

MARKETS

Chinese Banks Halt Experimental Yuan-Remittance Program

Yuan-Remittance Program Halted Following Criticism in State Media

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Updated July 14, 2014 11:53 a.m. ET



A TV report put a spotlight on Bank of China's remittances. *Imaginechina/Zuma Press*

BEIJING—China's major banks have halted an experimental program, sanctioned by the country's central bank, that helped citizens transfer large sums overseas despite government capital controls, according to people with knowledge of the matter.

The halt, which the people said was likely to be temporary, comes after the program was criticized by China's powerful state television broadcaster, underscoring the political sensitivity of the issue of wealthy Chinese moving money abroad. Experts said the criticism could set back China's efforts to ease its grip on the country's financial system.

Big commercial banks including Bank of China Ltd. , Industrial & Commercial Bank of China Ltd. and China Citic Bank Corp. have halted the program, which allowed Chinese to remit their yuan across borders, the people said. The halt came after the People's Bank of China, the central bank, started to look into allegations that Bank of China had used the program to help clients launder money, they said.

Last week, China Central Television accused the lender of improperly helping clients skirt China's controls on cross-border fund transfers. In some cases, CCTV said, the bank worked with immigration agents to help customers disguise the origins of their funds.

Bank of China has denied the accusations. It said in a statement last week that it adhered to regulatory requirements in conducting the business, including those prohibiting money laundering.

CCTV officials didn't respond to requests for comment.

The controversy comes at a politically sensitive time. China's top leadership is deepening a nationwide effort to fight corruption, with a focus on officials suspected of trying to move abroad assets they might have gotten through bribes or other illegal means. Earlier this month, [Liu Yunshan](#) —a member of the Communist Party's top decision-making body who is in charge of the country's propaganda apparatus—called on the government to address the problem of what are known in the country as naked officials, or those whose families have moved overseas.

Analysts and economists have widely acknowledged that China's closed capital-account system has become more porous and that the rules are routinely circumvented. A 2008 report by the PBOC said that up to 18,000 corrupt officials and employees of state-owned enterprises had fled abroad or gone into hiding since the mid-1990s, and that they were suspected of having taken \$123 billion with them. A favored method, according to the PBOC report, involved squirreling cash away with the help of loved ones emigrating abroad.



China Citic is among the banks that halted the remittance program. *Bloomberg News*

The CCTV report brought to light a trial program the PBOC launched about two years ago that allowed a few approved banks, including Bank of China, ICBC and China Citic, to start offering cross-border yuan remittance services for Chinese individuals through their branches in the southern province of Guangdong. The PBOC never publicly announced the program because it intended to carry out the trial quietly, the people familiar with the matter said.

"The program itself is neither illegal nor improper as it's been approved by the central bank, but the question is if any particular bank has gone too far by offering clients services they are not supposed to," said a senior executive at a big state-owned bank in Beijing. "We all had to put a

brake on it before the central bank draws a conclusion from its investigation."

Guangdong, which borders Hong Kong, was the birthplace for China's experiment with capitalism. Overhauls implemented there are usually expected to be implemented nationwide.



Bank of China, shown, is among major Chinese commercial banks to halt an experimental yuan-remittance program, according to people with knowledge of the matter *Reuters*

Chinese citizens usually have had to convert their yuan funds into foreign currency before remitting them overseas. Under the current rules, they aren't allowed to exchange and move more than \$50,000 a year out of the country. The trial program allowed citizens to skirt the restrictions, letting them transfer unlimited amounts of yuan overseas and then convert it into foreign currencies, according to the people.

Officials close to the PBOC said on Monday that it isn't likely that the central bank will withdraw the trial program altogether, as it is in keeping with Beijing's broader effort to make it easier for funds to move in and out of the mainland and to promote the yuan's use overseas. In its latest announcements aimed at gradually freeing up the flow of money, China's foreign-exchange regulator on Monday issued revised rules that would make it easier for Chinese companies to keep overseas profits and dividends earned in other countries.

Some analysts say the halting of the business amounts to a setback to the government's reform efforts, at least for now. "This action highlights the tension between the benefits of easing restrictions on capital flows and the risks of allowing freer movement of capital in the absence of effective regulation of financial institutions," said Eswar Prasad, a China scholar at Cornell University.

Until recently, Bank of China had been offering the yuan-transfer services to its wealthy clients,

according to officials with knowledge of the bank's operations. In its statement last week, the bank said that the services were limited to clients who seek to emigrate through investments—gaining residency rights abroad by putting money into businesses in the host country—or to buy property overseas. It also said that it has in place a procedure that requires the bank to check the sources and purposes of clients' funds.

—Mark Magnier contributed to this article.

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