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The recent announcement for the launch of a cross-boundary wealth management connect pilot scheme (referred to as the Wealth Management Connect or the Scheme) in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) has generated a lot of interest and support from the financial sector in Hong Kong. The strategic significance of the Scheme has prompted various industry groups to engage in high-level discussions regarding leveraging the Scheme and further developing the wealth management industry in the GBA with a total population of over 72 million. In this article, we aim to summarize some of the key features and advantages of this highly anticipated Scheme based on official announcements from the relevant authorities and from market feedback.

## Launch of the Wealth Management Connect

Since the announcement of the development framework for GBA in July 2017<sup>1</sup>, which covers nine cities in the Pearl River Delta as well as the two Special Administrative Regions of Hong Kong and Macao, the relevant authorities have been working closely to fully integrate these cities into a collective economy. This is with an aim to enhance cooperation in terms of resources, talent and financial services.

On 14 May 2020, the four major financial regulators in the mainland - the People's Bank of China (PBoC), the China Banking and Insurance Regulatory Commission (CBIRC), the China Securities Regulatory Commission (CSRC) and the State Administration of Foreign Exchange (SAFE) jointly released the guidelines *Opinions Concerning Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area*

that provides a more detailed and comprehensive implementation framework on the connectivity of financial markets within the GBA.

On 29 June 2020, the PBoC, the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Macao (AMCM) issued a joint statement (the Announcement) to announce the launch of Wealth Management Connect to facilitate cross-boundary personal financial service and sale of investment products to individual residents within the GBA.

The Financial Services Development Council (FSDC) of Hong Kong also published its June 2020 report *Hong Kong's Unique Role in Enhancing Financial Connectivity in the Greater Bay Area* (Paper No.43), which presents several recommendations to the Wealth Management Connect.

The relevant regulators in the mainland, Hong Kong and Macao are currently working closely together on the implementation details of the Scheme, including:

- ▶ Designing and formulating the operational mechanism
- ▶ Defining the eligibility of investors and the scope of investment products
- ▶ Ensuring investor suitability and protection
- ▶ Setting quotas
- ▶ Putting appropriate risk management controls in place

<sup>1</sup> "Overview", Greater Bay Area website, [www.bayarea.gov.hk/en/about/overview.html](http://www.bayarea.gov.hk/en/about/overview.html), accessed 28 August 2020



## Key features

### Operational mechanism

The Wealth Management Connect is likely to be restricted to eligible residents of the GBA: Guangdong, Hong Kong and Macao, to participate. The Scheme will enable mainland residents in the GBA to invest in eligible wealth management products distributed by banks based in Hong Kong and Macao (Southbound). Likewise, residents in Hong Kong and Macao can invest in eligible wealth management products distributed by banks based in the mainland GBA (Northbound).

The cross-boundary capital flows in the southbound and northbound Wealth Management Connect will be subject to

the aggregate and individual investor quota management, and the aggregate quota will be adjusted through a macro-prudential coefficient<sup>2</sup> to provide flexibility.

### Closed-loop cross-boundary capital flows

The cross-boundary capital flows will be conducted and managed in a closed-loop system by bundling designated remittance and investment accounts to ensure that the relevant funds will only be used to invest in eligible investment products<sup>2</sup>. The remittances will be carried out in renminbi (RMB), with currency conversion conducted in the offshore markets<sup>2</sup>.

The currency conversion in the northbound route of Wealth Management Connect may take reference to the existing arrangement of the Stock Connect<sup>3</sup> whereby investors may settle the transactions in offshore RMB or obtain RMB and conduct the related foreign exchange through the relevant Hong Kong banks<sup>4</sup>. The conversion arrangement details of the Scheme will be announced by the regulators.

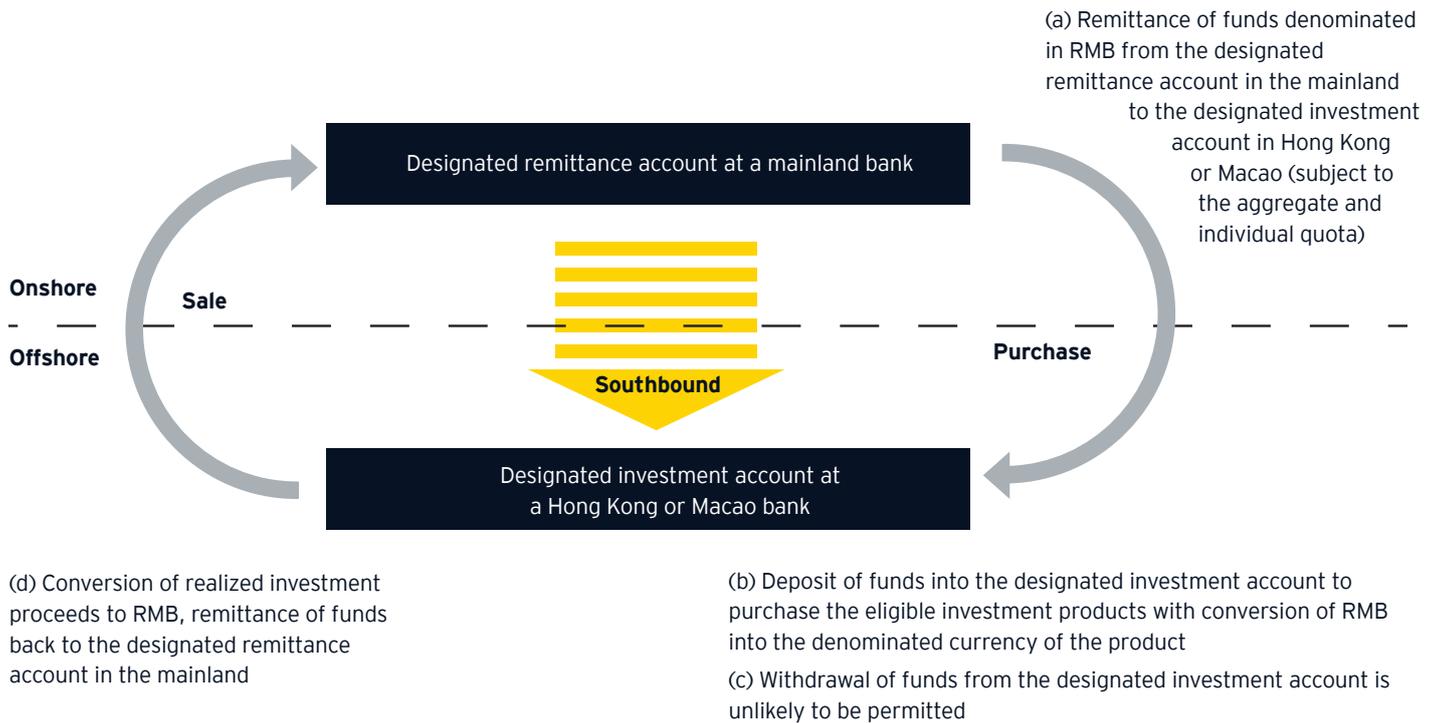
The diagram on the next page illustrates the most likely fund flows of the closed-loop system for the cross-boundary southbound and northbound routes in the Wealth Management Connect.

<sup>2</sup>“Joint Announcement of the People’s Bank of China, the Hong Kong Monetary Authority, and the Monetary Authority of Macao on the Launch of the cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area”, HKMA website, [www.hkma.gov.hk/eng/news-and-media/press-releases](http://www.hkma.gov.hk/eng/news-and-media/press-releases), 29 June 2020.

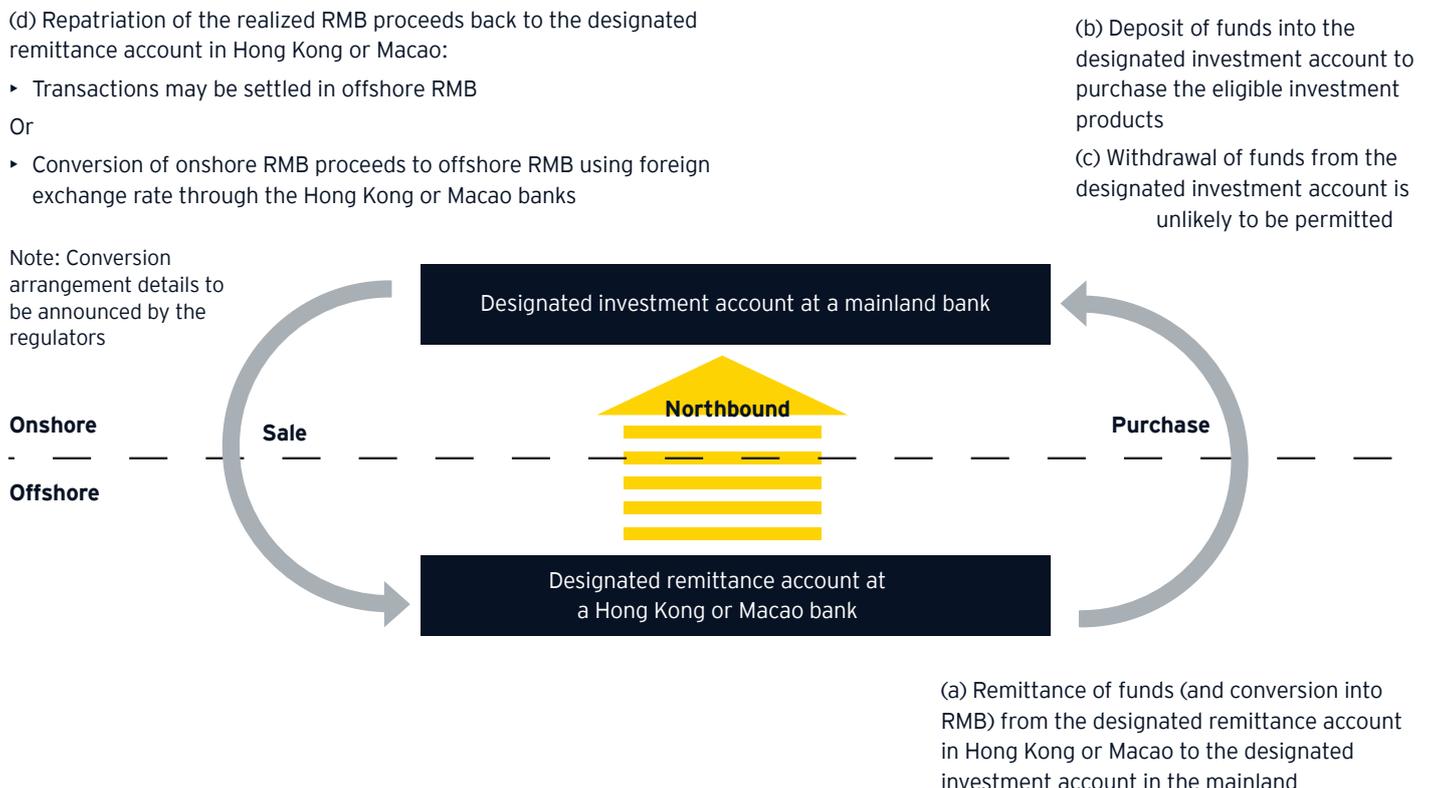
<sup>3</sup> Stock Connect is a unique collaboration between the Hong Kong, Shanghai and Shenzhen Stock Exchanges. Stock Connect scheme allows international and mainland investors to trade securities in each other’s markets through the trading and clearing facilities of their home exchanges. The scheme was initially launched in November 2014.

<sup>4</sup>“Enhancement to Currency Conversion Arrangement under Stock Connect”, HKMA website, [www.hkma.gov.hk/eng/news-and-media/press-releases](http://www.hkma.gov.hk/eng/news-and-media/press-releases), 21 June 2019.

### Closed-loop system of cross-boundary fund flows - southbound route



### Closed-loop system of cross-boundary fund flows - northbound route



## Range of wealth investment products

Pursuant to the Announcement, the investment scope in the Wealth Management Connect is limited to wealth management products distributed by banks in the mainland, Hong Kong and Macao. The eligible products will most likely include those structured or originating from banks and asset managers with the banks being the distributing channels of the eligible products in the Scheme.

It is expected that the first batch of eligible financial products under the Scheme will be simple and low-to medium- risk retail products. Additionally, such products will represent diversified asset classes and consist of different risk features. It is important that clear and adequate information disclosure on product details, including management fees, distribution fees and other related fees, be made available to investors. While offering such products, factors, such as investor suitability and investor risk profiling<sup>5</sup>, should also be considered<sup>5</sup>.

The suggested examples of southbound products may include low-risk banking products and “plain vanilla” mutual funds authorized by the Hong Kong Securities and Futures Commission (SFC). As for northbound products, examples may include A-share mutual funds approved by the CSRC to low-risk wealth management products denominated in RMB that are provided by banks.

## Eligibility of investors

The definition of an eligible investor within the Scheme has not yet been announced by the regulators. There are market assumptions that individual permanent residency status with a minimum amount of net assets or portfolio size (as an investor suitability requirement) will be one of the prerequisites for an eligible investor.

Besides the individual investor quota, the Scheme will also be subject to an aggregate quota on the cross-boundary fund flows.

## Regulatory framework

Wealth Management Connect will be governed by the respective laws and regulations on retail wealth management products applicable in the mainland, Hong Kong and Macao, with due regard to international norms and practices<sup>2</sup>. Relevant regulators in the mainland, Hong Kong and Macao will enter into memoranda of understanding on supervisory cooperation to establish a robust supervisory cooperation arrangement, and put in place a liaison mechanism to protect investors' interest and maintain orderly and fair trading<sup>2</sup>.

### Residents in the GBA

The individual investor needs to be a resident in the GBA while the definition of “resident” is currently unclear.

The Scheme will not include institutions incorporated or set up in the GBA.

### Designated bank accounts

The investor has to set up designated remittance and investment accounts in the mainland and Hong Kong or Macao banks which are bundled for the closed-loop capital systems.

### Investors

(Details to be announced by the regulators)

### Suitability requirement

A minimum account balance, for example RMB500,000 (for southbound), may be set to allow relatively sophisticated investors to participate<sup>5</sup>.

### Quota restriction

A quota restriction on each individual investor for cross-boundary capital flows will be in place.

<sup>5</sup> Hong Kong's Unique Role in Enhancing Financial Connectivity in the Greater Bay Area (Paper No.43) by FSDC in June 2020



# Advantages of the Wealth Management Connect framework

## **Development in the RMB business:**

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The potential southbound investor base under this Scheme will boost Hong Kong's offshore RMB business development and elevate Hong Kong as an asset and wealth management center. The combined capital and product flows will also provide economic benefits to the GBA.

## **No quota on a product level:**

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The Scheme will use the aggregate quota management and will not impose any distribution or sale quota on each individual product. Therefore, this will not limit the distribution potential or popularity of specific wealth management products to the residents in the GBA.

## **Wide range of eligible products:**

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The product range of the Scheme will be structured to cover different types of wealth management products of banks and asset managers, provided the products meet the eligibility requirements of the Scheme. More wealth management products will be offered to the residents within the GBA to achieve a better portfolio diversification and asset allocation.

## **Streamlined approval process :**

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The market anticipates that the eligible wealth management products may obtain "blanket" approval in batches from the regulators, instead of an individual case-by-case basis. This will simplify the approval process of the products.

## **Global access:**

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The market also anticipates that the Scheme may not require portfolio or investment managers to be based in the same domicile or home jurisdiction as that of the products. Global firms with international expertise may participate in the Scheme to offer a diverse range of wealth management products that are suitable for the GBA market.

## **Phased approach:**

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The Scheme is expected to be implemented in a phased approach with incremental relaxation of certain controls, such as the quota limits and scope of products, over time.

# Overview of existing schemes for Hong Kong financial service industry

As a part of the initiative to strengthen the role of Hong Kong as an international financial center and facilitate the opening up of the financial market in China, several schemes have been launched in recent years, such as the Shanghai-Hong Kong Stock Connect<sup>6</sup> (Shanghai Connect), Shenzhen-Hong Kong Stock Connect<sup>7</sup> (Shenzhen Connect), Bond Connect<sup>8</sup> and Mainland-Hong Kong Mutual Recognition of Funds<sup>9</sup> (MRF). The Wealth Management Connect will complement these recent schemes to further enhance the connectivity of the financial service sector in Hong Kong with Mainland China.

The table below summarizes the differences between Wealth Management Connect, MRF and Stock Connects:

	Wealth Management Connect	MRF	Stock Connects
Launch date	Official launch to be announced	1 July 2015	Shanghai Connect: 17 November 2014 Shenzhen Connect: 5 December 2016
Coverage area	Restricted to Guangdong-Hong Kong-Macau Greater Bay Area	Mainland (no geographical restriction) and Hong Kong	Mainland (no geographical restriction) and Hong Kong
Cross-boundary capital flows	Southbound and northbound	Southbound and northbound	Southbound and northbound
Quota management	Aggregate quota and individual investor quota (details to be announced by the regulators): <ul style="list-style-type: none"> <li>Expect to be more flexible as the quota will be adjustable</li> </ul>	Aggregate quota and individual product quota: <ul style="list-style-type: none"> <li>An aggregate initial quota of RMB300 billion for in and out fund flows each way</li> <li>Distribution/Sale limit - 50% rule on the fund's total assets for both southbound and northbound funds</li> </ul>	No aggregate quota (the aggregate quota for Shanghai Connect was abolished since 16 August 2016 and none was introduced for Shenzhen Connect) Daily quota is applied on a "net buy" basis. Investors are always allowed to sell their cross-boundary securities regardless of the quota balance: <ul style="list-style-type: none"> <li><b>Southbound:</b> RMB42 billion for each of Shanghai Connect and Shenzhen Connect (total RMB84 billion)</li> <li><b>Northbound:</b> RMB52 billion for each of Shanghai Connect and Shenzhen Connect (total RMB104 billion)</li> </ul>
Settlement currency	RMB, conversion of currency to be conducted in the offshore market	RMB or foreign currency	RMB, conversion of currency to be conducted in the offshore market
Eligibility of investors	Only applicable for the eligible GBA residents (details to be announced by the regulators): <ul style="list-style-type: none"> <li>Expect to have requirement on minimum account balance or investment thresholds</li> </ul>	No investor eligibility requirements	<b>Southbound:</b> <ul style="list-style-type: none"> <li>Mainland institutional investors</li> <li>Mainland individual investors, who hold an aggregate balance of not less than RMB500,000 in their securities and cash accounts</li> </ul> <b>Northbound:</b> <ul style="list-style-type: none"> <li>Any Hong Kong and overseas investors (except ChiNext Stocks<sup>10</sup> of Shenzhen Stock Exchange (SZSE), which may only be traded by institutional professional investors in the initial stage)</li> </ul>

<sup>6</sup> "Shanghai-Hong Kong Stock Connect", launched on 17 November 2014, allows Hong Kong or foreign investors to trade stocks within the scope listed on the Shanghai Stock Exchange and the mainland investors to trade stocks within the scope listed on the Hong Kong Stock Exchange.

<sup>7</sup> "Shenzhen-Hong Kong Stock Connect", launched on 5 December 2016, allows Hong Kong or foreign investors to trade stocks within the scope listed on the Shenzhen Stock Exchange, and the mainland investors to trade stocks within the scope listed on the Hong Kong Stock Exchange.

<sup>8</sup> "Bond Connect", launched on 3 July 2017, allows investors from Mainland China and overseas to trade in each other's bond markets through connection between the related mainland and Hong Kong financial infrastructure institutions.

<sup>9</sup> "Mutual Recognition of Funds", launched on 1 July 2015, is a scheme jointly launched by the CSRC and SFC. Under the scheme, eligible mainland and Hong Kong funds can be distributed in each other's market through a streamlined vetting process.

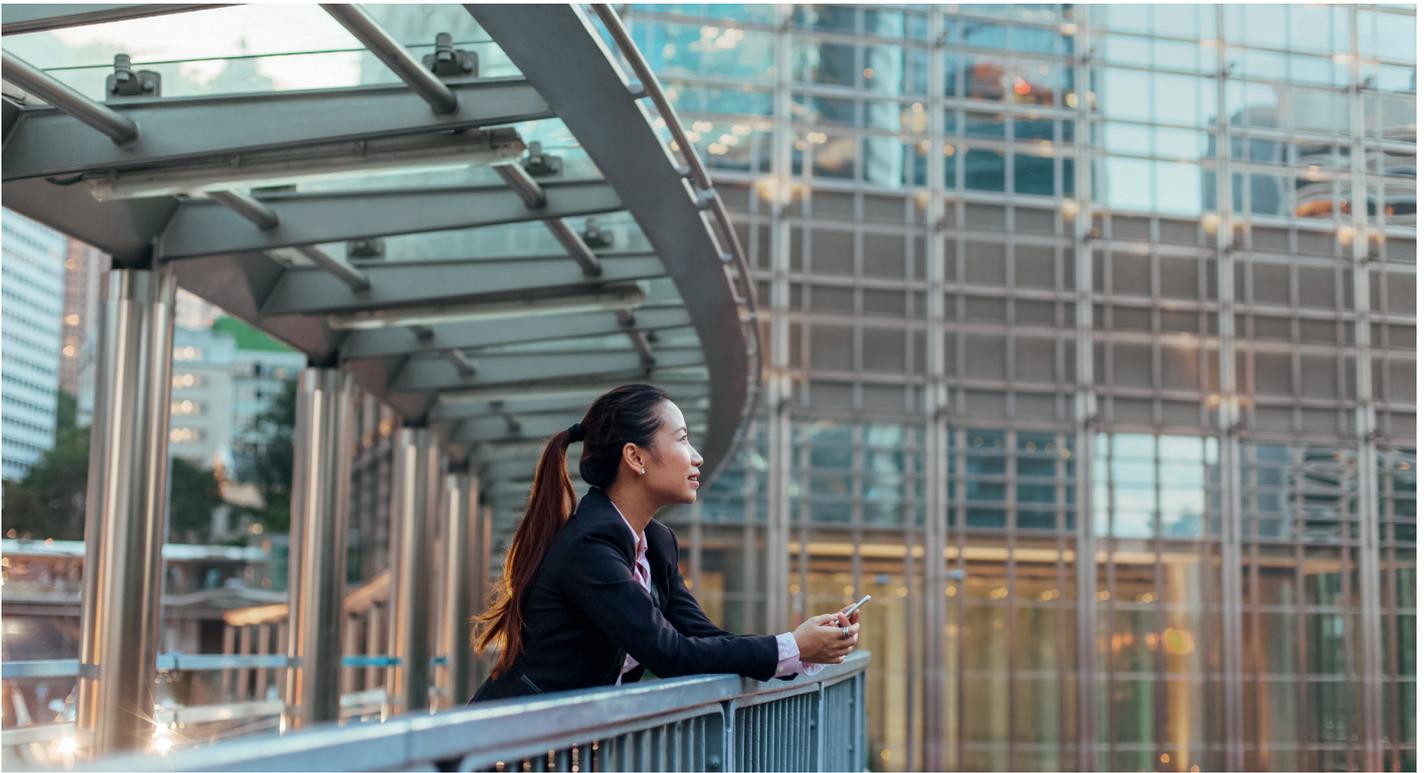
<sup>10</sup> ChiNext stocks refer to stocks listed on the ChiNext Board of SZSE which are eligible for trading under the northbound Shenzhen Connect Trading Link. Other investors may later be allowed to trade SZSE ChiNext stocks, subject to resolution of related legal and regulatory issues.

	Wealth Management Connect	MRF	Stock Connects
Eligibility of products	<p>Wealth management products for the retail individual investors, not only limited to the fund products (details to be announced by the regulators):</p> <ul style="list-style-type: none"> <li>▶ Expected to cover the financial products issued by banks and asset managers, but not likely to cover products designated for high-net-worth professional investors or institutional investors</li> <li>▶ First batch of eligible products in the Scheme expected to be relatively simple and low- to medium-risk products, such as the “plain-vanilla” funds</li> <li>▶ Suitability assessment of the product by the Hong Kong investor may be based on the risk tolerance, according to the risk profiling questionnaire that the investor needs to declare, with the financial institutions</li> </ul>	<p><b>Southbound:</b></p> <ul style="list-style-type: none"> <li>▶ Domiciled in the mainland</li> <li>▶ Publicly offered securities investment funds being registered with the CSRC under the Securities Investment Fund Law</li> <li>▶ Established over one year</li> <li>▶ Fund size not less than RMB200 million</li> <li>▶ Not primarily investing in Hong Kong</li> <li>▶ Eligibility requirements apply to the fund managers and custodians</li> </ul> <p><b>Northbound:</b></p> <ul style="list-style-type: none"> <li>▶ Domiciled in Hong Kong</li> <li>▶ Regular equity funds, bond funds, mixed funds, unlisted index funds or physical index-tracking exchange traded funds being authorized by the SFC under the Code of Unit Trusts and Mutual Funds</li> <li>▶ Established and has been authorized for over one year</li> <li>▶ Fund size not less than RMB200 million or its equivalents</li> <li>▶ No primary investment in the mainland market</li> <li>▶ Eligibility requirements apply for fund managers and custodians</li> </ul>	<p><b>Southbound:</b></p> <p>Shanghai Connect and Shenzhen Connect:</p> <ul style="list-style-type: none"> <li>▶ Only equities listed on the Main Board of Hong Kong Stock Exchange (SEHK) are included</li> <li>▶ Other products, such as stocks listed on Growth Enterprise Market (GEM), Nasdaq pilot programme stocks, exchange traded funds (ETFs)<sup>11</sup>, real estate investment trusts (REITs), structured products, bonds and other securities, are not included</li> </ul> <p>Shanghai Connect:</p> <ul style="list-style-type: none"> <li>▶ Eligible securities include all the constituent stocks of the Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index, and all the H shares that are not included as constituent stocks of the relevant indices, but which have corresponding shares in the form of A shares listed on Shanghai Stock Exchange (SSE), subject to certain exceptions<sup>12</sup></li> </ul> <p>Shenzhen Connect:</p> <ul style="list-style-type: none"> <li>▶ Eligible securities include all the eligible securities in Southbound trading under Shanghai Connect, the constituent stocks of the Hang Seng Composite SmallCap Index, which have a market capitalization of not less than HKD5 billion and all the H shares of SEHK-listed companies, which have A shares listed on SZSE, subject to certain exceptions<sup>12</sup></li> </ul> <p><b>Northbound:</b></p> <p>Shanghai Connect and Shenzhen Connect:</p> <ul style="list-style-type: none"> <li>▶ Only A shares listed on SSE and SZSE are included in Shanghai Connect and Shenzhen Connect. Other product types such as B shares, ETFs<sup>11</sup>, bonds, and other securities are not included</li> </ul> <p>Shanghai Connect:</p> <ul style="list-style-type: none"> <li>▶ Eligible securities include all the constituent stocks of the SSE 180 Index and the SSE 380 Index, and all the SSE-listed A shares that are not included as constituent stocks of the relevant indices, but which have corresponding H shares listed on SEHK, subject to certain exceptions<sup>12</sup></li> </ul> <p>Shenzhen Connect:</p> <ul style="list-style-type: none"> <li>▶ Eligible securities include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalization of not less than RMB6 billion, and all the SZSE-listed A shares which have corresponding H shares listed on SEHK, subject to certain exceptions<sup>12</sup></li> </ul>

<sup>11</sup> The Joint Announcement, dated 16 August 2016 provides that the CSRC and the SFC have reached consensus to include ETFs as eligible securities under the mutual market access scheme. A launch date will be announced separately after Shenzhen Connect has been in operation for a period of time and after relevant conditions are satisfied.

<sup>12</sup> “Information Book for Investors”, Hong Kong Exchanges and Clearing Limited (HKEX) website, [www.hkex.com.hk/Mutual-Market/Stock-Connect?sc\\_lang=en](http://www.hkex.com.hk/Mutual-Market/Stock-Connect?sc_lang=en), 21 August 2020

	Wealth Management Connect	MRF	Stock Connects
Investment management function	No such restriction (details to be announced by the regulators)	The management firms of the respective funds cannot delegate its investment management functions to parties outside the home jurisdiction.	No such restriction
Approval process	The market anticipation is that the regulators would not require financial institutions to seek approval for individual funds or wealth management products. Instead, the regulators may give "blanket approval" for eligible products in batches.	<p><b>Southbound:</b> The SFC uses a two-stream, fast-track approval process that takes around a month for the approval of a standard fund.</p> <p><b>Northbound:</b> From past history, CSRC's application process is generally longer than the stated approval period of 6 months.</p>	The relevant stock exchanges will adjust the list of eligible securities, depending on the periodic adjustment of inclusion and exclusion of stocks in the relevant index. This is determined by the relevant stock exchange based on which shares are listed or delisted from the relevant stock exchange, and which relevant shares are placed under risk alert or released from risk alert.
Distribution channels	Banks which are subject to well established regulatory frameworks would act as the distributor in the Scheme (details to be announced by the regulators).	<p><b>Southbound:</b> The mainland fund manager must appoint a Hong Kong representative holding an SFC type 1 regulated activity license (dealing in securities).</p> <p><b>Northbound:</b> The Hong Kong fund manager must appoint a mainland agent qualified to engage in public-offered fund management.</p> <p><b>Southbound and Northbound:</b> The mainland agent or Hong Kong representative is responsible for the compliance with cross-border regulations and distribution limits, including the fund registration and approval of investment products, marketing and disclosures materials, regulatory reports and communication, and customer services and monitoring.</p>	<p><b>Southbound:</b> Mainland investors participate in Stock Connects through the mainland brokers.</p> <p><b>Northbound:</b> Hong Kong and overseas investors participate in Stock Connects through Hong Kong brokers.</p>
Investor protection and dispute resolution mechanism	<p>The Scheme will be governed by the respective laws and regulations on retail wealth management products, applicable in mainland, Hong Kong and Macao with due regard to international norms and practices (details to be announced by the regulators):</p> <ul style="list-style-type: none"> <li>▶ Regulatory focus on the protection of legitimate interest of investors throughout the investment cycle from know-your-customer (KYC) and anti-money laundering (AML) procedures, investor suitability assessment, automatic exchange of financial account information under common reporting standards (CRS), and regulatory reporting and disclosures</li> <li>▶ Reference may be made to the MRF regime on dispute resolution mechanism</li> </ul>	<p>The fund managers should take appropriate measures to ensure fair treatment to investors, including the protection of investor rights, the exercise of investor rights, and information disclosure and compensation.</p> <p>Any dispute shall be handled in accordance with the resolution method as stipulated in the fund's constituent documents. Hong Kong courts and mainland courts can be involved in the dispute resolution mechanism.</p>	<p>"Home jurisdiction" rules and regulations will apply in both markets. This means that trading and clearing arrangements will be subject to the regulations and operational rules of the market in which trading and clearing takes place.</p> <p>Listed companies will continue to be subject only to the listing rules and other regulations of the markets in which they are listed.</p>



## Conclusion

Although the official launch date and implementation details of the Scheme have yet to be released, we expect the Scheme to enhance the financial product variety to GBA residents, promote capital flows and further deepen the financial cooperation and connectivity between Mainland China, Hong Kong and Macao.

EY will closely monitor the development of the Scheme and will issue further updates. If you would like to further discuss the Wealth Management Connect, please feel free to contact us.

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