Cross-border RMB cash pooling made possible for multinational corporations in China

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In brief

In early 2014, China launched a pilot program to enable cross-border RMB cash pooling in the Shanghai Pilot Free Trade Zone (SH PFTZ). Many domestic and foreign-invested multinational corporations (MNCs) joined the pilot program and provided positive feedbacks. The cross-border RMB cash pooling mechanism allows MNCs more channels to recoup RMB back to mainland China, while at the same time better centralise and manage their treasury and cash management globally, thereby achieving savings in financing costs at the group’s level. In June 2014, in response to the call of the State Council, the People’s Bank of China (PBOC) proposed to expand cross-border RMB cash pooling operations nationwide to enhance the centralised RMB cash management of MNCs. In November, the PBOC issued the Notice Regarding Centralised Cross-border RMB Operation by MNCs (Circular Yinfa [2014] No. 324, hereinafter referred to as ‘Circular 324’) to set forth detailed guidance on cross-border RMB cash pooling by MNCs nationwide.

In detail

MNC and its participating companies

Circular 324 sets forth the detailed criteria for an MNC and its participating companies to apply for centralised cross-border RMB operation.

- Shareholding percentage: MNC refers to a group of companies which are connected by capital and consists of a domestic or overseas parent company, its subsidiaries, invested companies and other participating members, including 1) a parent company and its subsidiaries with shareholding of more than 51%; 2) companies in which more than 20% of its shares are held solely or jointly by companies mentioned in 1) above, or companies in which those companies mentioned in 1) above are the largest shareholder despite a shareholding of less than 20%;

- Operating period and industry: The domestic participating companies should be in operation for more than 3 years and not under the local government financing platforms or in the real estate industry, and not included in the List of Special Supervision Enterprises which Settle Export Trade Items in RMB. The foreign participating companies (including Hong Kong, Macao and Taiwan) should also be in operation for more than 3 years.

- Operating income: The operating income of the domestic participating companies for the prior year should not be less than RMB 5 billion, while the operating income of the foreign participating companies for the prior year should not be less than RMB 1 billion.

Document requirements in applying for RMB cash pooling

According to Circular 324, the company hosting the RMB cash pool (‘host company’) has to submit the following documents when applying for RMB cash pooling. The application package should be submitted to the local branch of the PBOC through the settlement bank.

- Name list of domestic and foreign participating companies (including the name, registered address, shareholding structure and operation periods);

- Financial statements of domestic participating companies reflecting the equity interest and the operating income for the prior year;
Financial statements of foreign participating companies reflecting the operating income for the prior year;

Agreement on the cross-border RMB cash pooling signed between the host company and the participating companies; or evidential materials prepared by the MNC clarifying the rights and obligations agreed by the relevant parties; the agreement or evidential materials has to guarantee that the centralised fund is derived from operating activities and investment activities.

**Operation mechanism of cross-border RMB cash pooling**

The mechanism of cross-border RMB cash pooling can be simply described as a system of “one cash pool with two channels” and “a one-way valve” (see the illustration in the Appendix)

- One cash pool refers to the special RMB deposit account, opened by the host company in a selected local bank. The bank selected should be experienced and have international settlement business capability. The fund in the account would be entitled to interest at the corporate deposit interest rate, and cannot be used to invest in marketable securities, financial derivatives, and non-self-used real estate, or to purchase wealth management products or provide entrusted loan to non-participating companies.

- Two channels refer to both inbound and outbound flows of the fund in the cross-border RMB cash pool.

- Up to now, there is no limit on the net amount of outflow while the net amount of inflow would be subject to an upper limit, i.e. there is a “one-way valve” for the net inflow.

According to Circular 324, the upper limit for the net amount of inflow RMB = the owners’ equity in the RMB cash pool × Macro Prudent Policy Index. The initial value of the index is set at 0.1. The PBOC will dynamically adjust the index based on the macro-economic situation and credit control adjustment. Further, the upper limit is also affected by the shareholding percentage of the MNC in domestic participating companies.

If the domestic participating companies are located in the pilot areas and have borrowed RMB from overseas, the loan amount will be appropriately deducted from the upper limit.

**The takeaway**

**Comparison between RMB cash pooling and the forex fund pooling**

In April 2014, the State Administration of Foreign Exchange issued the detailed guidelines of forex fund pooling for MNCs. We have made a comparison between RMB cash pooling and forex fund pooling to facilitate MNCs to choose between them.

- Qualification for participating companies: the application qualification for forex fund pooling is mainly aiming at looking at participating companies as a whole. For example, the total scale of forex fund flow of all participating domestic companies has to exceed USD 100 million in the prior year, while the application qualification for RMB cash pooling is based on each of the participating companies meeting the requirement on shareholding percentage and operating period as mentioned above. In addition, a real estate company is not allowed to apply to join RMB cash pooling, while it is allowed to join forex fund pooling. Comparatively speaking, the threshold for companies to join the forex fund pooling is lower.

- Use of the centralised fund: the centralised fund in the forex fund pool could be used to invest in financial products. However, the centralised fund in the RMB cash pool could not be used for this type of investment. At the same time, the funds in both pools are not allowed to invest in marketable securities and financial derivatives.

- Number of cash pools: In practice, MNCs generally can only set up one forex fund pool with an overseas forex master account and a domestic forex master account. For cross-border RMB cash pooling, the MNCs in principle can only set up one two-way RMB cash pool. However, the MNCs can set up several RMB cash pools to meet their business needs, if proper record filing is made with the head office of the PBOC.

**Other issues**

If the tax authorities consider that the centralised handling of RMB payments and receipts for participating companies within the same group by the host company to be a financial service provided by the host company, there may be corresponding corporate income tax and turnover tax implications. Since RMB cash pooling is still new in China, there is no specific tax policy at the moment on this. MNCs which are keen to operate a RMB cash pool shall keep an eye on any relevant new tax policies and proactively initiate dialogues with the in-charge tax authorities.

**Endnote**

1. <Several opinions of the Office of the State Council on the support of the steady growth of foreign trade> (Circular Guobanfa [2014] No.19)
2. The MNCs operate the cross-border RMB balance surplus with deficiency and the cross-border RMB collection based on the demands of the business and management of the groups.
3. Pilot areas include Qianhai, Kunshan, Suzhou Industrial Park, Sino-Singapore Tianjin Eco-City and etc.
**Appendix: Example**

Company A, B, C and D are companies within an MNC in China with shareholder’s equity of RMB 5 million, 4 million, 3 million and 2 million respectively. The shareholding percentages of the group in these companies are 60%, 70%, 80% and 100% respectively. Three overseas companies, company E, F and G, set up by the MNC are also members of the RMB pooling. The upper limit for the RMB cash pool is set forth as follows (Unit: million)

<table>
<thead>
<tr>
<th>The shareholding percentage of the group (X)</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>In total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder’s equity (Y)</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Shareholder’s equity in the cash pool (Z=X×Y)</td>
<td>3</td>
<td>2.80</td>
<td>2.40</td>
<td>2</td>
<td>10.20</td>
</tr>
<tr>
<td>Net inbound upper limit (L=Z×0.1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.02</td>
</tr>
</tbody>
</table>

At any time, the cash in the pool could flow outbound without any limit, while the net amount of the inflow cash should not exceed 1.02 million.

If Company C is registered in a pilot area and has borrowed RMB 50,000 from overseas, the upper limit of the net amount of inflow cash for cross-board RMB is decreased to RMB 0.97 million before the loan is repaid. It is imperative to note that the upper limit could be restored after the loan is repaid.
News Flash — China Tax and Business Advisory

Let’s talk

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PwC’s China Business & Investment Advisory Team specializes in China regulatory advisory and implementation work, ranging from market entry solutions, structure set-up, foreign exchange solutions, to restructuring solutions, e.g., equity transfer, merger and liquidation, etc. The team maintains close dialogues with various Chinese approval and registration authorities as well as industry bureaus at central and local levels. It also has extensive involvement and experience in advising clients on business cases from both the regulatory and practical perspectives.

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