

Press release

LCQ15: Market reforms of interest rates and exchange rates of Renminbi

Wednesday, June 26, 2013

Following is a question by the Hon Ng Leung-sing and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 26):

Question:

The Chief Executive has indicated in the 2013 Policy Address that "Hong Kong is an ideal 'testing ground' for steady market reforms of our country's interest rate and exchange rate regimes, and its gradual realisation of the RMB [Renminbi] capital account convertibility". The executive meeting of the State Council held in May this year had reportedly studied the preparation for the key tasks of deepening economic reform in this year, including steadily implementing reform measures for interest rate and exchange rate marketisation, as well as putting forward operation proposals on the RMB capital account convertibility. In addition, a member of the Monetary Policy Committee of the People's Bank of China forecast, in a research report on finance published in May this year, that the liberalisation of the Mainland's capital accounts would be completed between 2015 and 2020. In this connection, will the Government inform this Council:

(a) of the progress of implementing the development direction of making Hong Kong a "testing ground" for the RMB capital account convertibility as mentioned in the Policy Address; and

(b) whether it has studied in what aspects that the Government and the local finance industry can make complementary efforts to tie in with the liberalisation of the Mainland's capital accounts?

Reply:

President,

The National 12th Five-Year Plan specifically states our country's support for Hong Kong's development as an offshore Renminbi (RMB) business centre and an international asset management centre. Under "One Country, Two Systems", Hong Kong is an ideal "testing ground" for steady market reforms of our country's interest

rate and exchange rate regimes, and its gradual realisation of the RMB capital account convertibility.

The SAR Government has been promoting the development of offshore RMB business since 2004. Along with the greater use of RMB in cross-border trade and the support from the Central Government and related Mainland authorities, the offshore RMB business in Hong Kong has grown rapidly in recent years, and has developed into the world's largest and most efficient offshore RMB business centre. In the first four months of 2013, RMB trade settlement conducted through banks in Hong Kong exceeded RMB1,100 billion, representing a significant year-on-year increase of 48%.

Driven by RMB trade settlement, RMB deposits in Hong Kong have increased significantly and RMB financing activities have become more active. Hong Kong has the world's largest offshore pool of RMB funds. As at the end of April 2013, total RMB deposits and outstanding RMB certificates of deposits in Hong Kong amounted to RMB837 billion. As a world's offshore RMB financing centre, RMB bonds, loans and equity products in Hong Kong have developed well. On bonds, as at the end of May 2013, there were 276 RMB bond issuances with total outstanding amount reaching RMB277.6 billion. On loans business, as at the end of April 2013, the outstanding RMB loans amounted to RMB88 billion. On equities, the first offshore RMB-traded share was listed in Hong Kong in October 2012 under the innovative "Dual Tranche, Dual Counter" model.

On March 6, 2013, Mainland regulators announced the revised rules for Renminbi Qualified Foreign Institutional Investors (RQFII) pilot scheme. Under the revised rules, the types of institutions eligible for applying for RQFII have been enlarged to cover Hong Kong subsidiaries of Mainland commercial banks and insurance companies, and financial institutions which are registered and have major operations in Hong Kong. The investment restriction of RQFII funds has also been relaxed to allow institutions to design the types of products in accordance with market conditions. This will be conducive to the launch of more innovative and diversified RMB investment products in Hong Kong, and enhance the cross-border use and circulation of RMB funds between the Mainland and Hong Kong. Hang Seng Investment Management Limited, a wholly-owned subsidiary of Hang Seng Bank, has recently been granted an RQFII qualification and become the first Hong Kong-funded company to join the RQFII list. It plans to launch an exchange-traded fund.

Along with the development of the offshore RMB business, the RMB financial intermediation activities in Hong Kong are becoming increasingly active. The price

discovery and market mechanism are becoming mature. In this regard, the Treasury Markets Association of Hong Kong launched the CNH Hong Kong Interbank Offered Rate fixing (CNH HIBOR fixing) on June 24, 2013. As the offshore RMB market in Hong Kong grows, there is an increasing need for an offshore RMB interest rate benchmark for financial contracts to reference on. By providing a reliable benchmark for the pricing of loan facilities, it will support the further growth of the offshore RMB loan market. The CNH HIBOR fixing will also spearhead the development of the offshore RMB interest rate swap market and assist market participants to hedge the interest rate risk of their RMB business.

As a global hub for offshore RMB business, Hong Kong is playing an increasingly important role in supporting international corporations and financial institutions in conducting offshore RMB business. As at the end of April 2013, 209 banks were participating in Hong Kong's RMB clearing platform, of which 185 were subsidiaries and branches of overseas banks and the overseas presence of Mainland banks. Over 1,500 correspondent banking accounts were maintained by overseas banks with branches in Hong Kong. The average daily turnover of Hong Kong's RMB Real Time Gross Settlement (RTGS) system reached RMB390 billion in May 2013, with about 90% of the transactions conducted in the offshore market.

Overall speaking, the RMB business platform in Hong Kong has matured, providing one-stop offshore RMB services to global corporations and financial institutions. It also plays an active role in the process of the modernisation and multi-level development of the Mainland's financial system and gradual realisation of the RMB capital account convertibility.

Looking ahead, the SAR Government and the industry will continue to promote the offshore RMB business in Hong Kong, in line with the pace of Mainland's liberalisation of capital account and under controllable risks, to further enhance the connection between the offshore RMB market in Hong Kong and the onshore market in the Mainland.

Moreover, the SAR Government will continue to enhance the market infrastructure and consolidate the financial platform as well as maintain close communication with related Mainland authorities in order to facilitate the circulation of RMB funds between the onshore and offshore markets; promote the arrangements for expansion of RQFII; continue to strengthen the RMB business links with overseas markets (e.g. London and Australia), with a view to enhancing our role and function as the global hub for offshore RMB business and as a wholesale platform serving the retail

activities of international financial institutions; continue to conduct roadshows overseas, with an aim to assist and facilitate financial institutions and corporates around the world to expand their RMB business while promoting the use of Hong Kong's RMB financial platform, either directly or indirectly, to settle their transactions. We hope the industry will continue to grasp the opportunities of RMB internationalisation, facilitating the innovation and diversification of offshore RMB market so as to meet the needs of corporations, financial institutions and investors.

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