

“Making the most of treasury liberalisation in China”

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In 2009, China announced its intention to turn Shanghai into a global financial centre by the year 2020. Bearing in mind the size of the Chinese economy and the sophistication of Shanghai’s business community, this may not have initially appeared to be a major announcement. In reality, however, this goal is a highly ambitious one as the country’s objectives have been to establish an efficient financial and regulatory environment, advanced market infrastructure and financial products and services that compete with those of London, Frankfurt, New York and other major financial centres, in barely more than a decade.

Consequently, this initial announcement was followed by a range of initiatives to facilitate this vision, such as expanding the use of the Renminbi (RMB) as an international currency and attracting foreign investment. This article considers some of the ways in which corporate treasurers can leverage opportunities that may arise from these initiatives, in order to gain competitive, financial or operational advantages.

Tempering ambition with prudence

While the plans to create a new financial centre and international currency are ambitious, the Chinese regulators, PBOC (People’s Bank of China) and SAFE (State Administration of Foreign Exchange) have been prudent about the speed of liberalisation introducing reforms in a methodical way. For example, while an offshore market now exists for RMB (CNH) in Hong Kong and more recently Taiwan, Singapore and London, this remains largely independent from the onshore RMB (CNY) market.

Despite the steady pace of change, however, the opportunities for treasurers to manage cash effectively have developed substantially in recent years. With techniques such as cash pooling and netting available both on- and offshore, treasurers are increasingly able to implement RMB cash management structures that are consistent with those they might have in other countries. It can be challenging to keep pace with new opportunities in China, but it is important for treasurers to invest in this expertise. By harnessing opportunities in this market, they can deliver considerable value to their organisation due to China’s strategic importance for most multinational corporations, with any improvement in cash and treasury management having a significant financial and operational impact on their business.

The pilot model

Historically, liberalisation initiatives in China have been introduced through pilot schemes. These involve a limited number of corporate participants, typically those registered in Shanghai or Beijing, together with selected local and international banks. Based on the outcome of these pilot schemes, the initiatives may then be revised or expanded to a wider range of participants and cities. Treasurers of companies with substantial activities in China, or for which China is a key strategic market, can often gain a competitive, financial and/ or operational advantage by becoming involved in pilot schemes. This is most often achieved through sponsorship by a major international bank such as Deutsche Bank.

Recent pilot scheme: foreign currency cross-border cash pooling

A recent example of a pilot scheme is the foreign currency cross-border cash pooling programme. This scheme allows companies registered in either Beijing or Shanghai to set up a foreign currency cross-border cash pool structure (in multiple currencies) to enable cash transfers in and out of China, so long as the structure is approved by SAFE and within the overseas lending and foreign debt quotas. The scheme enables corporate treasurers to employ the surplus liquidity they have in China in other parts of the world,

thereby minimising financing costs and increasing investment returns. Furthermore, as cash is centralised in a pool header account, treasurers have better visibility and control over their cash. The first group of corporations involved in this recent pilot scheme are proactively working with SAFE, with the first transactions now successfully completed.

RMB Simplified cross-border payment pilot scheme

Another pilot scheme in which Deutsche Bank has played a considerable role is the simplified cross-border payment scheme. The ability to settle cross-border trade transactions in RMB has existed since 2009, with a gradual expansion of the scheme. By mid-2012, any organisation with an import or export license in China could settle cross-border trade in RMB.

While cross-border trade in RMB has grown substantially (RMB 2.94 trillion in 2012, according to PBOC) this remains a relatively small proportion of total cross-border trade. One of the challenges that previously hindered the adoption of the RMB as a cross-border settlement currency laid in the complexity of process involved – to make a cross-border payment in RMB required extensive supporting documentation, which delayed payments and made it difficult to manage working capital efficiently.

Under the pilot scheme, participating companies only need submit a payment instruction/purpose-of-trade declaration and a PBOC cross-border report when making a trade payment, rather than banks having to physically check the documentary proof of each underlying transaction and verify the purpose of the settlement before processing RMB payments. By joining this scheme, companies can streamline their payment processes and benefit from a simplified documentation process, which can save them a significant amount of time. Instead, companies can now time their payments more effectively, including bundling and warehousing payments, leading to both working capital benefits and increased operational efficiencies. While the scheme is still in its pilot phase, with only sponsored corporates participating at this stage, it is progressing well. Deutsche Bank was the first bank to complete a transaction under the scheme in June 2012.

Keeping pace with regulatory changes

Treasurers have often noted the challenges of keeping pace with regulatory developments. In order to keep track of changing regulatory conditions, both local finance professionals and executives based outside of China need to engage with the regulators, which can also help strengthen the business case for participating in relevant pilot schemes.

As regulations may be interpreted differently between cities and provinces, working with banks such as Deutsche Bank that actively keep pace with changing conditions can benefit corporates operating in China. Deutsche Bank is committed to sharing its experience and insights derived from working with regulators across all major Chinese cities and provinces, with its clients operating in China.

Innovation in context

Deutsche Bank helps treasury and finance professionals to identify new opportunities that regulatory changes may present and determine how best to adapt and leverage appropriate techniques within existing structures and processes.

New entrants to the market often have greater flexibility as their internal infrastructure may be less embedded – in these cases, companies can rely on Deutsche Bank to help them assess how best to structure their cash and treasury management processes, while taking into account both the current regulations and the ongoing market liberalisation.

By leveraging techniques such as cash pooling to take greater control over liquidity, corporates will be increasingly able to centralise their cash and treasury management within China. In the past, many companies have had to establish treasury expertise in multiple locations, but the need for this has greatly reduced in recent years. Furthermore, shared service centres can now be set up to produce the required

reporting for different cities and provinces from a single location, leveraging consistent processes and a central technology platform.

Regional and global cohesion

By centralising cash and treasury management processes, and by working with a highly respected international bank such as Deutsche Bank, group treasury and finance functions can also gain better visibility and control over their operations. With greater cohesion between treasury, cash and other finance activities in China and those in other parts of the world, there is far greater potential for regional treasury centres located in China and covering North Asia or even Asia as a whole. As an increasing number of foreign multinationals establish regional headquarters in Shanghai in anticipation of its growing profile as an international financial centre, this trend is likely to continue.

Following the path to innovation and liberalisation

For Shanghai to become a financial centre on par with established locations such as London, Frankfurt, Hong Kong and New York, market participants will need to be able to transfer cash in multiple currencies to and from multiple regions efficiently and cost-effectively. China is well underway on this journey so treasurers need to ensure they remain up to date with new opportunities as they emerge.

By working with a bank like Deutsche Bank that can provide valuable insights into regulatory developments, corporates are in a unique position to optimise opportunities within China, while ensuring that they have cohesive regional and global structures wherever possible. This applies to both foreign multinationals doing business in China, and to Chinese corporations as they expand their geographic footprint.

About Deutsche Bank Global Transaction Banking

Through its wide range of trust and securities services, cash management, and trade finance services, Deutsche Bank's Global Transaction Banking business helps companies all over the world to focus on achieving their business goals.

Every day, in multiple locations, Deutsche Bank processes and clears domestic and cross-border payments, facilitates transactions for global trade and acts as trustee, agent, escrow services provider and custodian.

In transaction banking, the visibility gained on clients' financial landscape puts Deutsche Bank in a unique position to identify risks as well as opportunities for bottom line growth.

By working in close partnership with the rest of the Bank, Deutsche Bank's Global Transaction Banking business helps corporates and financial institution clients optimise every opportunity.