

# HSBC INSIGHT— Pilot Reform of Foreign Exchange Control over Trade in Goods

(To be effective from December 1<sup>st</sup>,2011)



## Highlights

- The State Administration of Foreign Exchange(SAFE), State Administration of Taxation(SAT) and General Administration of Customs(GAC) issued a proclamation declaring pilot reform of foreign exchange control over trade in goods
- Simplifies the process of foreign exchange payments and receipts
- Reduces the documentary requirement for tax rebates
- Adjusts the process for export customs declaration
- Continues the ongoing classification of companies in pilot areas

## Background

Recently, the State Administration of Foreign Exchange(SAFE), State Administration of Taxation(SAT) and General Administration of Customs(GAC) issued a notice, declaring a Pilot Reform of Foreign Exchange Control over Trade in Goods to be implemented from December 1st, 2011, in the provinces of Jiangsu, Shandong, Hubei, Zhejiang (excluding Ningbo), Fujian (excluding Xiamen), Dalian and Qingdao.

This pilot reform will further facilitate international trade and will simplify the procedure and process of inward and outward foreign currency transactions by the optimization of information-sharing mechanism between SAFE, SAT and GAC. Potentially, operational cost can be reduced for related parties, and operational efficiency will be enhanced.



## Key Changes

- **Simplified process of foreign exchange payment and receipt.** Category A companies will only need to present ANY of the following: ①Import Customs declaration form, ②Contract or ③Invoice to prove the authenticity of transaction at the time of outward remittance. Meanwhile, on-line verification for receiving export proceeds is no longer required for Category A companies.
- **Reduced documentary requirement for tax rebate application.** During the pilot period, when applying for export tax rebate, export companies in the pilot areas will no longer need to provide a paper verification form. The tax authority will verify the tax rebate application according to the information and categorization provided by SAFE.
- **Streamlined process for export customs declaration.** During the pilot phase, companies will still be required to present export proceeds verification forms as usual. However, the export proceeds verification form will no longer be required by SAFE and Customs when the pilot is extended nationwide.
- **Improved controls over foreign exchange in goods trading.** Using the data from the Foreign Currency Monitoring System of Goods Trade, the SAFE supervision and inspection on most companies in pilot areas will shift from transaction-based verification, to macro monitoring of companies' total volume of foreign currency payments & receipts against goods imported and exported.

## Key Implications

- Category A companies' documentary preparation for foreign currency payments will be significantly simplified. Therefore, administrative resources can be relieved, which is particularly beneficial to the companies that are handling a high volume of foreign currency transactions.
- Given the above documentary simplification, Category A group companies may consider centralising foreign currency import payments, to improve operation standardisation and efficiency, as well as strengthen risk control.
- Companies should endeavor to keep a sound compliance record with SAFE, to prevent falling into the Category B or Category C as SAFE will impose more stringent control and inspections on the companies in Category B or C.
- As a result of the cancellation of on-line verification, the process of funding transfer from Pending-for-Verification accounts will be simplified.
- The turnaround time for export tax rebates will be shortened due to the elimination of paper-based verification form of inward remittance.

## About HSBC

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The bank currently has 109 outlets in Mainland China, including 24 branches and 85 sub-branches. The continuous expansion of network makes HSBC the largest branch network amongst foreign banks in China. Now HSBC is one of the largest banking and financial services organizations in the world, with over 7,500 offices and branches in 87 countries.

With rich international experiences and deep understanding about local market, HBCN has special advantages to provide extensive banking and financial service for you.

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