LuxembourgforFinance
Agency for the Development of the Financial Centre

RENMINBI BUSINESS

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FOREWORD

PIERRE GRAMEGNA, MINISTER OF FINANCE LUXEMBOURG

Over the course of recent years, Luxembourg has developed into one of the leading hubs for international renminbi business in Europe. While the internationalisation of the Chinese currency was initially mostly linked to trade, it has now become a recognised investment currency. With the addition of the yuan to the IMF Special Drawing Rights basket, granting it the status of a reserve currency, a milestone has been reached. The role of the Luxembourg financial center will be to further strengthen the status of the renminbi as a global currency and to contribute to innovation in the field of product development.

Luxembourg serves as an ideal entry gate for Chinese banks into the European Union market. Bank of China, ICBC, China Construction Bank, Agricultural Bank of China, China Merchants Bank and Bank of Communications have all chosen Luxembourg as the hub from which to manage their continental European network through the European Single Market.

Luxembourg's established position as Europe's number 1 investment fund center also contributes to its rank as the premier renminbi hub in Europe. All the major international players are using their Luxembourg platform to tap into the large pool of RMB hungry investors in Europe and beyond. Chinese asset managers are also launching funds out of Luxembourg. The expertise in fund distribution available in Luxembourg and the global reach of its fund industry thus serves as a useful tool in China's quest to multiply the channels for internationalising the renminbi. Responsive to innovation, the Luxembourg regulator allowed the first RMB denominated product to be launched in Luxembourg within months of Hong Kong launching the first RMB denominated fund.

When the first commercial Dim Sum bond outside greater China was listed in Luxembourg in May 2011, the Luxembourg Stock Exchange proved once again that it is a uniquely innovative and international listing centre. International companies from around the world have leveraged the Luxembourg Stock Exchange to fill their RMB funding needs.

Luxembourg actively contributes to linking up the onshore and offshore renminbi markets, while involving international market participants. It thus serves as a perfect platform for the further internationalisation of the renminbi.

RENMINBI TIMELINE LUXEMBOURG

2008

Signature of MoU between the CSSF and the CBRC (China Banking Regulatory Commission). It allows QDIIs to invest on behalf of their clients in financial products regulated by the CSSF. The MoU makes Luxembourg one of the few financial centers to have such an agreement in place. This agreement also makes it possible to distribute UCITS in mainland China through the QDII scheme.

2011

May: Volkswagen launches the first European RMB denominated bond at the Luxembourg Stock Exchange.

2013

September: Signing of MoU between the Luxembourg Stock Exchange (LuxSE) and the Shenzhen Stock Exchange (SZSE). The two signatories agreed to optimise the exchange of information and to work closely together to develop the listing of financial instruments.

November: Luxembourg regulator authorises first RQFII UCITS.

2014

January: British Columbia is the first foreign government to issue an RMB bond. The bond is listed at the Luxembourg Stock Exchange.

April: The CSSF confirms its acceptance of investments into the Chinese Interbank Bond Market (CIBM) as fulfilling the requirements of UCITS for regulated markets.

May: Listing of Bank of China's first offshore-RMB "Schengen" bond on the Luxembourg Stock Exchange. This is the first RMB bond by a Mainland China company in the Eurozone.

June: MoU between the Luxembourg Fund Industry (ALFI) and the Asset Management Association of China (AMAC), focusing on developing activities to create mutually beneficial opportunities for the fund industries in both countries.

2015

July: Announcement that China Merchants Bank and Agricultural Bank of China will set up their European headquarters in Luxembourg.

September: designation of ICBC as clearing bank.

September: Luxembourg Stock Exchange signs MoU with Taiwan's GreTai Securities Market, intending to strengthen both parties' role as gateways for foreign investment between Asia and Europe, especially in the context of RMB internationalisation, but also to facilitate securities listings and exchange of information between them.

November: CSSF grants first authorisation to a Luxembourg UCITS to trade through the Shanghai-Hong Kong Stock Connect.

December: Signing of MoU between the Luxembourg Stock Exchange and ICBC. Both parties intend to cooperate on a range of market activities that are linked to the internationalisation of the renminbi, particularly the listing of RMB denominated securities in Luxembourg.

December: Official launch of the RMB clearing bank. 2015 January: Official opening of China Merchants Bank.

April: 50bn RMB RQFII quota granted to Luxembourg.

May: Official opening of Bank of Communications.

October: Luxembourg uses CIPS first globally for a yuan clearing transaction.


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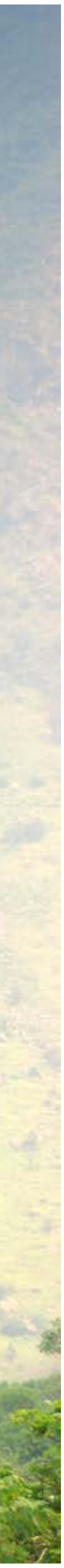


GATEWAY TO EUROPE

The rapid opening up of the Chinese renminbi market has presented international financial markets with an extraordinary opportunity. Thanks to its status as a global financial center Luxembourg has not only been able to position itself as one of the key links in the developing renminbi trading network, but at the same time it has established itself as the ideal gateway to the European Union Single Market.

The choice of Luxembourg as the principal European domicile by the six major Chinese banks is testimony to the importance of this relationship. Setting up their European hub in the Grand Duchy has enabled them to leverage the EU passport in order to branch out and accompany their corporate clients throughout the continent. This is also in recognition of Luxembourg's position as a unique platform for cross border finance and its status as the leading financial centre in the Eurozone and second in the EU (GFCI Index – April 2016).

A thriving hub for international renminbi business, the Grand Duchy offers many opportunities for market professionals. Advantages range from social, economic and political stability, confirming the AAA status of the country, to a highly skilled and multilingual workforce: over 45% of the population is foreign and most residents speak at least three languages. The financial authorities are renowned for being business-friendly and responsive. As the only European Institutional Capital that is also a global financial centre, Luxembourg is a gateway that offers a unique insight and understanding of pan-European business opportunities, requirements and challenges. All these factors, combined, allow companies to achieve a competitive positioning that is hard to get in any other European financial centre.

The Grand Duchy is a global center of expertise in the fields of wealth management, investment funds and corporate finance.

Furthermore, financial actors have access to a vast market infrastructure of essential services such as the Luxembourg Stock Exchange for trading and listing, post trade service providers such as Clearstream, insurance and reinsurance companies, family offices, lawyers, tax experts, consultants, auditors and accountants. Luxembourg also prides itself of its unique legal framework that permits the outsourcing of operational processes to regulated IT service providers, supported by a state-of-the-art ICT infrastructure.

Financial services companies from around the world use Luxembourg as a location from where to reach out to the European Single Market: 70% of EU wealth is concentrated within a 700 km radius of the country. Companies choosing Luxembourg as a gateway to Europe enjoy all the advantages that come with being in a highly developed economy at the heart of the continent, while benefitting from a dynamic business environment similar to that of an emerging country.

BANKING PRODUCTS AND SERVICES

SETTLING TRADE IN CHINESE YUAN

Trade has been one of the major factors in the internationalisation of the renminbi. Using the RMB as a trade finance currency has many advantages for both Chinese and European business partners. CNH accounts enable both sides to avoid foreign exchange transactions and thus currency risk. Payments can be processed faster within the European time zone and, often, foreign companies paying in CNH get discounts on their invoices from Chinese companies. In December 2013 the RMB overtook the euro as the second most used currency in trade finance.

RMB-denominated trade finance is an on-going activity in Luxembourg due to the presence of Bank of China (BoC), Industrial and Commercial Bank of China (ICBC), China Construction Bank's (CCB), Agriculturul Bank of China (ABC), Bank of Communication's (BoCom) and China Merchants Bank (CCM). RMB trade finance activities include import and export financing as well as letters of credit and other loan guarantees.

RMB accounts can be opened not only at the six Chinese banks, but also at many non-Chinese banks based in Luxembourg.

RMB PAYMENTS

Offshore RMB deposits have been available for over a decade, starting with Hong Kong in 2004 when residents were allowed to hold RMB in offshore accounts. After the implementation of a number of liberalisation measures in the following years, a turning point was reached in 2010/2011. RMB business in Hong Kong increased considerably and the door to the international use of the currency opened further.

In recent years, RMB payments have increased noticeably, signaling the rising use of the renminbi as a global trade currency.

Although Hong Kong remains the world's largest offshore RMB centre, processing more than 70% of RMB payments, SWIFT statistics[1] show that growth between offshore financial centres reached record levels of activity. As at new year 2016, roughly 40% of global banks were using the RMB for their payments with China and Hong Kong.[2]

LOANS AND DEPOSITS

In 2010, when Hong Kong banks were allowed to offer settlement facilities for trade transactions denominated in RMB, lending facilities were introduced as well. Within a short time, the demand increased rapidly. Since CNH lending rates in Hong Kong continue to stay more attractive compared to CNY lending rates in Mainland China, the lending business is expected to increase further.

Luxembourg holds the largest pool of offshore China RMB deposits in Europe. This can be explained by the Chinese banks using Luxembourg as a center for granting RMB denominated commercial loans to their European customers. While the initial focus was put on trade finance activities and commercial loans, a number of banks expanded their product range to the syndicated loan market in 2012 and are now looking into wealth management services.

The business model of Chinese banks in Luxembourg strongly relies on corporate banking, while also offering personal banking, treasury operations and, more recently, asset management. Some of them even have pooled their European asset management activities in Luxembourg. From their European headquarters, Chinese banks accompany their Chinese customer base in their European ventures and also serve European customers looking to capture business opportunities in China.

[1] Swift April 2015 RMB Tracker

[2] Swift March 2016 RMB Tracker

Luxembourg is a stable, independent country providing a business friendly environment which is a gateway to Europe and to the world. Luxembourg also provides an effective tax system within the European Union in line with OECD standards and an extensive double tax treaty (DTT) network (comprising 77 DTTs including with PRC and Hong Kong). Moreover, access to the 'European Passport for Credit Institutions' is a driving factor for foreign banks to choose Luxembourg as a base to branch out into other European countries.

"The presence of the continental headquarters of the six largest Chinese banks in Luxembourg is proof to the Grand Duchy's leading role as a gateway for non-European banks into the Single Market of the European Union."

Yves Maas,
Chairman,
Luxembourg Bankers' Association (ABBL)

Luxembourg is a recognised global hub for cross-border investments and thus a gateway for Chinese investment flows.

With over EUR 3.4tn in assets under management, Luxembourg is the largest investment fund centre in Europe and the second largest in the world after the United States. More than 600 fund promoters are using Luxembourg as a platform to domicile funds that are subsequently distributed to retail, high net worth and institutional investors across the world. Around 3,900 investment funds – representing 14,100 fund units - managed by 380 fund management companies are currently domiciled in Luxembourg. Each of these units represents a unique investment portfolio.

Numerous funds have an investment policy focusing on global emerging markets, the Asian region or, specifically, on China. This is why RMB- denominated assets have accumulated in the portfolios of so many Luxembourg-based funds. These international RMB fund promoters include many of the most prestigious names in the industry, such as BlackRock, Fidelity, HSBC, Franklin Templeton, JP Morgan, Invesco, Schroders, BNP Paribas and Allianz. These and other institutions are eager to develop the scope of their RMB business. Today, Luxembourg funds account for roughly one third of global assets invested in Mainland China.

Chinese asset managers who opted to launch a range of European investment funds via their Hong Kong subsidiaries have selected Luxembourg as the domicile for those funds, such as Manulife, CSOP, Mirae Asset, Sail Advisors, JK Capital Management, OP Investment Management, China AMC, ICBC Credit Suisse Asset Management and GWM. Luxembourg is also the primary domicile in Europe for Chinese Equity ETFs, ranking third in the world (outside China) after Hong Kong and the US.

"Luxembourg is the European platform of choice for international investors to access RMB assets.

Denise Voss,
Chairwoman,
Association of the Luxembourg Fund Industry (ALFI)

INVESTMENT FUNDS

CHINESE INVESTMENT SCHEMES

In recent years the Chinese authorities have created several investment schemes to support the opening of the Chinese currency and to diversify the offer for investors.

SHANGHAI – HONG KONG STOCK CONNECT

The Stock Connect was developed jointly by the Stock Exchange of Hong Kong Limited (SEHK), Shanghai Stock Exchange (SSE), China Securities Depository, Clearing Corporation Limited (ChinaClear) and Hong Kong Securities Clearing Company Limited (HKSCC). It encompasses about 800 stocks in total. Through Hong Kong Stock Exchange (HKEx), all Hong Kong and foreign investors now have access to the constituent stocks of the Shanghai Stock Exchange (SSE) 180 Index and SSE 380 Index, as well as all SSE-listed stocks that are dual-listed in Hong Kong (Northbound Trading).

Similarly, through Shanghai Stock Exchange, Mainland Chinese institutional investors and individuals have access to the constituent stocks of the Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index, and all companies listed simultaneously in Shanghai and Hong Kong (Southboud Trading).

Mainland stock purchases are capped at 13bn RMB a day. Buying of Hong Kong stocks is limited to 10.5bn RMB daily. The maximum cross-border investment quota is 300bn RMB Northbound and 250bn RMB Southbound.

An exemption for business tax and income tax on capital gains applies to trading on Stock Connect and equity investments under the QFII and the RQFII scheme.

Stock Connect and Luxembourg Funds

The Stock Connect offers an alternative for UCITS to invest into A-shares listed on the SSE alongside the existing QFII and RQFII schemes. On 28 November 2014, Luxembourg's financial regulator CSSF (Commission de Surveillance du Secteur Financier) granted the first authorisation to a Luxembourg UCITS to trade through the Stock Connect. Besides, a fast-track procedure for filing such applications with the CSSF applies to Luxembourg UCITS whose investment policy already permits exposure to A-Shares.

QDII: QUALIFIED DOMESTIC INSTITUTIONAL INVESTOR: scheme launched in 2006 by the People's Republic of China (PRC) and amended for the last time in 2012. The QDII allows domestic Chinese investors to invest into foreign markets via approved commercial banks, fund managers, securities companies and insurance companies.

QFII: QUALIFIED FOREIGN INSTITUTIONAL INVESTOR: Qualified Foreign Institutional Investor: scheme launched in 2002 by the PRC and amended in 2012 allowing foreign investors to invest in China A-shares, stock futures, fixed income products traded on the interbank bond market and warrants. Investments are currently limited by a quota of USD 150bn. This scheme is currently being revised: the quota will be expanded, investments can be repatriated earlier and remittances in both directions may be conducted on a daily basis.

These UCITS need only to adapt their prospectus and KIID (Key Investor Information Document) to meet CSSF requirements for authorisation in order to access the Stock Connect. These are the first steps toward releasing EU-regulated funds, in particular UCITS, into the Stock Connect.

QDII

Due to a MoU signed between the Luxembourg regulator CSSF and the Chinese regulator CBRC (China Banking Regulatory Commission) in 2008, QDIIs are allowed to invest in Luxembourg investment vehicles regulated by the CSSF. In 2012, the CSSF also signed a MoU with the CSRC, the China Securities Regulatory Commission. Luxembourg is one of only few financial centres to benefit from such an agreement.

This agreement allows Chinese investors to use Luxembourg vehicles to invest into foreign markets through the QDII scheme.

QFII

With the QFII, Chinese authorities offered an opportunity for foreign investors to invest in China's domestic capital markets including through the Shanghai and Shenzhen stock exchanges.

In September 2013, the Luxembourg Stock Exchange (LuxSE) and the Shenzhen Stock Exchange (SZSE) signed an MoU. The two signatories agreed to optimise the exchange of information and to work closely together to develop the listing of financial instruments.

RQFII

The RMB Qualified Foreign Institutional Investor scheme (RQFII) was launched in Hong Kong in 2011 and expanded to other jurisdictions in the following years, allowing the reinvestment of offshore RMB in the Mainland securities market.

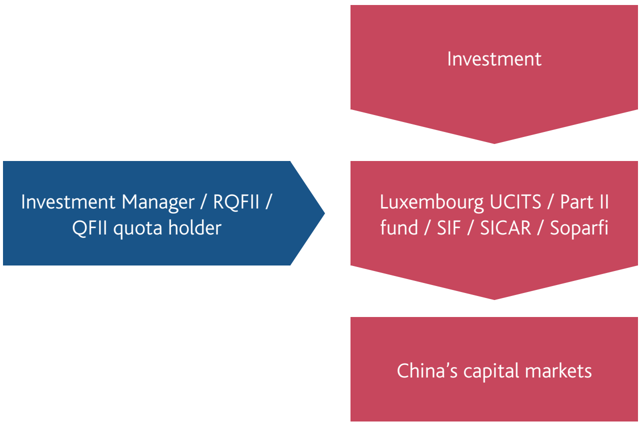
In November 2013, the Luxembourg regulator CSSF authorised the first RQFII fund under the UCITS framework. The RQFII UCITS scheme is particularly useful for fund managers who use Luxembourg as a platform for cross-border distribution.

Luxembourg was granted a RQFII quota in April 2015. Since the start of 2016 two funds using 10% of the Luxembourg quota have been launched.

The UCITS can invest up to 100% of its net assets in China A-shares (i.e. shares in mainland China-based companies that are traded on a Chinese stock exchange). It can invest in these shares by using an RQFII quota granted to its manager by the competent Chinese authorities.

RQFII/QFII AND LUXEMBOURG STRUCTURES

Through its longstanding experience and expertise in investment funds, the Luxembourg financial sector offers a whole range of investment vehicles that can be used by QFII and RQFII quota holders.



UCITS

UCITS is the acronym for Undertakings for Collective Investment in Transferable Securities. The term refers back to EU Directive 85/611/CE of 20 December, 1985, the objective of which was to create a single European market for retail investment funds, while at the same time ensuring a high level of investor protection. Luxembourg was the first country to implement the UCITS Directive.

The Directive exclusively targets collective investment schemes (UCI) that invest in transferable securities (such as shares and bonds) quoted on a recognised stock exchange. Furthermore, UCITS must be open ended, so that the investor can redeem his holdings at least twice per month. The investment policy must also respect a number of rules relating to portfolio diversification, asset liquidity and the use of hedging.

The European passport allows a UCITS, once approved by its Home State regulatory authority, to be sold to the general public and registered for distribution in all EU Member States. The fact that a UCITS is no longer obliged to follow an authorisation process in each EU market has considerably accelerated the process of launching a UCITS and reduced related costs. Luxembourg UCITS have a large market share in a number of Asian and Latin American countries. For this reason, an increasing number of fund managers create UCITS for global distribution. The Luxembourg financial centre is the uncontested leader in this field. 65% of all UCITS registered in at least three countries (including home country) are Luxembourg funds.[1]

ALTERNATIVE FUNDS/NON-UCITS FUNDS

"Alternative funds" (AIFs) include all investment funds that are not covered by the UCITS Directive. e.g. hedge funds, funds of hedge funds, venture capital and private equity funds and real estate funds. In the past, alternative investment funds were generally created under Part II of the Law on retail investment funds ("non UCITS"). Subsequently, two new laws were passed, creating vehicles designed for the professional market.

Specialised Investment Funds (SIF)

Specialised investment funds (SIF) are characterised by the flexibility of investment policies and a lighter supervisory regime. A SIF may invest in any type of assets and is suitable for establishing anything from a traditional securities or money market fund, real estate investment, hedge funds or private equity vehicles through to commodities or passion investments. The SIF must have active portfolio management. SIFs can be created as multiple compartment funds. They can issue an unlimited number of different share classes, which allows each to be tailored to the needs and preferences of particular target investors.

[1] Source: PwC/Lipper Global Fund Distribution 2016

Risk capital investment company (SICAR)

The risk capital investment company (SICAR) was created to provide a tailor-made vehicle for private equity and venture capital investment. By investment in risk capital is meant the direct or indirect contribution of capital to companies with a view to their launch, development or listing on a stock exchange. The investments made by a SICAR are required to meet two criteria: they must be opportunistic or high risk (which might be due to poor liquidity, since the company is not listed) and there must be an underlying intention to develop the company. The second criterion can be satisfied in many different ways, such as restructuring, modernisation, product development or by measures aimed at improving the allocation of resources. The law does not impose any investment diversification rules. Hence, a SICAR may focus its investments on one company operating in a particularly narrow sector such as biotechnology or geological prospecting.

Since July 2013, AIFs have also benefitted from a single market regime. Following the transposition into Luxembourg Law of Directive 2011/61/EU on Alternative Investment Fund Managers (the “AIFMD”), funds managed by an AIFMD compliant manager may be distributed for sale throughout the EU.

Financial Participation Company – SOPARFI

The Soparfi is an efficient vehicle for managing holdings in a group of businesses. It is also the preferred vehicle for financing and holding venture capital and private equity investments. A Soparfi is not a special type of company but an ordinary commercial entity governed by commercial law. It does not enjoy any special tax regime and is fully taxable. There are no restraints on its field of activity. A Soparfi can, however, significantly reduce its tax burden by limiting its activity to holding investments and structuring these so that it can benefit from the rules in the EU Directive on the tax regime applicable to Parent-Subsidiary companies. This regime notably allows, under well-defined conditions, a tax exemption on dividends paid by companies in which the parent company has a holding and on capital gains on the sale of its holdings. By contrast, all commercial activity undertaken by a Soparfi is subject to corporation income tax and VAT. Since the Soparfi is liable to tax like any other commercial company, it benefits from double tax treaties agreed by Luxembourg.

CHINA-HONG KONG MUTUAL RECOGNITION OF FUNDS (MRF)

The MRF allows funds domiciled in Hong Kong and Mainland China to be sold in each other's markets. It is capped at 300bn RMB in each direction.

Funds must have a minimum net asset value of 200 million RMB. The value of units in the fund sold into the other market may not exceed 50% of the fund's assets.

The reciprocal agreement covers equity funds, bond funds, mixed funds, unlisted index funds and physical index-tracking exchange-traded funds.

A first batch of funds was approved in December 2015, however the MRF is not yet widely accepted amongst investors.

DIM SUM BONDS

Dim Sum bonds (also called offshore RMB bonds or CNH bonds) are fixed income instruments denominated in offshore RMB that trade and settle outside of Mainland China. These relatively new instruments represent a growing portion of China's total currency debt since their creation in 2007. The Dim Sum bond market is attractive to both issuers and investors for reasons of diversification of funding sources and portfolio investments.

WHY THE LUXEMBOURG STOCK EXCHANGE?

- The LuxSE helped establish the Eurobond market in 1963 and has since become the leading Exchange for international capital market transactions.
- LuxSE continues to innovate, for instance acting as first mover in the listing of Global Depository Receipts, Sukuks, Green Bonds and Dim Sum Bonds.
- "Listed in Luxembourg" has long been recognised by international traders and investors as a label that stands for high quality pre and post listing services.
- LuxSE admits all listed securities for trading on its market platform, allowing for effective market transparency.
- LuxSE offers issuers with less exposure to international capital markets a window for promotion to European and international investors
- The LuxSE's highly qualified and experienced listing department is committed to supporting issuers throughout the listing-process, as well as assisting in the development of new products.

The first issue was made by the China Development Bank in July 2007. Since then the Dim Sum bond market has become more international as Chinese authorities relaxed the rules for issuance in 2010, opening the door for other foreign financial institutions and corporates to raise renminbi on the offshore markets. This move offered a momentum for international stock exchanges to list Dim Sum bonds.

> *"The LuxSE offers to Dim Sum bonds issuers a window of promotion towards European and international investors."*

Robert Scharfe,
CEO, Luxembourg Stock Exchange

LUXEMBOURG: EUROPE'S PREMIER DIM SUM BONDS LISTING VENUE

As a result of the internationalisation of the renminbi, the Dim Sum bond market is flourishing worldwide and the Luxembourg Stock Exchange (LuxSE) is a leading Exchange for the listing and admission to trading of these instruments.

The LuxSE ranks third globally in terms of global Dim Sum bond listings, immediately behind its Asian peers from Hong Kong and Singapore, confirming its strong position as the leading exchange for international debt securities.

Today, many established international companies are issuing Dim Sum bonds as part of their global funding programmes, thus diversifying their investor base. As many of them already listed debt securities in other currencies on the LuxSE, they continue to use the quick and efficient process of the Luxembourg Stock Exchange for their RMB denominated listings.

The first RMB denominated fixed income security to be listed in Europe was issued by Volkswagen in May 2011 on the Luxembourg Stock Exchange. Since then, business volumes have grown substantially.

CLEARING & SETTLEMENT OF RMB

SYSTEMS FOR THE CLEARING OF RMB CROSS-BORDER TRADE

Currently there are two systems in place for the clearing of RMB following a cross-border trade.

The first system, China National Advanced Payment System (CNAPS), allows for the clearing of RMB in the Mainland. To have direct access to CNAPS, a bank must have a settlement account at a branch of People's Bank of China (PBoC), China's central bank. All banks in China that are approved to provide RMB services are eligible for direct access.

The current national payment system is not yet fully developed. This is why Chinese authorities have announced that CNAPS will be updated in order to make the processing of domestic renminbi payments more efficient. This "new CNAPS" should be in line with international standards, in particular SWIFT.

The second system is the one set up by banks located offshore: firstly in Hong Kong, Macau, Singapore and Taiwan and later expanded to further locations in Europe and Asia Pacific. These banks have been designated by PBoC to perform the clearing of RMB. From 2004 to 2012, Bank of China (Hong Kong) was the main RMB clearing bank in the world. The clearing bank plays the role of the intermediary, for the exchange of RMB against euro or dollars, between banks located in Mainland China and participating banks located in Hong Kong and overseas.

CLEARING THROUGH ICBC LUXEMBOURG

As the official RMB clearing bank, ICBC Luxembourg Branch can get access to both onshore and offshore markets, e.g. getting special approval to access on-shore FX, MM and bond markets. Special approvals have been granted by Chinese authorities to ICBC Luxembourg Branch. In case of a liquidity shortage in offshore markets, ICBC Luxembourg Branch can use the FX quota granted by the PBoC to purchase renminbi from the onshore market. And meanwhile, the bank can give onshore quotes in renminbi and provide better yields for Renminbi deposits.
So far, ICBC has the most extensive RMB clearing network around the world, designated in Singapore, Doha, Luxembourg, Toronto and Thailand, covering all times zones. ICBC is the only bank as of today to have a RMB clearing designation in the American time zone. ICBC official RMB clearing banks get connected to the CNAPS by the PBoC via the ICBC Head Office, which provides maximum support in all resources, especially in liquidity and shifts. Such system integration saves intermediaries and thus is cost-efficient for the participating banks.

As of 28 October 2013, there were 141 participating banks in Hong Kong and 44 participating banks in overseas markets (a majority of those being subsidiaries of Bank of China; for example Bank of China Limited Luxembourg Branch is a participating bank). Since 2013, PBoC started to designate overseas subsidiaries of Chinese banks to act as offshore RMB clearing banks. In Europe, 4 RMB clearing banks have been designated by PBoC since 2014. Bank of China Frankfurt Branch and Paris Branch became RMB clearing banks in Frankfurt and Paris. In London and Luxembourg, China Construction Bank London Branch and Industrial and Commercial Bank of China Luxembourg Branch were elected respectively. In 2015, more RMB clearing banks were designated in locations such as Kuala Lumpur, Sydney and Doha.

In Mainland China, the clearing bank maintains a settlement account with the People's Bank of China and is a member of CNAPS. Additionally, it has access to the inter-bank lending market, the inter-bank bond market and Shanghai foreign exchange market.

However, this current set-up presented bottlenecks. Offshore settlement was done outside the purview of Chinese foreign exchange and capital controls, on the books of BoCHK. Concerns about credit concentration risk were addressed by introducing a nightly sweep for unused funds to a fiduciary account maintained with PBoC, giving access to central bank credit. But this mechanism lacked transparency

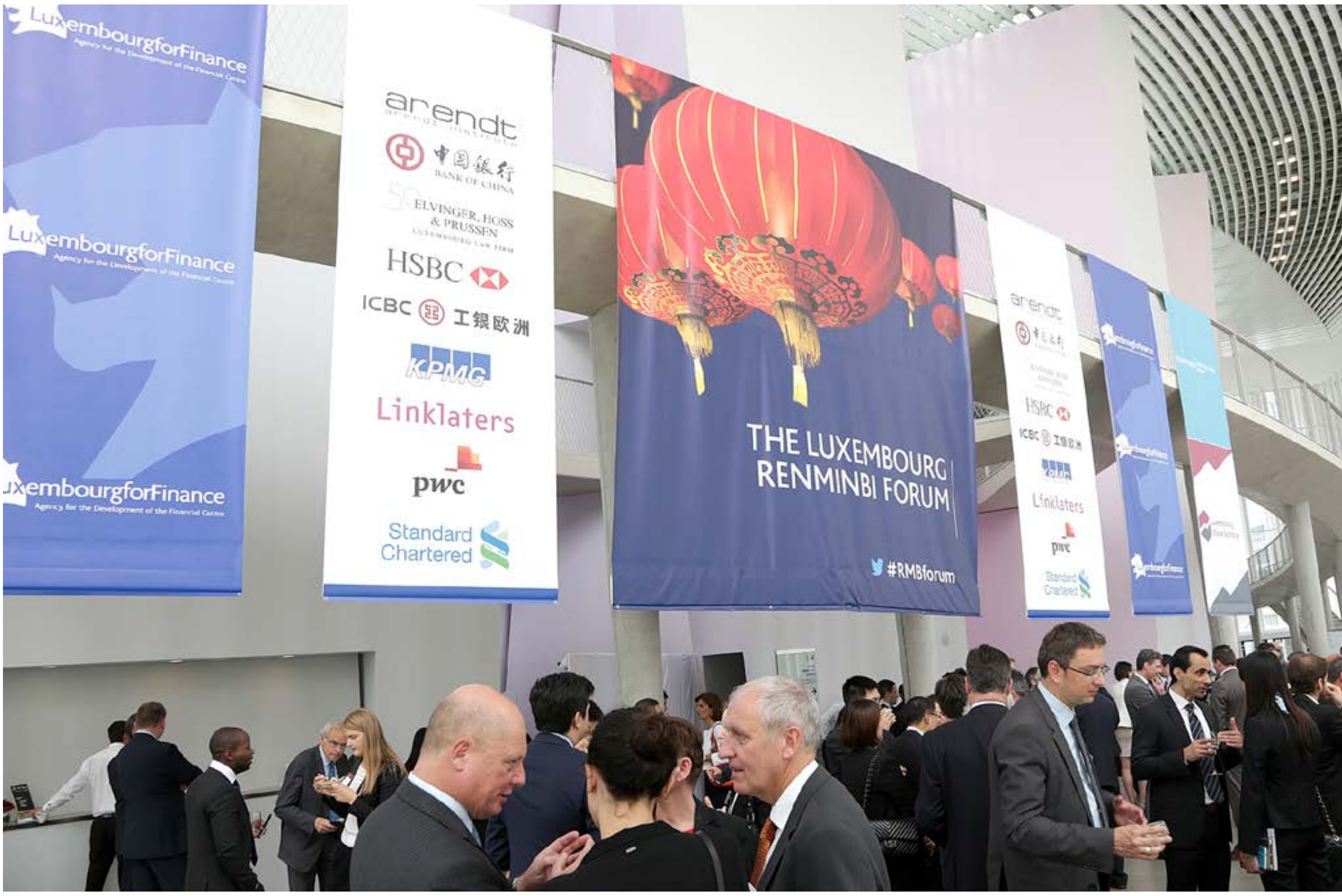
CLEARSTREAM

Clearstream has been actively promoting offshore Renminbi since 2010, first offering it as a settlement currency. Since that time, settlement in offshore RMB through Clearstream has more than tripled, while assets under custody quadrupled between 2013 and 2014.

November 2015 saw the opening of CEINEX, the first authorised trading platform for RMB-denominated trading outside mainland China. The China Europe International Exchange (CEINEX) is a cooperation between Deutsche Börse, Shanghai Stock Exchange and China Financial Futures Exchange. It will greatly enhance the liquidity offering of this growing currency and help satisfy international investor demand. Clearstream facilitates the settlement of Renminbi and Chinese investment products traded through CEINEX as well as offering a full suite of issuance, safekeeping and asset servicing services.

and was operationally cumbersome. All transactions in the offshore currency were settled with commercial bank money (a claim on BoCHK) rather than with central bank money. This feature alone disbarred the RMB from eligibility for settlement through the CLS system, which handles the majority of international settlement in eligible currencies in central bank money.

Thus, a third system was launched in October 2015 to palliate to the shortcomings of the current two systems in place, the international payment system CIPS (China International Payment System). CIPS is based on a modern electronic system operated by PBoC, separate from the domestic CNAPS but linked to this to permit transfers between the two. Most importantly, it allows settlement of transactions in the offshore currency backed directly by central bank money. The first yuan clearing transaction through CIPS took place from China to Luxembourg.



Luxembourg Renminbi Forum 2015

INTERNATIONAL RENMINBI TIMELINE

2002-2006

• **2002:** The QFII program allows licensed foreign investors to access Mainland stock markets (A-shares).

• **2003:** People's Bank of China (PBoC) designates Bank of China Hong Kong as RMB clearing and settlement bank.

• **2006:** The QDII program allows licensed Chinese banks to invest their funds or those of their clients in specific financial products overseas.

2007-2009

• **2007:** Mainland financial institutions are allowed to issue RMB-denominated funds in Hong Kong.

• **2009:** Launch of a pilot scheme for the RMB trade settlement of goods between five Chinese cities on the one hand, and HK, Macau and ASEAN countries on the other.

2010

• **June:** The pilot RMB trade settlement scheme is extended to 20 Mainland provinces and cities on the one hand and to all parts of the world on the other.

• **August:** Offshore commercial banks and monetary authorities are allowed to access China interbank bond markets.

INTERNATIONAL RENMINBI TIMELINE

2011

• **January:** Enterprises in China are allowed to conduct and settle Overseas Direct Investments (ODI) in RMB.

• **August:** The pilot RMB trade settlement scheme is extended to all regions of China.

• **October:** Arrangement for foreign enterprises to conduct and settle Foreign Direct Investments (FDI) into China in RMB is formalised.

• **December:** RQFII program is launched, allowing offshore RMB in Hong Kong to invest in mainland securities.

2012

• **November:** RQFII Investment quota raised to RMB 270bn; investments no longer restricted to the 20% equities/80% bonds rule in asset allocation.

2013

• **January:** PBoC designates Bank of China Taipei as RMB clearing bank.

• **January:** Initiated pilot program in Zhejiang, Yiwu for individual RMB cross-border settlement.

• **February:** ICBC Singapore appointed as a RMB clearing bank.

• **July:** the RQFII program is extended to Taiwan, London and Singapore.

• **October:** currency swap line agreed between the ECB and PBoC.

2014

• **February:** Expansion of cross-border RMB business within the Shanghai Free Trade Zone.

• **March – November:** RQFII scheme now granted to a total 9 markets and 93 institutions for almost 300bn RMB. Paris, South Korea, Frankfurt, Doha, Canada and Australia added in 2014.

• **September:** Direct currency trading against the euro.

• **November:** Launch of the Shanghai-Hong Kong Stock Connect. By 2015 expansion of the scheme between Shenzhen and Hong Kong.

• **November:** Approval of the RQDII program.

2015

• **March:** New free trade zones launched in Tianjin, Fujian and Guangdong.

• **March:** Founding of the Asian Infrastructure Investment Bank (AIIB).

• **April:** 50bn RMB RQFII quota granted to Luxembourg.

• **April:** SAFE Expands FDI Currency Conversion from foreign currency to RMB from 16 pilot regions to all of China starting on 1 June.

• **August:** PBOC significantly devalues the yuan and introduces a new daily reference rate method, based, inter alia, on foreign-exchange demand and supply.

• **September:** PBOC opens onshore currency market to foreign central banks and sovereign wealth funds.

• **October:** Launch of the Cross-Border Inter-Bank Payment System (CIPS).

• **October:** PBOC issues its first offshore sovereign bond in London.

• **November:** The yuan is added to the IMF Special Drawing Rights basket.

• **November:** Shanghai Stock Exchange, Deutsche Börse Clearstream and China Financial Futures Exchange launch the joint venture CEINEX in Frankfurt.

2016

• **Q2 2016:** Expected launch of the Shenzhen-Hong Kong Stock Connect and the Shanghai-London stock link.

USEFUL LINKS

Luxembourg Financial Centre
www.luxembourgforfinance.com

Luxembourg Government
www.gouvernement.lu

FINANCIAL SECTOR SUPERVISORY AUTHORITIES

Commission de surveillance du secteur financier
www.cssf.lu

Commissariat aux Assurances
www.commassu.lu

OTHER INDUSTRY SITES

Association des Compagnies d'Assurances
www.aca.lu

Association of the Luxembourg Fund Industry
www.alfi.lu

Luxembourg Bankers' Association
www.abbl.lu

Luxembourg Chamber of Commerce
www.cc.lu

Luxembourg Institute for training in banking
www.ifbl.lu

Luxembourg Stock Exchange
www.bourse.lu

OTHER PUBLIC SECTOR SITES

Luxembourg Central Bank
www.bcl.lu

Luxembourg central statistical office (STATEC)
www.statec.lu

Luxembourg Government legal portal (in French)
www.legilux.lu

THE GRAND DUCHY

National Tourist Office
www.visitluxembourg.com

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