POLICY PRACTITIONER PAPER

Prepared by Bourse Consult
June 2013

CITY OF LONDON RENMINBI SERIES

London RMB business volumes 2012

City of London Economic Development
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Executive Summary

The rapid pace of change and economic growth in China continues while developed economies in much of the rest of the world demonstrate low levels of growth after the financial crisis. There is little doubt that China is destined to be a towering global economic force but it is not yet clear when its currency, the renminbi (RMB), will be as ubiquitous around the world as the US dollar or the euro. At present its widespread use is limited by remaining cross border exchange controls.

In 2011 and 2012 Chinese currency controls were relaxed at a rate unseen before. It appears that the programme of liberalisation of the renminbi is on a set course and has broad political support. Controls have to a large extent been removed in respect of cross border trade but still remain on the capital account. It is the steps which will be taken to reform these remaining controls and the rate at which they are taken which will determine when full convertibility is achieved and RMB begins to be seen as a major global currency.

This development is naturally of great significance for London as a world leading international financial centre, and especially its position as a global foreign exchange trading centre. 'The City of London initiative on London as a centre for renminbi business' was established in 2011 to contribute to public and private sector strategy on the development of RMB business in London, aiming to capitalise on London's capabilities and contributing to the internationalisation of the renminbi by working in partnership with the Chinese and Hong Kong authorities.

During 2012 the Chinese authorities pushed forward reforms in four main areas:

- In trade finance relatively small incremental reforms were made further to the major reforms in previous years. Essentially there is now free currency convertibility for importers and exporters and the focus is on improving the efficiency of import/export formalities.

- The authorities have been encouraging the convergence of onshore and offshore interest rates to ensure that there is not a competitive imbalance between onshore and offshore markets as cross border controls come down. The consensus among banks consulted is that the narrowing of rates will continue during 2013.

- Foreign investment into China has been significantly encouraged by substantial increases in the sizes of the principal vehicles for controlling foreign investment. The Qualified Foreign Institutional Investor (QFII) quota was increased from ¥30 billion to ¥80 billion and the Renminbi Qualified Foreign Institutional Investor (RQFII) quota was increased from ¥70 billion to ¥270 billion. Banks surveyed consider the current quota amounts to be sufficient to meet demand and the authorities have begun to improve the previously cumbersome application procedures. Quota increases have so far tended to favour Hong Kong based investment managers. We argue that now would be the time for the UK to encourage the Chinese authorities to establish an RQFII quota for London.

- The fourth area is the clearing and settlement of offshore renminbi; developments were seen on two fronts. Firstly there were announcements on the establishment of RMB clearing banks in Taiwan and Singapore to mirror the arrangement for RMB clearing which currently operates in Hong Kong. The City of London RMB initiative had previously decided not to pursue the development of an RMB clearing arrangement in London but to continue to use the clearing arrangement in Hong Kong, on the basis of business need.

  Secondly the Peoples Bank of China (PBoC) announced that it would, potentially in 2014, introduce a new RMB settlement system – the China International Payments System (CIPS) - which will offer foreign banks direct access to renminbi settlement in PBoC money and promises to improve the efficiency of international RMB settlement. We argue that involving London banks in discussions on the design of the system and its interfaces could ensure that CIPS is fully effective internationally and rapidly adopted.

During 2012 London banks were vigorously marketing their RMB capabilities through direct customer contact and roadshows and it appears that this is beginning to have an impact. Banks reported an increase in awareness and interest from EMEA corporations, not only in standard RMB trade operations but also in capital transactions in offshore RMB. Since it is non-trivial for the treasury operations of large corporates to introduce a new currency it is expected that these marketing activities will bear fruit this year.

This study was commissioned as part of 'The City of London initiative on London as a centre for renminbi business' and is the third in a series of Bourse Consult reports documenting the growth of renminbi denominated business in London. This report covers the business done for the whole of 2012. The business volume information resulted from a quantitative survey of the twelve banks most active in renminbi business in London.

The report shows the following volumes of renminbi business generated and/or executed in London in 2012.

Retail Banking
There was a small reduction in the number of the banks surveyed that offered RMB services to retail customers compared to 2011. This resulted from some banks not offering retail equity and bond trading facilities in 2012. Other than this the range of RMB services offered to retail customers in London is much the same as it was in 2011. The total level of deposits in retail current, savings and time deposit accounts fell slightly from ¥250 million at the end of 2011 to ¥220 million at the end of 2012. The level of deposits in private banking accounts reduced from ¥3.6 billion to ¥2.8 billion.

Corporate Banking
The number of banks offering RMB corporate banking services in London grew compared to 2011 as did the range of corporate banking services offered by the banks. The total level of deposits in these accounts at the end of 2012 was ¥2.1 billion, a reduction of 30% compared to 2011.

Trade related services as a whole increased in volume significantly. The volume of import financing in 2012 was ¥27 billion. The volume of export financing in 2012 was

¥6.6 billion. In aggregate the volume of import and export financing grew by 100% compared to 2011. Whilst no commercial loan business was reported for 2012, a fall from ¥280 million in 2011, the volume of letters of credit and other loan guarantees grew to ¥4.7 billion, a 13-times increase on 2011.

Institutional and Interbank market
The London forex market for RMB continued to grow rapidly through 2012. Most of the participants conducted some forex market activity but the market is dominated by a small number of global banks. Spot RMB trading volumes in London increased substantially to a daily value of $2.5 billion, a 240% increase on 2011. There were also significant increases in the daily volume of other deliverable forex products: forwards by 80% to $1.29 billion; forex swaps by 250% to $3.36 billion; options by 390% to $550 million and cross-currency swaps by 17% to $13.8 million.

Non-deliverable forex products in total grew by 12% compared to 2011, a sharp contrast to the very rapid growth in deliverable forex products. The daily volume of non-deliverable forwards fell by 2% to $4.85 billion; non-deliverable swaps increased by 247% to $1.25 billion; non-deliverable options fell by 3% to $2.62 billion; non-deliverable cross-currency swaps fell by 45% to $28 million and non-deliverable interest rate swaps increased by 1,400%, from a small base, to $331 million.

Borrowing and financing products enjoyed mixed fortunes. Deposits, as we noted in the previous survey (London RMB business volumes Jan-June 2012), seem to be broadly static in total. Bond origination was substantially up with a 36% increase on 2011 and a wider participation from banks. Given this it is rather surprising to see a very significant reduction in the volume of Dim Sum bond trading in London with some banks reporting that they had relocated this activity to other centres.

Overall conclusion
London's role in the global RMB market has continued to grow rapidly both in terms of the range of products and in the volume of business. We see that the key indicators of the development of offshore RMB market activity are not the level of deposits but the volume of transactional flows such as trade financing, forex trading, bond trading and bond issuance. Transactional volumes rather than physical location of deposits are the measure of market development.

It is clear that London's strengths are in transactional services and it is in these that the growth has been concentrated. This is especially true for forex trading and risk management as well as for import/export facilitation where the environment and availability of skills give London a leading position in Europe and globally. These areas have shown very rapid growth in 2012 and further growth is expected in 2013.

The China International Payments System (CIPS) is potentially a very important development. Details of the system are still emerging but a post-CIPS environment is likely to be a very different one for market participants and for financial centres such as London. The development of CIPS will need to be closely monitored over the next 12 months

Introduction

China's economic growth continues to be the subject of global attention, particularly at a time when the economies of much of the rest of the world are hardly growing at all. The impact of Chinese manufacturing growth has been clearly evident in consumer products markets and commodity markets across the globe but that cannot yet be said for financial services. As China inexorably marches towards being an economic superpower there is an expectation that the size of cross border financial services business will parallel the magnitude of cross border trade and renminbi will be used as a world currency in the same way as the US dollar and the euro.

That point has certainly not yet been reached. Exchange controls on the Chinese currency have to a large extent been removed in respect of cross border trade but still remain to restrict the flow of capital to and from China and affect financial institutions offering cross-border services. Nevertheless the potential demand from China for international financial services of all kinds will be enormous when the controls come down and renminbi becomes freely convertible. For financial institutions with the range of international financial services and the experience to meet this demand it represents a very substantial opportunity. For London, a world leading international financial centre, it is also a very exciting prospect, a chance to offer its collective experience, financial sophistication and liquidity in a new world currency and to a new customer base.

China began to reform its financial system and to relax its currency controls some years ago, and the pace of the liberalisation programme clearly picked up in 2011. At that time the 'City of London initiative on London as a centre for renminbi business' was established to encourage the development of renminbi products and services in London. The initiative's overall aim is to contribute to a private and public sector strategy for the development of London as a centre for international renminbi business.

This is the third in a series of Bourse Consult reports, published by the City of London as part of this initiative, which document the capabilities of London in renminbi-denominated products and services. Each report also quantifies the volume of business done in each of the product and service categories. This report covers the business done during 2012. The first report covered business done during 2011 and the second was an interim report covering volumes in the major product categories for the first six months of 2012. The business volume information are the results of a quantitative survey of the twelve banks most active in renminbi business in London.

Throughout the report the terms renminbi, RMB or yuan are used when referring generally to the currency of China. When referring more specifically to either onshore or offshore currency the terms CNY for onshore renminbi and CNH for offshore renminbi are used as shorthand. Monetary amounts of yuan are denoted using the symbol ¥.

1 Development of the offshore renminbi market

1.1 The liberalisation process

In 2012 the programme of RMB liberalisation measures undertaken by the Chinese authorities continued at a similar pace to the previous year. This is notable because it was not inevitable. In fact the analysts of one of the banks surveyed for this study had predicted that there would be a marked slowdown in liberalisation during the final months of the previous Chinese leadership and for a period under the new leadership. In the event the pace of change did not slow down, a demonstration that the programme of liberalisation of renminbi is on a set course and has broad political support.

The principal regulatory and commercial changes which emerged in 2012 are set out in Appendix A. Mostly they reflect the broadening and deepening of measures which were underway in the previous year. But three major developments stand out as potentially having a significant effect on the future of RMB as a global currency and London as a major international centre for trading renminbi. The first is the China International Payments System (CIPS); the second is the enhancement of the system of quotas which allow foreign institutions to invest in mainland China, known as QFII and RQFII and the third is the creation of additional offshore renminbi clearing arrangements in Taiwan and Singapore. These three developments are covered in more depth in Section 1.2.

Total renminbi convertibility, when cross border capital and exchange controls no longer exist, could be reached through a number of routes. So far the Chinese authorities have chosen to introduce measures gradually, testing them over time, in order to ensure that cross border activity does not have unwanted effects on the internal capital market. The evidence from 2012 is that this policy will continue. It is supported by the announcement in May 2013 that the Chinese State Council would publish later in the year a plan for capital account convertibility.

The Chinese regulators are currently focussing on four main areas.

The first is trade finance. After the relatively small additional reforms during 2012 there are now virtually no barriers to trade finance. Importers and exporters are relatively free to obtain their foreign currency. The authorities have also started to make the regulatory checks on trade settlement more efficient with streamlined documentation procedures having been introduced in Guangdong and Shanghai. The present situation means that there is essentially free convertibility for importers and exporters.

The second focus is on interest and currency exchange rates. A way of reaching a quasi-total convertibility is by lowering the onshore rates and trying to match them with the offshore rates. Today the CNY and the non-deliverable forward (NDF) curve have different profiles because the PBoC fixes the official CNY rates knowing the offshore rates so they are artificially keeping the fixing high. This policy gives to the Chinese authorities a great deal of manoeuvring space without losing control on exchange rates and flows.

Possibly the most significant development in the RMB markets during 2012 has been the narrowing of the differential between onshore/offshore RMB interest rates, signifying a convergence in the funding cost between participants of the CNH[1] and the CNY markets.

Although there was a continuous tightening of liquidity during 2012, which led to the gap between onshore and offshore rates, the consensus among banks is that during 2013 the narrowing of rates will continue. The spread between the onshore and offshore deliverable forwards began to narrow during the last quarter of 2012 whereas the differences between CNH and CNY spot exchange rates has not been significant.

The yield gap between onshore and offshore government bonds is also narrowing. Presently offshore government bonds trade at yields approximately of 60 to 80 bps below onshore government bonds. It seems that foreign central banks and supranationals have been strong buyers of Chinese government bonds.

This process of convergence should generate a general increase in the liquidity of CNH and the pool of funds available. It will be very interesting to see how the new settlement agreements with Taiwan and Singapore will increase further this pool of offshore renminbi. It is expected that, despite separate clearing arrangements in Singapore centres, the offshore pool will remain fungible.

The third area of focus is foreign investment into China. The Chinese authorities have chosen to control foreign investment flows mainly by setting quotas - most notably the Qualified Foreign Institutional Investor (QFII) and Renminbi Qualified Foreign Institutional Investor (RQFII) quotas which are discussed in more depth in Section 1.2.2. We have seen these quotas increased significantly recently in response to the demand; but the general market opinion is that they are likely to be increased further if market demand justifies it. Quotas that are sufficiently high to accommodate market demand allow, in effect, a free flow of foreign financial investment to the mainland, but the Chinese authorities retain the option of restricting and controlling the flows if necessary.

The fourth focus is on the clearing and settlement of both onshore and offshore renminbi. The PBoC announced in April 2012 that it would relatively soon introduce an RMB settlement system – CIPS - which will offer foreign banks direct access to renminbi settlement in central bank (PBoC) money. The PBoC has signalled its intention to develop an international standard payment system for onshore and offshore payments, potentially in the future replacing the mainland China National Advanced Payment System (CNAPS) and the present Hong Kong, Singapore and Taiwan arrangements with their appointed clearing banks. Depending on the details, which are still not clear, a post-CIPS environment will be very different for market participants and for financial centres such as London.

[1] Although there is a single source of RMB – the People's Bank of China (PBoC) in mainland China – the currency has some different characteristics depending on whether it is held onshore or offshore. For the purposes of this report, 'offshore' is used to describe RMB held outside mainland China. The two pools of RMB trade in effectively different markets because the currency is not freely transferable to and fro across the border. The industry has labelled the offshore pool with a pseudo currency code – CNH – to distinguish it from onshore pool – CNY. CNH is widely used as the name for the global offshore renminbi market.

In terms of further liberalisation we expect that the Chinese authorities will continue down the path they have taken over the past two years. They will open further the control valves they have at their disposal, depending on the circumstances and competitiveness of the Chinese internal capital markets. As long as there are controls in place, even if the valves are quite open, they will retain the ability to tighten them up if they detect undesirable effects on the domestic markets.

Most participants in the renminbi market have a view on the potential date for full convertibility of the RMB. The consensus from our discussions with banks seems to be that full convertibility will be achieved in the 2017 to 2020 timeframe. But in fact the final date is less important than the nature of the regulatory steps taken towards liberalization and the pace of change. While forecasts are made about the day when full convertibility could be achieved, it could be possible to get very close to that point in the next few years by an accumulation of incremental policy steps.

Qianhai offers an interesting insight into future development. In July 2012 the Chinese government announced the Qianhai Cooperation Zone an area of Shenzhen intended as a testing ground for developing modern service industries – such as financial, legal and accounting businesses - in collaboration with Hong Kong's service sector. It is expected to develop products to help open up China's capital market and enhance RMB international convertibility. One specific permission allows Hong Kong banks to loan RMB to Qianhai enterprises and for Qianhai banks to loan RMB for offshore projects.

This strategy of experimenting with liberalisation within a small geographical area is consistent with the way in which industrialisation and free market initiatives have been tested in China since the 80s. If the Qianhai experiment is considered to be successful from a domestic policy standpoint, the Chinese authorities will feel more comfortable in proceeding with liberalisation and convertibility on a much larger scale.

1.2 Significant developments

Three of the developments unveiled during 2012 are worthy of some further discussion.

1.2.1 CIPS

In April 2012 the PBoC announced the development of CIPS, which will be a Real Time Gross Settlement (RTGS) system for renminbi, available to banks outside mainland China. Although the system is currently being designed and its detailed functionality has not yet been published, even to prospective users, amongst the banks we have spoken to there is some consensus on its main characteristics.

- CIPS will be a real time settlement system for renminbi, settling across accounts at the PBoC;

- It will operate for 16 hours a day, thus covering the major centres in the world (Asia, London and New York);

- It will link directly to the major onshore payments systems (the High Value Payments System - HVPS, the onshore bond market, the China Foreign Exchange Trade System - CFETS, the collateral management system and the Shanghai Clearing House system).

- It will be based on "international best practice", which could be open to different interpretations but it will be SWIFT compatible;

- The expected launch date is 2014;

- International banks will be able to participate as full members. The criteria which banks will have to meet to be a direct participant are expected to be high but will not include the nationality of the bank.

A number of questions remain about how CIPS will operate in practice. The first is whether CIPS will co-exist with the current offshore RMB settlement systems (in Hong Kong, Taiwan and Singapore). Our expectation is that CIPS will eventually supersede these special arrangements. It is, however, likely that the existing arrangements would operate alongside CIPS for a transitional period.

The fact that CIPS will be operated alongside China's main RTGS system, CNAPS, in the transition period raises the question as to whether participants will be allowed to move renminbi between their offshore and onshore accounts and if so how the exchange control mechanisms will operate.

The second question relates to the launch date. The PBoC has stated that the system will be operational in 2014, but none of the banks interviewed for this report had received any documentation or technical specifications on CIPS to date. RTGS systems are complex and participating banks will need to change their systems and carry out thorough tests with the provider (PBoC) before they will be ready for operation. As this technical interconnectivity takes time, it is doubtful that all the parties will be ready for 2014. It is expected that PBoC intend a "soft launch" in 2014 with relatively few banks participating – possibly the offshore branches of some of the mainland Chinese banks – with further functionality rolled out in stages.

In any event CIPS will be a game changer. It should considerably improve settlement efficiency and will allow London banks to establish a direct settlement relationship with the PBoC, the ultimate provider of renminbi liquidity.

1.2.2 QFII and RQFII

The Qualified Foreign Institutional Investor (QFII) scheme began in 2002. It has gone through a number of incremental changes and was significantly expanded in 2012. It allows foreign investors to invest in securities listed on China's domestic Stock Exchanges using foreign currency obtained outside Mainland China. In 2012 the aggregate QFII quota was raised to $80 billion, a substantial increase from the $30 billion of the previous year.

By the end of 2012 over 200 QFII licences had been granted with an aggregate, granted quota of $37 billion, representing less than 2% of the free float market capitalisation in China. Until April 2012 QFII quotas could only be invested on the

Shanghai and Shenzhen stock exchanges. Only 2% of the onshore bonds are listed on the two exchanges, most of them are traded OTC in the interbank market. Therefore the possibilities of investing in bonds have been limited. That is why the China Securities Regulatory Commission (CSRC) announced in June 2012 that QFII investors will be eligible to invest in the domestic interbank market but to date PBoC has not granted any approvals.

The Renminbi Qualified Foreign Institutional Investor (RQFII) was launched in December 2011, to allow Hong Kong entities access to mainland markets using offshore renminbi funds. Initially the aggregate RQFII quota was set at ¥70 billion. In November 2012 the Chinese regulators (CSRC) indicated that RQFII will rise to ¥270 billion in 2013. In January 2013 the CSRC announced a ¥100 billion quota for Taiwan based institutional investors.

Initially the scheme was limited to investments in equity ETFs and bonds but in March 2013 it was relaxed to remove the 80/20 asset split between bonds and equities and to allow investment in stock-index futures, initial public offerings, convertible bond sales and share placements. Bond investors can access the onshore interbank market.

The eligibility criteria for the RQFII scheme were initially limited to the Hong Kong units of Chinese brokerages, unit trust managers, Chinese banks and Chinese insurers. The criteria were expanded in March 2013 to allow financial institutions incorporated or with their major business operations in Hong Kong and all Hong Kong licensed fund managers. This for the first time allows the Hong Kong subsidiaries of foreign firms to apply for RQFII quotas.

Both QFII and RQFII allow cross border investments and in this sense are seen as a very positive part of the liberalisation programme. Banks interviewed consider the quota amounts to be sufficient currently but the process and delays in obtaining the final permits for QFII and RQFII have been considered arduous and long. It is therefore welcome that, in March 2013 the CSRC announced its intention to simplify the application documentation. Having not approved any RQFII quotas in February and March 2012, the State Administration of Foreign Exchange (SAFE), which grants the quotas, announced in April that it would adjust its approval process, requiring investors to apply on the basis of their immediate need and giving priority to new quotas over additional quotas. It will make monthly approval decisions based on cross-border fund flows and other factors.

1.2.3 The development of offshore RMB centres.

During 2012 Taiwan and Singapore took further steps to develop themselves as offshore RMB clearing centres. The approach Taiwan and Singapore have taken to RMB clearing and settlement differs from the arrangement London has decided upon, it is therefore interesting to draw some comparisons.

Taiwan and Singapore have each established a clearing arrangement through a local clearing bank appointed by the PBoC in a similar fashion to the system for renminbi clearing in Hong Kong. The clearing bank in Taiwan is Bank of China. In Singapore it is the Industrial and Commercial Bank of China. In addition to the RMB clearing arrangement the local regulators in each of these centres perform certain tasks of exchange control being in effect an agent of the PBoC.

The City of London RMB initiative decided not to establish an RMB clearing arrangement in London but to continue to use the clearing arrangement in Hong Kong, on the basis of business need. London's position as a leading international wholesale financial centre meant that strong networks already existed between the London banks and the Hong Kong market and these could continue to be used to settle RMB.

We view the difference in the clearing and settlement arrangements as being appropriate to the different type of business being done. We would expect Taiwan and Singapore to have a focus on RMB trade settlement involving a significant proportion of local organisations for whom the provision of local RMB clearing facilities would improve efficiency. By contrast London's business is mostly cross-border in wholesale size and will often involve counterparties in Hong Kong. It is therefore more appropriate to use the clearing arrangements in Hong Kong and to participate in the largest pool of offshore RMB settlement liquidity.

All the current arrangements, however, involve an intermediate clearing bank and this inevitably creates inefficiencies. The key to improving settlement efficiency for the entire offshore RMB market will be the introduction of CIPS in which settlement will take place directly across the accounts of the PBoC. This takes the settlement of offshore RMB much closer to the arrangement we would expect for a fully convertible major currency.

One question is whether the introduction of CIPS will affect the business volumes of the offshore RMB centres. We believe that when CIPS is fully operational there will be the possibility of more fluid transfer of activity from one centre to others, although those changes will be progressive and incremental. Shanghai could become a much more prominent international centre with an effect on Hong Kong. London would also benefit from a direct relationship between its banks and an RTGS system based in the mainland due to its position as a major financial and forex centre and also due to its time zone.

However, the volume of RMB traded outside China is likely to increase significantly overall in the next few years and therefore the movement of business between centres is unlikely to reduce the RMB trading volumes of Hong Kong, Taiwan and Singapore.

1.3 The increasing use of RMB globally

Throughout 2012 many of the London banks were vigorously marketing their RMB capabilities through direct customer contact and roadshows and it appears that this is beginning to have an impact. One bank surveyed for this study said that all their customers with any involvement in China which they had contacted in 2012 either had been involved in the RMB market or realised that they would have to be. It is recognised, however, that it can take some time for these activities to bear fruit, particularly in the case of large corporates where the introduction of a new currency within their treasury operations is not a trivial matter.

Another bank interviewed said they had seen an increase in interest from EMEA corporations, not only in standard trade operations in RMB but also in making capital injections into their Chinese operations in local currency. The bank is rolling out a full range of RMB services to all its branches in Europe including RMB accounts, forex and trade related services, but all resulting trading activity, which they expect mainly to be forex, will take place in London.

Some small hedge funds have begun to trade in RMB. However, several banks said that most of the growth in RMB business seems to result from existing clients becoming more active.

China's huge consumption of commodities and the cross border trade which facilitates it is considered by some banks to be one of the most likely areas of growth for the use of RMB outside Asia.

One bank said that they had seen a large increase in RMB flows in London as well as Asia during 2012. This is largely related to trade but has an indirect impact on the other services it offers, particularly forex. SWIFT data showed that in the second half of 2012 the UK transacted the highest aggregate value of payments in RMB worldwide (excluding Hong Kong and mainland China).

2 Survey results for January to December 2012

2.1 Methodology

This study is the third in a series reporting on London RMB trading volumes; the first covering the full year 2011 and the second January to June 2012. The methodology for this survey has been similar to that used previously. It covers trading for the whole of 2012 and collected data on the full set of the financial instruments covered by the 2011 survey.

After consultation with the banks surveyed some minor changes were made to the set of data collected in this survey. Retail Payment and Transfer volumes were not collected. Trade Services volumes were not collected as a general item but import/export finance was collected as separate Import Financing and Export Financing items. We explain in Section 2.3 the assumptions made to draw comparisons between the aggregated 2011 volumes and the separate 2012 volumes.

A new set of data was included in this survey – the volume of trading in the main forex products which the surveyed banks had done outside London. The purpose of this data is to give a perspective on the level of concentration of the business in London. This is discussed in more detail in Section 2.4.1, where the data is presented.

In order to avoid double counting of deals with Hong Kong, the definition of "London" business used for this report is any deal generated and/or executed in London. Care has also been taken to avoid any misunderstanding in the definition of the individual financial instruments and the way these should be accounted for.

A sample of 12 banks was approached which are estimated to cover the majority (estimated at 85 per cent) of the market. All responses were scrutinised for reasonableness including comparisons with the submissions for the previous surveys, and a number of queries were raised and resolved – either by revision of data or confirmation by the submitting banks.

The data provided by the banks was then aggregated and extrapolated to produce total market figures. The extrapolation takes account of the proportion of the market covered by the banks providing returns.

Comparisons between this survey and the full year 2011 survey were made between end-of-period levels for deposits and average daily volumes for forex trading. Throughout the report, percentages are calculated on unrounded figures.

2.2 The RMB retail banking market

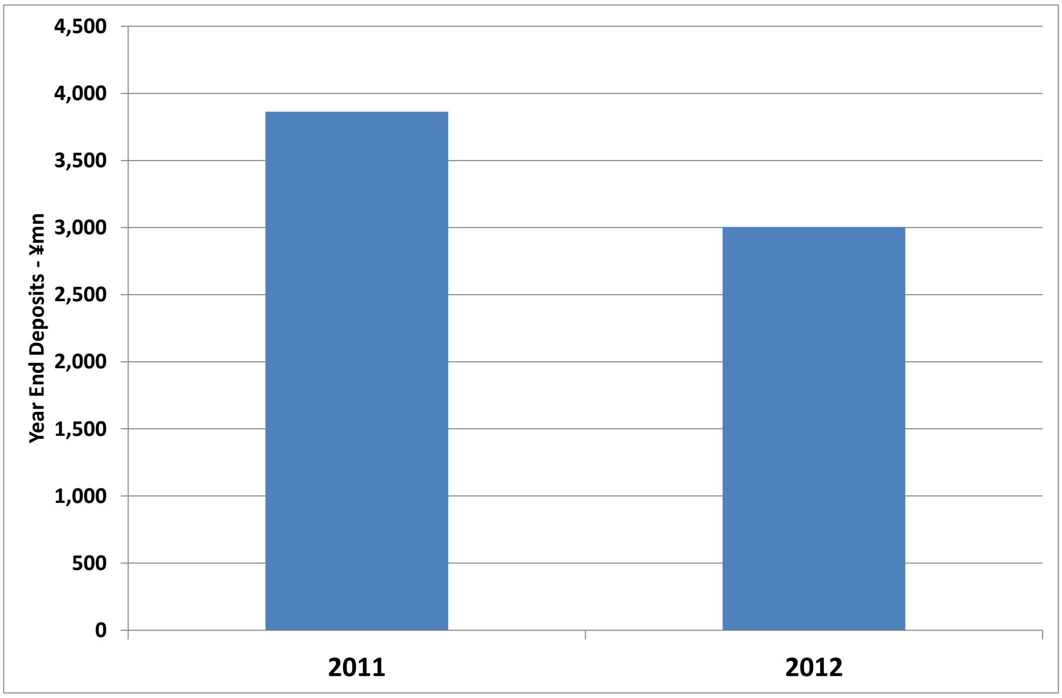
For the purposes of this survey the retail banking market includes all RMB banking services to individuals by London institutions. Services to all corporate entities are excluded from this group.

The survey asked banks to submit the end of 2012 levels of deposits in four types of individual account:

- Current (checking) accounts;
- Term deposits or certificates of deposit;
- Savings accounts with, for example, higher interest rates or restricted withdrawal conditions;
- Private banking accounts, generally for high net worth individuals and offering additional special wealth management services.

The survey separates private banking services from standard brokerage services for buying and selling of RMB-denominated equities and bonds.

Chart 2.1 – Retail RMB deposits in London



Source: Bourse Consult survey

55% of the banks surveyed offered RMB services to retail customers - a reduction from 64% in 2011. This resulted from some banks not offering retail equity and bond trading facilities in 2012. Other than this the range of RMB services offered to retail customers in London is much the same as it was in 2011 with payment and transfer services and internet banking being available from most banks with retail services. One bank is now offering RMB denominated travellers cheques, which were not available in London in 2011.

The total level of deposits in retail current, savings and time deposit accounts has fallen slightly from ¥250 million at the end of 2011 to ¥220 million at the end of 2012.

The level of deposits in private banking accounts dropped from ¥3.6 billion to ¥2.8 billion.

Comments on results for retail banking services

The relatively static situation in the provision of regular retail banking services in RMB demonstrates that the use of RMB for individuals in the UK is limited to Chinese nationals resident in the UK and UK nationals with connections to family or companies in China. Until RMB is more widely used it is unlikely that this situation will change greatly.

The change in the level of private banking deposits demonstrates the potential for such deposits to be shifted into alternative investments.

2.3 The RMB corporate banking market

For the purpose of this study the corporate banking market refers to services provided by the banks to corporate customers and does not include any services to individuals.

The corporate accounts figures relate to cash held in these accounts. Treasury management refers to the services offered by banks to corporations to manage payments, transfers, and cash management on their behalf. Forex services in this category refer only to services provided to corporations. Commercial loans include loans in RMB made by banks to companies for their investment and day-to-day operations. Import and export financing are two of the key services offered in the corporate banking market and do not include commercial loans. Letters of credit include other loan guarantees and refers specifically to trade in London.

Banks were asked whether they offered the following services and to record the volume of business in certain of the categories. The survey shows that all these services are on offer in London:

- Corporate accounts;
- Term deposits;
- Debit and overdraft facilities;
- Online facilities;
- Treasury management;
- Forex services;
- Payment and cash management;
- Supply chain services;
- Commercial loans;
- Letters of credit;
- Import financing; and
- Export financing.

The data for banks offering corporate banking services is as follows.

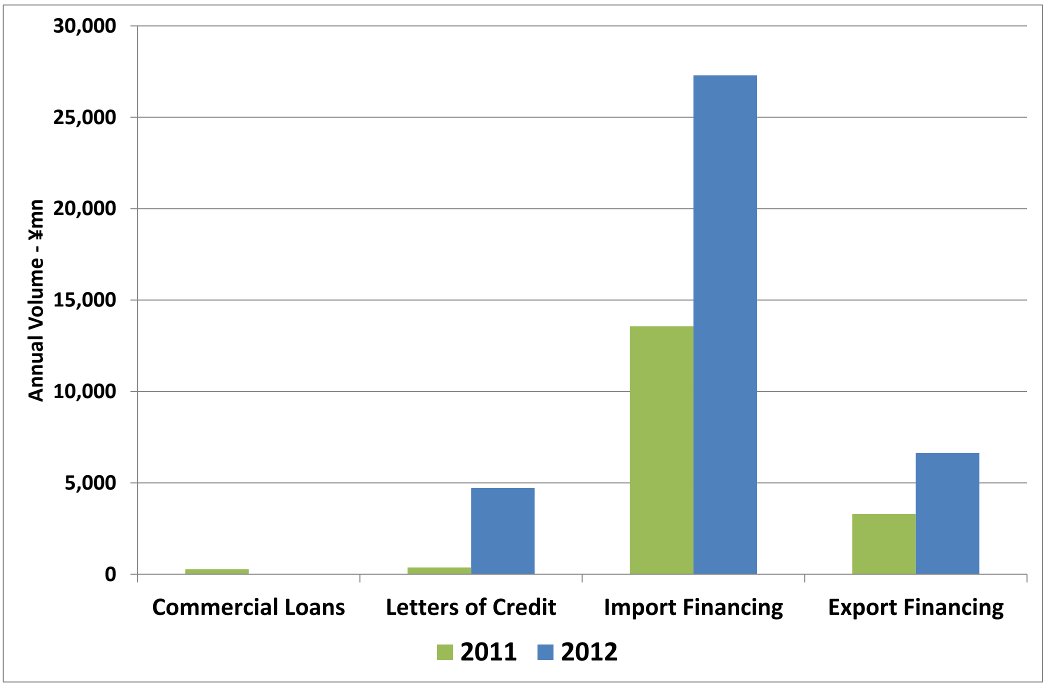
- In 2012 corporate current accounts were offered by 91% of the banks and time deposits by 64% of the banks compared to 64% and 45% respectively in 2011. The total level of deposits in these accounts at the end of 2012 was ¥2.1 billion, a fall of 30% compared to 2011[2].
- Debit and overdraft facilities were offered by 55% of the banks in 2012 compared to 36% in 2011.
- Online facilities were offered by 73% of the banks in 2012 compared to 36% in 2011.
- Treasury management services were offered by 64% of the banks in 2012 compared to 36% in 2011.
- Forex services were offered by 82% of the banks in 2012, the same proportion as in 2011.
- Payment and cash management services were offered by 82% of the banks in 2012 compared to 64% in 2011.

Trade related services

- Supply chain services were offered by 27% of the banks in 2012 compared to 36% in 2011.
- Commercial loans were offered by 64% of the banks in 2012 compared to 36% in 2011. No commercial loan business was reported for 2012, a fall from ¥280 million in 2011.
- Letters of credit and other loan guarantees were offered by 55% of the banks in 2012, the same proportion as in 2011. The volume of business grew to ¥4.7 billion, a 13-times increase on 2011.
- Import and export financing was offered by 45% of the banks in 2012 compared to 64% in 2011. Of those offering these services in 2012 100% offered export financing and 80% offered import financing. Import and export financing was collected as an aggregate figure for the 2011 survey whereas for this survey separate volumes have been collected. The volume of import financing in 2012 was ¥27 billion. The volume of export financing in 2012 was ¥6.6 billion. In aggregate the volume of import and export financing grew by 100% compared to 2011. In order to draw the comparison graph below it was assumed that the split between import and export financing in 2011 was the same as that in 2012.

[2] The level of corporate account deposits for 2011 was revised down to ¥3 billion in the report of volumes for January to June 2012 as a result of misreporting during the 2011 survey.

Chart 2.2 – RMB trade related services offered in London



Source: Bourse Consult survey

Comments on results for corporate banking services

A full range of RMB services for the corporate sector is on offer in London and the number of banks providing each type of service has increased since 2011 in almost every case. This appears to be some of the fruits of the concerted effort the banks have made to roll out and market RMB services to their major customers as part of the City of London RMB Initiative.

The very variable figures for corporate account deposits may indicate that most London RMB accounts are being used for transaction flows rather than for holding longer term cash positions. If this is the case and since the survey shows a snapshot of the account balances at the end of the year, the volume of deposits may be untypically low (or high) depending on the cash flows on that particular date.

The very strong growth in trade related business is an encouraging indication that the use of RMB for trade in Europe may be lifting off and/or that London banks are financing trade beyond their home zone.

2.4 The RMB institutional and interbank market

The institutional and interbank market is the largest and broadest of the three market divisions in the survey. Institutional is a broad definition of the buy side: investment funds, pension funds, hedge funds, insurance companies and sovereign funds. The interbank market refers to the trades settled between banks.

2.4.1 Foreign exchange services and risk management products

The forex category includes all transactions done on a currency basis including spot (for immediate delivery) and forward (for delivery in the future). The swaps and options are all traded over the counter on a bilateral basis between two counterparties. The forex, swaps, options, interest rate swaps and options and cross currency swaps are OTC derivative instruments used by banks for hedging and risk management purposes.

Non-deliverables are specific cash settled instruments for non-convertible currencies. RMB non-deliverable contracts are predominantly based on the onshore (CNY) exchange rate and traded offshore specifically because trading in deliverable CNY is not possible offshore. The forex numbers include all currencies exchanged with RMB, but the majority of the trading is in the USD/RMB pair.

London is at the heart of the world's foreign exchange markets, and the provision of foreign exchange and risk management products is therefore at the forefront of London's RMB product offering. London offers the full range of RMB foreign exchange services; anything available in Hong Kong is also available in London.

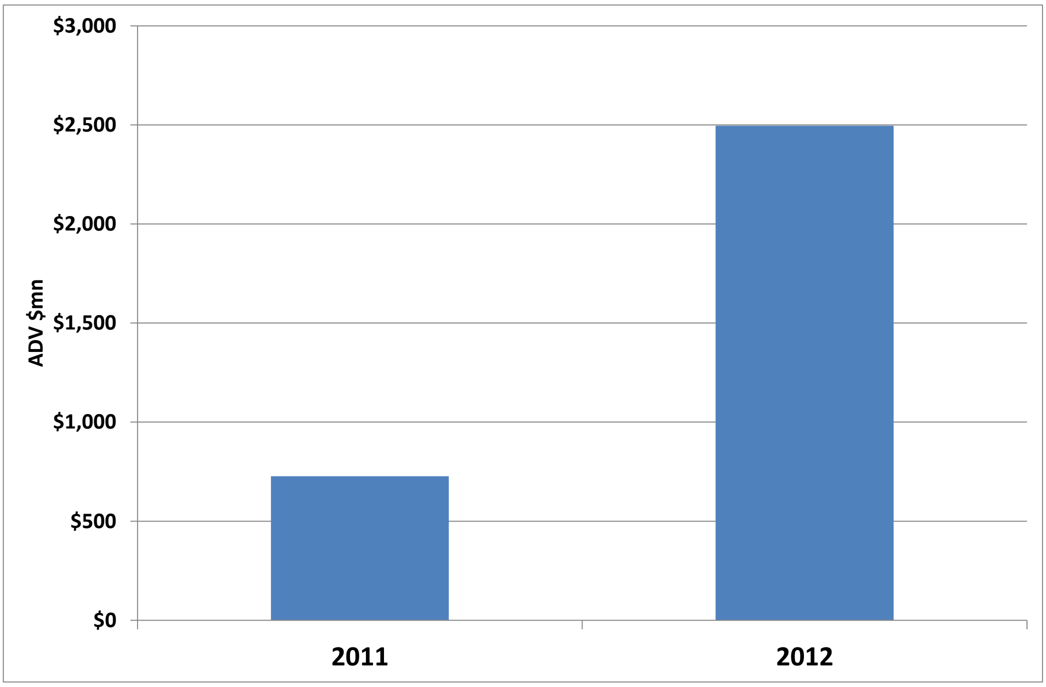
Overview

The London forex market for RMB has continued the rapid growth seen in the first half of 2012. Most of the participants conducted some forex market activity but the market is dominated by a small number of global banks. The growth has been spread across the major participants, who are the major global investment banks, and across various trading and risk-management products.

Spot forex

Spot trading volumes in London increased substantially as the growing liquidity of the market attracted further liquidity. Spot volumes in 2012 increased by 240% over 2011 to a daily value $2.5 billion (chart 2.3). The interim report showed the daily volume of spot trading for the first half as $1.7 billion implying that the growth continued into the second half with an average daily value of approximately $3.3 billion.

Chart 2.3 – Trading in RMB denominated foreign exchange products - spot



Source: Bourse Consult survey

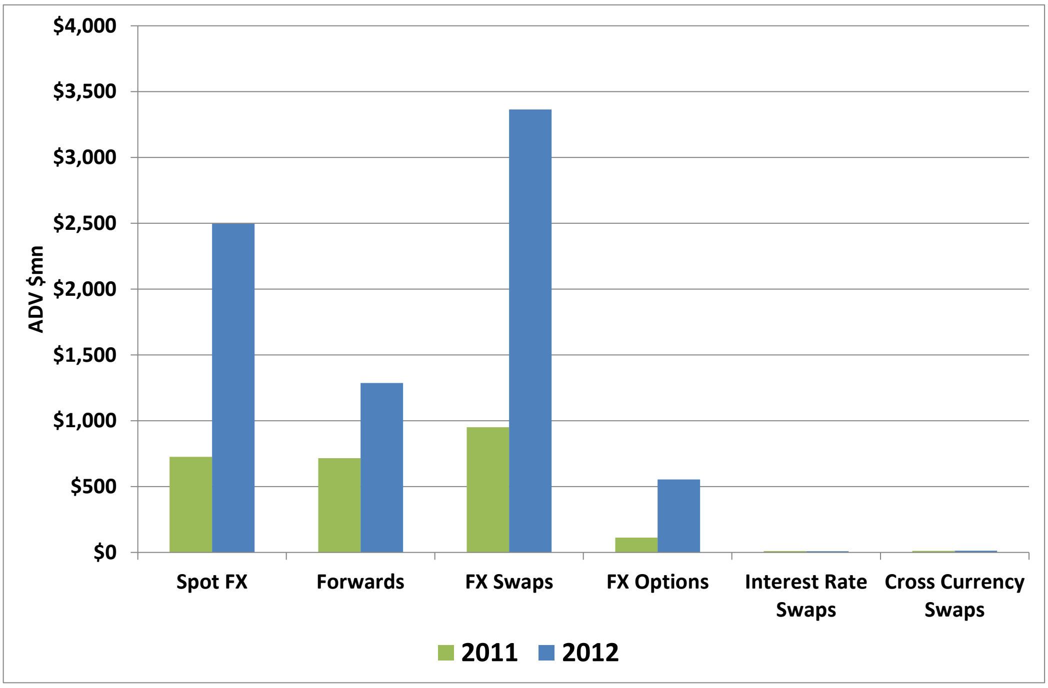
The data for other deliverable RMB forex instruments is as follows.

- Deliverable forwards increased by 80% comparing the 2012 and 2011 daily averages, to a daily value of $1.29 billion.
- Deliverable forex swaps increased by 250% to a daily value of $3.36 billion.
- Deliverable forex options increased by 390% to a daily value of $550 million.
- Deliverable cross-currency swaps increased by 17% to a daily value of $13.8 million.

In all other deliverable categories the 12 month figure for 2012 showed a significant increase over the figures gathered for the first half of 2012 and presented in the interim report indicating that growth continued in the second half of 2012. Anecdotal evidence suggests that for all deliverables the growth continued in 2013 but may have peaked in the early months of the year.

Activity in deliverable interest rate swaps was stable between 2011 and 2012 registering a 1% fall and a daily value of $10 million.

Chart 2.4 – Trading in all deliverable RMB denominated foreign exchange products



Source: Bourse Consult survey

Business done in other centres

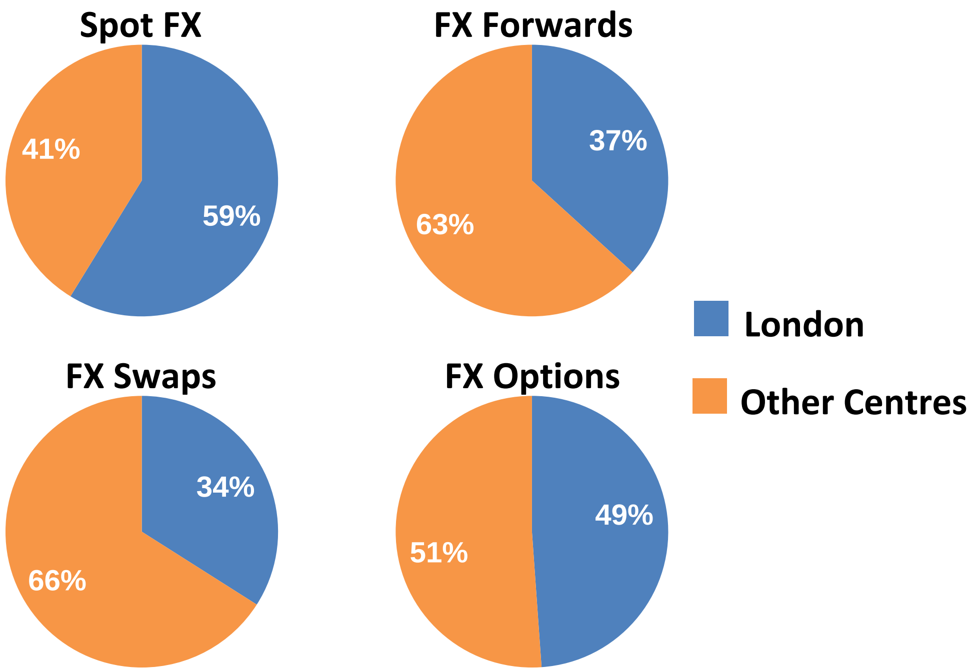
The methodology section describes an extension of the survey asking respondents to indicate the amount of forex business they did in other offshore centres (i.e. excluding business they transacted in their mainland China branches but including their trading in Hong Kong, Macau and in other branches throughout the world). In compiling the 2011 survey it had proved very difficult to get reliable global data in order to judge London's position in the offshore RMB market and this was an attempt to get better data. It is, however, not comprehensive – since, for example, it only covers banks that operate in London and have contributed their data to the survey – but it is indicative of the business patterns and choices of the respondents. For the

2012 study the information on other offshore centres was only requested for deliverable forex products (spot, forwards, swaps and options).

In the event, five respondents were able to supply this data. These were, however, the largest participants in the London market and in total represented 93% of the reported RMB spot trading in London during 2012. The results show considerable diversity with some banks opting to locate a very substantial share of their offshore RMB business in London while others transacted most of their business in other centres (the enquiry covered all offshore centres, not just the major ones).

The division of business within the major forex traders also varied between products as Chart 2.5 shows. Across all deliverable forex products the London banks conducted 41% of their offshore RMB trading in London. However, in spot trading the figure for the share of their business transacted in London was nearly 59% and for deliverable options just short of 49%.

Chart 2.5 Offshore RMB forex – business done in other centres



Source: Bourse Consult survey

Non-deliverable forex

Non-deliverables are specific cash settled instruments for non-convertible currencies. RMB non-deliverable contracts are predominantly based on the onshore (CNY) exchange rate and traded offshore specifically because trading in deliverable CNY is not possible offshore. The fact that significant volumes of non-deliverable RMB forex products are traded in London reflects the non-convertible status of RMB. As currency controls are eased and offshore liquidity in RMB increases, a shift from non-deliverable to deliverable products can be expected. It is therefore not surprising that trading in the two main non-deliverable forex product lines declined compared to 2011.

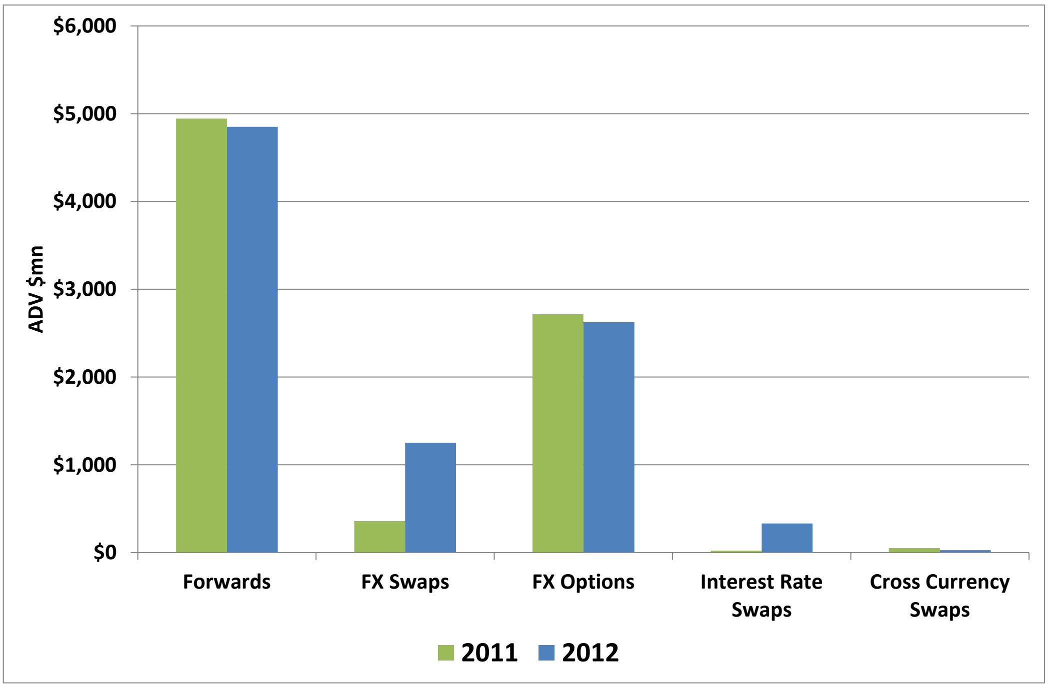
Fewer respondents are active in the non-deliverable forex market than in the deliverable market and these tend to be the larger players. The interim survey to mid-2012 showed a general decline in the volumes for the larger categories of non-deliverable forex products in the way expected as a consequence of growing liquidity of the deliverable London market in CNH. There were also questions relating to the reliability of the benchmark used for non-deliverables.

However, the declines noted in the first half of 2012 were largely reversed in the second half with non-deliverable products in total in 2012 showing a 12% rise over 2011. The results for individual categories of non-deliverable were (chart 2.6):

- Non deliverable forwards, the largest non-deliverable category, saw a 2% fall in 2012 to a daily value of $4.85 billion.
- Non-deliverable swaps showed a large, 247%, increase – albeit from a small base - to a daily value of $1.25 billion
- Non-deliverable options saw a 3% fall to a daily value of $2.62 billion.
- Non-deliverable cross-currency swaps, which are only a small category, showed a 45% fall from 2011 to a daily value of $28 million.
- Non-deliverable interest rate swaps showed a substantial increase of 1,400%, again from a small base, to a daily value of $331 million.

The relative stability of non-deliverable volumes contrasts sharply with the very rapid growth of deliverable forex products. Non-deliverables remain larger than deliverables in London (daily volumes of $9.1 billion against $7.7 billion for deliverables) but the share of deliverables has risen from 24% in 2011 to 46% in 2012.

Chart 2.6 – Trading in all non-deliverable RMB denominated foreign exchange products



Source: Bourse Consult survey

Comments on results for foreign exchange services and risk management products
Respondents recognised the sharp increases in volumes which they attributed to the growing maturity of the offshore market, particularly in London. Increased liquidity inspires confidence among users and increases their willingness – and requirement – to trade risk-management products alongside the spot. Increased intra-day volatility has also been a stimulus to trading. The expectation is that this growth will continue though there is some anecdotal evidence that the rate may slow.

Traders can make a choice of where they concentrate their operations but increasingly global banks with a presence in London appear to be concentrating their offshore RMB trading in London – though this is not universal and the share done in London by each individual bank varies by product.

Non-deliverable forex products had been expected to decline as the liquidity in the deliverable product increased. While this was so in early 2012 the volumes in non-deliverables have recovered in part because the benchmark problems noted before have been resolved and in part because the growing deliverable liquidity acts as a support to non-deliverable trading since risks can be offset in the liquid deliverable market. There is also arbitrage trading between the deliverable and non-deliverable products.

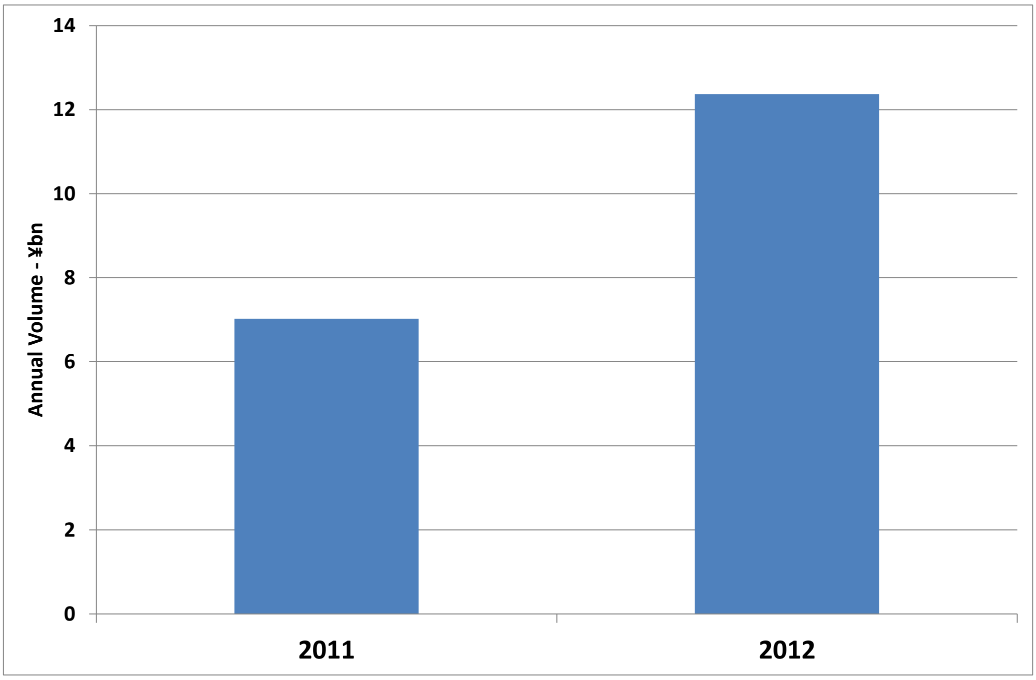
2.4.2 Borrowing and financing products

This category includes the instruments for raising money from the capital markets. In the survey banks were asked whether they offered services in bond issuance and collateralised lending. The survey shows that both these services are on offer in London. As in 2011, no business volumes were recorded for collateralised lending for 2012, hence the focus here is on bond issuance.

55% of the surveyed banks offered an RMB bond issuance service in 2012, an increase from the 36% in 2011.

Bond origination activity in London increased in 2012 to ¥12 billion, an increase of 76% on the volume for 2011.

Chart 2.7 – Bond issuance volumes



Source: Bourse Consult survey

Comments on results for borrowing and financing products

2011 was the first year in which RMB bonds were issued in London. In 2012 additional banks offered an RMB bond issuance service and most of them facilitated issues during the year. This resulted in an encouraging increase in the volume of bonds issued. Whilst the volume is still relatively low compared with London issues denominated in other currencies, there are healthy signs of growth.

2.4.3 Investment products

This category includes:

- All RMB time deposits and certificates of deposit for institutional clients;
- Trading of RMB denominated bonds (not issuance);
- Structured products linked to forex, interest rates, equities and commodities.

The survey shows that all these products are on offer in London. The number of banks offering each product has not generally increased and in some cases has fallen between 2011 and 2012. Experience of the three surveys has shown that the volumes in these products are very volatile – activities become important for a while and then, as conditions change, the market moves into other products. This is very apparent from the results summarised below:

- Time deposits have remained relatively stable at about ¥7 billion with the end 2012 figure being ¥6.8 billion. While the total has remained relatively steady the distribution between respondents has varied considerably suggesting that there may be a relatively small number of large deposits which move in response to better terms.
- Trading of Dim Sum bonds shows considerable variance with banks that were significant players in 2011 indicating that they have ceased to offer trading in

2012 while at the same time banks that were absent in 2011 have reported trading in 2012. In 2011 six firms responded that they offered Dim Sum bond trading, whilst in 2012 it was four firms. The raw year on year figures show a 90% decline to a level of ¥2.7 billion in 2012. However there remain some uncertainties about the data for 2011, so our view is that the actual fall was somewhat lower, and we concluded that Dim Sum bond trading in London was at least 50% lower in 2012.

- Forex structured notes and interest rate structured deposits/notes were a lot less popular in 2012 with most banks appearing not to offer the products in 2012 and volumes declining to minimal levels.
- Repos saw some beginnings on a small scale so far, at ¥280 million, and involving only a small number of participants. This could well, however, become an active business in future.

Comments on investment products results

The results for these products are showing very considerable volatility both in the absolute volumes, which have declined substantially and in the participation of banks which has also fallen. The appearance is that banks are trying various products to see if there is potential but the size of the market and the number of users remains small.

2.5 Total deposits in London

This section brings together the volumes of deposits in the retail, corporate and investment banking sectors which have been detailed earlier.

Chart 2.8 – London deposit volumes

Source: Bourse Consult survey

Comments on deposits

The level of deposits in all three categories fell between 2011 and 2012. Underlying these totals, however, there is very high volatility in the figures reported by individual banks, probably reflecting the fact that there are relatively few depositors and that these deposits are being moved relatively frequently. These characteristics, coupled with the fact that the survey collected year-end figures rather than average deposit levels through the year means that we do not believe that these figures should be seen to represent a trend.

In Hong Kong, after rapid growth in 2011, RMB deposits during 2012 fell by 7% before climbing to end the year 2.5% up on the 2011 figure.

It is quite clear, when looking at the survey as a whole, that there is no correlation between the level of RMB deposits in London and the volume of RMB services which the London banks are doing. There has been high growth in London in most other business areas irrespective of the level of London deposits.

We conclude that the key indicators of the development of offshore RMB market activity are not the level of deposits but the volume of transactional flows such as trade financing, forex trading, bond trading and bond issuance. Transactional volumes rather than physical location of deposits are the measure of market development.

3 Conclusions

The picture that emanates from this year's survey is that London either has a clear leadership or, at the least, a strong position as a global centre for renminbi trading.

During 2012 there was a strong growth in the use of renminbi by corporations in London. The amount of Letters of Credit opened in RMB was 13 times greater and import and export financing grew by 100% compared with the previous year. This indicates a significant increase in the use of RMB in London and also probably the increasing use of RMB by the global commodities trading houses.

As expected the leadership of London is focussed on forex with an increase in the majority of products, with a particular emphasis on spot and other deliverable forex. Spot forex increased by 240% over 2011 reaching the very significant daily average of \$2.5 billion. There were also large increases in the volumes of a full range of deliverable RMB forex instruments. Forex swaps, for instance, reached a daily average volume of \$3.36 billion.

The announcement in February 2013 that the Bank of England and the PBoC are working on the details of an RMB swap agreement has been a significant event. We believe that the swap agreement will be finalized during 2013. This successful collaboration between the UK and Chinese authorities may provide the opportunity to address some other issues which are key to the future of London as a major international centre for renminbi trading.

The first issue is CIPS. Whilst the specification and functionality of the system are still to be finalised; the objective of CIPS to facilitate more efficient international settlement of RMB depends on it being practical for major international banks to use the system and it being accessible to them as early as possible. The London banking community's deep experience of cross-border currency settlement could be an important contribution to the effectiveness of CIPS if London banks were involved in discussions on the design of the system and its interfaces.

The second issue is related to investment quotas. London is a major centre for investment flows and investment management. However, RMB investment activity in London is currently low. In part this is because the regulations at present favour investment services offered from Hong Kong. At some stage in the progress of RMB liberalisation we would expect funds making RMB investment in China to be allowed outside Hong Kong. A way of piloting that situation would be for the Chinese authorities to grant an RQFII quota specifically for London institutions. Overall investment flows could benefit from such a step as the Chinese economy becomes more mature and is able to absorb an additional inflow of foreign investment. Now may be the right time for the London financial community to approach the Chinese regulators with a request for a London RQFII quota.

Appendix A – Notable regulatory and commercial developments since January 2012

January 2012

Rt. Hon. George Osborne (UK Chancellor of the Exchequer) and Mr Norman Chan (Chief Executive of the Hong Kong Monetary Authority) announced the establishment of a private-sector led London-Hong Kong International RMB Forum.

March 2012

The PBoC allows all importing and exporting Chinese companies to settle their exports in renminbi, significantly increasing the number of eligible companies. This contributed to an increase later in the year in the proportion of trade settled in RMB.

April 2012

The City of London initiative on London as a centre for renminbi business was launched. The City of London RMB initiative brings together ten leading banks in the CNH market, with observers from HM Treasury, the Bank of England and the Prudential Regulatory Authority.

The PBoC announced that it is planning to develop a new international payment system referred to as the "China International Payments System" (CIPS). CIPS promises foreign banks a direct route to a renminbi clearing system operated by the PBoC for onshore and offshore transactions. While implementation of CIPS is still two years off, there is an expectation that it will be SWIFT-compliant, allowing for standardised international messaging between banks. CIPS is likely to become the primary channel for renminbi settlement and will be the foundation for the sort of settlement infrastructure which is conventional for most major convertible currencies.

HSBC issued a ¥2 billion three year bond in London 60% of which was subscribed by European investors, showing the growing demand in London for offshore RMB investment products.

The Renminbi Qualified Foreign Institutional Investor (RQFII) quota was increased from ¥20 billion to ¥70 billion.

May 2012

The first meeting of the London-Hong Kong International RMB Forum was held in Hong Kong. The forum agreed to organise a comprehensive RMB marketing initiative in the run up to the next meeting of the Forum; to expand cross-market interbank funding activities between Hong Kong and London; to develop improved RMB pricing benchmarks and bond indices; and to engage with the relevant trade bodies to ensure consistent global standards for RMB product documentation.

Industrial and Commercial Bank of China's London subsidiary issued ¥100 million certificates of deposit in London, the first by a Chinese bank in London. Notably, all participants in the issuance (issuer, investor and dealer) were institutions operating in London.

China announced direct trading of RMB against the Japanese yen to help companies mitigate risks caused by a fluctuating U.S. dollar and reduce exchange losses for Chinese and Japanese companies.

Standard Chartered announced that it reached a total issue of ¥1 billion in European Commercial Paper (ECP). ECP bridges the tenor gap between 'dim sum' bonds[3] and traditional deposits for investors enabling investors to access short term RMB securities offering attractive yields. A large part of the funds raised will be used to provide inter market liquidity between London and Hong Kong to support RMB trade for its clients.

June 2012

The operating hours of the RTGS system in Hong Kong were extended from 18:30 to 23.30 (GMT + 8) to cover the office hours in Europe and part of the United States, enabling customers in western time zones to enjoy the convenience of same-day settlement of their RMB. The extension of operating hours is a positive step in the right direction, and gives a longer window to input instructions on the trade date, although the divergence with onshore hours limits the utility of the extension.

Both Taiwan and Singapore announced plans to develop local RMB clearing systems.

The PBoC formalized for the first time its rules on RMB-denominated foreign direct investment (FDI) demonstrating further commitment to liberalising inbound RMB-denominated FDI. The development provides an opportunity for foreign investment managers to launch funds to raise RMB offshore and invest into the PRC market directly.

The Hong Kong Monetary Authority (HKMA), in partnership with Euroclear Bank and J.P. Morgan Worldwide Securities Services, launches a cross-border collateral management service to help the development of a more liquid repo market in Hong Kong and allowing non-RMB assets to be repoed against offshore RMB.

The China Securities Regulatory Commission (CSRC) announced that QFII investors will be eligible to invest in the domestic interbank bond market.

July 2012

The Hong Kong Securities and Futures Commission authorised the first RQFII A-shares ETF to be listed on HKEx.

August 2012

The Central Bank of Taiwan and the PBoC signed a memorandum of understanding to establish an offshore RMB clearing arrangement in Taipei.

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[3] 'Dim sum' bonds refer to bonds denominated in RMB and issued outside mainland China.

ANZ issued a ¥1 billion three year bond which was listed in London and had strong support from European institutional and private banking investors.

September 2012

CME Group announced that it is expanding its overall suite of Chinese renminbi products to include deliverable renminbi (CNH) futures. London-based CME Europe Ltd, which is awaiting regulatory approval as a Recognised Investment Exchange, is expecting to offer these products from mid-2013.

Hong Kong Exchanges and Clearing Limited (HKEx) introduced renminbi currency futures.

November 2012

The China Securities Regulatory Commission (CSRC) indicated that the RQFII quota would be increased to ¥270 billion.

A pilot program was launched by the Chinese authorities to allow RMB cross-border lending by multi-national corporations with a presence in mainland China. The program allows them to lend their own RMB funds to offshore parent companies or related companies within the same group. This represented a further notable liberalisation of the Chinese capital account and may encourage more multi-nationals to use renminbi for cross-border trade settlement.

December 2012

PBoC announced a pilot scheme to allow qualified Hong Kong Banks to make cross border RMB loans to relevant enterprises in Qianhai, a special economic zone within Shenzhen City.

The second meeting of the London-Hong Kong International RMB Forum was held in London.

China Construction Bank became the first Chinese bank to issue a renminbi-denominated bond in London. The bank raised ¥1 billion through its London subsidiary. The bonds, which mature in 2015 and pay an annual coupon of 3.2 per cent, saw strong interest from institutional investors.

Renminbi payments made via the SWIFT network grew during 2012 such that the renminbi is now ranked number 14 in the SWIFT world currency payment table compared to number 17 at the end of 2011. The great majority of SWIFT renminbi payments are inter-bank but it is also noteworthy that a number of banks, including Citi, JP Morgan Chase and HSBC, have reported publicly significant growth in the use of renminbi for trade payments by their commercial customers.

January 2013

A group of 15 Hong Kong banks signed an agreement to offer loans to Shenzhen's new Qianhai enterprise zone, opening the door for offshore participation in China's domestic lending market.

February 2013

PBoC Governor Zhou Xiaochuan met Bank of England (BoE) Governor Mervyn King during Governor King's visit to Beijing. They agreed to facilitate discussions on the establishment of a reciprocal 3-year, RMB/GBP currency swap arrangement. The arrangement would be used to finance trade and direct investment between the two countries and to support domestic financial stability should market conditions warrant. They have agreed that the BoE and the PBoC would work together to sign the final agreement shortly.

March 2013

CSRC changed the RQFII scheme to include insurance companies and to allow investment in stock-index futures, initial public offerings, convertible bond sales and share placements in addition to equities and bonds.

April 2013

The PBoC signed agreements with the Monetary Authority of Singapore and the Singapore branch of Industrial and Commercial Bank of China to establish a renminbi clearing facility in Singapore.

The Australian and Chinese governments agreed to facilitate direct forex trade between the Australian dollar and the yuan, encouraging more trade between the countries to be done without reference to the US dollar. PBoC publish a daily AUD/RMB fixing and ANZ and Westpac banks have been approved by the PBoC as market makers in AUD/RMB forex.

The Hong Kong Treasury Markets Association announced that it will begin publishing an interbank interest rate fixing for offshore renminbi from June 2013. It will be called CNH Hibor.

Bank of China (Hong Kong) Limited and FTSE Group announced a partnership to develop a new "FTSE-BOCHK Offshore RMB Bond Index Series".

May 2013

The Chinese State Council announced, after a meeting led by Premier Li Keqiang, that, as one of the goals for 2013, it would put forward a detailed plan for capital account convertibility. The plan will also include ways to allow Chinese individuals to make overseas investments.

Appendix B - Organisations contributing to this report

Banks surveyed:

Bank of China London Branch
Barclays Capital
China Construction Bank (London)
Citi
Deutsche Bank
Goldman Sachs
HSBC
ICBC (London) plc
JP Morgan
RBS
Standard Chartered
UBS

Bank interviewed for background information:

People's Bank of China

CITY OF LONDON RENMINBI SERIES

City of London Economic Development
PO Box 270, Guildhall, London, EC2P 2EJ
www.cityoflondon.gov.uk/economicresearch