

Third Meeting of Hong Kong – London RMB Forum

26 September 2013

The private-sector led Hong Kong – London Forum to promote cooperation on the development of international renminbi (RMB) business (the “Forum”) convened for its third meeting on Thursday 26 September in Hong Kong. The meeting was attended by senior representatives of the Hong Kong and London offices of ten banks, namely Barclays, Bank of China, China Construction Bank, Citi, Deutsche Bank, HSBC, Industrial and Commercial Bank of China, J. P. Morgan, Royal Bank of Scotland and Standard Chartered Bank. The Hong Kong Monetary Authority (HKMA) and UK Treasury acted as facilitators, with Mr Eddie Yue, Acting Chief Executive of the HKMA, and the Rt Hon Greg Clark MP, Financial Secretary to the Treasury of the UK attending. The Financial Services and the Treasury Bureau of the Hong Kong SAR government and Bank of England (BoE) attended as observers.

The Forum participants reviewed the latest developments in the international RMB market. Participants noted the strengthening of cross-border trade settlement activities and the expansion of RMB products and services, especially in foreign exchange and also in the availability of a wide range of hedging and other investment products. Liquidity and market confidence in the offshore market continued to grow, as evidenced by the increased uptake of RMB by both corporates and financial institutions. These developments have been aided by the RMB-sterling swap line agreement between the People’s Bank of China and the BoE and the recent enhancement of HKMA’s RMB liquidity facility to provide overnight funds on T+0 basis. Growth prospects of RMB

business have been buoyant and will continue to benefit from the on-going liberalisation measures by the Chinese authorities and increasing channels for cross-border flows with Mainland China. In this regard, Forum participants welcomed the significant expansion of the RMB Qualified Foreign Institutional Investor (RQFII) scheme, as it sets to provide new opportunities to asset managers in Hong Kong and London.

Forum participants reported that significant progress has been made in taking forward the actions agreed at their last meeting in December 2012. Notable achievements include:

- **Increased utilisation of RMB by corporates in cross-border RMB transactions.** The volume of RMB cross-border trade transactions conducted with Mainland China increased by 48% in the year to August 2013, following 32% growth in 2012. RMB is now ranked by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) as the eleventh payments currency of the world, up from the fourteenth at end 2012. SWIFT reports over 47 countries are using RMB for over 10% of their payments with Mainland China and Hong Kong.
- **Expanded foreign exchange and other market activities in RMB.** RMB has become the ninth most actively traded currency according to the latest Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity published by the Bank for International Settlements (BIS). Driven by the expansion of offshore RMB trading, the average daily turnover in the RMB Real Time Gross Settlement (RTGS) system in Hong Kong increased to some RMB400 billion in the year to August, while there had been a 200% increase in spot

RMB foreign exchange transactions in London over 2012. Market participants have taken steps to reduce foreign exchange settlement risks through bilateral netting arrangements.

- **Increased corporate awareness and participation in RMB business in regions across the world.** The banks have initiated work to expand the geographical reach of their RMB services, and have launched roadshows and educational events with positive responses in Latin America, the Middle East and Africa. This has been helped by resource packs (including in Chinese language) produced as part of the City of London Initiative. They are also working on ways to further capture RMB opportunities available in the UK and in continental Europe, where there has been a noticeable increase in corporate interest in RMB trade settlement and banking services.
- **Launch of the CNH HIBOR fixing in June 2013 to support the growth of the RMB market by providing the benchmark for RMB loan facilities and financial instruments.** CNH HIBOR has spurred growth in the market for RMB lending as well as interest rate products and hedging products such as interest rate swaps and other derivative products. These products are now being offered in Hong Kong and London, enabling a wider range of market participants to better manage their RMB-related risks.

At the previous Forum held in London, a successful special session on the use of RMB services by corporates demonstrated the importance of high corporate awareness to fulfilling the mandate of further developing international RMB business. This was taken further in Hong Kong as

Forum participants conducted a seminar with corporates and non-bank financial institutions. The event was opened by Mr Eddie Yue, Acting Chief Executive of the HKMA, and the Rt Hon Greg Clark MP, Financial Secretary to the Treasury of the UK. The seminar covered the latest trends in the expanding international RMB market, and focused specifically on trade settlement services and banking solutions offered by banks in Hong Kong and London and developments in RMB investments. Over 130 representatives from the target institutions attended the event, and engaged in interactive discussions with two panels of experts. The panels represented the corporate, banking, asset management and financial exchange sectors, and offered advice and answered questions on a wide range of issues relating to RMB trade settlement, banking services, financing and investments.

Looking ahead, Forum participants agreed to step up their on-going efforts, which will focus on further enhancing the breadth and depth of the offshore RMB market while actively seeking to provide services in response to the opening of more channels for cross-border flows with Mainland China. In particular:

- Forum participants recognised the need to continue raising corporate awareness while working to make the offshore RMB market more user-friendly and accessible. Priority will be placed on helping corporates adapt their internal processes to using RMB. Forum participants noted that certain practical issues – including those relating to accounting practices, valuation methodologies and trade settlement procedures have posed challenges to some corporates when using RMB. In response, Forum participants will explore further collaboration in organising promotional events and in

developing industry-wide solutions, while involving relevant industry bodies as appropriate.

- Forum participants agreed to further develop market solutions to enhance RMB liquidity and reduce foreign exchange settlement risks. These may include enhancing their readiness to provide market making in RMB transactions and to make better use of surplus liquidity in Hong Kong to support intragroup needs especially beyond Asian trading hours, reaching out to more banks and financial institutions as counterparties, and developing more offshore RMB money market instruments. Participants also called for extending arrangement to further facilitate same day settlements between Mainland China and offshore markets in different time zones. Participants welcomed the progress made in developing benchmarks and look forward to continue to work in this area to extend duration to the longer tenor.
- Forum participants highlighted the importance of providing more integrated suites of their RMB services and products, to increase awareness and so that customers have easier access to full range of options. In this regard, Forum participants agreed to take steps to integrate RMB into their provision of treasury management services and advice, to better help corporate clients realise the cost-efficiency and investment opportunities of managing RMB liquidity offshore. The ability of the Mainland Chinese offices of multinational corporations to extend RMB lending to related entities offshore is expected to lead to an increased supply of RMB liquidity offshore, as well as to a stronger need for offshore RMB treasury management services.

- Promotion and expansion of channels for two-way flows with Mainland China are essential. It is expected to generate new liquidity for the offshore RMB market as Mainland Chinese investors enter the international financial markets. This presents opportunities for servicing and managing such flows and investments. In view of this, Forum participants agreed to enhance their readiness to service such flows and to develop new investment and wealth management products that would meet the investment interests and needs of Mainland Chinese investors. In the opposite direction, riding on the expertise of practitioners in Hong Kong and London, more should be done to engage with potential market participants globally to access the Mainland Chinese financial markets through RQFII and other arrangements.

The next meeting of the Forum will be convened in London during the course of 2014.