

Yi Gang: Welcome address – 11th Lujiazui Forum

Welcome address by Mr Yi Gang, Governor of the People's Bank of China, at the 11th Lujiazui Forum, Shanghai, 14 June 2019.

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Honorable Vice Premier Liu He, Secretary Li Qiang, Mr. Zhou Xiaochuan, Ladies and Gentlemen,

Vice Premier Liu He has just elaborated in his speech on the triangular framework in the economy made up of supply, demand and the financial system. He has underscored the importance of following market-oriented and law-based reform approaches and drawing on international practice to promote the healthy development of the stock market, particularly the STAR Market. Also he has put forward requirements on accelerating the development of Shanghai as an international financial center, which are highly instructive as to what we should do in the financial field to provide support. Next, in line with the theme for this forum “Accelerating the International Financial Center Development and Promoting High Quality Economic Growth”, I want to give my opinions from the following three aspects.

First, impressive progress has been achieved in the development of Shanghai as an international financial center.

1. The financial market system has been undergoing improvement, featuring more of the essential factors. So far, there have been all types of major financial markets in Shanghai, such as the stock market, the bond market, the money market, the foreign exchange market, the commercial paper market, the futures market, the gold market and the insurance market, with trading volumes in quite a number of varieties ranking high globally.

2. The system of financial institutions has further grown so that the influence of Shanghai as a financial center has risen significantly. In recent years, as a host of important financial institutions or organizations have come to be based in Shanghai, such as the BRICS New Development Bank, the Global Association of Central Counterparties (CCP12), the Cross-Border Interbank Payment System (CIPS), the China Insurance Investment Fund, and the National Internet Finance Association of China, the radiant effect and influence of Shanghai’s financial industry have been enhanced remarkably. As shown by the latest two editions of the Global Financial Centres Index (GFCI) released by Z/Yen, a British think-tank, Shanghai ranks fifth among the world’s financial hubs.

3. The progressive opening-up of the financial sector has contributed significantly to the city’s international competitiveness. Shanghai has become home to a large number of foreign-funded financial institutions in China. With the financial sector opening up wider and wider, the Shanghai-Hong Kong Stock Connect, the Shanghai Gold Exchange international board, the Bond Connect and crude oil futures have been introduced successively; the interbank bond market, foreign exchange market and money market have been opening up with quickened pace; and pilot programs, such as overseas RMB investment and lending funds and cross-border exchange-traded funds (ETFs), have been launched successfully. Shanghai has become one of the cities in the world where financial products and business categories are most diversified and concentrated.

4. Financial reform and innovation have been pushed forward in an all-round way, with financial business innovation increasingly gaining momentum. Shanghai has pioneered many fundamental measures in the reform and opening-up of the financial sector. Among others, a series of pilot financial reform measures taken in the Shanghai Pilot Free Trade Zone have been replicated and applied nationwide.

Second, the People’s Bank of China (PBC) will implement resolutely the decisions and

arrangements of the Communist Party of China (CPC) Central Committee and the State Council to strongly support Shanghai accelerating the international financial center development.

In January 2019, to fully implement the important instructions that General Secretary Xi Jinping had given during his inspection of Shanghai last November, with the approval of the State Council, the PBC issued in collaboration with eight ministries the Action Plan for Shanghai International Financial Center Development (2018–2020), which sets forth key tasks and the roadmap for the undertaking. Going forward, the PBC will wholly support Shanghai's endeavor to complete the three major tasks entrusted by the CPC Central Committee in the new era. The priorities are as follows.

1. We will support the establishment of an integrated RMB and foreign currency account system in the new area of the Shanghai Pilot Free Trade Zone, and put into place a more convenient system for the administration of cross-border funds.
2. We will continue to improve the interbank foreign exchange market and bond market, broaden the spectrum of foreign exchange options products, expand market participants, and support the development of "Silk Road" themed bonds.
3. We will support the cooperation between the Shanghai Gold Exchange (SGE) and the Chicago Mercantile Exchange (CME), and the launch of derivatives based on the Shanghai Gold Benchmark Price on the CME.
4. We will support the establishment of representative offices by international financial organizations, and the establishment of subsidiaries by foreign-funded financial institutions in Shanghai.
5. We will support the establishment of a cross-region platform for financial cooperation in the Yangtze River Delta region, enhance the connectivity of financial infrastructure, and promote the integration of financial businesses across the region.
6. We will support the development of the "G60 Science and Technology Innovation Corridor" driven by the building of Shanghai into a science and technology innovation center, promote the application of Shanghai's financial opening-up innovative policies to the Corridor, and improve financial services for sci-tech innovation enterprises.
7. We will support the Shanghai Commercial Paper Exchange expanding in the Yangtze River Delta region the use of commercial papers for accounts receivables, and launching the pilot program of expanding the "Discount Connect" business to wider regions.
8. We will support the pilot program in Shanghai lifting the foreign ownership cap in securities firms and fund management companies, and expanding the business scope for foreign-funded financial institutions. We pledge full support for the development of the STAR Market.
9. We will further enhance the functions of the PBC Shanghai Head Office.

Third, the core of Shanghai international financial center development is to make Shanghai the global center of RMB-denominated financial asset allocation and risk management .

During the visit to Shanghai in 2018, General Secretary Xi Jinping noted that Shanghai should strive to strengthen its capacity of allocating global resources in an effort to comprehensively enhance the influence and competitiveness of Shanghai among cities in the world. Vice Premier Liu He stressed in his speech just now that Shanghai international financial center development should serve the overall picture of national strategy and national economic development, promote Belt and Road Initiative and accelerate the economic integration in the Yangtze River Delta. Based on my working experience, I think Shanghai is bound to be an international financial center based on RMB-denominated assets. Therefore, efforts will be focused on developing the

following “five centers” to further accelerate the development of Shanghai into an international financial center based on RMB-denominated asset management and financial market.

1. Developing Shanghai into a center of RMB-denominated financial asset allocation. With RMB-denominated assets incorporated into MSCI Index, Bloomberg Barclay Global Aggregate Index and other major equity and bond indexes widely used across the world, global asset managers, passive and index-oriented ones in particular, will increase allocation of RMB-denominated equity and bond assets. Up to now, over 60 central banks have increased their holding of RMB reserves, which encouraged equity and bond managers’ investment in RMB-denominated assets. This requires Shanghai to quicken up the development of supporting measures for financial market in trading, service and consultation to meet the demand of RMB-denominated asset investors globally.

2. Developing Shanghai into an RMB-denominated financial asset risk management center. With the RMB globalization proceeding, overseas economic entities hold more and more RMB positions and RMB exchange rate becomes increasingly market-oriented. As a result, the overseas entities will face market, liquidity and other risks in asset allocation and fund management, which produces the demand for risk management. Pricing and hedging are two major aspects of risk management. For the first aspect, the financial market in Shanghai should provide accurate product pricing and continuous trading and quotes so that Shanghai could become a major asset pricing center in the world. Meanwhile, the depth of financial market and market liquidity should be enhanced. For the second aspect, efforts should be made to improve risk hedging tools, promote derivative innovation and market development, actively develop derivative products and orderly enhance convertibility of RMB under the capital account, and intensify the interaction between onshore and offshore financial markets.

3. Building Shanghai into a Fintech center. In the future, the growth point for global finance lies in Fintech, which is also the focus of competition among international financial centers. Therefore, we should attach great importance to Fintech development. With the development of science and technology innovation center in progress, Shanghai has bright prospects in Fintech development. The PBC actively supports Shanghai to explore for correct methods and paths for the application of new technologies, such as artificial intelligence, big data, cloud computing, blockchain and e-commerce, in the financial field, so as to seize the commanding heights of Fintech and promote in-depth integration of finance and technology.

4. Building Shanghai into a center of high-quality business environment. The development of an international financial center is inseparable from a sound growth environment. Shanghai should become the birthplace and proving ground of the first-class financial operation rules, financial laws and regulations and other business environment and regulatory standards. Shanghai should also be in the forefront in such aspects as regulatory sandbox tests, financial supervision coordination, comprehensive financial statistics and financial risk monitoring. Effective measures can be extended nationwide.

5. Building Shanghai into a financial talent center. The competition among financial centers are fundamentally the competition of talents. The number of high-end and internationally competitive financial talents is an important index to measure an international financial center. The PBC supports Shanghai to improve its institutional mechanism and development environment for attracting financial talents, to attract, retain and cultivate talents, and to bring together the best financial practitioners in China and the world to Shanghai, hence making Shanghai a place that global financial practitioners yearn for.

I believe that Shanghai will be able to build on schedule an international financial center in compatible with the economic strength of China and the international status of RMB and based on RMB-denominated financial assets, and play a key role in promoting China’s financial reform and opening up, economic transformation and upgrading, and high-quality development.

Thank you!