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PBOC lowered threshold for MNCs conducting two-way cross border RMB pooling scheme

On Sep 5 2015, the People's bank of China (hereinafter "PBOC") released "Notice on Further Facilitating Two-way Cross Border RMB Pooling Business for Multinational Companies (MNCs)" (Yinfa [2015] No.279) (hereinafter "No.279 circular") which took immediate effect. According to No.279 circular, the cap on the net inflow of cross border RMB funds was raised to 50% of the total shareholders' equity in the cash pool (the initial ceiling for inflow was 10% according to previous circular). Also, threshold for companies to participate in the cash pooling scheme was lowered. We will be introducing the highlights of No.279 circular in this report.

I Background

On Feb 20 2014, PBOC issued the circular 'Supporting the Expansion of the Use of Cross border RMB in China (Shanghai) Pilot Free Trade Zone ("PFTZ")' (Yinzongbufa [2014] No.22) (hereinafter as 'No.22 circular'¹), which allowed MNCs to conduct two-way cross border RMB pooling and cross border RMB centralized settlement within the PFTZ. Later last year, "Notice concerning Centralized Management of Cross border RMB Fund for MNCs" (Yinfa [2014] No.324) (herein after "No. 324 circular") was announced to expand the scheme piloted in the PFTZ nationwide.

The cash pooling allows MNCs to more conveniently allocate fund among group companies, enhances cash management efficiency and cuts financing costs. It received positive feedbacks from market since launched. According to statistics provided by PBOC, 278 cash pools were set up with the total owners' equity amounting to RMB 5.8 trillion. Among the recorded cash pools, 177 were processing cross border businesses with the net inflow reaching RMB 8.74 billion. However, as No.324 circular set high threshold for participating companies, the market saw a relatively slow growth of MNCs considering to conduct the business. To further encourage the cross border RMB business and accelerate the process of RMB internationalization, No.279 circular was released, making a milestone in the promotion of cross border RMB pooling business in China.

II Highlight

Compared with No.324 circular, there are notable changes stated in the No.279 circular as below:

- (1) Threshold for participating member companies got lowered.
 - Companies that operate for 1 year or more in China now can take part in the pooling scheme, down from the previous requirement of at least 3 years; Total business revenue of previous year for domestic participating companies shall reach RMB 1 billion, comparing to previous RMB 5 billion. For overseas participating companies, the total business revenue of previous year shall reach RMB 200 million, down from the previous requirement of RMB 1 billion.
- (2) Market access requirement of participating domestic companies relaxed.

¹ http://shanghai.pbc.gov.cn/publish/fzh_shanghai/1400/2014/20140221154326388632623/20140221154326388632623_.html

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- Domestic participating company shall be non-financial company and not included in the List of Special Supervision Enterprises which Settle Export Trade Items in RMB. Compared with previous provisions stated in the No.324 circular, companies that are under the local government financing platforms or in the real estate industry, are now not mentioned as prohibited in the cash pool.
- (3) Cooperation with settlement banks enhanced.
- Company can select up to 3 settlement banks within the same province in China to conduct the cross border RMB pooling business. If more than 2 (including 2) settlement banks were processing the same cash pooling business, host company shall clarify the new inflow cap of cross border RMB funds handled by each settlement bank respectively.
- (4) Upper limit of the RMB net inflow increased.
- According to Circular 279, the net inflows upper limit= (Owner's equity of each member company × shareholding ratio of MNCs) × policy parameter confirmed by PBOC (initial value as 0.5). The significant increase in the cap on net cross-border RMB inflow from previously policy parameter value as 0.1, gives MNCs more freedom in pooling overseas RMB funds.

For detailed comparison of No.324 circular and No.279 circular please refer to below table:

Item	No.279 circular (Current)	No.324 circular (Previous)
Host company	Companies nationwide	Companies nationwide (Independent legal entities including financial company)
Procedures	Filing-for-record with PBOC in advance is required (Settlement bank can be located in different regions within the same province from where host company is registered)	Filing-for-record with local PBOC in advance is required (Settlement bank must be located in the same region where host company is registered)
Settlement Bank	Allow to conduct the cash pooling scheme via up to 3 banks ; If the same cash pooling scheme is conducted via more than 2 (including 2) different banks, the cross border RMB fund net inflows cap of each bank shall be clarified in the contracts.	In principle, only one bank is allowed. If it is necessary to set up several cash pooling schemes via different banks, filing-for-record with the Head Office of PBOC is required.
Access conditions	<ul style="list-style-type: none"> ■ Member company shall be operating for more than 1 year ■ Total business revenue of previous year for domestic member companies shall reach RMB 1 billion ■ Total business revenue of previous year for overseas member companies shall reach RMB 200 million 	<ul style="list-style-type: none"> ■ Member company shall be operating for more than 3 years ■ Total business revenue of previous year for domestic member companies shall reach RMB 5 billion ■ Total business revenue of previous year for overseas member companies shall reach RMB 1 billion ■ Domestic member company shall be

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	<ul style="list-style-type: none"> ■ Domestic member company shall be non-financial company and not included in the List of Special Supervision Enterprises which Settle Export Trade Items in RMB 	not under the local government financing platforms or in the real estate industry, and not included in the List of Special Supervision Enterprises which Settle Export Trade Items in RMB
Fund flow cap	<ul style="list-style-type: none"> ■ Net inflows quota =(Owner's equity of each member company × shareholding ratio of MNCs) × policy parameter confirmed by PBOC (initial value as 0.5) ■ Net outflows quota: No restriction 	<ul style="list-style-type: none"> ■ Net inflows quota²=(Owner's equity of each member company × shareholding ratio of multinational company group) × policy parameter confirmed by PBOC (initial value as 0.1) ■ Net outflows quota: No restriction
Fund source	No detailed requirement	<ul style="list-style-type: none"> ■ Limited to cash flow generated from business operation and investment (require written commitment when filing-for-record)
Usage of Special account	Same as restrictions stated in the No.324 circular (as right column) *Daylight and overnight overdraft services are allowed	Fund shall not be used in securities investment, financial derivatives as well as non-self used real estate, neither in purchasing wealth management products nor entrusted loan for non-member company
Centralized settlement and Netting settlement	Not mentioned *Still comply with provisions stated in the No.324 circular	Centralized settlement and netting settlement under current account are allowed
Complying with other regulations	Cross border RMB pooling schemes can be set up respectively pursuant to the No.324 circular or other existing regulations within free trade zones, while member company of the same group company shall only be included in one cash pooling scheme	<ul style="list-style-type: none"> ■ Company registered in PFTZ can choose either to comply with No.22 circular or No.324 circular when filing-for-record with PBOC (Irrevocable afterwards)

III Comment

Development in the RMB cash pooling scheme offers MNCs strong prospects to bring RMB into an efficient cash management structure, since we are seeing a significant rise in offshore RMB deposits. Even amid the volatility of Chinese market recently, the RMB internationalization process will doubtlessly continue. The releasing of No.279 circular gave MNCs more freedom in allocating their funds and as more MNCs can now participate in the pool, it will further promote the RMB internationalization process.

To better grasp the opportunities along the process, we attended a seminar on interpretation of the No.279 circular by officials from the State Administration of Foreign Exchange and PBOC in Oct 2015. According to the officials, to avoid the confusion when different regional authorities handling the cross border RMB pooling business pursuant to local interpretations, new national version guidelines on the RMB cross border cash pooling business will be released very soon, and central government is

² For member companies located in pilot areas including Qianhai, Kunshan, Suzhou industrial zone and Tianjin Eco-city, upper limit of net inflows quota shall be deducted based on their RMB borrowings from overseas.

demonstrating great confidence in opening up the capital market with more liberalization movements on the way. However, as the cross border lending and pooling schemes are undergoing significant reform, outbound investment for domestic companies will be still carefully monitored and supervised by authorities. Focus of the reform on outbound investment will be to streamline management and simplify administrative procedures.

The interpretation and actual implementation of the No.279 circular should be worthy of attention. The up-to-date information will be provided continuously by our bank.

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