



RMB Internationalisation Information Pack

# RMB Expertise on the ground

11 July 2011



HSBC **Global Banking  
and Markets**

HSBC   
The world's local bank

Inside Cover  
(blank)

# Contents

<b>01. RMB – your next currency?</b>	<b>02</b>	<b>11. FAQ (Onshore)</b>	<b>41</b>
■ RMB internationalisation		■ General - RMB Trade Settlement	
<b>02. Market outlook</b>	<b>04</b>	■ Products, Tariffs and Processes	
■ A plan designed to match China’s rising economic power		■ Requirement of counterparty Areas/Clients	
■ Game plan in three stages		■ Customer Benefits	
■ Stages 1 and 2 already kicked off		<b>12. FAQ (Offshore)</b>	<b>45</b>
■ Surging Chinese investment in emerging market countries to guide		■ Currency conversion	
■ What is to come next?		■ Deposit-taking	
■ Rise of the redback: Timeline		■ Remittance	
<b>03. Market outlook — Implications for Hong Kong</b>	<b>08</b>	■ RMB loans	
■ Golden opportunity for Hong Kong		■ RMB bonds	
■ Implications for Hong Kong as an offshore RMB centre		■ Interbank transfers, use of cheques and cash withdrawals	
■ Offshore RMB products available in Hong Kong		■ General information	
<b>04. Market outlook — Implications for offshore corporates</b>	<b>11</b>	■ Trade settlement	
<b>05. What can HSBC do for you?</b>	<b>12</b>	■ Foreign exchange	
■ Definitive HSBC		■ Offshore RMB IPO	
■ RMB Achievements		■ Account openings	
■ HSBC RMB products and capabilities — at a glance		<b>13. Case studies (Offshore)</b>	<b>55</b>
■ HSBC — Your partner of choice for Dim Sum Bonds		<b>14. Appendices</b>	<b>57</b>
<b>07. Market situation — Onshore</b>	<b>16</b>	■ Appendix A : Supplementary information on RMB IRS Floating Rate Index (onshore and offshore)	
■ Overview of onshore interest rate market and regulations		■ Appendix B : RMB Clearing System in Hong Kong	
<b>08. HSBC RMB onshore capabilities</b>	<b>18</b>	■ Appendix C : Chronology of RMB liberalisation	
■ HSBC in Mainland China		<b>15. Appendix D — Other information</b>	<b>64</b>
■ Onshore RMB FX capabilities in China		■ Location of approved RMB trade settlement provinces in China	
■ Onshore Financing		■ RMB offshore trade settlement — Clearing arrangement	
<b>09. Market situation — Offshore</b>	<b>22</b>	■ Offshore deliverable RMB FX spot — Two-tier markets	
■ Offshore deliverable RMB market in Hong Kong		■ Offshore deliverable RMB FX forward market	
■ Summary of deliverable RMB services by banks in Hong Kong		■ FX and interest rate market capacity	
<b>10. HSBC RMB offshore capabilities</b>	<b>24</b>	■ RMB deposit base vs. RMB bond in Hong Kong	
■ Offshore account services		■ Offshore RMB bond market dynamics — summary	
■ Offshore RMB Trade Settlement Account		■ Recent RMB Bond issuance in Hong Kong	
■ Offshore fund transfers		■ Regulatory approval for remittance of RMB bond proceeds to Mainland China	
■ Offshore interest rates		■ Indicative levels of offshore deliverable RMB deposit/CD/ bond	
■ Offshore RMB funding/financing/borrowing		■ Glossary	
■ Offshore investment		■ Contact information	
■ Offshore RMB IPO			
■ HSBC — Your partner of choice for RMB IPOs			

# ***RMB – Your next currency?***



人民幣 RMB

# RMB internationalisation

## Introduction

If there is to be a rival to the dollar as the world's reserve currency in the 21<sup>st</sup> Century, it surely must be the Chinese Renminbi (or RMB; currency sign: ¥; code: CNY). Already the world's second largest economy, China is likely to be the biggest by the 2030s. It is already the world's biggest exporter. Yet to date, its currency has been severely underrepresented in global trade and capital markets. As China seeks to close the mismatch between the global presence of its economy and that of its currency, the world may be looking at a financial revolution of truly epic proportions.

As a strategic priority, Chinese policymakers have already (and will continue to) introduced multiple accommodative taxation, trade finance and capital account measures to facilitate the RMB internationalisation process. More importantly, cost savings on foreign exchange transactions and the appreciation of the RMB should increasingly encourage traders and investors, both in and out of China, to switch to the currency at the dollar's expense.

Sensing the potential for business, banks – especially multi-national ones – have also been eager to get involved in RMB cross-border trade; their early participation effectively helped launch a global clearing system for the RMB within a matter of months. Supported at the highest political levels, this catalytic mix of drivers means that the acceleration and contours of the RMB internationalisation process will be faster and more varied than many expect.

## What is the fuss about?

- Seen by many as the ultimate solution to China's dollar trap.
- Three-step process:
  - 1) Trade settlement;
  - 2) Investment/financing;
  - 3) Reserve holdings (though reserve currency still a long way away).
- Expanding use of RMB in trade settlement has been and will be faster than many expect.

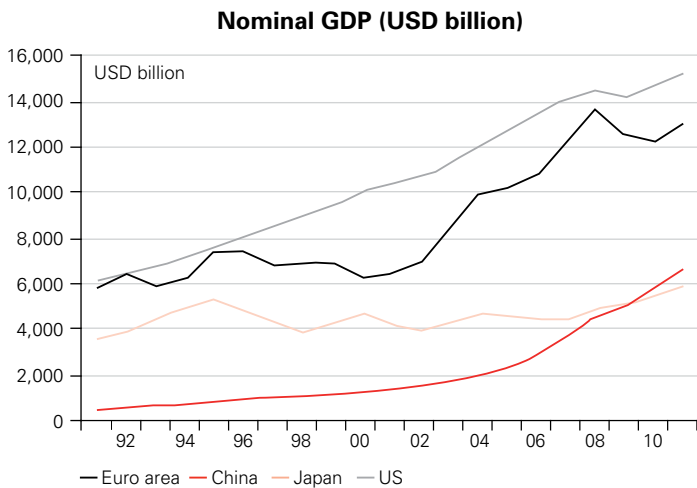
## Why is it important to you?

- This move will make Chinese exporters/importers more competitive by lowering their costs and exchange rate risks, with the export recovery in China likely to be quicker and stronger than in many other countries in the coming years.
- This switch will likely lower the growth in China's dollar reserves.
- Combined with initiatives to allow foreign companies to issue RMB bonds and IPOs, this implies a sharp slowdown in China's dollar accumulation in the coming years.
- The plan implies a policy preference for a steady appreciation of RMB over time creating interesting investment opportunities.
- Expanding RMB cross-border trade increases the importance of FX hedging for corporates globally.
- Finally, Hong Kong will be best positioned to benefit as the top offshore centre for RMB.



# Market outlook

## A plan designed to match China's rising economic power



Source: IMF, HSBC

- China has kicked off an ambitious scheme to raise the RMB role in international trade and finance to reduce its reliance on the US dollar.
- This will be a multi-year and gradual process.
- It is believed that the pace is likely to be faster than many expect given China's role as the world's second largest trading country and second biggest economy.

## Game plan in three stages



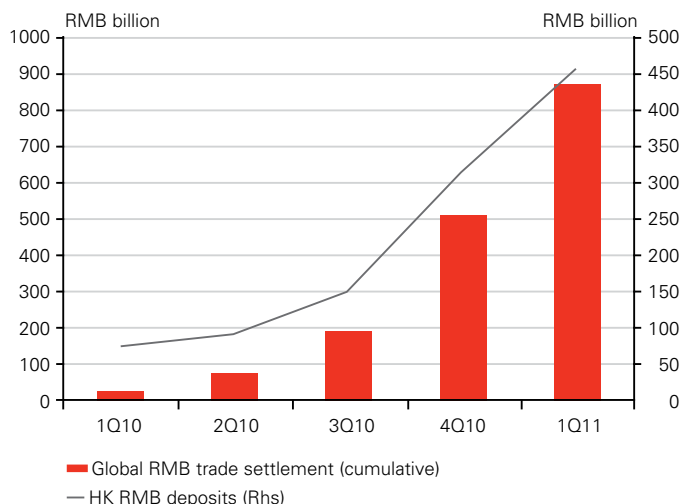
Source: HSBC

The RMB internationalisation process can be broadly classified into three stages.

- The first stage kicked off in June 2009 with the launch of the RMB trade settlement pilot scheme.

- The second stage was launched when Beijing opened up its onshore RMB bond market to foreign central banks with swap lines arranged with People's Bank of China (PBoC) and all RMB clearing banks as well as RMB trade settlement participating banks on 17 August 2010.
- The third stage of promoting RMB as an international reserve currency should be considered as more symbolic than material at present.

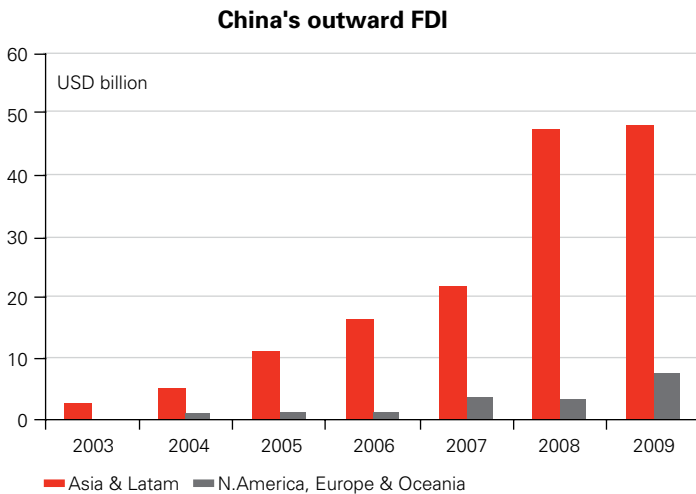
## Stages 1 and 2 already kicked off



Source: HSBC, PBoC, CEIC

- Currently, Beijing is working on speeding up the voluntary adoption of the RMB trade settlement scheme by foreign traders, by making it more attractive to hold RMB both on and offshore.
- RMB still lacks (and will lack, for many years to come) many of the required characteristics of a reserve currency.
- Nonetheless, the push and acceleration of the process towards this goal will likely make forecasters pull in projected timelines as to when markets might expect RMB to be a serious alternative as a global reserve currency.

# Surging Chinese investment in emerging market countries to guide



- We see much potential in China's trade with emerging economies (non-G3), which has seen exponential growth since 2007.
- In order to satisfy its swelling appetite for energy and raw materials, Beijing has, in recent years, actively pursued a strategy of outward investment – in which Chinese state-owned enterprises (SOEs) and private companies alike are encouraged to purchase property rights to energy and commodity assets overseas.
- Since emerging markets supply the bulk of such goods to China, they have ended up as the main recipients of such FDI funds and also supply the bulk of intermediate goods used in China's assembly processes to China. As such, we expect imports from these economies to account for an increasing share of RMB trade settlement.
- Non-G3 imports equates to ~65% of China's total imports in 2010 vs. 52% in the 1990s, while China's exports to these account for 55% of total exports, higher than 50% in 1990s.
- The likelihood of rapid growth in emerging markets in the coming years implies increased demand for China-made products. We expect more than half of China's total bilateral trade with emerging markets to be settled in RMB by sometime between 2013 to 2015.

## What is to come next ?

### ■ Upsurge in RMB trade settlement transactions around the world

- We believe the expansion in cross-border trade, together with a more flexible RMB, will entail a continued surge in RMB trade settlement, particularly with non-G3 countries, given the huge potential for trade volume growth.

### ■ Upsurge in RMB denominated non-trade transactions both on and offshore

- Non-trade transactions could include offshore purchases of RMB-denominated corporate bonds or onshore RMB-denominated instruments by foreign investors.

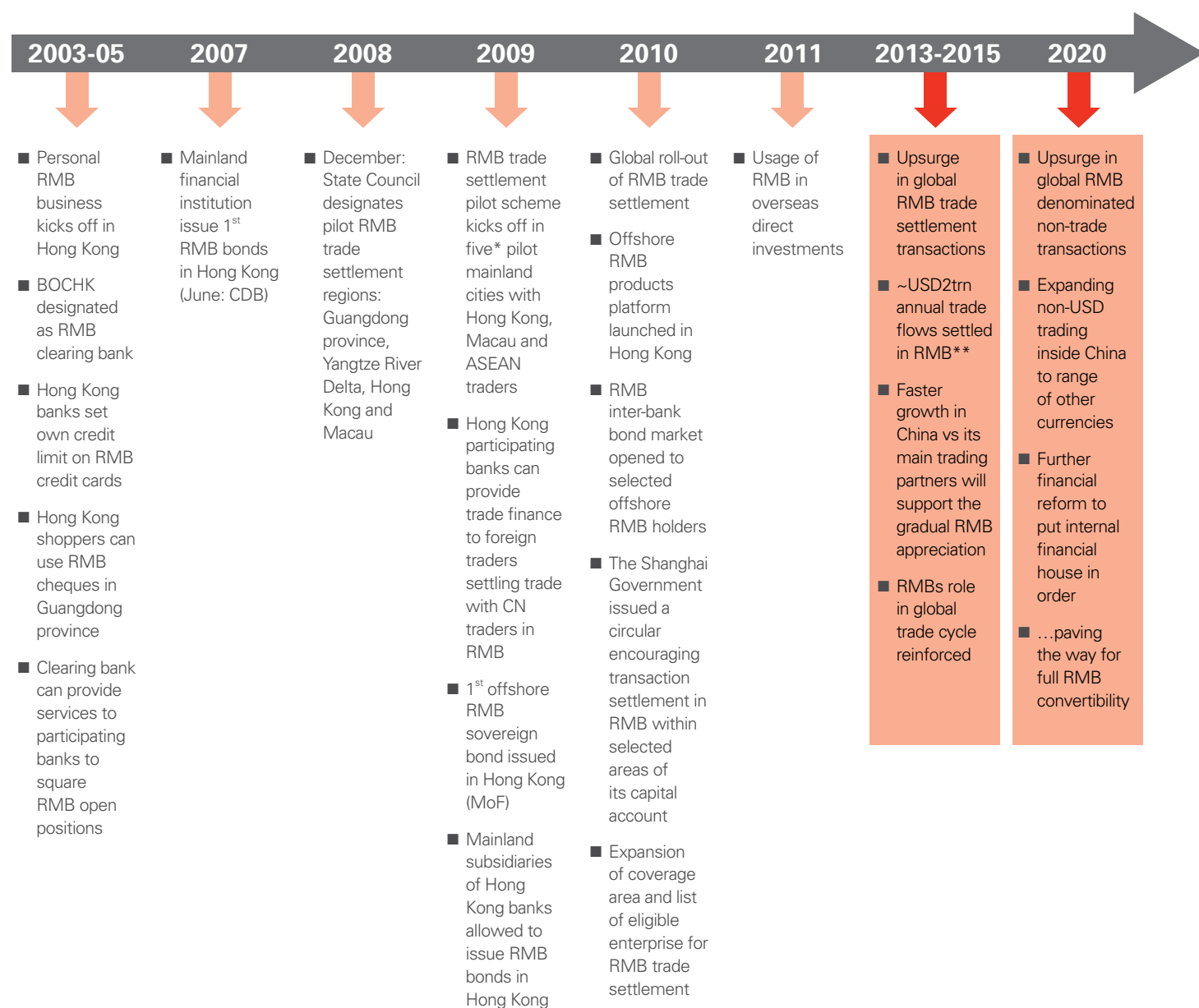
### ■ Expansion of non-USD trading inside China to a widening range of other currencies

- RMB-MYR trading was launched in Mainland China's onshore interbank market on 19 August 2010 which mean trade between Malaysia and China would no longer require the use of USD as an intermediary.
- On a net basis, the hypothetical potential reduced demand for USD will be equivalent to the net bilateral trade balance between Malaysia and China, if all bilateral trades were to switch to RMB-MYR settlement.

### ■ Mounting policy moves designed to accelerate this process

- We expect more policy measures that expand the RMB's offshore and onshore investment channels will be in place in order to facilitate the internationalisation of RMB.

# Rise of the redback: Timeline



Source: HSBC, Bloomberg, Hong Kong Monetary Authority (HKMA)

Forecast from 2013 to 2020 by HSBC.

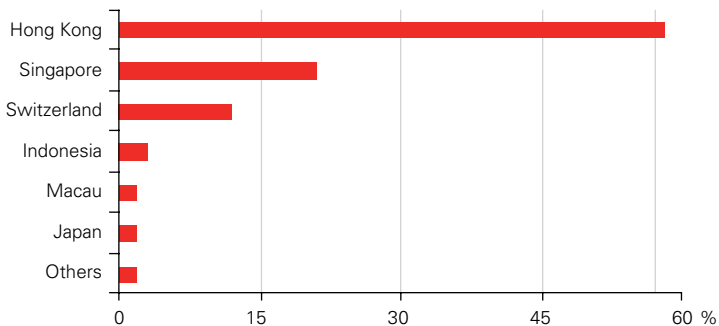
\* For "Mainland designated enterprises" only in Shanghai, Guangzhou, Shenzhen, Dongguan and Zhuhai.

\*\* Estimated by HSBC

# Market outlook – Implications for Hong Kong

## Golden opportunity for Hong Kong

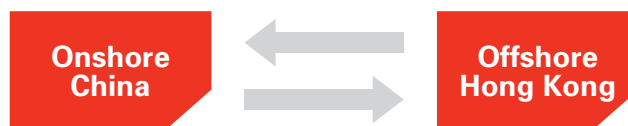
RMB cross-border trade settlement breakdown by region



Source: HSBC, PBoC(May 2010)

- Beijing has sharply accelerated the RMB liberalisation process in 2010, which opens up a golden opportunity for Hong Kong to position itself as a unique offshore launch-pad for RMB products.
- This opportunity held is one that commands unparalleled geographical, cultural, operational and/or regulatory access to the mainland markets vis a vis other regional financial centres like Tokyo.
- It is estimated that over half of China's international trade, or over USD2 trillion, could be settled in RMB by 2015.
- Over half of these will likely be settled in Hong Kong for the reasons stated above.

# Implications for Hong Kong as an offshore RMB centre



- Hong Kong's role in the internationalisation of RMB is to function as the final stop for where all RMB funds will be parked.
- The end-goal in the RMB internationalisation process is for foreign holders of RMB to have the capacity and desire to retain and invest their RMB funds both in and out of the mainland.
- For this on/offshore RMB circle to be completed, funds need to be parked in both on and offshore locations.
- As such, Hong Kong's comparative strength as an offshore RMB centre lies in its ability to develop a varied and wide range of RMB-related products and services.



# Offshore RMB investment products available in Hong Kong\*

Type		Date of first deal	Example	Comments
Certificates of deposit		July 2010	Citic Bank. Coupon: 2.68% p.a. Maturity: One year.	Banks who are "Authorised Institutions" in Hong Kong can issue RMB debt in CD formats. At present, RMB CD market issuers tend to be the HK branches of mainland banks. Documentation is relatively less complicated versus MTN cash notes/bonds.
Bonds	FIs incorporated in Mainland China	July 2007	China Development Bank Corporation. Coupon: 3.0% p.a. Maturity: Two years.	Relevant rules currently only exist for financial institutions (FI) issuers incorporated in Mainland China issuing in the RMB market. Issuance of this instrument dominated by Chinese state-linked banks and foreign banks incorporated in the mainland. The number of issuance remains low primarily due to the extended approvals process required by PBoC/NDRC before any issuance in the RMB market. However, relatively cheaper funding costs in Hong Kong's offshore market still provides an incentive for onshore FI issuers to issue in the RMB market.
	Corporate – foreign issuer	July 2010	(1) Hopewell Infrastructure issued RMB 1.38bn. Coupon: 2.98%. Maturity: Two years.  (2) McDonalds issued RMB200m. Coupon: 3.0% p.a. Maturity: Three years.	No approval needed from either Hong Kong or China regulators for issuing RMB bonds in Hong Kong, unless repatriation of proceeds into China is desired by foreign corporate issuers. In the latter case, permission to repatriate funds must be applied via one of two channels: 1. foreign debt: PBoC; SAFE (or local SAFE); 2. registered capital: PBoC, Ministry of Commerce (or local bureau of MoC), SAFE (or local SAFE). Again, the relatively cheaper funding cost in the offshore market still provides an incentive for issuers to issue in the RMB market instead of the onshore equivalent.
	Sovereign	October 2009	Ministry of Finance issued a total RMB6bn in three tranches on two, three, and five years and coupon 2.25%, 2.7% and 3.3% respectively.	Symbolically significant as it signalled the priority the Chinese government is giving to the offshore development of RMB bonds. The MOF issuance also established the first RMB sovereign yield curve outside China.
Structured deposits/notes		July 2010	BOCHK RMB leveraged structured deposit; HSBC equity linked note, HSBC FX-linked deposit. Various maturities and coupons.	Typically linked to an underlying index that ranges from currency, to interest rate, to equity, to gold. Deposits referencing RMB have been around for some time, whereas those denominated in RMB were only available from July 2010 onwards.
Insurance products		Late 2009	RMB insurance policies from Bank of China Group (BOCG) Life and China Life Insurance (Overseas). Maturity: mostly 5-10 years, some for life. Premium payments for RMB-denominated savings insurance plans could be settled in RMB as of July 2010.	Full potential has thus far been limited because insurers are restricted in their ability to locate assets with long-enough tenors to match those of the policies they are offering. The ADB RMB bond's 10-year tenor helps to alleviate this by setting the first long term benchmark yield for future issuances of longer-termed products.
Investment funds		August 2010	Hai Tong Asset Management's launched the "Haitong Global RMB Fund" with a RMB5bn ceiling, to be sunk into overseas fixed income RMB products including notes and bonds.	Limited by the channels for re-investment into the mainland. The introduction of rules allowing "RMB denominated mini QFII", possibly by year-end, could help catalyse the speed and depth of development for such funds.

Source: HSBC, Bloomberg  
\* As of November 2010.

# *Market outlook*

## *– Implications for offshore corporates*

### **RMB accounts**

- Offshore corporate can now open RMB account(s) with banks worldwide, for both trade and general purposes.
- Transfer of RMB funds (limited to offshore only) between different accounts are allowed without restrictions in Hong Kong.

### **RMB borrowing/financing**

- Besides the RMB trade financing facilities, all other type of loans in RMB are also available. Offshore corporate can also issue bonds denominated in RMB.
- Note that the RMB proceeds obtained from all non trade financing related facilities including loans and bonds can only be remitted back for use in China when the offshore corporate have obtained approval from the relevant authorities in China. These include but not limited to The People's Bank of China and State Administration of Foreign Exchange (SAFE).

### **RMB exchange/risk management**

- As offshore corporates seeking to use RMB as one of the currencies for their operations, foreign exchange risk management will be important.
- Due to the need for participating banks to adhere to the conditions stipulated under Clearing Agreement, offshore corporates will need to be aware that a two-tier exchange market for RMB now exists; one market rate for RMB exchange for trade settlement purposes (subject to the quota of the clearing bank) and the other rate for general purposes.
- RMB Non-deliverable forward (NDF) and Non-deliverable option (NDO) continue to exist but offshore RMB deliverable forward (DF) and deliverable option market have started to take off albeit at modest liquidity level. Price level between NDF and DF has yet to converge.

### **RMB investment**

- There is no restriction with regards to the use of the accumulated RMB funds by offshore corporate provided the funds are not remitted back into Mainland China.
- In terms of banking products, the accumulated RMB in the offshore RMB accounts can be invested in bank deposits, RMB bonds or CDs issued offshore, FX-linked structured deposits, commodity-linked structured deposit, equity-linked structured deposits and interest rate-linked structured deposits and RMB denominated funds products.

# *What can HSBC do for you?*



## Definitive HSBC

At HSBC, we can help unravel the complexities and make RMB "just another currency" for our clients because:

### Founded on Expertise

Started as a trade bank for the east and the west, HSBC has more than 146 years of solid experience in Hong Kong and Mainland China.

### Leadership on the ground

With the largest branch network in China among foreign banks and our unrivalled market-leading position in Hong Kong, HSBC has both the influence and access to this rapidly changing market.

### Connected around the world

Being the first international bank to complete RMB trade settlement transactions across six continents, HSBC has the global outreach and capability to match international business needs.



## RMB Achievements

### Hong Kong

- First foreign bank to settle cross-border RMB Trade in Hong Kong and Macau.
- Market leader in the Dim Sum Bond market, as of May 2011, HSBC ranks No. 1 in Dim Sum Bond League Table with the largest market share in the territory<sup>#</sup>.
- First-in-the-market: HSBC RMB Trade Finance Standard Rate.
- First international bank to offer RMB current account and cheque services.
- Over 160,000 accounts with RMB capabilities.
- Business Internet Banking and HSBC*net* supports RMB transactions.
- First to launch RMB structured deposit.
- One of the first to launch RMB-denominated insurance product.
- First offshore RMB Certificate of Deposits.
- The first to launch RMB autoPay service, four months ahead of the market.
- First offshore RMB equity IPO — Joint Bookrunner, Joint Lead Arranger and Joint Listing Agent.

### China

- First foreign bank to underwrite RMB Government bonds.
- One of the first foreign banks granted Interbank Bond Market Settlement Agency Bank status and to complete RMB cross-border trade.
- First foreign bank as the market-maker to trade RMB and Ringgit.
- First foreign Financial Institution incorporated in China to issue RMB Bond in Hong Kong.
- Among the first foreign banks to have completed its first cross-border RMB trade settlement transaction at all its eligible 18 branches located in the 20 provinces designated by Chinese regulators.
- Holding both CNY FX spot, CNY FX Forward and Swap market maker license.

### Global

- The first international bank to complete RMB cross-border trade settlements across all ASEAN sites with HSBC presence and across six continents.
- RMB capability over 40 markets, across six continents.
- Personal RMB services launched in 11 Asia-Pacific countries and territories.

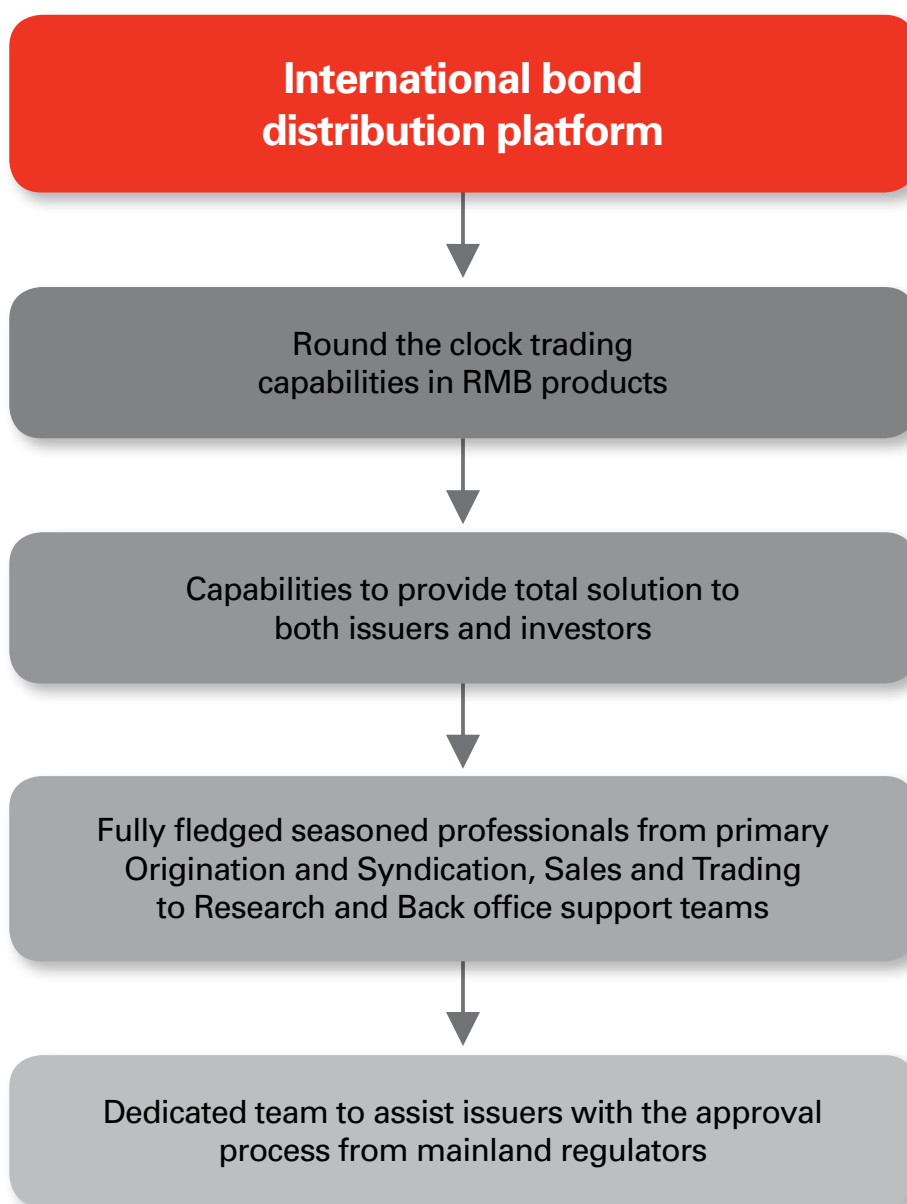
<sup>#</sup>Source: Bloomberg 2010 - May 2011, exclude self-led and synthetic RMB bonds.

## HSBC RMB products and capabilities — at a glance

	Offshore RMB products (HSBC Hong Kong)	Onshore RMB products (HSBC China)
<b>Exchange services and risk management products</b>	<ul style="list-style-type: none"> <li>■ Spot FX (for trade as well as for general purposes)</li> <li>■ Deliverable Forward</li> <li>■ Deliverable FX Swap</li> <li>■ Deliverable FX Option</li> <li>■ Deliverable Interest Rate Swap</li> <li>■ Deliverable Cross Currency Swap (on case by case basis)</li> <li>■ Non-deliverable Forward</li> <li>■ Non-deliverable FX Swap</li> <li>■ Non-deliverable FX Option</li> <li>■ Non-deliverable Interest Rate Swap</li> </ul>	<ul style="list-style-type: none"> <li>■ Spot FX</li> <li>■ Deliverable Forward</li> <li>■ RMB Interest Rate Swap</li> <li>■ Deliverable Cross Currency Swap (on case by case basis)</li> <li>■ FX Option</li> </ul>
<b>Borrowing/financing products</b>	<ul style="list-style-type: none"> <li>■ Trade financing facilities and commercial loans as part of Commercial Banking or Global Banking products</li> <li>■ Issuance of offshore RMB bonds</li> <li>■ FX neutral collateralised foreign currency lending (packaged loan)</li> </ul>	<ul style="list-style-type: none"> <li>■ Trade financing facilities and commercial loans as part of Commercial Banking or Global Banking products</li> </ul>
<b>Investment products</b>	<ul style="list-style-type: none"> <li>■ Time deposit, certificate of deposit</li> <li>■ Primary and secondary RMB bonds issued offshore</li> <li>■ FX linked structured deposit/note</li> <li>■ Interest rate linked structured deposit/note</li> <li>■ Equity linked structured deposit/note</li> <li>■ Commodity linked structured deposit</li> <li>■ RMB funds</li> </ul>	<ul style="list-style-type: none"> <li>■ Conventional time deposit</li> <li>■ Call deposit</li> <li>■ Bonds</li> </ul>

**HSBC is the largest foreign bank in China and is Hong Kong's top bank and one of the territory's note issuing banks**

## ***HSBC — Your partner of choice for Dim Sum Bonds***



# ***Market situation – Onshore***





## ***Overview of onshore interest rate market and regulations***

- Interest rates are regulated by PBoC. RMB deposit rates and loan rates are fixed by PBoC for up to five years.
- China's money market consists mainly of interbank deposits, MOF bonds and PBoC Bills. Though not yet widely used in China, commercial paper (CP's) and Bankers Acceptances (BA's) are also available, but not for foreign investors.
- Non-resident institutional and individual investors cannot buy any RMB-denominated debt securities except through QFII or the interbank bond quota. Onshore investors can use RMB to invest overseas markets via QDII products.
- The longer term market is dominated by government debt. There is limited issuance of corporate bonds.
- Shanghai Inter-bank Offered Rate (SHIBOR) was launched on 4 January 2007 in a move to develop an interbank interest rate system for China's money market.
- Interest rate derivative market is available. RMB IRS done onshore is physical deliverable. Floating rate benchmarks can be a 7-day repo, Shibor or PBoC deposit rate.
- SAFE to allow corporates to trade cross-currency swaps beginning 1 March 2011
  - This extends the scope of cross-currency swaps from the inter-bank market to the corporate market.
  - No additional approval is required for banks that are eligible to issue foreign exchange swaps.

# ***HSBC RMB*** *onshore capabilities*



## HSBC in Mainland China



- Business established since 1865.
- Relaxation of foreign banks' business activities.
  - Prior to 2007
    - Foreign currency business with local corporate and individuals.
    - RMB business to local corporate with geographic limitations.
  - 2007
    - Limited RMB business with local individuals.
    - National treatment for locally incorporated wholly owned foreign banks.
  - 2009
    - Locally incorporated foreign banks are allowed to issue RMB-denominated bonds either onshore or offshore in Hong Kong.
- Broadest range of banking services and largest operations among foreign banks.
- Market leader in brand awareness.
- Market maker for RMB trading against foreign currencies on the mainland's interbank foreign exchange market.
- First foreign bank to issue RMB Bond in Hong Kong in 2009.
- Obtained approval to launch onshore RMB forward business.
- Approved by CSRC, CBRC, SAFE and PBoC as QFII and QDII.
- As of 2010, it offers RMB banking services to domestic enterprises in all 23 branches, of which 18 are in RMB trade settlement coverage area.
- Branch network covers over 100 outlets across the country and is the leading foreign bank in China by network.

# Onshore RMB FX capabilities in China

## Introduction

HSBC has maintained a continuous presence in Mainland China since 1865. We are currently the largest foreign financial services organisation operating in China, offering the broadest range of banking services. HSBC was also the first foreign bank given permission to conduct RMB business and trade in the RMB interbank market. HSBC is one of the 18 banks with both CNY FX spot and CNY FX forward and swap market maker license, allowing HSBC to provide two way quotations. HSBC is active in the Chinese marketplace from offices in Shanghai, offering spot FX, deliverable forwards and FX swaps.

As a top foreign bank in inter-bank FX spot, forward and swap market, HSBC has a strong record of helping clients to exchange currency for their business needs and to manage their risk.

- RMB FX forward enables customers to manage FX risk by means of fixing an exchange rate in advance and eliminating uncertainties in customer's future foreign currency cash flows.
- RMB FX Swap enables the customers to sell or buy a currency against RMB at a certain near date and convert back at a certain far date at predetermined rates, allowing customers to adjust their cash flow mismatch in terms of currency and timing.

## FX Spot

- FX transactions are valued spot and must be executed with a designated FX Bank (DFXB). DFXB's can trade their RMB positions with other DFXB's or CFETS.
- In the interbank market, the daily trading band of RMB vs. USD is +/- 0.5% around opening fixing.
- While only entities registered in China can trade RMB, foreign investors can sell foreign currency for RMB during capital injection, subject to approval from SAFE before capital account opening.
- Trade related support document (eg contract, invoices, bills of lading, custom claim form) denominated in foreign currencies or capital document (FIA issued by MOFTEC or SAFE) is required.
- Local companies can now keep as much foreign exchange as needed in their bank deposits. (The previous limitation on FX holding on 80% of previous year's total FX income + 50% of total FX expenditure has been abolished).

## FX Forward

- Onshore registered entities can access the local forward market provided these forward contracts are used to cover current account transactions. However documentary proof, such as trade agreements, must be provided.
- These onshore entities are also able to hedge the following capital items, subject to SAFE approval:
  - Repayment of domestic foreign currency working capital loans.
  - Repayment of external debt registered with SAFE.
  - Income or expenses of direct investment registered with SAFE.
  - Facilitation of capital injections of foreign investment enterprises registered with SAFE.
  - Remittance of foreign currency income of an overseas listed domestic company registered with SAFE.
  - Any other transaction with SAFE approval.

## FX Option

- HSBC has been trading RMB FX currency option in the interbank market since April 2011. SAFE approval has been obtained to offer RMB FX currency option (European style) to local corporate customers to hedge trade related FX exposure starting from 8 June 2011.

# Onshore Financing

## Introduction

HSBC China is able to provide different types of loans, offering specific and tailored solutions in Mainland China.

- Regulations govern what proportion of total investment must be in registered capital (eg for a total investment of USD10 million to USD30 million must have 40% as capital).
- The RMB lending rate is strictly regulated by PBoC. It fixes the lending base rate and banks are permitted to lend at no lower than 90% of the base rate with no maximum mark up.
- RMB facilities can only be provided by licensed branches/ local incorporated entities of foreign invested banks and local Chinese banks.

## Onshore bank loans

- Working capital finance: short-term funding requirements in RMB.
- Term Loans and Project Finance: A tailored financial solution for customers' long-term funding requirement for their project. HSBC China has strong capability to arrange club deal or syndication to meet large amount funding requirement.
- A full range of guarantees, bonds and standby DCs: advancing the competitive power of clients' business.
- RMB Commercial Draft Acceptance and Discounting.

## Inter-company domestic loans

- Entrusted Loans are available in both RMB and USD.
- Group entrusted loans can be tailored for more than three entities with diversified cash flow.

## Bond issuance

- Subject to formal regulatory approval, HSBC China will be able to underwrite commercial papers and medium term notes to be issued by corporate in the near future.

## Trade services

- Export Financing
  - Our range of export financing options can help to accommodate any funding gaps in the trade cycle.
  - Pre-shipment and post-shipment finance.
  - Forfaiting.
  - Factoring (Receivable Finance).
- Import Financing
  - Loan against imports/clean import loan: bridges the funding requirement for you and provides you with more flexibility in your business decisions.
  - Shipping guarantee.

## Structured trade finance

- Warehouse Finance: a short-term form of transaction-based finance, in which lending is secured by the pledge of commodities held in a warehouse.
- Provides flexibility to follow trade seasonality.



# Market situation – Offshore

## Offshore deliverable RMB market in Hong Kong

Since 19 July 2010

<b>RMB spot forward and option market</b>	<ul style="list-style-type: none"> <li>■ Two-tier market now exists depending on how the participating banks square their FX positions.</li> <li>■ Participating banks in Hong Kong quote three types of RMB exchange rate as follow:             <ol style="list-style-type: none"> <li>1) Exchange rate for personal business</li> <li>2) Exchange rate for trade purposes</li> <li>3) Exchange rate for general purposes</li> </ol> </li> <li>■ For the first two, the participating banks can square their FX position with the clearing bank which has direct access to the onshore market. Therefore, the FX rate is close to the onshore rate. Please note that for trade purpose, the clearing bank is subject to an annual quota as granted by PBoC. Also subject to the depletion of internal RMB long position as required by December 2010 circular.</li> <li>■ For general purpose, the FX rate is often referred to CNH as opposed to RMB or CNY to denote that this is a unique market for offshore and most of the liquidity is in Hong Kong.</li> <li>■ The total combined daily transaction volume of RMB in Hong Kong is estimated to be around USD1 billion.</li> <li>■ Deliverable forwards and options are available and are quoted up to two year, liquidity has improved since July 2010 with daily turnover of USD800 million and USD300 million respectively.</li> <li>■ The offshore RMB cross currency swap is still at the beginning stage of development. Most transactions are up to three years for the time being.</li> </ul>
<b>Offshore RMB money market</b>	<ul style="list-style-type: none"> <li>■ The RMB money market is thinly traded in Hong Kong as most banks have surplus liquidity.</li> <li>■ A good indication of the rates can be found on HSBC's Reuters page "HSBCRMB".</li> <li>■ Deposit rates quoted to customers are subject to the source of funds. For trade settlement related deposits, the deposit rates tend to be higher.</li> <li>■ It is expected that the offshore RMB money market rate will rise if banks have more alternatives to deploy their liquidity, such as an increase in RMB bond issuance and/or better access to onshore market via interbank bond quota.</li> </ul>
<b>Offshore RMB investment products</b>	<ul style="list-style-type: none"> <li>■ There is no specific Hong Kong regulation which restricts the development of offshore RMB financial instruments/investment products in Hong Kong.</li> <li>■ Offshore RMB Certificate of Deposits, offshore RMB bond and equity, offshore RMB structured products are selectively being brought to the market by participating banks in Hong Kong.</li> <li>■ Mutual funds and insurance products denominated in RMB are also being introduced.</li> </ul>

# Summary of deliverable RMB services by banks in Hong Kong

## All corporates:

### ■ Deposit taking

### ■ Remittance/Interbank transfers/Cheques

- RMB fund transfer between accounts in Hong Kong (whether same bank or between banks) are without restrictions. RMB remittances to and from Mainland China are subject to the prevailing rules promulgated by the mainland regulators. In general, payment under trade are allowed, while specific approvals may be required outside trade settlement.
- Either by interbank transfers or cheques.

### ■ Trade finance

- Up to amount of actual trade transaction and paid directly to the mainland trade counterpart.
- Such trade finance obtained cannot be used for other purposes.

### ■ Currency exchange

- Participating banks can provide currency exchange services.
- These can be done from any currency into RMB or the other way round. (For DBC, they have to open a separate RMB account for this.)
- For trade settlement purpose, the participating banks can square the FX transaction with the clearing bank as long as the latter has the quota granted by PBoC to use the onshore rate.
- For other than trade settlement or if the quota is fully utilised, participating banks can quote the RMB rate, subject to their ability to square the FX position.

## Hong Kong residents:

### ■ RMB deposit taking service

- With interest rates and terms of deposits determined by participating banks.
- Buy and sell up to RMB20,000 per day through RMB savings account.

### ■ RMB exchange and notes handling service

- Exchange notes up to RMB20,000 per transaction per day.

### ■ Remittance

- Depositors can remit from their HK account to the same name account in Mainland China with an upper limit of RMB80,000 per person per day.

### ■ Other service

- RMB credit card and cheque service.



# ***HSBC RMB*** *offshore capabilities*



# Offshore account services

## Introduction

Since 19 July 2010, Offshore Corporates (including banks, non-bank financial institutions, insurance companies and all non-personal entities) can open RMB account(s) with licensed banks in Hong Kong for General Purposes as well as Trade Settlement transactions.

Transfer of RMB funds between different Hong Kong accounts are allowed without restriction. The transfer of RMB funds within Hong Kong between corporate and personal customers is also allowed without restriction (whether within the same bank or interbank).

- Deposits and payments
  - No daily limit on the amount of RMB remittances and deposits.
  - Support interbank transfers, currency exchange, cheque issuance, cash deposits and withdrawals.
- Further information on RMB account services for corporate is available in the appendix (P.57).

## RMB Trade Settlement Savings Account

- Interest bearing savings account for trade settlement and general purposes.

## RMB Commercial Current Account

- Non-interest bearing account for trade settlement and general purposes.
- Overdraft facilities (subject to approval).
- Cheque issuance.

## RMB Time Deposit Account

- RMB Trade Settlement Savings Account or Commercial Current Account must be open before placement.
- Deposit tenor ranging from one week to 12 months.
- Minimum deposit: RMB10,000.

## Integrated Business Account

- Manage funds in RMB as well as 11 other currencies via one single account number.
- RMB account for trade settlement and general purposes.
- Existing Integrated Business Accounts are RMB-enabled; no need to open a new account.



# Offshore RMB Trade Settlement Account

## Introduction

Banks\* in Hong Kong can open RMB corporate accounts for any corporate customer\*\*. From July 2010, the scope of corporate RMB accounts has been expanded to include all purposes, ie, no longer restricted to cross-border trade settlements. As examples, the following types of company are allowed to open RMB deposit accounts in Hong Kong.

- Trading/manufacturing companies
- Investment holding companies
- Shelf companies
- Financial institutions
- Overseas banks (that are not an "Authorised Institutions" in Hong Kong)

There is also no restriction on the place of incorporation nor the place of primary business.

Offshore RMB corporate accounts allow companies to keep RMB cash overseas. For instance, companies outside Mainland China can choose to retain the trade proceeds in RMB in such accounts. The services include deposits/withdrawals, currency exchanges, remittances, interbank transfers and cheques.

## Currency Exchange

- To enjoy the RMB trade settlement FX rate, the exchange amount must not exceed the amount to be paid to their trading partner(s) or bank.
- RMB funds maintained in RMB Trade Settlement Accounts can be converted to HKD or other foreign currencies without restriction.

## Remittance

- Inward and outward remittances to and from Mainland China are allowed for trade (both in goods or services) settlement needs and such other purposes as allowed by the mainland authorities.
- RMB remittance to and from other countries beside China, and does not involve RMB currency exchange, is also allowed.
- All RMB remittances to and from Mainland China are subject to verifications by the mainland regulators and banks. The remittances must comply with the rules and requirements in Mainland China. Customers can contact HSBC China for the latest list of Mainland Designated Enterprises under the trade settlement scheme.

## Interbank fund transfer (Local Payment)

- Both third party and same-name transfers between company accounts held in different banks in Hong Kong are allowed.
- Transfer of RMB between company accounts and personal accounts are not allowed.

## Cheques

- Commercial customers can issue and receive RMB cheques within Hong Kong.
- RMB Commercial Current Account holders can issue RMB cheques for trade settlement or purposes as allowed by the relevant authorities.
- Commercial RMB cheques to/from China and other countries are subject to the respective local countries' regulations.
- Please note: To the best knowledge of HSBC in China, Commercial RMB cheques may not be accepted by banks in Mainland China as there are still constraints to verify the underlying transaction.

\* Referring to "Authorised Institutions" participating in the RMB Trade Settlement Scheme.

\*\* Except for "Authorised Institutions" in Hong Kong.

# ***Offshore fund transfers***

## **Introduction**

Since 2010, the transfer of RMB funds has been allowed without restriction in Hong Kong when solely involving offshore parties. They can be transacted in the same manner as funds denominated in HKD or USD.

Cross-border RMB funds transfers for trade and services settlement, where either the beneficiary or payee is a Mainland China (onshore) enterprise, are governed by the RMB Trade Settlement Scheme. Mainland China beneficiary of RMB funds under merchandise trade must be a Mainland Designated Enterprise allowed by the RMB Trade Settlement Scheme, in order to receive RMB funds.

On the other hand, Mainland Chinese payers of RMB funds must simply effect a one-off registration under the Scheme, in order to pay out their RMB funds. All other cross-border funds transfers with China are subject to the existing relevant regulatory controls.



## Offshore cross-border funds transfers

- Inward and Outward Remittances
  - No supporting documentation is required, offshore, for sending and receiving remittances.
  - Instructions can be submitted via HSBC's internet banking platforms (HSBCnet and Business Internet Banking) as well as at our branches.

## Offshore domestic funds transfers

- Interbank Funds Transfers (RTGS)
  - Allow same-day transfer of RMB funds to/from any corporate or personal account.
  - No supporting documentation is required for sending and receiving interbank funds transfers.
  - Instructions can be submitted via HSBC's internet banking platforms (HSBCnet and Business Internet Banking) as well as at Branch counters.
- Cheque
  - Allow corporate customers to issue cheques via current account for credit to a corporate or personal account in Hong Kong.
- AutoPay
  - Allow corporate customers to make bulk payments/collect bulk receivables to/from any RMB current and savings account with HSBC Hong Kong.
- Bill Payment
  - Allow HSBC account holders to make real-time RMB payments to corporate customers through our Personal Internet Banking (PIB) system.

## Trade and services

- Requirement of support documentation for cross-border settlement.

## Dividends

- Profit after tax can be repatriated outside China as dividends without SAFE approval as long as supporting documentation is provided to the remitting bank. In practice, dividends can only be repatriated following the presentation of the below listed documents to the remitting bank.
  - Formal application form.
  - The certificate of foreign-investment enterprise foreign currency registration.
  - A board resolution on the amount of the dividends to be paid.

- Audited financial statements showing profit/dividend in the year.
- A tax receipt on the profit.
- Investment verification report by a mainland-registered auditor certifying that capital is paid up according to the capital injection schedule (per the original business approval presented to the mainland authorities when the venture was formed).

## Royalty

- Contract.
- Invoice.
- Tax certificate (for business tax and income tax) are also required.
- If the royalty is sales revenue related, certification of genuine sales revenue issued by an accounting firm shall be provided.
- Record with relevant authorities (For example: payment for trademark, record with trademark office is required; payment for patent, record with patent bureau and Ministry of Foreign Economic and Trade is required, payment for know-how, record with Ministry of Foreign Economic and Trade, together with data registration form for technology import, etc).

## Repatriation and repayment

- Repatriation of royalty fee is allowed subject to documents including royalty agreement, sales invoices and tax certificate.
- Repayment and repatriation of principal and interest are capital account items and subject to prior SAFE approval.

## A & B shares

- A-shares (denominated in RMB) are open to QFII who have obtained approval from PBoC, SAFE and CSRC. Repatriation of principal and proceeds derived from A-share investments is subject to strict controls.
- Sales proceeds and income from B shares (denominated in USD and HKD) invested by foreign investors can be repatriated.

All mainland-registered enterprises are required to obtain tax clearance documents from local tax authorities in order to remit non-trading-type payments to overseas entities.

# Offshore interest rates

## Introduction

The offshore money market is trading at different levels from the onshore market. Hong Kong has a huge surplus of RMB deposits versus loans that the interest rate levels are expected to be below the onshore ones.

Interbank money market trading has not been active since the announcement on 19 July 2010. Offshore one year deposit rate is around 0.20% as compared with a maximum of 2.75% onshore as at 31 December 2010.

## Onshore/offshore interest rate gap is due to:

- Lack of transactional demand for RMB funds.
- RMB interest rates are higher than HKD or USD interest rates, which limits the appetite to borrow.
- Individuals are not allowed to borrow.
- Lack of mechanism to align onshore/offshore interest rates as fund flows to Mainland China are highly restrictive. Mainland China authority encourages the use of funds offshore, but not for the money to flow back into the mainland.

At the moment, excess RMB held by banks in Hong Kong are placed with the clearing bank which pay 0.629% on a money on call basis. As the demand for RMB borrowing is low, it is estimated over 80% of the deposits are being kept this way. Effectively, this sets a ceiling on the deposit rate.

## Factors that would affect the offshore interest rates

- Interest rate paid by the clearing bank.
- Development of the offshore RMB bond market. Increase in issuance will absorb the excess liquidity in the market, leading to higher deposit rates.
- Access to onshore market. Since August 2010, banks participating in RMB trade settlement can apply to PBoC for quotas to invest in the onshore interbank bond market. This will increase the banks' ability to pay higher interest rates.
- Increase in transactional demand eg RMB equities, RMB ETFs, mini-QFII etc.
- Development of the RMB loan market.
- Increase in RMB trade financing.



# Offshore RMB funding/ financing/borrowing

## Introduction

The offshore RMB bond market began in 2007 after PBoC had announced that qualified mainland financial institutions were allowed to issue RMB bonds in Hong Kong. China Development Bank was the first issuer in 2007. Since then, the market has gradually expanded with other mainland policy banks, big commercial banks and foreign banks' wholly owned entities on the mainland coming to the market. In 2010, the scope of issuers further expanded to any non-mainland registered entities, for both corporates and financial institutions, domestic, foreign as well as supnationals. The investor base has also been expanding quickly since the RMB cross-broadener trade settlement scheme and the relaxation on RMB funds transfer among different accounts. Fund managers, private banks, commercial banks and corporates are all active investors in this market.

- Besides RMB trade financing facilities, other types of debt financing in RMB are also available.
  - For example, term loans (bilateral and syndication), CD, Notes, Funds.
  - Offshore corporate can also issue bonds denominated in RMB (refer implications to offshore corporates for details).
- Note that the RMB proceeds obtained from all non-trade financing-related facilities including loans and bonds can be remitted back for use in China when the offshore entities have obtained approval from PRC regulators, including but not limited to, PBoC and SAFE.
- The offshore RMB bond was part of the initiatives for RMB internationalisation and to develop Hong Kong as an offshore RMB financial centre and has been developing gradually since 2007.
- As of May 2011, HSBC has accounted for more than 25% of market share.



# Offshore investment

## Introduction

There is no restriction with regards to the use of the accumulated RMB funds by offshore corporates provided the funds are not remitted back into the mainland.

In terms of banking products, the accumulated RMB in the offshore RMB accounts can be invested in:

- Time deposit, certificate of deposit.
- Primary and secondary RMB bonds issued offshore.
- FX linked structured deposit.
- Interest rate linked structured deposit.
- Equity linked structured deposit.
- Precious metal linked structured deposit.
- RMB funds.



**RMB structured products sample****FX Linked Structure Deposit**

	<b>FX Digital Binary (USD/RMB)</b>	<b>FX Digital Binary (AUD/USD)</b>
<b>Form</b>	Deposit (HSBC Asia-Pacific)	
<b>Tenor</b>	One year	Six months
<b>Principal protection</b>	100% (RMB denomination)	
<b>Underlying</b>	USD/RMB	AUD/USD
<b>Coupon</b>	For first quarter: 1.0% p.a. fixed; For subsequent quarter: ■ If USD/RMB on relevant Observation Date at or below Strike, 2.10% p.a. ■ Otherwise, 0% p.a. ■ Strike: 6.6650	For each quarter ■ If AUD/USD trades within 0.9200 – 1.05 at all times during the relevant Observation Period, 2.0% p.a. ■ Otherwise, 0% p.a. *AUD Spot ref: 0.98
<b>Coupon payment date</b>	Quarterly	
<b>Observation date</b>	Two business days prior to each Coupon Payment Date	

**Interest Rate Linked Deposit**

	<b>RMB Quanto Daily Range Accrual</b>			<b>RMB Quanto Capped Floater</b>	
<b>Form</b>	Deposit (HSBC Asia-Pacific)				
<b>Settlement</b>	Two weeks				
<b>Tenor</b>	Three months	Six months	One year	Six months	One year
<b>Principal protection</b>	100% (RMB denomination)				
<b>Coupon</b>	0.6% *n/N p.a. (n: # of days 3mLibor fixes within range) Range: 3m USD Libor within range [0.25%, 0.60%]	0.8% *n/N p.a. (n: # of days 3mLibor fixes within range) Range: 3m USD Libor within range [0.25%, 0.6%]	1% *n/N p.a. (n: # of days 3mLibor fixes within range) Range: 3m USD Libor within range [0.25%, 0.65%]	3m USD Libor, subject to floor and cap Floor: 0.6% Cap: 1.00%	3m USD Libor, subject to floor and cap Floor: 0.6% Cap: 1.25%
<b>Coupon payment date</b>	Quarterly, A365F				
<b>Observation date</b>	Two business days prior to each Coupon Payment Date				

Remark: All the above are examples only and do not reflect any current market value.

Renminbi (RMB) is currently not freely convertible and conversion of RMB through banks in Hong Kong is subject to certain restrictions. Clients should be reminded of conversion risk in RMB products.

In addition, there is a liquidity risk associated with RMB products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

RMB products are denominated and settled in RMB deliverable in Hong Kong, which represents a market which is different from that of RMB deliverable in Mainland China.

## Dual Currency Deposit

For clients who have EUR to invest and also a requirement to purchase RMB. A dual currency deposit allows the client to receive a high coupon on their EUR deposit while the client receives the principal in either EUR or RMB.

The investor receives a coupon higher than that available in the money market by selling a call option on the offshore deliverable EURRMB. The principal is not protected as it may be paid either in its original form or converted to RMB at Strike on maturity date.

Trade Details	
Maturity	Three months
Notional	EUR1,000,000
Expiry date	Maturity Date – Five business days
Underlying	EURCNH*
View	Stronger or stable CNH against EUR
Coupon	5.00% p.a., unconditional
Strike	9.5000
Principal redemption at maturity	<ul style="list-style-type: none"> <li>■ <b>EUR1,000,000</b> <i>If EURCNH spot fixes below Strike</i></li> <li>■ <b>CNH9,500,000</b> <i>Otherwise</i></li> </ul>
Reference	EURCNH spot ref 9.2500 3m HSBC EUR deposit rate: 0.70%

\* CNH is the name used in the market to refer to offshore deliverable RMB.

## Scenario Analysis

### Scenario 1:

RMB appreciates against the euro by expiry date by 5%. Client receives 100% of principal in EUR as well as the coupon at maturity.

### Scenario 2:

RMB trades sideways against the euro and fixes at 9.2000 on expiry date. Client receives 100% of principal in EUR as well as the coupon at maturity.

### Scenario 3:

RMB depreciates against EUR by expiry and the spot fixes above 9.5000. Client receives the principal in RMB converted at 9.5000 and the coupon in EUR at maturity.

**Worst case scenario:** Scenario #3.

Renminbi (RMB) is currently not freely convertible and conversion of RMB through banks in Hong Kong is subject to certain restrictions. Clients should be reminded of conversion risk in RMB products.

In addition, there is a liquidity risk associated with RMB products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

RMB products are denominated and settled in RMB deliverable in Hong Kong, which represents a market which is different from that of RMB deliverable in Mainland China.

## Asian Basket Deposit

We believe many portfolio managers will increase the weight of emerging market (EM) assets in their bond portfolio in the coming years due to the increasing divergence between the economic prospects of EM and the developed world. In our opinion, Asia will be the clear winner of this portfolio re-weighting due to strong economic output and fiscal balance in the region.

The investor receives 100% of any Basket appreciation against USD on maturity date. A quanto Basket option is embedded in the product.

Trade Details	
Maturity	One year
Notional	CNH* 10,000,000
Expiry date	Maturity Date – Five business days
Basket	SGD, MYR, THB, IDR against USD
View	Basket appreciation against USD
Basket return	$1 - \sum_{i=1}^4 w_i \frac{S_i}{K_i}$ Currencies are quotes as USDXXX. $w_i = 1/4$ for all $i$ .
Strike, $K_i$	USDXXX spot value on Trade Date
Redemption at maturity	<ul style="list-style-type: none"> <li>■ <b>107.50%</b> <i>If Basket Return is greater than 10%</i></li> <li>■ <b>97.50% + Basket Return</b> <i>If <math>0 &lt; \text{Basket Return} &lt; 10\%</math></i></li> <li>■ <b>97.50%</b> <i>Otherwise</i></li> </ul>
Reference	1y HSBC CNH deposit rate: 0.50%

\* CNH is the name used in the market to refer to offshore deliverable RMB.

## Scenario Analysis

### Scenario 1:

All currencies in the Basket appreciate against the USD by expiry date by 12%, 10%, 8% and 10%. Client receives 107.50% of principal at maturity (=97.50% + (12% + 10% + 8% + 10%) / 4).

### Scenario 2:

Two currencies in the Basket appreciate against the USD by 12% and 8% by expiry date while the other two currencies depreciate by 4% and 6%. Client receives 100% of principal at maturity (=97.50% + (12% + 8% - 4% - 6%) / 4).

### Scenario 3:

All currencies in the Basket depreciate against the USD by expiry. Investor receives 97.50% of principal at maturity.

**Worst case scenario:** Scenario #3.

Renminbi (RMB) is currently not freely convertible and conversion of RMB through banks in Hong Kong is subject to certain restrictions.

Clients should be reminded of conversion risk in RMB products.

In addition, there is a liquidity risk associated with RMB products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

RMB products are denominated and settled in RMB deliverable in Hong Kong, which represents a market which is different from that of RMB deliverable in Mainland China.

## Gold Barrier Growth Deposit

Gold prices hit a nominal record high recently due to strong demand from emerging market (EM) central banks who would like to achieve reserve diversification and institutional investors who are under-invested in gold bullion. We believe gold prices will further increase due to the quantitative easing pursued by the Federal Reserve and the weaker dollar that will result from it.

The investor receives a coupon equivalent of 50% of gold appreciation against USD up to a level beyond which the coupon ceases to exist. The deposit is 95% capital protected.

Trade Details	
Maturity	One year
Notional	CNH* 10,000,000
Expiry date	Maturity Date – Five business days
Underlying	XAUUSD
View	Bullish gold
FX-linked coupon	Max(0, XAUUSD Final/XAUUSD Initial – 1)
Barrier	128% * XAUUSD Initial
Redemption at maturity	<ul style="list-style-type: none"> <li>■ <b>95%</b> <i>If XAUUSD Final &lt; XAUUSD Initial.</i></li> <li>■ <b>100%</b> <i>If XAUUSD final &gt; Barrier</i></li> <li>■ <b>100% + 50%* FX-Linked Coupon</b> <i>If XAUUSD Initial &lt; XAUUSD Final &lt; Barrier</i></li> </ul>
Reference information	1y HSBC CNH deposit rate: 0.50%

\* CNH is the name used in the market to refer to offshore deliverable RMB.

## Scenario Analysis

### Scenario 1:

XAU appreciates against USD and on expiry date spot fixes at 24% above its value on trade date. Client receives 100% of deposit and 12% coupon at maturity.

### Scenario 2:

XAU appreciates against USD aggressively and spot fixes at 40% above its initial value on trade date. Client receives 100% of deposit at maturity.

### Scenario 3:

XAU depreciates against USD and spot fixes at below its initial value on trade date. Client receives 95% of deposit at maturity.

**Worst case scenario:** Scenario #3.

### RMB specific risks

RMB is currently not freely convertible and conversion of the currency through authorised banks in Hong Kong is subject to certain restrictions. Clients should be reminded of conversion risk in RMB products.

In addition, there is liquidity risk associated with RMB products, especially if such investments do not have an active secondary market and their prices have a large bid/offer spread.

Renminbi (RMB) is currently not freely convertible and conversion of RMB through banks in Hong Kong is subject to certain restrictions. Clients should be reminded of conversion risk in RMB products.

In addition, there is a liquidity risk associated with RMB products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

RMB products are denominated and settled in RMB deliverable in Hong Kong, which represents a market which is different from that of RMB deliverable in Mainland China.

**Equity Linked Note**

	<b>RMB Discount Bull Note</b>			
<b>Tenor</b>	Six months	One year	One and a half years	Two years
<b>Principal protection</b>	100% (RMB denomination)			
<b>Underlying</b>	Hang Seng Index			
<b>Barrier</b>	110%			
<b>Coupon at maturity</b>	If underlying closes at or above Barrier, 1.00% p.a. flat; Otherwise, 0%.	If underlying closes at or above Barrier, 1.50% p.a. flat; Otherwise, 0.12%.	If underlying closes at or above Barrier, 2.30% p.a. flat; Otherwise, 0.15%.	If underlying closes at or above Barrier, 3.00% p.a. flat; Otherwise, 0.15%.

**Equity Linked Note**

	<b>RMB Callable Floored Accrual</b>					
<b>Tenor</b>	Six months			One year		
<b>Underlying</b>	1288.HK	3988.HK	857.HK	1288.HK	3988.HK	857.HK
<b>Guaranteed coupon at first month</b>	8.00% p.a.	8.00% p.a.	9.00% p.a.	10.00% p.a.	10.00% p.a.	13.00% p.a.
<b>Accrual coupon (starts from 2nd month)</b>	8% accrued daily when Underlying $\geq$ 90% of initial	8% accrued daily when Underlying $\geq$ 90% of initial	12% accrued daily when Underlying $\geq$ 90% of initial	10% accrued daily when Underlying $\geq$ 90% of initial	10% accrued daily when Underlying $\geq$ 90% of initial	13% accrued daily when Underlying $\geq$ 90% of initial
<b>Call option</b>	Monthly auto call, if Underlying $\geq$ 105%, structure early redeemed, investor receives capital back plus any unpaid accrued interest.			Monthly auto call, if Underlying $\geq$ 110%, structure early redeemed, investor receives capital back plus any unpaid accrued interest.		
<b>Redemption at maturity</b>	If no Early Redemption has occurred, if Underlying $\geq$ 90% at maturity, 100%; Otherwise, Delivery of Underlying @ strike of 90%.			If no Early Redemption has occurred, if Underlying $\geq$ 90% at maturity, 100%; Otherwise, Delivery of Underlying @ strike of 90%.		

Remark: All the above are examples only and do not reflect any current market value.

Renminbi (RMB) is currently not freely convertible and conversion of RMB through banks in Hong Kong is subject to certain restrictions. Clients should be reminded of conversion risk in RMB products.

In addition, there is a liquidity risk associated with RMB products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

RMB products are denominated and settled in RMB deliverable in Hong Kong, which represents a market which is different from that of RMB deliverable in Mainland China.

## Equity structured product

HSBC has developed a selection of Structured Product ideas using a basket of Hong Kong-listed financial stocks as underlyings that could benefit from the increasing internationalisation of RMB.

Among the different types of financial companies, banks are likely to benefit the most in the near term given their closer links to the Hong Kong Monetary Authority (HKMA), being the banking regulator and the driving force for developing the RMB business in Hong Kong.

Bloomberg	Name	Subgroup
5 HK	HSBC Holdings Plc	Diversified Banking Institution
11 HK	Hang Seng Bank	Commercial Banking
2388 HK	BOC Hong Kong	Commercial Banking
2888 HK	Standard Chartered Plc	Commercial Banking
165 HK	China Everbright Ltd	Diversified Financial Services
388 HK	Hong Kong Exchanges and Clearing Ltd	Other Financial Services
1788 HK	Guotai Junan International Holdings	Securities Brokerage House

## Auto-callable Maxi Down In Reverse Convertible

### Product description

- Express a mildly bullish view on the underlying financial stocks, with this short term income product.
- Receive a high, guaranteed quarterly Coupon (14%p.a.).
- Quarterly early redemption at par plus Coupon if all the stocks within the Basket trade above their initial level.
- Principal protected at maturity if none of the stocks has ever fallen by more than 25% on any Scheduled Trading Day.

### Indicative terms

Instrument	Note
Issuer	The HongKong and Shanghai Banking Corporation Limited (CMU clearing)
Maturity	One year
Currency	CNY (denomination and settlement)
Capital protection	Conditional
Underlying	The worst performing stock (Laggard) from: HSBC Holdings Plc (5 HK) • BOC Hong Kong (2388 HK) • Hong Kong Exchange and Clearing Ltd (388 HK)
Autocall feature	If on any quarterly observation, the Laggard is above its initial level, the Note is called and redeemed at: Notional x 100%
Redemption	At maturity, if the Note has not redeemed early and the Barrier has not been breached: Notional x 100% At maturity, if the Note has not redeemed early and the Barrier has been breached: Minimum of: Notional x 100% or Laggard (Final) / Laggard (Initial)
Barrier	75% of initial level (daily observations of Closing Prices)
Coupon	14.0% p.a. (guaranteed, paid quarterly until the earlier of maturity or Autocall)

Remark: All the above are examples only and do not reflect any current market value.

Renminbi (RMB) is currently not freely convertible and conversion of RMB through banks in Hong Kong is subject to certain restrictions. Clients should be reminded of conversion risk in RMB products.

In addition, there is a liquidity risk associated with RMB products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

RMB products are denominated and settled in RMB deliverable in Hong Kong, which represents a market which is different from that of RMB deliverable in Mainland China.

**Bull Discount Note****Product description**

- Express a bullish view on the underlying financial stocks, with this short term growth product.
- Issued at a discount.
- 100% participation to the Basket performance, with no cap.
- Capital is not protected at maturity, if the Basket average is below its initial level.

**Indicative terms**

Instrument	Note
Issuer	The HongKong and Shanghai Banking Corporation (CMU clearing)
Maturity	One year
Currency	CNY (denomination and settlement)
Capital protection	None
Reoffer price	98.4%
Underlying	Equally weighted basket containing: HSBC Holdings Plc (5 HK) • BOC Hong Kong (2388 HK) • Hong Kong Exchange and Clearing Ltd (388 HK) Hang Seng Bank (11 HK) • Standard Chartered plc (2888 HK) • China Everbright Ltd (165 HK) Guotai Junan Int' (1788 HK)
Redemption	At maturity, the Note redeems at: Notional x 100% x Underlying (Final)/Underlying (Initial)
Underlying (Final)	The average of the levels of the Underlying at Maturity
Underlying (Initial)	The average of the levels of the Underlying at inception

**Maxi Discount Down In Reverse Convertible****Product description**

- Express a bullish view on the underlying financial stocks, with this short term income product.
- Principal in RMB protected at maturity if none of the stocks has ever fallen by more than 15% on any Scheduled Trading Day.
- Issued at a discount with a potential 10.3%pa yield, in RMB terms.
- USD settlement — 100% exposed to RMB appreciation or depreciation for USD-based investors.

**Indicative terms**

Instrument	Note
Issuer	HSBC Bank Plc
Maturity	Six months
Currency	CNY (denomination) — settlement in USD
Capital protection	Conditional
Reoffer price	94.85% / CNY (Initial)
Underlying	The worst performing stock (Laggard) from: BOC Hong Kong (2388 HK) • Hong Kong Exchange and Clearing Ltd (388 HK)
Redemption	At maturity, if the Barrier has not been breached: Notional x 100% / CNY Final At maturity, if the Barrier has been breached: Minimum of: Notional x 100% / CNY (Final) or (Laggard (Final) / Laggard (Initial)) / CNY (Final)
Barrier	85% of initial level (daily observations of Closing Prices)
CNY (Final)	The CNYUSD exchange rate at Maturity
CNY (Initial)	The CNYUSD exchange rate at inception

Remark: All the above are examples only and do not reflect any current market value.

Renminbi (RMB) is currently not freely convertible and conversion of RMB through banks in Hong Kong is subject to certain restrictions. Clients should be reminded of conversion risk in RMB products.

In addition, there is a liquidity risk associated with RMB products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

RMB products are denominated and settled in RMB deliverable in Hong Kong, which represents a market which is different from that of RMB deliverable in Mainland China.



## Offshore RMB IPO

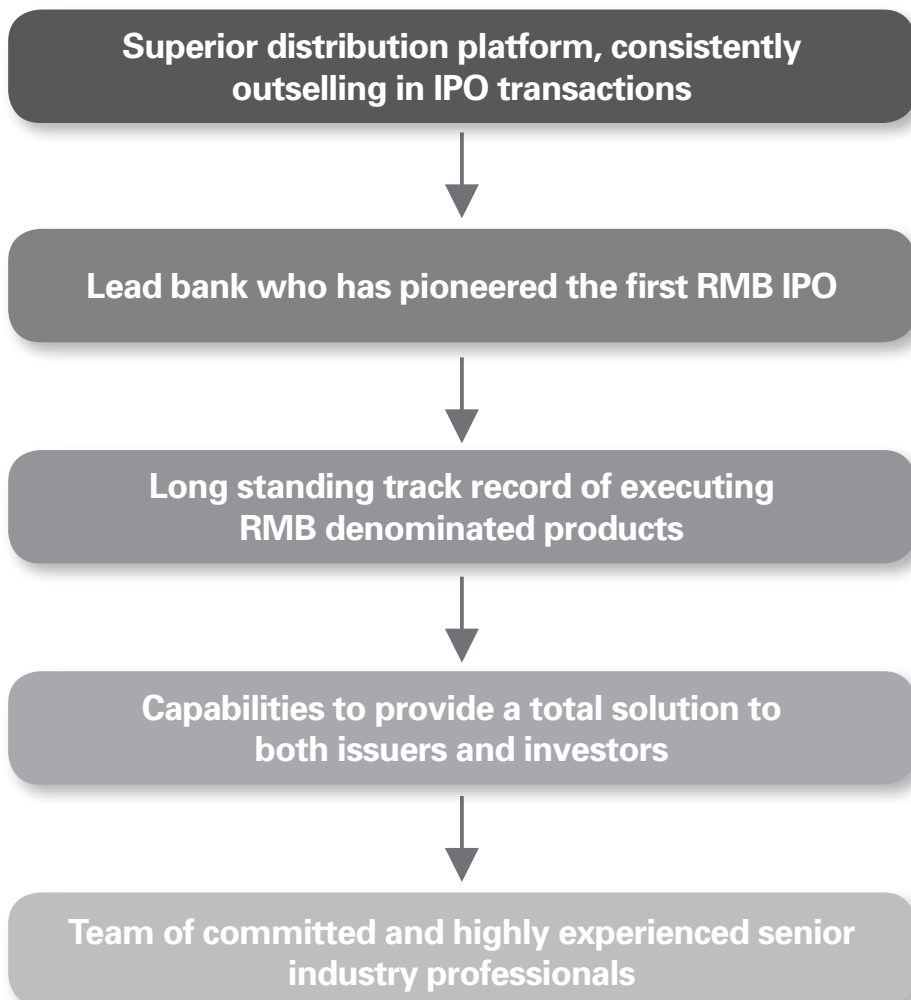
### Introduction

An RMB equity product refers to an equity product that is priced, traded and settled in RMB. Its price and dividends/distributions are denominated and paid in RMB.

HSBC is one of the joint listing agents of the first RMB IPO listed on the main board of the Stock Exchange of Hong Kong in April 2011. Upon the listing of the first RMB IPO, most of the participants of an RMB IPO have their systems enhanced and are ready in dealing and/or clearing transactions in RMB securities in Hong Kong. In anticipation of RMB appreciation in the near future, higher demand for RMB equity products is expected.

- For a foreign-invested company in the 20 provinces and cities as cited in the Circular on Issues Regarding the Extension of Pilot RMB Settlement in Cross-border Trade 《关于扩大跨境贸易人民币结算试点有关问题的通知》, dividends of the foreign-invested company (whether in a foreign currency or in RMB) representing the profit entitlement of its foreign investor can be legally remitted out of the PRC to its foreign investor without the need to obtain the prior approval or authorisation of the relevant foreign exchange bureau.

## HSBC – your partner of choice for RMB IPOs



# FAQ (Onshore)

## General - RMB Trade Settlement

**Q: Are all banks in China eligible to provide RMB trade settlement services [RMB cross-border trade transactions]?**

A: No. The scheme is currently in the pilot stage and hence it is only applicable to qualified banks.

HSBC China, as one of the first batch of foreign banks, has been approved by the PBoC to provide RMB trade settlement services. The PBoC has recently extended the coverage of pilot cities to Shanghai, Guangdong, Beijing, Tianjin, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangxi, Hainan, Chongqing, Sichuan, Yunnan, Xizang, and Xinjiang provinces, municipal cities and autonomous regions. HSBC China is capable of providing RMB trade settlement services in 18 cities which including Shanghai, Shenzhen, Guangzhou, Dongguan, Beijing, Tianjin, Qingdao, Dalian, Shenyang, Jinan, Suzhou, Nanjing, Hangzhou, Ningbo, Xiamen, Wuhan, Chengdu, and Chongqing.

**Q: Must the onshore customer be an MDE? If yes, how can I apply?**

A: All businesses within the pilot cities are eligible for RMB trade settlement in import goods trade, cross-border service trade, other regularly performed trade and other offshore direct investments permitted by relevant authorities, but MDE restrictions still apply for export trades. MDE eligibility is determined by the PBoC, the Ministry of Finance, the Department of Commerce, the General Administration of Customs, the General Tax Bureau and the Banking Supervision Commission. Currently, 67,724 MDEs have been approved by the PBoC.

**Q: What kind of special requirements must non-MDE companies meet to be approved by PBoC/SAFE to enrol in the programme? What kind of help can be provided by the Bank?**

A: If companies within pilot cities need to conduct RMB cross-border settlement, they can apply to become a MDE company through their bank or local the PBoC office, the Bureau of Foreign Exchange Management and the Chamber of Commerce, etc. Normally the company must have a sound Customs record and tax record to be accepted as a MDE company, but Non-MDE customers may conduct RMB trade settlements in import goods trade, cross-border service trade and other regularly performed trade. Prior to conducting RMB cross-border settlements, company information registration with local PBoC offices through their bank is required.

**Q: Can an overseas company open a RMB settlement account in China in order to make RMB trade settlements with local companies easier?**

A: After obtaining approval from the local PBoC overseas companies may open RMB settlement accounts with banks in the pilot cities for the purpose of settling trades in RMB with local companies in the pilot cities.

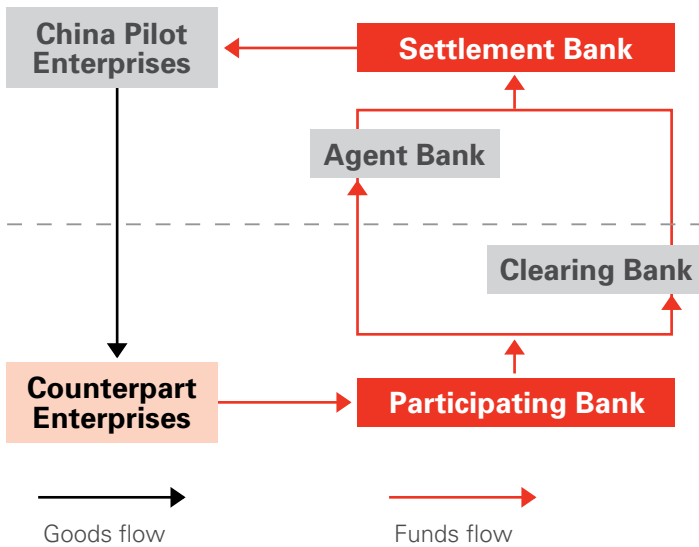
**Q: Is it possible for businesses to conduct RMB trade settlements between different cities? For example, can a corporate registered in, say, Hangzhou come to Shanghai to open an account in order to be on the RMB cross-border settlement programme?**

A: Currently those companies who are registered outside the pilot cities cannot conduct RMB trade settlements in the pilot territories unless otherwise approved by the local PBoC.

However, pilot companies may conduct RMB trade settlements with other local settlement banks in the selected cities. By PBoC interpretation, the non-legal person affiliated outside the selected cities of the pilot companies may also conduct cross-border trade businesses settled in RMB.

**Q: How can RMB settlements be done?**

A: Below is a diagram of the process flow of an export from China to overseas countries and regions settled in RMB:

**Q: If an onshore enterprise wants to pay an overseas supplier, can they open RMB accounts?**

A: This is subject to local regulations in the jurisdictions of the suppliers. You would have to ask your suppliers to check with their local account holding banks in advance. In addition, subject to the PBoC's approval, overseas enterprises can open RMB Non-resident accounts with onshore banks to receive RMB proceeds and make RMB payments under cross-border trade settlement.

**Q: Which countries are ready?**

A: The PBoC has extended the coverage of the pilot scheme worldwide; therefore RMB cross-border trade settlement is currently open to all overseas countries. However, you need to confirm with your suppliers' account holding banks on their RMB clearing capability.

**Q: How is RMB cleared in those countries?**

A: The RMB account opened with onshore banks must be for RMB cross-border settlement purposes; offshore companies must provide an account opening application form and required documents to the Bank which will then submit the documents to the local PBoC for a case-by-case approval. The required documents may vary according to local rules but the certificate of business incorporation/registration of the offshore company is required in all regions.

**Q: Local rules released by the PBoC Guangzhou, Shanghai and Shenzhen offices in late 2009 indicated that offshore companies can open RMB settlement accounts with onshore banks. What is the procedure and required documents for this type of account opening?**

A: The RMB account opened with onshore banks must be for RMB cross-border settlement purposes; offshore companies must provide an account opening application form and required documents to the Bank which will further submit the documents to the local PBoC for case-by-case approval. The required documents may vary according to local rules but the certificate of business incorporation/registration of the offshore company is required in all regions.

# Products, Tariffs and Processes

**Q: What types of trade are allowed under the scheme?**

A: Common types of trade are allowed under the scheme, and they include documentary credits (DC), documentary collections (D/P and D/A) and open account trade.

**Q: For trade services, will the UCP600 rules apply to cross-border documentary credit transactions?**

A: Yes, UCP600 applies.

**Q: Will CILE be charged for RMB DCs?**

A: CILE will not be applicable to RMB (local currency) transactions. No CILE will be charged for RMB cross-border trade transactions.

**Q: What is the turnaround time for RMB inward/outward remittances and trade services processing? How does it compare against the current FCY turnaround time?**

A: Under the conditions of receiving clear payment instructions and all documents required by the PBoC from the customer before the cut-off time, HSBC China branches will process the remittance on the same day.; HSBC China currently offers same-day-credit services for RMB cross-border settlement between HSBC China, HSBC Hongkong and HSBC Macau if the payment instruction is received before 11:00 noon. The turnaround time might be reviewed upon the announcement by the PBoC of the new RMB trade settlement arrangements.

For details, please contact our relationship managers or visit any HSBC China branch.

**Q: Is there any restriction on the maximum amount in each RMB denominated remittance or documentary credit?**

A: This is subject to the PBoC's confirmation, currently there are no restrictions on the maximum amount in each RMB denominated remittance or documentary credit.

**Q: Is there a daily limit on RMB transfers?**

A: This is subject to the PBoC's confirmation, currently there is no daily limit on RMB transfers.

**Q: Have there been any changes to existing regulatory requirements and reporting from the client's perspective?**

A: The foreign exchange verification form is not required for Customs declaration and claiming export tax rebate (exemption).

The foreign exchange verification form is not required for export Customs declaration and claiming export tax rebate (exemption). Companies should continue to report balance of payments transactions for statistical purposes.

For RMB inward/outward payments, companies are also required to complete and submit 'Cross-border Trade RMB Settlement Import Payment Explanation' and 'Cross-border Trade RMB Settlement Export Payment Explanation' respectively.

**Q: Can pilot companies keep deposits overseas? Are there any special regulations regarding deferred receipt of export proceeds or deferred payment of import proceeds?**

A: A pilot company can keep overseas RMB income generated from export business. However a pilot company must first report such arrangement to the local PBoC through their settlement bank; secondly, the information in relation to export proceeds kept overseas, such as amount, export customs declaration number, overseas bank account and the utilisation intention of the retained proceeds, should be provided to the settlement bank and further recorded on the PBoC system.

In case of deferred receipt of export proceeds or deferred payment of import proceeds exceeding 210 days, a pilot company must report the deferred payment amount and the relevant export declaration reference number to the RMB Cross-border Payment & Collection System through their settlement bank within five business days thereafter. A pilot company needs to select one settlement bank as their primary reporting bank so they can be reminded of their reporting obligations.

## Requirement of counterparty Areas/Clients

**Q: Are there any requirements to transfer RMB between offshore and onshore RMB accounts? What supporting documents are required?**

A: Fund transfers between offshore and onshore RMB accounts may be used for cross-border goods trades, service trades, other regularly performed trade settlements and overseas direct investment. Generally speaking for domestic customers, it's required to provide documents that can evidence the authenticity of a transaction (e.g. contract, invoice, etc.). For RMB overseas direct investment purpose, approval from relevant authorities and supporting documents are required. For details, please contact an HSBC China branch.

**Q: Can HBCN provide RMB DC related services and trade financing now? Is there any operational difference compared to similar FCY trade services and financing?**

A: Yes, HSBC China can provide RMB cross-border trade settlement import and export DCs, collection and trade finance services at all branches in pilot cities.

For operations different from an onshore client's perspective, please find a summary as follows:

Changes to current business operation:

- No need to provide FCY Verification and Cancellation Form whilst declaring at Customs or conducting export tax rebates.
- The online Verification Scheme of Exports Proceeds in FCY is no longer applicable to RMB Trade Settlements.

Either of the following forms must be submitted to the Bank upon receipt or payment:

- Explanatory Letter for Exports Proceeds under RMB Cross-border Trade Settlement.
- Explanatory Letter for Imports Payment under RMB Cross-border Trade Settlement.

The client should offer import/export declarations to follow the PBoC's rule. A declaration of Balance of Payment is still applicable.

**Q: Are there any restrictions with regards to the counterparty banks in overseas pilot areas?**

A: No, all licensed banks in overseas with settlement agreements with the local RMB Clearing Bank or Agent Bank in China can participate in RMB cross-border trade settlements.

**Q: Are there any requirements for counterparty companies? Will they be able to freely convert RMB into other currencies and vice versa?**

A: All overseas companies which have import and export trading business with pilot enterprises in Mainland China can, upon approval by the local regulators, open RMB commercial accounts in overseas participating banks to settle their trade in RMB. Please contact the participating banks for account opening procedures.

## Customer Benefits

**Q: Are there any advantages of HSBC RMB Trade Settlement services?**

- A:
- HSBC has been supporting and financing the development of international trade since 1865. Trade and Supply Chain is one of the HSBC Group's core competencies.
  - Our global network with dedicated Trade and Supply Chain offices in over 50 countries and territories provides solid trade solutions to your international trade needs.
  - In Mainland China, HSBC provides a full range of import and export trade services through our experienced trade specialists, supported by highly sophisticated electronic systems.
  - If both you and your buyers settle your RMB Trade through HSBC, you may benefit from transaction time and cost savings.

# FAQ (Offshore)

## Currency conversion

**Q: What are the requirements for conducting conversion of RMB for corporate customers?**

A: The open position resulting from the conversion services provided for corporate customers for the following purposes can be squared with the RMB clearing bank: cross-border trade settlement up to the amount of the relevant trade transactions settled or to be settled in RMB; RMB trade finance in relation to cross-border trade transactions where customers do not have sufficient RMB for loan repayment; settling expenses relating to RMB bond issuance in Hong Kong; or transactions allowed by mainland authorities to be ultimately squared by the RMB clearing bank in the China Foreign Exchange Trading Centre.

There is no restriction on conversion services provided to corporate customers other than for the purpose mentioned above if Participating AIs do not square the corresponding open position with the clearing bank, or if they seek to square such open position with other Participating AIs. In this regard, Participating AIs may be exposed to foreign exchange risk and they should conduct such business (ie conversion for corporate customers other than for cross-border trade settlement purposes) in a prudent manner.

For the avoidance of doubt, the existing restrictions on conversion for personal customers and Designated Business Customers (DBC) remain unchanged.

**Q: From an operational perspective, how can a Participating AI ensure that it is in compliance with the requirement that a balanced RMB position should be maintained in respect of personal (including DBC) RMB business?**

A: One way for a Participating AI to demonstrate its compliance with the relevant requirement is that the amount of RMB bought from/sold to the clearing bank in relation to personal (and DBC) business during a month does not exceed the amount of RMB conversion with personal and DBC customers.

The existing permitted conversions in relation to personal (and DBC) business are (i) up to RMB20,000 for personal customers conducted through RMB deposit accounts per person per day or up to RMB20,000 per transaction per person in banknotes for walk-in personal customers; (ii) one-way conversion from RMB to other currencies for DBCs.

Source: Hong Kong Monetary Authority (HKMA)

Note: Content of FAQs is provided by the HKMA to the participating AIs in Hong Kong on their conduct of RMB business in July 2010.

Remark: All the above are examples only and do not reflect any current market value.

**Q: Is there any specific time limit\* for conversion of RMB in relation to cross-border trade settlement transactions?**

A: Time limit has been set at up to three months for the conversion of RMB in relation to cross-border trade settlement transactions. Provided that the Participating AI is satisfied that the RMB funds to be acquired by the customer through conversion are for settling a genuine cross-border trade transaction and there is no irregularity in the circumstances, the relevant conversion can be done in advance.

For RMB proceeds from cross-border trade transactions, a customer can maintain such funds in its RMB trade settlement account for any period before converting into another currency. The open position arising from such conversion can still be squared with the clearing bank.

**Q: If a corporate customer receives RMB funds from the mainland that are not related to cross-border trade transactions, can such RMB funds be converted into another currency?**

A: For RMB funds not related to cross-border trade remitted from the mainland, there is no restriction with respect to the provision of conversion services by Participating AIs if they do not square the corresponding open position with the clearing bank, or if they seek to square such open position with other Participating AIs. Participating AIs should exercise care in this regard in managing the associated foreign exchange risk.

**Q: In HKMA's circular on "Renminbi Business in Hong Kong" of 6 July 2009, it was mentioned that Participating AIs should guard against undue accumulation of RMB by Trade Settlement Enterprises. Is there any specific requirement in this regard?**

A: A customer does not have to use up all RMB funds in its RMB account before a conversion can be made for settlement of a cross-border trade transaction or repayment of RMB trade finance. Participating AIs should apply general Know-Your-Customer principles to understand the rationale behind a customer's transactions.



\*As per HKMA's circular issued on 23 December 2010.

Source: Hong Kong Monetary Authority (HKMA)

Note: Content of FAQs is provided by the HKMA to the participating AIs in Hong Kong on their conduct of RMB business in July 2010.

## Deposit-taking

**Q: *Can Participating authorised institutions (Participating AIs) open RMB deposit accounts for any corporate customers?***

A: Yes, Participating AIs can open RMB accounts for any corporate customer according to usual banking practices in Hong Kong. For avoidance of doubt, the existing requirements on RMB accounts for DBCs remain unchanged, that is, the relevant accounts can only be used for handling RMB cashnotes obtained in the customer's ordinary course of business as a DBC and for RMB bond investments. But such customers can also open other RMB accounts for general purpose.

**Q: *Can Participating AIs offer RMB investment products to customers? Can non-AI financial institutions open RMB accounts with Participating AIs to facilitate their offering of RMB denominated investment products to customers?***

A: There is no restriction on the offer of RMB-denominated investment products. In this connection, non-AI financial institutions can open RMB accounts with Participating AIs.

**Q: *Can RMB deposits of corporate customers (including DBCs) and personal customers be used as collateral for loans extended in RMB or other currencies?***

A: Yes. However, for non-RMB loans with RMB deposits as collateral, Participating AIs should be aware that in the event of default, conversion of the RMB funds available from the RMB collateral into the borrowed currency will have to be subject to restrictions relating to conversion under the Clearing Agreement.

For avoidance of doubt, RMB lending to personal customers and DBCs is not permissible for the time being.

## Remittance

**Q: *Can RMB funds that do not fulfill the requirements of the RMB trade settlement pilot scheme as announced by the mainland authorities (or even not relating to trade settlement transactions) be remitted to and from the mainland? Can such funds be taken from or deposited into RMB accounts of corporate customers?***

A: For remittances to and from the mainland, it is not necessary for AIs to undertake checking in respect of whether the remitter or recipient (as the case may be) on the mainland is in compliance with the rules and requirements on the mainland. That said, Participating AIs should still carry out any other procedures that are necessary under usual banking practices in Hong Kong when processing such transactions, including procedures to guard against potential money laundering activities.

To the extent that such remittances to and from the mainland are accepted by the banks and authorities on the mainland, the related funds can be taken from or deposited into the RMB accounts of the customers concerned.

**Q: *Can RMB funds be transferred between settlement accounts that a Participating AI has maintained with the clearing bank and Mainland Correspondent Bank(s)?***

A: This involves fund transfer to and from the mainland (or within the mainland if between two Mainland Correspondent Banks) and thus whether such can be done will be subject to rules and regulations on the mainland.

## RMB loans

**Q: Can AIs extend RMB loans to any corporate and personal customer? Is there any restriction on the type of RMB loans that can be extended?**

A: There is no restriction on the type of corporations that can be granted an RMB loan or on the type of RMB loans that can be extended to a corporate customer. However, RMB lending to personal customers and DBCs is not permissible for the time being. As always, AIs should observe prudent credit standards and ensure that the associated RMB liquidity risk is managed properly. AIs should also assess whether the proposed usage of the loan in RMB is legitimate and has economic substance, and whether the borrower has the ability to repay the loan in RMB.

Moreover, RMB loans for customers for use on the mainland are not precluded, only that the customer concerned will need to obtain the required approval from the relevant mainland authorities to remit the associated RMB funds to and from the mainland. Whether the borrower is able to do so may have implications on the usage of the funds and the ability to repay the loan in RMB.

**Q: Can conversion of RMB be conducted for the repayment of RMB trade finance or other loans extended to corporate customers?**

A: Conversion of RMB for the repayment of trade finance can be conducted and the associated open position can be squared with the clearing bank.

For other types of loans extended to corporate customers, there is no restriction on conversion services if the Participating AIs do not square the corresponding open position with the clearing bank, or if they seek to square the position with other Participating AIs. Participating AIs should exercise care in this regard in managing the associated foreign exchange risk. In addition, if the customer is unable to repay an RMB loan in RMB and the Participating AI has to accept repayment in another currency as a remedial action, it should consider whether this is a default situation that should be appropriately reflected in prudential reporting and internal Management Information System (MIS) etc, given the AI should have assessed upfront the customer's repayment ability in RMB (the AI is expected to ascertain the customer's ability to repay the loan in RMB when considering the credit application).

## RMB bonds

**Q: Who can invest in RMB bonds issued in Hong Kong?**

A: Any customer with an RMB deposit account maintained with a Participating AI can invest in RMB bonds issued in Hong Kong. Such investors would, however, have to consider their access to RMB funds.

**Q: What types of accounts opening are required for RMB offshore bonds (Dim Sum bonds) investment?**

A: Customers need to open a nostro account for CNH exchange and a separate custodian account for bond settlement. Please speak to your HSBC Relationship Manager for details.

**Q: Can AIs issue RMB certificates of deposits in Hong Kong?**

A: Yes. In its ongoing supervision the HKMA will assess the RMB funding structure of a Participating AI, such as the extent to which its funding structure comprises different components like customer deposits, certificates of deposits, inter-bank borrowing and bonds issued, etc. The HKMA expects Participating AIs not to place over-reliance on a single source of wholesale RMB funding if the AI does not have a retail deposit base.

**Q: Can proceeds raised from a RMB bond issuance in Hong Kong by a corporate customer be remitted to the mainland? Can such proceeds be converted into another currency?**

A: There is no restriction on remittance of proceeds raised from a RMB bond issuance in Hong Kong to the mainland, although the issuer will need to obtain any necessary approval from the relevant mainland authorities. As for conversion of RMB, there is no restriction on conversion if the Participating AIs do not square the corresponding open position with the clearing bank, or if they seek to square the open position with other Participating AIs.

**Q: Can Participating AIs provide RMB financing to corporate and personal customers for investing in RMB bonds?**

A: Please refer to the answer for RMB loans above on RMB lending to corporate customers. RMB lending to personal customers and DBCs is not permissible for the time being.

## ***Interbank transfers, use of cheques and cash withdrawals***

**Q:** *Can RMB funds be transferred from the account of a corporate customer to another corporate or personal customer, and vice versa?*

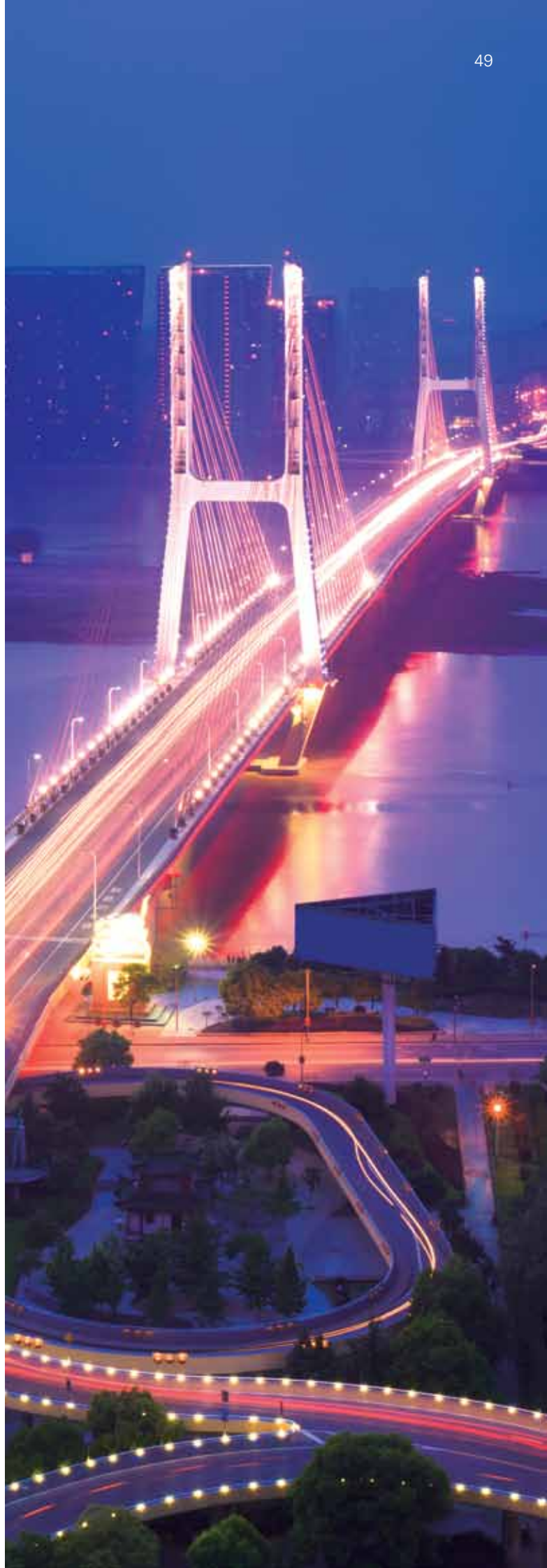
A: There is no restriction on the transfer of RMB funds (including cheque payment in Hong Kong) between different customers, whether within the same AI or not.

**Q:** *Are RMB cash deposits and withdrawals allowed for RMB deposit accounts of corporate customers?*

A: There is no particular restriction on cash deposits and withdrawals for RMB deposit accounts of corporate customers, but Participating AIs should exercise caution when handling cash transactions. It should be satisfied that such cash deposits or withdrawals are reasonable in the context of the customer's ordinary course of business in Hong Kong. There should also be monitoring procedures to guard against potential money-laundering activities.

Source: Hong Kong Monetary Authority (HKMA)

Note: Content of FAQs is provided by the HKMA to the participating AIs in Hong Kong on their conduct of RMB business in July 2010.



## General information

**Q: *Is the RMB a new currency in the offshore market? What are the differences between onshore CNY and offshore CNH?***

A: To start, while the RMB which is traded both onshore in China, and offshore (primarily in Hong Kong) are the same currency, they trade at different rates. This is by design, as regulation has explicitly kept onshore and offshore separated, the respective supply and demand conditions will lead to separate market clearing exchange rates. Hence, the necessity now for traders to specify whether RMB exchange rates being quoted, are for the onshore or the offshore market. However, it does not end here. There is the traditional offshore RMB market, the dollar settled non-deliverable forwards (NDFs) which itself trades independently of either onshore or offshore CNY, as well as a trade-settlement exchange rate to which offshore corporates have access, just to add to the complexity.

**Q: *What contributed to the price discrepancy between the onshore/offshore CNY exchange rate and the interest rate market?***

A: Due to the strict controls on cross-border RMB transactions, and the general restrictive capital account regime, the RMB markets onshore and offshore generally have different participants, and therefore different market conditions. This means that the RMB can and will trade at different rates onshore and offshore. The divergence in interest rates exist for similar reasons, but also because of different rules onshore and offshore about by who and for what purposes can the interest rate market be accessed.

**Q: *Any reasons for the different pricing strategies among banks in RMB deposits?***

A: The difference mainly relates to different banks' long term strategies in the RMB offshore market.

**Q: *Is there any prerequisite for opening an RMB offshore account?***

A: No, the HKMA Circular of 19 July 2010 allows any corporate, irrespective of place of incorporation and place of primary business, to open RMB accounts for both cross-border trade and general purposes. The exception is overseas banks that are also Authorised Institutions in Hong Kong, which are regulated differently.

**Q: *Is there any restriction for corporates to conduct offshore RMB exchange business, including spot, forward, derivatives, etc.?***

A: No. Corporates can exchange RMB to banks without any restrictions, as long as the banks do not square the FX position with the Clearing Bank, ie, at the offshore CNH market. For corporates buying RMB at the CNY rate, banks are required\* to ascertain the RMB purchase is related to a genuine cross-border trade settlement with Mainland China.

\* According to HKMA Circular of 23 December 2010.

**Q: *When will the trade clearing quota be available?***

A: It is expected to be released on the first working day of each year.

**Q: *When will the onshore investment products become available for offshore investors?***

A: No clear indications from regulators. For the time being, only a few banks, but not corporate and individuals, are allowed to invest in the onshore bond market.

# Trade settlement — Mainland Designated Enterprise (MDE)

**Q: Can cross border trades involving two countries other than China be eligible for RMB trade settlement exchange rates?**

A: As per HKMA circular dated 23 December 2010, Banks should provide RMB conversion services to customers for trade settlement purpose only when at least one leg of the trade transaction in question touches the mainland. This can be either goods flow or funds flow.

**Q: What are the documents/proof required for obtaining on RMB trade settlement exchange rate from the participating banks?**

A: As per HKMA circular dated 23 December 2010, there are no clear guidelines in what type of documents are required for obtaining RMB trade settlement exchange rates. HKMA only advised that the participating banks should put in place stringent know-your-customer procedures as well as exercise due diligence to ascertain that customer's purchase of RMB is trade-related. Also, appropriate third party documents (eg shipping documents) in support of the trade should normally be requested.

**Q: Is any regulatory approval from mainland regulators required for outward RMB trade related remittance? (should that be an approval or just registration, and which local regulator referring to?)**

A: RMB outflow from China (ie importers in China) is allowed in the 20 approved provinces/cities under trade related transactions and where there is no Mainland Designated Enterprise (MDE) requirement.

This is because for import business and service trade, both non-MDEs and MDEs are allowed to do so and only registration with the central bank in the system is required before the first transaction.

**Q: Are there any procedures for onshore importers to conduct RMB cross-border outward remittance? Any required supporting documents?**

A: The supporting document requirement is same as that for a Foreign currency (FCY) transaction, basically a contract, invoice and custom declaration form (for I/E only) required.

No additional registration/document proof is required (ie what is required for FCY remittance would also be required for RMB ORTT from China to overseas).

**Q: What scope of business and regions does the RMB Trade Settlement Scheme cover?**

- A:
- All overseas countries and regions.
  - 20 Mainland China provinces and cities, including Beijing, Tianjin, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangxi, Hainan, Chongqing, Sichan, Yunnan, Tibet, Xinjiang, in addition to Guangdong and Shanghai.
  - Both mercantile (for export trades, subject to the MDE list for Chinese exporters) and services trade (eg management fee and dividend payment).

**Q: Is dividend an allowed item under RMB Trade Settlement Scheme? What kind of documents are required for remitting the fund out of China?**

A: RMB dividend is treated as a form of trade settlement (service trade) or current account item and therefore allowed under the Cross-border Trade Settlement Scheme framework.

- No special approval is required
- Documentation Requirement:
  - (a) Formal application form.
  - (b) The certificate of foreign-investment enterprise foreign currency registration.
  - (c) A board resolution on the amount of the dividends to be paid.
  - (d) Audited financial statements identifies profit/dividend in the year.
  - (e) A tax receipt on the profit.
  - (f) Investment verification report by a PRC-registered auditor certifying that capital is paid up according to the capital injection schedule (per the original business approval presented to PRC authorities when the venture was formed)

Dividend payment is further subject to the following conditions:

- The company must be profitable;
- Prior to repatriation, the company is required to make up losses of previous years and make provisions to the Statutory Common Reserve Fund
- To repatriate the previous years' profits, apart from the aforesaid documents, a special audit report is required

**Q: Does an importer in the mainland need to apply as a MDE in the RMB Trade Settlement Scheme?**

A: After an announcement in June 2010 by the PBoC, all importers in the 20 pilot provinces/cities have been allowed to settle trades in RMB, ie, for RMB outflow from Mainland China to overseas. The MDE lists apply to exporters of goods only, ie, RMB inflow into the mainland for mercantile trade. Services trades can be settled in RMB regardless of exporter's MDE status, given the exporter is located in the 20 pilot provinces/cities in China, and the company information is registered with the PBoC and activated through the RMB Cross-border Payments Management Information System (RCPMIS) system.

**Q: Is the list of approved MDEs under the pilot scheme still valid?**

A: The list of approved MDEs under the pilot scheme for the purpose of export trade (from the mainland) is still valid. On 6 December 2010 the PBoC announced an extension of Mainland Designated Enterprise (MDE) Lists and published them on its website. The number of MDEs has increased significantly from 365 to 67,359, between the period of July 2009 and December 2010.

PBoC Announcement:

[http://www.pbc.gov.cn/publish/huobizhengceersi/3131/2010/20101206184442957396214/20101206184442957396214\\_.html](http://www.pbc.gov.cn/publish/huobizhengceersi/3131/2010/20101206184442957396214/20101206184442957396214_.html)

MDE List:

[http://www.pbc.gov.cn/publish/huobizhengceersi/3131/2010/20101206180211690483523/20101206180211690483523\\_.html](http://www.pbc.gov.cn/publish/huobizhengceersi/3131/2010/20101206180211690483523/20101206180211690483523_.html)

**Q: How to apply as a MDE?**

A: MDE application:

- By batch.
- The lists are recommended by the local authorities and approved jointly by a number of the mainland authorities (PBoC, SAFE, Tax/Customs).
- In general, mainland banks can nominate MDEs to the local authorities.
- Import trade in goods (RMB outflow from China) and cross-border trade services are not constrained by the MDE list.

**Q: Can a non-MDE exporter participate in the RMB Trade Settlement Scheme?**

A: For Non-MDE exporters to participate under the Pilot Scheme, the following should be noted:

- Local banks are the gate-keepers of these transactions.
- Some provinces do allow non-MDE exporters to receive RMB payments.
- From our experiences, the banks need to enter the non-MDE record into the RCPMIS system, RMB Cross-border Payment MIS — a system accessed by various regulators (including PBoC, SAFE, Tax/Customs) , for regulatory monitoring.

**Q: What additional documents would the Chinese suppliers have to produce to qualify for the export tax rebate when paid in RMB? Would there be any change from the existing documentation or procedures currently required when payment is made in USD?**

A: There should be no additional document requirements for export tax rebate. Compared with the documents required for export tax rebate for cross border trade settled in FCY, export foreign exchange verification form (出口外汇核销单) is not required if the transaction is settled in RMB. The customer may wish to seek external tax expertise for prudent sake, in case local Tax Bureau offices have different requirements. But these PRC enterprises generally should be Mainland Designated Enterprises (MDEs) if they would like to enjoy export tax rebate.

# Foreign Exchange

**Q: Who can trade in the offshore deliverable RMB (CNH) FX market?**

A: Financial institutions and corporate customers with exception of personal account holders.

**Q: Do customer need to setup account to trade CNH?**

A: Yes. Customer will need to open a CNH nostro account with HSBC unless customers net settle at maturity (please also refer to CNH NDF related Q&A below).

**Q: Can customer trade CNH Non-deliverable Forward (NDF)?**

A: No, NDF market does not exist for CNH. Customer can, however, trade an artificial NDF (that is, net out the exact CNH amount at maturity and net settle). Be aware that customers can only settle the residual CNH in the HSBC CNH nostro account.

**Q: Can customer trade CNH Deliverable Options?**

A: CNH options are available to corporate customers that have a physical CNH nostro account with HSBC Hong Kong. HSBC offers USDCNH deliverable options and other crosses out to one year and longer tenors on case-by-base basis. (Relevant regulations on individual daily conversion limit still apply).

**Q: Where can customers view HSBC CNH market information via external pricing sources?**

A: Bloomberg                    HSAC CCY <GO>  
Reuters                        HSBCRMB, HSBCRMBX (CNH crosses)

**Q: How do customers trade with HSBC?**

A: HSBC Sales and Relationship Managers should be the first contact point.

For trading enquiry

Asia (FX) – Greater China FX Trading Reuters: HKBK

Asia (Option) – Currency Options Trading Reuters: HSOH

London – EM FX Trading Reuters: HKBE

New York – FX Trading Reuters: HKEM

Customers can also trade on HSBC E-Treasury (RET) platform in Hong Kong, London and New York.

**Q: Indicative CNH market information as of 7 July 2011**

A: CNH Deposit Base in Hong Kong	RMB548 billion as of end May 2011
Daily Turnover: Spot	USD1.5 billion
Daily Turnover: Forward/Swap	USD800 million
Daily Turnover: Options	USD200-300 million
Standard Ticket Size: Spot	USD10-20 million
Standard Ticket Size: Forward	USD20 million
Standard Ticket Size: Options	USD30 million
Day Count Basis	MMK: A/360
Holiday Calendar	China/Hong Kong and US
3-month Term Rates	0.20%/1.0%

## Offshore RMB IPO

**Q: Who can subscribe for RMB IPOs in Hong Kong?**

A: Any customer who is a Hong Kong ID card holder, has a valid Hong Kong address, and has an RMB account in Hong Kong is able to subscribe for an RMB IPO.

**Q: Can proceeds raised from an RMB IPO in Hong Kong by a corporate customer be remitted to Mainland China? Can such proceeds be converted into another currency?**

A: There is no restriction on remittance of proceeds raised from an RMB IPO in Hong Kong to Mainland China, although the issuer will need to obtain the necessary approval from the relevant mainland authorities. As for conversion of RMB, there is no restriction on conversion if the Participating AIs do not square the corresponding open position with the clearing bank, or if they seek to square the open position with other Participating AIs.

**Q: Can Participating AIs provide RMB financing to corporate and personal customers for subscribing for an RMB IPO?**

A: Please refer to the answer for RMB loans above on RMB lending to corporate customers. RMB lending to personal customers and DBCs is not permissible for the time being.

## Account openings

**Q: Can corporates open an account for general purposes and not for cross-border trade settlements?**

A: Yes, this is allowed. And HSBC offers both savings and current accounts, which are good for either RMB arising from cross-border trade settlements or general purposes.

**Q: Is there a limit to the amount of RMB that corporates can purchase and the purpose is not for cross-border trade settlement?**

A: There is no foreign exchange restriction as per 19 July 2010 HKMA circular (Corporates can exchange for both trade and non-trade related). However, this is subject to the availability of RMB liquidity conditions in the prevailing Hong Kong interbank market. Please note that there will be a two-tier FX rate market for both trade settlement purposes and general purposes.

**Q: Can Corporates transfer RMB to a personal account in Hong Kong?**

A: As per HKMA 19 July 2010 circular, there are no longer any restrictions to the transfer of RMB between corporate customers and personal customers within Hong Kong. It can be done either via local RTGS, cheque, or in-house account transfer.



# Case studies (Offshore)

## Case 1

### Steps of arranging a RMB denominated invoice for cross-border settlement

■ In order to settle a cross-border RMB denominated invoice, corporates should consider the following steps:

#### Prior to Remittance

- Preparation
  - Open offshore RMB trade settlement savings/current account.
  - Receive RMB trade invoices.
  - Confirm onshore suppliers/vendors had registered with the local SAFE for international trade settlement.
- Exchange
  - Currency exchange from HKD or other foreign currencies to RMB based on RMB trade settlement exchange rate if:
    - The exchange amount does not exceed the amount to be paid to their trading partner(s) or bank.
    - Supporting trade documents can be provided.

#### Remittance

- Send outward payment instruction to HSBC in Hong Kong for remittance.
  - Local suppliers/vendors submit the eligible trade information (ie invoices, service contracts etc...) to local regulatory. All RMB remittances to and from Mainland China are subject to verifications by the mainland regulators and banks, and must comply with the rules and requirements in Mainland China. Customers are encouraged to check with their Mainland China counterparts.
- KEY: Before remitting the funds to Mainland China, corporates will need to confirm with their China counterparties (beneficiary) that the trade is allowed. Otherwise, it could result in rejection of the trade transaction and the subsequent charges and FX losses to be borne by the corporate.

## Case 2

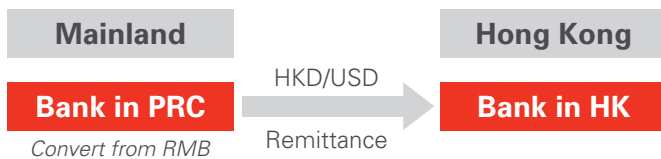
### Offshore deliverable RMB conversion

#### ■ Advantages of settling RMB in Hong Kong :

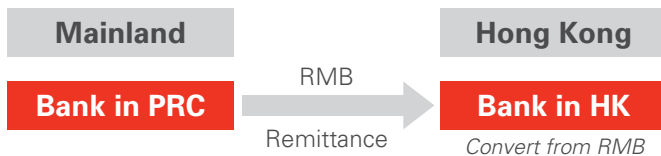
- **Ease concern of Chinese suppliers:**
  - By settling RMB with the Chinese suppliers, it can ease their concerns of the USD/RMB exchange risk fluctuation.
- **Better bargaining power:**
  - By minimising FX concerns, suppliers in China may accept a lower price quotation for the "fluctuation premium".
- **Greater price transparencies:**
  - Corporates have more choice by comparing pricing with onshore banks in China and offshore banks in Hong Kong.
- **Ease of administration:**
  - Corporates are able to centralise and manage RMB exchange risk in Hong Kong for ease of control.
- **Minimise exposure to achieve natural hedge:**
  - If the customer also has export flows with Mainland China counterparties and will receive RMB, they can net the import and export cash flow together remitting in a natural hedge.
- **Potential better price depending on FX direction.**

#### Example: Receive RMB payment from Mainland China

##### Before



##### Now



\*Subject to supporting trade documents provided.

## Case 3

### Cross-border payment and transfer

#### ■ Corporate remit dividend payment out from Mainland China to Hong Kong.

- Provided that it is remitted from the designated 20 provinces and cities to Hong Kong, it will be allowed as dividend payment is classified under current account items.
- The local enterprise in Mainland China (remitting entity) is required to register with PBoC (via their account holding bank in Mainland China) before it starts its remittance.

#### ■ A corporate in Hong Kong would like to pay salaries directly from Hong Kong in RMB to their staff in Mainland China.

- The corporate can remit to their subsidiary's account in Mainland China under "Management Fee" ( Service Trade) and then pay from that particular account to their local staff in China.
- *Before remitting, the corporate must confirm with their bank in Mainland China whether this is allowed.*

#### ■ Capital injection in RMB to Mainland China.

- Require case by case approval from PBoC.

# Appendices

## **Appendix A : Supplementary information on RMB IRS Floating Rate Index (onshore and offshore)**

### ■ Seven-day Repo

- Most popular and liquid type of IRS for onshore and offshore.
- Mainly a short-term funding market for financial institutions.
- Tracks well with the PBoC Bills and MOF Bonds Yield.

### ■ One-year Depo

- PBoC Policy Rate on deposits.
- Relates to the lending rate but they are not 100% correlated.

### ■ Swap Offer Rate (SOR)

- Calculated based on offshore RMB NDF offer rate posted by 20 banks, and thus not being used onshore but offshore only.
- LIBOR funding for each bank taken into account.

### ■ SHIBOR

- One of the ways of funding RMB.
- 16 banks contribute to the fixing.
- SHIBOR funding is small and predominately trades within a seven-day tenor.
- The index is still not commonly used for commercial purposes and trading volume remains low. However, it is part of PBoC's efforts to make SHIBOR become an official interbank lending benchmark.
- SHIBOR looks to replace the Depo IRS market in the future.

**Supplementary information on RMB IRS convention**

<b>RMB</b>	<b>Seven-day Repo Rate</b>	<b>One-year PBoC Deposit Rate</b>	<b>SHIBOR</b>
<b>Valid Date</b>	Tomorrow	Tomorrow	Tomorrow
<b>Periodicity</b>	Quarterly vs three months of 7D Compounding	Annual vs one-year Depo	Quarterly vs three months SHIBOR
<b>Day Count</b>	A/365F	A/365F Fixed leg A/360 Floating leg	A/365F Fixed leg A/360 Floating leg
<b>Fixing</b>	Reuters seven-day Repo CFXSREPOFIX01  One Beijing Business day preceding Reset Date	Reuters one-year Depo PBOCB at 3:00pm Beijing Time  One Beijing Business day preceding Reset Date	Reuters three months SHIBOR  One Beijing Business day preceding Reset Date
<b>Reset Date</b>	First day of the calculation period	First day of the calculation period	First day of the calculation period
<b>Calculation Date</b>	Beijing, New York	Beijing	Beijing
<b>Payment Date</b>	Beijing, New York	Beijing, New York	Beijing, New York
<b>FX Fixing Date</b>	Beijing	Beijing	Beijing
<b>Others</b>	Unadjusted seven-day compounding up till the end of each quarter period then stub	Disregard "effective date" on PBOCB	

## Appendix B : RMB Clearing System in Hong Kong

### ■ Mainland correspondent bank

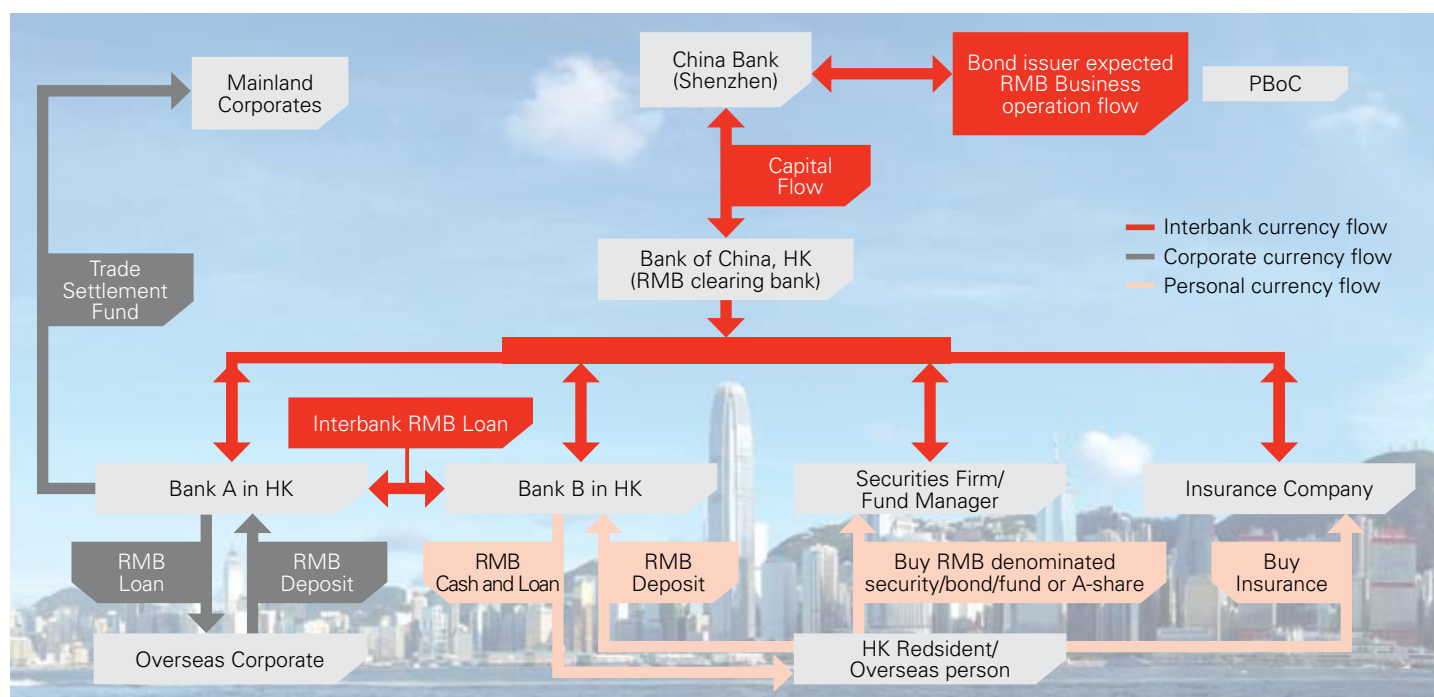
- A bank acting as a point of contact for another in a country or state where the second bank does not have a branch or agency. Each party maintains accounts with the other, in nostro and vostro (ours and yours) accounts.

### ■ Clearing bank

- On 18 November 2003, PBoC agreed to provide clearing arrangements of RMB in Hong Kong, marking for the first time over that RMB, which is fully on the current account but not on the capital account, has been allowed to clear outside of Mainland China. The scope of such RMB business includes deposit-taking, exchange, remittances and RMB cards.

- BOCHK has been the designated clearing bank for personal transactions involving RMB in Hong Kong since February 2004. This means BOCHK is to act as a settlement agent for RMB banknotes and funds in Hong Kong and an intermediary between banks in Hong Kong and PBoC. In return, BOCHK takes a 0.091% cut of all RMB deposits in Hong Kong that are repatriated back to Mainland China.
- The major responsibilities of the clearing bank are to:
  - Open RMB settlement accounts for participating banks for the acceptance and withdrawal of RMB funds.
  - Collect and distribute RMB banknotes.
  - Provide clearing services for RMB remittances and RMB cards issued by Hong Kong banks.
  - Provide services for the participating banks to square their RMB FX open positions that result from the exchange of RMB into HKD and vice versa.

### RMB Clearing System in Hong Kong - Mechanism



# Appendix C :

## Chronology of RMB liberalisation

### Chronology of events relating to RMB liberalisation

<b>2003</b>	<ul style="list-style-type: none"> <li>■ The People's Bank of China ("PBoC") and the Hong Kong Monetary Authority ("HKMA") agreed that Hong Kong banks could conduct personal RMB business on a trial basis and Bank of China Hong Kong ("BOCHK") was designated as the RMB clearing bank. Personal RMB business includes:             <ul style="list-style-type: none"> <li>– Deposit-taking services for Hong Kong residents (started February 2004).</li> <li>– Exchange RMB into HKD or vice versa, capped at RMB20,000 for RMB-deposit account holders and RMB6,000 for non-RMB deposit account holders. This also catered to businesses engaged in retail sales, catering, accommodation and other services related to personal consumption for the exchange of RMB receipts.</li> <li>– Remittance services to holders of RMB deposit accounts at a maximum of RMB50,000 per person per day from Hong Kong account to bank account in Mainland China with the same name.</li> <li>– Issuance of RMB debit and credit cards by the participating banks to Hong Kong residents for use in China; China residents may use RMB debit cards issued by the mainland banks for spending in Hong Kong.</li> </ul> </li> </ul>
<b>2005</b>	<ul style="list-style-type: none"> <li>■ Clearing banks began to provide services for participating banks to square RMB open positions that result from the following extended RMB exchange business:             <ul style="list-style-type: none"> <li>– Raised cap for cash exchange limit from RMB6,000 to not more than RMB20,000 per transaction for individuals.</li> <li>– Expanded merchants eligible to conduct RMB business to include those engaged in transportation, telecommunication, medical and education.</li> <li>– Allowed designated merchants to open RMB deposit accounts in participating banks and to unilaterally exchange RMB deposits to HKD.</li> <li>– Raised cap on RMB remittance from RMB50,000 to RMB80,000.</li> <li>– Removed credit limit of RMB100,000 on RMB credit cards issued by Hong Kong banks or their subsidiaries; exact credit limit is to be determined by card issuing banks.</li> <li>– Provide clearing services for RMB cheques used by Hong Kong residents. Hong Kong residents may use RMB cheques to pay for consumption spending in Guangdong province, subject to a daily limit of RMB8,000 per account (launched March 2006).</li> </ul> </li> </ul>
<b>2007</b>	<ul style="list-style-type: none"> <li>■ PBoC announced that qualified mainland financial institutions were allowed to issue RMB bonds. China Development Bank was the first to issue RMB bonds in Hong Kong in June 2007.</li> </ul>
<b>2008</b>	<ul style="list-style-type: none"> <li>■ On 24 December 2008, the State Council designated Guangdong province, Yangtze River Delta, Hong Kong and Macau as the pilot RMB trade settlement regions.</li> </ul>
<b>2009</b>	<ul style="list-style-type: none"> <li>■ On 8 April 2009, the State Council appointed Shanghai, Guangzhou, Shenzhen, Dongguan and Zhuhai as the five pilot cities for RMB Trade Settlement Scheme.</li> <li>■ On 29 June 2009, PBoC and HKMA signed Memorandum of Cooperation on RMB trade settlement in Hong Kong.</li> <li>■ On 3 July 2009, PBoC released guidelines on Administrative Rules for Pilot Scheme for Settlement of Cross-Border Trade in RMB.             <ul style="list-style-type: none"> <li>– Mainland Designated Enterprises (MDE) in the five pilot cities were allowed to settle trade in RMB with overseas enterprises from Hong Kong, Macau and ASEAN nation.</li> </ul> </li> </ul>

\*Source: HSBC, Bloomberg, HKMA

## Chronology of events relating to RMB liberalisation in 2010

<b>February</b>	<ul style="list-style-type: none"> <li>■ On 11 February 2010, HKMA released a circular clarifying supervisory principles and operational arrangement for RMB businesses.</li> <li>■ Scope of offshore RMB bonds, including the eligibility of issuers, issue arrangement and types of investors extended.</li> <li>■ Offshore RMB bond proceeds cannot be remitted back to China but can be used outside China for purposes including trade finance and cross-border projects in Southeast Asia.</li> </ul>
<b>June</b>	<ul style="list-style-type: none"> <li>■ On 19 June 2010, China ended a 23-month de facto peg against the US dollar and returned to the earlier managed floating system with reference to a basket of currencies. Authorities emphasised it was about flexibility and internationalisation, not appreciation.</li> <li>■ On 22 June 2010, PBoC announced the expansion of the RMB Trade Settlement Scheme to the rest of the world and locally to 18 other provinces and cities in addition to the entire Guangdong Province and Shanghai (refer map in P.65).</li> </ul>
<b>July</b>	<ul style="list-style-type: none"> <li>■ On 19 July 2010, PBoC signed a supplementary memorandum of co-operation on the expansion of the RMB trade-settlement scheme with HKMA.</li> <li>■ Under the revised settlement/clearing agreement, there were no longer restrictions on banks in Hong Kong in establishing RMB accounts for and providing related services to corporates. Corporations will be able to conduct RMB payments and transfers through the banks (limited to offshore) regardless of whether the payments are related to trade settlement. In terms of clearing in the Hong Kong interbank market, only the following open position can be squared with the RMB clearing bank (BOCHK): <ul style="list-style-type: none"> <li>– Cross-border trade settlement.</li> <li>– RMB trade finance settlement where customer are covering shortfall amount.</li> <li>– Settling of expenses relating to RMB bond issuance in Hong Kong.</li> <li>– Transactions allowed by the mainland authorities.</li> </ul> </li> <li>■ Open position resulting from exchange services for reasons other than the above can only be squared amongst Participating Authorised Institutions.</li> </ul>
<b>August</b>	<ul style="list-style-type: none"> <li>■ On 16 August, PBoC allowed the RMB clearing banks, foreign central banks that were currency swap arrangement with PBoC as well as RMB trade settlement participating banks to apply for quota to invest their RMB funds in the mainland interbank bond market.</li> <li>■ On 27 August 2010, State Administration of Foreign Exchange ("SAFE") announced that selected enterprises in Beijing, Guangdong province, Shandong province and Jiangsu province were allowed to keep export proceeds offshore.</li> </ul>

\*Source: HSBC, Bloomberg, HKMA

<b>September</b>	<ul style="list-style-type: none"> <li>■ Shanghai Government issued a circular encouraging capital account settlement in RMB for overseas project financing and outward direct investment. Although the immediate impact of this trial arrangement would be limited, it gets more initiatives ready to expand the RMB's role and other capital account-related actions from China.</li> </ul>
<b>October</b>	<ul style="list-style-type: none"> <li>■ BOCHK, the clearing bank for RMB business declared that this year's quota assigned by the mainland authorities for conversion of RMB for trade settlement transactions has been fully depleted. HKMA was to take the following measures:             <ol style="list-style-type: none"> <li>1. The HKMA has activated the currency swap arrangement with PBoC for facilitating RMB trade settlement business.</li> <li>2. RMB pricing was to be determined as according to the demand and supply of RMB fund in Hong Kong.</li> </ol> </li> </ul>
<b>December</b>	<ul style="list-style-type: none"> <li>■ PBoC has expanded RMB settlement trial for trade to 67,359 exporters (MDEs) in 16 regions from the original 365 exporters.</li> <li>■ As per a communication by HKMA dated 23 December 2010, it is estimated that the demand for RMB conversion from RMB clearing bank would be within RMB4 bn in the Q1 2011.</li> <li>■ 23 December 2010, HKMA released a circular in providing further guidance on the handling of RMB cross-border trade settlement:             <ul style="list-style-type: none"> <li>– To qualify as a trade settlement transaction, at least one leg of the trade transaction must touch Mainland China.</li> <li>– The settlement date should not exceed three months from the date of conversion.</li> <li>– Participating Authorised Institutions can only square with the RMB clearing bank their RMB net open positions arisen from trade settlement scheme.</li> <li>– Participating Authorised Institutions have to limit their RMB net open positions (whether CNY or CNH) to 10% of their RMB asset or liabilities, whichever is larger.</li> </ul> </li> </ul>

\*Source: HSBC, Bloomberg, HKMA

## Chronology of events relating to RMB Liberalisation latest developments in 2011

<b>January</b>	<ul style="list-style-type: none"> <li>■ The PBoC released the <i>Provisional Rules for the Pilot Program of RMB Settlement for Overseas Direct Investment</i> which allow for the first time the banks and enterprises to make overseas direct investments in RMB.</li> </ul>
<b>March</b>	<ul style="list-style-type: none"> <li>■ On 19 January 2011, the SAFE issued the Circular on Relevant Issues Concerning Designated Banks' RMB-FX Cross Currency Swap Business with Their Clients (国家外汇管理局关于外汇指定银行对客户人民币外汇货币掉期业务有关外汇问题的通知), which extends the use of cross currency swaps beyond the interbank market with effect from 1 March 2011.</li> <li>■ In addition to the 11 Hong Kong financial institutions given permission in August 2010 and January 2011, the PBoC granted approval to allow eight more banks to trade in the domestic China Interbank Bond Market.</li> <li>■ The PBoC announced the launch of the Renminbi (RMB) Fiduciary Account Scheme with effect from 8 April 2011. The new arrangement is to facilitate Participating Banks to better manage their credit exposure to the Clearing Bank for RMB business in Hong Kong.</li> <li>■ Under this scheme, participating banks has an option to open the fiduciary account. When open, Participating Banks can transfer RMB funds to the fiduciary account and subsequently, the funds will be transferred and deposited in the Omnibus Participating Bank Account.</li> <li>■ The Omnibus account is opened by the Clearing Bank with the PBoC in the mainland on behalf of the Participating Banks.</li> <li>■ 31 March 2011, the HKMA released a circular with refined requirements on RMB net open position (NOP) limit. <ul style="list-style-type: none"> <li>– Minimum NOP limit is set at RMB50 million.</li> <li>– QFII – Outstanding amount of investments under the QFII quota on the Authorised Institutions RMB book can be excluded from NOP.</li> <li>– RMB bond market making – Amount equals to 15% of the issue size of such RMB bond or the actual amount of the position in the bond concerned, whichever is higher, can be deducted from the NOP.</li> <li>– Net RMB deliverable forward positions can be used to offset the Authorised Institutions' RMB trade finance or trade bills/bankers' acceptance held on the balance sheet.</li> </ul> </li> </ul>
<b>April</b>	<ul style="list-style-type: none"> <li>■ SAFE introduced RMB Foreign Exchange Options Trading in the interbank market on 1 April 2011.</li> <li>■ The first offshore RMB IPO, Hui Xian REIT, has raised RMB10.48bn (USD1.6bn) and was listed on 29 April 2011.</li> </ul>
<b>June</b>	<ul style="list-style-type: none"> <li>■ The PBoC issued a Notice on Relevant Issues on RMB Cross-Border Business on 8 June 2011, highlights of the announcement included: <ul style="list-style-type: none"> <li>– The foreign debt arising from RMB cross-border settlement (including the deposit in non-resident account opened by overseas institutions) does not occupy the existing foreign debt quota.</li> <li>– The rule imposes monitoring requirements on overseas Participating Banks to monitor RMB cash movement if the RMB is converted from foreign currency which may imply that onshore agent banks are probably required to monitor the usage of RMB FX quota.</li> <li>– The rule narrows the FX conversion services provided by the overseas Participating Banks to their customers, which in turn restricts the FX conversion service provided by onshore agent banks to overseas Participating Banks.</li> <li>– RMB payment from onshore enterprises to overseas counter party cannot be converted into foreign currency in offshore market before crediting into overseas counter party's account.</li> <li>– The procedure is provided for overseas investors to make foreign direct investment in Mainland China.</li> </ul> </li> <li>■ The Treasury Markets Association announced the Spot USD/CNH Fixing would be launched 27 June 2011. The Fixing is expected to provide a reference rate for the pricing of RMB products in the offshore market and serve as a benchmark for the market exchange rates of USD against CNH at 11am Hong Kong time.</li> </ul>

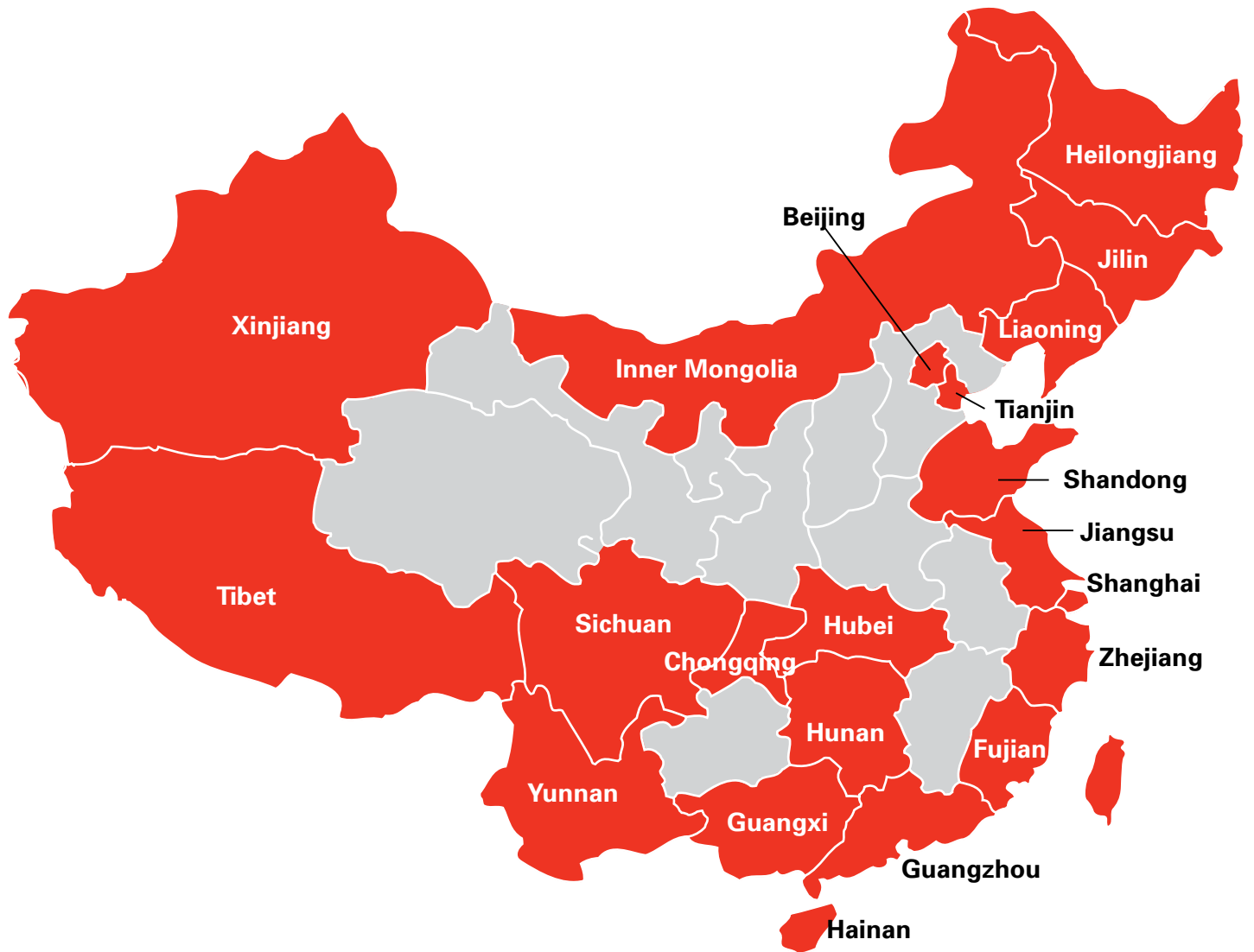
\*Source: HSBC, PBoC, HKMA

# *Appendix D*

## *– Other information*

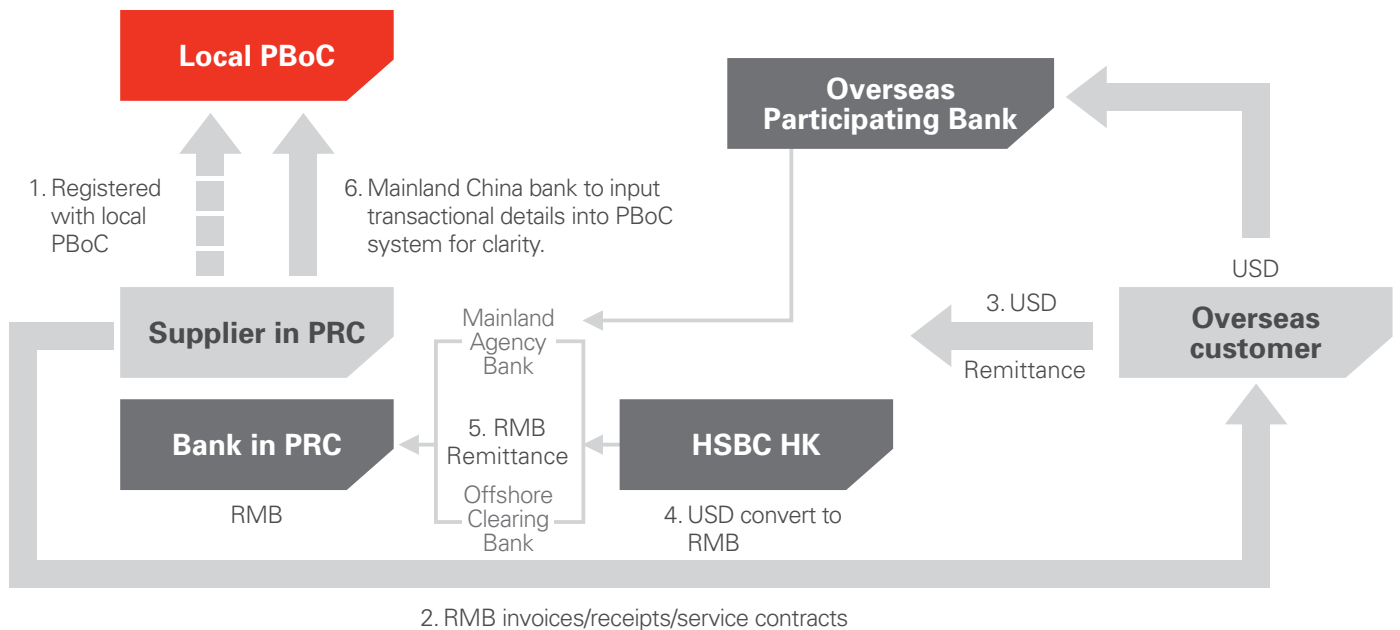


# *Location of approved RMB trade settlement provinces in China*



# RMB offshore trade settlement — Clearing arrangement

## Example: Exports from Mainland China to overseas



### Remarks:

- Banks in Mainland China are responsible for verifying whether the transactions are in compliance with the relevant rules in Mainland China and overseas participating banks can process the RMB transactions according to the local regulations and usual banking practice.
- The transaction can also be completed in any overseas location through a participating bank that has an arrangement with an onshore agent bank (eg HSBC in China).
- RCPMIS is a system accessed by PBoC for regulatory monitoring.

## Offshore deliverable RMB FX spot — Two-tier markets

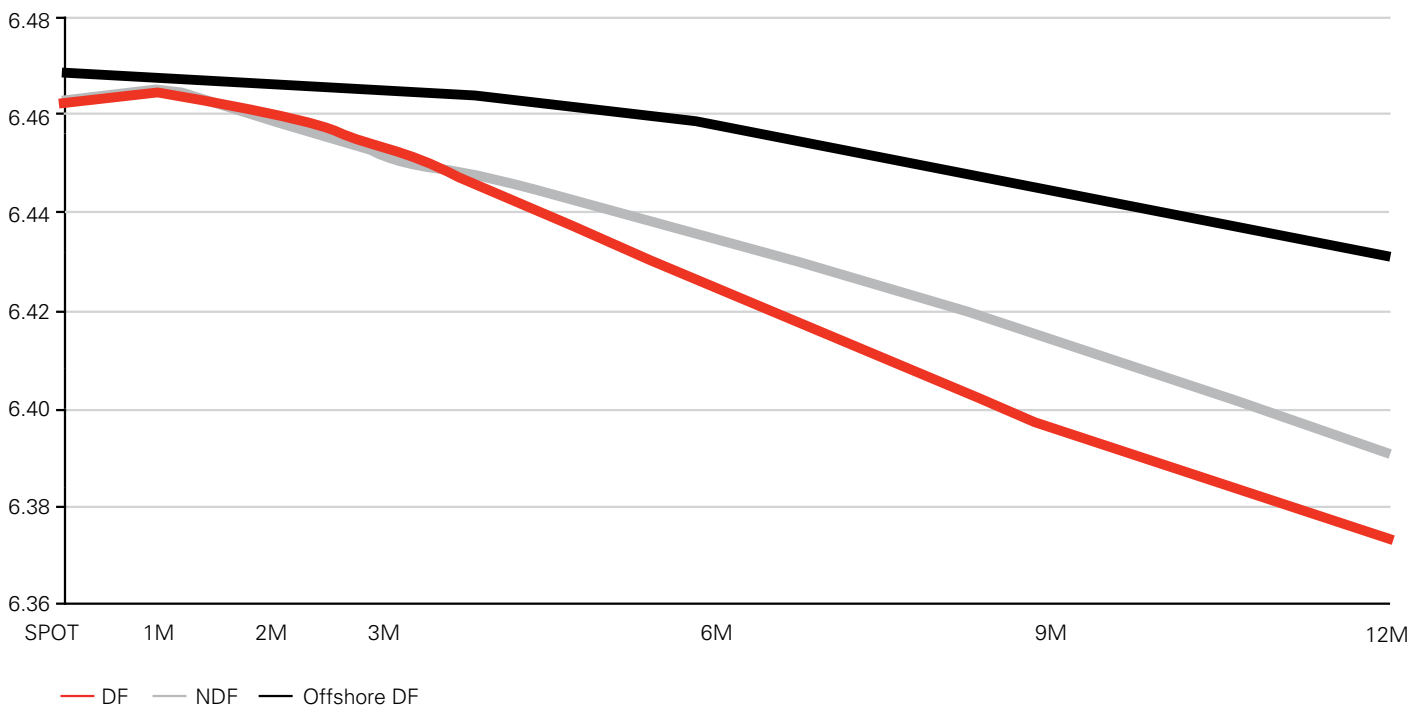
HSBC Hong Kong did the first offshore RMB FX spot deal on 21 July 2010. Depending on the nature of the FX trade, participating banks can access the onshore RMB FX rate through the RMB clearing bank. As a result, a two-tier FX market for RMB exists, namely for i) trade settlement purposes and ii) general purposes.

Trade Settlement Purposes (indicative 6.4792/6.4842)*	General Purposes (indicative 6.4735/6.4765)*
<ul style="list-style-type: none"> <li>■ Trade settlement (up to the amount of relevant trade transactions settled in RMB).</li> </ul>	<ul style="list-style-type: none"> <li>■ Underlying other than trade settlement purposes.               <ul style="list-style-type: none"> <li>– Investment purposes: client has a view that RMB will appreciate in medium to long term and would like to buy RMB as investment.</li> <li>– Proprietary trading from financial institutions such as insurance companies/hedge funds.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>■ RMB trade finance in relation to cross-border trade transactions where customers do not have sufficient RMB for loan repayment.</li> </ul>	<ul style="list-style-type: none"> <li>■ Participating Authorised Institutions (AIs) are not allowed to square their RMB FX positions with RMB clearing bank ie BOCHK. As a result, PAI can only access to the RMB liquidity pool among the other PAI in Hong Kong.</li> </ul>
<ul style="list-style-type: none"> <li>■ Settling expenses relating to RMB bond issuance in Hong Kong.</li> </ul>	<ul style="list-style-type: none"> <li>■ The main source of RMB liquidity generated in the Hong Kong interbank market comes from corporates who receive RMB from Mainland China to Hong Kong through trade settlement purposes or other approved purposes and subsequently sells the RMB to banks in Hong Kong. As a result, depending on demand and supply, it would be more expensive or cheaper for corporate to sell USD buy RMB for general purposes transactions.</li> </ul>
<ul style="list-style-type: none"> <li>■ Transactions allowed by mainland authorities to be ultimately squared by the RMB clearing bank in the China Foreign Exchange Trading Centre.</li> </ul>	<ul style="list-style-type: none"> <li>■ On the other hand, the FX rate for corporate to sell RMB buy USD would become very attractive (same for both trade settlement purposes and general purposes).</li> </ul>
<ul style="list-style-type: none"> <li>■ Participating banks can square the RMB FX position with the RMB clearing bank in Hong Kong, ie BOCHK. In turn, BOCHK will be able to access the onshore China RMB liquidity by squaring the position with onshore banks subject to an annual quota granted by PBoC. Since the RMB onshore liquidity in China is deep, the RMB FX rate that corporate can obtain for trade settlement purposes should be very close to the onshore RMB spot rate in Mainland China.</li> </ul>	

\* Indicative level as of 3 June 2011.

# Offshore deliverable RMB FX forward market

- In the offshore RMB market in Hong Kong, RMB deliverable forwards and FX swaps are available for corporate up to one year maturity to hedge FX exposure.
- Curve is based on offshore USD/RMB money market interest rate differential.
- Supporting documentation needs to be in place if the forward contract is booked for trade settlement purposes. On the other hand, no supporting documentation is required for general purposes forward contracts.
- As the spot rates for corporates to sell USD buy RMB are different between trade settlement purposes and general purposes, affecting by the spot effect, the forward rate between trade settlement purposes and general purposes will also be different.
- Accessible by any corporate client outside China.



- The onshore deliverable forward curve (Downward sloping)
- The offshore non-deliverable forward curve (Downward sloping)
- The offshore deliverable forward curve (Flat in the front and discount in the back)

Source: HSBC, Reuters

## FX and interest rate market capacity

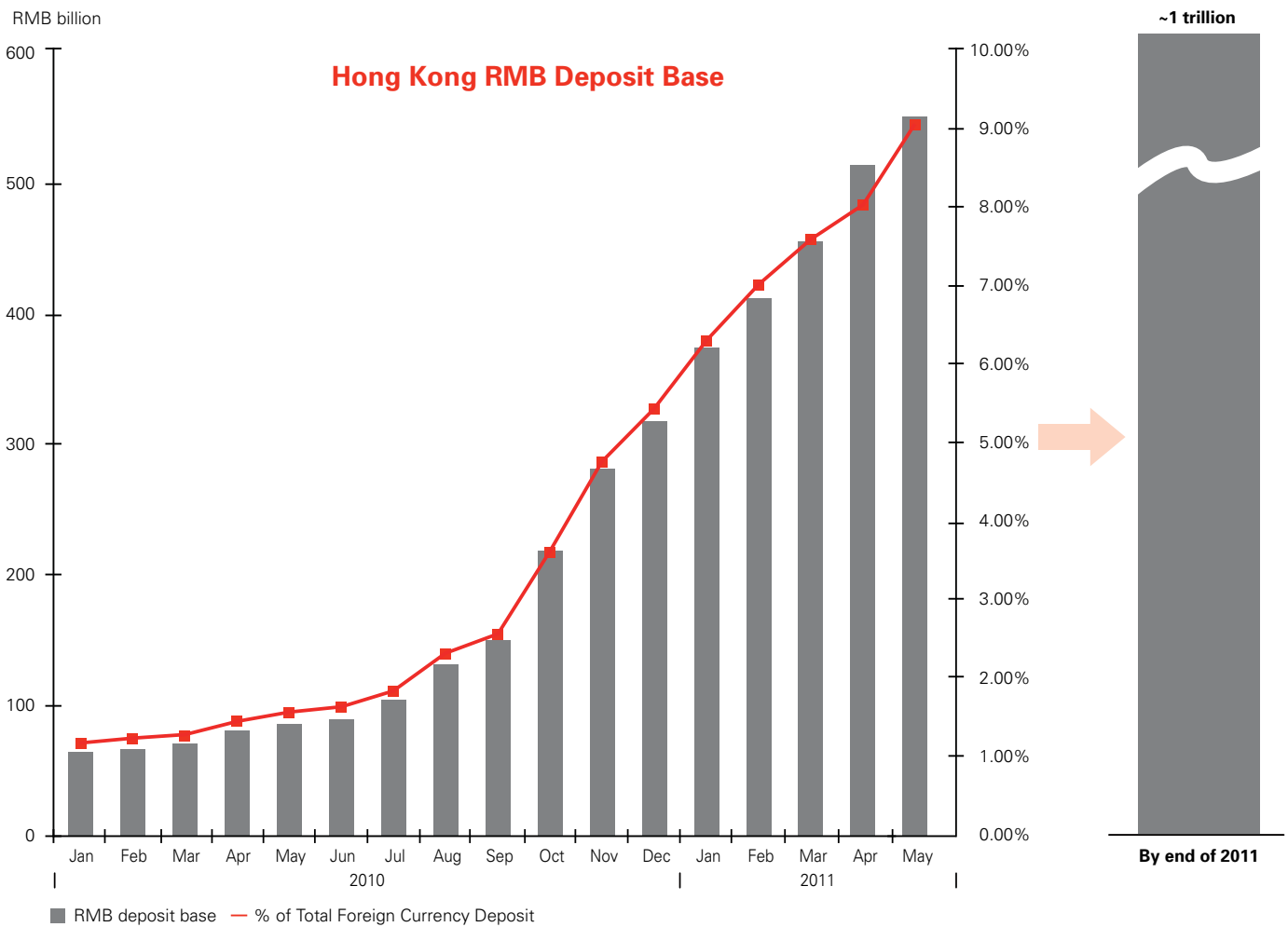
	FX/Currency			Interest Rate		
	Spot	Fwd/Swap	Option	Swap	Cap/Floor	Swaption
<b>Onshore Deliverable</b>	Yes*	Five years	Yes*	Ten years	NO	NO
Standard Ticket Size	USD5-10m	USD10-20m	USD10m	USD15-25m	N/A	N/A
Average Daily Turnover	USD20-30bn	USD2-5bn	USD50m	USD750m	N/A	N/A
Bid/Offer Spread	0.0005-0.0010	0.0050-0.0100	0.4	0.02-0.10%	N/A	N/A
<b>Offshore Non-Deliverable</b>	NO	Ten years	Seven Years	Ten years	Ten years	Ten years
Standard Ticket Size	N/A	USD10m	USD50m	USD15-25m	minimal	minimal
Average Daily Turnover	N/A	USD4bn	USD1bn	USD750m	minimal	minimal
Bid/Offer	N/A	0.0030-0.0050	0.2 vol	0.02-0.10%	wide	2-4 vol
<b>Offshore Deliverable</b>	Yes**	Five years	Five Years	NO***	NO	NO
Standard Ticket Size	USD10-20m	USD20m	USD30m	N/A	N/A	N/A
Average Daily Turnover	USD1.5bn	USD800m	USD200-300m	N/A	N/A	N/A
Bid/Offer Spread	0.002	0.0030-0.0200	0.3 vol	N/A	N/A	N/A

\* Documentary proof required.

\*\* Documentary proof not required by PAI in HK but required for remittance bank in China for Trade Settlement Purposes.

\*\*\* Offshore deliverable IRS is reference to an onshore benchmark, SHIBOR. A lending benchmark is currently absent in the offshore deliverable market.

# RMB deposit base in Hong Kong



Source: HKMA, market information

The RMB deposit base has been growing steadily since the inception of the deposit-taking services in Hong Kong in 2004. With the commencement of bond issuance in 2007, the outstanding RMB bonds were also shown to reflect the overall liquidity.

Driven by the increasing anticipation of RMB appreciation in near future, by the end of May 2011, RMB deposit base increased to over RMB548 billion, representing a 7.61% month-to-month growth and a cumulative 758% growth since January 2010.

# Offshore RMB bond market dynamics — summary

	Offshore RMB Market (in HK)	Onshore RMB Market (PRC)
<b>Current and Eligible Issuers</b>	<ul style="list-style-type: none"> <li>■ Any financial institutions or corporate incorporated outside China.</li> <li>■ Approved Mainland China FIs</li> </ul>	<ul style="list-style-type: none"> <li>■ Restricted to multi-national agents names to date (in accordance with Panda Bond Rule), and subject to individual approval.</li> </ul>
<b>Issuance Market</b>	<ul style="list-style-type: none"> <li>■ Hong Kong, retail and institutional investors with RMB funds.</li> <li>■ Total issuance size is around RMB160 billion (since 2007 to 27 June 2011).</li> </ul>	<ul style="list-style-type: none"> <li>■ Mainland China, onshore investors.</li> <li>■ Total issuance size is RMB44 trillion since 2005 to April, 2011.</li> </ul>
<b>Investor Base</b>	<ul style="list-style-type: none"> <li>■ Retail investors.</li> <li>■ Fund managers, banks, private banks, insurance companies and corporates.</li> </ul>	<ul style="list-style-type: none"> <li>■ Onshore investors: commercial banks, fund managers, insurance companies, corporates, securities companies.</li> </ul>
<b>Use of Proceeds</b>	<ul style="list-style-type: none"> <li>■ For approved Mainland China FIs, proceeds can be brought onshore.</li> <li>■ For offshore issuers, proceeds are to be kept offshore (except those with approval from China regulators to bring funds onshore).</li> </ul>	<ul style="list-style-type: none"> <li>■ Proceeds kept in Mainland China.</li> </ul>
<b>Recent Developments</b>	<ul style="list-style-type: none"> <li>■ Rapid growth of the offshore (CNH) market in 2011. Total issuance size in 2011 up to May already exceeds the full year size 2010.</li> <li>■ Rapid developments in 2010, the scope of offshore RMB bonds, including the eligibility of issuers, issue arrangement and types of investors have been extended.</li> <li>■ No approval required as long as the funds stay offshore.</li> </ul>	<ul style="list-style-type: none"> <li>■ New Panda Bond Rule has been released and potentially allow swapping part of the RMB proceeds to USD on case-by-case basis.</li> </ul>
<b>Recent Issues (examples)</b>	<p><b>2011</b></p> <ul style="list-style-type: none"> <li>■ MTR Corp. - RMB1bn 2yr 0.625% (first Hong Kong transportation)</li> <li>■ Volkswagen - RMB1.5bn 5yr 2.15% (first European Automobile)</li> <li>■ HK Gas - RMB1000m 5yr 1.4% (first Hong Kong utility)</li> <li>■ World Bank - RMB500m 2yr 0.95% (first of 2011)</li> </ul> <p><b>2010</b></p> <ul style="list-style-type: none"> <li>■ VTB Bank - RMB1bn 3yr 2.95% (first EM Issuer)</li> <li>■ Galaxy - RMB1.35bn 3yr 4.625% (first HY Issuer)</li> <li>■ Citic Bank Int'l - RMB500m 1y 2.68% (first offshore CD/HK)</li> <li>■ Hopewell Highway - RMB1.38bn 2y 2.98% (first corp bond/HK)</li> <li>■ McDonald's - RMB200m 3y 3% (first foreign co. bond/HK)</li> </ul> <p><b>2009</b></p> <ul style="list-style-type: none"> <li>■ HSBC China (first offshore issuer in HK in '09)</li> <li>■ CDB RMB3bn</li> </ul> <p><b>2008</b></p> <ul style="list-style-type: none"> <li>■ Bank of Communications RMB3bn</li> <li>■ Chexim RMB3bn</li> <li>■ BOC RMB3bn</li> </ul> <p><b>2007</b></p> <ul style="list-style-type: none"> <li>■ CDB RMB5bn</li> <li>■ Chexim RMB2bn</li> <li>■ BOC RMB3bn</li> </ul>	<p><b>2009</b></p> <ul style="list-style-type: none"> <li>■ ADB (December 2009) RMB1bn – <i>Panda bond</i></li> </ul> <p><b>2006</b></p> <ul style="list-style-type: none"> <li>■ IFC (December 2006) RMB1.13bn - <i>Panda bond</i></li> </ul> <p><b>2005</b></p> <ul style="list-style-type: none"> <li>■ ADB (October 2005) RMB1bn – <i>Panda bond</i></li> <li>■ IFC (October 2006) RMB870m – <i>Panda bond</i></li> </ul>

Remark: Applies to foreign entitles.

## Recent RMB Bond issuance in Hong Kong (2011 YTD)

Pricing Date	Issuer	Issuer Rating Moody's	S&P	Format	Maturity Date	Amount (RMB million)	Coupon (%)
24-Jun-11	Beijing Enterprises Water	-	-	Sr. Unsec.	3yr	1,000	3.750
24-Jun-11	Beijing Enterprises Water	-	-	Sr. Unsec.	5yr	450	5.000
23-Jun-11	Genting Hong Kong	-	-	Sr. Unsec.	3yr	1,380	3.950
23-Jun-11	China Merchant	-	-	Sr. Unsec.	3yr	1,400	2.000
23-Jun-11	China Merchant	-	-	Sr. Unsec.	5yr	1,600	3.000
22-Jun-11	CJ Global Holding	-	-	Sr. Unsec.	3yr	1,100	2.250
17-Jun-11	Fonterra	-	A+	Sr. Unsec.	3yr	300	1.100
13-Jun-11	HK Airline	-	-	Sr. Unsec.	3yr	600	6.500
2-Jun-11	MTR Corporation	Aa1	AAA	Sr. Unsec.	2yr	1,000	0.625
31-May-11	China Ping An Insurance Overseas (Holdings) Limited	-	-	Sr. Unsec.	3yr	2,000	2.075
30-May-11	COFCO HK	-	-	Sr. Unsec.	3yr	3,000	1.850
26-May-11	Far East Horizon	-	-	Sr. Unsec.	3yr	1,250	3.900
26-May-11	Pacific Andes	-	-	Sr. Unsec.	3yr	600	6.500
16-May-11	Overseas Chinese Town	-	-	Sr. Unsec.	3yr	1,000	3.500
16-May-11	Volkswagen International Finance NV	A3	A-	Sr. Unsec.	5yr	1,500	2.150
13-May-11	Hopewell Highway Infrastructure	-	-	Sr. Unsec.	3yr	600	1.550
11-May-11	China Chengtong Development	-	-	Sr. Unsec.	3yr	600	4.500
6-May-11	Global Bio-chem Technology Group	-	-	Sr. Unsec.	3yr	450	7.000
3-May-11	Global Logistics Properties	Baa2	BBB+	Sr. Unsec.	7yr	2,650	4.000
3-May-11	Global Logistics Properties	Baa2	BBB+	Sr. Unsec.	5yr	350	3.375
29-Apr-11	Melco PBL Entertainment	-	-	Sr. Unsec.	2yr	2,300	3.750
21-Apr-11	China Power International New Energy	-	-	Sr. Unsec.	3yr	500	3.750
19-Apr-11	BYD(HK)	-	-	Sr. Unsec.	3yr	1,000	4.500
18-Apr-11	Big Will Investment	-	-	Sr. Unsec.	3yr	2,612	7.000
14-Apr-11	Zhongsheng Group	-	-	Sr. Unsec.	3yr	1,250	4.750
7-Apr-11	Shandong Chenming Paper	-	-	Sr. Unsec.	3yr	500	2.950
6-Apr-11	Singamas Container	-	-	Sr. Unsec.	3yr	1,380	4.750
31-Mar-11	Towngas	A	A+	Sr. Unsec.	5yr	1000	1.400
29-Mar-11	China Wind Power	-	-	Sr. Unsec.	3yr	750	6.375
28-Mar-11	Unilever NV	A1	A+	Sr. Unsec.	3yr	300	1.150
14-Mar-11	TPV Technology	-	-	Sr. Unsec.	3yr	500	4.250
22-Feb-11	LDK	-	-	Sr. Unsec.	3yr	1,200	10.000
8-Mar-11	Powerlong Real Estate	B1*	B+*	Sr. Unsec.	3yr	750	11.500
21-Feb-11	Road King Infrastructure	Ba3*	BB-*	Sr. Unsec.	3yr	1,300	6.000
14-Feb-11	BECL Investment Holding Limited	-	-	Sr. Secured	3yr	1,150	4.750

The offshore RMB bond market is developing rapidly with new issuances from corporates, financial institutions, supranational agencies and from both investment grade and high yield sectors.

HSBC-led deals in red

\*Issue ratings

Source: Bloomberg, HSBC

# Regulatory approval for remittance of RMB bond proceeds to Mainland China

There are two major ways to remit the RMB bond proceeds back to Mainland China: shareholder's loan and equity injection

Shareholder loan is the recommended method given the relative ease of servicing the bond

HSBC has a designated team in Beijing that will assist the issuer to get relevant regulator approval to remit the bond proceeds onshore

Shareholder loan	Equity injection
<ul style="list-style-type: none"> <li>■ The loan amount cannot exceed the difference between the total investment and registered capital ("Foreign Debt Quota").</li> </ul>	<ul style="list-style-type: none"> <li>■ Local MOC will be responsible for the approval of foreign investment lower than USD30m (for industries that are supported by NDRC) or lower than USD5m (for industries that are restricted by NDRC). Larger amount needs to be approved by NDRC.</li> </ul>
<ul style="list-style-type: none"> <li>■ The issuer's onshore subsidiary also needs to apply for local SAFE's approval to take on RMB-dominated shareholder loan.</li> </ul>	<ul style="list-style-type: none"> <li>■ Firstly, MOF's approval is required to be obtained.</li> </ul>
<ul style="list-style-type: none"> <li>■ The receiving bank needs to apply to local PBoC cross border office, who in turn needs to seek central PBoC's sign-off, for the receiving bank to accept the bond proceed in China.</li> </ul>	<ul style="list-style-type: none"> <li>■ Secondly, the company needs to obtain the certificate issued by SAFE to prove the legality of the funding source.</li> </ul>
<ul style="list-style-type: none"> <li>■ To apply for the increase of the Foreign Debt Quota: apply to local MOC to increase the total investment amount.</li> </ul>	<ul style="list-style-type: none"> <li>■ Before obtaining the approval, the company needs to register with local SAFE, who will then report into to central SAFE.</li> </ul>

## ***Indicative levels of offshore deliverable RMB deposit/CD/bond***

<b>Tenor</b>	<b>Savings Account Interest Rate (p.a.)</b>	<b>Term Deposit Interest Rate – For General Purposes</b>	<b>Term Deposit Interest Rate – For Trade/ Service Trade (@ HBCN Notstro) (p.a.)</b>	<b>CD (p.a.)</b>	<b>Bond (p.a.)</b>
One month	0.45%	0.5%	1.50%	–	
Two months	0.45%	0.5%	1.55%	–	
Three months	0.45%	0.4%	1.60%	–	
Six months	0.45%	0.3%	1.70%	–	
One year	0.45%	0.3%	2.00%	0.95% #	
Two years	0.45%	0.3%	2.20%	1.3% #	0.7-2.0% #

# Secondary market

# ***Glossary***

AI – Authorised Institutions

BA – Bankers Acceptances

CFETS – China Foreign Exchange Trade System

CP – Commercial Papers

CSRC – China Securities Regulatory Commission

DBC – Designated Business Customers

DF – Deliverable forward

DFXB – Designated FX Bank

DM – Developed markets

EM – Emerging markets

HKMA – Hong Kong Monetary Authority

MDE – Mainland Designated Enterprises

MOC – Ministry of Commerce

MOF – Ministry of Finance

MOFCOM – Ministry of Commerce of the People's Republic of China

MOFTEC – Ministry of Foreign Trade and Economic Cooperation

NDF – Non-deliverable forward

NDO – Non-deliverable option

NDRC – National Development and Reform Commission

PAI – Participating Authorised Institutions

PBoC – People's Bank of China

PRC - People's Republic of China

QDII – Qualified Domestic Institutional Investor

QFII – Qualified Foreign Institutional Investor

SAFE – State Administration of Foreign Exchange

SOEs – State-owned enterprises

SOR – Swap Offer Rate

# Contact information

## Global Markets — Asia Pacific

Justin Chan	Tel: +852 2822 3008	Email: justin.s.c.chan@hsbc.com.hk
Ivan Wong	Tel: +852 2822 3818	Email: ivanwong@hsbc.com.hk
Gina Tang	Tel: +852 2822 4158	Email: ginatang@hsbc.com.hk

## Global Markets — China

David Liao	Tel: +86 (0) 21 3888 2271	Email: davidliao@hsbc.com.hk
Ryan Song	Tel: +86 (0) 21 3888 2261	Email: ryansong@hsbc.com.hk

## Global Markets — Global Research

Hongbin Qu	Tel: +852 2822 2025	Email: hongbinqu@hsbc.com.hk
Donna Kwok	Tel: +852 2996 6621	Email: donnahkwok@hsbc.com.hk
Daniel Hui	Tel: +852 2822 4340	Email: danielpyhui@hsbc.com.hk

## Global Markets — Global Foreign Exchange

David R Pavitt (UK)	Tel: +44 (0) 20 7991 5648	Email: david.r.pavitt@hsbcgroup.com
Claude Lamedica (US)	Tel: +1 (1) 212 525 6754	Email: claudelamedica@us.hsbc.com

#### Disclaimer

The Hongkong and Shanghai Banking Corporation Limited ("HSBC") has prepared this document (the "Document") for information purposes only. This Document does not constitute a commitment to underwrite or purchase or subscribe for all or any portion of the securities mentioned herein. Any such commitment shall be evidenced only by a fully executed subscription agreement, purchase agreement or similar contractual document. This Document should also not be construed as an offer for sale of or subscription for any investment, nor is it calculated to invite/solicit any offer to purchase or subscribe for any investment.

HSBC has based this Document on information obtained from sources it believes to be reliable but which it has not independently verified. HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability for the contents of this Document and/or as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Document. Any examples given are for the purposes of illustration only. The opinions in this document constitute our present judgement, which is subject to change without notice. HSBC and its affiliates and/or its or their respective officers, directors and employees may have positions in any securities mentioned in this Document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and/or any of its affiliates may act as market maker or have assumed an underwriting commitment in the securities of any companies discussed in this Document (or in related investments), may sell them to or buy them from clients on a principal or discretionary basis and may also perform or seek to perform banking or underwriting services for or relating to those companies. As HSBC is part of a large global financial services organisation, it or one or more of its affiliates may have certain other relationships with the parties relevant to the proposed activities as set out in this Document, and these proposed activities may give rise to a conflict of interest, which the addressee hereby acknowledges. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This Document, which is not for public circulation, must not be copied, transferred or the content disclosed to any third party and is not intended for use by any person other than the addressee or the addressee's professional advisers for the purposes of advising the addressee hereon.

#### **The Hongkong and Shanghai Banking Corporation Limited**

Level 18 HSBC Main Building  
1 Queen's Road Central  
Hong Kong SAR

© Copyright. The Hongkong and Shanghai Banking Corporation Limited 2011, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited. (July 2011)