HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C

22 May 2012

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Renminbi (RMB) Net Open Position (NOP)

The RMB NOP[1] limit was introduced by the Hong Kong Monetary Authority (HKMA) since December 2010 as a tool to manage the foreign exchange risk of RMB and facilitate the orderly development of offshore RMB business in Hong Kong. In view of the latest developments of RMB business in Hong Kong and the generally enhanced risk management practices of authorized institutions (AIs) in managing the foreign exchange risk of RMB, the HKMA considers it appropriate to revise the RMB NOP limit requirement and allow individual AIs to determine their own RMB NOP limit by taking into account the nature and scale of their RMB business.

With immediate effect, the 20% standard RMB NOP limit applicable to AIs is replaced by a mechanism whereby AIs are allowed to set their own internal RMB NOP in consultation with the HKMA. AIs that intend to set their own RMB NOP limit above the existing 20% must inform and demonstrate to the HKMA that the proposed NOP limit is prudent and appropriate for the scale and nature of their business. Subsequent increase to the agreed limit should also be discussed with and endorsed by the HKMA. The opportunity is also taken to increase the de minimis exemption from the existing RMB50 million to RMB100 million.

For consistency and comparability purposes, the compilation methodology for the internal RMB NOP is the same as before. AIs are required to continue the calculation and reporting of their RMB NOP regularly to the HKMA as in the past.

[1] RMB NOP is the difference between on-balance sheet RMB assets and liabilities, but excluding any RMB structural position (e.g. investment in Mainland subsidiary banks). The following items can be taken into account in the calculation of the RMB net open position.

i. Actual amount of investments under the Mainland Qualified Foreign Institutional Investors regime and position arising from RMB bond market-making activities (actual position in the RMB bonds concerned or 15% of the issue size of such bonds if no position maintained).
ii. Any net RMB deliverable forward position in the opposite direction excluding that portion relating to RMB bond market-making activities that has already been taken into account as set out in the preceding point.

55th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong
Website: www.hkma.gov.hk

香港中環金融街8號國際金融中心2期55樓
網址：www.hkma.gov.hk

All AIs are reminded that they should continue to adopt prudent measures in managing their foreign exchange and liquidity risk when engaging in RMB activities. The HKMA does not expect any AI to leverage on the new supervisory requirement in such a way that may undermine the orderly development of RMB business in Hong Kong and proper risk management by AIs regarding their RMB activities.

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

Yours faithfully,

Arthur K. H. Yuen
Deputy Chief Executive