

# 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 ID\* BUU-CN

Ctpy Default A/C No

Bank Name Bank of China

Address

Account Name Timber Rose Wood China

Account Number\* 124456

EBAAddress

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

| <input type="checkbox"/> | 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        |           |

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## 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 ↕                                | St'd ↕                           | 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  |
| <div> <input type="button" value="←"/> <input type="button" value="→"/> <input type="button" value="1"/> <input type="button" value="50"/> </div> |  |                                      |  |  |  |   |                                  |                                  |                                  |         |                 |

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

### 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"/> | 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

←
Update
History

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-CNY-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@12d12d.com]

Trade ID

FRX100027.00

Add

Vdate

8 Oct 2014

Remove

Acct Cntr

TFS-SG

Ccy

CNH

Amount

-400,000.00

Acct Cntr

TFS-SG

Bank Account

(Temporary CNH)

Amount

0.00

Description

ABC

|                          | Our SSI            | Their SSI       | Amount      | Description |
|--------------------------|--------------------|-----------------|-------------|-------------|
| <input type="checkbox"/> | TFS-SG-DBS-CNH-664 | (Temporary CNH) | -400,000.00 | ABC         |
|                          | Total              |                 | -400,000.00 |             |

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 |
| <b>TFS-SG</b>  |            |           |             |                          |     |            |              |      |            |             |
| 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 | C5   | Created.             |
| 27-Nov-2019 | Lyra | Updated Screenshots. |