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CASH AND TREASURY MANAGEMENT
COUNTRY REPORT

CHINA

Executive Summary

Banking

The Chinese central bank is the People's Bank of China (PBC). Bank supervision is performed by the China Banking Regulatory Commission (CBRC).

China applies central bank reporting requirements. These are managed by the State Administration for Foreign Exchange (SAFE), according to the rules set out in the Detailed Rules on the Implementation of Procedures for the Declaration of Data on International Payments (revised 2003) and relevant regulations.

Resident entities are permitted to hold foreign currency bank accounts domestically and outside of China, but residents must first gain approval from SAFE for foreign currency bank accounts held abroad. Non-resident entities are permitted to hold foreign currency bank accounts within China. Non-residents can hold fully convertible renminbi (RMB) trade settlement accounts inside and outside of China but these accounts are subject to restrictions and PBC approval.

China has five major commercial banking institutions, which control just over 37% of the country's banking assets. There are also three government controlled policy banks, established in 1994. There are 12 joint-stock commercial banks, 83 rural commercial banks, 223 rural cooperative banks, 349 village and township banks, and 2,646 rural credit cooperatives, as well as 91 city commercial banks that specialize in retail and corporate commerce. The government indirectly controls the country's commercial banks by maintaining a majority share in each bank. There is an increasing foreign banking presence in China – 412 foreign institutions have established operations in China and 41 foreign banks have become locally incorporated, operating 275 branches. Foreign banks, if incorporated locally, are able to offer RMB retail products to Chinese residents and are subject to national treatment.

Payments

China's three main interbank payment clearing systems are CNAPS-LVPS, CNAPS-BEPS and the Local Clearing House system (LCHs). An RTGS-based Foreign Currency Payment System (CDFCPS) was introduced in July 2008 for eight international currencies and an RTGS-based payment system for cross-border RMB payments went live in October 2015. In addition, the "Super-e-banking" online interbank clearing system for real-time internet payments and account enquiries was introduced in August 2010. The system linked up the individual online payment systems of approximately 161 financial institutions at the end of 2015.

The most important cashless payment instruments in China are debit cards among individuals, checks between local institutions and electronic credit transfers for intercity payments. Economic expansion in China's large cities has led to a growth in the use of electronic payments, such as internet, telephone and mobile payments.

Liquidity Management

Chinese-based companies have access to a limited number of short-term funding alternatives. There are also some short-term investment instruments available.

Liquidity management has traditionally been difficult in China but liberalization measures are changing this. Zero-balancing and target balancing can both be achieved and notional pooling is also permitted in domestic currency and foreign currency in China and cross-border.

Trade Finance

China is a member of the World Trade Organization (WTO) and has altered its trade finance regulations to conform to WTO standards.

PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.
- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.[1]

Economic Updates

Receive regular Economic Updates from our senior economist by going to pnc.com/economicreports.

(1) Information compiled from Freedom of Information Act resources.

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Financial Environment

Country Information

Geographical Information

Capital	Beijing
Area	9,596,961 km^2
Population	1.367 billion
Official languages	Standard Chinese or Mandarin (Putonghua, based on the Beijing dialect), Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan (Hokkien-Tai``wanese), Xiang, Gan, Hakka dialects, other minority languages
Political leaders	Head of state — President Xi Jinping (since March 14, 2013) Head of government — Premier Li Kequiang (since March 16, 2013)

Business Information

Currency (+ SWIFT code)	Renminbi (RMB), also called Yuan (CNY)
Business/Banking hours	08:00–17:00 (Mon–Sat)
Bank holidays	2016 — September 15*, 16, October 1–7 2017 — January 2, 27–31, February 1, 2, April 3, 4, May 1, 29, 30*, October 1–6 2018 — January 1, February 15–21, April 5, 6, May 1, June 18*, September 24*, October 1–5 * The date, which may vary by plus or minus one day, is derived by converting from a non-Gregorian calendar to the Gregorian calendar. The date cannot be determined in advance with absolute accuracy. Also some feast days are determined by the actual sighting of a new or full moon and cannot be confirmed until close to the actual date. The rules around this practice vary from country to country, making it difficult to predict holiday observances with complete accuracy. Source: www.goodbusinessday.com.
International dialing code	+ 86

Country Credit Rating

FitchRatings last rated China on July 22, 2016 for issuer default as:-

Term	Local currency rating	Foreign currency rating
Short	—	F1 +
Long	A +	A +
Long-term rating outlook	Stable	

Source: www.fitchratings.com, August 2016

Economic Statistics

Economics Table

		2010	2011	2012	2013	2014
GDP per capita	(USD)	4,375	5,438	6,250	6,956	7,617
GDP	(CNY billion)	40,282	48,086	53,475	58,974	64,080
GDP	(USD billion)	5,950	7,442	8,471	9,518	10,431
GDP volume growth*	(%)	+ 10.3	+ 9.4	+ 7.8	NA	NA
BoP (goods, services & income) as % GDP		+ 3.3	+ 1.5	+ 2.5	+ 1.6	+ 2.6
Consumer inflation*	(%)	+ 3.3	+ 5.4	+ 2.6	+ 2.6	+ 2.0
Population	(million)	1,360	1,368	1,355	1,363	1,369
Unemployment	(%)	4.1	4.1	4.1	4.1	NA
Interest rate (discount rate)†	(%)	3.25	3.25	3.25	3.25	3.25
Exchange rate‡	(CNY per USD)†	6.7703	6.4615	6.3123	6.1958	6.1434

		2015			2016	
		Q3	Q4	Year	Q1	Q2
GDP per capita	(USD)	–	–	NA	–	–
GDP	(CNY billion)	–	–	NA	–	–
GDP	(USD billion)	–	–	NA	–	–
GDP volume growth*	(%)	NA	NA	NA	NA	NA
BoP (goods, services & income) as % GDP		–	–	NA	–	–
Consumer inflation*	(%)	+ 1.8	+ 1.5	+ 1.4	+ 2.1	+ 2.1
Population	(million)	–	–	1,376	–	–
Unemployment	(%)	4.1	4.1	4.1	4.0	NA
Interest rate (discount rate)†	(%)	3.25	2.90	3.16	2.90	NA
Exchange rate‡	(CNY per USD)†	6.2639	6.3886	6.2275	6.5417	6.5344

*Year on year. †End period. ‡Market rate.

Source: *International Financial Statistics, IMF,* August 2016 and 2015 Yearbook

Sectoral Contribution as a % of GDP

Agriculture – 8.9%

Industry – 42.7%

Services – 48.4% (2015 estimate)

Major Export Markets

USA (18.0%), Hong Kong (14.6%), Japan (6.0%), South Korea (4.5%)

Major Import Sources

South Korea (10.9%), US (9.0%), Japan (8.9%), Germany (5.5%), Australia (4.1%)

Political and Economic Background

Economics

Interest Rate Management Policy

China's benchmark interest rates are set through the People's Bank of China (PBC). The PBC's main objective is to maintain currency stability as directed by the State Council. The PBC is targeting an inflation rate of 3% during 2016. The Monetary Policy Committee of the PBC meets quarterly (sometimes ad hoc) to advise on any adjustment of interest rates or amendments in monetary policy. These must be approved by the State Council. The PBC launched the Shanghai Interbank Offered Rate (Shibor) to introduce a more market-based benchmark interest rate system in the money market on January 4, 2007.

Foreign Exchange Rate Management Policy

The exchange rate policy is determined by the PBC and is heavily regulated. In July 2005, the PBC replaced the USD-pegged arrangement with a managed float system under the direction of the China Foreign Exchange Trade System (CFETS). The RMB is linked to a basket of currencies, including the USD, EUR, JPY, HKD, CAD, MYR, RUB, GBP and AUD. The exchange rate of the RMB is determined in the interbank foreign exchange market, but daily fluctuations in the USD/RMB inter-bank spot exchange rate are limited to 2% above or below the central rate determined by the CFETS. Daily fluctuations in the RMB against most non-USD currencies are limited to 3% above or below the central rate (5% for MYR and RUB and 10% for KZT and THB). This central rate is based on the current day's midrate.

Major Economic Issues

China's status as the world's most populous nation combined with the trade-related reform associated with its "open-door" policy since the 1970s has helped to make it the world's largest exporter and second largest economy.

However, China now faces concerns over its future economic expansion and in 2015 the economy grew by 6.9%, its slowest rate since 1990. This followed growth rates falling from from 7.8% in 2012 to 7.4% in 2014, according to China's government statistics. The government has targeted growth of around 6.5% in 2016.

In August 2015 China's government devalued its currency on three consecutive occasions, moves which are partly aimed at reigniting China's economy, through making Chinese goods less expensive on international markets. China's trade statistics have indicated repeated slumps in exports throughout 2015 and into 2016, the latest being an annualized 4.4% fall in July 2016. The 3% fall in China's currency against the USD helped influence the International Monetary Fund decision in 2015 to make the RMB one of its Special Drawing Rights (SDR) reserve currencies, alongside the USD, EUR, JPY and GBP.

After peaking in mid-2011, inflation fell back to reach a record low by the start of 2015 and reached an annualized rate of 1.9% by July 2016, below the government's target of around 3%.

In July 2013 the PBC announced it was no longer enforcing a ceiling on lending interest rates offered by financial institutions, as part of an ongoing program of financial liberalization in China. The previous rate was set at 6%, although in reality the vast majority of lending rates offered by banks were higher than this, meaning the liberalization is largely symbolic. In October 2013 the PBC announced it would be publishing a new lending rate, the Loan Prime Rate, which is based on the rate charged by China's nine biggest lending institutions to their main clients. This is currently set at 4.30%. This marks a move away from government set rates towards a market orientated approach. The People's Bank of China's benchmark one-year deposit rate was cut in October 2015 in an attempt to reignite the economy in the fact of recent stock market volatility. The deposit rate currently stands at 1.50%, after the sixth cut since November 2014.

Politics

Government Structure

Political power is divided between the Chinese Communist Party (CCP) and the National People's Congress (NPC).

China is a one-party state, whereby the CCP coordinates and asserts political leadership over the legislative, judicial and executive arms of government. The CCP is composed of a 25-member politburo.

The NPC is the supreme governing body in China, and is responsible for interpreting the constitution, administering its implementation, passing legislation, and electing the president and premier.

The national government is based in Beijing.

There are 22 provinces, four central government-controlled municipalities and five autonomous regions. Hong Kong and Macau are special administrative regions of China, electing their own local and district councils.

The president is the head of state and the CCP.

Executive

At national level, the State Council is headed by the premier. The president appoints the premier. State council members, as well as the president and vice-president of China, are approved by the NPC and may serve no more than two consecutive five-year terms.

The State Council is headed by Premier Li Keqiang. The President is Xi Jinping. The NPC approved China's new government on November 14, 2012 and they formally took office from March 2013.

Legislature

At national level, the legislature has one house.

The 2,987-member NPC is elected every five years by people's congresses of the 22 provinces, municipalities and regions. NPC members sit for five-year terms.

International memberships

China is a member of the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), the Bank for International Settlements (BIS) and a dialogue partner with the Association of Southeast Asian Nations (ASEAN).

Major Political Issues

Socio-political stability, which enhances overall economic stability and growth, remains an important domestic issue for China. In spite of China's swift economic rise, the benefits have been mainly confined to urban areas. The Chinese government wants to close the widening wealth gap between urban and rural areas. Consequently, fiscal policy is being directed towards stimulating the rural economy in an attempt to curb the rapid migration from rural to urban areas. The effect of the global economic crisis on China's economy heightened the problem, with many of those migrating from the countryside unable to find work in the cities. In February 2013 China's government approved an income inequality reform plan that included a number of schemes aimed at accelerating economic rebalancing. Plans include increased taxes on higher earners and a higher minimum wage.

The government also continues to pursue a public policy of gradual liberalization, fully encouraging foreign and domestic investment in the private sector to complement the state sector.

Through its entry into the WTO and permanent membership of the United Nations Security Council, China has emerged as a more prominent global political player. However, there are some regional political and historical issues that may affect China's long-term political stability. The NPC's formal outlawing of Taiwanese secession in March 2005, which allows for military intervention, increases the risk of a cross-Strait military conflict. Secondly, China's lingering historical, territorial and economic rivalry with Japan continues to contribute to long-standing geo-political tensions. Finally, endemic corruption and international concern over pollution and the environment remain pressing issues for the Chinese Communist Party.

Taxation

Resident/Non-resident

The Enterprise Income Tax Law (EITL) adopts the international concept of residence and expands the Chinese definition to cover both enterprises incorporated in China and enterprises that are effectively managed or controlled in China.

Effective management is defined as substantial and overall management and control over manufacturing and business operations, human resources, financial and property aspects of the entity. A foreign company also will be subject to tax in China if it has an "establishment" in China or, if it does not have an establishment in China, it derives income from China. The definition of establishment is broad and does not include an exemption for an independent agent. If a foreign company has an establishment in China, it will be subject to China tax on all income effectively connected with that establishment.

Tax Authorities

Ministry of Finance ("MOF"); State Administration of Taxation ("SAT").

Tax Year / Filing

The tax year for corporations corresponds to the calendar year.

Enterprises must file a provisional income tax return with the local tax authorities within 15 days of the end of each quarter, and pay quarterly installments of tax, generally based on the profits for the quarter.

An annual tax return and final settlement of the tax liability must be made within five months after the end of each tax year.

The filing of consolidated returns generally is not permitted; each company must file a separate return.

Corporate Taxation

Residents are taxed on worldwide income, while non-residents are taxed on China-source income and income effectively connected with their establishments (if any) in China.

The EITL governs both foreign investment and domestic-funded enterprises under a single unified tax system.

The EITL taxes both domestic and foreign enterprises at a flat rate of 25%, with the same expense deduction criteria and available tax incentives.

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.

There is no surtax or alternative minimum tax.

The principal incentives include a 15% preferential tax rate applicable to new/high-technology enterprises and a 50% super deduction for qualifying R&D expenditure. There is a geographically based incentive focused on new/high-technology enterprises established as from 2008. The incentive (in addition to the 15% rate that applies to all new high-technology enterprises) is a two-year tax holiday followed by three years at a 12.5% rate. The 15% preferential tax rate also is granted to qualified high-tech service enterprises in 21 specified cities between July 1, 2010 and December 31, 2018. Encouraged industries in certain regions (e.g. western China, Hengqin (Guangdong), Pingtan (Fujian) and Qianhi (Shenzhen)) can enjoy a reduced 15% enterprise income tax rate until December 31, 2020. Tax exemptions and other preferences apply to the agriculture, forestry, animal husbandry and fishery sectors, software and integrated circuit industries, major infrastructure projects, certain environmental projects and certain transfers of technology.

Cost sharing arrangements (CSAs) for the development of intangible property and services are formally adopted in the Special Tax Adjustment chapter. The chapter emphasizes the application of the arm's length principle to related-party transactions, preserves the use of informational returns and formalizes the use of Advance Pricing Agreements (APAs) as a means for taxpayers to address the risk of transfer pricing adjustments. The chapter also contains measures on thin capitalization and controlled foreign companies, as well as a general anti-avoidance rule that requires all arrangements to have commercial substance; otherwise they may be challenged and adjusted by the tax authorities, and interest may be imposed on any tax charged as a result of a tax adjustment.

Losses may be carried forward for five years. The carryback of losses generally is not permitted.

Advance Tax Ruling Availability

There generally is no advance ruling procedure, bu the tax authorities can issue rulings in special cases. Taxpayers normally consult their local in-charge tax officials when issues arise.

The 2004 APA regulation in respect of the transfer pricing tax regime is incorporated in the EITL. Most of its contents are included within the Implementation Regulations for Special Tax Adjustments (Trial) (STA Rules) issued in January 2009.

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.

For resident companies with foreign investments, capital gains are taxed as part of a company's taxable profits at the applicable corporation tax rate. Capital gains derived from the transfer of equity interest are calculated as the difference between the sale proceeds and the original cost of the investment. Specific guidance (Guoshuihan [2010] No. 79) further clarifies that undistributed

profits and other reserves of shareholders are included in the computation of capital gains.

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.

Specific guidance released by the SAT (Guoshuihan [2009] No. 698, Bulletin [2011] No.24 and Bulletin [2015] No.7) addresses the transfer of an equity interest by non-resident companies. It outlines reporting requirements and taxation guidelines for non-residents' direct and indirect transfers of Chinese resident companies' equity interests. A 10% withholding income tax will generally be imposed on the gains from the transfer of a Chinese resident company by a non-resident company unless an exemption is available under a tax treaty. Subject to the SAT's approval, the tax authorities may disregard the existence of an offshore intermediary holding company and tax the transfer of its shares in China where the parties to the transaction are considered to have abused the legal form and conducted the transaction with a view to avoid Chinese tax, without bona fide commercial purposes.

Withholding Tax (Subject to Provisions in Tax Treaties)

Payments to:	Dividends	Interest	Royalties	Technical Service Fees	Branch Remittances
Resident companies	None	None	None	None	NA
Non-resident companies*	10% / 20%	10% / 20%**	10% / 20%†	25%††	None

* Although the EITL provides for a 20% withholding tax, the rate is reduced to 10% under the implementation rules.

** 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. A 5% Business Tax also is imposed.

† A 10% withholding tax, which is lowered from a 20% statutory rate, applies to royalties paid to a non-resident unless the rate is reduced under a tax treaty. A 6% VAT generally is applicable, but may be waived when royalties are paid for the transfer of qualified technology.

†† Technical service fees paid to a non-resident are subject to the statutory enterprise income tax rate (i.e. 25%) on a net-profit basis to the extent the services are rendered in China, unless the tax is reduced under a tax treaty. A minimum 15% deemed profit rate is used where documents substantiating costs and expenses are unavailable. A 6% VAT generally will be levied regardless of where the services are rendered.

Tax Treaties / Tax Information Exchange Agreements (TIEAs)

A new self-assessment mechanism has been introduced for non-resident taxpayers to claim treaty benefits. Before November 1, 2015, it had been mandatory for a non-resident to request pre-approval for treaty benefits from the tax bureau in charge following the procedures and documentation requirements stated in Guoshuifa [2009] No 124; otherwise, treaty benefits were denied. However, with effect from November 1, 2015, a new circular (Bulletin [2012] No 60) now permits a non-resident to claim treaty benefits without the tax bureau's pre-approval provided the taxpayer considers that the relevant cross border transaction qualifies for tax treaty benefits and is able to provide the tax authorities with the required documentation – as prescribed in the Bulletin – as and when required.

A circular (Guoshuihan [2009] No 601) provides guidance for determining whether a resident of a contracting state is the 'beneficial owner' of dividend, interest or royalty income under China's tax treaties. It emphasizes that a beneficial owner must generally be engaged in substantive business activities. An agent or conduit company is not regarded as a beneficial owner. A recent circular (Bulletin [2012] No 30) further clarifies the determination of 'beneficial owner' and introduced a 'safe harbor' concept for listed companies; it simplifies the determination of 'beneficial owner' insofar as recipients of 'dividends' are listed companies or qualifying group companies.

The SAT released its first detailed interpretation of the provisions in China's tax treaties in 2010 (Guoshuifa [2010] No 75) since the EITL took effect on January 1, 2008. The guidance was issued in the context of an interpretation of the 2007 China-Singapore tax treaty and its protocol, but also applies to any similar provisions in China's other tax treaties/arrangements, and supersedes any previous interpretations that are inconsistent with this circular. Circular 75 therefore should be regarded as general guidance on tax treaty issues in practice.

China has exchange of information relationships with 111 jurisdictions through 104 double tax treaties and ten TIEAs (www.eoi-tax.org, January 2016).

Thin Capitalization

China imposes mandatory debt-to-equity ratios for foreign invested enterprises, and the equity of a foreign invested enterprise should be paid up within a stipulated time period.

The EITL has a thin capitalization rule, which is further specified in specific rules (Caishui [2008] No. 121): a debt-to-equity ratio of 2:1 for general enterprises and 5:1 for financial enterprises. A deduction is not allowed for interest expenses incurred on any related-party debt investments exceeding these debt-to-equity ratios, unless the underlying transactions are in compliance with the arm's length principle (demonstrated through contemporaneous documentation), or the interest expenses are payable to domestic related parties subject to higher effective tax rates. The implementation rules of the EITL clarify that 'debt investments' refer to arrangements where an enterprise has directly or indirectly acquired financing from related parties, and where the enterprise is required to repay the principal and make interest payments to the lending party (or any other form of compensation which is of an interest payment nature).

Controlled Foreign Companies (CFC)

Under the CFC rule in the EITL, where an enterprise (the CFC):

- is 'controlled' by enterprises resident in China or jointly 'controlled' by Chinese-resident enterprises and individual Chinese residents;
- is established in a country or region where the effective tax rate is lower than 12.5%;
- the CFC either does not distribute profits, or distributes less profit than it should (without justification); and

- then a portion of the CFC's profits will be attributed to the Chinese-resident enterprise and included in the latter's taxable income in the current period.

The implementation rules further clarify that the term "significantly lower" than the effective tax rate of 25% means that the effective tax rate is less than half of the 25% tax rate. In addition, the term "controlled", as cited above, includes:

- a resident enterprise or an individual resident of China directly or indirectly holding 10% or more of the total voting shares, and such resident enterprise(s) or individual resident(s) jointly holding more than 50% of the total shares of the foreign enterprise; and
- cases where the shareholding percentage of the resident enterprise(s) and individual resident(s) of China does not meet the percentage standard as stipulated above, but substantial control is formed over the foreign enterprise in respect of shareholding, financing, business, purchase and sales, etc.

The STA Rules introduce a reporting obligation for Chinese resident enterprises to file an annual reporting form on overseas investment together with the annual tax return. The competent tax authorities will issue a confirmation notice where a CFC is identified based on the review of the reporting information.

A specific circular (Guoshuihan [2009] No. 37) includes a 'white list' of countries: Australia, Canada, France, Germany, India, Italy, Japan, New Zealand, Norway, South Africa, the UK and the USA. If a CFC is incorporated in a white list country, its undistributed earnings may be exempt from inclusion in its Chinese corporate shareholder's taxable income of the current period.

Transfer Pricing

China has transfer pricing rules. China has adopted a broad definition of associated enterprises with a strong emphasis on control. An entity with significant control over the taxpayer's senior management, purchases, sales, production and the intangibles and technologies required for the business is defined as a related party. Accepted methodologies are the comparable uncontrolled price, resale price, cost plus, transactional net margin, profit split and other methods in compliance with the arm's length principle. Contemporaneous documentation is required (with certain exemptions) and cost sharing agreements may be used for developing intangible property or for shared services arrangements.

Advance pricing agreements are available.

Anti-Avoidance and Disclosure Requirements

A general anti-avoidance rule requires a bona fide business purpose for any business arrangement that has the effect of reducing, deferring or avoiding taxable revenue or taxable income. In the absence of such a purpose, the tax authorities have the power to make adjustments going back ten years.

Taxpayers are required to disclose related party transactions in the annual tax return. There are other disclosure requirements on direct and indirect share transfers, contracting or services provided by non-resident companies, etc.

Cash Pooling

There are no specific tax rules in China that apply to cash pooling arrangements.

Stamp Duty

Stamp duty at varying rates applies to contracts, agreements and certain legal documents.

Real Property Tax

Real estate tax, levied on land and buildings, is paid by the owner of real estate at 12% per annum on the original cost, less a variable allowance depending on the location, or at 12% per annum on rental income. An urban land usage tax is imposed on the land area occupied at rates ranging from RMB 0.6 to RMB 30 per square meter. Other generally minor local levies may apply.

Deed tax is imposed at 3–5% on the total value of land use rights or building ownership rights when transferred.

Land Appreciation Tax is imposed on gains realized on the transfer of real estate. The gain is calculated based on sales proceeds less certain deductions, and the tax is charged in four bands, ranging from 30% to 60%.

Historically, Business Tax had been levied at a rate of 5% on a transfer of real estate property. However, due to the VAT reform that took place with effect May 1, 2016, VAT will instead apply at a rate of 11% on the transfer of real estate property acquired on or after May 1, 2016. Please refer to the Business Tax and VAT sections for further details.

Business Tax

Business Tax ("BT"), a non-recoverable turnover tax imposed on the provision of certain services, the assignment of intangible assets (e.g. land/natural resource use rights), and the sale of immovable property within China, was finally replaced by VAT from May 1, 2016.

Sales Taxes/VAT

VAT is generally levied on the sale of goods, the provision of repair and replacement services, and the importation of goods into China.

The VAT reform program, was launched in Shanghai on January 1, 2012, and expanded nationwide on August 1, 2013. The aim of this was to transition some service industries, including the transportation industry, certain modern service sectors (e.g. R&D and technology services, leasing of moveable and tangible goods, etc.), postal services and telecommunication services from being liable to BT to being liable to VAT. With effect from May 1, 2016, the VAT reform applies to

all industries which used to be subject to BT, as well as construction services, consumer services, financial services, any other modern services previously subject to BT, and supplies of real estate and intangible assets.

For general taxpayers, standard rate of VAT is 17%, with a lower rate of 13% applying to certain foods, goods, books and utilities, while a collection rate of 3% applies to small-scale taxpayers. A lower rate of 4% applies to certain transactions involving used goods. Exports specified by MOF and SAT are generally zero-rated or exempted. The rates under the VAT reform program are mainly as follows:

- 17% for the leasing of movable and tangible goods;
- 11% for the transportation sector;
- 6% for value-added telecommunication services and other modern services;
- 11% for the sale of real estate (including self-developed) and construction services;
- 6% for financial services; and
- 6% for consumer services, including hotels, food and beverage, healthcare, entertainment and education.

Consumption Tax

Consumption tax applies to alcohol, cosmetics, diesel fuel, fireworks, jewelry, motorcycles, motor vehicles, petrol, luxury watches, tobacco, golf equipment, yachts, etc., at rates ranging from 1% to 45% of the value of the goods.

Once the taxpayer's tax status has been approved by the tax authorities, the vendor should register as a Consumption Tax payer. Returns generally should be filed each calendar month and submitted before the 15th of the following month.

Financial Transactions / Banking Services Tax

The 6% VAT on financial services applies to bank lending, fee-based financial and banking services, insurance services, lending, finance leases and transfers of financial assets. Financial leasing in the form of "sale-first-lease-back" is also treated as a lending service under the VAT reform. Financial assets cover foreign exchanges, equity securities, non-commodity futures and other financial products (e.g. funds, trusts, asset management. programs, and other financial derivatives).

Payroll and Social Security Taxes

There is no payroll tax payable by employers.

The employer is 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. The total employer contribution can be up to 40% of the employee's base monthly salary, although the rates can vary across the country.

The employee is required to contribute a certain percentage of his/her monthly salary to the above funds. There generally are limits to the total contribution payable if the employee's salary reaches a threshold set by the local authorities.

Foreign individuals legally working in China (including both locally hired and those seconded from abroad to work) are required to participate in the social security scheme, unless an exemption applies under a bilateral social security totalization agreement. Both the employer and the employee must contribute into these schemes.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2016 (www.deloitte.com).

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

The Chinese central bank is the People's Bank of China (PBC). It is based in Beijing and it is controlled by the State Council.

Within China, it is the banker to the government and to other banks. It issues currency, manages China's monetary reserves and payment systems, and supports Chinese government macro-economic policy. It is also responsible for implementing monetary policy.

Within the PBC, the main objective is to maintain currency stability.

Other banking supervision bodies

Bank supervision is performed by the China Banking Regulatory Commission (CBRC), which was established in April 2003. Previously, the PBC had been the sole regulator of the banking industry.

The CBRC develops supervisory rules and regulations governing China's banking institutions.

Central Bank Reporting

General

China applies central bank reporting requirements. These are managed by the State Administration for Foreign Exchange (SAFE), according to the rules set out in the Detailed Rules on the Implementation of Procedures for the Declaration of Data on International Payments (revised 2003) and relevant regulations.

What transactions – listed

Companies must declare information on foreign trade, incomes and expenditures, including:

- all foreign currency payments, either received from abroad or made to overseas entities. This data is reported through domestic financial institutions by residents and non-residents;
- all payments and receipts from economic transactions made between Chinese residents and non-residents.

Whom responsible

Financial institutions are responsible for the transmission of the required information on all international transactions to SAFE.

The paying bank should transmit data on international payments through the relevant SAFE computer system. Either the beneficiary of the transaction or the remitter must also submit supporting data on the transactions to SAFE.

Trading entities should report details of their foreign trade transactions directly to SAFE.

Additional reporting for liquidity management schemes

There are no additional reporting requirements for liquidity management schemes.

An entity should notify the PBC when setting up a liquidity management scheme, providing it with the identity details of the centralizing company and its directors. An entity must also notify the PBC of any subsequent changes in those details.

Exchange Controls

Exchange structure

China replaced its conventional pegged arrangement to the USD in July 2005 with a managed floating system. 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. Effective March 17, 2014, this floating band is set at 2% against the USD, up from the previous level of 1%. The trading band against most major non-USD currencies remains at 3%. In August 2015, China lowered the guiding rate for the RMB and announced it would start setting the daily rate based partly on the RMB's previous day trading rate.

Classification

Unitary.

Exchange tax

There is no exchange tax.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

China eased the restrictions on the number of banks allowed to conduct forward and interbank forward transactions, and eliminated the restriction on maturity in August 2005. Prior to this, only the four large state-owned banks were allowed to provide services in the forward foreign exchange market for loan or trade objectives for a maximum term of up to one year.

In June 2009, the system was relaxed further with all types of firms now allowed to invest forward and interbank forward earnings, subject to approval from SAFE. The government is also trying to simplify the approval process for forward foreign exchange remittance procedures.

From October 15, 2015, banks in China trading currency forwards in USD have been required to deposit 20% of sales at the PBC. Deposits at the PBC are held for a year without interest.

Capital flows

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

When a foreign or a joint-venture company is dissolved in China, the remaining claims of the foreign investor may be remitted through the firm's foreign exchange account upon approval from SAFE.

Loans, interest and repayments

Loans must be reported to SAFE, but do not require prior approval. Joint ventures involving foreign investment may borrow hard currency for their projects. Regulations are more rigorous for external borrowing by domestic financial institutions or enterprises. When arranging external borrowing, an entity should seek legal and banking advice.

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 labor-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.

Bank Account Rules

Resident entities are permitted to hold foreign currency bank accounts domestically and outside China, but residents must first gain approval from SAFE for foreign currency bank accounts held abroad.

Non-resident entities are permitted to hold foreign currency bank accounts within China.

Residents are permitted to hold renminbi (RMB) accounts outside China for deposits of RMB proceeds received from RMB cross-border transactions. Non-residents can hold RMB settlement accounts for making RMB payments and collections. Accounts are subject to approval from the PBC. The accounts are freely convertible into USD, GDP or EUR.

All corporate accounts require prior approval from the PBC/SAFE except for foreign currency settlement accounts.

Residents and non-residents operating from the Shanghai Pilot Free Trade Zone are also able to open RMB and foreign currency free trade accounts. Funds can be transferred freely between these accounts, as well as between these accounts and other accounts opened in China and oversees by residents and non residents. Foreign currency and RMB funds can be freely converted within a free trade accounts.

To open a bank account, a company must supply articles of incorporation and amendments; a list of directors (with corporate seal or signature/seal of the legal representative or his/her delegate); a list of directors with proof of identity and proof of residential address of signatories; a board resolution; account opening application forms; a specimen signature (a financial seal is required for an RMB account); a confirmation letter to certify the company's English name; and banking or commercial references. A company will also need a business license issued by the State Administration for Industry and Commerce, an enterprise standard code certificate issued by the State Administration of Technical Supervision, a certificate of approval issued by the Foreign Economic and Trade Commission (or Ministry of Commerce) and/or other competent authorities, and a state and local tax registration certificate.

Anti-money Laundering and Counter-terrorist Financing

- China has implemented anti-money laundering and counter-terrorist financing legislation (Articles 191, 312 & 349 of the Criminal Code of 1997 as amended; Rules for Anti-Money Laundering by Financial Institutions of 2003; Regulations on Anti-Money Laundering for Financial Institutions of 2003; Law of the People's Republic of China on Anti-Money Laundering of 2006; Regulations on Real Name System for Individual Savings Accounts of 2006; Rules for Anti-Money Laundering by Financial Institutions of 2006; Anti-Money Laundering Law of 2006, as amended; Administrative Rules for Reporting of Large-Value and Suspicious Transactions (entered into force March 2007); Rules on Reporting Suspicious Transactions for Terrorist Financing by Financial Institutions 2007; Administrative Rules for Financial Institutions on Customer Identity Verification and Record Keeping of Customer Identity and Transaction Information and Decision of the Standing Committee of the National People's Congress on Strengthening Counter-Terrorism Work 2011. Further AML Rules were issued in December 2012).; Rules for Financial Institutions to Enhance Customer Classification and Risk Ranking Model for AML/CTF Purpose 2012; Measures on Administration of Freezing of Assets Involving Terrorist Activities, effective from 1 January 2014.
- China is a member of the Eurasian Regional Group on Combating Money Laundering and Financing of Terrorism (EAG), the Asia-Pacific Group on Money Laundering (APG) and the Financial Action Task Force (FATF).
- China has established a financial intelligence unit (FIU), which is housed within the People's Bank of China (PBC). The FIU is split into two operational units namely, the Chinese Anti-Money Laundering Monitoring and Analysis Centre (CAMLMAC) and the Anti-Money Laundering Bureau (AMLB).
- Account opening procedures require formal identification (by means of an authentic and valid identity card or other identity document) of the account holder. Beneficial customers must also be identified.
- Financial institutions are required to identify customers when providing occasional financial services such as cash remittance, cash exchange or note cashing exceeding RMB 10,000 or the USD 1,000 equivalent.

- Financial institutions are required to identify the natural person(s) who actually control(s) the customer and the actual beneficiary of the transaction.
- Financial institutions must take reasonable steps to determine whether the customer is conducting business on behalf of others and must obtain and record information to verify the identity of the representative.
- When providing cash deposit or cash withdrawal services for an occasional transaction for a value exceeding RMB 50,000 or the equivalent of USD 10,000, financial institutions must verify the identity of the customer.
- Customers are required to give one day's notice of withdrawals exceeding RMB 50,000 in cash.
- Financial institutions in the broadest sense must record and report suspicious transactions within five days if made electronically and 10 days if in writing to the CAMLMAC.
- All transactions with possible links to terrorism must be reported within 10 days to the CAMLMAC.
- Money transfers between companies equal to, or exceeding, RMB 2 million, or between an individual and a company equal to or exceeding RMB 500,000, in one day, must be reported.
- All cash deposits, withdrawals and foreign-exchange transactions equal to or exceeding RMB 200,000 or USD 10,000 in one day must be reported to CAMLMAC.
- All cross-border transactions of sums equal to or greater than USD 10,000 in one day where one of the parties is an individual must be reported to CAMLMAC.
- All cross-border transportations of cash exceeding RMB 20,000 or USD 5,000 must be declared to the General Customs Administration.
- Banks are required to submit monthly reports to the PBC outlining suspicious activity.
- Banks must retain identity verification and transaction records for five years.

Data as at February 2016.

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) December 31, 2015
Industrial & Commercial Bank of China	3,420,520
China Construction Bank	2,825,998
Agricultural Bank of China	2,740,046
Bank of China	2,589,764
China Development Bank	1,662,266*
Bank of Communications	1,101,995
Postal Savings Bank of China Co Ltd	1,014,844*
China Merchants Bank	843,199

* As at December 31, 2014.

Source: www.accuity.com.

Overall Trend

China has five major commercial banking institutions, which, at the end of 2015, controlled approximately 37.8% of the country's banking assets. There are also three government controlled policy banks, which were established in 1994. In addition, there are 12 joint-stock commercial banks, 468 rural commercial banks, 122 rural cooperative banks, 1,803 rural credit cooperatives, as well as 91 city commercial banks that specialize in retail and corporate commerce. In December 2006, the CBRC approved the establishment of the China Postal Savings Bank (PSB) by the China Postal Group to try to reform China's postal savings system.

Since joining the WTO economic reforms, local banks are becoming more commercially oriented, though the government indirectly controls the country's commercial banks by maintaining a majority share in each bank. In January 2007, CITIC Bank, China's seventh largest bank, became a joint-stock company. It has been listed in both Hong Kong and mainland China since April 2007. Some local banks have also acquired interests in foreign banks. Deals include China Development Bank's acquisition of 3.1% of UK-based Barclays in 2007 and Industrial & Commercial Bank of China's (ICBC) acquisition of 20% of South Africa's Standard Bank in 2008, 80% of Standard Bank Argentina in 2012, 60% of London-based Standard Bank Plc in February 2015 and 75.5% acquisition of Tekstilbank in May 2015. In May 2012, US regulators approved ICBC's plans to acquire the Bank of East Asia's American unit, the first takeover of an American retail bank by a Chinese bank. The Bank of China and Agricultural Bank of China were also given permission by US authorities in May 2012 to be the first Chinese banks to establish branches in the United States.

The four largest domestic banks, all of which are state-owned, are the ICBC, the China Construction Bank, the Agricultural Bank of China and the Bank of China. They have suffered in the recent past, as has the whole of the banking sector, from non-performing loans (NPL). All of these

banks have received funds from the PBC's foreign exchange reserves to recapitalize and alleviate the NPL problems. Agricultural Bank of China was the latest bank to receive recapitalization, worth RMB 130 billion. According to the CBRC, the NPL ratio of China's commercial banks fell from 7.1% in 2006 to 1.7% by the end of 2015. Despite the overall drop in the NPL ratio since 2006, concerns over the NPL issue remain, especially given the sharp rises in lending by China's banks, which in recent years have accompanied periods of rapid economic growth, and bad debt risks for banks increasing as China's economy slows.

Although foreign banks only accounted for 1.6% of China's banking sector assets in 2014, there is a large foreign banking presence in China, with 412 foreign institutions operating in 59 cities and 27 provinces in China. To circumvent the limitations imposed by a small branch network, the leading foreign banks have instituted cash management alliances and strategic relationships with China's larger domestic commercial banks. Since December 11, 2006, foreign banks have been able to offer RMB retail products to Chinese residents and are subject to the same national treatment. During 2013, there were 42 locally incorporated foreign banks from 20 different countries, operating 92 branches. Of these 38 were wholly foreign owned banks and three were joint ventures with domestic banks. There was also one locally incorporated wholly foreign owned finance company operating in China's banking sector. There were also 95 branches of foreign banks that had received approval to conduct RMB business in China.

In July 2013 a scheme was launched allowing foreign banks to establish subsidiaries in certain free-trade zones within China, further opening up the banking sector to foreign banks. In December 2014 China eased rules on foreign banks establishing operations in China, decreasing the waiting period for applying to conduct RMB business down to one year from three and removing the requirement of profit making for two consecutive years before foreign banks can access a license to conduct RMB business.

In addition, China permits foreign investors to take strategic stakes in local banks, and, in an effort to encourage more investment activity, raised the total foreign shareholding maximum in a Chinese bank from 20% to 25%. The maximum amount of equity allowed for any one foreign investor is 20%. Several foreign banks have taken advantage of China's liberalization, including Bank of America, Deutsche Bank, HSBC, Royal Bank of Scotland, ING and, in November 2011, Bank of Nova Scotia. In March 2014 the CBRC approved a trial for the establishment of five wholly privately owned small and medium sized domestic banks. Under the pilot program establishing these institutions each bank must have a minimum of two initiators, with the banks to be located in Tianjin, Shanghai, Zhejiang and Guangdong.

In recent years some international banks and foreign investors have also sold their stakes in Chinese banks as lock-in periods expire, largely as a result of pressures from the global credit crisis, fears over NPL issues and in order to meet regulators' stricter capital requirements under Basel III. UBS, The Capital Group, Citigroup, Goldman Sachs, JP Morgan Chase, Bank of America, Royal Bank of Scotland, Hang Seng Bank and Banco Bilbao Vizcaya Argentaria are among those who have sold stakes in Chinese banks since 2009.

Payment Systems

Overview

China's three main interbank payment clearing systems are China National Advanced Payment Systems Large Value Payment System (CNAPS-LVPS), CNAPS Bulk Electronic Payment System (CNAPS-BEPS) and the Local Clearing House system (LCHs). There is also a domestic foreign currency payment system (China Domestic Foreign Currency Payment System – CDFCPS), which was launched in July 2008, and, since October 2015, a cross-border payment system processing RMB, the China International Payment System (CIPS).

CNAPS-LVPS is the country's real-time gross settlement system for high-value and urgent electronic payments. Operated by the PBC, CNAPS-LVPS was launched in June 2006 and took the place of the Electronic Interbank System.

CNAPS-BEPS is the country's main clearing system for low-value electronic retail payments and is also operated by the PBC.

The central bank has launched a second generation CNAPS to guarantee the continued and safe operation of the payment and clearing system.

LCHs are regional payment systems which clear all paper-based credit and debit payments, the majority of which are checks. Each city within the country has a paper-based clearing house.

CDFCPS settles foreign currency payments denominated in eight international currencies (AUD, CAD, CHF, EUR, GBP, HKD, JPY and USD).

An Internet Banking Payment System (Online payment interbank settlement system) for the nationwide clearing of internet-initiated payments, also known as the "Super-e-banking" system was launched in 2010. This system links up individual banks' internet banking networks and allows banking customers to make real-time account enquiries and interbank transfers online. At the end of 2015, 161 institutions participated in the system

In 2011 the Payment and Clearing Association of China (PCAC) was founded, which serves as a self-regulatory body of the payment and clearing industry in China, under the guidance and oversight of the PBC. The Cross-border Inter-bank Payment and Clearing (Shanghai) Corporation Limited was established in 2015 to independently operate CIPS. As well as these national payments systems, the commercial banks operate their own payment clearing networks for large-value funds on a gross amount basis. Oversight of all payments systems is performed by the PBC.

High-value

Name of system	CNAPS-LVPS
Settlement type	Real-time gross settlement
Settlement cycle	Payments are settled on a 24-hour basis (but can take up to 48 hours for inter-city payments). If the sending and recipient banks are direct clearing members of CNAPS and have a direct link to CNAPS, then real-time settlement is possible.
Links to other systems	NA
Payments processed	High-value and urgent low-value electronic payments, and third-party transactions
Currency of payments processed	RMB
Value and other limits to processing	Values processed must be greater than RMB 50,000. All payments over RMB 1 million must be processed through CNAPS-LVPS.
Operating hours	09:00–17:00 local time
System holidays	The system is open on all Chinese business days.
Cut-off times	17:00
Participants	All direct members must have a settlement account with the PBC. The system covers more than 800 cities in China. There are 1,799 direct and 124,138 indirect participants in the system.
Access to system	NA
Future developments	NA

Name of system	CIPS
Settlement type	Real-time gross settlement
Settlement cycle	Payments are settled on a 24-hour basis in real-time for both individual customers and financial institutions.
Links to other systems	NA
Payments processed	Cross-border RMB settlement of trade in goods and services, direct investment, financing and fund transfers for individual customers.
Currency of payments processed	RMB
Value and other limits to processing	None.
Operating hours	09:00–20:00 local time
System holidays	The system is open on all Chinese business days.
Cut-off times	NA
Participants	27 direct participants and 387 indirect participants.
Access to system	NA
Future developments	A second phase of CIPS will be launched in the coming years with extended features

Low-value

Name of system	CNAPS-BEPS
Settlement type	Real-time gross settlement
Settlement cycle	Settlement is on a same-day or next-day basis: T+1 for credits/debits of receiving bank, T+2 for dated debits.
Links to other systems	NA
Payments processed	Low-value and non-urgent electronic payments in the form of credit, pre-authorized collections and dated debits
Currency of payments processed	RMB
Value and other limits to processing	Credit and standing order transactions must be less than RMB 50,000. Other payments processed do not have a value limit.
Operating hours	BEPS operates 24 hours a day, with payments being settled between 08:30 and 17:00 local time.
System holidays	The system is open on all Chinese business days.
Cut-off times	16:00
Participants	There are 1,807 direct and 124,016 indirect participants in the system.
Access to system	NA
Future developments	NA

Name of system	Local Clearing House system
Settlement type	ACH or manually
Settlement cycle	A Nationwide Check Imaging System (CIS) truncates and clears checks electronically. Processing is within 24 hours for intra-city checks. Most inter-city checks take 48 hours to process. LCHs that process high volumes operate a morning and afternoon clearing session each business day. Final settlement is via the Bulk Electronic Payment System.
Links to other systems	NA
Payments processed	All paper-based credits and debits, such as checks
Currency of payments processed	RMB
Value and other limits to processing	There are no value thresholds.
Operating hours	24 hours during business days
System holidays	The system is open on all Chinese business days.
Cut-off times	16:15
Participants	1,161
Access to system	Payment instructions are exchanged by magnetic media (barcodes or communication networks).
Future developments	NA

Foreign Currency

Name of system	China Domestic Foreign Currency Payment System (CDFCPS)
Settlement type	Real-time gross settlement
Settlement cycle	Settlement is on a same-day basis.
Links to other systems	NA
Payments processed	Foreign currency electronic funds transfers
Currency of payments processed	AUD, CAD, CHF, EUR, GBP, HKD, JPY and USD
Value and other limits to processing	There are no value thresholds.
Operating hours	09:00–17:00 local time
System holidays	The system is open on all Chinese business days.
Cut-off times	17:00
Participants	31
Access to system	China National Clearing Center (CNCC) receives, clears and transmits payment instructions to participants
Future developments	NA

Payment and Collection Instruments

Overview and Trends

The most important cashless payment instruments in China are debit cards among individuals, checks between local institutions and electronic credit transfers for intercity payments. Economic expansion in China's large cities has led to a growth in the use of electronic payments, such as internet, telephone and mobile payments.

Statistics of Instrument Usage and Value

	Transactions (million)		% change	Traffic (value) (RMB trillion)		% change
	2014	2015	2015/2014	2014	2015	2015/2014
Checks	551.8	391.2	– 41.0	242.5	211.5	– 12.8
Commercial drafts	18.4	19.1	3.8	19.3	21.0	8.8
Bankcards	59,573	85,229	43.1	449.0	669.8	49.2
Credit transfers*	NA	6,343	NA	NA	2,698.2	NA
Direct debit*	NA	2,33.2	NA	NA	128.1	NA
Total	**60,143.2**	**91,982.3**	**NA**	**710.8**	**3,728.6**	**NA**

* The PBC changed the presentation of payment instrument statistics in 2015, and, therefore, data is not currently available for 2014 in select categories as it was previously aggregated as "electronic payments."

Source: People's Bank of China.

Paper-based

Checks

Despite the growth in payment cards and electronic transfers, checks are still the most common cashless method of payment between small local businesses, although they are rarely used by consumers. Because checks are only valid for ten days after issuance, they have not generally been used to make intercity payments as they can take up to 35 days to process. The Nationwide Check Imaging System (CIS) has sped up the processing time for intercity checks since its introduction in 2007 and allows personal and company checks to be used across the country.

Checks can be written for amounts up to RMB 500,000. Company checks require a hand-written signature and a company finance chop stamp to be valid. Checks are processed by the LCH system. Processing times can take up to 24 hours for local checks and now up to three days for intercity checks.

Electronic

Credit Transfer

Credit transfers are the main form of payment instrument used by companies to pay suppliers, particularly for use in large financial centers and non-local funds transfers. They are also increasingly used to make tax and social security payments.

High-value

High-value and urgent credit transfers are processed through CNAPS-LVPS. Customer payments must be submitted by 17:00 to be settled within 24 hours. If both the remitter and the beneficiary are direct members with direct links to CNAPS then real-time settlement is possible.

There is no distinction between high-value and low-value cross-border electronic payments, which are processed through correspondent bank networks. Most major banks have direct SWIFT connections and some can issue bank drafts in foreign currencies. However, regulations make it difficult to transfer money outside China.

The commercial banks also operate their own payment clearing networks for high-value funds on a gross amount basis.

Low-value

Non-urgent and low-value credit transfers are processed through CNAPS-BEPS. Most payments are processed to be settled on a same-day or next-day basis.

Direct Debits

Direst debits are becoming increasingly used in China in the form of preauthorized collections and dated debits, which enable fixed payments on a regular basis. Direct debits are processed through CNAPS-BEPS. Dated debits are processed to be settled on a next-day basis, while preauthorized collections can be settled on a same-day basis.

Payment Cards

The use of payment cards continues to increase in China, especially among retail consumers. Bankcards were the most popular cashless payment instrument in China amongst individuals during 2015.

At the end of 2015, there were approximately 5.4 billion debit cards in circulation in China, accounting for around 92.6% of all payment cards in circulation. By contrast, there were only approximately 432 million credit cards, accounting for 7.4% of all payment cards. Debit cards in China are issued when a bank account is opened and also serve as ATM cards.

The PBC has started to promote the use of chip-embedded payment cards in China, in the form of IC-based bank cards. It aims to migrate all RMB denominated magnetic payment cards towards IC-based chip-embedded cards in the future.

Payment cards are cleared through CNAPS-BEPS.

Despite a Financial Card Statute being passed during 2006 to promote competition within the local financial card market, China currently has only authorized one company, China UnionPay, to process domestic RMB payment card transactions. In July 2012 the World Trade Organization ruled that China has been discriminating against foreign electronic payment providers, limiting access for foreign payment card providers such as Visa and MasterCard. In 2014 China's government finally announced it was opening the market for clearing domestic bank card transactions to foreign entities.

ATM/POS

There is an increasing use of ATMs and POS terminals in China. At the end of 2015 there were approximately 889,800 ATMs and 3.5 million POS terminals in China.

Electronic Wallet

To date, there has been limited use of electronic money schemes in China, although its usage is now growing rapidly. Most issuers are non-financial based companies and e-money is mainly used on public transportation networks such as that in Shanghai and in restaurant chains.

Prepaid cards comprised 32.2% of the total volume of payment card transactions in 2010, but only 0.5% of the value. There were approximately 195.1 million cards with a prepaid electronic money function in circulation at the end of 2010.

Liquidity Management

Short-term Borrowing

While it is possible for foreign-invested enterprises (FIEs) to obtain external funding, they have to meet strict criteria. This criteria has recently been relaxed for companies located in the Shanghai Free Trade Zone, although rules specify that any external funds obtained must be used within the Zone.

Overdrafts

Local Chinese banks and foreign banks in China offer overdrafts to local enterprises and FIEs, but the latter prefer to obtain such funding in Hong Kong where interest rates are lower.

Overdraft interest rates vary widely.

Bank Lines of Credit / Loans

Banks can provide temporary advances for up to three months or short-term loans of three to 12 months under revolving lines of credit.

Historically the People's Bank of China (PBC) controlled bank lending with a quota system that it has since abolished. However, it publishes General Rules on Loans for domestic Chinese banks' credit extension to domestic companies and FIEs. The rules require Chinese banks to assess properly the creditworthiness of their borrowers. There are no similar PBC rules for foreign banks.

In October 2013 the PBC launched a new Loan Prime Rate as a reference for interest rates. The Loan Prime Rate is set in line with the rates charged by China's nine biggest lending institutions to their prime clients.

Securities and/or guaranties are required as collateral.

Trade Bills – Discounted

Local and foreign banks discount foreign trade-related bills of exchange.

Factoring

Factoring of domestic receivables is rare.

For import and export transactions Chinese factors work in collaboration with overseas factors who know and take the risk of the non-Chinese counterparty to transactions.

Commercial Paper

China's commercial paper market is fragmented, conducted through regional centers. Commercial paper, also referred to as "Corporate Bills" in China, has been issued in the Shenzhen Special Economic Zone since 1996, although the absence of a secondary market for unsecured promissory

notes meant issues were rare. From December 2010, China's National Association of Financial Market Institutional Investors (NAFMII) issued Guidelines for Super and Short-term Commercial Paper (SCP), which permitted CP to be issued in China's interbank bond market. Since then, a number of companies have been approved to issue commercial paper. In 2016 the PBC announced new rules to shift the issuance of commercial paper to electronic forms. This includes the requirement of all commercial paper issued with a face value of more than RMB 3 million yuan to be executed electronically as of 2017.

Bankers' Acceptances

Bankers' acceptances are issued in China in the form of Bank Acceptance Drafts (BAD).

Supplier Credit

Obtaining supplier credit is a matter of negotiation with a company's suppliers.

Intercompany Borrowing, including Lagging Payments

Until recently inter- and intragroup company borrowing and lending had generally been illegal, despite the existence of an informal market. From late 2012 the PBC launched pilot programs enabling permitted entities to engage in cross-border intercompany loans but pre-approval from SAFE is required and, from September 2015, direct intercompany loans between Chinese group companies have been possible under law.

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Interest-bearing current, or checking, accounts are available, but interest paid is low. Banks set their own interest rates on foreign currency deposits over USD 3 million.

Demand Deposits

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

Time 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. Rates are published for seven-day, one-month, three-month, six-month and one-year terms. Foreign currency time deposits are available for three, six, 12 and 24 months, and banks may freely set rates on foreign currency fixed deposits over USD 3 million.

Certificates of Deposit

In the past Certificates of deposit (CDs) have been available in China but they have not been commonly used as investment instruments due to an under developed market that lacked liquidity.

However, in 2013 the PBC issued guidelines on CDs that will allow banks to trade CDs with each other at market-determined prices. Under the news guidelines, CDs with interest rates based on the Shanghai interbank offered rate can be issued by depository financial institutions for as 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.

Treasury (Government) Bills

Treasury bills (T-bills) are issued by the Chinese government. Qualified Foreign Institutional Investors are permitted to trade in Chinese government securities.

Commercial Paper

Commercial paper (CP) is a popular short-term investment in China because of the interest ceilings set by the PBC. However, CP is currently not available for foreign-invested companies.

- Upon submission of the appropriate documentation to the PBC, all legal entities registered in China can apply to issue bonds and CP to institutional investors in the interbank bond market (OTC market).
- Financial institutions must prove good management and continuous profitability, an adequate capital ratio, capable risk management, the regulator's approval, and a rating class by rating agencies, among other criteria.
- Non-financial institutions issuing bonds or CP must prove continuous profitability, good solvency and liquidity, vigorous internal controls, a rating class by locally registered rating agencies, due diligence reports, and financial reports, among other criteria. The CP issued by non-financial institutions cannot exceed 365 days.

Money Market Funds

Money market funds are available in the interbank market.

Repurchase Agreements

Repurchase agreements (repos) are available as a short-term investment instrument in China and can be traded.

Bankers' Acceptances

Bankers' acceptances are not common in China.

Liquidity Management Techniques

Cash Concentration

Liquidity management has been complicated in China by strict government controls on foreign exchange transactions. However, liquidity management is increasingly possible as China lifts its currency controls.

Cash concentration has been possible in China through entrustment loan (EL) agreements. Under this set-up, banks or Chinese-registered group financial companies act only as intermediaries, aiding the flow of funds between the participating entities and not taking any credit risk in the transaction. Physical sweeping arrangements can be designed as daily zero-balance, target balance and threshold balance accounts, and make available structures that are commonly found abroad. Cross-bank sweeping is also possible, permitting a true pan-China sweeping solution for companies. EL agreements require approval from SAFE and there is no standard EL structure. Therefore, due diligence and care must be taken when establishing these structures.

Qualified non-residents can participate in a cash concentration structure located in China. Since November 1, 2004, SAFE has permitted selected subsidiaries of domestic and foreign multinationals to temporarily lend excess foreign currency funds to related group entities domestically within China or overseas prior to formal declaration and payment of dividends. In 2005, the Shanghai Pudong City Government allowed foreign currency cash pooling with domestic group entities using ELs for select multinational companies. The Pudong Nine Measures also permitted concentration of foreign currency funds from overseas subsidiaries and SAFE approved funds from domestic subsidiaries to offshore accounts known as offshore banking units. They also enabled companies to centrally manage domestic payments to, and collections from, an overseas parent company, if authorized by Chinese group entities.

The PBC introduced additional reforms in April 2006. Under the Six Measures, rules regarding local companies investing in wealth management products abroad have been relaxed, allowing local companies to open foreign currency current accounts with prior approval from SAFE.

Since 2012 the PBC and SAFE has introduced further reforms, with pilot programs in Shanghai and Beijing that allow authorized entities to engage in automated cross-border sweeping and cross-border intercompany lending and these are now being rolled out nationally.

Notional Pooling

Notional pooling is now possible in China, both in RMB and foreign currency, domestically and cross-border. Although its use is subject to some PBC and SAFE restrictions, it is offered by both foreign and domestic banks in China.

Trade Finance

General Rules for Importing/Exporting

China has been a member of the WTO since December 2001 and has altered its trade finance regulations to conform to WTO standards. In order to engage in import/export trade, a company must register with the Administration for Industry and Commerce and gain consent from the Foreign Trade Administration.

China is a member of APEC and has bilateral trade agreements with Chile, Costa Rica, Pakistan, Jordan, Thailand, Senegal, Peru, New Zealand and Singapore.

Since January 2010 a regional trade agreement between China and ASEAN has been in place, eliminating 90% of investment barriers and tariffs between China and ASEAN's member states.

China signed free trade agreements with Australia, Switzerland, Pakistan, Chile, New Zealand, Singapore, Peru, Costa Rica and Iceland and has Closer Economic Partnership Agreements in place with both Hong Kong and Macau. It is also working toward agreements with Norway and the Gulf Cooperation Council (GCC) and considering deals with South Korea, India and Japan.

Imports

Documentation Required

When buying foreign currency or making payments in foreign currency, the importer must file import contracts, customs declarations, commercial invoices (including a full description of the imported goods), shipping documents and payment verification forms. In some cases, a packing list, a pro-forma invoice and/or a certificate of origin may also be required.

Products under import controls require an import permit. In some cases, an automatic registration license may be necessary. However, the shipping document, import permits and automatic registration licenses are not requisite if imports are paid for on delivery.

Import Licenses

All companies are required to register with the Administration for Industry and Commerce and gain approval from the Foreign Trade Administration.

Controlled chemical products, chemicals that can easily be turned in to narcotics and ozone-depleting materials require import licenses.

China eased import restrictions for 338 types of products in April 2007, such as hot-rolled and cold-rolled steel, plastics, and machinery, to facilitate a reduction in the country's trade surplus.

The authorities may implement automatic licensing for any goods they wish to examine. The license is valid for six months and can be used for up to six shipments.

Import Taxes/Tariffs

Import taxes are levied inclusive of cost, insurance and freight. Import tariffs fall under six categories:

- the Most Favored Nation (MFN) tariff rate – for WTO member countries or with countries that have established an MFN agreement;
- the Conventional tariff – for delegations that have concluded a regional trade agreement from a preferential tariff clause;
- the Preferential tariff – for countries which have signed a preferential tariff agreement with China;
- the General tariff rate – for imports from countries not included in trade agreements with China, or from unknown places of origin,
- Tariff rate quota duty rates – for goods subject to import quotas,
- Temporary tariffs – for goods needed to meet domestic demand temporary tariff rates are set below that of MFN rates.

China has reduced its average tariff rate to 9.5% (at the end of 2015), down from 15.3% in 2001, when it entered the WTO. The average tariff for agricultural products is currently 148% and is 8.6% for industrial products.

In January 2010, the China-ASEAN Free Trade Area (CAFTA) came into effect, the third largest trade agreement in the world in terms of volume. Under CAFTA, the average tariffs on goods imported from ASEAN countries has been cut to 0.1%, down from 9.8%.

Financing Requirements

None.

Risk Mitigation

China does not operate a national risk mitigation program for importers.

Prohibited Imports

China prohibits certain imports for moral and cultural reasons, and to protect national security.

Exports

Documentation Required

Exports will normally need to be accompanied by a commercial invoice, a customs declaration, a bill of lading, terminal handling receipts, a packing list, a certificate of origin and a cargo release order.

Proceeds

Foreign-owned companies may retain proceeds from exports (up to a specified amount) in a basic foreign exchange account with specified foreign exchange banks.

Financing Requirements

There are no particular financing requirements for exports. The Export-Import Bank of China provides export credit, particularly for the mechanical, electronics, and advanced and new technology sectors. It can also provide credit for overseas construction.

Export Licenses

General export permits are required for commodities such as cattle, certain fresh and frozen meats, ozone depleting goods, paraffin, some metals and metal, automobiles and certain other vehicles, molybdenum and its products and citric acid.

Permission must be granted from the Ministry Commerce (MOFCOM) in Beijing before consent can be given at a local level.

Export licensing applies to both foreign and domestic entities.

Export Taxes/Tariffs

Tariffs usually range between 5% and 40%, with the exception of some fertilizer products, which attract a special export duty of 75%.

Risk Mitigation

Export protection is available from the China Export and Credit Insurance Corp (Sinosure), a policy-oriented insurance company.

Prohibited Exports

China prohibits exports for moral and cultural reasons, and to protect national security.

The Chinese government is the sole trader for certain commodities, such as corn, cotton, rice, silver, coal and silk. There are specially designated traders for products such as tea (oolong tea, green tea) and certain steel cuts.

Information Technology

Electronic Banking

The number of Chinese companies that have access to electronic banking services continues to grow. Most major banks are investing substantially in their e-banking infrastructure to improve efficiency and widen their service, including offering internet-based banking. A range of electronic banking services is available, from account enquiries to payment initiation. However, the use of Chinese characters can be problematic for automated payments. Some banks offer SAP to help with this issue, but it is still dependent on whether the system can handle Chinese characters.

Despite having the world's highest number of internet users, internet banking in China remains restricted to large cities. Public reservations over security have limited the number of internet banking accounts in China, despite the fact that most banks have adopted the certificate system of the China Financial Certification Authority (CFCA) to encrypt their internet banking systems.

In August 2010, the PRC launched an Internet Banking Payment System (Online payment interbank settlement system) for that integrates the online banking services of various banks to provide a nationwide clearing system for internet initiated payments. The "Super-e-banking" system, became fully operational nationwide during 2012 and most of China's major domestic banks and some foreign banks now participate in the system. Customers of these institutions make real-time, online transactions and account enquiries.

Foreign banks that are authorized to engage in internet banking in China include Bank of East Asia, HSBC, Citibank and Hang Seng Bank.

External Financing

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.

Interest is charged by reference to the guidelines set by the PBC.

Preferred collateral is account receivables and export tax rebates.

Domestic foreign currency loans are usually priced by reference to overseas financial centers' interbank offered rates – London, Hong Kong or Singapore.

Leasing

Leasing is available for domestically produced equipment and for capital goods exported from China.

Originally Sino–foreign joint venture leasing companies (JVs) facilitated the importation of equipment.

Leasing JVs can only provide finance leases, which are mostly denominated in foreign currencies.

Leases are usually arranged for between two and five years.

Bonds

The PBC establishes annual quotas for bond issues by domestic issuers. While it is legally possible for some FIEs to issue bonds, there is no quota available for such issues.

A bond issuer has to meet the financial criteria of the PBC and the National Development and Reform Commission as well as obtain their approval, at which time the bond's interest rate is set.

In 2016 the PBC has opened up China's bond market to many foreign investors announcing that most types of overseas financial institutions will no longer require PBC approval or be restricted to quotas when investing in the interbank bond market. Previously, as part of a pilot project to allow foreign entities to enter China's interbank bond market and banks to invest their offshore RMB in onshore RMB bonds, the PBC has permitted some foreign entities to trade in interbank bonds.

Private Placement

There is no market for privately placed debt issues and FIEs are not allowed to issue loan notes privately.

Asset Securitization / Structured Finance

There are currently a number of regulatory issues which preclude securitized debt issuers.

Government (Agency) Investment Incentive Schemes / Special Programs or Structures

The Chinese government wants to involve the private sector in infrastructure projects. All project finance initiatives have to be approved by the State Administration of Foreign Exchange. Returns are capped at 15%.

Power, water supply and waste treatment are favored sectors.

Useful Contacts

National Investment Promotion Agency

China Council for the Promotion of International Trade -- www.ccpit.org

Central Bank

People's Bank of China -- www.pbc.gov.cn/english

Supervisory Authorities

China Banking Regulatory Commission -- www.cbrc.gov.cn/english/index.html

China Securities Regulatory Commission -- www.csrc.gov.cn/pub/csrc_en/

Payment System Operator

People's Bank of China -- www.pbc.gov.cn/english

Payment and Clearing Association of China (PCAC) -- www.pcac.org.cn

ATM/POS Network Operator

China Union Pay -- cn.unionpay.com

Banks

Industrial and Commercial Bank of China -- www.icbc.com.cn

Bank of China -- www.bank-of-china.com/en

Agricultural Bank of China -- www.abchina.com

China Construction Bank -- www.ccb.com

Stock Exchanges

Shanghai Stock Exchange -- www.sse.com.cn

Shenzhen Stock Exchange -- www.szse.cn/main/en

Ministry of Finance

Ministry of Finance -- www.mof.gov.cn

State Administration of Foreign Exchange -- www.safe.gov.cn

Ministry of Economy

Ministry of Commerce of the People's Republic of China -- english.mofcom.gov.cn

Chamber of Commerce

International Chamber of Commerce –– www.china.com

Bankers' Association

Shanghai Banking Association –– www.sbacn.org

China Banking Association –– www.china-cba.net