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ASIA-PACIFIC TREASURY MANAGEMENT HANDBOOK COUNTRY PROFILE

CHINA

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CHINA

BANKING OVERVIEW

Central bank

- The People's Bank of China (www.pbc.gov.cn).

Bank supervision

- China Banking and Insurance Regulatory Commission (CBIRC).

Banking structure

- As of October 2019, approximately 4,588 financial institutions operated in China. There are 12 nationwide joint-stock commercial banks. There are three policy banks: Agricultural Development Bank of China, China Development Bank and Exim Bank of China.
- There is a total of 39 locally incorporated foreign banks with 315 branches in China, 121 branches directly under parent banks and 166 representative offices.
- The CBIRC has removed the licence requirements for foreign lenders in the country for custody and advisory services and bond underwriting, among other services, and indicated that it would remove the waiting period of one year for conducting renminbi business. The CBIRC plans also to lower the threshold for foreign bank branches to accept a fixed-term RMB retail deposit to RMB 500,000.

Bank accounts

RESIDENT BANK ACCOUNTS	INSIDE CHINA	OUTSIDE CHINA
DOMESTIC CURRENCY (RMB)	Permitted without restriction, convertible subject to the presentation of commercial documents to foreign exchange banks.	Permitted, subject to the restrictions.
FOREIGN CURRENCY	Permitted with restriction, convertible.	Permitted subject to prior State Administration of Foreign Exchange (SAFE) approval, convertible.

Bank accounts (continued)

NON-RESIDENT BANK ACCOUNTS	INSIDE CHINA	OUTSIDE CHINA
DOMESTIC CURRENCY (RMB)	Permitted without restriction, convertible.	Permitted with restrictions and prior PBC approval, convertible.
FOREIGN CURRENCY	Permitted with approval, fully convertible.	Not applicable.

Payment & collection instruments

PAYMENT TYPE	CHEQUES	CREDIT TRANSFERS	DIRECT DEBIT
VOLUME OF DOMESTIC CASHLESS PAYMENTS 2017 (MILLION)	256 [-12.6 yoy].	9,667 [+22.4% yoy].	1,523 [+5.5% yoy].
VALUE OF DOMESTIC CASHLESS PAYMENTS 2017 (RMB BILLION)	172,370 [- 8.2% yoy].	2,780,667 [+3.9% yoy].	43,093 [-45.8 yoy].
KEY FEATURES	Retail and commercial payments. Cheques valid for ten days only after issuance.	Credit transfers can be paper-based or automated. Cross-border credit transfers can be made via SWIFT and settled through correspondent banks abroad.	Low-value recurring payments, e.g. utility bills.
CLEARING METHOD	CIS for cheques up to RMB 500,000. LCH: no value limit.	CNAPS-LVPS (high-value), CNAPS-BEPS (low-value & bulk payments).	CNAPS-BEPS.
DURATION OF CLEARING CYCLE	24 hours for intracity cheques. Three days for intercity cheques.	CNAPS-LVPS payments settled within 24 hours. CNAPS-BEPS payments settled on a same/next-day basis.	CNAPS-BEPS payments settled on a same/next-day basis.

Payment & collection instruments (continued)

PAYMENT TYPE	PAYMENT CARDS	ATM/POS	DIGITAL PAYMENTS
VOLUME OF DOMESTIC CASHLESS PAYMENTS 2017 (MILLION)	122,473 (+40.1% yoy).	–	48,000 (Q1 2019).
VALUE OF DOMESTIC CASHLESS PAYMENTS 2017 (RMB BILLION)	628,654 (+4.9% yoy).	–	742,000 (Q1 2019).
KEY FEATURES	<p>IC-based bank cards are chip-embedded cards.</p> <p>China UnionPay controls over 90% market.</p> <p>American Express and MasterCard-branded cards are available.</p>	<p>1.1 million ATMs.</p> <p>32.4 million POS terminals (Q1 2019).</p>	<p>Mobile wallet payment apps widely available.</p> <p>QR codes a common payment option.</p> <p>Alipay and WeChat Pay most popular providers.</p>
CLEARING METHOD	CNAPS-BEPS.	DBS-PSOB network, ATM 5 network and NETS network.	NetsUnion Clearing Corp.
DURATION OF CLEARING CYCLE	Same-day basis.	Next-day basis.	Real-time.

Payment/clearing systems

CLEARING SYSTEM	CLEARING TYPE	TRANSACTIONS PROCESSED	VALUE DATING RULES	CUT-OFF
CNAPS-LVPS	RTGS.	High-value (greater than RMB 50 000) and urgent RMB-denominated payments.	Real-time basis.	17:00.
CIPS	RTGS.	Cross-border RMB settlement of trade in goods and services, direct investment, financing and fund transfers for individual customers.	Real-time basis.	NA.
CNAPS-BEPS	Net settlement system.	Low-value and bulk electronic payments.	Same/next-day basis.	16:00.
LCH	Automatic Clearing House (CIS)/Manually.	Paper-based payments.	Intra-city: within 24 hours. Inter-city: within 48 hours.	16:15.
CDFCPS	RTGS.	Foreign currency electronic payments.	Real-time basis.	17:00.
IBPS	Interbank settlement system.	Online payments (maximum value RMB 50,000).	Real-time basis.	NA.

TAXATION: IN FIGURES

STANDARD CORPORATE INCOME TAX RATE	25%	
WITHHOLDING TAX ON PAYMENTS TO NON-RESIDENTS – SUBJECT TO TAX TREATIES	INTEREST	10/20%
	DIVIDENDS	10/20%
	ROYALTIES	10/20%
	TECHNICAL SERVICE FEES	25%
VAT STANDARD RATE	16%	
CAPITAL GAINS TAX	Gains and losses from the transfer of assets generally are combined with other operating income and taxed at the applicable company tax rate.	
EMPLOYER’S PAYROLL AND SOCIAL SECURITY TAXES	No payroll tax. Employers are required to contribute approximately 20% of basic payroll to the state-administered retirement scheme, as well as to a medical insurance fund, maternity insurance, unemployment insurance and work-related injury insurance.	

Source: Deloitte Highlights 2019

TAXATION: IN DETAIL

- The EITL governs both foreign investment and domestic-funded enterprises under a single unified tax system.
- Special rates apply to small-scale enterprises (20% or 10% if certain requirements are met); and enterprises with new high-technology status (15%); and enterprises incorporated in certain regions of China and engaged in encouraged business activities (15%). Special rates are available for certain other encouraged business.
- Chinese-sourced gains derived by foreign companies from property transfer are generally subject to a 10% withholding income tax under the implementation rules of the EITL.

- Although the EITL provides for a 20% withholding tax, the rate is reduced to 10% under the implementation rules. As a measure to promote foreign investment, the government has issued rules to provide a deferral of withholding tax on dividends and profits distributed to foreign investors and reinvested into encouraged investment projects in China, with retroactive effect from 1 January 2017. A 10% withholding tax, which is lowered from a 20% statutory rate, applies to interest paid to a non-resident unless the rate is reduced under a tax treaty. 6% VAT is imposed. Bond interest derived by foreign institutional investors from Chinese bond markets may be exempt from both income tax and VAT for the period from 7 November 2018 to 6 November 2021.
- China has exchange of information relationships with 113 jurisdictions through 103 double tax treaties and ten TIEAs.
- China has transfer pricing rules. A resident taxpayer that is the ultimate parent of a multinational group with annual consolidated revenue exceeding a threshold amount or that is appointed as the filing entity of a multinational group is required to file a country-by-country report.
- CFC rules are in place.

CORPORATE INCENTIVES

- China has introduced a number of reforms/tax breaks aimed attracting foreign investors to the country.
- Corporate income tax is reduced or exempted on income derived from a number of industries which are applicable to both foreign and domestic investments.
- Shanghai is positioning itself as an attractive location for RHQs and provides a number of incentives. In 2019, the criteria for establishing RHQs were relaxed. For example, the minimum total assets requirement of the parent company of the RHQ was reduced to USD 200 million, down from USD 300 million, and 13 measures were introduced to support the free flow of funds and cross-border RMB business.
- Similarly, South China's Guangdong Province offers a number of investment incentives and cost-cutting measures, including financial rewards of up to RMB 100 million for certain investment projects and FIEs that establish RHQs in the province.

Liquidity management

INSTRUMENTS	AVAILABILITY	COMMENTS
DOMESTIC CASH CONCENTRATION	Yes.	<p>Cash concentration is possible through entrustment loan (EL) agreements. However, the government has recently clamped down on ELs; commercial banks must not provide guarantees or get involved in decision-making for these loans. They can act only as intermediaries.</p> <p>Qualified non-residents can participate in a cash concentration structure located in China.</p> <p>An entity should notify the PBC when setting up a liquidity management scheme, providing it with the identity details of the centralising company and its directors. An entity must also notify the PBC of any subsequent changes in those details.</p>
DOMESTIC NOTIONAL POOLING	Yes.	<p>Notional pooling is possible in China, both in RMB and foreign currency.</p> <p>Since March 2019, an MNC can set up a multi-currency cash pool (including RMB) instead of having to establish a separate foreign exchange and RMB cash pool.</p>
CROSS-BORDER CASH CONCENTRATION	Yes.	Cross-border cash concentration is permitted.
CROSS-BORDER NOTIONAL POOLING	Yes.	Cross-border cash concentration is permitted.

FOREIGN EXCHANGE MARKET

The official currency of China is the renminbi (RMB), which is managed by the PBC. The exchange rate is now determined by a reference to a basket of currencies, including the USD, EUR, JPY and GBP, trading within narrow fluctuation bands. In December 2016, China added 11 more currencies including the KRW and the SAR. In August 2018, the PBC reintroduced a counter-cyclical factor to its daily yuan reference.

Exchange tax

There is no tax on foreign exchange transactions.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

With effect from 11 September 2017, financial institutions are no longer required to set aside funds for settling foreign exchange forward yuan positions. The ratio had been set at 20%.

Capital flows

Companies operating in China are restricted to purchasing overseas currencies a maximum five days before they make actual payments for goods.

Loans, interest and repayment

Loans must be reported to SAFE, but do not require prior approval.

Royalties and other fees

The Ministry of Commerce grants prior approval to all licensing agreements. Upon approval, all payments or fees may be remitted without prior approval from SAFE.

Profit remittance

After meeting all Chinese income tax, reserve-fund and labour-fund obligations, foreign investors can remit dividends and profits from foreign and joint ventures.

For joint ventures, profits cannot be distributed until losses from the previous year have been made up.

SHORT-TERM INVESTMENT ALTERNATIVES

Bank deposits

Time deposits are available in China in domestic and foreign currency, but the interest rate is subject to a maximum rate set by the PBC.

Interest payable on bank account surpluses

Interest-bearing demand, or sight, deposit accounts are available, but the interest rate is subject to a maximum rate set by the PBC.

Commercial paper/CDs

Commercial paper (CP) is a popular short-term investment in China. All CP issued with a value in excess of RMB 1 million must be executed electronically.

PBC guidelines on CDs allow banks to issue CDs with interest rates based on the Shanghai interbank offered rate for a minimum amount of RMB 50 million per issuance. Fixed rate CDs are restricted to terms of a year or less and floating CDs must have maturities of greater than one year.

Government paper

Treasury bills (T-bills) are issued by the Ministry of Finance with one-year, three-year and five-year tenors. Qualified foreign institutional investors are permitted to trade in Chinese government securities.

Money market funds

Some banks offer money market funds as part of their suite of short-term investment products.

Other

- There is an established repo market in China.

LONG-TERM FUNDING

Bank lines of credit/loans

Short-term RMB loans up to one year are often regularly rolled over at maturity to provide longer-term finance. Both Chinese and foreign bank branches provide local currency loans against security (receivables) and for FIEs want parent or bank guarantees or, for US banks, standby letters of credit.

Leasing

Leasing is available for domestically produced equipment, as well as for the aerospace, automotive, medical and health, marine engineering, green energy and other sectors. Leases are usually arranged for between two and five years.

Bonds

In December 2018, the National Development and Reform Commission (NDRC) issued requirements for raising funds in the domestic bond market on an industry-by-industry basis, with separate rules for areas including property, manufacturing, cement, hotel and catering.

Private placement

Issued by non-financial companies, private placement notes typically have tenors of three to five years.

Asset securitisation/structured finance

The corporate asset-backed securitisation market is growing. Small loans, account receivables and corporate debts are the more popular underlying assets.

Government investment incentive schemes/special programmes or structures

All project finance initiatives have to be approved by the State Administration of Foreign Exchange. Returns are capped at 15%.

GENERAL INFORMATION

Currency + Swift code

- Renminbi (RMB)

Business/banking hours

- Business hours: 08:00–17:00 (Mon–Fri)
- Banking hours: 08:00–17:00 (Mon–Fri)

Bank holidays

- 2020 — January 1, January 25–30, April 4, May 1, June 25*, October 1*, 2–5
- 2021 — January 1, February 12–17, April 2, May 1, 13*, 26*, July 20*, August 9, November 4*, December 25

Time zone GMT (hours)

- +8

* The date shown may vary by plus or minus one day. These dates are derived by converting from a non-Gregorian calendar (e.g. Muslim or Hindu) to the Gregorian calendar. Some of these dates cannot be determined in advance with absolute accuracy, even by the governing authorities. In the case of Muslim dates in particular, the feast days are determined by the sighting of a new/full moon.



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