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PBOC Guangzhou issued new cross border RMB loan measures in Nansha and Hengqin of Guangdong province

On July 10 2015, the People's Bank of China ("PBOC") Guangzhou Branch issued "the Interim Administrative Measures for Pilot Cross-border RMB Loan Business in Guangdong Nansha and Hengqin New Area" (the "Measures") (Guangzhou yinfa [2015] No.180). According to the Measures, PBOC Guangzhou Branch will determine the scale of the aggregate amount of cross border RMB loans and manage the overall quota by balance, which means qualified companies can borrow the RMB fund without consuming their investment gap. We will be introducing the highlights of the Measures in the following report.

I Background

To deepen the reform and further liberalize China's capital accounts, on Apr 20 2015, China's State Council officially announced the framework plans regarding pilot free trade zone (hereinafter "FTZ") in Guangdong. According to the framework plan of Guangdong FTZ, under the macro prudential management mechanism, cross border RMB financing for FTZ registered companies shall be encouraged, drawing from the pilot experiences in Qianhai (which will be explained later in this report) and other areas. Also, banking financial institutions were allowed to conduct cross border RMB loans businesses with counterparties in Hong Kong and Macao. As a result, the Measures for Nansha and Hengqin, the other two core areas included in the Guangdong FTZ except Qianhai, were released to further promote the financial innovation in Guangdong FTZ.

II Highlights

1. Eligible participants

Pursuant to the Measures, eligible borrowers include companies which are incorporated in the Nansha or Hengqin areas and engage in actual operation or investment in such areas, as well as companies incorporated in Guangdong Province participating in the investment or construction of important projects in Nansha or Hengqin areas; Eligible lenders include banking financial institutions which are incorporated in Hong Kong or Macao and carry out RMB business; domestic settlement banks include banking financial institutions providing settlement service for cross border RMB loan business in Guangdong province.

2. Pilot scheme

Under the Measures, eligible companies can borrow cross border RMB loans from banking financial institutions in Hong Kong and Macao without consuming their investment gap. The loan shall be used for production and operation in Nansha or Hengqin, project construction in such areas, and overseas project construction. It shall not be used for investing in marketable securities or financial derivatives, purchasing wealth management products or properties not for borrower's own use, or used to make

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entrusted loans to companies which are not in the same affiliated group as the borrower.

Also, according to the Measures, the tenor and interest rate of such loan will be determined by the borrower and the lender in accordance with the commercial principle.

3. Processing and supervision

The Measures stated that PBOC Guangzhou branch will implement control on the outstanding balance of cross border RMB loans considering the development needs of Nansha and Hengqin, progress of Hong Kong and Macao offshore RMB business and the need of macro-economic control.

Prior to registration of the cross border RMB loan business, eligible borrower shall submit application materials for the record filing through a domestic settlement bank to PBOC Guangzhou branch. Application materials include an application letter for the record filing; letter of intent for the loan; a copy of business license; a copy of organization code certificate; financial statements; and other material required. The domestic settlement bank shall, by virtue of the record filing notice issued by PBOC Guangzhou Branch, handle the opening, funds remittance, and other formalities for the borrowers.

Eligible borrower is required to open a deposit account with the settlement bank for receiving the RMB funds and the repayment of principal and interests. The deposit interest rate of the account will be in accordance with current deposit interest rate published by PBOC.

III Comparison with New Rules in Qianhai

PBOC Shenzhen branch announced “the Interim Measures for Administration of Cross-Border RMB Loans Business in Qianhai” on Dec 27 2012. Then “the Implementing Rules of the Interim Measures for Administration of Cross-Border RMB Loans Business in Qianhai” (hereinafter “New rules in Qianhai”) was released on Jan 6 2013. According to the existing regime, only enterprise which has sufficient investment gap available may borrow RMB loans from an offshore entity. While according to the New rules in Qianhai, the principal amount of a cross border RMB loan to an eligible borrower in is not counted towards the borrower’s investment gap. The borrower is just required to complete filing of the loan with PBOC Shenzhen branch and obtain a Filing Table of Qianhai cross border RMB loans issued by PBOC Shenzhen branch before the borrower makes a credit application with the lender. New rules in Qianhai further spurred the demand for RMB loans and the flow of RMB between the Chinese mainland and Hong Kong.

Compared to New rules in Qianhai, notable changes in the Measures are illustrated as below:

	New Rules in Qianhai	Measures for Nansha and Hengqin
Eligible borrower	Qianhai-registered companies that are either doing business or making investment in Qianhai	Nansha or Hengqin-registered companies are either doing business or making investment in such areas, <u>also companies incorporated in Guangdong Province participating in the investment or construction of important projects in Nansha or Hengqin areas</u>
Eligible lender	Banks carrying out RMB business in Hong Kong	<u>Banking financial institutions carrying out RMB business in Hong Kong or Macao</u>

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Domestic settlement bank	Banking financial institutions in Shenzhen	Banking financial institutions in <u>Guangdong province</u>
Fund usage restriction	Loans shall not be used for investing in marketable securities or financial derivatives, purchase of financial products or real estate other than for purchaser's own use or making entrusted loans.	Loans shall not be used for investing in marketable securities or financial derivatives, purchasing wealth management products or properties not for borrower's own use, <u>or used to make entrusted loans to companies which are not in the same affiliated group as the borrower.</u>

IV Comment

The Measures provides a separate channel for entry of cross border loans aside from the existing foreign debt channels, and eligible companies could borrow cross border RMB loans at low cost without taking up foreign debt quotas. Together with previous released New rules in Qianhai, issuing of the Measures indicated that preferential policy of cross border RMB loan has been put in places in all three zones of the Guangdong FTZ. As the FTZs are positioned as testing ground for the national reform, it is expected useful experiences can be generated to promote RMB internationalization and allow capital accounts to be convertible nationwide.

Also, compared with New rules in Qianhai, it is noticeable that threshold has been lowered for eligible lenders from banks to banking financial institutions and for domestic settlement banks from limited to Shenzhen to the whole Guangdong province, which would create a larger scale cash flow; and the Measures implied the proceeds of cross border RMB loan can be used to make entrusted loan to related companies. It represents a huge breakthrough in enlarging the scope of fund usage.

The interpretation and actual implementation of the Measures should be worthy of attention. The up-to-date information will be provided continuously by our bank.

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