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Unit 1

The financial system

➤ Reading 1

Read about the financial system.

The financial system

- ¹ The global financial system is a complex network of institutions, markets, and mechanisms that facilitate the flow of capital throughout the world. It plays a crucial role in the functioning of modern economies, enabling individuals, businesses, and governments to access the funds they need to invest, grow, and manage risk. From banks and stock exchanges to central banks and regulatory bodies, the financial system encompasses a wide range of players and activities that shape the economic landscape on a global scale.
- ² At the heart of the financial system are **financial institutions** (金融机构), which serve as intermediaries between savers and borrowers. Banks, credit unions, insurance companies, and investment firms are among

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the key players in this ecosystem, providing a variety of financial products and services to meet the diverse needs of their clients. These institutions play a vital role in allocating capital efficiently, channeling savings into productive investments, and managing risk through the provision of insurance and other **risk mitigation** (风险缓释) tools.

- ³ Central to the functioning of the financial system are the **financial markets** (金融市场), where individuals, businesses, and governments can buy and sell financial **assets** (资产) such as stocks, bonds, and **derivatives** (衍生品). These markets provide a mechanism for **price discovery** (价格发现) and **capital allocation** (资本配置), allowing investors to trade securities and manage their **investment portfolios** (投资组合). Stock exchanges, bond markets, and commodity exchanges are examples of key financial marketplaces that enable the transfer of funds and risk among market participants.
- ⁴ In addition to financial institutions and markets, the financial system also encompasses regulatory bodies and central banks that oversee and manage the stability and integrity of the system. Regulatory agencies set and enforce rules and standards to ensure the safety and soundness of financial institutions, protect consumers, and maintain market integrity.

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Central banks, on the other hand, are responsible for conducting **monetary policy** (货币政策), regulating the money supply, and maintaining financial stability through their control over interest rates and the banking system.

- 5 The global financial system is interconnected, with financial institutions, markets, and economies around the world influencing and impacting one another. The rise of globalization has further intensified this interconnectedness, leading to increased cross-border capital flows, international trade, and the integration of financial markets. This interconnectedness has both benefits and risks, as it can facilitate economic growth and development but also expose the system to contagion and **systemic risks** (系统性风险).
- 6 One of the key challenges facing the global financial system is the need to balance innovation and risk. Technological advancements, such as the rise of **fintech** (金融科技) and digital currencies, have transformed the way financial services are delivered and accessed. While these innovations have the potential to increase **financial inclusion** (普惠金融) and efficiency, they also pose new risks related to **cybersecurity** (网络安全), **data privacy** (数据隐私), and financial stability. Regulators and policymakers must navigate this rapidly evolving landscape to ensure that

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the benefits of innovation are realized while mitigating potential risks.

- ⁷ Another critical issue facing the financial system is addressing inequality and promoting financial inclusion. Despite the significant advancements in financial technology and market development, many individuals and communities around the world still lack access to basic financial services. This lack of access not only hinders economic development but also exacerbates social and economic inequality. Efforts to promote financial inclusion, expand access to credit and savings, and enhance **financial literacy** (金融素养) are essential for building a more inclusive and sustainable financial system.
- ⁸ Furthermore, the global financial system faces ongoing challenges related to financial stability and systemic risk. The 2008 financial crisis highlighted the interconnectedness and vulnerability of the global financial system, leading to widespread regulatory reforms and increased oversight of financial institutions. However, new risks continue to emerge, including the rapid growth of shadow banking, the proliferation of complex financial products, and the potential impact of climate change on financial stability. Addressing these risks requires ongoing vigilance, coordination among regulators, and a commitment to enhancing the

resilience of the financial system.

⁹ All in all, the global financial system is a dynamic and interconnected network that plays a vital role in the functioning of modern economies. From financial institutions and markets to regulatory bodies and central banks, the components of the financial system work together to allocate capital, manage risk, and facilitate economic growth. While the system faces numerous challenges, including the need to balance innovation and risk, promote financial inclusion, and address systemic risks, it also presents opportunities for continued growth, development, and prosperity on a global scale.

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Reading 2

Read about the Chinese financial markets. Fill in the blanks with the words or expression given below.

volatility	notable	enduring	financial innovation
strategic	expansion	transformation	prominence
landscape	capitalization		

The Chinese financial markets

¹ The Chinese financial markets have undergone significant 1) _____ and

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growth in recent decades, reflecting the country's emergence as a global economic powerhouse. With various institutions and instruments, these markets play a crucial role in allocating capital, facilitating investment, and shaping the broader economic 2) _____ of China and the world.

- ² Stock and bond markets are important components of the Chinese financial system. **The Shanghai Stock Exchange** (上海证券交易所) and **the Shenzhen Stock Exchange** (深圳证券交易所) are the primary platforms for trading equities, providing domestic and international investors with access to shares of Chinese companies. These exchanges have witnessed substantial growth in market 3) _____ and trading volumes, reflecting the increasing 4) _____ of Chinese firms in the global economy.
- ³ In addition to equities, China's bond market has also experienced rapid 5) _____. The issuance of government and corporate bonds has surged, driven by the financing needs of both public and private sector entities. The development of a robust bond market has been a(n) 6) _____ priority for Chinese policymakers, as it provides an alternative source of funding for businesses and reduces

reliance on bank lending.

- 4 Furthermore, China has made significant strides in developing its derivative and commodity markets. **Futures contracts** (期货合约) for a wide range of commodities, including metals, energy, and agricultural products, are actively traded on the Shanghai Futures Exchange and the Dalian Commodity Exchange. These markets play a vital role in managing price 7) _____ for producers and consumers of commodities, as well as providing investment opportunities for market participants.
- 5 The banking sector is another cornerstone of the Chinese financial system. China's banking industry is dominated by large **state-owned banks** (国有银行), which play a central role in intermediating savings and providing credit to businesses and individuals. In recent years, efforts to liberalize interest rates and promote 8) _____ have led to the emergence of a more diverse and competitive banking landscape, with the growth of smaller and more specialized financial institutions.
- 6 Moreover, the Chinese government has been actively promoting the internationalization of its currency, the renminbi (RMB). The establishment of **offshore RMB centers** (离岸人民币中心) and the inclusion of the RMB in

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the International Monetary Fund (国际货币基金组织)'s **Special Drawing Rights (SDRs) basket** (特别提款权篮子) are 9) _____ milestones in China's efforts to elevate the global status of its currency. As the world's second-largest economy, China's currency and financial markets have increasingly become integral to global trade and investment flows.

- ⁷ However, the Chinese financial markets also face a range of challenges. Efforts to enhance **corporate governance** (公司治理), improve disclosure standards, and strengthen regulatory frameworks are 10) _____ priorities for Chinese authorities as they seek to foster greater confidence and stability in the financial markets.