

# Practical Guide to China's Corporate Social Credit System

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 Partner For Greater China



## Contents

Part I: What is the rationale behind the Corporate SCS? .....	3
What do we know about the ‘master database’ so far?.....	4
What data is already being collected?.....	5
What data will be collected in the future?.....	6
Too many unclear terms? - Check out this glossary! .....	6
Part II: Case Study – How can I check my existing credit record? .....	7
Step 1: Self-assessment of data flows to government agencies .....	7
Step 2: Self-research and verification in national databases .....	8
Step 3: Self-research and verification in local databases.....	10
Part III: To Dos for Companies .....	13
How should I prepare for the Corporate SCS? .....	13
Frequently Asked Questions (FAQs) .....	13

*The following guide is intended to show where companies can find official information on their current credit records. The document does not claim to represent an official position.*

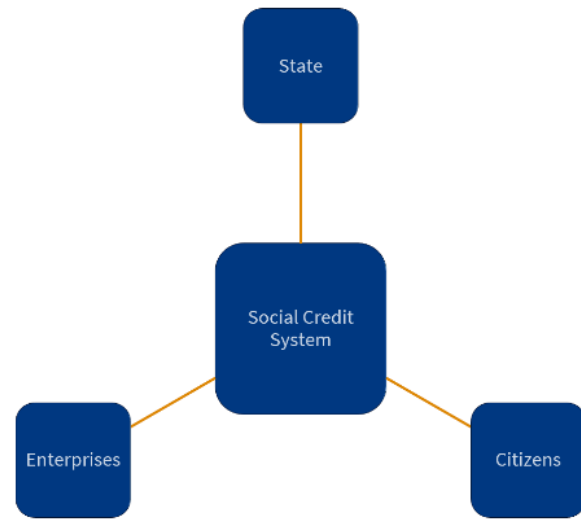
*We will gradually expand and update this guide and be glad to answer any further questions that you may have on this topic.*

## Part I: What is the rationale behind the Corporate SCS?

In 2014 the Chinese government drew up a more or less specific plan to use digital technologies like Big Data and online platforms to guide the behavior and enhance compliance of all market participants in the country. Following local test phases, China intends to implement the so-called "Social Credit System" (SCS) nationwide, scheduled by the end of 2020. Companies (domestic and foreign) located in China will have to adapt to new regulatory measures and public credit rating platforms such as the National Enterprise Credit Information Publicity System and CreditChina.

Once the SCS is fully operative, the National Development and Reform Commission (NDRC) will hold a **credit record for each company**. All areas of the operative business, but also possibly strategic decisions and social behavior of a company could be affected. In case of high compliance, incentive measures, e.g. administrative express procedures or preferential tax measures might come into effect. In case of a breach of regulations, fines or other disciplinary measures, e.g. restrictions on the issue of shares or public tenders could be imposed (depending on the severity of the breach). Ultimately, joint punishments could be applied across different sectors, e.g. breaches of customs legislation could lead to extra tax rebate audits at the same time.

Although the central government plans to regulate local standards, **responsibility for maintaining corporate credit records is**



**Fig.1: Basic structure of the Social Credit System.**

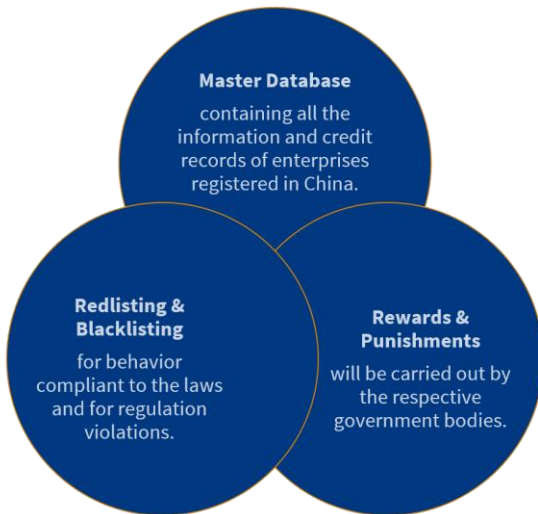
**currently largely left to local authorities**, implying a lack of nationwide uniform standards.

According to a report released by the European Chamber of Commerce in China in cooperation with Sinolytics, a private consultancy, there are around 30 parallel credit rating policies that could affect both domestic and foreign companies in China.

Chinese authorities currently use a mix of redlists, blacklists, irregularity lists and ratings to assess an enterprise's behavior. In the long run, NDRC intends to grade companies on their compliance based on self-reported and government-collected information.

What is crucial: **The new company ratings will be built on previously existing regulatory structures.** For companies operating in China it is therefore important, to allocate resources for **credit data monitoring** and **obtain an overview of the already existing credit information**. Every company in China needs to keep a close eye on changes within the system.

We understand, that the Corporate Social Credit System will cover three interconnected parts:

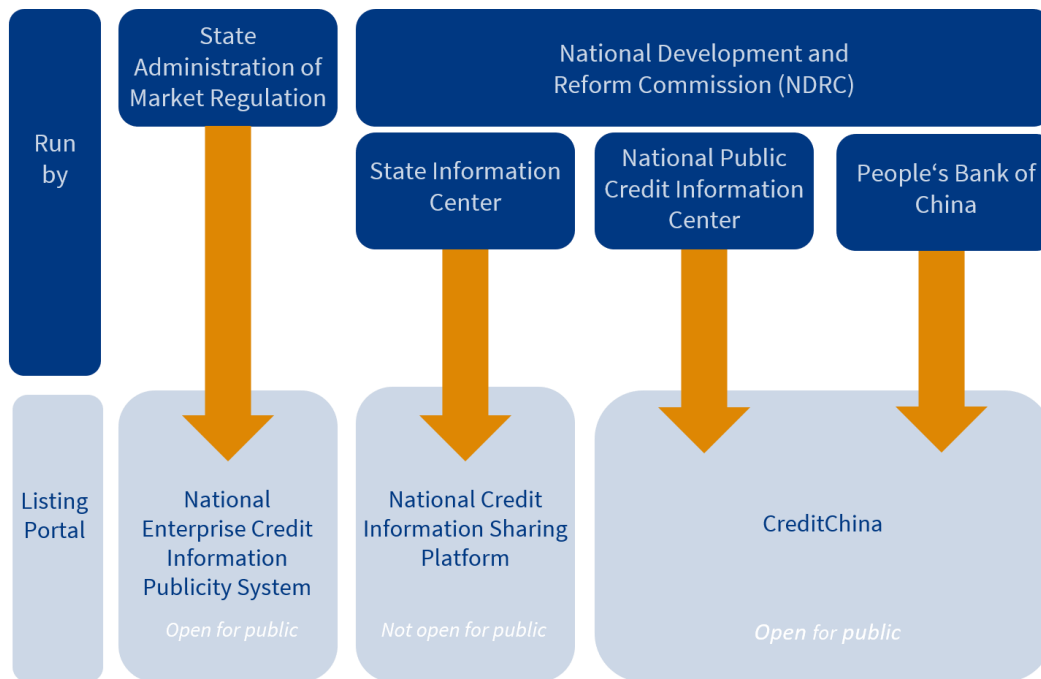


### What do we know about the ‘master database’ so far?

In 2015, the government launched a digital platform called *National Credit Information Sharing Platform*. It is controlled by the central government and not open to the public. The platform contains all the information and data of companies and individuals collected so far. The aim is to share data between different government agencies.

If this platform is regularly fed with data and the transfer of data works in real time, it could become a kind of ‘master database’. But what we know by now is, that this database does not issue any scores, yet.

**Fig. 2: Components of the Corporate SCS.**



**Fig. 3: Existing databases to date.**

For the time being, there are two national databases with mostly overlapping information open for public access:

- ✧ **National Enterprise Credit Information Publicity System** (also a reporting channel to the government)
- ✧ **CreditChina** (only for inquiry and more user-friendly)

Besides the national platforms, companies should also pay attention to **local databases** (*more information in the Case Study below*). Local authorities keep comprehensive records for companies doing business in China.

Updated blacklists and redlists will be published on the above-mentioned databases for a certain time period that is still needed to be further clarified by government authorities. Affected companies can accelerate the expiration of such entries by repairing their credits or submitting complaints in Chinese language only (more details in the case study on p. 9).

## What data is already being collected?

At the current stage, both the underlying databases and rating systems are highly fragmented.

We did research in national as well as the local databases and compared the information we found there with official regulations.

According to our research the following data is already being collected:

- ✧ Basic corporate information
- ✧ Administrative permits/penalties
- ✧ Irregularity records
- ✧ Unified social credit No.
- ✧ Registered office
- ✧ Legal representative name
- ✧ Incorporation date
- ✧ Business type



**Fig. 4: Sources for data collection to date.**

## What data will be collected in the future?

The plan is to collect data from all operational fields of companies doing business in China (see fig. 5). NDRC calls it ‘Public Credit Comprehensive Evaluation’ and aims to compile integrated scores for companies based on the publicly available corporate credit records.

To achieve this, it would be necessary to enable a digital system that can collect and evaluate all the different data flows coming from one company.



**Fig. 5: Planned data collection - ‘Public Credit Comprehensive Evaluation’.**

### Too many unclear terms? - Check out this glossary!

**Blacklist:** Mechanism of public shaming; blacklisting covers companies with major compliance issues, like environmental law violation or tax evasion. Also called ‘heavily distrusted companies’, these companies could see their business license revoked as the ultimate consequence.

**Grades & ratings:** The two ways for authorities to distinguish companies with different track records. Although officials intend to assign companies with scores of a few digits eventually, right now there are **four basic categories**, that some authorities already started to use:

- ✧ A 优 - excellent
- ✧ B 良 - good
- ✧ C 中 - average
- ✧ D 差 - not sufficient

**Irregularity list:** This list includes companies with insignificant compliance issues in annual report disclosures (sometimes also called “watchlist”). Being added on this list implies companies have drawn special attention from authorities. Repeated offenders may be automatically enrolled on a blacklist.

**Joint rewards & punishments:** Mechanism to multiply the costs and benefits of integrity based on joint memoranda signed by several government agencies. Different authorities will decide on various lists based on the memoranda applicable (see also fig. 6).

**Redlist:** Mechanism of public praising; companies with records of outstanding compliance in specific fields might be redlisted. In export/import business, for example, the customs authority has a list of “Advanced Certificate Enterprises” to grant privileges like fast track customs clearance. In taxation, privileges are targeted at A rated taxpayers.

## Part II: Case Study – How can I check my existing credit record?

We recommend, that you analyze the credit record of your enterprise, summarize weak points and make timely improvements and corrections if needed. To achieve this, there are several steps you can take: **first**, do a self-assessment of all data flows that your company transfers to government agencies; **second**, start a self-research and verification in the national databases; **third**, compare the data you found in the national databases with data collected by local authorities.

In the following case study, we will guide you through all these steps.

### Step 1: Self-assessment of data flows to government agencies

#### Fill in the Excel-file that we provided for you

- Your company surely collects data on a regular/irregular basis and transfers it to government authorities. What you need to look out for is, which of your departments transfers what kind of data to which agency.
- First, fill in the data that is reported to the government via **online platforms** or **paper documents** – be aware, that the same department might report to different official agencies at one time.
- Then, check with all departments if there were further **on-site inspections** taking place.

Department Responsible for data collection	Data Content (What data has been transferred?)	Department Responsible for data transfer to authorities	Responsible Authority (Which authority has the data been transferred to?)	Reporting Channel (fax/website/app)	Frequency (Annual/Quarterly/Random)	Follow-up Official Actions (more inspection etc)	Outcomes (Rating/Certification)
Finance	Financial report (BS, P&L)	Finance	Tax Bureau	Online Network	quarterly/yearly	random inspection	A
Finance	tax report (VAT, stamp duty, other tax)	Finance	Tax Bureau	Online Network	monthly	random inspection	
Finance	CIT report	Finance	Tax Bureau	Online Network	quarterly/yearly	random inspection	
Finance	regular tax inspection (Non-trade tax etc.)	Finance	Tax Bureau	Online Network	irregularly	random inspection	
Finance	financial data, output & output value, personnel and salaries, energy etc.	Finance	Economic Development Administration	Online Network	monthly	random inspection	
Finance	foreign debt record (Audit report, loan contract, capital verification report, etc.	Finance	SAFE	paper document+ online Network			
HR, Finance	Joint Annual Inspection of Foreign Enterprises(The basic situation of the enterprise, investment situation, operation situation, domestic and foreign investment and branches )	HR	Commerce Bureau	Online Network	yearly		
HR, Finance	company's basic situation, shareholders and investment information, foreign investment, asset status information, equity information, social security	HR	Industrial and Commercial Bureau	Credit Information Publicity System	yearly		

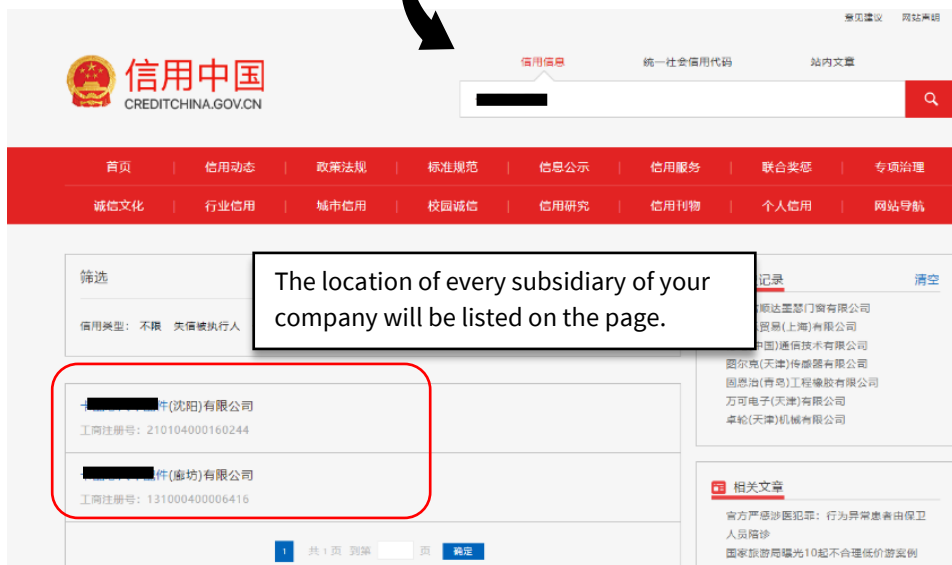
#### Form a team for data analysis

- You will realize that you are reporting to a lot of different government agencies.
- Now, it is time to evaluate a possible correlation between data flows and existing rankings of your company.

## Step 2: Self-research and verification in national databases

### Find your company information online

- To search for your company, visit **CreditChina's** official website
- Make sure to select “信用信息” (“credit info”).



- We chose **CreditChina** as an example here, because we think it is more user-friendly.
- You can also visit the **National Enterprise Credit Information Publicity System** to check your national credit record there. If you need help, feel free to contact us!
- Click on (one of) the company's location (for this demonstration we chose the subsidiary in Langfang).



## Check your national record entries

- Your credit records will show up as seen below:

**Contact buttons to repair your credit record (left) and submit complaints (right).**

**Company's basic registration information.**

法定代表人	Karl [REDACTED]	企业类型	有限责任公司(外国法人独资)
成立日期	2011-07-08	登记机关	廊坊市市场监督管理局
住所	廊坊经济[REDACTED]		

Administrative Permit (1)    Administrative Penalty (0)    Redlisting Entry (3)    Blacklisting Entry (0)    Irregularity List (0)

行政许可    行政处罚    守信激励    失信惩戒    重点关注    资质/资格    风险提示    其他

全部 3    纳税信用A级纳税人 3

- As indicated by the small numbers in the upper right corner of the tab, the subsidiary in Langfang has **1 administrative permit** and **3 redlist entries**.
- By clicking on the tab, further information concerning the respective entries will be displayed (e.g. the date of the entry, the responsible authority or the detailed rating).
- Note: Any negative record (including 'administrative penalties') should raise alarms. In this case, you should check the entry and proceed to either **repair your credit record** or submit a **complaint** - you can do that via the blue buttons or through the administrative penalty agency.

### Step 3: Self-research and verification in local databases

#### Compare all the company information you can find online

- Visit the local online credit database for the city your company is located at.
- In this example, the company has two locations: one in Shenyang and one in Langfang .
- The Langfang database will be used for further demonstration here. Please note, that local databases may differ in appearance and layout.



- The name of the company and your social credit No. will be shown. To check your record, please click on the name of your company.
- For your convenience, we list a few more local databases here: Beijing , Chengdu , Guangzhou , Hangzhou , Shanghai , Suzhou , Taicang , Tianjin .



## Check your local record entries

- After clicking on the name of the company, a list with all the company records will appear as seen below:



### 法人信用记录

Name of the Company	名称	██████████(廊坊)有限公司	统一社会信用代码	9113██████████	Unified Social Credit Code
Business Registration No.	工商注册号		组织机构代码		Organization Code
Tax Registration No.	税务登记号				
1、来自【市质监局】的信用数据 Origin: State Administration for Market Regulation's database					
①【统一社会信用代码信息】1条 (Unified Social Credit Code Information) 1 Entry <span style="float: right;">申请异议</span>					
Unified Social Credit Code	统一社会信用代码	91131██████████	机构名称	██████████(廊坊)有限公司	Name of Organization
Address	机构地址	廊坊经济技术开发区██████████	法定代表人	Karl ██████████	Legal Representative
Approval Authority	批准机关	廊坊市工商行政管理局			
2、来自【市地税局】的信用数据					
①【信用红名单】1条 (Redlist) 1 Entry <span style="float: right;">申请异议</span>					
Redlisted Entity	信用主体	██████████(廊坊)有限公司	统一社会信用代码	9113██████████	
Business Registration No.	工商注册号		居民身份证号		
Reason for Redlisting	列入红名单原因	A级纳税人	列入日期	2018/04/19	Date of Redlisting Entry
Valid Until	有效期限	2019/04/13			
②【A级纳税信用等级纳税人名单】1条 (Tax Paying Entity with Tax Credit Rating) 1 Entry <span style="float: right;">申请异议</span>					
Name of Tax Paying Entity	纳税人名称	██████████(廊坊)有限公司	纳税人识别号	91131██████████	Tax Identification No.
Social Credit Code	社会信用代码	91131██████████	组织机构代码		Organization Code
Business Registration No.	工商注册号		税务机关代码(增)	911310██████████P	
Legal Representative	法人代表		经营地址		
Name of Tax Office	税务机关名称(增)	廊坊经济技术开发区地方税务局第二税务分局	信用等级评定(增)	A	Credit Rating
Year of Rating	评定年度	2016			
3、来自【市检验检疫局】的信用数据 (Company Credit Rating on Entry-Exit Inspection) 1 Entry					
①【出入境检验检疫企业信用等级】1条 <span style="float: right;">申请异议</span>					
Name of the Company	企业名称	██████████(廊坊)有限公司	社会信用代码		
Organization Code	组织机构代码	578217062	工商注册号	130██████████	
Credit Score	信用分值	100	评级级别	B	
Adjusted Rating	调整后级别	B	业务量	14	
Main Inspection Department	主管监管部门	检验监管科			
4、来自【市国税局】的信用数据					
①【信用红名单】1条 (Redlist) 1 Entry <span style="float: right;">申请异议</span>					
	信用主体	██████████(廊坊)有限公司	统一社会信用代码	9113██████████P	
	工商注册号		居民身份证号		
	列入红名单原因	A级纳税人	列入日期	2018/04/19	
	有效期限	2019/04/13			



The following figure 6 demonstrates the data flow from one company to different official authorities. We listed the different ranking mechanisms of each authority existing to date. Please note, that there are more rankings planned in the near future.

In order to explain the joint reward and punishment mechanism, we chose the most common example of ‘taxation’. It shows, to what extent other agencies might be involved, when a company is being enrolled on one blacklist.

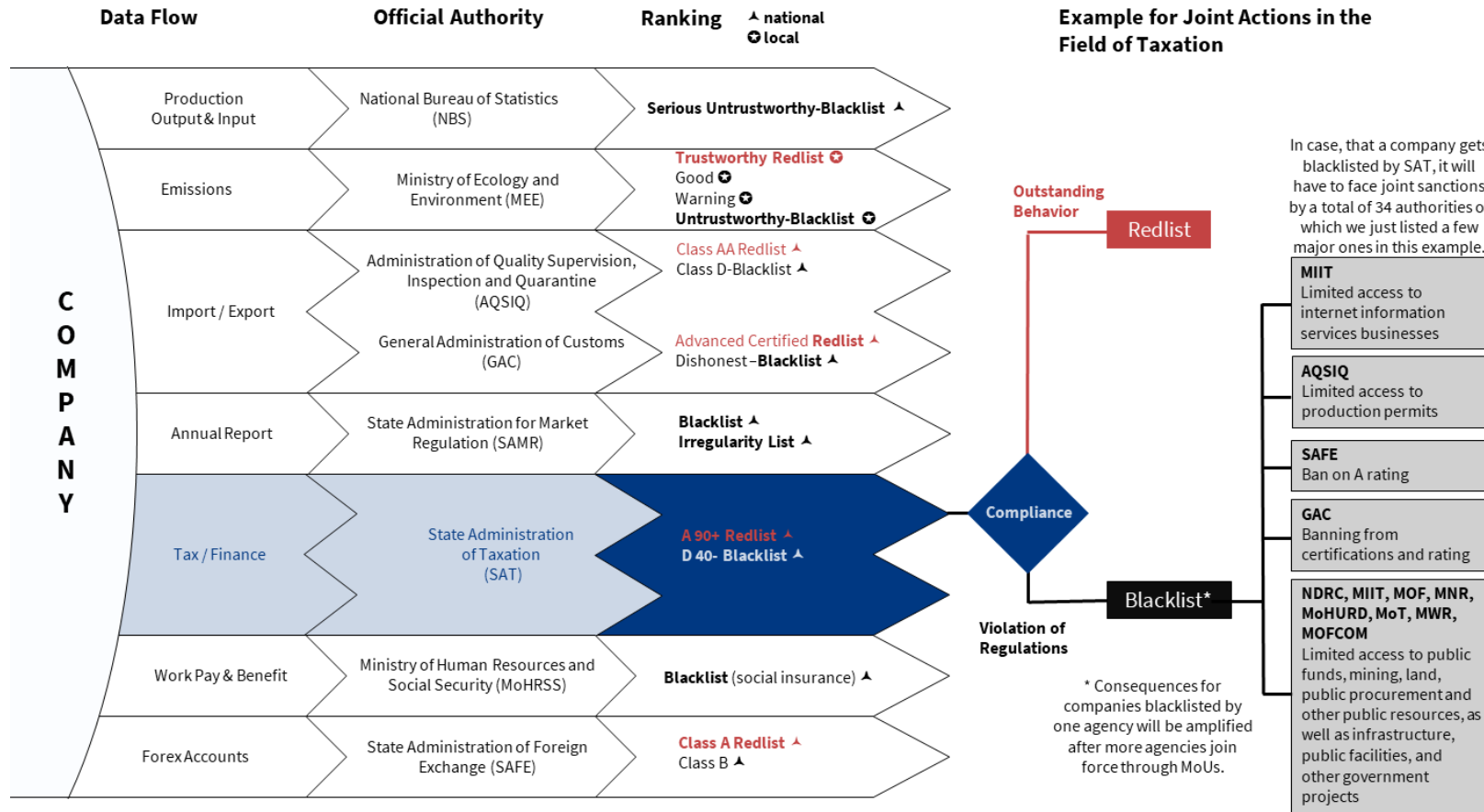


Fig. 6: Data flow in the current Corporate Social Credit System – using an example in the field of taxation.



## Part III: To Dos for Companies

### How should I prepare for the Corporate SCS?

Enterprises should focus on their credit records first. Already existing grades can still be adjusted after a company has repaired its credit record.

Since the new system is still in development, enterprises may not even know that there is a problem with their credit record data. Therefore, companies operating in China will need to allocate resources to credit data monitoring and managing.

In order to understand the criteria for compliance, companies must identify which blacklists and grading systems are applicable to their business sector.

Important **blacklisting agencies** include:

- ✧ **Supreme People's Court:** Blacklist for court defaulters
- ✧ **NDRC:** Blacklist targeting seriously untrustworthy entities involved in the financial sector
- ✧ **State Taxation Administration:** Blacklist targeting tax evasion and fraud
- ✧ **Customs:** Blacklist for untrustworthy importers, exporters, smugglers
- ✧ **Ministry of Human Resources and Social Security:** Blacklist for companies that owe unpaid wages to migrant workers

### Sub-databases under CreditChina:

- ✧ Database for red listed companies
- ✧ Database for blacklisted companies
- ✧ Database for companies with irregularity records

**NDRC** together with other authorities has rated companies in gas, travel, coal, and transport and published lists of outstanding ratings.

- ✧ Outstanding gas companies
  - 1<sup>st</sup> phase
  - 2<sup>nd</sup> phase
  - 3<sup>rd</sup> phase
  - 4<sup>th</sup> phase
- ✧ Outstanding coal companies
- ✧ Outstanding transport companies
- ✧ Outstanding travel companies

## Frequently Asked Questions (FAQs)

### What information should I check out?

It is important to verify all data in the official databases. Special attention should be paid to contact information, since authorities might use this information to inform companies about credit record entries. Although we currently do not know of any company that has actually been informed by the authorities, we believe that communication with the government should be well maintained.

### Where can I check out taxation records?


The national taxation authority keeps a database for A rating taxpayers from 2014-2018 . In this database year and region can be selected first.

The government publishes A ratings as a bonus to increase publicity of these well-behaved companies.




### **Where can I find information on environmental regulatory compliance?**

Ratings concerning environmental law compliance are very decentralized, with local authorities on provincial and city level publishing own blacklists or redlists on an annual basis. It is necessary to do research via online search engines and on related authorities' websites.


### **Where can I find information on customs status?**

Companies can visit the national database "Credit Publicity Platform of Import and Export Business of Customs" .

The database lists either positive or negative records. The exclusion in these lists means normal business status. If included in the second and third list, however, companies should verify information first and consider to appeal the entry, if necessary.

- ✧ Advanced certificate enterprises 
- ✧ Discredited enterprises 
- ✧ Irregularity List 

### **Where can I find information on government procurement?**

The Ministry of Finance puts companies with violation records on public procurement into a Database  for companies with serious illegal and dishonest acts (557 entries by 9 September 2019).

### **How can I find out rating information about business partners?**

For the time being, only the customs authority requires high-level compliance records of business partners for those companies that aim to be recognized as "Advanced Certificate Enterprises". Nevertheless, companies should perform a background check on business partners to make sure supply chains are safe.

Unreliable partners may not affect credit records, yet. But they could damage a companies' reputation and business in the future. To do due diligence on business partners, the above-mentioned research steps on national and local level could be followed. Any negative entries should be actively followed up.

### **How can I lodge a complaint and ask for correction if false information is presented online?**

If inaccurate information is recorded, companies should follow the procedures by pressing the button included in the respective database.

For CreditChina, there is a blue contact button on the page where the record entries are shown. The button translates into "Disagreement Appealing System" (see also p. 9).

Please note that complaints can only be submitted in Chinese language at the moment.

## **Contact**

### **German Chamber of Commerce in China | North China**

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