

Fifth Meeting of Hong Kong – London RMB Forum

10 December 2015

Outcomes statement

The private-sector led Hong Kong – London Forum to promote cooperation on the development of international renminbi (RMB) business (the “Forum”) convened for its fifth meeting on Thursday 10 December in Hong Kong. The meeting was attended by senior representatives of the Hong Kong and London offices of the 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, and Standard Chartered Bank. The Hong Kong Monetary Authority (HKMA) and HM Treasury acted as facilitators. The Foreign and Commonwealth Office attended as observers.

Latest developments in the international RMB market

Forum participants welcomed the recent decision by the International Monetary Fund to include the RMB in the Special Drawing Rights (SDR) basket. The decision establishes the Chinese currency’s status as a freely usable currency. It also enhances the representativeness of the SDR basket, and will further promote confidence in the use of the RMB for international trade and financial transactions, giving further impetus to the internationalisation process.

Forum participants reviewed latest developments and the past year saw a continuation in the increasing uptake of RMB in trade, corporate treasury management and investment activities, as well as rising activity in foreign exchange and the development of a wider range of investment products in Hong Kong and London, reflecting the increasing breadth and depth of the offshore market.

In Hong Kong, channels for RMB investment flows have continued to expand. The launch of the Shanghai-Hong Kong Stock Connect in November 2014 has enriched the investment choices of investors in both the offshore and onshore markets. The implementation of the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, launched in July 2015, also allows eligible Mainland and Hong Kong funds to be distributed in each other’s markets. Both schemes represent significant steps to liberalise the Chinese capital account and have

created additional channels for the circulation of RMB funds between the onshore and offshore markets.

In London, Forum participants noticed many developments in the market, including the inaugural issuance of RMB short-term debt by the People's Bank of China (PBoC), which has set a benchmark for future issuers as well as providing an additional sovereign graded RMB-denominated asset in offshore markets. Participants welcomed the renewal of the reciprocal Sterling-RMB currency swap arrangement between the Bank of England and the PBoC. The maximum value of the swap line has been expanded from RMB 200 billion to RMB 350 billion, reflecting the continued development of RMB business in London.

Progress since 4th London-Hong Kong RMB Forum

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

- **Use of RMB by corporates in cross-border and offshore transactions remained robust.** The volume of RMB cross-border trade transactions conducted between Hong Kong and Mainland China increased by 12% year-on-year at end-October 2015, following 63% growth in 2014. According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the RMB now ranks as the fifth most used currency for international payments, and ranked first for Asia Pacific intra-regional payments with Mainland China and Hong Kong. As a result of the strong growth in RMB financial activities, the average daily turnover in the RMB Real Time Gross Settlement (RTGS) system in Hong Kong has reached some RMB 1 trillion recently, up from RMB730 billion in 2014. Forum participants also noted the continued rise in RMB lending activities by corporates.
- **Increasing foreign exchange (FX) activities in both offshore markets.** RMB FX trading volumes in both Hong Kong and London rose significantly over the past year. The average daily volumes in Hong Kong reached US\$93 billion (RMB 577 billion equivalent) in April 2015. Daily volumes in London reached RMB 390 billion in 2014, with spot trading volumes up more than three times in 2014.
- **Opening of the onshore interbank bond market further enhances RMB liquidity and repo market development.** Since June 2015, the onshore repo market has expanded to eligible overseas institutions,

which has broadened the supply of offshore RMB liquidity. The cross-border collateral management platforms offered by the HKMA's Central Moneymarkets Unit and tri-partite collateral management service providers, including Euroclear, Clearstream and J.P. Morgan will continue to provide an important source of funding for companies and banks in Hong Kong.

- **Capturing opportunities presented by further expansion of cross-border investment channels.** Forum participants have been proactive in capturing the opportunities arising from the expanded two-way investment channels with Mainland China. With the implementation of MRF in July, eligible products undergoing the approval process are expected to be made available in the market shortly. The Shanghai-Hong Kong Stock Connect, which is regarded as a precursor to a new generation of cross-border regulatory cooperation and market connections, also operated steadily since its launch in November 2014.

Looking ahead

In tandem with the accelerating internationalisation of the RMB, Forum participants agreed to step up their collaboration efforts and engagement as follows:

- **Capitalising on the expanding channels for cross-border RMB flows.** Forum participants welcomed the agreement between China and the UK to support the Shanghai Stock Exchange and the London Stock Exchange to carry out a feasibility study on a stock connect, as well as the initiative to establish a working group on mutual fund recognition. Participants stand ready to further exchange their insight on utilising the broadening cross-border channels, particularly in light of the successful launch of Shanghai-Hong Kong Stock Connect and the MRF in Hong Kong, and the anticipated launch of the Shenzhen-Hong Kong Stock Connect. Participants recognised that the schemes could in the future provide exciting additional channels for RMB funds to circulate between onshore and offshore markets. Both sides noted the possibility for collaboration in other areas, notably on commodities.
- **Making the most of the growing trend of Chinese capital and companies going global as the implementation of the 'Belt and Road' initiative and the Asian Infrastructure Investment Bank gathers pace.** Hong Kong and London will further develop their RMB capabilities in areas such as treasury management, investment, wealth management,

trade settlement and financing to meet the demand from Chinese corporates and investors. Forum participants also noted the opportunities to cater for the potential infrastructure investment needs arising from the Belt and Road developments.

- **Expanding the range of RMB products and the breadth and depth of the RMB capital markets.** Efforts will be made to help improve the understanding of and to promote RMB-denominated assets among global investors, and support developments in the primary market. Forum participants also agreed to enhance the vibrancy of the offshore bond market and encourage a diverse range of issuers – whether corporate, supranational, or sovereign – to make use of the platforms in Hong Kong and London for their RMB financing needs.
- **Strengthening the market infrastructure to enhance liquidity and service increasing payment needs.** Forum participants pledged to continue to devise market solutions to enhance RMB liquidity to support the growing RMB activities in both offshore centres. The Forum also recognised that the launch of the Cross-border Interbank Payment System (CIPS) would further facilitate the use of RMB in cross-border transactions between the Mainland and other parts of the world. The RMB clearing banks in Hong Kong and London will continue to work together to enhance the payment and settlement channels and to complement the functions of CIPS in serving institutions in different parts of the world.

To further raise awareness of RMB business and foster understanding of the offshore and onshore RMB markets, the HKMA and HM Treasury will host a seminar on RMB business for 160 representatives from corporates, financial institutions, and asset management firms tomorrow (11 December). The seminar will cover the latest trends of RMB internationalisation and the opportunities in store for corporates and institutional clients in making use of the RMB.

Noting the significant progress made to date, Forum participants recognised the importance of further cooperation and agreed to continue to work to further develop Hong Kong and London's positions as leading offshore RMB centres.