# Table of Contents

Introduction 3

1. Overview 4

   1.1 RMB Internationalization – a Systematic Change 4

   1.2 RMB Regulatory Updates 5

   1.3 RMB Growth in Volume and Values 5

2. RMB Solution Tailored for Your Needs 7

   2.1 Start using RMB: Accounts, Payments, Conversions 7

   2.2 Manage RMB Trade Solutions 10

   2.3 Utilize RMB Capital Account: Financing and Investing for Capital Account Transactions 12

   2.4 Use RMB to Improve Group Process and Treasury Efficiency: Cross-Border Pooling 15

3. China (Shanghai) Pilot Free Trade Zone (SFTZ) Overview 16

Appendix. RMB Offshore Financing Options 18

Contact Information 20
Introduction

As China’s economy has grown, so too has its influence in the global economy. Since the RMB Cross-Border Trade Settlement initiative was launched in July 2009, the RMB has matured significantly, providing opportunities for corporates to take advantage of its rapid evolution to enhance their treasury and trade management practices.

The strategic positioning of RMB was driven by the People’s Bank of China (PBOC)’s efforts to make the RMB a global trading currency. Further developments have led to a rapid increase in RMB cross-border transactions with a variety of current and capital account purposes permitted. With support from government and industry groups, we are witnessing the rapid progress of a thriving offshore RMB market in Hong Kong, London and Singapore.

Citi is pleased to issue this RMB primer designed to provide you with updates on recent regulatory changes and insights on how the internationalization of the RMB can advance corporates’ best practices in payments, foreign exchange, trade and investment.

The implications of doing so are far-reaching. For an onshore company, using RMB means reducing currency mismatches in balance sheet, minimizing FX exposure, and lowering FX conversion and hedging costs. It also means streamlining the process, improving operational efficiency and reducing operational costs. For an offshore company, using RMB means access to more local suppliers/clients in China and enjoying better terms and discounts. It also means potentially reducing portfolio risk by adding in RMB and financial gain derived from RMB appreciation.

Since the internationalization of the RMB, we have seen a rapid rise in RMB cross-border transactions, supporting the RMB as the currency of choice to open corridors of trade with China. Opening an RMB account with Citi can help you capitalize on making the most of this important currency. With on-the-ground local expertise and extensive RMB and regulatory knowledge, Citi is uniquely positioned to assist you with analyzing, understanding and implementing solutions to best advance your business goals.

If you have any questions, please do not hesitate to reach out to us. We would be happy to speak with you and be pleased to work with you in developing a forward-looking strategy and RMB solution-set tailored to your needs.

Best regards,

Michael Guralnick
Global Sales Head, Corporate and Public Sector, Treasury and Trade Solutions, Citi

Amol Gupte
Asia Region Head, Treasury and Trade Solutions, Citi
1. Overview

1.1 RMB Internationalization – a Systematic Change

RMB is the short form of Renminbi, the name of the Chinese Yuan. Its international standard code, and hence the only code accepted by SWIFT, is CNY.

After years of strict control of its international payments, China regulations now allow China-domiciled entities to use RMB to deal with their counterparties outside of the country. For current account transactions, it is essentially unrestricted. Capital account transactions are largely open but subject to relevant approval or quota. The RMB has quickly become a functional currency for cross-border trade and investment between China and rest of the world.

Since the offshore RMB has a market-driven FX and interest rate, an unofficial term CNH was coined for offshore and CNY is used to refer to onshore. Though rates differ, CNH and CNY are really the same currency; hence the word Renminbi is used to represent both onshore and offshore.

An entity registered outside of China can now open an RMB account in a bank outside of China, to send or receive RMB to/from Mainland China, leveraging China’s relaxation of regulations. It can also enjoy the benefits of a freely transferrable offshore market as well as a freely convertible CNH FX market.

Since the offshore RMB market is more liberal than onshore, it is dubbed “One Currency, Two Systems.”
RMB internationalization has created a situation where the RMB is used for invoicing and settling a substantial share of global merchandise transactions, as the currency of denomination of a substantial share of international bonds (bonds for placement with investors resident in countries other than that of the issuer) and of funds used in direct foreign investments, and where it is held as reserves and used as a vehicle for foreign exchange market intervention by a substantial number of central banks and governments around the world.

1. **RMB as a trade currency** (achieved): Now any company can use RMB to settle trade anywhere in the world.

2. **RMB as an investment currency** (partially achieved): Using RMB for all kinds of investment is free in offshore markets. China’s inward and outward direct investment can be settled in RMB. Entities can also conduct cross-border RMB cash sweeping. Financial market investors can also invest in China markets via programs including RQFII (RMB Qualified Foreign Institutional Investor).

3. **RMB as a reserve currency** (on its way): Central banks start to hold RMB in reserve portfolio; bilateral currency swap agreement among China and 23 countries/territories.

### 1.2 RMB Regulatory Updates

PBOC (China Central Bank) and SAFE (the core regulator for foreign currency) released a series of new regulation/pilot programs respectively since 2012, with the intention of further promoting RMB internationalization and facilitate financial reforms in China. See next page.

### 1.3 RMB Growth in Volume and Values

According to SWIFT, RMB has risen to the #7 payment currency from #20 in January 2012 (#13 in January 2013). Offshore RMB payment value has grown by almost 300% in the last 24 months. Globally 73 countries use RMB for 14%+ of their payments with China and Hong Kong.

Recent SWIFT data also shows that RMB has become the second most used currency in traditional trade finance, i.e. letters of credit and collections. It ranks behind the USD, which remains the leading currency with over 75% share. The RMB overtook the Euro in Q4 2013. The top five countries using RMB for trade finance were China, Hong Kong, Singapore, Germany and Australia.

In the global FX market, CNY is the 9th currency in terms of daily turnover and is the 8th in terms of the currency pair against USD, according to a survey conducted by the Bank for International Settlements.
• Simplification RMB XB settlement started in Shanghai, *Citi is one of the pilot banks*

Dec 2012

• PBOC specified RMB financial guarantee is no longer subject to banks’ guarantee quota

Jan 2013

• Simplification RMB XB settlement expanded to more cities

Mar 2013

• RMB POBO/ROBO* pilot starts in Shanghai

• RMB XB lending expands to Guangzhou, Zhejiang and Beijing

July 2013

• On 10 July 2013, a new notice was announced by PBOC to further simplify and streamline the process of cross-border RMB trade settlement. A series of new rules was also stated in this notice. Key highlights are
  - Simplification of RMB cross-border settlement (under current a/c item)
  - Expansion of RMB cross-border lending
  - RMB cross-border corporate guarantees
  - Funds raised from RMB-denominated bond issued overseas

Sept 2013

• The Shanghai Free Trade Zone was officially launched

• CBRC, CSRC and CIRC announced guidance

• New regulation on SFTZ:
  - Account management
  - Investment & Financing
  - RMB XB Settlement
  - Interest rate liberalization
  - Foreign Currency Management Reforms

Dec 2013

• Announced detailed regulation on SFTZ financial reform

Feb 2014

• Issued The Regulation on Free Trade Accounting Unit (“FTU System”) in SFTZ to further facilitate business operation and promote financial innovation

May 2014

• Released the regulation to simplify Foreign Currency (FCY) XB settlement

• SAFE approved first batch of pilot companies

• Expanded scope of FCY cross-border lending

• Approved second batch of pilot companies

*POBO/ROBO: Pay-on-behalf of and Receive-on-behalf of*
2. RMB Solution Tailored for Your Needs

2.1 Start using RMB: Accounts, Payments, Conversions

For a company based outside of China, now it can open an RMB account easily, in many ways not unlike a USD account. It can send and receive payments, access the offshore RMB FX market, and enjoy the banking services similar to a G3 currency.

The offshore RMB market has developed into a very substantial market. According to the Hong Kong Monetary Authority (HKMA), RMB payment value through Hong Kong’s clearing system has surpassed that of HKD already. Even with multiple RMB RTGS clearing systems established in different parts of the world, the entire offshore RMB market is linked seamlessly. In the offshore RMB market, RMB can be sent and received freely like the USD, and the offshore FX market is fully open and freely convertible.

A company outside of China can use its RMB account to deal with China without any pre approvals on its side. This is particularly beneficial for a non-G3-based company dealing with China. Whereas both sides had to manage FX via an intermediary currency, such as USD, now only one party needs to manage the FX – and it is the more efficient party offshore. Therefore FX can be centrally managed and efficiently hedged, creating benefits for both parties. See illustration below.

Essentially, all business-to-business payments between China and the rest of the world can be done in RMB. Current account transactions (goods trade, service fees and dividend payments) are open, and approved capital account transactions (capital injections, lending, etc.) can also be in RMB.
For a company based in China, certain documentation requirements exist to send or receive RMB from the rest of the world, to prove the background of the transaction to authorities. Such documentation is simplified in 2013 from contract, invoices, etc. to a simple RMB Cross-Border Settlement Description Form (so-called PBOC Form because the format is set by PBOC). To collect RMB from offshore, auto-credit services are available from banks, and one can submit the PBOC Form after receiving the funds. This is simpler than the same USD transaction, which requires additional documents depending on payment nature, the company’s classification, and transaction-specific doc proof (contract/invoice).

Before conducting its very first cross-border RMB transaction, the company in China needs to be registered on the RMB Cross-Border Payment Management Information System (RCPMIS), a nationwide data capturing system for the Central Bank’s statistical purposes. Its bank can help with this one-time registration and the process is simple and only takes a few days. Therefore it is recommended that the China Company check with its bank before its first payment. Internally the corporate treasurer also needs to prepare for FX policies, investment vehicles and additional accounting procedures.

As a reference, Citi has prepared a checklist on steps to send RMB from China to the rest of the world, or from offshore to China. Furthermore, Citi has made available an online, paperless solution that allows the China side of payment to submit the necessary documents without the trouble of physical delivery.
For some companies with only occasional dealings with China, sometimes it is not necessary to open an RMB account to enjoy the benefits of RMB. Both account- and non-account-based options have specific benefits and tradeoffs that need to be considered when choosing the optimal mix based on your business needs.

### Local Account-Based RMB Payments
- Significant incoming & outgoing RMB flows
- Domestic currency payment needs of largest markets with significant business activity
- Maximum on-the-ground flexibility
- Any cross-currency payments to local suppliers
- Intercompany funding

### Non-Account-Based RMB Payments (Citi Solution WorldLink®)
- Non-core currencies (e.g. with no incoming funds flow)
- Foreign currency payment needs of large local subsidiaries
- Specific cross-border flows better managed centrally, e.g. expat salaries
- Ad hoc RMB payments requirements

Citi clients holding a USD DDA account with Citi New York can process RMB payments via Citi® Multi-Currency Gateway (MCG) on the CitiDirect® Online Banking platform. Citi Multi-Currency Gateway eliminates the need for multiple local currency accounts, allowing you to send foreign currency payments through a single USD account in 80+ currencies (now including RMB). This is a light touch solution with an embedded foreign exchange conversion and no implementation requirements. RMB cross-border currency control restrictions and specific formatting guidelines apply to your Citi MCG payments. RMB payments via Citi MCG should be limited to PAYMENTS TO CORPORATES in China for settlement of international trade of goods and services.

For a multinational company with entities in and out of China, settling in RMB can also help to increase payment efficiency with China. You can centralize processing payment and collection by including the China entities into its Netting or payment factory arrangement through RMB Netting or Payment on Behalf Of (POBO) solutions. To reduce the number of x-border payments and centralize China’s commercial flows, POBO structure should be considered. In the POBO case, a special settlement bank account will serve the group companies nationwide in China, and usually a PBOC filing is required. As you further consider improving intercompany settlement efficiency, reduce FX exposure and cost, and empower onshore affiliates with settlement flexibility (time, frequency), netting solution shall be adopted. It is an efficient structure, easy to set up and implement as long as all the transactions are under current account items and you only need PBOC filing. Kindly note that the RMB POBO and Netting is different in China, i.e. same day settlement is required, and it must be physical, only for cross-border payments.
### 2.2 Manage RMB Trade Solutions

The RMB offers a new perspective for companies who want to re-shape their supplier relationship management and treasury management framework, which can improve supply chain management and bring about greater treasury efficiency. There are many benefits of operating an RMB account: Receiving more favorable trade terms (including potential discounts) from suppliers in China when pricing in RMB; Improving relationships with Chinese suppliers as RMB usage helps simplify the export verification and financial reporting process in mainland China; Reaching more clients and creating more business opportunities via RMB payment capabilities; Achieving a natural hedge for RMB payments and collections; Centralizing FX into the treasury function and taking FX management out of China subsidiaries to enhance controls and achieve efficiency.

RMB trade solution allows importers to build deeper partnerships with Chinese exporters while mitigating the risk associated with international trade. Companies can now purchase goods from China in RMB. This provides a broader supplier base, given the preference for Chinese exporters to invoice in RMB. You are likely to get more favorable and transparent pricing of goods and minimize FX risk by funding purchase with RMB and reduce supply chain costs.

Companies exporting to China can now invoice goods and receive payment in RMB. Invoicing in RMB can result in growth in client base (given Chinese importers preference for payment in RMB), the ability to minimise FX exposure related to any RMB costs incurred in the sales process, eliminate FX conversion fees and regulatory approvals, and reduce supply chain costs by recycling RMB received from sales to fund onshore operations.

According to an industry survey, 41% of Chinese trade companies are willing to offer better terms, a 2-8% discount compared to the one in US dollars. The most significant benefit of using RMB to conduct businesses with Chinese companies is the reduction of the FX risk management in the supply chain.
By re-invoicing trade flows in RMB, you can achieve reduction in overall FX and Funding costs. Before each company handles FX and financing separately; after re-invoicing in RMB, FX and financing can be centralized.

Citi is dedicated to developing end-to-end RMB solutions for its clients. Our current services include:

- Letter-of-credit (LC) advising
- LC confirmation (cash-collateralized or clean)
- LC discounting
- Trade advances (cash-collateralized or clean)

Citi provides RMB-denominated LC or relevant product documentation with tenor usually <1-year.

- Confirming & Discounting Bank – Citibank N.A. London or Citibank Singapore or Citi China; Reimbursement Bank: Citibank N.A. London or Citi Singapore
- China export – RMB flow from overseas to mainland China
  - Mainland Chinese companies export goods, and offshore LC issuing bank settles with Citi in RMB. Citi can also provide Trade Advances to the overseas LC issuing bank.
- China import – RMB flow from mainland China to overseas
  - Overseas exporters receive LC issued by Chinese banks and settles with Citi in RMB on presentation of compliant document.
- Overseas export and import – RMB flow from overseas to overseas
  - Overseas Chinese invested companies or exporters sell goods to overseas buyers, LC Issuing bank settles with Citi in RMB.

Case Study

Issuing Bank – Local Nigerian Bank
Beneficiary – Located in China Mainland
Confirming Bank – Citi Singapore (“Citi SG”)
Discounting Bank – Citi Singapore (“Citi SG”)

Confirmation and discounting charges are on the account of applicant.

The structure will be as follows:
1. The LC issued to Citi SG as the first advising bank, confirming bank and negotiation bank
2. Citi SG reissues LC to Citi CN as the second advising bank and presenting bank
3. Citi CN advises the LC, on-boards the LC beneficiary
4. Citi CN, as the trade window of Citi SG, prints remittance letter of Citi SG, and directly couriers all underlying LC documents together with RLT to LC issuing bank
5. LC issuing bank sends the acceptance advice to Citi SG
6. Citi SG provides discounting with CNH funding and interest charged on LC applicant, remits the LC proceeds to Citi CN
7. Citi CN credits or remits the LC proceeds (after deducting the documents handling fee charged on Beneficiary) to Beneficiary’s account
8. At maturity, Issuing bank reimburses Citi SG
2.3 Utilize RMB Capital Account: Financing and Investing for Capital Account Transactions

2.3.1 Financing in RMB/RMB Cross-Border Lending

We have observed RMB offshore financing and the trend will continue. Citi Research estimates that the relative share of Loans and Trade bills for the HK Banking industry will continue to rise. For Chinese corporates, there are ample onshore RMB funding needs, and regulations are being relaxed making it easier to repatriate RMB proceeds back to mainland China. Some have RMB procurement associated with overseas project financing and acquisition. The FX market situation has changed a lot. Multi-national companies (MNCs) can leverage RMB foreign direct investment into China funded by offshore matched term financing at lower cost. MNCs can issue RMB Cross-Border guarantees to utilize trapped RMB cash in China to enhance offshore credit.

For lending into China, no pre approval is required unless the firm does not have sufficient foreign debt quota (approvals may be required to get new foreign debt quota). The foreign entity needs to do foreign debt registration with SAFE, and the onshore borrower’s registered capital needs to be injected on schedule before it can borrow. Funds will be stored in a general account dedicated for the foreign debt. The account gets PBOC current account interest rates. Your bank will verify supporting document for fund usage and proceeds can be used to repay previous borrowing but not in investing in securities, derivatives or wealth management products or entrustment loans. It cannot be used to invest in non-self-use properties.

For the reverse flows, cross-border lending to offshore, there are no longer restrictions on the quota. A qualification review and a special RMB account for the drawdown as well as the receipt of repayment and interest payments are needed. A non-zero interest rate within a reasonable scope, according to commercial principle, can be determined by borrower and lender as long as there is no violation of the relevant regulations from the tax bureau. The source of funds has to be self-generated rather than bank financing. The preferred usage is working capital.

2.3.2 Investing in RMB

A series of new policies simplified offshore RMB flows back into China through RMB foreign direct investment (FDI). October 2011, MOFCOM and PBOC promulgated detailed guidelines on RMB FDI; May 2013, SAFE abolished 24 regulations related to the administration of FDI; December 2013, MOFCOM announced some further simplifications on RMB FDI to better align with foreign currency FDI procedures.

Key highlights of new policy valid from 1st January 2014 include removal of the specific requirement of RMB funding source for cross-border investment; removal of the extra documents requirement that are previously only required for investment in RMB; no need to revise the contract/BR when changing the investment currency into RMB; providing the local business department the full authority for approval.

The foreign entity needs to register with SAFE and RMB info system and capital verification is required. Only one capital account can be opened for each approval. Similar to its RMB foreign debt, the entity gets the PBOC current account interest rates but can place time deposits for up to one year and the proceeds can be used to repay previous borrowing. The funds cannot be used in investing in securities, derivatives or wealth management products or entrustment loans. It cannot be used in non-self-use properties.
How it Works

Cross-border Lending from China

1. Client transfers RMB from onshore general account to onshore RMB Special account
2. Citi Platform Sweeps RMB from China to Citi HK, SG or London
3. Drain USD from offshore Multi-currency notional pool (Optional)

Loan Repayment to China

4. Client transfers RMB from onshore RMB special account to onshore general account or domestic cash pool header
5. Citi platform sweeps RMB repayment from overseas to onshore RMB special account

Fund Flow

For more options on RMB offshore financing, please refer to the appendix.
<table>
<thead>
<tr>
<th>Funds Flow</th>
<th>Cross-Border RMB Investment</th>
<th>Regulatory Considerations</th>
</tr>
</thead>
</table>
| 1a Offshore Entity to China Holdco | ☑ Inter-Company Loan  
                             ☑ Equity Injection                                                                 | • MOC* approval  
                             • SAFE registration                                                 |
| 1b Offshore Entity to China Opco       | ☑ Inter-Company Loan  
                             ☑ Equity Injection                                                                 | • MOC* approval  
                             • SAFE registration                                                 |
| 2 China Holdco’s Own Usage        | ☑ M&A/New Investment  
                             ☑ Working Capital  
                             ☑ CAPEX  
                             ☑ Refinancing onshore/offshore borrowing in RMB                     | • Receiving bank must monitor usage of proceeds                     |
| 3 China Holdco to China Opco Subsidiary | ☑ Equity Injection  
                             ☒ Entrust Loan                                                                 | • Receiving bank must monitor usage of proceeds                     |
| 4 China Opco Usage               | ☑ Working Capital  
                             ☑ CAPEX  
                             ☑ Refinancing onshore/offshore borrowing in RMB                     | • Receiving bank must monitor usage of proceeds                     |

*MOC: Ministry of Commerce or its local offices
### 2.4 Use RMB to Improve Group Process and Treasury Efficiency: Cross-Border Pooling

Corporate Treasurer’s Liquidity Management Objectives in China

<table>
<thead>
<tr>
<th>Corporate Treasury Objectives</th>
<th>China Liquidity Solution</th>
<th>Benefits</th>
</tr>
</thead>
</table>
| **Relieve trapped liquidity in China**        | • RMB cross-border automatic lending                           | • Aggregate operating cash including China balances to regional/global concentration center  
• Facilitate cash surpluses from China to fund cash deficit positions offshore in centralized and timely manner, thereby minimizing overdraft interest and maximizing interest income earned  |
| **Improve visibility and access to China liquidity** | • Real-time liquidity management pooling reports               | • Use online systems and workflows to automate visibility and control  
• Improve cash forecasting and positioning                                                      |
| **Support governance and efficient processes against rule/policy** | • RMB cross-border automatic lending with limit control         | • Auto check and control on sweep of loan repayment position to prevent any breach of the regulation  
• Improve governance and risk mitigation                                                      |

Citi’s global liquidity platform allows corporates to integrate their RMB positions in China with the rest of the world, while ensuring that systemic controls are in place to ensure that regulatory requirements are met along with visibility and reconciliation via detailed reporting.

Please contact your designated Relationship Manager to learn more.
3. China (Shanghai) Pilot Free Trade Zone (SFTZ) Overview

China (Shanghai) Pilot Free Trade Zone (“SFTZ”) is China's most significant national strategy for the past ten years, and a test-bed for experiencing liberalization policies that are replicable and can be rolled out nationwide.

SFTZ overall goals are: 1) Accelerate government functions transformation, i.e. making Innovation on administrative management system; 2) Expand investment areas, i.e. expanding FDI scope and encourage outbound investments; 3) Promote trade development pattern transformation, i.e. developing RHQ economy, promoting trade transformation, and upgrade and elevating shipping service capacity; 4) Deepen finance innovation, i.e. capital flow liberalization, RMB internationalization, interest rate liberalization, and FCY system reform; 5) Improve the legality system to strengthen protection and municipal level policies dedicated for SFTZ.

As of June 2014, SFTZ has over 10,000 new companies, roughly 90% of which are local companies. Over 20 foreign banks, 10+ local banks, and 30+ non-bank FIs including Securities, Insurance, Asset Management, etc. have been set up in SFTZ. Citi is the first global bank approved to set up a branch in SFTZ (Citibank China Shanghai Free Trade Zone Sub-branch opened on March 12, 2014); Citi is also elected as the Deputy Chair of Shanghai Banking Association (“SBA”) Free Trade Zone Committee.
<table>
<thead>
<tr>
<th>Regulation</th>
<th>Implication to SFTZ Entities/Banks</th>
<th>Current (outside SFTZ)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Account Management</strong></td>
<td>• <strong>SFTZ</strong> entity can open FTE (Resident entity’s free trade account)</td>
<td>• Restriction of cross-border flow</td>
</tr>
<tr>
<td></td>
<td>• <strong>Free fund movement</strong> between FTE and overseas markets</td>
<td>• Limitation of overseas entity’s open account outside SFTZ</td>
</tr>
<tr>
<td></td>
<td>• Overseas entities can open <strong>RMB account (FTN)</strong> in <strong>SFTZ sub-branch</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Investment, Financing and FX</strong></td>
<td>• <strong>Panda bonds</strong></td>
<td>• Can’t borrow from offshore market</td>
</tr>
<tr>
<td></td>
<td>• <strong>SFTZ</strong> entities and banks can borrow from offshore market</td>
<td>• Only access to CNY</td>
</tr>
<tr>
<td></td>
<td>• Access to both <strong>CNH and CNY market for FX transaction</strong></td>
<td>• Restriction of Panda bonds</td>
</tr>
<tr>
<td></td>
<td>• Allow SFTZ bank trade in <strong>offshore derivative market and inter-bank market within approved quota</strong>, and squaring FX open position in the <strong>SFTZ or offshore market</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Allow SFTZ bank to provide <strong>OTC commodity derivatives</strong></td>
<td></td>
</tr>
<tr>
<td><strong>RMB XB Settlement</strong></td>
<td><strong>RMB XB transactions will be encouraged:</strong></td>
<td>• Not allowed for RMB cross-border pooling and netting</td>
</tr>
<tr>
<td></td>
<td>• <strong>RMB cross-border pooling</strong></td>
<td>• Pilot approval process for RMB cross-border POBO/ROBO</td>
</tr>
<tr>
<td></td>
<td>• <strong>RMB cross-border POBO/ROBO</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• <strong>RMB cross-border payment Netting</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• <strong>Borrowing from CNH market</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Interest Rate Liberalization</strong></td>
<td>• SFTZ Financial Institution can issue CD</td>
<td>• Gradually remove the cap of deposit rate</td>
</tr>
<tr>
<td></td>
<td>• Interest rate liberalization test when market is ready</td>
<td></td>
</tr>
<tr>
<td><strong>Foreign Currency Reform</strong></td>
<td><strong>SAFE pilot program could be extended to more SFTZ entities:</strong></td>
<td>• Expanded to nationwide, subject to SAFE filing</td>
</tr>
<tr>
<td></td>
<td>• <strong>FCY cross-border 2-way pooling</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• <strong>FCY cross-border POBO ROBO</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• <strong>FCY cross-border payment Netting</strong></td>
<td></td>
</tr>
</tbody>
</table>

*POBO/ROBO: Pay-on-behalf of and Receive-on-behalf of
# Appendix.
## RMB Offshore Financing Options

<table>
<thead>
<tr>
<th>OFF-SHORE CNH LOAN TO PRC ENTITY</th>
<th>OFF-SHORE CNH LOAN TO OFFSHORE ENTITY</th>
<th>OFF-SHORE USD LOAN TO OFFSHORE + CCS to CNH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Borrower = Client China</strong></td>
<td><strong>Borrower = Client Offshore</strong></td>
<td><strong>Borrower = Client Offshore</strong></td>
</tr>
<tr>
<td>Size limited by mutual agreement and credit support</td>
<td>Size limited by mutual agreement and credit support</td>
<td>Size limited by the liquidity of the Cross-Currency Swap (CCS) and credit arrangements on the US$ loan</td>
</tr>
<tr>
<td>▲ Simple 1 Step transaction</td>
<td>▲ Takes advantage of the strong offshore credit</td>
<td>▲ Provide savings during certain market windows</td>
</tr>
<tr>
<td>▼ Consumes Borrowing Gap (SAFE registration) if funds are remitted in as inter-company loan</td>
<td>▼ Consumes Borrowing Gap (SAFE registration) if funds are remitted in as inter-company loan</td>
<td>▲ Hedge Accounting eligible</td>
</tr>
<tr>
<td>▼ Withholding &amp; Business Taxes if funds are remitted in as inter-company loan</td>
<td>▼ Withholding &amp; Business Taxes if funds are remitted in as inter-company loan</td>
<td>▼ Consumes Borrowing Gap (SAFE registration) if funds are remitted in as inter-company loan + ISDA required</td>
</tr>
<tr>
<td><strong>Onshore (China)</strong></td>
<td></td>
<td>▼ 2 Step transaction + Credit facilities usage (Loan + Swap facilities)</td>
</tr>
<tr>
<td><img src="chart.png" alt="Diagram" /></td>
<td><img src="chart2.png" alt="Diagram" /></td>
<td>▼ Withholding &amp; Business Taxes if funds are remitted in as inter-company loan</td>
</tr>
</tbody>
</table>

![Diagram](chart.png)
<table>
<thead>
<tr>
<th><strong>OFF-SHORE CNH LOAN TO OFFSHORE ENTITY (STRUCTURED)</strong></th>
<th><strong>OFF-SHORE CNH LOAN TO OFFSHORE ENTITY BACKED BY ONSHORE GUARANTEE</strong></th>
<th><strong>CNH BOND (“DIM SUM”)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Offshore</strong></td>
<td><strong>Onshore</strong></td>
<td><strong>Offshore</strong></td>
</tr>
<tr>
<td><strong>Citi</strong></td>
<td><strong>Citi</strong></td>
<td><strong>Market Investors</strong></td>
</tr>
<tr>
<td><strong>1</strong> CNH</td>
<td><strong>Client Offshore</strong></td>
<td><strong>1</strong> CNH</td>
</tr>
<tr>
<td><strong>1</strong> CNH</td>
<td><strong>Client Offshore</strong></td>
<td><strong>2</strong> CNH</td>
</tr>
<tr>
<td><strong>1</strong> USD+CSS</td>
<td><strong>Client Offshore</strong></td>
<td><strong>2</strong> CNH</td>
</tr>
<tr>
<td><strong>Citi</strong></td>
<td><strong>Client China</strong></td>
<td><strong>Citi</strong></td>
</tr>
<tr>
<td><strong>2</strong> CNH</td>
<td><strong>Client China</strong></td>
<td><strong>Citi</strong></td>
</tr>
<tr>
<td><strong>CNH</strong></td>
<td><strong>Client China</strong></td>
<td><strong>Client China</strong></td>
</tr>
<tr>
<td><strong>Client Offshore</strong></td>
<td><strong>Client China</strong></td>
<td><strong>Client China</strong></td>
</tr>
<tr>
<td><strong>Client Offshore</strong></td>
<td><strong>Market Investors</strong></td>
<td><strong>Client Offshore</strong></td>
</tr>
<tr>
<td><strong>Client China</strong></td>
<td><strong>Client China</strong></td>
<td><strong>Market Investors</strong></td>
</tr>
</tbody>
</table>

**Borrower = Client Offshore**
- Size limited by liquidity of equivalent instruments in the market
- Fixed interest rate for the tenor of the loan
- Consumer Borrowing Gap (SAFE registration) if funds are remitted in as inter-company loan
- Must be ISDA-eligible
- No early repayment allowed
- 2 Step transaction
- Withholding & Business Taxes if funds are remitted in as inter-company loan

**Borrower = Client Offshore**
- Size limited by liquidity of equivalent instruments in the market
- Rides on latest regulation for RMB XB guarantee
- Utilize the excess asset/cash onshore (Cash trapped solution, less credit facilities usage)
- Must be ISDA-eligible (for CCS or structured)
- Potential high breakage cost
- Transaction involving multiple steps

**Bond Issuer = Parent Entity**
- Pricing could be favorable compared to Loans
- RMB Dim Sum Bond Market has developed significantly
- Visibility
- Consumes Borrowing Gap if funds are remitted in as inter-company loan
- Less flexibility in the financing amount; the unused amount bears a cost of carry (However, this could be minimized through deposit rates offshore)
- Other execution costs involved
- Withholding & Business Taxes if funds are remitted in as inter-company loan
## Contact Information

<table>
<thead>
<tr>
<th>Global Payments &amp; Receivables</th>
<th>Shanghai Free Trade Zone</th>
<th>WorldLink</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yiting Shen</strong>&lt;br&gt;<a href="mailto:Yiting.shen@citi.com">Yiting.shen@citi.com</a>&lt;br&gt;+1 (212) 816-2623</td>
<td><strong>Cline Zhang</strong>&lt;br&gt;<a href="mailto:Cline.zhang@citi.com">Cline.zhang@citi.com</a>&lt;br&gt;+86 (21) 2896-6734</td>
<td><strong>Emanuela Saccarola</strong>&lt;br&gt;<a href="mailto:saccarolae@citi.com">saccarolae@citi.com</a>&lt;br&gt;+353 1622-0165</td>
</tr>
<tr>
<td><strong>Neringa Gudeikaite</strong>&lt;br&gt;<a href="mailto:Neringa.gudeikaite@citi.com">Neringa.gudeikaite@citi.com</a>&lt;br&gt;+44 (20) 7508-8743</td>
<td><strong>Fei Luo</strong>&lt;br&gt;<a href="mailto:Fei.luo@citi.com">Fei.luo@citi.com</a>&lt;br&gt;+86 (21) 2896-2354</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trade</th>
<th>Liquidity Management Solutions</th>
<th>Global RMB Product Management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stephen Chua</strong>&lt;br&gt;<a href="mailto:Stephen.chua@citi.com">Stephen.chua@citi.com</a>&lt;br&gt;+65 6657-5474</td>
<td><strong>Ann Lin Khoo</strong>&lt;br&gt;<a href="mailto:Ann.lin.khoo@citi.com">Ann.lin.khoo@citi.com</a>&lt;br&gt;+852 (3419) 8625</td>
<td><strong>Shiming Tan</strong>&lt;br&gt;<a href="mailto:Shiming.tan@citi.com">Shiming.tan@citi.com</a>&lt;br&gt;+852 2868-6546</td>
</tr>
<tr>
<td><strong>Hong Chen</strong>&lt;br&gt;<a href="mailto:Hong.chen@citi.com">Hong.chen@citi.com</a>&lt;br&gt;+86 (21) 2896-6798</td>
<td><strong>Lilian Fan</strong>&lt;br&gt;<a href="mailto:lilian.fan@citi.com">lilian.fan@citi.com</a>&lt;br&gt;+86 (21) 2896-6738</td>
<td><strong>Philip Yin</strong>&lt;br&gt;<a href="mailto:Philip.yin@citi.com">Philip.yin@citi.com</a>&lt;br&gt;+852 3419-8708</td>
</tr>
</tbody>
</table>