



**The launch of cross-boundary  
Wealth Management Connect  
("WMC") pilot scheme in the  
Greater Bay Area ("GBA")**

**mazars**

## Introduction

In its latest move to further open up the country's financial market and turn the Greater Bay Area ("GBA") into an economic powerhouse, the cross-boundary Wealth Management Connect ("WMC") pilot scheme was officially launched and it is China's first cross-border wealth management scheme focused on the GBA. Comprising 9 Mainland cities in Guangdong province and 2 special administrative regions of Hong Kong and Macau, the GBA is home to 20% of China's ultra-high-net-worth and high net-worth households according to a market survey.

On 10 September 2021, the Hong Kong Monetary Authority ("HKMA") issued the implementation details for the WMC scheme, providing a supervisory guidance for the banking sector in Hong Kong. The WMC is a two-way scheme, allowing eligible Mainland, Hong Kong and Macao residents in the GBA to invest in eligible wealth management products distributed by banks in each other's market, and is expected to provide investors with a diversified range of investment opportunities.

This publication provides an overview of the regulatory requirements under the WMC pilot scheme, and Mazars's insights on the key features that Hong Kong banks should consider. Mazars offers a wide range of financial advisory services to assist you in achieving compliance with the rules and regulations relevant to you.

# What are the highlights?

The cross-boundary WMC consists of the Northbound and Southbound routes. Their respective key requirements are summarised as follows:

## 1. Participating banks

### General principles of eligible banks:

**Hong Kong banks** refer to **registered institutions** that carry on **Type 1 regulated activity** (dealing in securities) and engage in **retail banking or private banking business**. To participate in the WMC scheme, they should submit a thorough self-assessment to the HKMA at least **one month** prior to the launch. Business may commence after **“no objection”** notification is obtained from the HKMA.

**Mainland banks** refer to institutions that have **registration or branch establishment** in the 9 GBA Mainland cities, with **in place systems, internal control** measures, **complaint handling** mechanism, **cross-border capital flow control**, conditions to ensure a **closed-loop fund flow**, and with **no major regulatory issues** in the past 3 years.

In order to embark on WMC activities, Hong Kong banks should partner with at least one eligible bank in the Mainland market and sign a **cooperation agreement**.

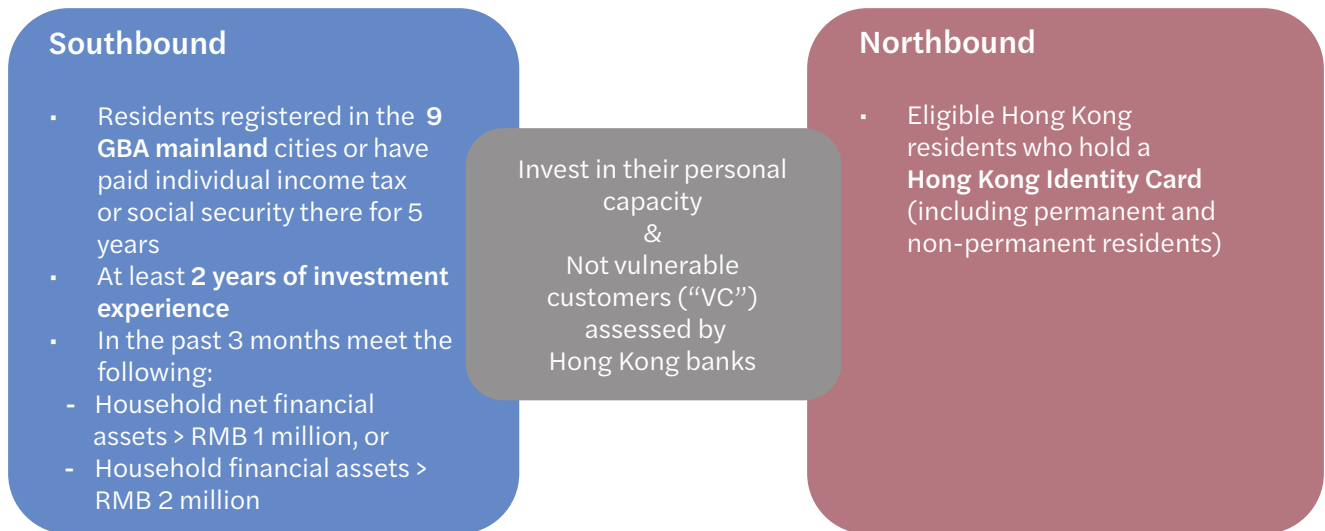
## 2. Operations

Southbound & Northbound	
Cross-boundary remittance	<ul style="list-style-type: none"><li>It should only be conducted between the dedicated investment account and its paired dedicated remittance account, i.e. under a <b>“closed-loop funds flow”</b> management arrangement</li><li>It should be conducted in <b>RMB</b> via the Cross-border Interbank Payment System</li></ul>
Quota limit	<ul style="list-style-type: none"><li>Aggregate quota in either direction: <b>RMB 150 billion</b>, shared by Hong Kong and Macao</li><li>Individual investor quota: <b>RMB 1 million</b></li><li>Quota usage will be updated each trading day on the websites of the People’s Bank of China Guangzhou Branch and Shenzhen Central Sub-branch</li><li>Instructions for the fund remittances may be put on hold as a result of the <b>aggregate quota being used up</b>, while remittances from the other direction and investment instructions using funds already remitted to the dedicated investment accounts will not be affected</li></ul>

# What are the highlights?

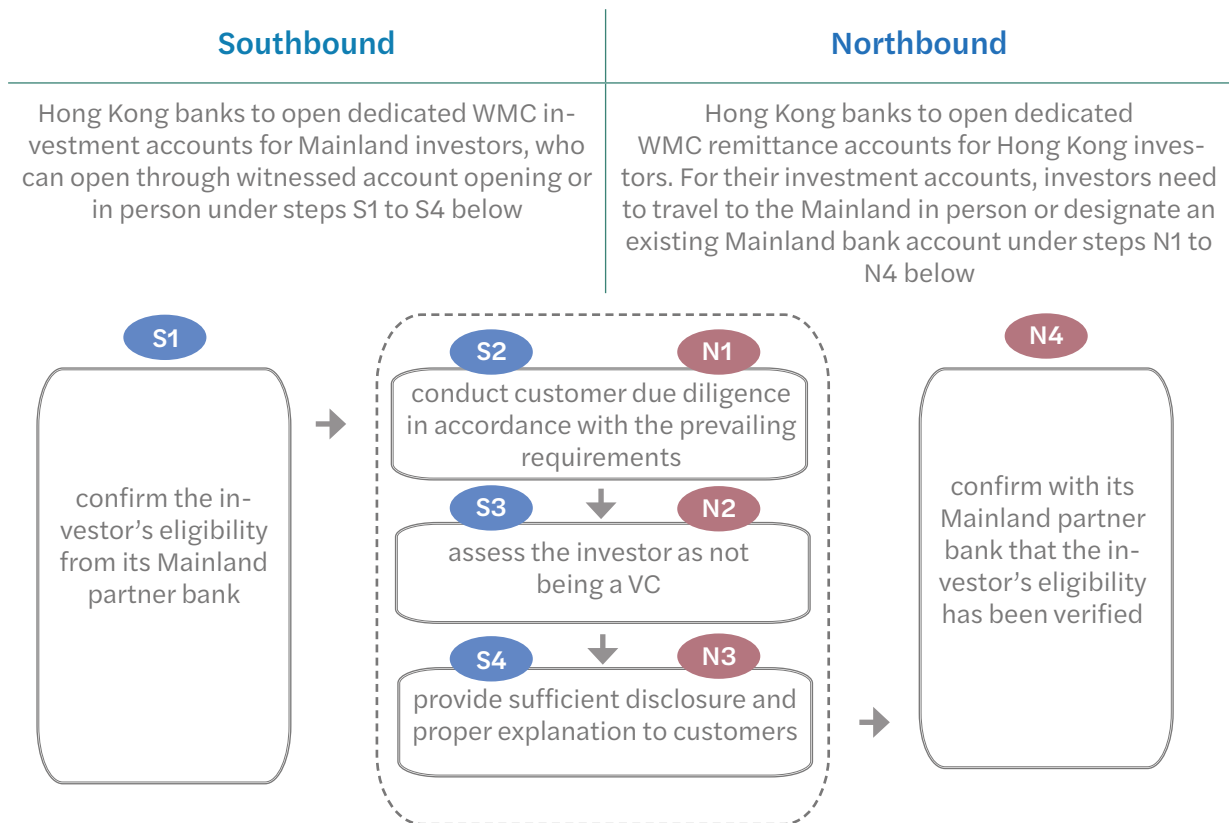
## 3. Investors

### General principles of eligible banks:



### General principles of account opening arrangements under WMC:

Each eligible investor should, at all times, open and maintain only 1 dedicated cross-boundary WMC **remittance account** in their place of residence and 1 dedicated cross-boundary WMC **investment account** through a partner bank in the other market. After account opening, banks from both sides should form a **one-to-one matching** for these 2 accounts, thereby ensuring a closed-loop funds flow.



# What are the highlights?

## 4. Products

### General principles of eligible investment products:

#### Northbound

1. **Products with risk rating of “R1” to “R3”** distributed by Mainland banks, including:
  - **Public fixed income wealth management products** (which primarily invest in bonds and deposits); and **equity wealth management products** (which primarily invest in equities) issued by Mainland wealth management firms
2. **Public securities investment funds**

#### Southbound

##### Deposits offered by Hong Kong banks:

- Renminbi, Hong Kong dollar, and foreign currency deposits

##### Low-to-medium risk and non-complex products distributed by Hong Kong banks, including:

- Hong Kong domiciled funds authorized by the SFC
- Bonds

Factors to consider the <b>risk level</b> of investment products to meet the eligibility requirements:	Factors to determine if a product is a <b>“complex product”</b> :
<ul style="list-style-type: none"><li>▪ product structure</li><li>▪ how they work</li><li>▪ the nature of underlying investments</li><li>▪ the level of risks they bear</li><li>▪ the experience, financial conditions and reputation of product issuers, guarantors and service providers</li><li>▪ the relative performance and liquidity</li><li>▪ termination conditions</li><li>▪ valuation and unit pricing</li><li>▪ fees and charges</li><li>▪ safe custody arrangements</li><li>▪ market and industry risks, economic and political environments, regulatory restrictions, etc.</li></ul>	<ul style="list-style-type: none"><li>▪ a derivative product</li><li>▪ a secondary market at publicly available prices</li><li>▪ provide adequate and transparent information</li><li>▪ a risk of losing more than the amount invested</li><li>▪ alter the nature/ risk of the investment or pay-out profile or include multiple variables or complicated formulas to determine the return</li><li>▪ render the investment illiquid and/or difficult to value</li></ul>

# What are the highlights?

## 5. Promotion and selling activities (under Southbound Scheme)

### Scenario 1: Hong Kong banks promoting the Southbound Scheme to the Mainland public – without a dedicated investment and/or remittance account

Under the Southbound Scheme, Hong Kong banks may/ should not:

#### Do's

Display and provide...

- **General information** about the WMC
- **Factual and fair** representations
- **Broad description** of the scope and categories of wealth management products

#### Don'ts

- Involve **solicitation and recommendation**
- **Constitute an offer** to the Mainland public in relation to investment in individual products
- **Constitute active marketing** of the Hong Kong bank's WMC services to the Mainland public

In addition to the above requirements, upon request of an individual Mainland investor, Hong Kong banks may/ should not:

#### Do's

Provide information on macroeconomic conditions, market environment, industry segments, sectoral trends, general financial information, or general information

#### Don'ts

Market the banking, deposit or wealth management services of the bank to the Mainland public



# What are the highlights?

## Scenario 2: Hong Kong banks distributing products to Mainland investors - with both dedicated investment and remittance accounts

### General principles

Hong Kong banks should carry out the Southbound Scheme selling process under an “**execution-only**” basis. They should also perform the following:

- Conduct **product due diligence** on the investment products
- **Disclose relevant key information**, including product nature and risks
- Assess customers’ risk profiles, and ensure the **risk profiling** result is valid when conducting transactions
- **Alert the customer during risk mismatch**, and seek confirmation from the customer to proceed or not

### If the mainland investors are present in Hong Kong,

Hong Kong banks may **conduct solicitation or make recommendation**. In this regard, they should:

- Ensure compliance with the **suitability requirements** of the HKMA & SFC
- Make sure that the solicitation or recommendation provided is **reasonable in all circumstances**



# What are the highlights?

## 6. Investor protection

### General principle

The relevant Hong Kong and Mainland regulatory authorities will supervise banks' cross-boundary WMC activities according to the principle of territorial administration. This implies that transactions carried out by investors via their investment accounts are protected by the laws, regulations and supervisory regimes of the jurisdiction where the transactions take place.

### Risk disclosure

Prior to opening a dedicated remittance/investment account, Hong Kong banks and Mainland partner banks should explain in detail of the followings:

- Details of the whole scheme (including the respective roles and obligations of Hong Kong banks and Mainland partner banks, funding and remittance arrangements, closed-loop funds flow, two-way fund transfer management requirements and quota management, complaint handling mechanism);
- Associated risks of investments; and
- Handling of non-compliance or breaches by investors.

### Complaints handling mechanism

#### Southbound

For complaints involving **wealth management products and selling process**, a Hong Kong bank should handle them in accordance with the HKMA's SPM module IC-4 "Complaint Handling Procedure".

#### Northbound

For complaints about **cross-boundary remittances**, Hong Kong banks should handle in accordance with the HKMA's SPM module IC-4 "Complaint Handling Procedure".

For complaints about **wealth management products and selling process**, Hong Kong banks should also assist investors in **referring** such complaints to the Mainland partner banks for follow-up.



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## 7. Governance

The HKMA will conduct supervisory work such as on-site examinations and off-site surveillance on the activities of Hong Kong banks under the cross-boundary WMC, and will follow up with individual institutions where necessary.

In general, Hong Kong banks should ensure that the relevant parties fully understand the risks involved, and have sufficient manpower, expertise and resources to engage in the relevant business and manage the risks involved.

<b>Control and supervision</b>	<ul style="list-style-type: none"><li>• The <b>senior management</b> of Hong Kong banks should adequately supervise the operations under the WMC</li><li>• <b>Executive Officers</b> should directly supervise and be responsible for their Hong Kong bank's operations</li><li>• The <b>compliance department</b> of Hong Kong banks should ensure the Hong Kong banks comply with the statutory and regulatory requirements and code of conduct</li></ul>
<b>Data reporting and submission</b>	<ul style="list-style-type: none"><li>• Hong Kong banks should designate at least <b>2 staff members</b> as the point of contact for liaising with the HKMA</li><li>• Mainland banks should timely submit and report relevant data to RMB Cross Border Payment &amp; Receipt Management Information System</li></ul>
<b>Non-compliance and breaches</b>	<ul style="list-style-type: none"><li>• If it happens to an individual investor, the Mainland or Hong Kong bank should immediately file a report to its regulator</li><li>• If it happens to a Mainland or Hong Kong bank, the PBoC and HKMA will consider and suspend the relevant bank's eligibility to engage in the cross-boundary WMC activities</li></ul>



## How can Mazars help?

**At Mazars, we have extensive experience working with the diversity of financial services players. We assist major financial institutions including brokerage houses, asset managers, investment and corporate banks, retail and private banks, central banks, and national regulators in dealing with business and regulatory issues with impacts, domestic and international.**

**We are here to assist you in every step of your cross-boundary Wealth Management Connect self-assessment and planning to comply with the implementation arrangements. Depending on the scope, coverage and specifics of your needs, our services would typically involve one or more of the areas in the next page:**

# How can Mazars help?

## A. Regulatory reviews and advice

1. Review and provide compliance advisory on your firm's
  - policies and procedures,
  - frameworks,
  - operational capabilities,
  - complaints handling controls, and
  - risk assessment of anti-money laundering and counter-financing of terrorism or risk control measures relevant to your WMC business.
2. Communicate your firm's WMC plan with regulatory authorities, and provide assistance in compilation of the self-assessment for reviewing the HKMA.
3. Provide observations and recommendations to assist you in complying with the implementation arrangements under the cross-boundary WMC.
4. Review related documentation and records to ensure compliance.

## B. Design and implementation of policies and procedures

1. Provide advice/ assistance in designing the operational processes and controls relevant to your WMC business:
  - KYC, CDD, PDD and account opening procedures
  - Designated account management, promotion and selling process
  - Closed-loop funds flow management and quota monitoring
  - Suitable investment products identification, risk profiling questionnaires
  - Complaints handling mechanism, and
  - Record keeping and regulatory reporting
2. Provide advice/ assistance in designing and implementing enhancements to the compliance manual, including governance framework, as well as policies, procedures and control of your investment management, risk management and disclosure process.
3. Provide advice/ assistance in updating and designing compliance monitoring plans and programmes.
4. Provide advice/ assistance in designing and reviewing related risk framework and risk matrix.

## C. Training and insights

1. Provide training and education for staff, the board, senior management and compliance team to facilitate the launch of your WMC activities.
2. Provide ongoing insights into how peer firms are dealing with the regulatory requirements and any common challenges encountered along the way.

**We also take on special projects and ad-hoc mandates. We are flexible in our approach and offerings. Please feel free to contact us with any enquiries.**

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\*where permitted under applicable country laws

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