

# Enhancements to the Cross-Boundary Wealth Management Connect - Banking and Capital Markets

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## Introduction of Wealth Management Connect 2.0

On 24 January 2024, the People's Bank of China published the revised "Implementation Arrangements for the Cross-boundary WMC Pilot Scheme in the GBA" (Implementation Rules) to enhance the Cross-Boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (Cross-Boundary WMC).

In this connection, the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) have issued relevant guidance in respect of the Southbound and Northbound Schemes and FAQ for eligible banks and licensed corporations (LCs) (collectively "banks and securities firms") which wish to participate in the Cross-Boundary WMC.

Enhancements include allowing eligible LCs to participate in the Cross-Boundary WMC, updated eligible criteria for investors expanding the eligible investment product scope and clarifying the promotion and sales arrangements.

## Key Enhancements

### Partnership between LCs and banks (new)

- Each Hong Kong LC as well as Mainland broker to partner with not more than one WMC-registered Hong Kong/Mainland bank to establish a Southbound/Northbound investment/remittance account
- Each Hong Kong LC should have partnership arrangements with one or more eligible Mainland broker for providing Cross-Boundary WMC services

### Eligible investment products

#### Southbound Scheme:

- Funds domiciled in Hong Kong SAR (Hong Kong) and authorised by the SFC:
  - primarily invest in Greater China equities and are assessed as "non-complex"
  - assessed as "low" risk to "medium-high" risk (modified from "medium" risk) and "non-complex", excluding high-yield bond funds and single emerging market equity funds
- Bonds assessed as "low" risk to "medium" risk and "non-complex"
- Deposits in RMB, Hong Kong dollar and foreign currency

#### Northbound Scheme:

- Public fixed income wealth management products and equity wealth management products, with risk rating of "R1" to "R3"
- Public securities investment funds with risk rating "R1" to "R4" (modified from "R3")
- RMB-denominated deposit products issued by Mainland banks (new)

### Individual investor quota

- At RMB 3 million (increased from RMB 1 million) when participating through either a bank or a LC
- At RMB 1.5 million each at a bank and a LC when participating through both a bank and a LC

### Account opening arrangements

Investors can open

- one (and only one) investment account and a related settlement account within a Hong Kong LC/Mainland broker (**new**)
- One (and only one) investment account and a related settlement account within a Hong Kong Bank / Mainland Bank

### Eligible investors

#### Southbound Scheme:

- Being residents registered in the nine GBA cities, or with record of social security contribution or individual tax payment in the nine GBA cities for two consecutive years (reduced from five years)
- The monthly balance of household net financial assets in the last three months is no less than RMB 1 million, or the balance of household financial assets in the last three months is no less than RMB 2 million, or individual annual average income over the past three years of at least RMB 0.4 million (new)

### Closed-loop fund flow arrangement

All cross-boundary remittances between the remittance accounts/investment accounts/omnibus of the Mainland and Hong Kong banks and securities firms should be conducted in RMB and through the Cross-border Interbank Payment System (CIPS)

### Promotion and sales arrangement

#### Southbound Scheme:

- Participating banks and securities firms may, upon request by Southbound Scheme clients not physically present in Hong Kong, conduct investment product screening based on the clients' personal situation, and introduce and explain the information of the products through appropriate communication channels at their place of business
- For Southbound Scheme investors who are physically present in Hong Kong, participating banks and securities firms may provide solicitation or recommendation to these clients physically present in Hong Kong, but should ensure compliance with the suitability obligations



## Key considerations for banks and securities firms

Most of the banks have launched the Cross-Boundary WMC business. For banks that are considering participation in WMC 2.0, please refer to our previous publication(\*) for more in-depth views on the launch of your business.

### LCs entry requirements

LCs wish to participate in the Southbound /Northbound Scheme should fulfil the following entry requirements:

- Both paid-up capital and shareholders' funds are not less than HK\$100 million;
- Being licensed by the SFC to carry on Type 1 regulated activity;
- With at least three years of experience in distributing investment products (i.e., funds and/or bonds);
- With transaction volume of not less than HK\$500 million during any 12-month period in the past three years; and
- Implemented internal controls, operating procedures and systems, and have sufficient financial resources and operational capabilities to conduct the business and ensure compliance with applicable requirements, including the "closed-loop fund flow arrangement".

### LCs application procedures and on-going arrangements

Eligible LCs should notify the SFC three months prior to launching the services to obtain the "no objection" notification from the SFC, with the following documents:

- Notify the SFC of their plan on Cross-Boundary WMC;
- Provide information regarding their experience in distributing funds and bonds and the corresponding transaction volume; and
- Conduct and submit a self-assessment report certified by their Manager-in-Charge.

Participating LCs should also:

- Obtain the "no objection" notification from the SFC before they enter into or terminate the partnership arrangement with the Mainland Broker(s);
- Conduct a self-assessment on an annual basis and provide the assessment report to SFC on request; and
- Submit information on their Cross-boundary WMC related business as requested by the SFC on a regular basis.

Participating LCs should devise an exit plan, including but not limited to:

- Arrangements on affected clients;
- Relevant measures and the financial, human and operational resources required to execute the exit plan; and
- Assigning designated personnel, who have sufficient authority to act for the participating LC in executing the exit plan.

## What the enhancements mean for market participants in Hong Kong and Mainland?

The enhanced WMC opens up further avenue for the financial services industry in Hong Kong to reach the region's retail and mass affluent investors. In order to seize the opportunities that emerge from this scheme and get hold of the "first mover" advantage, it is imperative for eligible brokers to begin preparation as soon as possible. This would include, among others, setting appropriate internal controls, conducting product due diligence, meeting requisite regulatory requirements, training of staff, assessing existing infrastructure and enhancing digital operations.

At the same time, many well-known brokers have established their business in the Greater Bay Area, which covers three major cities of Guangzhou, Shenzhen and Hong Kong. In order to seize the opportunity provided in the WMC 2.0, the brokers are actively preparing to apply for and expand business in the WMC 2.0. Northbound investment products will cover a more comprehensive range of funds, which will provide more investment products for Hong Kong and Macao investors with different risk profile.





## How should banks and securities firms prepare for WMC 2.0?

To better prepare for the launch of WMC 2.0, banks and securities firms should undertake proactive measures to evaluate and enhance their operational readiness. These should include conducting a thorough review of existing processes and controls pertaining to product due diligence, client onboarding, suitability assessment, and sales practices, with a focus on ensuring compliance with relevant regulatory requirements in Cross-Boundary WMC guidance.

Banks and securities firms should also assess and update their system functionality and compatibility to support the day-to-day operations of WMC 2.0, including application system controls in relation to the account management, quota management, close-loop fund management, settlement, and information disclosure and reporting. Functional enhancements in relation to the WMC 2.0 should be properly designed, tested and reviewed before official launch.

In particular, LCs should prioritise the development of a robust risk management framework and internal control systems when establishing partnerships with banks. These measures are crucial for safeguarding investor interests and protection of their assets. Adequate staff training should also be provided to enhance understanding in WMC services prior to their official launch.



### How can PwC help?

PwC supports its clients with end-to-end solutions across the lifecycle of WMC.



### Advisory services

- We provide various advisory services to help establish your WMC business:
  - We can advise on communicating your plan to participate in WMC with the regulator. We can also provide support for the compilation of regulatory application, assessment report, business plan and other supplementary documents.
  - We can perform IT-related independent assessment (including system control and other system function enhancements related to WMC) as required by the relevant regulators to facilitate upgrade of existing systems or to implement a new system (e.g. relevant e-banking/e-trading system, key business systems or systems used for processing/storing/transmitting of customer data) and material outsourcing to third parties to facilitate the launch of your WMC business.
  - We can advise on the design of operational processes and control systems relevant to WMC, for example:
    - Customer due diligence (CDD) and account opening;
    - Designated account management, and marketing and sales practices;
    - Cross-border closed-loop fund management and quota monitoring;
    - Relevant IT system controls;
    - Identification of suitable investment products; and
    - Record keeping and regulatory reporting.
  - We provide advisory services on strategy and market due diligence to assist our clients to establish a medium and long-term business strategy that aligns with ongoing GBA development.
  - We provide advisory services in the risk assessment of anti-money laundering and counter-financing of terrorism of WMC business and relevant risk control measures in accordance with regulatory requirements.
  - We can provide advice on responding to queries or additional information requests by the regulator during their review of the application.
  - We can provide staff training prior to the launch of your WMC business.

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