Building a RMB Equity Market in Hong Kong

ASIFMA and ISDA – Forum on RMB financial products in Hong Kong

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RMB Internationalisation - Policy Change Accelerating

- US$18 bn quota allowed with 89 institutions approved
- US$64 bn quota allowed with 81 institutions approved
- RMB130 bn in retail deposit as of Aug 2010
- PBOC signed RMB800 billion worth of currency swap agreements with 8 central banks
- HK banks can open RMB accounts for corporates & institutions
- QFII scheme
- RMB retail business for HK banks
- QDII scheme
- RMB bonds issued by Mainland financial institutions in HK
- RMB cross-border trade settlement pilot scheme
- Launch of RMB Corporate Bonds - Chinabonds
- Expansion of Trade Settlement
- PBOC Interbank Lending Agreement

Mini QFII (Expected)
Roadmap of RMB Internationalisation

- **Overall Objective**: To re-denominate trade settlement & trade finance in RMB

- **Formation Phase**:
  - Deposits
  - Insurance
  - Funds
  - Sovereign bonds

- **Growth Phase**:
  - Corporate bonds
  - Interest rate products
  - Stocks
  - Index futures

- **Liquidity Support**:
  - 20K/Day Deposit
  - Interbank Bond / Mini QFII

- **Trade Settlement**:
  - RMB FDI
  - Active Trading
RMB Equity Market: Where are we now?

**The current status**

- Trading system readiness
- Clearing system readiness
- RMB RTGS readiness
- Bank service available
- Fees & charges in RMB or HKD?
- Liquidity, funding & financing?
- Risk management issues?
- Most interested, few are fully ready
- A life product needed and a RMB product roadmap needed
RMB Equity Market: What does it mean?

The key questions

Fund raising issues
- Why raise RMB?
- How to raise RMB?
- Where to get RMB?

Trading & clearing issues
- Why trade in RMB?
- How to trade in RMB?
- Where to get RMB?
RMB Equity Market: What needs to happen?

Market implications

- Spill over from OTC to on-exchange for standardization and scalability
- Support high volume fund raising + leveraged financing + multiple fund raising tranches
- Support single or double counters trading & clearing for same stocks
- Support small-scale fund raising
- Support small-scale trading & clearing activities
- Support listing & tendering processes
- Trading & clearing still mainly OTC

Increase in liquidity & complexity requirements