



ASSOCIATION FOR  
FINANCIAL  
PROFESSIONALS



*Underwritten by*



# CASH AND TREASURY MANAGEMENT COUNTRY REPORT

# CHINA

# Executive Summary

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## 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 39% of the country's banking assets. There are also three government controlled policy banks. In addition, there are 5 private banks, 12 joint-stock commercial banks, 859 rural commercial banks, 71 rural cooperative banks, 1,373 rural credit cooperatives, 1,519 village and town banks, as well as 133 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 39 foreign banks have become locally incorporated, operating 315 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). In addition, there is an RTGS-based Foreign Currency Payment System (CDFCPS) for eight international currencies, an RTGS-based payment system for cross-border RMB payments and a "Super-e-banking" online interbank clearing system for real-time internet payments and account enquiries.

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.

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# PNC's International Services

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*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

PINACLE®, PNC's top-rated, online corporate banking portal provides access to International Funds Transfers to more than 130 countries in U.S. dollars and foreign currencies.

## Multicurrency Accounts

Demand deposit accounts that hold foreign currency instead of U.S. dollars offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. In addition, our EUR and GBP multicurrency accounts (MCAs) are able to receive payments via the local payment systems, SEPA and BACS/ FPS, respectively. You can easily view deposit and withdrawal details through PINACLE.

## PNC Bank Canada Branch ("PNC Canada")

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## 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 U.S. dollar 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 help you 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, help 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 help you connect 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 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.

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# Financial Environment

## Country Information

### Geographical Information

<b>Capital</b>	Beijing
<b>Area</b>	9,596,961 km <sup>2</sup>
<b>Population</b>	1.418 billion
<b>Official languages</b>	Standard Chinese or Mandarin (Putonghua, based on the Beijing dialect), Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka dialects, other minority languages
<b>Political leaders</b>	Head of state — President Xi Jinping (since March 14, 2013) Head of government — Premier Li Keqiang (since March 16, 2013)

### Business Information

<b>Currency (+ SWIFT code)</b>	Renminbi (RMB), also called Yuan (CNY)
<b>Business/Banking hours</b>	08:00–17:00 (Mon–Sat)
<b>Bank holidays</b>	2019 — April 5, May 1, June 7*, September 13*, October 1–7 2020 — January 1, January 25–30, April 4, May 1, June 25*, October 1*, 2–5  * 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.
<b>International dialing code</b>	+ 86

Source: [www.goodbusinessday.com](http://www.goodbusinessday.com).

## Country Credit Rating

FitchRatings last rated China on December 4, 2018 for issuer default as:-

Term	Issuer Default Rating
Short	F1 +
Long	A +
Long-term rating outlook	Stable

Source: [www.fitchratings.com](http://www.fitchratings.com), February 2019.

## Economic Statistics

<b>Economics Table</b>		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>GDP per capita</b>	<b>(USD)</b>	6,250	6,956	7,619	8,129	7,982
<b>GDP</b>	<b>(CNY billion)</b>	53,475	58,974	64,080	69,659	74,413
<b>GDP</b>	<b>(USD billion)</b>	8,471	9,518	10,431	11,186	11,207
<b>GDP volume growth*</b>	<b>(%)</b>	+ 9.5	+ 8.0	+ 15.6	+ 6.8	+ 6.7
<b>BoP (goods, services &amp; income) as % GDP</b>		+ 2.5	+ 1.6	+ 2.6	+ 3.0	+ 1.8
<b>Consumer inflation*</b>	<b>(%)</b>	+ 2.6	+ 2.6	+ 2.0	+ 1.4	+ 2.0
<b>Population</b>	<b>(million)</b>	1,355	1,363	1,369	1,376	1,404
<b>Unemployment</b>	<b>(%)</b>	4.1	4.1	NA	4.1	4.0
<b>Interest rate (discount rate)<sup>†</sup></b>	<b>(%)</b>	3.25	3.25	3.25	3.16	2.90
<b>Exchange rate<sup>‡</sup></b>	<b>(CNY per USD)<sup>†</sup></b>	6.3123	6.1958	6.1434	6.2275	6.64

  

		<b>2017</b>	<b>2018</b>			
			<b>Q1</b>	<b>Q2</b>	<b>Q2</b>	<b>Q3</b>
<b>GDP per capita</b>	<b>(USD)</b>	8,521	-	-	-	-
<b>GDP</b>	<b>(CNY billion)</b>	81,204	-	-	-	-
<b>GDP</b>	<b>(USD billion)</b>	12,014	-	-	-	-
<b>GDP volume growth*</b>	<b>(%)</b>	+ 6.9	NA	NA	NA	NA
<b>BoP (goods, services &amp; income) as % GDP</b>		+ 1.5	-	-	-	-
<b>Consumer inflation*</b>	<b>(%)</b>	+ 1.6	+ 2.1	+ 1.7	+ 2.3	+ 2.2
<b>Population</b>	<b>(million)</b>	1,410	-	-	-	-
<b>Unemployment</b>	<b>(%)</b>	3.9	NA	NA	NA	NA
<b>Interest rate (discount rate)<sup>†</sup></b>	<b>(%)</b>	2.90	2.90	2.90	2.90	NA
<b>Exchange rate<sup>‡</sup></b>	<b>(CNY per USD)<sup>†</sup></b>	6.759	6.354	6.380	6.809	6.921

\*Year on year. <sup>†</sup>End period. <sup>‡</sup>Market rate.

Source: *International Financial Statistics, IMF*, February 2019 and 2018 Yearbook.

### **Sectoral Contribution as a % of GDP**

Agriculture - 7.9%

Industry - 40.5%

Services - 51.6% (2017 estimate)

### **Major Export Markets**

USA (19.0%), Hong Kong (12.4%), Japan (6.0%), South Korea (4.5%)

### **Major Import Sources**

South Korea (9.7%), Japan (9.1%), US (8.5%), Germany (5.3%), Australia (5.1%)

# 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's official inflation rate is 3%. 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 Shanghai Interbank Offered Rate (Shibor) is a more market-based benchmark interest rate.

### 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 (there are 24 currencies included in the Foreign Exchange Trading System renminbi currency basket, including the USD, EUR, JPY, HKD, CAD, MYR, RUB, GBP and AUD. The exchange rate 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 economy expanded 6.6% in 2018 (6.8% in 2017), its slowest rate since 1990; in Q4, the economy grew 6.4% year on year. The tightening of controls on lending is being blamed for the slowdown particularly in consumer spending, a primary driver of economic growth (consumption expenditure contributed 76.2% of overall GDP growth in 2018). Cuts to personal income tax, which took effect in January, are aimed at boosting consumption and the government has announced a series of incentives to boost sales of cars and home appliances. In addition, the government has promised to cut taxes for small business and ramped up infrastructure spend to further stimulate the economy: since November 2018, 16 infrastructure projects worth RMB 1.1 trillion have been approved. Growth of 6.3% is forecast for 2019.

The world's largest trading nation saw imports fall 7.6% year on year in December 2018, exports saw a 4.4% decline. Trade talks between China and the USA are ongoing. In February 2019, the US postponed a decision to increase tariffs from 10% to 25% on over USD 200 billion worth of Chinese imports scheduled to apply from March 1st. China is expected to approve a new draft Foreign Investment Law in March, as part of the trade talks. The law will eliminate the requirement for foreign companies to transfer proprietary technology to Chinese joint-venture partners.

Debt levels in the country are dangerously high; the IMF has urged the government to reduce its reliance on credit growth, warning of 'financial turmoil' if credit levels are not reduced. The country's debt-to-GDP ratio was 253% in 2018.

## 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 led by 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. President Xi was re-elected at the 19th NPC in November 2017. (The Chinese Communist Party has scrapped the two-term limit for the state president and vice-president, enabling current president, Xi Jinping, to stay in power indefinitely.)

### 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. Income inequality is worsening in the country, with the top 1% of the country's population owning a third of the country's total wealth and most economic benefits confined to urban areas.

China ended its one-child policy in 2014 but the move has not seen a corresponding increase in the number of births being registered. Births fell to 15.23 million in 2018. An aging population (nearly 18% of the population are over 60), a quarter of the country's population will be 60 or older by 2030, will present the government with increasing social and economic difficulties; pension contributions by those in work, for example, have had to be supplemented by the government since 2014, in order to cover the pensions shortfall. Investment in elderly healthcare and incentives to encourage couples to have children are required in order to address the demographic issues facing the country.

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, although regional political tensions remain. President Xi Jinping has stated that the country would thwart any attempts at Taiwanese independence while its claims to almost all of the South China Sea has raised tensions both with its neighbors - the Philippines, Vietnam, Malaysia, Taiwan and Brunei have overlapping claims in the waters - and the USA and UK, among others. In February, the US Navy sailed close to the Spratly Islands, territory disputed by China and the Philippines, in an operation to preserve access to the waterways while the UK deployed an aircraft carrier to the area.

Relations between China and Japan on the other hand have softened since Japanese Prime Minister Shinzo Abe made his first trip to China in 2018 - Xi Jinping is expected to visit Japan twice in 2019. Peace talks between North and South Korea, and a possible warming of relations between North Korea and the USA, could see some shift both in the power structure between China and its nearest neighbors and in China's foreign policy.

Endemic corruption and international concern over pollution and the environment remain pressing issues for the Chinese Communist Party.

# Taxation

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## 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 75% 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. Encouraged industries in certain regions (e.g. western China, Hengqin (Guangdong), Pingtan (Fujian) and Qianhai (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, which may be extended to 10 years for qualifying new/high-technology enterprises and middle/small-size technology enterprises. The carryback of losses generally is not permitted.

### **Advance Tax Ruling Availability**

There generally is no advance ruling procedure, but the tax authorities can issue rulings in special cases. Taxpayers normally consult their local in-charge tax officials when issues arise. Advance pricing agreements may be concluded.

### **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. As a measure to promote foreign investment, the government has issued rules to provide a deferral of withholding tax on dividends and profits distributed to foreign investors and reinvested into encouraged investment projects in China, with retroactive effect from 1 January 2017.

\*\* A 10% withholding tax, which is lowered from a 20% statutory rate, applies to interest paid to a non-resident unless the rate is reduced under a tax treaty. A 6% VAT is imposed. Bond interest derived by foreign institutional investors from Chinese bond markets may be exempt from both income tax and VAT for the period from November 7, 2018 to November 6, 2021.

† 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)

China has a broad tax treaty network. Most of China's tax treaties are based on the OECD model treaty, providing for relief from double taxation on all types of income.

Guidance issued in 2015 relaxes the procedures for non-resident enterprises to obtain benefits under China's treaties by allowing benefits to be enjoyed based on assessments made by the non-resident recipient of China-source income or the Chinese withholding agent and certain information submitted to the tax authorities.

China is a signatory of the OECD multilateral instrument.

China has exchange of information relationships with 113 jurisdictions through 103 double tax treaties and ten TIEAs ([www.eoi-tax.org](http://www.eoi-tax.org), February 2019).

## 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. A resident taxpayer that is the ultimate parent of a multinational group with annual consolidated revenue exceeding a threshold amount or that is appointed as the filing entity of a multinational group is required to file a country-by-country report.

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%.

## 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.

With effect from May 1, 2016, VAT 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 16%, with a lower rate of 10% applying to certain foods, goods, books and utilities, while a collection rate of 3% applies to small-scale taxpayers. Lower rates apply 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
- 5% for certain transactions involving real estate (e.g. sales of real estate that was acquired by April 30, 2016)
- Certain specified cross-border taxable activities can be zero rated.

## 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 56% 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 2019 ([www.deloitte.com](http://www.deloitte.com)).

# Cash Management

## Banking System

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### 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.

The PBC has regulatory oversight of the country's financial industry and has acquired a number of the responsibilities of the CBRC and CIRC., including the drafting of key regulations.

##### *Other banking supervision bodies*

The China Banking Regulatory Commission (CBRC) and the China Insurance Regulatory Commission (CIRC) merged in March 2018. The merged entity, China Banking and Insurance Regulatory Commission (CBIRC), will supervise the banking and insurance industries.

In 2017, a new Financial Stability and Development Committee was established.

### 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. In December 2016, China added 11 more currencies including the KRW and the SAR. In August 2018, the PBOC re-introduced a counter-cyclical factor to its daily yuan reference.

### *Classification*

Unitary.

### *Exchange tax*

There is no exchange tax.

### *Exchange subsidy*

There is no exchange subsidy.

### *Forward foreign exchange market*

Effective September 11, 2017, financial institutions will no longer be required to set aside funds for settling foreign exchange forward yuan positions. The ratio had been set at 20%. When providing forward foreign exchange sales and settlement services for clients, banks may choose gross or net settlement as a way of delivery based on the needs for hedging and actual demand. Net settlement shall be made in RMB.

### *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 overseas 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 including: 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; and most recently, Administrative Rules on Anti-Money Laundering and Combating Financing Terrorism of Internet Financial Institutions.
- 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), housed within the People's Bank of China (PBC). The FIU is split into two operational units, 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, or the equivalent of USD 100,000 or more, in one day, must be reported.
- All cash deposits, withdrawals and foreign-exchange transactions equal to or exceeding RMB 50,000 in one day must be reported to CAMLMAC or when banks have reason to believe that smaller transactions may be suspicious. That requirement has been brought down from the existing RMB 200,000 limit.
- All cross-border transactions of sums equal to or greater than RMB 200,000 (approximately USD 28,800) in one day where one of the parties is an individual must be reported to CAMLMAC.
- From July 1, 2017, financial institutions must report any cross-border transfers of RMB 200,000 (approximately USD 28,800) to CAMLMAC.
- All cross-border transportations of cash exceeding RMB 20,000 or USD 5,000 must be declared to the General Customs Administration.
- Financial Institutions are required to report daily their bank card holders' overseas withdrawals as well as transactions in excess of RMB 1,000. As of January 1, 2018 withdrawals using domestic Chinese bank cards will be capped at RMB 100,000 (approximately USD 15,370) per year.
- 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 2019.

## Banking Sector Structure

### Major Domestic Banks

Bank	Total assets (USD million) December 31, 2017
Industrial & Commercial Bank of China	4,013,700
China Construction Bank	3,404,013
Agricultural Bank of China	3,239,231
Bank of China	2,995,219
China Development Bank	2,455,375
Bank of Communications	1,390,608
Postal Savings Bank of China Co Ltd	1,386,653
Industrial Bank Co Ltd	987,282

Source: [www.accuity.com](http://www.accuity.com).

## Overall Trend

There are approximately 4,588 financial entities operating in China. The four largest banks in China are state owned. There are 12 nationwide joint-stock Commercial Banks. There are three policy banks: Agricultural Development Bank of China, China Development Bank and Exim Bank of China.

There is a sizeable foreign banking presence in China and the CBIRC is actively pursuing policies to liberalize the market and increase onshore competition. There is a total of 39 locally incorporated foreign banks with 315 branches in China, 121 branches directly under parent banks and 166 representative offices.

In the last 12 months, a raft of rules have been implemented/announced aimed at expanding the opening up of the banking sector to foreign players. According to draft rules announced by the CBIRC, foreign banks will be allowed to set up wholly-owned banks and branches in China. Foreign bank branches will be required to keep more than 8% of yuan risk assets as yuan-denominated operational funds and reserves. Chinese residents will be allowed to establish time deposits exceeding RMB 500,000 in domestic branches of foreign banks.

In April 2018, the cap on foreign ownership of securities trading and fund management companies was lifted from 49% to 51%. In addition, in July 2018, the 20% ceiling on foreign ownership by a single foreign investor and the 25% cap in total foreign ownership was abolished. In November 2018, UBS Group received approval from China Securities Regulatory Commission to increase its stake in its local venture, UBS Securities, to a majority 51%, the first foreign bank to do so. In addition, JPMorgan and Nomura have applied to take majority stakes in Chinese joint ventures while Germany's Allianz has gained approval to set up a wholly-owned holding company in China.

The CBIRC has removed the license requirements for foreign lenders in the country for custody and advisory services and bond underwriting, among other services, and indicated that it would remove the waiting period of one year for conducting renminbi business. The CBIRC has also announced it would adjust the rules on working capital for foreign bank branches by aggregating the working capital of multiple branches of a foreign bank in China. It will also lower the threshold for foreign bank branches to accept a fixed-term RMB retail deposit to RMB 500,000.

# Payment Systems

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## Overview

China's three main interbank payment clearing systems are:

- CNAPS-LVPS (China National Advanced Payment Systems Large Value Payment System), operated by the PBC, is the country's real-time gross settlement system for high-value and urgent electronic payments.
- CNAPS-BEPS (CNAPS Bulk Electronic Payment System) is the country's main clearing system for low-value electronic retail payments and is also operated by the PBC.
- 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.

There is also domestic foreign currency payment system, the CDFCPS (China Domestic Foreign Currency Payment System), which settles foreign currency payments denominated in eight international currencies (AUD, CAD, CHF, EUR, GBP, HKD, JPY and USD), and a cross-border payment system processing RMB, the China International Payment System (CIPS). The Cross-border Inter-bank Payment and Clearing (Shanghai) Corporation Limited independently operate CIPS. In addition, the country's commercial banks operate their own payment clearing networks for large-value funds on a gross amount basis.

The Internet Banking Payment System (Online payment interbank settlement system) for the nationwide clearing of internet-initiated payments, links up individual banks' internet banking networks and allows banking customers to make real-time account enquiries and interbank transfers online. There are 161 institutions participating in the system.

A nationwide online payment and clearing platform for non-bank payment institutions, the NetsUnion clearing platform, is mandatory for transactions involving third-party online payment firms and banks. As of end 2017, 248 banks and 65 payment institutions were connected to the NetsUnion clearing platform.

The Payment and Clearing Association of China (PCAC) serves as a self-regulatory body of the payment and clearing industry in China, under the guidance and oversight of the PBC.

**High-value**

<b>Name of system</b>	CNAPS-LVPS
<b>Settlement type</b>	Real-time gross settlement
<b>Settlement cycle</b>	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.
<b>Links to other systems</b>	NA
<b>Payments processed</b>	High-value and urgent low-value electronic payments, and third-party transactions
<b>Currency of payments processed</b>	RMB
<b>Value and other limits to processing</b>	Values processed must be greater than RMB 50,000. All payments over RMB 1 million must be processed through CNAPS-LVPS.
<b>Operating hours</b>	08:30–17:00 local time
<b>System holidays</b>	The system is open on all Chinese business days.
<b>Cut-off times</b>	17:00
<b>Participants</b>	All direct members must have a settlement account with the PBC. The system covers more than 800 cities in China. There are 310 direct and 143,671 indirect participants in the system.
<b>Access to system</b>	NA
<b>Future developments</b>	NA

<b>Name of system</b>	CIPS
<b>Settlement type</b>	Real-time gross settlement
<b>Settlement cycle</b>	There are two sessions, a day session and a night session. The daytime session on normal working days lasts from 08:30 to 17:30 (the period from 17:00 to 17:30 is the end-of-session processing stage for returning to zero balance and other operations). Given the time zone of China, the day session on the first working day of every week and after national holidays is brought forward to 04:30 a.m. The night session on normal working days lasts from 17:00 to 08:30 a.m. on the next natural day (the period from 08:00 to 08:30 is the end-of-day processing stage for returning to zero balance and other operations).
<b>Links to other systems</b>	NA
<b>Payments processed</b>	Cross-border RMB settlement of trade in goods and services, direct investment, financing and fund transfers for individual customers.
<b>Currency of payments processed</b>	RMB
<b>Value and other limits to processing</b>	None.
<b>Operating hours</b>	24 hours on all business days.
<b>System holidays</b>	The system is open on all Chinese business days.
<b>Cut-off times</b>	NA
<b>Participants</b>	31 direct participants and 768 indirect participants.
<b>Access to system</b>	NA
<b>Future developments</b>	A second phase of CIPS launched in 2018.

**Low-value**

<b>Name of system</b>	CNAPS-BEPS
<b>Settlement type</b>	Net settlement
<b>Settlement cycle</b>	Settlement is on a same-day or next-day basis: T+1 for credits/debits of receiving bank, T+2 for dated debits.
<b>Links to other systems</b>	NA
<b>Payments processed</b>	Low-value and non-urgent electronic payments in the form of credit, pre-authorized collections and dated debits
<b>Currency of payments processed</b>	RMB
<b>Value and other limits to processing</b>	Credit and standing order transactions must be less than RMB 50,000. Other payments processed do not have a value limit.
<b>Operating hours</b>	BEPS operates 24 hours a day, with payments being settled between 08:00 and 17:30 local time.
<b>System holidays</b>	The system is open on all Chinese business days.
<b>Cut-off times</b>	16:00
<b>Participants</b>	There are 189 direct and 86 indirect participants in the system.
<b>Access to system</b>	NA
<b>Future developments</b>	NA



<b>Name of system</b>	Local Clearing House system
<b>Settlement type</b>	ACH or manually
<b>Settlement cycle</b>	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.
<b>Links to other systems</b>	NA
<b>Payments processed</b>	All paper-based credits and debits, such as checks
<b>Currency of payments processed</b>	RMB
<b>Value and other limits to processing</b>	There are no value thresholds.
<b>Operating hours</b>	24 hours during business days
<b>System holidays</b>	The system is open on all Chinese business days.
<b>Cut-off times</b>	16:15
<b>Participants</b>	1,161
<b>Access to system</b>	Payment instructions are exchanged by magnetic media (barcodes or communication networks).
<b>Future developments</b>	NA

## Foreign Currency

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

## Payment and Collection Instruments

### Overview and Trends

The most important cashless payment instruments in China are debit cards among individuals 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 2017/2016	Traffic (value) (RMB billion)		% change 2017/2016
	2016	2017		2016	2017	
<b>Checks</b>	293	256	- 12.6	187,794	172,370	- 8.2
<b>Card and e-money payments</b>	87,002	122,473	40.1	599,143	628,654	4.9
<b>Credit transfers</b>	7,900	9,667	22.4	2,675,179	2,780,667	3.9
<b>Direct debits</b>	1,443	1,523	5.5	79,534	43,093	-45.8
<b>Total</b>	<b>96,638</b>	<b>133,919</b>	<b>38.6</b>	<b>3,541,650</b>	<b>3,624,784</b>	<b>2.3</b>

Source: Bank for International Settlements, September 2018.

### Paper-based

#### Checks

Despite the growth in payment cards and electronic transfers, checks are a common cashless method of payment between small local businesses. 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 reduced the processing time for intercity checks and allows personal and company checks to be used across the country. Checks can be written for amounts up to RMB 500,000 for clearing through the CIS.

Company checks require a hand-written signature and a company finance chop stamp to be valid. Checks are processed by the LCH system. There is no value limit for checks processed via the LCHs. 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. (In June 2018, ten Chinese banks went live with SWIFT's global payments innovation (gpi) service, which aims to reduce payment settlement to one day. Together, they represent an estimated 86% of cross-border payment traffic conducted by Chinese banks in mainland 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

Direct 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 are the most popular cashless payment instrument in China amongst individuals.

At the end of Q3 2018, there were approximately 7.39 billion cards in circulation: 6.7 billion were debit cards and 659 million were credit cards. In Q3, there were 55.4 billion transactions, with a value of RMB 214 trillion, a 36.59% and 15.23% increase respectively on the same period 2017. Debit cards in China are issued when a bank account is opened and also serve as ATM cards. Contactless payments are a popular method of card payment.

The PBC has started to promote the use of chip-embedded payment cards in China, in the form of IC-based bank cards. Two billion IC cards had been issued in China.

Payment cards are cleared through CNAPS-BEPS.

The Chinese card market is dominated by the state-owned China UnionPay, which controls over 90% of the market. In March 2018, the PBC announced that foreign players can start applying for payment licenses and will be treated the same as local firms. Applicants must set up local units, establish payment infrastructure and store client information domestically. In November, American Express became the first foreign company to obtain approval to begin building a payments network and settle card charges: it will enable AmEx cards to be used, cleared and settled domestically.

### ATM/POS

There is an increasing use of ATMs and POS terminals in China. At the end of Q3 2018, there were approximately 32 million POS terminals and 1.1 million ATMs.

### Electronic Wallet

Mobile wallet payments are popular in China; an estimated 92% of consumers pay for low-item goods with their mobile phones. WeChat and Alipay mobile payment apps are most popular accounting for more than 90% of all mobile payments. In Q3 2018, mobile payments totaled 16.9 billion, with a value of RMB 65.5 trillion, a year-on-year increase of 74% and 32% respectively.

A nationwide clearing house for online payment services, the NetsUnion Clearing Corporation platform, is mandatory for transactions involving third-party online payment firms and banks.

# Liquidity Management

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## 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. In January 2019, the PBC cut the reserve requirement ratio for banks by 100 bps in order to encourage lending.

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

Commercial paper, also referred to as “Corporate Bills” in China, is typically used by small and medium-sized companies for short-term financing needs. China’s National Association of Financial Market Institutional Investors (NAFMII) has issued Guidelines for Super and Short-term Commercial Paper (SCP), which permits commercial paper to be issued in China’s interbank bond market and a number of companies have been approved to issue commercial paper. As of 2018, all commercial paper issued with a face value of more than RMB 1 million must be executed electronically. The Shanghai Commercial Paper Exchange is the centralized exchange for commercial paper trading.

The maximum tenor is 365 days, but is typically within 270 days. The balance of a commercial paper payable must not exceed 40% of the issuer's net asset value.

### Bankers' Acceptances

Bankers' acceptances are issued in China in the form of Bank Acceptance Drafts (BAD). The validity period of bank acceptance draft can be up to 180 days for drafts drawn on paper, and up to a year for drafts issued electronically through the PBOC's Electronic Commercial Draft System (ECDS). As of 2018, all commercial drafts worth RMB 1 million or more must be handled through the electronic system (ECDS).

### Supplier Credit

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

### Intercompany Borrowing, including Lagging Payments

Direct intercompany loans between Chinese group companies are permitted and multinational groups with multiple subsidiaries in China can use this additional means of funding via their intragroup financing strategy.

## 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. Interest rates on low-value deposits are subject to a ceiling set by the central bank.

### 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. Interest rates on low-value fixed deposits are subject to a ceiling set by the central bank.

### Certificates of Deposit

PBC guidelines on CDs allow banks to issue CDs with interest rates based on the Shanghai interbank offered rate 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. As of September 1 2017, the issuance of long-term negotiable certificates of deposit i.e. greater than one year, is banned.

The minimum amount for CDs sold to individual investors is RMB 200,000.

### Treasury (Government) Bills

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

Local government bonds are issued by municipal governments.

### Commercial Paper

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

### 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 widely used by companies 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. SAFE has permits 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. The Shanghai Pudong City Government permits 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.

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 have 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

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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.

A regional trade agreement exists between China and ASEAN, eliminating 90% of investment barriers and tariffs between China and ASEAN's member states.

China has signed bilateral or multilateral free trade agreements with more than 20 countries and regions.

# Imports

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## 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's overall tariff rate is 7.5%. As of July 1, 2019 goods originating in Hong Kong and Macao will have zero tariffs.

### **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

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## 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 (Sinasure), 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

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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.

Most banks have adopted the certificate system of the China Financial Certification Authority (CFCA) to encrypt their internet banking systems.

The Internet Banking Payment System (Online payment interbank settlement system) integrates the online banking services of various banks to provide a nationwide clearing system for internet initiated payments. Customers of these institutions can make real-time, online transactions and account enquiries. The limit for a single transaction is RMB 50,000.

In Q3 2018, the number of electronic payments (including online and mobile banking transactions) totaled 45.2 billion, with a value of RMB 592.4 trillion.

Mobile payments are facilitated by the Mobile Finance Secure and Trusted Public Service Platform (MTPS). Twenty financial institutions participate in the MTPS. Smartphone penetration is 97.5%.

NetsUnion Clearing Corporation is responsible for processing online transactions undertaken by the country's third party payments providers involving bank accounts. As of June 30, 2018, NetsUnion assumed responsibility for the centralised processing of all transactions by China's third party payments providers involving bank accounts, severing direct ties between payments companies and banks.

# External Financing

## Long-term Funding

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### 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

China's leasing industry has expanded rapidly in the past decade - there are over 8,000 leasing companies in China. Chinese bank leasing companies are the leading players in the market, but there are domestic-finded leasing companies and foreign-funded leasing companies. Leasing is available for domestically produced equipment as well as for the aerospace, automotive, medical and health, marine engineering, green energy and other sectors.

Leases are usually arranged for between two and five years.

### Bonds

In December 2018, the National Development and Reform Commission (NDRC) issued requirements for raising funds in the domestic bond market on an industry by industry basis, with separate rules for areas including property, manufacturing, cement, hotel and catering. By clarifying the issuing standards by industry, the latest rules should make it easier for companies to register and meet the requirements.

### Private Placement

Issued by non-financial companies, private placement notes typically have tenors of three to five years. As they are not publicly issued, private placement notes are free from the 40% balance limit on public bonds.

### **Asset Securitization / Structured Finance**

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

### **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](http://www.ccpit.org)

## Central Bank

People's Bank of China — [www.pbc.gov.cn/english](http://www.pbc.gov.cn/english)

## Supervisory Authorities

China Banking and Insurance Regulatory Commission — [www.cbrc.gov.cn](http://www.cbrc.gov.cn)

## Payment System Operator

People's Bank of China — [www.pbc.gov.cn/english](http://www.pbc.gov.cn/english)

Payment and Clearing Association of China (PCAC) — [www.pcac.org.cn](http://www.pcac.org.cn)

## ATM/POS Network Operator

China Union Pay — [cn.unionpay.com](http://cn.unionpay.com)

## Banks

Industrial and Commercial Bank of China — [www.icbc.com.cn](http://www.icbc.com.cn)

Bank of China — [www.bank-of-china.com/en](http://www.bank-of-china.com/en)

Agricultural Bank of China — [www.abchina.com](http://www.abchina.com)

China Construction Bank — [www.ccb.com](http://www.ccb.com)

## Stock Exchanges

Shanghai Stock Exchange — [www.sse.com.cn](http://www.sse.com.cn)

Shenzhen Stock Exchange — [www.szse.cn/main/en](http://www.szse.cn/main/en)

## Ministry of Finance

Ministry of Finance — [www.mof.gov.cn](http://www.mof.gov.cn)

State Administration of Foreign Exchange — [www.safe.gov.cn](http://www.safe.gov.cn)

## Ministry of Economy

Ministry of Commerce of the People's Republic of China — [english.mofcom.gov.cn](http://english.mofcom.gov.cn)

## Chamber of Commerce

International Chamber of Commerce — [www.china.com](http://www.china.com)

**Bankers' Association**

Shanghai Banking Association — [www.sbacn.org](http://www.sbacn.org)

China Banking Association — [www.china-cba.net](http://www.china-cba.net)