HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 066 • 2nd SESSION • 41st PARLIAMENT

EVIDENCE

Tuesday, February 17, 2015

Chair

Mr. James Rajotte

Standing Committee on Finance

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● (0845)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. This is meeting number 66 of the Standing Committee on Finance. I want to welcome all of our guests here this morning.

Pursuant to Standing Order 108(2) we are beginning our study on the Canadian renminbi trading centre.

We want to welcome some very distinguished guests here this morning. First of all, from the Department of Finance, we have the assistant deputy minister of financial sector policy branch, Mr. Rob Stewart. From the Bank of Canada, we have the chief of financial markets department, Mr. Paul Chilcott. From BMO Capital Markets, we have the managing director, Mr. C.J. Gavsie. From Export Development Canada, we have the vice-president and chief economist, Mr. Peter Hall. From the Industrial and Commercial Bank of China, we have Mr. William Zhu.

Thank you so much for being with us here this morning. Each of you will have up to five minutes for an opening statement and then we'll have questions from all the members.

We'll begin with Mr. Stewart, please.

Mr. Rob Stewart (Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): Thank you very much. I welcome the opportunity to be here today.

[*Translation*]

Thank you for the opportunity to speak to your committee.

[*English*]

I would like to make some remarks about the offshore renminbi centre.

Canada is the first country in the Americas to have agreements in place with the Chinese government to facilitate the use of its currency, the renminbi, in trade, commerce, and investment between the two countries. This development is a tremendous opportunity for Canada, and I'm pleased to be able to provide some background today.

To start, I'd like to discuss the renminbi itself, often also referred to as the Chinese yuan, which is the primary unit of the currency, and what's behind its growing use. While the renminbi is subject to controls imposed by the Chinese government, some of these controls have been relaxed in an effort to gradually internationalize the currency. The extent to which the internationalization occurs will largely depend on the continued opening of China's capital account, the degree to which there is flexibility in China's exchange rate regime, and most importantly, how the private sector chooses to engage in renminbi activity.

The process of internationalization has essentially been a phased market-based approach with Hong Kong serving as a policy testing ground since 2003. It was then that the Bank of China (Hong Kong) was designated as the first renminbi clearing bank outside of mainland China, allowing foreigners to open renminbi denominated accounts for the first time.

This was followed with a launch of a series of pilot programs aimed at increasing the use of the currency in trade settlement, and then further measures aimed at increasing the use of the renminbi as an investment currency. There are now essentially no limitations on the use of renminbi for the purposes of trade settlement, while certain restrictions do still remain on inflows into China for investment purposes.

Over time, two distinct pools of renminbi have developed: an onshore pool that trades only in mainland China, and an offshore pool that trades in Hong Kong and other foreign financial centres. In spot foreign exchange markets, the onshore pool is larger, with an estimated average daily turnover of U.S. $17 billion compared to $8 billion in the offshore pool. However, in currency swap and option markets, offshore trading is larger, with an estimated average daily turnover of U.S. $24 billion compared to U.S. $19 billion onshore.

This difference can be attributed to the absence of Chinese restrictions on the use of offshore renminbi, including the freedom for financial institutions to launch and trade derivative products in the currency. Because the onshore version of the currency is subject to restrictions, including a maximum trading band for the currency on any given day as well as limits on conversions for offshore investments, onshore and offshore renminbi are not completely fungible and trade at slightly different exchange rates.

The relaxation of controls has seen a buildup in the pools of offshore currency around the world. There are now a number of offshore renminbi centres where a variety of products and services denominated in the currency are offered. These centres typically require the designation of a clearing bank by China to transit payments in renminbi to and from mainland China. Hong Kong is the most established of these centres, and other important offshore renminbi centres include London, Luxembourg, Singapore, and Frankfurt.

With the agreement between China and Canada last November, Canada has joined these centres. This agreement has three elements.

First, the Bank of Canada and China's central bank, the People's Bank of China, PBoC, signed a memorandum of understanding related to the clearing of renminbi transactions in Canada. The Industrial and Commercial Bank of China, ICBC, was subsequently designated by China as the renminbi clearing bank for Canada, allowing access to the onshore renminbi market in addition to the offshore market. As a designated clearing bank, ICBC will be able to directly access the People's Bank of China payment systems to clear renminbi denominated transactions to and from Canada. In the absence of a designated clearing bank, domestic banks would have to use one or more correspondent banks with renminbi access to China, potentially reducing efficiencies and increasing risk when compared to the direct link that ICBC will now provide.

Second, the two central banks agreed to establish a reciprocal currency swap line. My Bank of Canada colleague, Mr. Chilcott, will have more to say about this.

Finally, Chinese authorities agreed to grant Canada a quota on investment of 50 billion renminbi under the renminbi qualified foreign institutional investor program, known as RQFII, which will allow Canadian qualifying financial institutions to offer renminbi denominated investment services in China's domestic capital markets to Canadian and other investors. Individual Canadian asset managers will be able to apply to the Chinese securities regulator for a portion of this quota. These elements should support the increased use of renminbi in Canada-China trade and facilitate investment by Canadian financial institutions and their customers. For Canadian firms doing business in China, using renminbi could be more efficient than using a currency of an unrelated country, typically the U.S. dollar, thereby lowering transaction costs.

Canada may also benefit from a first mover advantage by being the first country in the Americas to have a designated clearing bank. A quicker buildup of expertise in renminbi liquidity in Canada than in other centres could have lasting beneficial effects for our financial industry.

● (0850)

In addition, with a similar time zone, there is an incentive for firms and financial institutions located in other countries in the Americas to use clearing services here for their transactions in China. The extent to which this materializes, however, will depend in part on individual decisions and the cost and efficiency of using Canadian clearing options compared to that of other centres.

Canada's clearing bank, the Industrial and Commercial Bank of China, is getting ready to begin renminbi clearing and planning to be operational in the coming weeks. Now that Canada and China have come to an agreement on the three supporting elements of the Canadian renminbi centre, it will be up to the private sector to take advantage of the opportunity that has been delivered.

An important consideration when measuring the success of Canada's renminbi centre and renminbi internationalization more generally is that the market is still in its infancy. It does not currently have the deep sophistication that would allow businesses and financial institutions to fully engage in renminbi markets the way they would, for example, in the euro or the yen, but as commercial demand, liquidity, expertise, and trade grow over time, so too will the market evolve and be able to support the use of the renminbi on a much greater scale than is currently available.

Thank you.

The Chair: Thank you very much for your presentation.

We'll now hear from the Bank of Canada.

Mr. Chilcott, please.

Mr. Paul Chilcott (Chief, Financial Markets Department, Bank of Canada): 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 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. The first was a reciprocal currency swap agreement. The second was a memorandum of understanding relating to the clearing of renminbi transactions in Canada. Separately, Canada was also granted a renminbi qualified foreign institutional investor quota, initially 50 billion renminbi. The 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 200 billion renminbi. The Bank of Canada could then lend the renminbi to Canadian financial institutions that required renminbi to meet their payment obligations. However, as with our 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 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 to draw up to $30 billion Canadian. The swap is initially for a three-year period, but is renewable.

The MOU between the Bank of Canada and the People's Bank of China is a cooperative 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 cooperation will include sharing aggregate 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, and OSFI is working with industry to put in place appropriate reporting arrangements.

Once the MOU is in place, the People's Bank of China designates the Canadian subsidiary of the Industrial and Commercial Bank of China 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.

● (0855)

The Chair: Thank you, Mr. Chilcott, for your presentation.

We'll go to Mr. Gavsie from BMO Capital Markets, please.

Mr. C.J. Gavsie (Managing Director, Global Head of Foreign Exchange Products and China Capital Markets, BMO Capital Markets): Thank you, Mr. Chair and honourable members of the committee.

I'm pleased to be here to participate in this committee's study on the Canadian RMB trading centre.

[*Translation*]

I'm also honoured to be joined here today by my colleagues from the Department of Finance, Export Development Canada, the Bank of Canada and the Industrial and Commercial Bank of China.

[*English*]

In my role as head of foreign exchange products at BMO Capital Markets and as co-chair of the Toronto Financial Services Alliance working group on the RMB hub, I had the opportunity to work with many stakeholders in both public and private sectors in support of efforts to make the dream of an RMB hub in Canada a reality.

Our efforts were predicated on the idea that Canada can benefit significantly from trade diversification, especially to major growing economies such as China's. Such increased trade creates jobs at home and strengthens Canada's economy.

Historically, Canadian companies have tried to do business in China while having to use U.S. dollars to pay their Chinese suppliers, that being a currency many Chinese suppliers will accept. This arrangement adds foreign exchange transactions to the purchases and the process, which forces the retailer to add a 5% to 8% buffer to all similar transactions.

Taken together over the course of a year, this process adds billions of dollars to the prices of imported goods, a real and significant cost to Canadians. It is little wonder that Canada's trade with China, while significant, still appears to have significant room to grow. The establishment of a trading hub allows Canadian financial institutions to purchase renminbi on the open market on behalf of their clients. In the case of a Canadian retailer, such a company will be able to acquire renminbi at a market price, hold the currency in an account here in Canada, and then cut a cheque in renminbi when they need to pay their suppliers. Added cost from multiple foreign exchange transactions will disappear. Several RMB hubs have already been established elsewhere in the world, such as those in the U.K. and in Singapore. If patterns seen elsewhere are replicated here, we can expect to see a significant increase in total trade between Canada and China once the hub is up and running.

This committee will already know that the Canadian banking system has been rated the soundest in the world for the past seven years by the World Economic Forum. The renminbi hub will provide a further benefit to the financial sector as well. It will increase the sector's diversity and make Canada an even more appealing place in which to invest and do business.

The announcement in November of the agreement to establish the RMB hub here in Canada was fantastic news for Canadian companies. The Prime Minister and officials at the municipal and provincial levels across the country are to be commended for both their vision and their efforts. On behalf of BMO, I would like to thank them for getting this initiative to the goal line.

At BMO our capabilities in China are unmatched by our peers. In fact, we have been building relationships in China almost as long as the bank has been in business. We undertook our first foreign exchange transaction back in 1818. In 1961, with Canada's first major wheat sales to China, BMO became one of the first western banks to have direct ties with the Bank of China. Today, we are the only Canadian bank and one of only three North American banks to have a wholly-owned Chinese subsidiary.

The renminbi hub is yet another milestone for our enduring relationship with China. We look forward to using our strong foreign exchange capabilities to support our customers as they expand their businesses into China. We also look forward to working with all the stakeholders to make the hub the success we know it can be.

Mr. Chair, thank you for the opportunity to address the committee today. I look forward to answering any questions.

● (0900)

The Chair: Thank you very much for your presentation.

We'll now hear from Mr. Hall from EDC, please.

[*Translation*]

Mr. Peter Hall (Vice-President and Chief Economist, Economics, Export Development Canada): Thank you, Mr. Chair.

I'm very happy to be here today to discuss Export Development Canada's perspectives when it comes to

[*English*]

the renminbi hub establishment and the internationalization process.

EDC's interest in China's renminbi internationalization process and the establishment of renminbi hubs around the world has grown significantly. We've been especially interested in how the evolution of the renminbi is relevant to Canadian exporters. I'll get to this in a minute.

We've also been active in the renminbi bond market. As you may be aware, EDC became the first Canadian entity to issue a renminbi bond in July 2013, and one of the first sovereigns outside of China to do so. We then issued a second renminbi bond in November of last year. We would be happy to discuss these bonds with the committee, but my presentation is going to concentrate on the practical implications of the renminbi hub for the Canadian export community. In particular, I plan to address the questions that have been captivating many of our clients. These are, first, why the internationalization of the renminbi is an important issue for Canada, and second, how this will actually help Canadian exporters.

On the first question, China's development of renminbi hubs around the world is creating more demand for renminbi denominated trade, and Canadian exporters need to prepare themselves accordingly. It's clear to us that very significant competitors of Canada are already testing the waters on this front. If Canadian companies are not willing to do the same, they could find themselves in a position of competitive disadvantage. It is equally noteworthy that China is one of our most important trading partners. It has already been mentioned, but around $77 billion in two-way merchandise trade is currently happening. That's roughly about 8% of Canada's total trade on an average basis. China stands alone as our number two trading partner, and this means that all of the standard incentives for renminbi denominated trade definitely apply for Canada.

Having said that, we have interviewed Canadian companies, both large and small, about their renminbi strategies. As a general rule, the large companies are aware and quite cognizant of the benefits. We're more concerned about the preparedness and awareness of small and medium-sized enterprises, which clearly do not have as many resources to devote to the latest foreign exchange strategies. The risk here is that Canadian small and medium-sized enterprises could be caught off guard by a rising renminbi, and wind up losing their competitive edge.

Fortunately for them, we have not yet seen a significant shift to renminbi denominated real economy business. One of the key reasons for this is that global value chain financing practices are very U.S. dollar centred. Even in China, Chinese simply can't switch to renminbi denominated trade without repercussions, given the way that trade is organized at the moment.

Another reason that Chinese companies have preferred to conduct business in U.S. dollars until now is rooted in the relatively cheap U. S. currency, although we see that in the last little while that is evaporating. As the U.S. is leading the charge in the rest of the world, their structural strength and a number of other factors are leading to an appreciation of their currency.

Those are all reasons that this is important to Canada. How this will help Canadian exporters, I will summarize very quickly inside of six key points.

First, the establishment of the Canadian renminbi hub will allow our exporters to access a wider universe of Chinese importers.

Second is the awareness effect, both the effect of the awareness of the establishing of the hub on Canadian businesses large and small, and also awareness in China of Canada having actually made the advent of this, and thus increasing our visibility in that market.

Third, the hub should also stimulate the development of a more robust renminbi derivatives market in Canada, which will allow Canadian companies to more effectively hedge foreign exchange risk.

Fourth, hub agreement included an RQFII quota. This is an important detail that will allow Canadian institutional investors the ability to access China's onshore securities market and thus expand the menu of renminbi denominated investment options which would help to further deepen Canada's renminbi liquidity pool.

● (0905)

Fifth, the establishment of a clearing bank in Canada will help to reduce foreign exchange fees and make renminbi denominated transactions more cost-effective.

Sixth, there is evidence, although it's anecdotal, of discounted transactions for those actually using the renminbi.

What this all means is that renminbi hubs in Canada, Asia, and Europe are rewriting the rules of engagement and in the process altering the demand structure for renminbi business, which is not going to change overnight, but it is changing. We are hoping that in this case Canada can be ahead of the curve. It certainly pays to be ahead of the curve.

Thank you.

The Chair: Thank you very much, Mr. Hall.

We'll now go to the Industrial and Commercial Bank of China, Mr. Zhu, please, for your presentation.

Mr. MingXuan (William) Zhu (President and Chief Executive Officer, Canada, Industrial and Commercial Bank of China): Mr. Chairman, good morning. It's my great honour to be here. My name is William Zhu. I'm the president and CEO of the Industrial and Commercial Bank of China (Canada).

The Industrial and Commercial Bank of China is one of the world's leading commercial banks. In terms of total assets, our group has over 20 trillion renminbi, which is under a network consisting of more than 17,500 domestic institutions, over 400 overseas subsidiaries in 41 countries and territories, over 4.8 million corporate clients, and 430 million individual clients. Our bank subsidiary in Canada established our presence in Canada in 2010. Unlike our parent bank, the size of our subsidiary here is quite small in terms of total assets. RBC is over 900 times bigger than the bank. Now we have one head office and nine branches across Canada. We have over 94% of staff hired in Canada. On November 9, 2014, the Industrial and Commercial Bank of China (Canada) was proudly appointed as the first renminbi carrying bank in North America, and it is the first commercial bank providing 24/7 renminbi carrying services globally with a direct connection with China's central bank's carrying system. Now the bank can provide a great price and faster door-to-door renminbi carrying services in Canada. We are in the same time zone. We are seated here by your side to help Canada fully utilize the renminbi currency for great potential.

Today I want to talk about three main points regarding the Canadian renminbi trading centre.

First, why are we talking about renminbi and not yen or euro? No matter what kind of view you have about China, there are some facts you cannot ignore. China has changed a lot in the past three decades. Now China is the world's largest trading country and has the second to largest economy. China is now, and in future still will be the most potential market in the world; hence, the renminbi is the best way to reach the Chinese market and to do business with China, to serve your Chinese clients and their counterparts.

Second, why is the Canadian renminbi training centre so important and unique? You can compare the trading volume between the American continent with China to Europe with China. If I remember correctly, the amount of this volume is quite close. However, in Europe, there are four renminbi trading centres: London, Frankfurt, Paris, and Luxembourg. Canada is the only one that has a renminbi trading centre in North America, on the American continent. Consider the time zone difference; the benefit is that it will be fully operational and cover the business hours that Asia cannot. For example, our parent bank will sign an agreement with us to operate the carrying services after the Asia cut-off time.

Third, what are our challenges? I believe there are quite a few, but I am only going to list some of them.

First, there is quite a limited time window for us to implement it because China is liberalizing capital accounts. I'm guessing in the future, in three or four years, China will be liberalizing this more, so we only have four years, with respect to a renminbi carrying centre, to fully utilize our competitive advantages.

The second is the lack of knowledge and awareness of the benefits of using the renminbi for doing business with Chinese counterparts in the private sector. According to a survey by HSBC, only 5% of companies in Canada are aware of the renminbi for doing business with their Chinese counterparts, which is a relatively small number compared with other countries.

Third, Canada as the middle market country cannot stand alone to generate huge trading volumes for the offshore centre we have here, so we need to fully bond with the whole of North America, especially the United States companies, to serve them, to accumulate enough volume to support our having very mature offshore centres in the future.

Fourth, in order to compete with other financial offshore centres on other continent, we need tailor-made renminbi products to fully support the business in this field. There's a long way to go and we are competing with other centres in productivity and efficiency.

I wanted to raise all of those four points.

● (0910)

The Industrial and Commercial Bank of China is quite willing to work with everyone here to promote this initiative in Canada, to make the the improvements in Canada a very successful story, to help Toronto as the second-largest financial centre in North America, to analogize this initiative in Canada.

Thank you very much.

The Chair: Thank you very much for your presentation.

We will now move to members' questions. We'll start with Mr. Cullen, for seven minutes, please.

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): Good morning, Chair. Thank you.

Good morning to everyone. Thank you for being here.

I'll start with something you just said, Mr. Zhu—if I'm even close to pronouncing your name correctly—regarding the four-year window you mentioned. Can you explain and elaborate on what that challenge is for the committee, to help us understand what the imperative is for you?

Mr. MingXuan (William) Zhu: The reason I mentioned a four-year window is that China is liberalizing capital accounts. In the future, after the full liberalization of the capital accounts, there will be no competitive advantage as there may be in offshore centres in North American countries.

Mr. Nathan Cullen: Because the one is not liberalized right now, this is the advantage of opening this renminbi hub.

Mr. MingXuan (William) Zhu: Yes.

Mr. Nathan Cullen: Your estimate was within four years.

Mr. MingXuan (William) Zhu: Maybe. It's just an estimate. We are speeding up those processes. I think it will be very short term so we need to fully utilize this...

Mr. Nathan Cullen: I have a quick question for Mr. Gavsie.

Does it matter where this hub is physically located in Canada?

Mr. C.J. Gavsie: No, it doesn't. The hub is virtual. If I could describe the end result which I use with a lot of our clients and internal people, we would like for Canadians, for commercial purposes, to be able to walk into any branch of their financial institution of choice in Canada, and to have the ability to conduct their cash management services in renminbi, as they do today in Canadian or U.S. dollars.

Mr. Nathan Cullen: We think of a hub as a physical place, but it's simply a negotiated arrangement to be able to trade in this currency.

Mr. C.J. Gavsie: That's correct.

Mr. Nathan Cullen: Forgive my ignorance on this. Who picks up these...? You estimate it at as much as 5% to 8% I think. I've seen others as low as 3%, but some transaction costs.... Who receives that cost right now? Help us understand who's getting that money and won't get the money once this is done.

Mr. C.J. Gavsie: It's the Chinese supplier to the Canadian retailer, as in my example. There are many other types of examples, but basically we're estimating it at 5% to 8% on average as far as what Canadians who have negotiated ongoing contracts with Chinese suppliers are concerned. What we've done to be able to calculate that 5% to 8% is sat down with some of our clients and taken their contracts and deconstructed them using forward hedging pricing, to see if they were to pay in renminbi what would the savings be in Canadian dollars.

Mr. Nathan Cullen: Is part of this imperative now due to the strength of the U.S. dollar coming on?

Mr. C.J. Gavsie: It was there before.

Mr. Nathan Cullen: Is it enhanced by the U.S. dollar growing stronger?

Mr. C.J. Gavsie: It certainly is.

Mr. Nathan Cullen: Some 3% last year on the one?

Mr. C.J. Gavsie: Yes.

Mr. Nathan Cullen: I have a question for Mr. Stewart with respect to policy.

I suppose this is a different trading regime of some sort with China. This is a different way for Canadian businesses to do business in China. Is it at all connected to the different trading relationship we have with the Chinese under the new FIPA, or are they completely separate trading policies? Is one connected to the other in any way?

Mr. Rob Stewart: I wouldn't quite describe them as being completely separate. Obviously, the foreign investment protection and promotion agreement affords the opportunity for people to invest in China, within the quota that's allowed, with greater protection than they would have had before. But they are not related in the sense that, as policy actions, they're independent. They were independent initiatives.

● (0915)

Mr. Nathan Cullen: How many global trading centres are there right now?

Mr. Rob Stewart: In terms of the renminbi?

Mr. Nathan Cullen: Yes.

Mr. Rob Stewart: I think there are five: London, Luxembourg, Singapore, Frankfurt, and Canada.

Mr. Nathan Cullen: Did we go asking or did they come asking us? Who's the taker and who's the buyer here?

Mr. Rob Stewart: I would have characterized it as a joint interest, in that, I think this idea of clearing has been discussed for some time in the private sector as they've opened up, and as they've offered this centre to other marketplaces. But from an official's point of view, we just picked up on a private sector dialogue, and I would say that the Chinese were very receptive.

Mr. Nathan Cullen: Mr. Gavsie, I was just given a letter from my predecessor, as the opposition finance critic back in June 2014, seeking the government to move forward on some conversations and to provide some clarification on how this hub could happen. So, to my Conservative colleagues, we are not always anti-trade.

I have a question about the offshore pool that was discussed. Was it Mr. Chilcott? No I think it was Mr. Stewart.

You were talking about the difference between the onshore and the offshore trading pools. Is that correct?

Mr. Rob Stewart: That's right.

Mr. Nathan Cullen: Is Hong Kong considered offshore or onshore?

Mr. Rob Stewart: Good question. I think it's both.

Maybe Mr. Gavsie—

Mr. Nathan Cullen: Maybe Mr. Zhu could help us out.

Mr. C.J. Gavsie: We would consider it offshore.

Mr. Nathan Cullen: That was the first—

Mr. C.J. Gavsie: That was the first. Correct.

Mr. Nathan Cullen: Since it's gone on, that's where it was tested. Is that correct?

Mr. C.J. Gavsie: That's correct.

Mr. Nathan Cullen: So that's part of the offshore calculations that you gave us.

I have a question with respect to how this is going to flow between Canadian and Chinese firms.

Mr. Zhu, yours is the largest bank in the world. Is that correct?

Mr. MingXuan (William) Zhu: In terms of assets, yes, we are.

Mr. Nathan Cullen: Part of our conversation deals with the significant trade deficit that we have with China.

I wonder if Mr. Hall could comment. All of these things have consequences on certain industries, some more positively, some less so, depending on who's trading and doing what.

Do you expect this to have any impact on that trade deficit that has been steady and large with China for the last number of years?

Mr. Peter Hall: To answer that question, we have to carefully consider the evolution of the Chinese economy. At this point in time, it has been very clearly stated by the governing authorities that there is an intense desire to shift the economy from a trade-focused economy to a consumption-focused economy. If that's the case, you're dealing with the largest and eventually most powerful group of consumers in the world. That being the case and the growth that's implied by the rise in the Chinese middle class makes now a very opportune moment to capitalize on higher valued-added exports into the Chinese market.

Mr. Nathan Cullen: I'll end on this with a question for Mr. Gavsie.

We have primarily been a more raw resource exporter. That's one of the reasons our trade deficit is so large with China. I'll ask you if you've done any research on this in terms of a potential impact on that higher value.

Mr. Gavsie, you mentioned that in places where the hub has been created, there's been an increase in trade. Has your bank done any study on the direct causation or causality of this, or is it that trade has increased with most of these countries over this period of time and countries without a hub over this period of time?

The Chair: A brief response, please.

Mr. C.J. Gavsie: Commercial aspects, yes. From an investor aspect we look at Luxembourg as one of the hubs. That RQFII component that Mr. Chilcott spoke of is one that was not there before. We are seeing investor usage as well as increased commercial, which is much easier to get out heads around.

The Chair: Thank you, Mr. Cullen.

Mr. Richards, please.

Mr. Blake Richards (Wild Rose, CPC): I will start with you, Mr. Gavsie. You touched on it a little bit in response to the last question that Mr. Cullen asked. One of the things that I think I heard universally from the group was that establishing a trading centre would certainly appear to have some positive impacts on the economy. You mentioned in your opening remarks specifically, Mr. Gavsie, about the two-way trade with China and how, if you look at other examples, you would expect there to be a significant increase in that trade.

I would have to assume that when we look at something like this.... I spend a lot of time working on tourism issues. I have a tourism area in my riding and I chair the tourism caucus in our Parliament. When we did approved destination status with China almost five years ago, we saw significant and immediate increases, at least 20% every year since, in tourism coming into Canada from China. Would we expect to see similar kinds of results in terms of our trade through something like this?

You mentioned that you were basing that on other examples. Could you give us some sense, maybe some details or background, on those examples and what kind of increases we're seeing here?

● (0920)

Mr. C.J. Gavsie: Absolutely.

Tourism is certainly one of the more visible areas of improvement that we're able to see. The other examples would fall within the lumber industry, the fisheries industry, oil and gas. Obviously, we can witness the heavy set of demand by the Chinese economy for some of the Canadian resources. There have been plenty of talks of potentially using CNY or RMB as some form of a funding currency for some countries as we've seen their usage skyrocket in other sectors, other countries and hubs.

As these companies conduct more and more business with Chinese entities, whether it be from an ownership perspective or regular day-to-day commercial trade, we anticipate that will seep in because of their global competitiveness.

In other words, if a lumber, fisheries, or oil and gas company from Canada is competing with other global competitors and those global competitors have the ability to exercise their transactions in RMB, we should have that competitiveness as well. That's where we are deriving our forecasts from as far as the increased usage of the currency here in Canada is concerned.

Mr. Blake Richards: Would you have any knowledge of other places where these trading centres have been set up in terms of what kinds of benefits they've seen? Would we expect to see similar kinds of benefits?

Mr. C.J. Gavsie: I'd like to point back at the Luxembourg example, because right now we do not have the RQFII program running here today. We have experienced many professional investors requesting more information about that. As these investors, again, professional investors, look to diversify their portfolios for the Canadian domestics and retailers, they are looking to add and participate on some of the Chinese growth, which their competitors, as an example, out of Luxembourg, can do and they currently cannot. I think one of the most immediate impacts that will be visible to us will be in that investor circle from the RQFII delivery.

Mr. Blake Richards: Okay. Now, one of the important things when we think of our economy, of course, and one of the things our government has been very focused on is ensuring that we're creating more jobs for Canadians. Would we expect this agreement and this trading centre to create more jobs for Canadians? If so, could you elaborate on how it might actually create jobs?

Mr. C.J. Gavsie: This was interesting because this came up in conversation in terms of where the hub is to be located, and it was a bit of a misconception. With the hub being virtual, anywhere across Canada, we do expect, from greater economic development and greater competition for Canadian firms, that jobs will be created.

Again, going back to my example, whether it be the financial sector or the various resource sectors that will be using this component, we do expect the jobs to be created there, and we do expect them to be created across Canada, not simply where the main activity or the central activity of a hub is actually active.

Mr. Blake Richards: Thank you.

Mr. Stewart, I'll turn to you now. In terms of small businesses, I think a lot of us understand somewhat where some of the opportunities are, but what about small businesses specifically? Would they be able to participate in the RMB trading hub? If so, how? How would it help them to be able to grow their businesses?

Mr. Rob Stewart: This question may be better directed to Mr. Gavsie, as the banker among us, but certainly from the finance perspective, indeed they would be served by this facility—I would think of it more as a facility than as a hub in a physical sense—and that would be through the ability to go to their bank and transact.

For the moment, and I think this has to be understood, the renminbi trades through the U.S. dollar. In other words, the currency pair is U.S. dollars-renminbi. They would be exchanging Canadian dollars for U.S. dollars and U.S. dollars for renminbi. That's the way the market would work.

As it develops over time, the prospect exists, if there is a deep enough and liquid enough marketplace, for a direct currency pair of renminbi transactions for Canadian dollars. At that level and at that sense, where you're eliminating spreads, you would have very direct benefits for smaller businesses that are paying this 5% to 8% that Mr. Gavsie referred to.

● (0925)

Mr. Blake Richards: Mr. Gavsie, did you have some comment on this?

Mr. C.J. Gavsie: Yes.

Particularly for the small and medium-sized enterprises, I think the ability to collect and warehouse RMB in a bank account here in Canada is going to be the most advantageous component. Right now they cannot do that. They have to make one payment at a time in a spot transaction where they can exchange their Canadian or U.S. dollars for RMB. Then they have to send it over right away. They cannot warehouse it.

It's not that a small or medium-sized business is going to be warehousing large amounts of RMB. They're certainly not looking to do that, but they are looking for cost-effective transactions rather than a per transaction basis. There are very specific pros to having this here for that particular sector.

Mr. Blake Richards: Thank you very much.

The Chair: Thank you, Mr. Richards.

We'll go to Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Toronto specifically is a global centre for mining transactions. I think the statistic I've heard is that 80% of mining transactions over the last 10 years were transacted in Toronto. Mind you, there's not a hell of a lot happening these days.

BMO has a very strong presence and leadership within the global mining financing business. What will be the impact or the potential synergies between Canada as a global centre of mining finance and the renminbi hub?

Mr. C.J. Gavsie: It's very common for mining companies around the world to try to operate as much of their businesses in U.S. dollars as possible because when they pull their product out of the ground, and they develop long-term contracts as well as long-term capex projects, they look for a U.S. dollar denominated natural hedge so their receipts are matched up in U.S. dollars.

As global consumption increases, particularly from China, we are likely going to see at some point in the near future some commodity prices measured in RMB rather than simply in U.S. dollars. I think that would be the most immediate aspect to occur, because those discussions have been under way for quite some time. The increased activity by Chinese companies, particularly in the mining sector, is going to put a lot of pressure on that RMB denominated asset. For Canada's competitiveness, as it pertains to the mining sector, it's good to have very close ties and to have a hub in Canada where we can facilitate those transactions. It will be very helpful so they do not have to go to another centre.

Hon. Scott Brison: Is it likely that the renminbi hub in Canada will develop an area of specialization around natural resource financing compared to some of the other renminbi hubs elsewhere?

Mr. C.J. Gavsie: Very much so.

I do believe that as the hub comes into play in Canada, it's now good to give those mining companies the ability to hedge in RMB and continue to conduct their businesses as they see fit without the currency volatility. Over time, as they are required to run more of their business in RMB, this will certainly give them the opportunity they've been looking for.

Hon. Scott Brison: Thank you.

Mr. Zhu.

Mr. MingXuan (William) Zhu: I echo Mr. Gavsie's comments.

I decided that the TMX can attract more Chinese mining companies to get listed on the TMX. If those securities can denominate in renminbi, it will help to attract more Chinese mining companies to do that.

Hon. Scott Brison: So there's potential for more cross-listing?

Mr. MingXuan (William) Zhu: Yes.

Hon. Scott Brison: And deeper synergies and cooperation between our capital markets as well.

What is the potential impact on Chinese investment in Canadian real estate?

Mr. MingXuan (William) Zhu: It's more convenient for Chinese investors to explore the Canadian real estate market because it's easy to move the money out. Currently the Chinese regulator gives them convenience for the capital in RMB to moving it in and out. It will definitely help them and support them to invest in the Canadian real estate market.

Hon. Scott Brison: Mr. Gavsie, for BMO and other Canadian banks, what is the potential impact on your wealth, management, and private banking activities, in terms of working with high net worth Chinese and Chinese family offices?

● (0930)

Mr. C.J. Gavsie: As Mr. Zhu alluded to, the free flow of RMB between China and Canada will certainly be an attractive opportunity for them as they are primarily denominated in RMB. It will give them the automatic ability to transact. However, as we increase our services as a bank—and every Canadian bank has been on this path of offering immigration services to their private wealth management clients and investment opportunity services—I think that things like the RQFII program as well as the Hong Kong connect with Shanghai equity component will increase the flow of securities. For the private wealth client who has investments as well as personal funds with the bank, the ability to conduct those transactions easier will certainly be an attraction.

Hon. Scott Brison: Mr. Zhu, the CNOOC Nexen transaction was seen as an important decision in terms of the tone of Canada as an environment for Chinese investment in the natural resource sector. How do Chinese investors and state-owned enterprises view Canada as a place to invest? Where do you see the relationship today compared to pre-CNOOC Nexen?

Mr. MingXuan (William) Zhu: It's a good question.

It's very important. It's now harder to evaluate whether it's a success or not. We witnessed lots of Chinese investors, especially SOEs in the Canadian mining sector. Until now I haven't seen many success stories because of a totally different investment environment in Canada. We need more time to evaluate because for the oil sands industry it's a long-term investment. It's harder to evaluate it now because Canada changed the investment act, so it will be not so good in fact for Chinese investors to invest in Canada.

Hon. Scott Brison: Do you see Canada as a less predictable environment for Chinese investment than it has been?

Mr. MingXuan (William) Zhu: It depends. It is hard to evaluate because we have aboriginal issues, infrastructure, environmental protection, and labour unions here. That kind of stuff is totally different from China, so they need to know how to face those challenges. That is a big challenge for Chinese investors.

The Chair: Thank you Mr. Brison.

We'll go to Ms. Bateman, please.

[*Translation*]

Ms. Joyce Bateman (Winnipeg South Centre, CPC): Thank you, Mr. Chair. I also want to thank all our witnesses.

[*English*]

Your testimony this morning has been so very helpful and very important for us to have as a framework.

Mr. Zhu, you were quoted as saying:

> While we want to help Chinese investors start businesses and invest in Canada easily, we also want our local Canadian companies to see the vast opportunities investing in China can bring to them.

I am wondering if you could speak briefly to what steps small businesses and big businesses such as financial industries can take now to make this happen to our mutual benefit.

Mr. MingXuan (William) Zhu: I think small companies are facing more challenges than big companies to cross-border investment. I think a good way for them to do that...first, they can rely on big companies like SNC-Lavalin or Bombardier. They are already investing in China, so they can be their supplier and use those vehicles to explore the Chinese market.

Second, the PM just took a trip to China, to my hometown, Hangzhou, where he met Jack Ma.

I think e-commerce would be a very nice place for small companies to explore China...so like all banks providing e-commerce platform in China as well. I think we are more than happy to help small local Canadian companies explore the Chinese market because Chinese people need high-quality services and products. The Canadian small company, even the smallest company in Canada, provides the highest of standards in products and services. That will be very welcome in China.

I think both ways will be very good for them to explore Chinese markets.

● (0935)

Ms. Joyce Bateman: Thank you so much.

Mr. Gavsie, you wrote some great articles. There was one in the *National Post* in October. You noted that the hub will also enhance Canada's brand around the world. In fact, your direct quote is:

> Canada's banking system has already been rated the soundest in the world for the past seven years by the World Economic Forum, and Bloomberg has ranked Canada in second place in its list of the most attractive destinations for business.

Becoming the RMB hub will obviously help that.

Could you expand on that a little, in terms of how it impacts your industry in particular and all the industries?

Mr. C.J. Gavsie: Thank you for the question.

It is a big subject so it's tough to narrow it all down. I'll address it from the financial industry first, and then I will talk about some others.

On financial industry competitiveness, we already have such a great brand and reputation, we being the Canadian financial system. It's not as though we are re-creating that; we are adding to it. We're adding products and services for a system that is sound, solid, and run well, but typically operates just on Canadian dollars. We're now adding a product to the mix to be able to run additional services for our client base to help them become more competitive in RMB.

We are currently trading in proxy RMB currency. It is sometimes tough to think about, but the CNH, which is the currency that settles in Hong Kong and trades as a proxy to the RMB, we are already trading that with our clients, and we are seeing a considerably jump in increased volumes.

As the commercial market through the hub adds direct demand to the financial industry's client base, predominantly Canadian commercials, that will give us an automatic increase in that activity. That puts us more on the map globally speaking as we trade with other institutions around the world, not just onshore China, for that product.

Ms. Joyce Bateman: Obviously, if your clients are picking up between 5% and 8% on every trade, they have more money to do business with instead of just paying fees.

Mr. C.J. Gavsie: That's correct. Yes.

That's the financial industry.

Other industries which act on a global basis...for those that compete against other countries in the world, where they are buying product or service from Chinese suppliers' shelves to put onto their own, it now gives Canadians the competitive edge to be able to participate in those markets rather than having to pay in U.S. dollars and potentially pay the extra 5% to 8%.

It should make them not only better-run businesses—economic growth created, jobs created here in Canada for them—but it puts them on the map from a competitive growth scale as well.

Ms. Joyce Bateman: It does for sure.

You also mentioned that total trade with China has doubled and even tripled, in countries with similar agreements, in the first year after they have been made. Wow.

Mr. C.J. Gavsie: Yes, it's significant.

We watch the U.K. hub, as a very close example to the way we picture ourselves, as having the financial industry requirements to deliver product to the European base. Now, since that was set up in the U.K., Luxembourg has come online for investors. Frankfurt has of course come online, and France and Switzerland are in talks. So, there are plenty of other areas from which Europe is going to be able to get their RMB. But just watching the U.K.'s growth alone has been significant, and it is from that, that many of those numbers are cited.

Being the only North American provider of RMB services at this moment, I would say that we're going to have quite an influx of business coming in from south of the border.

Ms. Joyce Bateman: On that point, obviously if you trade on the TSX, that's great. How would it affect companies such as Diageo that trade on U.S. markets?

Mr. C.J. Gavsie: Diageo may have to purchase RMB or even hold an account in RMB as it does its business over there. Instead of converting back and forth every time they need to make a payment or convert a receipt, they can now do it in RMB and can fund their business through RMB.

Ms. Joyce Bateman: So it's a win-win.

Yes, the world is changing.

Mr. C.J. Gavsie: Yes, it certainly is.

Ms. Joyce Bateman: Thank you very much. I appreciate your comments.

Mr. C.J. Gavsie: Thank you very much.

The Chair: Thank you, Ms. Bateman.

[*Translation*]

Mr. Dionne Labelle, the floor is yours. You have seven minutes.

Mr. Pierre Dionne Labelle (Rivière-du-Nord, NDP): Thank you, Mr. Chair. Good morning, gentlemen.

We are talking about a medium-term opportunity for Canadian investors to have access to RMB-denominated bonds, equities, exchange-traded funds, warrants and mutual funds. So these are Chinese funds.

My question is for the Chief of Bank of Canada's Financial Markets Department. How confident are we in the Chinese banking system? I will elaborate.

We recently saw quantitative easing measures in the amount of $50 billion to save regional Chinese banks, and that initiative was more or less successful. All those products will be denominated and offered through your hub. Can you assure us that this will not lead to asset-backed commercial paper? What kind of a guarantee can the Bank of Canada provide that small Canadian investors will not become victims of things they do not understand or assets that aren't really assets and are fragile?

● (0940)

[*English*]

Mr. Paul Chilcott: I think the answer to that is that, as with any investment that a Canadian investor makes in any currency in any jurisdiction, they have to form a view themselves on the risks and returns from the investment. We focus on Canadian financial stability, but investors have to form those views themselves when they're making offshore investments.

[*Translation*]

Mr. Pierre Dionne Labelle: Mr. Gavsie, go ahead.

[*English*]

Mr. C.J. Gavsie: As Canadians, whether they be buying debt product or equity product anywhere in the world, they are assuming risk from those entities and the way they are regulated in their home-based countries.

As we learn more about the Chinese regulation and oversight of the financial markets, we look for different rated products. Many of the rating groups, such as Standard & Poor's, Fitch, and Moody's, are the same rating companies as manage them. Now, I know there is sometimes a question about whether they are as good as here, but there is a standard. Whether it is the right standard or the wrong standard is not my place to say, but in China there are activities in which those markets are regulated.

We have to be very careful and cautious about where we're putting our money, but there is also heavy demand by all of the institutional investment community, particularly here in Canada, to be able to achieve diversity in their portfolios for Chinese assets. They're hearing that from their investors.

[*Translation*]

Mr. Pierre Dionne Labelle: I am aware of that, but what do we know about China's engagements to automatic information exchange and bank secrecy? Is China engaged in those approaches? We know that the OECD and the EU are active in this regard, but is China engaged in controlling financial exchanges with a view to ending fraud and tax evasion? What do you know about this?

[*English*]

The Chair: Mr. Gavsie and then Mr. Stewart.

Mr. C.J. Gavsie: There is still a very close watch of all of the currency movement in China. For every renminbi and every U.S. dollar that passes over its onshore borders, it is tracking. It is very, very conscious, very cautious, of watching that system from how it internationalizes itself, its economy, so they are continuing to watch flow of funds.

What we have found in examples such as this hub is that they are opening up their borders to allow foreigners to come in and allow Chinese to make their way out, but those dollars are still under regulatory watch, and they have numerous levels of government that are watching those, whether it be through the group called SAFE, State Administration of Foreign Exchange, or CFETS, the China Foreign Exchange Trading System. It is still a very regulated market onshore.

So while, yes, they are demonstrating aspects of their economy to be able to deal more internationally, it certainly is still very much under watch. Those regulators are held accountable, and so far, it does seem to work, but the efforts to be able to decentralize some of the activities are apparent.

The Chair: Mr. Stewart, please.

Mr. Rob Stewart: Yes, I'll just add to that because there were a number of issues raised.

I do not believe that we have a tax information exchange agreement with China. We could confirm that for you, but I don't believe that to be the case. However, China is a member of the G-20 and is actively engaged in the process within the G-20 of looking at the system of international taxation. That work is ongoing through the OECD as an adviser or as a party to the G-20, and that will come to the fore later this year at the G-20 summit.

In respect of the Chinese banking system and the safety of investments, I would echo my colleague Mr. Chilcott on this issue that it's *caveat emptor*. It's up to the investor to make the decision and take the risk. There is no guarantee or protection afforded by Canada for those investments.

Having said that, we have a dialogue with Chinese officials. China is a very regulated economy and there are a number of regulatory authorities for securities, for banking, and for insurance, and they have a very close watch over the sectors for which they're responsible. There have been a relatively small number of failures or issues where investments have gone bad, and they have typically been in the very high-risk end of the marketplace, the shadow banking part of the Chinese financial system. For the most part, when you're talking about the banks themselves or stocks on the stock exchange, they're very clearly regulated, and the risks are very well known. To the point that Mr. Gavsie made, it's highly likely that a Canadian investor would be in that part of the market and not looking to be taking enormous risks in the shadow banking system.

● (0945)

[*Translation*]

The Chair: Thank you, Mr. Dionne Labelle.

[*English*]

Mr. Van Kesteren, please, for your round.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you all for being here. It's a very interesting and fascinating discussion.

I want to direct my first question to the Bank of Canada.

In a nutshell, if we dumb this down so that everybody understands what's going on, in the past, trade has been carried out using the U.S. dollar, and of course, the U.S. dollar has had that distinction primarily since World War II.

I guess the elephant in the room is when countries increasingly make these agreements with China to make their transactions directly with that nation, where does that leave the Americans? I mean we're talking about a huge economy, a huge powerhouse, that must guard that privilege fiercely. Where does that leave the Americans? I'm curious if you could just comment on that.

Mr. Paul Chilcott: There is a lot of speculation, I guess, on the potential growth of the renminbi as a reserve currency. There are other reserve currencies around the world other than U.S. dollars. I think you're more likely to see it used as a reserve currency in an environment where the capital account has been liberalized and, as we talked about earlier, that hasn't happened.

But as I say, it's a world where we already have the U.S. dollar as the major reserve currency, but there are already a range of other currencies that are being used as reserve currencies, and that's really been the case for many years.

Mr. Dave Van Kesteren: Is there a power struggle going on with the U.S.? As I said, there were movements, and I think the Chinese have arranged an agreement with the Russians, for instance, to trade directly between their two currencies.

Are the Americans fighting back against this trend?

Mr. Paul Chilcott: I can't comment on the geopolitics there. The Chinese, as a matter of fact, certainly have swap agreements in place with a large number of countries in different geographical positions.

Mr. Dave Van Kesteren: Of course, the advantage that we've had, and I think probably the reason that most countries have been comfortable with the current arrangement, is that in a free and open market system—and some would argue that's becoming quite tainted in the last few years—there is no control on the dollar. The dollar will find its mark, we say.

I am going to go to Mr. Zhu in a second, but is that the case with the Chinese government? Obviously, the federal reserve is not owned by the government; it's owned by the banks. But there are safeguards put in place so that the currency can't be manipulated.

● (0950)

Mr. Paul Chilcott: Well, right now the renminbi is not a free-floating currency. Its value is influenced by the Chinese authority, and that means that investors or people taking positions in the currency need to take that into account in terms of thinking about their risk exposure.

Mr. Dave Van Kesteren: Mr. Zhu, I want to ask you a few questions.

Congratulations on your bank's being the largest bank in terms of assets.

I read, I think it was yesterday, that China has just announced that they've had the largest devaluation in homes, that new-home prices have dropped more than ever before. How does that affect your assets?

Mr. MingXuan (William) Zhu: Definitely, we provide lots of residential mortgages to Chinese in domestic markets, so if the price of homes dropped dramatically, it would affect the quality of our assets. But so far, I think it's okay, because we try to identify the right borrowers from the low-level borrowers or not-so-good borrowers. We want to keep our assets as safe as possible.

Mr. Dave Van Kesteren: The follow-up question would be whether the market has access to your assets sheet. Are they able to analyze that?

Again, there was another interesting article saying that COSCO has decommissioned eight ships. Would the Chinese bank have the paper on those eight ships? Is that something that would reflect on your spread sheet?

Mr. MingXuan (William) Zhu: China is now going through their securitization; those banking assets allowed us to securitize our assets. It would definitely help our banks to keep a safe and more healthy balance sheet for our further growth.

Actually, the balance sheet of the banks is relatively large. It's not good to just raise the capital and then do more business in the future. So we want to keep a very comfortable balance sheet. Total assets.... Bigger does not stand for stronger. We are pursuing being a leading financial institution in the world.

Mr. Dave Van Kesteren: Very quickly, it is probably a no-brainer that everyone moves towards China as your economy continues to grow. We have a mayor in our town who has been actively trying to encourage investment from China, and I applaud him for that.

Can you give an example of Chinese companies that have set up shop in Canada? I'm not talking about the oil sands, but where there's been a company that has moved to Canada and has started a manufacturing process.

Mr. MingXuan (William) Zhu: Actually, I met a few companies that have established manufacturing in Canada. For example, there are dumpling companies. They produce dumplings. They are located in Edmonton. There are some automotive parts manufacturers. They have acquired a company in Canada to produce auto parts for other manufacturers. Those are the kinds of things they are doing right now.

Mr. Dave Van Kesteren: So they're staffing for American automakers.

Mr. MingXuan (William) Zhu: They require a company in Canada to make auto parts.

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

Mr. Côté, go ahead for seven minutes.

[*Translation*]

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you, Mr. Chair.

I want to thank the witnesses for being here today.

My question is for Mr. Chilcott, from the Bank of Canada.

I have noted that the memorandum of understanding between the Bank of Canada and the People's Bank of China has remained confidential. So it will not be published. How do you explain this?

[*English*]

Mr. Paul Chilcott: Typically agreements of this kind between central banks do remain confidential. The PBoC wanted it to be confidential in this case.

To give you a flavour of what's in the agreement broadly, it provides for regular dialogue between the two central banks on the growth of the renminbi and liquidity conditions in Canada.

In many respects it formalizes the kinds of conversations you would typically see between central banks in any case where one central bank had an interest and its currency was being used in another jurisdiction. In many respects I would think it would provide for a kind of conventional central bank dialogue.

● (0955)

[*Translation*]

Mr. Raymond Côté: You say that these kinds of memoranda of understanding between various countries' central banks usually remain confidential. Have any agreements between the Bank of Canada and other countries' central banks been made available to the public?

[*English*]

Mr. Paul Chilcott: I'm not aware of that in the Bank of Canada's case, but that is something we could follow up on.

[*Translation*]

Mr. Raymond Côté: Thank you. That would be greatly appreciated.

Mr. Zhu, if I have understood correctly, you have expressed certain concerns over the use of the cap on the currency swap line. You don't seem convinced that the Canadian market is sufficient and seem to think that an outside contribution would be needed. You were talking about the rest of the Americas.

Did I hear that right?

[*English*]

Mr. MingXuan (William) Zhu: Actually, it's not related to the cap of the swap line or something like that. If we want to have a mature market and to be very competitive with other markets, we need greater transaction volumes. These transaction volumes cannot rely solely on the Canadian market. Having greater volume here would benefit our financial institutions. It would encourage us to create innovative products, to serve our customers better, and to be more attractive in comparison with other places in the world.

[*Translation*]

Mr. Raymond Côté: Okay. I understand.

To come back to trading volume, do you think the current trade agreement would suffice for the Canadian domestic market?

[*English*]

Mr. MingXuan (William) Zhu: I don't think so, because the trading volume between China and Canada accounted for only $73 billion in 2013. It was relatively small.

It's closing, but it's still not enough to support a very comprehensive market in Canada for offshore centres.

[*Translation*]

Mr. Raymond Côté: When it comes to the cap on the currency swap line, I thought about the fact that companies from other countries wanted to go through the Canadian platform like some U. S. companies.

Do you think this could have an impact on the trade course?

[*English*]

Mr. MingXuan (William) Zhu: They are sometimes adjusted for the last results for liquidity purposes, but because we have such a facility here, definitely we have some advantages compared with European or Asian centres, so definitely I am quite confident that U. S. participants are willing to work with us to do business with us here in Canada instead of with other countries. We need at least to provide them with enough and very comprehensive product lines to compare with other offshore centres.

[*Translation*]

Mr. Raymond Côté: Okay.

Can one of the witnesses explain in simple terms why the U.S. government, or the Federal Reserve, has not yet ratified an agreement? Is something currently being negotiated? Could someone tell us whether there is a similar platform in the United States?

● (1000)

[*English*]

Mr. Rob Stewart: That's a question that's very difficult to answer, but it relates to a question that was asked earlier. China and the U.S. have a very broad and complicated relationship and in that context have ongoing dialogues on economic and financial matters. We're not aware that in that context they are having any discussions about the establishment of renminbi trading capacity in the United States. That has not, to our knowledge, happened to date.

In relation to the prior question, from an American point of view, they would prefer obviously to invoice and ship goods in American dollars. There is less risk for them, so at the end of the day, it is very much a private sector driven matter and a balance of interests has to determine what currencies are used. In the case of the Americans, the U.S. dollar is the dominant global currency and they would prefer it to stay that way, I am sure.

The Chair: Okay, thank you.

Merci, monsieur Côté.

We'll go to Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): First of all, I want to acknowledge the NDP's support for the trading hub here in Canada. They came on board early last year following their industry critic's trip to China, then following that, the letter to the Minister of Finance. I want to agree with Mr. Cullen. That was a significant move and I thank them for their support on this and for acknowledging the vision that our government had in moving forward on this.

Everybody knows that once a salesman has sold a product, he should stop selling. The product has been sold. We have the trading hub. Just stepping back a bit, whom were we competing with to get this trading hub?

That is for anyone who wants to jump in.

Mr. Gavsie, why don't you answer that one.

Mr. C.J. Gavsie: We were not competing with anyone. There were discussions among advocate groups in Toronto and Vancouver —

Mr. Mark Adler: I mean in North America.

Mr. C.J. Gavsie: In North America there has been no competition.

Going back to one of the earlier questions as for where the U.S. is on this, Canada, through the industry working group, through both TFSA and AdvantageBC, got themselves together with various colleagues of ours at various levels of government. We did start putting the product together to say what a hub could look like in Canada on a Canada-wide basis, and if we were to bring in other sectors from outside Canada, predominantly the U.S., what that would mean for us and how we would conduct that business. We were an advocacy group that started this. It was not China coming to us.

Mr. Mark Adler: No, of course not. However, were there interests in the United States that would equally have welcomed such a trading hub?

Mr. C.J. Gavsie: Absolutely.

Mr. Mark Adler: We were able to convince the Chinese to locate this trading hub in Canada, primarily because of our good economic conditions, sound investment climate, seventh year in a row that our financial sectors are rated the best in the world by the World Bank. We had the proper positive economic and investment conditions that led to China choosing Canada over any other jurisdiction where they might want to locate a trading hub. Is that correct?

Mr. C.J. Gavsie: That is correct, yes.

Mr. Mark Adler: Okay.

Now jumping ahead a bit, Mr. Chilcott from the Bank of Canada, we live in uncertain economic times. In the event of a credit crisis, what have the Bank of Canada and the Chinese done, what kind of an agreement have you entered into to backstop any kind of credit crisis?

Mr. Paul Chilcott: The swap agreement would enable us, if we judged Canadian financial stability considerations to warrant it, to draw on that swap to lend to Canadian financial institutions. But I would observe, in relation to the last crisis, that we didn't activate any of our swap. Unlike some other jurisdictions which did activate some of their swaps with the U.S. federal reserve, we didn't need to. So it's an extreme consideration.

● (1005)

Mr. Mark Adler: Just to be specific then, is there a three-year $30 billion currency swap currently in place as a result of this agreement, that the Bank of Canada will step in and backstop any potential Canadian loss?

Mr. Paul Chilcott: No, we would lend in the event that we thought the financial stability considerations in Canada required it. That's not the same as backstopping any particular investor.

Mr. Mark Adler: So there is a provision in place then.

Mr. Paul Chilcott: The swap is there to be drawn on in case of crisis.

Mr. Mark Adler: I want to turn now to the Canadian institutional investors, such as pension funds, and go back to Mr. Gavsie on this one. This opens up a market for them too, doesn't it?

Mr. C.J. Gavsie: Yes.

Mr. Mark Adler: Could you talk a bit about that?

Mr. C.J. Gavsie: China's investment opportunity and investment industry internationalizes and opens itself up. They have one of their pilot programs on right now with the Shanghai exchange as well as the Hong Kong exchange. I believe it's called Shanghai-Hong Kong Stock Connect. That gives the ability for investors in both of those locations to buy and sell securities over the exchanges on each centre without prior approval, whereas before this existed, you would have to go and apply for the ability through various RQFII programs, or vice-versa to get into Hong Kong.

So we are seeing a retail investment demand from that sector come into play through the institutional investor. When I've been referring to the institutional investor, I'm thinking of the people who run our pension funds and mutual funds, not a hedge fund. In my experience, the Bank of Montreal's experience, the hedge fund activity is not looked highly upon, as far as the activity is concerned, and they certainly do not want to see any sort of speculation or short-term investment.

Mr. Mark Adler: We talked earlier about the vision of our government, with the support of the NDP, to arrange for this virtual hub to be created here in Canada. Could you speak about, first of all, what this means for ordinary Canadians? My understanding is that they can now open up an account that contains Chinese currency. Is that correct?

Mr. MingXuan (William) Zhu: Yes.

Mr. Mark Adler: In addition, in terms of savings, we've seen growth of trade in yuan go from 2% in 2012 to 8.7% in 2013. This is going to mean significant savings for Canadian companies and those savings can be passed on to consumers.

Number one, this will mean more money in the bank accounts of businesses to reinvest that money to create more jobs and savings for Canadian consumers, stripping out, I think, at the $2.7 billion for an import cost.

Can you speak a bit about that and what benefit that will have on the Canadian economy?

The Chair: Very briefly, please.

Mr. C.J. Gavsie: Despite some of the obvious numerical and financial savings there, we are looking to demonstrate what economic opportunities have arisen from these savings. It's going to be very difficult for us to put our finger on, but we do expect greater globalization by Canadian small and medium-size enterprises. We expect better product, more diverse product being on the shelves for Canadians because of things like this.

The Chair: Thank you, Mr. Adler.

I'm going to take the next round, and I have a number of questions I'll try to get through. I want to follow up on Mr. Adler's questions to Mr. Chilcott on the currency swap agreement. In your opening statement, you said, “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.”

In terms of judging whether it's necessary, will it be the Bank of Canada alone as the institution in terms of determining whether that's necessary? Will OSFI have a role? Will the Department of Finance have a role?

Mr. Chilcott.

Mr. Paul Chilcott: In practice, I think one would see dialogue with our colleagues at the Department of Finance and with other federal partners. But coming back to an earlier point, the bar would be very high. As I mentioned, during the last crisis we didn't have the need to activate the U.S. swap, for instance, to lend U.S. dollars. It's very much a last resort. Institutions have to manage their renmindi liquidity, just as they have to manage their liquidity in other currencies, on their own account, including by having plans for stress circumstances.

● (1010)

The Chair: In response to one of Mr. Adler's questions, you said it's not a backstop. But is it not fair to see it as a backstop?

Mr. Paul Chilcott: It's there to provide liquidity in extreme circumstances to the financial system as a whole. It would not be a credit backstop for any particular investor.

The Chair: Now, for argument's sake, if a Canadian financial institution is perhaps starting to go down the road of opening themselves up to more risk than is reasonable, is it your role, is it OSFI's role, is it Parliament's again? Is it a combined role?

Mr. Paul Chilcott: The Bank of Canada would look at such things from a systemic point of view. But from the point of view of any particular bank, the managing of liquidity risk is OSFI's role.

The Chair: Okay. Thank you for that clarification.

The second item I want to raise is this. Our analysts have provided a very helpful figure for foreign direct investment by Chinese investors in Canada and by Canadian investors in China from 1993 to 2013.

If you look at Canadian investment by China, from about 1993 to 2006 it's less than $1 billion, and it jumps in 2013 to $16 billion. If you look at Canadian investment in China, again in 1993 it is under $1 billion, and until about 2003 it's about $1 billion, I'm guesstimating, and then in 2013 it jumps to $5 billion. So one has certainly jumped much more than the other.

I want to open up to anyone here the question why this has been so. My sense is that setting this up is one answer to addressing this discrepancy, to provide more assurance so that we have more Canadian investment in China.

Who would like to tackle that question?

Mr. Gavsie, please.

Mr. C.J. Gavsie: Is that foreign direct investment of Canadians into China?

The Chair: Canadian investment in China is $5 billion; Chinese investment in Canada is $16 billion. In about 2003, they were both under $1 billion. So one has jumped a lot more dramatically than the other.

Mr. C.J. Gavsie: I believe the answer is very much tied to the internationalization efforts by the Chinese government. The currency trades within a band. I believe it was in March 2013 that it widened to 2%, so there is more activity in the currency itself. For many years, and I believe in 2005 through 2006, it was still pegged, so it was not moving.

Then, we also have had various ruling changes on what type of foreign direct investment for both countries is permitted, whether it be by Canadians to China or of China to Canada. They also are very restrictive on investments by Chinese companies on their way out of China. It's not that they stop them; they just scrutinize them and put them through an extra layer of analytics.

I believe that will continue to persist. The Chinese, as we found them, want to make sure that their foreign investments are in tandem with other governments' beliefs. When we see some of the larger investments coming into Canada—someone mentioned the CNOOC Nexen deal—a lot of discussion obviously goes on from a competitive standpoint about continued jobs and that sort of thing.

The Chair: Okay.

Mr. Stewart, please.

Mr. Rob Stewart: I might add that I think there are other factors at play. One is the evolution of the Chinese economy in general terms. China is modernizing and becoming a country looking for external investments very quickly.

I believe the raw numbers might also distort the fact that the CNOOC deal was a very large part of that $16 billion. If you were to look at it across the number of transactions, you might get a different reading.

But basically, China's is a much bigger economy, and their FDI flows, in the context of a liberalizing capital account and an increased interest in external investment, are going to dwarf Canadian volumes over time.

● (1015)

The Chair: Will the setting up of this strength have much of an impact in terms of Canadian investment in China?

Mr. Rob Stewart: That's the difference here. We've obtained the opportunity through the RQFII to do a direct investment into China. It's capped at the moment at $50 billion, which is on a scale that's comparable to those obtained by other centres, but it could grow over time as the Chinese liberalize and, as has been mentioned by our colleague from the ICBC, in due course the Chinese will be fully liberalized, but for the moment we can do something we couldn't do before.

The Chair: Do you want to make a brief comment on that, Mr. Zhu?

Mr. MingXuan (William) Zhu: I'm okay.

The Chair: Thank you.

Colleagues, I think we have time for a round of four or five minutes.

We'll go to Mr. Cullen, please.

Mr. Nathan Cullen: Thank you, everyone.

Mr. Zhu, from the Chinese perspective, is there a clear understanding as to what the foreign and direct investment rules are for Canada vis-à-vis China, particularly with state-owned enterprises? Do you have a solid understanding when you're talking to the SOEs in China as to what the rules are when they're seeking to invest in Canada?

Mr. MingXuan (William) Zhu: We talk a lot about SOEs, but I would like to say why SOEs go abroad. First, it's because they have the capital, the vision, and the human resources. They still have lots of limits prohibiting them from going abroad, but they have those resources in hand so they go abroad first. I think following their paces, medium-sized companies will go abroad to explore other countries' markets as well. It's not just limited to SOEs.

Mr. Nathan Cullen: My specific question is for a Chinese state-owned enterprise. Is your bank able to advise them as to what the Canadian rules are, limitations or openness?

Mr. MingXuan (William) Zhu: Yes. Our bank's strategy in Canada is not to compete with the BMO or other big banks. We are not able to do that. We want to fully facilitate our parent bank's capability in China, because we are the largest one, to establish a strategic partnership with local peers to bridge both countries' investment and trade, to help them.

Mr. Nathan Cullen: To give you an example, if you were advising a Chinese state-owned enterprise that was interested in purchasing an energy company in Canada, is that permissible right now under your understanding, an oil company?

Mr. MingXuan (William) Zhu: Yes, I would like to say it depends on what kind of companies they want to.... You should be prudent. You should understand those different circumstances, but we encourage them. There are still lots of opportunities to invest in Canada.

Mr. Nathan Cullen: Thank you.

Mr. Chilcott, to follow up on Mr. Rajotte's question, I know you did not call this a backstop for specific investments. Is it $20 billion or $30 billion that the banks made?

Mr. Paul Chilcott: It would be 200 billion renminbi or $30 billion Canadian.

Mr. Nathan Cullen: It looks like a backstop, if you follow me, that it's there. It's as you said; it has been made available before but was never used. In the case of some financial crisis, Canada was a mix of great foresight and lucky, in terms of the last major global financial crisis.

China, to me, in terms of understanding the decisions of the Chinese government with respect to their currency, is perhaps less transparent than some of the other trading regimes we've had. Why is it not a backstop? Why make the money available if not for the potential of actually using the money in some crisis?

Mr. Paul Chilcott: The money would be potentially available to lend on a secured basis to the Canadian system. In that sense the central bank is only ever a provider of liquidity and it lends against collateral. It's a liquidity lender of last resort potentially, but it's not a provider of a credit backstop. That's just the distinction I was making.

Mr. Nathan Cullen: I understand. I'm just trying to imagine. The bank's gone through and made a policy decision to make available this $30 billion under some very restrictive scenarios in which a Canadian financial institution became overexposed to unmanageable risk. I'm trying to imagine a scenario in which—not of course Mr. Gavsie's bank because it's far too smart to do this—but a major risk play that was made in China....

We have a situation where the Chinese housing market severely is undercut for various factors. A Canadian bank is exposed to the point where they don't have the liquidity—stop me at some point where I'm making some scenario that is just not feasible—and the Bank of Canada has got those assets backstopped to prevent a Canadian bank or several banks from outright failure.

● (1020)

Mr. Paul Chilcott: Well, it would be an issue of credit losses leading to failure. That would be an issue of insufficient capital, whereas the only thing a central bank can deal with would be a liquidity issue rather than a credit issue. If you take the situation of the last financial crisis, some jurisdictions activated their swaps with the U.S. Fed because there was a shortage of U.S. dollar liquidity in their jurisdictions. They weren't bailing out any of those institutions, but they were dealing with a localized liquidity crunch and they were lending on a secured basis in order to do that. If you like, it's the kind of conventional central bank response to dealing with a liquidity crisis. Credit losses leading to insufficient capital are a different kind of crisis management exercise.

The Chair: Thank you, Mr. Cullen.

Next is a Conservative round, and about three colleagues have indicated. I don't know who's first here.

Mr. Richards, are you first?

Mr. Blake Richards: Sure. Thank you very much, Mr. Chair.

Unless I've missed it, I don't think I've heard anyone address what I think would be one of the fundamental things, which would be the timeline for setting this up. Obviously there would be a number of features and elements that have yet to be incorporated here, and you've all talked about them to some degree. I know many of them have been incorporated, but can someone give me a sense as to what features have already been put in place, what still needs to be put in place, and what the timelines would be before we would be fully operational?

Mr. MingXuan (William) Zhu: For the carrying functions, our bank is quite ready. The systems were put into production at the end of last month, so we are preparing with our local peers to open accounts and we are working with OSFI to get the final approval from OSFI. We plan to have the launch ceremony on March 23. This is for the carrying function. It is quite mature—we already have a designation in Singapore, Luxembourg, and Doha before Canada—so our system can fully support our doing that. The carrying function is just a small portion and a fundamental part of the renminbi centre, so based on that, we needed to create more products and services. Our bank is a small portion, and it will be led by the local big banks to provide those kinds of services and products to their clients in Canada.

Mr. Blake Richards: Thank you.

Mr. Chair, you did mention that there were a few other colleagues, so to give everybody an opportunity, I will give my time to Mr. Van Kesteren.

Mr. Dave Van Kesteren: Thank you, Chair.

I want to go likewise to a line of questioning similar to the Chair's, and I am going to open this one up as well.

He mentioned that the ratio of investments is about four to one or maybe not quite that. The trade imbalance is also pretty close to four to one. I understand there are things that can be produced much more cheaply in China. I understand the free market system. I'm a big advocate of that system. I think it's one that's given the whole globe a prosperous...especially at this particular time.

However, the question I left with in the last round had to do with what indication we have that the Chinese are going to invest in Canada. What's the upside for us? Let's take away from the investment. I represent an area in southwestern Ontario that has been decimated in terms of manufacturing jobs, so it's incumbent on me to be sure that we can offer the Chinese something that they need from us.

I was talking to the agriculture minister yesterday and he indicated that there are a billion-plus Chinese. If everybody ate another hamburger and drank another beer, we couldn't supply them with what they needed. Where do we see that trade starting to happen? I understand the trade that the banks are involved in, but my constituents understand things at the grassroots level. That's not a difficult thing.

I want to finish off, and I hope you caught the point on those COSCO ships. Those were new ships. There are two stories there. First of all, there is the fact that there are eight decommissioned ships taking goods across. Those goods are coming to North America—and to the rest of the world, I suppose—but at what point will we start to see some of that trade starting to flow our way? When will we start to see the Chinese buying the products we can offer them? I want to know why this particular deal is going to be helpful in that respect.

I'm opening it up to anybody.

● (1025)

The Chair: Mr. Hall.

Mr. Peter Hall: I want to be careful to say that nobody really knows the future, but as career forecasters we try to map those things out as carefully as we possibly can. China is going through a transformation. It's very contingent on the world growth. That's the big question at the moment. When we see a situation where we are seeing ships decommissioned and export trade actually faltering, one has a lot of questions about that.

What we see at the moment, though, is a revived U.S. economy that's taking the lead in the rest of the world. All eyes are on this as to how this growth is going to transmit across to the rest of the world. We're in a waiting game at the moment, so it's very difficult to tell whether China's trade situation is going to resume. It's fundamental to it making then a shift from the trade side towards this consumption-based growth that the government is very keen on seeing. While the uncertainty persists, getting the savings rate down inside of China is inherently difficult, but it's necessary for this to happen

When it comes to constituents here in Canada, I believe there is one trend inside China that really needs our very focused attention; that is, there is an aging of the population problem in China that's impinging on its own ability to produce goods and services for itself and for the rest of the world. This has caused coastal wage rates to be rising in China to the tune of 18% to 19% a year over at least the last six years. China is looking at a new way to invest in the rest of the world to create capacity for itself. It it is on the march looking for resources, looking for people, and looking for a number of different things with very strategic outbound investments.

I believe it's incumbent on us in southwestern Ontario or other parts of Canada to be aware that this is a key trend that is governing Chinese outbound investments in the manufacturing sector in a number of different jurisdictions around the world. I'm not sure of the extent to which this $5 billion in Canada is capturing that, but that's the context.

The Chair: Thank you, Mr. Van Kesteren.

We'll go to Mr. Brison, please.

Hon. Scott Brison: Aside from the obvious natural resource export opportunities to China, what do you see or what does EDC see as areas of growth for Canadian exports to China?

Mr. Peter Hall: It's an excellent question.

There are a number of different areas that I could go to. In high value-added exports, we have not been present, particularly in the auto sector. Machinery and equipment is a possibility for us, but I think that where our possibilities are perhaps greatest are in the agrifood sector. I go back to the example of everybody eating one more hamburger or drinking one more beer. That characterizes a key problem that China has. When you see the accession to the middle class happening at the rate that it's happening inside China—it's occurring at an annual rate greater than the Canadian population—it's very hard to conceive of the magnitude that we're talking about here.

This increase in wealth increases total consumption, but increases the quality of consumption right away. The place it starts, as far as we can determine, is food. People eat more meat. That's what puts exponential pressure on the world's food supply. I think it's a key driver. We know that China is already very actively pursuing agrifood shipments from Canada back to China.

Hon. Scott Brison: Within agrifood, aquaculture and new technologies around sustainable aquaculture and those sorts of areas are of great interest.

Mr. Peter Hall: I mean no disrespect, but a very close Chinese friend of mine once replied to a question of mine by saying that the Chinese eat everything.

● (1030)

Hon. Scott Brison: Very good.

B.C. in 2013 became the first foreign government to issue bonds into the Chinese renminbi market. What are the opportunities in the future for other provincial governments?

Mr. C.J. Gavsie: What B.C. did was raise a dim sum bond denominated in CNH to be able to give investors the ability to get some renminbi exposure while holding on to a very high level of debt for a short period of time. They've subsequently come back to do a second offering. EDC has also stepped into that market a couple of times, I believe.

I think that's going to create tremendous opportunity. As other colleagues have informed me, the amount of dim sum issuances last year was greater than those of the U.S. dollar or those denominated in U.S. dollars, so there is appetite by investors out there on a global scale. I think there is just as much Canadian debt held by foreigners. We certainly have a terrific opportunity to be able to raise more of those types of bonds.

When Canadians run their businesses and take in CNH or renminbi in the form of debt, they have to ask themselves if they're doing that from a symbolic perspective, which I believe a couple of these issuances were, to demonstrate to their investors that they could issue there. But as we see more businesses having a funding need for RMB, I think that will facilitate much further investment.

Hon. Scott Brison: You don't know of other provinces that are considering—

Mr. C.J. Gavsie: I know that several provinces and several Canadian corporations have examined it, but they're looking to make sure that it makes sense for them, particularly when you translate CNH into Canadian dollars.

Hon. Scott Brison: You said earlier that Canadian pension funds are seeking investment in China. Do you have any thoughts on what asset classes they would be interested in investing in? Is it going to be infrastructure?

Mr. C.J. Gavsie: I believe it would be infrastructure. It would primarily be short-term debt because most of these pension funds, through their investment committees, have a very strict adherence to what they can invest in. It would likely have to be government-backed debt at the beginning. Certainly I would see corporate debt and common equity coming as a second or third level of investment.

The Chair: You have one minute.

Hon. Scott Brison: Mr. Zhu, the CIC, China Investment Corporation, has scaled back activities in Canada, and in Toronto specifically, to increase its presence in New York.

What do you think that means, and is there a broader message in terms of Chinese investment in Canada in the current context?

Mr. MingXuan (William) Zhu: They are thinking about that.

I think maybe it relates to the return of that investment in Canada. In terms of their portfolio, it may be that New York is another good opportunity for them to explore. It's still under consideration about whether to relocate it or not, but I think they will probably keep investing in the Canadian market as well, no matter where the head office is in North America.

The Chair: Thank you, Mr. Brison.

We'll go to Mr. Adler, please.

Mr. Mark Adler: Thank you, Chair.

Mr. Gavsie, I want to applaud you first of all, and thank you for all the hard work you put into creating this hub. I know you were instrumental in the creation of it.

On November 8, your bank issued a press release in response to the creation of the hub, where you're quoted as saying the following:

> We thank the Prime Minister and his officials for getting this to the goal line. Canada's banking system has already been rated the soundest in the world for the past seven years by the World Economic Forum, and Bloomberg has ranked Canada in second place in its list of the most attractive destinations for business. Becoming an RMB hub will increase the diversity of our financial sector, and make Canada an even more appealing place in which to invest and do business.

I just wanted to read that into the record.

Mr. Hall, you indicated earlier in your remarks that roughly 5% of Canadian business is currently aware of the creation of the hub. We have the institutional regime that has been set up. We have the hub. Government played a key role in that, along with Mr. Gavsie and the BMO.

Whose responsibility is it now to increase that 5% to 40%, 50%, or 60%? Is that government's role, or is that the private sector's role? If it's the latter, the private sector's role, can you lay out a game plan for that?

● (1035)

Mr. Peter Hall: I'm not sure that it's my role to lay out the game plan for that, so I'm not sure that I can speak for EDC on that score.

I will say that in repeated survey work that we do with the market, one of the key barriers that Canadian exporters face in terms of being able to take advantage of an opportunity overseas is awareness. It's the awareness of all the tools that are available to them to operate inside of a particular market, and the risks that they face in particular markets. Being cognizant of that, we take it upon ourselves to be information providers to the Canadian exporter base. We very freely advertise that we are about the business of identifying the opportunity, and as much as we possibly can, holding the hand of exporters through a particular process. I cannot see us not being involved in getting the news out about the development of a hub.

Mr. Mark Adler: EDC does a very good role of what you're talking about. I acknowledge that, and and I want to thank EDC for that.

Mr. Gavsie, it's back in your court. What now?

Mr. C.J. Gavsie: It's ongoing with the public and the private sectors. We have discussed this with the working group with federal finance and several provinces at their finance levels. We're definitely going to have to work in conjunction. Mr. Hall mentioned awareness, so we are working collectively through the TFSA and AdvantageBC to deliver educational programs on how the hub will work, what type of product is good for particular types of businesses, industry trends. We're trying to bring all of that to market as an industry group, not just one single bank, and the industry group is a collection of the public and the private sectors.

One piece of information was that we held a conference last week in Montreal for Bank of Montreal corporate and commercial clients. I've never seen the level of education so high as far as those companies coming in and asking questions is concerned. It's telling me that education, that concern over this is a confusing story, so we need to make it simpler, is seeping its way through into corporate commercial Canada regardless of the size of the company. All businesses, from so many different sectors, seem to be asking themselves what's in it for them—everybody can see what's in it for Canada—but what's in it for them and how do they tap into it.

Mr. Mark Adler: Okay, thank you.

I think I'm okay, Mr. Chair. My question has been answered.

The Chair: I appreciate that because I did have one final question.

Mr. Hall, you talked about your two RMB bonds and you said you could talk to the committee. I don't have much time, but can you highlight some of the details for our information?

Mr. Peter Hall: We undertook these bonds. The first was issued in July 2013. It had a face value of renminbi 101 million or $16 million U.S., 12 months at 2.1%. The second was issued in November 2014 with a value of renminbi 306 million or $50 million, 18 months at 2.5%. It was referred to in the comments of others that some of the issues that have been done were symbolic and this was the case for us in the actual implementation of these bonds in actual transactions. That pipeline was not, as I understand it, available at that time, but we wanted to indicate our participation in this marketplace and so it was a marker for us to say that we can do this, that we are willing to do this and that we are certainly willing to do it again.

The Chair: Okay, thank you. I appreciate that.

I want to thank all our witnesses for a very interesting session this morning. Thank you so much for your comments, and for responding to our questions. If you have anything further to submit, please do so through the clerk. We'll ensure all members get it.

Thank you, colleagues.

The meeting is adjourned.