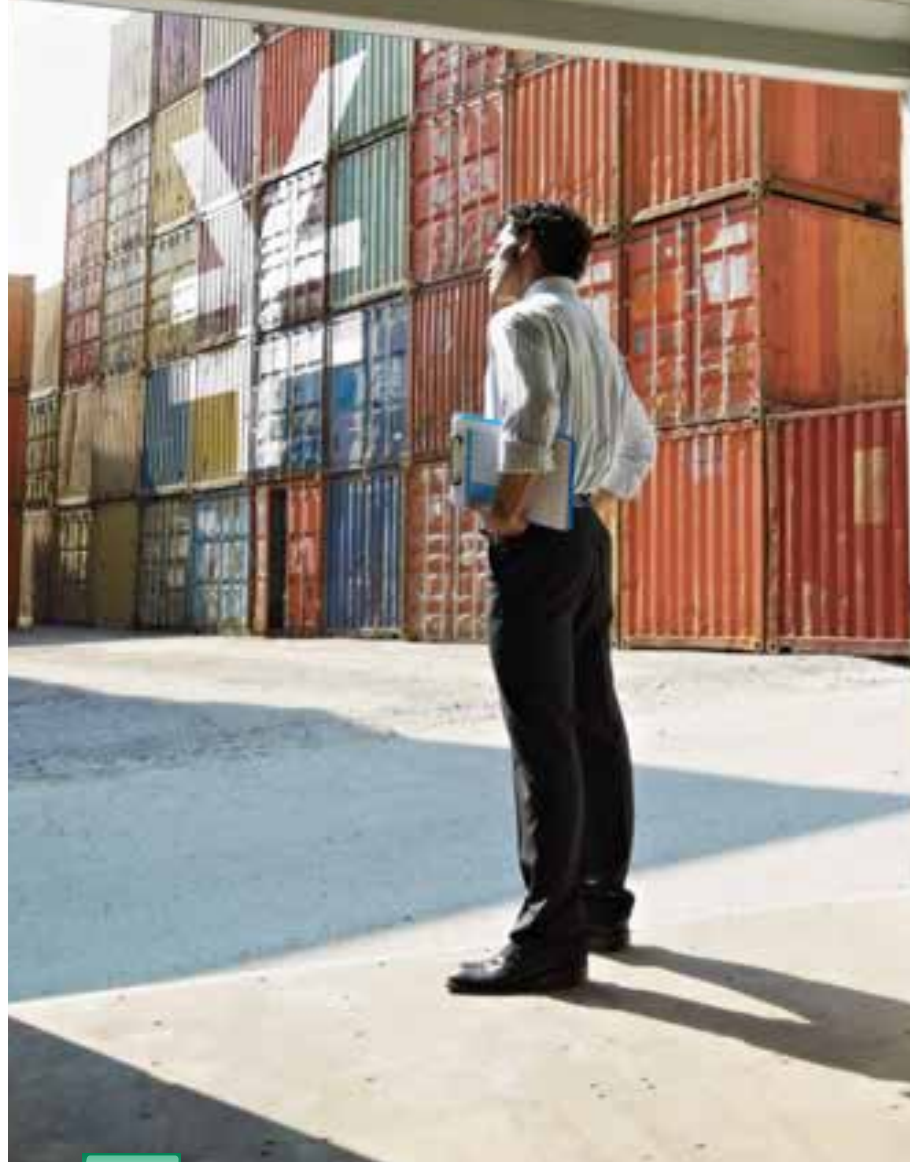




All About RMB

Corporate Handbook



BNP PARIBAS | The bank for a changing world



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An overview of the world's No. 2 economy.

Why China? Why RMB?



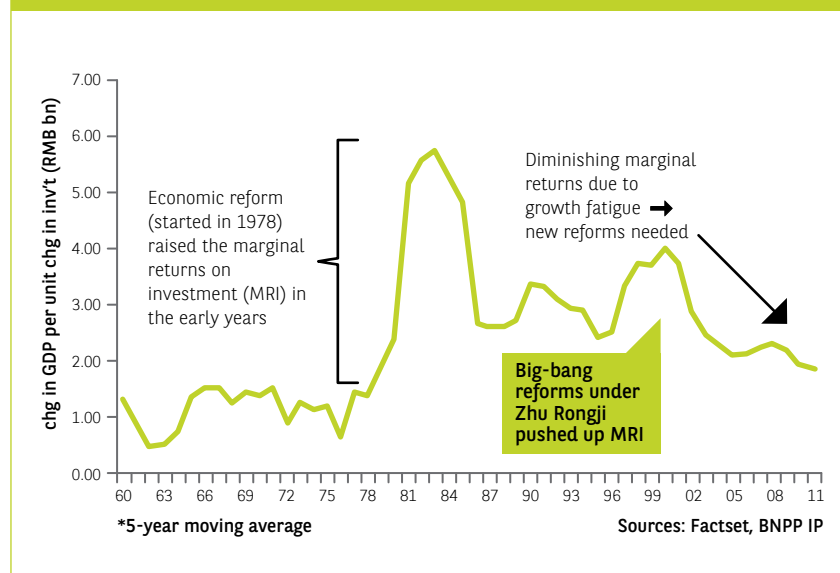
China is now the second largest economy in the world and has seen its trade clout growing at an average rate of 22% per annum for the last 10 years. The use of RMB has gone from virtually zero to more than 13% of the overall exchanges in the past 2 years. We expect China trade to double by 2020 and the usage of RMB to continue booming until it becomes one of the 3 major currencies used globally.

Opportunities are unfolding

The Chinese leaders understand that structural reforms are urgently needed to avoid economic growth fatigue. A new wave of reforms is underway. It will be China's first significant move since the 1990s when former premier Zhu Rongji implemented state sector reform, which led to rising investment efficiency and productivity. However, the "reform dividends" have been exhausted during the past decade (Chart 1).

Structural rebalancing in the Chinese economy has been happening, albeit slowly, since the mid-2000s when income and investment growth trends have started shifting from the rich eastern provinces to the less developed interior region (Chart 2 and 3). The trends are driven by Beijing's "go west" strategy via

Chart 1: Chinese structural reform and marginal returns on investment*



fiscal spending and infrastructure investment. This process has led to a regional division of labour, with low value-added activity moving inland where labour costs are cheaper and high value-added industries emerging in the east. These changing dynamics are essential for an eventual structural shift towards a consumption-driven economy, but they need to be sustained to ensure success.

Chart 2: Per capita GDP rebalancing towards the inland

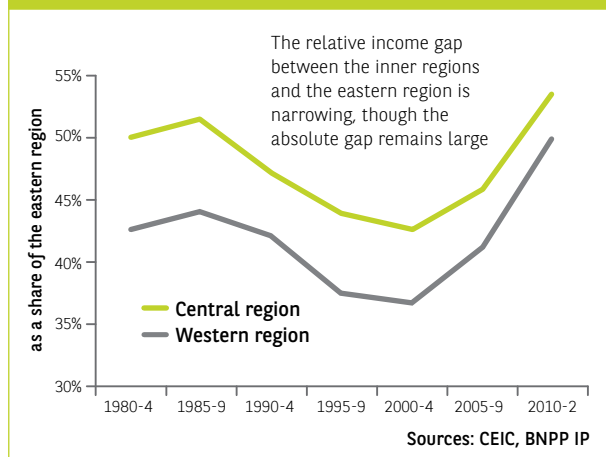
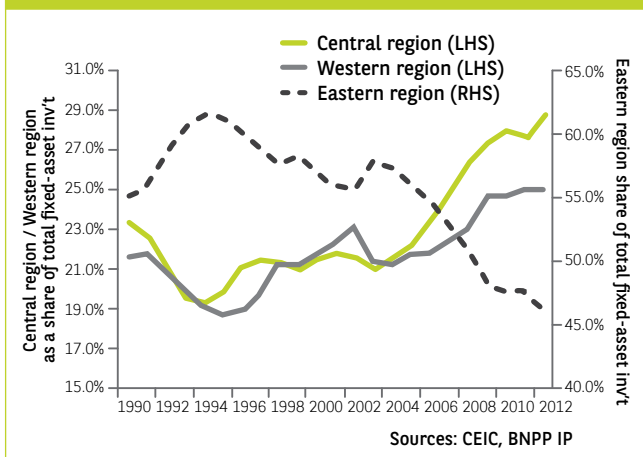


Chart 3: Investment moving inland



Market is deregulated through RMB internationalisation

There are also signs that China's monetary policy framework is changing to support economic rebalancing. In mid 2013, the PBoC had to deal with a credit crunch which pushed interbank rates to record highs. Some people saw this as a way to rein in shadow banking activities. Subtly, this might mark the PBoC's policy shift towards using interest rates as a tool to transmit monetary policy in order to regain monetary control. By rebalancing its policy orientation away from a

control-based model towards one that is more market-based, the PBoC has made a step towards improving capital allocation, which is important for facilitating economic rebalancing.

Internationalising the RMB is an integral part of Beijing's new reform strategy. This is because the process to push for full RMB convertibility will force corresponding structural changes in the economy. China's current account has already been made fully convertible since 1999;

this has formed the basis for RMB internationalisation. Since mid-2009, China has allowed trade settlement in RMB. Today, there is no impediment to settling foreign trade in RMB by all Chinese importers and exporters. The next step to deepen RMB internationalisation is to create incentives for foreigners to hold and use RMB for non-trade purposes. This will involve deeper financial liberalisation and expansion of the offshore RMB market.

The RMB is going global: from a trade currency to a reserve currency

RMB internationalisation is a mega-trend that will unfold in the coming years. The new reform development will make the Chinese system more efficient and liberal, opening up more economic opportunities to the world. Serious money, such as investment from official institutions (OIs), including central banks and sovereign wealth funds, is starting to gain exposure to China's rising economic clout.

Twenty-one central banks have signed currency swap agreements with China so far. Many are also acquiring QFII quotas to purchase Chinese fixed income securities. The number will grow over time.

Some OIs are starting to allocate assets to countries based on their contribution to world GDP growth instead of their relative global bond market share. This is not a

short-term search-for-yield tactic by the OIs. It is a secular shift in global asset allocation strategy. Chinese assets will benefit as China's contribution to world GDP growth will only grow over time. With developed-world growth constrained by the post-crisis adjustment process, more OIs and institutional investors are likely to make similar strategic asset allocation decisions.

1. Trading with China

International trade in RMB. How does it work

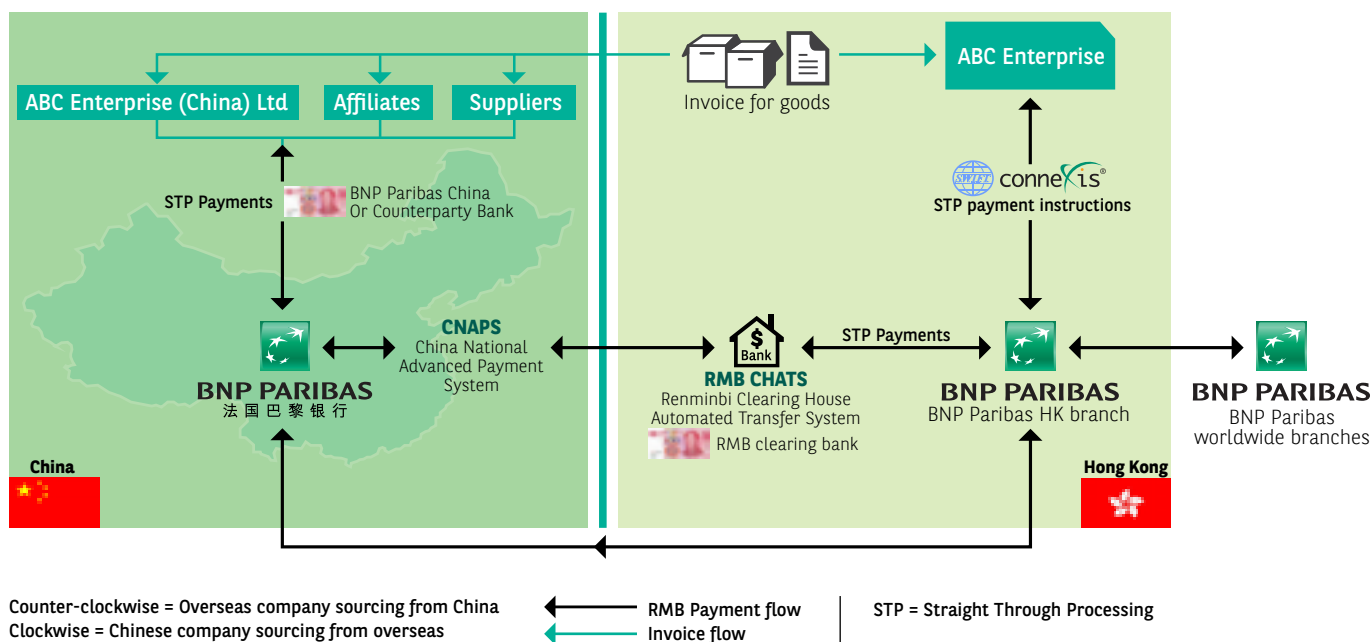
When dealing with China, trade and cross-border payments are the first operations that come to mind. It can be in the form of export or import of goods or services. Whilst in the past most of these operations were denominated in USD, RMB has been taking an increasing role, thanks to regulatory openings. The recent RMB internationalisation stream definitely expands the role of the Chinese currency.



Key points to bear in mind:

- ⊕ Hong Kong has been an offshore liquidity hub for RMB since 2010.
- ⊕ Additional offshore RMB clearing centres are being set up in Taiwan and Singapore, and possibly London and Paris in the near future.
- ⊕ It is also possible to go directly into China using an onshore bank which holds a RMB settlement bank licence.
- ⊕ All trade finance products (import/export LCs, documentary collections, SBLCs & guarantees) and trade financing solutions, as well as LC discount and supply chain programmes (supplier financing and purchase of receivables), are available in RMB.
- ⊕ There are more and more incentives in using RMB in export/import dealings with China.

Clearing of RMB transactions through Hong Kong



In China, cross-border RMB payments are cleared via CNAPS.

- ⊕ CNAPS = China National Advanced Payment System
- ⊕ Real-time gross settlement platform
- ⊕ Unique 12-digit CNAPS bank code
- ⊕ Linked to the RMB clearing bank in Hong Kong and Macau

In Hong Kong, cross-border / domestic RMB payments are cleared via CHATS.

- ⊕ CHATS = Clearing House Automated Transfer System
- ⊕ Real-time gross settlement platform
- ⊕ Unique 3-digit clearing code + unique 3-digit branch code
- ⊕ The RMB clearing bank is a member of CNAPS

Pros and cons of RMB as a trade settlement currency

	Sales Activities	Procurement Activities	Both Sales and Procurement Activities
Onshore Entities in China	Receive RMB in China	Pay RMB to overseas	Receive and pay in RMB
	Pros: Natural hedge against domestic expenses/costs. Earn higher interest rate on RMB compared to USD/EUR. Faster settlement if counterpart's RMB account is in HK/Macau. No translation gain/loss.	Pros: Natural hedge against domestic sales. No need to embed forecasted RMB appreciation into price.	Pros: Save FX costs via partial natural hedge.
	Cons: Profit margins might be squeezed as they would no longer need to include FX hedging costs.	Cons: Overseas counterpart may not wish to use RMB. Overseas counterpart's bank may not be able to provide RMB services.	Cons: Need to re-negotiate on contract currency.
Offshore Entities Overseas	Receive RMB overseas	Pay RMB to China	Receive and pay in RMB
	Pros: Generally earn higher interest for RMB compared to USD/EUR. Can hedge through CNH deliverable forward. May benefit from market view of long term RMB appreciation. Obtain cheaper funding onshore for example by discounting RMB usance L/C. Longer term L/C than USD.	Pros: Larger supplier base in China. Can hedge through CNH deliverable forward. Negotiate better price/payment terms due to more transparent pricing from Chinese suppliers. Longer term L/C than USD.	Pros: Save FX costs via partial natural hedge. Longer term L/C than USD.
	Cons: FX management over invoice price in RMB.	Cons: FX management due to market view of long term RMB appreciation.	Cons: Need to re-negotiate on contract currency.

Some advantages of using RMB

Up to 3% price discount

- ⊕ When dealing in foreign currencies, Chinese entities bear the FX hedging costs. As such, they include in their prices a flat buffer fee which lacks transparency. This buffer covers the FX exposure hedging price with Chinese banks; moreover, the FX hedging is usually not perfect, and there is a residual risk left.
- ⊕ If settlement is done in RMB, this buffer is no longer needed.
- ⊕ Settling in RMB could also avoid extra commission charged by importing/exporting agencies.

→ Negotiation is worthwhile

BNP Paribas observes that overseas corporates can get a price discount in the range of 1% to 3% when dealing with their Chinese counterparts in RMB.

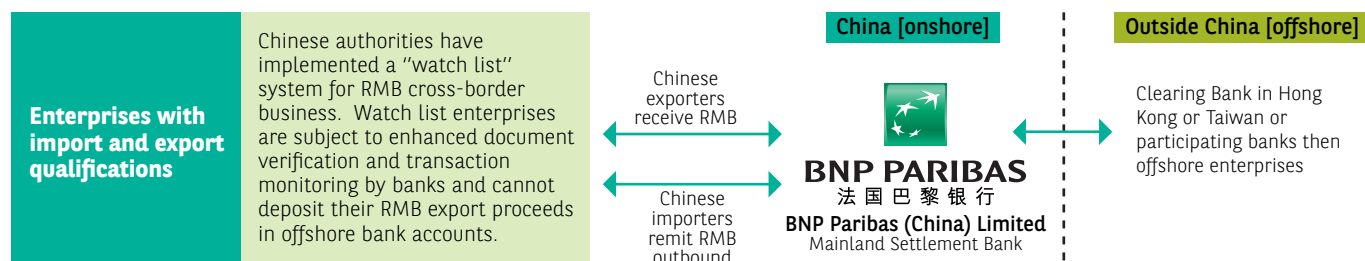
Payment terms extended up to 210 days

- ⊕ In China, payment terms of trade settled in foreign currencies are normally limited to a maximum of 90 days (both for imports and exports).
- ⊕ There is an extra administrative burden for transactions in foreign currencies when payment terms go beyond 90 days.
- ⊕ However, settlement in RMB benefits from an automatic extension of payment terms for up to 210 days.

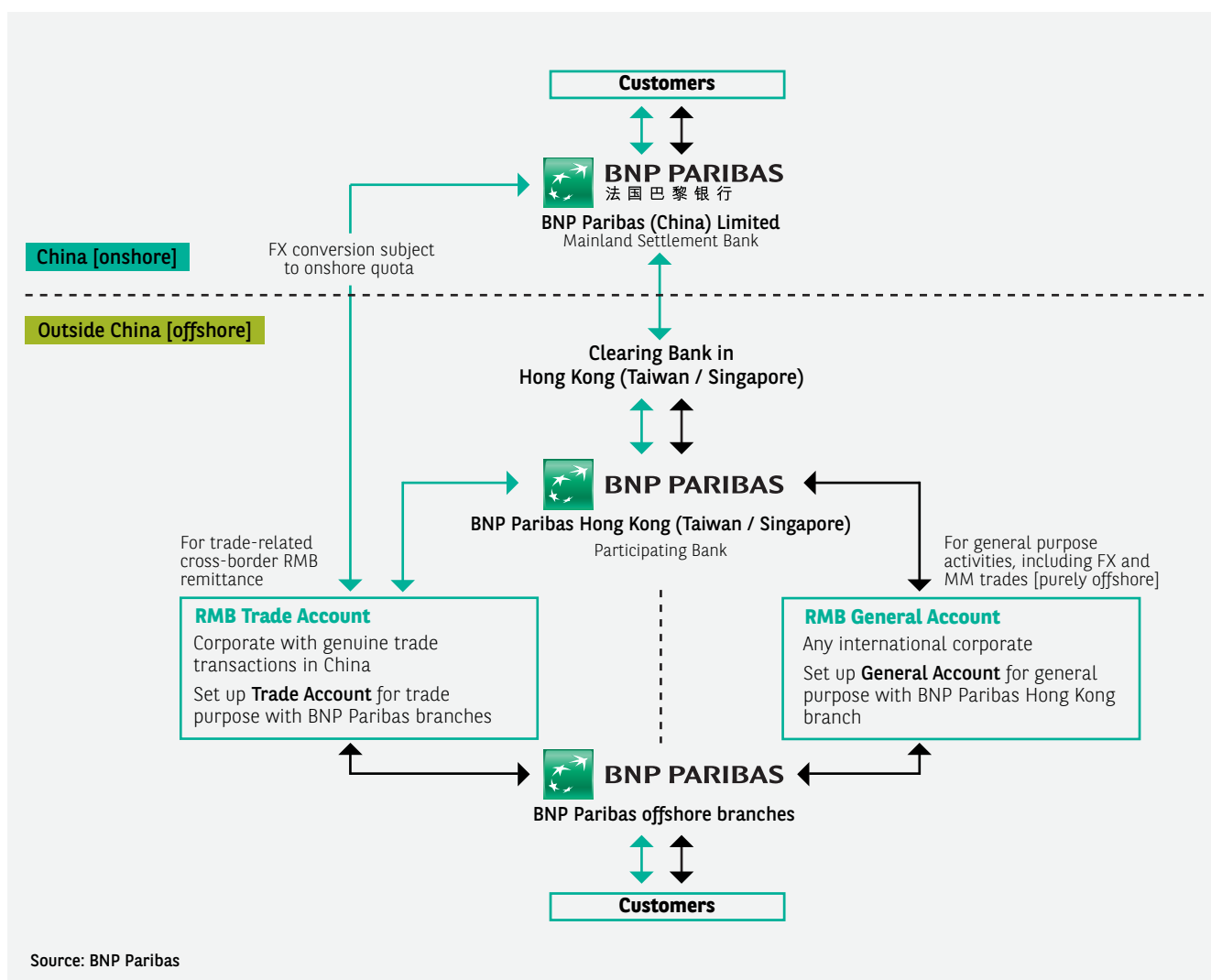
→ Switching to RMB

It allows greater flexibility on payment and trade financing conditions. Extension of payment terms can also be used to manage intercompany liquidity across the border.

How cross-border settlement works in China



How cross-border settlement works in Hong Kong (Taiwan / Singapore)



General Purpose RMB

- ⊕ RMB obtained offshore from foreign exchange transactions.
- ⊕ New monetary mass creation overseas.
- ⊕ Fully convertible offshore.
- ⊕ Subject to offshore FX market level (CNH).

Trade related RMB

- ⊕ Import and export of goods billed in RMB between an onshore entity and an offshore entity.
- ⊕ Subject to simplified document control process from the onshore bank and can freely flow across the border.
- ⊕ Fungible with onshore RMB but have to maintain different account positions.
- ⊕ L/C financing and discounting available.
- ⊕ Subject to onshore FX conversion level (CNY).

2. Industrial Investment

How to: FDI in China

Your company has been trading with China for a while and you consider opening your own local structure onshore. It is now time to look at the ways the foreign direct investments are regulated in China.



These are the key questions you will need to answer:

- ⊕ Which investment format: Joint venture or Wholly Owned Subsidiary?
- ⊕ Which industry sector and region in which investment is planned?
- ⊕ What is the overall size of investment?
- ⊕ Are you willing to use RMB for equity or debt?
- ⊕ Industrial investment versus capital market investment?

Foreign Direct Investment (FDI)

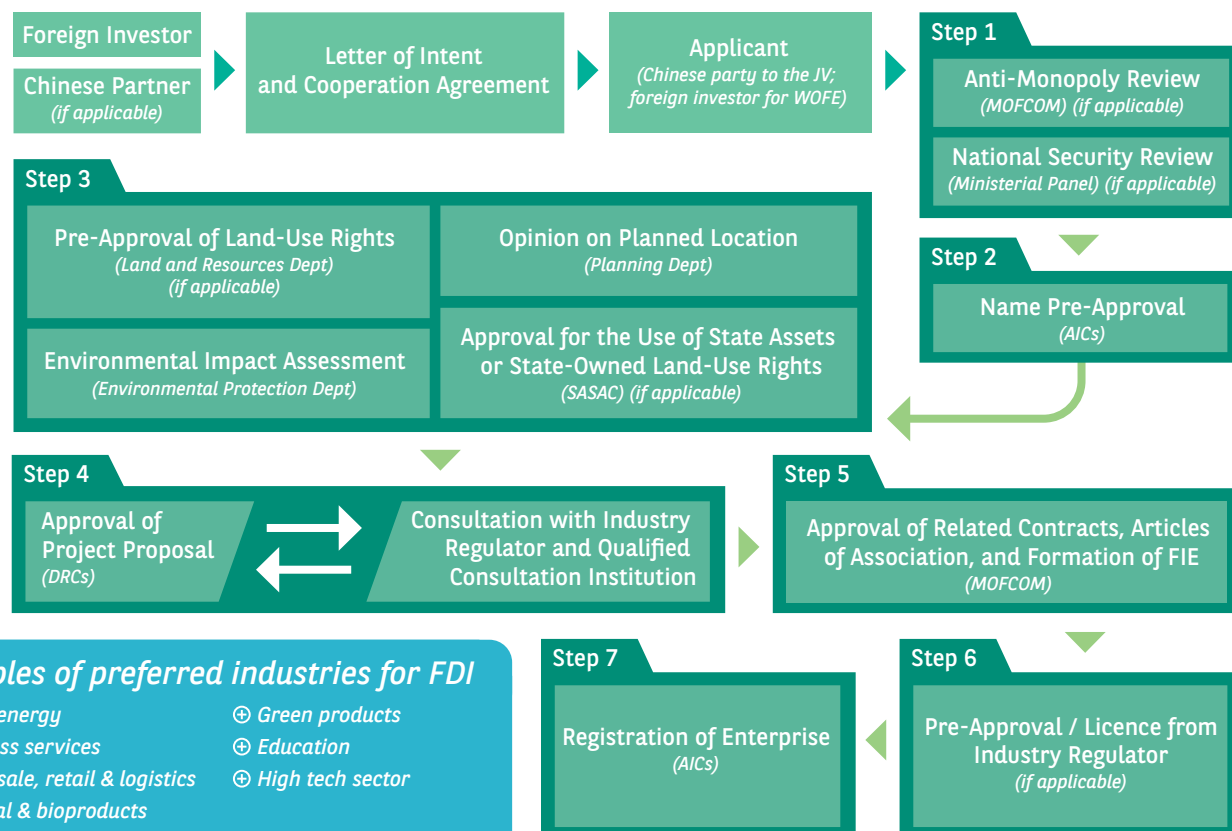
Navigating the regulatory environment is not always easy when contemplating investing in China. Chinese authorities provide a list of economic development strategies and priorities in the last Five Year Plan released by the State Council and the NDRC. Some industrial investments are encouraged, while some specific sectors are subject to greater control, be it from a security or an anti-monopoly aspect. It is thus extremely important to seek as much pre-approval as possible from the industry regulators before preparing the files for investment. Finding a local partner and operating in a joint venture format can sometimes clear some hurdles while allowing easier access to liquidity and markets.





Obtaining government approval

General Approval Process of Inbound FDI for JV, WOFE or other corporate structures



Strategic investment in China through equity capital markets

It is possible to invest in Chinese companies through the Chinese onshore securities markets. Investment can be considered strategic if holding is above 10% of a publicly listed A-share company. Regulatory approvals are necessary for all capital market investments. For non-strategic investments, access through Qualified Foreign Institutional Investor (QFII) licence and quota can be arranged. Investment can be in USD for QFII and RMB for RQFII.

Approval process for strategic investment measures



3. Raise RMB

How to raise RMB funding onshore/offshore

Your company is set up in China and you need to finance your growth and your new developments. There are a wealth of options using RMB; let's look at what is available.



There are several factors that influence channels for funding:

- ⊕ Pricing, tenor and liquidity.
- ⊕ Availability of funds for investment only or for working capital.
- ⊕ Complexity of the process.
- ⊕ Onshore funding versus offshore funding.

Main options onshore

Onshore RMB market is, above all, a bank loan market. In recent years, entrustment loans between two companies have gained traction alongside funding through the capital markets. Bank loans are, in essence, limited in tenor and size by banks' loan to deposit ratio and single lender limits. China's Debt Capital Market is opening up to foreign invested companies whilst equity capital markets are still restricted. (See tip boxes)



Loan To Deposit Ratio

Loan to Deposit Ratio in China is in general 75% for banks. This means that for every 75 RMB lent out to a customer, banks have to hold at least 100 RMB in deposits. This impacts availability of fund and funding costs in China's onshore market.

Single Lender Limits

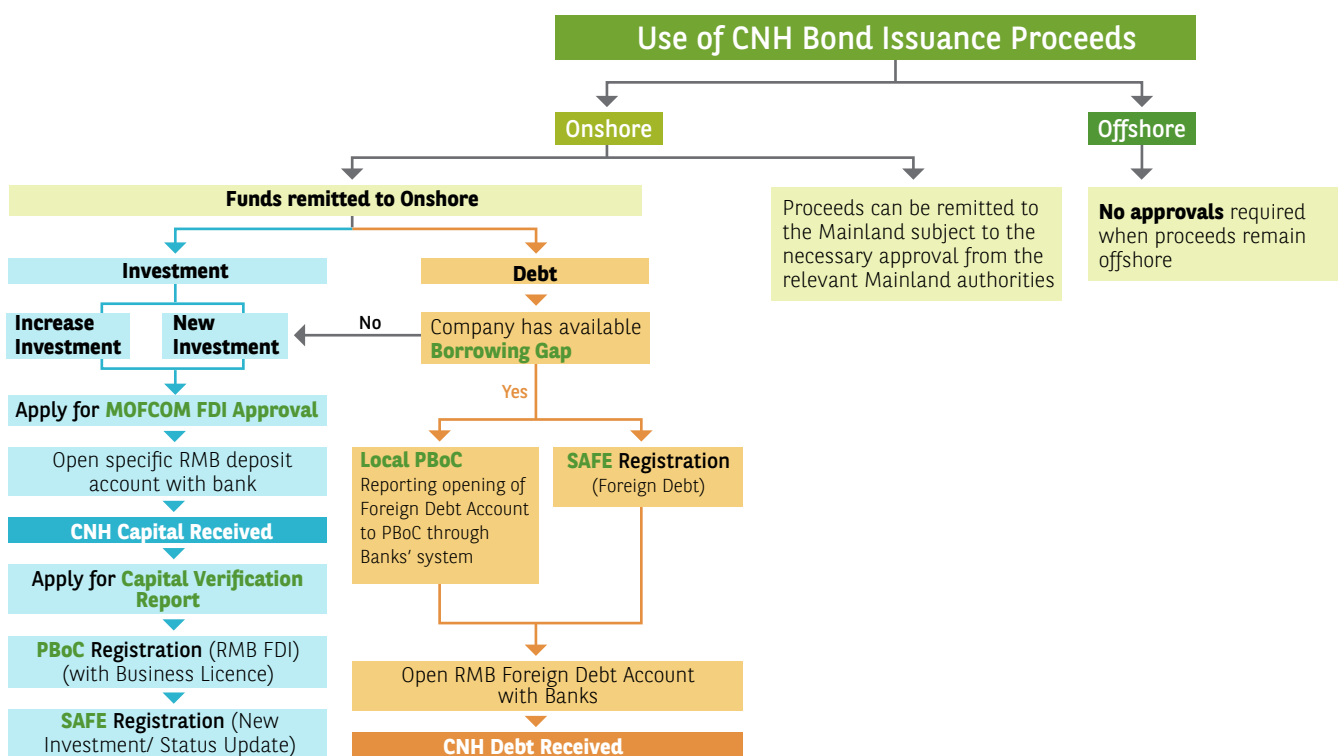
Chinese banks, such as BNP Paribas China Ltd, are limited to a maximum credit exposure of 10% of the bank's total capital for a single onshore corporate entity and 15% for a group of capital linked entities.

Main options offshore

In the past most of the offshore funding into China came from shareholder loans. With offshore RMB liquidity increasing, several new channels have come into play like the Dim Sum / Formosa bond markets or outright RMB loans. Part of the RMB funding remains offshore and companies start to look at RMB offshore liquidity (sometimes backed by onshore guarantee) as a new way to diversify funding and match their RMB assets. RMB is developing into a real investment asset class of its own.



Use of CNH Proceeds



Borrowing Gap

Because RMB liquidity offshore still remains limited, pricing in the offshore market is more volatile than in the onshore RMB market. Nevertheless bringing liquidity into China is always subject to the borrowing gap which limits the amount of RMB available to corporate customers (see below).

- ⊕ **Available Borrowing Gap = Total Investment** approved by MOFCOM – **Registered Capital** – **Total Foreign Debt**.
- ⊕ The requirement of registered capital as a percentage of total investment of an FIE varies with different amount of registered capital. If total Investment is over USD 30 million, registered capital shall be at least 1/3 of total investment.
- ⊕ **Total Foreign Debt** includes: accumulated medium and long term foreign debt, outstanding short term foreign debt, overseas guarantee claimed.
- ⊕ For Illustration: Company X has a total investment of CNY300m, Registered Capital of CNY100m, Foreign Debt of CNY50m, then X's Available Borrowing Gap=300-100-50=CNY150m.
- ⊕ The above definition is not applicable to leasing / holding companies.
- ⊕ Borrowing gap is not a reusable quota, which means that companies should always consider their refinancing risk.
- ⊕ RMB short-term foreign debt (below 1 year) can be extended once without double consuming the borrowing gap.

Quick comparison on RMB funding sources

	Onshore			Cross-border	Offshore	
Solution	RMB Loan (or Syndication)	Entrustment Loan	RMB Bond	Shareholder Loan	RMB Loan (or Syndication)	Dim Sum/ Formosa Bond
Who can do it	Any FIE with onshore WOFE or JV	Any FIE with onshore WOFE or JV	Heavily invested FIE with holding co and Chinese GAP practice	Any FIE	Head office (overseas entity)	Head office (overseas entity), Pre-approved onshore entities
Size	Limited by single lender limit and loan to deposit ratio	Relatively limited due to complexity of the solution	CNY 0.5 to 20bn; Size is limited to 40% of the total net asset of the issuing entity	Limited by borrowing gap	Small size in HK; market in development in Asia	CNY 0.5 to 3 bn
Tenor	85% of the market is below 1 year	Usually relatively short term apart from inter-group	Can be long term (7 years and plus)	Average tenor is 3 years or so	Variable	Max 5 years but expanding thanks to Taiwanese investors (Formosa)
Price	No longer regulated but still a market practice to look at PBoC lending rate as a benchmark	Negotiable between counterparties	Depends on rating but cheaper funding than all other onshore solutions	Organized between inter-group companies	Tends to be cheaper than onshore for multinational companies	Volatile market which is usually cheaper than onshore bond market
Usage of fund	Investment purposes for loans above 1 year	Free	Free	Limited to investment projects when sent back onshore	Limited to investment projects when sent back onshore	Limited to investment projects when sent back onshore
Key success factor	Banking relationship onshore in China; ability to provide deposits	Broker bank to match interest	Onshore financial accounting; onshore rating; size of onshore balance sheet	Availability of borrowing gap	Availability of borrowing gap	Availability of borrowing gap; market timing
Key hindrance	Price	Availability	Process complexity; NAFMII registration	Refinancing after borrowing gap is used up	Market liquidity	RMB appreciation trend; refinancing after borrowing gap is used up
BNP Paribas capacity	BNP Paribas China Ltd is an onshore local bank	BNP Paribas China Ltd is an onshore local bank	BNP Paribas China Ltd works with onshore partners such as Bank of Nanjing	BNP Paribas offers various solutions	BNP Paribas offers various solutions	BNP Paribas' strong origination and distribution network



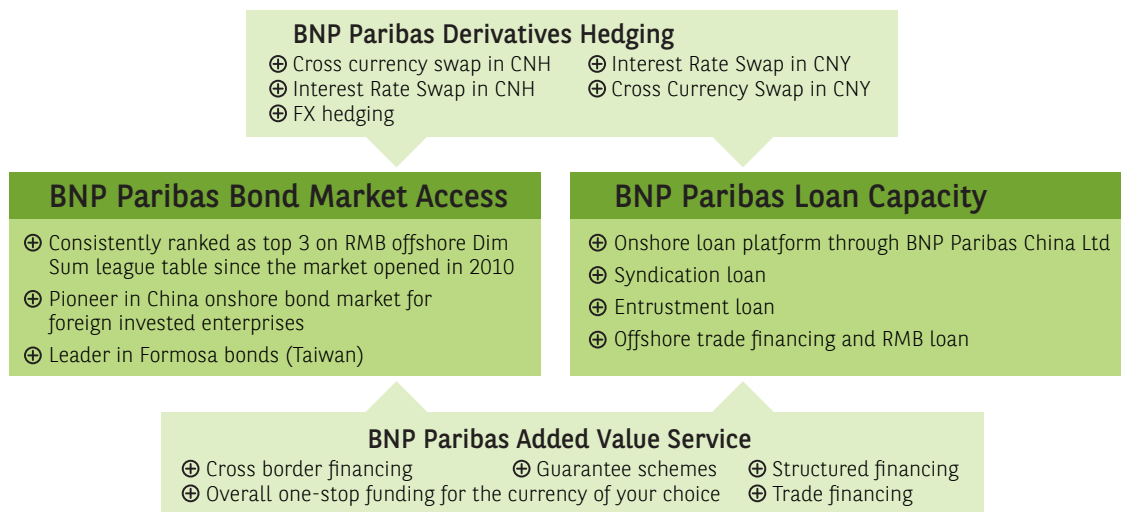
BNP PARIBAS
法国巴黎银行



BNP PARIBAS

BNP Paribas Capacity

BNP Paribas is a market leader in providing RMB financing in Asia



For more information please contact your account manager

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4. RMB Cash Management

How can I **manage** my **RMB Cash**

Your company has set up onshore and offshore structures that now manage cash flows in RMB, but RMB in China is still subject to specific regulations while offshore RMB is driven by market dynamics.

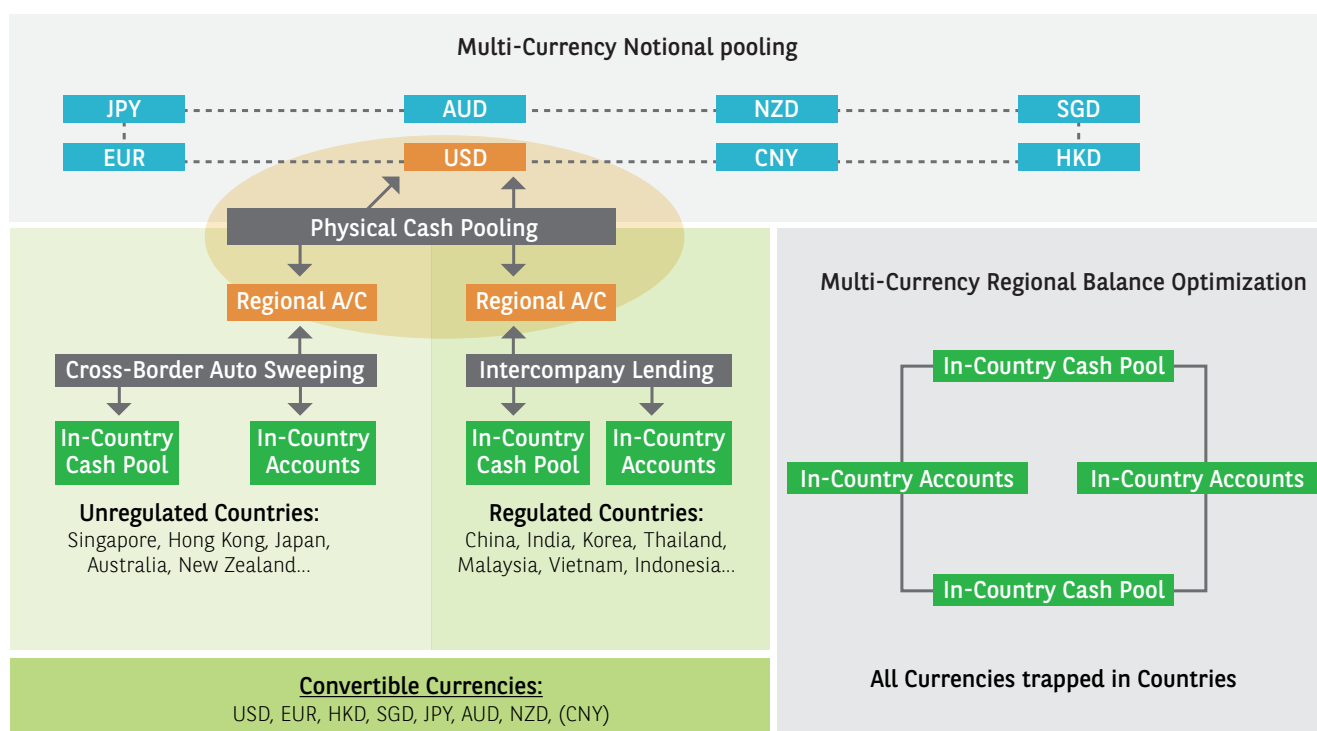
In the offshore market RMB is fully fungible in BNP Paribas cash management solutions like any other currency. Yet there are some specificities in the onshore market and cross-border flow that we will address in the following section.



Key Takeaways:

- ⊕ Term deposit rates are regulated in China.
- ⊕ Interest rate for RMB in China tends to be higher than offshore.
- ⊕ RMB is the currency of choice for cross-border trade and cash management solutions.
- ⊕ Offshore RMB is a currency like any other and can be included in your cash pool.

BNP Paribas global approach to cash management



Cash management onshore versus offshore

	Onshore	Offshore
Deposit	<p>The People's Bank of China regulates term deposit rates for maturities of up to 5 years. Rates can be up floated to 110% PBoC deposit rate.</p> <p>Structured investments are available in RMB in general for short tenors.</p> <p>Onshore structured investments cannot embed products prohibited by regulation (linked to RMB FX or RMB rate levels for instance).</p>	<p>Offshore term deposit rates are driven by liquidity events, in particular in the Hong Kong RMB market.</p> <p>Deposit yields tend to be lower than in the onshore market.</p> <p>Structured investments are available in all known structures linked to foreign exchange, commodities, equities, interest rates or a combination.</p>
Investment	<p>Time deposits range from 3 months to 5 years. Call deposits range from 1 day to 7 days.</p> <p>BNP Paribas teams up with Fortis Haitong Investment Management Co, Ltd in China to provide onshore Fitch-rated money market funds.</p>	<p>Time deposits range from 1 week to 1 year.</p> <p>A wealth of products is available offshore in RMB for investment purposes from RMB bonds (Dim Sum) to structured investments such as RMB funds, RMB warrants, BNP Paribas RMB Certificates.</p>
Liquidity	<p>In China, companies may participate in domestic entrustment loans.</p> <p>As onshore intercompany loans are not allowed in China, banks come into play and act as trustee to grant loans to the borrower at the request of the lender.</p> <p>As China is such a vast country, domestic cash management solutions can be quite complex. Some local duties, such as salary payment, have to be processed by local Chinese banks.</p> <p>BNP Paribas has set up a specific solution to allow customers to control all their bank accounts through our proprietary platform Connexis.</p>	<p>In Hong Kong and overseas, companies may participate in domestic and cross-border sweep in RMB.</p> <p>Common structure is for a corporate's treasury vehicle to open RMB accounts in HK and act as RMB cash pool header, while the RMB accounts for the corporate's HK entity or other offshore entities (i.e. excluding China) as RMB cash pool participants.</p> <p>RMB liquidity can then be centralized at RMB Cash Pool Header account for managing investments/funding and FX hedging.</p> <p>It is not usual to place RMB out of Hong Kong since it has more RMB products available.</p> <p>Solutions available in HK are also available in other branches of BNP Paribas around the world.</p>
e-banking Solution	<p>BNP Paribas' Connexis platform offers some dedicated tools for Mainland China such as the Multi Bank Solution and the automatic SAFE declaration.</p> <p>conneXis®</p> <p>SWIFTNet Host to host connectivity</p>	<p>BNP Paribas' Connexis platform</p> <p>conneXis®</p> <p>SWIFTNet Host to host connectivity</p>

How does cross-border work?

Businesses in China operate in a capital account controlled environment. It is not possible to organise free exchanges of cash between onshore and offshore RMB.

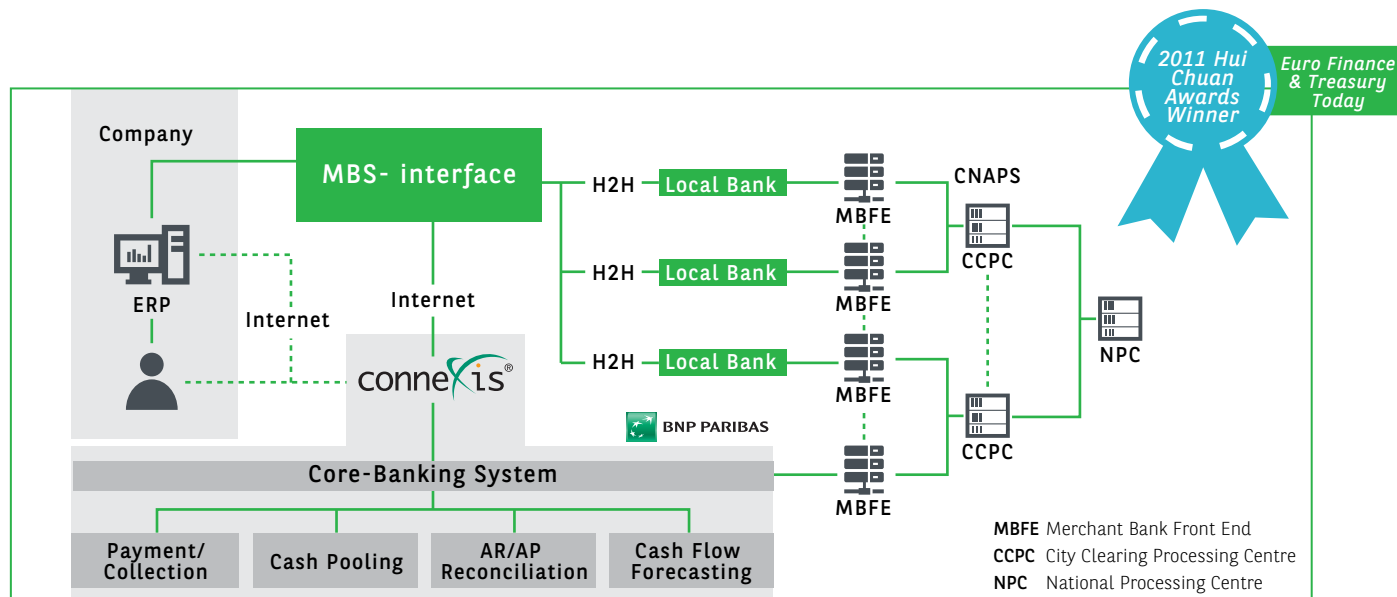
Several channels are organised to allow payments but all are required to follow specific regulations and provide specific documents.

It is thus possible to organise a fully fledged cross-border cash pooling by combining onshore and offshore solutions and some cash repatriation solutions (please refer to section 6 of this handbook).

BNP Paribas develops China specific solutions

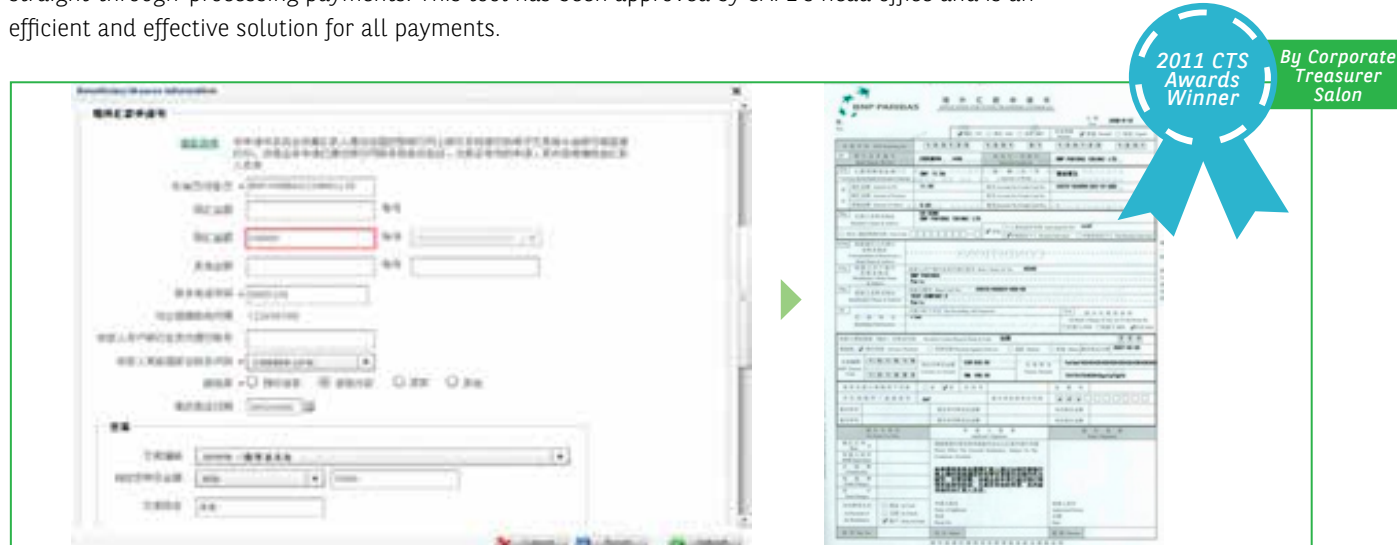
BNP Paribas' **Multi-Bank Solution (MBS)** enables in-country treasurers to have full account visibility, efficient monitoring and management of accounts maintained with various local banks. MBS is the first of its kind in China.

- ⊕ Receives real-time reporting on accounts with local banks.
- ⊕ Initiates and authorizes payment out of accounts with local banks.
- ⊕ Achieves multi-bank pooling via payment integration through BNP Paribas.
- ⊕ Multiple bank access with one ID/password.
- ⊕ Fully automated and runs on a real-time basis.



BNP Paribas' online SAFE declaration

BNP Paribas is the first and only bank in China to introduce an online SAFE declaration to effect straight-through-processing payments. This tool has been approved by SAFE's head office and is an efficient and effective solution for all payments.



- ⊕ Payment and declaration forms are all displayed in one screen for ease of use and processing.
- ⊕ Hard copy of "Application for Fund Transfer" will be printed out on the bank side in the SAFE standard format, so no signature is required from client.

5. RMB Hedging

How can I hedge in RMB

- ⊕ While dealing in China some of your sales, dividend payments or imports / exports may be denominated in a currency other than RMB.
- ⊕ You may also want to insure yourself against the risk of rising interest rates should you borrow RMB onshore or offshore.
- ⊕ Importing raw materials or metals is also risky in an environment where commodity markets are quite volatile and may impact your commercial margins.



- ⊕ RMB derivative market exists both onshore and offshore but indexes used for pricing will be different.
- ⊕ Customer should decide on whether he wants to consolidate all hedging at head office level or organise as much as possible on the mainland.
- ⊕ When dealing onshore, some transactions are subject to regulatory document check. Approval process can be quite cumbersome.

FX market setup

- ⊕ There are currently 3 FX markets which co-exist: the onshore deliverable RMB market which is very liquid but its access is restricted by regulations; the offshore deliverable CNH market which has existed since 2010 and is gaining in momentum; and the USD cash-settled Non Deliverable Forward market which enables hedging the PBoC mid-rate fixing.
- ⊕ Onshore/offshore FX and rates differential are heavily traded by Chinese and Hong Kong corporates.
- ⊕ BNP Paribas is organised with desks in New York, London and Hong Kong to provide 24/5 trading orders.

Market trends

- ⊕ *The Non Deliverable Forward market has clearly been hit by PBoC's widening of the trading bands, as such it is no longer a market that we advise corporate treasurers to look at for hedging purposes. Furthermore, we see the CNH market is becoming the prime entry point to manage RMB risk offshore.*
- ⊕ *China has initiated some credit protection structures in RMB, namely Credit Risk Mitigation. Local credit derivative contracts are nevertheless still quite illiquid for the moment.*

Commodity market setup

- ⊕ Commodity derivative markets are in general using USD as the currency of choice for settlement.
- ⊕ Nevertheless RMB products are available for hedging purposes onshore and offshore. BNP Paribas is able to provide you with liquid derivative contracts to insure against commodity price volatility.
- ⊕ Our Commodity derivative products can be embedded in commodity financing contracts provided by our structured finance specialists.

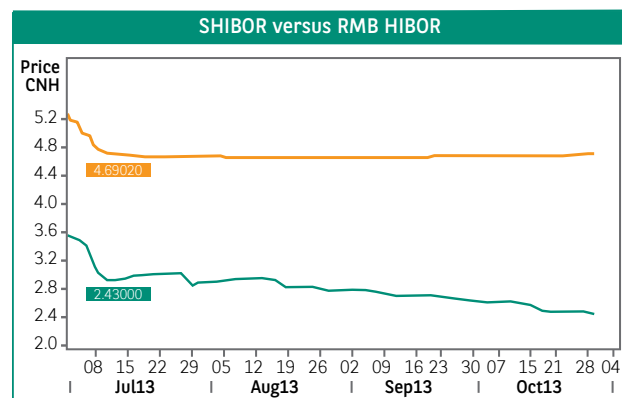
BNP Paribas offering

BNP Paribas has a fully fledged offer in foreign exchange, interest rate and commodity hedging contracts onshore and offshore, all available in RMB.

- ⊕ *Providing offshore linear (spot, forward, swaps) as well as non-linear (options) products, BNP Paribas is clearly the market leader in this field with a very large market share.*
- ⊕ *BNP Paribas China Ltd has all onshore licences available to deal in RMB hedging products.*

Interest rate market setup

- ⊕ Interest rate levels are different onshore and offshore both for deposit and lending rates.
- ⊕ SHIBOR (Shanghai Interbank Offered Rate) has become a market standard to price floating interest rate swaps in China. It is fixed at 11:30am Beijing time every working day.
- ⊕ CNH HIBOR (CNH Hong Kong Interbank Offered Rate) is becoming the CNH offshore benchmark. It is published at 11:15am HK time.
- ⊕ RMB offshore rates are in general lower than onshore (see example of SHIBOR versus RMB HIBOR).



Source: Reuters



RMB internationalisation – Evolution of FX markets


In FX markets, these 3 currencies are the same yet different

	USDCNY onshore Deliverable Spot/Fwd	USDCNY Non Deliverable Fwd (NDF)	USDCNH Offshore Deliverable Spot/Fwd
Key Features	<ul style="list-style-type: none"> ⊕ It is a deliverable RMB market but in onshore China only ⊕ Spot and forward are allowed ⊕ Client can only buy options / collars ⊕ Daily trading band +/- 1% of PBoC Fixing 	<ul style="list-style-type: none"> ⊕ Offshore non-deliverable RMB market ⊕ Usually cash settled in USD ⊕ No spot, only NDF ⊕ Full range of derivative products ⊕ PBoC fixing for NDF/Option, Reuters "SAEC" 9:15am Beijing time 	<ul style="list-style-type: none"> ⊕ Offshore deliverable RMB market traded outside China ⊕ Spot and forward are allowed ⊕ Full range of derivative products ⊕ Fixing Page, Reuters "CNHFIX=" 11:15 am Hong Kong time, contributed by 18 banks in HK including BNP Paribas
Historical Evolution			

Source: Reuters

Market liquidity for forward contracts

	Onshore RMB	Offshore NDF	Offshore CNH
Spot (11 Nov 2013)	6.0911	Fixing: 6.1390	6.0777
Settlement	Deliverable Forward	Non-Deliverable Forward Cash-settled in USD	Deliverable Forward
Liquidity	Daily turnover USD 15bn	Daily turnover USD 3-4bn	Daily turnover USD 3-4bn
Bid/Offer Spread	Spot bid/offer 5 pips Up to USD 20M	Spot bid/offer 20 pips Up to USD 20M	Spot bid/offer 10 pips Up to USD 20M
Fixing Page	N/A	Published at 9:15am Beijing time Reuters Page "SAEC"	Fixed at 11:00am & published at 11:15am Hong Kong time Reuters Page "CNHFIX="
Products Allowed	Spot / Forward / Vanilla options (clients can only buy) / Collar Forward (zero cost)	Spot / Forward / Options, exotics and structured products	Spot / Forward / Options, exotics and structured products



6. Repatriate Cash from China

How to repatriate cash from China

Capital account in China is not yet open. Still the authorities have made tremendous efforts to promote RMB as a tool to help repatriate excess revenues outside of China.



Key questions to bear in mind:

- ⊕ Do you want permanent or temporary cash repatriation?
- ⊕ What is the potential of acquisition or organic growth in your operations in China?
 - Do you really want to repatriate?
- ⊕ Are dividend payments restricted by the size of the capital of your operations in China?
 - Is your capital structure optimised?
- ⊕ Are you willing to see an increase in your overall balance sheet size?
 - Onshore deposit versus offshore lending?
- ⊕ Can your Chinese entity become a shareholder of some of your entities outside of China?
 - China overseas investments policy
- ⊕ Are you in a position to organise intercompany outbound RMB financing?
 - RMB intercompany outbound lending

Capital account control relaxing

- ⊕ Due to overall Capital Account control, cash repatriation is a problem faced by a lot of international customers operating in China. It is all the more true for retailers who generate excess cash from their onshore operations in a fast developing consumption environment.
- ⊕ Chinese authorities have recently added several options for promoting either Overseas Direct Investment or cross-border lending from China.
- ⊕ Main repatriation route is still dividend payment.
- ⊕ Withdrawing funds from China is possible by, for instance, reducing capital.
- ⊕ Trade route and RMB intercompany cross-border payment are also temporary solutions to improve cross-border cash management.
- ⊕ BNP Paribas has set up several tailor-made solutions (QDII) for specific customers with specific issues.



What solutions does BNP Paribas offer?

Different solutions for different requirements

Several ideas to repatriate cash either permanently or temporarily.

OFFSHORE INVESTMENT

SAFE Process allowing onshore entity to invest in offshore assets (ODI)



CAPITAL REDUCTION

Also include liquidation, withdrawal from JV and transfer of equity



GUARANTEE SOLUTION

Usage of RMB SB L/C or cross-border guarantee as a means to guarantee offshore credit



DIVIDEND PAYMENTS

Dividend payments are subject to withholding tax. BNP Paribas can advise


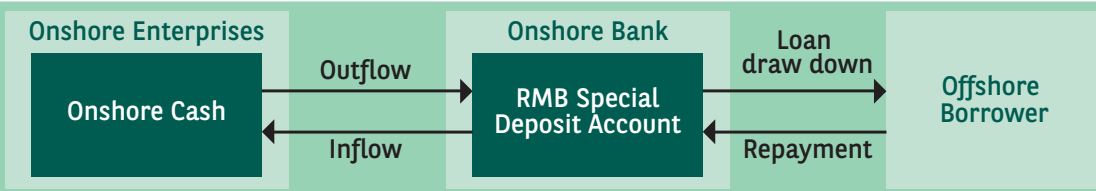


OFFSHORE LENDING

Can be structured either under SAFE FCY lending or under PBoC CNY lending schemes



Focus on RMB cross-border intercompany lending

Solution	Onshore non-financial enterprises' intercompany RMB lending.
Who can do it	Onshore enterprises which have shareholding relationship with offshore borrowers or belong to the same parent company, controlled by a regional headquarter or an affiliate in charge of investment management.
How to do it	Apply to an onshore bank for RMB offshore lending in the form of RMB cash pooling or non-cash-pooling lending transactions. Lending can be a one-off transaction or multiple intercompany lending
Arranger	 BNP PARIBAS 法国巴黎银行
Specifics about lending	1. Lending interest rate, tenor and usage unregulated and subject to commercial agreement between lender and borrower within a reasonable range. 2. In the case of multiple intercompany lending, process is manual; in the case of cross-border cash pooling, it is automatic but still subject to PBoC approval process. 3. Principal and interest reception must go through RMB special deposit account. Total amount must not exceed the sum of principal, interest, onshore tax and other relevant expenses.
Related regulation	'Bank RMB settlement account management method' (PBoC [2003] No.5) / 《人民币银行结算账户管理办法》(中国人民银行令[2003]第5号发布)
Lending in the form of cash pooling or multiple intercompany lending	 <pre> graph LR subgraph Onshore_Enterprises [Onshore Enterprises] OC[Onshore Cash] end subgraph Onshore_Bank [Onshore Bank] RSDA[RMB Special Deposit Account] end subgraph Offshore_Borrower [Offshore Borrower] OB[Offshore Borrower] end OC -- Outflow --> RSDA RSDA -- Inflow --> OC RSDA -- "Loan draw down" --> OB OB -- Repayment --> RSDA </pre>
Qualification	Lender must have shareholding relationship with offshore borrower or controlled by the same parent, does not need to be regional headquarters or holding company; lender must be non-financial enterprises; lenders in sectors subject to macro-control by the government (e.g. the real estate sector) are not allowed.
Amount	No quota restriction. Lending amount to be aligned with the following: Lending limit = total equity - working capital
Tenor	Negotiated with borrower.
Interest rate	Negotiated with borrower (within a reasonable range to which China's tax authority should have no objection).
Usage of funds	Negotiated with borrower.
Requirement for opening RMB Special Deposit Account	No regulatory approval needed.

Dedicated resources will assist in understanding regulations, providing product ideas and organizing solutions from transactional banking to investment banking



Email julien.martin@asia.bnpparibas.com

Your account manager

Glossary of useful terms

Currency Abbreviations

Abbreviation	Full Name	Definition
CNH	Offshore Chinese Yuan in HK	An acronym for offshore deliverable Chinese Yuan traded outside China; Trade settlement process in Hong Kong
CNS	Offshore Chinese Yuan in Singapore	An acronym for offshore deliverable Chinese Yuan traded outside China; Trade settlement process in Singapore
CNT	Offshore Chinese Yuan in Taiwan	An acronym for offshore deliverable Chinese Yuan traded outside China; Trade settlement process in Taiwan
CNY	Chinese Yuan	CNY is the International Organization for Standardization code for the currency
RMB	Renminbi 人民幣	"Renminbi" is the Chinese pronunciation.

Investors Abbreviations

Abbreviation	Full Name
FIE	Foreign Invested Enterprise
JV	Joint Venture
WOFE	Wholly Owned Foreign Enterprise
QFII	Qualified Foreign Institutional Investor
RQFII	RMB Qualified Foreign Institutional Investor
Three Types of Organizations	Foreign central banks, RMB clearing banks in HK and Macau, Offshore RMB trade settlement banks

Onshore RMB Regulators

Abbreviation	Full Name	Definition	Implications for Corporates
CBRC	China Banking Regulatory Commission	Regulates China's banking institutions	Regulates FIE (Foreign Invested Enterprise) RMB fund raising approval
CCDC	China Central Depository and Clearing Corporation	Centralized depository and settlement for the interbank bond market. Manages type C Special RMB account for bond investment	In charge of bond transaction settlement for interbank bond market
CFETS	China Foreign Exchange Trade System	A sub-institution of People's Bank of China that supervises interbank lending, bond and FX markets	Manages investors' trading account registration and interbank bond and FX transaction
CSDCC	China Securities Depository and Clearing Corporation	Manages securities investors accounts	Provides custodian/settlement services for QFII investments in exchange bond market
CSRC	China Securities Regulatory Commission	Regulates China's securities markets	In charge of qualification approval of QFII and RQFII
DRC	Local Level Development and Reform Commission		In charge of project approval for foreign direct investment in small volume
MOF	Ministry of Finance	National agency which administers macroeconomic policies and the national annual budget. It also handles fiscal policy, economic regulations and government expenditure for the state	Regulates capital investment of RQFII and Three Types of Organizations
MOFCOM	Ministry of Commerce	National executive agency responsible for formulating policy on foreign trade, export and import regulations, foreign direct investments negotiating trade agreement, etc	Manages FDI (Foreign Direct Investment) approval in large volume In charge of approval for FIE (Foreign Invested Enterprise) RMB fund raising through issuance of CNH bonds and shareholder loans
NAFMII	National Association of Financial Market Institutional Investors	A self-regulatory organization which regulates China's over-the-counter market under PBoC supervision	In charge of registration for FIE (Foreign Invested Enterprise) RMB fund raising through issuance of CNY bonds
NDRC	National Development and Reform Commission	Studies and formulates policies for economic and social development, maintains the balance of economic development, and guides the restructuring of China's economic system	In charge of project approval for FDI (Foreign Direct Investment) in large volume and regulates capital investment of RQFII and Three Types of Organizations

Onshore RMB Regulators			
Abbreviation	Full Name	Definition	Implications for Corporates
PBoC	People's Bank of China	Chinese central bank which controls monetary policy and regulates financial institutions in China In charge of RMB internationalisation project	In charge of qualification approval of foreign central banks, RMB clearing banks in HK and Macau and offshore RMB trade settlement banks (Three Types of Organizations) Regulates capital investment of RQFII and Three Types of Organizations and Regulates FIE (Foreign Invested Enterprise) RMB fund raising approval
SAFE	State Administration of Foreign Exchange	Regulates foreign exchange administration system and manages the country's foreign exchange market	In charge of quota approval for QFII Regulates FIE (Foreign Invested Enterprise) RMB fund raising approval Regulates FIE FX payments and guarantee
SAICs	State Administration of Industry and Commerce	Ministerial level agency which is responsible for market supervision/regulation and law enforcement through administrative means	In charge of registration of FDI (Foreign Direct Investment) enterprises
SASAC	State-Owned Assets Supervision and Administration Commission	Performs investors' responsibilities, supervises and manages the assets of the state-owned enterprises under the supervision of Central Government	In charge of approval for FDI (Foreign Direct Investment), use of state assets or state-owned land-use rights
SHCH	Shanghai Clearing House	Provides centralized clearing services for spot and derivatives transactions in RMB and foreign currency as well as RMB cross-border transactions	In charge of clearing and settlement interbank bond market Manages registration of indirect settlement member accounts for investors

Offshore RMB Actors and Systems		
Abbreviation	Full Name	Definition
CHATS	Clearing House Automated Transfer System	A computer-based system established in HK for the electronic processing and settlement of interbank fund transfers. CHATS operates in a RTGS (real time gross settlement) mode between banks in HK and is designed for large value interbank payments. In Hong Kong, cross border/domestic RMB payments are cleared via CHATS
HKMA	Hong Kong Monetary Authority	Maintains currency stability within the framework of the Linked Exchange Rate system, promotes the stability and integrity of financial system and manages exchange fund
RTGS	Real Time Gross Settlement	Funds transfer systems where transfer of money or securities takes place from one bank to another on a "real time" and on "gross" basis
CNAPS	China National Advanced Payment System	China's current payment system for nationwide interbank system and for cross boarder RMB payment clearing
CIPS	China International Payment System	China's future international payment system

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