

2024 (No.01 issue)

January 2024



China sets up “green channel” for forex flow

In brief

- » China has launched a simplified mechanism for a test-run in six regions, to facilitate cross-border forex flows, effective from 4 December 2023, per the recent policies of the State Administration of Foreign Exchange (SAFE).
- » Forex payments and collections should be made hassle-free for qualified companies in the pilot regions.

Feedback



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## In detail

The new policies, unveiled by SAFE and effective from 4 December 2023, explore a streamlined mechanism to facilitate forex flows in international trading, investment, and financing. They are put in place in six regions covering Shanghai, Jiangsu Province, Guangdong Province (Shenzhen included), Beijing, Zhejiang Province (Ningbo included), and Hainan Province.

- » The new facilitation policies provide a “green channel” for forex flows in some current-account and capital-account businesses.
- » They are kicked off in the said six regions at some banks selected for their proven record in sufficient prudence and compliance (called "P&C banks" by the policies).
- » The changes have brought about remarkable simplification to the banking process, as compared below.

Current-account operations			
		Before	After
1	Service fee payments above USD 50,000	<p>“Tax-before-payment” approach:</p> <ul style="list-style-type: none"> <li>• A payment could not be remitted unless tax filing is done and shown to a bank.</li> </ul>	<p>“Payment-before-tax” approach:</p> <ul style="list-style-type: none"> <li>• A payment can be first made at a P&amp;C bank, and a tax filing evidence can be shown later.</li> </ul>
2	Payments & collections for new forms of international trading	<p>Inconstant practices exist in different places. For example:</p> <ul style="list-style-type: none"> <li>• Shanghai Lingang New Area focuses on three review principles (i.e. "know your client", "know your business" and "due diligence"),</li> <li>• Hainan Free Trade Port focuses on authenticity checking and customer grading.</li> </ul>	<p>Direct settlements are encouraged by P&amp;C banks for their VIP customers.</p>
3	Offsetting of payables & receivables	<p>Offsetting is not allowed (unless in some exceptional cases). Collections and payments have to be separately dealt with.</p>	<p>Offsetting is allowed insofar as the overseas counterparty is a regular trading partner of the Chinese party and the deals are of a current-account nature.</p>
4	Special refund to overseas for canceled deals	<p>Pre-registration at SAFE and an explanation is required for a special refund.</p>	<p>SAFE pre-registration is canceled.</p>
5	Third-party payments & cost-sharing payments	<p>Third-party payments (i.e. payments on behalf of) and cost-sharing payments are limited to those between related parties and those not aging over twelve months.</p>	<p>These two payments are allowed, even though they may age over twelve months no matter whether they are for related or non-related parties.</p>

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Capital-account operations			
		Before	After
6	Reinvestment in China	SAFE registration is required for making a capital reinvestment in China using the RMB profits from an existing Chinese entity.	SAFE registration is not necessary.
7	Foreign debt quota in finance leasing	Each finance leasing entity has its foreign debt quota per se - which is not shareable with its subsidiaries in China.	A finance leasing entity can share its foreign debt quota with its SPV (special purpose vehicle) subsidiary.
8	Foreign debt and overseas listing	A bureaucratic process is involved. A registration with SAFE is required within fifteen working days for sending investment funds abroad in an overseas listing case or for borrowing loans from abroad.	P&C banks can handle the registration and process the remittance directly.

**WTS China's observation**

The said policies reflect China's pledges for continued liberalization in the international trading, investments, and financing areas. In implementation, companies should clarify with their Chinese banks the following:

- If the Chinese bank falls under the category of "P&C Banks"; and
- To what extent the bank has started the new working approach.

Keeping a wary eye on the follow-up details is advised.

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