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# China tightens supervision on fund flow

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## In brief

» In late 2016, China's central bank amended the existing policies on reporting of substantial and suspicious transactions by financial institutions, effective from 1 July 2017, aiming at combatting money laundering and terrorism financing.

» The new policies set out stricter standard of reporting substantial and suspicious transactions. Enterprises and individuals receiving / making payments will be subject to more scrupulous inspection.

## In detail

- » On 28 December 2016, People's Bank of China ("PBOC") issued the amended administrative measures on reporting of substantial and suspicious transactions by financial institutions ("new measures") to supersede two current measures issued in 2006. The new measures will be effective from 1 July 2017.

- » New standard of reporting of substantial transactions.

  Per new measures, financial institutions are required to report the following transactions to PBOC:

<table>
<tr><th></th><th>Individuals</th><th>Enterprises</th></tr>
<tr><td>Cash deals</td><td colspan="2">CNY50,000 / day by a single or an accumulative amount, as opposed to the old standard of CNY200,000 / day</td></tr>
<tr><td rowspan="2">Bank account deals</td><td>Domestic: CNY500,000 (or equivalent to USD100,000) / day by a single or an accumulative amount</td><td rowspan="2">CNY2,000,000 (or equivalent to USD200,000) / day by a single or an accumulative amount</td></tr>
<tr><td>Cross-border: CNY200,000 (or equivalent to USD10,000) / day by a single or an accumulative amount</td></tr>
</table>

  Meanwhile, the new measures provide specific exemptions of reporting, including but not limited to tax payment at banks, transfers between current-deposit and fixed-deposit accounts in the same financial institution under the same account name, etc.

- » New standard of reporting of suspicious transactions

  The new measures provide that if there is a reasonable doubt in the view of the financial institutions that individuals / enterprises are conducting transactions relating to money laundering or terrorism financing, the financial institutions should report to PBOC, irrespective of the size of the transactions.

- » The new measures apply also to non-bank institutions, such as the third-party payment platforms.

## WTS observation

China is strengthening its fight against tax evasion, money laundering and terrorism related behaviors. The new reporting obligations may somehow add extra administrative burden to normal transactions if the financial institutions held liable to make the report tend to demand for more information from the transaction parties.

It is worth noting that cross-border transactions (especially substantial outbound payments for trades, services or royalty) could bear the brunt of the stricter reporting standard. The new and strict reporting measures could be enforced at the expense of transaction cost and efficiency.

In 6 months' time, the new measures will take effect. Enterprises with cross-border transactions are advised to enhance their documentation practice and communication with bankers to ensure a smooth fund flow.

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