



7 October 2008, Victoria Park Plaza, Central London
ONE DAY CONFERENCE AND GALA DINNER
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BarrettWells™

China: A Review of Developments in Credit Management

Ron Wells



PUDONG SHANGHAI



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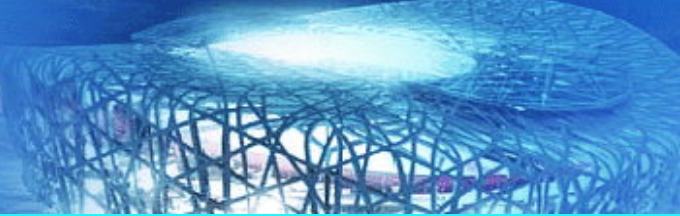
China's Credit Control Challenge

An official report quoted by the weekly China Business Post in 2004 noted that 'mainland China's exporters may be owed up to US\$100 billion by clients'.

'According to a researcher at the Ministry of Commerce, Chai Haitao, the problem is partly due to so many exporters having no systematic debt-collection procedures. This means they deal with bad debts on an ad hoc basis.

... virtually no domestic companies employ a credit control system, neither do they have strategies for collecting bad debts'.

CANUTE



- CCPIT arranged annual International Credit & Risk Management Conferences in association with FCIB China, in Beijing, Shanghai, Tianjin, Shenzhen and Xiamen
- Initiated research to establish the scope of the challenge
- Concluded 50,000 qualified Credit Managers are required



- Established an office in Shanghai (FCIB China)
- Created and is teaching two specific qualifications:
 - ◆ **Certified Credit Analyst (CCA)** responds directly to the China market's need for information and education. It is offered in Chinese to professionals new to trade credit or those desiring to improve their knowledge of trade concepts and process. The CCA is the first step towards the keystone course, the CICA which leads to official certification as an international credit analyst.
 - ◆ **Certified International Credit Analyst (CICA) Course.** This ten-session course, taught in English, covers every aspect of trade credit risk management. The sessions, each lasting one day, introduce every fundamental and advanced concept and build a comprehension of the trade credit process from simple to complex, preparing the participants to become professional analysts, and beyond, capable of competing in a global market.
- Formed Credit Management Clubs in Shanghai and Beijing.

- T3P LIMITED arranged for Ming Li Holkham to adapt the text of Global Credit Management – an Executive Summary for Chinese readers and to translate the adapted version into Simplified Chinese – Mandarin/Putonghua.
- This Chinese version is now available in major bookshops in China and from the UK via a web based store

eStore T3P®



SHANGHAI BOOK CITY

- Has trained more than 1,000 bankers in credit analysis; awarding officially recognised qualifications
- Has initiated a Credit Manager's forum



Shanghai University of Finance and Economics



SHUFE provides a Credit Risk Management programme.

The Renmin University in Beijing offers a similar programme.





CEIBS

China Europe International Business School

CEIBS Lujiazui International Finance Research Centre (Pudong Shanghai) is vital in the effort to speed up the modernisation of China's financial system, strengthen national power, and transform Shanghai into a true metropolis. With the world economy shifting East, Greater China (Mainland China, Taiwan, Hong Kong, Macau) is on a path to economic integration, it has been predicted that East Asia's global financial centre will emerge from within Greater China.

The school aims to develop senior international financial talent qualified for global competition and the development of Shanghai as an international financial centre. It will design and offer relevant programmes for senior managers, such as risk management of banks, risk management of foreign exchange, merger and acquisition, fund management, and financial diplomas. Master and PhD programmes in finance will also be offered when conditions are ready. Moreover, the school is examining the feasibility of offering international professional certification training such as the CFA.

[See: www.ceibs.edu](http://www.ceibs.edu)

CHINA



Chongqing has a registered population of 31,442,300

Xiamen

Shenzhen

Chongqing is the fastest-growing urban centre on the planet. Its population is already bigger than that of Peru or Iraq, with half a million more arriving every year in search of a better life.

China: Open for Business



Shanghai is just one city.....population 18,450,000



Credit Risk in China



Due Diligence



Reputation
Ownership
Legal Name
Registration
Number
Capacity to
Contract

A SHANGHAI CASH CYCLE

Sources of Information



**Atradius Credit
Information Consulting
(Shanghai) Co. Ltd**
martin.jones@atradius.com



www.inter-credit.net



www.transunion.com



info@fcibglobal.com.cn



www.huaxiadnb.com

EXAMPLES

BIIA www.biia.com

Business Information Industry Association
Asia Pacific – Middle East

Some Key DD Checks

- Important terms and conditions, including payment terms, must be clearly stated in a written contract. Employ a local lawyer to ensure terms are in line with usual local practice and the translation is accurate. Be aware that the Chinese version will be applied by Chinese Courts.
- Ensure that the Buyer is legally entitled to enter the contract and its representative is properly authorised

The Buyer's Means

- China is adopting an adapted version of International Financial Reporting Standards (IFRS) for public and private companies, however 900,000 accountants need to be trained
- Small family-owned firms often do not disclose inter-family debts
- Information released by state-owned companies is often sparse and of dubious accuracy

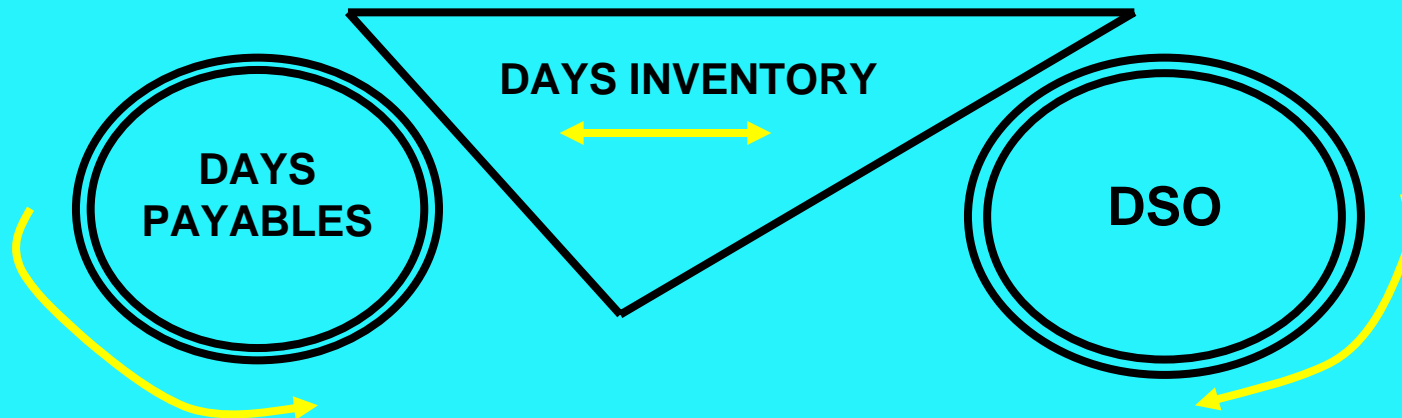
China also faces some practical problems related to IFRS adoption. The nation set a lightning-fast adoption schedule, formally announcing in early 2006 that all listed Chinese companies had to comply with IFRS by the start of 2007. By contrast, the United States is just now hoping to adopt IFRS by 2016; most countries give themselves three or four years to ease into the IFRS world.

According to some Chinese accountants, China got ahead of itself.

“After the publication of IFRS in China, it was implemented soon,” says John Liu, a partner at Shanghai J&J Certified Public Accountants Firm. “There was no time for the CPAs to master it. For the Big 4, it’s no problem at all. But for the other CPA firms in China, I still think it is a big problem.”

Always Consider the Cash Flow

The **'cash flow cycle'** is the time required to convert goods into cash; from the date the company pays the costs of acquisition of the goods to the date of receipt of the cash from related sales.



The Formula



Cash Flow Cycle

=

(Days Inventory + Days Sales Outstanding) – Days Payables

Days Inventory = Inventory / (Cost of Sales / 365)

Days Sales Outstanding = Trade Receivables / (Sales / 365)

Days Payables = Trade Accounts Payable / (Cost of Sales / 365)

Payment Security Options I

- Letters of Credit

- ◆ Several acceptable banks available

- Retention of Title

- ◆ Valid per Chinese Contract Law
- ◆ Insolvency resistant but uncertain against a third party good faith buyer
- ◆ Is re-export a realistic option?

- Documentary Collection

- ◆ Only useful with trusted buyers

Payment Security Options II

- Guarantees

- ◆ Payment Guarantee texts should be checked by your local lawyer to ensure effectiveness

- Mortgages

- ◆ Can be obtained over real estate, buildings, land use rights, machines, vehicles and other goods, but must be notified and registered

- Export Credit Insurance

Motivation to Pay



If you can read a book without charge, in an air conditioned bookshop, what motivation is there to pay for it?

GUANXI • TRUST • WIN – WIN



Ron Wells

Ron Wells is the author of *Global Credit Management, an Executive Summary* published by John Wiley & Sons. This concise work demonstrates the vital importance of effective credit management, which too often is a passive and reactive discipline within a company.

The Simplified Chinese version of *Global Credit Management* was published in July 2007, titled Huan Xin Ping Heng Biao Shang De Shui Shi - Awaken the Sleeping Lion on the Balance Sheet.

Ron maintains a free access, credit management resources web site at: www.BarrettWells.co.uk.

Ron is a Certified Credit Executive (CCE), a Chartered Management Accountant (ACMA), a qualified International Banker (ACIB) and a Chartered Corporate Secretary (FCIS). He participated in the NACM Graduate School for Credit and Financial Management in 1996/97, passed with distinction and was elected Best Student.

Ron joined RBS Sempra Commodities in London, as Vice President - Credit Risk Management, in October 2007. Previously Credit Manager for Global Supply & Trading with Chevron Corporation for 16 years, Ron earlier worked for various companies and commercial banks becoming a specialist in financial analysis, corporate credit management, trade operations management and trade finance-related marketing.

