Description

State Council has published the newly revised *Regulations of the People's Republic of China on Foreign Exchange* (the "**Regulations"**) on August 5, 2008, which immediately attracted attentions from around the world and on August 8, 2008, Financial Times ran two commentaries relating to the revision on its Chinese version website.

It is an action widely seen as an effort to combat hot money inflows into China, which has posed serious tricky problems to China's monetary policymakers. It is an overhaul to the old foreign exchange control regime and also in part the recognition of some regulatory practices that have been initiated by the State Administration of Foreign Exchange Control ("**SAFE"**) and been prevailing for some time.

Points of note are set out in part as follows:

(1) domestic institutions and domestic individuals may repatriate their foreign exchange income/proceeds home or deposit the same abroad, subject to conditions and terms set by SAFE. Previously, in an era of capital thirst, such income or proceeds have to be repatriated home.

(2) current account foreign exchange may be retained or sold to relevant financial institutions. However, previously, any current account foreign exchanges in excess of granted quota have to be sold, which has contributed to the swelling of the foreign exchange reserve of China.

(3) banking financial institutions now can directly extend commercial loans to overseas clients within its approved business scope without having to go through certain SAFE formalities, a conduit to relieve the excessive liquidity problem in Chinese market.

(4) capital account foreign exchange and the conversion proceeds thereof shall be applied for purposes as approved by the relevant authorities.

(5) a new chapter regarding supervision and inspection conducted by SAFE is added, fortifying the ground for SAFE to carry out certain regulatory conducts and measures.

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