

Speech
Speech by SFST at Luijiazhui Forum (with photos)

Friday, June 28, 2013

Following is the English translation of the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Plenary Session II, "New Opportunities & New Challenges of RMB Cross-border Use", at the Luijiazhui Forum in Shanghai today (June 28):

Distinguished guests, ladies and gentlemen,

It is a real pleasure for me to share with you my observations on the cross-border use of the Renminbi (RMB), and our vision for Hong Kong in particular.

The development of Hong Kong as an offshore RMB centre has been achieved in tandem with the introduction of new measures from the Central Government, and can be divided into three stages. First Hong Kong developed as a banking centre offering traditional RMB banking services, then as a fund-raising and settlement centre, and finally as an international centre for offshore financial products.

Hong Kong became the first offshore location to offer RMB banking services in 2004, when banks were allowed to offer deposit-taking, currency exchange, remittance services and card services. This was when RMB began to be accumulated offshore, and today the aggregate amount of deposits and certificates of deposit in Hong Kong continue to grow rapidly, having risen 24 per cent between April 2012 and April 2013. Standing at RMB837 billion, it is the largest offshore pool of RMB liquidity in the world. The continued growth of RMB liquidity in Hong Kong and elsewhere is the fundamental driving force behind further offshore market innovation. The accumulation of RMB offshore has been primarily driven by the attractiveness of products available, which I will touch on again later.

During the second phase of development, which started in 2007, Hong Kong consolidated its function as an RMB fund-raising and trade settlement centre. The first offshore RMB bonds, dubbed the "dim sum" bonds, were issued that year. By the end of May 2013, 276 "dim sum" bond issues had been made, with an outstanding amount of RMB278 billion. An active offshore RMB bond market enables the development of an offshore capital market where interest rates are determined entirely by market forces. During times of tight capital demand, offshore issuers are free to offer higher rates to depositors, which in turn facilitates the growth of the offshore liquidity pool.

Another highlight of this period was the RMB cross-border trade settlement pilot scheme launched in 2009, which was extended nationwide in Mainland China in 2011. The scheme allowed trading companies in the Mainland to minimise foreign exchange costs and exchange rate risks, and put in place a mechanism for cross-border bilateral flow of the currency. During the first four months of 2013, trades worth RMB1,106.4 billion were settled by banks in Hong Kong, representing growth of 48 per cent from the same period last year.

Hong Kong is now in the third stage of development, when the focus has moved to product innovation and international co-operation. Since 2010, we have witnessed the introduction of a great variety of products, including funds investing in offshore bonds, real estate investment trusts, gold and bond exchange-traded funds, currency futures, company shares and listed warrants, all denominated in RMB.

In 2011, a new channel for offshore RMB to circulate back onshore was introduced in the form of the RMB Qualified Foreign Institutional Investors scheme, or RQFII in short. The investment quota has since been increased to RMB270 billion, and listed and unlisted funds investing in onshore bonds and stock markets have proliferated under the scheme. The regulations were further relaxed in March this year, and the first RQFII qualification was granted to a Hong Kong-funded financial institution earlier this month.

The picture is not complete without highlighting Hong Kong's role in the development of an interbank market for financial products denominated in RMB. Since 1996, offshore non-deliverable forwards linked to the RMB have been traded over the counter between institutions in Hong Kong. In 2005, these contracts were offered to local retail customers for the first time. A liquid market for options and cross-currency swaps has also evolved. Just this past Monday, the Treasury Markets Association of Hong Kong started publishing the Hong Kong Interbank Offered Rate, or HIBOR fixing, for offshore RMB. As the first offshore RMB interest rate benchmark, it is expected to play a key role in the development of a liquid RMB loan and interest rate derivatives market.

There has been an active interbank foreign exchange market for RMB in Hong Kong since 2010, with average daily spot and forward turnover reaching some RMB60 billion this year. The daily volume of RMB settled through the Real Time Gross Settlement system in Hong Kong totalled RMB390 billion.

We are delighted to see the increased use of the RMB in multiple international financial centres as this is a necessary step on the RMB's path towards full convertibility. We believe that there is ultimately only one offshore market and endeavour to serve this market as its product innovation and service centre. We are off to a good start. By the end of April 2013, the number of participants in our RMB settlement platform reached 209, and, of these, 185 are subsidiaries of foreign and Mainland banking institutions.

Over the past few years, we have also forged close relationships with countries where RMB products are in strong demand. Last year the Hong Kong Monetary Authority extended the operating hours of the RMB Real Time Gross Settlement system from 6.30pm to 11.30pm to provide European institutions with an extended window to settle offshore RMB payments. In 2012, the private sector-led London-Hong Kong Forum on RMB was launched to facilitate co-operation between financial institutions in these two financial centres. This was followed by the annual Australia-Hong Kong Renminbi Trade and Investment Dialogue, convened by the Australian Treasury, the Hong Kong Monetary Authority and the Reserve Bank of Australia, in April 2013. We have also been conducting roadshows to assist and enable financial institutions and corporations around the world to make use of Hong Kong's RMB infrastructure.

In recent months we have witnessed the development of new offshore RMB clearing facilities and the rapid growth in offshore RMB liquidity, especially in Taiwan. The variety and liquidity of the products we offer grow only as fast as the overall size of the offshore market grows. As far as offshore RMB is concerned, we are confident that more is certainly better.

Thank you.

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