

London-Hong Kong Financial Services Forum 2016

The private-sector led London-Hong Kong Financial Services Forum (the “Forum”) convened on Tuesday 6 December in London. Building on the success of the past five years, this year’s Forum has expanded its scope to cover not only RMB business but also infrastructure financing, green finance and the Belt and Road Initiative, and FinTech, with a view to deepening and broadening financial cooperation between London and Hong Kong across a number of other areas in the coming years.

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, ICBC Standard Bank, 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 inclusion of the RMB in the International Monetary Fund’s Special Drawing Rights (SDR) currency basket, which is an important milestone in RMB internationalisation. RMB’s inclusion in the SDR currency basket establishes the currency’s status as a freely usable currency. It also enhances the representativeness of the SDR currency basket, and will further promote confidence in the use of the RMB for international trade and financial transactions, giving further impetus to the RMB internationalisation process.

Forum participants reviewed developments in the offshore markets and noted that offshore RMB business development continues to make steady progress, notwithstanding volatility in the global financial markets in the past year. Both sides recognise the importance of increasing engagement and connectivity with the onshore market.

In Hong Kong, Forum participants noted major achievements in enhancing mutual access of the capital markets in Mainland China and Hong Kong, not least the launch of the Shenzhen-Hong Kong Stock Connect this Monday. The Shenzhen-Hong Kong Stock Connect has added a new channel for cross-border, two-way portfolio flows between the two markets. The abolition of aggregate quota under the Stock Connect Scheme was also a significant step forward in facilitating smooth transactions and increasing market certainty. Backed by a multitude of unique cross-border investment channels and the world’s largest offshore RMB liquidity pool, Hong Kong continued to play the role as the global offshore RMB business hub. Participants noted that Hong Kong processed some 70% of the world’s RMB payment transactions in the first 3 quarters of this year (source: SWIFT).

In London, Forum participants noted many developments in the market, including: the landmark issuance by China's Ministry of Finance of a RMB sovereign bond in London, worth RMB 3 billion – the first such bond issued outside China; and the issuance by the People's Bank of China (PBOC) of RMB 5 billion of short-term central bank notes – the first time the PBOC has done so outside China. Participants noted London's position as a leading offshore RMB clearing centre in terms of payments processing volumes, second only to Hong Kong (source: SWIFT). Participants also noted the number of financial services measures delivered as part of the recent UK-China Economic and Financial Dialogue, in particular that the London and Shanghai Stock Exchanges will now research and prepare implementation arrangements for a London-Shanghai Stock Connect. Participants also welcomed the growing presence and activity of Chinese financial firms and institutions operating in the UK, which will strengthen financial ties and enhance London's position as a global RMB hub.

Participants noted the positive steps taken by the Mainland Chinese authorities over the past year to open up the onshore financial markets to overseas investors, including relaxing access to the onshore interbank bond market by eligible foreign financial institutions. These measures, and others, are further facilitating cross-border RMB fund flows and helping to create more opportunities for offshore RMB business.

Forum participants agreed to step up their collaboration efforts and engagement to capture opportunities arising from the continued progress of the internationalisation of the RMB, with a view to:

- capitalising on the expanding channels for cross-border RMB flows. Participants stand ready to further exchange their insight on utilising the broadening cross-border channels;
- further expanding the range of RMB products and the breadth and depth of the RMB capital markets, in particular in relation to fixed income;
- strengthening the market infrastructure to enhance liquidity and service increasing payment needs. On this point, participants welcomed the expansion of the Primary Liquidity Providers initiative by the HKMA this October which would further strengthen liquidity and resilience of the CNH market.

Belt and Road Initiative

Building on the discussion of the latest developments in the international RMB market, participants welcomed the opportunity at this year's Forum to consider opportunities to strengthen collaboration in other areas relating to financial services.

Forum participants discussed opportunities arising from the implementation of the 'Belt and Road Initiative' (B&R Initiative), which will spur increased demand for infrastructure financing and investment, green finance, and other financial and associated professional services. With their deep capital markets and sophisticated financial services industry, participants agreed that London and Hong Kong are well poised to capitalise on this demand.

Forum participants noted HKMA's establishment of the Infrastructure Financing Facilitation Office (IFFO), whose mission is to facilitate infrastructure investments and their financing by working with a cluster of key stakeholders. Participants also noted the progress of the UK-China Infrastructure Alliance, which is intended to boost two-way investment in infrastructure between the UK and China, as well as in third markets.

FinTech

Forum participants noted the significant opportunities for both UK and Hong Kong in relation to FinTech cooperation. Participants welcomed the UK and Hong Kong authorities' intention to establish a 'UK-Hong Kong FinTech Bridge' to boost regulatory cooperation; increase UK and Hong Kong-based FinTech firms' access to investment and information on market trends; enhance the security of financial systems; and help UK and Hong Kong-based FinTech firms to establish a presence or scale-up in the Hong Kong or UK markets.

As a first step towards establishing a 'UK-Hong Kong FinTech Bridge', participants noted that today (7 December) the Financial Conduct Authority and the Hong Kong Monetary Authority will sign a regulatory cooperation agreement on FinTech.

Next steps

Noting the significant progress made to date, Forum participants recognised the importance of further cooperation and agreed to continue to work together to enhance Hong Kong and London's leading positions in offshore RMB business, as well as to deepen cooperation in other areas of financial services in order to capitalise on wider strategic opportunities.

Today (7 December), the HKMA and HM Treasury will host a seminar for London and Hong Kong-based representatives from corporates, financial institutions, asset management firms and FinTech firms. The seminar will review the latest trends of RMB internationalisation and the opportunities in store for corporates and institutional clients in relation to B&R Initiative. The seminar will also discuss the opportunities presented by closer collaboration in relation to FinTech.

HM Treasury
Hong Kong Monetary Authority
7 December 2016