

Circular Released to Promote Cross-Border RMB deals in Guangdong PFTZ

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On April 13, PBOC Guangzhou Branch issued “**Circular to Support China (Guangdong) Pilot Free Trade Zone (“PFTZ”) to expand the use of cross-border RMB**” (Guangzhouyinf [2016] No.13) (herein after “No. 13 circular”)¹, which took immediate effect. It is rather remarkable that No.13 circular contains five items on expanding the usage of cross-border RMB, elaborating on “the guideline of financial support to Guangdong PFTZ” (Yinf [2015] No.374)² (“No. 374 circular”)

Background

At the end of 2015, PBOC issued No.374 circular to specify duties of Guangdong PFTZ, which was established in April 2015, to accelerate current measures to deepen overall financial reforms and strengthen cooperation between the mainland and Hong Kong / Macau. Key measures include RMB convertibility for capital accounts, RMB cross-border usage and foreign exchange management. In order to further promote cross-border RMB deals and accelerate RMB internalization in Guangdong PFTZ, No.13 circular was released in a package of detailed rules.

Highlight

I. Threshold for MNCs to launch two-way RMB cross-border pooling business lowered

For MNCs who incorporate in PFTZ with actual operation, No.13 circular lowers access conditions when establishing two-way RMB cross-border pooling business. It also increases the quota for the net inflows from the National version set in No.279 circular³, which offers MNCs more accessibility in terms of carrying out cross-border pooling business.

¹ PBOC Guangzhou Branch (13 Apr 2016). Retrieved from:
http://www.china-gdftz.gov.cn/zcfg/201604/t20160421_2342.html#zhuyao

² PBOC Guangzhou Branch (11 Dec 2015). Retrieved from:
<http://www.pbc.gov.cn/zhengwugongkai/127924/128038/128109/2992360/2015122118384478781.pdf>

³ PBOC (11 Sep 2015). Retrieved from:
<http://www.pbc.gov.cn/zhengwugongkai/127924/128038/128109/2955281/2015092314201657344.pdf>

For detailed comparison between No. 13 and No. 279 circulars, please refer to the table below:

Item	No.279 circular (National Version)	No.13 circular (Guangdong PFTZ Version)
Access Conditions	<ul style="list-style-type: none"> Total business revenue of domestic member companies for previous year reach RMB 1 billion Total business revenue of overseas member companies for previous year reach RMB 200 million 	<ul style="list-style-type: none"> Total business revenue of domestic member companies for previous year reach RMB 500 million Total business revenue of overseas member companies for previous year reach RMB 100 million
Fund Flow Cap	<ul style="list-style-type: none"> Net inflows quota = Owner's equity of each member company × shareholding ratio of MNCs × macro-prudential policy parameter (initial value as 0.5) Net outflows quota: No restriction 	<ul style="list-style-type: none"> Net inflows quota = Owner's equity of each member company × shareholding ratio of MNCs × macro-prudential policy parameter (initial value as 1) Net outflows quota = Owner's equity of each member company × shareholding ratio of MNCs × macro-prudential policy parameter (initial value as 1)

II. Funds raised from overseas bond issuance are allowed to remit to PFTZ

No.13 circular expands in-zone companies' financing channels; it allows in-zone financial institutions and companies to issue RMB bonds overseas and use funds outside China. However it is also noted that funds remitted to China needs to follow the inflow quota which equals the amount raised from the bond issuance multiplied by the macro-prudential policy parameter (initial value set as 1). Before No.13 circular, the flow-back ratio was 50% in practice according to the case happened in Qianhai, Shenzhen.

III. Funds raised from bond issuance inside China by overseas parent companies for lending to subsidiaries in PFTZ are not subject to foreign debt management

No. 13 circular allows overseas parent companies to issue bonds inside China for lending to its wholly-owned subsidiaries and group member companies in PFTZ without being subject to foreign debt management. Before No. 13 circular, funds raised and used in the same way were subject to foreign debt management.

IV. Cross-border RMB settlements for individuals are fully opened

Individuals who work or live in the PFTZ can open RMB current account and individual business account to carry out RMB cross-border settlements, which means channels for individuals to invest offshore are increased.

V. Intra-PFTZ banks are encouraged to offer RMB loans towards overseas institutions and projects

No.13 circular serves to facilitate the ODI of domestic companies, providing intra-PFTZ banks with more business opportunities in the course of RMB internationalization.

Comments

On the occasion of one-year anniversary, the first set of detailed rules was released as a milestone to formalize Guangdong PFTZ as pilot experimental zone in terms of RMB cross-border business. The launch of No.13 circular not only reduces MNCs' operating costs by lessening access conditions of cross-border RMB pooling, but also offers MNCs with more availability in financing and investment.

Similar measures have also been implemented in Fujian and Tianjin PFTZs together, which manifests the firm determination of Chinese government to pursue RMB internationalization.

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