



Building the global treasury profession in China

Groundbreaking IACCT Meeting with SAFE

Delegation presents findings of survey to SAFE representatives at the group's headquarters in Beijing, amid pledges of cooperation.

By Peter Wong and Tom Leander

IACCT representatives met with China's State Administration of Foreign Exchange (SAFE) on November 28th in Beijing to discuss findings of an IACCT survey regarding key issues facing multinational treasurers in China. It was a productive meeting with a powerful message: corporate treasurers are looking for improved communication with SAFE, believe SAFE performs a major role in improving their future treasury management operations (particularly liquidity and currency risk) by providing more clarity in regulations and introducing measures that help enterprises to more efficiently comply with SAFE regulation in the control of capital and current account fund flows and the monitoring of balance of payment. The treasurers provided constructive recommendations, among them automated documentation, service pledge and regular seminars on regulatory issues.

This discussion followed a comprehensive survey on treasurers' activities that are impacted by SAFE regulations launched in November by Peter Wong, IACCT founding chairman, and David Blair, senior advisor to IACCT, and supplemented by audience voting at the EuroFinance Cash and Treasury Management conference in Shanghai on November 26th. More than 470 treasurers responded.

Overwhelmingly, corporate treasurers called for an improved dialogue with SAFE. Some 90% expressed their view that slow and costly processes, excessive paperwork, uncertainty about the regulatory process were 'pain points.' Eighty percent of the respondents said that inability to centralise financial operations (in terms of getting approval from SAFE offices in different provinces) was a challenge. Slightly more than half encountered issues when special rules are implemented in certain cities. Almost all of the treasurers said that they sought clarifications on SAFE regulations from their bankers, while only 30% said they turned directly to SAFE for clarifications. Some 99% of the respondents had the perception that regulations were inconsistently applied.

A Pledge for Dialogue

Representatives of SAFE listened with great interest, expressed their appreciation of IACCT's work, and showed full support. Present at the meeting were Xu Yibing, vice president of SAFE's *China Foreign Exchange Magazine*; Rong Rong, deputy executive editor-in-chief of the magazine; Chen Jing, assistant to the secretary general of the magazine; Sa RiNa, the magazine's network department editor and journalist and Lu Yunye, the magazine's network department director assistant. The SAFE participants said they would report the IACCT visit on SAFE's web site and partner with IACCT in 2009 to continue to use the group's platform to obtain feedback from the corporate treasurer community.

The SAFE representatives stated that their leaders have a strong service commitment to support companies operating in China. They said that in 2009 SAFE will introduce new measures and will continue to work with IACCT to continue the dialogue in different formats to incorporate comments and ideas. In turn, IACCT's Wong pledged to form a special committee to follow up with SAFE to address the treasury-related issues of its members.

Treasurers and the Global Crisis

The meeting began with an overview of how the global economic situation was affecting multinational (MNC) corporate treasurers in China, presented by Wong. His discussion of the global financial crisis touched on the increasing financing risk as banks tighten credit; liquidity risk and the intensifying importance of cash management to ease liquidity woes; shortage of capital; and the volatility in currency markets - as the Euro, Sterling, and Asian currencies lose their value - that began with the collapse of Lehman Brothers and a global flight to the safe haven of the US dollar. Wong cautioned the risk that dollar strength might not be sustainable, in the face of a massive fiscal deficit in the US. To offset the impact from the financial tsunami, Wong felt appropriate measures taken by the Central Chinese Government will be effective in promoting Foreign Direct Investment and the sustainable growth of the private sector, both important to the employment market and domestic consumption growth.

The meeting moved on to the results of the treasurers' survey presented by IACCT's Blair, former global treasurer of Nokia and a recent chairman of ACT (Singapore), and who offered the following analysis:

- All respondents, Blair emphasised, accepted the need for foreign exchange control. The survey results indicated they face challenges in the interpretation of the rules. Regarding inconsistency in the way that SAFE policy is applied across the country, the treasurers suggest a committed turnaround time from SAFE on processing and approval.
- In preparing the supporting documents for approval, respondents face significant resource challenges in completing the manual paperwork process and the time taken to do so. They suggest online solution to reduce documentation requirement.

- Procedure to restrict the inflow of hot money (such as suspense account) also causes unintended delays to normal foreign direct investment flows for MNC. Respondents suggest selective policing with sample size based on track record (percentage of genuine business case), internal operational risk assessment (for example, a Sarbanes-Oxley compliance report by external auditors) and focus on high risk area. Shortening the approval turnaround in converting inward foreign currency remittance to RMB will mitigate currency risk once RMB started to strengthen again.
- MNCs welcome the government's new rule to allow cross-border entrusted loans, but want more clarity on how the approval process works at the local SAFE level. Also MNCs want to be allowed to do multilateral netting to improve liquidity management.
- Significant numbers (70% of respondents) want to establish a treasury centre in China. Easing the rule in restricting commingling the foreign currency cash pool and RMB cash pool will help mitigate liquidity risk for treasurers and make the setting up of treasury centre more attractive.

Automating the System

Also attending the delegation with IACCT was Gu Zhizhong, Beijing Representative of SWIFT, who highlighted the benefits of using SWIFT platform and services and how it can possibly help SAFE in automating the control and approval process, regulatory reporting and cross border payment reporting. Wong suggested that SAFE should consider preparing a proposal to China's Central Government to grant a sum to invest in a technological solution to automate the existing manual process. The system, in Wong's suggestion, would also be linked to other trade related departments such as the Tax Bureau and Customs Bureau. This would create an audit trail and allow for examination of trade records and balance of payment data to be available in a more timely and secured manner. Wong suggested that the IACCT could invite members to provide further input into this initiative. He mentioned the example of the Hong Kong Monetary Authority converting the proprietary settlement system of Hong Kong into an open system using SWIFT technology and suggested that SAFE consider this as a precedent and a case study.

Wong recommended that the IACCT promotes communication between SAFE and other treasury associations around the world, which are members of the International Group of Treasury Associations (IGTA) through his role as board member of the IGTA. Under this recommendation, the IACCT would report back on a regular basis on key developments to IGTA member associations.

Since two years ago, ACT (Singapore), FTA of Australia and IACCT have expanded cooperation through the creation of the Asia Pacific Treasury Forum network. Over 500 treasurers participated in different sessions around Asian locations. Wong said that SAFE is welcome to join the network and IACCT can share the minutes with SAFE.

Regular Visits?

The meeting ended with a suggestion to institute regular IACCT delegation visits to SAFE's headquarters in Beijing. Other members of the IACCT delegation included Peter Crawley, director, head of project management, transaction and wholesale banking, Standard Chartered Bank; Frank Kouo, China treasurer of Nokia; Wolfgang Ratheiser, Asia Treasurer, Johnson Controls, and Tom Leander, editorial director of EuroFinance.

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