



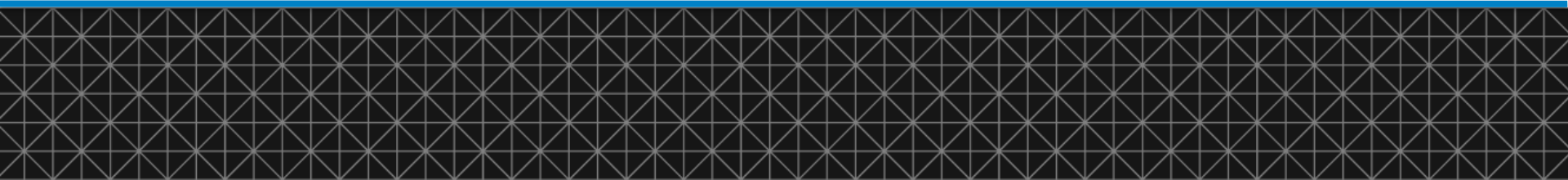
Securing Today. Shaping Tomorrow.®

# Scaling the Great Wall to Understand RMB Internationalization

- The Opportunities and Challenges -

**Nellie Dagdag, Managing Director /Head of Global Industry Relations**

**Hasan Rauf, Executive Director/Head of Business Development – Asia Pacific**



# Overview

- Background to Renminbi (RMB) Internationalization
- Developments involving RMB Internationalization
- Opportunities available to capital market firms
- Operational Challenges of RMB Internationalization for capital market firms

# China is accelerating its economic reforms by internationalization of its currency

## Salient features of Chinese economy

2<sup>nd</sup>

Largest Economy in the world

1<sup>st</sup>

In International Trade

2<sup>nd</sup>

Largest recipient of remittance



Closed economy to foreigners for a long time



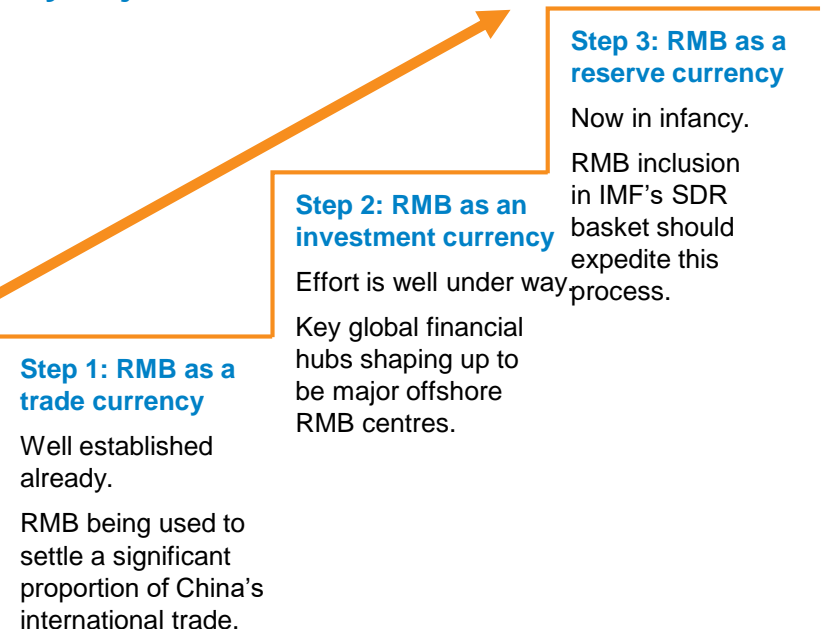
Negligible share of RMB in international transactions

Source: World Bank, Celent

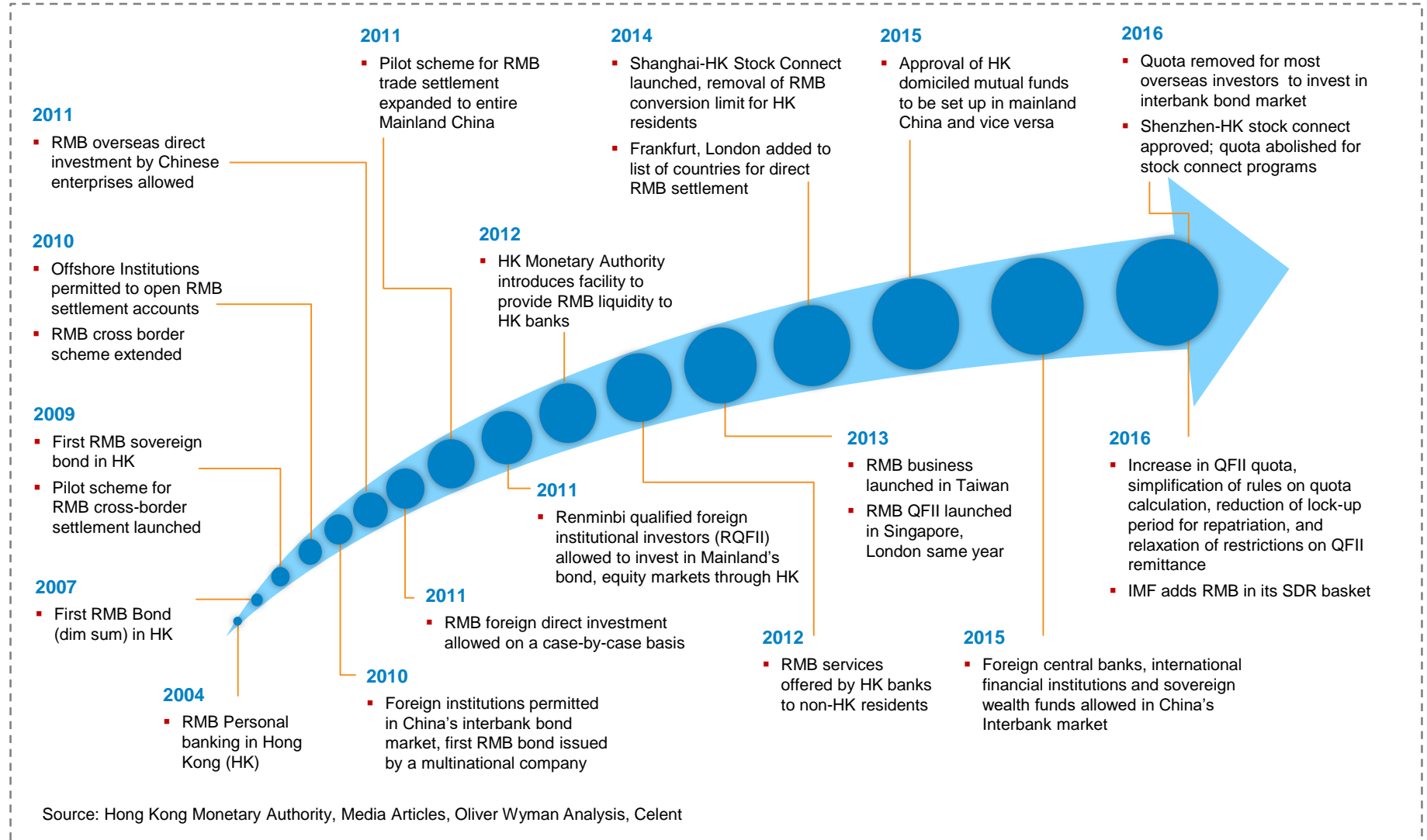
## RMB internationalization

- China's efforts to grow the role of RMB in global transactions
- Part of long term plans of liberalizing the economy and attract foreign capital

### Key objectives



# Several key milestones have already been achieved in the RMB Internationalization journey



# Key Questions on RMB Internationalization

- What are the developments taking place involving RMB Internationalization?
- What opportunities does RMB Internationalization present to capital market participants?
- How do capital market firms get ready to capitalize on RMB Internationalization?

*Are there any operational challenges for capital market firms keen to participate in the China Story?*

# Developments shaping the RMB Internationalization journey

- Opening up of mainland's stock market and asset management industry for global investors
  - Stock Connect schemes, mutual recognition of funds between Hong Kong and China
- Policy changes to encourage greater foreign participation
- IMF's inclusion of RMB in its SDR basket, the World Bank to issue bonds in China backed by SDR basket
- The World bank has decided to issue bonds in China backed by the SDR basket that will be settled in RMB
- Leading global index providers likely to include RMB denominated A-Shares in their key indices
- Hong Kong is the dominant offshore centre in RMB Internationalization
- Leading market infrastructure providers to develop new links and platforms to further develop RMB market

# Opportunities for capital market participants

- Investment managers and hedge funds gain easier and wider access to Chinese assets with high return and better risk management features
- Financial intermediaries and market infrastructure providers can develop new products and services that connect global players with local markets, and help them navigate local complexities
- These developments will expand the product and service offerings involving the RMB, and also expedite adoption of technology in capital market

# Getting Ready for RMB Internationalization

- Local Rules and practices on key issues can differ from international standards (e.g., naked short selling, day trading, a short and complex settlement cycle, and delivery versus payment)
- Currencies in onshore and offshore markets are the same legal tender but need to be identified separately
- Language differences are not adequately addressed in current systems
- These operational challenges create inefficiencies at a firm level – it is expensive and redundant for individual firms to solve these common challenges

***Market participants need to be aware of the challenges and ways to overcome them to benefit from the RMB Internationalization process***



# The Road Ahead...

- Establish industry wide standards and frameworks to strike a balance between global and local practices
- Coordinated efforts among market participants and active engagement with regulatory authorities
- All in the capital market ecosystem to work together

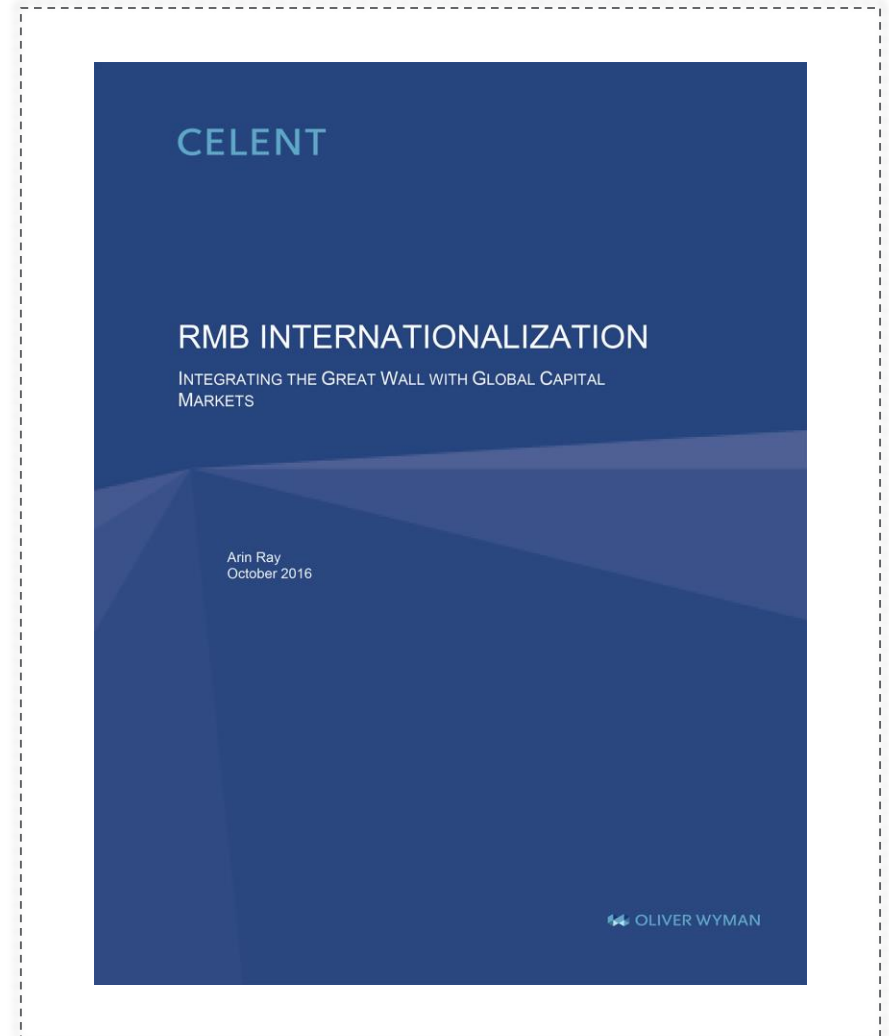
# The Road Ahead

- Transformation of the Chinese economy and its currency likely to continue
  - There will be occasional speed bumps, as is expected for any such undertaking, and should not derail the overall process
- Journey likely to be shaped by complex evolution of regulatory changes, need for accurate understanding and implementation of regulations into firm level policies, and a patchwork of different processes and systems
- Heavy reliance on manual processes to address operational challenges
  - This would not be sustainable as the markets develop and volumes grow
- Developing internal systems and capabilities to overcome local nuances will likely be operationally difficult and expensive for individual firms
  - Specialist external providers can help navigate the complexities in a timely and cost-effective way
- Need for more concerted efforts among industry participants, and active engagement and co-ordination with regulatory authorities on current issues and future direction of changes

# More information on...

...RMB Internationalization...grab a copy of the white paper, “RMB Internationalization: Integrating the Great Wall with Global Capital Markets” at [www.dtcc.com](http://www.dtcc.com).

Published by Celent, a division of Oliver Wyman, and commissioned by DTCC.



# DTCC

Securing Today. Shaping Tomorrow.®

## Thank You

