

**Frequently Asked Questions in Relation to
the Currency Conversion Arrangement under Swap Connect**

I. Appointment and change of the Hong Kong FX Settlement Banks

Q1 How should a Hong Kong FX Settlement Bank inform the HKMA that it is appointed by an Investor?

- A1 Upon the appointment by an Investor, the Hong Kong FX Settlement Bank should provide the following information to the HKMA (via email: swapconnect@hkma.gov.hk) on behalf of the Investor no later than five trading days before the service commencement date: (1) the name of the Investor; (2) the CFETS ID of the Investor; (3) the name of the Hong Kong FX Settlement Bank; and (4) service commencement date. The HKMA will issue a “no objection” notification upon completion of the review. For the avoidance of doubt, in the event that an Investor is concurrently a Hong Kong FX Settlement Bank, it should also observe the aforementioned appointment procedures to obtain CNY conversion service under Swap Connect.

Q2 Can Investors change the appointment of Hong Kong FX Settlement Bank?

- A2 Investors may change the appointment of Hong Kong FX Settlement Bank, provided that the appointed bank at any given time is concurrently the member of the RMB RTGS system that settles all Swap Connect payments for the Investor. To change the appointment, Investors should submit a Request Form¹ to swapconnect@hkma.gov.hk no later than five trading days before the effective date. Investors may submit the request directly or via a relevant Hong Kong FX Settlement Bank, provided that both the incumbent and the new Hong Kong FX Settlement Banks are copied in the submission. The Request Form will include, among other items, the Investor’s (1) net amount of CNY conversion conducted with the incumbent Hong Kong FX Settlement Bank; and (2) net remittance² to the settlement bank(s) of OTC Clear for daily settlements under Swap Connect. The HKMA will issue a “no objection” notification upon completion of the review. Investors should transfer all RMB funds maintained at the incumbent Hong Kong FX Settlement Bank under Swap Connect to the new Hong Kong FX Settlement Bank before the effective date. The new Hong Kong FX Settlement Bank should take into account the relevant data of CNY conversion and net remittance in the Request Form when carrying out monitoring responsibilities going forward.

Q3 If an Investor has engaged more than one member of the RMB RTGS system to settle payments with the settlement bank(s) of OTC Clear, and the said members are all Hong Kong FX Settlement Banks, can the Investor appoint all the said members to undertake CNY conversion under Swap Connect?

- A3 No. An Investor, at any given time, can only appoint one Hong Kong FX Settlement Bank to undertake CNY conversion under Swap Connect. The bank must concurrently be the member of the RMB RTGS system that settles all Swap Connect payments for the Investor.

¹ The Request Form can be obtained by emailing swapconnect@hkma.gov.hk.

² Including payments to/from OTC Clear resulting from direct debit/credit of investors’ relevant nostro accounts by OTC Clear.

II. Account Structure and Fund Flow

Q4 Should Hong Kong FX Settlement Banks open a new and designated CNY account for each Investor?

A4 The HKMA does not intend to prescribe the operational arrangement, so long as the Hong Kong FX Settlement Banks can (i) properly ring-fence the CNY converted by each Investor and ensure that it is only used for settling daily settlements under Swap Connect; (ii) put in place proper book-keeping arrangements to monitor and track fund flows by each Investor in connection with Swap Connect activities; and (iii) fulfil the reporting obligations at the investor-level as set out in this circular.

Q5 Do Hong Kong FX Settlement Banks need to ring-fence CNH funds?

A5 No.

Q6 Is pre-funding allowed? Can Investors keep idle cash in the account for future daily settlements?

A6 Hong Kong FX Settlement Banks are expected to maintain ongoing and dynamic oversight of the CNY conversion services provided to each Investor and notify the HKMA if the currency conversion exceeds the 15% threshold prescribed in the circular for a period longer than 10 trading days.

III. Monitoring Responsibilities

Q7 How often should the Hong Kong FX Settlement Banks obtain confirmation from the Investors that the CNY spot transactions are underpinned by genuine and reasonable Swap Connect investment needs? Do banks have to obtain such confirmation on a deal-by-deal basis?

A7 It is up to the Hong Kong FX Settlement Banks to decide the format and frequency of such confirmation. Depending on the relationship with the Investors, the Hong Kong FX Settlement Banks may choose to accept periodic confirmation rather than deal-by-deal confirmation.

Q8 Could the HKMA illustrate with some examples how the Hong Kong FX Settlement Banks should calculate whether an Investor's currency conversion exceeds the threshold prescribed in the circular?

A8 An Investor's ① net CNY conversion with the Hong Kong FX Settlement Bank should reasonably match ② the net remittance via the said bank to the settlement bank(s) of OTC Clear for settling daily settlements under Swap Connect over a period of time. Their ③ difference should not exceed 15% for a period longer than 10 trading days. Consider the following scenarios:

On Day 1, Investor A buys CNY 200 from the Hong Kong FX Settlement Bank. It has not conducted any remittance to or from OTCC.

$$\textcircled{1} = 200$$

$$\textcircled{2} = 0$$

$$\textcircled{3} = | (200 - 0) / 0 | \text{ (exceeds 15\%)}$$

On Day 2, Investor A sells CNY 90 to the Hong Kong FX Settlement Bank. It remits a net amount of RMB 100 to OTCC.

$$\begin{aligned}\textcircled{1} &= 200 - 90 = 110 \\ \textcircled{2} &= 100 \\ \textcircled{3} &= |(110 - 100) / 100| \text{ (does not exceed 15\%)}\end{aligned}$$

On Day 3, Investor A sells CNY 150 to the Hong Kong FX Settlement Bank.

$$\begin{aligned}\textcircled{1} &= 200 - 90 - 150 = -40 \\ \textcircled{2} &= 100 \\ \textcircled{3} &= |(-40 - 100) / 100| \text{ (exceeds 15\%)}\end{aligned}$$

On Day 4, Investor A receives a net remittance of RMB 145 from OTCC.

$$\begin{aligned}\textcircled{1} &= 200 - 90 - 150 = -40 \\ \textcircled{2} &= 100 - 145 = -45 \\ \textcircled{3} &= |(-40 - (-45)) / (-45)| \text{ (does not exceed 15\%)}\end{aligned}$$

Q9 How should the Hong Kong FX Settlement Banks inform the HKMA if Investors' currency conversion exceeds the 15% threshold prescribed in the circular for a period longer than 10 trading days?

A9 The Hong Kong FX Settlement Banks should inform the HKMA by emailing swapconnect@hkma.gov.hk. We may require supporting documents to review the actual circumstances of the case and assess whether the CNY conversion arises from genuine and reasonable Swap Connect investment needs. The banks may continue to provide CNY conversion service to the Investor, unless otherwise instructed by the HKMA.

Q10 It is mentioned in the circular that the HKMA may ask for supporting documents. Can the HKMA provide examples of the acceptable supporting documents?

A11 The type of clarifications and supporting documents will vary depending on the circumstances of the case. Generally speaking, records of CNY spot transactions, fund remittance, Swap Connect transactions, coupon/variation margin/price alignment interest payments are supporting documents that we may ask for.

IV. Reporting Requirements

Q12 How should Hong Kong FX Settlement Banks submit their monthly report to the HKMA?

A12 The report should be submitted to swapconnect@hkma.gov.hk by the fifth trading day of every month.

Q13 For the Hong Kong FX Settlement Banks that employ a centralised settlement model pursuant to the PBoC's Notice 159 (i.e. all offshore banks under the same banking group square their CNY positions in the onshore Interbank FX Market through its Hong Kong affiliates), what would be the reporting requirements?

A13 The reporting requirements set out in this circular apply to all CNY conversion activities provided by the Hong Kong FX Settlement Banks under Swap Connect. So for the Hong Kong FX Settlement Banks that centrally square the Swap Connect-related CNY spot transactions on behalf of their banking groups, Hong Kong FX Settlement Banks should include the CNY spot transactions conducted by their offshore affiliates in the reporting.

For example, if Investor A buys CNY 100 from an overseas branch of Bank A and the overseas branch buys CNY 100 from Bank A back-to-back, Bank A's monthly report to the HKMA should reflect a net CNY conversion of 100 by Investor A.

Q14 Are self-trades reportable? If buy and sell CNY trades are netted out among different Investors engaging the same Hong Kong FX Settlement Bank at the end of a trading day (i.e. not subsequently squared in the onshore FX market), does the bank still need to report the relevant trades in their monthly report to the HKMA?

A14 Under Swap Connect, all client-facing CNY spot transactions³ are reportable, irrespective of whether the Hong Kong FX Settlement Bank is concurrently the Investor, and whether the relevant positions are ultimately squared in the onshore FX market.

For example, if Investor A buys CNY 100 from Bank A and Bank A (as an Investor) sells CNY 100 to itself (as a Hong Kong FX Settlement Bank), the monthly report of Bank A (as a Hong Kong FX Settlement Bank) to the HKMA should reflect a net CNY conversion of 100 by Investor A and a net CNY conversion of -100 by Bank A (as an Investor).

³ Except the scenario specified in Q&A 13.