

For information

The LegCo Panel on Financial Affairs
Clearing Bank for Renminbi Business in Hong Kong

Introduction

At the request of the Chairman of the Panel, we have prepared this paper to inform Members of the arrangements and the selection process and criteria relating to the Clearing Bank for Renminbi business in Hong Kong.

Background

2. The Chief Executive, Mr Tung Chee-hwa, announced on 18 November that, following approval from the State Council, the People's Bank of China (PBoC) will provide clearing arrangements for banks in Hong Kong that engage in personal Renminbi business including RMB deposit-taking, exchange, RMB cards and remittances. As RMB is not freely convertible, it is necessary to appoint in Hong Kong a clearing bank for RMB business (the Clearing Bank) so that special arrangements can be made to facilitate the flow of RMB funds between Hong Kong and the Mainland through the banking system. The Clearing Bank will be responsible for providing RMB clearing services as well as collecting and distributing RMB banknotes.

Roles of the Clearing Bank

3. In accordance with the PBoC Announcement No. 16 of 2003, the PBoC will authorize a Hong Kong licensed bank as the Clearing Bank to provide clearing services for banks in Hong Kong that engage in personal RMB business as stipulated in that Announcement. The Clearing Bank will be responsible for the following business in accordance with the authorization by the PBoC:

- (i) **Clearing services for RMB business:** The Clearing Bank will open RMB settlement accounts for those Hong Kong licensed banks participating in the RMB business (Participating Banks) and accept placement and withdrawal of RMB deposits from Participating Banks. The Clearing Bank will open a settlement account with the PBoC Shenzhen Sub-Branch to capture the deposits and withdrawal of RMB funds, which comprise deposits taken by both the Clearing Bank's itself and the Participating Banks. The deposits in the settlement account will bear interest.
- (ii) **Exchange:** The Clearing Bank will apply to become a member of the China Foreign Exchange Trade System. The Clearing Bank may buy or sell RMB

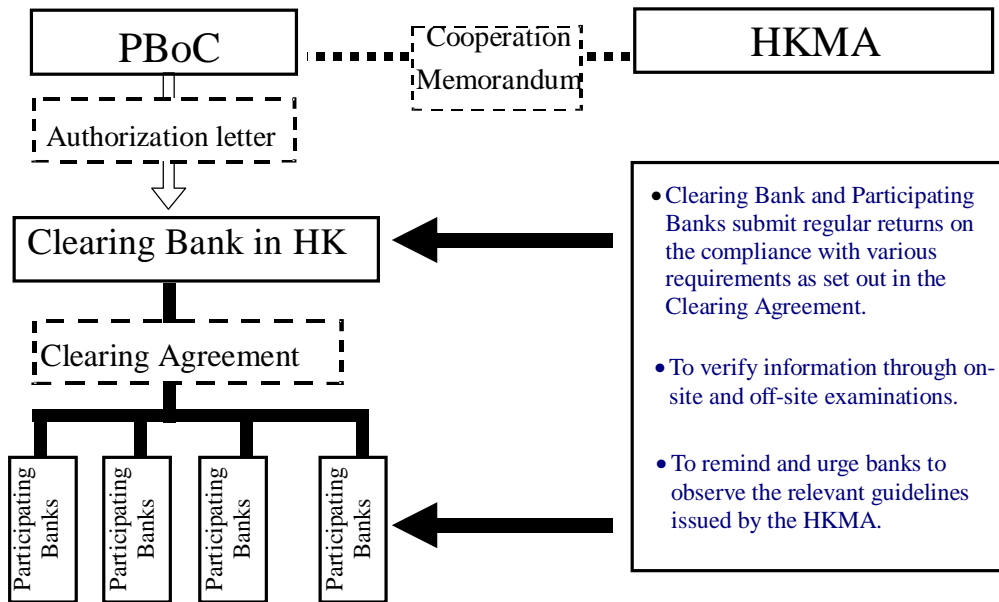
through the China Foreign Exchange Trade System after it has squared the RMB open positions with the Participating Banks that result from the exchange of RMB into Hong Kong dollars, and vice versa.

- (iii) **RMB cards:** The Clearing Bank will be responsible for co-ordinating the clearing arrangements for payments made under RMB cards issued by the Participating Banks and their subsidiaries.
- (iv) **Remittances:** The Clearing Bank will arrange for the remittance of RMB funds to the Mainland by the Participating Banks, and the remittance back to Hong Kong of RMB funds that have not been withdrawn, through the settlement account with the PBoC Shenzhen Sub-Branch.
- (v) **Shipment and the collection and replacement of RMB banknotes:** The Clearing Bank will arrange for the shipment of RMB banknotes between Hong Kong and the Mainland as appropriate. It will also make arrangements for the participating banks relating to the collection and replacement of worn or damaged RMB banknotes.

The role of the HKMA and the PBoC in the selection of the Clearing Bank

4. As RMB is not freely convertible and the Mainland's capital account is not yet fully liberalized, RMB funds cannot flow freely between the banking systems in Hong Kong and the Mainland. However, under this new arrangement, a licensed bank in Hong Kong will be authorized by the PBoC as the Clearing Bank to provide RMB clearing services to Participating Banks. This will open a new channel for the flow of RMB funds between Hong Kong and the Mainland through the banking system. A critical part of this arrangement is the opening of a settlement account at the PBoC Shenzhen Sub-Branch by the Clearing Bank for handling the settlement of RMB transactions. Therefore, the PBoC will be responsible for the selection and appointment of a qualified licensed bank in Hong Kong as the Clearing Bank while the HKMA will provide assistance in the process by offering advice on the criteria and procedures for the selection of Clearing Bank. After the appointment of the Clearing Bank by the PBoC, the HKMA will remind the Clearing Bank, in operating RMB clearing business, to comply with the PBoC authorization letter and the relevant regulatory requirements of the HKMA, such as the Guideline on Prevention of Money Laundering (please see fig. 1 below).

Fig.1 Operational and regulatory approaches for RMB clearing arrangement in Hong Kong



Selection process and criteria

5. The selection process of the RMB Clearing Bank in Hong Kong is as follow:

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|-------------|---|
| 18 November | With approval of the State Council, the PBoC announced that it would provide clearing arrangements for banks in Hong Kong that engage in Renminbi business. |
| 19 November | The PBoC, through HKMA, issued letter to invite banks to apply to become the RMB Clearing Bank and disclosed the selection criteria. |
| 26 November | 7 banks expressed interest in applying as RMB Clearing Bank and were asked to submit proposals to apply as RMB Clearing Bank. |

10 December	Proposals were received from 6 banks.
18 December	Experts from the PBoC came to Hong Kong and conducted selection interviews with applicant banks.
24 December	Announcement of the decision to appoint Bank of China (Hong Kong) Limited as the Clearing Bank.

6. In the letter from PBoC Governor Zhou Xiaochuan that was issued via the HKMA to invite Hong Kong banks to apply to become RMB Clearing Bank, the following selection criteria were disclosed:

- (i) Experienced in the provision of clearing services (including experience in the shipment as well as processing and safe custody of large amount of banknotes)
- (ii) Processing a sound system network
- (iii) Knowledgeable in the financial policies and regulations of the two jurisdictions
- (iv) Competent in providing high-quality clearing service (for example, efficiency and reliability of operations, fees and charges etc.)

7. Based on the above criteria and having assessed the proposals submitted by the banks, the PBoC decided to select Bank of China (Hong Kong) Limited as the Clearing Bank for a term of three years and announced the result on 24 December. The PBoC, after consultation with the HKMA, will conduct regular appraisals on the Clearing Bank to ensure that it can provide high quality RMB clearing service to Participating Banks. The possibility to consider based on the prevailing situation, appointing more than one Clearing Bank in the future has not been ruled out.

Enquiry

8. Enquiries on this information note can be directed to Ms. Brenda Tao, Head of External Division, Hong Kong Monetary Authority (Tel: 2878 1622).

Hong Kong Monetary Authority
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