farmers, and Rural Areas” by Rural Commercial Banks**

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**Introduction:** Recently, the Chinese government attaches great importance to rural financial policy. This notice will strengthen the rural commercial banks’ supervision on rural financial services for “agriculture, farmers, and rural areas”.

## **Chapter I General provisions**

**Article 1** To encourage rural commercial banks to further intensify the concepts of inclusive finance, accelerate the building of a long-term mechanism of financial services for “agriculture, farmers, and rural areas,” and continuously enhance the level of characteristic, specialized, and refined services for “agriculture, farmers, and rural areas,” these Guidelines are developed in accordance with the Banking Supervision Law of the People's Republic of China, the Law of the People's Republic of China on Commercial Banks, and other relevant laws and regulations.

**Article 2** For the purpose of these Guidelines, the term “mechanism of financial services for ‘agriculture, farmers, and rural areas’” refers to a series of institutional arrangements and capacity building for guaranteeing the support of rural commercial banks to the development of “agriculture, farmers, and rural areas,” including equity structure, corporate governance, development strategy, organizational structure, business development, risk management, talent team, performance appraisal, and supervision and evaluation.

For the purpose of these Guidelines, the term “rural commercial banks in counties” refers to rural commercial banks that are set up in counties (cities and banners); the term “rural commercial banks in urban areas” refers to rural commercial banks that are set up in one or several districts of prefecture-level cities, cities under separate state planning, provincial capitals, and municipalities directly under the Central Government; and the term “rural commercial banks in large and medium-sized cities” refers to rural commercial banks that are set up in prefecture-level cities, cities under separate state planning, provincial capitals, and municipalities directly under the Central Government and those that apply the uniform legal person system.

**Article 3** Rural commercial banks shall continuously intensify, enhance, and improve the mechanism of financial services for “agriculture, farmers, and rural areas,” and constantly enhance the capacities and level of services for “agriculture, farmers, and rural areas.”

**Article 4** The CBRC and its local offices at all levels shall guide and supervise rural commercial banks in the building of the mechanism of financial services for “agriculture, farmers, and rural areas” and conduct assessment and evaluation of the building and implementation of the mechanism according to the law.

## **Chapter II Equity structure**

**Article 5** In the restructuring of rural credit cooperatives to rural commercial banks, the equity structure shall be set in a rational manner according to the basic requirements of being oriented to “agriculture, farmers, and rural areas” and serving communities, and rural commercial banks shall be encouraged to absorb such new rural business entities as high-quality agriculture-related enterprises, farmers' cooperatives, large planting and breeding rural households, and family farms to make capital contributions.

**Article 6** Rural commercial banks shall, according to the need of business development, risk management and control and financial services, continuously optimize the equity structure. Rural commercial banks in urban areas and counties shall be encouraged to conduct directional absorption of a certain number of shareholders of high-quality agriculture-related enterprises whose shareholding ratios are more than 5%. And rural commercial banks in urban areas and large and medium-sized cities shall be given support in introducing financial institutions and enterprises with rich rural financial resources and strong capacities of risk management and control and service innovations as strategic investors.

**Article 7** All natural persons of rural commercial banks whose shareholding ratios are more than 1% and all enterprise corporate shareholders shall, during the period of shareholding, make written commitments that they will give support to rural commercial banks in strengthening financial services for “agriculture, farmers, and rural areas” and that their funds are to be mainly for local use.

## **Chapter III Corporate governance**

**Article 8** Rural commercial banks shall improve corporate governance according to their own characteristics. The committees of financial services for “agriculture, farmers, and rural areas” wherein the chairmen of the boards of directors of rural commercial banks in large and medium-sized cities and counties serve as the chairmen of the committees shall be set up under the boards of directors of such rural commercial banks. Rural commercial banks in urban areas may, in light of the actual circumstances, independently decide whether to set up the committees of financial services for “agriculture, farmers, and rural areas.” Members of the committees of financial services for “agriculture, farmers, and rural areas” shall be independently determined by rural commercial banks. In principle, the number of members with work experiences related to “agriculture, farmers, and rural areas” or industry background shall be no less than one-third of the total number of members.

**Article 9** The committees of financial services for “agriculture, farmers, and rural areas” of rural commercial banks shall be responsible for developing the development strategies and planning of financial services for “agriculture, farmers, and rural areas,” deliberating the annual development objectives of finance for “agriculture, farmers, and rural areas” and the schemes for the allocation of service resources, and evaluating the management's implementation of and urging the management to earnestly implement such objectives and schemes. The committees of financial services for “agriculture, farmers, and rural areas” shall hold a meeting at least half a year, invite the client representatives of such new rural business entities as agriculture-related enterprises, farmers' cooperatives, large planting and breeding rural households, and family farms to participate in the meeting and put forward opinions and proposals on the financial business for “agriculture, farmers, and rural areas” as carried out,

existing problems, and follow-up measures.

**Article 10** The committee of financial services for “agriculture, farmers, and rural areas” of a rural commercial bank shall, at the first board meeting each year, report information on the implementation of the plan of financial business for “agriculture, farmers, and rural areas” by the bank in the previous year.

The president of the bank shall, at the first board meeting each year, report the financial business for “agriculture, farmers, and rural areas” as carried out by the bank in the previous year.

The board of supervisors shall incorporate the work of financial services for “agriculture, farmers, and rural areas” as carried out by the committee of financial services for “agriculture, farmers, and rural areas” and the management into the contents of supervision.

**Article 11** During the term of office, the chairman of the board of directors, the chief supervisor of the board of supervisors, and the president of a rural commercial bank shall make a written commitment on adhering to the market positioning of “agriculture, farmers, and rural areas,” establishing a mechanism of financial services for “agriculture, farmers, and rural areas,” and strengthening financial services for “agriculture, farmers, and rural areas.”

**Article 12** Rural commercial banks shall specify policies, contents, and procedures for the information disclosure of financial services for “agriculture, farmers, and rural areas.” Rural commercial banks in large and medium-sized cities and urban areas and those in counties with the asset size exceeding 10 billion yuan shall, at the same disclosure frequency of financial reports, issue to the public special reports on financial services for “agriculture, farmers, and rural areas” through local mainstream media or the official websites of companies, disclosing in details financial services for “agriculture, farmers, and rural areas,” and reserve at least two latest special reports on financial services for “agriculture, farmers, and rural areas” on the official websites of companies. Rural commercial banks in counties with small asset size may simplify information disclosure. Where information fails to be disclosed on schedule due to special reasons, the rural commercial bank shall file an application with the regulatory authority having jurisdiction for a delayed disclosure at least 15 workdays in advance.

The annual special report on financial services for “agriculture, farmers, and rural areas” shall be one part of the annual report. Where conditions permit, such annual special report may also be issued separately.

#### **Chapter IV Development strategies**

**Article 13** Rural commercial banks shall make unified development strategies for the business of “agriculture, farmers, and rural areas,” specify strategic objectives for the development of the business of “agriculture, farmers, and rural areas,” establish differentiated business modes for serving “agriculture, farmers, and rural areas,” maintain and enlarge comparative advantages, and ensure that the business of “agriculture, farmers, and rural areas” will realize commercial sustainability.

**Article 14** Rural commercial banks shall, in light of their own actual circumstances, specify the strategic objectives of creating modern financial enterprises oriented to “agriculture, farmers, and rural areas” and serving communities.

**Article 15** Rural commercial banks shall, according to the general requirements of strategic

objectives, subdivide the market of “agriculture, farmers, and rural areas” and pertinently develop strategies for clients, products, channels, and marketing for the business of “agriculture, farmers, and rural areas.”

**Article 16** Rural commercial banks shall, according to the development strategies of the business of “agriculture, farmers, and rural areas,” vigorously promote reforms and innovations and create efficient organizational structure, applicable risk management system, good institutional system and management process, backbone personnel, effective performance appraisal system and advanced and safe information system so as to give effective support to the implementation of such development strategies.

#### **Chapter V Organizational structure**

**Article 17** Rural commercial banks shall establish organizational systems of financial services for “agriculture, farmers, and rural areas” matching their development objectives.

**Article 18** Rural commercial banks in large and medium-sized cities and urban areas with large scale of business of “agriculture, farmers, and rural areas” may set up business directors of “agriculture, farmers, and rural areas.”

Besides meeting the qualification requirements of other business directors of rural commercial banks, business directors of “agriculture, farmers, and rural areas” shall be familiar with situations of “agriculture, farmers, and rural areas” and have rich work experience related to financial services for “agriculture, farmers, and rural areas.”

**Article 19** Rural commercial banks in large and medium-sized cities and urban areas shall set up administrative departments for the business of “agriculture, farmers, and rural areas.” Rural commercial banks in large and medium-sized cities and urban areas shall be encouraged to establish the vertical management system for the business of “agriculture, farmers, and rural areas.” Where conditions permit, financial service divisions may be established therein. Rural commercial banks in counties shall, in light of the actual circumstances, constantly optimize their organizational structures, simplify approval procedures, and continuously improve the quality and efficiency of financial services for “agriculture, farmers, and rural areas.”

**Article 20** The branches of rural commercial banks in large and medium-sized cities and urban areas with large scale of financial business for “agriculture, farmers, and rural areas” shall set up departments or positions for the business of “agriculture, farmers, and rural areas” according to the department setups of the head offices.

**Article 21** The setup of departments at the front office of a rural commercial bank shall be subject to “serving ‘agriculture, farmers, and rural areas’ first,” the allocation of resources at the middle- and back-offices shall be subject to “the business for ‘agriculture, farmers, and rural areas’ first,” and the layout and building of the information system shall be subject to “the needs of the business of ‘agriculture, farmers, and rural areas’ first.”

#### **Chapter VI Business development**

**Article 22** Rural commercial banks shall, according to the development strategies of the business of “agriculture, farmers, and rural areas,” establish a scientific and effective business development mechanism and make clear and specific objectives for the business operation of “agriculture, farmers, and rural areas.”

Rural commercial banks in large and medium-sized cities and urban areas shall separately

develop credit plans for the business of “agriculture, farmers, and rural areas,” allocate sufficient personnel, funds, network, and other resources, and give support so as to realize the development objectives of the financial business for “agriculture, farmers, and rural areas.”

**Article 23** New deposits of rural commercial banks in counties shall be mainly used in the local granting of loans and be mainly invested in “agriculture, farmers, and rural areas” and small and micro-sized enterprises so as to preferentially satisfy the financial service demands of such new rural business entities as high-quality agriculture-related enterprises, farmers' cooperatives, large planting and breeding rural households, and family farms.

**Article 24** Rural commercial banks shall be committed to promoting the development of “agriculture, farmers, and rural areas,” intensifying product innovations and by focusing on the resolution of such bottlenecks as “difficulty in obtaining loans for ‘agriculture, farmers, and rural areas’ and obtaining loans from banks,” actively exploring the collateral (pledge) of “right to the contractual management of land, forest right, and housing property of rural residences” (“three rights”) that is conducive to vitalizing the collateral and pledge methods of assets related to “agriculture, farmers, and rural areas,” expanding the scope of collateral securities and pledges, and improving the mechanism of credit enhancement and risk mitigation.

**Article 25** Rural commercial banks shall improve their service modes, transform the focus on entity outlet services to the combination of offline and online services, simplify business process and approval procedures, and increase the satisfaction of clients related to “agriculture, farmers, and rural areas.”

**Article 26** Rural commercial banks shall take the initiative in exploring the information-based service building by applying mobile Internet, big data, cloud computing, Internet of Things, and other new technologies as a support, expand electronic channels, improve online service functions, and promote the improvement in both convenience and coverage of financial services for “agriculture, farmers, and rural areas.”

**Article 27** Rural commercial banks shall descend the business operation focus, strengthen the classified management and differentiated building of service outlets, give priority to the grass-roots level in terms of personnel, funds, and credit resources, and ensure that the needs of financial services for “agriculture, farmers, and rural areas” be satisfied in a convenient, timely, and effective manner.

**Article 28** The provincial rural credit cooperative unions shall, according to the actual needs of rural commercial banks in the building of the mechanism of financial services for “agriculture, farmers, and rural areas” of rural commercial banks, accelerate the upgrading and transformation of the IT system, guide and optimize performance appraisal, and provide strong support to rural commercial banks in the building of the mechanism of financial services for “agriculture, farmers, and rural areas.” The provincial rural credit cooperative unions shall give support to qualified rural commercial banks in establishing an independent IT system or adding characteristic business modules.

## **Chapter VII Risk management**

**Article 29** A rural commercial bank shall, within the framework of its overall risk management system and according to the features of the financial business for “agriculture, farmers, and rural areas” and its own characteristics, develop risk management policies,

systems, and procedures for the financial business for “agriculture, farmers, and rural areas,” specify risk preference and management objectives of the financial business for “agriculture, farmers, and rural areas,” properly set risk exposure and tolerance, optimize tools and methods for risk management, establish a mechanism of risk pre-warning and evaluation, specify risk management responsibilities, strengthen accountability, and ensure that the financial business for “agriculture, farmers, and rural areas” has simple and clear procedures, efficient services, and controllable risks.

**Article 30** Rural commercial banks shall strengthen research and analysis on the business of “agriculture, farmers, and rural areas,” properly master the rules of economic development of “agriculture, farmers, and rural areas,” adopt scientific and effective risk management technologies and methods, and effectively identify and measure risks of the financial business for “agriculture, farmers, and rural areas.” Rural commercial banks shall be encouraged to establish a risk monitoring and pre-warning mechanism and conduct monitoring and pre-warning of abnormalities in both indicators and procedures of the financial business for “agriculture, farmers, and rural areas” and personnel behavior.

**Article 31** Rural commercial banks shall, on the basis of accurately measuring risks of the financial business for “agriculture, farmers, and rural areas,” effectively manage various risks confronted by the financial business for “agriculture, farmers, and rural areas” by means of transfer, dispersion, and mitigation. Rural commercial banks shall, according to various characteristics of credit risks, operating risks, and market risks in the financial business for “agriculture, farmers, and rural areas,” pertinently develop differentiated risk management measures and ensure that the relevant risks be effectively managed.

**Article 32** Rural commercial banks shall establish a regular assessment system for the management of risks in the financial business for “agriculture, farmers, and rural areas,” put forward improvement methods and measures for existing problems, and continuously improve the effectiveness and advancement of risk management for the financial business for “agriculture, farmers, and rural areas.”

## **Chapter VIII Talent teams**

**Article 33** Rural commercial banks shall make scientific human resource planning for financial services for “agriculture, farmers, and rural areas” and build talent teams that are sufficient in quantity, matching in quality, and rational in structure.

**Article 34** Rural commercial banks shall, in light of the actual situations of the banks and the actual local circumstances, recruit directors and supervisors with work experience related to “agriculture, farmers, and rural areas” or industrial background, they are encouraged to recruit non-executive directors from shareholders of such new rural business entities as agriculture-related enterprises, farmers' cooperatives, large planting and breeding rural households, and family farms into the committees of financial services for “agriculture, farmers, and rural areas,” to improve the professionalism of directors, supervisors, and the committees of financial services for “agriculture, farmers, and rural areas.”

**Article 35** Rural commercial banks shall establish high-quality talent teams of senior managers. High-end financial talent with strategic insight, innovation awareness, macro-perspective, and mastery of modern financial management tools shall be preferentially recruited into the teams of financial talent for “agriculture, farmers, and rural areas,” and

more efforts shall be made to cultivate reserve talent teams of senior managers.

**Article 36** Rural commercial banks shall give more support to the cultivation of personnel at the middle and grass-roots levels engaged in financial services for “agriculture, farmers, and rural areas,” make pertinent talent cultivation plans, establish the system of work shift and exchange of personnel from the head offices to the grass-roots, and encourage newly-recruited college students to practice in the grass-roots so as to enable them to be familiar with the financial business for “agriculture, farmers, and rural areas” and provide talent support to the development of the financial business for “agriculture, farmers, and rural areas.”

Rural commercial banks shall, according to the needs of the building of talent teams, preferentially recruit college graduates working as village heads and college graduates whose registered residence is the township having jurisdiction, maximize their advantages of being familiar with the grass-roots and close to “agriculture, farmers, and rural areas” so as to lay a foundation for the development of the financial business for “agriculture, farmers, and rural areas.”

### **Chapter IX Performance appraisal**

**Article 37** Rural commercial banks in large and medium-sized cities shall gradually implement independent bookkeeping, independent listing of costs, independent setting of defection standards, independent profit accounting, and independent performance appraisal for the financial business for “agriculture, farmers, and rural areas.” Where conditions permit, rural commercial banks in urban areas may conduct a pilot program of independent accounting of the financial business for “agriculture, farmers, and rural areas.”

**Article 38** Rural commercial banks shall implement performance appraisal policies for the financial business for “agriculture, farmers, and rural areas” that are different from those for other business. In principle, the financial business for “agriculture, farmers, and rural areas” shall be granted the highest performance weight and the most preferential price for the transfer of internal funds.

**Article 39** Rural commercial banks shall establish personnel ranking system and subsidy and remuneration system that give priority to the financial business for “agriculture, farmers, and rural areas,” upgrade the ranks of personnel engaged in the financial business for “agriculture, farmers, and rural areas” at the grass-roots level, and increase their business and living subsidies as well as remuneration allocation weight. Rural commercial banks shall be encouraged to preferentially recruit personnel engaged in the financial business for “agriculture, farmers, and rural areas.”

### **Chapter X Supervision and evaluation**

**Article 40** Local offices of the CBRC at all levels shall conduct an evaluation on the effects of financial services for “agriculture, farmers, and rural areas” of rural commercial banks on an annual basis. To evaluate the efficiency of financial services for “agriculture, farmers, and rural areas,” such factors as the region where the rural commercial bank is located, the proportion of the primary sector, the total volume of agriculture-related credit, the coverage of clients, the convenience of financial services, and the protection of clients shall be taken into full account. The regulatory authorities shall strengthen supervision and inspection on

the building and implementation of the mechanism of financial services for “agriculture, farmers, and rural areas” by rural commercial banks and link the supervision, inspection, and evaluation results with the market access of institutions, supervision rating, selection of benchmarking banks, and performance evaluation of senior managers.

Rural commercial banks shall, before the end of March each year, report the circumstances on the building and implementation of the mechanism of financial services for “agriculture, farmers, and rural areas” in the previous year to the regulatory authorities having jurisdiction.

**Article 41** The CBRC and its local offices at all levels shall implement the policies of moderate tolerance for bad loans and liability exemption of personnel with due diligence for financial services for “agriculture, farmers, and rural areas” of rural commercial banks. It is allowed to set differentiated tolerance for non-performing ratios of agriculture-related loans in a “one-to-one” manner in light of the actual circumstances of rural commercial banks. In principle, the tolerance may not exceed the average non-performing ratio of all loans of local banking financial institutions in the previous year by 3% at most. It is allowed to exempt the relevant personnel of rural commercial banks who have fulfilled their duties from liabilities after any agriculture-related loan default occurs.

**Article 42** The CBRC and its local offices at all levels shall implement positive incentives for rural commercial banks in respect of market access and supervision rating. Priority support shall be given to rural commercial banks with good performance in serving “agriculture, farmers, and rural areas” in aspect of fundraising by utilizing the capital market and the bond market, business innovation, and institution formation; where special arrangements are made in the supervision rating and the non-performing ratios of agriculture-related loans are allowed to be within the tolerance, the points of rating indicators related to asset quality elements may not be deducted.

**Article 43** The mechanism of vertical and horizontal interaction for the supervision and administration of the mechanism of financial services for “agriculture, farmers, and rural areas” of rural commercial banks shall be established. The CBRC and its local offices at all levels shall strengthen communication, strengthen interaction among market access, off-site supervision, and on-site inspection, realize information sharing, enhance joint regulatory efforts, and improve the effectiveness of supervision. Whoever fails to implement the building of the mechanism of financial services for “agriculture, farmers, and rural areas” of rural commercial banks, deviates the service orientation of giving support to agriculture, causing risks and even damages, shall be ordered by the CBRC and its local offices at all levels to make corrections within a prescribed time limit. In case of failure to make corrections within the prescribed time limit, corresponding supervision and administration measures shall be further adopted.

**Article 44** The CBRC and its local offices at all levels shall strength the interaction with the People's Bank of China, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and relevant departments of local governments, promote the release of pertinent supporting policies of finance, currency, and supervision, and give support to rural commercial banks in the building of the mechanism of financial services for “agriculture, farmers, and rural areas.”



## **Chapter XI Supplementary provisions**

**Article 45** These Guidelines shall apply, by reference, to rural cooperative banks and rural credit cooperative unions. These Guidelines may apply, by reference, to village banks.

**Article 46** These Guidelines shall come into force on the date of issuance.

**Remark:** The government demonstrates its focus on “agriculture, farmers, and rural areas” by strengthening rural commercial bank supervision. Meanwhile, it’ll also promote the sound and rapid development of rural finance.

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