Summary

The City of London Corporation has strong working relationships with major financial centres around the globe, and has dedicated programmes of engagement with China, the US, India, the EU and Singapore.

A key element of the City Corporation’s China engagement is its initiative to support the development of London as a centre for offshore renminbi (RMB) business. The initiative has made significant steps in both developing market infrastructure to increase RMB denominated business through London and highlighting opportunities to the business community.

Increased global interest in the internationalisation of the RMB and the scope of increased business transacted through the City highlights the importance of developing robust infrastructure, policy and safe and prudent financial products to ensure the smooth global adoption of the RMB and growth in related financial services.

Following discussions with key contacts, it is proposed that the City Corporation should partner with the Atlantic Council (a leading Washington based think tank), Thomson Reuters and Standard Chartered, to deliver a major piece of research titled ‘RMB Internationalisation and the Regulation of Global Financial Markets’ to assess what is required for the RMB’s successful international adoption.

It is proposed that the total cost of commissioning the Atlantic Council to deliver this research report of US $150,000 (approximately £93,000) is shared equally between the City Corporation, Thomson Reuters and Standard Chartered. The City Corporation and other partners will provide expert input and guidance.

Partnering on this project will contribute directly towards the City Corporation’s international engagement objectives, particularly its RMB initiative and China programme, and promoting these initiatives to a US audience. This will additionally contribute to the City Corporation’s regulatory engagement objectives in the US, EU, Singapore and the wider Asia region.

Recommendation

It is recommended that your Committee approves a contribution of US $50,000 (approximately £31,000) towards the cost of commissioning of this report to be met from your Committee’s Policy Initiatives Fund 2014/15, categorised under ‘Promoting the City’ and charged to City’s Cash.
Main Report

Background

1. The City of London Corporation has developed relationships with strategically important global financial centres in both developed and emerging markets. The City enjoys a strong relationship with partners in China, the USA, and India, through dedicated programmes of engagement, and is currently pursuing closer engagement with Singapore.

2. A key element of the City Corporation's engagement with China relates to the internationalisation of the renminbi (RMB). In 2012, the City Corporation launched an initiative to support the development of London as a centre for offshore RMB business. This aims to build a long term sustainable market that supports greater international use of the RMB, make trade processing easier for European corporates and offer customers and investors the chance to invest, trade, bill and bank in the RMB. Though the RMB initiative is private sector led, the commitment from official observers (Bank of England, HM Treasury and PRA) has been particularly important to the RMB initiative and their consistent engagement has allowed informed engagement to take place at a government-to-government level.

3. The internationalisation of the RMB may, in the long term, be a game changing event for global markets, catalysing deep changes in cross border capital markets, and perhaps the creation of a new reserve currency. The trajectory of these developments and increasing global attention on the topic highlights the importance of developing robust infrastructure, policy and safe and prudent financial products to ensure the smooth adoption of the currency and growth in related financial services.

4. To this end, it is proposed that the City Corporation should collaborate with selected partners (Atlantic Council, Thomson Reuters and Standard Chartered) on a major piece of research titled 'RMB Internationalisation and the Regulation of Global Financial Markets', which aims to provide an assessment of the current state of RMB internationalisation and identify what is needed for successful adoption from the standpoint of market participants (corporates and investors), as well as the kind of policy and infrastructure that is needed to support this.

5. The proposed project will comprise a report (15-20 pages) covering the most pressing issues concerning global financial centres and the internationalisation of the RMB on US, European, and Asian financial markets. A four-city report launch in Washington, London, Singapore and Hong Kong (latter 3 being offshore RMB centres) would be arranged. The international scope of this project means that it will not only support the City Corporation's work in China, but also its engagement in the US, Europe and Singapore.

6. The cost of commissioning the Atlantic Council to deliver this report is US $150,000 (approximately £93,000) which would be shared equally between the City Corporation and the two other partners, Thomson Reuters and Standard Chartered. The City Corporation and other partners will be named partners of the report and provide input and guidance throughout the process. They will also help coordinate the consultation of their relevant stakeholders on RMB-related issues, and get appropriate recognition in the publication of the report.
The commissioning of this report is at a time of increasing attention to the subject of RMB internationalisation and key developments in this area. There are already signs of the RMB transitioning into the international monetary system, for example: (1) RMB is now used in more than 15% of China’s trade settlement (2) RMB has climbed to 14th place in the ranking of global payment currencies, up from 35th place in 2011 (3) RMB-denominated bonds have now been listed in UK, Luxembourg, Germany, France, and throughout Southeast Asia, just as firms in Europe and the US are now directly investing for the first time in China’s onshore capital markets.

The report will be drafted by Atlantic Council’s C. Boyden Gray Fellow, Chris Brummer (serving as rapporteur), with key input from officers from the City Corporation, Thomson Reuters, Standard Chartered (partners hereafter) and their relevant stakeholders. A high level advisory board will be created, consisting of international bankers and representatives from financial institutions, government policymakers, and academics from both the transatlantic markets and Asia. The City Corporation’s Chairman of Policy would be a member of the advisory board, as could other designated senior stakeholders of the City e.g. member of the City of London China Advisory Council.

A working level taskforce will also be created, in addition to the advisory board, comprising key experts that can provide technical input to the project. This will again comprise representatives of financial institutions, policymakers, academics etc. selected by the Partners. City Corporation officers will also be involved and assist in coordinating consultation of its stakeholders. There will be a series of workshops held in Washington DC (Autumn 2014) and London (Winter 2014) to convene experts on the issues and facilitate their input and discussion on the RMB’s rise. Each workshop will have teleconferencing for remote participants.

The report will be launched in Washington (May 2015), London (late May 2015), and Hong Kong (June 2015). Each launch will bring together key policymakers from each of the cities, in order to discuss the findings of the report, and also build upon the initial points highlighted in the report. The drafts of the report will need to be reviewed and approved by the partners and key stakeholders prior to completion/launch.

It is anticipated that the report and associated launch will receive much attention from the international finance and policy community, as well as media outlets, given the profile of the partners and subject matter of the research. The Atlantic Council are a leading US think tank and respected voice on transatlantic regulatory issues. Their 2013 report on ‘The Danger of Divergence: Transatlantic Financial Reform & the G20 Agenda’ (sponsored by TheCityUK and Thomson Reuters) raised awareness of the impact of transatlantic regulatory divergences on financial markets, facilitating enhanced US/EU discussion on the topic at a government policymaking level.

The report is likely to achieve a high level of international exposure for the City Corporation, reinforcing its position as a thought leader and expert on RMB internationalisation. This will support the City Corporation’s China engagement programme and RMB initiative in particular. This exposure could additionally benefit the City Corporation’s wider international engagement, especially with the US and Singapore, as well as read across to the international regulatory coherence agenda, which is a key priority of the International Regulatory Strategy Group (IRSG).
development of London as an international hub for RMB business is also a priority for Her Majesty’s Treasury, which fully supports the City Corporation’s RMB initiative.

Corporate & Strategic Implications

13. Partnering on this project will contribute directly towards the City Corporation’s international engagement objectives, particularly its RMB initiative and China programme, and promoting these initiatives to a US audience. This will additionally contribute to the City Corporation’s regulatory engagement objectives in the US, EU, Singapore and the wider Asia region. This supports the vision of the City of London’s 2013 – 17 Corporate Plan and the strategic aim: “To support and promote The City as the world leader in international finance and business services”.

14. It also meets the strategic aim of the Economic Development Office to “support and promote the City as the world leader in international finance and business services, by championing a positive, responsible and competitive business and policy environment, supporting the City’s interests in global markets and helping to realise the economic and social potential of London, especially the City and our neighbouring boroughs”.

Financial and risk implications

15. It is proposed that the required funding from the City Corporation of US $50,000 (approximately £31,000) is drawn from your Policy Initiatives Fund for 2014/15, categorised under the Promoting the City section of the Fund and charged to City’s Cash. The current uncommitted balance available within your Committee’s Policy Initiative Fund for 2014/15 amounts to £274,400 prior to any allowance being made for any other proposals on today’s agenda.

Conclusion

16. The proposed research report will not only add value to the City Corporation’s RMB initiative and China programme, but also help raise exposure of the City of London and its work on international financial regulatory issues in the US, Europe and Asia. This will further help us to support the UK financial and professional services industry in international markets.

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