

Continuity Plus Plus in the Domestic FX Market ¹

Mr. Deng Jun, Bank of China Manila Branch Country Head, Bank Heads participating as initial members of the Philippine Peso - Renminbi trading community, partners in the financial services industry, ladies and gentlemen, good afternoon.

I am delivering this message on behalf of Governor Nestor A. Espenilla, Jr.

The Governor conveys his sincere congratulations to each one who toiled to bring about today's landmark signing of the Memorandum of Agreement (MoA) establishing a local Renminbi trading market. He wishes he was here to witness this milestone.

Governor Espenilla and the Bangko Sentral ng Pilipinas (BSP) fully support the signing of the MoA. It signals the start of a non-discriminatory and well-functioning trading community. It diversifies currency options and strengthens the FX market governance framework. It builds trust and investor protection mechanisms, supports product innovation and market development.

Continuity ++ and BSP's FX Reforms

Part and parcel of the BSP's Continuity ++ policy reform agenda is the continued liberalization and deepening of the FX market.

Our goal is to ensure a more organized and smoothly-functioning local FX market supportive of a flexible and market-determined exchange rate.

The BSP acknowledges that a system of governance over the local FX market is key.

Accordingly, it has proposed a governance framework where it shall oversee the FX market pursuant to its mandate to determine the exchange rate policy of the country. The framework will allow industry players with legitimate economic reasons to establish a market in any particular currency pair. The framework will ensure compliance with laws, rules and regulations, and market-determined standards to instill discipline, integrity, and accountability among market participants and to uphold orderly market operation.

Under the framework, non-discriminatory prudential rules shall cover market-determined exchange rates, pre- and post-trade transparency and efficient settlement of the peso leg central bank money.

The framework will depend on resilient and reliable infrastructure and will require effective audit and review. The BSP also envisions that there will be effective mechanisms for market participants to handle and respond to any improper practice and behavior.

¹ *Speech delivered by Deputy Governor Chuchi G. Fonancier, FSS on behalf of Governor Nestor A. Espenilla, Jr. during the signing ceremony of the Memorandum of Agreement (MOA) of the members of the Philippine RMB Trading Community on 30 October 2018 at the Manila A & B, Makati Shangri-la, Makati City*

This is the goal.

The significance of today's event is that ... it is a bold step towards this goal.

Today's MoA signing between and among initial members of the PHP-RMB trading market is consistent with the BSP's vision of allowing FX market participants to be involved in the rule-making process to enhance governance and transparency in the FX market.

It promotes a level playing field, where participants multilaterally bind themselves to abide by their mutually-agreed upon FX market rules, as well as comply with the applicable laws and BSP regulations. Ultimately, this will uphold fairness and integrity in the local FX market.

Why Establish a PHP-RMB Market?

The development of a local Renminbi (RMB) trading market in the Philippines is timely and deserves particular attention.

➤ China is the country's top bilateral trading partner. Total trade is worth USD 14.1 billion or 16.6 percent of total trade as of end-June 2018.

Development of a Philippine RMB trading market facilitates greater use of the RMB as a settlement currency, resulting in payment efficiency and less costs for Philippine exporters and importers.

➤ The RMB has been included in the International Monetary Fund (IMF) Special Drawing Rights (SDR) basket as a fifth currency, along with the U.S. dollar, the euro, the Japanese yen and the British pound. Hence, the RMB has become one of the main freely usable currencies of IMF members like the Philippines.

➤ The RMB is now one of the most actively traded emerging market currencies overtaking the Swedish Krona (SEK), the Hong Kong Dollar (HKD), the Swiss Franc (CHF), and the Australian Dollar (AUD) as most used currency for global payments.

At present, the Philippine peso and RMB are priced against the US dollar as an intermediate peg. This subjects them to conversion and other friction costs.

By establishing the PHP-RMB Trading Market, the Philippine peso can be directly priced against the RMB. Initial participating bank members can streamline their currency conversion costs via a fair, transparent, and resilient domestic FX trading platform.

Moreover, banks can now manage their RMB liquidity requirements and improve services with RMB deposits dedicated to payment and fund transfer needs. RMB users are allowed better liquidity management, faster conversion, and available hedging facilities for trade-related and payment requirements. The PHP-RMB trading market also enhances price discovery with supply and demand determining FX rates.

Establishment of a PHP-RMB Trading Market streamlines currency conversions through a fair, transparent, and resilient domestic platform. This brings about efficiency, lowered costs and encourages investments.

Today's MoA signing is only the beginning.

Pending organization of the Central Governing Body, you - initial members of the Philippine RMB trading community - have voluntarily sought to enter into a binding agreement setting a framework and the scope of the RMB Market. We at the Bangko Sentral ng Pilipinas commend and support you in this meaningful initiative.

As our conduits in the FX reform agenda, we reaffirm our collaborative partnership with all of you in steering our financial market towards the right direction amid challenges in our economy and financial markets.

You are our staunch partners in the shared responsibility of promoting a vibrant domestic financial market towards sustained economic growth for all Filipinos.

Congratulations and mabuhay!

Thank you for your kind attention.