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Client Alert

Financial Services

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Greater Bay Area Wealth Management Connect pilot scheme enhanced – opportunities for Hong Kong brokers and fund managers

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On 24 January 2024, The People's Bank of China (**PBoC**), the Hong Kong Monetary Authority (**HKMA**), and the Securities and Futures Commission (**SFC**) released their respective amended implementation rules for the Cross-boundary Wealth Management Connect pilot scheme (**WMC**) in the Guangdong-Hong Kong-Macau Greater Bay Area (**GBA,** which covers nine Mainland cities plus Hong Kong and Macau) (collectively, **Amended Rules**). The Amended Rules will take effect on 26 February 2024. See here for the amended implementation arrangements issued by the Mainland regulatory authorities, the HKMA's circular and the SFC's circular.

Background

The WMC scheme was initially launched in September 2021 and permits eligible residents in the GBA to invest in cross-boundary eligible wealth management products.

Since its launch, the WMC scheme has provided a useful fund distribution channel across the GBA and has contributed to further "connectivity" between Mainland China and Hong Kong. Subject to compliance with rules in regard to distribution and marketing, products offered under the WMC scheme do not have to go through a separate regulatory approval process.

In September 2023, regulatory authorities in Mainland China, Hong Kong and Macau jointly announced that further enhancements would be implemented in the WMC scheme.

Key amendments

In this article we focus on the *southbound* scheme and the key amendments which present opportunities to the financial services industry in Hong Kong.

A. Participation by SFC-licensed corporations

The current WMC scheme was originally a bank-led scheme under which banks in the Mainland and Hong Kong are predominantly responsible for the scheme's operation, under the supervision of the HKMA.

The Amended Rules will allow SFC-licensed corporations (**Participating LCs**), which are not necessarily engaging in retail banking or private banking business, to also participate in the WMC scheme, subject to applicable rules issued by the SFC.

Interested Participating LCs should plan ahead if they intend to participate in the WMC. In particular, prior to the launch of any WMC related activities, eligible licensed corporations should:-

- partner with an eligible Mainland broker and work closely with it to ensure that all preparatory work, including the relevant system set-up, is properly performed;
- put in place adequate systems, internal control measures and operating procedures in accordance with the requirements set out in the SFC's guidance; and

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- submit to the SFC, amongst others, their business plan and a self-assessment report certified by their Manager-in-Charge (**MIC**) – Overall Management Oversight, MIC – Compliance and head of internal audit function, to demonstrate their operational readiness.

Participating LCs are encouraged to notify and discuss their business plan with their SFC case officer in advance. Participating LCs may only conduct business activities under the southbound scheme, the northbound scheme, or both, upon receiving a no-objection notification from the SFC.

B. Eligible investment products

Currently, the eligible products under the southbound WMC scheme include (i) Hong Kong domiciled funds authorised by the SFC and assessed as "non-complex" in accordance with Hong Kong regulations and "low risk to medium risk" by the Hong Kong bank distributing such funds; (ii) bonds assessed as "low" risk to "medium" risk and "non-complex" by Hong Kong banks distributing such bonds; and (iii) Renminbi (**RMB**), Hong Kong dollar and foreign currency deposits.

Under the Amended Rules, the eligible investment products under the southbound scheme will be expanded to include the following:

(1) all funds domiciled in Hong Kong and authorised by the SFC which primarily invest in Greater China equities and are assessed as "non-complex" by Participating LCs / Hong Kong banks distributing such funds;

(2) apart from the funds mentioned under item (1) above, funds domiciled in Hong Kong and authorised by the SFC which are assessed as "low" risk to "medium to high" risk and "non-complex" by Participating LCs / Hong Kong banks distributing such funds, but excluding high-yield bond funds and single emerging market equity funds;

(3) bonds which are assessed as "low" risk to "medium" risk and "non-complex" by Participating LCs / Hong Kong banks distributing the bonds; and

(4) (for banks only) RMB, Hong Kong dollar and foreign currency deposits.

C. Individual investor quota

Individuals who participate in the WMC are subject to an individual investment quota calculated on a net basis. The individual investor quota for each investor under the southbound scheme will be increased from RMB 1 million to RMB 3 million.

D. Eligibility requirements for investors in the southbound scheme

According to the amended implementation arrangements issued by the Mainland regulatory authorities, the period for continuous payment of social security or personal income tax for Mainland investors to be eligible to participate in the southbound scheme will be lowered from "5 years" to "2 years".

In addition, a new eligibility requirement for Mainland investors will be introduced whereby a Mainland investor may participate in the southbound scheme if his or her average annual income is not less than RMB 400,000 in the last 3 years, as an alternative to the existing "minimum household financial assets" requirements, given other eligibility requirements are also satisfied.

How to take advantage of the WMC?

The Amended Rules afford significant new opportunities to Hong Kong based brokers. After the Amended Rules come into effect, these firms will be able to distribute eligible products and provide relevant services to investors under the WMC, under both southbound scheme and northbound scheme.

From a business perspective, Hong Kong licensed brokers that wish to distribute products through the new WMC scheme will need to identify a partner broker in the Mainland. The relationship will have to be clearly defined in a written partnership agreement, including the parties' respective obligations and various operational arrangements. In addition, based on our experience of the current WMC scheme, existing investment account terms and conditions will need to be supplemented with provisions specific to the WMC scheme, for example, undertakings required of investors and the onboarding process.

Separately, asset management firms can expand the suite of products that can be offered to Mainland investors. The expanded scope of eligible products and the increased investment quota will better meet investors' demand for diversified investments, presenting new opportunities to fund managers based in Hong Kong. Further, participation by brokers is also expected to extend the reach of the WMC to new customer base.

In recent years, we have observed that the open-ended fund company structure has continued to gain popularity, in particular among fund managers seeking to set up a new platform to benefit from the WMC scheme. In view of the broadened scope of investment products, fund managers should revisit their existing range of products, with a view to offering them to Mainland investors under the WMC scheme.

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