



Circulars

30 Mar 2006

Personal Renminbi ("RMB") Business

Our Ref: B1/15C

30 March 2006

The Chief Executive
All Licensed Banks

Dear Sir/Madam,

Personal Renminbi ("RMB") Business

The HKMA has recently completed a round of on-site examinations covering 18 selected Participating Banks ("PBs") in personal RMB business. The objective of this exercise is to assess the PBs' compliance with the "Agreement for Settlement of Personal Renminbi Business in Hong Kong" ("Settlement Agreement") signed between the Clearing Bank and individual PBs, as well as the effectiveness of their controls to guard against RMB money laundering activities. The examinations covered the previous scope of personal RMB business rather than the expanded business announced by the HKMA in its circular of 13 December 2005.

Overall, the HKMA is satisfied that the PBs examined were in compliance with the personal RMB business restrictions. Their internal compliance systems as well as controls for the prevention of money laundering activities were largely effective. It is noted that PBs with effective systems and sound practices have maintained a relatively high level of compliance with the business restrictions and performed well in combating money laundering activities. To help PBs enhance their performance in this regard, some good practices adopted by PBs and some common issues identified during the on-site examinations are set out below for your reference

- a. The Settlement Agreement specified certain upper limits for RMB exchange and remittance transactions. Many PBs adopt a system that blocks automatically the processing of transactions with amount above the applicable limit. This is an effective tool as the PBs concerned showed a very high level of adherence to the limits.
- b. Under the Settlement Agreement, PBs should only open RMB deposit accounts for individuals with Hong Kong identity card. A number of PBs have adjusted their account opening system to block the opening of RMB accounts when the customer's Hong Kong identity card number is not entered into the system. This has shown to be effective as the PBs concerned have no record of non-compliance with the requirement. On the contrary, PBs adopting other systems, including mainly manual operation and automated system with pop-up messages on computer screen to alert front line staff

that a Hong Kong identity card number is required, had recorded some occasional incidences of violating this restriction.

- c. Under the Settlement Agreement, PBs may provide one-way exchange service (i.e. RMB into Hong Kong Dollar) to designated commercial establishments, i.e. Designated Business Customers ("DBC"). They are expected to conduct regular reviews to ascertain that the DBCs continue to fall within the designated business categories. Certain weaknesses were identified by the HKMA in this area. It was found that a PB had provided exchange service to non-DBCs and also exchanged Hong Kong Dollars for RMB for some DBCs. Some PBs did not conduct review of DBCs in a timely and comprehensive manner, while a PB did not conduct any review of DBCs that had not been granted credit facilities. These PBs have been required to strengthen their internal systems and procedures to ensure compliance with the requirements relating to DBCs. It has to be emphasised that controls in this regard is even more important with the expanded business scope announced in December 2005 since DBCs are now allowed to open RMB deposit accounts with PBs.
- d. In respect of the detection of suspicious RMB transactions, the HKMA found that the transaction thresholds set by many PBs are rather high. PBs should note that under the current scope of personal RMB business the size of transactions is usually small, particularly for non-DBCs. They should therefore take into account the nature of this business and the trend of the transactions in setting the relevant thresholds. PBs should also bear in mind that different thresholds may be necessary for individual customers and DBCs.
- e. The HKMA found that some personal customers had withdrawn RMB banknotes from PBs to such a large amount that did not appear to be for personal use or was otherwise not commensurate with the nature of their trade or profession. The PBs however did not have the appropriate measures to detect such situation for the purpose of prevention of irregularities.
- f. Some PBs had not reported the incidents of their violation of the personal RMB business restrictions to the Clearing Bank. PBs should note that such reporting to the Clearing Bank is required under the Settlement Agreement. Adequate compliance training must be provided to the front line staff in this regard.

The issues mentioned above remain relevant under the expanded personal RMB business. All PBs as well as other licensed banks who intend to become PBs are encouraged to take into account these good practices and common issues in their regular review of the business or preparation for such business. The HKMA will conduct another round of on-site examinations later in the year to cover the expanded personal RMB business.

Should you have any question on the above, please do not hesitate to approach your usual contact in the Banking Supervision Department.

Yours faithfully,

Arthur Yuen
Executive Director
(Banking Supervision)

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