



HONG KONG MONETARY AUTHORITY  
香港金融管理局

Our Ref.: B1/15C

17 January 2012

The Chief Executive  
All Authorized Institutions

Dear Sir/Madam,

**Adjustments to Renminbi (RMB) Risk Management Limit 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 the business, the HKMA considers it appropriate to introduce certain adjustments to the calculation of RMB risk management limit and RMB net open position. The new requirements in respect of these two supervisory requirements are set out below and shall take effect immediately.

**RMB risk management limit**

The HKMA currently requires each Participating AI to always maintain the sum of RMB cash, settlement account balance with the RMB Clearing Bank and balance maintained in the Fiduciary Account (through the RMB Clearing Bank with the People's Bank of China) at no less than 25% of its RMB customer deposits. In view of the development of RMB sovereign bonds issued in Hong Kong by Mainland China's Ministry of Finance and the market liquidity of RMB bonds traded in the Mainland interbank bond market, the HKMA has decided to allow holdings of these investments to be included in the calculation of the RMB risk management limit.

This means a Participating AI should always maintain a total amount of the following five assets at no less than 25% of its RMB customer deposits.

1. RMB cash;
2. settlement account balance with the RMB Clearing Bank;
3. balance maintained in the Fiduciary Account;
4. holding of RMB sovereign bonds issued in Hong Kong by the Mainland's Ministry of Finance; and

5. holding of RMB bond investment through the Mainland interbank bond market under arrangement as approved by the People's Bank of China.

For the purpose of prudential supervision, Participating AIs are requested to report supplementary information in relation to their RMB risk management limits to the HKMA starting from the position of January 2012 in addition to their regular return reporting on RMB activities. The relevant reporting requirement will be communicated to AIs separately.

### **RMB net open position**

Taking into account AIs' enhanced risk management practices on RMB business and the development of the offshore RMB market in Hong Kong, the HKMA has decided to adjust the limit for RMB net open position to 20% from 10%.

Under the new requirement, all AIs should restrict their RMB net open position (whether net long or net short) to 20% of the size of their respective RMB balance sheet (i.e. total RMB assets or liabilities whichever is larger, excluding off-balance sheet items) subject to a de minimis exemption of RMB50 million. 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). The following adjustments can still be applied if the net open position exceeds the required limit.

1. 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).
2. 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.

If the resulting net open position is still beyond the required limit, the concerned AIs will be requested to justify the mode and scale of their RMB business.

All AIs are reminded that they should continue to adopt prudent measures in managing their foreign exchange and liquidity risk when engaging in RMB activities. The HKMA does not expect any AI to leverage on the new supervisory requirements 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 activities. Supervisory action will be taken promptly on the AI concerned should irregularities be identified in its conduct of RMB business.

Meanwhile, the HKMA is also reviewing the feasibility of expanding the scope for inclusion of RMB assets in the calculation of the prescribed liquidity ratios having regard to the development of the offshore RMB market in Hong Kong. Once the review is completed and adjustments are considered appropriate, the HKMA will issue a separate circular to advise AIs of the outcome as soon as practicable.

If you have any question on this circular, 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