

The Role of Model Law in Modernizing National Laws on Secured Transactions

- *In context of Chinese law*

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I. Introduction

The United Nations Commission on International Trade Law (UNCITRAL) will celebrate its 50th anniversary. In the past 50 years, UNCITRAL has made a great contribution to the harmonization of international trade law. Among these numerous advances achieved by UNCITRAL are the removals of legal barriers and the creation of an efficient as well as a transparent legal environment, both of which have greatly enhanced the development of international business. Moreover, UNCITRAL serves as a platform for bringing us together.

For Chinese legal researchers, practitioners and students, another function of UNCITRAL is even more impressive and influential than those mentioned above - UNCITRAL provides us with valuable, practical and high-quality reference tools with which to modernize our national laws. A good example is the CISG convention, which serves as a model for the codification of Chinese Contract Law.¹ This paper intends to examine the potential contribution UNCITRAL can make in another working field – that of secured transactions.²

In 2016, UNCITRAL published the Model Law on Secured Transactions (ST Model Law). In the meantime, Chinese authorities have been engaged in drafting the Chinese civil code. This development presents a good opportunity to review the current Chinese laws with reference to the ST Model Law and the previous UNCITRAL Legislative Guide on Secured Transactions (ST Guide). However, as it is impossible to accomplish such a massive task, this paper will present a brief snapshot of the problems faced by the Chinese regime of secured transactions and will examine how ST Model Law and ST Guide fit into the Chinese context generally.

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¹ Liming WANG: 'The United Nations Convention on Contracts for the International Sale of Goods and China's Contract Law', in *Thirty-five Years of Uniform Sales Law: Trends and Perspectives, Proceedings of the High Level Panel held during the Forty-eighth Session of the United Nations Commission on International Trade Law*, Vienna, 6 July 2015

² Working Group VI was entrusted with the work on security interests in UNCITRAL's 56th session in 2001 (A/56/17 paras. 351 and 358). The most significant work products of Working Group VI are the *Legislative Guide on Secured Transactions* and the *Model Law on Secured Transactions*

II. The Approach to Secured Transactions

A. Chinese law: the formal approach

The starting point of our examination is to understand that the Chinese regime is comprised of both the Chinese security law (CSL)³ and the Chinese property law (CPL)⁴, along with a number of judicial interpretations and administrative rules. Normally, Title 4: Security Rights of CPL is more commonly used than CSL in secured transactions owing to the fact that CSL was enacted in 1995 whereas CPL came into force in 2007. In light of the dramatically fast pace of development of Chinese society, it is not difficult to understand why some articles of CSL cannot meet the demands of economics. As article 178 of CPL states, in case of any inconsistencies between the provisions of CSL and of CPL, CPL shall prevail. Generally, no matter whether we apply CPL or CSL, they all adopt the traditional formal approach.

1. Three devices for secured transactions and their scopes

As in most civil law jurisdictions, numerous *causis* is established as a fundamental principle in CPL. According to article 5 CPL, the types and contents of proprietary rights shall be determined by law.⁵ There are three forms of security rights provided by CPL: mortgage, pledge and lien. The nature of a lien here is “possessory”, as a method of self-act, rather than a consensual arrangement, so it will not be discussed in this paper.

A mortgage is characterized as a non-possessory security in CPL.⁶ All movable assets, as long as they have not been prohibited from being mortgaged by laws or administrative regulations can be covered by the mortgage.⁷ There is no limitation on the parties to a transaction as to the types of transactions and the obligations secured. However, the floating mortgage is an exception in that it has a limited scope: i.e., the assets covered are limited to four types, which are shown in the following diagram; only enterprise, individual business and agricultural can make such arrangement.⁸

³ Translation of CSL, see http://www.npc.gov.cn/englishnpc/Law/2007-12/12/content_1383719.htm

⁴ Translation of CPL, see http://www.npc.gov.cn/englishnpc/Law/2009-02/20/content_1471118.htm

⁵ As a traditional and fundamental principle in civil law, the numerous *causis* was introduced into CPL without argument. In recent years, this principle is being challenged in academy. See Yeong-Chin, Su, *In Search of New Civil Code* (PKU Press, Beijing, 2012), 117-227; Tze-Shiou, Chien, *Economic Reasoning and the Law* (Angle publishing, Taipei, 2014), 79-101; Jer-Sheng, Shieh, *Property Law* (Sanmin, Taipei, 2012), 49-52

⁶ The “mortgage” defined in article 179, CPL is fundamentally different with other jurisdictions. It is more similar to the “charge” in English law. See L. Gullifer, *Goode on Legal Problems of Credit and Security* (Sweet&Maxwell, London, 2013) para. 1-47

⁷ Article 180, CPL

⁸ Article 181, CPL

CPL defines a pledge of movables as a possessory security. There is no restriction on the scope of a pledge, and the same with a mortgage. To relieve the inconveniences in trade caused by the traditional possessory method and as a response to practical demands,⁹ CPL further develops the pledge of rights, especially as regards the receivables.¹⁰ The scope of the encumbered assets covered by the security rights in CPL is comprehensive, which can be viewed in this diagram:

Forms of rights	Mortgage of movables	Floating mortgage	Pledge of rights	Pledge of movables
Assets covered	A. Equipment; Raw materials; Semi-finished products; Finished products. B. Vehicles C. Vessels and aircraft under construction. D. Any other asset that is not prohibited from being mortgaged by law or administrative regulations.	Current and future equipment, raw materials, semi-finished products, finished products	Any movable that is not prohibited from being pledged by law or administrative regulations.	A. Bills of exchange; Cheques; Promissory notes B. Bonds; Certificates of deposit C. Warehouse receipts; Bills of lading D. Transferrable fund units E. Intellectual property rights F. Receivables G. Other property rights which may be pledged as provided for by laws and administrative

2. Other security arrangements

Although the CPL follows a relatively comprehensive approach which can cover a large array of assets, the *use of title* - including the transfer of title and the retention of title – and the *use of contract* – such as financial leases, sale and resale or sale and leaseback for security purposes – are still very common in Chinese financial practice.

In terms of security over specific movables, those arrangements are usually more practical and safer than choosing devices provided by CPL. This is because they are convenient, low cost as regards legal procedures, low risk in terms of their enforcement and, more significantly, give more consideration to the economic demands of the parties. By contrast, the mortgage registration of movables is complicated, sometimes even impossible, as will be

⁹ Liming Wang, *Research on Property Law* (RUP, Beijing, 2013), 568

¹⁰ Though it is controversial in academy, the Supreme Court held “The pledge of receivables not only consists with the international commercial practice, it creates a new path for security, which will have significant impacts on Chinese economics”. See The research group of property law, Supreme People’s Court, *The interpretation and application of property law* (PCP, Beijing, 2007) ,670-672

discussed later. The use of pledge will prevent pledger from using them, which is uneconomic and hinders the flow of business.

Chinese law is at the crossroads of how these two arrangements can be characterized. Some arrangements have been affirmed by other laws: for example, with the retention of title, Chinese contract law (CCL) has demonstrated its effectiveness.¹¹ According to article 134 CCL, parties of a contract for sale can make an agreement that the ownership of goods will still belong to the seller if the buyer does not pay or perform other duties. With respect to financial leases, CCL sets out a section (from article 237 to 250) specially dealing with these and confirms that without an opposite agreement, the lender has complete ownership (not priority) of the leasehold during the lease term.

However, Chinese courts sometimes carry out re-characterization for reasons of functionality. In its judicial rules relating to private loans, the Supreme Court re-characterizes the contract of sale for securing the loan as the loan contract. Therefore, the lender cannot claim for the borrower to transfer the title of the asset to secure the loan.¹²

In contrast, with regards to the transfer of title of movables, Chinese courts are reluctant to make such a re-characterization for three reasons. The first is that CPL is a piece of legislation following the formal approach and if courts characterize the transfer of title as a security, they have to go a step further to determine which category (mortgage or pledge) it falls into to ascertain which part of CPL applies.¹³ The second is that transferring the title of movables does not require registration in most cases and sometimes can be realized by virtual delivery, which cannot fulfil the requirement of publicity of security rights.¹⁴ Such a re-characterization would indirectly deny any proprietary encumbrance imposed by the transfer of title. The third is that CPL prohibits any pre-contractual agreements being made before the enforcement of the security rights which would have the effect of automatically transferring title to the creditor if the obligation were not performed on time.¹⁵ Transfer of title, once re-characterized as a security right, would contravene that prohibition. The basic policy underlying those three reasons is respect for common practices in business and the desire to adjust the rigid regime to accommodate credit demands. As a result, the transferee of the title has absolute ownership, a “super-priority” from a functional point of view.¹⁶

¹¹ Translation of CCL, see http://www.npc.gov.cn/englishnpc/Law/2007-12/11/content_1383564.htm

¹² Article 24, The Supreme People’s Court’s Interpretation of Private Loan

¹³ That is also the difficulty Chinese courts faced in characterising the new types of security. See the second tribunal for civil cases, Supreme People’s Court, *The Judicial Guidance of Security Cases* (Law Press, Beijing, 2014), 36

¹⁴ Lacking publicity is an important ground for the opinion that the new types of security should not be recognized as proprietary by courts. *ibid.* 36

¹⁵ Articles 186 and 211, CPL; Office of Civil Law, Commission of Legislative Affairs, Standing Committee of the National People’s Congress, *The clause explanations, legislative reasons and related rules of P.R.C property law* (PKU Press, Beijing, 2007), 340-341

¹⁶ Financial institutions, courts and related parties all tend to not deny the effectiveness of new types security based on the transfer of title or contractual arrangements. *Supra note* 13, 34-35; Lixin Yang: “A forming atypical security in customary law”, *China Legal Science*, 2013-3, 74-84

In summary, though CPL takes a formal approach, in financial practice the approach is always functional. As new and ever-more complex forms of secured transactions continue to emerge, courts are faced with the task of resolving disputes arising from these developments. Furthermore, without integrated criteria, secured transactions in different forms, though with the same purpose, would be reviewed separately in law and cause substantial unfairness. “Re-characterization” is not a technical difficulty for Chinese courts. But the premise to make re-characterization is other arrangements for security can also be placed in a frame to ensure their publicity, priority and enforcement without discrimination.¹⁷

B. Solution given by UNCITRAL: A Unitary, functional and comprehensive approach

The fragmentation of secured transactions law into multiple and often outdated laws dealing differently with the transactions that fulfil security functions, and the resulting gaps and inconsistencies, are the common concern for the regimes taking a formal approach.¹⁸ The solution UNCITRAL gives is a unitary, functional and comprehensive ST Model Law. “Unitary” means there is one integrated concept for all types of security interest, while “functional” means substance must prevail over form and the Model Law applies to all types of transaction that fulfil security purposes.¹⁹ Finally, “comprehensive” means the Model Law applies to all types of assets, secured obligations, borrowers and lenders.²⁰

There are six grounds given by the ST Guide for such an approach, which appear to be convincing:

- *An integrated legal statutes and security rights enhance comprehensiveness, consistency and transparency.
- *A functional approach covering the possessory security rights will help to modernize them.
- *Re-characterizing the title finance will balance the interests of creditors and grantors.
- *Covering contractual arrangements with security functions will minimize conflict and confusion as to the priority of the rights of the different creditors involved.
- *A comprehensive regime places all security arrangements in a fair and competitive order of priority.
- *An integrated security right can lower the overall cost of secured credit.²¹

What are the obstacles to taking such an approach in Chinese law? The traditional civil law theory we follow may play a major role. The ST Model Law reviews and strikes at this traditional frame and its principles and concepts, taking a functional approach, while we may

¹⁷ Same opinion, see Xueli Dong: ‘The Unification of Chinese Consensual Movables’ Security’, *The Chinese Journal of Law*, 2014-6, 113-115

¹⁸ S. V. Bazinas: ‘The draft UNCITRAL Model Law on secured transactions’, UNCITRAL library (65366), 24

¹⁹ See M. Bridge: ‘Secured Credit Legislation: Functionalism or Transactional Co-Existence’, UNCITRAL library (43205)

²⁰ http://www.uncitral.org/uncitral/en/uncitral_texts/security/2016Model_secured.html

²¹ ST Guide, chapter I, paragraph 105

These grounds also explain the remarkably worldwide development of the functionalism and PPSAs, See L. Gullifer: ‘Personal property security law: where next? (part 2)’, *Law and Financial Markets Review* 2012, 541-546

be reluctant to change those theoretical presuppositions to which we have grown accustomed. The problem is whether in a fast-growing market-oriented society it is still possible or justified for civil law to hold on the old way and refuse to respond the need for a modern regime on the basis of those traditional presuppositions?

III. The Creation and Third-party Effectiveness of Security Rights

A. Chinese law: no strict distinction

Chinese law distinguishes the effectiveness of security rights from the effectiveness of security contracts, rather than setting a clear and strict distinction between the creation and third-party effectiveness of security rights due to the principle that proprietary rights shall be absolute.

It has taken a long time for Chinese law to gradually admit the independence of the security contract from the security right. Before CPL, article 41 of CSL stipulated that if registration is required, the security contract shall come into force only when the registration has been completed, which gives rise to a very strong control over party autonomy – i.e. “no registration, no effective contract at all”. The adverse consequences of this subsequently came to the fore: when the mortgagor declines to register, the mortgagee cannot ask him to do so because their security contract is not effective as a legal ground.²² In 2000, the Supreme Court made a technical adjustment in its interpretation of CSL. Article 56, paragraph 2 provided that when the security contract had been concluded but was not registered to come into force, the mortgagor declining to register contrary to good faith shall nonetheless be liable for the losses of the mortgagee.

There are separate rules for security contracts from those for the effectiveness of security rights. For security contracts, the only requirement as to formality is that it must be in written form. The contents of contract are decided by parties and normally include the form and amount of the secured obligation, the deadline for performance, the details of the encumbered assets and the scope of security.²³

However, influenced by the principle of *numerus clausus*, CPL does not regard the security contract as an instrument of creating security rights. The only exception to this is mortgages of movables. In that case, the security would be created once the contract was concluded. In other circumstances, the creation of security rights cannot be accomplished by the contract, causing some inconsistencies.

²² Jiaan Liu, *Property Law* (CUPL Press, Beijing, 2015), 165-168

²³ Articles 185 and 210, CPL

Security Rights	Mortgage of Immovables	Mortgage of Movables	Pledge of Movables	Pledge of Rights
Creation	Registration	Conclusion of contract	Delivery	Delivery/registration
Perfection	Idem	Registration	Idem	Idem

B. UNCITRAL's attitude: a fundamental policy

As indicated in the ST Guide, UNCITRAL regards “distinguishing effectiveness as between the parties from effectiveness against third parties” as a fundamental policy of an effective and efficient secured transaction regime.

The main ground for taking such a position as provided by the ST Guide is the avoidance of additional formalities in the creation of security rights (even as between the grantor and secured creditor) that go well beyond what is normally required for contracting.²⁴

Similarly, the ST Model Law insists that a security agreement is sufficient to create a security right.²⁵ Chapter II: Creation of a security right mainly deals with the scope of securities, the security agreement and extinguishment. Chapter III: Effectiveness of a security right against third parties involves the methods of archiving third-party effectiveness and the proceeds of them.

CPL	UNCITRAL Model Law
Mortgage of movables: Creation=Effectiveness of contract Other security rights: Creation=Third-party effectiveness	Creation=Effectiveness of contract

Hence, by distinguishing between creation and third-party effectiveness, the ST Model Law simplifies the creation of security and ensures the value of party autonomy. In addition, the distinction works well from a structural design point of view, enabling the issues Model Law has to deal with to be laid out in a more clear, concise and consistent manner.

IV. The Registry System

A. Mortgage of movables: new changes

As previously mentioned, mortgage of movables in CPL can cover nearly all kinds of assets provided that it does not contravene any laws or administrative regulations. However, the

²⁴ ST Guide, chapter II, paragraph 6

²⁵ *Supra* note 18, 26

comprehensive scope devised by CPL cannot be realized in practice due to the lack of an effective system of registration. Though CPL empowers the administrative departments of industry and commerce (AIC) to act as the registration authority as regards mortgages of existing and future equipment, raw materials, semi-finished products and inventory to facilitate corporate finance, especially for the small and medium sized enterprises, the registry system does not function well, further intensifying the difficulties in credit and stimulating the development of the title-based finance.

This ineffectiveness can be attributed to several factors. To begin with, the scope of registration was so limited and vague that AIC often declined to register assets other than the four types listed and business bodies not referred to in CPL. Secondly, the registration process was complex and costly, requiring the submission of contracts and other proofs, and thirdly the registry record was paper-based and difficult to search. What is more, there was no inter-area data system, and as a result inquiries could only be made on-the-spot at the AIC of the place where mortgagor located, leading to poor publicity on a national scale and difficulty in determining the order of priority.²⁶ As a result, banks tightened their lending standards given the high risk of credit exposure and often asked for securities over immovables.

In August 7, 2014, Premier Keqiang Li issued the order of the State Council to publish the Interim Regulation on Enterprise Information Disclosure. Article 6 of the regulation states:

“Administrative departments for industry and commerce shall, through the Enterprise Credit Information Disclosure System, publicize the following enterprise information generated during the performance of their functions:

...

- (2) Registration information of movable mortgages.
- (3) Registration information of equity pledges”

The new regulation, by the use of the electronic disclosure system, immediately promotes the publicity of registration and spurs the State Administration for Industry and Commerce (SAIC) to revise its methods in relation to mortgages over movables. However, it is still very far from an integrated electronic registration system for notice registration as proposed by the ST Guide and ST Model Law.

B. Calling for a unified registration system in Chinese practice

The registration system of security rights in China is very diffuse. We not only set out different types of registration in light of the several forms of security rights, even within the same category, we require registration with different authorities with distinct procedures and rules, depending on the nature and use of assets, or the identification of parties.

The pledge of rights can serve as a good example. The different registration systems set up by CPL are summarized as follows. Besides these registries, it is still possible to make a registration in the notary office.

²⁶ Shengping Gao: ‘The legal theory of the registration of movables mortgage’, *Legal Science*, 2016-2, 15

Types of rights	Registry	Specification
Negotiable Instruments	With document of title	Delivery
	Without document of title	Registration in related departments (Not clear)
Fund Units Securities	Fund Units & Securities registered in “CSDC”	China Securities Depository and Clearing Corporation Limited “CSDC”
	Securities not registered in “CSDC”	State and local administrative departments of industry and commerce “SAIC”
Trademarks	Trademark Office, SAIC	Provisions on the procedures for the pledge registration of exclusive rights to registered trademarks
Patents	State Intellectual Property Office	Measures for the pledge registration of patents
Copyrights	National Copyright Administration	Measures for the pledge registration of copyrights

Such fragmentation has artificially increased the cost and risk of credit. It not only wastes time and resources of both parties, it also cannot ensure nationwide publicity or the order of priority. The unified registry itself is a process of resource integration – once it succeeds, all assets can be connected in relation to the credit, which would be on an almost infinite scale and fundamentally prevent loan fraud.²⁷

C. What changes UNCITRAL can bring - a successful experiment in China

The ST Guide highlights the status of registration in the whole regime of secured transactions, as “[n]othing is more central to the realization of this goal than the establishment of a general, notice-based, registry system.”²⁸ The registry ST Guide envisages is a system functioning to make security interests effective against third parties, to serve as an information source for the public to search and to provide an objective basis for determining the priority of competing interests.

²⁷ The tardiness of the revolution of movables finance, Caixin Weekly, 2015-05

²⁸ ST Guide, chapter IV, paragraph 1-8

In line with the ST Guide, ST Model Law establishes a “single, central registry for registering all security rights in all types of movable asset” and provides a set of Model Registry Provisions (MP) to deal with “the registration of notices of security interests in a publicly accessible Registry”.²⁹ The supporting model provisions are set out in a considerably precise and detailed manner including the requirements and proceedings of registration and search, the errors and changes, and the organization and record of registry. Those provisions have much referential value because of their delicate and precise design. In addition, the notice registry,³⁰ the grantor’s authorization,³¹ the advance registration³² and the one notice for multiple securities³³ work together to make the registry more convenient and low-cost.

In China, there is currently an effort to establish a unified registry for movables security made by The Credit Reference Centre, the People’s Bank of China (CCRC). The CCRC is empowered by CPL as the registration authority for receivables. The registry for receivables gradually developed into the CCRC Movable Financing Registration.³⁴ The CCRC aims at establishing a comprehensive centralized registry for securities in all types of movable asset, which also includes the proprietary rights of which the movables consist. Even if the effectiveness of the CCRC’s registration, except the pledge of receivables, has not been affirmed by CPL, and may face non-recognition in courts, it is still popular in practice. The figure below shows the types and amounts of registrations in October 2016.

²⁹ http://www.uncitral.org/uncitral/en/uncitral_texts/security/2016Model_secured.html

³⁰ Model Registry Provisions (MP), C: Registration of a notice; H.C. Sigman: ‘Some thoughts about registration with respect to security rights in movables’, *Uniform Law Review*, 2010, 507-509

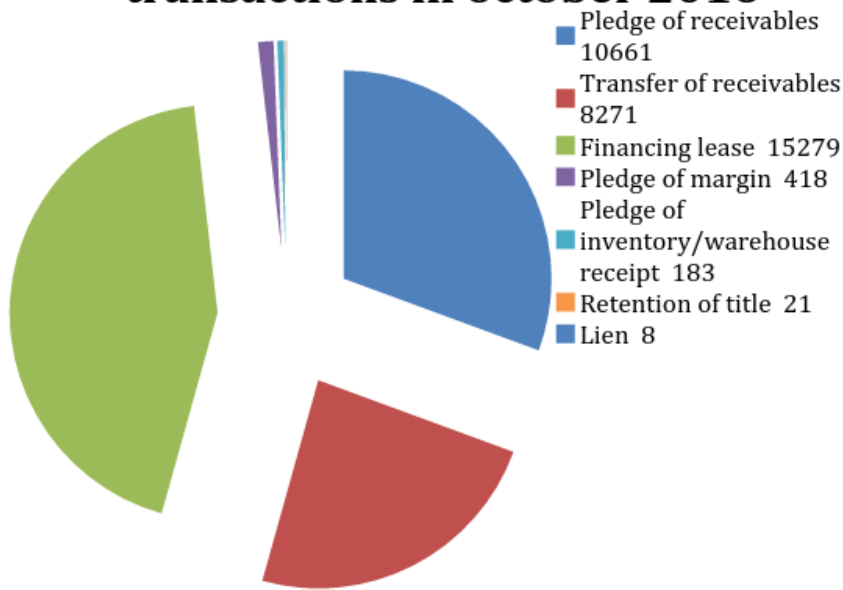
³¹ Article 2, MP

³² Article 4, MP

³³ Article 3, MP

³⁴ The CCRC Movable Financing Registration System: <http://www.zhongdengwang.org.cn/zhongdeng/index.shtml>

Registrations of secured transactions in october 2016

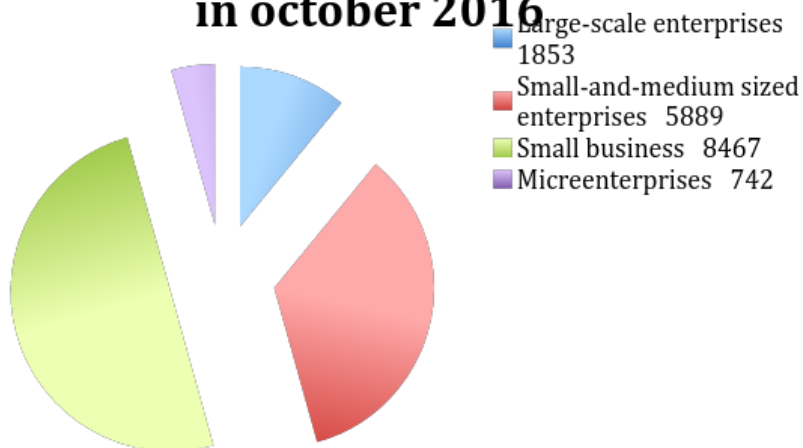


Data Source:

<http://www.zhongdengwang.org.cn/zhongdeng/2016/201612/d577b25f7a954abb80c6e701820b5bb8.shtml>

There are four characteristics of the CCRC's system which enable it to function efficiently and effectively, and which also make it more similar to the ST Model Law: the nationwide system of integrated registration records, the internet-based electronic registry, the notice of registration without the need to register the security contract, and formal review.³⁵ Small-and-medium sized businesses have benefited greatly from this registry due to its convenience, enabling them to obtain credit easier than before, which is shown in the following figure. That is exactly UNCITRAL aims to achieve.

Registrations of pledger/leaser in october 2016



Data Source:

<http://www.zhongdengwang.org.cn/zhongdeng/2016/201612/d577b25f7a954abb80c6e701820b5bb8.shtml>

³⁵ The idea of CCRC's system, see: http://www.zhongdengwang.org.cn/zhongdeng/djln/column_common.shtml

In short, the CCRC's practice tells us the registry designed by the ST Model Law and ST Guide is workable, valuable and that there are no technical difficulties in adopting such a registry in China. It will be a practical scheme to further detail and normalize the CCRC's registry with the help of ST Model Law, to serve as a practical basis of the forthcoming reforms.

V. Priority

The rules of priority in Chinese law are not well-developed, as the concept of "priority" is not perceived in a unified way. In CPL, the term "priority" indicates the breakthrough of the principle of "equality among creditors" for secured creditors.³⁶ Another term, "liquidation order", is used by CPL to refer to the competition between mortgages. In Model Law, there is a unified concept of "priority" and a comprehensive set of priority rules to deal with the conflicts between a secured creditor and every possible competing claimant including other secured creditors, the transferees, lessees or licensees of the encumbered asset, the creditors with preferential claims and the creditor with a judgment.³⁷ This represents quite a significant difference between CPL and ST Model Law.

With regard to the priority between competing security rights, ST Model Law sets out a general principle-priority which is determined by the order of third-party effectiveness, giving first priority to whichever occurs first,³⁸ subject to several exceptions or additions for proceeds,³⁹ commingling,⁴⁰ acquisitions⁴¹ and negotiable documents⁴². However, in CPL only the priority between mortgages is dealt in a similar way to the Model Law, based on the time of registration.⁴³ The Supreme Court in its interpretation of CSL stipulates that the registered mortgage will prevail over the perfected pledge, which appears to be very arbitrary.

The Model Law also resolves the potential conflict between secured creditors with the transferees, lessees or licensees of the encumbered asset, creditors with preferential claims and creditors with a judgment. In Chinese law, such rules are dispersed or even not provided for.

The comprehensive approach of the Model Law to priority rules can give prospective creditors and all related parties a much higher degree of certainty about the order of their interests and the resolution of their potential disputes compared with the current Chinese

³⁶ Article 170, CPL

³⁷ Articles 34,36,37 ST Model Law; ST Guide, recommendations 79-84, chapter V, paragraph 11-15

³⁸ Article 29, ST Model Law

³⁹ Articles 32 and 41, ST Model Law

⁴⁰ Article 33, ST Model Law

⁴¹ Articles 38-42, ST Model Law

⁴² ST Model Law, chapter V, B. asset-specific rules (except article 50 for intellectual property)

⁴³ Article 199, CPL

legal regime. This can in turn enhance credit, and in addition can ensure the smooth running of the ordinary course of business. Undoubtedly, it is a better scheme.

VI. Conclusion

This paper has briefly discussed four fundamental policies of the UNCITRAL ST Model Law: the unitary, functional and comprehensive approach to secured transactions, the distinction between the creation and effectiveness of secured rights against third parties, the single, central registry for all security rights in all movable assets, and the comprehensive and precise rules of priority. In the context of Chinese law, those policies fit well into the fast-developing practices in secured transactions and give convincing answers to the existing problems in Chinese law, as analyzed in this paper. Those policies should without doubt be used to guide the direction of reform, as they can respond to the demands of business, integrate scattered resources for credit and ultimately enhance the sustainable development of the economy.

Aside from the four fundamental policies, ST Model Law provides considerably more detailed and practical rules, which provide an all-encompassing and practical scheme to modernize Chinese law. Although it is impossible to review every detail of those rules from a Chinese perspective in such a short paper, undeniably, the ST Model Law, in combination with the ST Guide, IP Supplement and the Registry Guide, can function as a key reference tool for Chinese reform.