



HONG KONG MONETARY AUTHORITY  
香港金融管理局

28 April 2023

The Chief Executive

All Hong Kong FX Settlement Banks

Dear Sir/Madam,

**Currency Conversion Arrangement Involving Onshore RMB (CNY) under Northbound Swap Connect**

I am writing to advise you on certain issues relating to the currency conversion activities that your bank may undertake under Swap Connect.

With reference to the Joint Announcement between the People's Bank of China (PBoC), the Securities and Futures Commission of Hong Kong (SFC) and the Hong Kong Monetary Authority (HKMA) on 4 July 2022, Swap Connect is an arrangement that enables overseas and Mainland investors to participate in the financial derivatives markets in the Mainland and Hong Kong through a connection between the infrastructure institutions in both places. In the initial stage, Northbound Trading will commence first, allowing overseas investors to participate in the Mainland interbank financial derivatives market through mutual access between Hong Kong and Mainland infrastructure institutions in respect of trading, clearing and settlement.

Pursuant to the Interim Measures for the Administration of Mutual Access between the Mainland and Hong Kong Interest Rate Swap Markets<sup>1</sup>, investors are allowed to use offshore RMB (CNH) or foreign currencies to invest under Swap Connect. Swap Connect investors using foreign currencies may conduct currency conversion (CNY/FX) with the designated settlement banks in Hong Kong for daily settlements<sup>2</sup> arising from outstanding Northbound interest rate swap contracts (referred to as "daily settlements" hereafter). The said banks may square their positions arising from the aforementioned transactions in the onshore interbank foreign exchange market in accordance with the relevant rules and regulations. In order to maintain access to the onshore interbank foreign exchange market to conduct the permitted position squaring transactions, Hong Kong banks should have proper internal controls in place to ensure compliance with the requirements in this circular and other relevant requirements including those stipulated by Mainland authorities.

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<sup>1</sup> <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4868907/index.html>

<sup>2</sup> Daily settlement types are defined under OTC Clearing Hong Kong Limited Clearing Procedures, available at [https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/OTC-Clear/Clearing-Procedures/Whole\\_OTCP.pdf](https://www.hkex.com.hk/-/media/HKEX-Market/Services/Rules-and-Forms-and-Fees/Rules/OTC-Clear/Clearing-Procedures/Whole_OTCP.pdf).

## Scope

Banks that can offer the CNY conversion service under Swap Connect include the RMB Clearing Bank and overseas RMB participating banks in Hong Kong which have been approved by the Mainland authorities to take part in the onshore interbank foreign exchange market (collectively referred to as “Hong Kong FX Settlement Banks” hereafter). Hong Kong FX Settlement Banks shall only provide the CNY conversion service to investors who have completed the application<sup>3</sup> for the Northbound Swap Connect (referred to as “Investors” hereafter). Hong Kong FX Settlement Banks may refer to Interim Measures for the Administration of Mutual Access between the Mainland and Hong Kong Interest Rate Swap Markets for the detailed investor eligibility requirements).

Each Investor can appoint one Hong Kong FX Settlement Bank to undertake CNY conversion. The Hong Kong FX Settlement Bank must concurrently be the member of the RMB RTGS system that settles all Swap Connect payments for the Investor. Upon the appointment, the Investor should inform the HKMA of its appointment through its Hong Kong FX Settlement Bank.

## Principle

In providing the CNY conversion service, the Hong Kong FX Settlement Banks should ensure that the CNY spot transactions arise from genuine and reasonable needs from Swap Connect investments. In order to ensure continued access to the onshore interbank foreign exchange market, the Hong Kong FX Settlement Banks should ensure compliance with the relevant Mainland regulations, and have proper internal controls in place to monitor the following:

- (i) the eligibility of the Investors using the CNY conversion service;
- (ii) the genuineness and reasonableness of the CNY spot transactions by each Investor; and
- (iii) the CNY converted for the Investors is properly ring-fenced and is only used for settling daily settlements.

## Monitoring Responsibilities

In monitoring the genuineness and reasonableness of the CNY spot transactions, Hong Kong FX Settlement Banks are expected to:

- (i) Obtain confirmation from the Investors that their CNY spot transactions are underpinned by genuine and reasonable Swap Connect investment needs;
- (ii) Maintain ongoing and dynamic oversight of (1) the net amount of CNY conversion conducted by an Investor; and (2) the net remittance<sup>4</sup> to the settlement bank(s) of OTC Clearing Hong Kong Limited (OTC Clear) for settlements daily settlements; and
- (iii) Notify the HKMA if the difference between (1) and (2) exceeds 15% for a period longer than 10 trading days<sup>5</sup>.

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<sup>3</sup> Please refer to the Swap Connect Investors Business Application Form, administrated by Bond Connect Company Limited, for more details.

<sup>4</sup> Including payments to/from OTC Clear resulting from direct debit/credit of investors' relevant nostro accounts by OTC Clear.

<sup>5</sup> Northbound Swap Connect will follow the Mainland calendar. Please refer to OTC Clearing Hong Kong Limited Clearing Procedures, available at <https://www.hkex.com.hk/-/media/HKEX->

## **Reporting Requirements**

The Hong Kong FX Settlement Banks are required to submit to the HKMA the net amount of CNY spot transactions conducted with each Investor on a monthly basis using a reporting template to be distributed to the banks' contact persons for Swap Connect (please refer to "Way Forward" below).

The HKMA will make use of the data collected from the monthly report as well as the settlement data available from OTC Clear to conduct ex post spot checking of the CNY conversion service obtained by Investors via Hong Kong FX Settlement Banks. If any irregularities are found, the HKMA may ask investors to provide supporting documents, through their Hong Kong FX Settlement Banks, to clarify that their CNY spot transactions are conducted based on genuine and reasonable Swap Connect investment needs.

## **Way Forward**

The Hong Kong FX Settlement Banks may start to provide the CNY conversion service after the issuance of this circular and after they have the necessary control and system in place to discharge the abovementioned requirements.

Please nominate a staff member as the contact person in your bank for further communication with the HKMA on matters relating to Swap Connect currency conversion. Please submit relevant details by email to [swapconnect@hkma.gov.hk](mailto:swapconnect@hkma.gov.hk).

The Frequent Asked Questions are provided in Annex. Should you have any question, please contact Ms Tiffany Tang at +852 2878 1909 or Ms Andrea Chen at +852 2597 0605.

Yours faithfully,

Daniel Leong  
Division Head (External)

Encl.

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[Market/Services/Rules-and-Forms-and-Fees/Rules/OTC-Clear/Clearing-Procedures/Whole\\_OTCP.pdf](#)  
for more details.