



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

2 April 2012

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Renminbi (RMB) position squaring with the RMB Clearing Bank for trade-related conversions

As part of the RMB trade settlement arrangement introduced by the Mainland authorities since July 2009, Participating AIs may square their relevant RMB positions through the RMB Clearing Bank in the Shanghai foreign exchange market for RMB conversions conducted with customers for eligible trade transactions. Given the cross-border nature of such position squaring transactions, they are subject to requirements set by the Mainland authorities. To provide clarity, our circular of 8 November 2011 has set out the relevant requirements¹, and the HKMA's expectation of Participating AIs in substantiating the eligibility of RMB trade transactions for position squaring in Shanghai.

It is important to emphasise that the guiding principle of that circular is that Participating AIs should take appropriate steps to ascertain the genuineness of the underlying cross-border merchandise trade transactions. These steps include know-your-customer (KYC) and due diligent procedures as well as reviewing supporting documents from customers. In order to streamline this process, the Hong Kong Association of Banks (HKAB) has been in discussion with the HKMA on how such KYC and due diligent procedures can be applied in actual operations. Taking into account the HKAB's suggestions, the HKMA has now adopted a guidance note on the key elements of the relevant procedures at the Annex for Participating AIs' reference. I must emphasise that

¹ The requirements are that, in order to be eligible for position squaring through the RMB Clearing Bank: (i) the trade transactions concerned should be merchandise trade transactions (i.e. trade in services are not eligible); (ii) such merchandise trade transactions should be cross-border with one leg of the trade touching the Mainland, as evidenced for instance by the delivery of goods to or from the Mainland, or having a trading partner located on the Mainland; (iii) the timing and sequence of the RMB conversion conducted by customers and the delivery of goods should be consistent; and (iv) for an RMB trade payment, the associated RMB conversion should be conducted not more than three months before it is due for settlement, while for an RMB trade receipt, the associated RMB conversion should be conducted within three months of its settlement, and that the related conversion and settlement transactions are handled by the same Participating AI.

we stand ready to review or refine these operational procedures in light of actual experience.

If you have any question on this circular, please feel free to contact Ms Denise Tai at 2878 1589 or your usual contact at the HKMA.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

**An illustration on KYC procedures for
RMB position squaring transactions**

1. A Participating AI may apply appropriate KYC and due diligent procedures (instead of reviewing supporting documents) such that it can have reasonable assurance that RMB position squaring transactions through the RMB Clearing Bank are conducted for eligible RMB trade transactions.
2. This can be applicable to, for instance, RMB trade transactions and the associated RMB conversions of corporate customers meeting certain criteria. Such corporate customers may include:-
 - (a) A listed company whereby:-
 - (i) the company has been listed for not less than 3 years in Hong Kong, Mainland China, Taiwan, London, New York, Singapore or any other jurisdictions which is a member of the Financial Action Task Force; and
 - (ii) the company or its subsidiary has a business relationship with the AI Group (including the AI's headquarters, branches or subsidiaries whether in or outside Hong Kong) for not less than 3 years.

OR

- (b) Any company whereby:-
 - (i) the company or its subsidiary has a business relationship with the AI Group for not less than 3 years;
 - (ii) the company has trading business with Mainland China for a reasonable period, generally not less than 5 years;
 - (iii) the trading volume of the company with Mainland China represents a significant percentage of its total turnover, generally not less than 30%; and
 - (iv) the transaction value does not exceed RMB 5 million¹.
3. An assessment should be conducted at least semi-annually confirming the relevant company is meeting the applicable criteria, and signed off by the manager of the Participating AI principally responsible for managing the relationship with the company and the Head of Business in the Participating AI.² The report should include information such as description of the

¹ For the avoidance of doubt, for intragroup transactions, the usual third party documents would be required, regardless of the transaction value.

² Once a company is assessed to be meeting the applicable criteria, the KYC procedures will also be applicable to relevant transactions done by all its majority-owned subsidiaries (i.e. with more than 50% ownership) or those subsidiaries that the company has less than 50% ownership but maintains management influence.

company's business line, the flow of goods and funds (especially if it involves the use of a treasury centre to make payments or receive funds on behalf of the members of the group), and where applicable, whether the company anticipates any significant deviations from past volume of cross-border trade transactions with Mainland China to facilitate detection of any abnormal pattern.

4. The company concerned should provide a written undertaking every 12 months to the Participating AI whereby its RMB trade transactions and the associated RMB conversion that are identified as eligible for position squaring will be in compliance with the relevant requirements.
5. The Participating AI should maintain appropriate records on the RMB trade transactions and the associated RMB conversions conducted by the company concerned and review at least half-yearly to see if there is any irregularity. The Participating AI should be able to provide such records and the review so documented to the HKMA upon request.
6. For the avoidance of doubt, the Participating AI should take the initiative to request for supporting documents from the company concerned for specific transactions if such transactions appear to be unusual or abnormal.