Renminbi (RMB) Business in Hong Kong

<u>Frequently Asked Questions</u>

Deposit-taking

Q1. Can Participating authorized institutions (Participating AIs) open RMB deposit accounts for any corporate customers?

A1. Yes, Participating AIs can open RMB accounts for any corporate customer according to usual banking practices in Hong Kong. For the avoidance of doubt, the existing requirements on RMB accounts for the category of Designated Business Customers (DBCs) remain unchanged, that is, the relevant accounts can only be used for handling RMB cashnotes obtained in the customer's ordinary course of business as a DBC and for RMB bond investments. But such customers can also open other RMB accounts for general purpose.

Q2. Can Participating AIs offer RMB investment products to customers? Can non-AI financial institutions open RMB accounts with Participating AIs to facilitate their offering of RMB denominated investment products to customers?

A2. There is no restriction on the offer of RMB-denominated investment products. In this connection, non-AI financial institutions can open RMB accounts with Participating AIs.

Q3. Can RMB deposits of corporate customers (including DBCs) and personal customers be used as collateral for loans extended in RMB or other currencies?

A3. Yes. However, for non-RMB loans with RMB deposits as collateral, Participating AIs should beware that in the event of default, conversion of the RMB funds available from the RMB collateral into the borrowed currency will have to be subject to restrictions relating to conversion under the Clearing Agreement.

For the avoidance of doubt, RMB lending to personal customers and DBCs is not permissible for the time being.

Currency conversion

Q4. What are the requirements for conducting conversion of RMB for corporate customers?

A4. The open position resulting from the conversion services provided for corporate customers for the following purposes can be squared with the RMB Clearing Bank: cross-border trade settlement up to the amount of the relevant trade transactions settled or to be settled in RMB; RMB trade finance in relation to cross-border trade transactions where customers do not have sufficient RMB for loan repayment; settling expenses relating to RMB bond issuance in Hong Kong; or transactions allowed by Mainland authorities to be ultimately squared by the RMB Clearing Bank in the China Foreign Exchange Trading Centre.

There is no restriction on conversion services provided to corporate customers other than for the purpose mentioned above if Participating AIs do not square the corresponding open position with the Clearing Bank, or if they seek to square such open position with other Participating AIs. In this regard, Participating AIs may be exposed to foreign exchange risk and they should conduct such business (i.e. conversion for corporate customers other than for cross-border trade settlement purposes) in a prudent manner.

For the avoidance of doubt, the existing restrictions on conversion for personal customers and DBCs remain unchanged.

Q5. From an operational perspective, how can a Participating AI ensure that it is in compliance with the requirement that a balanced RMB position should be maintained in respect of personal (including DBC) RMB business?

A5. One way for a Participating AI to demonstrate its compliance with the relevant requirement is that the amount of RMB bought from / sold to the Clearing Bank in relation to personal (and DBC) business during a month does not exceed the amount of RMB conversion with personal and DBC customers.

The existing permitted conversions in relation to personal (and DBC) business are (i) up to RMB20,000 for personal customers conducted through RMB deposit accounts per person per day, up to RMB20,000 per transaction per person in banknotes for walk-in personal customers; (ii) one-way conversion from RMB to other currencies for DBCs.

Q6. Is there any specific time limit for conversion of RMB in relation to cross-border trade settlement transactions?

A6. There is no specific time limit for the conversion of RMB in relation to cross-border trade settlement transactions. Provided that the Participating AI is satisfied that the RMB funds to be acquired by the customer through conversion are for settling a genuine cross-border trade transaction and there is no irregularity in the circumstances, the relevant conversion can be done in advance.

For RMB proceeds from cross-border trade transactions, a customer can maintain such funds in its RMB trade settlement account for any period before converting into another currency. Open position arising from such conversion can still be squared with the Clearing Bank.

Q7. If a corporate customer receives RMB funds from the Mainland that are not related to cross-border trade transactions, can such RMB funds be converted into another currency?

A7. For RMB funds not related to cross-border trade remitted from the Mainland, there is no restriction with respect to the provision of conversion services by Participating AIs if they do not square the corresponding open position with the Clearing Bank, or if they seek to square such open position with other Participating AIs. Participating AIs should exercise care in this regard in managing the associated foreign exchange risk.

Q8. In HKMA's circular on "Renminbi Business in Hong Kong" of 6 July 2009, it was mentioned that Participating AIs should guard against undue accumulation of RMB by Trade Settlement Enterprises. Is there any specific requirement in this regard?

A8. A customer does not have to use up all RMB funds in its RMB account before a conversion can be made for settlement of a cross-border trade transaction or repayment of RMB trade finance. Participating AIs should apply general Know-Your-Customer principles to understand the rationale behind a customer's transactions.

Remittance

Q9. Can RMB funds that do not fulfil the requirements of the RMB trade settlement pilot scheme as announced by the Mainland authorities (or even not relating to trade settlement transactions) be remitted to and from the Mainland? Can such funds be taken from or deposited into RMB accounts of corporate customers?

A9. For remittances to and from the Mainland, it is not necessary for AIs to undertake checking in respect of whether the remitter or recipient (as the case may be) on the Mainland is in compliance with the rules and requirements on the Mainland. That said, Participating AIs should still carry out any other procedures that are necessary under usual banking practices in Hong Kong when processing such transactions, including procedures to guard against potential money laundering activities.

To the extent that such remittances to and from the Mainland are accepted by the banks and authorities on the Mainland, the related funds can be taken from or deposited into the RMB accounts of the customers concerned.

Q10. Can RMB funds be transferred between settlement accounts that a Participating AI has maintained with the Clearing Bank and Mainland Correspondent Bank(s)?

A10. This involves fund transfer to and from the Mainland (or within the Mainland if between two Mainland Correspondent Banks) and thus whether such can be done will be subject to rules and regulations on the Mainland.

Interbank transfers, use of cheques and cash withdrawals

Q11. Can RMB funds be transferred from the account of a corporate customer to another corporate or personal customer, and vice versa?

A11. There is no restriction on the transfer of RMB funds (including cheque payment in Hong Kong) between different customers, whether within the same AI or not.

Q12. Are RMB cash deposits and withdrawals allowed for RMB deposit accounts of corporate customers?

A12. There is no particular restriction on cash deposits and withdrawals for RMB deposit accounts of corporate customers, but Participating AIs should exercise caution when handling cash transactions. It should be satisfied that such cash deposits or withdrawals are reasonable in the context of the customer’s ordinary course of business in Hong Kong. There should also be monitoring procedures to guard against potential money-laundering activities.

RMB loans

Q13. Can AIs extend RMB loans to any corporate and personal customer? Is there any restriction on the type of RMB loans that can be extended?

A13. There is no restriction on the type of corporations that can be granted an RMB loan or on the type of RMB loans that can be extended to a corporate customer. However, RMB lending to personal customers and DBCs is not permissible for the time being. As always, AIs should observe prudent credit standards and ensure that the associated RMB liquidity risk is managed properly. AIs should also assess whether the proposed usage of the loan in RMB is legitimate and has economic substance, and whether the borrower has the ability to repay the loan in RMB.

Moreover, RMB loans for customers for use on the Mainland are not precluded, only that the customer concerned will need to obtain the required approval from the relevant Mainland authorities to remit the associated RMB funds to and from the Mainland. Whether the borrower is able to do so may have implications on the usage of the funds and the ability to repay the loan in RMB.

Q14. Can conversion of RMB be conducted for the repayment of RMB trade finance or other loans extended to corporate customers?

A14. Conversion of RMB for the repayment of trade finance can be conducted and the associated open position can be squared with the Clearing Bank.

For other types of loans extended to corporate customers, there is no restriction on conversion services if the Participating AIs do not square the corresponding open position with the Clearing Bank, or if they seek to square the position with other Participating AIs. Participating AIs should exercise care in this regard in managing the associated foreign exchange risk. In addition, if the customer is unable to repay an RMB loan in RMB and the Participating AI has to accept repayment in another currency as a remedial action, it should consider whether this is a default situation that should be appropriately reflected in prudential reporting and internal MIS etc, given the AI should have assessed upfront the customer's repayment ability in RMB (the AI is expected to ascertain the customer’s ability to repay the loan in RMB when considering the credit application).

RMB bonds

Q15. Who can invest in RMB bonds issued in Hong Kong?

A15. Any customer with an RMB deposit account maintained with a Participating AI can invest in RMB bonds issued in Hong Kong. Such investors would however have to consider their access to RMB funds.

Q16. Can AIs issue RMB certificate of deposits in Hong Kong?

A16. Yes. In its ongoing supervision the HKMA will assess the RMB funding structure of a Participating AI, such as the extent to which its funding structure comprises different components like customer deposits, certificates of deposits, inter-bank borrowing and bonds issued, etc. The HKMA expects Participating AIs not to place over-reliance on a single source of wholesale RMB funding if the AI does not have a retail deposit base.

Q17. Can proceeds raised from a RMB bond issuance in Hong Kong by a corporate customer be remitted to the Mainland? Can such proceeds be converted into another currency?

A17. There is no restriction on remittance of proceeds raised from a RMB bond issuance in Hong Kong to the Mainland, although the issuer will need to obtain any necessary approval from the relevant Mainland authorities.

As for conversion of RMB, there is no restriction on conversion if the Participating AIs do not square the corresponding open position with the Clearing Bank, or if they seek to square the open position with other Participating AIs.

Q18. Can Participating AIs provide RMB financing to corporate and personal customers for investing in RMB bonds?

A18. Please refer to A13 on RMB lending to corporate customers. RMB lending to personal customers and DBCs is not permissible for the time being.