

Cross-border trade settlement in renminbi

by the Banking Supervision Department

The HKMA has been receiving enquiries from authorized institutions (AIs) since the commencement of the pilot scheme for cross-border trade settlement in renminbi (the Pilot Scheme) in early July. This Supervisor's Memo aims to clarify certain issues about the Pilot Scheme.¹

Q.1 Are Participating AIs expected to conduct compliance checking to ensure that the Mainland enterprises that their customers are dealing with are eligible for the Pilot Scheme? How do they do that?

A.1 Mainland enterprises eligible for the Pilot Scheme are designated by the Mainland authorities. On 20 August 2009 the Clearing Bank had distributed a list of designated Mainland enterprises to AIs which have executed the "Agreement for Clearing and Settlement of Renminbi Trade Settlement Business" with the Clearing Bank. Banks on the Mainland should also have obtained the list from the Mainland authorities. Participating AIs that have not executed the agreement with the Clearing Bank should obtain the list from their Mainland Correspondent Banks (MCBs). Participating AIs are expected to implement reasonable procedures to ascertain that their customers are dealing with Mainland enterprises eligible for the Pilot Scheme.

Q.2 If Participating AIs intend to execute an agreement with MCBs (but not the Clearing Bank) for conducting renminbi trade settlement, what are the major issues that require their special attention?

A.2 These Participating AIs should at least be aware of the following issues:

- Under the current arrangement, MCBs will not provide renminbi banknotes to Participating AIs. The AIs should therefore manage their banknote positions carefully. If they intend to impose restrictions on renminbi banknote withdrawal by depositors (i.e. the trade settlement customers under the Pilot Scheme), they should inform the depositors (and potential depositors) of such restrictions before the opening of deposit accounts.
- Apart from cross-border renminbi transactions in relation to trade settlement, the renminbi settlement accounts opened by participating AIs with the Clearing Bank are also used for settling renminbi transactions such as cheque clearing, interbank fund transfer and money market deals via the Renminbi Real Time Gross Settlement system (RMB RTGS system) in Hong Kong. Participating AIs without a renminbi settlement account opened with the Clearing Bank will therefore not be able to conduct these transactions even if they are otherwise eligible.

¹ Recently, the Clearing Bank for renminbi business has also distributed a list of Q&As on the Pilot Scheme to AIs using its clearing services. AIs should therefore refer to the Q&As when they conduct business under the Pilot Scheme.

Q.3 Can two Participating AIs settle their interbank renminbi funding transactions through their settlement accounts opened with the same MCB instead of going through the RMB RTGS system in Hong Kong?

A.3 As the proposed arrangement involves an MCB located on the Mainland, the key is to ascertain whether it is in compliance with the applicable statutory and regulatory requirements on the Mainland. Participating AIs should discuss with the relevant MCB or the Mainland authorities.

Q.4 Can Participating AIs conduct renminbi interbank transactions with banks in the ASEAN member countries and Macau, considering that these banks are also eligible for conducting cross-border trade settlement in renminbi?

A.4 Interbank transactions are permissible under the settlement agreement between the Clearing Bank and Participating AIs. Banks in the ASEAN member countries and Macau may also enter into the same agreement with the Clearing Bank. Participating AIs can therefore, in principle, conduct interbank transactions (to be settled and cleared through the Clearing Bank) with these banks. These transactions are, however, subject to the applicable statutory and regulatory requirements in the relevant overseas jurisdictions. Participating AIs should also be mindful of their counterparties' creditworthiness, particularly their ability to repay renminbi liabilities.