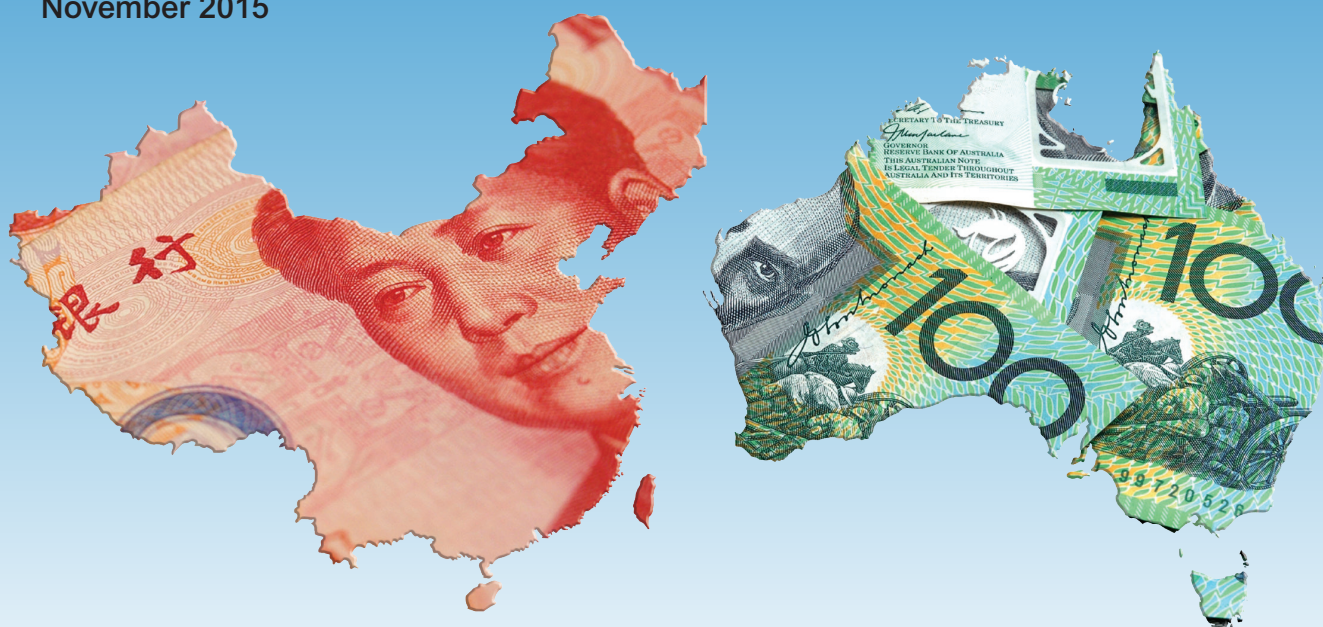


Renminbi Internationalisation and the Evolution of Offshore RMB Centres:

OPPORTUNITIES FOR SYDNEY

Summary Report

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During 2013 and the early part of 2014, Geoff was a Research Fellow at the Centre for International Finance and Regulation in Sydney, during which time he managed and co-authored a research project on China entitled "Internationalisation of the Renminbi: Pathways, Implications and Opportunities."

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RENMINBI INTERNATIONALISATION AND THE EVOLUTION OF OFFSHORE RMB CENTRES: OPPORTUNITIES FOR SYDNEY¹

Background

Internationalisation of the renminbi² will, over time, see China's financial relations with the rest of the world broaden and deepen to match China's trade relations and the size of its economy. Associated with this will be significant changes in the type, volume, currency denomination and location of financial flows and financial activity around the world.

Some countries will benefit more than others from these developments. In November 2014, Sydney became the twelfth financial centre to become an "official" offshore RMB centre. Twelve months later there are now 18 such centres (table 1), and the competition between them is very strong, particularly in geographic areas where there are a number of centres with overlapping models for attracting RMB business.

How are offshore centres positioning themselves to take advantage of these ongoing changes in financial flows and financial activity? What are some of the keys to success? What lessons can Australia learn from offshore developments? And what are the most promising areas for leveraging off Sydney's appointment as an official RMB centre and building up RMB-related business?

These issues are examined below.

(a) Observations From Other Offshore RMB Centres

How Important to Success are the "Three Gifts"?

Most offshore centres have, in addition to an official clearing bank, an RMB swap facility between the People's Bank of China and the local central bank and a Renminbi Qualified Foreign Institutional Investor (RQFII) quota for investing in China's capital markets (see Appendix). These three facilities have become known in financial markets as the "three gifts". How important are they to success as an offshore RMB centre?

¹ This is a short version of a longer research report. The full version can be obtained at www.cbe.anu.edu.au/research/rmb

² This report builds on an earlier one entitled "Internationalisation of the Renminbi: Pathways, Implications and Opportunities". The earlier report outlines in detail what is meant by RMB internationalisation and its implications for global financial markets. It can be accessed at: <http://www.cifr.edu.au/assets/document/CIFR%20Internationalisation%20of%20the%20RMB%20Report%20Final%20web.pdf>

Table 1: Offshore RMB Centres: Swap Facility, RQFII Quota and Official Settlement Bank

Official Settlement Bank*				Swap Facility	RQFII
Date appointed	Country	City	Appointed bank	Current Value ¥ billion	Current Value ¥ billion
Dec-03	Hong Kong	Hong Kong	Bank of China	400	270
Sep-04	Macao	Macao	Bank of China		
Dec-12	Taiwan	Taipei	Bank of China		***
Feb-13	Singapore	Singapore	Industrial and Commercial Bank of China	300	50
Jun-14	United Kingdom	London	China Construction Bank	200	80
Jun-14	Germany	Frankfurt	Bank of China	350**	80
Jul-14	South Korea	Seoul	Bank of Communications	360	80
Sep-14	France	Paris	Bank of China	350**	80
Sep-14	Luxembourg	Luxembourg	Industrial and Commercial Bank of China	350**	50
Nov-14	Qatar	Doha	Industrial and Commercial Bank of China	35	30
Nov-14	Canada	Toronto	Industrial and Commercial Bank of China	200	50
Nov-14	Australia	Sydney	Bank of China	200	50
Jan-15	Malaysia	Kuala Lumpur	Bank of China	180	
Jan-15	Thailand	Bangkok	Industrial and Commercial Bank of China	70	
May-15	Chile	Santiago	China Construction Bank	22	50
Jun-15	Hungary	Budapest	Bank of China	10	50
Jul-15	South Africa	Johannesburg	Bank of China	30	
Sept -15	Argentina	Buenos Aires	Industrial and Commercial Bank of China	70	

* Only jurisdictions with at least an official settlement bank have been listed

** Luxembourg, France and Germany benefit from the currency swap agreement between the People's Bank of China and the European Central Bank

*** The allocation of Taiwan's RQFII quota is conditional on the finalisation of a prior trade agreement.

While having these facilities in place can add to market confidence and corporate awareness of the scope to transact in RMB, they will not of themselves generate local RMB activity, particularly as more and more “official” offshore centres are appointed.

Going forward, as China opens up its capital markets and as the new Cross-Border Interbank Payments System (see Appendix) increasingly links offshore banks directly with banks in mainland China, the importance of having an official clearing bank, an RMB swap facility between the People’s Bank of China and the local central bank and an RQFII quota for investing in China’s capital markets will diminish. As with other currencies, offshore RMB activity will gravitate to those centres where the liquidity lies and to centres that have found areas of activity in which to specialise.

How Will the Pathway to RMB Internationalisation Affect the Spread of Offshore RMB Business?

How will the time period and pathway from where we are now to when the RMB has become a fully internationalised currency, widely used for trade and investment purposes outside of China, affect the success or otherwise of offshore RMB centres? What will be the main factors influencing the distribution of RMB business amongst the growing number of competing financial centres and hubs during this period? A number of factors are relevant here.

Firstly, in the authors’ judgement and for reasons set out in the full report, it is likely to take 5-10 years before the RMB becomes a freely tradeable, highly liquid and widely used international currency. In the interim, financial services companies who see commercial value in doing so may gain an “early mover” advantage through building up a brand name and presence in China and establishing commercial relationships with Chinese companies and consumers of financial products.

Another relevant factor is the pace and variety of policy changes with respect to the opening up of “windows” in China’s capital controls. Policy change in this area is occurring rapidly and on a variety of fronts, which is having an impact on the way in which overseas financial services companies are thinking and operating. Larger international companies are in some cases using a number of windows or mechanisms and then, as it becomes clearer which avenue is opening fastest and over time is more likely to suit their needs best, channelling more resources into that one. This, however, requires plenty of resources. For smaller companies that do not have the resources, the best strategy in the short term may be to wait and see how these various windows in the capital account expand and develop. In the process, however, larger and better-resourced companies may have stolen the march on them.

A third relevant factor which may impact on the spread of business between offshore RMB centres over coming years is the pathway to achieving RMB internationalisation. While there are many uncertainties on this point, a good deal of guidance can be gained from examining

China's approach to date to RMB internationalisation. This has involved a series of "pilot" or trial projects, usually centred initially on Hong Kong, which if successful have then been rolled out to other offshore centres beyond Hong Kong. This has been the model with respect to RMB trade invoicing; official clearing banks; outward bound investment quotas such as the Qualified Domestic Institutional Investor (QDII) scheme (see Appendix); and offshore RMB bond issuance.

It seems reasonable to assume that the same model will be used going forward. Consequently, over coming years it is likely that we will see:

- the Shanghai-Hong Kong Stock Connect Scheme (see Appendix) being extended to both other exchanges in China such as Shenzhen and also to other offshore stock markets, with Singapore the most likely next connection;
- increased quotas with more flexible investment requirements for investment flows both into and out of China being allocated to offshore financial centres (see Appendix);
- the mutual recognition agreement between China and Hong Kong (see Appendix) being rolled out to other financial centres;
- further increases in the exchange rate band within which the onshore currency (CNY)³ is allowed to fluctuate - which will encourage more Chinese companies to invoice and settle in RMB; and
- experiments currently being conducted within the Shanghai Free Trade Zone - such as full removal of ceilings on bank deposit rates, freer corporate access to offshore capital markets and greater liberalisation of intra-company RMB sweeping facilities between onshore and offshore operations - being extended to the whole of China.

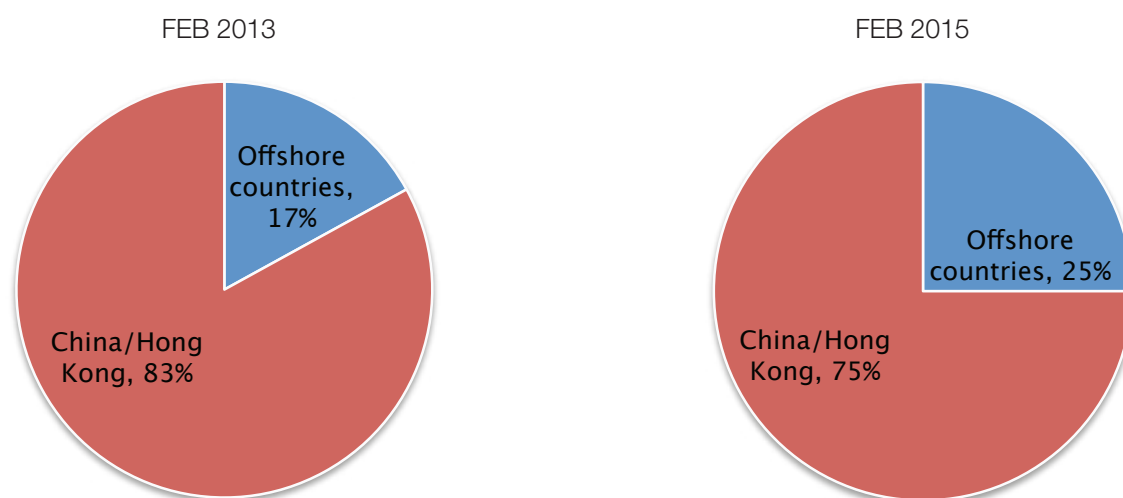
In addition, the new Cross-Border Interbank Payment System (CIPS) was recently launched. Once it has been fully rolled out, this new RMB clearing platform will likely make official RMB clearing banks largely redundant.

Looking at the overall impact of these and related developments, it seems very likely that, during the ongoing move towards RMB internationalisation, we will continue see a growing proportion of total offshore RMB business gravitate away from Hong Kong and towards other centres (Figure 1) as Hong Kong's special status is eroded - including the role played by the Bank of China (Hong Kong) as the first and pre-eminent offshore clearing bank. In addition, Shanghai is likely to play an increasingly important role as a capital raising centre and the source of offshore RMB liquidity, further eroding the role played to date by Hong Kong.⁴

³ Removal of capital controls on China's trade account but their continued existence on its capital account have led to the development of both onshore (CNY) and offshore (CNH) currencies, although typically the two move in close tandem.

⁴ The Chinese Government has on a number of occasions expressed its objective of Shanghai becoming a major international financial centre by 2020.

Figure 1: Offshore RMB Payments by Value



Source: SWIFT

In short, the pathway to RMB internationalisation will likely provide increasing opportunities for greater offshore RMB business in centres beyond Hong Kong, including Sydney.

Underlying Keys to Successful Offshore RMB Centres

Some financial centres, such as Hong Kong, Singapore and to an extent London, were already well established as offshore RMB centres prior to becoming “official” ones through the establishment of an official clearing bank. The underlying reasons as to why they were already attracting RMB business are clear. Singapore is a good example. Given its traditional role as a trading and financial hub for South East Asia, the presence of many Chinese companies holding RMB on their balance sheets and the widespread use of foreign currency deposits by Singaporean retail investors (which adds to the local RMB liquidity base), the economic argument for Singapore becoming an offshore RMB centre was compelling. This has been increasingly true as China’s trading links within the region have expanded and a growing proportion of this intraregional trade has been settled in RMB. In addition government, government agencies and market participants have always worked closely together in an “all of government” approach to promoting and developing Singapore as a major financial centre, including more specifically an RMB centre. This is reflected in the low tax rates and other incentives provided by the Singaporean Government for companies to set up regional treasury operations there and for financial market participants to work there.

London is in a slightly different category. As a major international financial centre and the world’s leading centre for foreign exchange turnover, the City of London was always likely over time to attract a significant share of offshore RMB transactional banking business. However, the first

step by China in its pathway to RMB internationalisation was through the trade account and encouraging offshore companies to invoice and settle in RMB. Until recently, few companies in Europe invoiced and settled in RMB.

As a consequence, the market or economic case for bestowing the “three gifts” on the City of London only really gained momentum during the second phase of RMB internationalisation, namely gradual relaxation of capital controls and the growth in non trade-related offshore RMB transactions. This is evident in the fact that the bulk of RMB turnover in London is non trade-related.

What about other, smaller offshore RMB centres? For such centres, developments to date suggest that a key to success lies in their capacity to carve out a “niche” for themselves, based on their own unique characteristics and market strengths. This may be a combination of factors, such as time zone and geographical location, trade links or a history of specialising in particular areas of financial market activity. Government policy settings with respect to financial services regulation and the tax treatment of cross-border financial flows can also help or hinder development.

Luxembourg provides an interesting example of an offshore RMB centre that is not a major global financial centre but has effectively carved out a niche in funds management and RMB capital market activity, off the back of being the pre-eminent centre for licencing and distribution of managed funds in Europe and its long history as a centre for international bond listings. Luxembourg has also become the European headquarters for a number of major Chinese banks who tend to use it as their regional centre for granting RMB commercial loans to their European customers; and the European headquarters for a number of Chinese non-financial companies. These factors, along with its market friendly regulatory and tax regimes, have been central to the build-up of RMB business and liquidity in Luxembourg.

Why has New York – a major financial centre – not also become a successful offshore RMB centre? The main reasons include the following:

- With the USD still the preeminent global currency, most multinational US companies do the vast bulk of their business in USD and see little need to run multicurrency treasury operations, which would be expensive to set up; and
- For the funds management sector, the large global U.S. companies have a presence in other countries which have been granted RQFII quotas and are able to utilise these overseas quotas in a flexible and fungible manner, to gain the access they require to China’s capital markets.

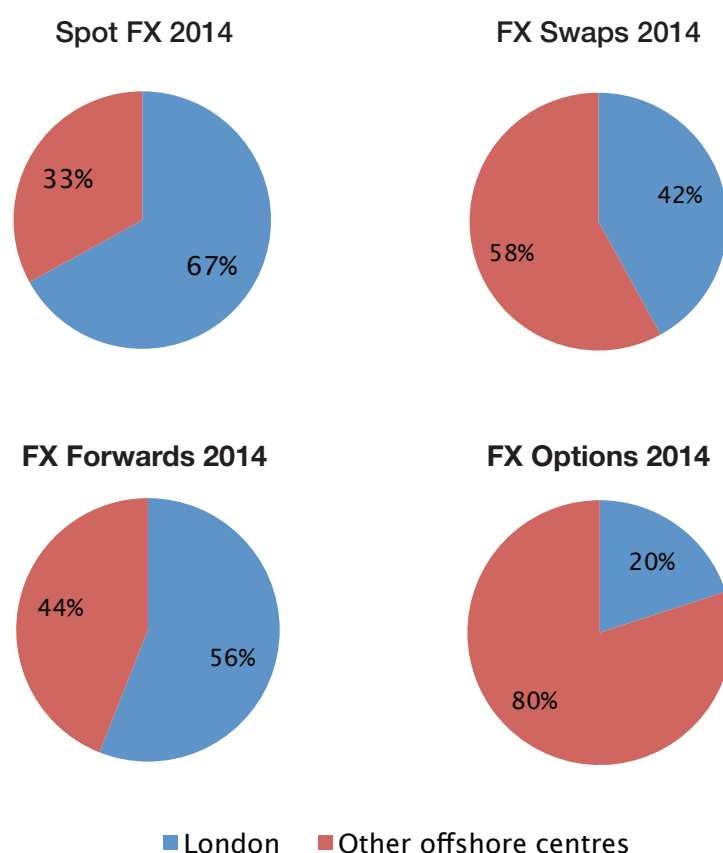
At the official level within the U.S., there would also appear to be a number of factors at play behind the lack of any request to become an official offshore RMB centre. Firstly, there has been little market demand for it to date and the typical official sector view is that any such request should be market led. Second, there would appear to be a view amongst some if not many U.S. government officials focused on China that, while progress has been made, it will take

decades before the RMB becomes a major international currency, so there is no hurry. Thirdly - and probably related - there is an underlying hope in some quarters at least that China does not succeed or has at best limited success, given the significant advantages that the U.S. has received from being the pre-eminent international reserve currency.

Is Local RMB Liquidity Vital for Offshore RMB Centres?

The growing financial links between offshore RMB centres means that, increasingly, some forms of RMB-related activity can be undertaken in one centre but drawing on liquidity from other centres. This is the case with respect to trade-related RMB banking activity. By way of example, in London - a major offshore RMB centre for foreign exchange transactions - a large proportion of RMB business that is booked by banks to their London operations is actually transacted in other centres, in particular Hong Kong and Singapore (Figure 2). Similarly, in the funds management area, the manner in which the RQFII quotas have evolved means that local offshore RMB (CNH) liquidity is not necessary in order to invest in China's capital markets. In other areas of offshore RMB activity however, such as capital markets, local liquidity would appear to be an important requirement.

Figure 2: London RMB Deliverable FX Transactions Executed in Other Offshore Centres



Source: City of London and Bourse Consult (2015).

(b) Sydney as an Offshore RMB Centre: Carving Out a Niche

Some Underlying Drivers

While Sydney's appointment as an official RMB centre, along with the recently negotiated free trade agreement with China, reflect well on Australia's relations with China and the scope to broaden and deepen them, success as an offshore RMB centre must be built on underlying fundamentals and focused on areas where Australia has particular strengths and skills.

The underlying fundamentals augur very well. They centre around the complementarities between the two economies: one a significant capital importer and the other rapidly becoming a major capital exporter; one needing greater security of supply of energy and food and the other a leading global exporter of energy and food; one with a very well developed services sector and the other a rapidly growing demand for a wide range of services from its burgeoning middle class; and one with a very large pool of savings that needs to be diversified into offshore assets while the other has a large, sophisticated and well regulated funds management sector. While there are other economies that have complementarities with China, few share so many.

What particular financial services skills and expertise can Australia bring to the relationship and focus on? Our four major domestic banks are all very highly rated and all have a presence in mainland China, while all the major Chinese banks have a presence here. Our merchandise exports to China are larger than the major offshore centres of Singapore, London or Hong Kong; as they diversify and as commodities become increasingly priced and settled in RMB, the scope for growing transactional banking business focused around both trade and direct investment flows is substantial.

On the funds management side, both the competition for raising investable funds in China and the challenges, such as brand recognition and distribution, are significant, but Australia has a number of advantages. We are one of the leading recipients of direct investment flows from China, and there are already both large and boutique financial services companies working with Chinese institutional investors to help them find the right assets to invest in. Over time many of these institutional investment flows into direct assets are likely to diversify into portfolio investments, and Australia has considerable expertise in two asset classes of growing interest to Chinese institutional investors, namely global real estate and global infrastructure funds.

The following two sections look at prospects for building up RMB business in these two areas of banking and funds management.

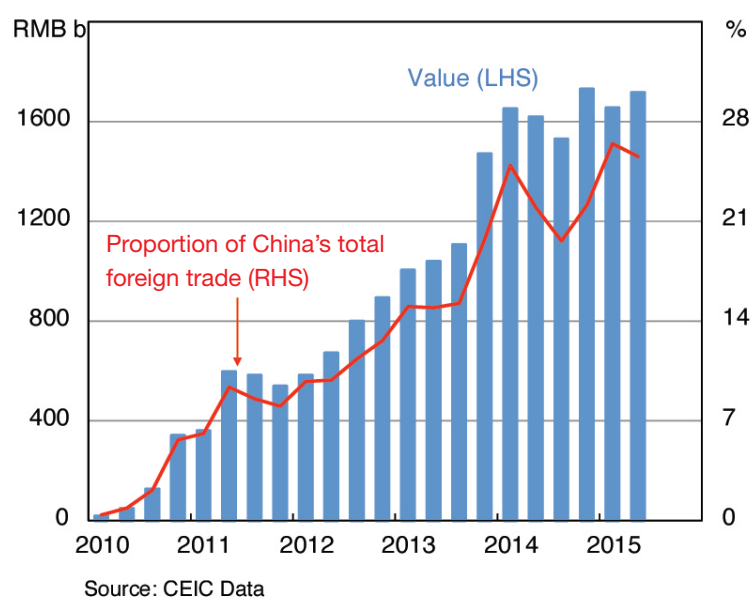
Transactional Banking Business

The bulk of transactional RMB banking activity centres on trade: for example, providing foreign exchange services, derivatives products for hedging, cash management services, term deposits,

and trade financing.⁵ In addition, and in particular for those banks with a significant presence in mainland China (which includes all four of the major Australian banks), facilitating two-way direct investment flows is also a key focus. As over time “finance follows trade”, two-way direct investment flows between Australia and China are likely to continue to grow strongly, providing growing business opportunities for both domestic and foreign banks in Australia.

With respect to trade-related transactional banking business, the proportion of China’s trade with the rest of the world that is settled in RMB is rising strongly (Figure 3).

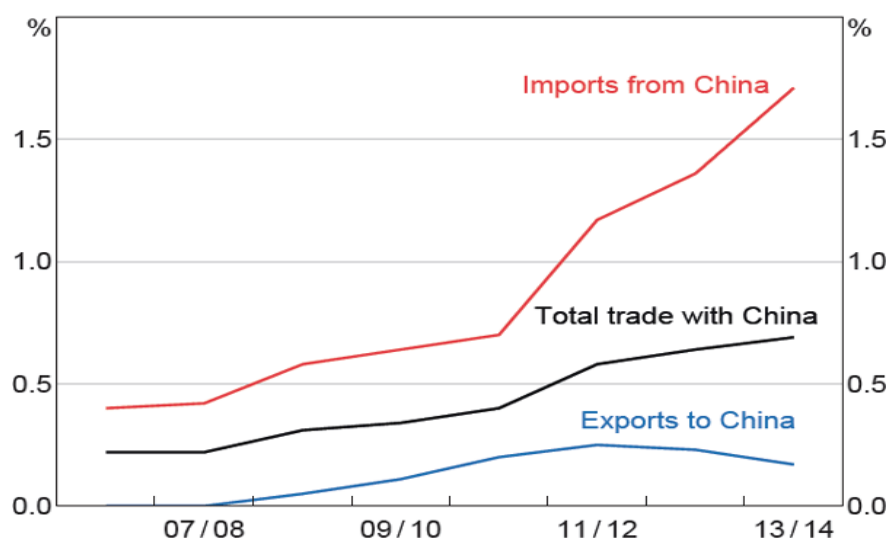
Figure 3: Renminbi Trade Settlement



However, at present the proportion of Australian trade with China that is invoiced and settled in RMB is less than 1% (Figure 4). A key reason for this is that Australia’s export trade with China is currently dominated by commodities that are priced and settled in USD. Over time, the changing patterns of Chinese demand and hence of our exports to China may well result in rising RMB settlement, although this is less the case with some exports than others: educational exports, for example, largely take the form of Chinese students undertaking educational courses in Australia, which would be primarily paid for in AUD. In other areas, such as higher quality agricultural exports and food, there is clear scope for settling in RMB, and in some instances this is already starting to occur.

⁵ Beyond such trade-related banking products and services, banks may of course also provide other services such as longer-term RMB investment opportunities for both corporate and other clients and capital markets services for companies looking to raise RMB capital.

Figure 4: Australia's Share of Merchandise Trade with China invoiced in RMB



Source: E.Hatzvi, W.Nixon and M.Wright, "The Offshore Renminbi Market and Australia" RBA Bulletin Dec Quarter 2014

Nonetheless, even allowing for China's policy objective of switching to cleaner sources of energy, coal and iron ore will remain major components of Australia's exports to China for a considerable time. Hence a key factor which will influence prospects for greater RMB invoicing in our trade with China over the coming decade or so is likely to be whether the main commodities we trade with China, in particular iron ore and coal, change over time from being priced and traded globally in USD to being widely priced and traded in RMB.

Unless they receive some advantage in the form of higher price or greater volumes, there is no incentive for the major Australian resources companies to ask their Chinese trading partners for RMB settlement. These companies are in effect USD companies, with their treasury and risk management operations primarily in USD. For many Chinese importers, however, the incentive is clear. A Chinese steel producer, for example, will be currently importing commodity inputs paid for in USD but selling output to Chinese purchasers paid for in RMB. The domestic cost of hedging the resultant currency exposure can be substantial and generally considerably higher in China than offshore. That company could offer a price advantage to an Australian exporter that is less than the domestic cost of hedging the FX exposure but more than the offshore cost, so both parties gain.

For this to occur, however, both the producer and the importer need to be able to hedge their exposure to future commodity price movements in RMB: in other words, both need to be able to access highly liquid RMB denominated futures contracts. China is fully aware of this, which is why it is pursuing an approach of building up liquidity on a range of RMB denominated domestic commodity contracts and then opening these contracts up to offshore participants. This policy is well progressed:

- Since it started trading in October 2013, the iron ore futures contract on the Dalian exchange in mainland China has seen explosive growth in trading volumes. In the 12 months to August 2015, trading volumes on this contract rose by 294%. The 2014 Futures Industry Association Annual Report stated that it is now the largest iron ore futures contract globally and the third largest metals futures contract by volume. The four top metals futures contracts globally are all listed on Chinese exchanges.
- Through pilot projects in China's free trade zones and other initiatives, these highly liquid domestic contracts are being made available to offshore companies as well.

Putting these and other factors together, RMB commodity trade settlement across a range of commodities, including coal and iron ore, seems likely to occur over the next few years. More broadly, prospects for increased RMB business for commercial banks in Australia are very good, as more Chinese and Australian companies invest in each other's markets and as more of Australia's trade with China is settled in RMB.

Funds Management

Australia has a large funds management industry, with some \$A 2.6 trillion in funds under management. Increasingly as this pool of funds grows, more will be need to be invested in offshore capital markets. China already has the second largest equity market and third largest bond market in the world, and they are likely to grow faster than its economy going forward as more corporate financing moves beyond bank loans and into the capital markets.

Over the next few years, China is likely to be included in key benchmark indices for both equities and bonds, with their weights rising over time to be closer to their market capitalisation weight. This will see major asset reallocations into Chinese equities and bonds by both passive and active funds managers, including in Australia.

On China's side, there are enormous pools of savings in the household, corporate and official sector, and also an increasing need for diversification of their investments into offshore assets (Table 2). Regulatory changes in a number of sectors have recognised this need and provided increased scope for offshore diversification.

Table 2: Chinese Institutional Investable Assets, 2009–2013 (RMB billions)

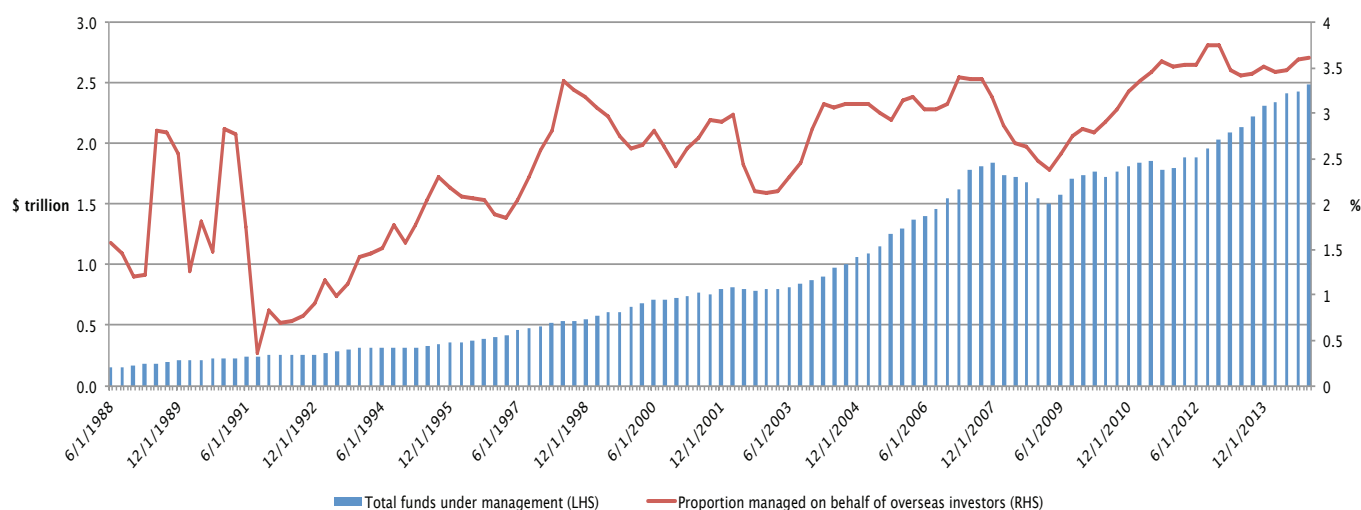
	2009	2010	2011	2012	2013
Retirement					
Public Basic Pension System	1,894.2	2,313.5	2,917.9	3,773.7	4,473.5
National Social Security Fund(1)	776.6	856.7	868.8	1,106.0	1,241.6
Enterprise Annuities	252.5	280.9	357.0	482.1	603.5
Retirement market size	2,923.3	3,451.1	4,143.7	5,258.4	6,209.1
Outsourced AUM (%)(1)	21.0%	18.5%	17.4%	17.8%	18.9%
Central bank					
People's Bank of China Foreign Exchange Reserves	16,355.3	18,769.5	20,246.6	20,915.7	23,363.4
Insurance					
Life insurance (General and separate accounts)	2,775.5	3,369.9	3,760.9	4,495.0	4,914.4
Sovereign wealth fund					
China Investment Corporation	2,238.5	2,665.3	3,020.0	3,605.6	3,960.3
Institutional market size	24,292.6	28,255.8	31,171.2	34,274.8	38,447.2

(1) Includes all third-party managers for enterprise annuities, not restricted to fund management companies only.

Source: Cerulli Associates

At the institutional level, there is strong interest in investment in offshore infrastructure and real estate, two asset classes in which Australia has considerable expertise. Both larger Australian funds management companies and smaller boutique funds are increasingly taking advantage of emerging opportunities in this area. However, while the overall volume of funds sourced offshore and managed in Australia has more than doubled over the past decade, it still remains very low as a proportion of total funds under management (Figure 5) and extremely low compared to a number of other offshore funds management centres. Funds sourced in China are still a small proportion of this total.

Figure 5: Proportion of Funds under Management in Australia Managed on Behalf of Overseas Investors



Source: Australian Centre for Financial Studies Report to FINSIA (2015) "Financial Integration in the Asia-Pacific: Fact and Fiction", June

There is enormous scope for raising more investable funds in China. However there are also substantial challenges and constraints. Amongst the key ones at the market level are brand recognition and distribution of Australian funds in China. Traditionally banks have been at the heart of fund distribution, but this can be very expensive.

Regulations regarding access by offshore funds management companies to the Chinese market are changing very rapidly, opening up more opportunities and options for offshore fund managers.

The full version of this research report discusses in detail alternative mechanisms for accessing investable funds in China with these two challenges in mind.

Market Access Discussions

In the two areas identified as providing the greatest scope for building up RMB business in Sydney and in Australia more broadly, namely transactional banking business and funds management, a presence in mainland China is often required. This should be encouraged: by allowing Australian companies to take full advantage of the emerging opportunities for cross-border financial transactions with China, it adds to domestic benefits as well in terms of jobs, profitability and tax revenue.

Maximising opportunities also requires market access in China. Australia has in place a number of official level dialogues with China. In addition, Australia and China recently negotiated the China/Australia Free Trade Agreement (ChAFTA), which incorporates some significant market opening measures in the area of financial services. Importantly, it also provides a mechanism for ongoing discussion and negotiation of further market opening measures, making the agreement a dynamic rather than static one.

If Australia is to take full advantage of the opportunities available through the establishment of Sydney as an official RMB centre and - assuming it is ratified by Parliament - the negotiation of ChAFTA, these dialogues and mechanisms need to be used effectively. This may require putting in place domestic structures to facilitate discussion between the official and market sectors on cross-border financial services policy issues, as a number of other offshore RMB centres have done.

(c) Constraints and Key Recommendations⁶

Ultimately, the success or otherwise of Sydney's establishment as an official offshore RMB centre and negotiation of ChAFTA will depend on the financial services sector identifying commercial opportunities and committing resources to them. However, government policies, particularly in the areas of taxation and regulation, can at times unnecessarily constrain the ability and willingness of Australian companies to make such a commitment.

In the areas of banking and insurance, taking advantage of emerging opportunities with respect to China and indeed Asia more broadly may entail entering into joint ventures in the region. However, APRA's⁷ treatment of such equity investments for capital adequacy purposes makes them very expensive for Australian companies compared to many of their competitors from other countries. Giving further consideration to whether the right balance has been struck between prudential requirements and the international competitiveness of Australian companies would seem warranted.

On the funds management side, considerable progress has been made recently with respect to reducing the uncertain tax treatment of cross-border financial transactions, through the introduction of an Investment Manager Regime. However, further work is needed in order to ensure that Australian fund managers are able to sell their products into China and elsewhere in Asia. Australia's primary collective investment vehicle, the managed investment trust, is not widely used or recognised in China or in many other Asian countries. Legislation allowing for alternative collective investment vehicles that are widely used and recognised in the region should be introduced as soon as possible.

⁶ The complete set of recommendations can be found in the full report.

⁷ Australian Prudential Regulation Authority.

While an increasing number of Australian funds management companies are raising investable funds in China, there are still many who would appear to be unaware of the emerging opportunities flowing from rapid policy change in China. There would be considerable merit in relevant bodies such as the Financial Services Council looking at ways to raise market awareness of changes in China's regulatory and market access arrangements with respect to offshore fund managers.

Given the importance of successful ongoing discussions and negotiations with China focused on market access and related issues, consideration should be given to establishing a China Financial Services Task Force consisting of senior financial services representatives and official sector representatives. The Task Force would be charged with providing advice to government on policy issues relevant to such negotiations and also on domestic policy issues of relevance to building broader and deeper financial relations with China.

APPENDIX: Key Terms

Official Clearing Bank: The People's Bank of China has appointed Chinese banks as official clearing banks in 18 designated offshore RMB centres. Their primary role is to facilitate cross-border RMB payments between offshore and onshore RMB markets, as well as within the offshore market. This official settlement system is nonetheless just one of several mechanisms for settling cross-border RMB transactions.

SWAP Facility: China has in place bilateral local currency swap agreements with an increasing number of other central banks, including central banks in official offshore RMB centres. These swap agreements provide a mechanism for RMB liquidity to be made available offshore in the event of disruption in the RMB market.

Investment Quotas: China has a number of quota schemes to manage cross-border capital flows. Quotas managing flows out of China include the Qualified Domestic Individual Investor (QDII) scheme which enables approved domestic institutional investors such as banks and investment companies to invest in offshore markets through compliant vehicles. Quotas managing inflows include the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme, which allows approved offshore fund managers to access mainland China's capital markets up to their share of the overall country quota.

Shanghai-Hong Kong Stock Connect Scheme: This program was launched on 17 November 2014 and allows investors, both institutional and individual, to access the mainland China A-share market ("northbound" trading) and Chinese investors to access Hong Kong listed shares ("southbound" trading).

The Hong Kong/Mainland China Mutual Recognition of Funds (MRF): Under the MRF, funds in Hong Kong and Mainland China that meet eligibility requirements will be able to distribute in each other's markets through a streamlined approval process. The quota for the program was set at RMB 300 billion in each direction.

Cross-Border Interbank Payments System (CIPS): China's payment system is undergoing a significant upgrade with the recent launch of the first phase of the new Cross-Border Interbank Payments System. CIPS has been designed specifically to facilitate cross-border use of RMB for trade settlement and other purposes.



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