



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

28 July 2011

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Renminbi (RMB) business – position squaring with the Clearing Bank and net open position

The Hong Kong Monetary Authority (HKMA) has been monitoring the RMB business of authorized institutions (AIs) and assessing the market feedback in this regard, with a view to achieving an orderly development of the business in an environment of controllable risks. Having considered the latest development of this business, it is considered appropriate to introduce some refinements to the existing arrangements regarding position squaring with the RMB Clearing Bank and net open position. These are set out below and shall take effect immediately.

Position squaring with the RMB Clearing Bank

In handling cross-border trade settlement business in RMB, a Participating AI is allowed to consolidate the RMB trade positions of banks outside Hong Kong that are in the same bank group of the AI concerned with its own RMB trade position for the purpose of position squaring with the RMB Clearing Bank on a net basis. “RMB trade positions” in this context refer to RMB positions derived from RMB exchange transactions with customers under the RMB cross-border trade settlement regime that meet the requirements set out in the HKMA circular of 23 December 2010.

A Participating AI that intends to conduct such RMB trade position squaring on a group basis must maintain effective systems and controls to monitor and ensure compliance by the relevant overseas banks with the same requirements on RMB trade positions and position squaring that are applicable to Participating AIs. It is also expected to have access to records of such overseas banks in relation to the computation of the latter’s RMB trade position as well as documentation supporting the underlying cross-border trade transactions. The relevant controls and procedures should form part of the internal guidelines for RMB business of the Participating AI concerned, and the updated guidelines should be submitted to the HKMA within 14 days of the commencement of such activities. Where considered necessary, the HKMA may request for review of such records and documentation which must then be made available within a reasonably short period of time. In its regular reporting

to the HKMA, the Participating AI will be required to show how much trade positions have been taken on from overseas banks for the purpose of position squaring with the RMB Clearing Bank.

RMB net open position

The HKMA circular of 23 December 2010 stipulates that all AIs should restrict their RMB net open position (whether net long or net short) to 10% of the size of their respective RMB balance sheet (i.e. total RMB assets or liabilities whichever is larger, excluding off-balance sheet items). To recap, RMB net open position is the difference between on-balance sheet RMB assets and liabilities, but excluding any RMB structural position (e.g. investment in Mainland subsidiary banks).

Taking into account the enhancements made since the HKMA circular of 23 December 2010 and the latest refinements, the updated arrangement is set out below.

- The principal requirement on RMB net open position remains unchanged, i.e. the net open position should be within 10% of the size of the AI's RMB balance sheet subject to a de minimis exemption of RMB50 million.
- If the net open position exceeds the 10% limit, an AI can exclude its actual amount of investments under the Mainland Qualified Foreign Institutional Investors regime and position arising from RMB bond market-making activities (actual position in the RMB bonds concerned or 15% of the issue size of such bonds if no position maintained).
- The excess can also be offset against any net RMB deliverable forward position in the opposite direction excluding that portion relating to RMB bond market-making activities that has already been taken into account as set out in the preceding point. For the purpose of this refinement, AIs are requested to report their positions in RMB deliverable forwards in the regular reporting to the HKMA. The positions in RMB non-deliverable forwards will also be requested in the reporting but AIs should not mistakenly interpret this as meaning that non-deliverable forwards can be used for offsetting RMB net open position. The relevant reporting requirement will be set out under separate cover.
- If the resulting net open position is still beyond the 10% limit, the AI concerned should approach the HKMA to discuss and justify the mode and scale of its RMB business.

The HKMA will continue to gauge market views on the development of RMB business in Hong Kong, and where appropriate introduce further measures to enhance the smooth operation of this business. It is important to emphasise that the HKMA does not expect any AI to leverage on the above refinements in such a way that may undermine the orderly development of RMB business in Hong Kong and proper risk management by AIs regarding their RMB positions. For instance, Participating AIs should continue to ensure compliance with the requirements in respect of the squaring of trade positions with the RMB Clearing Bank. Supervisory action will be taken

promptly on the AI concerned should irregularities be identified in its conduct of RMB business.

If 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