Cross-boundary Wealth Management Connect - the official launch

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The Cross-boundary Wealth Management Connect ("WMC") in the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA") of mainland China was officially launched on 10 September 2021.

WMC enables residents in the GBA to carry out cross-boundary investments in wealth management products distributed by banks. In this article, we will summarise the key features of WMC.

Key features of the WMC

WMC consists of the Southbound Scheme and the Northbound Scheme. The Southbound Scheme refers to investments by eligible residents of the mainland GBA cities in wealth management products distributed by banks in Hong Kong and Macao. The Northbound Scheme refers to investments by eligible residents of Hong Kong and Macao in products distributed by mainland banks.

<u>Eligible products</u>

At the initial stage, WMC mainly covers relatively simple wealth management products of low-to-medium risk. They include:

(i) for the Southbound Scheme, funds domiciled in Hong Kong and authorized by the Securities and Futures Commission, bonds and deposits; and

(ii) for the Northbound Scheme, public fixed-income wealth management products, equity wealth management products and public securities investment funds. Hong Kong eligible banks will find it necessary to grasp a good understanding of such mainland products before they may assess the product suitability to their customers in the banks' risk profiling procedures for the relevant customers.

<u>Eligible investors</u>

To be eligible under WMC, the investor must:

(i) be resident of one of the 9 mainland GBA cities[1] or hold a Hong Kong Identity Card (as the case may be);

(ii) invest in his/her personal capacity; and

(iii)not be assessed as a vulnerable customer, i.e. a customer who has limited ability to understand associated risks of the investment and withstand potential investment losses.

For the Southbound Scheme, investors must also meet the requirements stipulated by the mainland China regulatory authorities, such as requirements on asset and investment experience.[2]

An investor has to open two accounts which should be paired with each other: a dedicated cross-boundary remittance account in the investor's place of residence, and a dedicated investment account in the other market. Each investor should, at all times, maintain only one such dedicated account in each side.

Notably, under the Northbound Scheme, investors are still required to travel to one GBA city in the mainland to complete the account opening procedures after preliminary approval by the mainland partner banks. Despite the added flexibility on account opening (including mainland partner banks offering online channels for customers to submit information), the requirement to travel to the mainland to complete account opening may hinder the rate capital flow under the Northbound Scheme, especially with the current COVID-19 quarantine requirements in place. Nevertheless, an investor may alternatively choose to designate an existing Renminbi account maintained with the same mainland partner bank as his/her investment account. The more flexible attestation procedure for account opening currently available to mainland China residents under the Southbound Scheme is also being explored by the Hong Kong Monetary Authority ("**HKMA**") to be used under the Northbound Scheme.[3] Subsequent to opening the accounts, investors may remotely operate their account purchase eligible products through phone banking or online banking, which enables investors to conveniently manage their cross-border investments without having to be physically present in the jurisdiction of the distributing bank (i.e. the mainland bank).

<u>Eligible banks</u>

Registered institutions under the Securities and Futures Ordinance for carrying on Type 1 regulated activity (dealing in securities) and engaging in retail banking or private banking business ("**Hong Kong banks**") may take part in the Northbound Scheme. To do so, a Hong Kong bank has to partner with an eligible mainland bank in the GBA that meets the criteria set by the mainland regulatory authorities, and sign a cooperation agreement clearly setting out each party's responsibilities and obligations.

Under the Northbound Scheme, Hong Kong banks are responsible for undertaking the cross-boundary funds remittances and transfers through dedicated remittance

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[1] The 9 mainland GBA cities are Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing.

[2] http://www.gd.gov.cn/hdjl/hygq/content/post_3516551.html

[3] https://www.hkma.gov.hk/eng/news-and-media/insight/2021/09/20210910/

accounts, and the mainland partner banks are responsible for the sale of wealth management products. Hong Kong banks intending to participate in the WMC should notify and submit a self-assessment to the HKMA at least one month prior to the launch of such activities, and can only embark on such activities after obtaining a "no objection" notification. Further, Hong Kong banks should ensure that their partner banks' eligibility to provide such services has been confirmed by the regulatory authorities of the mainland.

Closed-loop fund flow

The WMC operates a closed-loop funds flow channel established between the banking systems of the two jurisdictions. Under the WMC, cross-boundary remittances should be conducted in RMB through the Cross-border Interbank Payment System and no remittances by other means are allowed.

Under the Northbound Scheme, a Hong Kong investor may obtain RMB funds in Hong Kong before remitting the funds to his investment account in the mainland. The investor participating in such scheme is not subject to the existing daily RMB remittance limit of RMB80,000 for Hong Kong residents. His funds in his investment account can only be used for the purchase of eligible mainland wealth management products and must be remitted to his Hong Kong remittance account via the closed-loop funds flow channel upon investment exit. The investor is not allowed to withdraw cash from his investment account or remit money from the investment account to any account. This can effectively avoid free flow of Hong Kong dollars into mainland China in form of RMB or other currencies.

Quota restrictions

There will be an initial aggregate quota of RMB150 billion for each of the Northbound and Southbound Schemes. Hong Kong banks and their partner banks should check the usage of the aggregate quota, which is updated each trading day on the websites of the People's Bank of China ("**PBOC**") Guangzhou and Shenzhen branches, before proceeding with remittances under WMC to prevent exceeding the quota.

There is also an individual investor quota of RMB1 million which means that his net cumulative remittance from a dedicated remittance account to a dedicated investment account under the WMC must not exceed this quota.

Supervisory and regulatory aspects

A Memorandum of Understanding on the supervisory arrangements of the WMC has been signed by the HKMA, the PBOC and other relevant regulatory authorities. With regard to Hong Kong, the HKMA is in charge of conducting supervisory work on the activities of Hong Kong banks under the WMC, including on-site examinations and off-site surveillance. [4] Where there are non-compliance or breaches of the requirements by Hong Kong banks, the HKMA and the PBOC will consider suspension of the banks' eligibility to engage in the WMC. The HKMA and the SFC may also take supervisory and/or enforcement actions against the relevant Hong Kong banks and/or their relevant

[4] https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210910e1.pdf

personnel in respect of the non-compliance incidents.

In terms of investor protection, the relevant mainland and Hong Kong regulatory authorities will supervise the banks' activities according to the laws, regulations and supervisory regimes of the jurisdiction in which the transactions take place. In particular, Hong Kong banks should handle complaints involving cross-boundary funds remittances in accordance with the HKMA's "Complaint Handling Procedure", which stipulates that banks in Hong Kong should put in place appropriate management controls and effective complaint handling procedures to ensure that complaints are handled fairly and promptly. In relation to complaints about the mainland WMC products, Hong Kong banks should refer the complaints to the mainland partner banks and assist investors as appropriate, and take follow-up actions to ensure that the complaint is duly handled and addressed by the partner banks within a reasonable time.

Bond Connect

The WMC is one of the several schemes launched to promote investment diversification between mainland China and Hong Kong, following the successful implementation of schemes such as the Stock Connect and Bond Connect schemes.

Bond Connect was launched on 3 July 2017 and allows investors from the mainland and Hong Kong to trade in each other's bond markets through the respective financial infrastructure institutions. Northbound trading (i.e. foreign investors accessing the China interbank bond market ("**CIBM**")) commenced on the same date, through which investors can conduct trading over all cash bonds in the CIBM such as Chinese government bonds, local government bonds, financial bonds, corporate credit bonds and asset-backed securities. However, only institutional investors are eligible to trade under the Bond Connect. With the WMC targeting individual investors investing in personal capacity within the GBA, it may complement the Bond Connect to provide investment opportunities to individual investors and enhance the opening-up of the financial markets in mainland China.

On 15 September 2021, the HKMA and the PBOC jointly announced that the southbound trading leg of the Bond Connect will be launched on 24 September 2021 to complement the northbound link already introduced back in 2017,[5] and an amended Memorandum of Understanding between the PBOC and the HKMA on strengthening supervisory cooperation has been signed. This will add a new route for mainland investors to invest in Hong Kong's bond market through a secure and convenient channel, further developing the two-way cross-border investments between the mainland and Hong Kong.

Takeaway

The launch of WMC marks an important milestone for the financial industry, as it deepens the connection between mainland China and Hong Kong, and expands cross-boundary investment choices for residents in the GBA. It is particularly remarkable because it is the first mutual market access mechanism in respect of wealth management products for individual investors where both

[5] https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/09/20210915-4/

Northbound and Southbound investments are allowed. Although only limited types of products are eligible under the WMC at the initial stage, the WMC would be reviewed and refined by the HKMA and the PBOC from time to time. It is anticipated that the WMC may be further expanded to cover a wider product scope in the future.

WMC represents another significant development to facilitate the efficient flow of capital within the GBA but without the risk of unauthorized breaking through the forex exchange controls of mainland China.

Together with the southbound trading of the Bond Connect, cross-border investments will be greatly facilitated, strengthening Hong Kong's role as an important gateway for capital flowing into and out of mainland China and its position as an international fund raising centre. It is anticipated that more international financial institutions may be attracted to set up or expand their presence to capitalize on the opportunities brought by these schemes and tap into the GBA market with a large investor base.

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