26 June 2025

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Currency Conversion Arrangement Involving Onshore RMB (CNY) under RMB Cross-border Trade Settlement Scheme

In our recent dialogues with the Hong Kong Association of Banks on RMB business developments, we have received comments on issues and challenges faced by banks in conducting CNY conversions for customers under the RMB cross-border trade settlement scheme (Scheme). Having regard to these comments as well as market developments, this letter serves to provide the HKMA's feedback on the issues raised by the industry and clarifications to banks on providing services under the Scheme, with a view to providing a more conducive environment to facilitate banks to conduct RMB trade settlement business.

Introduced in 2009, the Scheme enabled banks outside the Mainland to conduct CNY conversions for their customers' eligible cross-border trade transactions. The HKMA issued circulars in 2010, 2011 and 2012 to provide guidance to banks on the handling of CNY conversions under the Scheme including, among others, eligibility of trade transactions, requirements in position squaring with the RMB Clearing Bank, and expectations of banks in conducting CNY conversions under the Scheme.[1]

Meanwhile, in response to market developments, the People's Bank of China (PBoC) had introduced changes to the CNY conversion arrangement under the Scheme by means of regulatory guidance issued over the time. These include expansion in the scope of trade transactions eligible for CNY conversion, means of conducting CNY conversions, and types of foreign exchange products, etc. Besides, apart from conducting CNY conversions with the RMB Clearing Bank and Mainland correspondent banks, offshore banks may now also conduct CNY conversions in the onshore market directly after obtaining approval from Mainland regulators.

The industry comments received by the HKMA mainly focused on alignment issues between the HKMA circulars and corresponding guidance issued by the PBoC. There were also suggestions to streamline relevant requirements stipulated in the HKMA circulars so as to facilitate banks' CNY conversion operation under the Scheme taking into account market developments. In this light, the HKMA had, in

[1] These circulars include *"Renminbi (RMB) cross-border trade settlement and net open position"* dated 23 December 2010, *"Renminbi (RMB) business – Requirements on position squaring with the RMB Clearing Bank"* dated 8 November 2011 and *"Renminbi (RMB) position squaring with the RMB Clearing Bank for trade-related conversions"* dated 2 April 2012.

consultation with the PBoC, reviewed the existing HKMA circulars vis-à-vis applicable PBoC guidance. Taking into account outcome of the review and in light of banks' actual operational experience, banks are now advised that in conducting CNY conversions and offering related services to their clients, they should ensure the relevant requirements set by the Mainland authorities from time to time are complied with, as the relevant CNY conversions (including hedging or other transactions as permitted) involve cross-border fund flows with the Mainland. In doing so, it is generally expected that banks should:

(i) ascertain that the CNY conversions arise from genuine and reasonable need from underlying RMB trade settlement activities;

(ii) put in place effective and sufficiently robust know-your-customer (KYC) and due diligence procedures in preventing ineligible use of the CNY conversion arrangement, so that relevant requirements set by Mainland authorities are not contravened;

(iii) exercise prudence and focus on the balanced development of CNY purchase and sale business, with the positions arising from related conversions to be basically squared;

(iv) keep proper records on transactions under the CNY conversions, and monitor and identify irregularities. Banks should be able to provide such records to the relevant authorities upon request. Should there be misuse of the CNY conversion arrangement, the cases should be reported to the HKMA and the PBoC as appropriate.

For more details, please refer to Frequently Asked Questions (FAQs) in **Annex**.

This circular shall take immediate effect. The existing HKMA circulars set out in the footnote 1 of this letter shall be superseded accordingly. Should you have any question, please contact Mr Seth Lau at 2878 1032, Mr Alex Yiu at 2597 0838 or your usual contact at the HKMA.

Yours faithfully,

Kenneth Hui
Executive Director (External)

Encl.

Annex

Frequently Asked Questions (FAQs) in relation to banks providing CNY conversions under RMB cross-border trade settlement scheme

Q1. What kinds of CNY conversions are covered by this circular?

A1. This circular is applicable to banks' CNY conversions for their customers' RMB cross-border settlement arising from merchandise trade, service trade and/or other current account transactions involving the Mainland. Banks' transactions via the RMB Clearing Bank, Mainland correspondent banks and/or other channels by their own for such RMB cross-border settlement needs are covered by this circular.

Q2. Are there any requirements on the timing and sequence between RMB cross-border settlement and the associated CNY conversion?

A2. As a matter of principle, banks should be aware of relevant requirements issued by the Mainland authorities from time to time. Monitoring clients' timing and sequence between RMB cross-border settlement and the associated CNY conversion is a way to help ensure the genuineness and reasonableness of the need of CNY conversion and thereby complying with the relevant requirements issued by the Mainland authorities. To do so, banks generally will have to take into account the nature of underlying trade transactions, situation of clients, and other relevant factors.

Q3. Are there any requirements on ex-ante or ex-post documentations, or due diligence procedures to ensure the need of CNY conversions come from genuine RMB cross-border trade?

A3. Since the related CNY conversions involve cross-border fund flows with the Mainland, banks are expected to adhere strictly to relevant requirements stipulated by Mainland authorities. Banks can design their own internal procedures and consider what types of documents are sufficient for ascertaining the genuineness of the underlying RMB cross-border trade transactions that are associated with the CNY conversions, taking into account their own business practice, clients' background and track-record, and other relevant factors.

Regarding CNY conversion transactions, banks should also put in place an internal review mechanism and conduct appropriate reviews on RMB cross-border trade transactions or related remittances on a regular basis to ensure that the transactions comply with relevant regulations. Appropriate records regarding the RMB transactions and the associated CNY conversions and their audit materials should be maintained. Banks should be able to provide such records to the relevant authorities upon request. Also, banks should take initiative to request for supporting documents from their clients as and when necessary particularly if there are irregularities or unusual transactions.

Banks may be asked to unwind the already converted RMB positions if it is found that the CNY conversion transactions do not meet the eligibility requirements. If there are repeated instances of non-compliance, the bank may be suspended from conducting related business until inadequacies of its internal control in this respect are rectified.