



Regulatory Update – Announcement of the Impending Launch of the Proposed ‘Cross-Boundary Wealth Management Connect Pilot Scheme’ – July 2020

On 29 June 2020, the Hong Kong Monetary Authority (“HKMA”), the People’s Bank of China (“PBOC”), and the Monetary Authority of Macao (“MAOM”) released a joint statement announcing the impending launch of the ‘Cross-Boundary Wealth Management Connect Pilot Scheme’. The scheme will be officially known as “Wealth Management Connect”.

There is no formal date set or implementation details released for the launch of Wealth Management Connect. The announcement was made to allow financial intermediaries the opportunity to commence early planning to ensure they are suitably prepared from a risk management perspective prior to the scheme’s implementation. This regulatory update outlines the preliminary details from this recent announcement.

Scheme Details

The primary aim of the scheme is to facilitate cross-boundary investment by individual residents in the Guangdong-Hong Kong-Macao Greater Bay Area.

The proposed details of the scheme are:

- there will be a northbound and southbound framework for Wealth Management Connect (similar to the Stock Exchange Connect between Hong Kong, Shenzhen and Shanghai) with restrictions on access dependent on the residency of the investor;
- residents of the 9 Mainland cities in the Greater Bay Area will be able to invest in eligible investment products distributed by banks in Hong Kong and Macao by opening designated investment accounts with these banks and vice versa for residents of Hong Kong and Macao;
- Wealth Management Connect will be governed by the respective laws and regulations on retail wealth management products applicable in each jurisdiction;
- Wealth Management Connect will provide investors in the Greater Bay Area with access to a greater diversity of products and provide greater asset allocation options;
- cross-border remittances will be carried out in RMB, with currency conversion conducted in the offshore markets meaning Greater Bay Area residents will be able to deposit RMB directly into banks based in Hong Kong and Macao; and
- Wealth Management Connect will improve foreign exchange management as measures will be put in place by the PBOC to assist Mainland residents in the Greater Bay Area, who are engaged in market procurement trade, cross-border e-commerce and other new businesses to open personal foreign exchange settlement accounts with mainland banks in the Greater Bay Area.

Unconfirmed Details

Following the PBOC’s earlier announcement on the scheme in April 2020, it is apparent that aggregate and individual quotas will be applied and adjusted through a ‘macro-prudential coefficient’ (media speculation puts these figures at US\$50,000 for individuals and between 150-200 billion renminbi on aggregate). Furthermore, the current understanding is that Mainland investors will be required to have assets of at least RMB500,000 in order to participate in the scheme.

Northbound and Southbound System



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The current understanding with respect to the north and south bound system is that there will be one-to-one bundling of investment and remittance accounts creating a loop between offshore investors and Mainland accounts. It is still unclear whether the scheme will initially be limited to banks or if the scheme will be open to wealth managers in Hong Kong / Macao that have a relationship with a bank that has custodial capabilities.

It is not yet clear what compliance requirements will be enforced across the three jurisdictions with regards to matters such as product and customer suitability. It appears that the scheme, when launched, will allow transactions only in simple and low-risk assets with a view to expanding the selection of products available further down the line, however, which specific products will be available is still unknown. The expectation is that the scheme will be expanded to cover private equity investments and various insurance products.

Macro-Economic Aims

The PBOC stated a desired effect of this scheme is to steadily advance the internationalisation of the RMB, emphasising that in the Greater Bay Area the market will decide the direction and amount of capital flows among diversified financial intermediary channels. This in turn may improve the credentials of the RMB as an international reserve currency.

The PBOC is keen to improve the interconnectedness of the financial systems of Hong Kong, Macao and the Mainland part of the Greater Bay Area in order to promote consistent development across the region. This underpins the PBOC's ambition to amalgamate the constituents of the Greater Bay Area into one globally competitive financial hub.

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- Changes to securities legislation when proposed and gazetted, deadlines and final implementation;
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- A summary of the terms of the consultation and how it will potentially impact your business; and
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