RMB Cross-Border Lending: New Structures to Unlock Cash for Business Growth

Opportunities for accessing RMB liquidity continue to grow with fast-evolving regulation, supportive policies and innovative banking solutions. Especially interesting for corporate treasurers are recent developments relating to cross-border capital flows in the form of investments and loans. At Citi, we see an increasing trend for companies with RMB exposure to focus on these cross-border opportunities to unlock working capital as their investments and revenues in China grow.

### Regulatory Changes for Cross-border Capital Flows

Cross-border loans from overseas to China (described in China as foreign debt) is permitted under current regulations, so long as it is within the borrower’s quota, and each transaction is registered with the State Administration of Foreign Exchange (SAFE). In contrast, cross-border lending from Chinese entities has historically been far more restricted with dividends being the only way of accessing liquidity held in China. As a result, corporate treasurers have been managing cash and liquidity quite separately from their companies’ regional and global treasury management structures.

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| **Regulatory** | SAFE pilot scheme | SAFE regulation, (effective 17 Dec 2012) | PBOC (People’s Bank of China) pilot scheme |
| **Eligible Pilot Cities/Provinces** | Shanghai, Beijing | Countrywide | Shanghai, Guangzhou and Hangzhou |
| **Applicant Criteria** | Regional headquarters or investment company based in pilot city | NIL | Single entity registered in pilot city or pool header is the regional headquarter or an investment company registered in pilot city |
| **Borrower** | Related Company | Parent Company | Related Company |
| **Lending Quota** | Up to 30% of equity | Declared dividend + parent company’s portion of undistributed profits | Equity x RMB percentage of cash balance x regulatory factor |
| **Lending Mode** | Auto-sweeping is permitted | Transaction by transaction basis | Multi-drawdown against the quota; Auto-sweeping is permitted |
| **Pre-condition for Implementation** | Nominated by pilot bank; Pre-approved by SAFE | NIL | Approved by PBOC |

**Table 1. Options for Cash Repatriation from China**
Market-Leading Case Studies
The ability to lend RMB cross-border has been welcomed as one of the most important recent developments initiated by the People’s Bank of China (PBOC). Companies that have participated in the pilot programs with Citi have identified valuable opportunities to release trapped cash in China and integrate RMB cash and liquidity management structures within a regional or global strategy.

CASE STUDY 1
Exchanging RMB surplus to fund foreign currency liabilities

Danone is a world leader in dairy products, bottled water, baby nutrition and medical nutrition. With sales in emerging markets reaching 60% in 2012, and a strategic focus on Asia as a key growth market, it was essential for Danone to optimize cash and liquidity management in the region. The company had built up a large onshore RMB surplus in its Shanghai-registered company, but there was no way to use this cash for intercompany financing purposes.

Danone partnered with Citi in the PBOC pilot scheme for RMB cross-border lending and obtained a PBOC RMB lending quota. Having fulfilled the necessary conditions for cross-border lending, such as being able to demonstrate a structural cash surplus in RMB with no outstanding RMB-denominated borrowings, Danone conducted its first intercompany RMB borrowing in January 2013.

In order to adhere to transfer pricing regulations, the interest rate for the loan was set with reference to the onshore PBOC benchmark deposit rate. Intercompany contracts were drawn up between Danone’s group offices in China and Singapore, with dedicated accounts in RMB. The loan was then swapped into USD (Danone’s functional currency for its Singapore-based holding company) by Danone’s intermediary financial holding company in Paris.

Participation in the pilot scheme has enabled Danone to leverage surplus RMB in China to finance the net debt of the group’s regional treasury center in Singapore. The transaction sets an important precedent both for Danone and other multinational corporations seeking to leverage RMB balances for group financing and strategic growth.

CASE STUDY 2
Integrating RMB into overseas multi-currency notional cash pooling

A leading global confectioner based in the United States wanted to include the proceeds of its RMB cross-border loan in its global multi-currency notional pool. A multi-currency notional pooling solution enables multinational companies to manage cash balances in multiple currencies as a single position, and offset surpluses in one currency with deficits in another without the need to perform foreign currency conversion.

While this technique is familiar to many companies, particularly in regions such as Asia which are more regulated than Europe and North America, and where the number of currencies involved is greater, it has not been possible to include cash balances held in China within these structures in the past. Currently, Citi is one of only a few banks with the ability to include RMB in a multi-currency cash pool, bringing the total number of currencies that can be managed within a single notional pool to 26.

By implementing an RMB offshore multi-currency notional pool, the global confectioner was able to integrate RMB deeper into their cash and liquidity management processes. They are now also better positioned to seize opportunities arising from the continued opening of the China market and its currency.
CASE STUDY 3  
Funding RMB trade settlement

Some companies, such as Ford, are combining opportunities for cross-border capital flows with cross-border trade settlement. Settling cross-border trade in RMB brings a range of benefits to both Chinese and foreign multinationals. For example, Ford has established an important China supply base supporting its global business. Although Ford Motor Company holds surplus RMB in China, its US parent company had to exchange USD for RMB in order to pay Chinese suppliers in their local currency. The RMB cross-border lending pilot program enables Ford to match its surpluses in China with its RMB requirements offshore, optimizing the use of cash to fuel its cross-border trade with China. Today, therefore, Ford is able to improve supplier relationships and increase the resilience of their supply chain by paying in their suppliers’ chosen currency.

Facilitating Local, Regional and Global Objectives
As these case studies illustrate, the relaxation of rules on cross-border capital flows open up a variety of new opportunities both for Chinese and foreign multinational corporations. Rarely is it simply a case of repatriating RMB to a company’s home country; rather, we are seeing companies across a spectrum of industries leveraging cash held in China to facilitate growth, which will in turn benefit their operations in China.

With the success of these pilot initiatives so far, it is reasonable to expect that regulators in China will continue along the liberalization path for cross-border borrowing and investment. Corporate treasurers will need to keep abreast of these developments with the objective of leveraging cash balances wherever they are located as part of a regional or global cash and liquidity management strategy.