

Facilitation of Cross-Border RMB Settlement

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On 5th January 2018, the People's Bank of China (hereinafter "the PBOC") issued the Circular on Further Improving Cross-Border RMB Settlement and Facilitating International Trade and Investment (Yinfa [2018] No.3, hereinafter "the Circular"). The Circular came into immediate effect since the date of its issuance. The report will give a brief introduction of the background as well as main contents and effect of the new Circular.

BACKGROUND

China has gradually opened up cross-border RMB settlement since 2009. Along with the development of Belt and Road Initiative (hereinafter "B&R"), the demands for cross-border RMB settlement are increasing. According to the Ministry of Commerce of the People's Republic of China, during the period of January to November 2017, additional investments at the amount of USD12.37 trillion were invested from Chinese companies to 59 B&R countries. In the meantime, contracts of international contractors at the amount of USD113.52 trillion were newly signed with 61 B&R countries. However, compared to the highest RMB market share of 2.79% in 2015, the RMB market share in 2017 dropped dramatically to 1.75%.

While the progress of RMB liberalization remained slow, the PBOC announced 5 acts in the Circular in order to increase RMB settlement, enlarge the share of RMB as a world payment currency, mitigate the negative impacts of exchange risks, provide more options and possibilities for personal cross-border RMB settlement, and etc.

HIGHLIGHTS

| Title | Main contents | Effect |
|-------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| (1) Encourage the use of RMB for cross-border settlement | Companies may use RMB for cross-border settlement in any legal foreign currency-based transactions | ▪ Highly possible to broaden the cross-border RMB settled business |
| (2) Loosen the restrictions on cross-border RMB settlement services for individuals | Based on the principles of "know your customer", "know your business", and "due diligence" (hereinafter "KYC, KYB and DD"), banks are allowed to provide cross-border RMB settlement to individuals for the transactions under other current account | ▪ Enhance the convenience for domestic individuals to transfer back overseas income, and for overseas individuals to pay overseas by domestic RMB |
| (3) Open the non-resident account for carbon emission trading in RMB | Overseas organizations, who trade carbon emissions through domestic carbon trade exchanges with RMB, should settle the payment under overseas RMB special deposit account | ▪ Develop RMB carbon emission trading for overseas organizations nationwide |

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|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (4) Facilitate direct investment in RMB from foreign investors | a. Foreign investors, who plan to set up multiple foreign-invested companies (hereinafter "FIC") or projects, can open multiple RMB pre-investment expense special accounts respectively | <ul style="list-style-type: none"> Make it possible to open multiple accounts and manage the pre-investment expense based on investment cases |
| | b. The bank in FIC's registered area may register and modify FIC's company information through RMB Cross-Border Payment and Receipt Management Information System; The PBOC in FIC's registered area is in charge of the information management | <ul style="list-style-type: none"> Simplify the procedure by appointing the bank, instead of PBOC, to register and modify the information |
| | c. FICs can open multiple RMB capital fund special accounts outside its registered area; Capital can be transferred between the RMB capital fund special accounts under the same name | <ul style="list-style-type: none"> Dissolve the difference between RMB and foreign currency capital fund special accounts Improve the convenience of RMB capital fund special accounts |
| | d. Based on the KYC, KYB and DD, banks are allowed to transfer both RMB capital fund and foreign debt for the purpose of salary payment, travel expense or miscellaneous purchase under FICs' payment instructions | <ul style="list-style-type: none"> Simplify the procedure But still require further explanation on whether the banks' procedures for the KYC, KYB and DD would be simplified as well |
| | e. For those foreign investors who purchase SOE stakes or assets: <ul style="list-style-type: none"> i. If the transaction is completed successfully, the RMB pre-investment deposit can be transferred to the relevant special accounts and used as transaction payments or FIC's capital injection ii. If the transaction fails, the RMB pre-investment deposit will be returned For other foreign direct investments, which involve RMB pre-investment deposit to a third party institution, the above rule is also applicable | <ul style="list-style-type: none"> Clarify the types of transactions and settlement methods for the RMB pre-investment deposit Make it possible to shift the settlement currency into RMB for stakes and assets purchase |
| | f. RMB profits and dividends received by FICs can be transferred abroad freely via the cross-border RMB settlement | <ul style="list-style-type: none"> Emphasise the feasibility of dividends repatriation |
| (5) Allow overseas raised RMB fund to be transferred into domestic accounts | The fund raised overseas by Chinese companies through bond and stock issuance is allowed to be transferred into domestic accounts according to actual needs | <ul style="list-style-type: none"> Simplify and clarify the procedure Larger capital inflow can be expected |

COMMENTS

As RMB ranked at 3rd place of Special Drawing Right currencies, which encourages foreign companies and banks to hold RMB as part of their foreign exchange reserves, and B&R initiated by China creates numerous business chances, RMB is expected to be exchanged and traded freely without any limitations. On the one hand, considering the stability and the sustainability of China's economy, the progress of RMB liberalization would be taken step by step, thus, it is still a long way towards full RMB liberalization. On the other hand, the Circular reflects China's confidence to further open the capital account and helps create a sound business environment. Therefore even more widen cross-border RMB settlement facilitations could still be expected in the near future.

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