

## **Fourth Meeting of London – Hong Kong RMB Forum**

**12 November 2014**

The private-sector led London – Hong Kong Forum to promote cooperation on the development of international renminbi (RMB) business (the “Forum”) convened for its fourth meeting on Wednesday 12 November in London. The meeting was attended by senior representatives of the London and Hong Kong offices of thirteen banks, namely Agricultural Bank of China, Australia and New Zealand Banking Group, Bank of China, Bank of Communications, Barclays, China Construction Bank, Citi, Deutsche Bank, HSBC, Industrial and Commercial Bank of China, J.P. Morgan, Royal Bank of Scotland, and Standard Chartered Bank. HM Treasury and Hong Kong Monetary Authority (HKMA) acted as facilitators. The Bank of England and the Foreign and Commonwealth Office attended as observers.

### **Latest developments in the international RMB market**

Forum participants reviewed the latest developments in the international RMB market. Participants noted a continuation of the trend in corporate uptake of RMB noted at the previous Forum, with increases across the board in the use of RMB as a trade currency, for corporate treasury management activities, and increasingly as an investment currency. At the same time, RMB market activities in offshore markets further increased in breadth and depth, reflected in rising activity in foreign exchange and in the bond market, as well as in the broadened range of investment products.

In London, the appointment of China Construction Bank as the RMB Clearing Bank has provided support to the further development of RMB activities, helping to ease the transfer of funds in the western time zone. Forum participants welcomed the landmark quasi-sovereign and sovereign RMB bond issues in London by China Development Bank and the UK government. The UK government's issue, which was oversubscribed, was the first non-Chinese issuance of sovereign RMB debt, and at RMB3 billion the largest issue so far in London. The bond will be used to finance Britain's reserves, signalling the RMB's potential as a reserve currency. Investment opportunities in RMB in London also expanded with the granting of the RMB80 billion RMB Qualified Foreign Institutional Investor (RQFII) quota and the award of four RQFII licences to UK-based firms.

In Hong Kong, in tandem with the strong growth in RMB trade settlement, bond issuance, and the active use of RQFII quota for investment activities, several enhancements to the RMB financial infrastructure have been introduced. The extension of the daily operating hours of the RMB Clearing Bank to 20.5 hours further facilitated interbank payments and fund transfers, while the liquidity measures announced by the HKMA – the intraday repo and the designation of Primary Liquidity Providers – will provide banks with additional resources to manage their RMB liquidity. Meanwhile, the Shanghai-Hong Kong Stock Connect will provide a new channel for international investors, through the Hong Kong Stock Exchange (HKEx), to trade eligible shares listed on the Shanghai Stock Exchange. The

removal of the RMB conversion limit for Hong Kong residents of RMB20,000 per day will make it more convenient for them to participate in the Shanghai-Hong Kong Stock Connect, and other RMB financial transactions.

### **Progress since 3<sup>rd</sup> London-Hong Kong RMB Forum**

Forum participants reported that significant progress had been made in taking forward the actions agreed at their last meeting in September 2013.

- **Increased awareness and use of RMB by corporates in cross-border and offshore transactions.** The volume of RMB cross-border trade transactions conducted with Mainland China increased by 53% year-on-year at end-September 2014, following 58% growth in 2013. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) reported a 106% increase in RMB transactions conducted globally, with one third of the world's financial institutions actively using RMB for payments to Mainland China and Hong Kong and with RMB now the second most used currency for trade finance. SWIFT also reported that RMB was the 7th most used currency for international payments in September 2014, up from 13th place in January 2013. As a result of the strong growth in RMB economic and financial activities, the average daily turnover in the RMB Real Time Gross Settlement (RTGS) system in Hong Kong reached some RMB820 billion in October this year, having increased by almost 80% from RMB460 billion in the fourth quarter of 2013. These positive trends have been supported by the provision of a greater variety of tailored

products and services by banks in London and Hong Kong. Forum participants also noted the increasing use of RMB by SMEs in trade settlement, as well as the increasing use of RMB loans by corporates.

- **Further enhancing RMB liquidity and reducing foreign exchange settlement risk.** Spreads across foreign exchange products have reduced significantly with many more participants now joining the market in both Hong Kong and London. The Payment vs Payment (PvP) link between the US dollar and RMB RTGS systems in Hong Kong offers a means to mitigate settlement risk.
- **Provision of integrated suites of RMB products and services and supporting two-way flows with Mainland China.** Banks and other financial institutions have been proactive in capturing the opportunities arising from the expanded two-way investment flows with Mainland China. This is reflected by the utilisation of the RQFII quotas in Hong Kong and London, based on which an expanded range of investment products are offered. Hong Kong's RQFII quota of RMB 270 billion was fully utilised, with an encouraging start to London's utilisation of its own RQFII quota. Forum participants noted the increasing diversity of RMB investment products in the wider offshore market, particularly in Hong Kong and London, including the listing of the first RQFII ETF on the London Stock Exchange. Following policy liberalisation over the last year, banks are also actively helping corporates to manage liquidity between their onshore and offshore cash pools.

To raise awareness for RMB business and foster understanding of the offshore and onshore RMB markets, HM Treasury and HKMA will host an RMB markets workshop for corporates and institutional investors tomorrow (13 November), in partnership with the financial industry bodies ASIFMA, AFME, and GFMA. The seminar will cover the latest developments in offshore RMB business, as well as the latest trends and opportunities in the use of RMB by corporates and investors. The workshop will be attended by over 100 representatives from corporates and financial institutions.

### **Looking ahead**

Forum participants agreed to continue their work and step-up engagement in a number of areas, with the aim of further enhancing the breadth and depth of the offshore RMB market and promoting international RMB business, noting that increasing awareness and education continue to be key themes in all areas.

- Forum participants agreed that as the use of RMB continues to grow globally, it is crucial that the different offshore markets are well connected. Multiple clearing centres increased choice and geographical coverage, but participants highlighted the importance of the efficient transfer of RMB funds between Hong Kong and London, to ensure that RMB liquidity in the two centres is fully fungible and RMB payments can be made in a timely manner across a broader network of banks globally. In view of this, the clearing banks in London and Hong Kong should work

together and with other banks to improve RMB fund transfers between London and Hong Kong.

- Forum participants agreed that, while foreign currency swaps had been used extensively as a means for RMB funding activities, the development of an RMB repo market will be essential for the further growth of the international RMB market. Such a market would provide an additional channel for RMB liquidity management and useful pricing benchmarks for the RMB funding market. To facilitate this development, Forum participants agreed they would seek to conduct more RMB repo transactions, making fuller use of the cross-border collateral management platforms jointly offered by the HKMA's Central Moneymarkets Unit and tripartite collateral management service providers, including Euroclear, Clearstream and J.P. Morgan. To further improve liquidity in the market, Forum participants also agreed they would work to enhance their ability to provide market making in RMB bonds.
- Recognising the progress made in Hong Kong's offshore RMB bond market, participants shared their experiences and agreed to encourage further corporate and sovereign bond issuances, with longer tenors, from a wider variety of issuers and with a focus on developing underlying liquidity.
- Cross-border investment flows with Mainland China will be a key area of growth in the use and liquidity of RMB. Forum participants agreed that they would work to provide expanded RMB investment options to their customers in Hong Kong, London, and

beyond. Forum participants would increase their support for the use of the RQFII scheme, including raising awareness and understanding among investors in Europe, and would also participate in the Shanghai-Hong Kong Stock Connect. At the same time, they would also continue to enhance their readiness to serve RMB investment flows coming from Mainland China.

- Forum participants noted that commodities trading in RMB would offer new business opportunities. There are emerging flows between commodity producers and Mainland China who then recycle that RMB offshore, and Forum participants agreed that London and Hong Kong should leverage that link. Participants also welcomed the plans of HKEx to launch RMB metals futures contracts using London Metal Exchange global reference prices and agreed to work together with other market participants to promote corporate and investor interest in this area.

Recognising the significant progress made to date, private sector participants agreed to continue to work to develop London and Hong Kong's positions as leading offshore RMB centres. The next meeting of the Forum will be convened in Hong Kong during the course of 2015.