

**THE WORKING GROUP ON U.S. RMB TRADING AND CLEARING:
ROADMAP FOR ACTION**

The United States and China, the world's two largest economies, enjoy a significant and growing trade relationship. China's continued progress in opening its financial markets will create additional growth opportunities in both countries. At the invitation of Chair Michael Bloomberg, Vice-Chair Mary Schapiro, and their Co-Chairs Henry M. Paulson, Jr., Timothy F. Geithner, and Thomas J. Donohue, the Working Group on U.S. RMB Trading and Clearing (the "Working Group") reviewed the current and growing demand for Chinese renminbi ("RMB") products and services in the United States, and considered options for improved RMB trading, clearing, and settlement in the United States to promote U.S. economic growth and strengthen our economic relationship with China. The Working Group's observations and commitments are set forth below.

State of the Market for RMB Services in the United States

Since the publication of our April 5, 2016 mid-term report, the Working Group has made significant progress. There have been 45 meetings across the Working Group's four subcommittees and four Working Group meetings since the Working Group's formation, including an April 26, 2016 joint meeting with a CFO Advisory Council formed by the U.S. Chamber of Commerce to represent the views of the U.S. business community. Based on information gathered through its questionnaires distributed to, and roundtables conducted with, U.S. Chamber of Commerce members and clients of Working Group members, the information gathered at its joint meeting with the U.S. Chamber of Commerce CFO Advisory Council, and through the work of its subcommittees, the Working Group finds:

- Demand for RMB-denominated products and services in the United States is modest, but it is growing. As of March 2016, the United States had the fourth largest flow of customer initiated and institutional RMB payments by value outside of China and the largest flows of any country without a RMB hub, according to the Society for Worldwide Interbank Financial Telecommunication's ("SWIFT") April 2016 RMB Tracker. There are also strong indications that demand for RMB products and services in the United States could grow rapidly upon the occurrence of certain events, such as the inclusion of Chinese debt and equity securities in major securities indices.
- U.S.-based customers would like to have more options to use RMB in the United States.
 - Customers that wish to hold RMB deposits in the United States face limited choices because multicurrency accounts ("MCA") are not widely offered in the United States, particularly with respect to RMB. Regulatory challenges and processes around RMB deposits and cross-border transfers may reduce the incentives for businesses to hold RMB deposits in the United States and therefore the willingness of banks to offer RMB deposit accounts prospectively.
 - While large U.S. corporations can access RMB accounts via overseas banking relationships and their established overseas treasury centers, the complexity, costs, and inefficiencies associated with those arrangements cause some firms to seek account services in the United States.
 - Most small and middle-market businesses do not possess multicurrency or global treasury operations and so must rely upon their U.S. dollar deposit accounts, foreign exchange conversions, and correspondent bank networks to make and receive RMB payments. These arrangements increase complexity and costs and decrease transparency associated with RMB transactions. They are also unsuited to certain types of activities, particularly those relating to RMB-denominated cash management, securities trading, settlement, and risk management.

- Demand for RMB products and services is also hampered by the lack of RMB liquidity in the United States.
- The United States remains one of the few major financial markets with limited to no RMB investment, clearing, or settlement capabilities, placing U.S. businesses and financial institutions at a competitive disadvantage and impeding greater international use of RMB. Offshore RMB hubs have been established in over 20 cities outside of Mainland China to take advantage of the growing opportunities to trade and invest using RMB. U.S.-based businesses and asset managers wishing to transact and invest using RMB are currently required to use these foreign hubs, due to the lack of options in the United States.
- The introduction of RMB clearing and settlement capabilities in the United States will likely spur the development of related RMB products and services valuable to U.S. financial and non-financial companies. The path forward depends on the magnitude and speed of RMB volume growth, the types of RMB products and services introduced in the United States, and the ability to maintain sufficient RMB liquidity in the United States. These factors can be influenced by actions taken by the private sector and the U.S. and Chinese governments. Factors relevant to evaluating the potential impact of improved RMB capabilities in the United States include:
 - Increasing trade payments denominated in RMB;
 - Increasing bilateral foreign exchange trading between the RMB and USD;
 - RMB flows stemming from increasing investor activity (into or out of China);
 - Demand for RMB hedging products; and
 - Availability of RMB financial instruments settling through financial market infrastructures, including central counterparties, settlement systems, or other central market infrastructures that require intraday, time-of-day, delivery-versus payment, or payment-versus-payment RMB mechanisms.
- Expanding RMB trading, settlement, and clearing capabilities in the United States also raises certain legal and regulatory issues that will need to be understood and addressed by those institutions offering new RMB products and services to ensure continued compliance with all applicable laws and regulations.

Need for Action

In light of these observations, Working Group members have determined that it is worthwhile to lay the groundwork prospectively to meet the expected increase in demand for RMB products and services in the United States by developing a range of improved RMB capabilities. The designation of one or more RMB clearing banks will send a positive signal regarding support for RMB clearing, promote the growth of RMB activity in the United States, and accommodate increased volumes and expanded demand for more RMB products and services. Several financial market infrastructures, including central counterparty, settlement system, and payment infrastructures, are prepared to leverage and modify their current capabilities to clear and settle RMB payments and products in the United States as volumes and product sophistication grow. Expanded RMB capabilities through clearing banks and financial market infrastructures can be expected to produce direct benefits for those customers choosing to use new RMB products and services and improve the competitive position of U.S. financial and non-financial companies in the following respects:

- Advances the case for giving U.S. financial and non-financial companies greater access to domestic Chinese markets, by demonstrating capability to transact in both U.S. dollars and RMB;

- Improves the ability of U.S. companies doing business in China to negotiate invoicing terms on a currency neutral basis, rather than relying on U.S. dollar payments exclusively;
- Assures that U.S. companies are not disadvantaged compared to companies in places with RMB hubs, and that smaller domestically-oriented businesses are not disadvantaged compared to larger businesses with financial operations outside the United States;
- Allows U.S. firms to more quickly capitalize on opportunities presented by the internationalization of RMB and market liberalization in China more generally;
- Presents opportunities for the United States and China to establish innovative and differentiated RMB trading, clearing, and settlement models and products and services over time that continue to meet best practices and regulatory standards; and
- Allows Chinese companies greater funding flexibility when investing in U.S.-based corporations.

Commitments by Working Group Members

Various Working Group members have committed to take certain actions designed to develop RMB trading, clearing, and settlement capabilities in the United States oriented around the following themes, and as explained in more detail in Annex A to this report.

- ***Investing in Growth:***

Certain Working Group members will explore targeted investments designed to meet future growth in RMB payments, products, and services quickly and cost effectively. Investments to be explored include:

- Improvements in domestic banking services, including streamlining correspondent banking services and developing expanded MCA capabilities, particularly for RMB; and
- Enhancements to existing financial market infrastructures to allow the clearing and settlement of RMB payments and RMB-denominated financial instruments.

- ***Creating New Markets:***

Certain Working Group members will form specialized working groups to develop specific RMB products and services oriented around U.S. market needs. These include:

- Cash management and fixed-income products such as medium-term notes and bonds denominated in RMB and issued in the United States by corporations, financial institutions, or the Chinese government;
- Risk management products such as internationally accessible RMB futures, options, and foreign exchange and currency swaps traded on U.S. exchanges or cleared and settled through U.S. clearinghouses, settlement systems, and other financial infrastructures; and
- RMB-denominated products offering exposure to Chinese equity and fixed-income markets, such as exchange traded funds and similar products listed, cleared, and settled in the United States.

- ***Building Community:***

Certain Working Group members will continue to stay engaged on the topic of RMB internationalization and its potential value to the U.S. business community by:

- Establishing a community of U.S.-based financial and non-financial companies with business interests in expanding RMB trading, investment, clearing, and settlement capabilities in the United States; and
- Sponsoring one or more events in the United States to continue to raise awareness of trends in the use of RMB and the potential benefits to U.S. businesses of expanding RMB use.

Request for Support from U.S. and Chinese Authorities

Working Group members believe that the efforts outlined above would be significantly aided by the following U.S. and Chinese policy actions, which they encourage U.S. and Chinese authorities to consider.

- ***Memorandum of Understanding.*** A consistent theme emerging from the Working Group’s review was the value of clarity from relevant authorities in the United States and China regarding their common policy preferences with respect to RMB trading and settlement in the United States. Policy and regulatory uncertainty makes U.S. businesses hesitant to transact in RMB and to make prospective investments in market development. Working Group members believe that a memorandum of understanding between the United States and China reflecting an intention to engage in an ongoing dialogue regarding RMB internationalization, including the specific market improvements described below, and to provide greater policy transparency regarding RMB matters generally, would increase incentives to transact and invest, and be valuable to the financial and non-financial business community.
- ***Improved Access to Chinese Markets.*** The Working Group also believes that providing greater access to Chinese capital markets for U.S.-based participants in the financial sector through the measures described below would act as a catalyst for the U.S. financial sector to invest in the infrastructure necessary to develop RMB products and services in the United States, and therefore should be given specific attention in discussions between U.S. and Chinese officials.
 - ***RQFII Allocation for U.S.-based Asset Managers.*** An appropriately sized allocation for U.S.-based asset managers under the Renminbi Qualified Foreign Institutional Investor (“RQFII”) program would both stimulate demand for, and further the development of, RMB-denominated financial instruments in the United States and ensure that U.S.-based asset managers are able to track market indices effectively when Chinese A-shares and bonds are included in such indices. Further, an RQFII allocation would give small and medium-sized asset managers, who may lack global affiliates, a platform to more efficiently enter Chinese domestic financial markets. Based on its review, and as explained in more detail in Annex B of this report, the Working Group considers that given the size and depth of the United States’ financial markets, the amount of assets under management of U.S.-based asset managers, and the current RQFII allocations for other jurisdictions, the United States should seek an allocation of not less than CNY 195 billion or USD 30 billion.
 - ***Access to the Inter-Bank Bond Market for U.S.-based Asset Managers.*** China’s recent policy change, including regulations issued on May 27, 2016, to open its domestic inter-bank bond market to direct investment by a wide range of foreign institutional investors, including U.S.-based asset managers, without the need for QFII or RQFII licenses, should over time stimulate demand for, and further the development of, RMB-denominated financial instruments in the United States. In order to facilitate full participation in the Chinese domestic bond markets, Working Group members recommend that the relevant Chinese regulators continue to implement regulations, rules, and application procedures specifying eligible investors, the scope of allowed investments, the relationship with QFII and RQFII quota, rules regarding foreign exchange

transactions, and the scope of potential macro-prudential measures in a timely, inclusive, and non-discriminatory manner.

- ***Expanded Access to CIPS for U.S. Banks.*** Allowing more U.S. banks to participate directly in China’s Cross-border Inter-bank Payment System (“CIPS”) and expanding the operating hours of CIPS to overlap with U.S. business hours would create incentives for U.S. banks to improve or expand their RMB banking services for their U.S.-based customers in the short term, and improve the business case for U.S. market participants to make longer-term investments related to RMB trading, clearing, and settlement. Expansion of CIPS access to financial market infrastructures that are based in the United States and are capable of providing RMB trading, clearing, and settlement services in the United States and elsewhere would further support future growth of RMB activity in the United States.
- ***Improvements to U.S. Markets.*** Working Group members also believe that U.S. and Chinese officials should agree on a framework to establish one or more clearing banks or clearinghouses in the United States in order to ensure that the settlement of RMB will be conducted safely at all times and for U.S.-based customers and financial institutions in particular, as RMB volumes increase and interest in more products and services emerges.
 - ***Introduction of the Clearing Role.*** Given the nature and characteristics of U.S. markets, Working Group members consider it to be essential that banks with significant U.S. operations and appropriate capabilities be eligible for designation to provide RMB clearing and settlement services. Regulators should consider permitting one or more of these eligible banks to play such a clearing role in the United States, as well as one or more U.S.-based clearinghouses and/or settlement systems, as appropriate. Designation of one or more clearing banks, clearinghouses, or settlement systems would be expected to produce the clear benefit of complementing existing correspondent banking channels and allowing RMB products and services to be introduced in the United States more rapidly by using multiple channels simultaneously, thereby taking full advantage of the breadth and diversity (both geographically and by industry) of such banks’ customer bases and the unique capabilities of U.S.-based market infrastructures.
 - ***Regulatory Matters.*** Working Group members that would either offer or use such RMB trading, clearing, and settlement services have a specific interest in understanding the particular U.S. and Chinese regulatory expectations that would be associated with such services as soon as possible. Accordingly, Working Group members strongly encourage U.S. and Chinese officials with relevant responsibilities to discuss and communicate requirements in a coordinated manner in the near future. Doing so will have the clear benefit of allowing the market for RMB trading, clearing, and settlement services to develop without constraints arising from a lack of information from the regulatory community, and help to ensure that U.S. businesses and financial institutions are not at a competitive disadvantage due to the absence of certain RMB products and services in U.S. markets.

ANNEX A

Commitments by Working Group Members

Various Working Group members have committed to take actions in one or more of the following areas to further develop RMB trading, clearing, and settlement capabilities in the United States.

- **Investing in Growth**

Certain Working Group members will explore targeted investments designed to meet future growth in RMB payments, products, and services quickly and cost effectively. Areas of investment to be explored include:

- ***Improvements in domestic banking services.*** A group of interested banks, clients, and other industry stakeholders will be established to better understand and act upon the U.S. business community's interest in streamlined and expanded domestic banking services for RMB. Specific topics to be considered include:
 - Identify improvements to correspondent banking processes, including consideration of improved messaging standards and processes and new technologies, that might reduce complexity and streamline U.S.-China cross-border payments, lower costs, improve transparency, and reduce time requirements;
 - Identify needed new multicurrency account (“MCA”) capabilities, particularly with respect to RMB, and prioritize their development; and
 - Identify the most significant regulatory questions relevant to reducing the complexity of making RMB payments and streamlining associated banking processes, including the introduction of new MCA accounts for RMB in the United States, so that the questions may be raised with, and considered by, relevant authorities in China and the United States.

This group will be co-chaired by China Construction Bank and HSBC and expects to work closely with the central banks and regulatory bodies in the United States and China to ensure all relevant regulatory interpretations are accurate as RMB services are expanded.

- ***RMB-specific infrastructure enhancements.*** Several financial market infrastructures, including central counterparty, settlement systems, and payment infrastructures, are prepared to leverage their current capabilities and explore innovative approaches to clear and settle RMB payments and products in the United States as volumes and product sophistication grow. Implementing these enhancements will increase the capacity and soundness of RMB payment and settlement in the United States consistent with relevant international risk management standards such as those promulgated by Bank for International Settlement's Basel Committee on Banking Supervision and Committee on Payments and Market Infrastructures. Working Group members representing clearing and settlement infrastructures commit to the following steps:
 - Determine the cost and timeframe necessary to develop and implement RMB capabilities;
 - Pursue further discussions with U.S. and Chinese supervisory officials regarding regulatory requirements and approvals, as needed; and
 - As innovative settlement and clearing technologies and systems are further validated, explore the application of these technologies and systems to RMB product clearing and settlement to reduce operational complexities and create new efficiencies.

CLS Bank International, CME Group, The Clearing House Payments Company, and The Depository Trust and Clearing Corporation have committed to participate in this effort and expect

to work closely with the central banks and regulatory bodies in the United States and China as RMB-denominated clearing and settlement services are expanded.

- **Creating New Markets**

Certain Working Group members will form specialized working groups to develop specific RMB products and services oriented around U.S. market needs. These include:

- Cash management and fixed-income products such as medium-term notes and bonds denominated in RMB and issued in the United States by corporations, financial institutions, or the Chinese government. A recent example is the May 20, 2016 launch by certain Working Group members of the first RMB-denominated certificate of deposit eligible to be cleared in the United States. Founding members: Agricultural Bank of China, China Construction Bank, TCW Group, and The Depository Trust and Clearing Corporation;
- Risk management products such as internationally accessible RMB futures, options, and foreign exchange and cross-currency swaps traded on U.S. exchanges or cleared and settled through U.S. clearinghouses, settlement systems, and other financial infrastructures operating consistent with relevant international regulatory standards. Founding members: Bank of China, CLS Bank International, CME Group, Intercontinental Exchange, and Industrial and Commercial Bank of China; and
- RMB-denominated products offering exposure to Chinese equity and fixed-income markets, such as exchange traded funds and similar products listed, cleared, and settled in the United States. Founding members: Bank of China, The Depository Trust and Clearing Corporation, and KraneShares (CFO Advisory Council member).

- **Building Community**

Working Group members intend to continue to stay engaged on the topic of RMB internationalization and its potential value to the U.S. business community by:

- ***Expanding the Working Group.*** The Working Group will expand to provide the foundation for a growing community of U.S.-based financial and non-financial companies with business interests in improving RMB trading, investment, payment, clearing, and settlement capabilities in the United States. Key features of this expanded Working Group include:
 - Continued partnership with the U.S. Chamber of Commerce and its CFO Advisory Council, which is also expanding to include more U.S. companies interested in improved RMB capabilities, through meetings and dialogue focused on RMB activity in the United States;
 - Adding new Working Group members. China Merchants Bank, CITIC, and BNP Paribas have committed to participate in future Working Group activities, and Working Group membership will be further expanded to include regional banks serving middle-market companies as well as other banks and financial institutions with an interest in enhanced RMB capabilities; and
 - Exploration of a partnership between the expanded Working Group and one or more existing trade or professional associations to form a new U.S.-based group oriented around realizing the value of RMB markets to the U.S. business community.
- ***Raising Awareness of the Benefits of RMB Use.*** The Working Group expects to organize a launch event to raise awareness of its work, trends in the use of RMB, and the potential benefits to U.S. businesses of expanding RMB use. Planning is now underway for the launch event and more details will be released as the plans are finalized.

ANNEX B

Basis for Proposed Renminbi Qualified Institutional Investor Allocation

To appropriately support U.S.-based asset managers and other investors, the Working Group recommends that the United States receive an RQFII allocation of not less than CNY 195 billion or USD 30 billion. This is a modest request, given the significant lack of alignment between the current distribution of RQFII quotas and the distributions of managed assets, the expected future inclusion of Chinese fixed-income securities in major bond indices, and the overall size of the U.S.-domiciled asset management industry.

The inclusion of China A-shares in major emerging market and other indices would be expected to quickly stimulate demand for RMB in order to more efficiently enter the onshore Chinese market, as well as prompt the development of RMB-denominated financial instruments in the United States. Studies by market index providers have also shown that North American asset managers have a significantly lower allocation of RQFII quotas compared to their assets under management, indicating it may be difficult for them to replicate the inclusion of Chinese securities in such indices in some circumstances without a substantial increase in their quota allocation. The initial RQFII allocation for the United States would be a first step to better align the RQFII program with the needs of the U.S. asset management industry, currently the world's largest with in excess of USD 66 trillion assets under management.

The future inclusion of Chinese bonds in major bond market indices and any later revisions of equity indices to increase the weights given to Chinese securities could be expected to have stimulating effects that would likely require further increases to the United States' RQFII allocation. The Working Group recommends that such possibilities should be anticipated and planned for by both U.S. and Chinese authorities. While some U.S.-based equity and fixed-income investors could continue to access Chinese markets through other channels, such as RQFIIs of affiliates in other markets, QFIIs, and directly through the stock connect link and interbank bond market, many others, including small and mid-sized firms, will likely prefer to do so through an RQFII allocation, making the program particularly important for those types of asset managers.