



HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

11 Feb 2010

Elucidation of Supervisory Principles and Operational Arrangements Regarding Renminbi Business in Hong Kong

Our Ref.: B1/15C

11 February 2010

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Elucidation of Supervisory Principles and Operational Arrangements Regarding Renminbi Business in Hong Kong

Since its commencement in July 2009, the business of cross-border trade settlement in renminbi (RMB) has been developing steadily. There has been a gradual increase of the demand by customers for RMB-denominated financial services, while the banking industry has also deepened its understanding of the policy framework as set out by the Mainland's Administrative Rules for the Pilot Scheme ("Administrative Rules") on RMB cross-border trade settlement and the relevant Clearing Agreement. In accordance with the Administrative Rules and the Clearing Agreement and having regard to the views of the industry, the Hong Kong Monetary Authority (HKMA) has undertaken a review on how to simplify the operational procedures to increase the flexibility in developing diversified RMB-denominated financial services within the existing policy framework. The purpose of this Circular is to provide an elucidation by the HKMA on the supervisory principles and the operational arrangements regarding the cross-border fund flows of RMB and the development of RMB Business in Hong Kong.

Supervisory Principles for Cross-border Flows of RMB Funds

2. The guiding principles for the supervisory arrangements for RMB trade settlement transactions and other RMB businesses are as follows:-

- (i) Cross-border flows of RMB funds into and out of the Mainland should comply with the rules and requirements in the Mainland. The Mainland Authorities and banks are responsible for verifying whether transactions undertaken by the Mainland counterparts are in compliance with the relevant rules and requirements in the Mainland, while participating Authorized Institutions (Participating AIs) in Hong Kong will process the RMB transactions in accordance with the usual banking practices in Hong Kong.

- (ii) With regard to the RMB funds that have flowed into Hong Kong, Participating Als can develop RMB businesses based on the regulatory requirements and market conditions in Hong Kong, as long as these businesses do not entail the flow of RMB funds back to the Mainland. In other words, apart from those restrictions mentioned in paragraph 3 below, Participating Als can conduct RMB businesses in accordance with the prevailing banking practices applicable to the businesses conducted in other foreign currencies.

Operational Arrangements

3. Specifically, the above two supervisory principles will be applied to the day-to-day operations of Participating Als in the following manner:-

- (i) Deposit-taking: Participating Als can open RMB deposit accounts for corporate customers to conduct trade settlement transactions in accordance with the usual requirements in Hong Kong, including anti-money laundering requirements. The opening of RMB deposit accounts for individuals and Designated Business Customers continue to be subject to the relevant requirements of the Clearing Agreement. Participating Als and their customers can determine the use of their RMB funds as long as it does not involve the flow of these funds back to the Mainland.
- (ii) Conversion: Participating Als should continue to conduct RMB conversions against other currencies in accordance with the existing requirements.
- (iii) Remittance: RMB remittances to and out of the Mainland must comply with the rules and requirements stipulated by the Mainland Authorities. Whether the transactions undertaken by the Mainland counterparts are in compliance with the relevant rules and requirements are to be verified by the Mainland Authorities and banks. Nevertheless, Participating Als should remain vigilant, and make enquiries with customers as necessary, so as to guard against money laundering or other activities that violate Hong Kong or overseas laws and regulations.
- (iv) Lending: When extending RMB loans or financing to corporate customers, Participating Als should observe prudent credit standards and ensure that the associated RMB liquidity risk is managed properly.
- (v) RMB bonds: The range of eligible issuers, issue arrangements and target investors can be determined in accordance with the applicable regulations and market conditions in Hong Kong. Participating Als can also provide their customers with related services such as account-opening, bond trading, custodial and financing in accordance with usual banking practices in Hong Kong. Bond issuance by Mainland entities will continue to be governed by the relevant regulations and requirements in the Mainland.
- (vi) Cheque and credit card services: Participating Als can offer these services to corporate customers in accordance with usual banking practices in Hong Kong. If cross-border payments are involved, the offer of these services must satisfy the relevant requirements stipulated by the Mainland Authorities.

4. The HKMA will conduct a briefing for the banking industry very shortly to explain the supervisory principles and operational arrangements set out in this Circular. If there is any question, please feel free to contact Mr. Stephen Wan at 2878 8166.

Yours faithfully,

Norman T.L. Chan
Chief Executive

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