

# Integrating Cross-border Financing Management Measures in the Four FTZs

2 FEB 2016

DYLAN CHEN

BUSINESS DEVELOPMENT OFFICE  
HONG KONG BRANCH

T +852-2821-3782

E DYLAN\_Y\_CHEN@HK.MUFG.JP

**The Bank of Tokyo-Mitsubishi UFJ, Ltd.**  
A member of MUFG, a global financial group

The People's Bank of China (hereinafter "PBOC") has promulgated "Circular on the Expansion of Pilot Areas Implementing Macro-prudential Management of Comprehensive Cross-border Financing" (hereinafter the "New Circular")<sup>1</sup>. The New Circular specifies that non-financial enterprises and 27 designated financial institutions registered in Shanghai, Guangdong, Fujian or Tianjin Pilot Free Trade Zone (hereinafter the "FTZ") are allowed to raise funds from overseas within the foreign debt quota calculated by a new formula with effect from 25 January 2016. Besides, all the existing special foreign debt policies in the FTZs and other regions shall be superseded by the New Circular after 1 year from the effective date.

## BACKGROUND

Shanghai FTZ as the first pilot area, has started macro-prudential management of cross-border financing in RMB and/or foreign currency (hereinafter "FCY") based on the No. 8 Circular<sup>2</sup> since February 2015. Other than the Shanghai FTZ, similar favourable foreign debt policies have been also implemented in Shenzhen Area<sup>3</sup> of Guangdong FTZ, Pingtan Area of Fujian FTZ, etc. According to PBOC, the macro-prudential management policy has been running smoothly and the pilot experience is ready to be copied and promoted to all the other areas of the FTZs.

## HIGHLIGHTS

### Increased Covered Entities

Non-financial enterprises (hereinafter the "pilot enterprises", excluding real estate enterprise and finance platform of the local government) and 27 designated financial institutions (hereinafter the "pilot financial institutions") registered in the four FTZs are covered under the New Circular.

### Lessened Foreign Debt Quota

Pilot enterprises and pilot financial institutions are allowed to borrow RMB and/or FCY-denominated offshore funds within the foreign debt quota. Nevertheless, the foreign debt quota has been lessened comparing to the existing policies. Specifically, foreign debt quota in the Shanghai FTZ for pilot enterprises has decreased from twice the enterprises' capital (paid-in capital + capital reserves) to their net asset value, while for banks, the quota dropped significantly from 5 times of their core capital to only 0.8 times.

<sup>1</sup> PBOC (22 Jan 2016). Retrieved from:  
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3009303/index.html>

<sup>2</sup> Implementing rules on macro-prudential management of cross-border financing in the Shanghai FTZ promulgated by the PBOC in Feb 2015 (Yinzongbufa [2015] No.8, widely known as the "No.8 Circular"), details could be referred to New Focus No.5 2015 published by BTMU, Hong Kong Branch.

<sup>3</sup> Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone.

Formula for calculating the borrowing amount and the foreign debt quota:

Borrowing Amount	$\Sigma$ Balance of foreign debts $\times$ Risk factor by tenor $\times$ Risk factor by category of financing + $\Sigma$ Balance of FCY-denominated foreign debts $\times$ Risk factor by foreign exchange			
		<b>Risk Factor</b>	<b>Category</b>	<b>Number</b>
	By tenor		Short-term loan ( $\leq 1$ year)	1.5
			Medium to long-term loan ( $>1$ year)	1
	By category of financing		On-balance financing	1
		Off-balance financing	0.2 or 0.5	
By foreign exchange			0.5	
Foreign Debt Quota	For pilot enterprises: Net assets $\times 1 \times$ Macro-prudential coefficient <sup>4</sup> For pilot financial institutions: Core capital $\times 0.8 \times$ Macro-prudential coefficient			

#### Simplified Procedure<sup>5</sup>

The borrowing entities are allowed to sign the borrowing agreement with the offshore counterparty without obtaining prior regulatory approval from the PBOC or the State Administration of Foreign Exchange (hereinafter "SAFE"). General account is also applicable in addition to the free trade account (hereinafter "FTA"), which is different from the No. 8 Circular.

#### Selectable Implementing Models

Eligible foreign-invested enterprises and foreign-invested banks are allowed to use either the existing general model or the New Circular. However, once the implementation model is determined, reselection is not available in principle.

#### Integration and Unification of the Foreign Debt Policies

Other regional pilot areas implementing RMB and/or FCY-denominated cross-border financing shall all be governed by the New Circular after 1 year from the effective date of the New Circular.

## COMMENTS

While the applicable regional foreign debt quota for the enterprises or financial institutions may be reduced compared to the current policies, the New Circular has not only set the uniform rules, but also integrated the management measures of the RMB and FCY-denominated foreign debts, which makes the current various policies nationwide unified, open, transparent and market-oriented. In addition, under the background that the total balance of foreign debts in the Mainland China as at the end of the third quarter of 2015 dropped approximately 5% to RMB9,732 billion<sup>6</sup> comparing to that of the second quarter, increase initiatives of offshore funding and improved utilization efficiency of foreign capital can be expected as the New Circular offers broader funding channels for the pilot enterprises and pilot financial institutions in the four FTZs.

It is said that PBOC will keep improving and optimizing the macro-prudential management framework of comprehensive cross-border financing according to the effectiveness of the New Circular, and further promote it to the whole country in the next stage.

<sup>4</sup> Macro-prudential coefficient is determined by the PBOC based on the macro-economic environment. Current coefficient is set as 1.

<sup>5</sup> Implementation guidance will be issued by the SAFE later on.

<sup>6</sup> Disclosed by the SAFE on 30 Dec 2015.

## APPENDIX: Comparison between the No.8 Circular and the New Circular

No.8 Circular		New Circular
Area	Shanghai FTZ	Shanghai, <b>Guangdong, Tianjin, Fujian</b> FTZs
Object	1) Enterprise registered in the FTZ 2) Financial institution registered in the FTZ	1) Non-financial enterprise registered in the FTZ (excluding real estate enterprise and finance platform of the local government) 2) 27 designated financial institutions registered in the FTZs
Currency	FCY and RMB	FCY and RMB
Account	FTA	FTA or <b>general account</b>
Usage	For the use of operating activities or project constructions in the FTZ or offshore	For the use of operating activities or project constructions, conversion of funds is allowed based on actual needs of the enterprise
Balance Management	Managed by balance (Recoverable after repayment)  Formula: $\Sigma \text{Balance of foreign debts} \times \text{Risk factor by tenor} \times \text{Risk factor by category of financing} \times \text{Risk factor by currency}$  * Risk factor: ➢ By tenor: 1.5 for short-term loan ( $\leq 1$ year); 1 for medium to long-term loan ( $>1$ year) ➢ By category of financing: 1 for on-balance financing; 0.2 or 0.5 for off-balance financing ➢ By currency: 1.5 for FCY; 1 for RMB	Managed by balance (Recoverable after repayment)  Formula: $\Sigma \text{Balance of foreign debts} \times \text{Risk factor by tenor} \times \text{Risk factor by category of financing} + \Sigma \text{Balance of FCY-denominated foreign debts} \times \text{Risk factor by foreign exchange}$  * Risk factor: ➢ By tenor: 1.5 for short-term loan ( $\leq 1$ year); 1 for medium to long-term loan ( $>1$ year) ➢ By category of financing: 1 for on-balance financing; 0.2 or 0.5 for off-balance financing ➢ <b>By foreign exchange: 0.5</b>
Foreign Debt Quota	<u>For enterprise:</u> $(\text{Paid-in capital} + \text{Capital reserve}) \times 2 \times \text{Macro-prudential coefficient}$  <u>For bank:</u> $\text{Core capital} \times 5 \times \text{Macro-prudential coefficient}$  <u>For non-bank financial institution:</u> $(\text{Paid-in capital} + \text{Capital reserve}) \times 2 \text{ (or 3)} \times \text{Macro-prudential coefficient}$  * Macro-prudential coefficient: currently as 1	<u>For enterprise:</u> $\text{Net assets} \times 1 \times \text{Macro-prudential coefficient}$  <u>For bank:</u> $\text{Core capital} \times 0.8 \times \text{Macro-prudential coefficient}$  * Macro-prudential coefficient: currently as 1

### 【Disclaimer】

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for any services, transactions, securities or other financial instruments. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. Note that BTMU may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and / or analytical methods of the analysts who prepared them, and BTMU is under no obligation to ensure that such other reports are brought to your attention.

Copyright 2016. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Hong Kong Branch. All rights reserved.