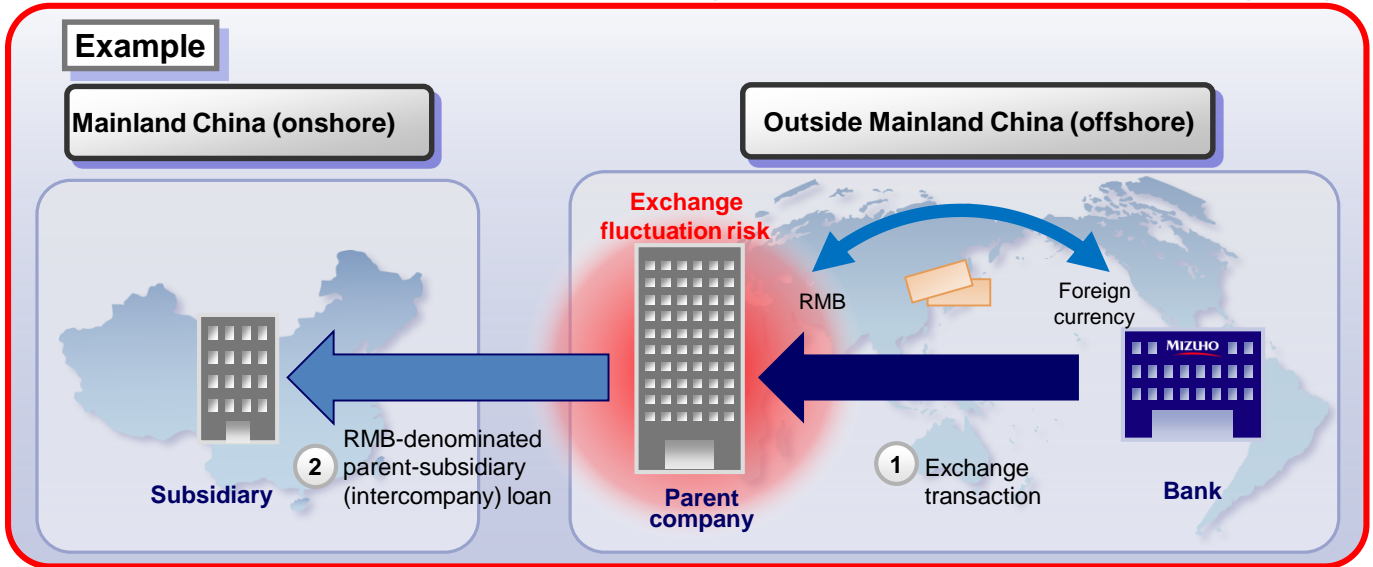


RMB-denominated Parent-subsidary (Intercompany) Loans

It is possible to carry out RMB-denominated parent-subsidary (intercompany) loans using offshore RMB*.

* RMB circulating outside Mainland China (mainly in Hong Kong)



Characteristics

- With RMB-denominated parent-subsidary (intercompany) loans, the parent company can control exchange fluctuation risk.
- The overseas subsidiary faces exchange fluctuation risk when investing or increasing capital in foreign currency.

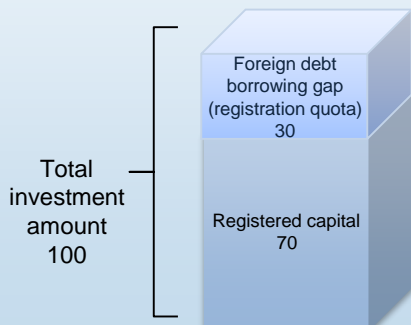
Points to consider

- Foreign companies in Mainland China (hereinafter referred to as “foreign-investment enterprises”) need to conduct foreign debt* registration whenever they receive an RMB-denominated parent-subsidary loan, and the loan amount needs to be within the foreign debt quota.
 - * “Foreign debt” refers to funds raised outside Mainland China by foreign-invested enterprises operating in Mainland China. The Chinese authorities set upper limits (“foreign debt quotas”).
- The foreign debt quota is managed either via the “foreign debt borrowing gap” model or the “macro-prudential” model. Foreign-investment enterprises need to select either of the two management models and need to file an application with China’s State Administration of Foreign Exchange (SAFE). It is necessary to note that, in principle, the model cannot be changed once it is selected.

What is the “foreign debt borrowing gap” model?

The foreign debt borrowing gap is the difference between the “total investment amount” and the “registered capital.” (Foreign debt borrowing gap = Total investment amount – Registered capital)

As outlined below, the amount of “foreign debt” must fall within the range of the “foreign debt borrowing gap” (i.e., the foreign debt quota; “Administrative Measures for the Registration of Foreign Debt”).



The following types of borrowing are classed as foreign debt.

- Offshore loans from an overseas financial institution
- Borrowing from an overseas parent company (parent-subsidary [intercompany] loans, etc.)
- Total lease fees when a company leases fixed assets (facilities and equipment) from overseas (finance leases)
- When an overseas parent company, etc., provides a guarantee for RMB or foreign currency borrowings, the debt owed to the parent company once the guarantee obligation has been performed

What is the “macro-prudential management” model?

- It is possible to voluntarily procure offshore funds within the limit calculated based on capital or net assets.
- The balance of the offshore-procured funds to be recorded is not the net amount procured outside the country but the amount obtained by multiplying the procured amount by the risk factor (weighted balance of cross-border loan risk).

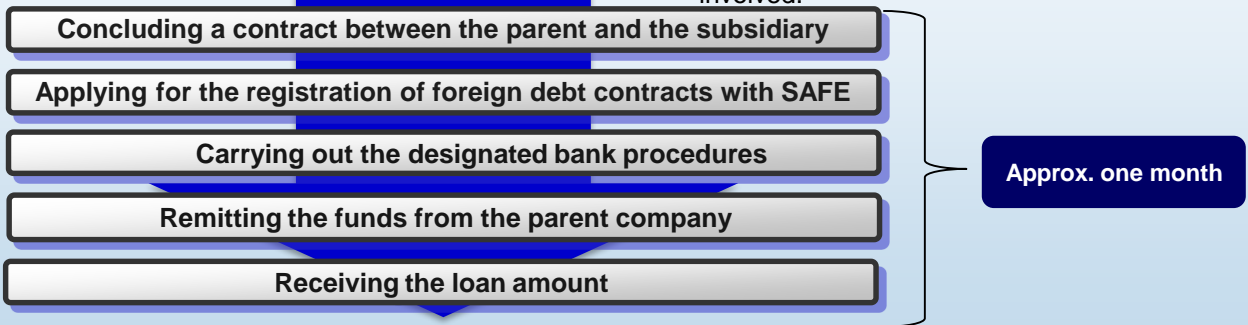
Risk factors in each calculation method

	Calculation method
Loan limit	Capital (financial organizations) or net assets (enterprises) x Cross-border loan leverage rate* x Macro-prudential adjustment parameter (default: 1) * Enterprises: 2 / Non-bank financial institutions: 1 / Banks and similar financial institutions: 0.8
Loan balance	\sum RMB/foreign currency cross-border loan balance x Deadline risk conversion factor x Category risk conversion factor + \sum Foreign currency cross-border loan balance x Exchange fluctuation risk conversion factor

Risk factor	Risk category	Value
Deadline risk conversion factor	Medium- to long-term loan (longer than one year)	1
	Short-term loan (one year or shorter)	1.5
Category risk conversion factor	On-balance loan	1
	Off-balance loan	1
Exchange risk conversion factor		0.5

Procedures/timeframes

* The procedural flow and the time required can differ according to the circumstances of the local authorities involved.



The regulations in the onshore RMB market might be changed as needed. For the latest information, please contact the Mizuho branch in charge of your account.

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