Press Release

LCQ5: Development of Renminbi business in Hong Kong

Wednesday, January 7, 2015

Following is a question by the Hon Martin Liao and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 7):

Question:

This year marks the 10th anniversary of the development of offshore Renminbi (RMB) business in Hong Kong. To tie in with the launch of the Shanghai-Hong Kong Stock Connect, the mainland authorities removed on November 17 last year the conversion limit for Hong Kong people of RMB 20,000 per day, thereby creating opportunities for further development of RMB business in Hong Kong. In this connection, will the Government inform this Council:

(1) given that in response to the removal of the RMB conversion limit for Hong Kong people, quite a number of banks have introduced, one after another, a variety of RMB time deposits and structured products with different interest rates and tenors, and it has been reported that a survey found that the majority of investors did not quite understand RMB investment products and hence members of the public were exposed to considerable risks when choosing among a myriad of products, what measures the authorities will take to help investors assess the risks and returns of these new RMB investment products;

(2) given that the current daily remittance limit of RMB 80,000 to the Mainland by Hong Kong residents is kept unchanged because regulation of cross-border capital flows on the Mainland is involved, whether the authorities have discussed with the mainland authorities the timetable for removing such limit; if they have, of the details; if not, the reasons for that; and

(3) given that some members from the finance industry have pointed out that with the removal of the RMB conversion limit for Hong Kong people, the interactions between the RMB offshore and onshore markets will increase, which will in turn lead to higher volatility in both the RMB exchange rates and interest rates, and yet the foreign exchange control imposed by the mainland

authorities may not effectively regulate cross-border capital flows, what measures the authorities have put in place to prevent "grey" and "black" funds from entering Hong Kong, so as to uphold Hong Kong's reputation as an international financial centre?

Reply:

Acting President,

(1) The Investor Education Centre (IEC) conducts investor education through various channels and means, including publications, its website, seminars, media interviews and columns as well as programmes and education videos on television and radio. The educational activities cover a range of issues relating to investment and financial products, for instance, the features of and risks associated with Renminbi (RMB) products. These activities aim to remind investors of the need to pay attention to macroeconomic risks and promote a responsible investment attitude such as exercising discipline when trading derivatives and structured products and not following the herd when making investment.

In view of the recent relaxation of RMB conversion limit and strong market interest in RMB investment products, the IEC is putting together the necessary educational resources to help remind the public of the features of the products and the risks involved. Relevant messages will also be disseminated in the public seminars organised by the IEC in future. Last year, the IEC organised a seminar which covered a dedicated session entitled "Global economic view and RMB products" on the features and risks of popular investment products, and provided investor education activities in light of the launch of Shanghai-Hong Kong Stock Connect.

As regards regulatory requirements, the Hong Kong Monetary Authority (HKMA) requires banks to adopt additional safeguards in the sale of currency-linked investment products to retail customers. These include: (i) providing Important Facts Statements which present the features and risks of the products in a clear and concise manner; and (ii) allowing at least two calendar days' Pre-Investment Cooling-Off Period for less sophisticated customers to understand the product and consider their investment decisions before confirming an order.

In selling securities products, financial institutions must follow the relevant regulatory requirements, including disclosure of the features and risks of the products and ensuring that the recommendation or solicitation is reasonable.

(2) In 2004, Hong Kong launched offshore RMB business, including facilitating remittance of funds to the Mainland by Hong Kong residents, with the objective to facilitate economic and social exchanges between Hong Kong and the Mainland. In 2005, upon the Mainland authorities' agreement, the remittance limit was relaxed from RMB50,000 to RMB80,000 per person per day. Since remittance of funds to the Mainland by Hong Kong residents involves cross-border fund flows, whether the current limit can be further relaxed is subject to the relevant requirements of the Mainland. The HKSAR Government will, having regard to actual situations and needs, continue to liaise with the Mainland authorities on measures to expand the circulation and use of RMB funds between the onshore and offshore markets.

(3) Currently, RMB business involving cross-border flow of RMB funds with the Mainland, including cross-border trade settlement or remittances, is subject to the rules and requirements promulgated by the Mainland authorities. Furthermore, financial institutions and money changers are required to comply with the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Cap. 615) when handling cross-border fund flows (including RMB-related business), and adopt prudent risk management measures to prevent money laundering. The relevant regulatory authorities have also issued guidelines to assist financial institutions in formulating and implementing their own anti-money laundering and counter-terrorist financing policies, procedures and controls so as to meet the statutory requirements.

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