

Favourable Policies to Boost Financial Leasing Industry in China

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Financial leasing has shown strong growth momentum. Recently, several new policies or circulars have been released to further boost the financial leasing industry in China. It is expected that these policies can further unlock the huge market for the financial leasing companies (hereinafter "FLCs", unless otherwise specified).

BACKGROUND

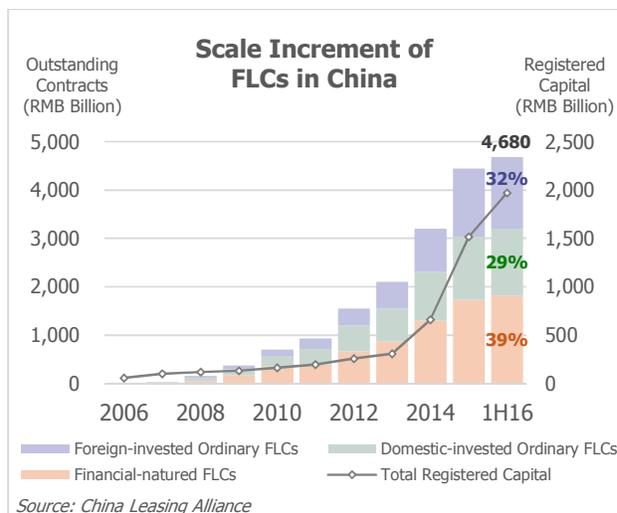
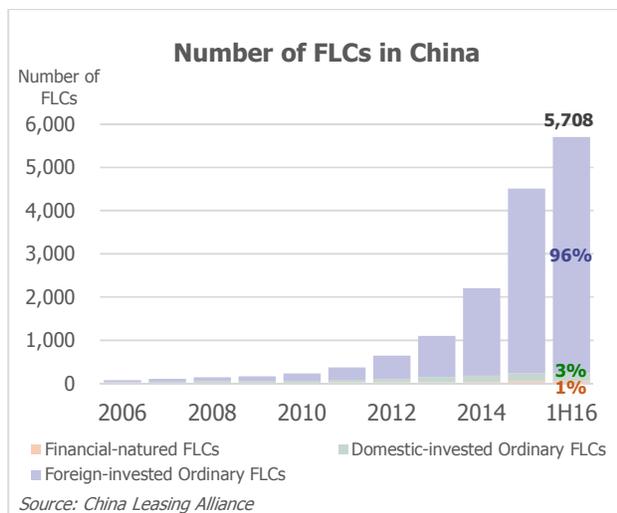
By broadening funding channels, financial leasing has been playing a more and more important role in China as an emerging financing tool, contributing in industrial innovation and upgrading as well as economic restructuring. Boosted by the "Belt and Road" initiative, "Made in China 2025" and "Internet Plus" plans, financial leasing industry has been developing remarkably with support of favourable policies. Currently, China is the world's second largest leasing country.

Generally speaking, FLCs in China can be categorized into the following two types:

Category	Description
FLCs set up as Ordinary Corporations (hereinafter the "Ordinary FLCs")	<ul style="list-style-type: none">Foreign-invested FLCs established with the approval from Ministry of Commerce of the People's Republic of China (hereinafter "MOFCOM")Domestic-invested FLCs established with the approval from MOFCOM and the State Administration of TaxationFLCs established with the approval from provincial Competent Departments of Commerce authorized by the MOFCOM or the national Economic and Technological Development Zones
FLCs set up as Non-banking Financial Institutions (hereinafter the "Financial-natured FLCs")	<ul style="list-style-type: none">FLCs established with the approval from the China Banking Regulatory Commission

Significant growth has been recorded over the last decade, especially since 2014. According to the latest research disclosed by China Leasing Alliance, as at the end of June 2016, the number of FLCs (excluding sub-entities of FLCs) reached 5,708 with a growth of 27% while the outstanding balance of leasing contracts reached RMB4,680 billion with a growth of 5% comparing to the numbers as at the end of December 2015. Most of the FLCs in China are foreign-invested Ordinary FLCs, accounting for 96% of the total number. However, in terms of outstanding balance

of leasing contracts, financial-natured FLCs own the largest proportion of 39%, although the number of such FLCs accounts for only less than 1%.



While the industry development is satisfactory, its overall market coverage is not broad and there is still room for improvement in competitiveness comparing to the developed countries. Under such circumstance, based on the guidance given by the State Council last year¹, several cities and provinces have introduced a series of favourable policies to promote the development of regional leasing industry, with the aim to better serve the real economy.

HIGHLIGHTS

In the following section, the latest national and regional promotion measures in Shanghai and Guangdong, where financial leasing is the most developed, will be introduced.

Nationwide

Ministry of Finance of the People's Republic of China and other national authorities jointly issued a "Notice on Issues Relating to the Export Tax Rebate Policy for Financial Leasing Goods (Caishui [2016] No.87)"² in early August to further expand the applicable entities of export tax rebate for financial leasing goods. Comparing to the previous interpretation³, other than the Ordinary FLCs and Financial-natured FLCs, sub-entities set up by the Ordinary FLCs are also covered and are able to enjoy the tax rebate policy.

Shanghai

On 15 August 2016, Shanghai Municipal People's Government issued the "Implementation Opinions on Accelerating Development of Financial Leasing Industry in Shanghai (Hufubanfa [2016] No.32)"⁴, aiming to boost its financial leasing to more than 30% of the whole country in 2020.

¹ Details could be referred to New Focus No.18 2015 published by BTMU, Hong Kong Branch.

http://rmb.bk.mufg.jp/files/topics/248_ext_02_en_0.pdf

² Ministry of Finance of the People's Republic of China (2 Aug 2016). Retrieved from:

http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201608/t20160819_2393738.html

³ Ministry of Finance of the People's Republic of China, et al. (1 Sep 2014). Notice on Implementing the Pilot Export Tax Rebate Policy for Financial Leasing Goods Nationwide (Caishui [2014] No.62). Retrieved from:

http://www.mof.gov.cn/zhengwuxinxi/caizhengwengao/wg2014/wg2014010/201504/t20150401_1211566.html

⁴ Shanghai Municipal People's Government (15 Aug 2016). Retrieved from:

<http://www.shanghai.gov.cn/nw2/nw2314/nw2319/nw12344/u26aw48779.html>

Establishment of Sub-entities

Qualified FLCs are allowed to set up specialized subsidiaries or special purpose vehicles (hereinafter "SPVs") to carry out aircraft, ship or heavy equipment leasing businesses. For establishment of subsidiaries of the FLCs (excluding the financial-natured FLCs), there is no restriction on minimum registered capital.

Cross-border Settlement and Financing

FLCs are encouraged to conduct cross-border RMB settlement, or to borrow RMB/FCY-denominated offshore funds by implementing the macro-prudential cross-border financing model⁵. Besides, restrictions on foreign debt financing for the pilot domestic-invested FLCs have been relaxed. Foreign debts raised by such companies are allowed to be saved in the domestic special accounts and discretionary conversion is also permitted.

Cross-border Pooling

RMB/FCY-denominated cross-border pooling scheme is applicable. Among which, FCY-denominated funds can be transferred between the parent FLC and the domestic SPVs, subject to the approval from Shanghai branch of the State Administration of Foreign Exchange.

Commercial Factoring

FLCs (excluding the financial-natured FLCs) located in the commercial factoring pilot region, are allowed to conduct commercial factoring in relation to financial leasing businesses.

Nansha New Zone, Guangzhou

Other than the existing policies stated in the Work Plan⁶ and Implementation Opinions⁷, Guangzhou Nansha Municipal Bureau of Finance promulgated a "Circular on Soliciting Opinions for the Interim Measures to Accelerate Development of Financial Leasing Industry in Guangzhou Nansha (2016 Revised Version)"⁸ on 29 August 2016.

Fiscal Incentives

FLCs established in Nansha New Zone with registered paid-in capital over RMB200 million (or in equivalent other currencies), are deemed to be headquarters and therefore eligible for several favourable policies for headquarters, such as fiscal incentives for establishment, compensations based on contributions to the local economy, etc.

Financial leasing companies not identified as headquarters are encouraged to be located in the financial leasing cluster in Nansha New Zone. Fiscal incentives are available to FLCs that run equipment, aircraft, ship, real estate and car leasing in the region.

Subsidies for office occupancy and talents will be provided. Besides, a lump-sum of no greater than RMB3.5 million will be awarded to FLCs that newly go public on the domestic or foreign stock market.

Cross-border Financing

FLCs are encouraged to conduct cross-border financing and will be rewarded with 50% of the withholding tax that contributed to the Nansha New Zone.

⁵ Details could be referred to New Focus No.6 2016 published by BTMU, Hong Kong Branch.
http://rmb.bk.mufg.jp/files/topics/337_ext_02_en_0.pdf

⁶ General Office, the People's Government of Guangzhou Municipality (7 Apr 2016). Work Plan to Further Promote Development of the Financial Leasing Industry (Suifubanhuan [2016] No.43). Retrieved from:
<http://www.gz.gov.cn/gzgov/s2812/201604/565e3d382c6748ae93f06dc771f92338.shtml>

⁷ General Office, the People's Government of Guangdong Province (12 Jun 2016). Implementation Opinions on Accelerating Development of Financial Leasing Industry (Yuefuban [2016] No.52). Retrieved from:
http://zwgk.gd.gov.cn/006939748/201606/t20160617_659336.html

⁸ Guangzhou Nansha Municipal People's Government (29 Aug 2016). Retrieved from:
http://www.gzns.gov.cn/zmhd/myzj1/201608/t20160829_321388.htm

COMMENTS

The Chinese government has been dedicating to create a supportive environment for the financial leasing industry. Favourable policies for the FLCs have enabled efficient allocation of resources and substantial improvement on fund raising. Besides, launch of the 7 new Free Trade Zones (hereinafter "FTZs")⁹, where financial reform is a vital task, is expected to further boost the financial leasing industry.

Experts state that China will surpass the United States to be the largest leasing country in the world in 2016 despite the economic slowdown. It is also predicted that during the whole 13th Five Year Plan Period (2016 - 2020), China's financial leasing industry will continue to maintain an annual growth rate of around 30%, with its outstanding balance of leasing contracts reaching RMB12 trillion in 2020.

In face of the rapid growth of the financial leasing industry along with the deepening economic restructuring and expanding financial needs, FLCs are advised to effectively and efficiently use the local favourable policies to embrace the business opportunities.

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⁹ Other than the existing 4 FTZs in Shanghai, Tianjin, Guangdong and Fujian Provinces, additional 7 FTZs to be located in Liaoning Province, Zhejiang Province, Henan Province, Hubei Province, Chongqing City, Sichuan Province and Shanxi Province, have been approved and will be launched very soon.