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● Top News

China Launches Pilot Reform of the System of Verification and Write-off of Import Payments in Foreign Exchange

● Inside the News

On April 7, 2010, the State Administration of Foreign Exchange (“SAFE”) issued the *Notice on Issues Related to Implementation of the Pilot Reform of the System of Verification and Write-off of Import Payments in Foreign Exchange* (the “**Notice**”). The Notice provides that some cities/provinces will launch, on a pilot basis, the reform of the system of verification and write-off of import payments in foreign exchange (the “**Reform**”) from May 1, 2010. The Notice includes two annexes, namely, the *Measures for the Pilot Reform of Administration of Import Payments in Foreign Exchange of Trade in Goods* (the “**Measures**”) and *Detailed Implementation Rules of Measures for the Pilot Reform of Administration of Import Payments in Foreign Exchange of Trade in Goods* (the “**Detailed Implementation Rules**”).

Main Points and Changes

The main points of and changes brought about by the Notice and its annexes are set forth as follows:

1. Pilot areas. According to the Notice, the Reform will first be launched on a pilot basis in seven cities/provinces, including Tianjin, Jiangsu, Shandong, Hubei, Inner Mongolia, Fujian and Qingdao.
2. Upon implementation of the Reform, law-obeying enterprises will not need to carry out on-site verification and write-off formalities for their normal import payments. The Notice provides that import entities shall file information related to the verification of import payments with the Banks, which in turn will submit the same to local SAFE branches

accordingly. Local SAFE branches will only conduct on-site verifications against enterprises which are carrying out unusual transactions. Law-obeying enterprises will not be subject to on-site verification and write-off formalities any more. Before the promulgation of the Notice, almost all import entities (including law-obeying enterprises) needed to go through on-site verification and write-off formalities.

3. Banks will no longer carry out on-line verification procedures against importing enterprises when making forex payment. The Detailed Implementation Rules provide that where dealing with forex payment matters for import entities, banks do not need to verify electronic account books of goods import declaration forms on-line through “China E-Port-System of Import Payments in Foreign Exchange”.
4. SAFE will maintain a directory which classifies import entities into different categories. According to the Measures, after obtaining its foreign trade operation right, an import entity shall register with local SAFE branches, which will then place the entity in the directory; where the registered information changes, the import entity shall conduct modification registration with local SAFE branches; where the import entity ceases its operation or its foreign trade operation right is revoked, they shall conduct cancellation registration with local SAFE branches. The directory is accessible nationwide. Where an importing entity wishes to make foreign exchange payments at a place other than its place of incorporation/registration, it does not need to conduct beforehand recordation with the local SAFE branches.
5. SAFE will conduct off-site verification against total imports of an import entity. According to the Measures, local SAFE branches shall conduct off-site total quantity comparisons between data of import payments and data of imported goods, verifying the authenticity and consistency of import payments in foreign exchange of import entities. In addition, the index system of monitoring and warning shall be established, to monitor and analyze situations of import payments in foreign exchange and goods imports, implement risk warning and identify unusual transactions and import entities engaging in unusual transactions.
6. On-site verification will only be conducted against usual transactions. Based on results from off-site verifications, monitoring and warnings, local SAFE branches shall conduct on-site verifications against import entities whose indexes of total quantity verification exceed the provided scope or have other unusual situations. Methods of on-site verification include requiring entities which are subject to the verification to submit reports, meeting with people in charge of import entities, on-site investigations, etc.

7. Import enterprises are ranked and put into different categories. According to the Measures and the Detailed Implementation Rules, SAFE shall assort import entities based on the assessments every half a year. On the basis of off-site total quantity verifications, monitoring results, and on-site verifications situations, local SAFE branches will divide import entities into “First Tier Import Entities”, “Second Tier Import Entities” and “Third Tier Import Entities”. Local SAFE branches conduct differentiated management against import entities under different tiers in handling such formalities as import payments examination, import payments registration, etc.

Summary

The promulgation and enforcement of the Notice will greatly facilitate external payments under trade items and reduce the burden on enterprises and banks. The Reform reflects the change in foreign exchange administration of Chinese government and realizes the transition from on-site verification and write-off to off-site verification and from supervision over behaviors to supervision over entities. The Reform has greatly simplified the procedures of import payment for enterprises, reduced costs of enterprises, and, more importantly, guaranteed the smooth operation of the normal business of law-obeying enterprises. The Notice provides for some transitional measures, according to which, import entities of pilot areas and non-pilot areas shall complete verification and write-off procedures with respect to their import payments occurring before January 1, 2010 at local SAFE branches before July 31, 2010. If import entities do not complete the verification and write-off procedures within the prescribed period and no proper justifications ever exist, they shall be subject to punishments by local SAFE branches or the said import payments shall be treated as import payments subject to future examination. We suggest that import entities to carry out relevant verification and write-off formalities as soon as possible in accordance with the transitional measures as stated above, so as to avoid possible punishments.

If you have any questions regarding the foregoing, please feel free to contact us. Thank you!

Important Announcement

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