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September 14, 2021

Hong Kong Released Implementation Details for the Cross-boundary Management Connect Pilot Scheme in the Greater Bay Area

[33771]

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TO: ICI Global Members
Global Regulated Funds Committee
Global Regulated Funds Committee - Asia SUBJECTS: Distribution
International/Global RE: Hong Kong Released Implementation Details for the Cross-boundary Management Connect Pilot Scheme in the Greater Bay Area

On 10 September 2021, the Cross-boundary Wealth Management Connect Pilot Scheme ("Cross-boundary WMC") in the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA") was officially launched.

Under the Cross-boundary WMC, eligible residents in nine Mainland cities in the GBA[1] ("GBA Cities") may directly invest in wealth management products (which include SFC-authorized Hong Kong-domiciled funds) distributed by banks in Hong Kong and/or Macau (Southbound Scheme). Similarly, Hong Kong and Macau residents may purchase wealth management products distributed by banks in the GBA Cities (Northbound Scheme).

Following a launch ceremony,[2] the Hong Kong Monetary Authority (HKMA) issued a circular, Implementation Arrangements for the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area ("HKMA Guidance"),[3] along with a set of Frequently Asked Questions (FAQs),[4] setting out implementation arrangements and specific regulatory requirements for banks in Hong Kong. The People's Bank of China (PBoC) simultaneously released Implementation Arrangements for the Cross-boundary WMC Pilot Scheme in the GBA ("Mainland Guidance"),[5] outlining respective implementation arrangements applicable to banks in the GBA Cities. Banks in Hong Kong must also comply with requirements in the Mainland Guidance relevant to their activities in the GBA Cities.

ICI Global actively engaged with the HKMA throughout the deliberation process. Together with members, we participated in two rounds of closed-door soft consultations. Outside these sessions, we held private meetings with HKMA staff to discuss policy ideas. In November 2020, we submitted a written response[6] to the HKMA with specific suggestions for a more flexible distribution model under the Southbound Scheme. We are particularly pleased to see that the HKMA Guidance has adopted our recommendation on improving the product distribution process for banks in Hong Kong.

This memo briefly summarizes the key provisions in the HKMA Guidance and Mainland Guidance that are relevant to the Southbound Scheme for banks and wealth management products in Hong Kong.

1. Overview of the Southbound Scheme

Authorized institutions (primarily banks) regulated by the HKMA and registered with the Securities and Futures Commission (SFC) under the Securities and Futures Ordinance for carrying on Type 1 regulated activities (dealing in securities) may embark on Southbound Scheme activities ("Hong Kong banks").[7] A Hong Kong bank may partner with one or more eligible banks in the GBA Cities ("Mainland Partner Banks")[8] in participating in the Southbound Scheme. Cross-boundary fund remittance and transfers are undertaken by Mainland Partner Banks, while the distribution of wealth management products in Hong Kong is undertaken by Hong Kong banks.

Hong Kong banks should notify and submit a self-assessment to the HKMA at least one month prior to its launch of Southbound Scheme activities. After obtaining a "no-objection" notification from the HKMA, and after their Mainland Partner Bank has received confirmation from the Chinese regulatory authorities that it is eligible for providing Cross-boundary WMC services, Hong Kong banks may officially launch and commence their Southbound Scheme activities. Mainland Partner Banks may submit applications to the relevant Chinese authorities to participate in the Cross-boundary WMC Scheme as early as 10 October 2021.[9]

2. Eligible GBA investors Under Southbound Scheme

To be eligible to participate in the Southbound Scheme, investors ("Mainland GBA Investors") must be a resident of one of the GBA Cities, with over two years of investment experience. In addition, he/she should have maintained at least RMB 1 million in net family financial assets over the immediately preceding three months, or RMB 2 million in total family financial assets maintained over the same period.[10]

Mainland Partner Banks are responsible for verifying the eligibility of Mainland GBA Investors for participating in the Southbound Scheme.

3. Account Opening Procedures

To enable closed-loop fund flow management, a Mainland GBA Investor must have two "paired" accounts - an investment account with a Hong Kong bank and a remittance account with one of the bank's Mainland Partner Banks. The investment account must be a newly opened account specifically dedicated for the Southbound Scheme, irrespective of whether the investor already has one or more accounts with the Hong Kong bank. The remittance account could be either a new account, or an existing account which the investor could redesignate as a dedicated remittance account. The two accounts are paired such that when the Mainland GBA Investor makes an investment in a wealth management product through a Hong Kong bank, funds are transferred from the dedicated remittance account to the dedicated investment account to pay for the investment. When the Mainland GBA Investor liquidates the investment, sale proceeds are transferred back into the dedicated remittance account. Mainland GBA Investors are not allowed to withdraw cash from their dedicated investment accounts.

Taking on board recommendations from the industry for easier account opening procedures, the HKMA and the PBoC will permit a Mainland GBA Investor to open a dedicated investment account with a Hong Kong bank either in person or by remote on-boarding. For remote on-boarding, Mainland Partner Banks are responsible for verification of client identity, sighting of identification documents, and certifying the signing of client agreement.

4. Scope of Wealth Management Products

Wealth management products that Hong Kong banks may distribute under the Southbound Scheme are restricted to:

- RMB, HKD, and foreign currency deposits;[11]
- Funds domiciled in Hong Kong and authorized by the SFC;
- Bonds.

Funds and bonds do not include those listed and traded on the Hong Kong Exchanges and Clearing Limited. Further, they should be assessed as non-complex and low to medium risk by the Hong Kong banks distributing such products. In principle, the assessment conducted by the banks on the risks and complexity of products distributed under the Southbound Scheme should not be different from the assessment of the same products distributed through other channels.

HKMA has clarified in the FAQs that Approved Pooled Investment Funds (APIFs) distributable to retail investors and unlisted unit/class of ETFs that meet all above eligibility requirements are also eligible under the Southbound Scheme. However, Mandatory Provident Funds are not eligible.[12]

A mainland or Hong Kong fund may be eligible for distribution both under the Cross-boundary WMC and the Mainland-Hong Kong Mutual Recognition of Funds (MRF). Noting that the Cross-boundary WMC and MRF are independent schemes subject to different rules, HKMA clarified that subscription and redemption under the Cross-boundary WMC of a fund that is also an MRF fund are subject only to the quota restrictions under the Cross-boundary WMC (including aggregate quota and individual investor quota). The quota and size restrictions under the MRF are not relevant.[13]

The industry had earlier sought clarification on whether funds of funds and feeder funds are also eligible for the Southbound Scheme. While not directly responding to this point, the HKMA noted in its consultation response in May 2021 that there will not be other additional eligibility criteria for funds except those set out in the HKMA Guidance. In other words, an investment fund will be eligible for the Southbound Scheme so long as it is distributed by an eligible Hong Kong bank and meets the eligibility criteria mentioned above.

5. Investment Quota and Investment Currencies

The cross-boundary capital flow in the Southbound Scheme is subject to quota management both on an aggregate market-wide and an individual investor basis. The aggregate quota is initially set at RMB 150 billion, and the individual quota for each

Mainland GBA Investor is RMB 1 million. Both the aggregate quota and an individual investor's quota are calculated on a net basis, i.e., total outward remittance to Hong Kong and Macau less total inward remittance back to the GBA Cities.

All cross-boundary remittance between dedicated remittance accounts and dedicated investment accounts are conducted in RMB. To the extent that investments in wealth management products are denominated in HKD or foreign currencies, Hong Kong banks may provide foreign exchange services to Mainland GBA Investors.

6. Sales and Marketing Arrangements

A. *Distribution, Sales and Advice*

In general, transactions in wealth management products under the Southbound Scheme conducted by Hong Kong banks are to be carried out on an "execution-only" basis, i.e., execution as per customers' instruction. No solicitation or recommendation is permitted. This is to avoid potential regulatory issues in mainland China given that the wealth management products are not authorized by the China Securities Regulatory Commission (CSRC). Upon an individual customer's request, Hong Kong banks may provide a list of wealth management products available under the Southbound Scheme and respond to customer inquiries on individual products.

The HKMA adopted ICI Global's recommendation on allowing Hong Kong banks to provide advice on investment products if Southbound Scheme customers are physically in Hong Kong. Hong Kong banks may make solicitation or recommendation to Southbound Scheme customers who are physically present in Hong Kong, provided that these banks ensure compliance with suitability requirements and such solicitation or recommendation is reasonable to customers in all the circumstances.

B. *Promotion Activities for Raising Awareness Among Residents of GBA Cities*

While Hong Kong banks may not generally solicit or recommend any products, Hong Kong banks may display and provide a broad description of the scope and categories of wealth management products they offer under the Southbound Scheme, for instance, number of products, nature, risks, features, fees and charges, and range of return. They may also provide information on macroeconomic conditions, market environment, industry segments, sectoral trends, general financial information, etc. to residents in the GBA Cities as part of their efforts to promote general awareness of the Cross-boundary WMC.

Mainland Partner Banks may organize briefings and seminars in the GBA Cities to generally promote their Southbound Scheme business and invite their Hong Kong bank partners to participate. Global asset managers who provide eligible products under the Southbound Scheme may, upon signing a distribution agreement with a Hong Kong bank, send staff to participate in such events.

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endnotes

[1] The nine Mainland cities in the GBA are Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, and Zhaoxing.

[2] ICI Global attended the launch ceremony, co-organized by the PBoC, the People's Government of Guangdong Province, the Hong Kong and Macao Special Administrative Region Governments, the HKMA, and the Securities and Futures Commission (SFC). See ICI Memorandum No. 33762, 10 September 2021, available at https://www.ici.org/memo33762.

[3] See Implementation Arrangements for the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (10 September 2021), available at https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210910e1.pdf.

Annex 1 - Regulatory Requirements on the Southbound Scheme, available at https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210910e1a1.pdf.

Annex 2 - Regulatory Requirements on the Northbound Scheme, available at https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210910e1a2.pdf.

[4] See Frequently Asked Questions on the Cross-boundary Wealth Management Connect in the Guangdong-Hong Kong-Macao Greater Bay Area, available at https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2021/20210910e1a3.pdf.

[5] The Mainland Guidance is available (in Chinese) at http://shenzhen.pbc.gov.cn/shenzhen/122805/4337831/2021091016030664517.pdf.

[6] See ICI Memorandum No. 32911, 12 November 2020, available at https://www.ici.org/memo32911

[7] HKMA clarified in the final round of consultation in May 2021 that virtual banks are not excluded from participating in the Cross-boundary WMC in principle, as long as the virtual banks meet the abovementioned eligibility conditions.

[8] The eligibility criteria for mainland banks participating in the Cross-boundary WMC are set out in Mainland Guidance. See Mainland Guidance, supra note 5, Chapter 2, Article 12.

[9] The Mainland Guidance will take effect 30 days after promulgation. See Mainland Guidance, supra note 5, Chapter 8, Article 67.

[10] See Mainland Guidance, supra note 5, Chapter 2, Article 16.

[11] HKMA clarifies that Hong Kong banks shall not provide exotic foreign currency deposits. It is recommended that at the current stage, in addition to RMB and HKD, Hong

Kong banks may offer only major currencies, namely US dollar, Euro, UK Pound Sterling, Australian dollar, New Zealand dollar, Canadian dollar, Swiss Franc, Japanese Yen, and Singapore dollar. See FAQs, supra note 4, Q15 on p.7.

[12] See FAQs, supra note 4, Q14 on p.6.

[13] See FAQs, supra note 4, Q6 on p.2.
