



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

# **A NORTH AMERICAN RENMINBI HUB: CANADA AS THE LEADER**

## **Report of the Standing Committee on Finance**

**James Rajotte  
Chair**

**JUNE 2015**

**41st PARLIAMENT, SECOND SESSION**

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# **THE STANDING COMMITTEE ON FINANCE**

has the honour to present its

## **ELEVENTH REPORT**

Pursuant to its mandate under Standing Order 108(2) the Committee has studied the Canadian Renminbi Trading Centre and has agreed to report the following:





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# **A NORTH AMERICAN RENMINBI HUB: CANADA AS THE LEADER**

## **CHAPTER ONE: INTRODUCTION**

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On 17 February 2015, the House of Commons Standing Committee on Finance started a study on the Canadian renminbi (RMB) hub. Over the course of four hearings, the Committee heard from 15 organizations and one individual.

Chapter Two describes the global use of the RMB and the management of the RMB by the Chinese government, and presents the witnesses' views on these issues, while Chapter Three provides information on offshore RMB hubs, and summarizes the witnesses' views on the Canadian and other RMB hubs. Finally, Chapter Four presents the witnesses' views on some expected impacts of the Canadian RMB hub.



## CHAPTER TWO: THE RISE OF CHINA AND THE RENMINBI

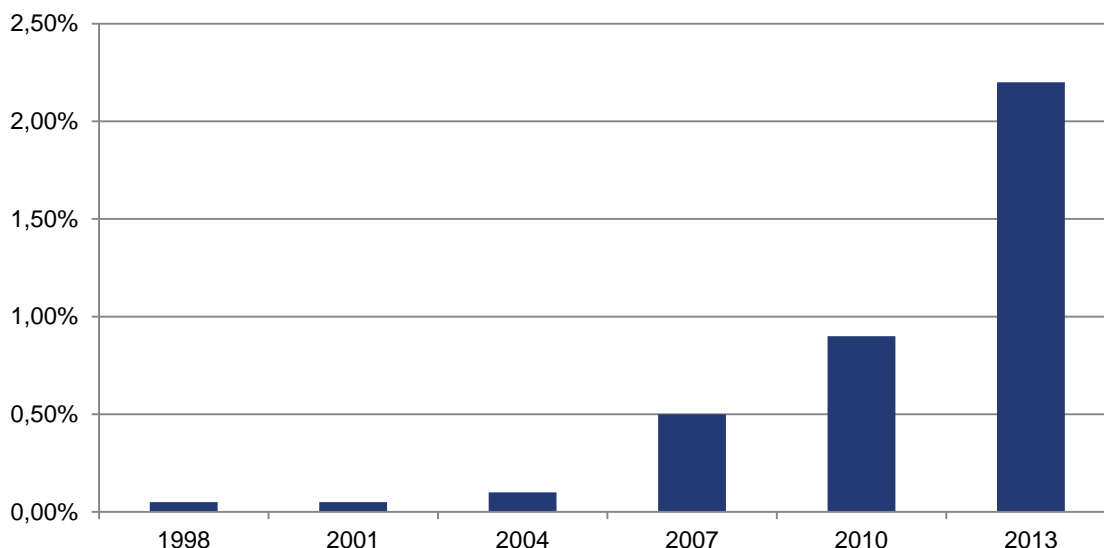
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### A. Background

With a gross domestic product of \$10,380 billion in 2014, China has the world's second-largest economy when measured in U.S. dollars. According to [data](#) compiled by the International Monetary Fund (IMF) that adjusts gross domestic product for price differences between countries, in 2014, China surpassed the United States to become the country with the world's largest economy.

China's national currency is the RMB. A Bank for International Settlements (BIS) [survey](#) of currency trading that occurred in April 2013 indicated that the RMB was the ninth most-traded currency in the world in 2013; the Canadian dollar ranked seventh. Furthermore, according to [data](#) compiled between January 2012 and October 2013 by the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the RMB surpassed the euro to become the second most-used currency in financing global trade. Moreover, as [reported](#) by the IMF, some central banks have begun holding the RMB in their international reserves. Figure 1 shows the percentage of global foreign exchange trade, such as currency exchange transactions and financial contracts, involving the RMB that were reported to the BIS for various years since 1998.

**Figure 1 – Renminbi as a Percentage of the Volume of Global Foreign Exchange Trade, Various Years, 1998–2013**



Source: Figure prepared based on information from: Bank for International Settlements, [Triennial Central Bank Survey – Foreign exchange turnover in April 2013: preliminary global results](#), September 2013.

[Data](#) compiled by SWIFT on international financial transfers between private sector banks indicate that, since November 2014, the RMB has been the fourth most-used currency for transfers, and has surpassed the Canadian and Australian dollars in terms of the total amount of those transfers.

The People's Bank of China (PBoC) controls the daily exchange rate between the RMB and other currencies, with this rate based on two factors: the supply of, and demand for, the RMB; and the RMB's value in relation to that of a group of currencies. At the July 2013 meeting of the U.S.–China Strategic and Economic Dialogue, China [pledged](#) to continue taking steps to enable the market to play a fundamental role in determining the exchange rate between the U.S. dollar and the RMB. In March 2014, the PBoC [announced](#) an increase – from  $\pm 1\%$  to  $\pm 2\%$  – in the permitted daily change in the value of the RMB relative to the U.S. dollar.

The Chinese government controls the cross-border flow of the RMB through, for example, limiting the ability of offshore firms to purchase RMB-denominated bonds and the amount of RMB that mainland Chinese can transfer offshore; it does not control the transfer of RMB-denominated financial instruments or the transfer of RMB between entities located outside of mainland China. According to a BIS [report](#), because of the Chinese government's control of the cross-border flow of the RMB, the exchange rate between the RMB and other currencies when the RMB is converted on mainland China is different than the rate when the conversion occurs offshore.

## **B. Witnesses' Views**

The [Department of Finance](#) told the Committee that international use of the RMB as a currency for trade and investment will depend on three factors: an end to the Chinese government's control on cross-border flows of the RMB; flexibility in China's exchange rate regime; and demand for the RMB and RMB-denominated financial instruments. [It](#) pointed out that, as China does not restrict the RMB's use in trade, the country does not regulate all aspects of its use.

As well, [BMO Capital Markets](#) noted that the PBoC continues to monitor and manage the RMB's exchange rate through two government entities: the State Administration of Foreign Exchange; and the China Foreign Exchange Trade System. The [Industrial and Commercial Bank of China](#) said that, within three or four years, China will remove its restrictions on the transfer of the RMB to and from mainland China, and that Canada must act quickly to realize the benefits of the RMB hub before the restrictions are removed. Regarding demand for the RMB, [BMO Capital Markets](#) suggested that high Chinese demand for certain commodities could lead to these goods being valued in the RMB rather than in the U.S. dollar in the future; in that case, demand for the RMB would rise.

According to the [China Construction Bank](#), the PBoC is developing a new system for clearing and settling RMB payments; the system, which is expected to be launched in 2016, will reduce the amount of time required to clear and settle offshore RMB

transactions. [It](#) noted that, with the new system, a third-party intermediary – such as a Chinese-resident bank – will not be needed for clearing and settlement purposes.





# CHAPTER THREE: OFFSHORE RENMINBI HUBS

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## A. The Functioning of an Offshore Renminbi Hub

According to [SWIFT](#), offshore RMB hubs enable RMB-denominated transactions to be cleared and settled outside of China, thereby avoiding the delays associated with clearing and settling transactions within China and with the PBoC. Immediate clearing and settling allows the parties to a transaction to pay and receive funds instantaneously, which increases the RMB's liquidity.

Clearing of the RMB with an offshore RMB hub involves either an agent bank of a mainland China bank or a local clearing bank. The first offshore RMB clearing bank was established in 2003, when the PBoC and the Hong Kong Monetary Authority appointed the Bank of China Hong Kong as a clearing bank for offshore RMB.

If an offshore clearing bank has a settlement account with the PBoC and is a member of the China National Advanced Payment System (CNAPS), settlement can occur at that bank. For example, the Bank of China Hong Kong has a settlement account with the PBoC and is a member of CNAPS. Other banks in Hong Kong can join the RMB settlement system by having a settlement account with the Bank of China Hong Kong.

In addition to RMB clearing and settlement, an offshore RMB hub may also provide such financial services as foreign exchange, RMB deposit accounts and the granting of RMB-denominated loans. It may also facilitate the issuance of RMB-denominated corporate and sovereign bonds, as well as other financial instruments, including derivatives.

## B. Canada's Renminbi Hub: Background

On 8 November 2014, the governments of Canada and China signed an [agreement](#) establishing Canada as the first North American RMB hub. To support the use of the RMB in trade, commerce and investment between Canada and China, the agreement comprises the following three measures:

- a three-year reciprocal currency swap line between the Bank of Canada and the PBoC;
- a memorandum of understanding (MOU) between the Bank of Canada and the PBoC to designate an RMB clearing bank in Canada and Canada as an offshore RMB clearing centre; and
- the granting of an initial RMB Qualified Foreign Institutional Investor (RQFII) quota in the amount of RMB50 billion to Canadian financial institutions.

The three-year reciprocal currency swap line to which the Canadian and Chinese governments [agreed](#) is for maximum amounts of RMB200 billion and C\$30 billion. It will support the establishment of an RMB clearing bank in Canada and will enable the Bank of Canada to provide emergency liquidity, in RMB, to Canadian institutions in the event that such liquidity is warranted by market conditions; these conditions might include illiquidity resulting from a financial crisis. At present, the PBoC has bilateral currency swap line agreements with 29 central banks.

Secondly, the purpose of the MOU is two-fold: to establish a regular dialogue on the conduct of RMB-denominated business and on the availability of RMB-denominated assets in Canada; and to support the establishment of an RMB clearing bank in Canada. On 9 November 2014, the PBoC designated the Industrial and Commercial Bank of China (Canada), which is located in Toronto, as the RMB clearing bank for Canada's RMB hub.

Finally, the RQFII quota allows registered investors outside of mainland China to access financial instruments in China's capital markets through a licensed financial institution. Canadian financial institutions will be able to apply for a share of Canada's quota, thereby providing Canadian and foreign investors with access to RMB-denominated instruments – such as Chinese bonds, equities, exchange-traded funds, warrants and mutual funds – that might otherwise be unavailable to them.

### **C. Canada's Renminbi Hub: Witnesses' Views**

In discussing Canada's RMB hub, the Committee's witnesses focused on the following issues: the hub's infrastructure and hours of operation; the responsibilities of the Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI); RMB-denominated investments; and challenges in relation to the hub.

#### **1. Infrastructure and Hours of Operation**

[BMO Capital Markets](#) and the [Royal Bank of Canada](#) informed the Committee that, with the Canadian RMB hub, a business located in Canada will be able to use its local financial institution to conduct a RMB-denominated transaction, provided that the institution is a member of the hub. The [Royal Bank of Canada](#) also indicated that the hub will operate electronically through existing infrastructure, such as communication networks, and will not require a large investment of capital, labour or other resources.

The [brief](#) submitted to the Committee by British Columbia's Ministry of Finance described Canada's RMB hub as a computerized trading platform managed by private sector financial institutions. In speaking to the Committee, [it](#) said that an RMB hub is not a "place," but a way of doing business, trade, banking and investing that are denominated in the RMB; the location of the clearing bank in Toronto does not define the hub. [It](#) also stated that the Canadian RMB hub must be an initiative that engages Canadian businesses across the country.

The [Industrial and Commercial Bank of China](#) commented on the hours of operation of the Canadian RMB hub for clearing and settling RMB, which will occur around the clock and every day of the week, highlighting that – as it will be able to provide

services when Asian financial institutions and markets are closed – the hub will have an advantage over Asia hubs. [AdvantageBC](#) noted that, with Canada having a number of time zones, buying and selling the RMB will be continuous throughout the world.

In commenting on the benefit of the Canadian RMB hub for Chinese businesses, [Finance Montréal](#) said that the hub will give such businesses simultaneous access to buyers and sellers of RMB-denominated financial instruments in both the North and South American financial markets, as they are in the same time zones.

## **2. The Bank of Canada and the Office of the Superintendent of Financial Institutions**

In speaking to the Committee about the reciprocal currency swap line as a form of insurance for a financial institution that is a member of the Canadian RMB hub, the [Bank of Canada](#) noted that swap lines between it and other central banks have never been used. [It](#) also indicated that, if the Bank uses the reciprocal currency swap line it has with the PBoC, it will request collateral from the member of the hub before providing the member with RMB.

Moreover, the [Bank of Canada](#) said that it will monitor the level of RMB clearing and RMB liquidity in Canada, and will maintain regular dialogue with the PBoC. According to [it](#), OSFI will collect information on the use of the RMB in Canada.

Regarding prudential regulation, the [Industrial and Commercial Bank of China](#) noted that it is awaiting final approval from OSFI before offering RMB clearing services; it expected to launch such services on 23 March 2015, and has started to do so.

## **3. Renminbi-denominated Investments**

[Export Development Canada](#) told the Committee that it issued RMB-denominated bonds in July 2013 and in November 2014; the former had a face value of 101 million RMB and was offered at 2.1% for 12 months, while the latter had a face value of 306 million RMB and was offered at 2.5% for 18 months. [It](#) characterized these issuances as symbolic, in that they were not needed to fund Export Development Canada but were requested by investors.

In speaking about the Government of British Columbia's RMB-denominated government bond, [British Columbia's Ministry of Finance](#) noted that it did not try to obtain the RMB on the open market to pay bondholders; instead, it borrowed in that currency and invested in RMB assets. [It](#) said that, when the Canadian RMB hub opens, it hopes to sell such bonds to Canadians; in that case, RMB deposits in Canada will increase and the liabilities will remain in Canada.

[BMO Capital Markets](#) commented on the types of investments that registered investors can make under the RQFII quota, and said that Canadian pension plans would probably purchase short-term Chinese government debt. Regarding the purchase of RMB-denominated financial instruments by Chinese investors, [Finance Montréal](#) noted

that such instruments could be purchased by Chinese pension funds that have portfolios that are managed by entities in Montreal.

#### **4. Challenges Faced by Canada's RMB Hub**

The [Industrial and Commercial Bank of China](#) told the Committee that, in order to generate the RMB trading volumes that will be needed to remain viable, the Canadian RMB hub needs to attract business from throughout North America; as well, it must create tailor-made RMB services that can compete with those provided by other RMB hubs around the world. The [Canadian Chamber of Commerce](#) indicated that Canadian banks could increase the number of RMB transactions by doing more business with U.S. firms. [British Columbia's Ministry of Finance](#) noted that it is working with the Government of Ontario, the federal government and others to educate businesses about the Canadian RMB hub; the objective is to increase the volume of RMB transactions.

In speaking about the relevance of RMB clearing and settlement at an offshore RMB hub after the Chinese government ends its restrictions on cross-border transfers of the RMB, [AdvantageBC](#) said that the RMB may be cleared and settled at any financial institution that has an account at the PBoC. [It](#) also noted that Canada has a limited timeframe within which to take advantage of being the only country in the Americas – at present – that has an RMB hub.

The [Department of Finance](#) commented on the purchase and sale of the RMB in Canada, highlighting that – when compared to the currency markets for the euro or the yen – the currency market for the RMB is less sophisticated, as it has fewer foreign exchange forwards, currency swaps and options.

#### **D. Renminbi Hubs in Other Countries: Witnesses' Views**

The [City of London Corporation](#) spoke to the Committee about the RMB hub in the United Kingdom, noting that the Bank of England and the PBoC have a reciprocal currency swap line, and that the China Construction Bank – which is located in London – is the RMB clearing bank. [It](#) highlighted that, to assist in the development of the currency market for the RMB in the United Kingdom, it is involved in education and marketing to raise awareness about use of the RMB. As well, [it](#) noted the success of the United Kingdom's RMB hub, mentioning that the hub includes domestic and international financial institutions.

The [China Construction Bank](#) commented that there are 11 offshore RMB clearing banks located in various RMB hubs throughout the world, including in Toronto. [It](#) also highlighted the growth in the number of RMB-denominated payments that were cleared at various hubs between the second quarter of 2012 and the second quarter of 2013; for example, payments cleared at the Australia hub grew by 676% over that period.

## CHAPTER FOUR: SOME EXPECTED IMPACTS OF THE CANADIAN RENMINBI HUB

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### A. Costs of Doing Business with Chinese Firms

In commenting on the reduced foreign exchange costs for Canadian exporters, the [Canadian Chamber of Commerce](#) told the Committee that Canadian businesses could save an estimated \$6.2 billion over 10 years if they can convert the Canadian dollar into the RMB directly, rather than indirectly through an intermediary currency, while the [Canadian Council of Chief Executives](#) said that the reduced exchange costs will help Canadian companies compete in the global marketplace. [Export Development Canada](#) indicated that the existence of the Canadian RMB hub will encourage the development of an RMB derivatives market in Canada to reduce exchange-rate risk, especially if the relative value of the RMB appreciates in the future.

The [Toronto Financial Services Alliance](#) mentioned a survey conducted by HSBC that showed that 55% of Chinese businesses would offer a discount of up to 5% for transactions denominated in the RMB rather than in the U.S. dollar. According to calculations by [BMO Capital Markets](#), Canadian businesses will save between 5% and 8% on each contract with a Chinese supplier because of the ability to convert the Canadian dollar to the RMB directly. However, [Export Development Canada](#) stated that, as Chinese companies have to pay for their inputs with U.S. dollars, the U.S. dollar is preferred to the RMB. [It](#) also said that it is less costly for Chinese companies to raise U.S. dollars for their expenses than to obtain the RMB.

[BMO Capital Markets](#) said that, once the Canadian RMB hub becomes operational, businesses will be able to store their RMB in deposit accounts, which will reduce currency exchange costs associated with doing business with Chinese companies that request payment in the RMB.

### B. Trade

In informing the Committee that Canadian exports comprise 1.3% of Chinese imports, a proportion that can be compared to Switzerland's 1.5% and Germany's 5.1%, the [Canadian Council of Chief Executives](#) indicated that the most significant benefit to Canada of the Canadian RMB hub is its potential to facilitate trade between China and Canada. [It](#) said that Canada could increase its petroleum and gas exports to China, while China could increase its exports of electrical machinery to Canada. Similarly, [BMO Capital Markets](#) suggested that bilateral trade will increase significantly once the Canadian RMB hub is operational, and projected that Canada's forestry, fisheries, and oil and gas sectors will benefit. [John Curtis](#) – who spoke to the Committee as an individual – commented that the Canadian RMB hub will assist Canada's manufacturing sector by facilitating participation in global supply chains.

The [Canadian Chamber of Commerce](#) estimated that, because of the Canadian RMB hub, the value of Canadian exports to China will increase by between \$21 billion and \$32 billion over the next 10 years. According to [British Columbia's Ministry of Finance](#), the value of B.C. exports to China is expected to rise by \$9.4 billion over the next decade.

According to the [Toronto Financial Services Alliance](#), the Canadian RMB hub will make it easier for Canada's small and medium-sized businesses to export goods and services to China without the need for financial contracts to convert to an intermediary currency. Similarly, the [Canada China Business Council](#) stated that the hub will encourage such businesses to export to the growing Chinese market. The [Canadian Chamber of Commerce](#) noted that businesses that receive payments in the RMB, such as wineries and companies that sell through Alibaba, will benefit from the hub.

In speaking to the Committee about increased trade between Canada and China, the [Canadian Council of Chief Executives](#) and the [Toronto Financial Services Alliance](#) suggested that Canada should establish a long-term vision for Canada–China engagement that includes a strategic partnership and a free trade agreement. The [Canada China Business Council](#) indicated that the Canadian RMB hub will be a positive development in Canada–China relations, and [it](#) supported more structured frameworks for economic relationships.

### **C. Financial Services Sector**

The [Toronto Financial Services Alliance](#) told the Committee that Canadian insurance companies are active in Asian markets, and that the Canadian RMB hub will raise the stature of Toronto specifically and Canada generally as a global financial centre. According to the [China Construction Bank](#), the hub will promote Toronto as one of the world's largest financial centres and will increase the competitiveness of Canadian capital markets.

[Finance Montréal](#) noted that the Canadian RMB hub will assist Canadian financial institutions in creating and distributing RMB-denominated financial products, which will provide institutional and retail clients with new investment opportunities. [It](#) indicated, for example, that derivatives to hedge against RMB exchange rate fluctuations will be traded on the Montréal Exchange.

Finally, [John Curtis](#) suggested that the central role of the U.S. dollar in global financial transactions will not be challenged as a consequence of the Canadian RMB hub.

## APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p><b>Bank of Canada</b> Paul Chilcott, Chief, Financial Markets Department</p> <p><b>BMO Capital Markets</b> C.J. Gavsie, Managing Director, Global Head of Foreign Exchange Products and China Capital Markets</p> <p><b>Department of Finance</b> Rob Stewart, Assistant Deputy Minister, Financial Sector Policy Branch</p> <p><b>Export Development Canada</b> Peter Hall, Vice-President and Chief Economist, Economics</p> <p><b>Industrial and Commercial Bank of China</b> MingXuan (William) Zhu, President and Chief Executive Officer, Canada</p>	2015/02/17	66
<p><b>Canada China Business Council</b> Peter Harder, President, Policy Advisor, Dentons LLP</p> <p><b>Canadian Chamber of Commerce</b> Hendrik Brakel, Senior Director, Economic, Financial and Tax Policy</p> <p><b>Ministry of Finance and Corporate Relations, British Columbia</b> Jim Hopkins, Assistant Deputy Minister, Provincial Treasury</p>	2015/02/19	67
<p><b>Canadian Council of Chief Executives</b> Brian Kingston, Senior Associate</p> <p><b>Finance Montréal</b> Eric Lemieux, Director General</p> <p><b>Toronto Financial Services Alliance</b> Janet Ecker, President and Chief Executive Officer</p>	2015/02/24	68
<p><b>As an individual</b> John Curtis, Consultant, Adjunct Professor</p> <p><b>AdvantageBC</b> Colin Hansen, President and Chief Executive Officer</p>	2015/02/26	69

Organizations and Individuals	Date	Meeting
<p><b>China Construction Bank</b>  Nianbei Sun, Principal officer and General Manager,  Toronto Branch</p>	2015/02/26	69
<p><b>City of London Corporation</b>  Mark Boleat, Chairman, Policy and Resources Committee</p>		
<p><b>Royal Bank of Canada</b>  Bryan Osmar, Managing Director, Head of Market Infrastructure</p>		



# **APPENDIX B LIST OF BRIEFS**

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## **Organizations and Individuals**

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**AdvantageBC**

**China Construction Bank**

**City of London Corporation**

**Ministry of Finance and Corporate Relations, British Columbia**



# REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 66-69 and 80](#)) is tabled.

Respectfully submitted,

James Rajotte

Chair



## Supplementary Report of the Liberal Party of Canada

During the Committee's study of the Renminbi trading hub, many witnesses provided compelling and important testimony on the role of the hub within the larger context of Canada's economic relationship with the China. We were disappointed that some of these important views were left out of the Committee's final report. In particular, the numerous calls for clarity around Canada's foreign investment rules were ignored entirely.

Canada has developed a strong diplomatic relationship with China going back to Prime Minister Pierre Trudeau's initiatives towards China in 1968. However in recent years, the Government of Canada has created much uncertainty in that relationship with its deliberate ambiguity around provisions in the *Canada Investment Act*, particularly on how they apply to state-owned enterprises. The Government's failure of leadership on this issue was most evident during the CNOOC-Nexen deal.

Several witnesses expressed concerns to the Committee on the lack of clarity around Canada's investment rules. Since their testimony does not appear in the main report, we would like to share it here.

Referring to the CNOOC-Nexen deal, Brian Kingston of the [Canadian Council of Chief Executives](#) testified at Committee that, "we have raised some concerns with the way that was communicated. It did create uncertainty for Chinese investors".

Colin Hansen of [Advantage BC](#) agreed. He told committee that, "there was a chill, and I think it comes down to communication, because in anything to do with international business, international finance, companies and countries are looking for certainty and they're looking for stability." He added that, immediately following the Nexen decision, "we certainly had Chinese companies asking whether Canada still welcomed their investment Renminbi."

Nianbe Sun of the [China Construction Bank](#) also raised these concerns. She testified that the Canadian government's policy pronouncement following the Nexen decision "slowed down the investment activity from China because the message conveyed to the Chinese enterprises in the natural resources ore industry was that maybe Canada wanted to slow down investment activity and also the M&A activity from China." Ms. Sun recommended that the Canadian government "change this message and give new information to Chinese enterprises and let them know more about the new policies and strategies of Canada".

Janet Ecker of the [Toronto Financial Services Alliance](#) emphasized to the committee the need for clarity and transparency in Canadian policy. "We do have national interests, which I think, quite rightly, that any government would look to protect. However, doing it within a framework of a Canada-China strategic partnership or furthering free trade agreements I think is probably the right way to go. We can set some rules so that

everyone knows how we would approach this.”

The current Government’s deliberate ambiguity is creating an investment chill that is making it harder for Canadian investors to attract foreign capital. This ambiguity inevitably leads to reciprocal measures where, formally or informally, Canadian businesses lose out on opportunities in important markets like China.

The Liberal Party of Canada recognizes the undeniable link between foreign investment and a stronger middle class in Canada. Trade and investment help strengthen our middle class by supporting economic growth and good-paying jobs here in Canada. This is why Liberal Leader Justin Trudeau was first among the current federal leaders to come out in favour of the CNOOC-Nexen deal.

We continue to call on the government to provide clarity in Canada’s foreign investment rules. A strong Canadian economy requires clear rules that encourage greater investment in Canada.