

Shanghai eases RHQ regulations

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In brief

- » Shanghai has revised again its regulations to encourage multinational companies to set up regional headquarters (RHQs) in Shanghai.
- » The revision looks to maintain Shanghai's edge as the most densely RHQ-populated city, with 877 in total as of September this year.

Feedback



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In detail

The Shanghai Municipal Government has revised, for the fourth time, its regional headquarters (RHQs) regulations providing more impetus to multinational companies (MNCs) to run their RHQs in the city. The new regulations have taken effect from 1 November 2022. So far, Shanghai is home to 877 RHQs since the launch of its RHQ regulations in 2002, making Shanghai the city with the most RHQs in China.

The main amendments brought by the 2022 regulations are summarized below.

1. New addition and relaxation

The 2022 regulations have added a third type of RHQ entity, called the *RHQ business unit*, and introduced some relaxation to the shareholding requirements for RHQ entities. *RHQ business unit* refers to a Shanghai-registered entity set up by an MNC (or its Chinese investment holding company) based on its line of functions, business, products, brands or services, authorized to oversee its investment, management, and servicing in China or the region. The following table highlights the latest changes to the RHQ recognition requirements.

HQ entities	Recognition Criteria	
	2019 requirements	2022 additions
RHQ	<ul style="list-style-type: none"> a) Foreign-invested enterprise (FIE) with a legal person status b) Parent company's total asset \geq USD 200 million c) Registered capital \geq USD 2 million 	<ul style="list-style-type: none"> d) Overseas parent company directly or indirectly holds \geq 50% of its shares e) No serious credibility breaches in the past 3 years (or the breach has been rectified)
Quasi-RHQ	<ul style="list-style-type: none"> a) FIE (or its branch) with a legal person status b) Parent company's total asset \geq USD 100 million c) Registered capital (or operation fund for a branch) \geq USD 1 million 	<ul style="list-style-type: none"> d) Overseas parent company directly or indirectly holds \geq 50% of its shares e) No serious credibility breaches in the past 3 years (or the breach has been rectified)
RHQ business unit	(Not yet introduced)	<ul style="list-style-type: none"> a) FIE with a legal person status b) Overseas parent company directly or indirectly holds \geq 50% of its shares, and parent company's total asset \geq US\$ 200 million c) Registered capital \geq USD 2 million d) Operating in Shanghai for over 1 year; previous year's income \geq RMB 1 billion and accounts for \geq 10% of the income of the business division of its overseas parent company e) No serious credibility breaches in the past 3 years (or the breach has been rectified)

2. Improved assessment mechanism

Changes are made to delegate more rights to district-level authority and to clarify the assessment mechanism.

RHQ entities	Evaluation Mechanism	
	2019 mechanism	2022 mechanism
RHQ	Shanghai MOFCOM (<i>Ministry of Commerce</i>) office carries out the review	<ol style="list-style-type: none"> 1. Multi-level assessment: The district-level MOFCOM office conducts a preliminary review and submits it to the city-level MOFCOM office for final review. 2. Concurrent assessment: The city-level MOFCOM office conducts an ongoing assessment based on the reporting system and other means.
Quasi-RHQ		
RHQ business unit	Not applicable	

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3. More explanatory notes

The 2022 version provides further clarifications on the application documents for RHQ recognition, especially the application form. An applicant is required to provide a more comprehensive description of its shareholding and management structure. In addition, an enterprises seeking an “RHQ – business unit” recognition is required to provide special audit materials on its parent company's business units and operating revenue.

4. More supportive measures

The regulations have added more supportive measures to the 2019 version, as summarized below.

Supportive Measures (2022)	
Grants / rewards	Provide financial subsidies from city, and district treasury.
Fund operation / Management	Facilitate cross-border fund pooling, use of foreign exchange earnings from capital projects, and cross-border RMB settlement.
Simplified immigration	Support business immigration and declaration of permanent residence in China.
Talent introduction	Support HQ talents in employment, settlement, professional assessment, child education, and medical care, etc.
Trade facilitation	Support offshore trade, distribution centers, bonded maintenance, and other new types of international trade, tax rebates, and authorized economic operator (AEO) applications.
Innovation support	Support the bidding for government research projects, inclusion to the "white list" of biomedical enterprises and goods, and priority customs clearance.
Business registration	Support online registration for electronic business licenses and stamps.
Project investment	Support investment in major Shanghai projects with "one-stop" services.
Intellectual property (IP) protection	Support the inclusion of trademarks into the city's key trademark protection list, and off-site maintenance and protection collaboration.
Service support	Services are provided from both at the city and district levels; districts are encouraged to formulate measures to develop the RHQ economy.

WTS China's observation

Existing and new RHQs applicants should note the favorable changes, and consider how to optimize their operations to maximize the benefits, notably the following:

- All three types of RHQ entities – not only RHQs – can now benefit from the incentives and supportive measures. Further subsidies and grants could be available from the district governments which are now given the discretion to formulate their own supportive policies.
- In particular, Shanghai RHQ entities can enjoy the benefit of cross-border cash pooling, by virtue of the pioneering foreign exchange regulations, the "*Facilitation Measures for Cross-border Funding of RHQs in Shanghai*", issued by the Shanghai government in 2019. The said regulations facilitate the operation of domestic and foreign funds, enhance cross-border fund coordination, and reduce the exchange risk and financial costs of RHQs.

It should be noted that new tax implications may arise while adjusting the operation to meet Shanghai's RHQ requirements. For instance, tax revenue reallocation will result due to intra-group business restructuring. Therefore, a detailed tax implication study is advised prior to the implementation.

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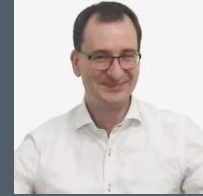
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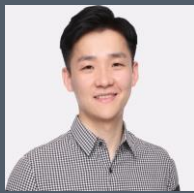
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