

Shanghai FTZ to Further Promote the Free Trade Accounts

14 DEC 2016

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On 18 November 2016, the People's Bank of China (Hereinafter PBOC) Shanghai promulgated the "Notice to further expand function of cross-border financial services to support technology innovation and real economy in the Free Trade Zone (FTZ)" (Yinzongbufa [2016] No.122, hereinafter the "No.122")¹. No.122 is a significant detailed rule of implementation after the release of "40 financial reform measures (hereinafter "40 measures")" by Shanghai FTZ. It is considered to be another vital reform achievement in financial area to support development of Shanghai's technology innovation and real economy.

BACKGROUND

On 29 October 2015, the "Notice to further promote Shanghai FTZ financial innovation pilot and accelerate Shanghai international financial centre development scheme" (Yinfa [2015] No.339, refers to 40 measures)² was released jointly by Shanghai municipal government and 6 central government departments, emphasizing to promote FTZ pilot's development so as to accelerate the financial reform process.

Basically, there are four major measures listed in No.339. First of all, to be the first to achieve free exchange under capital account. Secondly, to further expand the use of cross-border RMB. The third one is to further open up the financial service industry towards international market and domestic market. Last but not least, to accelerate the development of financial market connected with international standards. Under the framework of 40 measures, No.122 allows a large number of financial services via Free Trade Accounts (Hereinafter FTAs, for details refer to Table 1), which is expected to enhance convenience for financing and investment.

[Table 1: The progress of FTAs]

May 2014	"China(Shanghai) FTZ FTAs practice notes(Trial Version)"(Yinzongbufa [2014] No.46) <ul style="list-style-type: none">▪ Confirmation of definition, type of account and usage rules of FTAs▪ To enable current account settlement, direct investment, securities, forward and derivatives investment via FTAs▪ To verify the funds transferring rules under the same name account; separated management system of funds balance and foreign debt
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¹ PBOC Shanghai (21 Nov 2016). "Notice to further expand functions of cross-border financial services to support technology innovation and real economy in the Free Trade Zone (FTZ)" (Yinzongbufa [2016] No.122). Retrieved from: http://sjr.sh.gov.cn/Attachments/file/20161123/20161123112814_0837.pdf

² Shanghai government, jointly with 6 departments (29 October 2016). "Notice to further promote Shanghai FTZ financial innovation pilot and accelerate Shanghai international financial centre development scheme" (Yinfa [2015] No.339). Retrieved from: http://www.gov.cn/gongbao/2016-02/29/content_5046119.htm

February 2015	Notice about "Practice notes of FTAs overseas financing and cross-border funds liquidity under macro-prudential management in China(Shanghai) FTZ" (Yinzongbufa [2015] No.8) <ul style="list-style-type: none"> To start overseas financing(foreign debt) business via FTAs Overseas financing quota = (Capital + Capital Reserves) * 2
April 2015	"Notice about PBOC Shanghai to activate functions of foreign currency service of FTAs" (Yinzongbufa [2015] No.26) <ul style="list-style-type: none"> To start foreign currency service of FTAs under current account(daily settlement) and capital account(foreign direct investment) from 22 April 2015
October 2015	"Notice to further promote Shanghai FTZ financial innovation pilot and accelerate Shanghai's international financial centre development scheme" (Yinfa [2015] No.339, 40 measures) <ul style="list-style-type: none"> To promote free exchange under capital account and expand cross-border RMB usage
November 2016	"Notice to further expand function of cross-border financial services to support technology innovation and real economy in the Free Trade Zone (FTZ)"(Yinzongbufa [2016] No.122) <ul style="list-style-type: none"> Significant detailed rules of implementation about FTAs in 40 measures

HIGHLIGHTS

The following measures are promoted by No.122.

- Provision of related services for foreign talents who are introduced into China to serve the development of Shanghai Technology Innovation Centre.

According to Notice No.46, the account holders of FTAs include institutions and individuals.

[Table 2: Account holders to open FTAs]

Type	Account holder	Definition
FTE (FTAs for Enterprises)	Institutions in FTZ	<ul style="list-style-type: none"> Companies established in FTZ (Including corporate and non-corporate) Branches of overseas institutions in FTZ(Including cross-border e-commerce companies, equity investment project companies and equity funds registered in FTZ)
	Host or member companies in FTZ of cross-border RMB pooling	<ul style="list-style-type: none"> MNCs are encouraged to establish onshore multifunctional cross-border RMB pooling to manage RMB funds centralization
	Overseas Chinese companies or joint ventures involved in "One Belt, One Road" or "Going out" strategy	<ul style="list-style-type: none"> Overseas Chinese companies or joint ventures involved in "One Belt, One Road" and "Going out" strategy are encouraged to open FTAs
FTI (FTAs for Individuals)	Individuals in FTZ	<ul style="list-style-type: none"> Chinese residents working in FTZ whose personal income tax to be with-held and paid by employer institutions for more than one year
FTF (FTAs for Foreigners)	Technology innovation companies in Shanghai	<ul style="list-style-type: none"> Companies on the list of Shanghai technology innovation no matter whether they are registered in FTZ
	Foreign individuals in FTZ	<ul style="list-style-type: none"> Overseas natural persons with foreigner ID, one-year above working experience in FTZ and foreign work permits in China (Including Hong Kong, Macau and Taiwan residents)
	Foreign high-level talents	<ul style="list-style-type: none"> Foreign high-level talents satisfying identification criteria³ Residents with nationality of P.R China holding foreign permanent residence permit who are working in institutions on the list of Shanghai technology innovation Individuals who work in international organizations that are registered in China and are under management as international employees Other qualified foreign individuals who work in institutions on the list of Shanghai technology innovation

³ State Administration of Foreign Experts Affairs (27 September 2016). "Notice about new pilot scheme on foreigner work permit" (Waizhuanfa [2016] No.151).

Retrieved from:<http://www.ynhrss.gov.cn/Uploads/NewsPhoto/2016-11-17/3c079a35-bf6b-4d68-a05c-2f92982f154f.pdf>

- Banks to provide cross-border settlement services for cross-border e-commerce.
- MNCs to utilize centralized fund management services such as multifunctional cross-border bilateral RMB pooling. No.122 allows MNCs to set up multifunctional cross-border RMB pooling via FTAs.

<Conditions>

1. MNCs who carry out multifunctional pooling business should include at least three or more overseas and domestic member companies with manufacturing and operating functions (except for companies who are on the export monitoring list or categorized as grade B or C under foreign exchange system of trade in goods). Meanwhile, the member companies are required to submit annual financial statements based on actual results. What's more, member companies in the pooling business should not overlap with other cross-border pooling schemes.
 2. Multifunctional pooling enables the host company in FTZ and overseas member companies, or overseas host company and member companies in FTZ, to centralize cash management between each other in a selected currency. However, the overseas host company or the host company in FTZ should exercise RMB funds management with member companies outside the FTZ within mainland China. Besides, RMB funds concentration across the second tier boundary (between Shanghai FTZ and other areas within mainland China) should follow bilateral upper limit management under macro-prudential management model.
 3. Conducting negative list management, PBOC Shanghai allows multifunctional pooling account to serve MNCs' needs for financing, asset management, and centralized settlement with group companies or supply chain. However, non-personal use real estate or stock market investment should be strictly prohibited.
- Financial institutions to carry out international trade financing and refinancing business via FTAs.
 - Companies to run cross-border equity investment business.
 - Financial institutions to provide all kinds of cross-border financial services for companies involved in "One Belt, one road" and "Going out" strategy. FTAs are open to relevant Chinese companies and joint venture companies.

COMMENTS

Among the 10 measures of No.122, 7 of which are efforts to expand the functions of FTAs, while the rest are related to risk control management. With the implementation of No.122, foreign high-level talents who satisfied conditions are able to remit funds overseas via FTAs with more simplified procedures for family maintenance, children education, medical care, investment and so on. Furthermore, the implementation of No.122 is beneficial for MNCs to centralize RMB funds management from the globe into China and enhance Shanghai's development as an international financial centre.

Relevant favourable policies are expected to be widely expanded to more fields in near future.

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