

Shanghai Municipal People's Government Releases Several Opinions on the Development of Regional Headquarters of Multinational Corporations in Shanghai

China Business Solution Office
RMB Internationalization Business Promotion Office

On August 13, the Shanghai Municipal People's Government released Several Opinions on the Development of Regional Headquarters of Multinational Corporations in Shanghai (Hufugui [2019] No. 30, hereinafter "Notification No. 30"). Notification No. 30 went into effect on September 1, 2019 and is set to expire on August 31, 2024.

[Summary]

- Relaxes the requirements for the certification and establishment of regional headquarters of multinational corporations, organizations acting as regional headquarters, and investment companies.
- Increases the freedom and convenience of use of funds for multinational corporations (usage of cross-border funds pooling, off-shore reselling, free trade accounts, etc.).

1. Background of the Policy

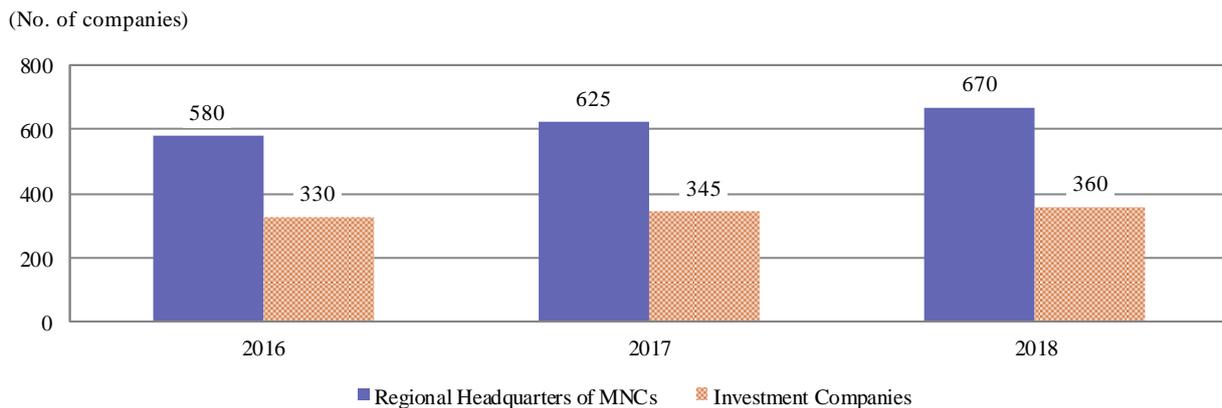
As the primary area where regional headquarters are clustered in China, Shanghai has been proactively announcing policies to attract more multinational corporation (MNC) regional headquarters for a long time.

In order to encourage more MNCs to set up their regional headquarters in the city, Shanghai announced the Interim Provisions on Encouraging Foreign Multinational Corporations to Establish Regional Headquarters in Shanghai (Hufufa [2002] No. 24). The policy to encourage the establishment of regional headquarters has been amended four times since the regulations were announced – in 2008, 2011, 2017, and 2019 (this revision).

Shanghai also announced the Shanghai Pilot Scheme for the Utilization and Management of the Special Fund for Encouraging the Development of Multinational Companies' Regional Headquarters in 2009, later amended in 2018.

Shanghai's efforts in attracting regional headquarters have paid off, with a cumulative total of 670 multinationals, including 360 investment companies, establishing regional headquarters in the city as of 2018.

Trends of Multinational Corporations and Investment Companies in Shanghai



According to the Shanghai municipal government, the amount of paid-in capital from foreign-invested enterprises in the service sector between January and July of 2019 totaled USD 3.325 billion, which is one-third of the total amount and the highest share of all industries. According to the Shanghai Foreign Commercial Investment Annual Report for 2018, MNC regional headquarters accounted for 1.34% of all foreign-invested enterprises, 10% of sales, 17% of total profits, 12% of tax payments, and 6% of the number of employees in the entire city, making a significant contribution to Shanghai’s economy.

On the other hand, the city of Shanghai faces several challenges in attracting MNC regional headquarters. For example, these challenges include 1) the certification criteria for the regional headquarters of an MNC, 2) the fact that the functions of an MNC regional headquarters are limited, and 3) increased competition with other provinces and cities to lure MNCs to set up regional headquarters.

By issuing Announcement No. 30, the city of Shanghai is attempting to give new functions to the regional headquarters through its supportive measures to accelerate the accumulation of regional headquarters and to expand regional headquarters functions.

2. Primary Contents of the Regulations

Notification No. 30 has eased the requirements for the certification and establishment of 1) MNC regional headquarters, 2) MNC headquarter-type organizations, and 3) investment companies.

[Fig. 1] Changes in the requirements for the certification and establishment of MNC regional headquarters, MNC headquarter-type organizations, and investment companies.

No.	Area	Current Requirements	Previous Requirements
1	Regional headquarters of multinational corporations (certification)	A foreign-invested enterprise (FIE) with independent legal personality (investment companies, management companies, etc.)	A wholly foreign-owned enterprise (WFOE) with independent legal personality.
		The parent company has assets totaling USD 200 million or more.	The parent company has assets totaling USD 400 million or more , or in the case of the service industry, USD 300 million or more.
		Registered capital must be USD 2 million or above (mandatory)	
		-	(1) The cumulative total paid-in capital of the parent company in China is USD 10 million or more and the parent company has authorized the management of three

			or more enterprises within or outside of China, or (2) the parent company has authorized the management of six or more enterprises within or outside of China.
		The requirements for certification are as listed above, but decisions on whether or not to grant certification may be made on a case-by-case basis when there is an exceptional contribution being made to the development of the regional economy.	
2	Headquarter-type organizations of multinational corporations (certification)	A foreign-invested enterprise (FIE) with independent legal personality, or a branch organization of such an FIE.	A wholly foreign-owned enterprise (WFOE) with independent legal personality, or a branch organization of such a WFOE.
		The parent company has assets totaling USD 100 million or more.	The parent company has assets totaling USD 200 million or more and has already established and invested in two or more foreign-invested enterprises in China, with at least one registered in Shanghai.
		Registered capital of USD 1 million or more. If being established as a branch organization, then the parent company must allocate working capital of at least USD 1 million.	Registered capital of USD 2 million or more. If being established as a branch organization, then the parent company must allocate working capital of at least USD 2 million.
3	Establishment of investment companies	Foreign investors must have total assets of USD 200 million or more by the year preceding the application for establishment.	Foreign investors must have total assets of USD 400 million or more by the year preceding the application for establishment, and have established a foreign-invested enterprise in China, have cumulative paid-in capital of USD 10 million or more, or have established 10 or more foreign-invested enterprises in China with a total amount of paid-in capital of USD 30 million or more.

Notification No. 30 increases the freedom and convenience of MNCs’ use of funds, including 1) cross-border funds pooling, 2) handling of personal foreign exchange transactions for foreign national employees, 3) off-shore intermediary trade, 4) investing and lending, 5) gold transactions, and 6) operation of free trade accounts.

[Fig. 2] Increasing the Freedom and Convenience of Multinational Corporations’ Use of Funds

No.	Type of Operations	Details
1	Cross-border funds pooling	<ul style="list-style-type: none"> ➤ Centralizing, distributing, settling, hedging, investing, and loaning funds. ➤ Improved convenience of RMB-converted payments for foreign currency income in the capital account. ➤ Cross-border receipt and payment in RMB and all foreign currencies. ➤ Centralized management of member company foreign bonds and foreign loans. ➤ Removes the limit on the number of primary domestic capital accounts and

		<p>cooperative banks. There is no requirement to allocate the foreign bond and foreign loan limit amount to cooperative banks prior to notification.</p> <ul style="list-style-type: none"> ➤ Ability to act as a proxy for member companies in China and centralize the booking of current account income and expenditures, and to execute settlement operations by offsetting the differences.
2	Handling of personal foreign exchange transactions for foreign national employees	<ul style="list-style-type: none"> ➤ Improved convenience of converting the lawful RMB income of foreign national employees into foreign currencies and making payments, as well as converting foreign funds to RMB through foreign exchange transactions in the current account. ➤ Makes it easier for foreign national employees to invest in the domestic securities market. ➤ Supports the participation of foreign national employees in the equity incentive fund management of A-share domestic listed companies.
3	Off-shore intermediary trade	<ul style="list-style-type: none"> ➤ Develops an off-shore intermediary trade business that possesses a true trade background. ➤ Facilitates the provision of cross-border financial services by banks in line with international rules. ➤ Highly trusted MNC regional headquarters and headquarter-type organizations in good standing will be included in the recommended list, and enjoy offshore trade facilitation policy.
4	Investing and lending	<ul style="list-style-type: none"> ➤ Supports financial companies or fund management centers established in Shanghai to enter the interbank foreign currency market and participate in foreign exchange transactions, borrowing of foreign currencies, etc. ➤ Companies can raise funds by issuing stocks and bonds, issue and use commercial bills, and make securities investments.
5	Gold transactions	<ul style="list-style-type: none"> ➤ Supports entry into the Shanghai gold market and conducting gold transaction business.
6	Free trade accounts	<ul style="list-style-type: none"> ➤ Financial institutions will appropriately diversify the wealth management products in the free trade accounts. ➤ Banking institutions will execute cross-border loans through separate account entry units.

Aside from the above, Notification No. 30 also provides benefits for 1) group restructuring, 2) trade and logistics convenience, 3) research and development convenience, and 4) strengthening relevant safeguards for headquarter functions.

[Fig. 3] Policy supports for other areas

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No.	Area	Benefits
1	Group restructuring	<ul style="list-style-type: none"> ➤ Provides measures to facilitate the corporate restructuring of MNC regional headquarters and headquarter-type organizations.
2	Trade and logistics convenience	<ul style="list-style-type: none"> ➤ A system is being implemented city-wide on a trial basis that allows companies that operate chain stores to register multiple business addresses with one permit. ➤ Trusted cross-border regional headquarters and headquarter-type organizations in good standing will be certified as companies that can issue export certificates of origin. ➤ A pilot scheme for tariff guarantee insurance will be implemented. ➤ Supports companies in voluntarily carrying out cross-area outsourced processing or

		<p>secondary processing for processing trade.</p> <ul style="list-style-type: none"> ➤ Measures to explore the implementation of group guarantees and perfect the customs supervision management framework, such as companies having a single account book, shared measures for credit, etc. ➤ One-stop management for registration, customs clearance, tax reduction/exemption, and bonding, etc. operations by customs authorities for MNC regional headquarters, headquarter-type organizations, and foreign-invested research and development centers.
3	Research and development convenience	<ul style="list-style-type: none"> ➤ Measures to assess the risk associated with materials exported and imported for testing purposes, implement category-based management, and facilitate the improved convenience of exporting materials for testing purposes. ➤ Changes the number of personnel required for foreign-invested research and development centers to apply for inauguration and rent subsidies to 50. ➤ Strengthens protections for foreign trademarks and places famous foreign trademarks that are vulnerable to infringement on Shanghai's priority trademark protection list. ➤ Finalizes diverse conflict resolution mechanisms for intellectual property.
4	Strengthening relevant safeguards for headquarter functions	<ul style="list-style-type: none"> ➤ Allows housekeepers who are employed by high-level managers to apply for a private business-type residence permit (note: housekeeping services). ➤ Encourages world-famous medical groups to open medical institutions in Shanghai to provide multi-level and diversified medical services. ➤ Medical institutions will partner with international insurance organizations to facilitate medical insurance payments made by foreigners. ➤ Promotes the establishment and expansion of good schools for foreign children.

3. Impact on Companies

Notification No. 30 supports the development of MNC regional headquarters and headquarter-type organizations through measures addressing certification requirements, management of funds, corporate restructuring, trade and logistics, research and development, and guarantees related to headquarter functions, increasing the appeal of Shanghai to multinationals looking to establish a regional headquarters or a headquarter-type organization.

We will continue to follow up on related information and provide updates on an ongoing basis.

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