

Renminbi banking business in Hong Kong

by the Banking Supervision Department

Since the enhancement of renminbi banking business took effect in December 2005, the HKMA has received a number of enquiries on the changes introduced. This memo draws the attention of the banking industry to some major points about the operating procedures of Participating Banks (PBs) as well as the common compliance issues.

Q.1 In relation to renminbi cheque service, there is a restriction stipulated in the Settlement Agreement (SA) that aggregate payments from each renminbi current account do not exceed RMB 80,000 yuan per day. How should PBs apply this limit?

A.1 The RMB 80,000 yuan limit is imposed in part because the present renminbi cheque service is intended to provide Hong Kong ID card holders with an additional means of payment for consumer goods and services in the Guangdong Province (including Shenzhen). Such consumer goods and services shall not include fixed assets or financial assets, and the use of renminbi cheque for settling cross-border trade is also specifically prohibited for the time being. As such, it is expected that the daily payment limit so imposed would be adequate for the bulk of the ordinary consumption transactions.

In practice, the limit should be applied in all of the following aspects:

- Each renminbi cheque should not bear a value exceeding the limit. Any cheque in breach of the limit should be returned to the issuer.
- The balance of each renminbi current account is expected to stay within the limit. Considering the practical difficulty faced by banks in monitoring each renminbi current account on a real-time basis during business hours, it is a minimum requirement that the balance of each renminbi current account at the end of each business day be maintained within the limit. To fulfil this requirement, banks should make appropriate arrangements for monitoring the day-end balance of each account and taking actions to rectify any exceptional case, say, by seeking the renminbi current account owner's consent to transfer the excess funds to another account.
- The total amount paid from each renminbi current account each day through cheque clearing should not exceed the limit, unless the situation specified in Q.2 below is encountered.

Q.2 It is possible that a number of cheques issued on different dates might be presented to a PB on the same day for payment from a renminbi current account. If the value of each cheque is below the limit but the aggregate value of all exceeds the limit, how should PBs handle the situation?

A.2 PBs may decide whether any of the cheques should be returned in liaison with the renminbi current account holder. If PBs choose to clear all the cheques, they have to fulfil all of the following conditions:

- On the basis that provision of credit facilities to customers is prohibited, PBs should ascertain whether the renminbi current account holder has sufficient funds in other accounts and, subject to the latter's prior consent, arrange to transfer the funds to the renminbi current account for settlement of the cheques.
- If a renminbi current account does not have sufficient funds to pay all presented cheques on a specific day (D), PBs should ascertain the situation and complete the above-mentioned arrangement on the following working day (D+1) at the latest. Provided that the PBs can execute the necessary fund transfers on day D+1 to settle the cheques, the temporary negative balance of the renminbi current account created at the end of day D is not regarded as a credit facility provided to the account holder.
- If funds are transferred from other non-renminbi deposit account(s), they have to be converted into renminbi subject to the daily exchange limit for renminbi banking business.

- As the fund transfer arrangements involve additional administrative procedures, it is expected that PBs will charge the renminbi current account holder a handling fee. This will also help deter any intentional breach of the limit. PBs may refer to the recommendation made in the letter issued by the Hong Kong Association of Banks to its members on 10 February 2006 regarding the level and basis of the handling fee to be charged.

Q.3 While PBs are prohibited from granting renminbi-denominated credit facilities, can they accept a pledge of renminbi deposits by customers to secure non-renminbi credit facilities? What are the major considerations in this regard?

A.3 There is no rule explicitly prohibiting PBs from accepting pledge of renminbi deposits as collateral for credit facilities denominated in other currencies. For individual customers, any currency exchange for the purpose of setting off non-renminbi credit exposures would be conducted subject to the exchange limit of RMB 20,000 yuan per person per day.

As Designated Business Customers (DBC) are now eligible to place renminbi deposits with PBs, they may also pledge their renminbi deposits for credit facilities granted to them in other currencies. Unlike individual customers, DBC can conduct one-way currency exchange transaction (i.e. renminbi to Hong Kong dollar) for any amount as long as the renminbi funds are obtained in the course of their designated business activities. Subject to such condition therefore, the conversion of renminbi deposits pledged by DBC for setting off non-renminbi credit exposures is not bound by any daily exchange limit.

Q.4 Can PBs package their renminbi banking products under the scope of the SA with other existing products, say, adding renminbi deposit account into multi-currency deposit account products? What are the major considerations in this regard?

A.4 There is no restriction prohibiting PBs from packaging their renminbi banking products with other products. However, PBs should note that the renminbi products in question are still subject to the limitations and requirements stipulated in the SA. Therefore, PBs should ensure that the relevant products are provided only to eligible customers and that the transactions adhere to the relevant limits. In this connection, PBs should feature the necessary restrictions both in their customer agreements and internal guidelines. Sufficient training should also be provided to staff. Finally, the information about the renminbi products should be captured accurately in PBs' computer systems and their prudential returns filed with the HKMA.

Some banks in Hong Kong have conducted renminbi business even before the establishment of the SA. The current development nevertheless helps to regularise the activities, and forms the basis on which specific products or services denominated in renminbi may be structured. In addition, the clearing bank role created under the SA provides PBs with a reliable source of renminbi for engaging in the relevant transactions and a formal structure for recycling renminbi funds. PBs must be able to clearly distinguish the business that is conducted under the SA and therefore bound by its terms. Mixing this with other renminbi activities may cast doubt on whether a PB is able to effectively manage its renminbi business and maintain full compliance with the relevant requirements stipulated in the SA.

Q.5 What are the non-compliance issues most frequently faced by PBs?

A.5 The HKMA noted that so far the occasional non-compliance incidents were mainly associated with the provision of renminbi banking services to non-eligible customers and breach of the relevant transaction limits prescribed in the SA. Examples include, in particular, the opening of deposit accounts for individual customers without Hong Kong ID cards and the conduct of exchange transactions exceeding applicable limits. These non-compliance issues were primarily due to banks' inadequate monitoring systems and insufficient staff awareness of the relevant restrictions stipulated in the SA. PBs should continue to improve in these aspects with a view to conducting renminbi business in full compliance with the SA.