

Presented at the Member Update:  
RMB Financial Products in Hong Kong  
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Co-hosted by



C L I F F O R D  
C H A N C E

Regulatory developments on RMB

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Below is a selection of regulatory developments extracted from CC Online Service on RMB from June 2009 to 31 March 2011. If you would like to sign up to our service, please contact Marian Cheng at (852) 2825 8905 or email [marian.cheng@cliffordchance.com](mailto:marian.cheng@cliffordchance.com).

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## 1. HKMA welcomes launch of renminbi fiduciary account service

31 March 2011

The Hong Kong Monetary Authority (HKMA) has welcomed the launch of the renminbi (RMB) fiduciary account service, a new arrangement intended to help participating banks to better manage their credit exposure to the clearing bank for RMB business in Hong Kong. Banks participating in RMB business can now place RMB funds in excess of their day-to-day business and settlement needs in a segregated fiduciary account with the People's Bank of China through the RMB clearing bank.

The HKMA has issued a circular to authorised institutions on the prudential treatment of balances maintained in the RMB fiduciary account. Amongst other things, the circular states that:

- a participating authorised institution should always maintain a total amount of RMB cash, settlement account balance with the RMB Clearing Bank and balance maintained in the fiduciary account of no less than 25% of its RMB customer deposits; and
- starting from the position of April 2011, any outstanding balance maintained in the fiduciary account should be included in the amount of settlement account balance with the RMB clearing bank reported in the 'Monthly Return of RMB Business Activities' (MA(BS)16).

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20110331e2.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20110331e2.pdf)

## 2 HKMA reminds authorised institutions of SFC investor education materials on IPOs and trading of renminbi securities

29 March 2011

The Hong Kong Monetary Authority (HKMA) has issued a circular encouraging authorised institutions to make reference to the Securities and Futures Commission's (SFC's) investor education materials on preparing for initial public offering (IPO) and trading of listed renminbi (RMB) securities. The materials were issued by the SFC on 25 March 2011.

The HKMA has encouraged authorised institutions to refer to the SFC materials to facilitate their handling of enquiries from customers. Amongst other things, the SFC materials advise investors to open RMB bank accounts in Hong Kong for settling relevant transactions, and to make sure that they have sufficient RMB in that account.

The HKMA has also advised investors to verify if an intermediary is on the Hong Kong Exchanges and Clearing Limited's (HKEx) list of exchange participants and Central

Clearing and Settlement System (CCASS) participants that have successfully completed the tests held by HKEx in March 2011 and confirmed to HKEx their readiness for dealing and/or clearing transactions in RMB securities.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20110329e1.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20110329e1.pdf)

## 3. SFC issues checklist to facilitate readiness for listed renminbi securities business

17 March 2011

The Securities and Futures Commission (SFC) has issued a checklist to facilitate the Stock Exchange of Hong Kong Limited (SEHK) and the Central Clearing and Settlement System (CCASS) participants' review of their readiness to conduct listed renminbi (RMB) securities business. The checklist recaps the key areas the participants should consider during their readiness review. Amongst other things, the SFC has reminded that:

- participants should prudently assess their readiness and be satisfied that they have already prepared themselves properly before confirming their readiness to the Hong Kong Exchanges and Clearing Limited (HKEx);
- brokers providing currency conversion service to their clients should ensure the relevant exchange rate and/or basis of fixing the exchange rate has been clearly disclosed to and agreed with the clients; and
- brokers who fail to ensure their readiness should refrain from dealing in RMB securities to be listed on the SEHK or clearing transactions in such securities.

Circular: <http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H620>

## 4. SFC publishes key messages from listed RMB securities business briefing session

03 March 2011

The Securities and Futures Commission (SFC) has issued a circular summarising the key messages from its joint brief session conducted with Hong Kong Exchanges and Clearing Limited (HKEx) on 28 February 2011 and 1 March 2011. In particular, the circular reminds participants in the renminbi (RMB) securities business to:

- apply to the Hong Kong Securities Clearing Company Limited (HKSCC) to set up an RMB designated bank account for use with the Central Clearing And Settlement System (CCASS) by 7 March 2011;

- participate in the HKEx's RMB readiness tests and complete them successfully; and
- ensure all of their relevant systems and procedures are ready and submit their confirmation of readiness to the HKEx before 6 pm on 21 March 2011.

The SFC has indicated that if the CCASS participants fail to apply for an RMB designated bank account by 7 March 2011, they may risk not being able to participate in the readiness tests, and consequently may run the risk of not being accepted by initial public offer (IPO) sponsors to take part in RMB-denominated IPOs when they are launched in Hong Kong. The SFC has also reminded brokers who are not ready to conduct listed RMB securities business to put in place measures to prevent the inadvertent trading of, or acceptance of client trading instructions on, listed RMB securities.

Circular: <http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H619>

Press Release: <http://www.sfc.hk/sfcPressRelease/EN/sfcOpenDocServlet?docno=11PR25>

## 5. SFC and HKEx conduct briefing session on preparation for listed RMB securities business

01 March 2011

The Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEx) have conducted a briefing session on the preparation for RMB denominated securities business. The briefing session was intended to provide guidance for brokers and other stakeholders on the preparatory work for the trading and settlement of RMB denominated securities.

Amongst other things, the briefing session discussed:

- the actions taken by the SFC and the HKEx to assist brokers to prepare for listed RMB securities trading and settlement;
- the key considerations for self-examination of readiness by participants;
- frequently asked questions on preparation for RMB denominated securities; and
- the Central Clearing And Settlement System (CCASS) and trading and settlement of RMB denominated securities;
- and a trading system and operations preparation checklist.

SFC briefing session document:  
<http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H618>

HKEx briefing session document – trading:  
[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/PrepareRMB/Documents/RMB\\_Briefing\\_Trading\\_e.pdf](http://www.hkex.com.hk/eng/market/sec_tradinfra/PrepareRMB/Documents/RMB_Briefing_Trading_e.pdf)

HKEx briefing session document – clearing:  
[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/PrepareRMB/Documents/RMB\\_Briefing\\_Clearing\\_e.pdf](http://www.hkex.com.hk/eng/market/sec_tradinfra/PrepareRMB/Documents/RMB_Briefing_Clearing_e.pdf)

## 6. HKMA issues circular on preparation for potential listing of RMB denominated products

18 February 2011

The Hong Kong Monetary Authority (HKMA) has issued a circular on the preparation for the potential listing of investment products denominated in RMB. The HKMA reminds authorised institutions to pay attention to the trading, clearing and settlement of RMB-denominated products to be listed on the Stock Exchange of Hong Kong Limited (SEHK).

The HKMA points out that authorised institutions should clearly understand and define their roles and responsibilities in the initial public offering (IPO), trading, clearing and settlement processes, put in place proper internal checks and controls, and implement the necessary operational and system changes. To ensure smooth operation and service for customers, the HKMA reminds authorised institutions to thoroughly review and properly test the readiness of their relevant financial and operational infrastructures and procedures as soon as possible.

In addition, authorised institutions should allocate proper resources and put in place adequate operational procedures and contingency measures to cope with the forthcoming IPOs of RMB-denominated products.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20110218e1.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20110218e1.pdf)

## 7. SAFE issues notice on RMB / foreign exchange options trading

16 February 2011

The State Administration of Foreign Exchange (SAFE) has issued a 'Notice on Relevant Issues on RMB / Foreign Exchange Options Trading', which will come into force on 1 April 2011. In order to meet the growing demands of banks and enterprises for hedging RMB appreciation and exchange rate risk, the Notice permits RMB and foreign exchange options to be traded domestically in China.

Amongst other things, the Notice states that:

- 'options' refers to European-style options and thus the options can only be exercised upon maturity;

- upon satisfaction of certain eligibility requirements (such as being licensed by SAFE for forward sale and settlement of foreign exchange for more than three years, assessed to be B class or above, experienced in foreign exchange options trading as well as with sound risk management and internal control system) and filing with SAFE, banks are allowed to sell options to customers;
- enterprises can only buy options for hedging rather than speculation and they can only buy options (including call options and put options), but not sell them except for reverse squared position of the options already purchased – moreover, in principle, when exercising the options upon maturity, the parties shall make full amount payment of the principal based on the agreed price instead of settling on a netting basis;
- besides selling options to customers, banks are also permitted to trade them in the interbank foreign exchange market – such trading will be organised by the China Foreign Exchange Trade System (in order to qualify, banks will have to obtain prior approval from SAFE to trade RMB/FX forwards in the interbank FX market for over three years and be equipped with both software and hardware subject to technical specifications for option trading system formulated by the China Foreign Exchange Trade System); and
- the Delta positions of options shall be integrated into synthetic positions in the settlement and sale of FX for unified administration.

Notice: [http://www.safe.gov.cn/model\\_safe/laws/law\\_detail.jsp?ID=8060000000000000,32&id=4](http://www.safe.gov.cn/model_safe/laws/law_detail.jsp?ID=8060000000000000,32&id=4)

## 8. SFC issues circular on preparation for listed RMB denominated securities business

11 February 2011

The Securities and Futures Commission (SFC) has issued a circular advising exchange participants of the Stock Exchange of Hong Kong Limited (SEHK) and Central Clearing and Settlement System (CCASS) on their preparation to trade or clear RMB denominated securities to be listed on the SEHK. Amongst other things, the SFC advises participants to:

- open RMB accounts with banks and secure appropriate RMB banking facilities (such as overdraft facility and foreign exchange line) for working capital purposes;
- set up RMB designated bank accounts at CCASS for clearing purposes;
- examine their operational capabilities to conduct listed RMB securities business and make all necessary changes and arrangements immediately;

- attend the joint briefing session to be held by the SFC and the Hong Kong Exchanges and Clearing Limited (HKEx) on 28 February 2011; and
- participate in the end-to-end testing session and the payment pilot run to be held by the HKEx and respond to the HKEx's request for confirmation of readiness after completion of the tests.

The SFC has indicated that participants who fail to ensure their readiness to conduct listed RMB securities business should refrain from dealing in listed RMB securities or clearing transactions in such securities.

Circular: <http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H616>

## 9. HKMA welcomes pilot scheme for settlement of overseas direct investments in RMB

13 January 2011

The Hong Kong Monetary Authority (HKMA) has welcomed the announcement by the People's Bank of China (PBoC) of a pilot scheme for the settlement of overseas direct investments in RMB.

Under the pilot scheme, Mainland China enterprises can conduct direct investments overseas using RMB upon approval by the relevant Mainland authorities. The Hong Kong branches and correspondent banks of Mainland banks can also obtain RMB funds from the Mainland and extend RMB lending to the enterprises conducting the investments.

The HKMA has indicated that, upon implementation of the pilot scheme, Mainland enterprises can conduct such investments through Hong Kong's offshore RMB centre, and at the same time make use of the multi-currency and multi-functional financial platform in Hong Kong for related financing and fund management activities. The HKMA expects the launch of the pilot scheme to enhance the circulation of RMB funds for trade and investment activities.

Press Release: [http://www.info.gov.hk/hkma/eng/press/2011/20110113e3\\_index.htm](http://www.info.gov.hk/hkma/eng/press/2011/20110113e3_index.htm)

## 10. PBC issues administrative measures on pilot RMB settlement of outbound direct investments

06 January 2011

The People's Bank of China (PBC) has issued the 'Administrative Measures on Pilot RMB Settlement of Outbound Direct Investments' to support the pilot scheme of RMB settlement of cross-border trades, and to facilitate the RMB settlement of outbound direct investments.

Amongst other things, under the measures:

- 'outbound investment' means establishing, gaining control or management of offshore projects or enterprises, by means of setting up, merger and acquisition, or acquiring shares with funds in RMB and with prior approval from the competent authorities;
- the PBC and the State Administration of Foreign Exchange (SAFE) regulate the RMB settlement of outbound investments;
- the precondition for banks to process the RMB settlement of outbound investments for domestic institutions, which are defined as non-financial institutions registered in the RMB pilot region, is the approval by the competent authorities;
- in order to remit the upfront fees (which refers to the fees arising from outbound investments before any actual investment is made), or to remit the RMB funds for outbound investments, domestic institutions must register their application with the local SAFE branch;
- with prior approval of the competent authorities, domestic institutions may apply directly to banks for remittance and repatriation of RMB funds arising from increases and decreases of capital, transfers of equity and liquidation of the outbound invested enterprises – in addition, domestic institutions are allowed to repatriate the proceeds of outbound investments in RMB;
- and banks are entitled to extend RMB loans to domestic institutions for their outbound investments.

The Administrative Measures also impose certain limitations on outbound investments. In principle, the total upfront fees remitted shall not exceed 15% of the total investment amount approved by the competent authorities. The total sum of RMB funds and foreign exchange funds remitted for outbound investment shall not exceed the total investment amount approved by the competent authorities.

The Administrative Measures are intended to encourage domestic institutions to make outbound investments and to increase the internationalisation of RMB.

The Administrative Measures came into force on 6 January 2011.

Administrative Measures: [http://www.pbc.gov.cn/publish/tiaofasi/584/2011/20110113160218798684105/20110113160218798684104\\_.html](http://www.pbc.gov.cn/publish/tiaofasi/584/2011/20110113160218798684105/20110113160218798684104_.html)

## 11. HKMA issues circular regarding RMB cross-border trade settlement and net open positions

23 December 2010

The Hong Kong Monetary Authority (HKMA) has issued further guidance on the handling of RMB cross-border trade settlement by authorised institutions participating in RMB business, and the keeping of RMB net open positions which is applicable to all authorised institutions. The guidance is intended to enhance the operations of RMB cross-border trade settlement and establish a market-based approach. Amongst other things, under the guidelines, authorised institutions participating in RMB business:

- should put in place stringent know-your-customer procedures, as well as exercising due diligence to ascertain that customers' purchase of RMB for trade settlement purposes are supported by genuine cross-border trades;
- should only provide trade-related RMB conversion services for their own customers in relation to transactions due for settlement not more than 3 months from the date of conversion, if the resulting position is to be squared with the RMB clearing bank;
- should first use their RMB positions derived under the trade settlement regime when meeting customer demand for RMB for the purpose of cross-border trade settlement;
- can approach the HKMA for RMB funding if they do not have long RMB trade positions; and
- are expected to maintain net RMB positions commensurate with the scale of their RMB business.

Unless stated otherwise, the arrangements set out in the letter should take effect from 1 January 2011.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20111223e1.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20111223e1.pdf)

## 12. HKMA welcomes expansion of list of Mainland China enterprises eligible for cross-border RMB settlement

06 December 2010

The Hong Kong Monetary Authority (HKMA) has welcomed the announcement by the People's Bank of China (PBOC) of an expansion of the list of Mainland enterprises that are eligible for participating in the cross-border RMB trade settlement scheme.

The cross-border RMB trade settlement scheme was expanded in June 2010, when the coverage was extended from trade transactions between five Mainland cities and the Association of Southeast Asian Nations (ASEAN) economies to all trade transactions of 20 provinces and cities in Mainland China with the rest of the world. According to the HKMA, with the current expansion of the list of eligible enterprises, the number of Mainland China's enterprises that can settle merchandise exports in RMB has increased from 365 to 67,359.

Press Release: [http://www.info.gov.hk/hkma/eng/press/2010/20101206e3\\_index.htm](http://www.info.gov.hk/hkma/eng/press/2010/20101206e3_index.htm)

## 13. HKMA and MOF sign memorandum of co-operation on issuance of RMB sovereign bonds using Central Moneymarkets Unit

22 November 2010

The Hong Kong Monetary Authority (HKMA) and the Ministry of Finance (MOF) have signed a 'Memorandum of Co-operation (MOC) on Using Central Moneymarkets Unit (CMU) for Issuance of RMB Sovereign Bonds'. The MOC is intended to set the foundation for the tendering and issuance of RMB sovereign bonds through the CMU bid, a bond tendering platform offered by the CMU operated by the HKMA.

The MOF is planning to issue RMB sovereign bonds of RMB 5 billion to institutional investors through the CMU bid, comprising three-year bonds of RMB 2 billion, five-year bonds of RMB 2 billion and ten-year bonds of RMB 1 billion.

Press Release: [http://www.info.gov.hk/hkma/eng/press/2010/20101122e3\\_index.htm](http://www.info.gov.hk/hkma/eng/press/2010/20101122e3_index.htm)

## 14. HKMA issues circular regarding conversion service provided by RMB clearing bank

28 October 2010

The Hong Kong Monetary Authority (HKMA) has issued a circular regarding the conversion service provided by the clearing bank for RMB trade settlement. According to the circular, the clearing bank for RMB business has informed the HKMA that the 2010 quota assigned by the Mainland China's authorities for the conversion of RMB for trade settlement transactions has been fully depleted. As a result, the HKMA has decided that until further notice, participating authorised institutions should make use of their long RMB positions or RMB to be purchased from other participating authorised institutions to satisfy the demand for RMB for paying trade transactions from their customers. The HKMA has also activated the currency swap arrangement with the People's Bank of China, which is intended, amongst other things, to facilitate RMB trade settlement business. The HKMA has reminded participating authorised institutions to conduct appropriate due diligent procedures when handling conversions of RMB for customers.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20101028e1.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20101028e1.pdf)

## 15. PBC issues interim measures on issuance of bonds in RMB by international development institutions

4 October 2010

The People's Bank of China (PBC) has promulgated the 'Interim Administrative Measures on Issuance of Bonds in RMB by International Development Institutions', which amend an earlier version dated 18 February 2005. Amongst other things, the definition of international development institution (IDI) has been expanded to include multi\_lateral, bilateral and regional international development institutions providing development loans and investments. However, the definition of the bonds in RMB issued by an IDI (IDI RMB Bonds) remains the same i.e. they are bonds denominated in RMB issued by an IDI in the People's Republic of China, principals and interest of which are to be repaid within a certain period of time.

In recognition of the cross border features of the IDI RMB Bonds, the State Administration of Foreign Exchange (SAFE) has been added to the original approval authorities (the PBC, the Ministry of Finance, the National Development and Reform Commission, and the China Securities Regulatory Commission). The issuance of IDI RMB Bonds must ultimately be approved by the State Council. Amongst other things, the eligibility criteria of an IDI under the new interim measures include that:

- the IDI RMB Bonds to be issued must be graded as 'AA' by two rating firms (one of which must be incorporated in China and has the capability to rate RMB bonds);
- the IDI has provided over USD 1 billion in loan or equity to Chinese domestic projects and enterprises, unless exempted by the State Council; and
- the proceeds should first be used to provide middle and long term fixed assets loans or equity to Chinese domestic enterprises.

The proceeds of IDI RMB Bonds can be directly remitted offshore pursuant to regulations of the PBC, or converted into foreign currency for offshore use with SAFE approval (in which case, the IDI must report the true purpose of the conversion for offshore use, and periodically file with SAFE as to the utilisation of the proceeds).

To repay the principal and interest of IDI RMB Bonds, the IDI may elect to remit RMB from offshore upon filing with PBC, or to remit foreign currency from offshore and convert it into RMB with SAFE approval.

After issuance, IDI RMB Bonds can be traded in China with approval. The issuance and default of IDI RMB Bonds shall be governed by Chinese law.

The Interim Measures [國際開發機構購人民幣債券發行管理暫行辦法](#)

[http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2010/20100930144622583961548/20100930144622583961548\\_.html](http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2010/20100930144622583961548/20100930144622583961548_.html)

## 16. SFC Executive Director discusses new landscape for investment products in Hong Kong

29 September 2010

Mrs. Alexa Lam, the Executive Director of the Securities and Futures Commission (SFC), has delivered a speech on the new landscape for investment products in Hong Kong at the 19th Annual Global Investment Funds Forum in Luxembourg. Mrs. Lam noted that the regulatory changes made by Hong Kong in its domestic market are broad-reaching, covering collective investment schemes, structured products and investment-linked assurance schemes sold to the public in Hong Kong.

Mrs. Lam discussed the measures being taken by China to move towards further internationalisation of the RMB, how this is likely to impact upon investments and investment assets worldwide, and the role Hong Kong is playing in this process. She noted that the first major steps towards internationalisation of the currency were taken in July 2009, when China officially launched a pilot scheme for the settlement of cross-border trades in RMB between a few Chinese cities and several other countries and territories outside mainland China, including Hong Kong.

According to Mrs. Lam, there are two key conditions for the RMB to become an internationally-accepted and circulated currency, namely that:

- those outside the country who wish to hold the currency must be able to obtain and transfer RMB without impediment; and
- there must be a market-driven demand for the currency.

Mrs. Lam discussed the steps China has taken over the last several years to address these two issues.

Mrs. Lam noted that further increases in the breadth and depth of the market for RMB investments products are expected in Hong Kong, with the next major development likely to be in the listed products area. She also indicated that a small-scale Qualified Foreign Institutional Investor or QFII-like quota in RMB, allowing direct investments into mainland China exchange-traded instruments, is expected to be introduced on a pilot trial basis in Hong Kong.

Speech: [http://www.sfc.hk/sfc/doc/EN/speeches/speeches/10/Alexa\\_20100929.pdf](http://www.sfc.hk/sfc/doc/EN/speeches/speeches/10/Alexa_20100929.pdf)

Press Release: <http://www.sfc.hk/sfcPressRelease/EN/sfcOpenDocServlet?docno=10PR116>

## 17. PBC issues measures on administration of RMB settlement accounts opened by offshore institutions

29 September 2010

The People's Bank of China (PBC) has promulgated the 'Measures on Administration of RMB Bank Settlement Accounts opened by Offshore Institutions'. The Measures apply to RMB bank settlement accounts opened by institutions duly incorporated outside China (including Hong Kong, Macau and Taiwan) ('Offshore Institutions') with Chinese funded banks or foreign funded banks in China licensed to handle domestic and foreign settlements ('Banks'). However, the Measures do not apply to RMB bank settlement accounts opened by foreign central banks (monetary authorities), inter-bank accounts opened by foreign commercial banks for the purpose of providing RMB clearing and settlement services, RMB special accounts opened by QFIIs for the purpose of securities investment, or RMB special accounts opened by foreign institutions for the purpose of investing in onshore inter-bank bonds market.

Amongst other things, under the Measures:

- Offshore Institutions are permitted to open RMB bank accounts with Banks for the purpose of paying and receiving RMB funds, and using such accounts to carry on various cross-border RMB business;
- opening RMB bank settlement accounts shall be approved by local branches of the PBC, and an applicant shall submit to a local branch of the PBC through a Bank it designates the following documents:
  - an account opening application letter;
  - the relevant documents evidencing that the applicant is duly incorporated offshore; and
  - the laws, regulations or government approvals upon which it carries on relevant business in China;
- Offshore Institutions may not use their RMB bank settlement accounts to handle cash business without approval from the PBC; and
- the RMB funds in the RMB bank settlement accounts may not be converted into foreign exchange, unless explicitly permitted otherwise in the relevant regulations.

Measures: [http://www.pbc.gov.cn/publish/zhifujiesuansi/1067/2010/20100929154441253564114/20100929154441253564114\\_.html](http://www.pbc.gov.cn/publish/zhifujiesuansi/1067/2010/20100929154441253564114/20100929154441253564114_.html)

## 18. HKEx's Chief Executive discusses internationalisation of RMB

21 September 2010

The Chief Executive of Hong Kong Exchanges and Clearing Limited (HKEx), Charles Li, has given a speech covering six key questions about the internationalisation of the RMB. Internationalisation of the RMB has been one of the hottest topics in Hong Kong's financial markets recently, and is also a major component of HKEx's 2010-2012 Strategic Plan.

The six questions discussed by Mr. Li are:

- why there is a need to internationalise the RMB;
- whether RMB internationalisation is feasible and realistic in the current environment;
- what the likely roadmap of development is;
- why Hong Kong can be an offshore RMB centre in this development;
- what the commercial opportunities potentially available to Hong Kong are; and
- what Hong Kong needs to do to prepare itself.

Speech: <http://www.hkex.com.hk/eng/newsconsul/speech/2010/sp100920.htm>

## 19. HKMA advises authorised institutions on selling of RMB deposit, investment and insurance products

16 September 2010

The Hong Kong Monetary Authority (HKMA) has issued a circular advising authorised institutions (AIs) on the selling of RMB deposit, investment and insurance products. The circular reminds AIs to ensure that the specific nature and risks of such products are adequately taken into account in the product due diligence process and the suitability assessment of customers. It further notes that while a low risk rating may be assigned to sovereign RMB bonds given the specific product nature and lower risks involved, a higher risk rating may be required for RMB products involving more complex structures and higher risks.

Whilst the circular focuses on the disclosure of the nature and risks of RMB products to customers, it also reminds AIs that it is important for them to take all reasonable steps to ensure that the proposed transaction is suitable for the customer, having regard to the customer's own personal circumstances together with the nature and risks of the product when making any solicitation, recommendation or advice.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20100916e1.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20100916e1.pdf)

## 20. PBC issues interim measures on issuance of bonds in RMB by international development institutions

16 September 2010

The People's Bank of China (PBC) has promulgated the 'Interim Administration Measures on Issuance of Bonds in RMB by International Development Institutions', which amend an earlier version dated 18 February 2005. Amongst other things, the definition of international development institution ('IDI') has been expanded to include multi-lateral, bilateral and regional international development institutions providing development loans and investments. However, the definition of the bonds in RMB issued by an IDI ('IDI RMB Bonds') remains same - the bonds issued by an IDI in the People's Republic of China, principals and interest of which are to be repaid within a certain period of time, and are denominated in RMB.

In order to facilitate the cross-border features of the IDI RMB Bonds, the State Administration of Foreign Exchange ('SAFE') has been added to the original approving authorities (the PBC, the Ministry of Finance, the National Development and Reform Commission, and the China Securities Regulatory Commission). The issuance of IDI RMB Bonds shall ultimately be approved by the State Council. Amongst other things, the eligibility criteria of an IDI under the new interim measures include that:

- the IDI RMB Bonds to be issued must be graded as AA by two rating firms (one of which must be incorporated in China and have the capability to rate RMB bonds);
- the IDI has provided over USD 1 billion loans or equity capitals to Chinese domestic projects and enterprises, unless exempted by the State Council; and
- the proceeds should be prioritised to provide middle and long term fixed assets loans or equities to Chinese domestic enterprises.

The proceeds of IDI RMB Bonds can be directly remitted offshore pursuant to regulations of the PBC, or converted to foreign currency for offshore use with the approval of the SAFE (in which case, the IDI must report the true purpose of the conversion for offshore use, and periodically file with SAFE the utilisation of the proceeds).

To repay the principal and interest of IDI RMB Bonds, the IDI may elect to remit RMB from offshore upon filing with PBC, or to remit foreign currency from offshore and convert it into RMB upon SAFE approval.

After issuance, IDI RMB Bonds can be traded in China upon approval, and the issuance and defaults of IDI RMB Bonds shall be governed by Chinese law.

Interim Measures:

[http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2010/20100930144622583961548/20100930144622583961548\\_.html](http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2010/20100930144622583961548/20100930144622583961548_.html)

## 21. HKEx publishes amendments to operational procedures and clearing rules to facilitate trading and settlement of RMB denominated products

10 September 2010

Hong Kong Exchanges and Clearing Limited (HKEx) has published amendments to the Central Clearing and Settlement System (CCASS) operational procedures, which are intended to enable operational readiness for the clearing and settlement of RMB denominated transactions in CCASS. HKEx has also published amendments to the Option Clearing Rules, which are designed to enable the clearing of RMB denominated products by SEHK Options Clearing House Limited (SEOCH) to accept RMB as margin collateral for SEOCH transactions. The amendments are effective from 13 September 2010.

CCASS procedural amendments:

[http://www.hkex.com.hk/eng/rulesreg/clrrules/clrruleupdate\\_ccassop/Documents/29-10-CCASSOP-RMB\\_e.pdf](http://www.hkex.com.hk/eng/rulesreg/clrrules/clrruleupdate_ccassop/Documents/29-10-CCASSOP-RMB_e.pdf)

SEOCH rules amendments:

[http://www.hkex.com.hk/eng/rulesreg/clrrules/clrruleupdate\\_ocr/Documents/31-10-OCR-RMB\\_e.pdf](http://www.hkex.com.hk/eng/rulesreg/clrrules/clrruleupdate_ocr/Documents/31-10-OCR-RMB_e.pdf)

## 22. SFC issues circular on preparation for trading and settlement of listed RMB denominated products

09 September 2010

Further to its circular dated 31 August 2010 on the operational readiness for business activities concerning listed RMB denominated products, the Securities and Futures Commission (SFC) has reminded Stock Exchange of Hong Kong (SEHK) participants about the Hong Kong Monetary Authority (HKMA)'s circular dated 3 September 2010 on the preparation for the trading and settlement of listed RMB denominated products. The SFC has advised brokers to take note of the restrictions on RMB lending by banks as set out in the HKMA's circular. In addition, the SFC has reminded brokers to set up RMB credit facilities with their clearing banks as soon as possible if needed, so as to facilitate the trading and settlement of listed RMB denominated products in the near future.

SFC circular:

<http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H599>

HKMA circular:

[http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20100903e1.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20100903e1.pdf)

### 23. HKMA revises reporting of RMB business data

07 September 2010

The Hong Kong Monetary Authority (HKMA) has revised the Return of Renminbi Business Activities (MA(BS)16) to take account of the changes arising out of the latest development with regards to RMB business in Hong Kong, following consultations with two industry associations. The revised return and completion instructions are attached to the circular.

The HKMA has indicated that all authorised institutions (AIs) are required to file the revised return starting from the position of September 2010 in accordance with the usual time table, i.e. within 21 days from the end of each calendar month. The HKMA will notify AIs when the electronic version of the revised return is available on its private website.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20100907e1.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20100907e1.pdf)

### 24. HKMA reminds authorised institutions of SFC circular on listed RMB products

03 September 2010

The Hong Kong Monetary Authority (HKMA) has issued a circular to draw the attention of authorised institutions (AIs) to a circular issued by the Securities and Futures Commission (SFC Circular) on 31 August 2010. The SFC Circular advised intermediaries to ensure their readiness for the trading and settlement for future launches of listed RMB denominated products.

The HKMA has indicated that AIs planning to engage in the trading and settlement of listed RMB products should implement proper controls and necessary operational and system changes. In addition, it has reminded AIs that plan to provide customers with RMB loan facilities to facilitate their investment in such products that RMB lending to personal customers and designated business customers (DBC)s is currently not permissible. The HKMA has further indicated that while AIs are permitted to extend RMB loans to corporate customers including other financial intermediaries, they should take reasonable steps to ascertain that such loans will not in turn be lent by the corporate customers concerned to personal customers and DBCs.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20100903e1.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20100903e1.pdf)

### 25. SFC reminds exchange participants to ensure operational readiness for business activities concerning listed RMB denominated products

31 August 2010

The Securities and Futures Commission (SFC) has issued a circular to remind participants of the Stock Exchange of Hong Kong Limited (SEHK) to ensure operational readiness for business activities arising from potential listing of products denominated in RMB.

Amongst other things, exchange participants are advised to:

- arrange with the SEHK and Hong Kong Securities Clearing Company Limited (HKSCC) to test the capability of their trading and clearing systems;
- review the readiness of their front office, back office and internet trading systems; arrange with their clearing banks to open RMB bank accounts as soon as possible; and
- establish effective operating and risk management controls to prudently manage liquidity and exchange rate risks when conducting RMB denominated business.

Circular: <http://www.sfc.hk/sfcRegulatoryHandbook/EN/displayFileServlet?docno=H597>

### 26. HKMA issues guidance to authorised institutions in relation to pilot scheme for RMB clearing bank and other eligible institutions to invest in Mainland's interbank bond market

17 August 2010

The Hong Kong Monetary Authority (HKMA) has issued guidance to authorised institutions (AIs) in relation to the pilot scheme promulgated by the People's Bank of China (PBoC) for the RMB clearing bank and other eligible institutions outside the Mainland to make use of their RMB funds to invest in the Mainland's interbank bond market.

Under the pilot scheme and the HKMA guidelines, all Als engaging in cross-border RMB trade settlement can participate in the interbank bond market in the Mainland through a settlement agent, upon approval by the PBoC. The HKMA has indicated that Als engaging in this activity should apply to the PBoC directly and comply with the applicable rules and regulations in the Mainland. It has further indicated that Als should however note that they cannot execute transactions in the Mainland interbank bond market with a counterparty which is a group company of the AI itself. The HKMA expects Als to put in place effective policies and procedures as well as proper internal control systems to ensure compliance with the relevant rules and regulations. The HKMA also expects Als submitting their application to the PBoC to participate in the interbank bond market to keep it informed of the progress of the application.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20100817e2.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20100817e2.pdf)

Press Release: [http://www.info.gov.hk/hkma/eng/press/2010/20100817e4\\_index.htm](http://www.info.gov.hk/hkma/eng/press/2010/20100817e4_index.htm)

## 27. PBC notice on issues concerning investments in intra-bank bonds market in RMB published

16 August 2010

The People's Bank of China (PBC) has published a notice on relevant issues in relation to three kinds of institutions' investments in the intra-bank bonds market in RMB on a pilot basis. The Notice has been issued in conjunction with the pilot programme of using RMB to settle cross-border trades and is intended to further facilitate and widen the channels for offshore RMB's back-flow.

Amongst other things, the notice includes the following provisions :

- the three kinds of competent institutions are offshore central banks or currency authorities ('Offshore Central Banks'), RMB clearance banks of Hong Kong and Macau ('RMB Clearance Banks'), and offshore participating banks of RMB settlement of cross-border trade ('Offshore Participating Banks') (collectively 'Offshore Institutions');
- the RMB funds permitted to invest in the inter-bank bonds market shall come from currency cooperation between central banks, cross-border trade and investment in RMB business;

- Offshore Central Banks and RMB Clearance Banks may entrust inter-bank bonds market settlement agents which have the capability of conducting international settlement business to trade and settle bonds - they may also directly apply to open a bonds account with China Central Depository & Clearing Co., Ltd. and complete the relevant procedures with Nation Interbank Funding Center;
- Offshore Participating Banks shall entrust inter-bank bonds market settlement agents which have the capability of conducting international settlement business to trade and settle bonds;
- Offshore institutions shall open RMB special accounts for the funds settlement of bonds transactions - each institution is only permitted to open one RMB special account; and
- Offshore institutions can only make investments within their approved quota but are not permitted to trade bonds with their affiliate enterprises.

The Notice also applies to other offshore financial institutions that participate in the cross-border services settled by RMB on a pilot basis and use RMB funds to invest in the inter-bank bonds market.

Notice: [http://www.jris.com.cn/attachments/2492\\_%E9%8A%80%E7%99%BA%5B2010%5D217%E5%8F%B7%EF%BC%88%E4%B8%AD%E6%96%87%EF%BC%89.pdf](http://www.jris.com.cn/attachments/2492_%E9%8A%80%E7%99%BA%5B2010%5D217%E5%8F%B7%EF%BC%88%E4%B8%AD%E6%96%87%EF%BC%89.pdf)

## 28. SFC authorises first RMB-denominated fund

06 August 2010

The Securities and Futures Commission (SFC) has authorised the first fund denominated in RMB for sale to retail investors in Hong Kong under the enhanced product authorisation regime. The SFC has indicated that it has been working closely with industry participants to enable the introduction of RMB-denominated investment products to support the initiative to develop Hong Kong into an offshore RMB centre. The SFC anticipates that as the RMB becomes more popular and widely held outside the Mainland, demand for RMB-denominated investment and financial products will grow, and believes that Hong Kong's role is to make these products available and manage their risks.

Press Release: <http://www.sfc.hk/sfcPressRelease/EN/sfcOpenDocServlet?docno=10PR92>

## 29. HKMA publishes circular on RMB business in Hong Kong

19 July 2010

The Hong Kong Monetary Authority (HKMA) and the People's Bank of China (PBoC) have signed a Supplementary Memorandum of Co-operation on the expansion of the RMB trade settlement scheme. The PBoC and the RMB clearing bank have also signed a revised settlement agreement on the clearing of RMB businesses (Clearing Agreement).

In this context, the HKMA has issued a circular to draw the attention of authorised institutions (AIs) to the key amendments made by the revised Clearing Agreement and to set out supervisory guidance to AIs participating in RMB business. Amongst other things, the key changes to the Clearing Agreement include that:

- there will no longer be any restrictions on establishing RMB accounts and transferring RMB funds (including cheque payments in Hong Kong) between different accounts for personal customers and designated business customers, whether within the same AI or not; and
- AIs can open RMB deposit accounts for any corporate customers for general purposes subject to usual banking practices and requirements in Hong Kong.

The HKMA expects participating AIs to have a clear understanding of the contractual terms in their agreements with the RMB clearing bank or Mainland China correspondent banks. AIs are also expected to establish internal guidelines on the new scope of RMB business to elaborate on the operating systems and procedures, or revise existing guidelines as appropriate. These should be submitted to the HKMA within one month.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20100719e1.pdf](http://www.info.gov.hk/hkma/eng/guide/circu_date/20100719e1.pdf)

## 30. HKMA explains supervisory principles and operational arrangements regarding RMB business in Hong Kong

11 February 2010

HKMA has issued a circular to explain the supervisory principles and operational arrangements regarding RMB business in Hong Kong. The supervisory principles for cross-border flows of RMB funds are:

- cross-border flows of RMB funds into and out of Mainland China should comply with the rules and requirements in the Mainland China; and
- with regard to the RMB funds that have flowed into Hong Kong, participating authorized institutions (AIs) can develop RMB businesses based on the regulatory requirements and market conditions in Hong Kong, as long as these businesses do not entail the flow of RMB funds back to Mainland China.

The supervisory principles should be applied to the day-to-day operations of participating AIs such as deposit-taking, RMB conversions, RMB remittances to and out of Mainland China, lending, RMB bonds and cheque and credit card services accordingly.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20100211e1\\_index.htm](http://www.info.gov.hk/hkma/eng/guide/circu_date/20100211e1_index.htm)

## 31. HKMA explains simplified arrangements for selling of RMB sovereign bonds

08 September 2009

The Hong Kong Monetary Authority (HKMA) has issued a circular to explain the simplified arrangements for selling RMB sovereign bonds, which will be launched in Hong Kong on 28 September 2009. The co-arrangers consider that the features and risks of RMB sovereign bonds are not difficult for an average investor to understand and therefore proposed simplified arrangements for the sales of these bonds. The arrangements have been formulated in consultation with the Securities and Futures Commission (SFC) to ensure consistency with the principles of the suitability requirements in the Code of Conduct for Persons Licensed by or Registered with the SFC. In the circular, the HKMA explains, amongst other things:

- the client risk profiling process;
- the simplified selling process;
- the arrangement of selling through non-designated areas in branches; and
- the arrangement of selling through other distribution channels.

In addition, the circular addresses the treatment of transactions involving vulnerable customers, tenor mismatch or high asset concentration.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20090907e1\\_index.htm](http://www.info.gov.hk/hkma/eng/guide/circu_date/20090907e1_index.htm)

### 32. HKMA clarifies treatment of RMB assets and liabilities generated from RMB cross-border trade settlement for calculation of liquidity ratio

29 July 2009

The Hong Kong Monetary Authority (HKMA) has issued a circular to clarify the treatment of renmibi (RMB) assets and liabilities generated from RMB cross-border trade settlement for the purposes of calculating the liquidity ratio. Participating authorised institutions can, pursuant to the requirements set out in the Fourth Schedule to the Banking Ordinance, include these RMB assets and liabilities in the calculation of the liquidity ratio, provided the amount of RMB assets reported as liquefiable assets in the Return of Liquidity Position (MA(BS)1E) is limited to 25% of the qualifying RMB liabilities in the Return.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20090729e1\\_index.htm](http://www.info.gov.hk/hkma/eng/guide/circu_date/20090729e1_index.htm)

### 33. HKMA issues circular to AIs providing guidance on RMB cross-border trade settlement

06 July 2009

Following up on the promulgation of the administrative rules on RMB cross-border trade settlement by the People's Bank of China (PBoC) on 1 July 2009, the Hong Kong Monetary Authority (HKMA) has issued a circular setting out its supervisory guidance to authorised institutions (AIs) participating in RMB cross-border trade settlement. The circular covers, amongst others, the following:

- the eligibility of restricted licence banks and deposit-taking companies to become participating AIs;
- the two approaches to conduct RMB cross-border trade settlement business, ie through the clearing bank and through correspondent banks in the Mainland China;
- the participating AIs' scope of RMB business services and RMB funding;
- the importance for the participating AIs to set up internal control systems to ensure compliance with the relevant RMB clearing and settlement agreements; and
- the exchange rate and liquidity risks involved in RMB business.

Circular: [http://www.info.gov.hk/hkma/eng/guide/circu\\_date/20090706e1.htm](http://www.info.gov.hk/hkma/eng/guide/circu_date/20090706e1.htm)

### 34. HKMA and PBoC sign RMB supplementary pact

29 June 2009

The Hong Kong Monetary Authority (HKMA) and the People's Bank of China (PBoC) have signed a supplementary Memorandum of Co-operation to prepare for the implementation of the pilot scheme for the use of RMB in settling cross-border trade transactions between Mainland China and Hong Kong. The PBoC and the HKMA have been working closely on the implementation of the pilot scheme, including the related arrangements for the cross-border settlement and clearing of RMB funds and amendments to the existing legal documents, eg the clearing agreement for RMB business in Hong Kong. Once the relevant administrative rules in Mainland China are promulgated, banks in Hong Kong will be able to provide services to enterprises using RMB to settle trade transactions with their counterparts on the Mainland.

Press Release: [http://www.info.gov.hk/hkma/eng/press/2009/20090629e3\\_index.htm](http://www.info.gov.hk/hkma/eng/press/2009/20090629e3_index.htm)

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