London RMB Business Quarterly

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CITY OF LONDON

THE PEOPLE'S BANK OF CHINA
REPRESENTATIVE OFFICE FOR EUROPE

With thanks to

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R5FX

Standard Chartered Bank

SWIFT

The People's Bank of China (PBoC) Representative Office for Europe

Foreword

The City of London Corporation is pleased to be working in partnership with the People's Bank of China Representative Office for Europe to present the London RMB Business Quarterly. The UK is the leading offshore RMB trading hub outside of Asia, and this report aims to help us maintain this position, providing an overview of the market for Chinese currency in the City.

Catherine McGuinness
Chair of Policy and Resources
City of London Corporation

We are very proud of the partnership between the City of London Corporation and the People's Bank of China Representative Office for Europe on the London RMB Business Quarterly report. It highlights London's influence as a leader in the RMB internationalisation market outside of Asia and the PBoC's efforts to develop and sustain the RMB market at home and abroad.

The City of London is home to over 30 Chinese financial and professional services firms which joined the London market to build their international presence. The RMB is an important global currency and it is natural, as home to the world's largest FX market, that London monitors its use and innovations closely.

With access to onshore RMB investments in China rapidly increasing, opportunities for new products and ways to manage currency exposure are also growing. This makes for exciting times for the City of London and international investors. The fifth issue of the London RMB Business Quarterly explores RMB collateral management and the REPO market.

The London RMB Business Quarterly report serves to contribute to the understanding of the London offshore RMB market, providing most recent data, policies and commentaries from market participants. As well as, promote the healthy and sustainable development of the London offshore RMB market by monitoring and providing feedback to regulatory bodies in both countries for policies improvement.

We would like to thank all our valued partners who have contributed to the fifth issue of the London RMB Business Quarterly report. Your contributions play a major part in the success of this quarterly report.

Giles French
External Relations Director,
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Chief Representative,
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Market Overview

Since the July report, London RMB offshore market remained stable in general, with a notable increase of RMB FX turnover, a rapid growth of RMB cross-border settlement, and RMB25 billion net inflow to the UK.

London RMB Foreign Exchange Market

About 33.8% of all CNH spot trading on EBS took place during EMEA trading hours in August, up 0.8 percentage from May. The daily CNH FX trading volume in London averaged GBP85 billion in Q2 2019, up 8.8% QoQ and 22.9% YoY.

London RMB Bond Market

Between June and August, seven Dim Sum bonds were listed on the London Stock Exchange. At the end of August, there were 102 Dim Sum bonds listed on the London Stock Exchange with an outstanding value of RMB26.67 billion, and an average coupon rate of 4.33%.

London RMB Credit Market

By the end of Q2 2019, the amount of RMB deposits recovered to RMB60.5billion, up 6.79% QoQ and down 6.58% YoY, and the outstanding amount of RMB loans in London was RMB59.33 billion, up 22.66% QoQ and 7.95% YoY.

London RMB Clearing

Between June to August, the total cumulative clearing volume was RMB2.81 trillion and the average daily clearing volume was RMB43.97 billion, up 18.4% from the last report. By the end of August 2019, the accumulative total RMB clearing volume climbed to RMB37.84 trillion.

RMB Cross-Border Settlement between China and UK

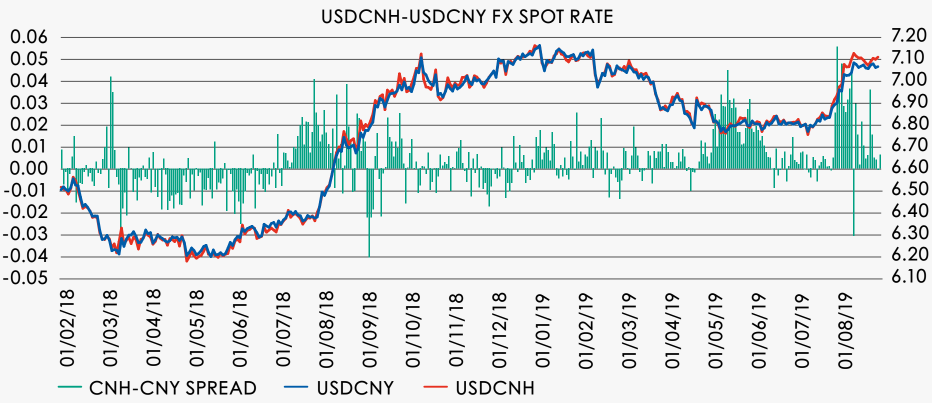
By the end of August 2019, the total RMB cross-border settlement between China and the UK saw a sharp rise of 48% YoY to RMB377 billion, close to total volume of RMB370 billion last year.

UK's Rank as Offshore RMB Centre

The UK remained the largest RMB payments center outside of greater China. In August, offshore RMB foreign exchange transactions in the UK accounted for 43.9% of total, slightly lower than in May.

RMB Exchange Rate

The Onshore-Offshore Exchange Rate Differential

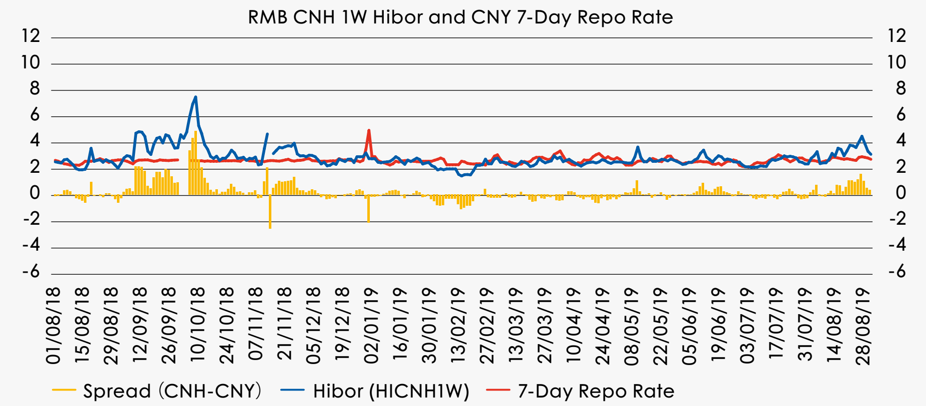


Source: Bloomberg, ABC

From 1st June 2019 to 31st August 2019, the average FX spot rate of USD/CNH in the offshore market was 6.9585, with the USD/CNY onshore rate 6.9483. The spread between onshore and offshore was stable in this quarter at +102 basis points, while the spread of our last report was +101 basis points. In August, with the escalating US-China trade disputes, as well as the expectation of additional tariffs against China, the RMB weakened beyond 7 per US dollar and arrived at a range between 7.05 and 7.15. CNH depreciation was bigger than CNY and PBoC's daily RMB central parity price was stronger than the market rates.

RMB Interest Rate

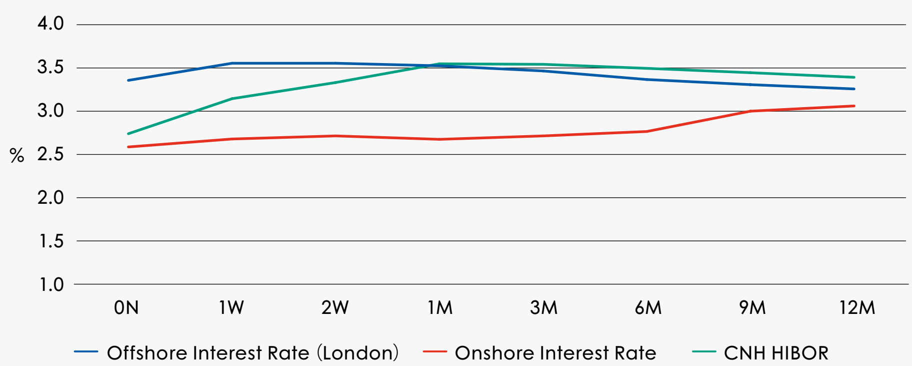
The Onshore-Offshore Interest Rate Spreads



Source: Bloomberg, CCB

During June 2019, 1 week HIBOR rate was higher than 7Day Repo rate by 22.7 basis points in average, but the market moved in the other way around July– making 1w HIBOR lower than 7D Repo by 7.8 basis points. Stepping in August, the offshore RMB fluctuated sharply. After Trump's threats to impose new tariffs on virtually everything China ships to US on 1st August, offshore RMB breached 7 per dollar and further dropped 3.8% against dollar during August 2019, completing its biggest monthly fall in the past decades. On 14th August, PBoC sold 30 billion yuan of bills, helping drain liquidity. The short-end HIBOR rate reacted in advance and climbed to more than 20% on several occasions in the past few years, squeezing bears betting against RMB. Therefore, 1w HIBOR crossed over 1w 7D Repo rate by 53 basis points during August of 2019 in average.

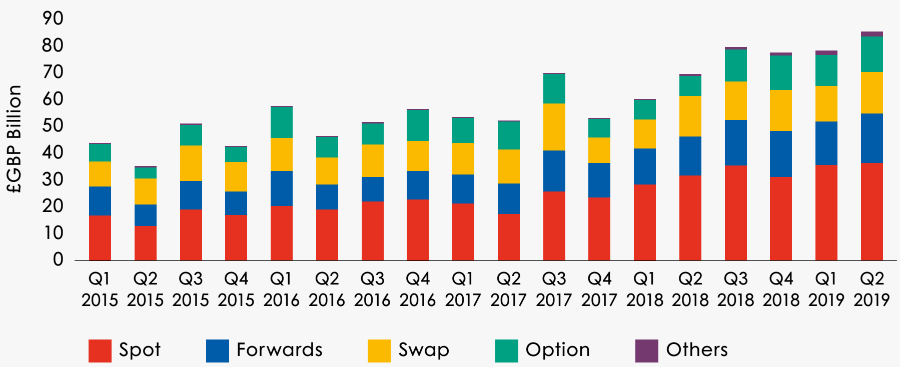
The Term Structure of RMB Offshore and Onshore Interest Rate



Source: CCB

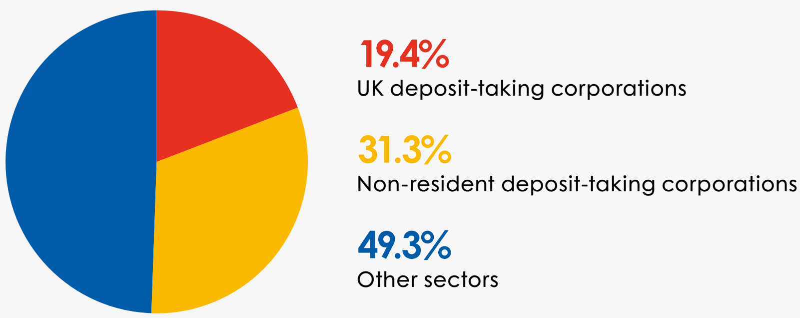
London RMB Foreign Exchange Market

Average Daily Turnover of RMB FX in London



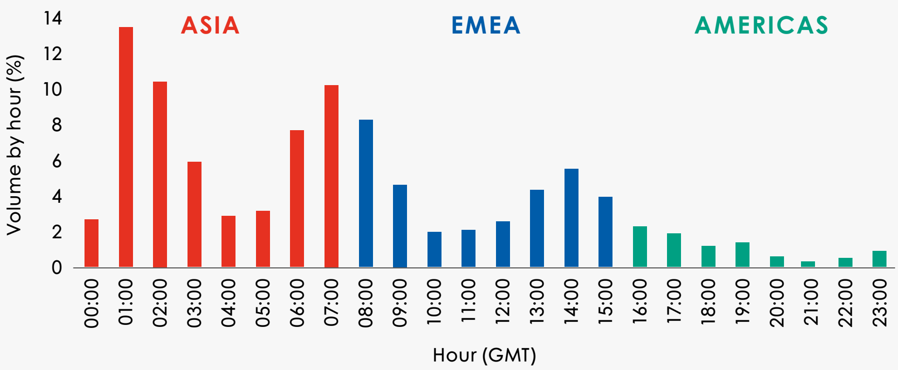
Source: Bank of England (BoE)

RMB FX Turnover by Counterpart Sector



Source: BoE

Spot CNH Volume Distributions by Hour on EBS



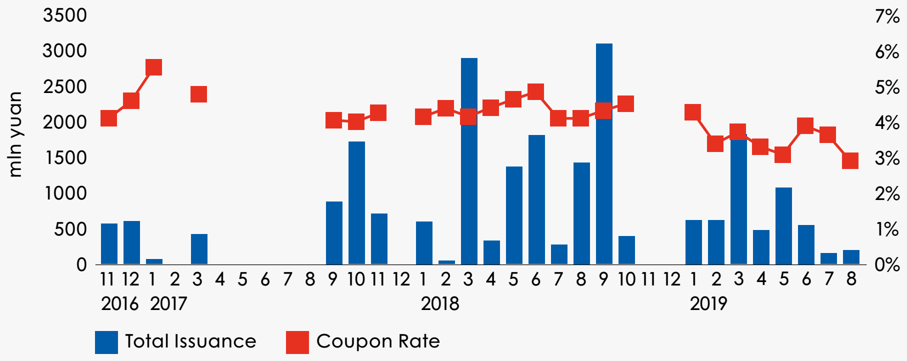
Source: EBS

Average daily trading volume of London's offshore RMB hit GBP85.0 billion in Q2, up 8.8% from last quarter and 22.9% YoY. From the perspective of counterparty distribution, the average daily trading volume of UK deposit-taking corporations was GBP16.5 billion, accounting for 19.4%; the average daily trading volume of non-resident deposit taking corporations was GBP26.6 billion, accounting for 31.3%; other financial institutions traded GBP41.9 billion, accounting for 49.3%.

In August, the proportion of the offshore RMB FX trading in London market increased slightly from last month. Trading data from EBS revealed that the proportion of spot CNH trading volume in EMEA trading hours was 33.8% in August, 0.8 percent up from May. Specifically, in August, Asia, EMEA and Americas trading hours registered 57.3%, 33.8% and 8.9% of total CNH spot trading volumes, compared with a distribution of 58%, 33% and 9% in May, and 57%, 36% and 7% a year ago.

London RMB Bond Market

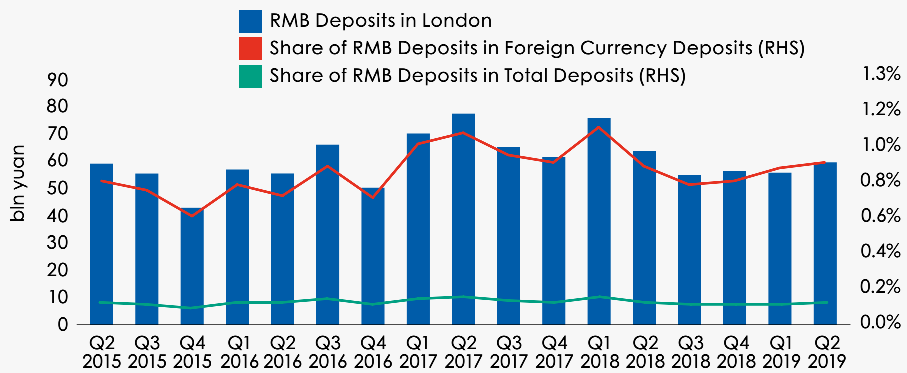
Dim Sum Bond Issuance and Coupon Rate



Source: LSE

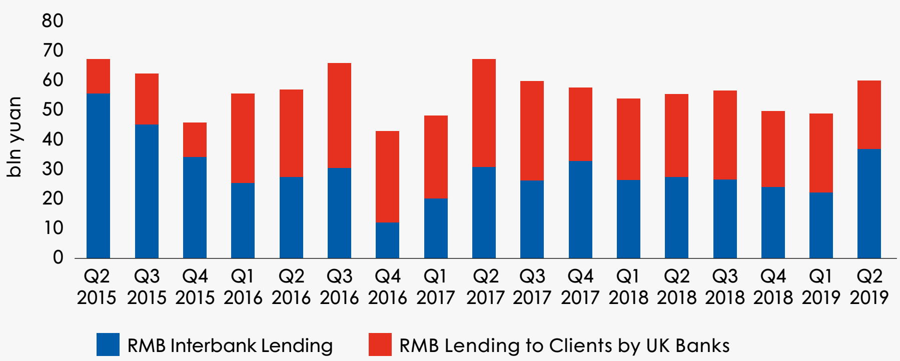
London RMB Credit Market

RMB Deposits in London



Source: BoE

RMB Lending in London



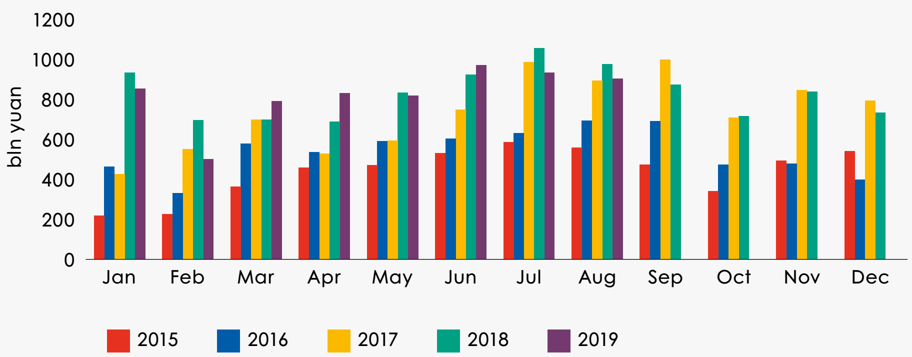
Source: BoE

Between June and August, seven Dim Sum bonds were listed on the London Stock Exchange, which were issued by Commonwealth Bank of Australia, QNB Finance Ltd., Lloyds Bank PLC, Westpac Banking Corp and Natwest Markets PLC separately with a total issuance size of RMB18 million, maturity of three to seven years and average coupon rate of 3.79%. At the end of August, there were 102 Dim Sum bonds listed on the London Stock Exchange with an outstanding value of RMB26.67 billion, and an average coupon rate of 4.33%. There were four more Dim Sum bonds issued in the first eight months of this year than last year. However, the value of new Dim Sum bonds issued at the end of August 2019 decreased by RMB2.41 billion from the same period of 2018, a drop of 29.9%.

In Q2 2019, RMB deposits and loans in the London offshore market crept up. At the end of the Q2 2019 , the balance of RMB deposits stood at RMB60.5 billion, up 6.79% QoQ, but still down 6.58% YoY, while the balance of RMB loans was RMB59.33 billion, up 22.66% QoQ and 7.95 % YoY.

London RMB Clearing

Clearing Volume of UK Clearing Bank

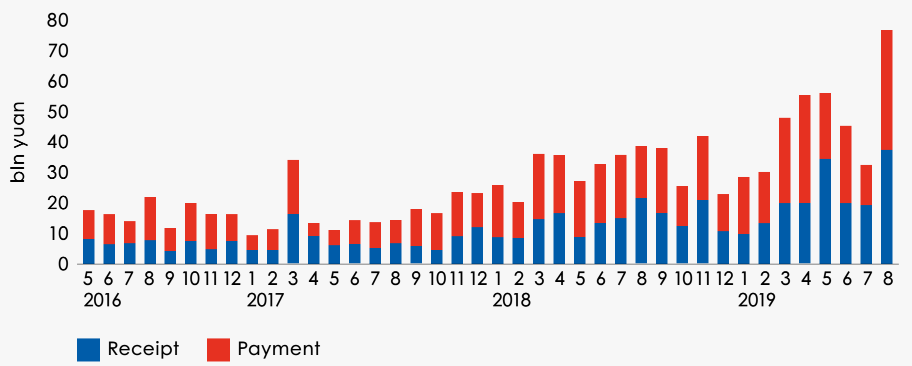


Source: CCB London Branch

Between June to August, total clearing volume was RMB2.81 trillion, with daily average clearing volume RMB43.97 billion, up 18.4% from our last report. Accumulated transaction counts stood at 31,341. By the end of August 2019, the accumulative total RMB clearing volume reached RMB37.84 trillion since China Construction Bank (CCB) London Branch obtained its authorization to become the RMB clearing bank in the UK in June 2014, and the Bank remains the largest clearing bank outside Asia.

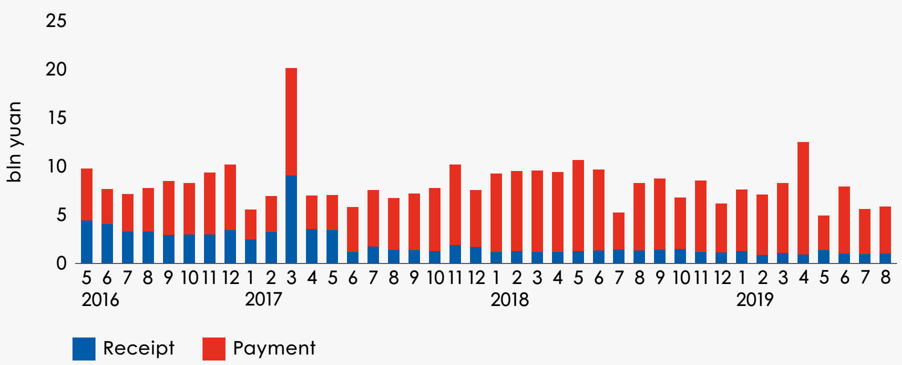
China-UK RMB Cross-Border Settlement

China-UK Cross-Border RMB Payment and Receipt



Source: PBoC

China-UK Cross-Border RMB Payment and Receipt Under Merchandise Trade



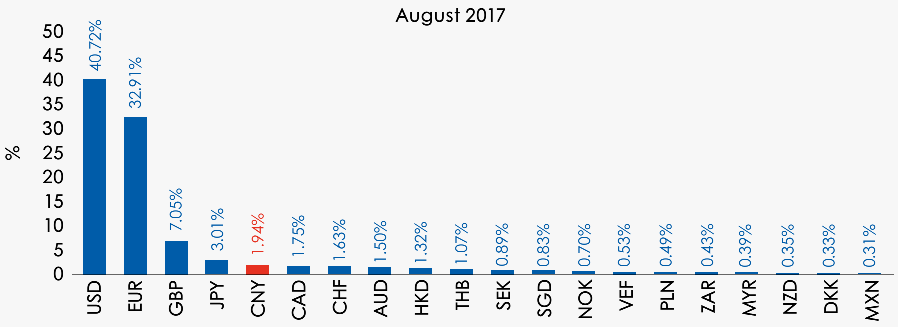
Source: PBoC

In August, cross-border RMB receipts and payments between China and the UK enjoyed a rapid growth, hitting record transaction. The total amount of cross-border RMB receipts and payments between China and the UK jumped to RMB76.3 billion, making an increase of 137% on the previous month and a YoY increase of 98.9%.

By the end of August, the total amount of cross-border RMB transactions between China and the UK in 2019 was around RMB370 billion, delivering a rise of 48% over the same period of last year and closing to the total volume of RMB377 billion in 2018. Among them, cross-border RMB receipts and payments were about RMB172.5 billion and RMB197.5 billion. The payments were higher than receipts, with RMB25 billion flowing into the UK, close to RMB23.4 billion by the end of May. Cross-border RMB receipts and payments of Sino-British bilateral goods trade was about RMB58.9 billion, composing 15.6% of the total amount of receipts and payments during the same period.

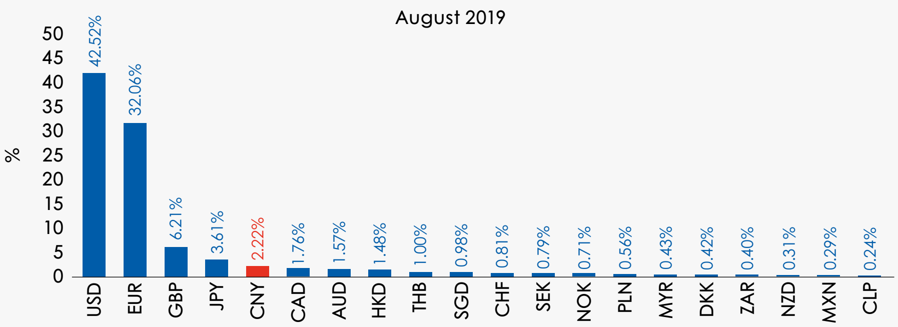
The International Status of the London Offshore RMB Market

RMB's share as a domestic and international payments currency



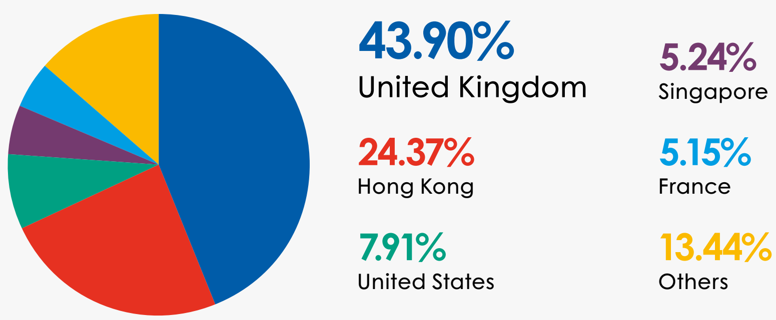
Source: Watch – Powered by SWIFT BI

RMB's share as a domestic and international payments currency



Source: Watch – Powered by SWIFT BI

Top Countries (Regions) FX Transaction in RMB



Source: Watch – Powered by SWIFT BI

According to SWIFT, RMB's share as a domestic and international payments currency (customer initiated and institutional payments) in August 2019 was 2.22%, up 0.27% from May. RMB remained as the fifth biggest global payment currency, and the UK retained its position of having the largest share of RMB payments outside greater China. The top three countries or regions doing FX transactions in RMB in August 2019 were the UK, Hong Kong and the US. The UK accounted for 43.90% of the total, slightly lower from May (44.46%).

Industry Update

Facilitating the Use of RMB Bond as Collateral in the UK Market

China Central Depository & Clearing Co. Ltd.

Summary

- To promote RMB bonds as common qualified collateral accepted by the UK market is an important policy outcome of the 10th China-UK Economic and Financial Dialogue (EFD), which holds great significance for both UK and China's financial market. It can relieve the shortage of high-quality liquid asset (HQLA) in the UK market, strengthen the status of London as an offshore RMB hub, and facilitate the opening up of China's bond market as well as the internationalisation of RMB.

- China has become the world's 2nd largest bond market where overseas investors' bond holdings reach RMB 1.72 trillion. The inclusion of Chinese bonds into major global bond indices reflects the growing international recognition of RMB bond assets. Against the background of global HQLA shortage, the cross-border use of RMB bonds as high-quality financial collateral is not only the inevitable trend of market development but also the pressing needs of global investors.

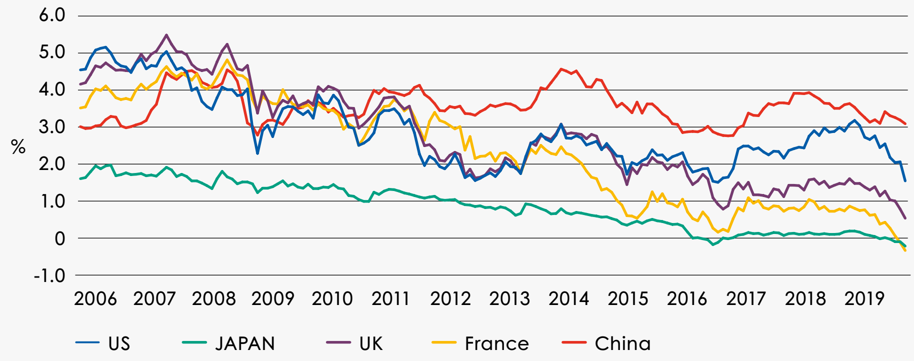
- Currently, the cross-border use of RMB bonds as collateral has achieved multiple breakthroughs. High-quality RMB bonds collateral can be used in scenarios like overseas bond issuance and cross-border financing. In the future, through the interconnectivity between Financial Market Infrastructures, RMB bonds collateral will further explore its roles in international repo transactions, securities lending and global derivatives transactions. Thus, the channel for mutual recognition of bonds collateral between the UK and China's financial markets would become smoother and more efficient.

In the 10th China-UK Economic and Financial Dialogue (EFD) held in London in June this year, both the UK and China agreed to promote RMB bonds as common qualified collateral accepted by the UK market and the Bank of England will consider their Chinese sovereign bonds and RMB the People's Bank of China (PBoC) bills inclusion into its eligible collateral list. This policy outcome marked a key progress of great significance for both the UK and China to strengthen London's position as a leading offshore centre for RMB and to accelerate the opening up of Chinese bond market. This cooperation in collateral can be a new highlight between China and the UK.

Now is the Perfect Timing for Cross-Border Use of Onshore RMB Bonds as Collateral

Bonds are widely used globally as high-quality collateral, accounting for more than 70% of all financial collaterals. The US Treasury bonds, Japanese government bonds (JGB) and Euro zone bonds are used in many cross-border scenarios, such as supporting liquidity acquisition from central banks, or to be used as initial margin collateral in international derivative markets. On the contrary, the application of onshore RMB bonds as collateral in the global market is still in its early stage. It is necessary and practical to encourage cross-border recognition of onshore RMB bonds as collateral. This is because encouraging the use of cross-border onshore RMB bonds as collateral can contribute to the development of RMB internationalisation by diversifying the use of RMB products, working in partnership with leading RMB clearing centre like London. This is aligned with the outcome of the UK-China EFD where both sides agreed that bond collateral can be a key area for collaboration.

Figure 1: Average Monthly YTM Curves of 10-Year Sovereign Bonds



Source: Wind

I. Significance for the UK market

1. To relieve the shortage of high-quality liquid asset (HQLA), diversify the collateral pool and reduce systematic financial risks

In the post-crisis times, as financial regulation tightened up, the scarcity of eligible collateral became ever more pronounced. In contrast to other sovereign bonds, the Chinese government bonds, policy bank bonds and other high-grade onshore RMB bonds have relatively stable value and low correlation with fluctuations in the global market (Figure 1). Therefore, to promote the use of RMB bonds as collateral in cross-border cases may well replenish liquidity in the UK market by pumping over a trillion dollars' worth of high-quality collateral, while maintaining financial stability by diversifying the overall collateral pool.

2. To strengthen the status of London as an offshore RMB hub and an international financial centre

London's position as the world largest FX trading centre has allowed its RMB market to flourish. With an average daily trading volume of over GBP75 billion, London accounts for 44.46% of global offshore RMB trading in May 2019[1]. This financial centre also offers diversified transactions and products in the market. Such development reflects the increasing demands in the international capital markets. The proposed cross-border cooperation in promoting RMB bonds as collateral showcases London's ambition to be a full-fledged RMB centre. Expanding the demand for RMB bonds will allow more RMB-denominated products to be listed in London and therefore, strengthen the status of London, a global financial centre, as the leading offshore RMB hub.

[1] Sourced from London RMB Business Quarterly Issue 4: July 2019.

3. **To provide financial support for bilateral economic and trade cooperation**

China is the fifth largest trade partner of the UK, with bilateral trade exceeding USD90 billion in 2018 (Figure 2). Large-scale economic and trade relationship requires stable and sustainable financial support. The sustainable development of economic and trade will provide rapid growth for RMB clearing and settlement globally which groom the market demand for innovative cross-border RMB financial products. As a most fundamental tool for risk control and liquidity management, collateral can serve as a guarantee for cross-border transactions and funding and mitigate any possible economic and trade frictions effectively. This will result into more commercial partnership in financial services and wider economic and trade cooperation.

II. Significance for the Chinese market

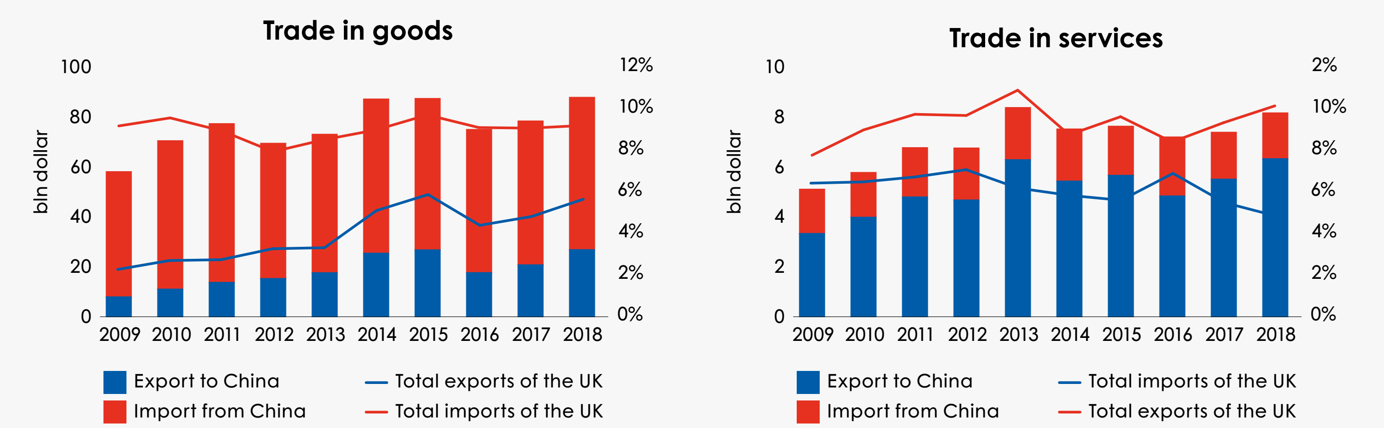
1. **To promote the internationalisation of RMB and the opening up of Chinese bond market**

With the acceleration of RMB internationalisation, the global use of RMB has been extended from trading to financing. The Chinese bond market is increasingly gaining the interest of global investors as a vehicle for RMB assets. The demand for cross-border use of onshore RMB bonds is essentially an indispensable step for RMB internationalisation along the path from trade currency to investment and reserve currency, which can be materialised into multi-dimensional influences on RMB products. According to the research by Bank of International Settlements (BIS), cross-border use of collateral is likely to have a direct positive impact to the pricing and liquidity of the underlying assets. Thus, the use of RMB bonds may increase the appeal of the asset itself and enhance the opening-up of the Chinese bond market. It can also serve as an alternative option for globalised assets. The use of RMB bonds may also create a transaction-based connection between China and global market, encourage the flow of RMB in the global economic and financial system, as well as strength the fundamentals for further internationalisation of the currency.

2. **To diversify the application of onshore RMB bonds and stimulate activity of holders**

Using RMB bonds as collateral in global markets will create greater possibility for investors to use their holdings of bonds. In terms of eligibility, the basket of eligible collateral can be tailored on the basis of diversified market demands to include all ranges of bonds, ranging from sovereign and quasi-sovereign bonds, such as government bonds, policy bank bonds to high-grade credit bonds.

Figure 2: Trends of China-UK Bilateral Trade



Source: UNCTAD, WTO, ITC

For example, for on-exchange transactions like posting bonds as margin[2], the eligibility and haircut can be decided in line with the regulation of the resident jurisdiction and requirements of the clearing house. Meanwhile for over-the-counter (OTC) trades like bilateral repos and securities lending[3], eligible bonds can be selected more flexibly considering risk preferences and risk management models of the trading parties.

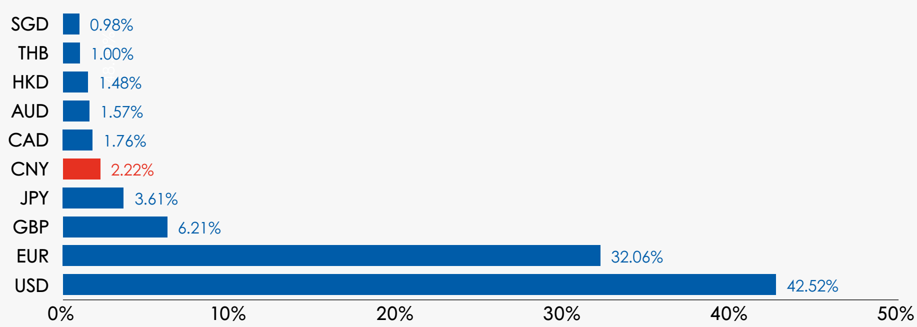
Onshore RMB Bonds are High-Quality Collateral

As with the RMB internationalisation, the promotion of cross-border use of onshore RMB bonds is essentially driven by the market, supported by substantial market demands and practices. Some market surveys have indicated that there is a growing number of international financial institutions, these institutions have expressed their willingness to explore the use of onshore RMB bonds as collateral in cross-border scenarios. With the improved market liquidity, enhanced operational efficiency and robust market infrastructures, the onshore RMB bonds are well ready to play their part in the global market.

I. RMB and RMB bonds are accepted to a larger extent internationally.

This year marks the 10th year since the beginning of RMB internationalisation, and the currency is making steady progress as an international currency. As of the end of 2018, RMB retained its position as China's second largest currency for international payments for eight consecutive years, and globally as the fifth largest payments currency, the third largest trade financing currency, the eighth largest FX trading currency and the sixth largest reserve currency. As of the end of August 2019, according to the SWIFT statistics, RMB accounted for 2.22% of global payments by value, only after the USD, EUR, GBP and JPY (Figure 3).

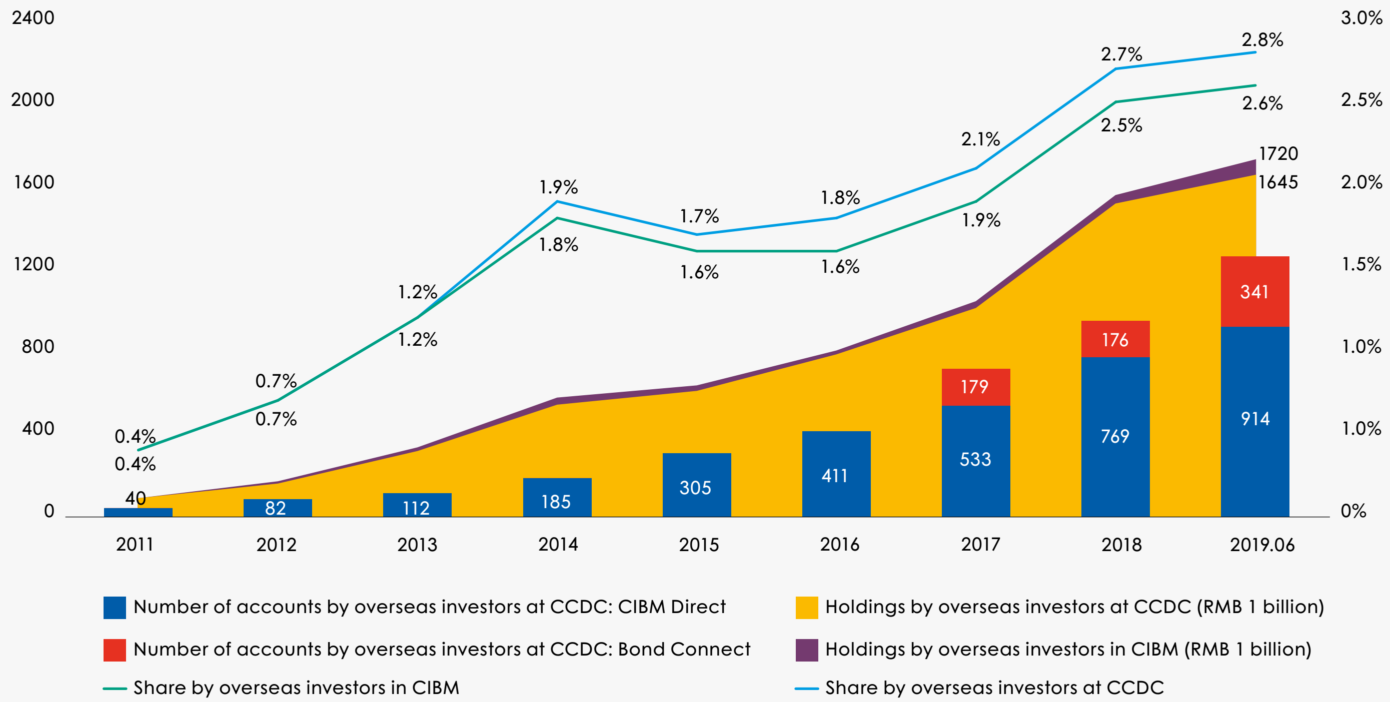
Figure 3: Rankings of Global Payments Currencies (End of August 2019)



Source: SWIFT

[2] For example, for LCH-cleared transactions, one must comply with the European Market Infrastructure Regulation (EMIR) and satisfy the requirements of the Bank of England (BOE) and the European Securities and Markets Authority (ESMA). Also, depositories shall comply with the CPMI and IOSCO principles.
[3] For OTC trades, it is necessary to comply with the rules and regulations of different markets, which, for instance include the requirements for collateral in legal frameworks such as GMRA, ISDA, etc.

Figure 4: Overview of Overseas Investors in China's Interbank Bond Market (CIBM)



Source: CCDC

At the same time, the Chinese bond market has been growing. Recording more than RMB90 trillion (approximately USD13 trillion) for its outstanding amount, it has surpassed Japan to become the world's second largest bond market. As of June 2019, there were more than 1,200 overseas institutional investors in the market, holding bonds of RMB1.72 trillion[4] or 2.6% of the entire market. Overseas investors held 7.8% of China's central government bonds (see figure 4). In April 2019, the Bloomberg Barclays Global Aggregate Index started to include Chinese bonds, with other major global indexes expected to follow suit, reflecting the growing international recognition of the Chinese bond market.

According to a market survey with overseas investors conducted by CCDC in 2018, more than 70% of investors were willing to accept onshore RMB bonds as eligible collateral in the international financial market and more than 60% were eager to utilise financial market infrastructure (FMI) connection for cross-border collateral operations. International investors have taken collateral as a strategic consensus to access the Chinese bond market. The expectation of market players now is the offer of diversified investment channels and enhanced market liquidity for onshore RMB bonds.

[4] Negotiable Certificate Of Deposit (NCD) excluded. As a book-entry fixed-term deposit certificate issued in the interbank market by depository financial institutions, an NCD is a money market instrument.

II. Well-developed collateral management services are in place to support the bond market.

By building on its unique expertise as a leading Central Securities Depository (CSD) and learning from best global practices, the China Bond Collateral Management Services offered by CCDC are now supporting the implementation of macro-economic policies and extensive transactions in the financial market. As a robust support for risk control and liquidity management for the RMB market, CCDC is now operating the world's largest collateral management platform, with over RMB13 trillion under its management.

CCDC has proven track records in cross-border collateral management practices. With the onshore assets under its management, CCDC supports overseas loans by the Ministry of Finance, operations on the international board of Shanghai Gold Exchange, as well as cross-border financing programmes and covers bond issues by financial institutions. As of June 2019, the outstanding cross-border collateral under its management stood at RMB44.3 billion, reflecting a compound annual growth rate of 59%.

In June 2019, CCDC UK Representative Office officially opened in London under the joint efforts from China Banking Association and CCDC. The establishment of CCDC in London, a global financial services centre, is to act as an important bridge to promote the cooperation and development of capital markets between China and Europe. Additionally, under the framework for mutual recognition of collateral as part of the China-UK EFD, CCDC is now working on further collaboration with global partners such as the London Clearing House, the International Swaps and Derivatives Association (ISDA) and Euroclear to elevate the use of onshore RMB bonds and fabricate a mechanism for mutual recognition based on enhanced FMI connectivity.

Finally, with the deepening of China's reforms on the capital accounts, FX administration regarding cross-border guarantees has continually improved, encouraging more cross-border financial activities. The application of cross-border guarantee is merely to ensure the performance of certain obligations and does not necessarily cause cross-border transfers of capital or assets unless in the event of default. Therefore, capital flows related to cross-border guarantee are generally controllable. Risks can be effectively segregated on the border while capital account convertibility under the guarantee account can be enhanced.

It certainly takes time and efforts to promote onshore RMB bonds to become new and widely accepted collateral in the UK market. There are still obstacles in the regulation, as well as technical challenges, among other things. Nevertheless, the policy outcomes of the China-UK EFD have provided the market with new light on how to further our joint exploration. It is a shared ambition by the industry to enable cross-border use of onshore RMB bonds as collateral. CCDC is ready to work with all stakeholders to develop cross-border solutions that incorporate multiple markets and platforms, as well as to create blue oceans for cross-border application of RMB bond collateral.

Industry Update

Overview of China repo market

Transaction Banking Securities Service (Europe), Standard Chartered
Financial Market (China), Standard Chartered

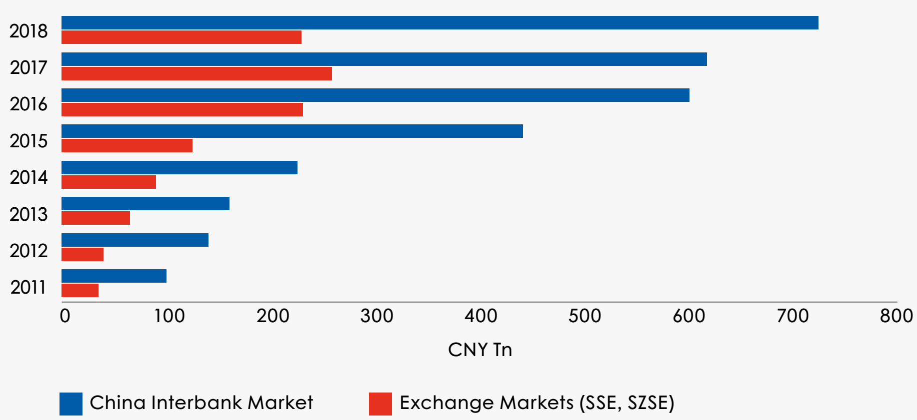
Summary

- China's repo market has expanded rapidly in line with the extensive development of China's financial markets.
- Product offering in China repo market is different from overseas market, but recent developments have been instrumental to increase efficiency.
- It is expected that there will be increasing number of overseas investors to participate in the repo transactions in the foreseeable future.

As China's domestic bond market has grown significantly in size in recent years, the China repo markets have also expanded rapidly. This is in line with the extensive development of China's financial markets to offer market participants the depth and liquidity required to manage their short-term investment and funding requirement in an effective way. Meanwhile, China's main regulators and market infrastructures are in close collaboration to prepare for opening up its domestic repo market to more foreign investors and promote the RMB denominated assets to be utilised in international markets.

There are two main venues to carry out a repo transaction in China: The interbank market and stock exchanges, including Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE). A small amount of repo transactions is also carried out by the "commercial bank counter market" but since the size is small, the focus of this paper is on the interbank market and exchange market. Repo transactions on both of these two venues have experienced significant growth in recent years. The turnover of interbank repo market has reached CNY722.4tn at the end of 2018 with 32.6% CAGR growth rate from 2011-2018. The turnover number of exchange repo is relatively smaller but also reached CNY229.4tn with 30.8% CAGR growth rate for the same period (See Figure 1).

Figure 1: China Repo Market Turnover (CNY tn)



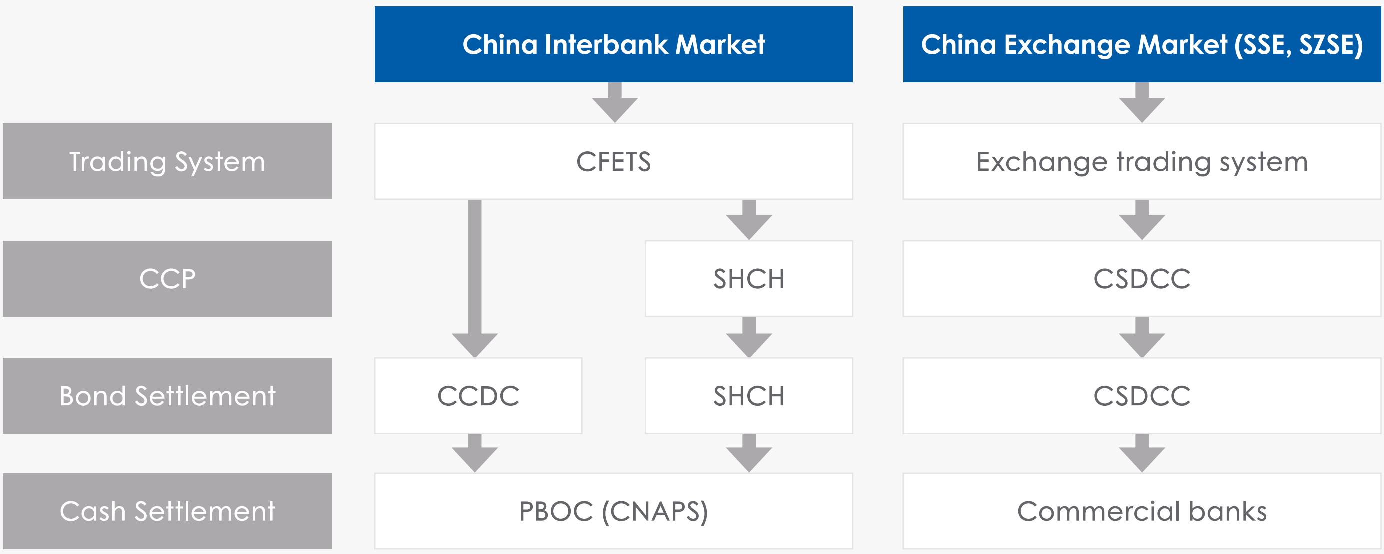
Source: Wind

Market infrastructure and key characteristics of China repo market

The interbank market is a wholesale funding market where all participants are institutional investors. Trading operates on an OTC platform where each market maker can make bid and offer prices. The trading platform for interbank market is CFETS (China Foreign Exchange Trade System). The interbank market is the dominant trading platform for fixed income securities and repo, accounting for 76% of repo transaction.

The interbank market operates with two CSDs (central securities depository) offering two transaction settlement mechanisms. SHCH (Shanghai Clearing House), as one of the CSDs and the only CCP (central counterparty) for the interbank market, provides either gross trade-by-trade clearing and settlement, or CCP clearing. The other CSD for the interbank market, China Central Depository & Clearing Co., Ltd. (CCDC), provides gross trade-by-trade clearing and settlement services for trading participants.

Figure 2



CFETS: China Foreign Exchange Trading System
SSE : Shanghai Stock Exchange
SZSE: Shenzhen Stock Exchange
CCP: Central Counterparty
SHCH : Shanghai Clearing House
CCDC: China Central Depository and Clearing Co., Ltd.
CSDCC : China Securities Depository and Clearing Corporations
CNAPS: China National Automatic Payment System

The exchange markets, include Shanghai Stock Exchange and Shenzhen Stock Exchange, use CSDCC (China Securities Depositary and Clearing Corporation) as the CSD. CSDCC also defines the collateral pool and haircuts, and also establishes the rules and procedures for trading and settlement. CSDCC provides net settled or gross trade-by-trade settlement, depending on the different types of repo transaction.

The stock exchanges provide a marketplace and facilities for repo trading in which all repo prices and volumes are observable and continuous bid and offer prices are available for different repo tenors. As the principal bond exchange market, the Shanghai Stock Exchange is also the dominant market for stock exchange repo.

Table 1

	Exchange market	Interbank Market
Participants	Non-bank financial institutions, corporates & retail investors	Bank, non-bank financial institutions and foreign financial institutions approved to access interbank market
Type of Repo	Pledged or agreement	Pledged, outright
Tenors	o/n, 2d, 3d, 4d, 7d, 14d, 28d, 91d, 182d	o/n, 7d, 14d, 21d, 1m, 2m, 3m, 4m, 6m, 9m, 12m
Rate/yield	Market-driven	Negotiated between counterparties
Eligible collateral	Set by exchange	Negotiated between counterparties
Haircut	Set by exchange	Negotiated between counterparties
Trade size (CNY)	100k(min)/100m(average)/unlimited (max)	Negotiable (min)/500mm (average)/unlimited (max)
Trading hours	09:30-11:30 and 13:00-15:30	T+0: 09:00-12:00 and 13:30-16:50 T+1: 09:00-12:00 and 13:30-17:00
Regulator	China Securities Regulatory Commission (CSRC)	People's Bank of China
Collateral registration	China Securities Depository & Clearing Corporation (CSDCC)	China Central Depository & Clearing Co., Ltd (CCDC) Shanghai Clearing House (SCH)

Source: CFETS, Shanghai Stock Exchange, Wind, CCDC

Product offering in China repo markets and the current limitation

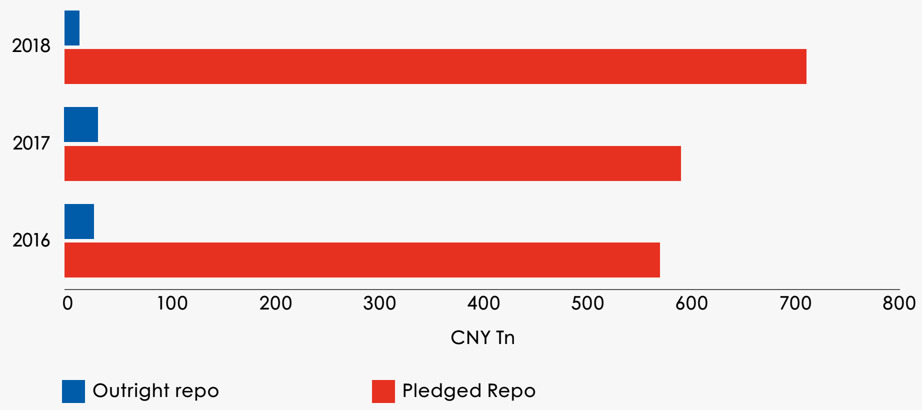
There are two main types of repo transactions in China: pledged repo and outright repo.

Under an outright repo transaction, the ownership of collateral is transferred to the cash lender for the length of the transaction. By contrast, under a pledged repo agreement in China, ownership of the collateral remains with the cash borrower but is pledged to the lender such that it cannot be used by the borrower for any other purpose until the cash principal and interest is returned.

In 2018, the trading volume of repo transactions in China's bond market amounted to CNY722.4 trillion and pledged repo accounted for 98%, which means repos in the Chinese interbank market are generally conducted on a 'pledged' basis rather than on an 'outright' basis as is common in other major overseas markets. China Central Depository & Clearing (CCDC) is responsible for ensuring that the pledged securities it holds are not used for any other purpose, including being pledged as collateral to another repo, until the transaction has been unwound. However, even for repo carried out in other overseas markets, it may also be conducted on a 'pledged for re-use' basis, which allows the cash lender to rehypothecate the collateral even though there is no transfer of title.

Since the volume and trading activities of outright repo are much lower than pledged repo, the liquidity of outright repo is much small than pledged repo and pricing of outright repo is even higher than pledged repo, which is quite the opposite to the international repo market.

Figure 3: Interbank Market Pledged Repo vs. Outright Repo



Source: Wind

Pricing of repo is dependent on various elements, including but not limited to: creditworthiness of repo sellers and buyers, quality of collaterals, duration, and notional amounts. Assuming all elements are equal, if the repo buyer (liquidity provider) is entitled to the legal right of the underlying collateral, the pricing of the repo should be lower. Therefore, the theoretical pricing of outright repo should be lower than the pledged repo. However, in the situation of China repo market, the pricing of outright repo is higher than pledged repo. For overnight repo in CIBM, outright repo is priced 10 bps higher than pledged repo on average. For 7-day repo, outright repo is priced 30 bps higher on average[Note 1]. There are four main reasons contributing to this special situation:

1. The main participants in the outright repo transaction are non-bank financial institutions (eg. brokers, fund managers) who would like to seek liquidity from the repo market, but their credit rating is usually lower than the large size commercial banks, hence their ability to source lower price funding in pledged repo is limited.

2. Large size commercial banks are usually the main pledged repo buyers (liquidity provider) and only use outright repo as a supplement. Therefore, the transaction volume in outright repo offered by them will be much lower than pledged repo, which will push up the price of outright repo.

3. Small and medium size commercial banks are the main repo sellers (liquidity seekers) in the pledged repo market where they source liquidity in pledged repo transaction then they become the main repo buyers in the outright repo market where they provide liquidity to earn a decent spread. As a result, pricing of the outright repo is increased. The spread between outright repo and pledged repo becomes even wider during short term liquidity crunch.

4. Accounting treatment of pledged repo is different from that of outright repo. Bond holdings are usually classified as held-to-maturity investments for large size commercial banks. For pledged repo transaction, since there isn't any legal ownership transferred, those bonds used in pledged repo transaction can still be classified as held-to-maturity investment without any accounting adjustment required. On the other hand, since legal ownership of bonds used in outright repo have been transferred, those bonds assets need to be reclassified or even taken off from the book. Hence it is more straight forward to carry out pledged repo transaction for large commercial banks.

Due to the limitation on legal ownership transferability of pledged repo, if the repo sellers (liquidity seekers) default, buyers (liquidity providers) couldn't liquidate the pledged collateral or exercise their rights to claim any benefits in an efficient way. Even for outright repo transaction where repo buyers have the right on the collateral, it is quite a process to go through for buyers to exercise their rights. In the event of default by either counterparty in the interbank bond market, the first option is to negotiate an agreed settlement. If this fails, both counterparties can participate in CCDC directed arbitration. As a final option, the master agreement gives the interbank repo buyer (liquidity provider) the right to dispose of the collateral to compensate for any losses. Public auction will be arranged by CFETS and CCDC to sell the collateral in return for funding to repay the repo buyer. It is slightly better in the exchange repo market where stock exchange has the right to sell its collateral in the event of default by the repo seller (liquidity seeker). If the collateral sale proceeds are not enough to cover the entire loss, the CSDCC may seize and liquidate other securities owned by the same counterparty. As a matter of fact, the process to claim ownership and benefits from the collaterals in a repo transaction when the repo seller default is quite tedious, which leads to the situation that the high-quality rate bonds couldn't be fully utilised in the money market as tools to transfer liquidity efficiently. It is believed that around 22% of these high-quality rates bonds have been frozen and not used for any other purpose, which has limited the function of interbank market or exchange market to provide source of liquidity for financial institutions who will provide funding for real economy activities.

Meanwhile, it has also imposed restriction on the liquidity of rate bonds in the secondary markets. Based on the China bond market data in 2018, around 60% of collaterals used in the pledged repo transaction are rate bonds, namely China government bonds, policy financial bonds and negotiable of certificate deposits. 21% of the outstanding policy financial bonds and 13% of the China government bonds have been used as pledged collateral. Newly issued bonds are usually more popular, but they are also more likely to be sourced as collateral for pledged repo, which means these popular high rated bonds will eventually disappear in the secondary market. This phenomenon deteriorates the secondary market liquidity for China government bonds and policy financial bonds, which is one of the main concerns of foreign investors getting access to the China interbank bond market. In one way or another, pledged repo has absorbed quite a large amount of liquidity in the China bond market, which is not helpful for financial institutions engaging in trading activities.

Latest development on China repo market

On 22nd August 2019, Shanghai Clearing House launched the tri-party repo service for General Collateral (GC) repo transactions in cooperation with CFETS. As a qualified central counterparty and a central securities depository recognised by the PBOC, Shanghai Clearing House will be responsible for providing central counterparty clearing services and collateral management services for GC repo transactions, which will help to increase the efficiency of the repo market.

Currently, only certain types of foreign investors are eligible to participate in repo transaction in the China interbank bond market, including central banks, sovereign wealth funds, as well as RMB clearing banks and overseas participating banks. Only once these investors are bond CCP clearing members of Shanghai Clearing House can they apply to participate in general collateral repo transactions directly. If they are not clearing members, they can participate in an indirect way, i.e. to participate through general clearing members. With the further opening of China's bond market and the improvement of market infrastructure and efficiency, it is expected that more types of overseas investors will be eligible to participate in the general repo transactions in the foreseeable future.

Although the China repo market operates quite differently from major overseas market and there are some major limitations currently, the authorities in China are aware of the situation and they have been working very proactively to form various working groups to understand the underlying problems. The liquidity constrains of major china rate bonds is also raised during the index inclusion review by FTSE World Government Bond Index. We believe there will be major policy changes to come out in 2020 to fundamentally change and improve the liquidity constrains in China's bond market and repo market.
And we firmly believe that China opening will continue to bring opportunities for foreign investors and bring healthy changes to the China domestic capital market, of which the integration will only get stronger and the RMB internationalisation journey will go even further.

Note 1: According to research report carried out by National Interbank Funding Centre, General No.456, No.6, 2018

Reference:
http://www.chinamoney.com.cn/english/
http://www.sse.com.cn/
http://www.szse.cn/English/index.html

People's Republic of China Bond Market Guide

Latest Policies and Major Events

- On 26th June, the People's Bank of China (PBoC) issued RMB20 billion one-month and RMB10 billion six-month RMB-denominated central bank bills in Hongkong, with the bid interest rate at 2.80 percent and 2.82 percent respectively. This was the first time PBoC issued one-month and six-month RMB-denominated central bank bills in Hongkong. The bills were subscribed by a large number of offshore market investors of various types, such as commercial banks, funds, investment banks, central banks and international financial organizations, with the total bid amount exceeding RMB85 billion.

- On 27th June, PBoC authorised Bank of Tokyo-Mitsubishi UFJ to be the RMB clearing bank in Japan.

- On 20th July, the State Council's Office of Financial Stability and Development Committee announced 11 measures for further opening up the financial sector: 1) Foreign-funded institutions will be permitted to conduct credit rating business on all types of bonds in China's inter-bank and exchange bond markets; 2) Overseas financial institutions will be encouraged to participate in the establishment of an equity investment in asset and wealth management subsidiaries of commercial banks; 3) Overseas asset management institutions will be permitted to co-establish foreign-controlled asset management companies together with subsidiaries of Chinese banks or insurers; 4) Overseas financial institutions will be permitted to invest in the establishment of or make equity investment in pension management companies; 5) Foreign capital will be supported in wholly-owned currency brokerage establishment and equity participation; 6) The transitional period for raising the foreign ownership cap on life insurers from 51 percent to 100 percent will be brought forward to 2020 from 2021; 7) The requirement that the total share of an insurance asset management company held by domestic insurers shall be no less than 75 percent will be removed, and the foreign ownership will be permitted to exceed 25 percent; 8) Entry conditions of foreign insurers will be eased by removing the requirement of over-30-year operation; 9) The removal of foreign ownership limits on securities, fund management and futures companies will be advanced by one year to 2020; 10) Foreign institutions will be permitted to obtain Type-A lead underwriting licenses in the inter-bank bond market; 11) China will further facilitate the investments of overseas institutions in the inter-bank bond market.

- On 14th August, PBoC issued RMB20 billion three-month and RMB10 billion one-year RMB-denominated central bank bills in Hong Kong, with the bid interest rate at 2.90 percent and 2.95 percent respectively.

- On 10th September, the State Administration of Foreign Exchange (SAFE) decided to cancel the investment quota limitations of qualified foreign institutional investors (QFII) and RMB qualified foreign institutional investors (RQFII). Foreign institutional investors with corresponding qualifications only need to go through registration procedure, to remit funds independently to make securities investment in accordance with the regulations. Therefore, the convenience of foreign investors to participate in the domestic financial market will be greatly improved again, and China's bond and stock market will be better and more widely accepted by the international market.

- On 17th September, PBoC authorized Bank of China Manila Branch as RMB clearing bank in the Philippines.

- On 20th September, PBoC and the Bank for International Settlements (BIS) co-hosted the Symposium on RMB Internationalization in Beijing. Delegates from over 30 central banks and 10 commercial banks discussed ways to expand investments in RMB assets.

- On 26th September, PBoC issued successfully in Hong Kong RMB10 billion of six-month RMB-denominated central bank bills, with a bid-winning coupon rate of 2.89 percent.

Appendix I List of Dim Sum Bond (RMB Bond) Issuance in London

Issuer	Amount Issued (RMB)	Coupon (%)	Issue Date	Maturity
Commonwealth Bank of Australia	200.00MM	3.05	01/08/2019	01/08/2022
QNB Finance Ltd	155.00MM	3.82	03/07/2019	03/07/2024
QNB Finance Ltd	140.00MM	4.3	20/06/2019	20/06/2024
Lloyds Bank PLC	70.00MM	3.45	19/06/2019	19/06/2022
Westpac Banking Corp	140.00MM	3.6	18/06/2019	18/06/2026
Natwest Markets PLC	108.00MM	4.35	10/06/2019	10/06/2024
Natwest Markets PLC	105.00MM	4.39	10/06/2019	10/06/2024
Agricultural Development Bank of China	1.00MMM	3.23	30/05/2019	29/05/2022
Hitachi Capital UK PLC	100.00MM	3.65	08/05/2019	08/05/2023
QNB Finance Ltd	200.00MM	3.8	25/04/2019	25/04/2022
Australia & New Zealand Banking Group Ltd	150.00MM	3.54	24/04/2019	24/04/2023
Australia & New Zealand Banking Group Ltd	140.00MM	3.47	23/04/2019	23/04/2022
QNB Finance Ltd	100.00MM	4.18	29/03/2019	28/03/2024
Westpac Banking Corp	150.00MM	3.68	27/03/2019	27/03/2024
First Abu Dhabi Bank PJSC	140.00MM	3.96	26/03/2019	26/03/2024
Australia & New Zealand Banking Group Ltd	135.00MM	3.68	25/03/2019	25/03/2024
Westpac Banking Corp	150.00MM	3.67	22/03/2019	22/03/2024
Natwest Markets PLC	40.00MM	4.62	20/03/2019	20/03/2024
First Abu Dhabi Bank PJSC	300.00MM	4	19/03/2019	19/03/2024
Australia & New Zealand Banking Group Ltd	300.00MM	3.7	18/03/2019	18/03/2024
Commonwealth Bank of Australia	250.00MM	3.81	11/03/2019	11/03/2024
Commonwealth Bank of Australia	150.00MM	3.81	05/03/2019	05/03/2024
Westpac Banking Corp	150.00MM	3.76	04/03/2019	04/03/2024
European Bank For Reconstruction & Development	300.00MM	2.6	28/02/2019	28/02/2020
QNB Finance Ltd	135.00MM	3.93	28/02/2019	28/02/2021
First Abu Dhabi Bank PJSC	200.00MM	4.12	11/02/2019	11/02/2024
QNB Finance Ltd	500.00MM	4.35	29/01/2019	29/01/2022
QNB Finance Ltd	135.00MM	4.6	23/01/2019	23/01/2024
Hitachi Capital UK PLC	200.00MM	4.75	29/10/2018	29/04/2022
Westpac Banking Corp	200.00MM	4.7	12/10/2018	12/10/2022
Hitachi Capital UK PLC	600.00MM	4.6	27/09/2018	27/09/2021
Royal Bank of Canada	140.00MM	4.3	20/09/2018	20/09/2020
Bank of Montreal	200.00MM	4.53	19/09/2018	19/09/2021
Bank of Montreal	155.00MM	4.72	19/09/2018	19/09/2023
Australia & New Zealand Banking Group Ltd	270.00MM	4.795	14/09/2018	14/09/2023
Australia & New Zealand Banking Group Ltd	140.00MM	4.61	13/09/2018	13/09/2023
Australia & New Zealand Banking Group Ltd	145.00MM	4.62	11/09/2018	11/09/2023
Australia & New Zealand Banking Group Ltd	137.00MM	4.6	11/09/2018	11/09/2023
First Abu Dhabi Bank PJSC	650.00MM	4.5	10/09/2018	10/09/2021
Royal Bank of Canada	160.00MM	4.48	07/09/2018	07/09/2023
Westpac Banking Corp	190.00MM	4.6	07/09/2018	07/09/2023
Westpac Banking Corp	160.00MM	4.621	07/09/2018	07/09/2023
Commonwealth Bank of Australia	80.00MM	4.52	07/09/2018	07/09/2023

Issuer	Amount Issued (RMB)	Coupon (%)	Issue Date	Maturity
Australia & New Zealand Banking Group Ltd	140.00MM	4.6	04/09/2018	04/09/2023
Australia & New Zealand Banking Group Ltd	140.00MM	4.3	24/08/2018	24/08/2021
Australia & New Zealand Banking Group Ltd	138.00MM	4.63	24/08/2018	24/08/2023
Westpac Banking Corp	270.00MM	4.65	23/08/2018	23/08/2023
Westpac Banking Corp	140.00MM	4.35	15/08/2018	15/08/2023
Westpac Banking Corp	627.00MM	4.42	14/08/2018	14/08/2023
Westpac Banking Corp	140.00MM	4.51	01/08/2018	01/08/2028
Royal Bank of Canada	135.00MM	4.3	17/07/2018	17/07/2023
QNB Finance Ltd	142.00MM	5.32	05/07/2018	06/07/2021
QNB Finance Ltd	1.25MMM	5.25	21/06/2018	21/06/2021
QNB Finance Ltd	600.00MM	5.2	07/06/2018	07/06/2021
First Abu Dhabi Bank PJSC	1.10MM	4.8	01/06/2018	01/06/2021
Westpac Banking Corp	200.00MM	4.77	30/05/2018	30/05/2023
Credit Agricole Corporate & Investment Bank SA	200.00MM	4.72	29/05/2018	29/05/2023
QNB Finance Ltd	1.00MMM	5.1	14/05/2018	14/05/2021
Commonwealth Bank of Australia	340.00MM	4.615	26/04/2018	26/04/2023
First Abu Dhabi Bank PJSC	900.00MM	4.8	29/03/2018	29/03/2021
QNB Finance Ltd	200.00MM	5.5	20/03/2018	20/03/2021
Hitachi Capital UK PLC	80.00MM	4.78	16/03/2018	16/03/2021
QNB Finance Ltd	130.00MM	5.465	09/03/2018	09/03/2020
QNB Finance Ltd	750.00MM	5.1	08/03/2018	08/03/2021
Hitachi Capital UK PLC	50.00MM	4.6	27/02/2018	22/02/2022
Commonwealth Bank of Australia	64.00MM	4.39	30/01/2018	30/01/2021
Credit Agricole Corporate & Investment Bank SA	50.00MM	4.55	29/01/2018	29/01/2021
Westpac Banking Corp	500.00MM	4.35	19/01/2018	19/01/2021
First Abu Dhabi Bank PJSC	110.00MM	4.6	30/11/2017	30/11/2020
Hitachi Capital UK PLC	300.00MM	4.67	19/12/2016	19/12/2019
International Finance Corp	19.00MM	3.9	13/11/2017	13/11/2020
Hitachi Capital UK PLC	500.00MM	4.5	09/11/2017	09/10/2020
Commonwealth Bank of Australia	1.50MMM	4.2	26/10/2017	26/10/2020
Hitachi Capital UK PLC	184.00MM	4.4	13/10/2017	13/10/2020
International Finance Corp	75.00MM	3.91	11/10/2017	11/10/2022
Royal Bank of Canada	900.00MM	4.25	29/09/2017	29/09/2020
Lloyds Bank PLC	30.00MM	5.23	31/03/2017	31/03/2022
Commonwealth Bank of Australia	70.00MM	5.81	18/01/2017	18/01/2022
QNB Finance Ltd	130.00MM	5.33	15/12/2016	15/12/2019
Commonwealth Bank of Australia	70.00MM	4.41	29/11/2016	29/11/2019
Westpac Banking Corp	65.00MM	4.8	15/12/2016	15/05/2020
Commonwealth Bank of Australia	120.00MM	4.65	07/12/2016	07/12/2021
QNB Finance Ltd	130.00MM	4.4	18/11/2016	18/11/2019
Australia & New Zealand Banking Gro	130.00MM	4.35	23/11/2016	23/11/2021
QNB Finance Ltd	160.00MM	4.3	17/11/2016	17/11/2019
International Finance Corp	47.00MM	3.92	13/11/2017	13/11/2019

Issuer	Amount Issued (RMB)	Coupon (%)	Issue Date	Maturity
Commonwealth Bank of Australia	90.00MM	4.06	02/11/2016	02/11/2021
Commonwealth Bank of Australia	100.00MM	3.85	27/07/2016	27/07/2020
International Finance Corp	1.55MMM	3.1	24/09/2014	24/09/2019
China Development Bank Corp	500.00MM	3.6	19/09/2014	19/09/2019
Westpac Banking Corp	130.00MM	4.19	12/05/2016	12/05/2021
Westpac Banking Corp	190.00MM	4.39	20/04/2016	20/04/2020
Commonwealth Bank of Australia	180.00MM	5.07	07/03/2016	07/03/2021
Credit Agricole Corporate & Investme	50.00MM	4.2	05/08/2015	05/08/2020
Australia & New Zealand Banking Gro	405.00MM	4	28/07/2015	28/07/2020
Lloyds Bank PLC	100.00MM	4.4	24/07/2015	24/07/2020
Lloyds Bank PLC	54.00MM	4.53	24/07/2015	24/07/2025
Credit Agricole Corporate & Investme	125.00MM	4.1	23/07/2015	23/07/2020
First Abu Dhabi Bank PJSC	200.00MM	4.79	17/03/2015	17/03/2020
China Development Bank Corp	900.00MM	4.35	19/09/2014	19/09/2024
Lloyds Bank PLC	200.00MM	4.62	17/01/2014	17/01/2024
Lloyds Bank PLC	100.00MM	4.61	24/09/2012	24/09/2022
Lloyds Bank PLC	200.00MM	4.62	17/01/2014	17/01/2024
Lloyds Bank PLC	100.00MM	4.61	24/09/2012	24/09/2022

Source: London Stock Exchange

Appendix II Summary of Bond Issuance by Oversea Issuers in China Interbank Bond Market

Type of issuer		Registration Amount (bn)	Issued Amount (bn)	Outstanding Amount (bn)	Issue Number
International Development Organization	ADB	2	2	1	2
	IFC	2	2	0	2
	NDB	13	6	6	3
Governments	ROK	3	3	0	1
	BC, Canada	6	4	4	2
	Poland	6	3	3	1
	Hungary	3	3	3	2
	UAE	3	2	2	1
	Saxony Germany	6	-	0	0
	Philippine	7.46	3.96	3.96	2
	Portugal	5	2	2	1
Financial Institutions	HSBC HK	1	1	1	1
	BOC HK	10	10	10	2
	Standard Chartered HK	2	1	1	1
	Chong Hing Bank	3	1.5	1.5	1
	National Bank of Canada	5	3.5	0	1
	Citic Bank International	3	3	3	1
	Bank of Malaya	6	3	3	3
	Mizuho Bank	0.5	0.5	0.5	1
	Bank of Tokyo-Mitsubisi UFJ	3	1	1	1
	ABC International	3	3	3	1
	CCB Asia	6	-	-	-
	Wing Lung Bank	10	-	-	-
	ICBC Asia	3	-	-	-
	United Overseas Bank	2	2	2	1
	Cassa Depositi e Prestiti S.p.A	5	1	1	1
Non-financial Institutions	Daimler	55	52	32	22
	China Merchants HK	3	0.5	0	1
	China Resources Land	30	20	20	7
	SMIC	14	7.1	6.5	6
	Veolia Environment	15	2	2	2
	China Resources Cement	13.5	3.5	3	2
	Hengan International	5	2	2	1
	SINOTEC	12	4	2	2
	Wharf	20	6	6	2
	CNTHM	9.5	4.5	4.5	2
	China Merchant Port	10	4	2.5	2
	GLP	10	7.6	7.6	6
	Joy City	10	1	1	1
	CPCED	5	0.8	0.8	1
	China Jinmao	16	8	8	3
	China Gas	9.6	4.8	4.8	3
	Huarong International	3	3	3	1

Type of issuer		Registration Amount (bn)	Issued Amount (bn)	Outstanding Amount (bn)	Issue Number
Non-financial Institutions	COSCO	10	10	10	4
	BOC Group Investment	8	3.5	3.5	2
	Kunlun Energy	10	-	0	0
	Shimao Properties	8	-	0	0
	Longfor Properties	8	2	2	2
	Sun Hung Kai Properties	10	1.2	1.2	1
	Country Garden	9.5	-	0	0
	China Mengniu	15	2	2	2
	China Orient International Asset Management Limited	2.8	-	0	0
	China Water Affairs Group Limited	3	0.2	0.2	1
	Hang Lung Properties	10	1	1	1
	Air Liquide S.A	10	2.2	2.2	2
	Yuexiu Tranport	2	-	0	0
	Trafigura Group	2.35	2.24	2.24	4
	BEWG	8	8	8	6
	Want Want China	8	0.5	0.5	1
	BMW	20	6.5	6.5	3
Total (RMB Bond)		504.21	231.6	197	125
International Bank for Reconstruction and Development (IBRD)		18.63	4.65	4.65	1
		(2 bn SDR)	(0.5 bn SDR)	(0.5 bn SDR)	
Standard Chartered HK		0.93	0.93	0	1
		(100 M SDR)	(100 M SDR)	(100 M SDR)	
Total (RMB Equivalent)		523.77	237.18	201.65	127

Source: National Association of Financial Market Institutional Investors

Appendix III Agreements on RMB Business Between China and the UK

Currency swap between China and the UK

In June 2013, PBoC and BoE signed a bilateral currency swap agreement of RMB200 billion/GBP20 billion. In October 2015, PBoC and BoE renewed the swap agreement and increased the size to RMB350 billion/GBP35 billion, effective for three years. In November 2018, PBoC and BoE renewed the swap agreement again and the scale remained unchanged, effective for three years.

Clearing bank

In March 2014, PBoC and BoE signed a Memorandum of Understanding to establish RMB clearing arrangements in London. In June 2014, PBoC authorized China Construction Bank (London) to serve as the RMB clearing bank in London. In July 2016, PBoC approved the transfer of clearing functions from China Construction Bank (London) to China Construction Bank, London Branch. By the end of August 2019, Cross-Border Inter-Bank Payments System (CIPS) had 1011 indirect participating banks, adding 47 since our last report. Among them, 16 participating banks were from the UK, accounting for 1.58% of the total.

RQFII

In October 2013 China announced the RQFII program for UK with a quota of RMB80 billion. In a bit to deepen the reform and opening up of the financial market, China removed the investment quota limits under the RMB qualified foreign institutional investors (RQFII) on 10th September.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