

CNY Intercompany Loan to Entity in China (W5)

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PURPOSE

To illustrate how transactions should be booked in the system to reflect a CNY loan to a Chinese entity from CNH funds held by an intercompany outside China.

WHY IS THIS IMPORTANT?

Entities outside China may have balances in CNH which is not available for transactions in China; loans made to Chinese entities must be denominated in CNY. Consequently, foreign entity with available CNH balances intending to lend to a Chinese entity needs to convert CNH to CNY when such loans are made. This requires a currency conversion through FX module.

These instructions shows how the FX and loan transactions are booked and the required set up to correctly account for the settlement.

NOTE

In this guide, TFS-SG is the lending entity based in Singapore and TRW-CN is the borrowing entity based in China.

SET UP REQUIRED

Set up in the TFS-SG (lending entity) a “clearing” CNY SSI for TRW-CN (borrowing entity).

Amend Accounting Centre SSI

←
Save
Duplicate
History
Assigned Signatory
Preference
E-Banking Setup
Assign Group
Payment Type

Short Name* TRW-CN-CY-CLEARING

▼ Standard

Entity* TFS-SG

Ccy* CNY

Portfolio

Default Ccy Yes

Product

Default Portfolio No

Third Party Account No

E-Banking System

SSI Type -

SSI Status -

Auto Balance Update? No

Overdraft Limit

Ccy

Limit

Beneficiary Bank

Overdraft Limit ID* BUU-CN

Ctpy Default A/C No

Bank Name Bank of China

Address

Account Name Timber Rose Wood China

Account Number* 124456

EBAddress

This set up is necessary to give the treatment for settlement and accounting as illustrated below.

Map the chart of accounts as an intercompany item.

Accounting Chart of Account

Acct Cntr* TFS-SG Account Type* 0001:Cash at Bank

Refresh Import Save Apply All Apply Selected

Mapped account saved successfully.

Apply Mapped Account

	Mapped Account	SSI Shortname
<input type="checkbox"/>	INC-TRW-001	TRW-CN-CY-CLEARING

BOOKING OF THE TERM LOAN TRADE

The term loan is booked in CNY so that both parties correctly reflect nature of the trade.

Term Loan

AcctCntr* TFS-SG MDate Fr* 06/10/2016 CtpyID Lend/Borrow Coy

TDate Fr dd/mm/yyyy TDate To dd/mm/yyyy Trade ID Narrative

Refresh New Delete Rates Reset Book Repayment

	Flag	TradeID	Acct Cntr	Lend/Borrow	Ctpy	MDate	Ccy	Principal	Outstanding	Narrative
<input type="checkbox"/>	✓	TML100018.00	TFS-SG	Lend	TRW-CN	7 Oct 2016	CNY	400,000.00	0.00	

Term Loan

AcctCntr* TRW-CN MDate Fr* 07/10/2016 CtpyID Lend/Borrow Coy

TDate Fr dd/mm/yyyy TDate To dd/mm/yyyy Trade ID Narrative

Refresh New Delete Rates Reset Book Repayment

	Flag	TradeID	Acct Cntr	Lend/Borrow	Ctpy	MDate	Ccy	Principal	Outstanding	Narrative
<input type="checkbox"/>	✓	TML100003.00	TRW-CN	Borrow	TFS-SG	7 Oct 2016	CNY	400,000.00	0.00	

1 50

BOOKING OF THE FOREIGN EXCHANGE TRADE

This is to record the implied FX when a bank is instructed to transfer CNH in the overseas bank account to CNY in the China entity.

New Foreign Exchange Outright

Accounting Centre*	TFS-SG
TDate*	06/10/2014
VDate*	08/10/2014
Transaction*	Sell
Ccy*	CNH
Amount*	400,000.00
Against Ccy*	CNY
Spot Reference Rate*	1.000000
Forward Points	0.000000
Contract Rate	1.000000
Countervalue	400,000.00 <input type="button" value="C"/>
Facility*	TFS <-> DBS-SG <input type="button" value="C"/> Available: CNH 100.00m (100.0%)
Counterparty ID	DBS-SG
Portfolio	
Show Advance	<input type="checkbox"/>

Comparative Quotes

Counterparty		<input type="button" value="Add"/>	
Rate		<input type="button" value="Remove"/>	
Remarks			

Counterparty	Rate	Remarks
No records found.		

HOW TO SETTLE THE TL CNY AND FX CNY TRADE THROUGH THE CLEARING SSI?

The below shows the cash flows of the Term Loan and FX transactions booked.

Cash Settlement											
Acct Cntr* TFS-SG		From* 08/10/2014		To* 08/10/2014		Ccy					
<input type="button" value="Refresh"/>	<input type="button" value="Net Trade"/>	<input type="button" value="Group"/>	<input type="button" value="Cash Transfer"/>	<input type="button" value="Confirm"/>	<input type="button" value="Settle/Unsettle"/>	<input type="button" value="EBanking"/>	<input type="button" value="↓"/>	<input type="button" value="★"/>	<input type="button" value="📄"/>		
<input type="checkbox"/>	Vdate	TradeID	Acct Cntr	Ctpy	Ccy	Amount	Std	Assigned SSI	Net ID	Gp ID	Trade Details
<input type="checkbox"/>	8 Oct 2014	FRX100027.00	TFS-SG	DBS-SG	CNH	-400,000.00		TFS-SG-DBS-CNH-664	:		FX Outright: Bo
<input type="checkbox"/>	8 Oct 2014	FRX100027.00	TFS-SG	DBS-SG	CNY	400,000.00		TRW-CN-CY-CLEARING	:		FX Outright: Bo
<input type="checkbox"/>	8 Oct 2014	TML100018/001	TFS-SG	TRW-CN	CNY	-400,000.00		TRW-CN-CY-CLEARING	:		Lend to TRW-CN

The receipt of the CNY under the FX trade should be settled through the TRW-CN-CY-CLEARING account.

Amend Cash Settlement

Description

FX Outright: Bought CNY 400,000.00 and Sold CNH 400,000.00 at 1.000000 value 8 Oct 2014 with DBS-SG. Portfolio:- [dev01@12dl2d.com]

Trade ID	FRX100027.00	Add	Our SSI	Their SSI	Amount	Description
Vdate	8 Oct 2014	Remove	<input type="checkbox"/>	TRW-CN-CY-CLEARING	(Temporary CNY)	400,000.00
Acct Cntr	TFS-SG		Total		400,000.00	
Ccy	CNY					
Amount	400,000.00					
Acct Cntr	TFS-SG					
Bank Account	TRW-CN-CY-CLEARING					
Amount	0.00					
Description						
Counterparty	DBS-SG					
Bank Account	(Temporary CNY)					

At the same time, the payment under loan draw down is also assigned to the TRW-CN-CNY-CLEARING account.

Amend Cash Settlement

Description

Lend to TRW-CN CNY 400,000.00 for value 8 Oct 2014. [dev01@12dl2d.com]

Trade ID	TML100018/001	Add	Our SSI	Their SSI	Amount	Description
Vdate	8 Oct 2014	Remove	<input type="checkbox"/>	TRW-CN-CY-CLEARING	TRW-CN-CNY-456	-400,000.00
Acct Cntr	TFS-SG		Total		-400,000.00	
Ccy	CNY					
Amount	-400,000.00					
Acct Cntr	TFS-SG					
Bank Account	TRW-CN-CY-CLEARING					
Amount	0.00					
Description						
Counterparty	TRW-CN					
Bank Account	TRW-CN-CNY-456					

The above settlement assignments, will clear and offset balances in the TRW-CN-CY-CLEARING account. (See also journal below)

The FX payment of CNH will be assigned as normal.

Amend Cash Settlement

[←](#) [Update](#) [History](#)

Description

FX Outright: Bought CNY 400,000.00 and Sold CNH 400,000.00 at 1.000000 value 8 Oct 2014 with DBS-SG. Portfolio:- [dev01@12dl2d.com]

Trade ID	FRX100027.00	Add		Our SSI	Their SSI	Amount	Description
Vdate	8 Oct 2014	Remove	<input type="checkbox"/>	TFS-SG-DBS-CNH-664	(Temporary CNH)	-400,000.00	ABC
Acct Cntr	TFS-SG				Total	-400,000.00	
Ccy	CNH						
Amount	-400,000.00						
Acct Cntr	TFS-SG						
Bank Account	(Temporary CNH)						
Amount	0.00						
Description	ABC						
Counterparty	DBS-SG						
Bank Account	(Temporary CNH)						

INSTRUCTION LETTER TO THE BANK

To instruct the bank, print out the confirmation letter from the FX transaction. This will make clear that we wish to convert CNH to CNY and transfer the funds to TRW-CN.

Reference: FRX100027.00

27 November 2019

DBS Bank Ltd, Singapore
(Singapore)

Attention: Customer Service

CONFIRMATION AND SETTLEMENT INSTRUCTIONS FOR FOREIGN EXCHANGE CONTRACT

We confirm our foreign exchange contract as follows:

We buy CNY 400,000.00
We sell CNH 400,000.00
Contract date 6-Oct-14
Value date 8-Oct-14
Spot Reference 1.000000
Forward Points 0.000000
Outright Rate 1.000000

For value date 8 October 2014 please debit account as follows:

Amount CNH 400,000.00
Account Number 1536664

For value date 8 October 2014 please credit account as follows:

Amount CNY 400,000.00
Beneficiary Timber Rose Wood China
Account Number 124456
Bank Bank of China

Yours faithfully,
Timber Firm Limited

Authorised Signatories

JOURNALS

The accounting journals for the FX and the Term Loan draw down are as follows:

Journal Listing by Post Date										
Acct Cntr: TFS-SG PDate: From 8-Oct-2014 to 8-Oct-2014 TradeID: From * To *										
TradeID	Event Type	Post Date	Account No	Account Description	Ccy	Dr	Cr	Base	Dr	Cr Exc Rate
TFS-SG										
FRX100162.01	FX VDate	8-Oct-14	INC-TRW-001	Cash at Bank	CNY	400,000.00		SGD	80,000.00	0.20000
FRX100162.01	FX VDate	8-Oct-14	999901	FX Cash Clearing Account	CNH	400,000.00		SGD	80,000.00	0.20000
FRX100162.01	FX VDate	8-Oct-14	1500082	Cash at Bank	CNH		(400,000.00)	SGD	80,000.00	0.20000
FRX100162.01	FX VDate	8-Oct-14	999902	FX Cash Clearing Account	CNY		(400,000.00)	SGD	80,000.00	0.20000
B CNY400,000.00 S CNH400,000.00 @1.000000									160,000.00	160,000.00
TML100025/001	Term Loan	8-Oct-14		TML - Lending	CNY	400,000.00		SGD	80,000.00	0.20000
TML100025/001	Term Loan	8-Oct-14	INC-TRW-001	Cash at Bank	CNY		(400,000.00)	SGD	80,000.00	0.20000
Lend CNY 400,000.00 w/TRW-CN									80,000.00	80,000.00

Note that the clearing account off set each other.

The net impact for accounting (excluding FX Cash Clearing) is as follows:

Dr. Term Loan CNY 400,000

Cr. Cash CNH 400,000

The loan is stated in CNY.

FREQUENTLY ASKED QUESTIONS

RELATED INFORMATION

CHANGE HISTORY

Date	By	Changes
23-Aug-2016	CS	Created.
27-Nov-2019	Lyra	Updated Screenshots.