



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

19 July 2010

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Renminbi Business in Hong Kong

The elucidation of supervisory principles and operational arrangements regarding renminbi (RMB) business in Hong Kong on 11 February 2010 is well received by the banking industry. Subsequent to this the Mainland authorities announced on 22 June 2010 an expansion of the RMB trade settlement pilot scheme, and the Clearing Agreement has been amended accordingly.

The purpose of this circular is to draw your attention to the key amendments made to the Clearing Agreement and to set out the HKMA's supervisory guidance to authorized institutions participating in RMB businesses (Participating AIs). This circular should also be read in conjunction with the previous circulars on the subject¹.

Expansion of the RMB trade settlement pilot scheme

The Mainland locations that are covered by the cross-border RMB trade settlement pilot scheme have been extended and now cover 18 other provinces and cities in addition to Guangdong Province (now the entire province) and Shanghai. At the same time, the location of the other leg of cross-border trades (i.e. outside Mainland) is no longer limited to Hong Kong, Macau and ASEAN (i.e. this will cover the whole world). The scope of trade that is eligible for RMB settlement is expanded to cover service trade and other current account transactions. Two-way service trade and imports of goods into the Mainland can be settled in RMB by any enterprise in the 20 provinces and cities covered by the pilot scheme. In addition, the list of approved Mainland enterprises under the pilot scheme for the purpose of export trade (from Mainland) has been expanded.

Key changes to the Clearing Agreement

The expansion in the scope of RMB business or the increased flexibility in the provision of RMB-denominated financial services further to the elucidation on 11 February 2010 is set

¹ These are the HKMA's circulars of 5 February 2004, 13 December 2005, 20 June 2007, 6 July 2009 and 11 February 2010.

out as follows. A set of frequently asked questions together with answers is also attached to this circular.

RMB business for personal customers and Designated Business Customers (DBC's)

There will no longer be restriction on the transfer of RMB funds (including cheque payment in Hong Kong) between different accounts, whether within the same AI or not. Customers can effect transfers to other persons or entities for any purpose, including for instance the purchase of wealth management products if available. Except for the above changes, the requirements in relation to conversions and other existing types of services remain the same.

RMB business for corporate and other non-personal customers

Participating AIs can open RMB deposit accounts for any corporate customer for general purpose, in accordance with usual banking practices and requirements in Hong Kong (including those to guard against potential money laundering activities). Transfers between different accounts are allowed for any purpose, whether within the same AI or not and regardless of whether related to trade settlement. For cross-border flows of RMB into and out of the Mainland, as set out in the circular of 11 February 2010, the Mainland Authorities and banks are responsible for verifying whether transactions are in compliance with the relevant Mainland requirements.

With regard to conversion between RMB and other currencies conducted for corporate customers, Participating AIs can square the resulting open position with the RMB Clearing Bank if the conversion is provided for the purpose of or arising from cross-border trade settlement and up to the amount of the relevant trade transactions settled or to be settled in RMB. This also includes conversion of other currencies into RMB for settlement of RMB trade finance if the corporate does not have sufficient RMB for loan repayment. Participating AIs can also square with the RMB Clearing Bank the open position resulting from transactions allowed by Mainland authorities to be ultimately squared by the RMB Clearing Bank in the China Foreign Exchange Trading Centre. For conversion services other than those mentioned above, Participating AIs can still offer to corporate customers if they do not square the corresponding open position with the Clearing Bank, or if they seek to square such open position with other Participating AIs.

Internal controls and risk management limits

The HKMA expects Participating AIs to conduct their RMB business carefully. It is imperative that they have a clear understanding of the contractual terms in their agreements with the Clearing Bank or Mainland correspondent banks. They should put in place proper internal control systems, effective policy and procedures as well as adequate resources to ensure compliance with these contractual terms. The agreement between the Clearing Bank and Participating AIs will be amended shortly to reflect the latest changes.

The expansion in scope of business and increased flexibility in providing services may result in more customers opening RMB accounts with Participating AIs. As always, they should carry out adequate Know-Your-Customer procedures and endeavour to guard against potential money laundering activities as well as counterfeit RMB banknotes in processing the relevant transactions.

As RMB is not a freely convertible currency, Participating AIs should exercise care in managing their foreign exchange risk when conducting RMB business. This is particularly the case if they intend to provide conversion services to corporate customers other than for the purpose of cross-border trade settlement. Participating AIs are also reminded that they should continue to adopt prudent measures in managing the liquidity risk arising from their RMB business. Taking into account the latest development, the HKMA has decided to simplify the previously established risk management limits to only requiring Participating AIs to always maintain a total amount of RMB cash plus settlement account balance with the Clearing Bank at no less than 25% of its RMB customer deposits. In its ongoing supervision the HKMA will also assess the RMB funding structure of a Participating AI, particularly in respect of whether there is over reliance on a single source of wholesale RMB funds if the AI does not have a retail deposit base.

Participating AIs are expected to establish internal guidelines on the new scope of RMB business to elaborate on the operating systems and procedures, or revise existing guidelines as appropriate. These should be submitted to the HKMA within one month.

Other issues

As a result of the current changes to the scope of RMB business, the “Return of Renminbi Business Activities” (MA(BS)16) is under revision. The relevant details as well as any interim reporting requirements will be discussed under separate cover.

Should you have any question on this letter, please feel free to contact Ms Denise Tai at 2878 1589 or your usual supervisory contacts at the HKMA.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

Encl.

Renminbi (RMB) Business in Hong Kong

Frequently Asked Questions

Deposit-taking

Q1. Can Participating authorized institutions (Participating AIs) open RMB deposit accounts for any corporate customers?

A1. Yes, Participating AIs can open RMB accounts for any corporate customer according to usual banking practices in Hong Kong. For the avoidance of doubt, the existing requirements on RMB accounts for the category of Designated Business Customers (DBC) remain unchanged, that is, the relevant accounts can only be used for handling RMB cashnotes obtained in the customer's ordinary course of business as a DBC and for RMB bond investments. But such customers can also open other RMB accounts for general purpose.

Q2. Can Participating AIs offer RMB investment products to customers? Can non-AI financial institutions open RMB accounts with Participating AIs to facilitate their offering of RMB denominated investment products to customers?

A2. There is no restriction on the offer of RMB-denominated investment products. In this connection, non-AI financial institutions can open RMB accounts with Participating AIs.

Q3. Can RMB deposits of corporate customers (including DBCs) and personal customers be used as collateral for loans extended in RMB or other currencies?

A3. Yes. However, for non-RMB loans with RMB deposits as collateral, Participating AIs should beware that in the event of default, conversion of the RMB funds available from the RMB collateral into the borrowed currency will have to be subject to restrictions relating to conversion under the Clearing Agreement.

For the avoidance of doubt, RMB lending to personal customers and DBCs is not permissible for the time being.

Currency conversion

Q4. What are the requirements for conducting conversion of RMB for corporate customers?

A4. The open position resulting from the conversion services provided for corporate customers for the following purposes can be squared with the RMB Clearing Bank: cross-border trade settlement up to the amount of the relevant trade transactions settled or to be settled in RMB; RMB trade finance in relation to cross-border trade transactions where customers do not have sufficient RMB for loan repayment; settling expenses relating to RMB bond issuance in Hong Kong; or transactions allowed by Mainland authorities to be ultimately squared by the RMB Clearing Bank in the China Foreign Exchange Trading Centre.

There is no restriction on conversion services provided to corporate customers other than for the purpose mentioned above if Participating AIs do not square the corresponding open position with the Clearing Bank, or if they seek to square such open position with other Participating AIs. In this regard, Participating AIs may be exposed to foreign exchange risk and they should conduct such business (i.e. conversion for corporate customers other than for cross-border trade settlement purposes) in a prudent manner.

For the avoidance of doubt, the existing restrictions on conversion for personal customers and DBCs remain unchanged.

Q5. From an operational perspective, how can a Participating AI ensure that it is in compliance with the requirement that a balanced RMB position should be maintained in respect of personal (including DBC) RMB business?

A5. One way for a Participating AI to demonstrate its compliance with the relevant requirement is that the amount of RMB bought from / sold to the Clearing Bank in relation to personal (and DBC) business during a month does not exceed the amount of RMB conversion with personal and DBC customers.

The existing permitted conversions in relation to personal (and DBC) business are (i) up to RMB20,000 for personal customers conducted through RMB deposit accounts per person per day, up to RMB20,000 per transaction per person in banknotes for walk-in personal customers; (ii) one-way conversion from RMB to other currencies for DBCs.

Q6. Is there any specific time limit for conversion of RMB in relation to cross-border trade settlement transactions?

A6. There is no specific time limit for the conversion of RMB in relation to cross-border trade settlement transactions. Provided that the Participating AI is satisfied that the RMB funds to be acquired by the customer through conversion are for settling a genuine cross-border trade transaction and there is no irregularity in the circumstances, the relevant conversion can be done in advance.

For RMB proceeds from cross-border trade transactions, a customer can maintain such funds in its RMB trade settlement account for any period before converting into another currency. Open position arising from such conversion can still be squared with the Clearing Bank.

Q7. If a corporate customer receives RMB funds from the Mainland that are not related to cross-border trade transactions, can such RMB funds be converted into another currency?

A7. For RMB funds not related to cross-border trade remitted from the Mainland, there is no restriction with respect to the provision of conversion services by Participating AIs if they do not square the corresponding open position with the Clearing Bank, or if they seek to square such open position with other Participating AIs. Participating AIs should exercise care in this regard in managing the associated foreign exchange risk.

Q8. In HKMA's circular on "Renminbi Business in Hong Kong" of 6 July 2009, it was mentioned that Participating AIs should guard against undue accumulation of RMB by Trade Settlement Enterprises. Is there any specific requirement in this regard?

A8. A customer does not have to use up all RMB funds in its RMB account before a conversion can be made for settlement of a cross-border trade transaction or repayment of RMB trade finance. Participating AIs should apply general Know-Your-Customer principles to understand the rationale behind a customer's transactions.

Remittance

Q9. Can RMB funds that do not fulfil the requirements of the RMB trade settlement pilot scheme as announced by the Mainland authorities (or even not relating to trade settlement transactions) be remitted to and from the Mainland? Can such funds be taken from or deposited into RMB accounts of corporate customers?

A9. For remittances to and from the Mainland, it is not necessary for AIs to undertake checking in respect of whether the remitter or recipient (as the case may be) on the Mainland is in compliance with the rules and requirements on the Mainland. That said, Participating AIs should still carry out any other procedures that are necessary under usual banking practices in Hong Kong when processing such transactions, including procedures to guard against potential money laundering activities.

To the extent that such remittances to and from the Mainland are accepted by the banks and authorities on the Mainland, the related funds can be taken from or deposited into the RMB accounts of the customers concerned.

Q10. Can RMB funds be transferred between settlement accounts that a Participating AI has maintained with the Clearing Bank and Mainland Correspondent Bank(s)?

A10. This involves fund transfer to and from the Mainland (or within the Mainland if between two Mainland Correspondent Banks) and thus whether such can be done will be subject to rules and regulations on the Mainland.

Interbank transfers, use of cheques and cash withdrawals

Q11. Can RMB funds be transferred from the account of a corporate customer to another corporate or personal customer, and vice versa?

A11. There is no restriction on the transfer of RMB funds (including cheque payment in Hong Kong) between different customers, whether within the same AI or not.

Q12. Are RMB cash deposits and withdrawals allowed for RMB deposit accounts of corporate customers?

A12. There is no particular restriction on cash deposits and withdrawals for RMB deposit accounts of corporate customers, but Participating AIs should exercise caution when handling cash transactions. It should be satisfied that such cash deposits or withdrawals are reasonable in the context of the customer's ordinary course of business in Hong Kong. There should also be monitoring procedures to guard against potential money-laundering activities.

RMB loans

Q13. Can AIs extend RMB loans to any corporate and personal customer? Is there any restriction on the type of RMB loans that can be extended?

A13. There is no restriction on the type of corporations that can be granted an RMB loan or on the type of RMB loans that can be extended to a corporate customer. However, RMB lending to personal customers and DBCs is not permissible for the time being. As always, AIs should observe prudent credit standards and ensure that the associated RMB liquidity risk is managed properly. AIs should also assess whether the proposed usage of the loan in RMB is legitimate and has economic substance, and whether the borrower has the ability to repay the loan in RMB.

Moreover, RMB loans for customers for use on the Mainland are not precluded, only that the customer concerned will need to obtain the required approval from the relevant Mainland authorities to remit the associated RMB funds to and from the Mainland. Whether the borrower is able to do so may have implications on the usage of the funds and the ability to repay the loan in RMB.

Q14. Can conversion of RMB be conducted for the repayment of RMB trade finance or other loans extended to corporate customers?

A14. Conversion of RMB for the repayment of trade finance can be conducted and the associated open position can be squared with the Clearing Bank.

For other types of loans extended to corporate customers, there is no restriction on conversion services if the Participating AIs do not square the corresponding open position with the Clearing Bank, or if they seek to square the position with other Participating AIs. Participating AIs should exercise care in this regard in managing the associated foreign exchange risk. In addition, if the customer is unable to repay an RMB loan in RMB and the Participating AI has to accept repayment in another currency as a remedial action, it should consider whether this is a default situation that should be appropriately reflected in prudential reporting and internal MIS etc, given the AI should have assessed upfront the customer's repayment ability in RMB (the AI is expected to ascertain the customer's ability to repay the loan in RMB when considering the credit application).

RMB bonds

Q15. Who can invest in RMB bonds issued in Hong Kong?

A15. Any customer with an RMB deposit account maintained with a Participating AI can invest in RMB bonds issued in Hong Kong. Such investors would however have to consider their access to RMB funds.

Q16. Can AIs issue RMB certificate of deposits in Hong Kong?

A16. Yes. In its ongoing supervision the HKMA will assess the RMB funding structure of a Participating AI, such as the extent to which its funding structure comprises different components like customer deposits, certificates of deposits, inter-bank borrowing and bonds issued, etc. The HKMA expects Participating AIs not to place over-reliance on a single source of wholesale RMB funding if the AI does not have a retail deposit base.

Q17. Can proceeds raised from a RMB bond issuance in Hong Kong by a corporate customer be remitted to the Mainland? Can such proceeds be converted into another currency?

A17. There is no restriction on remittance of proceeds raised from a RMB bond issuance in Hong Kong to the Mainland, although the issuer will need to obtain any necessary approval from the relevant Mainland authorities.

As for conversion of RMB, there is no restriction on conversion if the Participating AIs do not square the corresponding open position with the Clearing Bank, or if they seek to square the open position with other Participating AIs.

Q18. Can Participating AIs provide RMB financing to corporate and personal customers for investing in RMB bonds?

A18. Please refer to A13 on RMB lending to corporate customers. RMB lending to personal customers and DBCs is not permissible for the time being.