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Please refer to "Glossary of useful terms" for all the acronyms used in this brochure.

September 2013
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 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.
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.
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.

1. Trading with China

Clearing of RMB transactions through Hong Kong

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.

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

<table>
<thead>
<tr>
<th>Sales Activities</th>
<th>Procurement Activities</th>
<th>Both Sales and Procurement Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Onshore Entities in China</strong></td>
<td><strong>Offshore Entities Overseas</strong></td>
<td><strong>Onshore Entities in China</strong> (\uparrow) <strong>Offshore Entities Overseas</strong></td>
</tr>
<tr>
<td><strong>Pros:</strong></td>
<td><strong>Cons:</strong></td>
<td><strong>Pros:</strong></td>
</tr>
<tr>
<td>Receive RMB in China</td>
<td>Pay RMB to overseas</td>
<td>Save FX costs via partial natural hedge.</td>
</tr>
<tr>
<td><strong>Pros:</strong></td>
<td><strong>Cons:</strong></td>
<td><strong>Pros:</strong></td>
</tr>
<tr>
<td>Natural hedge against domestic expenses/costs.</td>
<td>Profit margins might be squeezed as they would no longer need to include FX hedging costs.</td>
<td><strong>Cons:</strong></td>
</tr>
<tr>
<td>Earn higher interest rate on RMB compared to USD/EUR.</td>
<td><strong>Cons:</strong> Overseas counterpart may not wish to use RMB.</td>
<td><strong>Cons:</strong> Need to re-negotiate on contract currency.</td>
</tr>
<tr>
<td>Faster settlement if counterpart’s RMB account is in HK/Macau.</td>
<td>Overseas counterpart’s bank may not be able to provide RMB services.</td>
<td></td>
</tr>
<tr>
<td>No translation gain/loss.</td>
<td><strong>Cons:</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Pros:</strong></td>
<td><strong>Cons:</strong></td>
<td></td>
</tr>
<tr>
<td>Generally earn higher interest for RMB compared to USD/EUR.</td>
<td>FX management over invoice price in RMB.</td>
<td></td>
</tr>
<tr>
<td>Can hedge through CNH deliverable forward.</td>
<td><strong>Cons:</strong> FX management due to market view of long term RMB appreciation.</td>
<td></td>
</tr>
<tr>
<td>May benefit from market view of long term RMB appreciation.</td>
<td><strong>Cons:</strong> Need to re-negotiate on contract currency.</td>
<td></td>
</tr>
<tr>
<td>Obtain cheaper funding onshore for example by discounting RMB usance L/C.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Longer term L/C than USD.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cons:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit margins might be squeezed as they would no longer need to include FX hedging costs.</td>
<td></td>
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</tr>
</tbody>
</table>

## 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.

### 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.

- **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.

- **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**

**Enterprises with import and export qualifications**

Chinese authorities have implemented a “watch list” system for RMB cross-border business. Watch list enterprises are subject to enhanced document verification and transaction monitoring by banks and cannot deposit their RMB export proceeds in offshore bank accounts.

**Chinese exporters receive RMB**

**Chinese importers remit RMB out bound**

**BNP PARIBAS**

**Clearing Bank in Hong Kong (Taiwan / Singapore)**

**Customers**

**BNP Paribas (China) Limited**

Mainland Settlement Bank

**BNP Paribas Hong Kong (Taiwan / Singapore)**

Participating Bank

**RMB Trade Account**

Corporate with genuine trade transactions in China

Set up **Trade Account** for trade purpose with BNP Paribas branches

**RMB General Account**

Any international corporate

Set up **General Account** for general purpose with BNP Paribas Hong Kong branch

**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).

Source: BNP Paribas
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.

Foreign Direct Investment (FDI)

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?

2. Industrial Investment

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.

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- 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?
Obtaining government approval

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

Step 1
- Anti-Monopoly Review (MOFCOM) (if applicable)
- National Security Review (Ministerial Panel) (if applicable)

Step 2
- Name Pre-Approval (MOFCOM)

Step 3
- Pre-Approval of Land-Use Rights (Land Resources Dept) (if applicable)
- Environmental Impact Assessment (Environmental Protection Dept)
- Opinion on Planned Location (Planning Dept)
- Approval for the Use of State Assets or State-Owned Land-Use Rights (SASAC) (if applicable)

Step 4
- Approval of Project Proposal (DRCs)
- Consultation with Industry Regulator and Qualified Consultation Institution

Step 5
- Approval of Related Contracts, Articles of Association, and Formation of FIE (MOFCOM)

Step 6
- Pre-Approval / Licence from Industry Regulator (if applicable)

Step 7
- Registration of Enterprise (AICS)

Examples of preferred industries for FDI
- Clean energy
- Business services
- Wholesale, retail & logistics
- Medical & bioproducts
- Green products
- Education
- High tech sector

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

1. SASAC approval (if applicable)
2. DRC foreign investment approval
3. MOFCOM share purchase approval
4. Open a foreign exchange account and apply/file with CSRC
5. Complete the share purchase
6. Obtain MOFCOM FIE certificate
7. AIC Amendment of Company Registration and receipt of Business Licence for a foreign-invested enterprise
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)

- Bank Loan
- Syndicated Loan
- Entrustment Loan
- Debt Capital Markets
- Equity Capital Markets (in development)

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

<table>
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<th>Solution</th>
<th>Onshore</th>
<th>Cross-border</th>
<th>Offshore</th>
</tr>
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<tr>
<td><strong>Who can do it</strong></td>
<td>RMB Loan (or Syndication)</td>
<td>Shareholder Loan</td>
<td>RMB Loan (or Syndication)</td>
</tr>
<tr>
<td></td>
<td>Any FIE with onshore WOFE or JV</td>
<td>Any FIE</td>
<td>Dim Sum/ Formosa Bond</td>
</tr>
<tr>
<td><strong>Size</strong></td>
<td>RMB Bond</td>
<td>RMB Bond</td>
<td>RMB Bond</td>
</tr>
<tr>
<td></td>
<td>Entrustment Loan</td>
<td>Heavily invested FIE with holding co and Chinese</td>
<td>Head office (overseas entity), Pre-approved</td>
</tr>
<tr>
<td></td>
<td></td>
<td>GAP practice</td>
<td>onshore entities</td>
</tr>
<tr>
<td><strong>Tenor</strong></td>
<td>Limited by single lender limit and loan to</td>
<td>Limited by borrowing gap</td>
<td>Small size in HK; market in development in Asia</td>
</tr>
<tr>
<td></td>
<td>deposit ratio</td>
<td></td>
<td>CNY 0.5 to 3 bn</td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td>Investment purposes for loans above 1 year</td>
<td>Can be long term (7 years and plus)</td>
<td>Tends to be cheaper than onshore for multinational companies</td>
</tr>
<tr>
<td></td>
<td>Free</td>
<td>Average tenor is 3 years or so</td>
<td>Variable</td>
</tr>
<tr>
<td><strong>Usage of fund</strong></td>
<td>Free</td>
<td>Negotiable between counterparties</td>
<td>Limited to investment projects when sent back onshore</td>
</tr>
<tr>
<td></td>
<td>Broker bank to match interest</td>
<td>Depends on rating but cheaper funding than all other onshore solutions</td>
<td>Limited to investment projects when sent back onshore</td>
</tr>
<tr>
<td><strong>Key success factor</strong></td>
<td>Onshore financial accounting; onshore rating; size of onshore balance sheet</td>
<td>Organized between inter-group companies</td>
<td>Tends to be cheaper than onshore for multinational companies</td>
</tr>
<tr>
<td><strong>Key hinderance</strong></td>
<td>Process complexity; NAFMII registration</td>
<td>Availability of borrowing gap</td>
<td>Refinancing after borrowing gap is used up</td>
</tr>
<tr>
<td><strong>BNP Paribas capacity</strong></td>
<td>BNP Paribas China Ltd is an onshore local bank</td>
<td>Availability of borrowing gap</td>
<td>Market liquidity</td>
</tr>
<tr>
<td></td>
<td>BNP Paribas China Ltd works with onshore partners such as Bank of Nanjing</td>
<td>Refinancing after borrowing gap is used up</td>
<td>RMB appreciation trend; refinancing after borrowing gap is used up</td>
</tr>
<tr>
<td></td>
<td>BNP Paribas offers various solutions</td>
<td>BNP Paribas offers various solutions</td>
<td>BNP Paribas’ strong origination and distribution network</td>
</tr>
</tbody>
</table>

### BNP Paribas Capacity

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

- **BNP Paribas Derivatives Hedging**
  - Cross currency swap in CNH
  - Interest Rate Swap in CNY
  - FX hedging

- **BNP Paribas Bond Market Access**
  - Consistently ranked as top 3 on RMB offshore Dim Sum league table since the market opened in 2010
  - Pioneer in China onshore bond market for foreign invested enterprises
  - Leader in Formosa bonds (Taiwan)

- **BNP Paribas Loan Capacity**
  - Onshore loan platform through BNP Paribas China Ltd
  - Syndication loan
  - Entrustment loan
  - Offshore trade financing and RMB loan

- **BNP Paribas Added Value Service**
  - Cross border financing
  - Guarantee schemes
  - Structured financing
  - Overall one-stop funding for the currency of your choice
  - Trade financing

For more information please contact your account manager.
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

Multi-Currency Notional pooling

- JPY
- AUD
- NZD
- SGD
- HKD
- USD
- CNY

Physical Cash Pooling

- Regional A/C
- Regional A/C
- Cross-Border Auto Sweeping
- In-Country Cash Pool
- In-Country Accounts
- Intercompany Lending
- In-Country Cash Pool
- In-Country Accounts

Unregulated Countries:
Singapore, Hong Kong, Japan, Australia, New Zealand...

Regulated Countries:
China, India, Korea, Thailand, Malaysia, Vietnam, Indonesia...

Convertible Currencies:
USD, EUR, HKD, SGD, JPY, AUD, NZD, (CNY)

Multi-Currency Regional Balance Optimization

In-Country Cash Pool

In-Country Accounts

In-Country Accounts

In-Country Cash Pool

All Currencies trapped in Countries
# Cash management onshore versus offshore

<table>
<thead>
<tr>
<th>Onshore</th>
<th>Offshore</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deposit</strong></td>
<td><strong>Offshore term deposit rates are driven by liquidity events, in particular in the Hong Kong RMB market.</strong>&lt;br&gt;Deposit yields tend to be lower than in the onshore market. Structured investments are available in all known structures linked to foreign exchange, commodities, equities, interest rates or a combination.</td>
</tr>
<tr>
<td>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. Structured investments are available in RMB in general for short tenors. Onshore structured investments cannot embed products prohibited by regulation (linked to RMB FX or RMB rate levels for instance).</td>
<td></td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td><strong>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.</strong></td>
</tr>
<tr>
<td>Time deposits range from 3 months to 5 years. Call deposits range from 1 day to 7 days. BNP Paribas teams up with Fortis Haitong Investment Management Co, Ltd in China to provide onshore Fitch-rated money market funds.</td>
<td></td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td><strong>In Hong Kong and overseas, companies may participate in domestic and cross-border sweep in RMB.</strong>&lt;br&gt;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. RMB liquidity can then be centralized at RMB Cash Pool Header account for managing investments/funding and FX hedging. It is not usual to place RMB out of Hong Kong since it has more RMB products available. Solutions available in HK are also available in other branches of BNP Paribas around the world.</td>
</tr>
<tr>
<td>In China, companies may participate in domestic entrustment loans. 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. 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. BNP Paribas has set up a specific solution to allow customers to control all their bank accounts through our proprietary platform Connexis.</td>
<td></td>
</tr>
<tr>
<td><strong>e-banking Solution</strong></td>
<td>BNP Paribas’ Connexis platform offers some dedicated tools for Mainland China such as the Multi Bank Solution and the automatic SAFE declaration.</td>
</tr>
<tr>
<td>BNP Paribas’ Connexis platform SWIFTNet Host to host connectivity</td>
<td></td>
</tr>
</tbody>
</table>

### 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.

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.

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.

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).

RMB internationalisation – Evolution of FX markets

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

### Key Features

<table>
<thead>
<tr>
<th>USDCNY onshore Deliverable Spot/Fwd</th>
<th>USDCNY Non Deliverable Fwd (NDF)</th>
<th>USDCNH Offshore Deliverable Spot/Fwd</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is a deliverable RMB market but in onshore China only</td>
<td>Offshore non-deliverable RMB market</td>
<td>Offshore deliverable RMB market traded outside China</td>
</tr>
<tr>
<td>Spot and forward are allowed</td>
<td>Usually cash settled in USD</td>
<td>Spot and forward are allowed</td>
</tr>
<tr>
<td>Client can only buy options / collars</td>
<td>No spot, only NDF</td>
<td>Full range of derivative products</td>
</tr>
<tr>
<td>Daily trading band +/- 1% of PBoC Fixing</td>
<td>Full range of derivative products</td>
<td>Fixing Page, Reuters “CNHFIX=” 11:15 am Hong Kong time, contributed by 18 banks in HK including BNP Paribas</td>
</tr>
</tbody>
</table>

### Historical Evolution

- CNY Spot
- CNY Fixing
- CNH Fixing

**Market liquidity for forward contracts**

<table>
<thead>
<tr>
<th>Onshore RMB</th>
<th>Offshore NDF</th>
<th>Offshore CNH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Spot (11 Nov 2013)</strong></td>
<td>Fixing: 6.1390</td>
<td>6.0777</td>
</tr>
<tr>
<td>Settlement</td>
<td>Deliverable Forward</td>
<td>Non-Deliverable Forward</td>
</tr>
<tr>
<td></td>
<td>Cash-settled in USD</td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td>Daily turnover USD 15bn</td>
<td>Daily turnover USD 3-4bn</td>
</tr>
<tr>
<td>Bid/Offer Spread</td>
<td>Spot bid/offer 5 pips Up to USD 20M</td>
<td>Spot bid/offer 20 pips Up to USD 20M</td>
</tr>
<tr>
<td>Fixing Page</td>
<td>N/A</td>
<td>Published at 9:15am Beijing time</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reuters Page “SAEC”</td>
</tr>
<tr>
<td>Products Allowed</td>
<td>Spot / Forward / Vanilla options (clients can only buy) / Collar Forward (zero cost)</td>
<td>Spot / Forward / Options, exotics and structured products</td>
</tr>
</tbody>
</table>

**Source:** Reuters
6. Repatriate Cash from China

How to repatriate cash from China

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.

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

All About RMB
### What solutions does BNP Paribas offer?

#### Different solutions for different requirements

Several ideas to repatriate cash either permanently or temporarily.

#### Focus on RMB cross-border intercompany lending

<table>
<thead>
<tr>
<th>Solution</th>
<th>Onshore non-financial enterprises’ intercompany RMB lending.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who can do it</td>
<td>Onshore enterprises which have shareholding relationship with offshore borrowers or belong to the same parent company, controlled by a regional headquarters or an affiliate in charge of investment management.</td>
</tr>
<tr>
<td>How to do it</td>
<td>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.</td>
</tr>
<tr>
<td>Arranger</td>
<td>BNP PARIBAS</td>
</tr>
</tbody>
</table>
| 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. |
| Lending in the form of cash pooling or multiple intercompany lending | Onshore Enterprises (Onshore Cash) → Outflow → Onshore Bank (RMB Special Deposit Account) → Loan draw down → Offshore Borrower (Repayment) |
| 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. |
BNP Paribas RMB platform

BNP Paribas has set up a worldwide platform to follow its customers’ needs in China and in the rest of the world for all RMB transactions. Dedicated resources will assist in understanding regulations, providing product ideas and organizing solutions from transactional banking to investment banking.

Contact us

Julien Martin
Head of RMB Competence Centre
BNP Paribas

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Tel +852 2909 8811
Email julien.martin@asia.bnpparibas.com

Your account manager
## Glossary of useful terms

### Currency Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Name</th>
<th>Definition</th>
<th>Implications for Corporates</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNH</td>
<td>Offshore Chinese Yuan in HK</td>
<td>An acronym for offshore deliverable Chinese Yuan traded outside China; Trade settlement process in Hong Kong</td>
<td></td>
</tr>
<tr>
<td>CNS</td>
<td>Offshore Chinese Yuan in Singapore</td>
<td>An acronym for offshore deliverable Chinese Yuan traded outside China; Trade settlement process in Singapore</td>
<td></td>
</tr>
<tr>
<td>CNT</td>
<td>Offshore Chinese Yuan in Taiwan</td>
<td>An acronym for offshore deliverable Chinese Yuan traded outside China; Trade settlement process in Taiwan</td>
<td></td>
</tr>
<tr>
<td>CNY</td>
<td>Chinese Yuan</td>
<td>CNY is the International Organization for Standardization code for the currency</td>
<td></td>
</tr>
<tr>
<td>RMB</td>
<td>Renminbi 人民幣</td>
<td>“Renminbi” is the Chinese pronunciation.</td>
<td></td>
</tr>
</tbody>
</table>

### Investors Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Name</th>
<th>Definition</th>
<th>Implications for Corporates</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIE</td>
<td>Foreign Invested Enterprise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WOFE</td>
<td>Wholly Owned Foreign Enterprise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>QFII</td>
<td>Qualified Foreign Institutional Investor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RQFII</td>
<td>RMB Qualified Foreign Institutional Investor</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Three Types of Organizations

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Definition</th>
<th>Implications for Corporates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign central banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RMB clearing banks in HK and Macau</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offshore RMB trade settlement banks</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Onshore RMB Regulators

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

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

**Offshore RMB Actors and Systems**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Name</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHATS</td>
<td>Clearing House Automated Transfer System</td>
<td>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.</td>
</tr>
<tr>
<td>HKMA</td>
<td>Hong Kong Monetary Authority</td>
<td>Maintains currency stability within the framework of the Linked Exchange Rate system, promotes the stability and integrity of financial system and manages exchange fund.</td>
</tr>
<tr>
<td>RTGS</td>
<td>Real Time Gross Settlement</td>
<td>Funds transfer systems where transfer of money or securities takes place from one bank to another on a “real time” and on “gross” basis.</td>
</tr>
<tr>
<td>CNAPS</td>
<td>China National Advanced Payment System</td>
<td>China’s current payment system for nationwide interbank system and for cross boarder RMB payment clearing.</td>
</tr>
<tr>
<td>CIPS</td>
<td>China International Payment System</td>
<td>China’s future international payment system.</td>
</tr>
</tbody>
</table>

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