



HONG KONG MONETARY AUTHORITY

香港金融管理局

Our Ref.: B1/15C

14 June 2012

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Renminbi (RMB) risk management limit

The RMB risk management limit¹ (RM limit) was introduced by the Hong Kong Monetary Authority (HKMA) since June 2007 as a tool to ensure authorized institutions (AIs) maintain an appropriate level of liquid assets to meet the withdrawal of RMB deposits by customers. In view of the developments of RMB business in Hong Kong resulting in enhanced convertibility of RMB and availability of greater variety of RMB denominated liquid assets, the HKMA has recently reviewed whether the RM limit remains appropriate.

In line with the enhanced treatment of RMB in the calculation of statutory liquidity ratio announced in February this year, the HKMA has decided to replace the RM limit with a RMB liquidity ratio for monitoring AIs' RMB liquidity position. With immediate effect, AIs are required to maintain a RMB liquidity ratio at no less than 25%, computed on the same basis as the statutory liquidity ratio. It is considered that the use of the RMB liquidity ratio will provide more flexibility for the inclusion of more RMB liquid assets than those of the RM limit and facilitate more accurate matching of maturity of RMB liquid assets and short term liabilities.

Notwithstanding the above change, AIs 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 revised 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.

¹ A Participating AI should always maintain a total amount of the following five assets at no less than 25% of its RMB customer deposits.

- i. RMB cash;
- ii. settlement account balance with the RMB Clearing Bank;
- iii. balance maintained in the Fiduciary Account;
- iv. holding of RMB sovereign bonds issued in Hong Kong by the Mainland's Ministry of Finance; and
- v. holding of RMB bond investment through the Mainland interbank bond market under arrangement as approved by the People's Bank of China.

The HKMA will notify all AIs of the relevant reporting requirements under separate cover. 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