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The US shadow banking system has received an increasing attention as a result of the 2008 Great Recession, which took a toll on shadow banking institutions and their associated banks. The shadow financial system in China not only includes shadow banks, but also trust companies, small loan companies, bonding companies, financial companies, and financial leasing companies. The Chinese shadow banking system can be viewed as incorporating the informal financial system as well.

Asset securitization services and asset management companies are few; from 2005 to 2008, China had 11 financial institutions that distributed 17 asset-backed security (ABS) projects and issued 56 securitized assets, on a scale of 66,783 million RMB. In 2009, securitization pilot stopped. Financial derivative markets are also not extensive, far less extensive than the scale in the US. There is a vast difference between financial markets in the US and those in China. China's shadow financial system includes three levels. The first part is commercial banking and investment banking, including bank-trust cooperation in financial products, investment banks, financing leasing companies, insurance brokerage firms and their products. The second part is the quasi financial institutions such as micro loan companies, financing guarantee companies, pawn shops and so on. The third part is informal financial institutions and business activities.

In recent years, China's mounting shadow banking system has been weakening monetary policy and has acted as a substitute for financing within the formal financial system. In 2010, the People's Bank of China began monitoring the quantity of funds passed through the shadow financial system and banking system in order to better shape monetary policy. According to PBOC data for 2011, all-system financing aggregate is 12.83 trillion RMB, banking loan takes up 58.3%, that means the general shadow financial activity takes up 41.7%.

China's shadow banking system and the US shadow banking systems differ widely in the operational aspect as well. Commercial banks in China contain elements of shadow banking, by cooperating with trust and investment companies, or transferring deposits into financial

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management products and lending the funds to short-term projects investors. Outside of the commercial banking system, the shadow banking system encompasses the property securitization, money market funds, and undiscounted instruments, for which the bank acts only as an intermediary, but not as an institution that backs up these funds with reserves. Because monetary policy has been tightened in the past two years (2010 and 2011), shadow banking activity outside of commercial banks has been on the rise.

Commercial banks may set up a cooperation relationship with trust companies to extend credit under the background of loan control policy. Since 2008, bank-trust cooperation financial products comprise greater than 50 percent of trust business. Trust company products range from securities, equity investment[2] , and trust loans, while funds are used to finance real estate and business investment. Small loan companies, financial leasing companies, and investment companies are engaged in financial activities that are not directly supervised by the national finance departments. These organizations cannot absorb public deposit directly and they have served the informal financial sector, producing rapid expansion.

The Chinese shadow financial system includes both trading of high-end financial products and credit creation, as well as a very large informal financial sector. The system can be conceived of as a pyramid with three layers: non-bank financial products (including bank-trust cooperation financial products, products issued by trust companies and financial leasing companies asset securitization services provided by the four asset management companies and other non-bank financial institutions, , Q-REITS[3] and credit risk assets), credit creation products (often produced by small loan companies, investment companies financing guarantee companies, insurance brokerage firms, pawn shops, private equity investment funds, and venture capital funds), and informal financial funds (through lending networks, mutual assistance organizations, illegal money shops, and alternative remittance systems).

The shadow banking system has released massive funds to the market. Supervision currently focuses on commercial banks, while attention is not given to derivatives, property securitizations, and other non-loan credits. Trust companies and security traders engage in activity that may be high-risk, with high-return as well. Since 2008, the stock market has not performed well, financing management products trading even more attractive.

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2 Equity investment is a long-term stock investment strategy whereby profits are realized through dividend payments and capital gains accrued on the equity of a particular stock. The great majority of equity investors do not actually hold the securities, or certificates. Instead they have an account with a bank or a fund manager who has physical access to these stock certificates. The value of a property, less any debts owed on the property, is what's known as equity. In the case of equity investment, the property is in the form of stock certificates and any debt is actually devaluation of the security.

3 Q-REITS is the short for real estate investment trusts. It is a kind of investment funds issued by a sort of companies that owns and usually manages income-producing real estate property such as apartments, offices, and industrial space.

Financial leases are created when firms use bank loans, their own funds, or stock funds to purchase equipment and lease them out at a high interest rate. The financial lease, also known as leveraged lease, is used in aviation, shipping, medical services, printing, the equipment industry, and construction.

Asset securitization is small scale in comparison to that in the US. Currently, Chinese asset securitization services can be divided into two types: the first of which is mortgage securitization approved by the Chinese Banking Regulatory Commission, while the second type is enterprise asset securitization developed by securities companies and traded mainly through the inter-bank bonds market. The trading scale of non-performing assets securities are even much smaller, but with the credit asset securitization pilot restarting in 2012 it is likely to increase in the future.

Because financing is difficult to obtain through the regular banking system, SMEs (small and medium-size companies) favor loans from the non-bank financial institutions. These institutions include pawn shops, small loan companies, investment companies, and private equity investment funds. Micro-lending institutions are also becoming increasingly important. Lending rates are determined by the organization's bargaining power and demand conditions, and have been driven up generally, in fact, much higher than the current bank interest rates. Some companies, like the bonding companies, pawn shops, and small loan companies may set a usurious rate of interest, pumping massive amounts of money back into the shadow banking system as profit.

Informal finance is unregulated; the government does not supervise financial activities within the shadow banking sector. Transactions are not transparent, frequent, and based on social relationship. Due to China's two-year credit crunch, informal finance has exploded, and has consequently received widespread attention. However, informal finance, which is the largest part of the shadow banking system, has been in existence for a very long time. In the countryside, the most common form of informal finance is the mutual assistance organization and the rural credit cooperatives. Online financial services have also become increasingly popular, linking fund lenders and borrowers through a third party, who collects a handling charge. Informal finance has increased the speed with which loans are given, particularly since lenders most often know their borrowers. Therefore, search costs for both lenders and borrowers have declined. Thus, SMEs are able to find the smallest cost loan.

Professor Geoffrey Ingham, Cambridge University, proposed a narrow definition of shadow bank in his 2002 OECD publication in it, it refers the shadow bank to the activities related to underground foreign currency organizations. This type of organization exists in the form of illegal money shops, which absorb public deposits, provide illegal loan, and also engage in illegal foreign exchange business. Foreign exchange transactions operated by illegal money shops are simple and fast, prompting many SMEs to favor cooperation with these businesses. Illegal money shops are able to evade taxes and banking regulations, and to make a high level of profit.

Illegal money shops also provide money transmission services to and from abroad through the Alternative Remittance System (ARS). The ARS is somewhat different from the shadow financial system itself, and may include capital flows through fraudulent export or import services, capital flows for tax evasion purposes, and capital flows through FDI or securities investment. Part of the funds which flowed in through the ARS mechanism entered the banking system, part went into the real estate and stock markets, and part went into the informal financial system, increasing the scale of credit within it. Funds that flowed into the real estate, commodity, stock and bond markets increased instability within the financial system.

Shadow banking that supplements commercial banking activity, particularly informal finance, can be rationalized in terms of its existence and the constraints of China's formal financial system. Other aspects of the shadow financial system are related to the formal financial system. These include trust companies, financial lease companies, securities trading, bank-trust cooperation financial products, and insurance companies. These are specialized commercial banking activities that are tapped through investment and asset managers. Commercial banks create financial management plans that analyze the client base and design funds that are specific to their customers. Commercial banks commission fund managers to work with clients in terms of clients' own risk bearing capacity and their financial situation.

Commercial banks, when selling a financial management product, supply the following information: product description, bank of issue, issue and expiry date, requested investment amount, investment increment, interest payment schedule, anticipated return ratio, whether the bank is authorized to terminate the agreement, whether the customer would redeem the asset ahead of time, the product management fee, explanations of the returns ratio, redemption requirements, and investment risk. The commercial bank in turn manages risk, including legal risk, liquidity risk, and market risk. The commercial bank also manages both RMB and foreign exchange products, which may be subdivided according to redemption period, including short-term products of 1-3 months, 3-6 months, 6-12 months, medium term products of 12-24 months and long-term products of 24 months and above. Commercial bank financial products can also be categorized as stocks, bonds, interest, bills, credit assets, commodities, exchange rate and other financial management products, and are further denoted based on their risk potential.

In 1999, investments in financial management product were relatively few, and fund scale was small. Financial products were valued at 132 billion RMB. In 2004, the Bank of China promoted the first foreign currency financial product, and later that year, the Everbright Bank promoted the first RMB financial product. Following that, many other banks promoted their own financial products one after another. Participating banks include five major state-owned commercial banks, Postal Savings Bank of China, twelve nationwide joint-equity commercial banks, foreign banks, municipal commercial banks, and rural financial organizations. Financial product supervision began to be developed correspondingly, beginning in 2005. By 2011, there were 23,501 financial products, valued at 16.49 trillion RMB, and the number of issuers increased from 14 in 2004 to 100 in 2011. Financial products are becoming increasingly complex every day, with both increasing variety and increasing participation. The average growth rate of new financial products has been as high as 114.09% over this eight-year period, lowest in 2009 due to the global financial crisis, but picking up speed again in 2010. Currently, the top ten financial fund trading banks, occupying 62.27% of the financial products market, are Bank of Communications, China Merchants Bank, Industrial and Commercial Bank of China (ICBC), Bank of China, China Construction Bank, Shenzhen Development Bank, Agriculture Bank of China, Shanghai Pudong Development Bank, China Minsheng Bank, and Bank of Beijing.

Currently, financial products include those denominated in RMB, USD (U.S. Dollar), HKD (Hong Kong Dollar), AUD (Australian Dollars), and EUR (Euros). USD denominated products have increased from 71 in 2004 to 1094 in 2011; HKD denominated products have increased from 26 in 2004 to 598 in 2011; Australian dollar denominated products have increased from 1 in 2004 to 610 in 2011; and Euro denominated products have increased from 3 in 2004 to 472 in 2011. In 2004, US dollar financial products occupied 62.28% of foreign exchange denominated financial products. However, as Chinese personal wealth increased, the issuing size of RMB financial products exceeded those of the USD in 2007. By the end of 2011, RMB financial products accounted for 87% of all kinds of financial products in China.

Nowadays, RMB financial products are larger in total value than foreign exchange denominated financial products, occupying most of the financial products market. In 2011, five major state-owned banks and the nationwide joint-stock banks hold the dominant position in the release of RMB financial products. In foreign currency denominated financial products, Bank of China, Bank of Communications, and China Merchants Bank dominate, while for USD denominated financial products specifically, the Shanghai Bank is also prominent.

In 2004, most financial products sold were medium and long-term products, whereas after that period, short-term products, particularly 1-3 month financial products, increased in the market share. This implies that customers began to prefer short-term income over this period, as long-term financial risk increased. After eight years of development, stock financial products increased from only 1 in 2004 to 1393 in 2011, the bond financial products grew from 5 to 14695, the interest rate financial products grew from 3 to 13619, the bill financial products increased from 1 to 5638, the credit financial products increased from 1 to 3819, the exchange rate financial products increased from 11 in 2005 to is 843 in 2011, the commodity financial products grew from 10 in 2005 to 73 in 2011, and other kinds of products increased from 105 to 13626. The largest increase took place in bond financial products, while the smallest increase is in commodity financial products.

Between 2004 and 2011, the proportion of the products with expected annualized return rate within the range of 0-2%was 7% in 2007 and up to 35.78% in 2009, receding to 3.69% in 2011. The trend for medium to low pre-year return assets (2-3%) followed a similar trend. Products with expected annualized return rate within the range of 3-5%experienced a trough in 2009 and 2010, with a large increase in 2011 of 56.66%. For products with expected annualized return rate within 5-8%, the trend has been similar to the ones with expected annualized return rate within 3-5%, while products with expected annualized return rate over 8%, peaked in 2007, with return ratios of 17.07%.

Commercial bank financial products face increasing competition and energetic innovation. The Bank of Construction released a product with returns that are expected to surpass the Consumer Price Index (CPI), while the Agricultural Bank of China has created a product that is linked to the exchange rates of the AUD to USD and the USD to JPY (Japanese Yen). Investment in fashionable sectors has also increased, boosting financial product development in energy, green energy, agriculture, mining, and non-profit organization sectors. The Bank of Nanjing and the Bank of Beijing sell energy themed financial products, the former carrying out equity investment in the Yangzhou New Energy Property Limited, and the latter investing in the China Energy Conservation And Environmental Protection Group in the form of trust form.

China's rising middle class has given way to new financial market investors, individuals that may not have large amounts of wealth to invest and who may not have much knowledge of the market. Specialized funds have been created to meet their needs, some of which are on the esoteric side. For example, the China Construction Bank created an investment product based on the art industry, while Minsheng Bank sold a product based on white liquor. Shenzhen Development Bank also created a financial product based on white wine with an investment period of one year. Personalized financial management products satisfy a wide range of demands.

China's shadow banking system is different from that of the US in offering bank-trust cooperation financial products and financial trusts as investment channels. A bank-trust cooperation financial product, also known as a letter of remittance or a transit letter, is a document that is enclosed with a payment. The purpose of the letter is to reference the reason for the payment or remittance, as well as supply other information that will assist the creditor in recording the receipt of the payment properly. The trust, which can be distinguished from banks, securities and insurance, is a unique system in which one generation bequests finances to another generation（which manages wealth for its customers）. The trust products may stretch across banking, securities, and many other fields of investment. The trust fund may be divided into the single trust fund, which caters to an individual, possibly an institutional investor, and the collective trust fund, which caters to a group of investors. The collective trust fund is based on common financial goals, and may be channeled into an equity investment trust, a securities investment trust, a loan trust, or other types of trusts. The average period for the equity investment trust is slightly longer, while the returns ratio is the highest.

For the trust industry, 2010 was the best year, experiencing a growth of 196%. Policies in 2010 that limited growth of bank-trust cooperation financial products contributed to the growth of the trust industry. Collective trust products released in 2010 amounted to 2,213 products with a total of 399.76 billion RMB, while those released in 2011 amounted to 4,051 and 708.67 billion RMB. In 2011, one-year trust products' return ratio was 8.24%, two-year trust products' return ratio was 9.81%, and over-two-year trust products' return ratio was 9.61%. Real estate trusts occupied a sizeable proportion of trust funds, but dropped in 2011, when real estate financing encountered difficulty and prices faced downward pressure. Trust companies therefore reduced releases of real estate trust products.

The largest trust company in terms of scale of investment is the AVIC[4] Trust Co., LTD with a release scale of 48.45 billion RMB. Trust companies have skirted regulation that governs activity of commercial banks, and have often engaged in very risky activity. For example, the commercial banks selects a high quality mortgage loan, issues bank-trust cooperation financial products, and sells these financial products again to bank customers, achieving a usurious rate of interest. Bank-trust cooperation financial product practices have caused the regulatory authority to take this financial channel seriously, putting forth a series of laws and regulations to bring about the healthy development of the financial product. Banks have been prevented from purchasing their own mortgages, and from issuing bank-trust cooperation financial products that invest in unlisted stockholders' rights products. Commercial banks have also been encouraged to keep bank-trust cooperation financial products on balance sheet rather than moving them off balance sheet. Commercial banks have been prevented from expanding the bank-trust cooperation financial product business through regulations requiring the banks maintain a high level of risk capital, at 10.50%. However, bank-trust cooperation financial products remain popular, with a scale of 4.82 trillion RMB in 2010 and 8.44 trillion RMB in 2011. This is because the return ratio is higher than that of bank deposit interest rates.

Bank-trust cooperation financial products are mainly concentrated in the financial domain, including bonds, bills, and securities, but also including infrastructure investment. There are three classes of bank-trust cooperation financial products: that used by investment banks, including bonds and bills; the credit class product, which uses mortgage debt; and the combination of the two categories. The credit class product is somewhat safer because income is stable and the risk of small.

The number of financial institutions participating in the bank-trust cooperation financial product business was 65 in 2011, while those participating in the trust business was 41.(while the number of those participating in the trust was 41) Corporations releasing issuing bank-trust cooperation financial product products are concentrated in the large state owned commercial banks and the large joint stock banks. Corporations issuing trusts included the Guangdong Wealth Trust, Zhonghai Trust, Guangdong Wealth Trust, Shanghai Trust, Sichuan Trust Shandong International Trust, China international Trust and Ping An Trust

Leveraged leases

[4] AVIC is the short for Aviation Industry of China.

According to China's "Contract Law" and "Leveraged Lease Law," the leveraged lease refers to the renting of goods from the lessor to the lessee. Use of the leased good is agreed upon by both parties, and the lessor gathers rent from the lessee. The leveraged lease is a tripartite contract that allows the lessor to purchase goods from a third party that are repaid by the lessee. The leveraged lease is paid with principal and interest. The lease can end when the lessee purchases the good, the good is re-leased, or when the lease is broken. The purchase of the good is the most common way in which a lease ends.

From the tenant's perspective, the leveraged lease is regarded as a temporary purchase of property rights. For the lessor, the leveraged lease service is one type of highly leveraged investment tool, with an average leverage of about 11%. The lessor may also enjoy preferential tax policies. The leveraged lease industry is a global industry, and a large one, amounting in 2007 to 582 billion US dollars. China's leveraged lease industry has experienced large growth, even during the global financial crisis.

China's leveraged lease service began in the early 1980s, with the China International Trust and Investment Corporation set up as an experiment. In 1981, Chinese pooled capital under the Chinese East International Leasing Company and the China Limited Leasing Company. The thirty year development of the leasing industry can be divided into four stages.

In the first stage, 1980 to 1996, China's leveraged lease service lacked sufficient capital. In the second stage, 1997 to 2000, many enterprises went out of business and the industry stagnated. In the third period, 2001 to 2006, the leveraged lease industry resumed its development, expanding funds and enhancing risk protection. From 2007 until now, the leveraged lease industry erupted in growth, after leveraged lease companies began to be legalized.

Domestic leveraged lease companies include financial leasing companies, domestic capital leasing companies, and foreign investment leveraged lease companies. Financial leasing company's members consist mainly of bank or financial enterprises. China had 296 leveraged lease companies in 2011, which were concentrated in the eastern coastal provinces and cities, and in a few interior key cities. By 2011, the leveraged leases' service scale amounted to 930 billion RMB. The leasing industry is concentrated in aviation ships, and large machinery, and the industry has broad prospects for expansion into areas such as property development, medical equipment, and railway transportation.

Taking the real estate investment trust as an example, China's housing project construction funds required in 2012 amount to about 1.8 - 2 trillion RMB assuming 18 million public housing units are to be built, as in previous years. Given past funding trends, the funding gap would remain at about 450 billion RMB after considering bank loans, government, enterprise and individual investment, and informal financial funding. Yet leveraged lease funds as of yet do not exist in the real estate industry.

Negotiable securities companies

Negotiable securities companies manage one type of financial product, stocks and bonds with distributed risk and income. These are usually part of large commercial banks. The securities product contains the following information: product type, issuing agency, fund threshold, investment deadline, fund establishment date, product type, trust fees, product investment period, and the investment target or goal.

Negotiable securities companies must establish risk provisions to disclose the type of risk, consequences of the risk, and possible cause of the risk that may occur. Risk disclosures must be clear and easy to understand, conforming to the formal laid out by the Securities Association of China. The customer signs the risk disclosure to indicate that they have understood and are willing to undertake the risk.

The negotiable securities company sets up an asset management plan to invest in government bond, bond market funds, the stock market fund, and corporate bonds. Customers investing in asset management plans are required to invest in funds of at least 50,000 RMB. Securities traders group products into large scale products, which manage a larger pool of funds, and small scale products, which do not surpass 1 billion RMB.

In 2003, China Securities Regulatory Commission (CSRC) stopped the release of financial products because the market was becoming increasingly volatile, and the market too large to monitor. The CSRC reorganized the securities companies in 2004 to control risks. The CSRC now examines products before they are released. Negotiable securities funds accounted for 122 billion RMB in 2011.

Negotiable securities products developed over the seven year period between 2005 and 2011. In 2005, products included money market fund and bonds market fund. In 2006, stock market fund issued for the first time. In 2008, QDII securities financial products were issued for oversea investment. Stock and bond financial products, as well as flow of funds and QDII products, have not been issued at an accelerated rate, but rather have grown somewhat slowly. The financial product with the smallest release volume in 2011 was QDII financial products, with a release volume of 550 million RMB. Mixed financial products enjoyed explosive growth starting in 2009 and lasting through 2011, with 78 types of products distributed. The 2011 released volume is 42,461 million RMB. Mixed financial products, comprising 54% of financial products offered, have been most successful because risk is low and returns are steady.

The first five negotiable securities companies were CITIC securities, Orient Securities, Guotai Junan Securities, Chang Jiang securities and Everbright Securities. By 2011, the five negotiable securities companies with highest net worth were: Guotai Junan Securities, Orient Securities, CITIC securities, Everbright Securities and China Merchants Securities. Five to ten companies dominate the negotiable securities market. Large commercial banks are also involved, including the China Construction Bank, ICBC, Bank of Communications, Bank of China, and China Merchant Bank. State owned banks dominate. Within the existing 164 negotiable securities products, 23 are stock products, 29 are bond products, 4 are currency products, 78 are mixed products, and 28 are flow of funds products. In 2011, only the currency product average returns ratio was positive, while the other products showed negative returns ratios of up to 21.92%.

Two examples of negotiable securities products introduced recently are as follows. One was established on December 20, 2010 by the Yangtze River Securities Company as a stock product with a period of two years, with a scale of 102 million RMB and a minimum investment level of 1 million RMB, subscribed to 80 households. The product fund got the returns averaged -1.50% in 2011 and listed number 1 in stocks and regular earnings products.

Another product was introduced by the Bank of China International Securities Company on May 24, 2010 as a currency product, with a period of eight years and a scale of 1,517 million RMB. The minimum investment level is 50,000 RMB and this was collected from 2,477 households. The fund invests in liquid short-term financial instruments and rotating debt listed on the Shanghai primary market. The fund saw a 4.71% returns ratio in 2011.

The negotiable securities market is presently somewhat limited in scale, since it faces strong supervision. Securities companies supervisory departments have gradually begun to relax supervision, which is expected to increase the size of the market over time.

Real Estate Investment Trusts

Real Estate Investment Trusts, or REITS, carry out investment in real estate management and operations. China does not have REITs that rank at the international standard, but rather has similar REIT products that are denoted as Quasi-Real Estate Investment Trusts, or Q-REITs. Q-REITs are trust companies that carry out investment in real estate and real estate management, with most transactions being associated with government owned real estate.

China's real estate trust products are in their initial stages of development. The need for funding in property development is large and REITs satisfy only a part of the demand. Increasing diversity may help satisfy some of the demand.

Trust Industry Development

The trust industry has experienced several stages of development. In the first stage, starting in 2002, the trust company utilized the commercial banks' sales networks, with trust fund products restricted in scale to 50,000 RMB per copy and 200 copies.

In the next stage, the trust company and the commercial bank cooperated to promote letters of credit. Commercial banks increased collaboration with trust companies to develop new products. However, at this stage, trust companies were low in value and legally risky as affiliates of commercial banks.

In the third stage, starting with the introduction of two new policies created by the China Banking Regulatory Commission (CBRC) on November 1, 2005. The policies, the "Commercial Bank Financial Management Method Policy" and the "Commercial Bank Financial Management Risk Direction Policy" allowed commercial banks' financial services to become mainstream. In 2006, Minsheng Bank created a bank-trust cooperation financial product that initiated a large strategic cooperation between the trust company and the commercial bank. The initiative was a huge success and the bank-trust financial products soon became very popular. Bank-trust cooperation financial product products reached a historical apex in 2007.

The fourth stage began in December 2007, when the Bank of Communications purchased the Hubei International Trust Company, and changed the name to the Jiaoyin International Trust Company, which issued bank-trust cooperation financial products. Thereafter, cooperation with regard to bank-trust cooperation financial products rose. Minsheng Bank and Shaanxi International Trust Company signed a cooperative agreement on bank-trust product , Construction Bank of China purchased Guoyuan Trust Company, Tibet Trust and Merchant Bank signed a strategy merge contract. Bank of China and the Commerce Bank also contacted with trust companies for merge intension.

In the fifth stage, the CBRC, on August 12, 2010, officially issued the notice on "Bank-trust Financial Cooperation", which ushered in a stage of comprehensive standards and innovation. Commercial banks and trust companies also initiated investment in real estate trust funds, which sought to combine investment funds and spread risk.

Commercial banks are the main trustee which raise funds from investors, carry out stockholders' rights investment, support quality real estate enterprises and projects, and make payments to investors on a regular basis. The banks have a competitive advantage because they have large, national client bases that they can use to pool funds.

Listed Product Funds

Listed Property t Funds (LPFs) are comprised of the fund holder, the fund supervisor, and the fund trustee, and uses real estate rental receipts an income flow. LPFs realize gains through four methods: gaining higher rent through existing real estate, developing new real estate projects, carrying out real estate development to enhance income, and reducing operating costs. The major part of the income is assigned to the investors of Q-REITs.

Q-REITs have several players. First, is the fund holder—the investor who holds the certificate, who enjoys fund rights and interests. Second, is the fund supervisor, who belongs to the fund management company and charges a supervisory fee. Third, is the property supervisor manages the real estate property and charges a management fee, and fourth, the fund trustee is assigned by the commercial bank and is responsible for holding fund assets and settling fund accounts, and collecting trust fees. Fifth is the consultant firm which may be invited by the fund supervisor as needed to provide professional investment advice and is paid the corresponding consultancy fee.

Since 2010, real estate investment trusts became increasingly usurious, with an average financing cost of 15%. their financing costs come from four different channels: first, from investor's prospective returns, with a mean anticipated return ratio of 8.9% in 2010; second, from trust company fees; third, from bank fees for package channel of around 1.4-1.8%; and fourth, from fund referral fees and third party credit service fees. The bank charges 0.6%-1% for Q-REITs products.

In the second half of 2003, the Chinese government implemented a series of macroeconomic regulation and control policies to reduce quality of the real estate industry. This resulted in an increase in real estate funds. Credit quotas were also set on commercial bank real estate transactions to control property development loans. Commercial banks thus were caught between controlling risk and attempting to satisfy demand.

The commercial property development loan amount increased from 2,380 billion RMB in 2004 to 10,730 billion RMB in 2011, in step with an increase in property development. Q-REITs most commonly used the trust form as a structure.

The trust industry has undergone twenty years of history and five reorganizations. The "Trust Law" was in effect until 2001. The "Trust Investment Corporate Management Method" was issued in 2002. In 2003, a series of tighten bank credit measures were promoted one after another, after which the trust business entered a period of expansion.

In 2003, China distributed 84 real estate trust products with a total of 7,773 million RMB. In 2011, altogether 1,062 products existed with a total scale of 274,185 million RMB. As of 2011, the real estate trust average yearly returns ratio was as high as 10.09%.

REITs have been experimented with in Beijing, Tianjin, and Shanghai. Beijing REITs focus mainly on commercial real estate, while Tianjing REITs focus on low-income housing construction and Shanghai REITs focus on industrial real estate property. Guangdong Province has experimented with rental REITs. The Supervisory department required that REITs experimental sites follow three basic principles: that the product structure be simple, information disclosure must be complete, and regulating policies must be addressed. Product structures must be easy for investors to understand. Information disclosed should include property financial status, shareholder legal records, mortgage information, etc.

One of the first REITs was the trust plan for First Shop of French Oushang in Tianjin, which was created on December 9, 2003. This product raised nearly 100 million RMB in funds, investing in commercial property in the Tianjin middle ring region based on a 40 year lease with the Shop of French Oushang in Tianjin. Each year, the trust obtains 12 million RMB in rent. Subtracting taxes, fees and depreciation, the trust has achieved a 6% return to investors.

On December 20, 2003, a two year stockholders' rights investment fund distributed by the Chongqing International Trust Company was created using a product innovation, the trust plus bank REIT. This REIT was created using a signed agreement among the Industry bank, Beijing Shunhua company and the Chongqing International Trust Company with bank loans of 2 hundred million RMB. The trust paid income was repaid in stages with a return of 9%.

On January 22, 2005, Lianhua Trust created a diversified real estate trust fund that was well received. The Lianhua Trust product used profits from the Hong Kong dollar to collect real estate income, and also included income from American REITs and a stock market fund in a closed investment fund. At the beginning of December 2005, Lianhua Trust distributed a product with financing based on stockholders' rights and creditors' rights.

A commercial real estate trust fund was introduced on April 18, 2005, which focused on existing property transactions and buy-backs. The focus on existing property reduced risks associated with construction. Advance sales allowed investors to avoid property and contract taxes. This type of fund allowed developers to obtain financing while allowing the trust company to avoid property construction risk.

In recent years, Chinese Q-REITs have become increasingly important in the trust industry. Cities experimenting with Q-REITs have since increased. However, REITs must be improved in terms of supervision, information disclosure and property rights.

Shadow Institution and products in Insurance

Insurance brokers draw up insurance contracts between individuals and insurance companies. The insurance broker finds a suitable insurance solution for customers. The insurance company pays commission to the broker for reducing the problem of asymmetric information.

There are three types of insurance funds in China: one established by large state owned-enterprises, one established internationally, and the third established by private capital. The most common type of fund is the private capital fund, but due to scale limitations, these types of funds normally only establish ties with small and medium sized insurance companies, and competition is fierce. Insurance capital distribution is spread across industries, including the petroleum, electric power, education, medical service, aviation, sports, and other professions.

Insurance brokerages have expanded greatly over the past ten years. Currently, insurance brokerage laws and regulations cover: 1) policy holder's choice of insurance company; 2) assistance for the insured or beneficiary in carrying out the claim; 3) reinsurance brokerage services; 4) trustee provision of disaster prevention of damage and risk assessment, and 5) other services authorized by the China Insurance Regulatory Commission. Since 2000, the Insurance Regulatory Commission has authorized the creation of three national insurance brokerage companies. Between 2005 and 2011, the number of insurance brokers grew to 416, and the insurance premium income has grown to 38,010 million RMB.

Currently, China's insurance brokers serve mainly large scale organizations and large scale projects, such as the Beijing Olympic Games, the subway, and northward rerouting of southern rivers. There are few brokerage companies that service individuals, however. The insurance brokerages are currently facing several barriers to quality improvement: a deficiency of talented individuals, low professional standards, and low societal support.

Insurance companies develop financial management services that mainly invest in stocks and bonds. These products receive supervision from the Insurance Regulatory Commission and do not belong to the shadow banking sector. However, there are some insurance companies that set up specialized managed financial products. Products that invest in central bank bills, short-term government bill, short term fianancing notes, mortgage repo, bank deposits and bid IPO stocks.

Additional asset backed securities have been created, including credit default swaps (CDSs) and CDOs, collateralized debt obligations, which are important components in overseas shadow banking systems, but are in the nascent stages in China. In China, there has been a huge increase in demand for short term financing notes, corporate bonds, and medium term bills. The total quantity issued was 210 billion RMB in 2005 and increased dramatically to 1,820 billion RMB in 2011. At the end of 2011, debt financing instruments surpassed 3 trillion RMB.

The credit risk mitigation (CRM) product was established in 2010 as one type of credit derivative. CRM products include the credit risk mitigation agreement (CRMA) and credit risk mitigation warrant (CRMW). On November 5, 2010, the Chinese Everbright Bank released the first CRM transaction with China Bond Insurance Co., Ltd . The CRMA is a nontraditional financial risk management instrument that provides credit protection to the seller in a financial agreement. The CRMA is a non-standard contract that cannot be transferred to another party. The first CRMA was set up with nominal capital of 1,840 million RMB. Debt type included short term and medium term bills and bank loans. The CRMA was set with a one year term period.

On November 23, 2010, theChina Bond Insurance Co., Ltd, the Bank of Communications, and Minsheng Bank established the first credit risk mitigation warrant (CRMW) with a nominal capital of 480 million RMB. Hence both types of CRM products were established. However, CRM business volume remains relatively low. CRMA nominal capital was at 1,990 million RMB as of February 2010, and there were no CRMA transactions in 2011. CRMW nominal capital equals 740 million RMB. Low turnover in the CRM market, however, does not mean that the secondary market for credit risk tools does not operate effectively. Since China's bond market was established, there have been no violations. However, main participants are commercial banks, which do not provide a diversified body of participants, and CRM products are not priced in an entirely objective manner. Commercial banks comprise 75% of CRMW traders. Other trading companies include negotiable securities companies and asset management companies.

By July 5, 2011, there were 28 organizations, 20 of which were banks, trading CRMW products. These products were used by banks to distribute credit risk. Although CRM products have not grown rapidly, they have played a vital role in China's money market. This is because China's money market financial structure has created an extreme dependence by firms on bank credit. CRM tools are playing an increasing role as other types of asset credit risks expand. In addition, CRM tools also make it possible for small and medium sized enterprises to dilute credit risk.

Loose monetary policy after the global financial crisis has inflated China's loan scale. At the same time, the bond market developed rapidly. Commercial banks took on both bond market and loan market credit risk. CRM tools have been viewed as necessary to disperse credit risk. CRM tools can enhance credit ratings, which makes turnover of bonds and credit more fluid.

On October 9, 2011, the Insurance Regulatory Commission issued the "Insurance Service Implementation Supervision" regulation, establishing guidelines about management and supervision of insurance services and products, including CRM tools.

Quasi-Financial Institutions and their Business

China must continue to advance interest rate liberalization reform and speed the construction of its rating system. China's mortgage security scale, compared to overseas, accounts to a relatively small proportion of assets. Even ordinary banking is constrained. This has caused small and medium sized enterprises to face difficulty in obtaining financing. Small and medium enterprises have therefore turned to obtaining financing through small loan companies, financing guarantee companies, pawn shops, investment companies, stockholders' rights investment, and venture capital.

The small loan company does not absorb public deposits and is set up as a limited liability company. Its main source of funding comes from selling stock shares, endowments, and raising capitals from less than two banking financial institutes. In order to direct informal funds to the countryside and to promote rural economic development, in May 2005, the Central Bank set up 7 experimental small loan companies (micro lending enterprises). These were set up in Shanxi, Shaanxi, Sichuan, Guizhou, and Inner Mongolia. After that, starting in 2007, the People's Bank of China and the Banking Regulatory Commission allowed additional microlending companies to be set up in various provinces, touching off rapid growth of such companies. At the end of 2009, there were 1,334 small loan companies. By the end of 2011, there were 4,282 small loan companies in the nation, with a loan sum of 391.5 billion RMB, 4.06 times what it was in 2009. The funds are strongest in the eastern region and somewhat strong in the western and Northeastern region. Microlending enterprises are strongest in Zhejiang Province, Jiangsu Province, Inner Mongolia, Anhui Province and Shanxi Province.

Despite the growth of micro lending enterprises, however, the small loan scale as a whole is limited, representing less than 1% of bank loans and accounted for 1% of bank loans in most regions in 2011. In Inner Mongolia, corporate borrowing from micro lending companies reached 3.4%. The overall limited scale of micro lending is due to funding from shareholders and a capital endowment, without a deposit base. Loan duration is normally for less than one year.

Between 2009 and 2011, the top ten small loan companies occupied on average 70% of the industry quota based on lending scale, since small loan companies and paid-up capital are concentrated in a few cities. Only a few small loan companies have a non-performing loan rate above 1%, and profitability is generally strong. Beijing Long Sheng Small Loan Company was established in December 2009 and was selected as one of the top 100 small loan companies of 2011. This company had a shareholder joint contribution of 100 million RMB.

Small loan companies are to serve the agricultural sector and small and medium sized enterprises, microenterprises, and individual entrepreneurs, as well as individuals. Loans are given to enhance crop production, fish breeding, poultry raising, agricultural processing industry, and planting and cultivation. Loans are also extended to assist rural individuals engaged in commerce and agricultural enterprises, as well as small and medium sized enterprises.

Lending by small loan companies to corporates has rapidly increased, and the corporate loan cycle is fluid, with short term loans extended. Loans with six month terms comprise 40.34% of small loan company business, while loans with twelve month terms comprise 36.97%. Small loan companies are very conscious of defult risk, and loans are carefully monitored. Main loan types include the unsecured loans, the secured loans, and mortgage loans. Loans from micro lending enterprises carry a higher interest rate than bank loans, but micro lending interest rates must not surpass four times the national bank interest rate, which is on average 0.94 percentages per month.

Several measures are taken to control risk. First, the independent risk control departments assist credit departments of small loan companies. The company has a process for examining loans and ensuring that loan officers are disciplined. The companies also make five levels of risk classification. Collateral and property quality is carefully established. Work is supervised by provincial departments, such as the local governmental office of finance.

The need for risk control and high number of small loans extended causes operation costs to be high. In addition, business taxes with a rate of 25% and shareholder payments must be paid. State owned institutions such as rural credit cooperatives, by contrast, pay taxes at a rate of only 3%. Profit margins are therefore not very high.

The tight monetary policy pursued in 2011 made it even more difficult for small and medium enterprises to obtain loans from banks, increasing demand for small loan companies . Demand in the countryside is large, since fund shortages in rural areas are widespread. Farmers' loans are usually quite small, and since land cannot be used as collateral, farmers are unable to apply for secured loans, which are required at banks. Small and medium enterprises also face difficulty in obtaining bank loans, and the cost is high since the bank vetting period is relatively much longer than that for small loan companies. Therefore, small loan companies have filled an ongoing need for funds.

Financing guarantee business

Financing guarantee companies provide a credit guarantee service, managing credit risk and taking responsibility for the risk. Competitiveness of the financing guarantee financing guarantee company is determined by the amount of capital in case and risk control. Financing guarantee companies may be divided into financial bonding companies and non-financial bonding companies. The former provides a guarantee for the fund holder and the latter is not directly engaged with the loan itself, but guarantees advanced payments and commercial contracts for example. We examine here financial bonding companies.

The financial financing guarantee company may also be divided into the policy bonding company and the privately operated bonding company, depending on the nature of investment. The former is established mainly by central or local authorities with a policy type goal, providing financial guarantees for small and medium sized enterprises. The latter is created through non-bank, or informal, finance or through foreign capital, and is a riskier type of institution.

China's financing guarantee companies lack supervision and have arrived well after Western countries created their own. The first financing guarantee enterprises were established in 1992, with the creation of the Chongqing Small and Medium Enterprise Cooperation Credit Bonding Company and the Guangdong Local Commercial Bonding Company. Both companies were successful with the vigorous growth of small and medium enterprises.

Financing guarantee companies have undergone four stages of development. In the first stages, 1993 to 2000, development of the credit guarantee industry was slow, and capital stocks were used mainly for government investment. In the second stage, 2001 to 2007, China joined the World Trade Organization and the economy boomed. Financing guarantee companies were no exception, and developed rapidly under increased private capital injections. The third stage, 2008 to 2010, witnessed the impact of the financial crisis, and survival of the industry has been exceptionally difficult. The government, in response, has guaranteed the industry, causing some inflows of finance. The fourth stage has occurred since 2011. In this stage, several regional financing guarantee companies have arisen, as have local financing guarantee associations. The local financing guarantee associations have provided the rules of financing guarantee industry with its own standards and discipline, strengthening the industry.

The industry thereafter has prospered, supporting small and medium sized enterprises. In recent years, some financing guarantee companies have also engaged in informal lending, making it difficult to supervise and track financial activity in these institutions. Financing guarantee companies have engaged in riskier activity, and have aroused supervisory organizations to examine them more carefully. Additional policies and measures were implemented in 2011 to strengthen financing guarantee company supervision. The Banking Regulatory Commission has increased attention to bonding companies' risk. Most provinces and cities have also acted to adopt supervisory measures since 2010. For example, in August 2010, Jiangsu Province began external audits and spot checks on financing guarantee companies business. Guangdong Province and Zhejiang Province, in November 2010 and January 2011 respectively, issued policies to strengthen regulations on financing guarantee companies.

Financing guarantee companies are increasing in scale and strength, with higher levels of registered capital in cash daily. The number of small and medium sized financing guarantee companies increased from 3336 in 2006 to 4817 in 2010. Between these dates, capital in cash rose by 3.15 times, amounting to 391.5 billion RMB in 2010. The number of households participating in the industry has increased from 210,000 in 2006 to 350,000 in 2010.

Development of financing guarantee companies has been stronger in the Eastern coastal region, especially in Zhejiang, Jiangsu, Guangdong, and Shandong, and weaker in the Western region. Shenzhen, in the Eastern coastal region, has 1200 bonding companies with total registered capital surpassing 50 billion RMB. Guangdong Province has 382 financing guarantee companies with a total registered capital of 55.5 billion RMB, additional credit guarantees of 93.9 billion RMB, and a remaining guaranteed sum of 148.2 billion RMB. Development of such enterprises has increased in the middle region and to some degree in the Southwest, including Anhui, Henan, Hubei, Chongqing, and Sichuan. By the end of 2011, Shandong altogether had 527 credit guarantee organization, with registered total capital of 42,920 million RMB, additional financing guarantees of 91,280 million RMB, and a remaining guaranteed sum of 93,710 million RMB. Sichuan has 487 credit guarantee organizations and registered capital of 33,132 million RMB.

Financing guarantee company risk became an issue in 2011, with increased policies to prevent property price bubbles and inflation. Tight money policies and tightened real estate market supervision occurred. Informal finance increased as bank lending declined. Some financing guarantee companies lent money to informal financial markets. This increased the riskiness of financing guarantee companies. For example, the Henan Province credit guarantee industry based in Zhengzhou saw a rise in financing guarantee companies from 100 in 2007 to over 1640 in 2010, with registered capital of 57 billion RMB. Unlike financing guarantee companies in other regions, in Henan, the companies are densely interwoven with informal finance. A crisis among four large-scale financing guarantee companies erupted in 2011, involving an amount of 2,450 million RMB. These companies went out of business, And there werw 23 companies absorbed public deposit surpassed 10 billion RMB accounted for 1 to 6 of registered capital of bonding companies in Henan.

A source of financing guarantee companies' capital is institutional investor funds. Enterprises are partial to financing guarantee companies because the rate of return is high. The populace itself invested in financing guarantee companies, with individuals getting family and friends to put their funds in the companies. Financing guarantee companies have been able to obtain funds at a low interest rate from banks and extend loans to individuals at a higher interest rate, earning a big profit. Acting as an intermediary, the financing guarantee company takes a big risk because they cannot gain re-financing from the Central Bank. Financing guarantee companies engaging in the real estate market also seek high returns at a very high risk. Financing guarantee companies have also provided bridge loans to companies that could not repay their bank debts. Some financing guarantee companies have also absorbed funds for investment in the stock market or for venture capital institutions. This activity has also moved financing guarantee companies away from traditional guarantee services. In Henan, some real estate businesses even register through financing guarantee companies to obtain financing. The Henan financing guarantee industry faced mounting risks. Employees lacked necessary industry knowledge. Due to high returns, private capital flowed into the industry. The Henan province Financing guarantee Association, created in September 2002, has not played a proper role in preventing this activity. Financing guarantee companies have lost competitiveness due to increased perceived risky behavior.

Pawn Shops

The pawn shop is one of the oldest loan conduits in the world. Pawn shops have over 1600 years of history in China. On April 1, 2005, the Ministry of Commerce and the Ministry of Public Security laid out the "Pawn Shop Policing Rule" to define pawning. Pawning was referred to as taking a loan in return for transference of property rights of goods to the pawn shop or repaying the loan with interest.

The quick turnover nature of pawn shop operations allows them to have widespread social compatibility. There are basically three types of pawns. First, there is emergency financing needed to deal with disasters, birth, and death. Individuals may use their jewelry, antique calligraphy or painting to sell on consignment to the pawn shop in order to obtain financing. Second, investment financing may be needed to use for business. The customer may be an individually owned business or a small and medium sized enterprise. The enterprise may hand over equipment it does not need to sell on consignment or use as a basis for a loan. According to the Department of Commercial Affairs, in 2010, national pawn business reached as high as 180.1 billion RMB, with small enterprise financing comprising 80% of pawn business. The third purpose for the use of pawn shops is to satisfy some type of personal expenditure, such as a travel expense. This type of customer is in the minority, usually a wealthy person. The individual uses the pawn shop to store valuables for safety.

The pawn shop is distinct from the traditional financial institution because it sells goods on consignment, it supplements the financial credit channels under many types of ownership, and it allows for fast development of small businesses. State owned commercial banks generally do not satisfy demand of small and medium sized enterprises, so pawn shops fill this gap.

The pawn shop is also not associated with usury, deferring to the legal interest rate and accepting supervision from the government as well as the public. The pawn shop must obtain an operation or closure permit from the government, and is supervised at both a macro and micro level. Before 2000, pawn shops were regulated by the People's Bank of China. In June 2000, the State Economic and Trade Commission took control. Regulation issued by the Ministry of Public Security in 2005 became the highest rule, but came into conflict with other laws between 2005 and 2011. In 2011, the Department of Commercial Affairs drafted the "Pawn Trade Management Regulation" to clarify the law. Within this law, as in the 2005 law, the pawning profession was defined, but also described management rules, supervisions, pawn shop set up, change and termination procedures, and penal regulations.

Pawn shops not must maintain a base capital of RMB 3 million. If the pawn shop is engaged in real estate services, the minimum registered capital must be 5 million RMB. If the pawn shop participates in property rights pawning, the lowest registered capital required is RMB 10 million.

The pawn shop must also have two independent legal person shareholders. The legal pawn shop scope includes property rights pawning, real estate mortgage pawning, and appraisal and advisory services. Taking of deposits and provision of unsecured loans are not allowed.

Several acts regarding pawn shop supervision were passed. The Pawn Shop Administration Act of 2011 required the enhancement of management quality and shareholder requirements. Shareholders are required to recapitalize when pawn shop net assets are lower than the registered capital of 90%. The longest pawning period was also changed from 6 months to 3 months.

A ban on pawn shops left over from the Maoist regime was lifted in 1987, and pawn shops grew rapidly. At the time, pawn shops lacked effective management and regulations, and in 1996 the People's Bank laid out the "Pawn Industry Temporary Policing Method" to ban most illegal pawn shops, which comprised about 75 percent of all pawn shops. In 2000, the "Pawn Industry Management Method" was set up and in 2005, the Department of Commercial Affairs put forth the "Pawn Policing Method" which caused more pawn shops to arise in an orderly fashion. By the end of June 2011, China had 5,238 pawn shops, three times the number existing in 2005. Registered capital increased by over 20% in the past few years. The popularity of pawn shops reflects large market demand and the universal nature of the pawn business. The pawn industry is also constantly making improvements and innovations.

The Ministry of Commerce of Cina must issue a "Pawn Business Certificate," while the Ministry of Public Security must issue a "Special Profession Certificate," and the Administration for Industry and Commerce issues the "Industry and Commerce Business License" for enterprises with registered capital above 10 million RMB.

Investment Company

With the development of private economy, the investment company has developed from small to large. What we analysis in the report is the company which gets financing and provide loan. This kind of company regards itself as a financial intermediary, obtaining funds from investors and providing loan to enterprises or individuals. The funds of investment companies are generally from idle funds of enterprises and ordinary households. The Investment companies' business can be divided into three types: corporate loans, private business loans and individual loans. The forms of loans include mortgage loans, secured loans and credit loans.

In reality, the Investment companies are various, including the investment companies registered in the Business Administration department which run under the supervision of the related law and those not registered in the Business Administration department and running illegal. Investment companies are common in Wenzhou, Ordos and Northern Shaanxi where the folk debit and credit had developed prosperously. Influenced by the economic situation and macro-control, lending business of Investment companies had developed fast and was not cooled until the Wenzhou private lending and owners Of MSEs escaped (Paolu) crisis. However, due to the lack of statutory restriction, out-dated risk management method, unreasonable internal control design and the lack of regulation, some problems such as raising interest rates in disguise and illegal raising fund emerged.

In 2012 March, with state Council setting up the Wenzhou finance comprehensive reform pilot area intending to exploring the develop path of private finance, the investment company will be more transparent, formal and legal.

PE (private equity)

PE is the abbreviation of the private equity, which raises funds through a private placement and invests on private enterprises to promote the value growth of private enterprises, and at last, it sales the holdings to cash out in the form of making the company listed, merger and acquisition, management buy-back, and equity swap etc. In 1976, three investment bankers of Bear Stearns which is the famous investment bank on the Wall Street co-founded an investment company named KKR to specialize in the merger and acquisition business and this is the oldest private equity firms.

The PE financing market development in China was government-oriented initially. In 1986, the State Science and Technology Commission and the Ministry of Finance joined several shareholders to establish the Venture Investment Company of China which became the first franchise venture capital joint-stock company, and at first, the goal of the company was to foster the development of high-tech companies around China. We took a wait-and-see attitude towards most cases at first, and PE preliminary developed until 1995.

From 1995 to 2004, foreign PE preliminarily entered into China, most of which was VC, and PE became a mainstream product until 2005. In 2005, there have been many large-scale investment case appeared in the field of PE. Carlyle Group's investment in shares of Pacific Insurance and XCMG marked the PE receiving attention in China. In 2009, three investment forces which include foreign investment and joint venture, government-run, and non-governmental investment appeared in China's PE market. Since 2010, PE developed rapidly, and the fund-raising and the number of investment cases continue to set new records. In 2011, there are 235 private equity funds completed raising work in Chinese mainland , and 695 Investment transactions were completed, both of which are historical peak.

VC (venture capital)

VC is short for venture capital. Science and Technology Policy Committee of the OECD published a research report entitled "Venture Capital and Innovation" in 1996. This report defined venture capital as follows: Venture capital is also known as the Venture Investment, it means by providing equity capital, management and operating services to immature start-ups, the investors expect to charge a premium and long-term income through the equity transfer when the company have developed into a relatively mature situation. VC in China is a convention concept with the specific connotation. Broad venture capital refers to any investment in high-risk, high potential earning companies, and narrow venture capital means investment in the technology-intensive products based on the high technology.

VC originated in the United States in the late 19th century, and initially private or bankers control money to invest in steel, railroads, oil and other new businesses to get huge benefits. In 1946, George Dwight who was a professor at Harvard University and a number of entrepreneurs in the New England region had set up the first modern venture capital company named American research and development company (A R&D), which created a precedent for the modern VC. China's venture capital began in the 1980s of the last century. On January 11, 1985, China established the first national financial company specializes in risk investment in new technology companies - China New Technology Business Investment Company. In 1986, the 'NO.1 proposal' of the CPPCC pointed the way for China's high-tech industry and venture capital development, which opened a new page for China's venture capital industry. In the 1990s, enterprises in China funded by VC were all internet companies such as Sina and Alibaba. Since the beginning of this century, VC investment in China turned to the traditional items such as restaurant chains, and clean technology etc. In the past two years, whether the fund-raising amount or the number of the newly raised funds recorded highs. In 2011, the fund-raising amounted to $ 28.202 billion and the number of the newly has raised funds achieved to 382.

Fork finance

Chinese folk financial history has been 4000 years. And it is common in China especially in the vast rural areas. It plays an important role for the small and medium-size companies in financing, at the same time the measure of its capital scale is difficult. From 1986, our rural folk lending scale has been more than the size of formal credit lending. According to estimates of CICC (China International Capital Corporation), China folk lending balance got to 3.8 trillion RMB in the middle of 2011, and it accounted for nearly 33% of China's total shadow bank loans, which equivalent to 7% of the total bank loans.

The development of the non-government finance is a good complement to the formal finance. It is not only accelerating the rapid development of China's rural economy, but also reducing the financial resources utilizing gap between urban and rural areas. However, it would also raise interest rate rapidly and increase financial risk.

According to the organization form of non-government finance, it can be divided into the following types: chamber of commerce, entrepreneurs club, fast-lending web service platform, folk-lending network platform, lending agent, folk united-society, underground private equity fund, etc.

Chamber of commerce seeps into non-government finance through providing capital or financial guarantee for the member enterprise, which have paid LianBao fund. However, a lot of risks also exist. If some enterprise cannot reimbursement, it will naturally add risk or lost the LianBao enterprises and folk lending funds. Moreover, it is difficult for the chamber of commerce to compensate when loans default happens, because the chamber of commerce belongs to the non-profit organization and its capital source mainly comes from its member fee. In addition, some Chamber of commerce also may increase financial risk through putting their credit capital to other industries, rather than putting in the bank, to realize profit-making.

Most of the non-government finance intervening by chamber of commerce will be used for enterprise management, and it is a way to allocate of funds. It is expected to get the government's attention and support, and will have a large share in the non-government finance in future.

China's entrepreneurs' club development began in the 1980s. Entrepreneurs' club, which can help its member enterprises obtain preferential policy and financial support, usually establishes a positive relationship with government leaders, financiers, experts, scholars, etc. Most of the non-government financing intervened by entrepreneurs clubs will be used for enterprise management. It is not a regular behavior, because it only accounts for a small share of non-government finance at present. But in the long run, the government will pay close attention on it

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Private lending intermediary

Sudaibang means a fast-lending web service platform which can make a connection between bank, capital demanders and investors. It is the most important part of private lending intermediary, establishing in Zhejiang province where gathers many SMEs in September2010. It mainly provides services for SMEs which account for more than 95% of the whole enterprises in China.

From the date it started to the mid of 2011，Sudaibang had completed 300million RMB of loans. The average loan amount is 7 hundred thousand RMB of each contact. The total borrowed amount exceeds 30million RMB per month. Currently, the imperfection of its internal structure, the opacity of policy and laws, and the weaknesses of external supervision are severe problems it faced.

Bank employees also participate in the private lending activities illegally. There were several cases exploded by mass media in 2012 and the total amount of illegal fund raising loan is as high as 200 million RMB. Bank employees take advantages of their job opportunities to get the information about money supply and demand to act as an intermediary. They even participate in the illegal finance activities directly, providing loan to gain high interest income. Since 2011, the Banking Regulatory Bureau and the State Council Standing Committee took measures to prevent bank employees from participating in private lending.

Internet lending platform

Internet lending platform is an important branch of e-commerce which completes the whole process of lending and borrowing through the internet. The internet lending platform includes three modes: B2B, B2C and P2P.

B2B: (Business To Business) It belongs to the upstream flow of "goods", which are equivalent to the concept of lending.

B2C: (Business to Customer) It belongs to the terminal sales of the "commodity", which applies to institutions to individuals. The borrower is an individual and the lender is credit institutions.

P2P: (Peer To Peer): It is the most important financial services platform of internet lending, which combines personal lending and internet lending. All of the lending processes including information, money and contracts are made through the internet, so that it can save costs and improve efficiency. It is also the future trend of financial services. Furthermore, P2P mode is a platform that takes fees (usually provide a third party risk guarantee) to be the intermediary of the individuals who need money and other individuals who supply it.

Currently, our internet lending platform has just started, and the market is in the ascendant. In 2011, the scale of the whole internet lending platform in China exceeded 14 billion RMB. The prospect looks bright. At present, the market risk of China network lending platform still exists, so it is essential to strengthen the regulation.

Enterprise financing by issuing informal certificates of deposit

The Ponzi scheme is a fraudulent investment operation that pays returns to its investors from the money paid by subsequent investors, rather than from profit earned by the organization running the operation. In order to afford the return to investors, it requires an ever-increasing flow of money from new investors to keep the scheme going. The system is destined to collapse when the earnings are less than the payments to investors. Enterprises are engaged in the real economic to give up their own business and turn to do lending and borrowing money business, making the interest as their main profit.

The phenomenon of illegal raising funds is common in China and it appears in 29 provinces or cities. From early 2005 to June 2010 there were more than 10000 cases of illegal fund-raising in China which involved a wide range of industries such as agriculture, forestry, real estate, financing etc. What is more, some cases even affected many fields.

In 2011, the Wu Ying Case, a typical Ponzi financing, was a hot topic in China. Wu Ying borrowed a lot of money from her friends in a way like Ponzi and finally she was punished through a serious of legal proceedings. This case aroused the new thinking of the Ponzi behavior in China.

On March 28, 2012, a financial reform experimental area in Wenzhou was established. It may regulate the Chinese informal financial market and reduce the Ponzi cases in a progressive way.

Traditional folk cooperative finance

In recent centuries, traditional folk cooperative finance has played an important role in easing the problem of the shortage of private finance. Various forms of folk finance exist in the southeast coast in China, such as The Credit Union, Rural Cooperative Foundation, Rural Fund Mutual, Which all have influence on history. All these organization emerged and developed in order to solve the problem of private finance. However, under the historical conditions, they were always out of supervision, and thus generated excessive speculation, resulting asset bubbles. For example, in the 1990s, Credit Union had been collapsed in large-scale, which caused bad social impact.

In the past decade, although the commercial banks, which acted as the only formal financial form, have been changed into joint stock companies, because of the strict restrictions, it is still difficult for small and medium-sized enterprises to finance from the formal financial organizations. On the other side, the financing of the capital market has a higher threshold. All the factors are making the small and medium-sized enterprises hard to live, in order to settle the problem, a series of lending organizations emerged (including usury), which the risks are accumulated in, a variety of bankruptcy cases continue to emerge.

The government also intends to encourage the development of folk financial forms, such as rural fund mutual, and take them under supervision. While the high quality human resources including the talented people are not willing to flow into the field, making these organizations develop slowly.

Alternative Remittance System

Alternative Remittance System means the system or network which is not restricted by supervision. It can provide services including remittance alternative, funds transmission and asset transfer. Due to its characteristics of strong anonymity, high transferring speed of financial resources and its feasibility of evading foreign exchange control, the alternative remittance system is usually exploited by the criminals to transfer illegal property, launder money, evade taxes or involve other illegal financing activities. Alternative Remittance System can be divided into three types: the underground banking of remittance-type, the alternative remittance system by trade and the alternative remittance systems of Investment avenues.

In recent year, There are more and more money involved in China alternative remittance system which can be seen in the following two aspects: on the one hand, the underground banking develops rapidly, the amount money involved in a underground banking in Chongqing is about 56 billion RMB; on the other hand, the scale of the alternative remittance system by trade and the alternative remittance systems of investment avenues is large, a research shows that from 2005 to 2008, the total amount of hot money by trade was 378.1 billion and the money by investment was 229 billion. However, the relevant regulatory authorities realized that we should provide guidance to the alternative remittance system, rather than blindly suppress, at the same time, we need to accelerate the process of its legalization.

The underground banking

The underground banking of remittance-type, which is also referred to as alternative remittance systems (FATF 1999), has assisted criminals transferring funds abroad through a variety of illegal activities engaged in money laundering, illegal foreign exchange, and has become a new passage of laundering in corruption, tax evasion, smuggling, illegal immigration and so on.

The first anti-money laundering report published in 2005 by People's Bank of China indicated that according to the available statistics , there has been more than RMB 200 billion transferred abroad through underground banking system in mainland，let alone the money under the table. Since 2011, endless big cases, like the underground banking case in Chongqing with 56 billion involved and Hainan case with 72.7 billion involved, demonstrate the vulnerability of our supervisory system in finance.

Considering the invisibility, convenience and fast speed of the trades through underground banking, our ministry of public security economic crime investigation bureau and the People's bank of China’s anti-money laundering department, the state administration of foreign exchange management inspection department and other departments have made remarkable progress in actively establishing a working mechanism to fight against money laundering and underground banking. On the twenty-third plenary session in February 6, 2012, Financial Action Task Force voted to the access of the follow-up reports of China's anti-money laundering and terrorist financing, make it the end of the follow-up procedures of mutual assessment. It is a symbol that the job of Chinese anti-money laundering and terrorist financing up to the international standard, which will have a positive impact on further participation in international rule-making, improving the discourse power in international affairs and safeguarding national interests.

The alternative remittance system by trade

The alternative remittance system by trade is a system or network providing remittance replacing function and capital transfer service, by false trading under goods and services trade in order to evade taxes and escape from the control of foreign exchange. The development of this system is closely related to the development of China's foreign trade. In recent years, China's international trade has developed rapidly, the scale of foreign trade becomes bigger and bigger. In 2011, in goods trade, China exported 1.9 trillion U.S. dollars, increased 20.33%, and imported 1.7 trillion U.S. dollars, increased 24.92%, with a trade surplus of $155.13 billion, $26.95 billion smaller than 2010. It promoted the development of the alternative remittance system by trade.

Our research adopts some methods to estimate the scale of the system, and the results show that in 2011, the scale of the system may reach $101.5 billion. Looking ahead to 2012, with China's economy slowing down and the GDP growth rate of government estimated as 7.5%, and the foreign trade situation being bad,. So, in 2012, the alternative remittance system by trade will be restrained, and the scale of capital flow through the system will be reduced.

Alternative remittance systems by investment

Alternative remittance systems of investment avenues often transfer funds through securities investment which is formed by FDI or QFII, and thus its transfer of funds is basic legal in form. This kind of remittance also processes the traditional banking system swap, but it can successfully evade the monitoring of the regulatory authorities as a result of these illegal funds hidden in direct investment.

Alternative remittance through investment channels is specifically divided into the following ways: (1) the FDI name of false investment (2) set up shell companies to engage in illegal funds transfer (3) securities investment by channels of the QFII (4) betting (5) false profits by Enterprises with Foreign Investment and foreign-invested enterprises.

Alternative remittance hidden in the investment avenues is to take the measures. (1) starting from the source, strengthen the management of foreign investment projects (2) strengthen the monitoring of retained profits of foreign investment (3) investing in alternative remittance (4) improving policies, strengthen sector cooperation.