

New SAFE Notice: Online Export Customer Verification Q&As

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A. General

1. **Why has this new regulation been introduced?**

The regulation is a response to government's efforts to verify the genuineness of foreign currency inflows through trade terms and accommodation trade documents.

2. **What types of companies are affected by the new regulation?**

All onshore companies with export trade business, advance cargo payment, as well as free trade zone companies' exports which require customs clearance (保税区非保税业务), will be affected. Offshore companies are presently not affected by this regulation.

3. **What part of my export business will be affected?**

All foreign-currency denominated export proceeds under trade transactions will be subjected to this new regulation.

4. **How does this change the way I receive my export proceeds?**

- A Transit Account will need to be opened to receive export proceeds.
- Bank will need to access the online verification system established by SAFE and linked with Customs to verify whether there is a sufficient available amount in the online verification system.
- Funds are only available to the customer into their settlement account or conversion after the completion of this online verification or after there is approval from SAFE.

5. **How does this change the way I receive non-trade proceeds?**

If the nature of proceeds is identified and confirmed as 'non-trade' (eg. agency fee, consulting fee, insurance, etc.), they could be directly credited to your foreign currency settlement account (i.e., no change to current process).

B. Transit Account

6. What documentation do I need to submit to open this ‘Transit Account’?

- You must have your basic information registered in the SAFE account management information system for Transit Accounts to be opened. This is a standard SAFE requirement for foreign currency settlement account opening.

7. Is there a limit to how many Transit Accounts I can maintain with a bank?

A customer can open one Transit Account for each foreign currency settlement account they maintain with each bank.

8. Is there any difference between the Transit Account and other current accounts?

Apart from regulatory restrictions, it is basically a Demand Deposit account with interest bearing. No maintenance fee will be charged. Account advice and statements will also be generated.

9. What is the transaction scope of the Transit Account?

The account is to receive corporate foreign currency export proceeds (including export advance payment and trade financing proceeds) only. Outward payments from the account should only be processed after verification through SAFE’s online system (eg. transfer to current account, foreign currency to RMB conversion) or upon receiving SAFE approvals (eg. refund).

10. I only have a trade account and do not have a HBCN settlement account, how can I complete the verification procedure?

- Transit Accounts can be opened for customers with only trade accounts and no settlement accounts.
- For some cities, local SAFE guidance is that a foreign currency settlement account is required for the opening of Transit Accounts.

At this stage, local SAFE guidance should be followed until there is further standard clarification from SAFE.

11. What shall I do if my non-trade proceeds are credited to the Transit Account by mistake, or if my trade proceeds are credited to my settlement account before the verification process?

- If your non-trade or capital proceeds were credited to the Transit Account, then SAFE approval is required before the funds can be transferred to settlement account.
- If your trade proceeds were credited to your settlement account before verification in the Transit Account, then you will need to submit a letter of amendment to the Bank to facilitate the fund transfer to the Transit Account.

12. I am the first beneficiary of a Transfer DC, do I have to complete the online verification process?

Yes. The first beneficiary's proceeds (e.g. commission) must be credited to the Transit Account and then transferred to the beneficiary's settlement account based on SAFE approval.

C. Online Verification Process

13. What exactly happens during this online verification process, what are the documents required?

- When proceeds are received and if there is clear identification that the proceeds are trade-related (e.g. in the narrative of Telegraphic Transfer (IRTT) or in the "Other Instruction" field of the Export Trade Collection/Negotiation Instruction), they will be credited to the Transit Account.
- If no clear information can be identified, you will be contacted via fax.
- You need to submit the China E-Port IC Card and Note for Foreign Export Proceeds (出口收汇说明) providing details of the export transaction.
- Verification of the proceeds and the Note will be performed against the 'available amount' in SAFE's online verification system, which is linked to China Customs data.
- Upon successful match, both the customer's and bank's China Electronic Port IC Cards will need to be simultaneously swiped through the system to complete the verification.
- The funds will then be ready to be credited to your designated settlement account or converted to RMB.
- If the funds are transferred to other bank, you should also provide a separate instruction as usual.

14. Will the Bank deduct its charges from my export proceeds before online verification?

Yes. The Bank will deduct its charges before crediting the proceeds to Transit Account for online verification.

15. I am a free trade zone company. I understand that new SAFE regulation on Online Verification of Export Proceeds is only applicable to free trade zone companies where the exports require custom clearance. How can the Bank distinguish one from the other?

- HBCN will execute according to the instruction listed in the IRTT or Export Trade Collection/Negotiation Instruction.
- If no clear information can be identified, the Bank will contact you via fax. You will be requested to confirm the nature of the funds and return the completed notice to the Bank with company's Business Chop or Financial Chop by fax.

16. How is the available export proceeds amount generated from the SAFE's online verification system?

The 'available amount' is generated according to value of goods declared at Customs in the E-port system and data in SAFE Trade Credit Registration System based on the registered amount of advance payment and nature of business.

17. What documentation is required to utilize the proceeds from export goods which do not require customs clearance in the Transit Account?

- The customer is to provide the Note for Foreign Export Proceeds (出口收汇说明), China E-Port IC Card, the original Reporting Form for Receipts from Abroad (涉外收入申报单) and underlying mailing goods list.
- The Bank will register the reference number and transaction amount in the SAFE's online verification system, as listed in the Reporting Form, before funds are made available to other current accounts.

18. Instead of my company chop, can the Bank accept specimen signatures/chops maintained with the Bank for processing the Note for Foreign Export Proceeds (出口收汇说明)?

Yes, the specimen signatures/chops can be used.

19. How can I handle funds under advance payment / deferred payment?

- You need to register or cancel the advance payment under exports including advance payments received under trade finance, and deferred payment under imports in the Trade Credit Registration System (URL: www.safesvc.gov.cn).
- For transferring funds under advance payment in the Transit Account, you should first register the amount in above system, and provide the Note for Foreign Export Proceeds (出口收汇说明) and China E-Port IC card.

20. Is there any limit for deferred payment?

Yes. The amount of deferred payment for imports is generally limited to no more than 10% of annual imports. Details can be found in Section 6 of SAFE Notice [2008] 30.

21. How could the funds be utilized in Transit Account if the proceeds are under export date before 31 December 2007?

You need to visit local SAFE for verification first and the Bank will then process the conversion or transfer based on the local SAFE's confirmation.

22. Will trade financing be subject to the same verification process?

Yes. This includes the collection and conversion of foreign exchange under trade financing, such as export documentary, forfaiting without recourse and factoring.

D. Tips and Contact Information

23. I would prefer not to open a foreign currency settlement account with HBCN but I would be happy to continue submitting trade transactions to HBCN. How do I meet the requirements of the new regulation?

You are advised to open foreign currency settlement accounts with the Bank for smoother operations. In the event that this is not possible, the Bank can transfer the proceeds to your other bank's Transit Accounts for further processing.

24. Can I apply for multiple IC cards as I have relationship with a few banks?

Yes. There is no restriction on the number of IC cards that you can hold. You can apply directly with local China E-Port. However, there may be delays in applying for new cards due to a large amount of traffic. Procedures for applying for IC cards are separately enclosed.

25. Can I leave the IC card with the bank so that the verification process can be sped up?

Yes. Bank can act as a custodian of your IC card.

26. Can I move funds between Transit Accounts?

No, fund transfer between Transit Accounts is strictly prohibited.

27. As proceeds from bill financing will also be subject to the verification process, does the process need to be repeated when a bill is retired at maturity date?

No additional verification is required for the amount repaid to the bank at time of maturity when the final payment is received, but the remaining amount (total amount of received trade proceeds minus the amount financed by and repaid to the bank) shall still be credited to the Transit Account and subject to the verification process.

28. How can I speed up the receipt of our export proceeds?

- Ensure the timely opening of settlement accounts.
- Provide quick access to customer's IC card by having the Bank act as custodian
- Clearly indicate the payment nature (trade or non-trade related) in the Inward Remittance Narrative so that proceeds can be directly remitted into the Transit Account.
- Ensure the timely submission and accurate completion of the Note for Foreign Export Proceeds (出口收汇说明). The Note can be enclosed at the point of bills submission.

29. I was told there are some different interpretations of the new regulation from local SAFE bureaus. I am a Shanghai registered company, but I have an account and business with the Suzhou branch. What regulation should I follow?

Customers are advised to follow the guidance of your processing branch's local SAFE regulation. In the above instance, it would be the Suzhou SAFE.

30. I would like to understand the operational process more, who can I contact in my branch?

Your Relationship Manager will be best positioned to provide assistance.

The current situation is fluid and changes are anticipated as SAFE beds down the regulations. Reference shall be made to SAFE's new rules and official Q&As on SAFE's website.

Best regards

HSBC Bank (China) Company Limited