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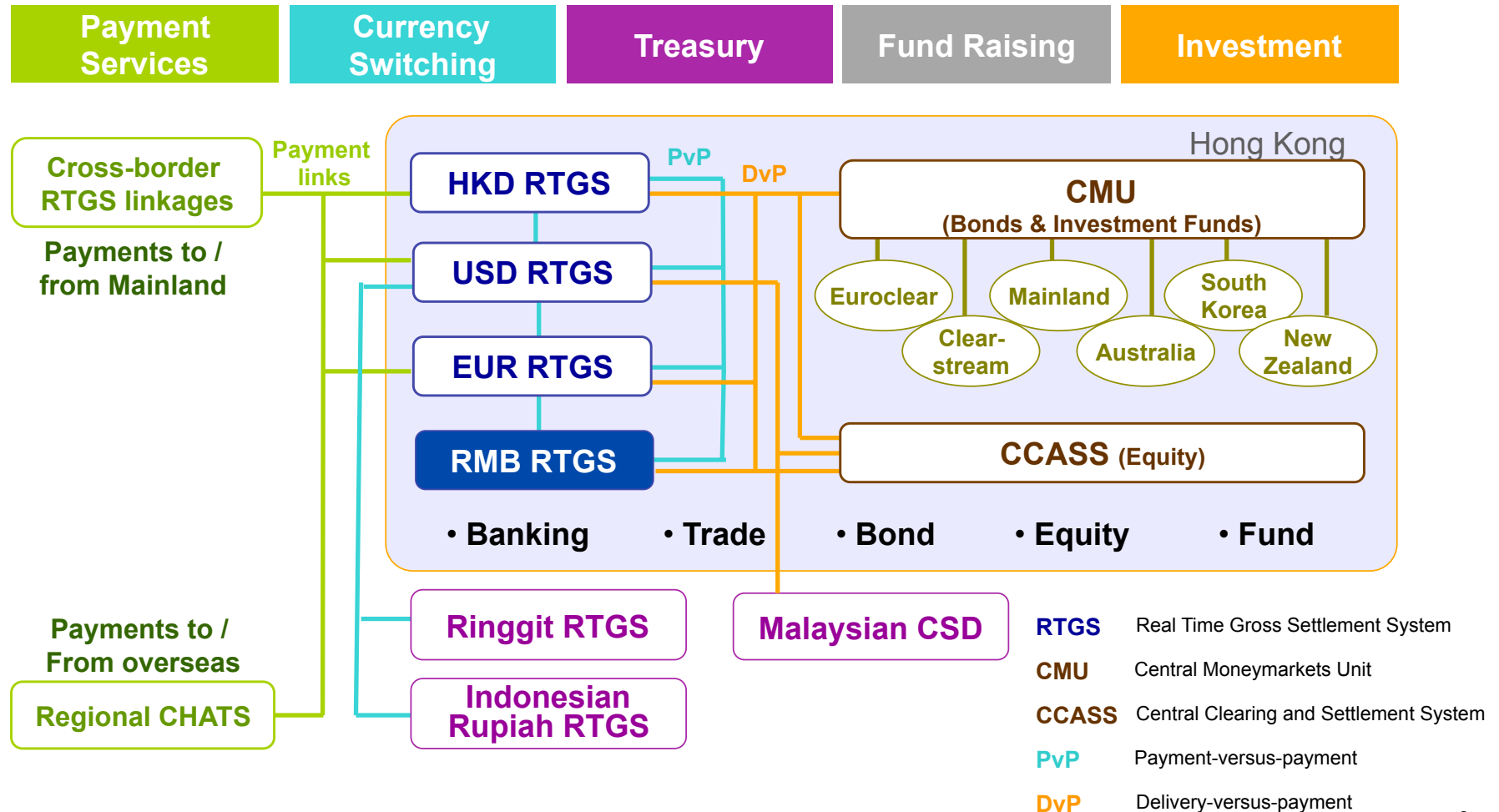
Hong Kong's role in facilitating the use of Renminbi as a currency for settling international transactions



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Overview: Hong Kong's financial infrastructure



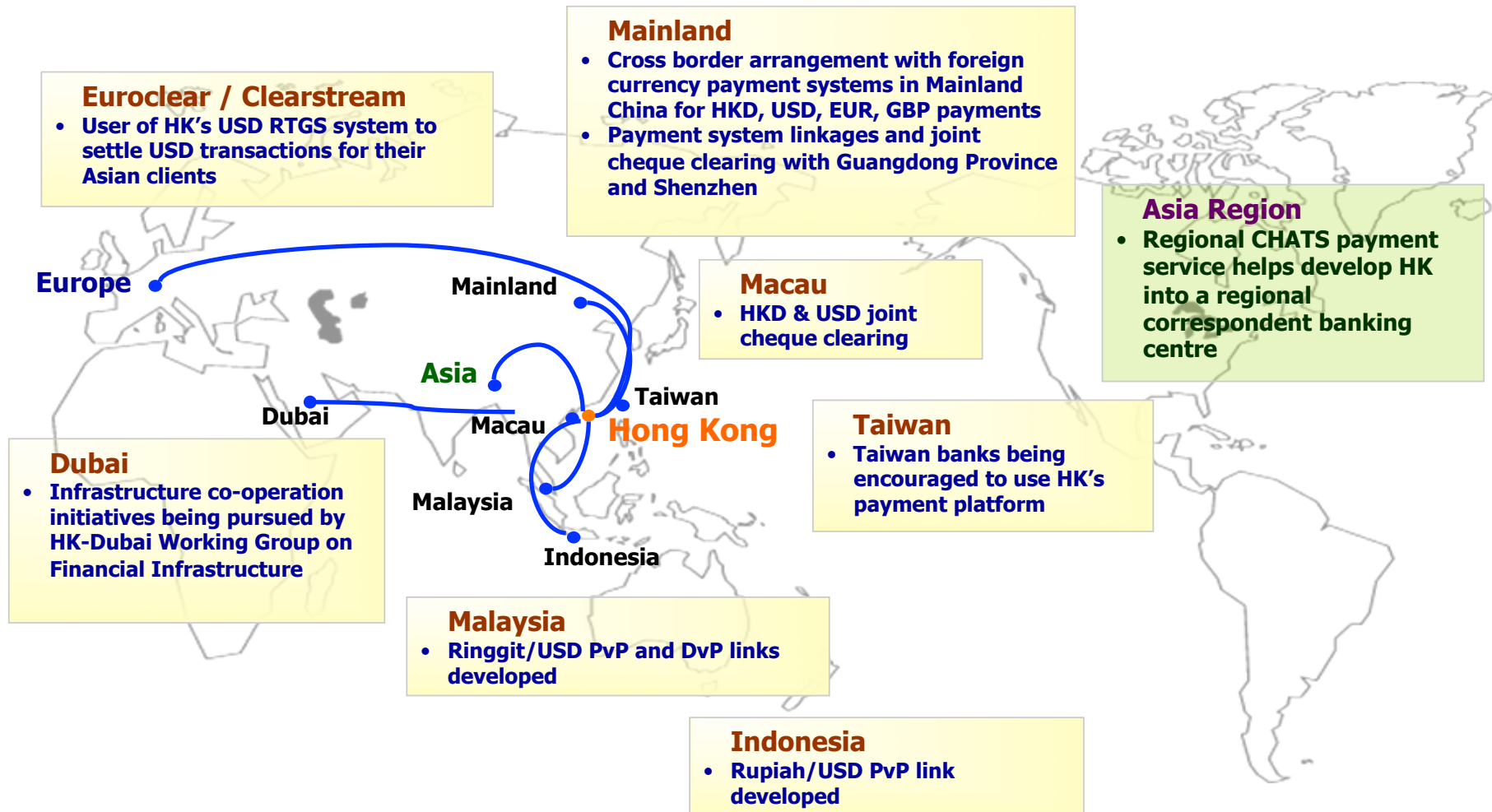


Development strategies of Hong Kong's financial infrastructure

- **Maintain a resilient and efficient payment system**
 - Liquidity optimisers
 - Shortening settlement cycles of bulk clearing items
- **Build a multi-dimensional payment infrastructure**
 - Enhancing functionalities of CMU
- **Position Hong Kong as a regional payment hub**
 - Regional CHATS
 - Establishing PvP and DvP links with payment and settlement systems of other economies
 - SWIFTNet migration
- **Focus on Mainland-related infrastructure**
 - Multi-currency cross-border payment links with Mainland
 - Enhancements to support RMB trade settlement
 - Development of bulk settlement run in RMB RTGS system

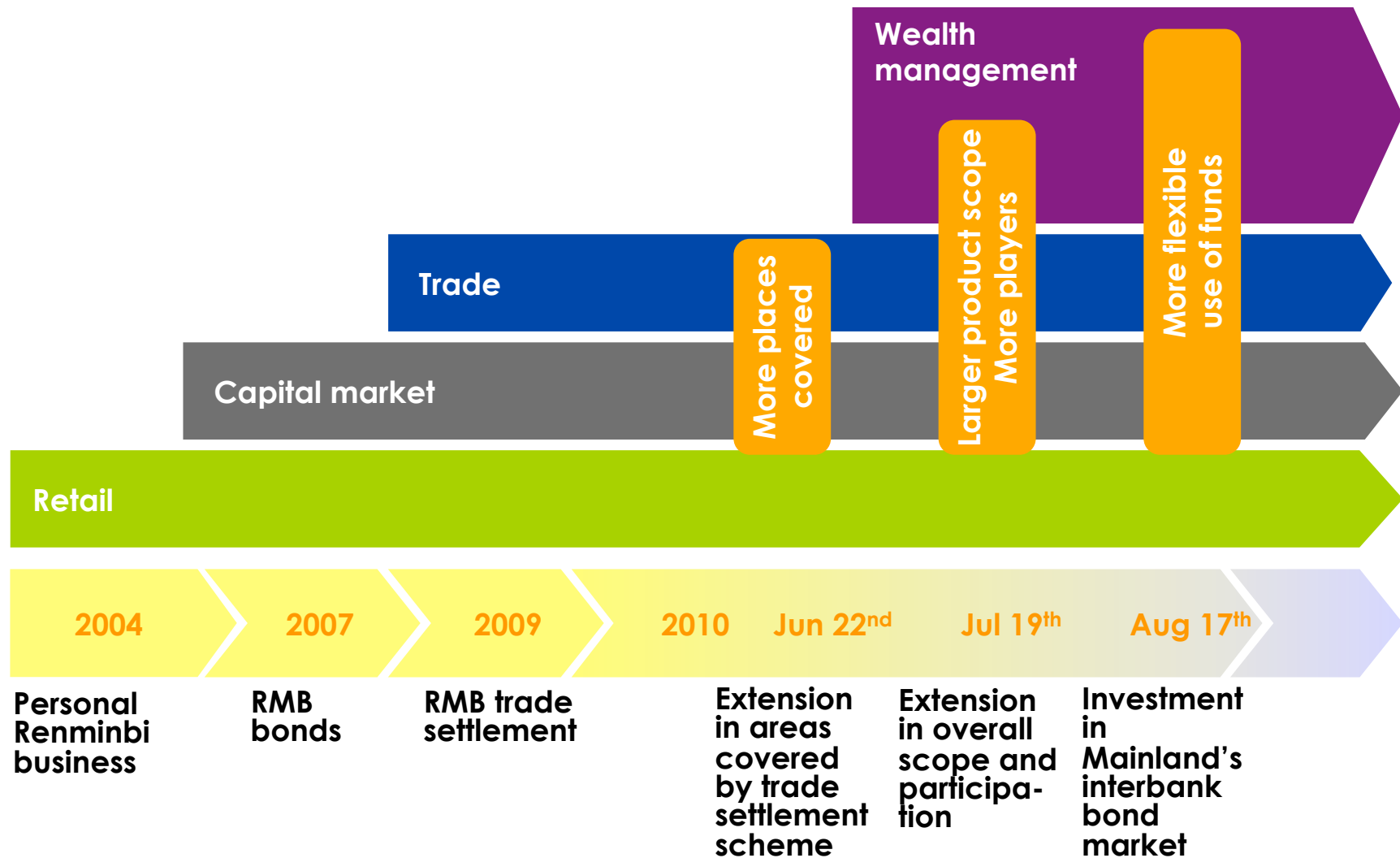


Hong Kong as a Regional Payment Hub





Hong Kong as an offshore Renminbi centre





Latest developments

- **June 2010: expansion in Renminbi trade settlement**
 - **Trade settlement scheme expanded:** import and export of goods and services between 20 municipal cities/provinces in China and the rest of the world
- **July 2010: Clearing Agreement revised**
 - **FI participants:** opened up to all types of financial intermediaries (banks – HK and overseas, securities & investment houses, asset managers, insurance companies, etc.)
 - **Product range:** banks are free to develop and offer all types of Renminbi products (eg. fx, investment products, wealth management, insurance policy)
 - **Client coverage:** extended to all corporates; overseas banks can provide services to individuals in the overseas markets
 - **RMB conversion:** no restrictions between participants or with clients; conversion with Clearing Bank have to be trade-related, or if otherwise, meeting the Mainland's requirements
 - **Two-tier clearing structure:** direct participants can offer all types of Renminbi services to other banks and financial institutions
- **August 2010: opened up investment channel to participating banks in Mainland's interbank bond market**



Renminbi financial products

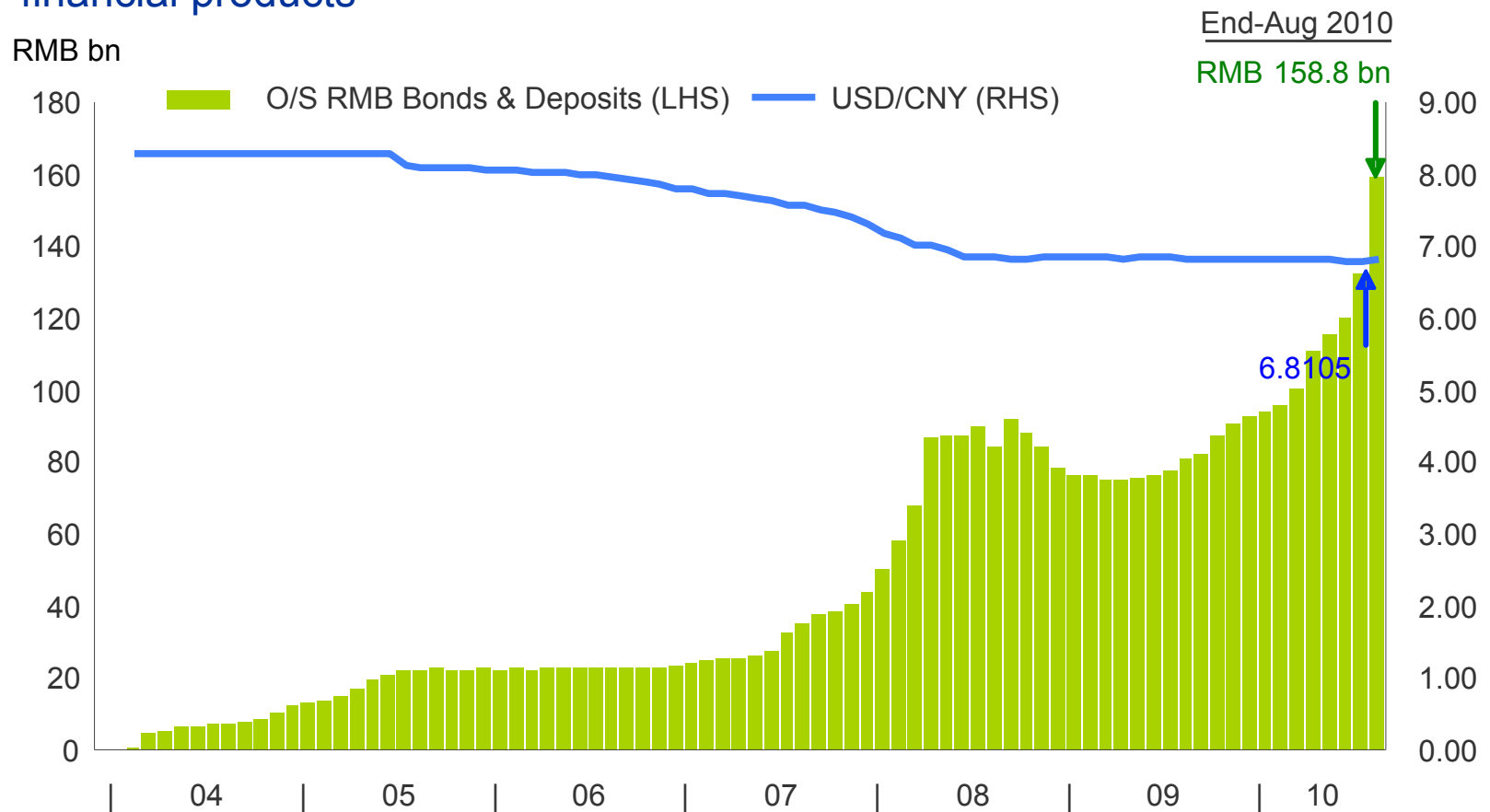
Offshore Renminbi Market in Hong Kong

	Renminbi banking	Renminbi capital market	Renminbi FX market	Renminbi money market	Renminbi insurance
Products that exist today	<ul style="list-style-type: none">• Deposit – conventional / CDs / currency-linked• Remittance• Cheque• Bank cards• Trade financing• Loans	<ul style="list-style-type: none">• Debt origination• Bond fund• Commodity-linked products	<ul style="list-style-type: none">• Spot FX (can be traded via EBS and Reuters trading platforms)• FX non-deliverable forward• FX forward• Position squaring	<ul style="list-style-type: none">• Interbank loans market	<ul style="list-style-type: none">• RMB-denominated insurance policy
Possible new product	<ul style="list-style-type: none">• Correspondent banking – corporate & institutional• Wealth management services	<ul style="list-style-type: none">• ETF / unit trust / REIT• Fund management• Equity financing• Structured products• Derivatives	<ul style="list-style-type: none">• FX Option	<ul style="list-style-type: none">• Currency swap• Security repo• Short-term papers	<ul style="list-style-type: none">• Reinsurance



Renminbi bonds and deposits

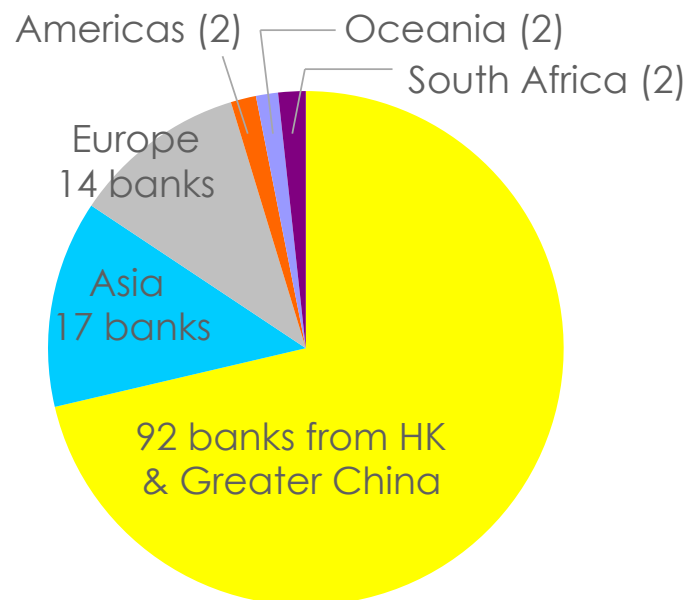
Further expansion in overall size of Renminbi balance sheet is expected – a function of customer demand and institutional supply of Renminbi financial products





Participants

- Currently, 129 banks from Hong Kong and other regions participate in Hong Kong's Renminbi RTGS system as direct members.



.....more overseas banks and other FIs may join the business directly or via a correspondent bank in Hong Kong



Renminbi RTGS Platform in Hong Kong



Hong Kong's Renminbi RTGS system

– supporting the full range of Renminbi services

System Support

- SWIFT-based RTGS platform
- Seamless interface with CNAPS (RTGS in Mainland China)
- Linkages between RMB, HKD, USD and EUR RTGS
- Interface with securities clearing and settlement system (CMU)

Liquidity

- Deposit base
- Financing provided by the Clearing Bank
- Currency swap line between central banks and PBoC
- Interbank money market for participants
- Securities issuance

Legal protection

- Settlement finality offered by Clearing and Settlement Systems Ordinance in Hong Kong



How can banks capture the business opportunities through Hong Kong's platform?

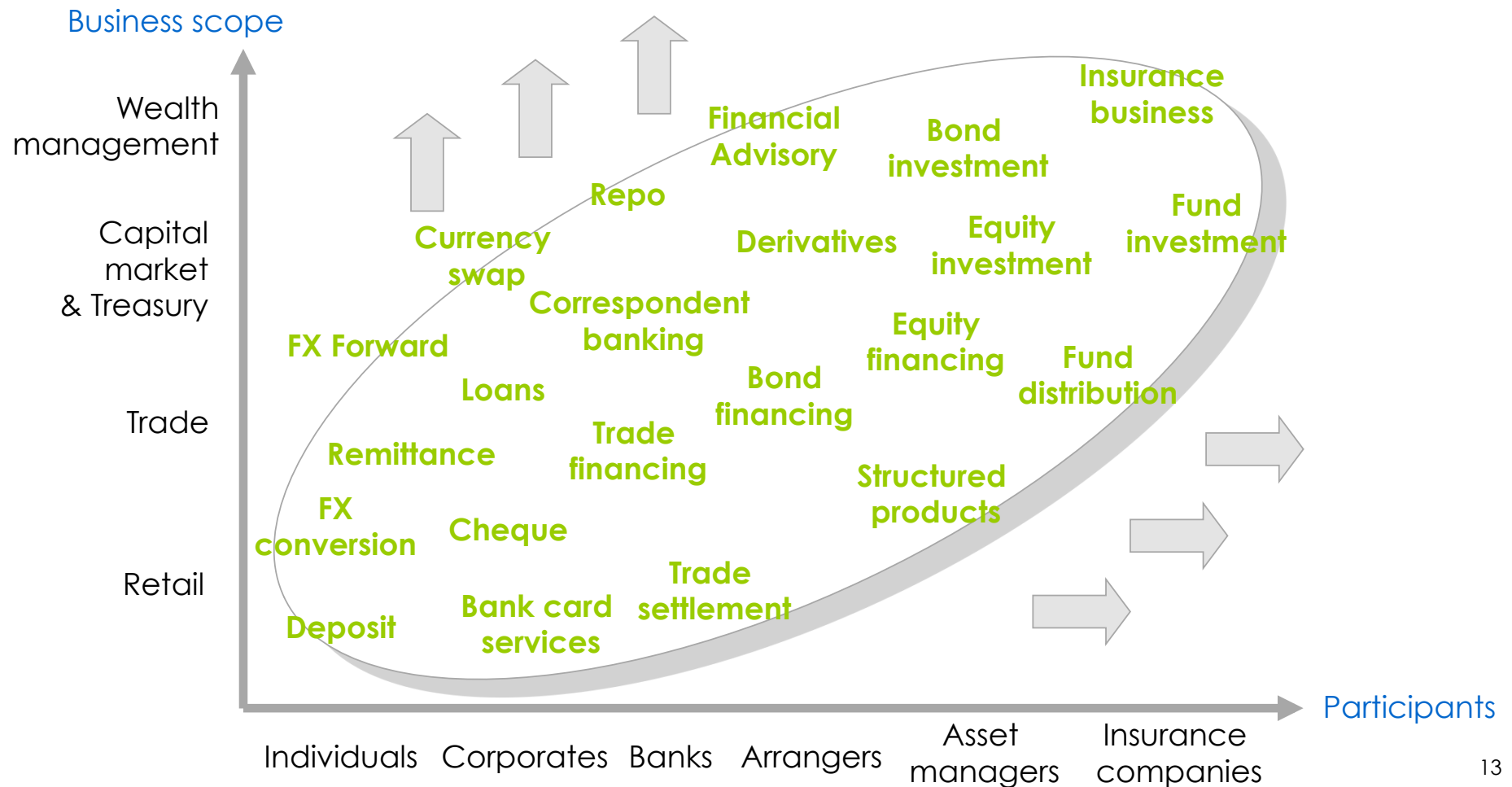
RMB Services Available to Banks leveraging Hong Kong's RMB RTGS

- Deposit
- RMB currency exchange
- Remittance and trade settlement
- RMB cheque and credit card services
- Loans
- RMB bond issuance and trading
- RMB investment products



Business opportunities

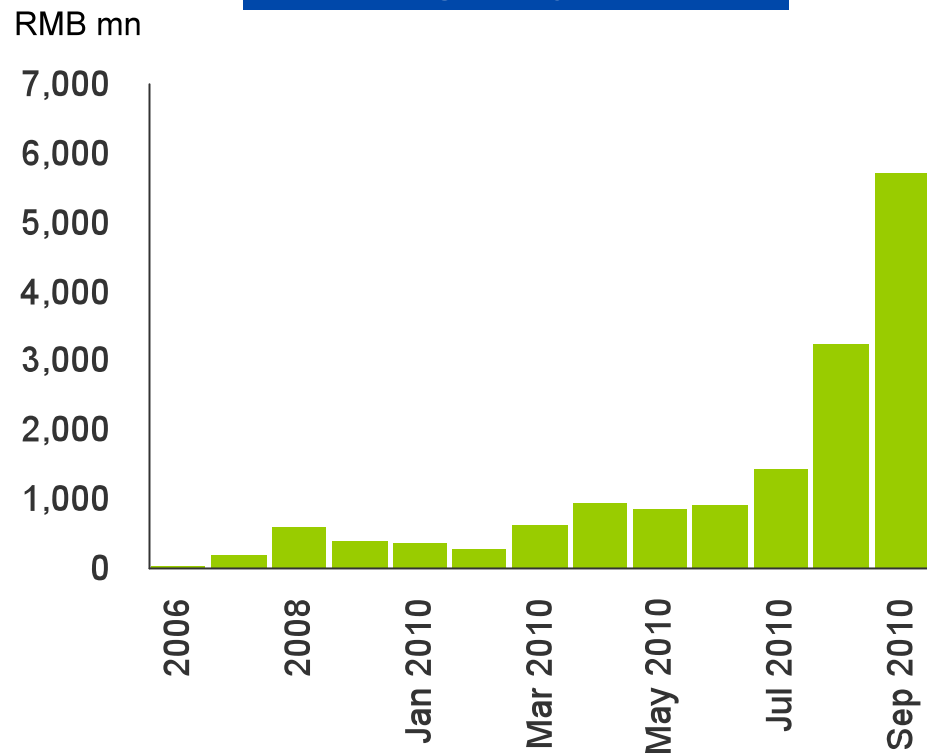
- Offer new range of Renminbi services to corporations and individuals
- Develop business across a broad spectrum of financial intermediaries



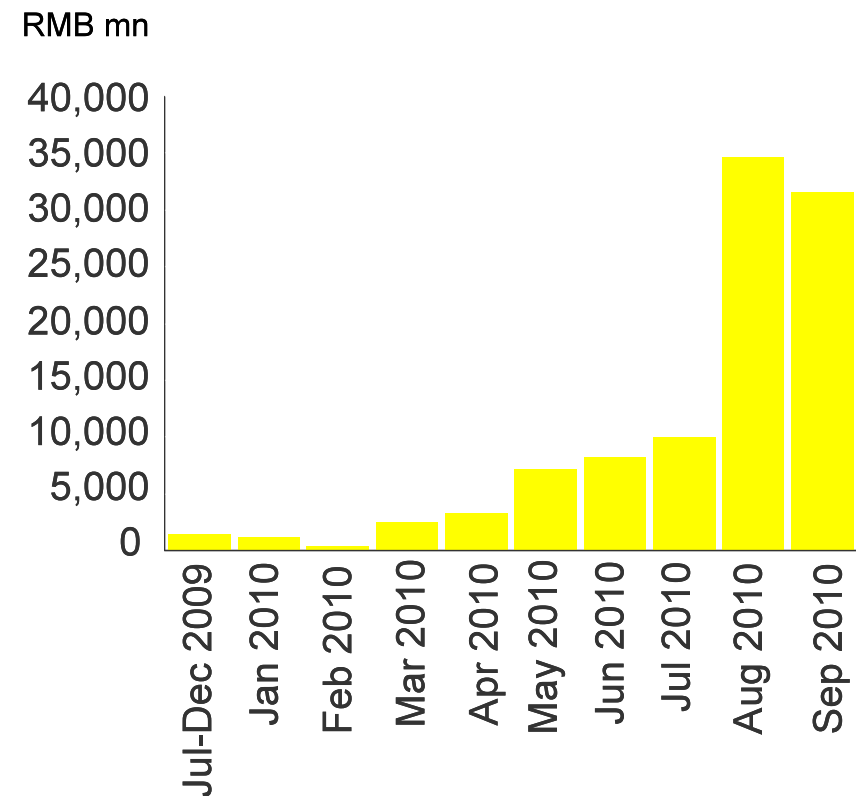


RTGS and trade settlement turnover in Hong Kong

**Renminbi RTGS System
— average daily turnover**



**Trade settlement flows
in the RMB RTGS**





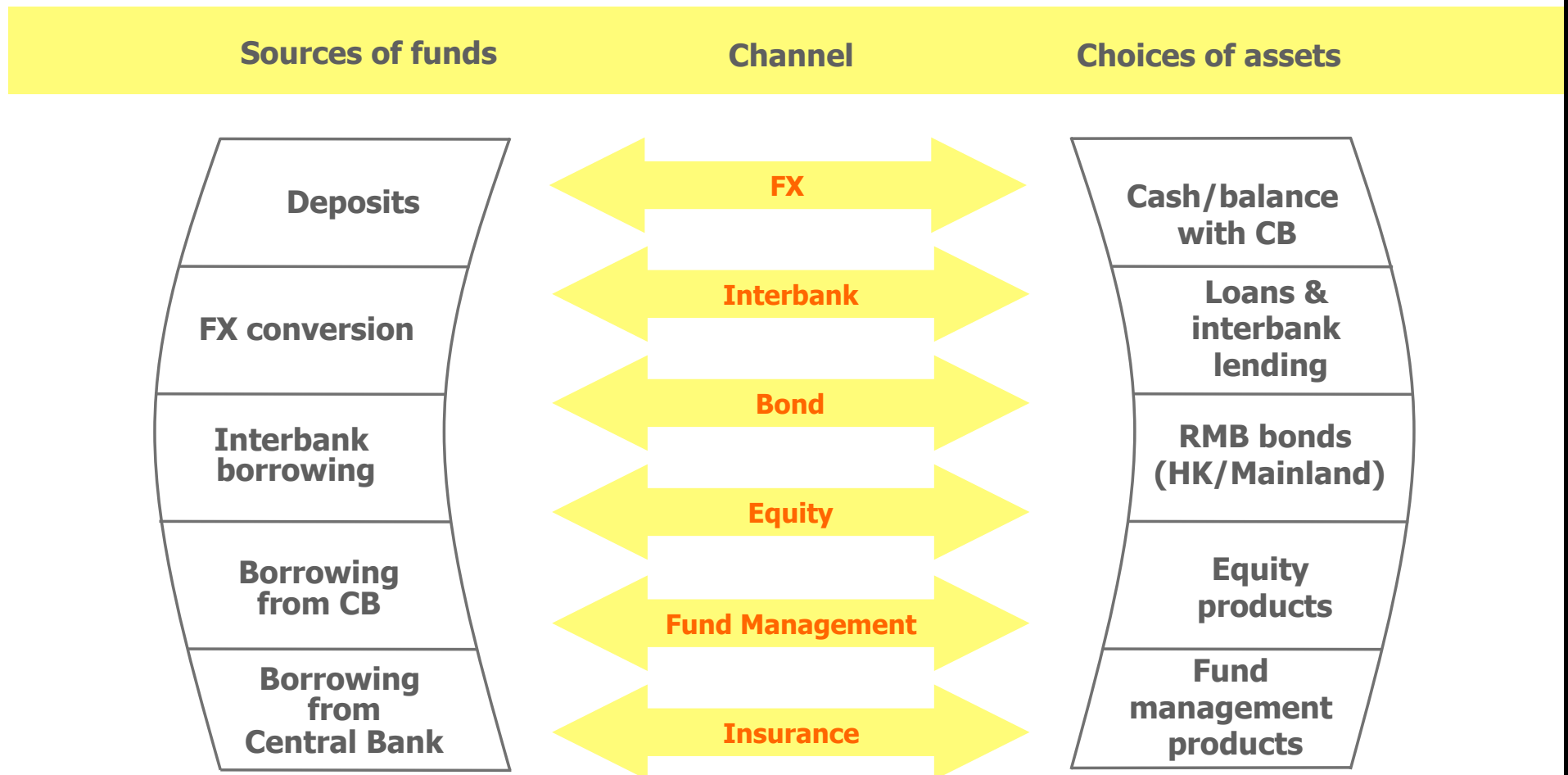
How do banks manage renminbi funding and assets?

RMB Liquidity Management

- Conduct RMB currency exchange with Clearing Bank (BoCHK) for trade settlement
- Borrow RMB from Clearing Bank
- Conduct RMB interbank money market deals (lend/borrow) and foreign exchange trades with other Direct Participants
- Issue RMB bonds in Hong Kong
- Invest in RMB bonds and investment products in Hong Kong
- Invest in RMB Interbank Bond Market on the Mainland



Renminbi Liquidity Management in Hong Kong Market



* Direct Participants can borrow from their central bank if the latter has established a currency swap line with PBoC



Outlook for the future...

- Allow offshore RMB liquidity to grow
- Increase the availability of RMB denominated investment assets
- Stimulate offshore RMB loans market
- Broaden the scope of RMB services offered by banks



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