

People’s Bank of China Permission for General Foreign-Invested Enterprises to Reinvest Renminbi Capital within China

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On March 29, 2019, the Monetary Policy Department II of the People’s Bank of China (PBOC) announced the “Explanation of Relevant Regulations Regarding the Domestic Reinvestment of Capital by General Foreign-Invested Enterprises” (hereinafter: “this announcement”), granting permission for general foreign-invested enterprises (FIEs) to domestically re-invest capital in Renminbi.

1. Background of the Policy

The business scope of an FIE determines the regulations it must follow. FIEs in which the primary activity is investment (for example, investment firms) are allowed to reuse their capital within China for investment purposes such as equity, regardless of the currency. General FIEs, on the other hand, were previously unable to reinvest capital domestically in Renminbi unless “investment” is included in their registered business scope. This announcement now lifts the restriction on other FIEs to reinvest capital in Renminbi.

[Figure 1] FIE Category and Corresponding Permission to Reinvest Capital Domestically

Category		Capital Currency	Domestic Reinvestment
FIEs in which the primary activity is investment	Foreign-Invested Enterprise	Foreign currency	Permitted
	Foreign-Invested Venture Capital Enterprise	Renminbi	Permitted
	Foreign Investment Equity Investment Enterprise		
General (other) FIEs*		Foreign currency	Conditional
		Renminbi	Forbidden Permitted

* FIEs whose business scope does not include “investment.”

2. Main Contents of This Announcement

This announcement explains that in the Chinese Ministry of Commerce announcement on issues relating to cross-border Renminbi direct investment (No. 87 [2013]), no restrictions were placed on FIEs reinvesting Renminbi within China. As the Ministry of Commerce has precedence over the PBOC regarding the administrative authority in the area of foreign investment, this announcement expressly removes the restriction on FIEs to reinvest Renminbi funds within China based on the aforementioned regulation.

[Figure 2] Utilization of Renminbi Capital for General FIEs (Partial)*

No.	Purpose	Permission
1	Reinvestment within China	No Yes (this announcement)
2	Direct or indirect investment in securities and financial derivatives (except for strategic investments in listed companies) within China	No
3	Entrusted loans	No

* Created based on the PBOC announcement No. 165 [2012] “People’s Bank of China Notice of Clarification Regarding Operational Bylaws of the Settlement in Renminbi of Foreign Direct Investment”

3. Impact on Corporations

The PBOC and the Chinese State Administration of Foreign Exchange (SAFE) take a prudent stance regarding the domestic reinvestment of capital by general FIEs which are not registered as investment companies. The SAFE Circular No. 19 [2015] released in 2015 clarified procedures and methods for investing equity in China after converting foreign funds into Renminbi. However, since adding “investment” to the registered business scope of an existing FIE was operationally difficult, the actual amount of capital reinvested domestically was negligible.

Now that all FIEs are permitted to reinvest Renminbi capital within China, investing within China has become easier. Investment enterprises have had comparatively rigorous requirements for establishment in China. However, it has been made possible for FIEs to build a framework to reinvest capital earned in China within the country, even if they do not have a designated company for investment within their group. This is good news for multinational firms hoping to expand their businesses in China.

It must be noted, however, that differences may arise in the execution of this announcement by region. Companies that wish to take advantage of this regulation should confirm the operational bylaws with their local PBOC branch.

We will continue to monitor the situation and bring you further developments as they come.

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