

Zhou Xiaochuan: Development of China's inter-bank market

Address by Dr Zhou Xiaochuan, Governor of the People's Bank of China, at the opening ceremony of the Shanghai Clearing House, Shanghai, 28 November 2009.

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Mayor Han Zheng,
Distinguished guests,
Dear colleagues,
Ladies and gentlemen,

Good morning.

Today, we gather here to celebrate the establishment of the Shanghai Clearing House. This is a milestone in the development of China's inter-bank market. On behalf of the People's Bank of China (PBC), I'd like to extend warm congratulations on the founding of the Shanghai Clearing House. I also thank the Shanghai government and people for your gracious support.

As a key component of the financial market system, the inter-bank market is playing an increasingly important role in macroeconomic management, fund allocation, pricing and risk management. The People's Bank of China is committed to developing the inter-bank market. Over the past few years, efforts have been made to enhance financial innovation, improve the market-based mechanism, and expand institutional investors on the market. The inter-bank market has grown in both depth and width. In 2008, the turnover in the inter-bank borrowing market and the inter-bank bond market totaled 114 trillion yuan, an increase of 560 percent from that in 2003. Nominal turnover of interest rate derivatives recorded 924.32 billion yuan, 6.56 times that in 2006, while nominal turnover of exchange rate derivatives registered US\$917.9 billion, 7.07 times that in 2006. Transactions on the inter-bank foreign exchange market also multiplied.

The rapidly developing inter-bank market needs more efficient and secure clearing services. In June, the PBC launched the net value clearing service for spot over-the-counter (OTC) transactions in the inter-bank foreign exchange market, which effectively reduced bilateral credit sizes and lowered clearing costs. The centralized clearing of OTC transactions is an international issue. Centralized clearing systems for over-the-counter spot trading and derivatives transactions of foreign exchange and interest rate products have been set up in advanced countries and in emerging market countries such as Brazil and India. More importantly, following the financial crisis, countries have reached consensus on controlling financial transactions risks. Countries agreed that lowering counterparty risk and ensuring effective supervision and regulation are the key to ensure secure and orderly development of the OTC derivatives market, which can be best achieved through centralized clearing. In April, the G20 agreed to introduce centralized clearing for Credit Default Swap (CDS) transactions, and efforts to do this are already under way in U.S. and EU.

Building an efficient financial system that is resilient to systemic risks is the focus throughout China's financial reform and development. It is also the expectation from the central government. The inauguration of this professional and independent inter-bank clearing house represents a significant effort made by the PBC to address the global financial crisis, deepen financial market reform, enhance financial infrastructure and to promote Shanghai's evolution to an international financial center in line with the arrangement of the central government. We believe that, with its comprehensive centralized clearing service to the central counterparty, the clearing house will provide efficient and cost-effective clearing service, and will provide technological support to advance financial innovation. The clearing house is also expected to help foster the philosophy that transactions, clearing and settlement are independent from one another. It will enhance market transparency, improve the availability of information on

transaction and participant exposures, better guard against systemic risks, and safeguard financial stability.

As an important intermediary that serves the inter-bank market, the Shanghai Clearing House is expected to focus on providing services, and develop a strong sense of risk prevention. It should work to build itself into a well managed, market-based, international, and professional institution to better meet the demand for ever increasing and diverse services. It is important to improve various arrangements, including membership, security, mark-to-market on a daily basis, and risk provisioning, and to enhance risk management to ensure secure, efficient, and stable functioning of the clearing system. The establishment of a sound corporate governance and a strong professional team are also critical for the clearing house to provide better services.

Ladies and gentlemen, we have made significant achievements in developing China's financial markets. The prospects are promising, yet our task is demanding. I hope that, with a keen awareness of responsibility and a spirit of innovation, the clearing house will provide secure, efficient, and low-cost clearing services for inter-bank participants. It is also my hope that the clearing house will have the support from all shareholders and market participants. Let us work together to make concerted efforts to promote the rapid and sound development of China's financial markets.

Thank you.