

Launch of the Cross-boundary Wealth Management Connect Scheme in the Greater Bay Area



On 29 June 2020, the People's Bank of China, the Hong Kong Monetary Authority and the Monetary Authority of Macao jointly announced the introduction of the cross-boundary wealth management connect pilot scheme (Wealth Management Connect) in the Greater Bay Area (GBA), which will allow residents in the GBA to invest in wealth management products (WMPs) distributed by banks in the region.

Following the issuance of the *Outline Development Plan of the Central Government and the State Council for the Guangdong-Hong Kong-Macao Greater Bay Area* (Outline Development Plan) in February 2019, and the *Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macao Greater Bay Area* in May 2020, Wealth Management Connect is another key initiative in facilitating the seamless delivery of financial services in the GBA and promoting the overall development of the region. We believe that Wealth Management Connect will help to:

- 1) Promote investment diversification and facilitate the flow of capital in the GBA; and
- 2) Promote RMB internationalisation and strengthen Hong Kong's status as an international financial centre and offshore RMB hub.



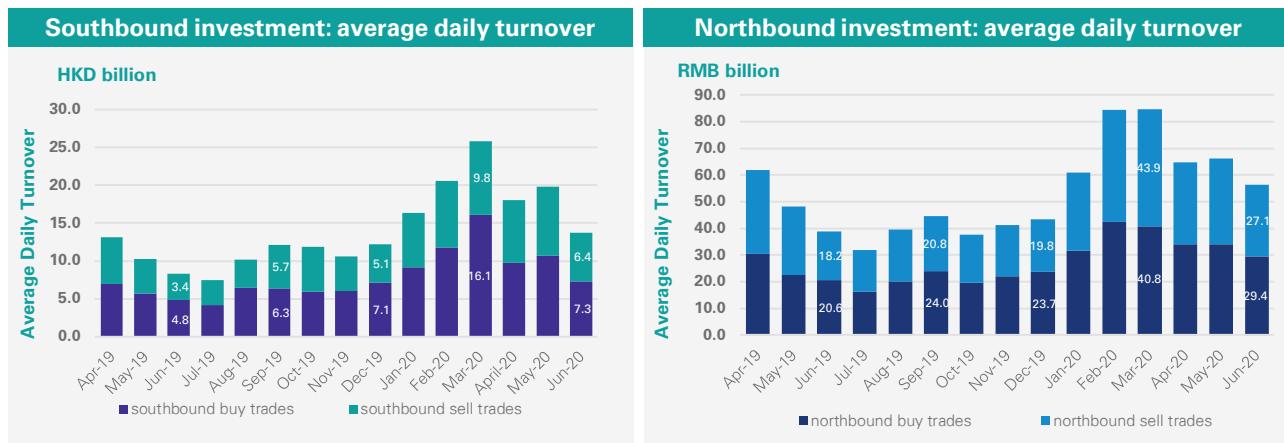


Promoting investment diversification and facilitating the flow of capital in the GBA

With a population of more than 70 million and a combined GDP of USD 1.6 trillion, the GBA represents a significant growth opportunity for financial institutions. The launch of Wealth Management Connect will offer greater product diversity for GBA residents and an expanded investor base for financial institutions.

The growing wealth of mainland Chinese residents is leading to increasing demand for investment diversification to offshore assets. At the same time, increasingly active northbound trading through Stock Connect and Bond Connect indicates that investors in Hong Kong are interested in mainland China's capital markets and in increasing their exposure to mainland China-related investments. FTSE Russell's inclusion of A-shares and MSCI's increased weighting of A-shares in their respective indices are expected to further boost northbound trading.

Furthermore, in August 2019, the stock exchanges in Hong Kong, Shanghai and Shenzhen agreed on the criteria for including Hong Kong-listed stocks with weighted voting rights in the Stock Connect schemes. Following this agreement, in October 2019, the first batch of eligible stocks with weighted voting rights was included in southbound trading for Stock Connect, and trading volumes have since increased.



* Analysis is based on data as at 22 June 2020

Source: HKEX



Summary

Under Wealth Management Connect, GBA residents will conduct cross-boundary investments in WMPs distributed by banks in the region. The scheme has a southbound and a northbound component, depending on the residency of the investors. Under the Southbound component, residents of the mainland Chinese cities in the GBA will be able to invest in eligible WMPs distributed by banks in Hong Kong and Macao by opening designated investment accounts with those banks. Under the Northbound component, Hong Kong and Macao residents will be able to invest in eligible WMPs distributed by mainland Chinese banks in the GBA.

As of now, there are six foreign-funded legal person banks (solely foreign-funded banks, equity joint banks, solely foreign-funded financial companies and equity joint financial companies) in the GBA. In February 2020, one year after the issuance of the Outline Development Plan, foreign banks from 13 countries and regions have established a total of 155 business institutions in Guangdong province (excluding Shenzhen), making Guangdong the first province to have foreign banks in all prefecture-level cities.



Promoting RMB internationalisation and strengthening Hong Kong's status as an international financial centre and offshore RMB hub

Wealth Management Connect represents another significant development in the liberalisation of mainland China's capital account following the launch of QFII/QDII, the Mainland-Hong Kong Mutual Recognition of Funds scheme, and the Stock Connect and Bond Connect schemes.

Under Wealth Management Connect, cross-boundary remittance will be carried out in RMB, with currency conversion conducted in the offshore markets. Cross-boundary remittance will also be conducted and managed in a closed-loop through the bundling of designated remittance and investment accounts. Through this mechanism, residents of the mainland Chinese cities in the GBA can directly use RMB to invest in eligible investment products distributed by banks in Hong Kong and Macao, and residents in Hong Kong and Macao can use offshore RMB to invest in eligible RMB-denominated assets distributed by mainland Chinese banks in the GBA. Cross-boundary fund flows will be subject to aggregate and individual investor quota management.

These developments will accelerate RMB internationalisation and strengthen Hong Kong's position as a global offshore RMB hub.





Key considerations for financial institutions

The launch of Wealth Management Connect is expected to provide investors with greater product diversity and asset allocation options, while also raising the bar for financial institutions in terms of product design, service quality and risk management. Wealth Management Connect will be governed by the respective laws and regulations on retail wealth management products applicable in mainland China, Hong Kong and Macao. To this end, the regulatory authorities will introduce measures and establish robust mechanisms for regulatory cooperation, communication and coordination in order to protect the interests of investors. In addition, a long-term mechanism for financial risk management needs to be established to address issues in areas such as compliance, liquidity and cross-boundary risks. Specific policies and measures should be implemented on a pilot basis and enhanced gradually.

In our view, there are a number of key areas that financial institutions should focus on:

-  Their relevant products' risk management, compliance and operation processes must meet the regulatory requirements in all three regions prior to cross-boundary distribution.
-  The design of the WMPs must consider the risk tolerance of investors and whether they are qualified investors. Conduct and sales suitability should be high on the agenda to avoid instances of misleading sales practices or the mis-selling of WMPs.
-  Before selling WMPs, sales agencies must clearly explain to investors the risk management measures, relevant laws and regulations, and relevant provisions for the protection of investors' rights and interests for WMPs in the different regions in the GBA.

Financial institutions should also establish and improve their risk management systems to enhance the timeliness and efficiency of risk alerts and reduce their risk levels. Wealth Management Connect will also place greater demands on the comprehensive wealth management capabilities of banks in areas such as sales channels, customer service, product management, risk management and information disclosures.





Conclusion

While Wealth Management Connect's formal launch date and implementation details have yet to be released, the formal introduction of the scheme is a welcome development and confirmation of policymakers' intent to launch a scheme that will boost interconnectivity, facilitate the seamless flow of capital and broaden cross-boundary investment channels in the GBA.

The growing demand for wealth management in the GBA will continue to present significant opportunities for financial institutions. Wealth Management Connect is expected to drive greater product innovation, and may attract more international financial institutions to set up or expand their presence in Hong Kong and the other GBA cities to capitalise on these opportunities and tap into a large investor base. This will likely spur more competition in the region, which should raise the bar for product diversity and quality, and robust risk management.

Following the launch of the Stock Connect and Bond Connect schemes, Wealth Management Connect stands as another example of deepening financial cooperation between mainland China, Hong Kong and Macao. It also presents new growth opportunities for the region's banking and asset management industries, cements Hong Kong's status as an international financial centre and offshore RMB hub, and reinforces the GBA's leading role in China's economic growth and opening up.



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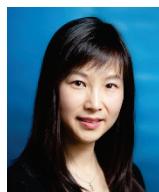
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