Our Ref.: G12/129/4C
B1/15C

7 February 2025

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

**RMB Trade Financing Liquidity Facility**

As announced on 13 January 2025, the Hong Kong Monetary Authority (HKMA) will introduce a Renminbi Trade Financing Liquidity Facility (RMB TFLF) for authorized institutions (AIs), providing a stable source of RMB funds to support the industry in offering RMB trade finance services to corporates. The HKMA will obtain the necessary RMB funds through the Currency Swap Agreement with the People's Bank of China. The RMB TFLF will further enhance the liquidity of Hong Kong's offshore RMB market, meet the increasing demand for RMB trade finance and strengthen Hong Kong's leading position as the global offshore RMB business hub. I am writing to provide further details of the RMB TFLF as below.

**Policy objective**

2. The policy objective of the RMB TFLF is to provide a stable source of funding for AIs to support RMB-denominated trade finance activities. The RMB TFLF therefore has a defined purpose that the funding obtained by AIs under the facility should be used for providing RMB trade finance to corporate customers with RMB payable or receivables. AIs can tap the RMB TFLF to support both new and existing trade-finance products and services, such as granting new facilities, renewing existing facilities and purchasing trade bills from customers.

**Terms of the RMB TFLF**

3. The terms of the RMB TFLF are summarised as follows:

- Launch date: 28 February 2025
- Purpose: To support AIs in offering RMB trade finance services

- Total size: up to RMB100 billion
- Tenors: 1 month, 3 months, 6 months
- Interest rate: SHIBOR[1] plus a spread, where the spread is set at 25 basis points
- Settlement: T + 1
- Transaction means: repurchase agreement (repo) or RMB/HKD cross-currency swap
- Eligible collateral and haircut for repo transactions: same as those of the existing RMB Liquidity Facility

Parameters of the facility can be revised from time to time in light of implementation and market development needs.

**Scope of RMB trade finance and Quota arrangement**

4. Under the RMB TFLF, a quota will be assigned to interested AIs participating in RMB business[2] (Participating AIs), which will then be able to obtain RMB funds from the HKMA based on their provision of RMB trade finance to corporate customers. Participating AIs interested in applying for a quota at the launch of the RMB TFLF are invited to submit the required information to the HKMA by close of business on 17 February 2025 for consideration. See paragraph 9 below for details.

5. Participating AIs that have been assigned a quota can tap the RMB TFLF for funding their RMB trade finance activities in serving customers locally and globally. Such activities should be booked in Hong Kong and reportable under "Loans and advances to non-individuals – trade finance" (Item 14.2a) or "Acceptance and bills of exchange receivable" (Item 15.2) in Part A of the Return of RMB Business Activities (MA(BS)16).

6. For the avoidance of doubt, (i) RMB trade finance provided to corporate customers and remained unpaid on or before the launch of the RMB TFLF, and (ii) all interbank transactions (e.g. backed by trade finance-related collateral) are outside the scope of the RMB TFLF.

7. Participating AIs utilising the RMB TFLF are responsible for ensuring that the tapping of the facility is fit for the purpose and within scope. They should establish proper oversight of the usage of the facility by putting in place appropriate control systems for monitoring and reporting to the HKMA deviation from the purpose of the facility. As part of their usual trade finance business practices, the Participating AIs should have adequate governance and controls for managing the associated risks, including performing due diligence and verifying the RMB trade financing needs of customers. Participating AIs should

[1] Shanghai Interbank Offered Rate of the corresponding tenor on trade date.
[2] Participating AIs are required to have signed with the HKMA the Master Sale and Repurchase Agreement for the provision of liquidity assistance.

also maintain an adequate audit trail and be prepared to provide the relevant information to the HKMA upon request. Participating AIs applying for a quota will be required to designate two senior executives from the first and second lines of defence respectively (e.g. business head for RMB trade finance and chief risk and/or compliance officer) for ensuring that the AIs' tapping of the RMB TFLF is fit for the purpose and that the funding obtained is used appropriately.

**Phased approach**

8. The HKMA will adopt a phased approach, enabling AIs that have already put in place adequate governance and controls over RMB trade finance business to tap the facility on a pilot basis starting 28 February 2025 (Phase 1). Part of the facility size of RMB100 billion will be allocated in Phase 1, depending upon the applications received and business pipelines as expected by applicants. AIs not yet ready in Phase 1 are encouraged to develop and enhance their RMB trade finance business and the relevant controls to join in later phases. The phased approach will allow the HKMA to allocate quotas in accordance with the growth of AIs' RMB trade finance activities on an ongoing basis, and to adjust the terms of the facility and enhance the operating mechanism as needed in view of the experience and feedback obtained in earlier phases.

***Quota application and tapping of facility in Phase 1***

9. Participating AIs who are interested in joining Phase 1 are invited to submit an application, as outlined in Annex 1 by 17 February 2025 to the HKMA for consideration. In allocating the quota to an AI applicant, the HKMA will consider the existing RMB trade finance activities (as reported in MA(BS)(16)) and the relevant controls of the AI, as well as the potential business pipeline as projected by the AI applicant. The HKMA will inform the respective applicants bilaterally of the amount of quotas assigned to them and arrange the signing of a facility letter.

10. Participating AIs can tap the RMB TFLF within the assigned quota, in batches as needed, on (i) a deal-by-deal basis for each RMB trade finance transaction with an amount of RMB500 million or above; and/or (ii) a portfolio basis for a bundle of underlying RMB trade finance transactions. The mode of operations and further details are provided in Annex 2.

11. Participating AIs tapping the RMB TFLF are expected to match the funding size and duration with the RMB trade finance provided to corporate customers, and to make best efforts to avoid tapping funding in excess of the provision of RMB trade finance. The HKMA will monitor individual AIs' usage of the RMB TFLF, and where necessary, request an AI to report retrospectively and within a reasonable time its RMB trade finance activities against the tapped funding (details in Annex 3). An unreasonable excess in terms of size and/or duration may result in additional documentation requirements and application

procedures for tapping the facility further, and may also lead to a reduction in the quota assigned to the AI, or any other remedial actions as warranted.

***Next phase***

12. The HKMA will proceed to the next phase around mid-2025, with the aim of including more AIs and adjusting the assigned quotas as necessary, taking into account the overall growth of in-scope RMB trade finance activities and facility usage in Phase 1. Further details will be provided in due course.

Should you have any questions regarding the above, please do not hesitate to contact the HKMA Monetary Operations Division at 2878 8104.

Yours faithfully,

Eddie Yue
Chief Executive

**Annex 1** – Application for Quota under the RMB TFLF

Submission of application:

(i) The application should be submitted to the HKMA on or before 17 February 2025;

(ii) The application should be hand-delivered to the HKMA office at 55/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong; attention to Ms Kimberly Cheng, Head of the Monetary Operations Division; and followed up with a phone call at 2878 8104 upon delivery; and

(iii) The application should be signed by the two designated senior executives as specified in paragraph 7 of the circular.

Key information to be included in the application:

(i) The number of years your institution has been engaging in RMB trade finance business;

(ii) A description of the existing processes, governance, and control mechanisms for providing RMB trade finance to corporate customers, including but not limited to:
   - the processes used to identify and differentiate in-scope RMB trade finance (see paragraphs 5 and 6 of the circular) from other types of lending;
   - a high-level description of the control processes and the units involved;

(iii) The types and respective outstanding amount of RMB trade finance according to your institution's categorisation;

(iv) A run-off / maturity schedule of RMB trade finance, by type as in item (iii) and by month from March to June 2025;

(v) A projection of new RMB trade finance, by type as in item (iii) and by month from March to June 2025 (note: for reference only and not binding to future utilisation of the RMB TFLF);

(vi) A description of how the projection in (v) is made (e.g. based on previous trend, activities in the pipeline, etc.);

(vii) The timeframe (in business days upon customer transaction) within which daily information on in-scope RMB trade finance borrowing / drawdown by customers can be made available for sharing with the HKMA upon request, along with a sample of such reporting (note: no standard template is designed in Phase 1 so as to allow maximum flexibility and efficiency for AIs' reporting);

(viii) A description of your institution's approach to minimising funding tapped from the RMB TFLF in excess of the provision of RMB trade finance, and the oversight measures in place to ensure that the funding tapped is fit for the purpose of the facility;

(ix) The desired size of quota for your institution; and

(x) The name, title, department, and contact information of the two designated senior executives as specified in paragraph 7 of the circular.

**Annex 2** – The Mode of Operations and Details for Tapping the RMB TFLF

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| Eligible parties | Authorized institutions participating in RMB business (Participating AIs) with an assigned quota |
| Purpose | Provision of in-scope RMB trade finance to corporate customer(s) by Participating AIs |
| Facility size | RMB100 billion |
| Tenor | 1 month, 3 months, 6 months |
| Settlement | T+1 |
| Transaction types | • Repurchase agreement (Repo)<br>• Cross-currency swap of RMB/HKD |
| Eligible collateral under Repo | • Exchange Fund Bills and Notes (EFBN)<br>• HKSAR Government bonds (HKGB)<br>• RMB denominated debt securities issued in the onshore market by (i) the Ministry of Finance of the People's Republic of China (CMOF); and (ii) the policy banks of the People's Republic of China (China Policy Banks), namely Agricultural Development Bank of China, China Development Bank, and Export and Import Bank of China<br>• RMB, USD and EUR denominated debt securities issued in offshore markets by (i) the CMOF; (ii) the People's Bank of China (PBOC); (iii) the Local People's Governments at various levels of the People's Republic of China (Local People's Governments); and (iv) China Policy Banks |
| Haircut on eligible collateral under Repo | • EFBN and HKGB: 2% per year of remaining maturity, plus 2% (for cross-currency haircut)<br>• RMB denominated debt securities issued by PBOC, CMOF, Local People's Governments and China Policy Banks: 2% per year of remaining maturity, minimum 2%<br>• USD and EUR denominated debt securities issued by PBOC, CMOF, Local People's Governments and China Policy Banks: 2% per year of remaining maturity, minimum 2%, plus 2% for currency risk |
| Interest rate | • The interest on RMB fund borrowing under the facility will be calculated by the Shanghai Interbank Offered Rate of the corresponding tenor on trade date plus 25 bps for both the Repo and cross-currency types of transaction<br>    • For cross-currency swap, the HKD interest received by the Participating AI will be calculated using the lowest among (i) Indicative Pricings of Exchange Fund Bills at 11:00 am; (ii) HKD Interest Settlement Rates published by the Treasury Markets Association; and (iii) Prevailing FX swap-implied HKD interest rate; of the corresponding tenor on trade date. |

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| Mode of operations | • Participating AIs interested in borrowing RMB funds should contact the dealing room of the HKMA at 2878 8104, provide the below information in written, and confirm the transaction with the HKMA before 12:00 noon on trade date (T day):<br>(i) Size and tenor(s) of the RMB funding request;<br>(ii) Portfolio basis or deal-by-deal basis;<br>(iii) Transaction type (i.e. Repo or RMB/HKD cross-currency swap);<br>(iv) List of collaterals in the case of Repo; and<br>(v) Name of the top 10 corporate customer(s) according to the expected size of drawdown / borrowing that backs the Participating AIs' tapping of the RMB TFLF.<br>• On T+1, RMB funds will be credited to the AI's RMB RTGS account held with the Clearing Bank subject to the receipt of the collateral (in case of Repo) or HKD in RTGS (in case of cross-currency swap) by the HKMA before 4:00 pm<br>• Participating AIs should repay the borrowed RMB funds before 12:00 noon on the maturity day, along with the corresponding RMB interests. In the case of cross-currency swap, the HKMA will release the respective HKD with interest to the RTGS account of the Participating AIs upon full receipt of the RMB payment. |
| Operating hours | Request should be made before 12:00 noon on each Hong Kong business day (not available on Mainland holidays) |
| Holiday | If the value date or maturity date of the transaction falls on a Hong Kong or Mainland holiday, it will be delayed to the next business day which is not a holiday in Hong Kong and the Mainland |

**Annex 3** – Retrospective Reporting on Usage of RMB TFLF upon Request

The retrospective reporting upon the HKMA's request should comprise the following information:

A. For each business day within the requested reporting period:

   (i) The outstanding amount of funding tapped from the RMB TFLF;

   (ii) The outstanding in-scope RMB trade finance (see paragraphs 5 and 6 of the circular); and

   (iii) The names of the corporate customers, along with the respective sizes, drawdown dates and maturities of the in-scope RMB trade finance provided to the customers, and the associated identification in your institution's IT system (e.g. customer number, facility number and transaction code).

B. Based on the information provided in A above, the HKMA may further request your institution to provide the following:

   (i) An explanation for the positive gaps between the tapped funding and the actual in-scope RMB trade finance during the requested reporting period;

   (ii) A description of how the excess funding, as identified in the positive gaps noted in B (i) above, was handled; and

   (iii) Any other information that may be useful for the HKMA to assess your institution's control system against any potential inappropriate use of the tapped funding.