



# New Horizons of Chinese Yuan in Cross-border Clearing and Settlement

Host:

Michael Cheung

Head of North Asia



> Simon Gleave  
Partner-in-charge  
KPMG China

> Rao Lin  
Deputy Director  
The People's Bank of China

> Stanley Chan  
Head, Financial Infrastructure  
Development  
Hong Kong Monetary Authority

> Yang Jiewen  
Senior Strategic Planner  
Bank of China (Hong Kong)



# The implications of RMB Settlement

Simon Gleave, partner-in-charge of financial services,  
KPMG China

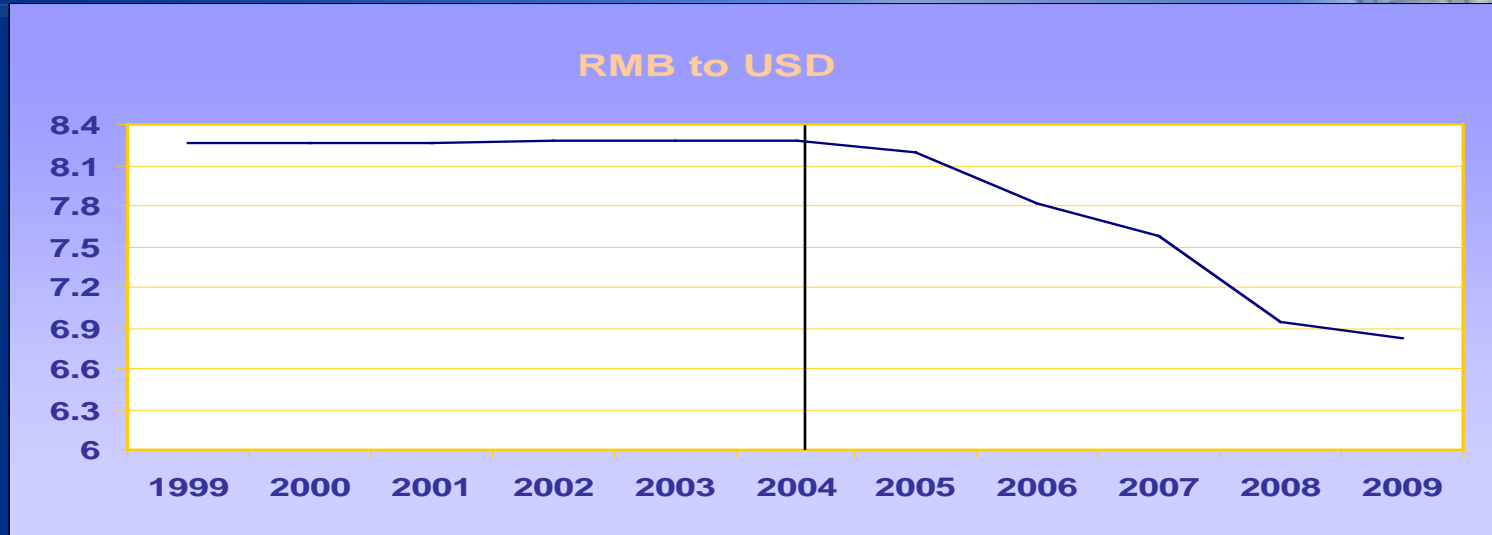
September 2009

# What is the new pilot scheme?



- Asia Pacific focus (in particular Hong Kong)
- Aims to help companies reduce costs and risk
- Approved RMB settlement banks overseas can conduct RMB-related businesses, including handling of deposits, exchanges, and remittances
- The pilot operation to use the RMB for cross-border trade settlement is limited to Shanghai and four cities in Guangzhou initially
- Take up has been limited and only a small number of trades using RMB have occurred in large part due to a lack of clear rules and regulations

# RMB appreciation versus the USD





# The RMB as an international currency



- Bangkok Bank has been assigned as the only RMB settlement bank in Thailand, signalling China's intent to enhance the presence of the RMB in SE Asia.
- The recent injection of USD 50 billion into the IMF is part of a strategy of internationalizing the RMB, as this money will work its way into the foreign exchange reserves of central banks in Africa, Latin America and Asia.
- US and Europe: given the vastly larger trade flows between these countries and China, the greatest benefit would derive from RMB settlement there but preconditions exist:
  - Trust in the stability of the currency
  - Availability of RMB offshore funds

## Presenter contact details:

Simon Gleave  
Partner-in-charge Financial  
Services  
KPMG China  
+86 (10) 8508 7007  
simon.gleave@kpmg.com.cn

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# Payment Clearing Systems & cross-border clearing and settlement in China

Payment and Settlement  
Department, PBOC

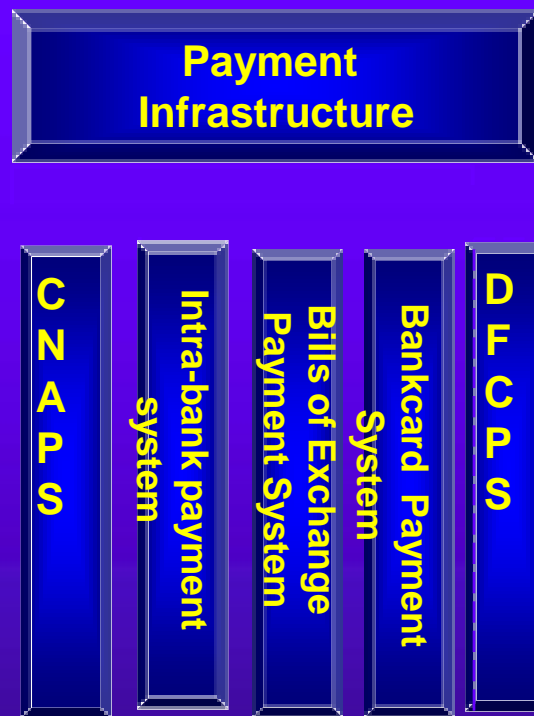


# Outline:

1. Overall Structure of payment systems
2. Channels for Chinese yuan cross-border clearing and settlement
3. Outlook: 2nd generation of payment system for cross-border clearing and settlement

# The Framework of China Payment Infrastructure

- ◆ China has built up the payment infrastructure with China National Advanced Payment System(CNAPS) as its core, intra-bank payment systems of banking institutions as its base, and paper-based payment system and bankcard payment system and Domestic Foreign Currency Payment System(DFCPS) as its important components.

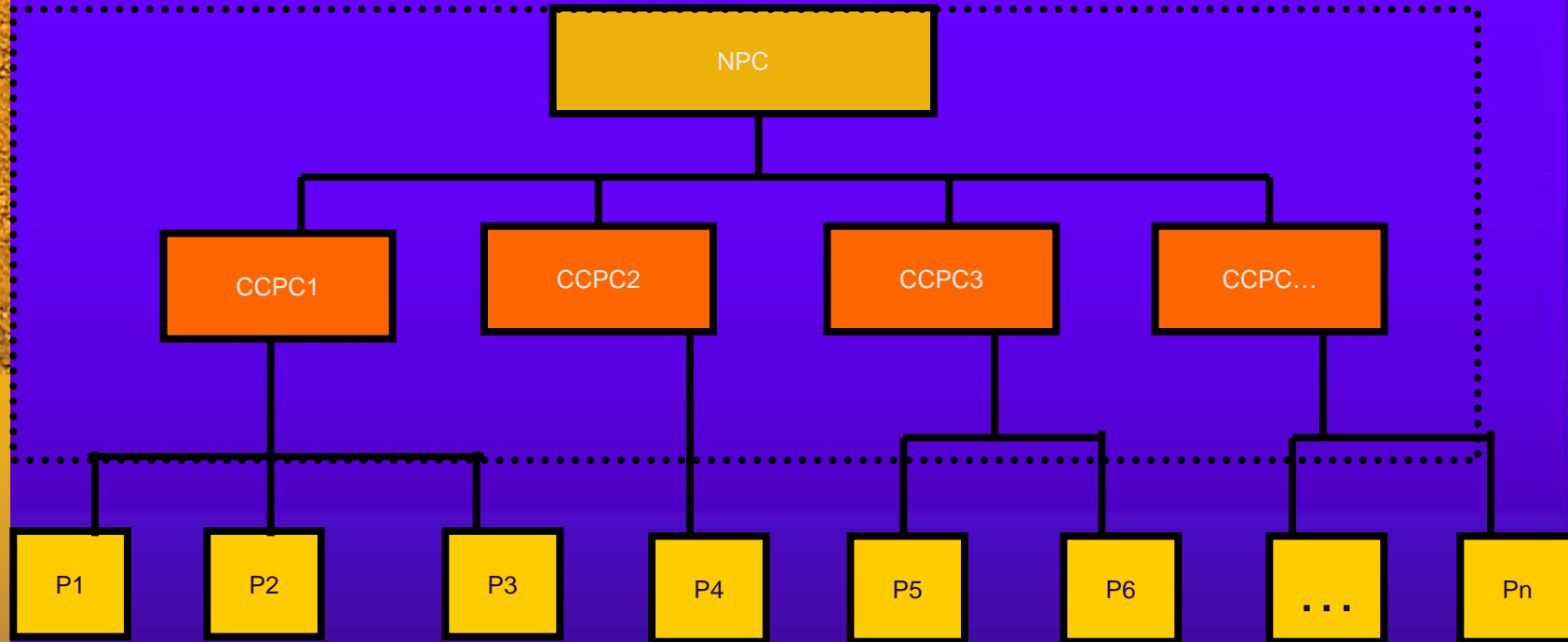




# LVPS

- ◆ LVPS is a real-time gross settlement system (RTGS) .
- ◆ built by the PBC and went into operation nationwide in 2005.
- ◆ connecting with financial market,e.g.money market, bonds market and FX market .

# The framework of LVPS



- ◆ Two-tiers processing center:
  - NPC(National Processing Center)
  - CCPC(Central City Processing Center located in each province)



# Participants and volume

- ◆ Direct participant

- clearing banks in Hongkong & Macau are direct participants

- 1500 members by the end of 2008

- Indirect participant

- Direct participants as their corresponding agent

- over 60 thousands by the end of 2008

- ◆ Concessionary participant

- Financial market service provider, e.g. OMO

- ◆ Now the daily volume on average is over 800,000 with the value of CNY2.5 trillion.



# Chinese yuan cross-border payments

- ◆ Chinese yuan settlement of cross-border non-trade transactions

--including deposits, exchange, remittance, bankcards, checks and bonds.

--payments settled by clearing banks in Hongkong & Macau directly through HPVS

- ◆ Chinese yuan settlement of cross-border trade transactions

--Chinese yuan settlement of imports and exports between China and ASEAN countries or between mainland and Hongkong and Macau.



# Cross-border clearing channels

- ◆ two channels for cross-border Chinese yuan clearing:


- through Chinese yuan clearing banks in Hong Kong and Macau;

- through domestic commercial banks acting as an agent of overseas commercial banks



# Mode 1: clearing banks

- commercial banks approved by the PBC and Hong Kong Monetary Authority or by the PBC and the Macau Monetary Authority
- members of the PBC's LVPS providing Chinese yuan clearing service in Hong Kong or Macau.



# Changes on the role of clearing banks

- ◆ With the introduction of the pilot program, the scope of the clearing business of the clearing banks will be expanded.
- ◆ Clearing banks may also provide Chinese yuan settlement and clearing services to foreign countries and regions covered by the pilot program as approved by the State Council, for example, Hong Kong, Macau and ASEAN countries.



## Mode 2: agent banks

- ◆ a domestic commercial bank that opens an inter-bank fund transfer account denominated in Chinese yuan for an overseas commercial bank (i.e. an overseas participating bank).
- ◆ cross-border information transferred by SWIFT between domestic agent banks and overseas banks ;final settlement accomplished by LVPS or intrabank system
- ◆ a domestic agent bank may sign an agreement for agent Chinese yuan settlement with an overseas participating bank, open an inter-bank fund transfer account denominated in Chinese yuan for, and settle cross-border trade transactions in Chinese yuan as an agent of the overseas participating bank.



# Outlook

- Now launching 2<sup>nd</sup> generation project of CNAPS
- Primary characters :
  - To provide one point access
  - To facilitate liquidity management
  - To support electronic payment
  - To support Chinese yuan cross-border clearing and settlement between Hongkong and Macao and inland
  - To adopt ISO20022 message standard,etc.



## 2<sup>nd</sup> generation CNAPS for cross-border clearing and settlement

- ◆ To continue supporting Chinese yuan cross-border clearing and settlement of non-trade transaction :remittance/bankcard settlement/bonds issuance,etc.
- ◆ To enhance supporting Chinese yuan cross-border clearing and settlement of trade transaction : adding function of transferring transaction information between Hongkong/Macao and inland
- ◆ Both transferring transaction information and final settlement accomplished in 2<sup>nd</sup> generation CNAPS .



*Thank  
you*



# **The Role of Hong Kong in Chinese Yuan Cross-border Clearing and Settlement**

**Stanley Chan**  
**Hong Kong Monetary Authority**  
**15 September 2009**

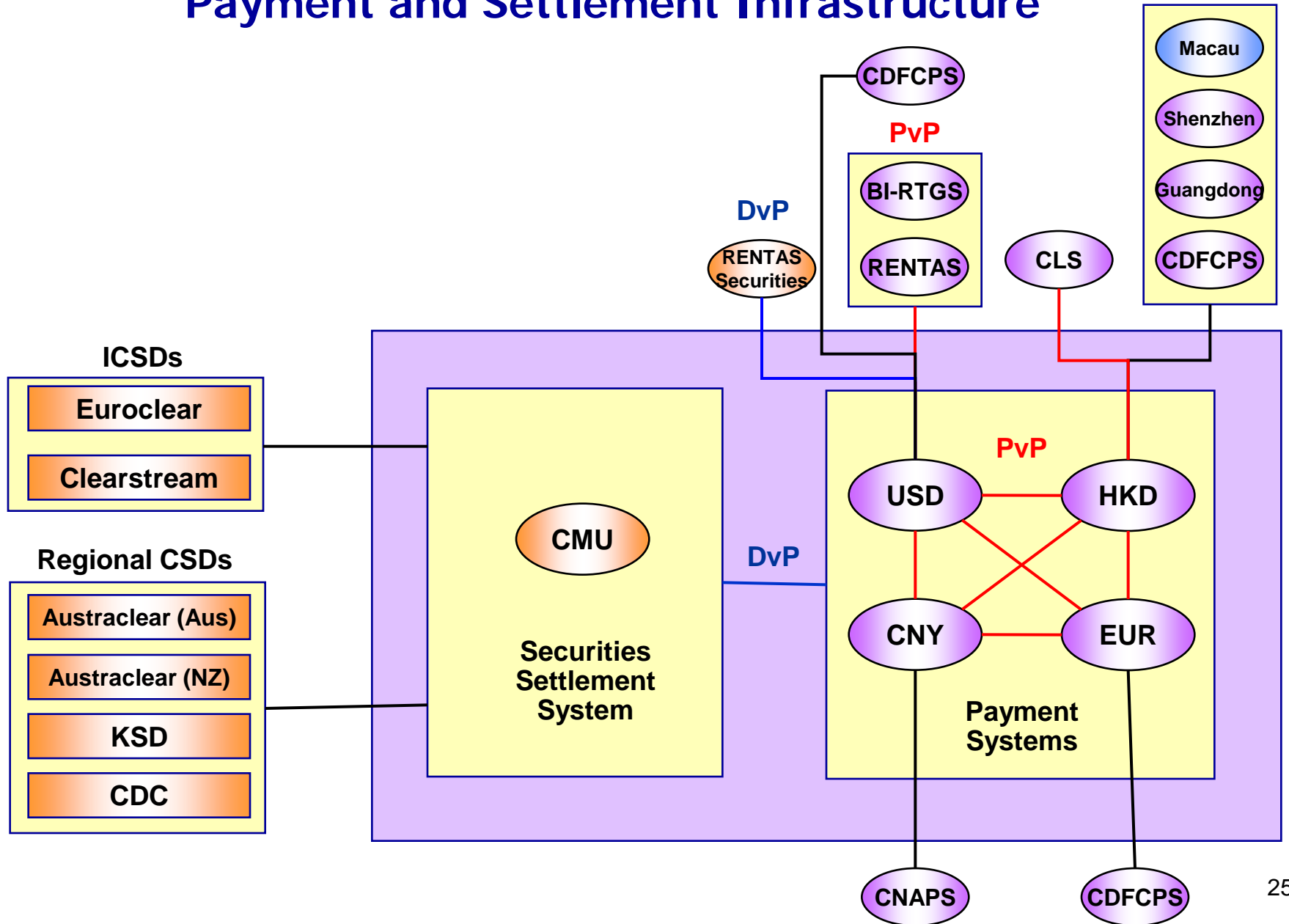


# Agenda

- **Hong Kong's Multi-currency Payment and Settlement Infrastructure**
- **RMB Business in Hong Kong**
- **Pilot Scheme for RMB Trade Settlement**
- **Financial Infrastructure in Hong Kong for Renminbi Trade Settlement**



# Hong Kong's Multi-currency Payment and Settlement Infrastructure



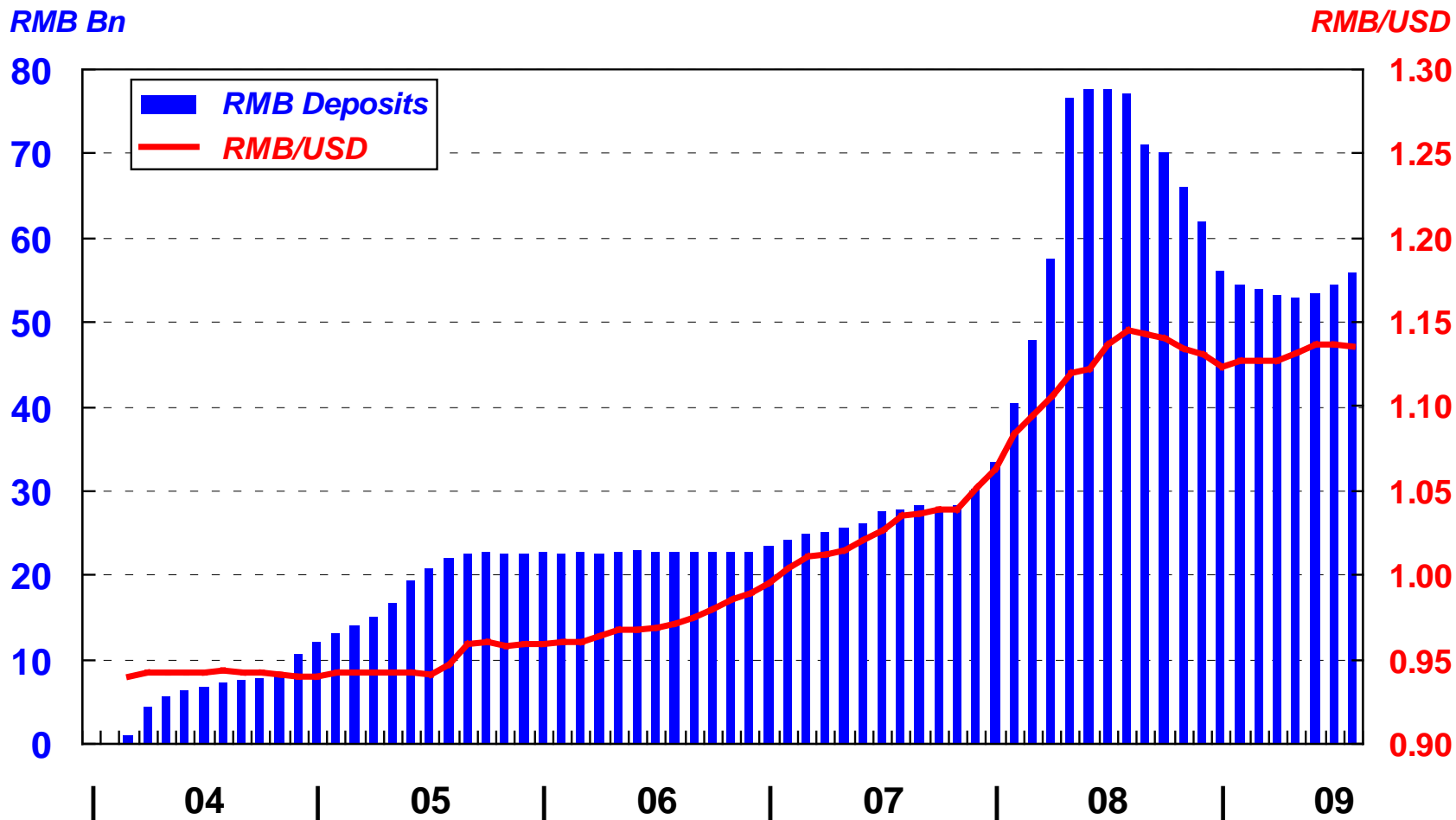


# Renminbi (Chinese Yuan) Business in Hong Kong

- The Renminbi centre outside the Mainland.
- 2004: personal RMB business
  - Deposit
  - foreign exchange (RMB 20,000 per day)
  - Remittance (RMB 80,000 per day)
  - bankcard services
- 2007: expansion of RMB business
  - RMB bonds issued in Hong Kong (Mainland issuers)
- 2009: Further expansion of RMB business
  - RMB bonds issued in Hong Kong (Hong Kong banks' subsidiaries in Mainland)
  - Pilot scheme for RMB trade settlement

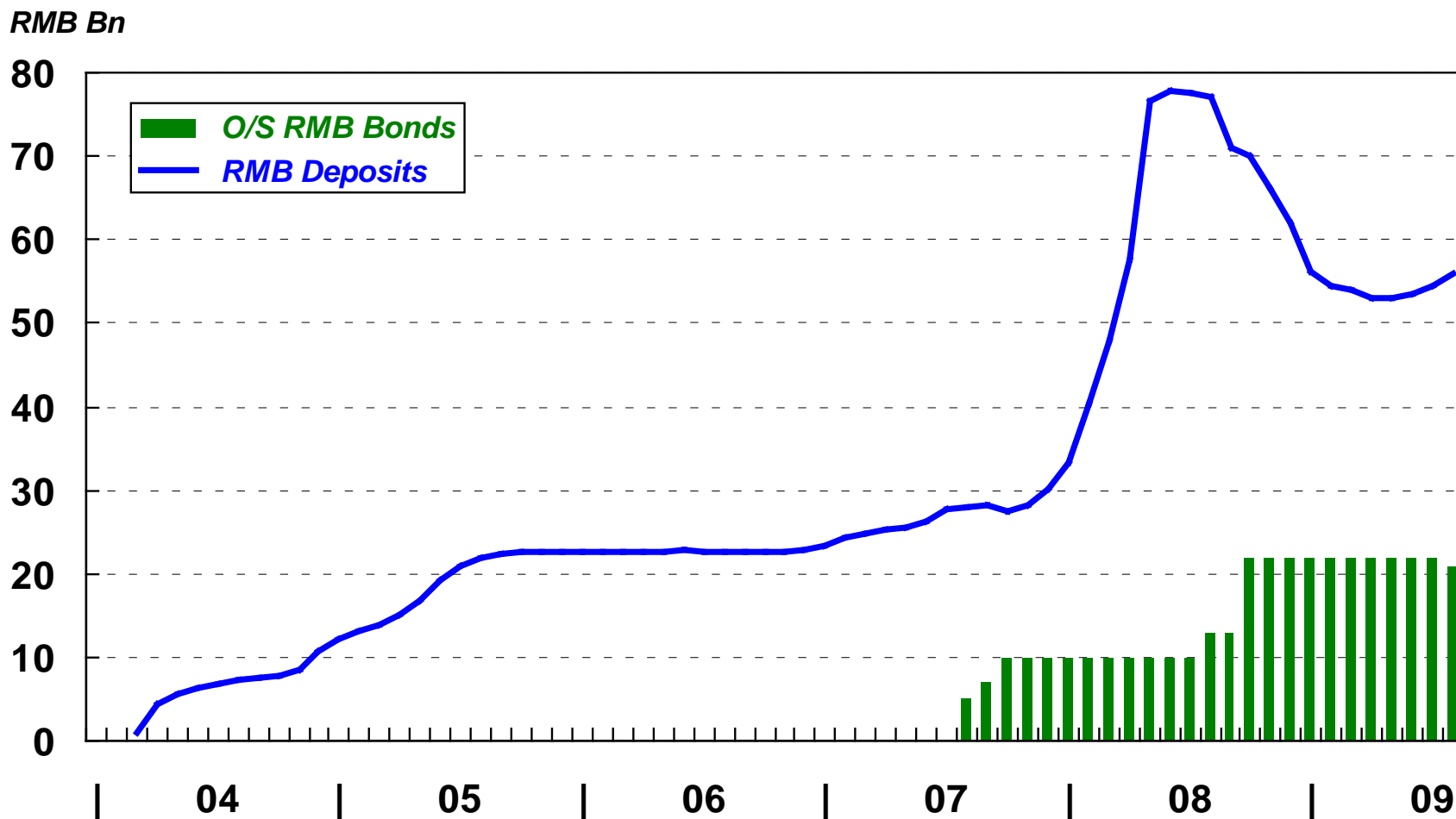


# Renminbi Deposits in Hong Kong and RMB Exchange Rate (Feb 2004 – Jul 2009)





## Outstanding Renminbi Bonds and Renminbi Deposits in Hong Kong (Feb 2004 – Jul 2009)





HONG KONG MONETARY AUTHORITY  
香港金融管理局



# Pilot Scheme for RMB Trade Settlement





# Pilot Scheme for RMB Trade Settlement

## ■ Scope

Imports and exports of goods between selected areas outside Mainland (including Hong Kong, Macau and ASEAN countries) and pilot Mainland cities (initially being Shanghai, Guangzhou, Shenzhen, Dongguan and Zhuhai)



## Pilot Scheme for RMB Trade Settlement

- Eligible enterprises in Mainland

Pilot enterprises approved by Mainland authorities  
(Mainland designated enterprises, or “MDEs”)

*Benefits: reduce FX risk, cost savings*

- Eligible enterprises outside Mainland

Enterprises located in Hong Kong, Macau and ASEAN  
countries with genuine trade background with MDEs

*Benefits: accumulate RMB funds, currency diversification  
cost effective*



## Two Channels for Trade Settlement

- Through correspondent banks in Mainland
- Through the RMB RTGS system in Hong Kong



HONG KONG MONETARY AUTHORITY  
香港金融管理局



# Financial Infrastructure in Hong Kong for Renminbi Trade Settlement





# Financial Infrastructure in Hong Kong for Renminbi Trade Settlement

- **System Supports**
  - RMB RTGS system riding on SWIFTNet Platform
  - Seamless interface with Chinese RMB RTGS system (CNAPS)
  - Linkages between RMB, HKD, USD and EUR RTGS
  - Interface with securities clearing and settlement system (CMU)
- **Participants**
  - Participation of local and overseas financial institutions
- **Liquidity Pool**
  - Deposit base of participating banks
  - Financing provided by the Clearing Bank
  - Currency swap line between central banks and PBoC
- **Legal Protection**
  - Settlement finality offered by Clearing and Settlement System Ordinance in Hong Kong



## Capability of RMB RTGS Direct Participants

- Conduct RMB currency exchange with Clearing Bank (BoCHK) for trade settlement
- Borrow RMB from Clearing Bank
- Conduct RMB interbank money market deals (lend/borrow) with other Direct Participants
- Invest RMB bonds issued in Hong Kong



## Scope of Services Provided by RMB RTGS Direct Participants

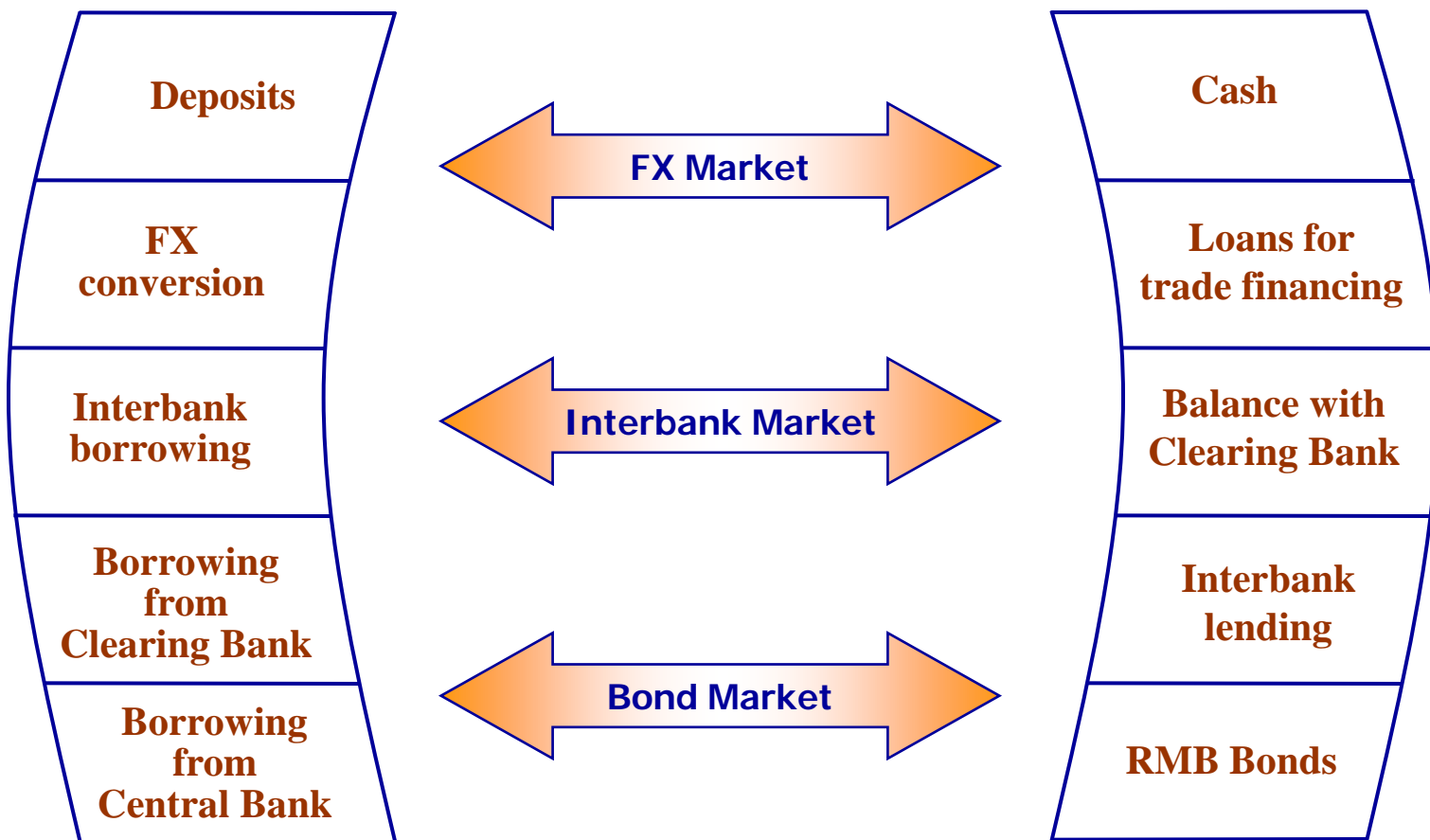
- Open RMB accounts for trade settlement enterprises (TSE) located in HK, Macau and ASEAN countries and provide the following services to TSE:
  - Deposit
  - RMB currency exchange
  - Remittance and trade settlement
  - Trade financing
  - RMB bond transactions



# Sources of Funds Vs Choices of Assets

## Sources of funds

## Choices of assets





# Thank You



# The Pilot Scheme for Settlement of Cross-Border Trade in Renminbi

Yang Jiewen

Bank of China (Hong Kong) Ltd.

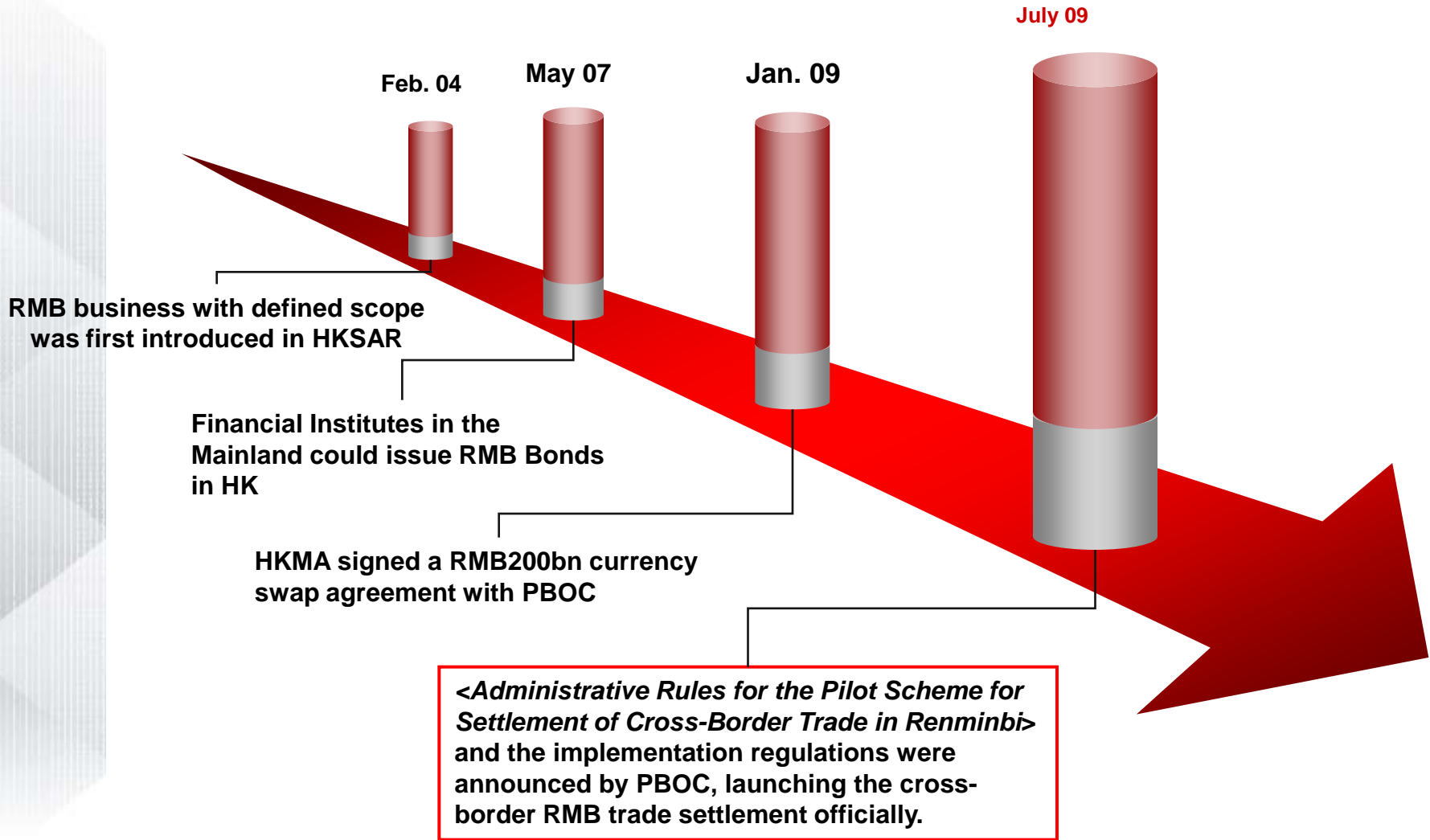
15 September 2009



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BANK OF CHINA (HONG KONG)



# Offshore RMB Business Chronicle



# Summary of the pilot scheme

## Highlights

- **RMB** could be used as the settlement currency for cross-border trades between PRC pilot enterprises and corporations in Hong Kong, Macau and the ASEAN countries
- **Banks** in HK / Macau / ASEAN countries may join the scheme and to be trade settlement participating banks (PBs)
- **PBs** can choose their own settlement channel, either through 1) the Clearing Banks in HK or Macau or 2) Designated Agent Banks in the five Mainland cities

## Principal criteria :

- Trades conducted with **Pilot Enterprises** in **Pilot Cities** in the Mainland
- Trade in **Goods** only

Designated and eligible enterprises in China to conduct RMB trade settlement

- Shanghai
- Shenzhen
- Guangzhou
- Zhuhai
- Dongguang

# Roles of the Clearing Bank

As the sole RMB Clearing Bank in Hong Kong, BOCHK is capable of providing the following services for both local and Overseas Participating Banks in accordance with the regulatory authorization:

- RMB settlement accounts
- Remittance services
- RMB banknotes
- Position squaring exchange services between RMB and foreign currencies
- Inter-bank financing services

# Interbank Financing Services

## The Clearing Bank shall provide financing for the Participating Banks in relation to the Renminbi trade settlement business

- **Interest Rate** is based on Renminbi funds available, the interbank market rate in the Mainland (SHIBOR) and the prevailing market conditions
- **Value Date as Trade Date**
- **Service Hours**  
09:00-16:00 (Monday to Friday)  
Saturday, Sunday, Mainland or Hong Kong holiday: No service
- **Dealing Channel**: Reuters Dealing (BCHK) or by telephone (call-back)
- **Period**: Overnight, 1 wk, 2 wks, 1 mth, 3 mths, odd tenor upon request
- **Contingency Arrangement**  
If Typhoon No.8 or higher or Black Rainstorm signal is hoisted, service will be provided according to the relevant guidelines of HKAB.

# Service scopes of the Participating Banks

Banks in Hong Kong, Macau, and ASEAN countries that have entered into the Agreement with the Clearing Bank, may offer the following services for their Trade Settlement Enterprises clients under the terms of the Agreement:

- **Cross-border Trade Settlement**
  - all settlement methods (L/C, D/A, D/P & Open A/C) allowed
  - **Cross-border RMB Remittance**
- **Two-way Exchange:** between RMB and other major currencies, with limits up to the trade settlement amount
- **Trade Financing:** loan amount shall be up to the corresponding RMB trade settlement amount
- **Deposits**
- **RMB Bonds**

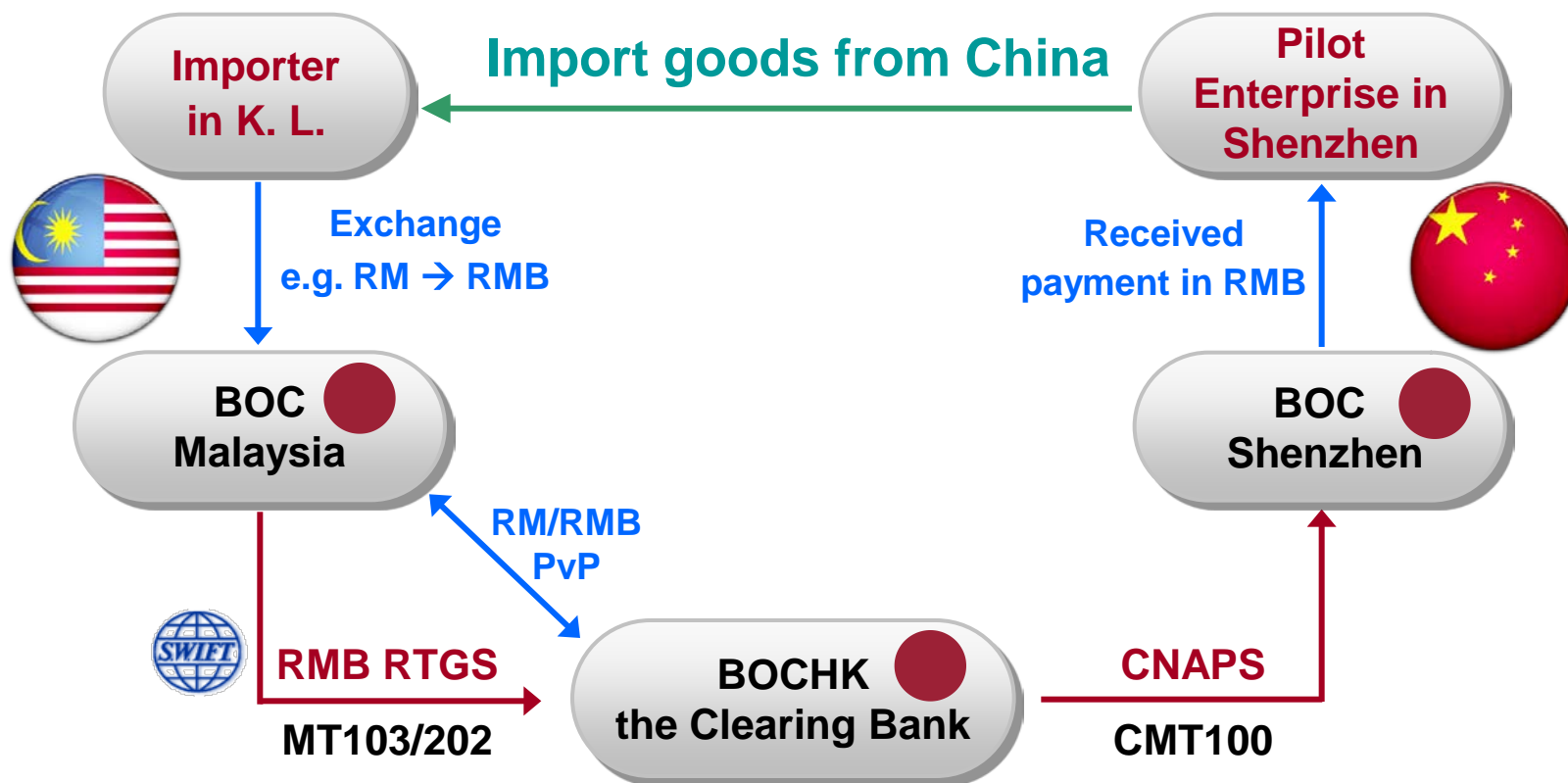
# Cross-border RMB Remittance

## Remittance related to RMB Trade Settlement

- Outward remittance with beneficiary party as pilot enterprises in the Mainland
- Inward remittance with remitting party as pilot enterprises in the Mainland
- **Service Hours**
  - Qualified Payments : 9:00a.m. – 4:30p.m.
  - Unqualified Payments: 9:00a.m. – 3:00p.m.
  - Saturday / Mainland holidays / Hong Kong holidays : No service
- **Communication Channel:**
  - SWIFT MT103/202 format for payment instruction
  - SWIFT MT195, 196, 199 for enquiry
  - SWIFT MT192 for cancellation
  - Automatic SWIFT/CNAPS switching system designed for transforming SWIFT MT messages into CNAPS CMT formats
- **Qualified Format:** please refer to *the SWIFT Message Input Explanation for Renminbi Remittances*

# Operating Flow

Scenario : A Malaysian enterprise imports good from a pilot enterprise in Shenzhen and pay by RMB Remittance



Seamless and real time  
RMB RTGS in HK – an extension of CNAPS



# BOCHK – The best choice for RMB trade and financing services

The sole Clearing  
bank in HK

Tailor-made integrated service  
solution



中國銀行(香港)  
BANK OF CHINA (HONG KONG)

The leading commercial  
banking groups

Distinguished RMB clearing  
services

# Thank you!

For further enquires, please visit our booth at 1F18



# New Horizons of Chinese Yuan in Cross-border Clearing and Settlement

Host:

Michael Cheung

Head of North Asia

