

Initial Observations of the Working Group on U.S. RMB Trading and Clearing April 5, 2016

Background of the Working Group

The Working Group is chaired by Michael R. Bloomberg. Mary Schapiro serves as Vice-Chair of the Working Group, and Thomas J. Donohue, Timothy F. Geithner and Henry M. Paulson, Jr. act as Co-Chairs. Details of the Working Group's membership are set forth in Annex A of this letter.

The formation of the Working Group followed the agreement of President Obama and President Xi during their bilateral summit at the White House on September 25, 2015 to further strengthen financial cooperation between the United States and China, including a discussion of mechanisms "to facilitate renminbi trading and clearing in the United States." The Working Group's objective is to identify, evaluate, and recommend opportunities to develop and expand the trading, clearing, and settlement of RMB in the United States. To this end, the Working Group expects to:

- Serve as a forum for discussions among members interested and/or engaged in RMB trading, clearing, and settlement in the United States;
- Review different operating models for RMB trading, clearing, and settlement in the United States;
- Consider the types of RMB products and services that could be useful for the U.S. market;
- Discuss possible enhancements to, or development of, U.S. financial market infrastructure;
- Educate the U.S. marketplace on mechanics and potential benefits of RMB trading, clearing, and settlement; and
- Determine capabilities for RMB trading, clearing, and settlement consistent with existing market practices and regulatory requirements.

The Working Group expects that enabling RMB-denominated transactions to be traded, cleared, and settled in the United States could improve the competitiveness of U.S. companies by lowering their transactional costs, increasing their efficiency, and helping them to build stronger trade and business partnerships — which should in turn create more jobs and lead to further U.S. economic growth.

Since the inaugural meeting in New York on January 20, 2016, the Working Group formed four subcommittees, Business Community Outreach, Operating Model Options, RMB Products and Services, and Regulatory Considerations, to conduct its work. There have been a total of 29 meetings across the four subcommittees since their formation.

The Working Group met again on February 24, 2016, to track its progress and to plan its next steps. More detail on the Working Group's activities, the activities of each subcommittee, and initial observations relating to the topics currently under consideration is set forth below.

The Working Group also created a public website -- <http://www.rmbusawg.com/> -- describing its objectives, members, leadership, and governance. Additional information about the Working Group's activities will be posted on the website in the future.

Business Community Outreach Subcommittee

Working Group members believe that understanding the potential demand of U.S. businesses for RMB products and services is fundamentally important when evaluating appropriate steps to facilitate RMB trading, clearing, and settlement in the United States. Since the inaugural meeting in January, Working Group members have taken the following actions to assess potential demand in greater detail, with significant input from the U.S. Chamber of Commerce and its members:

- Developed and distributed a broad-based anonymous questionnaire to over 3,000 U.S. Chamber of Commerce members and clients of Working Group participants to understand the demand for RMB products and services in greater detail;
- Arranged for a series of roundtables to be conducted in New York, Chicago, and San Francisco in March to hear the experiences of individual U.S. businesses and buy-side representatives using RMB products and services that are currently offered in the United States; and
- Planned a national forum of chief financial officers and treasurers of U.S. businesses to be held in Washington, DC on April 26, 2016, which will provide Working Group members an opportunity to hear directly from U.S. businesses regarding their potential demand for RMB products and services.

While the Working Group's review process is continuing, based on the work conducted to date, the Business Community Outreach subcommittee Co-Chairs have the following initial observations regarding demand for RMB products and services by U.S. businesses:

- The responses to the questionnaires and the roundtables in Chicago, New York, and San Francisco will provide more information for the Working Group to assess regarding particular client interests in categories including trade settlement, financing, risk management, and asset management.
- Any proposed RMB denominated products and services must meet or exceed levels of service U.S. customers currently receive.

Operating Model Options Subcommittee

The international use of the renminbi has increased significantly between 2010 and 2016, including through the development of RMB offshore currency centers and trading hubs. As a result, many Working Group members with businesses outside of the United States have substantial institutional experience with a variety of operating models for the trading, clearing, and settlement of RMB payments that they can draw upon when considering what approach might be appropriate to pursue in the United States. The Working Group's Secretariat developed a brief overview of several of the principal alternative operating models – correspondent

banking, clearing bank/clearing hub, and clearing house models – as a resource for Working Group members. Following the inaugural meeting in January, Working Group members are taking additional steps to review the topic in greater detail, including:

- Analyzing the characteristics of the different types of operating models used in other RMB hubs, taking into consideration the economics of the different models, (e.g., commercial viability, break-even volume thresholds, etc.) and any factors that affect the use of various models in other jurisdictions (e.g., regulation, products/services supported, characteristics of the local banking system, etc.) to help inform the subcommittee’s discussion around each model;
- Preparing a high-level assessment of the credit, liquidity, operating risks, costs, and benefits of the principal operating model options, associated risk management requirements, and the benefits that could reasonably be expected, including preliminary estimates of the volume levels needed to support the commercial provision of such services over several time horizons; and
- Examining operating models in the context of specific use cases and U.S. market structure in order to determine where particular models are suitable for retail and large value settlement flows as well as unilateral and multi-currency RMB flows.

Additionally, the subcommittee will review whether there is an evolutionary path for RMB trading, clearing, and settlement in the United States, including any potential for hybrid models that would meet increased market demand over time. For instance, the subcommittee may evaluate whether there are aspects of one operating model that are more appropriate for short-term implementation and aspects of other models that may offer a more desirable long-term solution. The analysis also will consider how demand for U.S. infrastructure may change in the future as other RMB payment, clearing, and settlement systems develop in China or other hubs globally and how any models would meet international standards.

While the Working Group’s review process is continuing, based on the work conducted to date, the Operating Model Options subcommittee Co-Chairs have the following initial observations regarding possible operating models for RMB trading, clearance, and settlement in the United States:

- The correspondent banking, clearing bank, and clearing house models are well understood by Working Group members and could be adopted and operated safely under applicable standards subject to necessary regulatory approvals.
- Both the clearing bank and the clearing house models offer possible advantages for banks and their customers compared to the correspondent banking model, depending on the assessments of volume demand and liquidity implications.
- The suitability of the models will depend significantly on the rate at which RMB activity increases in the United States and internationally, and the nature of the activity to be supported (i.e., demand and types of products and services).
- Multicurrency accounts are not currently widely available or used in the United States, and therefore, realizing the potential advantages of either the clearing bank or clearing house

model would likely require behavioral changes and upfront investment by financial institutions.

RMB Products and Services Subcommittee

The volume and value of RMB denominated products and services outside of Mainland China has expanded significantly since 2010, with much of the growth centered in Hong Kong and the other jurisdictions that have established RMB offshore hubs. Categories of RMB products and services now available include RMB retail and corporate banking services (e.g., deposit accounts, certificates of deposit, trade settlement, and wealth management), RMB capital market products and services (e.g., debt and equity financing, exchange traded funds, and investment funds), and RMB risk management products (e.g., futures, options, and swaps). In most cases these RMB denominated products and services form one part of more extensive foreign currency services offered by financial institutions, financial exchanges, and financial market infrastructures. The range of products and services available also varies significantly by jurisdiction.

To support the Working Group's review process, following the inaugural meeting in January, Working Group members have taken additional steps to review in greater detail the types of RMB products and services that may be appropriate to develop for the United States, including:

- Prepared a summary comparative analysis of the RMB products and services offered by existing offshore hubs, including whether certain hubs specialize in specific types of products and services; and
- Agreed that there is value in providing market education and raising the level of awareness of the potential benefits resulting from the increased use of RMB products and services in the United States.

While the Working Group's review process is continuing, based on the work conducted to date, the RMB Products and Services subcommittee Co-Chairs have the following initial observations regarding the potential provision of expanded RMB trading, clearing, and settlement services in the United States:

- A review of RMB products and services available outside of Mainland China shows there to be a broad range of alternatives available, with some specialization in individual countries.
- In light of U.S. leadership in financial markets, an initial focus on developing RMB financial products and services may be particularly worthwhile.

Regulatory Considerations Subcommittee

Working Group members are committed to ensuring that any recommendations that may be produced by the Working Group are fully consistent with any relevant U.S. legal and regulatory standards. We also recognize that the expansion of RMB trading, clearing, and settlement services in the United States may raise unique questions of both law and policy. Such questions will require a more detailed review in consultation with relevant regulators in both the United States and China.

To support the Working Group's review process, following the inaugural meeting in January, Working Group members are taking additional steps to identify certain legal and regulatory considerations relating to the provision of RMB products and services in the United States in greater detail, including:

- Reviewing the legal basis for providing possible new RMB trading, clearing, and settlement services or participating in such services that may be developed; and
- Reviewing compliance considerations associated with pursuing the adoption of any new RMB trading, clearing, and settlement services.

While the Working Group's review process is continuing, and more detailed review of final proposals of the Working Group will be necessary, based on the work conducted to date, the Regulatory Considerations subcommittee Co-Chairs have the following initial observations:

- Existing legal precedents allowing U.S. institutions to use or participate in each of the principal operating models being considered by the Working Group will need to be reviewed further to determine any variations that may be necessary to offer RMB specific clearing bank or clearing house services in the United States.
- This more complete legal and compliance review will follow any final recommendations of the Working Group.

Need for Regulatory Input

As the Working Group proceeds it is likely to identify areas for consideration that would benefit from input from one or more regulators. The Working Group is prepared to consult with you and your staffs to support your consideration of these matters and would welcome input from you regarding policy priorities that should be given greater attention as we prepare our recommendations.

Next Steps

The Working Group will meet again on April 7 and April 26, 2016, in advance of the 7th China Business Conference to be hosted by the U.S. Chamber of Commerce and the American Chamber of Commerce in China on April 26-27, 2016. The Working Group expects to prepare its more complete preliminary observations following due consideration of the information collected by the Working Group. We anticipate that any recommendations identified at that time will require further refinement, including the development of more specific tactical steps for implementation, in consultation with regulators and market participants more generally. Accordingly, once their preliminary observations are finalized, Working Group members will define appropriate additional steps that may be required to track progress thereafter, including the provision of periodic updates to regulators as we proceed.

Annex A

Working Group Members

The U.S. Chamber of Commerce
Agricultural Bank of China
Bank of America Merrill Lynch
Bank of China
Bank of Communications
BNY Mellon
China Construction Bank
Citigroup
CLS Bank International
CME Group
Goldman Sachs
HSBC
Industrial and Commercial Bank of China
Intercontinental Exchange
JPMorgan Chase & Co.
Morgan Stanley
State Street
Standard Chartered
TCW Group
The Clearing House Payments Company
The Depository Trust and Clearing Corporation
Wells Fargo & Co.

Subcommittees and Subcommittee Co-Chairs

Business Community Outreach

The U.S. Chamber of Commerce
China Construction Bank
CME Group
Wells Fargo & Co.

Operating Model Options

Bank of China
Citigroup

Regulatory Considerations

Bank of America Merrill Lynch
HSBC

RMB Products and Services

Agricultural Bank of China
Industrial and Commercial Bank of China
State Street