BANK OF CANADA
BANQUE DU CANADA

Opening Statement by Paul Chilcott
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Standing Committee on Finance
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Good morning Mr. Chairman and Honourable Members. The Bank of Canada appreciates this opportunity to provide an overview of its recent work to support the development of renminbi (RMB) activity in Canada.

Last fall, in support of the government initiative led by the Department of Finance to promote increased trade and investment between Canada and China, and to support domestic financial stability should market conditions warrant, the Bank of Canada negotiated two agreements with the People's Bank of China (PBoC). The first was a reciprocal currency swap agreement. The second was a Memorandum of Understanding (MoU) relating to the clearing of renminbi transactions in Canada. Separately, Canada was also granted a Renminbi Qualified Foreign Institutional Investor (RQFII) quota, initially RMB 50 billion. The RQFII quota enables investors to access renminbi products in domestic Chinese markets.

The swap agreement with the People's Bank of China is similar in structure to ones the Bank of Canada already has in place with the U.S. Federal Reserve and a number of other major central banks. The agreement would allow the Bank of Canada, should we judge circumstances to warrant it, to swap Canadian dollars for up to RMB 200 billion. The Bank of Canada could then lend the renminbi to Canadian financial institutions that required renminbi in order to meet their payment obligations. However, as with their activities in other currencies, it should be underlined that Canadian financial institutions are responsible for the management of their renminbi liquidity needs, including in stressed circumstances, and the Bank of Canada envisages that it would only contemplate lending renminbi as a last resort, and in support of the stability of the Canadian financial system. To provide some context, to date the Bank of Canada has never activated any of its central bank swaps in order to finance foreign currency liquidity provision. The swap should nevertheless help give confidence that increased levels of renminbi activity in Canada are manageable. The swap agreement is reciprocal in nature, so the People's Bank of China could activate it so as to draw up to Can$30 billion. The swap is initially for a 3-year period but is renewable.

The MoU between the Bank of Canada and the People's Bank of China is a co-operative agreement to establish a regular dialogue on the conduct of renminbi business, and the evolution of renminbi clearing and liquidity conditions, in Canada. As with the swap, the People's Bank of China has similar agreements in place with the central banks of other jurisdictions where the use of renminbi is growing. The co-operation will include sharing aggregated information on the level of activity denominated in renminbi occurring in Canada in particular financial products. The collection of this information from financial institutions in Canada is the responsibility of the Office of the Superintendent of Financial Institutions (OSFI), and OSFI is working with industry to put in place appropriate reporting arrangements.

Once the MoU was in place, the People's Bank of China designated the Canadian subsidiary of the Industrial & Commercial Bank of China (ICBC) as the Canadian clearing bank. The supervision and regulation of ICBC's activities in Canada fall within the remit of OSFI as laid out in the *Bank Act* and OSFI's own supervisory framework. At the same time, the Bank of Canada has an interest in clearing and settlement arrangements in Canada from a broader financial system perspective, and will monitor the evolution of renminbi clearing and renminbi liquidity conditions in Canada, and maintain a regular dialogue with the PBoC on those issues.

Thank you.