13 Dec 2005

Personal Renminbi Business in Hong Kong

Our Ref: B1/15C

13 December 2005

The Chief Executive
All Licensed Banks

Dear Sir / Madam,

Personal Renminbi Business in Hong Kong

The People's Bank of China ("PBoC") announced on 1 November 2005 that, with the approval of the State Council, it would provide clearing arrangements for banks in Hong Kong in new/expanded areas of personal Renminbi business. This circular sets out the HKMA's guidance to banks on the major supervisory issues arising from such development, and shall be read in conjunction with our circular of 5 February 2004 on the subject.

New Scope of Personal RMB Business

As a result of the announcement by the PBoC, the personal RMB business conducted by Participating Banks is enhanced as follows:

1. The transaction limits applicable to RMB exchange and remittance services offered by Participating Banks to Hong Kong residents are relaxed, from RMB6,000 to RMB20,000 and from RMB 50,000 to RMB80,000 respectively.

2. The maximum credit limit of RMB100,000 previously imposed on RMB credit cards is lifted.

3. Designated Business Customers ("DBC") are allowed to open RMB deposit accounts, in addition to the existing one-way exchange business from RMB to Hong Kong dollars. Their RMB deposits can be exchanged to Hong Kong dollars but not the other way round. The definition of DBC is expanded from the original three business categories (i.e. retail, catering and accommodation) to a total of seven categories covering also transportation, communication, medical and education.

4. Participating Banks are allowed to open RMB current accounts for Hong Kong Identity Card holders to make payments for consumer spending in Guangdong Province (including Shenzhen) by cheques, subject to a daily limit of RMB80,000 per account. Only one RMB current account could be opened for each customer by a Participating Bank.

Participating Banks may provide the enhanced services mentioned under items 1 to 3 above immediately after executing a new "Agreement for Settlement of Renminbi Banking Business in Hong Kong" ("Settlement Agreement") with the Clearing Bank. They may also provide the RMB current account service mentioned under item 4 after becoming a direct participant of the new RMB Settlement System ("RSS"), which will be established by Hong Kong Interbank Clearing Limited ("HKICL") tentatively in March 2006. The Clearing Bank and HKICL had elaborated on the enhanced personal RMB business, the functions of the RSS and the relevant technical issues to licensed banks in a briefing session held on 22 November 2005 and the notes issued subsequently.

Internal Controls

The HKMA has always required Participating Banks to carefully conduct their personal RMB business. It is imperative that Participating Banks put in place proper internal control systems to ensure compliance with the terms under the Settlement Agreement and manage the relevant risks. In this connection, Participating Banks should ensure that they have a clear understanding of the terms in the new agreement and their contractual obligations stipulated therein.

Participating Banks should modify their internal control systems, policies and procedures to cope with the enhanced RMB business. As always, Participating Banks should deploy proper resources, including adequate logistical support and competent staff, to ensure smooth operation of their personal RMB business. Similar to the previous arrangement, the new Settlement Agreement provides that each Participating Bank should file a copy of its internal guidelines for personal RMB business with the HKMA, which will then make a copy available to the PBoC for record. In this connection, Participating Banks should revise their internal guidelines in the light of the latest changes and file the revised guidelines with us no later than the first week of January 2006 if they have already executed the new Settlement Agreement with the Clearing Bank. Other Participating Banks should file their revised internal guidelines with the HKMA no later than three weeks after executing the new Settlement Agreement. Since RMB current account service will not be available until some time next year, this part does not need to be covered in the revised internal guidelines at this stage. Participating Banks should however file with the HKMA their guidelines on RMB current account operations before the service is launched.

Designated Business Customers

With more business categories falling under the definition of DBC and the extension of deposit service to the latter group, Participating Banks are reminded to put in place adequate procedures to properly ascertain whether a business entity falls under the defined business categories. They should continually monitor the transactions of DBC to guard against potential money laundering activities. In particular, Participating Banks should check whether the volume and amount of RMB deposits of DBC are in line with the nature and expected scale of their normal course of business. Participating Banks should also note that DBC can only deposit RMB banknotes, being receipts from their designated business activities, and that transfer of RMB funds by DBC is only allowed between the RMB accounts of the same customer in the same Participating Bank. Proper "Know Your Customer" procedures as well as account monitoring procedures should be implemented to ensure that the relevant requirements are met.

A related issue is that of counterfeit RMB banknotes. An expanded deposit service calls for more training to be provided to bank staff in identifying counterfeit banknotes. Participating Banks should ensure that their staff are kept abreast of anti-counterfeit RMB banknote features and are arranged to participate in the relevant seminars and market education activities that may be sponsored by the Clearing Bank from time to time.

Participation in RMB Settlement System

The Settlement Agreement provides that each Participating Bank must enter into an agreement with the HKICL to become a direct participant in the RSS when it is in place. This is regardless of whether a Participating Bank intends to offer RMB current account service. Participating Banks should therefore take prompt actions in accordance with the advice given by the HKICL and the Clearing Bank in order to prepare for participation in the RSS.

RMB Current Account

As RMB current account is a new scope of business, Participating Banks should pay special attention to the relevant provisions of the Settlement Agreement. In particular, the Settlement Agreement provides that the terms and conditions of RMB current accounts shall contain provisions that endeavour to ensure the aggregate payments from each of such account do not exceed RMB80,000 per day. Given such a limitation, Participating Banks should adopt the following measures:

a. Any one cheque exceeding RMB80,000 drawn on an RMB current account should be bounced.

b. To facilitate the enforcement of the daily limit on aggregate payments, Participating Banks are expected to put in place a cap of RMB80,000 on the day-end balance of each RMB current account. Any excess amount should be transferred to another account designated by the customer.

c. Proper internal policies and procedures should be established to deal with the situation where, beyond the account-holder's control, a number of cheques drawing on the same RMB current account are received on a particular day that in aggregate exceed the RMB80,000 cap. It should be noted that no overdraft facility is allowed on RMB current accounts. If it is the intention of the Participating Bank not to have the cheques bounced, it must seek the account-holder's prior consent to transfer funds from his/her other accounts to cover the shortfall and this fund transfer must be completed within the next working day. As a deterrent to the account-holder exceeding the cap intentionally, Participating Banks should impose a handling fee on the customer for the fund transfer, e.g. as a percentage of the amount exceeding RMB80,000.

d. Transactions of RMB current accounts should be monitored with diligence. Where there are signs that the fund transfer arrangement mentioned in (c) above may have been abused by a customer so as to deliberately exceed the daily cap, appropriate actions should be taken such as consideration given to terminating the relevant account.

e. Proper account opening documents should be put in place and there should be clear explanations provided by staff so that each customer opening an RMB current account is fully aware of how the daily cap of RMB80,000 functions. All charges that may be involved under different scenarios must be made known to customers at the outset.

Credit Card

With the lifting of the maximum credit limit of RMB100,000 on each RMB credit card, Participating Banks are free to establish credit limits for RMB credit cards issued by them. They should ensure that this is done in line with their usual credit policies and procedures under consumer banking or credit card business.

Open Position Limit

Under the existing arrangement, each Participating Bank is allowed to maintain its RMB open position within the Open Position Limit approved by the PBoC on a case-by-case basis. With the changes in the scope of RMB business, Participating Banks may wish to apply to the PBoC through the Clearing Bank for revising such Limit. As provided in the Settlement Agreement, the PBoC may revise the Open Position Limit of a Participating Bank in consultation with the HKMA in the light of the actual circumstances of the Participating Bank concerned. To enable the HKMA to advise the PBoC on this matter, each Participating Bank that applies for a revision of its limit should provide to the HKMA a copy of its application to the PBoC submitted through the Clearing Bank.

Prudential Return

As a result of the changes introduced to RMB business, the "Return of Renminbi Business Activities" (MA(BS)16) currently filed by all licensed banks to the HKMA is under revision. We intend to introduce a revised return only after full implementation of the new scope of business, i.e. including the introduction of RMB current accounts. In the meantime we will be seeking supplementary information on the expanded scope of service of Participating Banks in the form of a spreadsheet template. The detailed arrangements will be discussed under separate cover.

The current enhancement is an important development in personal RMB business. Participating Banks should continue to conduct this line of business in a prudent manner and to ensure compliance with the requirements laid down in the new Settlement Agreement. The HKMA will continue to monitor the situation in the course of its on-site and off-site supervision of Participating Banks.

Should you have any question on this letter, please feel free to contact Mr Thomas Wong (tel. no.: 2878-1553) or your usual supervisory contact at the HKMA.

Yours faithfully,

Arthur Yuen
Executive Director
(Banking Supervision)

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