

People's Bank of China

The Notice on Further Improving Policies for Cross-border RMB Business to Facilitate Trade and Investments

China Business Solution Office
RMB Internationalization Business Promotion Office

On January 5, 2018, the People's Bank of China (PBOC) released the Notice on Further Improving Policies for Cross-border RMB Business to Facilitate Trade and Investments (Yin Fa [2018] No.3, hereinafter "Notice"), aiming to steadily implement the circular on Measures to Promote Foreign Trade Growth (Guo Fa [2017] No. 39) released by the State Council and optimize RMB cross-border settlement policies. The Notice became effective from the day of promulgation.

1. Background of the Policy

Since establishing a pilot program for RMB cross-border settlement in 2009, related policies have been gradually set up. Greater convenience of RMB cross-border settlement helps enterprises with expanding their cross-border trade and investment, foreign exchange risk hedging and financial cost reduction. In response to the significant relaxation of policies on foreign currency capital items in recent years, expectations for the relaxation of RMB capital item related policies have grown. Given the above, the Notice adheres to the guidance of RMB cross-border business "Serving the real economy, facilitating trade and investment", and further perfects and optimizes RMB cross-border business policies to meet reasonable market demands.

2. Details of the Policy

The Notice includes the following five main points.

【Figure 1】 Summary of the Notice

1	Support enterprises to use RMB for cross-border settlement
2	Provide RMB cross-border settlement service for other individual customer recurring items
3	Encourage RMB cross-border settlement for carbon emissions trading
4	Improve the convenience of RMB direct investment by foreign investors
5	Improve the convenience of RMB funds raised outside of China for domestic use

Point (1) Support enterprises to use RMB for cross-border settlement

The Notice clarified that enterprises can also use RMB for cross-border settlement transactions which can be settled by foreign currencies in accordance with the law. The Notice supports the banks to adhere to the guidance of "Serving the real economy, facilitating trade and investment" and fulfill the customers' actual needs for RMB cross-border settlement by providing new RMB financial instruments as well as improving financial service capabilities in line with RMB cross-border policies.

Point (2) Provide RMB cross-border settlement for other individual customer recurring items

Based on the three principles of “know your customer,” “know your business” and “due diligence,” the Notice clarified that banks can provide RMB cross-border settlement service for other recurring items of individual customers in order to facilitate domestic individuals to remit legal income from overseas to domestic use and overseas individuals to remit domestic legal RMB income to overseas.

Point (3) Encourage RMB cross-border settlement for carbon emissions trading

The Notice clarified the procedures for foreign investors using RMB cross-border settlement for carbon emissions trading in China. The Notice encourages carbon emissions trading in RMB in China.

Point (4) Improve the convenience of RMB direct investment by foreign investors

The authorities are promoting optimization of operational flow and easing of restrictions on the opening of bank accounts and the use of funds. Based on the premise of banks’ compliance with the three principles of “know your customer,” “know your business” and “due diligence,” the Notice clarified that banks can provide the said transactions in line with the needs of enterprises and required banks to ensure that foreign investors’ RMB profit, dividends and other investment income can be freely transferred in accordance with laws.

【Figure 2】 Key points of policies on RMB direct investment in the Notice

Item	Old	New
Opening RMB special deposit accounts for upfront expenses	Foreign investors are allowed to open 1 RMB special deposit account for upfront expenses in China	When foreign investors establish more than one foreign invested enterprises or projects in China, they can open RMB special deposit accounts for upfront expenses respectively
Information registration and confirmation procedures for foreign invested enterprises	<ul style="list-style-type: none"> ➤ Foreign invested enterprises (including newly-established or acquired enterprises) are required to register corporate information at the PBOC branch located in its registration area within 10 business days of business license issuance ➤ If the registered information changes, the foreign invested enterprise is to report the change to the PBOC branch in its registration area 	Enterprises register the required information at a bank located in its registration area and the local PBOC branch follows up on the information (enterprises are no longer required to apply at PBOC)

<p>Opening special accounts for RMB capital and fund transfers</p>	<ul style="list-style-type: none"> ➤ Foreign invested enterprises which are newly established or increase their investment are required to open a special account for RMB capital with a bank located in its registration area based on the document of ratification by the competent authorities of commerce ➤ Enterprises are allowed to open 1 special account for RMB capital per 1 document of ratification 	<ul style="list-style-type: none"> ➤ Foreign invested enterprises are allowed to open multiple special accounts for RMB capital, with banks located outside of their registration areas ➤ Enterprises are allowed to transfer funds between special accounts for RMB capital under the same name
<p>Use of special accounts for RMB capital and basic deposit account for RMB overseas loan</p>	<ul style="list-style-type: none"> ➤ Fund transferred from special accounts for RMB capital and basic deposit accounts for RMB overseas loan to domestic RMB deposit accounts under the same name are limited to wages, travel expenses and small purchases ➤ Fund transfers for the above stated items under the same name require an evidence check 	<p>When foreign invested enterprises use RMB capital or overseas borrowing funds to pay wages, travel expenses, small purchases, etc., banks can directly proceed with transactions in accordance with payment instruction by enterprises in line with the three principles of banking business</p>
<p>RMB guarantee deposit transfers</p>	<p>No specific provision exists Procedures differ depending on area</p>	<ul style="list-style-type: none"> ➤ When a foreign investor participates in the transaction of the state-owned property right transfer of some domestic company with RMB, if the transaction is made, the RMB guarantee deposit of the remittance can be transferred to the corresponding special deposit account as a capital contribution. If the transaction fails, the guarantee deposit is required to be returned by tracing back the original route ➤ Other business activities involving foreign investors' remittance of RMB guarantee deposit and the acceptance of RMB trading amount by a third party in China in line with regulations, fund transfers are allowed as per the above rule

Point (5) Improve the convenience of RMB funds raised outside of China for domestic use

The Notice clarified that Chinese enterprises can remit RMB funds raised from overseas bonds and stock issuance in accordance with actual demands to China. The authority promotes the relaxing of regulations in

order to diversify financing by enterprises.

3. Impact on Enterprises

The Notice includes a lot of facilitation measures for RMB cross-border policy related to enterprises daily business activities, such as RMB capital, foreign bonds and guarantee deposit. Enterprises can choose their desired currency while taking into account their business efficiency and individual circumstances. Meanwhile, as many things still remain unclear regarding improving the convenience of RMB direct investment and RMB cross-border settlement for individuals, attention must be paid to the development of policies. We will continue to follow up on related information and share it as appropriate.

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