

Renminbi banking business in Hong Kong

By the Banking Supervision Department

The scope of renminbi banking business operated by the Participating Banks (PBs) has been expanded since June 2007, as qualified Mainland financial institutions are allowed to issue renminbi bonds in Hong Kong. During the past few months, the HKMA has received enquiries on the relevant supervisory requirements set out in the HKMA circular of 20 June 2007 regarding the PBs' management of the new renminbi business. This memo aims to address the main enquiries.

Q.1 Pursuant to the Settlement Agreement between the Renminbi Clearing Bank (CB) and the PBs, the PBs are allowed to provide the services of renminbi cheque clearing and interbank transfer of renminbi funds to eligible customers for the subscription, acquisition and disposal of renminbi bonds in Hong Kong. How are the PBs expected to check the customer's purpose in using the relevant services?

A.1 Currently, a renminbi deposit account holder can use renminbi cheque (if he has renminbi current account) and interbank fund transfer in Hong Kong to settle payments for the subscription of renminbi bonds in the primary market or purchase such bonds from the PBs in the secondary market. An eligible customer is also allowed to transfer renminbi funds between his own accounts at different PBs or write renminbi cheques in favour of himself to pool his renminbi funds into one deposit account to subscribe for or purchase renminbi bonds.

As the above-mentioned services of renminbi cheque clearing and interbank fund transfer can only be used by eligible customers of the PBs

for the designated purposes, the PBs providing these services should establish appropriate procedures to avoid misuse of the services.

Specifically:

- The PBs should state clearly in the relevant service agreements (or equivalent documents) that the above-mentioned services can only be used by eligible customers for the designated purposes. The staff of the PBs should also remind their customers of the relevant restrictions as appropriate when they process the customers' instructions for the subscription or purchase of renminbi bonds.
- In processing renminbi cheque clearing or interbank fund transfer initiated by customers, the PBs (particularly the paying banks) must adopt effective measures to verify that the cheque payee or beneficiary of the fund transfer is either a PB¹ (or a nominee company representing the PB to handle customers' subscription funds during a renminbi bond offering) or the customer himself.

¹ All PBs are included in the "List of Renminbi Clearing Members" shown in the official website of Hong Kong Interbank Clearing Limited (www.hkicl.com.hk)

In addition, the PBs should try their best to check whether the renminbi cheques or interbank transfers are related to renminbi bond transactions. The following points should be noted by the PBs:

- Payee banks are expected to shoulder a bigger responsibility for checking whether the renminbi cheques and interbank funds received are related to renminbi bond transactions. As a payee bank is usually involved in the renminbi bond transactions relevant to such fund movements (e.g. as a receiving bank in a renminbi bond public offering or an intermediary purchasing renminbi bonds in the secondary market on behalf of its customer), it should have sufficient information to conduct the checking.
- It is difficult for the paying banks to monitor the purpose of issuing renminbi cheques by their customers. However, in relation to interbank transfer of renminbi funds, the paying banks should at least require their customers to sign off the interbank fund transfer instruction form regarding the purpose of such transfer.

Q.2 As renminbi cheques can be used in Guangdong Province (including Shenzhen) for settling consumer expenditure and in Hong Kong for renminbi bond transactions, how should the PBs apply the daily limit of RMB80,000 when they process renminbi cheque clearing?

- A.2 The daily clearing limit of RMB80,000 applies only to renminbi cheques used in Guangdong Province (including Shenzhen) for settling consumer expenditure. If the daily clearing amount of these renminbi cheques exceeds the daily limit, the excess amount should be subject to a handling charge².

The renminbi cheques used in Hong Kong for renminbi bond transactions are not subject to any daily clearing limit. The clearing of these cheques up to any amount is not subject to handling charge so long as the customer concerned has sufficient renminbi funds in his accounts to settle the cheque payments.

In order to apply the daily clearing limit to renminbi cheques used in Guangdong, the PBs should establish effective arrangements to handle the two categories of renminbi cheques separately. In practice, renminbi cheques used in Guangdong will be presented by Mainland clearing houses to the CB and further to the PBs via Hong Kong Interbank Clearing Limited (HKICL). Renminbi cheques used in Hong Kong will be presented by the PBs (receiving banks) to other PBs (paying banks) via HKICL. The PBs should therefore be able to distinguish and process the two categories of renminbi cheques accordingly³. They should also refer to the guidelines issued by HKICL from time to time⁴.

² The detailed requirements on procedures for clearing renminbi cheques used in Guangdong and the imposition of handling charges have been explained in the Supervisor's Memo on renminbi banking business in the September 2006 Issue of the HKMA Quarterly Bulletin.

³ The PBs should be able to distinguish the two categories of renminbi cheques from the presenting bank's clearing code stamped on the cheques. For example, the cheques from Guangdong Province will show the CB's specific code of "838".

⁴ For example: "Renminbi Clearing Operating Procedures for Paper Clearing System" issued by HKICL in June 2007.

Q.3 What is the reason for requiring the PBs to maintain renminbi cash plus placements with the CB at a level no less than 25% of their respective renminbi deposits? If a PB does not conduct renminbi bond transactions, can it be exempted from this requirement?

A.3 While the PBs are allowed to invest in renminbi bonds for diversifying their renminbi asset portfolio, it is crucial for the PBs to maintain adequate renminbi liquidity to meet withdrawals of renminbi deposits particularly when the renminbi bond secondary market is not yet very active and the renminbi funding source available to the PBs is still limited. Because of this, the HKMA requires each PB (regardless of whether it is engaged in renminbi bond transactions) to always maintain the said ratio at 25% or above.