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November 2020



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On 14 May 2020, the People's Bank of China (PBOC), China Banking and Insurance Regulatory Commission (CBIRC), China Securities Regulatory Commission (CSRC) and State Administration of Foreign Exchange (SAFE) issued a Circular in which several measures for promoting an integrated financial services market within the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) were unveiled. One of the proposed initiatives, Wealth Management Connect (WMC), is a two-way scheme allowing residents of Hong Kong and Macau to invest in wealth management products distributed by mainland banks in the GBA, and residents of mainland cities in the GBA to invest in wealth management products distributed by banks in Hong Kong and Macau.

The implementation details of the WMC are being discussed and agreed in a holistic manner by all the governing regulators including the PBOC, CBIRC, CSRC, SAFE, the Hong Kong Monetary Authority (HKMA), the Hong Kong Securities and Futures Commission (SFC) and the Monetary Authority of Macao (AMCM) with reference to a joint announcement by the PBOC, HKMA and AMCM dated 29 June 2020. In the Hong Kong Chief Executive's Policy Address 2020 announced on 25 November, Mrs Carrie Lam has briefly updated that the implementation of WMC is being expedited. That would mean a lot of the implementation details of the pilot scheme will be announced in due course hence the preparedness of potential market participants will proceed to the final stage simultaneously.

This whitepaper explores the GBA wealth management market, including its key economic parameters, the market positioning of potential participating banks, arrangements for WMC based on policies already announced, and potential challenges.

Although the development of WMC will be shaped by further implementation details and new policies announcements, this study is intended to not only contribute to deliberations by market participants, but also act as a reference for authorities considering new policies to support this innovative initiative.



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# Foreword



**The Hon Bernard Charnwut Chan**  
**GBM, GBS, JP**  
**President, Asia Financial**  
**Holdings Ltd.**  
**Honorary FCPA Member,**  
**CPA Australia**

"Wealth Management Connect is an important initiative that promotes convergence, collaboration, and an open and inclusive economy across Greater Bay Area financial services sectors."

The Greater Bay Area is one of our country's signature urbanisation projects. Comprising 11 cities with a combined population of more than 70 million, the Greater Bay Area is home to a diverse range of industries and talented professionals. With a GDP equivalent to Canada's, the Greater Bay Area is positioned to become an engine of success and prosperity.

The recent announcement of the GBA cross-boundary wealth management pilot scheme is extremely good news. Wealth Management Connect is an important initiative that promotes convergence, collaboration, and an open and inclusive economy across Greater Bay Area financial services sectors. I'm confident that this scheme will have a transformational effect on our economies in the coming years.

The immediate benefit of Wealth Management Connect is that it broadens investment options for Greater Bay Area residents. And in the long term it will foster the growth of financial experience and knowledge for a future generation of investors.

The scheme also will encourage improved and expanded cross-boundary collaboration between regulators and financial institutions. Eventually this will result in the formation of a unique and dynamic financial ecosystem specific to the Greater Bay Area. This ecosystem will provide investors and the financial services sector with a range of comprehensive cross-boundary and cross-jurisdictional support.

The open dialogue, collaboration and transparency that this scheme facilitates will encourage financial institutions to enter into a robust exchange about best practices. This will certainly result in new partnerships, increased productivity and creativity across the entire Greater Bay Area.



**Mr Tim Lui, SBS, JP**  
**Chairman, the Securities and Futures Commission**  
**Honorary FCPA Member,**  
**CPA Australia**

"Together, all the regulators involved in this initiative share a commitment to ensuring effective mechanisms are in place to protect the interests of investors and maintain fair, orderly markets."

The announcement of the Wealth Management Connect pilot scheme by the People's Bank of China (PBOC), Hong Kong Monetary Authority (HKMA) and Monetary Authority of Macao (AMCM) on 29 June 2020 was a major step towards closer financial cooperation within the Greater Bay Area. This is an important initiative for the region's future economic development and the further opening-up of Mainland financial markets.

Wealth Management Connect follows the success of the Mainland-Hong Kong Stock Connect and Bond Connect schemes. Increased market connectivity has already created substantial opportunities for investors and financial firms in Hong Kong, the Mainland and across the world. As the next step, Wealth Management Connect will help meet the growing demand for investment opportunities in the Greater Bay Area by allowing residents to make cross-boundary investments in wealth management products distributed by banks.

The Securities and Futures Commission (SFC) is working closely with the HKMA and Mainland authorities to prepare for implementation of the scheme. Together, all the regulators involved in this initiative share a commitment to ensuring effective mechanisms are in place to protect the interests of investors and maintain fair, orderly markets. This will include robust arrangements for supervisory cooperation and enforcement. Regulators will also keep in close contact with the financial services sector to ensure the smooth operation of the scheme.

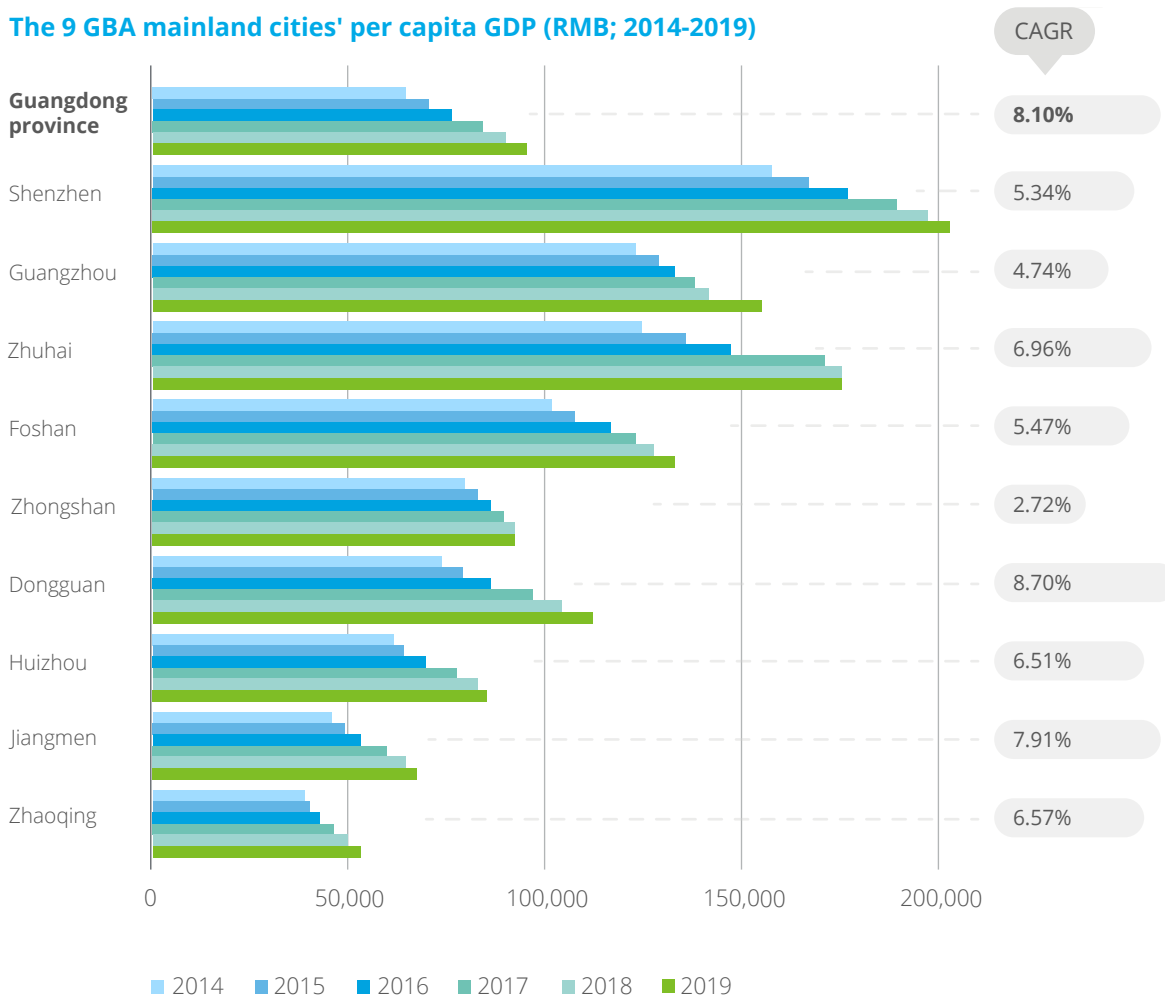
Over the past three decades, the SFC has played a key role in the evolution of Hong Kong's world-class financial markets. Wealth Management Connect is a major milestone in the development of closer financial integration among Hong Kong, the Mainland and Macau, and I thank CPA Australia and Deloitte for their efforts to highlight the potential of this initiative and support its successful implementation.

# Business potential

Hong Kong, Shenzhen and Guangzhou are among the 10 areas with the world's highest density of billionaires. As GBA development accelerates in the coming years, the number of high-net-worth individuals will continue to rise. This will drive the robust growth of the private wealth management industry in the GBA and enhance Hong Kong's status as an international asset management center.

According to the *Hurun Wealth Report 2019*, there are 452,010 high-net-worth families with more than RMB6 million in investable assets across Guangdong, Hong Kong and Macau. Their aggregate estimated investable assets have reached at least RMB2.7 trillion, making the GBA the wealthiest megalopolis in the world<sup>1</sup>.

The 9 GBA mainland cities' per capita GDP (RMB; 2014-2019)








<sup>1</sup> Source: [2019 Hurun Wealth Report](#)

According to Guangdong Provincial Government data<sup>2</sup>, from 2014 to 2019, the average compound annual GDP per capita growth rate of the nine cities in the GBA mainland was 6.10%, with Dongguan recording the highest annual growth of 8.7%. Shenzhen and Zhuhai had the highest GDP in the area with impressive compound annual growth rates (CAGRs) of 5.34% and 6.96% respectively between 2014 and 2019.

The data from the Hurun Global Rich List and the Guangdong Provincial Government indicate that there is significant potential for the wealth management industry under WMC.

### Major economic indicators showing the business potential of the Guangdong-Hong Kong-Macau GBA (2019)

	 Population (mn)	 GDP (USD, bn)	 Per-capita GDP (USD)	 Gross Savings ratio (% of GDP)	 Per-capita Gross Savings (USD) <sup>3</sup>	
<b>Hong Kong</b>	7.50	365.70	22%	48,713	25%	12,178
<b>Macau</b>	0.68	53.86	3%	79,977	52%	41,588
<b>Shenzhen</b>	13.44	390.33	23%	29,498	45%	13,274
<b>Guangzhou</b>	15.31	342.52	20%	22,676	45%	10,204
<b>Zhuhai</b>	2.02	49.81	3%	25,400	45%	11,430
<b>Foshan</b>	8.16	155.85	9%	19,102	45%	8,596
<b>Zhongshan</b>	3.38	44.95	3%	13,439	45%	6,048
<b>Dongguan</b>	8.46	137.46	8%	16,309	45%	7,339
<b>Huizhou</b>	4.88	60.56	4%	12,473	45%	5,613
<b>Jiangmen</b>	4.63	45.61	3%	9,885	45%	4,448
<b>Zhaoqing</b>	4.19	32.60	2%	7,819	45%	3,519
<b>Greater Bay Area</b>	<b>72.65</b>	<b>1,679.26</b>	<b>100%</b>	<b>23,116</b>		

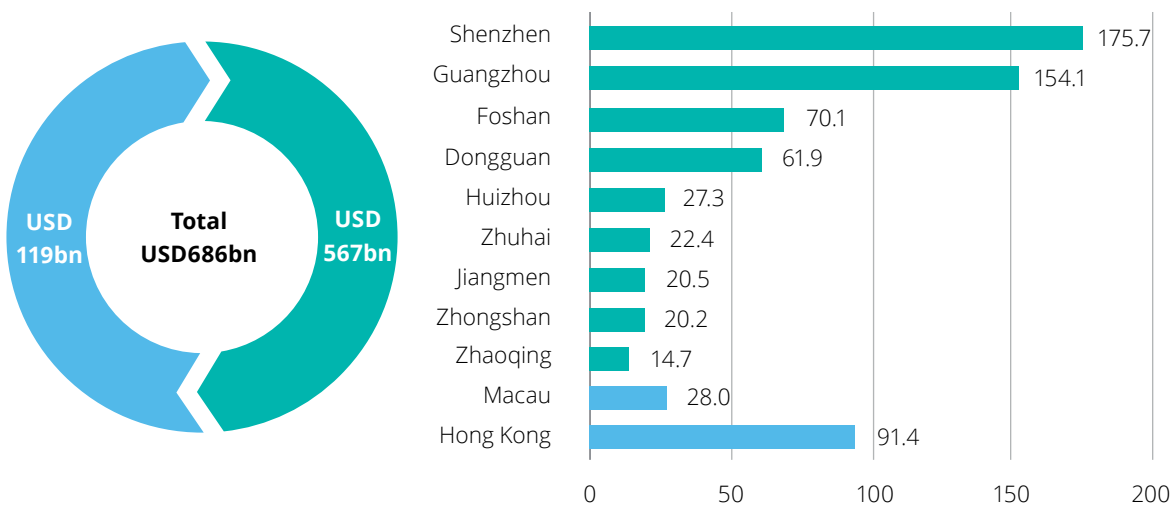
Source: (1) HKTDC Research. (2020, July 6). Statistics of the Guangdong-Hong Kong-Macau Greater Bay Area. Retrieved from [HKTDC Research](#); (2) The World Bank Group. (2020). World Bank national accounts data. Retrieved from [The World Bank Data](#)

Based on the above table of GDP figures and estimated gross savings ratio (% of GDP) in each of the GBA cities, the bar chart on the next page shows their aggregate estimated annual gross savings. This indicates the potential size of the northbound and southbound opportunity and can be used as a basis for projecting the size of investable assets under WMC.

<sup>2</sup> Source: Compiled by CPA Australia from [Guangdong Statistical Yearbook 2020](#)

<sup>3</sup> Based on Gross Savings Ratio extracted from World Bank National Accounts Data and assuming gross saving ratios of Guangdong cities are in line with China's national figure, per-capita gross savings are calculated by multiplying per-capita GDP by gross savings ratio. For example, Hong Kong's per-capita gross savings are USD48,713 x 25% = USD12,178

Estimated annual gross savings (USD bn)<sup>4</sup>



The nine mainland cities in the GBA have aggregate estimated annual gross savings of USD567 billion, or more than four times Hong Kong and Macau's estimated aggregate annual gross savings of USD119 billion.

According to recent media reports, the total aggregate investor quota is expected to be USD45 billion, representing RMB300 billion for northbound and southbound investment.<sup>5</sup> This is less than 10% of the gross savings of the GBA population, so under normal circumstances it is expected to be utilized fairly quickly provided the eligible products address the needs of the target investor segments.



<sup>4</sup> Based on the Gross Savings ratio extracted from World Bank National Accounts Data and assuming gross saving ratios of Guangdong cities are in line with China's national figure, annual gross savings are calculated by multiplying annual GDP by gross savings ratio. For example, Hong Kong's gross savings are USD365.7 billion x 25% = USD91.4 billion.

<sup>5</sup> Source: [South China Morning Post](#), posted on 23 October 2020



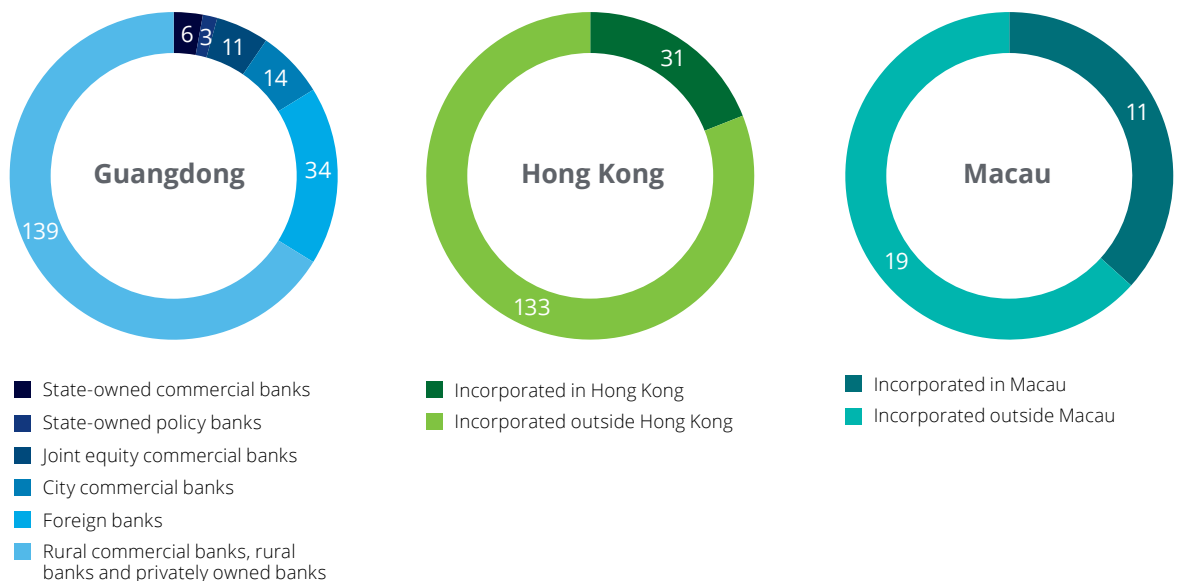
# GBA banks analysis

For the time being WMC requires banks to be the distribution channel for wealth management products. GBA mainland residents can invest in products sold in Hong Kong and Macau through banks in the two SARs, and residents of the two SARs can invest in products sold in the mainland through mainland banks in the GBA. In light of the current market practices in the GBA, participating banks will also act as investment advisers to their WMC customers. This means GBA banks play a gatekeeper role in WMC in addition to their other roles in sourcing and selling of eligible products, as well as processing, recording and reporting of investment transactions. This section is an overview of the banking market in the GBA and discusses those banks with relevant presences and established retail wealth management capability, which are conducive to supporting the launch of WMC.

The GBA has been a major hub for the Chinese financial market over the past decade, with Hong Kong, Guangzhou and Shenzhen as leading financial centers for China. Across the GBA, there are more than 200 banks operating in Guangdong, 164 fully licensed banks set up in Hong Kong and 30 licensed banks set up in Macau as of August 2020. In such a large banking market, there are a good number of banks

with strong presences across the GBA, sizeable bases of affluent depositors and well established distribution capability of wealth management products. They are the most relevant WMC participating banks and better positioned, not only for being able to obtain approval from regulators to join WMC, but also to commence business shortly after joining.

## Profile of banks in Guangdong, Hong Kong and Macau (as of 31 August 2020)

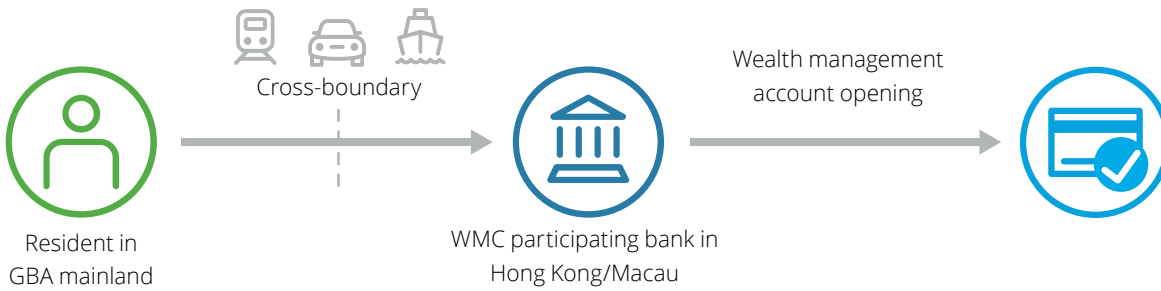


Sources: (1) People's Bank of China Guangzhou Branch. (2020). Report of Financial operations in Guangdong Province. Retrieved from [State Administration of Foreign Exchange](#); (2) Hong Kong Monetary Authority. (2020, August). Register of Als & LROs. Retrieved from [HKMA Regulatory Resources](#); (3) Monetary Authority of Macao. (2020, August). Institutions List. Retrieved from [Monetary Authority of Macao](#)

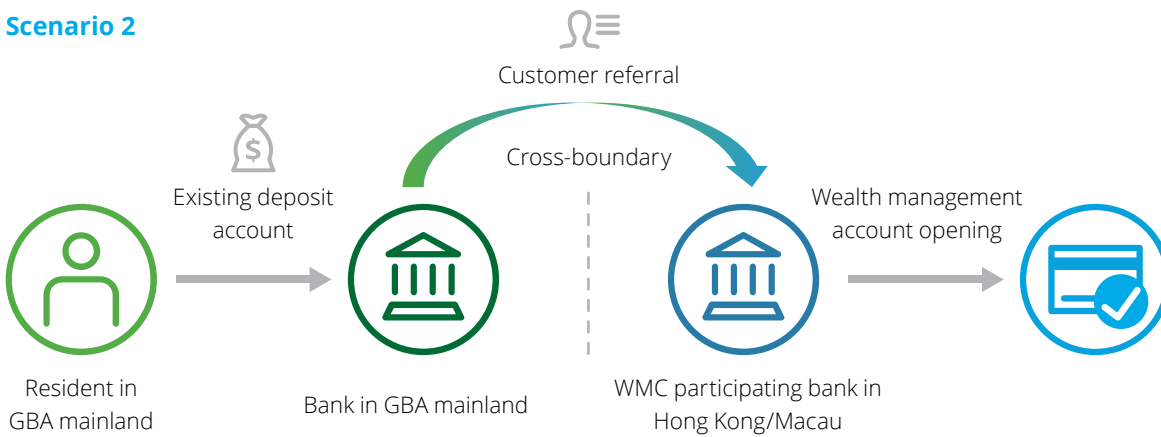
### How WMC might work

For southbound business under WMC, a GBA mainland resident would most likely be able to open a wealth management account with a bank in Hong Kong or Macau in one of the following two scenarios.

#### Scenario 1



#### Scenario 2



The above scenarios will be similarly applicable for northbound business under WMC.

Subject to further details to be announced by regulators, banks with presences in Hong Kong and/or Macau, as well as the GBA mainland, can onboard customers more easily under Scenario 2 through intra-group customer referral.

As Table 1 on the next page shows, there are 21 bank groups with a presence in the two SARs and the GBA mainland, of which 16 are running retail wealth management businesses in Hong Kong and/or Macau as well as the GBA mainland. These bank groups would appear to be better positioned to launch northbound and southbound business under the WMC.

**Table 1: Bank groups with a presence in the two SARs and the GBA mainland (in alphabetical order)**

Hong Kong	Macau	GBA mainland
Agricultural Bank of China Limited Hong Kong Branch	Agricultural Bank of China Limited Macau Branch	Agricultural Bank of China Limited
Ant Bank (Hong Kong) Limited	Ant Bank (Macao) Limited	MYbank (national on-line bank)
Bank of China (Hong Kong) Limited Bank of China Limited Hong Kong Branch Livi Bank Limited	Bank of China Limited Macau Branch Tai Fung Bank Limited	Bank of China Limited
Bank of Communications (Hong Kong) Limited Bank of Communications Co., Ltd Hong Kong Branch	Bank of Communications Co., Ltd. Macau Branch	Bank of Communications Co., Ltd
The Bank of East Asia Limited	The Bank of East Asia Limited Macau Branch	The Bank of East Asia (China) Limited
Bank Sinopac Hong Kong Branch	Bank SinoPac Company Limited Macau Branch	Bank SinoPac (China) Ltd.
China CITIC Bank International Limited	China CITIC Bank International Limited Macau Branch	China CITIC Bank Corporation Limited CITIC Bank International (China) Limited CITIC aiBank Corporation Limited (national on-line bank)
China Construction Bank (Asia) Corporation Limited China Construction Bank Corporation Hong Kong Branch	China Construction Bank Corporation Macau Branch	China Construction Bank Corporation
China Guangfa Bank Co., Ltd Hong Kong Branch	China Guangfa Bank Co., Ltd Macau Branch	China Guangfa Bank Co., Ltd
Chiyu Banking Corporation Limited	Luso International Banking Limited	Xiamen International Bank Co.,Ltd.
Chong Hing Bank Limited	Chong Hing Bank Limited Macau Branch	Chong Hing Bank Limited Guangdong Branch & Shenzhen Branch
Citibank (Hong Kong) Limited Citibank N.A. Hong Kong Branch	Citibank N.A. Macau Branch	Citibank (China) Co., Ltd



Hong Kong	Macau	GBA mainland
CMB Wing Lung Bank Limited China Merchants Bank Co., Ltd. Hong Kong Branch	CMB Wing Lung Bank, Limited Macau Branch	China Merchants Bank Co., Ltd.
Dah Sing Bank Limited	Banco Comercial de Macau, S.A.	Dah Sing Bank (China) Limited
DBS Bank (Hong Kong) Limited DBS Bank Ltd Hong Kong Branch	DBS Bank (Hong Kong) Limited Macau Branch	DBS Bank (China) Limited
Hang Seng Bank, Limited	Hang Seng Bank Limited Macau Branch	Hang Seng Bank (China) Limited
The Hongkong & Shanghai Banking Corporation Limited	The Hongkong & Shanghai Banking Corp. Limited Macau Branch	HSBC Bank (China) Company Limited
Hua Nan Bank Hong Kong Branch	Hua Nan Bank Macau Branch	Hua Nan Bank Shenzhen Branch
Industrial and Commercial Bank of China (Asia) Limited	Industrial and Commercial Bank of China Limited Macau Branch	Industrial and Commercial Bank of China Limited
Industrial and Commercial Bank of China Limited Hong Kong Branch	Industrial and Commercial Bank of China (Macau) Limited	
OCBC Wing Hang Bank Limited	OCBC Wing Hang Bank Limited	OCBC Wing Hang Bank (China) Limited
Standard Chartered Bank (Hong Kong) Limited	Standard Chartered Bank Macau Branch	Standard Chartered Bank (China) Limited
Mox Bank Limited		



There are 35 bank groups with presences in Hong Kong, either as locally incorporated banks or branches of foreign banks, and the GBA mainland that are authorized to carry out RMB banking services (see Table 2 below). Among them, several Chinese banks have substantial retail banking businesses in the GBA mainland, but only a few of them have the same in Hong Kong.

**Table 2: Bank groups with presences in Hong Kong and the GBA mainland (in alphabetical order)**

Hong Kong	GBA mainland
<b>Hong Kong incorporated</b>	
Fubon Bank (Hong Kong) Limited	Fubon Bank (China) Co. Ltd
Fusion Bank Limited	WeBank Co., Ltd. (national on-line bank)
Nanyang Commercial Bank Limited	Nanyang Commercial Bank (China) Limited
<b>Chinese bank groups</b>	
China Bohai Bank Co., Ltd. Hong Kong Branch	China Bohai Bank Co., Ltd.
China Development Bank Corporation Hong Kong Branch	China Development Bank Corporation
China Everbright Bank Co., Ltd. Hong Kong Branch	China Everbright Bank Company Limited
China Minsheng Banking Corp. Ltd. Hong Kong Branch	China Minsheng Banking Corp. Ltd.
China Zheshang bank Co. Ltd. Hong Kong Branch	China Zheshang Bank Co. Ltd
Hua Xia Bank Co., Limited Hong Kong Branch	Hua Xia Bank Co., Limited
Industrial Bank Co., Ltd Hong Kong Branch	Industrial Bank Co., Ltd
Ping An OneConnect Bank (Hong Kong) Limited Ping An Bank Co., Ltd. Hong Kong Branch	Ping An Bank Co., Ltd.
Shanghai Pudong Development Bank Co. Ltd. Hong Kong Branch	Shanghai Pudong Development Bank Co. Ltd.

Hong Kong	GBA mainland
<b>Foreign bank groups</b>	
Australia and New Zealand Banking Group Limited Hong Kong Branch	Australia and New Zealand Bank (China) Company Limited
Bangkok Bank Public Company Limited Hong Kong Branch	Bangkok Bank (China) Company Limited
Bank of Montreal Hong Kong Branch	Bank of Montreal (China) Co. Ltd.
BNP Paribas Hong Kong Branch	BNP Paribas (China) Limited
Cathay United Bank Company, Limited Hong Kong Branch	Cathay United Bank (China) Ltd.
Chang Hwa Commercial Bank Ltd Hong Kong Branch	Chang Hua Commercial Bank, Ltd.
Credit Agricole Corporate and Investment Bank Hong Kong Branch	Credit Agricole Corporate and Investment Bank (China) Limited
Deutsche Bank Aktiengesellschaft Hong Kong Branch	Deutsche Bank (China) Co., Ltd.
E.SUN Commercial Bank Ltd. Hong Kong Branch	E.SUN Bank (China) Company, Ltd.
East West Bank Hong Kong Branch	East West Bank (China) Limited
Industrial Bank of Korea Hong Kong Branch	Industrial Bank of Korea (China) Limited
JPMorgan Chase Bank, National Association Hong Kong Branch	JPMorgan Chase Bank (China) Company Limited
KEB Hana Bank Hong Kong Branch	KEB Hana Bank (China) Company Limited
Kookmin Bank Hong Kong Branch	Kookmin Bank (China) Limited
Mizuho Bank, Ltd, Hong Kong Branch	Mizuho Bank (China), Ltd.
Morgan Stanley Bank Asia Limited	Morgan Stanley Bank International (China) Limited
MUFG Bank, Ltd. Hong Kong Branch	MUFG Bank (China), Ltd.
Shinhan Bank Hong Kong Branch	Shinhan Bank (China) Limited
Societe Generale Hong Kong Branch	Societe Generale (China) Limited
Sumitomo Mitsui Banking Corporation Hong Kong Branch	Sumitomo Mitsui Banking Corporation (China) Limited
UBS AG Hong Kong Branch	UBS (China) Limited
United Overseas Bank Ltd. Hong Kong Branch	United Overseas Bank (China) Limited
Woori Bank Hong Kong Branch	Woori Bank (China) Limited

There are seven licensed banks in Macau not fall under the above categorization. Among them only Banco Nacional Ultramarino, S.A. has opened a branch in Hengqin of Zhuhai.

### **Banks without a presence in the GBA mainland**

Among the remaining Hong Kong branches of foreign banks, i.e. those without a presence in the GBA mainland and not shown in neither Table 1 nor Table 2, about a dozen are market leading wealth managers. They could consider acquiring new customers from the GBA mainland by partnering with one or more of the banks in the GBA mainland under Scenario 2, in addition to walk-in customers as explained in Scenario 1 above.



# Regulatory landscape for investment products

There has been strong interest in further details on the WMC since it was announced on 29 June 2020 by the PBOC, HKMA and AMCM. Both financial institutions and investors have been actively considering opportunities arising from the scheme and are eager to know more.

There is interest in what products will be eligible for the scheme, the criteria for eligible investments and the size of the individual investor quota (which was recently announced to be RMB1 million for either northbound or southbound). For the banking industry, operational details including remote account opening, investment sales compliance requirements, settlement processes and channels for dispute resolution are important areas that require clear guidance from regulators.



## Sales process

In Hong Kong, banks are required to hold a license from the SFC to sell investment products. There are stringent requirements from the HKMA and SFC on investment sales, product suitability and information disclosures. All individual staff who deal with investment products are also required to be licensed by the SFC. Investment products are categorized into complex and non-complex products based on their features<sup>6</sup>.

Banks are obliged to have robust process and internal controls in place to make sure investment products sold to customers suit those customers' risk profiles and investment objectives.

There are also specific requirements governing unsolicited trades, derivatives products, identification and handling of vulnerable customers. The SFC's [Guidelines on Online Distribution and](#)

[Advisory Platforms](#) impose further requirements on order execution, distribution and/or advisory services in respect of investment products sold online.

In the Chinese Mainland, the requirements for the investment sales process, product suitability and information disclosures are set out in the *Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks*<sup>7</sup>, which were issued by the CBIRC and entered into effect in 2018.

The requirements are rules-based and restrict the types of investments and leverage ratio of wealth management products that can be offered by commercial banks. Banks must provide proper training to staff who sell wealth management products, but there are no licensing requirements for the distribution of wealth management products for banks or individuals.

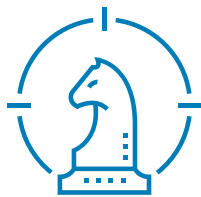
<sup>6</sup> Source: Securities and Futures Commission (September 2020). Non-complex and complex products. Retrieved from [SFC Rules and Standards, Suitability Requirement](#)

<sup>7</sup> Source: People's Republic of China Government website (2018). CBIRC Order No. 6, 2018. Retrieved from [the State Council of the People's Republic of China Announcement No. 35, 2018](#)

In Macau, the AMCM is the only regulatory body governing all types of financial activities including banks, insurance companies and securities trading intermediaries. The sale of investment products in Macau must obtain AMCM approval and they can only be distributed by authorized financial institutions in Macau.

These asymmetric requirements increase the legal and compliance risks of banks operating under the WMC. Many issues require further guidance from regulators, such as whether banks and their staff are required to have SFC licenses and comply with all HKMA and SFC requirements if they promote or advise on Hong Kong-registered investment products.

### Eligibility of investment products



It would appear that regulators will take a prudent approach to determining which investment products will be eligible under the first phase of WMC. This is understandable given that retail investors will be able to participate in the scheme and the complexity of wealth management products varies according to their underlying features. Chinese Mainland, Hong Kong, and Macau investors will need to be apprised of the various risks of their investments under a different regulatory framework.

To ameliorate mis-selling risk, the initial batch of eligible investment products in Hong Kong can reasonably be expected to include "simple" products such as SFC authorized funds<sup>8</sup> and investment funds that do not have complex features.<sup>9</sup>



### Account opening

Another challenge to banks is how they will engage with customers. Under Mainland laws and regulations, a meeting in person is mandatory when opening an investment account. Although a pilot-run on cross-boundary witness account opening of Type II and Type III accounts in the Mainland was launched in 2019, only two Chinese banks are authorized to provide such services. Regulations in Hong Kong and Macau provide some flexibility, but the verification of customer identity using technology is still at an early stage and mainly applicable to Hong Kong and Macau identity card holders.

If there are no streamlined on-boarding measures under WMC, residents in different parts of the GBA might still be required to travel elsewhere to open accounts. Banks that are already offering cross-boundary account opening services through their affiliated or parent banks are clearly in a better position to capture the great opportunities arising from WMC. Some financial institutions in Hong Kong are also exploring technology solutions that enable remote account opening for non-local residents.

<sup>8</sup> SFC authorized funds are funds that are offered to the public in Hong Kong that are subject to prior authorization of the SFC, unless exempted under section 103 of the Securities and Futures Ordinance. Currently, funds authorized by the SFC include (1) plain vanilla funds primarily investing in equities, bonds and/or other funds, (2) specialized schemes including money market funds, unlisted index funds, hedge funds, index tracking exchange traded funds, structured funds, funds that invest extensively in financial derivative instruments, listed open-ended funds, closed-ended funds. Source: [Frequently Asked Questions on the Code on Unit Trusts and Mutual Funds](#)

<sup>9</sup> Examples of non-complex products identified by the SFC include: shares traded on the SEHK; non-complex bonds (including callable bonds without other special features); non-derivative funds authorized by the SFC under the UT Code; SFC-authorized non-derivative ETFs traded on the SEHK; SFC-authorized REITs traded on the SEHK; and any other investment product the SFC may specify from time to time (include shares traded on HKEX, non-complex bonds (bonds without special features) and non-derivative funds).

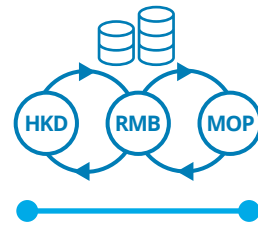
# Get ready to "Connect"

For banks wishing to participate in WMC, it appears that they will need to build and enhance certain functionality, such as customer onboarding, to enable cross-boundary transactions and ensure they comply with additional regulatory requirements.



## Customer onboarding

As mentioned earlier, banks under the GBA's three regulatory regimes require customers to meet face-to-face when opening investment trading accounts. During account opening, banks usually conduct the necessary customer due diligence for risk profiling purposes, in addition to verification of personal details. Some banks have recently adopted technology-enabled cross boundary customer onboarding solutions for their other business lines. If a participating bank is interested in adopting similar cross-boundary customer onboarding, it is vital that it ensures the solutions being considered fully address regulatory requirements on customer due diligence.



## Closed loop currency conversion

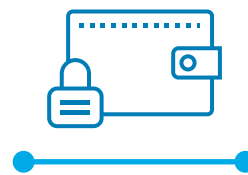
According to WMC implementation details announced so far, currency conversion will take place offshore for both northbound and southbound transactions. If there is no centralized platform designated for performing currency conversion, all potential participating banks in Hong Kong and Macau would be required to perform RMB clearing and conversion for all southbound transactions by customers from the GBA mainland. For northbound transactions, participating banks in the GBA mainland can use the RMB clearing functions of their affiliated banks, or third party banks, in Hong Kong or Macau for customers' transactions there. Banks in Hong Kong and Macau involved in RMB clearing need to ensure they have the workflow and system support required under WMC.





### Separate set of customer accounts

In setting up wealth management accounts for northbound and southbound customers, those accounts must be clearly designated as strictly for WMC purposes only, which would mean only investment transactions, corporate actions and repatriation of funds withdrawn are allowed. For prudency's sake, non-investment related transactions between the WMC account and other accounts of the same customer should be prohibited. GBA mainland banks, meanwhile, might want to validate whether customers from Hong Kong and Macau are allowed to open Type II accounts as WMC investment accounts under PBOC Circular 2015 No. 392 of 25 December 2015, subject to any existing Type I customer accounts these are bundled with.



### Quota limit system

It seems that the reported aggregate investor quota limit of USD45 billion can be allocated to the participating banks based on their target number of WMC customers and projected AUM arising from WMC. The reported individual quota limit of RMB1 million per customer can be adopted by simply setting a cap on the outstanding position of investment holding. However, so far there was no mentioning of whether a customer opening more than one WMC accounts with multiple participating banks is allowed. If allowed, monitoring of individual quota limit could be slightly more complicated by setting up an information sharing platform of WMC customer accounts and the transaction data of duplicate customers among the participating banks.



# Conclusion

WMC is a key initiative that aims to facilitate a high degree of cross-boundary investment activity within the GBA. It is supported by other parallel initiatives, including piloting a new bank account management system for Hong Kong and Macau residents, launching GBA-related investment funds eligible for WMC, promoting the use of RMB offshore and enhancing the breadth and depth of RMB use in Hong Kong and Macau. The initial success of WMC will depend on the following factors:

## **Enormous business opportunities**

The nine GBA mainland cities represent a highly populous, sizeable and vibrant market in which there are several fast growing industry sectors including hi-tech, telecommunication, healthcare and life sciences, new energy and education. Following the recovery of the Chinese economy from COVID-19, wealth creation is returning to its normal level, so southbound service needs will certainly continue to grow. Northbound business streams from Hong Kong and Macau are predicted to be moderate initially, and their growth will be highly dependent on the relative performance of Chinese investment products and those available in northbound investors' home markets.

## **Robust distribution platform**

The requirements and guidelines in the three regulatory regimes obligate banks distributing financial products to run well structured sales processes and sell suitable products to customers. There are 16 bank groups engaged in retail wealth management business across the GBA mainland and the two SARs. In deciding the first batch of participating banks, regulators can consider those that are experienced in wealth management business and capable of complying with cross-boundary regulatory requirements.

## **Transformation of Macau's financial market**

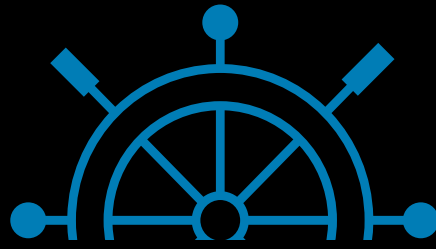
Since 2016 the Macau SAR government has been actively promoting the development of featured financial businesses, including wealth management, financial leasing and RMB clearing, in the hope that Macau will better play its role as the "Financial Service Platform between China and Portuguese-speaking Countries". WMC presents a substantial opportunity for Macau not only to seize wealth management business opportunities from southbound customers but also build its broader financial services capability.



On 15 October 2020, the AMCM and CSRC signed a memorandum on strengthening cross-boundary financial cooperation in the areas of regulatory assistance, information sharing, personnel exchange and training and technical support. The establishment of the cooperation mechanism is conducive to the steady development of Macau's financial industry and can accelerate the implementation of WMC.

### Personal tax incentives

Under the current tax law and regulations, Chinese mainland resident individual investors are generally subject to individual income tax ("IIT") at 20% on investment type of income, including dividend from stocks, interest income from corporate bonds, etc. On the other hand, Hong Kong and Macau resident individual investors may also be subject to Mainland IIT at 20% for income derived from investment in Chinese mainland stocks and bonds, subject to availability of the domestic exemption policies and the applicable tax treaty rates (e.g. 7% on interest and 10% on dividends). In order to promote the cross boundary investment of wealth management products in the GBA, we recommend the Chinese government to consider granting tax exemption policies to income derived by GBA mainland residents from investment in Hong Kong and Macau wealth management products as well as Hong Kong and Macau residents from investment in Chinese mainland wealth management products, which are similar to the previous preferential tax policies granted to Hong Kong and Chinese mainland residents on mutual fund recognition between Mainland and Hong Kong and Shanghai/Shenzhen-Hong Kong stock connect and Mainland China-Hong Kong bond connect.



The successful launch and sustainable development of WMC will serve the broader intent of integrating not only financial markets but also other industry sectors, as well as the entire GBA community. The learning experience of investing cross-boundary via WMC will benefit GBA residents not only through more investment choices but also their overall wellbeing from stronger economic growth in the GBA.



# Deloitte Contacts

## David Wu

**Vice Chairman & Financial Services Industry Leader**

Tel: +8610 8512 5999

Email: davidwjwu@deloitte.com.cn

## Edward Au

**Southern Region Managing Partner**

Tel: +852 2852 1266

Email: edwau@deloitte.com.hk

## Freddie Chui

**Partner, Financial Services Industry Markets & Global Network Leader**

Tel: +852 2852 1046

Email: fchui@deloitte.com.hk

## Martin Wong

**Partner, Financial Services Industry Southern Mainland Leader**

Tel: +86 755 3353 8282

Email: martiwong@deloitte.com.cn

## Robert Lui

**Partner, Government Affairs Leader, Southern Region**

Tel: +852 2852 6324

Email: rolui@deloitte.com.hk

## Sidney Cheng

**Macau Office Managing Partner**

Tel: +853 8898 8898

Email: sidcheng@deloitte.com.mo

## Brian Chan

**Partner, Banking & Capital Markets Leader**

Tel: +852 2531 1828

Email: briantkchan@deloitte.com.hk

## Jennifer Qin

**Partner, Investment Management Leader, Chinese Mainland**

Tel: +86 21 6141 1998

Email: jqin@deloitte.com.cn

## Anthony Lau

**Partner, Investment Management Leader, Hong Kong**

Tel: +852 2852 1082

Email: antlau@deloitte.com.hk

## Ted Ho

**Partner, Assurance & Investment Management**

Tel: +852 2852 6489

Email: teho@deloitte.com.hk

## Paul Sin

**Partner, Fintech Consulting Leader**

Tel: +852 2852 6448

Email: psin@deloitte.com.hk

## Adelide Yeung

**Partner, Regulatory Advisory**

Tel: +852 2238 7778

Email: adeyeung@deloitte.com.hk

## Chris Cheung

**Partner, Financial Crime Compliance Advisory**

Tel: +86 10 8512 5353

Email: chrcheung@deloitte.com.cn

## George Han

**Partner, Financial Services Risk Advisory**

Tel: +86 755 3637 6998

Email: ghan@deloitte.com.cn

# CPA Australia Contacts

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## CPA Australia GBA contacts

### Hong Kong Office

Tel: +852 2891 3312

Email: [hk@cpaaustralia.com.au](mailto:hk@cpaaustralia.com.au)

### Guangzhou Office

Tel: +86 20 8393 0610

Email: [guangzhou@cpaaustralia.com.au](mailto:guangzhou@cpaaustralia.com.au)



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