Seizing success and connectivity in the GBA: Financial Services

CPA AUSTRALIA

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About the study

Polling was conducted in July 2022. A total of 483 responses were received from accounting and finance professionals in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), with 67 per cent located in Hong Kong, 23 per cent in Mainland GBA cities and 10 per cent in Macao.

Valuable insights were collected from 17 regulators, policymakers and business leaders in the banking, financial services and professional services industries.

About CPA Australia

CPA Australia is one of the largest professional accounting bodies in the world, with more than 170,000 members in over 100 countries and regions, including more than 22,200 members in Greater China.

CPA Australia has been operating in Hong Kong since 1955 and opened our Hong Kong office in 1989. CPA Australia has offices in all Australian capital cities, Beijing, Shanghai, Guangzhou, Indonesia, Malaysia, Singapore, Vietnam, New Zealand and the United Kingdom.

Our core services include education, training, technical support and advocacy. CPA Australia provides thought leadership on local, national and international issues affecting the accounting profession and public interest.

We engage with governments, regulators and industries to advocate policies that stimulate sustainable economic growth and have positive business and public outcomes. Find out more at **cpaaustralia.com.au**

Foreword

Paul Chan, GBM, GBS, MH, JP
Financial Secretary
Hong Kong SAR Government

I am pleased to congratulate CPA Australia on the publication of "Seizing Success and Connectivity in the GBA: Financial Services".

The report is based, in part, on interviews with nearly 500 CPA Australia members from cities in the Guangdong-Hong Kong-Macao Greater Bay Area. It follows a number of other CPA Australia publications dedicated to educating its members about the long-term promise of the Greater Bay Area.

The Hong Kong Special Administrative Region (HKSAR) Government is committed to realising that promise – for our economy, our community and our future. I am confident we have what it takes to do so.

This year marks the 25th anniversary of the establishment of HKSAR and the successful implementation of the "One Country, Two Systems" principle that underlies it.

Hong Kong's many advantages, including the rule of law and judicial independence, free flow of capital, internationally aligned regulatory environment and simple and low tax system, are underpinned by our "One Country, Two Systems" framework.

These advantages have long attracted a world of business. And they will continue to do so. As President Xi Jinping noted recently: "The Central Government fully supports Hong Kong in its effort to maintain its distinctive status and edges, to improve its presence as an international financial, shipping and trading centre, to keep its business environment free, open and regulated, and to maintain the common law, so as to expand and facilitate its exchanges with the world."

The singular advantages we enjoy in our deepening economic integration with the Mainland are no less bountiful. The National 14th Five-Year Plan, the Greater Bay Area Development and the Qianhai-Shenzhen-Hong Kong Modern Service Industry Co-operation Zone are creating myriad opportunities for companies and professional-services providers in Hong Kong. Over the long haul, they will allow us to further benefit from the Mainland's remarkable and high-quality development.

That includes the flourishing financial connectivity unique to Hong Kong and the Mainland. Last year, Wealth Management Connect was launched in the Greater Bay Area.

This year alone has seen the enhancement of the listing regime for overseas issuers, as well as the inclusion of exchange-traded funds in Stock Connect and the launch of Swap Connect. These and other cross-boundary financial initiatives only boost Hong Kong's standing as the bridge between our country and the rest of the world.

The cross-boundary pilot trials of fintech projects concurrently in Hong Kong and the Mainland have also proven popular. And the future for green and sustainable finance in Hong Kong is bright. Last year, we achieved record-high volume in green and sustainable debt arranged and issued right here in Hong Kong.

Soaring prospects prompt increasing demand for talent. Rest assured, we are working to give our young professionals the knowledge and skills they need for their career development both in Hong Kong and throughout the Greater Bay Area. That includes the finance and accounting sector.

The HKSAR Government recently sponsored the participation of Hong Kong certified public accountants in the Guangdong-Hong Kong-Macao Young High-end CPA Talent Training Programme.

The scheme will enhance their professional knowledge, expand their practical experience in the Greater Bay Area and encourage professional networking among the Greater Bay Area's accounting sectors. This will increase accounting service capabilities and create opportunities throughout the region.

So, let's seize the opportunities ahead and grow and succeed together in the Greater Bay Area.

Foreword

Tim Lui, SBS, JP

Chairman, Securities and Futures Commission, Hong Kong SAR

Honorary FCPA member of CPA Australia

The rapid development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) presents a new dimension of abundant opportunities for the financial services industry. With a total population of over 86 million and a GDP exceeding US$1.9 trillion in 2021, the GBA is as affluent as the world's ninth-largest economy, Canada, and well above South Korea and Russia.

A premier international financial centre, Hong Kong boasts one distinctive advantage as it serves as an essential gateway connecting global firms and investors with Mainland Chinese capital. Our industry professionals are well-positioned to capture the emerging GBA opportunities.

The further expansion of mutual market access schemes promotes significant growth of Hong Kong's financial sector. The strong response to the new A-share futures contracts launched late last year is another example of where Hong Kong is breaking new ground. This is part of our work at the Securities and Futures Commission (SFC) to further anchor Hong Kong as an offshore renminbi hub and risk management centre, offering international investors with ways to manage their China exposures and hedge the attendant risks.

More recently, the launch of the GBA Wealth Management Connect and the inclusion of ETFs in Stock Connect were key milestones reinforcing Hong Kong's position as a full-service asset management centre. Specifically, Wealth Management Connect offers a new channel for cross-boundary retail investment and addresses the demand for wealth management solutions in Hong Kong from the massive investor base in the GBA.

The SFC is working closely with local and Mainland authorities to consider enhancements such as increasing quotas, expanding the scope of eligible investment products, inviting more participating firms and improving distribution arrangements.

Advancing the GBA development was highlighted in the 14th National Five-Year Plan, which emphasised the need to extend mutual recognition of professional qualifications and mutual market access between the Mainland and Hong Kong. This will provide for timely support needed to broaden the talent pool in the GBA's financial services sector, as was indicated as a priority in this CPA Australia's survey.

Green and sustainable finance is another key development focus for the country. Hong Kong is extremely well-placed to take on a leading role in the global effort to transition the financial system to address the threat of climate change.

On this front, the SFC recognises the disclosure standards proposed by the International Sustainability Standards Board (ISSB) as a comprehensive global baseline which helps ensure useful information will be provided to investors and we are working to embed the ISSB standards into Hong Kong's reporting requirements. A large proportion of Hong Kong-listed companies are Mainland businesses. The adoption of the ISSB standards would serve as an example across the Asian region.

Over the past six decades, CPA Australia has been dedicating tireless efforts to promote professionalism in accounting and drive thought leadership in policy development. This report is another valuable contribution which presents useful perspectives for policymakers and industry professionals to consider.

We look forward to more opportunities where market leaders join hands to provide insights to strengthen Hong Kong's competitiveness in supporting the wider GBA development.

Message from CPA Australia's divisional president of Greater China

Eden Wong FCPA (Aust.)

2022 Divisional President of Greater China

Chair of the Financial Services Committee of CPA Australia

Founder and Chairman of VIIPARK Financial Group

The deepening of cooperation between Guangdong, Hong Kong and Macao through the Greater Bay Area (GBA) plan is expected to deliver many benefits to the business community in and outside the region.

As one of the most important global financial hubs, the GBA is well-positioned to support the opening-up of China's financial markets and the internationalisation of the Renminbi (RMB).

The GBA comprises 11 cities, including:

- Hong Kong – a well-established international financial centre
- Shenzhen – home to some of the world's leading innovation and technology companies
- Guangzhou – with a very long history as one of the world's most dynamic global trading centres
- Macao – serving as a bridge between China and Portuguese Speaking Countries (PSCs)

The remaining cities in the GBA are all global leaders in particular industries. When combining all 11 cities, the GBA forms one of the world's wealthiest megalopolises with the highest concentration of high-net-worth individuals. This creates significant demand for wealth management services.

Not only does 2022 mark the fifth anniversary of the announcement of the GBA initiative, it's also the 25th anniversary of the establishment of the Hong Kong Special Administrative Region. Hong Kong is renowned for its robust financial and legal systems, both of which are critical to attract foreign investors and companies.

The GBA allows Hong Kong to build on those systems by improving its financial connectivity and integration with the rest of the GBA cities.

I am confident that Hong Kong will mature and continue to play a key role as a global offshore RMB hub that enables foreign capital to flow into the other GBA cities. Hong Kong will also be that connecting point for Mainland companies to gain access to and connectivity with global markets.

CPA Australia recently polled financial and accounting professionals living and working in the GBA to better understand how businesses view the potential it holds for their business. The study also includes interviews with subject matter experts in the areas of financial services, interconnectivity and the green economy.

Policymakers, regulators and business leaders who will help shape the GBA and its impact on China and the global economy have also added their views on the GBA.

On behalf of CPA Australia, I am grateful to our members, the business community, the policymakers and many business leaders who have generously offered their time and thought leadership into this report. We hope that this report will offer new perspectives on the GBA.

This report builds upon our previous research on the GBA. We believe this latest addition will show the transformation and growth of the GBA over the years and enable readers to attain a clearer and more holistic view on the future of the GBA.

Executive summary

The promulgation of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area in February 2019 marked the launch of the development strategy for the GBA. The GBA is formed by two special administrative regions, Hong Kong and Macao, and nine mainland cities, Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing.

The GBA population in 2021 was over 86 million and its GDP was around US$1.96 trillion – equivalent to Canada, the world's ninth largest economy.[1]

According to the Hurun Wealth Report 2021 there were around 446,130 wealthy families with more than RMB6 million (around US$0.9 million) in investable assets in Guangdong, Hong Kong and Macao.[2]

Their aggregate estimated investable assets have reached at least HK$3.2 trillion (around US$415 billion) in 2021, making the region the wealthiest megalopolis in the world, offering unprecedented opportunities to financial services firms, banks and investors.

Table 1. Major economic indicators of the GBA

2021	Population (million)	GDP (US$ billion)*^	Per capita GDP(US$)*^
Guangdong-Hong Kong-Macao Greater Bay Area	86.7	1,958.1	22,585
Hong Kong	7.4	369.1	49,375
Macao	0.7	30.0	43,773
Guangzhou	18.8	437.6	23,307
Shenzhen	17.7	475.3	26,918
Foshan	9.6	188.4	19,602
Dongguan	10.5	168.3	16,009
Huizhou	6.1	77.2	12,728
Zhongshan	4.5	55.3	12,425
Jiangmen	4.8	55.8	11,582
Zhuhai	2.5	60.2	24,392
Zhaoqing	4.1	41.1	9,962

Notes: *At current market prices. ^Converted with the yearly average exchange rates and applied in the whole report. US$1 = HK$7.80, US$1 = RMB6.45 (2021), US$1 = MOP8.00 (2021).

Sources: Census and Statistics Department of Hong Kong, Statistics and Census Service of Macao, Statistics Bureau of the relevant Mainland GBA cities.

[1]World Bank Data (2021)

[2]Yi Tsai and Hurun (2022) **Yi Tsai · Hurun China Wealth Report 2021**

As early as in 2015, the China (Guangdong) Pilot Free Trade Zone (Guangdong FTZ) was formally established to embrace Hong Kong and Macao to serve the mainland and open up to the world. This includes Nansha in Guangzhou, Qianhai in Shenzhen and Hengqin in Zhuhai. Over the years, the Guangdong FTZ has made significant efforts deepening Guangdong-Hong Kong-Macao cooperation and creating new advantages in international economic cooperation.

The past few years have seen a number of new strategic initiatives in the GBA financial services sector, marking an ever-greater integration between Guangdong, Hong Kong and Macao. These policies include the long-awaited Wealth Management Connect, Bond Connect and ETF Connect.

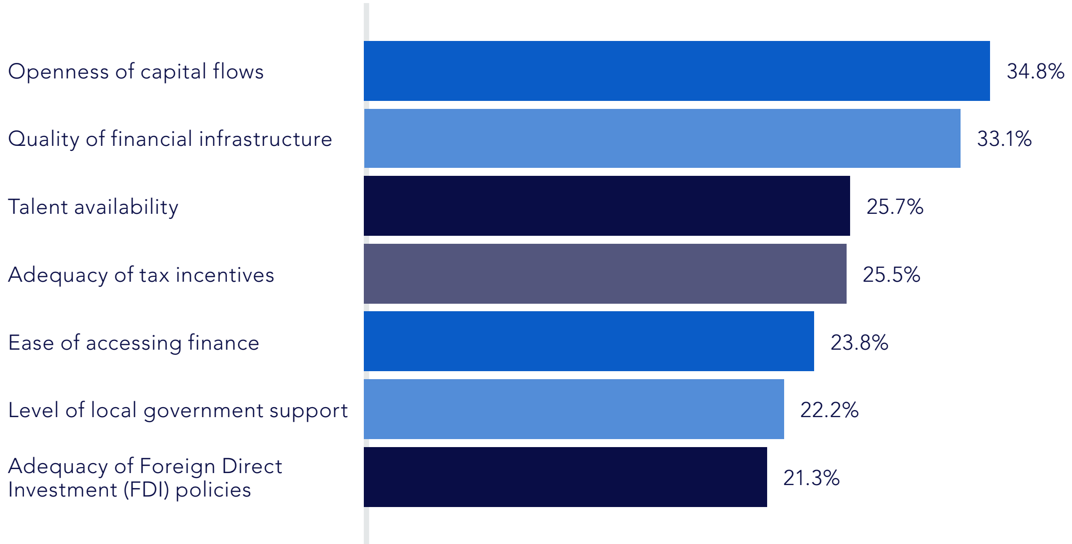
To gauge the latest business opinions on the opportunities and areas for improvement in the financial services sector within the region, CPA Australia conducted a poll of 483 GBA financial and accounting professionals (CPA Australia members) in July 2022. We also collected valuable insights on the GBA from 17 regulators, policymakers and business leaders.

Based on the results of the poll and insights from the 17 contributors, this report identifies seven key areas that will influence the development of the GBA's financial services sector in the next five years:

- **Openness of capital flow** is key to the success for the GBA's financial services sector.
- **Talent attraction and development** is the area most in need of further policy support.
- **Corporate investment** in the GBA will grow in the next five years.
- **Corporate involvement in green finance-related projects** in the GBA will grow in the next five years.
- **Innovations in digital payment** will most likely enhance financial connectivity in the GBA.
- **Expanding mutual recognition of professional qualifications** is imperative to enhance talent mobility.
- **Closer collaboration** between cities, financial institutions, policymakers and corporates. Combining each cities' characteristics and strengths through collaboration, will help the GBA achieve its full potential.

Overall, our surveyed members are optimistic about the development prospects of the GBA. More than two-thirds expect their company's investment in other GBA cities to increase in the next five years. A large proportion of respondents also agreed that the free flow of capital is a key advantage of the GBA.

Figure 1. What factors will contribute most to the success of the GBA's financial services sector in the next five years

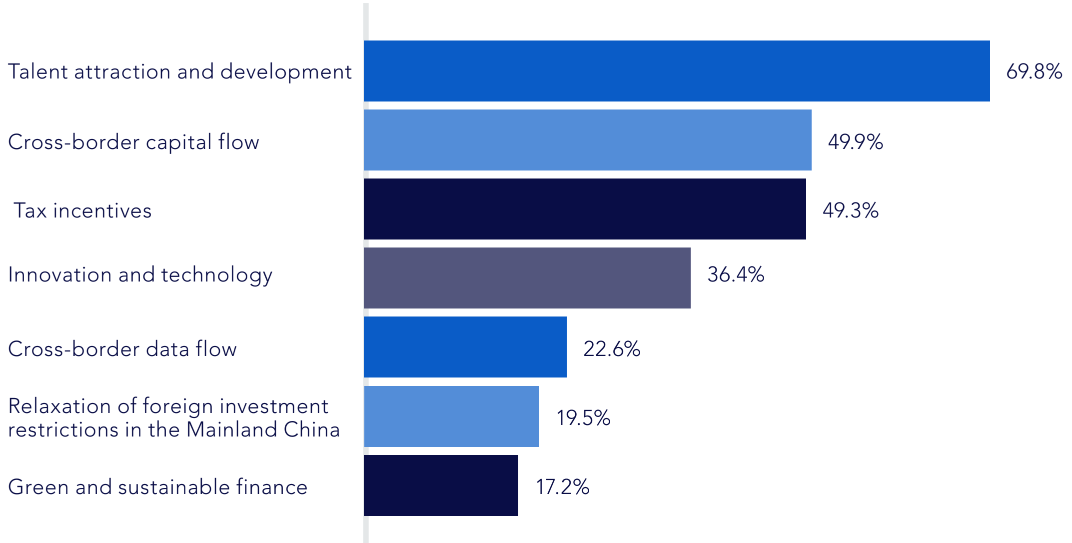


Source: CPA Australia.

However, many also agreed that to forge closer collaboration in the financial services sector, more should be done to buttress existing advantages, remove cross-border hindrances and address differences in regulatory regimes.

Nearly 70 per cent hope for more policy support to attract and retain talent, while half would like to see further policy support to facilitate cross-border capital flow and to introduce more tax incentives.

Figure 2. Areas that are the most in need of policy support to drive success in the GBA's financial sector in the next five years



Source: CPA Australia.

Overall, the GBA initiative has experienced rapid development since its launch. Stakeholders interviewed for this report believe it provides ample business opportunities and anticipate that the region will continue to thrive over the coming years. The key areas highlighted in this report are by no means the only opportunities. CPA Australia and other key stakeholders look forward to further policy support and cooperation between regulators, policymakers and business leaders to drive the GBA's future development and further integration of the region.

Recommendations

To governments/policymakers:

Cross-border capital

- Relax eligibility criteria for cross-border cash pooling
- Further loosen foreign exchange control within the GBA and expand product variety under the Wealth Management Connect Scheme
- Build an interconnected payment and clearing system or allow Faster Payment System for cross-border payments
- Harmonise financial regulations and practices across jurisdictions within the GBA.

Green and Sustainable Finance

- Launch pilot programs for foreign-currency carbon trading in the GBA
- Establish a GBA unified carbon market
- Encourage Government to provide more incentives for green financial products
- Establish unified GBA standards for carbon labelling and reporting

Technology

- Expedite the release of detailed policies on cross-boundary data sharing in the GBA and consider implementing a pilot to help formulate an appropriate cross-boundary data management mechanism
- Further strengthen cross-boundary collaboration between research institutions, academics, companies and public sector organisations. For example, create a GBA-wide innovation and technology networking platform

Talent

- Expand the scope of mutual recognition of professional qualifications between Hong Kong, Macao and the Mainland GBA cities
- Expand the scope of the one-way international professional qualification recognition catalogue in the Mainland GBA cities
- Streamline tax filing arrangements in the three tax jurisdictions to avoid double taxation and reduce tax compliance costs
- Streamline boundary crossing rules within the GBA and extend exemption of work permits for overseas talent

To businesses/individuals:

- Financial services providers to offer tailored products based on the different needs of cross-border customers
- Conduct an internal compliance audit regularly to assess levels of compliance and identify the potential gaps between existing practices and new requirements
- Study thoroughly the incentive policies in different GBA cities before selecting an expansion location
- Consult a tax advisor for professional advice if uncertain about tax incentives, tax requirements and conditions in different GBA cities
- Keep abreast of FinTech trends and consider increasing the adoption of digital payment technologies
- Enhance knowledge of sustainability, green finance and carbon trading to be well prepared for shifts in market expectations.
- Enhance in-house capabilities by delivering training programs, seeking external expert support or securing top talent

In the following chapters, the report examines in-depth the financial services sector from four major perspectives, namely cross-border capital, green and sustainable finance, technology innovations and talent.

We identify the latest trends, areas for improvement and future opportunities across the GBA.

Chapter one

Facilitating cross-border capital flow

In 2018, CPA Australia reported that 61 per cent of accounting and finance professionals thought that "making payment transfers across the borders of the GBA easier" was a key factor to the success of the GBA.[3]

Over the years, government and regulators have implemented reforms to facilitate cross-border capital flow (see Figure 3). Yet, according to our members, there is still more to be done. Our 2022 member poll found that 50 per cent see "improving cross-border capital flow" as one of the areas most in need of further policy support to drive financial connectivity in the GBA in the next five years.

Since the launch of the offshore Renminbi (RMB) business in 2004 and a pilot scheme for RMB trade settlement, the channels for the use of RMB in cross-border transactions with Mainland China have expanded significantly, with Hong Kong being the world's largest offshore RMB clearing centre. According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), Hong Kong now handles about 76 per cent of the world's RMB payments.[4]

In recent years, China has taken diverse actions to further loosen capital controls and open-up its financial market, as a result the RMB is more widely used. SWIFT data shows that the RMB is currently the fifth most active currency.[5]

The inclusion of the RMB into the International Monetary Fund's Special Drawing Rights Basket in 2016 is a key milestone. The RMB is now acting as a means of increasing liquidity levels in the global economy in times of shortage.

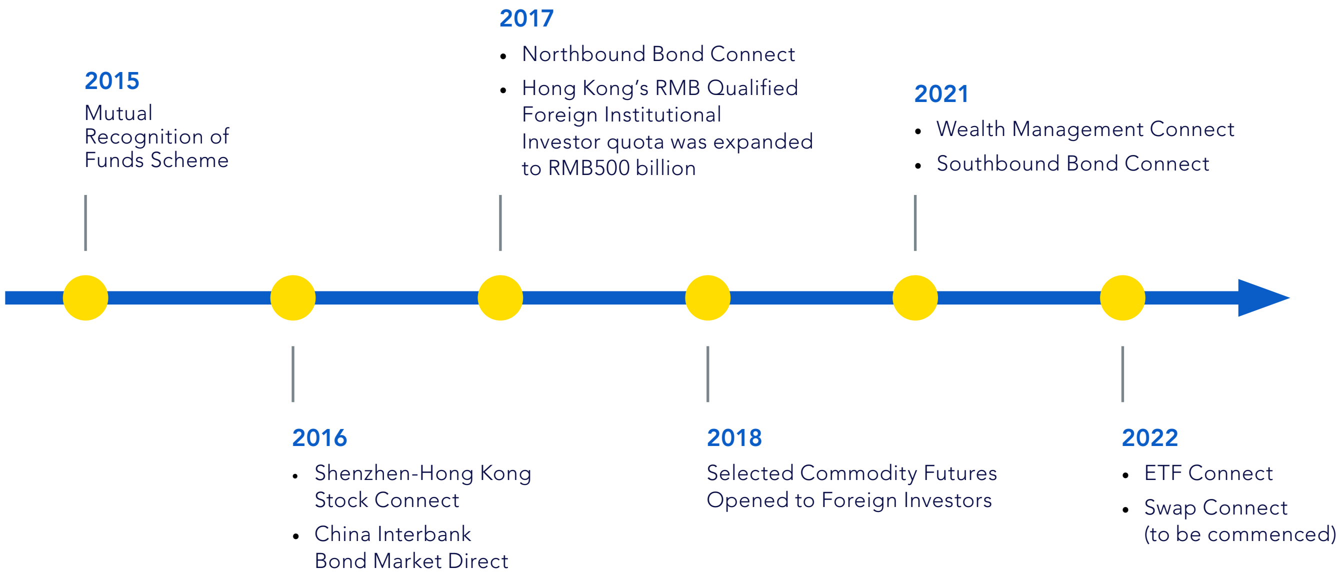
The People's Bank of China (PBoC) has also implemented several initiatives to further facilitate the flow of capital in to and out of China, with a significant portion of these activities carried out in the GBA. We will dive into the state of progress of these initiatives in this chapter.

[3]CPA Australia (2018) **Greater Bay Area Initiative: Factors Important to its Success**

[4]SWIFT (2021) **RMB tracker**

[5]Ibid.

Figure 3. Initiatives on Facilitating Cross-border Capital Flow



Sources: Securities and Futures Commission, Hong Kong Monetary Authority, Hong Kong Exchanges and Clearing Limited.

Rising demand for cross-border investments

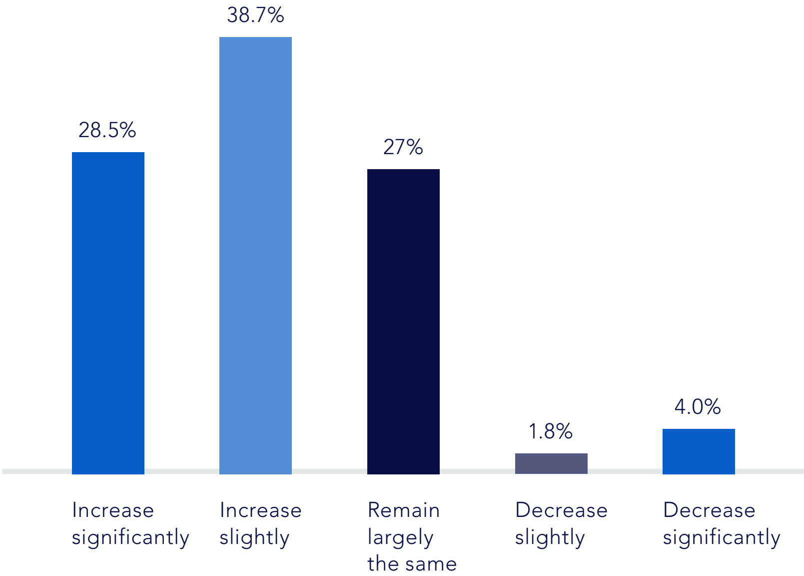
Demand for cross-boundary investment and capital flows has soared. In 2020, China recorded net foreign direct investment inflows of US$253 billion and a net outflow of US$154 billion.[6]

Many companies are looking at how to best position themselves to take advantage of the opportunities the GBA offers.

Our polling results confirm the strong investment intentions across the region, with over 67 per cent of respondents expecting their company's investment in other GBA cities to increase in the next five years. Nearly one-third anticipate a significant increase.

[6]World Bank (2020) **Foreign direct investment, net inflows data; Foreign direct investment, net outflows**

Figure 4. Companies' investment plans for other GBA cities in the next five years



Source: CPA Australia.

In recent years, a few major initiatives deepened mutual access between the financial markets of the Mainland, Macao and Hong Kong.

These include the Shenzhen-Hong Kong Stock Connect, Bond Connect, Mutual Recognition of Funds (MRF) Scheme and the Cross-boundary Wealth Management Connect (WMC) (see Table 2).

Table 2. Key initiatives facilitating cross-border capital flow

Shenzhen-Hong Kong Stock Connect	Since its launch, Northbound Trading of Shenzhen-Hong Kong and Shanghai-Hong Kong Stock Connect recorded a net capital inflow of more than RMB1.6 trillion (around US$248 billion) to the Mainland stock market. The Southbound Trading of Shenzhen-Hong Kong and Shanghai-Hong Kong Stock Connect has recorded a net capital inflow of more than HK$2.3 trillion (around US$295 billion) to the Hong Kong stock market.[7] The average daily southbound and northbound turnover of the Shenzhen-Hong Kong Stock Connect reached HK$22 billion (around US$2.8 billion) and RMB65 billion (around US$10 billion) respectively in 2021. This is a 91 per cent and 25 per cent increase respectively compared with 2020.[8]
Bond Connect	Total volume of Northbound Trading reached RMB6.5 trillion (around US$1 trillion) in 2021, an increase of more than 34 per cent compared with 2020. The average daily turnover reached RMB27 billion (around US$4.2 billion).[9]
ETF Connect	Launched in July 2022, the turnover of the northbound ETF Connect reached more than RMB396 million (around US$61 million) in its first month. The turnover of the southbound ETF Connect was more than HK$4 billion (around US$550 million).[10]
MRF	The cumulated net remittance for the issuance and sales of Hong Kong funds in the Mainland amounted to more than RMB14 billion (around US$2 billion), as at end-December 2021. The cumulated net remittance from the issuance and sales of Mainland funds in Hong Kong was around RMB1 billion (around US$155 million).[11]
WMC	Over 22,000 investors had participated in the scheme by the end of 2021. Over 5000 remittances totalling RMB400 million (around US$62 million) across the Mainland, Hong Kong and Macao have been recorded.[12]

[7]Hong Kong SAR Government (2022) **HKSAR Government welcomes implementation of ETF Connect**

[8]Hong Kong SAR Government (2022) **SFST's speech at 19th Annual Asia Pacific Investor Conference**

[9]Hong Kong Exchanges and Clearing Limited (2021) **Annual market statistics**

[10]Hong Kong Exchanges and Clearing Limited (2022) **Historical monthly statistics**

[11]State Administration of Foreign Exchange (2022) **Inward and outward remittance of Hong Kong funds issued in the Mainland and Mainland funds issued in Hong Kong** (Chinese only)

[12]Hong Kong SAR Government (2022) **HK's renminbi hub being reinforced**

Stock Connect, Bond Connect and ETF Connect

With the launch of the Shenzhen-Hong Kong Stock Connect in 2016, Hong Kong and international investors can directly invest in eligible shares listed on the Shenzhen Stock Exchange (SZSE). Mainland investors can directly invest in eligible shares listed on the Hong Kong Stock Exchange. The Northbound daily quota is set at RMB52 billion (around US$8 billion) for Shenzhen Connect and the Southbound daily quota is set at RMB42 billion (around US$7 billion). The direct linkage between the Hong Kong and Shenzhen capital markets represents a popular channel for cross-border capital flows and the circulation of the RMB.

The Stock Connect has seen sustained volume growth over the years. Hong Kong investors traded securities worth RMB28 trillion (around US$4 trillion) in Mainland China in 2021, up 31 per cent from the previous year. The turnover of Mainland investors trading in the Hong Kong market rose 70 per cent to reach HK$9.3 trillion (around US$1.2 trillion) in 2021. On 4 July 2022, Stock Connect expanded to include eligible exchange-traded funds (ETFs), allowing Hong Kong and foreign investors to trade ETFs listed on the SZSE and those from Mainland to invest in Hong Kong-listed ETFs. The inclusion of ETFs under Stock Connect promotes the further opening-up of the Mainland financial market and, at the same time, offers more diverse asset allocation choices to Mainland and overseas investors.

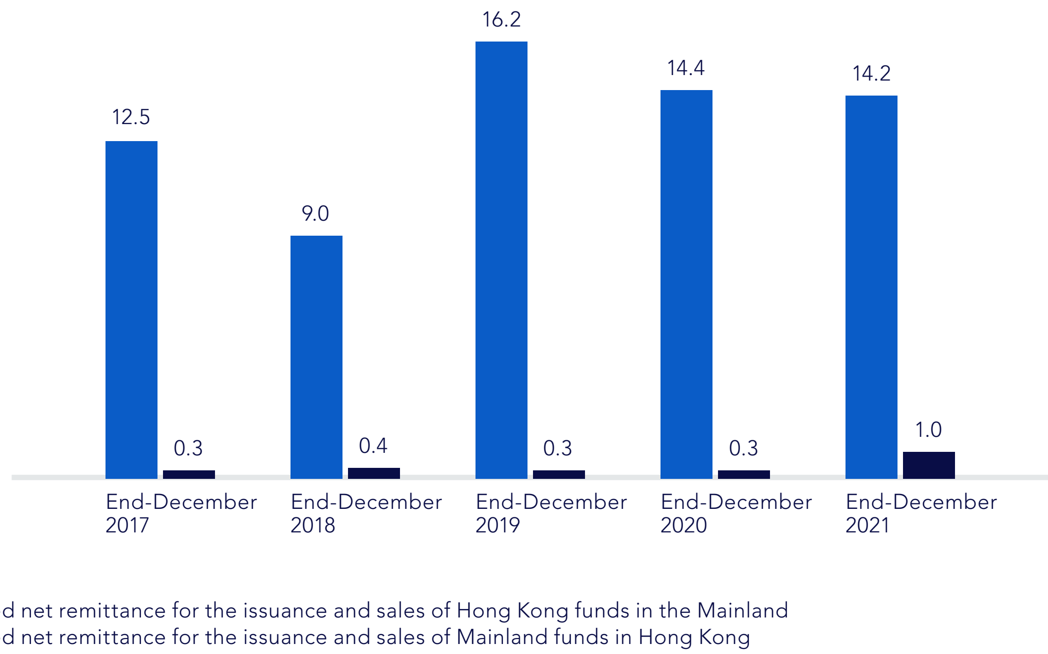
Similar to the Stock Connect, Northbound Trading under Bond Connect commenced in July 2017, allowing eligible overseas investors to invest in the Mainland's interbank bond market. Southbound Trading commenced in September 2021, allowing Mainland investors to invest in Hong Kong's bond market. Bond Connect also shows steady growth with total Northbound trading volume reaching RMB6.5 trillion (around US$1 trillion) in 2021.

Mutual Recognition of Funds (MRF) Scheme

Jointly implemented by the China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission (SFC) in 2015, the MRF allows eligible Mainland and Hong Kong funds to be distributed in each other's markets through a streamlined vetting process. Hong Kong funds sold in the Mainland have gained much traction over the years.

Yet, demand from the Mainland for Hong Kong or overseas assets is much higher than Hong Kong's demand for Mainland assets. According to the State Administration of Foreign Exchange (SAFE), the cumulated net remittance for the issuance and sales of Hong Kong funds in the Mainland amounted to more than RMB14 billion (around US$2 billion), while the cumulated net remittance from the issuance and sales of Mainland funds in Hong Kong amounted to around RMB1 billion (around US$155 million) as at the end of 2021.

Figure 5. Cumulated net remittances for the cross-border issuance and sales of Mainland and Hong Kong securities investment funds (RMB billion)



Source: State Administration of Foreign Exchange.

Wealth Management Connect Scheme

The WMC is a key measure for promoting an integrated financial services market within the GBA. Launched in September 2021, the scheme allows eligible Hong Kong and Macao residents to purchase onshore wealth management products sold by Mainland Chinese banks, while Mainland GBA residents can invest in products sold by Hong Kong and Macao banks via designated channels.

For the Southbound Scheme and Northbound Scheme, there is an aggregate quota of RMB150 billion (US$23 billion) in each direction and an individual investor quota of RMB1 million (US$155,000).

By the end of 2021, over 22,000 individual investors have participated in the WMC since its launch. Cross-boundary fund remittances (including Hong Kong and Macao) totalled over RMB400 million (around US$62 million).

According to the PBoC, Mainland investment products held by Hong Kong and Macao investors under WMC stood at around RMB204 million (US$32 million) while offshore investment products held by Mainland investors under the WMC stood at around RMB118 million (US$18 million), as of February 2022.[13]

Eligible Mainland investors can now open an investment bank account with Hong Kong banks remotely by attestation. Meanwhile, the HKMA is also exploring with Mainland regulatory authorities allowing Hong Kong investors to remotely open Mainland investment accounts.

[13]Hong Kong SAR Government (2022) **LCQ7: Cross-boundary Wealth Management Connect Scheme in Guangdong-Hong Kong-Macao Greater Bay Area**

Suggested ways to capture opportunities in the GBA

Develop a clear GBA strategy

To make the most out of the mutual market access schemes, banks and financial services providers in the GBA should understand the characteristics and the appeal of the cross-border products and services.

Offering tailored products based on the diverse needs of the cross-border customer can often boost customer satisfaction and drive higher sales. A clear GBA strategy is important to leverage the benefits from the GBA.

Seek advice to keep up to date with changing regulation

We understand that frequent regulatory changes can make it difficult for a financial product to fit within the regulatory framework of the GBA. We suggest that firms conduct regular internal audits to assess their compliance with their regulatory regimes. Keeping up to date can be complex, therefore seeking professional advice can help businesses navigate the difficult environment and respond quickly to change.

Learn more about government support available to business

Companies are advised to study the tax incentives and other support that different GBA cities offer before selecting an expansion location. For example, foreign investment in the Guangdong Cooperation Zone is subject to pre-establishment national treatment affording foreign investors and their investments treatment no less favourable than that granted to domestic investors and their investments during the investment access stage; the negative list which delineates industries where foreign investments are prohibited or restricted, as well as a series of tax incentives, including a reduced Corporate Income Tax (CIT) rate.

At present, qualified enterprises engaged in encouraged industries in Hengqin and Qianhai can enjoy a reduced CIT rate of 15 per cent, which is lower than the national general level of 25 per cent. It’s strongly recommended that companies self-assess whether its main businesses fit into the definition of an encouraged industry. If they do fit into this definition, the company’s main businesses must further account for at least 60 per cent of their total revenue to be eligible for the policy. The table below describes in detail the existing CIT policy in the Guangdong cooperation zones.

Table 3. Corporate income tax policies in the Guangdong Cooperation Zones

	Preferential Corporate Income Tax	Eligible financial services-related sectors
Hengqin	• A reduced rate of 15 per cent on eligible enterprises • CIT exemption on income from new overseas direct investment • One-time pre-tax deduction or accelerated depreciation and amortisation for capital expenditures	• Information services • Management consulting • Legal, accounting, taxation services • Asset appraisal and inspection services • Credit investigation and rating and other credit services • Modern finance-related services, including: - Services enhancing the infrastructure of the two-way opening of cross-border investment and financing - Small loan services for agriculture, rural areas and farmers, small and micro enterprise owners, and individual industrial and commercial proprietorship - R&D, application and service exporters of technological products which are approved and regulated by relevant financial regulatory departments - Services enhancing the green finance infrastructure - Operational services in Chinese medicine, intellectual property, commodities and financial assets exchange - Services enhancing the RMB cross-border trade settlement system
Qianhai	• A reduced rate of 15 per cent on eligible enterprises	• Information services • Management consulting • Legal services • Accounting, taxation and asset appraisal services • Credit investigation and rating and other credit services
Nansha	• According to the Master Plan released on 14 June 2022, Nansha is working towards the implementation of a CIT preferential policies at a reduced rate of 15 per cent on eligible enterprises.	• To be released

Sources: Department of Finance of Guangdong Province, Guangdong Provincial Tax Bureau, Authority of Qianhai, State Council.

Recommendations

Further loosen foreign exchange controls within the GBA and relax eligibility criteria for cross-border cash pooling

Many companies are pleased to see China's liberalisations of controls on foreign exchange and foreign currency remittance, for example the implementation of the new measures listed in the Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macao Greater Bay Area. Yet, many expressed the need to further loosen cross-border capital flows.

For example, authorities could consider implementing a pilot scheme to allow specified funding-pools that target one-way capital flows such as profit distribution, or long-term investment funding such as capital injection. This could provide more flexibility to companies in terms of the use of funds and attract more foreign companies to expand their investment into the Mainland.

At present, the total business income of MNC's domestic member enterprises for RMB cash pooling is no less than RMB1 billion (around US$155 million) a year, and no less than RMB200 million (around US$31 million) for overseas member enterprises.[14] Meanwhile, for multi-currency cash pooling, total scale of RMB and foreign currencies flow of all domestic member companies must exceed US$100 million a year.[15]

The financial criteria of entering the pool could be lowered so that more companies can better centralise and manage their funds. Authorities could consider creating a white-list system for domestic and foreign companies with good creditworthiness and stable long-term operations. This would help better distinguish between speculative companies and equity firms operating with long-term investment horizons/funds.

Expand the range of eligible products under WMC

To further facilitate cross-border capital flow, it is worth considering policy relaxations, expanding the range of eligible products and quota under the WMC, and more proactive sales and marketing to both Northbound and Southbound eligible customers.

Build an interconnected payment and clearing system or allow Faster Payment System (FPS) for cross-border payments

Cross-border payments and settlement are the engine enabling trade and investment. However, a real-time and stable cross-boundary payment and clearing payment system has yet to be constructed in the GBA. Building an interconnected GBA payment and clearing system as well as exploring the possibility of using Hong Kong's FPS for cross-border payments are two potential ways to achieve real-time, stable and low-cost cross-border payments in the GBA.

Harmonise financial regulations and practices between the three jurisdictions

Since banking regulations in Hong Kong, Macao and the Mainland are different, companies conducting business in the GBA need to open at least two bank accounts, a Hong Kong or Macao bank account and a Mainland China bank account, to move their funds across different jurisdictions. The process of opening a capital account or applying for FDI registration may take a significant period as many of the account opening or fund remittance process would require approval from the PBoC as well as regulators in Hong Kong and Macao. Promulgating a set of unified standards of best practices applicable to the GBA or formulating a mutually recognised GBA regulatory framework could streamline these administrative processes and enhance financial integration in the GBA.

[14] People's Bank of China (2015) **Circular on Further Facilitating Cross-border Bilateral Renminbi Capital Pooling by a Transnational Group Company** (Chinese only)

[15] State Administration of Foreign Exchange (2019) **Notice on the Centralised Operation of the Cross-Border Funds of Multinational Companies** (Chinese only)

Eddie Yue, JP

Chief Executive of the Hong Kong Monetary Authority

Hong Kong is a leading international financial centre and the gateway to China. It is uniquely placed to help global investors and market players capture investment opportunities in the Mainland. The thriving Guangdong-Hong Kong-Macao Greater Bay Area (GBA) brings a new, exciting dimension to Hong Kong's value proposition.

Supported by continued economic growth, solid fundamentals and deepening integration with the global financial markets, China has become a compelling investment theme for global investors. Meanwhile, the creation and accumulation of wealth by Mainland corporates and households has fuelled strong demand for diversified investments beyond domestic assets.

In the GBA context, increased regional integration has fostered cross-boundary flows of people, goods, capital and information. This is generating vast opportunities for the financial and banking sectors in Hong Kong. In recent years, there have been significant developments in cross-boundary payments, banking services, FinTech and green finance that bring more efficient and innovative financial products and services to businesses and individuals.

The Cross-boundary Wealth Management Connect (WMC) launched last year is a prominent milestone, emancipating enormous potential for the regional wealth management business. The HKMA will continue to work closely with the industry and fellow regulators to further enhance the efficiency of cross-boundary flows of funds and information.

An equally promising prospect is the continued growth of Hong Kong offshore renminbi (RMB) business. We have witnessed growing cross-boundary capital flows and increasing use of RMB in international trade as well as financial investments in recent years. Hong Kong has been the ideal platform for this purpose, thanks to our mature and resilient financial markets, robust legal and regulatory regimes, deep talent pool and internationally aligned market practices.

In collaboration with the Mainland authorities, we have been constantly expanding the policy headroom to support offshore RMB business. For example, the rollout of various Connect schemes over the years has enabled cross-boundary investment flow between the Mainland and Hong Kong financial markets efficiently and reliably.

This and other initiatives have firmly reinforced Hong Kong's leadership in offshore RMB business in terms of the largest offshore liquidity pool, the most efficient market and infrastructure and unparalleled access channels to the Mainland capital markets.

Looking ahead, RMB internationalisation and GBA developments will serve as two new growth areas for Hong Kong's financial sector. The HKMA will collaborate with the industry and our Mainland counterparts to strengthen Hong Kong's RMB platform function through enhanced liquidity, product offerings and infrastructure.

Through closer coordination with fellow Mainland regulators and policy innovation we will continue to tackle the pain points in the provision of cross-boundary financial services with a view to better serving the real economy and households.

Our work to enable Hong Kong's financial services to stay ahead and competitive is an ongoing effort. This is a task that calls for joint efforts. We look forward to the continued support from the local and international financial communities and professional bodies including CPA Australia.

Tenghui Chi

Acting Director of Financial Development Bureau in Guangdong-Macao In-Depth Cooperation Zone in Hengqin

On September 17th, 2021, the Guangdong-Macao In-Depth Cooperation Zone in Hengqin officially commenced, setting up a new collaboration and communication mechanism between Guangdong and Macao for the zone's management, making an effort to boost Macao's appropriate economic diversification. The General Plan for Construction of the Guangdong-Macao In-Depth Cooperation Zone in Hengqin has established the strategic framework to promote modern finance and to innovate cross-border financial management in Hengqin.

In the past year, Hengqin has launched measures to support companies issuing corporate bonds in Macao, as well as actively promoted the Qualified Foreign Limited Partnership and Qualified Domestic Investment Partnership pilot programs.

Meanwhile, Hengqin is proposing measures to boost financial industry, to support listing enterprises and to facilitate SME financing. Hengqin has achieved an integration of traditional and modern finance, with more than 700 enterprises from 20 different sub-sectors in the financial service sector, such as banking, insurance, public funds and private equity funds.

Assets under management in Hengqin have reached over RMB4.6 trillion. It is reported that the financial regulatory authorities of China will release more policies to support the development of Hengqin, including constructing an electronic fence system for funds.

This will create an account system that is highly compatible with the financial regulations of Hong Kong and Macao, in order to facilitate a convenient flow of cross-border funds. In addition, the Ministry of Finance and the State Taxation Administration have announced preferential policies of 15 per cent income tax rate for qualified enterprises and individuals in Hengqin.

Looking ahead, Hengqin will make good use of various preferential policies, take the lead in building a highly open financial market, strengthen the linkage with the offshore financial markets in Macao and Hong Kong, promote the financial integration of Hengqin and Macao.

Furthermore, Hengqin will cooperate with Macao to build Sino-Portuguese Financial Service Platform and Green Finance Platform, to develop wealth management, bond market and financial leasing, and will actively carry out cross-border RMB settlement business.

Meanwhile, Hengqin will steadily expand the scope of cross-border asset transaction, advance the Cross-boundary Wealth Management Connect Scheme and will actively participate in the interconnection of financial markets in the GBA.

Adam Kwok, SBS

Standing Committee Member of the All-China Youth Federation

Standing Committee Member of the Guangdong Provincial Committee of the Chinese People Political Consultative Conference

Executive Director of Sun Hung Kai Properties Limited

The development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) has created enormous opportunities for Hong Kong companies and individuals. The "Qianhai Plan" and "Hengqin Plan", released last year by the Central Government, as well as the recent "Nansha Plan" focus on attracting Hong Kong and Macao companies and individuals to seek development opportunities in the region, thereby realising the goal of "integrating into the national development".

In order to facilitate cross-border capital flows and the prosperous development of GBA financial markets, several cross-border financial measures, such as the Stock Connect, the Southbound Trading under Bond Connect and the Cross-boundary Wealth Management Connect (WMC) have been successfully implemented. Almost 60 per cent of international investors now trade Mainland bonds and stocks through the Hong Kong Bond Connect and Stock Connect.

Twenty-four eligible Hong Kong banks have begun to offer WMC services together with their respective Mainland partner banks. Financial connectivity in the GBA continues to gather pace. Recently, the People's Bank of China and the State Administration of Foreign Exchange announced the expansion of integrated domestic-foreign currency funding-pool pilot scheme for multinational corporations in Guangdong and other areas in the Mainland.

This is expected to further enhance management policy, facilitate the capital planning and usage by multinational corporations and at the same time provide convenient capital connectivity for Hong Kong and Macau companies investing in the GBA.

Going forward, we suggest lowering the requirements for enterprises in setting up [cross border] cash-pool while more flexibility is also suggested on the usage of funds within the pool. On the nature of enterprises eligible to set up cash pooling, a form of "white list" approach could be adopted to accredit enterprises with good credit standing and proven track record of operation on mainland. This in contrast to a "one-size-fits-all" approach will help delineate funds/companies with long term investment objectives or solely on short term speculative purposes.

For the usage of funds within the cash-pool, we recommend including a special category that allows enterprises to distribute profits to shareholders offshore on a tax free basis provided that such profits are re-invested back to mainland within a prescribed period of time. In such a way, higher incentives could be instilled to offshore and foreign investors for increased and longer-term investments to mainland.

Enormous business potentials and opportunities are seen in GBA. I hope to see more compatriots from Hong Kong and Macau actively participate in the investment and construction of the Greater Bay Area so as to develop jointly and share prosperity with the country.

Wilson Pang FCPA (Aust.)

Senior Partner, Advisory, KPMG

Standing committee member, Dongguan Municipal Committee of the Chinese People's Political Consultative Conference

Deputy Chair of the Greater Bay Area Committee of CPA Australia

In September 2021, China's State Council announced a series of impactful and positive policies to support the further development of the Qianhai and Hengqin cooperation zones. The policies aim to further promote the integration of Hong Kong and Macao into the other nine cities within the GBA. Not long after, the Hong Kong SAR Government announced the Northern Metropolis Development Strategy, highlighting the ambition to further connect with Shenzhen and to buttress Hong Kong's role as an international financial centre. In June this year, the State Council further announced a new plan in the Nansha cooperation zone to build the GBA Insurance Services Centre, explore the setup of the GBA International Commercial Bank as well as the Qualified Domestic Limited Partner's pilot program. These initiatives will certainly promote and accelerate financial opening within the GBA, as it enables the combination of industry and finance to achieve an efficient and cost-effective pursuit of dual circulation.

The GBA comprises three important elements: Financial, Technology and Green. The concept of "Green" relates to green finance and carbon neutralisation, both of which are strategically important to China's national carbon strategies.

In order to achieve China's 30-60 Dual Carbon Goals, most financial institutions in China are expected to speed up their transition towards green financing, including the establishment of a green finance framework and developing the governance of green financial risk management such as climate and ESG risks.

As such, local governments and corporations from different industrial sectors such as the New Economy, manufacturing, healthcare and life sciences are required to provide broad economic and financial data to support the development of a green and sustainable finance system in the GBA.

Over recent years, there have been many new developments and initiatives promoting the application of data analytics and digital transformation in Guangdong. It is anticipated that the GBA will be a strategic data hub and innovation centre, which would collect, safeguard, analyse and apply data to construct a "Strong Data Economic Province" or a "Strong Digital GBA".

I foresee that the financial services sector would be complemented with new digital strategies such as data-transaction flow mechanism, data ownership and security, and data industry chain to empower competitiveness in the GBA and maintain the momentum for exponential growth.

In June 2022, KPMG China published its Mainland China Banking Survey 2022 report. The report reiterated the acceleration of cross-border financial reform and opening up, the digital transformation of commercial banks, the development of a wealth management hub and the facilitation of domestic and foreign capital flow. The report further demonstrated that the GBA is an important node for the Belt & Road Initiative.

Notwithstanding health crises or geopolitical risks, investors, foreign capital and participants in the financial services sectors have continued to tap into the GBA.

Chapter two

Green and sustainable finance

According to the World Economic Forum's **Global Risks Report 2022**, "climate action failure" is the number one long-term threat globally and the risk with potentially the most severe impacts over the next ten years.[16] The economic and societal consequences of climate change and environmental degradation have accelerated the pursuit of a green and sustainable transition.

To facilitate this transition, the public and the financial sectors in the GBA have scaled up activities, offerings and investments in green and sustainable finance.

Green finance generally refers to any structured financial activity used to encourage the development of green projects such as renewable energy, pollution prevention and control, biodiversity conservation and/or to mitigate other projects' impact on the climate and the environment.[17] On the other hand, sustainable finance refers to investment decisions that take into account environmental, social and governance (ESG) considerations, such as investing in organisations that demonstrate social values like inclusiveness and good governance.[18]

As demand for green and sustainable finance accelerates, it presents significant opportunities for the financial services sector in the GBA. The region already acts as a testing ground for new policy and product innovations in China. It's therefore well-positioned to take the lead in becoming a regional hub for green and sustainable finance.

China's estimated total green financing required to achieve its carbon neutrality target is about RMB140 trillion (around US$21.7 trillion).[19] Furthermore, a report by the Climate Bonds Initiative revealed that the GBA green bond market was growing at a cumulative annual growth rate of 69 per cent prior to the COVID-19 pandemic, driven mainly by Hong Kong and Guangdong-domiciled issuers.[20] According to the Hong Kong Information Services Department, it's expected that sustainable financial investment in the GBA will reach US$450 billion by 2030.[21]

[16] World Economic Forum (2022) **The Global Risks Report 2022, 17th Edition**

[17] World Economic Forum (2020) **What is green finance and why is it important?**

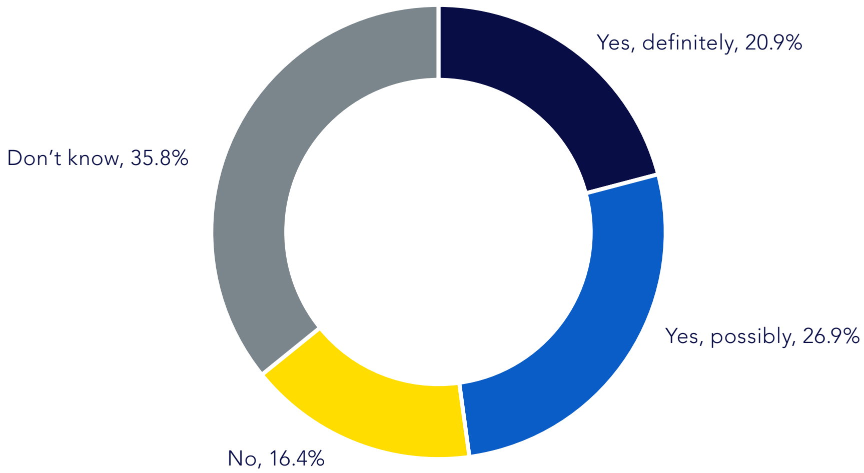
[18] World Economic Forum (2022) **What is sustainable finance and how it is changing the world**

[19] World Economic Forum and Oliver Wyman (2022) **China's Climate Challenge: Financing the Transition to Net Zero**

[20] Climate Bonds Initiative (2021) **Green Infrastructure Investment Opportunities – Greater Bay Area Report**

[21] Hong Kong Information Services Department (n.d.) **Hong Kong: Asia's Green Finance Hub**

Figure 6. Percentage expecting their business to be involved in projects related to green finance or carbon trading within the GBA in the next five years



Source: CPA Australia.

Growing demand for green and sustainable investment

Our poll found that intentions for organisations to be involved in green investment activities in the GBA is reasonably strong. Nearly half (47.8 per cent) believe that their company will be involved in projects related to green finance or carbon trading within the GBA in the next five years.

More than one-third (35.8 per cent) hold a wait-and-see attitude, indicating there is room for governments and financial institutions to continue promoting and developing green and sustainable investments. As the green and sustainable market continues to mature, we expect more companies will be involved in this space.

Government measures in the GBA

Promoting a comprehensive green transformation of economic and social development, peaking carbon dioxide emissions before 2030 and achieving carbon neutrality before 2060 are some of the objectives of China's **14th Five-Year Plan**.

To align with these objectives, GBA governments, financial regulators and the industry have taken actions to promote green and sustainable finance. For example, the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange issued guidance in 2020.

This guidance included measures to promote green financial cooperation in the GBA, such as exploring the construction of a unified green finance-related standard and constructing an internationally recognised green bond certification body.[22]

[22] People's Bank of China (2020) **Opinions on Financial Support for the Construction of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA)** (Chinese only)

In 2018, the Hong Kong government established the Green Bond Programme. The equivalent of over US$7 billion worth of green bonds has been issued.[23] In May 2022, the Hong Kong government issued the inaugural retail green bond with an issuance size of HK$20 billion (around US$2.6 billion), making it the largest retail green bond issuance globally at that time.[24]

The Hong Kong government also launched a three-year Green and Sustainable Finance Grant Scheme in 2021 to provide subsidies to eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services.[25]

In July 2021, the Centre for Green and Sustainable Finance was launched in Hong Kong. It coordinates the efforts of government agencies, financial regulators, industry stakeholders and academia in capacity building and policy development.

The Centre also serves as a repository for resources, data and analytics. This is expected to support Hong Kong's transition to a more sustainable development pathway.[26]

The three jurisdictions of the GBA are also working closely to promote the development of green finance. In 2021, the Shenzhen government issued offshore RMB municipal government bonds, which include green bonds, totalling RMB5 billion (around US$720 million) in Hong Kong.

This was the first time a Mainland municipal government issued bonds in Hong Kong, and it opens the door for more Mainland entities to issue various green and sustainable finance products in Hong Kong.[27] The Qianhai authorities also provide a subsidy of not more than RMB2 million (around US$290,000) to Qianhai corporations that issue green bonds in Hong Kong.[28]

A Memorandum of Understanding was signed between the HKEX with the Guangzhou Futures Exchange (GFEX) in August 2021 to drive a green and low-carbon market in the GBA and support sustainable development through cooperation in areas such as clearing, technology, marketing and investor education. [29] In March 2022, the HKEX signed a Memorandum of Understanding (MoU) with the China Emissions Exchange to explore cooperation in tackling climate change and promoting sustainability through carbon finance.[30]

Regarding ESG reporting, since July 2020 listed companies in Hong Kong have been required to file ESG reports within five months of the end of the financial year. Starting from 1 January 2022, listed companies in Hong Kong must publish their ESG reports together with their annual reports.[31]

On the other hand, there are currently no mandatory ESG disclosure requirements for listed companies in Mainland China. However, China released a new set of voluntary guidelines for Chinese companies to report ESG metrics in June 2022. The guidance details disclosure principles, key performance indicators and regulatory frameworks that would be applicable to companies in different sectors.[32]

[23] Hong Kong SAR Government (2022) **LCQ10: Developing Hong Kong into Green Finance Centre**
[24] Hong Kong SAR Government (2022) **Green Bond Report 2022**
[25] Financial Services and the Treasury Bureau (2021) **Green and Sustainable Finance Grant Scheme**
[26] Hong Kong Monetary Authority (2022) **Centre for Green and Sustainable Finance**
[27] HKEX (2022) **The Renminbi Bond Primary Market: Access Channels and New Initiatives**
[28] Hong Kong SAR Government (2022) **LCQ10: Developing Hong Kong into Green Finance Centre**
[29] Hong Kong Exchanges and Clearing Limited (2021) **HKEX Signs MoU with Guangzhou Futures Exchange**
[30] Hong Kong Exchanges and Clearing Limited (2022) **HKEX Signs MoU with CEEX to Explore Greater Bay Area, International Carbon Opportunities**
[31] Hong Kong Exchanges and Clearing Limited (2022) **Appendix 27 Environmental, Social and Governance Reporting Guide**
[32] China Enterprise Reform and Development Society (2022) **Guidance for Enterprise ESG Disclosure** (Chinese only)

Carbon Market Opportunities for the GBA

Launch pilot programs for foreign-currency carbon trading in the GBA

The GBA has the potential to become a future hub for global carbon trading by linking China's national emissions trading scheme (ETS) with the rest of the world.

Establish a GBA unified carbon market

A unified carbon market could further facilitate capital flows in the region. Hong Kong, Macao as well as international investors can participate in the unified carbon market through a cross-border carbon trading mechanism, or through existing channels such as the Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

Government to provide more incentives

Government incentives can help accelerate offshore green debt issuance and promote carbon financing. To encourage the participation of more market players in green and sustainable finance in the GBA, some measures that GBA governments may consider include providing financial subsidies to encourage the development of green financial products, preferential tax incentives for low-carbon emission projects and implementing support measures for cross-border carbon trading. In addition, carbon financing innovations could be further promoted and incentivised.

Governments should also consider working closely with the industry to work out how best to upskill the workforce in green financing and disclosure. Such skills will be needed by both the issuers of such products and the companies that use such finance.

Establish unified GBA standards

To avoid market fragmentation, industry players are seeking a unified taxonomy or a mutual recognition mechanism for carbon labelling and reporting standards within the GBA.

Nicolas Aguzin

Chief Executive Officer of Hong Kong Exchanges and Clearing Limited

A vital superconnector between China and the world and a conduit for the flow of trade, capital and ideas, Hong Kong is where the action is both now and in the future. The world's next transformation - the shift to a low-carbon economy - is well underway. China is mobilising a whole-of-society effort to reach its goal of peak carbon emissions by 2030 and carbon neutrality by 2060.The Greater Bay Area, with Hong Kong as one of its core cities, is the 'sandbox' where the ideas, innovations and initiatives to drive this transformation are already being tested out.

In recent years, we have seen seismic shifts in the relevance and value of different industries, moving away from resource-intensive production models to higher-value added innovative tech-driven sectors, to the emergence of renewable energy sectors, growth of electric vehicles and the expansion of biotech. Efforts are scaling up further in the Greater Bay Area, one of Asia's most exciting economic regions, to build the green and sustainable finance ecosystem required to channel the capital needed to drive the net-zero transition. Since 2000, key cities in the GBA, like Guangzhou, Shenzhen and Hong Kong, have been working together to exchange ideas, best practices and develop new decarbonisation projects to promote the transition to net zero.

HKEX has been expanding its activities with partners within the GBA, to build the channels and market connectivity needed to drive capital into green and sustainable finance projects. In 2020, we launched STAGE, Asia's first multi-asset sustainable investment product platform and a central hub for data and information on sustainable and green financial products. By the end of July 2022, STAGE featured 107 sustainable-focused products and bonds.

In 2021, HKEX invested in a seven per cent stake in Guangzhou Futures Exchange and we have committed to developing products, such as derivatives, to support the development of a green and low-carbon market in the GBA. Extending on our commitment to developing sustainable finance markets, we joined the Glasgow Financial Alliance for Net Zero (GFANZ) and the Net Zero Financial Service Providers Alliance (NZFSPA).

In 2022, HKEX announced a MoU with the China Emissions Exchange to explore cooperation in tackling climate change and promoting sustainability through carbon finance. Just recently we launched the Hong Kong International Carbon Market Council with leading financial institutions and corporates to foster dialogue and exchange ideas on how to develop an effective international carbon market to serve Hong Kong, the Greater Bay Area and the world.

As well as building the infrastructure for market participants, we are also working hard to bring our issuers on the journey to net zero and help them mitigate climate change risks within their businesses.

As a regulator, we have been promoting ESG disclosure among our 2500+ listed companies with updates to our Corporate Governance guide, new disclosure standards in our ESG Reporting Guide and frequent outreach via webinars, events and publications to guide issuers and the broader business community in their sustainability journeys.

As the world mobilises to fight climate change, we are intent on playing our part. More than that, in our role as a superconnector between China and the world, we see huge opportunities in accelerating the low-carbon transition in China. As we lay the channels, build the connectivity and speed up the flow of capital needed for this transformation, Hong Kong will be where the action is.

Sirui Xiao

General Manager Assistant of the Guangzhou Emissions Exchange

Deputy Secretary-General of Guangdong Green Finance Committee

In 2020, the People's Bank of China and three other administrative agencies unveiled the Opinions on Financial Support for the Construction of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). The guiding document outlines specific measures to promote green financial cooperation in the GBA.

In 2021, the Ministry of Ecology and Environment and the Guangdong Provincial Government jointly signed a Framework Agreement on Cooperation in Building an International First-class Beautiful Bay Area, outlining several tasks. This included studying the establishment of a carbon emission trading centre in the GBA on top of the existing carbon emission trading pilot zone. The GBA is well positioned to take the lead in exploring international cooperation in the carbon market.

The development of a GBA carbon market is not only a necessary step to deepen the green financial ecosystem in the GBA but also would provide a significant platform for involving more companies to pursue green and sustainable development.

As a key tool for green pricing, carbon markets can provide multi-level price signals for efficient resource allocation, constituting an important foundation for the delivery of China's carbon peak and neutrality targets.

To enhance private sector involvement in green finance development it is important to continue implementing a wide range of support measures in the GBA, such as establishing communication channels for cross-jurisdiction information exchange, creating consolidated industry-based databases, establishing mutual recognition mechanisms for carbon labelling and creating ESG reporting standards.

Meanwhile, fiscal policies such as preferential tax incentives should be better utilised to boost market actors' willingness to engage.

Finally, continuing efforts on capacity building and awareness raising on green finance development among business is warranted. This way, the private sector is empowered to explore and exploit the enormous opportunities in green finance and the carbon market.

William Huang FCPA (Aust.)
Managing Partner of EY China South
Chair of South China Committee 2019-2021 of CPA Australia

The vision of reaching carbon peak emissions and achieving carbon neutrality would bring a far-reaching and systemic social and economic transformation. This requires a synergy of wisdom and strength from various fronts. The People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange issued the Opinions on Providing Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area. It clearly mentions that promoting green finance in the GBA and the journey toward green transformation and carbon neutrality under the dual carbon goals requires large amounts of capital, which could set the region on a fast track to improve the quality and efficiency of green finance.

From the perspective of economic policy, there is ample room for allocating resources by market mechanism to achieve the dual carbon goals. For example, the government can support green and low-carbon transition through financial measures such as green subsidies, green guarantees, green procurements and government industry funds.

By establishing a robust green financial system, the government can also encourage financial institutions to support green and low-carbon projects, including monetary policy tools launched by the central bank to support carbon emissions reduction. That is, the central bank provides low-cost funds to support green and low-carbon projects and requires large commercial banks to conduct risk assessments and management for carbon-intensive industries while promoting the innovation of green financial products. Carbon market policies can also help meet dual carbon goals. In addition to the national carbon emissions trading market, China has regional markets and is expected to relaunch the China Certified Emission Reduction scheme for voluntary carbon market.

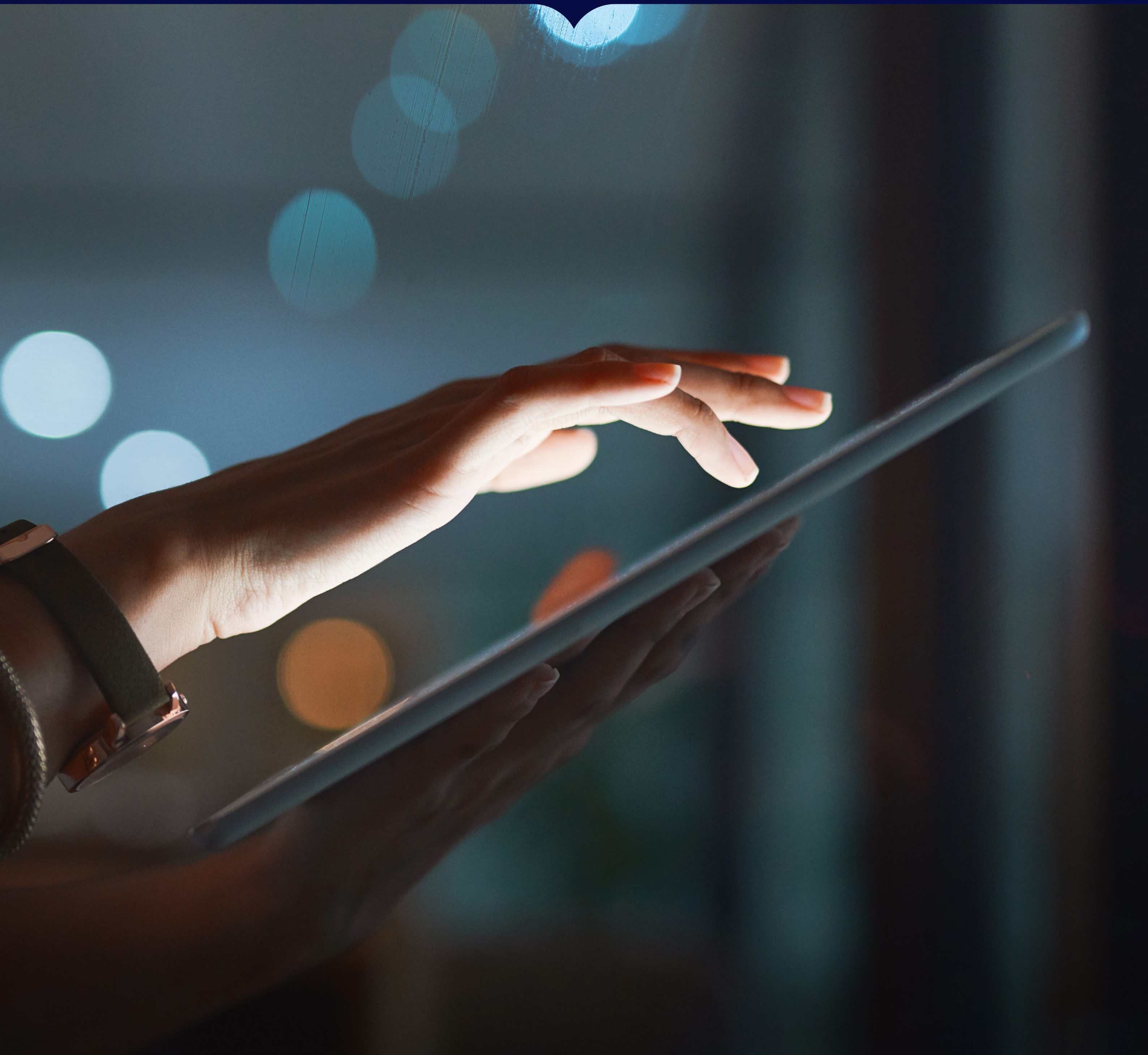
Although institutional investors are not yet allowed to participate in the national carbon market, regulators are actively encouraging overseas investors to engage in carbon trading in China. The pursuit of international opportunities in the GBA unified carbon market has also been put on the agenda. The Guangdong Financial Regulatory Bureau introduced the Implementation Plan for Execution of the Opinions on Financial Support for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area in August 2021. The plan states that, with the support of carbon trading platforms in Guangdong, the pilot program for foreign-currency carbon trading can be launched and innovation in carbon finance can be promoted.

It also supports qualified overseas investors to participate in carbon trading in the GBA using foreign currencies and encourages overseas investors to do so using RMB. Regulators in Hong Kong are currently working with the financial and environmental departments in Mainland China and the carbon emission exchanges in Guangdong and Shenzhen to establish a unified carbon market in the GBA. It is expected that Hong Kong and Macao investors can enter the unified carbon market through a cross-border carbon trading mechanism and the existing channels such as Bond Connect, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Green finance is to increase the level of financial flows in the GBA.

As a connector between the mainland and Hong Kong's capital markets, Guangzhou can continue to explore the potential of carbon financial products and derivatives and expand the breadth and depth of financial connectivity.

Chapter three

Technology innovations



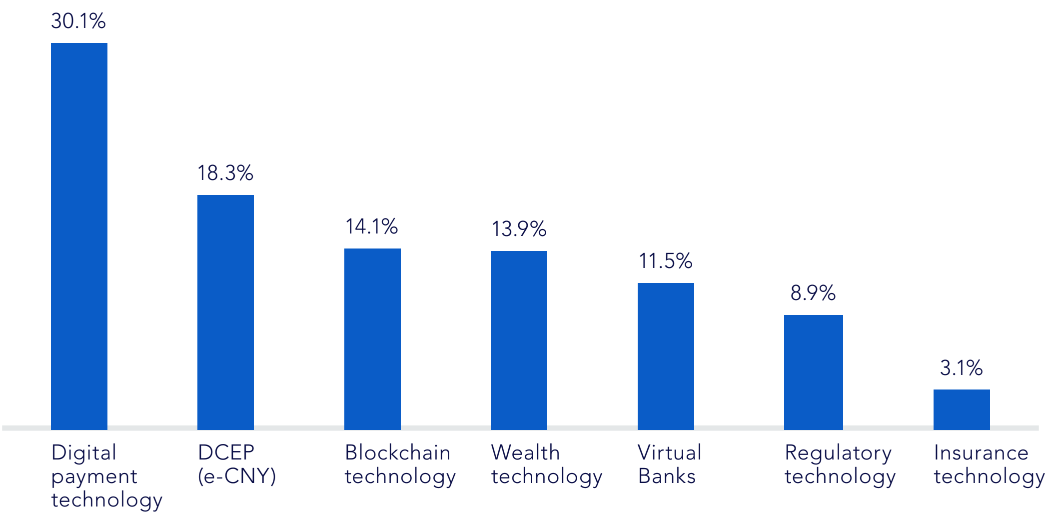
Innovation and technology (I&T) continues to transform the financial and banking sectors on an unprecedented scale. According to CPA Australia's **Greater Bay Area Business Technology Survey 2021**, 61 per cent of surveyed CPA Australia members predict the GBA will become a world-leading technology hub within five years and 44 per cent of respondents chose financial technology (FinTech) as the technology that will improve collaboration within the GBA.[33]

Home to many global leading technology companies and start-ups, the GBA has a rich ecosystem to incubate, accelerate and invest in companies and start-ups in financial innovation.

From the polling results, 30 per cent of respondents stated that digital payment technology will be the technology most likely to enhance financial connectivity in the GBA in the next five years. A sizeable 18 per cent chose Digital Currency Electronic Payment (DCEP), also known as the e-CNY, and 14 per cent nominated blockchain technology.

The results reflect strong expectations that payment innovations can lead to a more convenient living and working environment in the GBA, with the advantages of using digital payment technologies including providing a more convenient and easy-to-access experience for consumers and better transaction efficiency for enterprises.

Figure 7. Technologies that will most likely enhance financial connectivity in the GBA in the next five years



Source: CPA Australia.

[33] CPA Australia (2021) **Greater Bay Area Business Technology Report 2021**

Digital payment technology in the GBA

Technologies for payments, clearing and settlement are an essential part in the FinTech ecosystem. With the world's largest mobile payment market, the market in Mainland China has strong growth potential. In 2021, Mainland China's total value of mobile payments transactions hit RMB527 trillion (around US$82 trillion), up 22 per cent from 2020.[34]

Further, the pandemic has accelerated the shift towards digital payment usage, especially in Hong Kong and Macao, as demand for digital financial connectivity to replace physical interactions between consumers and providers intensifies. This has led to more business opportunities.

In Hong Kong, use of the Faster Payment System (FPS), a contactless real-time payment service platform, has increased significantly since its introduction in 2018. The transaction value of real-time FPS payments was HK$544 billion (around US$70 billion) in the second quarter of 2022, up by more than 100 per cent from the first quarter of 2020 before the Covid-19 outbreak.[35] Meanwhile, the cumulative number of FPS registrations reached 10.6 million in the second quarter of 2022, a 127 per cent increase from the first quarter of 2020.[36]

The adoption of stored value facilities (SVFs) has also been on the rise. In the first quarter of 2022, there was a total of 64.6 million SVF accounts in use, up from 63.6 million in the first quarter of 2020, while the total value of transactions grew to HK$111 billion (around US$14.2 billion), up 128 per cent compared with the first quarter in 2020.[37]

In Macao, the transaction value of local mobile payment tools in the second quarter of 2022 was MOP6.4 billion (around US$800 million), up over sevenfold from the first quarter of 2020, while the number of mobile payment terminals and QR code signs was 93,226 in the second quarter of 2022, up 116 per cent from the first quarter of 2020.[38]

The burgeoning digital payment ecosystem in the GBA is highlighted by the fact that many digital wallets have already allowed remittances between Hong Kong, Macao and Mainland cities in the GBA.

[34] State Council (2022) **China's non-cash payments post steady growth in 2021**

[35] Hong Kong Interbank Clearing Limited (2022) **FPS Statistics**

[36] Ibid.

[37] Hong Kong Monetary Authority (2022) **Statistics of Stored Value Facilities (SVF) Schemes Issued by SVF Licensees**

[38] Monetary Authority of Macao (2022) **Payment Card and Mobile Payment Statistics**

Opportunities of the Digital Currency Electronic Payment

Another innovation that could enhance financial connectivity in the GBA is the use of the e-CNY. The issuance of the e-CNY is conducive to promoting the internationalisation of the RMB and potentially reshaping the current cross-border payment system. While designed mainly for domestic retail payments, based on experiences of domestic trials and international demand the PBoC is exploring pilot cross-border payment programs and working with relevant central banks and monetary authorities to set up exchange arrangements and regulatory cooperation mechanisms.[39]

To make payments with the e-CNY, users choose between the standalone e-CNY wallet app, mobile wallets or an electronic card that supports touch based transactions. Although the current costs of using digital payments are low already, payment and transaction charges are expected to further decrease. This will encourage competition between current payment service providers, enhance financial inclusion and reshape the Mainland's digital payment ecosystem.[40]

The PBoC has also launched a collaborative project with the HKMA to explore the feasibility of using the e-CNY to improve cross-border payments. The first phase of technical testing has been completed and the project has entered its next phase — involving more banks in Hong Kong and using the FPS to top up e-CNY wallets.[41] The HKMA will invite more e-CNY operating institutions and Hong Kong banks to participate in the test with the aim of facilitating the use of the e-CNY by Hong Kong residents in the Mainland in the future.[42]

Other major initiatives

In October 2021, the HKMA and the PBoC agreed to create a one-stop sandbox platform to allow eligible financial institutions and technology firms to pilot cross-boundary FinTech initiatives in the GBA. The move is expected to promote cross-border investment, encourage more capital flows within the GBA and facilitate innovation in the region. Applications opened in February 2022.[43]

[39] People's Bank of China (2021) **Progress of Research & Development of E-CNY in China**

[40] Ibid.

[41] Hong Kong SAR Government (2022) **LCQ15: Application of Central Bank Digital Currency in Hong Kong**

[42] Hong Kong Monetary Authority (2022) **The Fourth Anniversary of the FPS - from person-to-person to merchant and cross-border payments**

[43] Hong Kong Monetary Authority (2022) **Launch of Greater Bay Area Fintech Pilot Trial Facility**

Recommendations

Expedite the release of detailed policies on cross-boundary data sharing in the GBA. Consider implementing a pilot to help formulate an appropriate cross-boundary data management mechanism

One of the challenges many financial institutions will face is the regulation of cross-border data flows between the three different GBA jurisdictions. Hong Kong, Macao and Mainland GBA cities currently adopt three separate sets of legal and institutional mechanisms to manage data privacy and data flow. These mechanisms include the Personal Data (Privacy) Ordinance in Hong Kong, Personal Data Protection Act in Macao and various laws in Mainland China such as the Personal Information Protection Law and Data Security Law. Therefore, it's crucial that businesses who are engaged in cross-border operations consider deploying a comprehensive data governance framework to ensure compliance in a constantly evolving regulatory environment.

At the governmental level, cross-jurisdiction coordination is needed to harmonise the policies related to data transfer within GBA and introduce more guidelines or build up data sharing platforms to enable financial institutions and corporate users to utilise cross-border data that complies with regulations across the three jurisdictions.

For example, Mainland China's first officially released regulation on cross-border data transfer, Measures for the Security Assessment of Cross-Border Data Transfer, came into effect on 1 September 2022. This is a useful guide for corporates intending to conduct cross-border data transfer activities. A platform to enable corporate users to access cross-border data in a legal and user-friendly manner is indispensable.

Further strengthen cross-boundary collaboration between research institutions, academics, companies and public sector organisations

To better support the GBA financial services sectors, regulators, researchers and financial institutions across the GBA are expected to work closely to further lift the quality of the financial infrastructure. Further, they will have a strong focus on cross-border transaction issues such as data privacy, anti-money laundering (AML) or know your customer (KYC), cybersecurity and custodian-related issues. Timely information and transparent and clear guidelines for investors and corporates are conducive to build a healthy and efficient environment.

Keep abreast of FinTech trends and consider increasing the adoption of digital payment technologies

Businesses are highly encouraged to keep abreast of FinTech trends and development and speed up their digital transformation within the organisation, such as embracing digital payment technologies to enhance the overall customer experience.

Simon Chan, BBS, JP

Chairman of Hong Kong Cyberport Management Company Limited

As Hong Kong's digital technology flagship and a major incubator for entrepreneurship, Cyberport helps tech start-ups in many ways including with seed funding, connections with investors, customers and accelerators, the provision of technology infrastructure, service platforms and access to the campus as a testing ground, to name a few. Among Cyberport's more than 1800 start-ups and technology companies is Hong Kong's largest FinTech community with around 400 FinTech companies.

According to the poll conducted by CPA Australia, digital payment technology and China's c e-CNY are considered important technologies that will enhance financial connectivity within the GBA in the next five years. In fact, around 20 per cent of Cyberport's FinTech companies specialise in PayTech and solutions revolving around digital assets and are well placed to make a difference in the GBA. Cyberport's community company, ConsenSys, was selected by the Hong Kong Monetary Authority (HKMA) to develop technology for a CBDC proof-of-concept under the "mBridge" project jointly run by HKMA, the People's Bank of China and counterparts from Thailand and the United Arab Emirates.

To further help FinTech companies in Hong Kong seize CBDC opportunities, Cyberport has signed a Memorandum of Understanding (MoU) with global blockchain leader R3 to empower the FinTech hub's start-ups and enterprises with a suite of digital trust technologies to create next-generation software applications. R3 also established its Innovation Lab at Cyberport providing Hong Kong's financial services and FinTech sectors with blockchain technology and innovation resources relating to CBDCs in a bid to propel FinTech innovative co-creation and consolidate Hong Kong's stature as the global financial centre.

Cyberport leverages its strengthened presence to further enhance collaboration with other GBA cities by establishing strategic partnerships with GBA technology parks and official entities, including the Office of Financial Development Service (OFDS) in Shenzhen and the Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. This allows start-ups to tap into their resources to speed up access to the Mainland markets. The strategic partnership with OFDS provides support catered to Hong Kong's FinTech firms to establish a presence in Shenzhen, and thus encouraging them to expand their businesses to the GBA.

Looking forward, an important foundation has been laid for the development of cross-border FinTech with infrastructure set up for the cross-border exchange of capital and data. This includes the Stock Connects with Shanghai and Shenzhen respectively, the Cross-boundary Wealth Management Connect Scheme and the GBA Cross-boundary Data Mutual Recognition Platform.

The survey found that nearly half of respondents indicate that their companies will increase investment in other GBA cities in the next five years, signalling huge potential for modern digital business and operational solutions. Cyberport will continue to stand firm in its role as the springboard for start-ups to succeed in the GBA with landing facilitation and go-to-market access. Through deepening collaborations among Cyberport, its community of digital tech innovators and entrepreneurs and CPA Australia, the impact will only be amplified to create a win-win situation enabling all parties to seize the momentous opportunities for long-term development in the GBA and beyond.

Anthony Lin

Chief Executive Officer of Greater Bay Area at Standard Chartered Bank

New technology and innovation are driving the evolution of the financial services markets, especially in the GBA where there is a fast-growing pool of digital-savvy users. Enhancing digital banking and wealth management services with FinTech, WealthTech as well as InsurTech is going to change the landscape of the financial industry over the next five years.

By bringing traditional banking and wealth management services to this growing group of people, tremendous opportunities are opening up for Hong Kong financial institutions. This is being accelerated by the rapid development of virtual reality (VR) and blockchain, enabling the expansion of banking services regardless of border restrictions.

Another game-changing innovation is the digital yuan or e-CNY, which supports the journey of digital native customers and offers use cases that traditional digital payment solutions may not be capable of offering. For example, the utilisation of smart contracts with the e-CNY can trigger business model innovations by reducing dependencies on traditional intermediaries and bridging the trust gap they have with smaller players in the economy.

We anticipate that the e-CNY could be a solution to some of the challenges facing the traditional financial services ecosystem. For example, its traceability could enable new ways of streamlining cross-boundary movement of funds while keeping capital management policy largely unchanged.

We are also confident that the e-CNY and the future Central Bank Digital Currency (CBDC) in Hong Kong will play a significant role in further enhancing financial connectivity and capital flow within the GBA. They will drive substantial changes and create a generational transformation of the banking and financial industry in Hong Kong.

Open Banking and Open Data are also crucial innovations for the GBA's banking industry. They help with enhancing clients' digital experience, particularly by developing a unified customer profiling validation process to facilitate the seamless flow of capital within different GBA cities. The development of Distributed Ledger Technology (DLT) as well as privacy-preserving computation technology will further facilitate cross-boundary transaction activity within the GBA.

Lastly, we are happy to see that financial connectivity schemes like the "Wealth Management Connect Scheme" (WMC), which launched in October 2021, have helped promote capital transfer and investment in mutual direction within the GBA and facilitated more cross-boundary capital flow. To encourage more participation in the WMC scheme, we welcome more policy relaxations such as products variety and more proactive sales and marketing to both Northbound and Southbound eligible customers.

John Lo FCPA (Aust.)

Divisional Councillor of Greater China of CPA Australia

Chief Financial Officer of Tencent Group

The Greater Bay Area presents unique characteristics to promote multi-level and comprehensive cross-border financial cooperation. The region has a strong foundation in developing innovative FinTech products and services, and a large pool of high-calibre FinTech professionals. Given the joint effort by the government and enterprises to promote technology innovation, the development of digital economy and FinTech sector in the GBA is getting off to a strong start.

The continuous improvement of cross-border financial infrastructure is supporting the development of a secure, inclusive and interconnected financial system within the region.

Digital payment technologies, which underpin inclusive FinTech services, do not only facilitate local retail activities but also transform the cross-border payment landscape. This will further promote financial interconnectivity in the GBA.

We are pleased to see cross-border digital payment systems progressing in an orderly manner between Hong Kong, Macao and other cities in the GBA which we believe will become a bridge to facilitate better interactions for more products and services in the region.

While the use of new FinTech technologies can create new opportunities, data protection and security are also essential. The GBA has become a "sandbox" for exploring efficient cross-border usage of financial data under the premise of fully complying with the different laws and regulations of the region. On one hand, many tech companies set up headquarters or regional offices in the GBA, enabling the region with resource advantages, advanced technology capabilities and extensive practical experience in the field of cybersecurity and data protection. On the other hand, financial institutions in Hong Kong have executed best practices and are committed to meeting internationally-recognised standards of data privacy protection.

Talent is the engine for FinTech development. The GBA gathers a diverse pool of talents ranging from senior management executives, accounting and finance professionals to technology experts. The movement of talent within the region will further maximise the synergy of knowledge sharing and promote the continuous development of the FinTech sector in the GBA.

Marcellus Wong FCPA (Aust.)

Chair of the Greater Bay Area Committee of CPA Australia

The GBA represents one of the most open and economically dynamic regions in China. Consisting of 11 cities with a population of more than 86 million and a combined GDP of over US$1.9 trillion, the GBA continues to empower vibrant synergies and interconnectivity across the cities. It has effectively demonstrated a new ecosystem of economic and social collaboration.

The GBA plays a pivotal role in the growth of China's economy and has assisted with development in different fields, such as financial services offerings, technology implementation, innovation, the reinvention of business operating models and sustainability.

Since the signing of a Framework Agreement for the GBA in 2017, I am delighted to see that CPA Australia has positioned itself as a thought leader in this area with the formation of the GBA Committee and the publication of several GBA research reports. In addition, CPA Australia has been regularly providing recommendations to relevant government departments and policy bureaus in Hong Kong and the Mainland on the implementation of the development plans for the GBA. CPA Australia has also introduced the GBA to university students and the Australian business community, improving their understanding of the vast opportunities it presents.

Over the past five years, we have all experienced uncertainties, disruptions and changes which enabled us to adapt and create new ideas, solutions and innovations. Together, we have witnessed major progress in, and development of, the GBA, especially in the financial services sector.

This report seeks to present, at a high level, the changes and enhancements made across various cities in the GBA. It also encapsulates perspectives from subject matter experts, who share their insights on key policies and emerging trends in the GBA.

In addition to the financial services sector, this report explores the opportunities in tax incentives, talent attraction and broader economic development, which are invaluable drivers to the success of the GBA.

Connectivity will be enriched through better transportation infrastructure, and we foresee that a steady supply of talent will flow across the GBA cities. For accounting and finance professionals, I believe that the GBA will offer plenty of employment, entrepreneurial opportunities and career advancement potential.

FinTech will be another key driver for the GBA's financial services sector. Today, we're seeing a growing acceptance of digital payment technologies in Hong Kong. The e-CNY and WealthTech initiatives will also help to enhance financial connectivity within the GBA in the next five years.

CPA Australia is committed to advocate for members on the latest issues, developments and policies arising in the GBA. This will ensure members remain at the forefront of changes and are aware of potential opportunities that may arise.

Zhongbin You

China Banking & Capital Markets Industry Leader, China Data Science CoE Leader and Analytics & Cognitive offering Leader of Deloitte Consulting China

When discussing innovation or technologies to strengthen financial connectivity within the GBA, we need to first consider what can enhance cross-border or cross-currency payments or transactions. In my view, driven by the desire for real-time payments and settlement and a growing appetite for more efficient domestic and cross-border monetary interaction in the GBA, the e-CNY has undeniably stepped into the limelight.

Over the past few years, partly in a response to the COVID pandemic, businesses and consumers have been adapting to digital forms of monetary interactions at an accelerated pace beyond anyone's expectations. In the GBA, we believe that the e-CNY promises faster, cheaper and more efficient payments.

It is expected that the e-CNY ecosystem in the GBA will continue to mature, fuelled by its increasing utility and accessibility. Consequently, it is natural for key players or stakeholders, such as banks and asset managers, to benefit from it. The roll-out of the e-CNY would generate large amounts of transaction data, which creates opportunities for analysis and refreshes real-time economic or investment insights.

Banks and asset managers could leverage this opportunity for products or services innovation across their portfolios. This in turn generates new opportunities and adapts to changing consumer behaviours. To list a few, this includes the possibility of a Bond Connect program or customer advisory on e-CNY as an asset class, asset allocation strategies and payment and settlement instruments.

To build this ecosystem, the Shenzhen authorities may collaborate with key stakeholders to put in place three hygiene factors – structural incentives, risk controls and access to shared utilities. Banks and financial institutions may need to adapt their infrastructure to support and process e-CNY transactions such as multicurrency wallets.

Measures for the Security Assessment of Cross-Border Data Transfer, China's first officially released regulation on cross-border data transfer, came into effect on 1 September 2022. The measures will not only regulate cross-border data but also promote the security and accessibility of cross-border data transfer activities.

It is likely that many of participants will access cross-border data and this may lead to concerns about the vulnerability of related platforms and systems. In light of this, a robust risk mitigation framework must be a prerequisite. It is also essential for Shenzhen to offer guidance enabling organisations to explore an effective path and approach for cross-border data transfer management activities in a systematic and integrated way.

To drive the success of the financial services sectors in the GBA, the Shenzhen authorities should pay special attention to regulatory issues to further uplift the quality of the financial infrastructure such as data privacy, anti-money laundering (AML) or know your customer (KYC), cybersecurity and custodian-related issues. Quoting the e-CNY as an example, risks associated include AML and counter terrorist financing (CTF) sanctions. The impact of cross-border e-CNY payment on AML/CTF requirements should be carefully addressed. In addition, investors always endeavour to reduce legal and tax uncertainties in cross border transactions. The need for better administration of cross border transactions between Shenzhen and Hong Kong SAR calls for clear regulatory guidelines to address investors' needs.

Chapter four

Attracting and retaining talent

Talent is key to building the GBA into an international financial hub. The GBA is home to several world leading universities, with the University of Hong Kong, the Hong Kong University of Science and Technology and the Chinese University of Hong Kong – ranking in the top 50 in the QS World University Rankings 2022.[44]

All three are among the top 50 in the Accounting and Finance category while two of them also ranked in the top 50 for Engineering and Technology.

These world-class universities provide a major source of talent to the GBA's financial services sector and equip the region with strong research capabilities.

According to the Global Innovation Index 2021, the Shenzhen-Guangzhou--Hong Kong technology cluster ranked as the world's second-most active cluster in terms of patents and scientific publications.[45]

However, many economies are experiencing a shortage of digital and finance talent and the GBA is no exception. The Hong Kong Government has put in place multiple talent admission schemes to attract overseas and Mainland talent (see Table 4).

Table 4. Talent Admission Schemes in Hong Kong

Talent admission scheme	Target
General Employment Policy ("GEP")	Overseas talent, professionals and entrepreneurs from places other than the Mainland
Admission Scheme for Mainland Talents and Professionals ("ASMTP")	Mainland talent and professionals
Quality Migrant Admission Scheme ("QMAS")	Highly skilled or talented individuals from overseas and the Mainland with an annual quota of 4000 as of 2022
Technology Talent Admission Scheme ("TechTAS")	Overseas and Mainland technology talent

Sources: Immigration Department of the Hong Kong SAR.

[44] Quacquarelli Symonds (2022) **QS World University Rankings 2022**

[45] World Intellectual Property Organization (2021) **Global Innovation Index 2021**

Being one of the most vibrant international financial centres in the world, Hong Kong plays an important role in nurturing high-calibre talent for the GBA's financial services sector.

Statistics from the Hong Kong Census and Statistics Department shows that the finance and insurance sector in Hong Kong employs more than 235,000 workers.[46]

Further, the HKMA has rolled out a series of schemes to groom graduates for the FinTech industry, such as the Banking Graduate Trainee Programme, Future Banking Bridging Programme, Industry Project Masters Network (IPMN) scheme and Fintech Career Accelerator Scheme (FCAS).

Moreover, an Enhanced Competency Framework (ECF) on FinTech was issued last year, with an aim to ensure there is a sufficient supply of high-quality FinTech talent in Hong Kong.

The ECF sets out the competency standards required of FinTech practitioners in the banking sector and a qualification framework for recognising those practitioners who have completed the necessary training and assessment and obtained relevant work experience.[47]

In July 2022, the HKMA, Bloomberg and the Hong Kong United Youth Association (HKUYA) jointly launched a Greater Bay Fintech Talent Initiative, aimed at equipping students with relevant skills and knowledge for a digitally integrated financial region.[48]

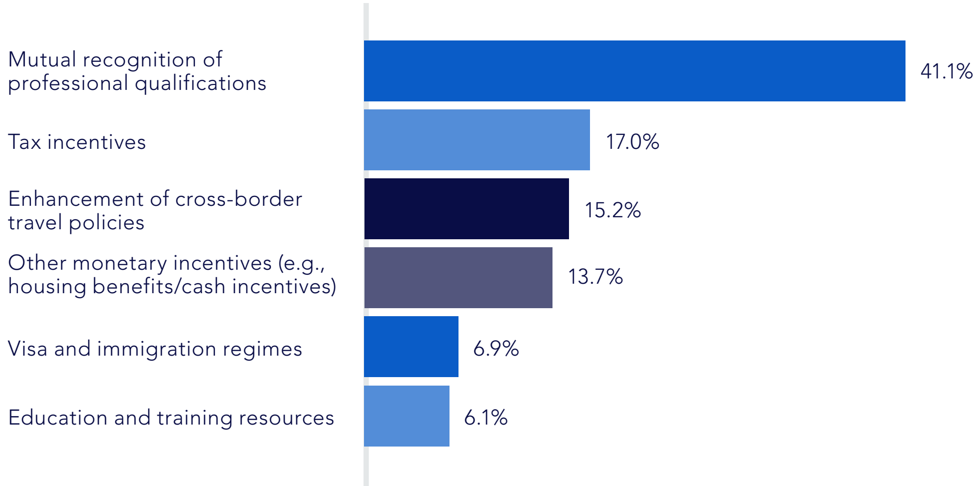
Nevertheless, the industry still faces challenges in attracting, retaining and moving talent within the region. Our polling suggests that many accounting and finance professionals (41 per cent) believe that mutual recognition of professional qualifications is imperative to broaden the talent pool in the GBA.

[46] Census and Statistics Department (2022) **Number of Establishments, Persons Engaged and Vacancies**

[47] Hong Kong Monetary Authority (2021) **Enhanced Competency Framework**

[48] Bloomberg (2022) **Greater Bay Fintech Talent Initiative**

Figure 8. The most critical factors to broaden the talent pool in the GBA's financial services sector



Source: CPA Australia.

Another key factor that could help broaden the talent pool within the GBA is the introduction of tax incentives (17 per cent), such as preferential tax treatment of people who meet certain talent eligibility requirements.

Since 2019, the Guangdong government has introduced financial subsidies to attract foreign high-end talent and talent in short supply. People from Hong Kong, Macao and Taiwan were also eligible. The subsidy is in the form of an Individual Income Tax rebate, which reduces the maximum nominal tax rate from 45 per cent to an effective rate of 15 per cent.[49] This policy also applies to the three cooperation zones in the GBA.

The tax incentives in some of these cooperation zones are further enhanced for Hong Kong and Macao residents. For example, Hong Kong and Macao residents are exempt from the "high-end talent qualification" restriction and could be taxed at the rate they would have paid if they were residing in Hong Kong or Macao, which may mean a tax rate lower than 15 per cent.[50]

Though the GBA talent policy has been broadly extended to every GBA city, each city sets out different requirements and conditions when assessing eligibility for the subsidy.

Understanding tax deduction rules isn't always easy and filing tax returns can be a complicated task. If uncertain about the tax incentives, requirements and conditions, seeking professional advice is recommended.

[49] Department of Finance of Guangdong Province (2019) **Circular on financial subsidies for individual income tax paid by overseas (including Hong Kong, Macao and Taiwan) high-end talent and talent in short supply working in the GBA**

[50] National Development and Reform Commission (2022) **Notice in relation to Measures of Preferential Individual Income Tax Policy in the Nansha District of the Guangzhou Municipality** (Chinese only)

Recommendations

Further expand the scope of mutual recognition of professional qualifications between Hong Kong, Macao and the Mainland GBA cities

Under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), eligible Hong Kong professionals such as accountants, securities and futures industry practitioners and lawyers may acquire the corresponding Mainland's professional qualifications through mutual recognition or examinations.[51] There are also other liberalisation measures for cross-border services depending on the professions.

For example, when Hong Kong permanent residents who have obtained the Chinese Certified Public Accountants qualification apply to become partners of accounting firms in the Mainland, the length of auditing experience that they have acquired in Hong Kong is considered equivalent to the length of auditing experience acquired in the Mainland.

Yet, the scope of the mutual recognition or examinations could be further expanded.

Expand the scope of the one-way international professional qualification recognition catalogue in the Mainland GBA cities

The GBA could refer to the practices in Hainan's Free Trade Port, in which the "Accreditation Criteria for Hainan Free Trade Port High-level Talent" has been implemented. Two hundred and nineteen professional qualifications acquired overseas, such as CPA Australia's CPA Program, are recognised.[52]

While Shenzhen has released a similar catalogue, it currently consists of only 25 foreign professional qualifications.[53] It is suggested that the list of qualifications should be expanded and extended to cover more GBA Mainland cities.

Streamline tax filing arrangements in the three tax jurisdictions to avoid double taxation and reduce tax compliance costs

Depending on individual circumstances, completing and filing a tax return can be complicated. Simplifying the relevant procedures and issuing practical guidelines could reduce the compliance burden and enhance the level of certainty for companies and employees.

Promoting an advance ruling system and establishing pre-populated forms based on third-party data could boost efficiency and simplicity for taxpayers.

Streamline cross-border policies within the GBA and extend exemption of work permits for overseas talent

Our findings suggest that industry players are looking forward to better cross-border travel policies. This includes optimised immigration rules and visa application procedures facilitating more flexible staff deployment for talent working across borders and between the cities of the GBA.

[51] Trade and Industry Department (n.d.) **Mutual Recognition of Professional Qualification and other issues relating to professional services under CEPA**

[52] State Council Information Office (2021) **SCIO briefing on the progress of Hainan Free Trade Port policies and institution**

[53] Shenzhen Human Resources and Social Security Bureau (2022) **Catalogue listing the international professional qualifications** (Chinese Only)

Sidney Cheng FCPA (Aust.)

Managing Partner of Deloitte Macao SAR

Member of Greater Bay Area Committee of CPA Australia

The Greater Bay Area (GBA) initiative presents Macao as a lifeline and a breakaway from its gaming-centric economy. Yet, there are inevitable differences in the political systems, economic environments and legal systems across the GBA cities and Special Administrative Regions. Notable examples include the different currencies in circulation, the differing recognition of academic degrees and professional qualifications by the markets, and bank account opening procedures and documentation varies between cities. While diversity creates competitive advantages, it can also be a double-edged sword that deters mobility and development between cities.

One way to address the differences is to introduce more integrated policies to keep Macao aligned with the development of neighbouring cities and the world. For example, increased efforts have been placed on the mutual professional recognition practice between Macao, Hong Kong and other cities within GBA. Mutual recognition of qualifications across the GBA will create opportunities for young talent and at the same time foster economic collaboration and cultural exchange among the brilliant minds within the cities.

Professionals being able to easily transfer between Macao and the GBA without needing to undergo lengthy accreditation processes will serve as a powerful incentive. This is a crucial step in realising the long-term objectives of the GBA initiative.

Along with mutual professional recognition, city governments should explore ways of easing regulations affecting cross-border payments, data transfers, regional taxation and foreign direct investments. Easing regulations would attract market players to set foot in Macao and these market players can then penetrate the larger GBA market through this city. This is where the free flow of capital, one of Macao's many advantages, could help strengthen financial connectivity within the GBA.

Another way is to build on our strengths. Macao's role as a commerce and trade cooperation service platform between China and Portuguese Speaking Countries (PSCs) was mentioned within the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area. Various financial institutions and enterprises in Macao have extensive networks in the PSCs while companies from these countries have set up offices in the city to market their products or services to the GBA.

Under the Mainland and Macao Closer Economic Partnership Arrangement (CEPA) these PSC companies can enter certain industries in China with lower thresholds. This allows them to receive equal treatment as a local national entity. Macao is therefore particularly attractive for PSC companies wishing to enter the Chinese market and it bridges the gap between the East and West.

Furthermore, the Macao Government recently commissioned a study on setting up a trading platform. While major corporations will look to Hong Kong for their initial public offering, the Macao Government is exploring the possibility of providing corporations with an alternative source of funding for their businesses.

With an RMB-denominated exchange in sight, this provides opportunities for Mainland Chinese companies to go beyond Mainland China and potentially present themselves on the global stage. Macao is perfectly placed to fulfill a role as an RMB clearing centre. The internationalisation of the RMB brings forward countless opportunities to attract the attention of Mainland Chinese businesses and the global financial market.

Overall, as long as barriers between its cities continue to be dismantled, the future is bright for Macao and the GBA. Macao should make good use of its unique advantages, act in concert with the Central Government's policy directives and further amplify its potential to be a bridge connecting the GBA with international markets.

Rebecca Wong FCPA (Aust.)

China Tax and Business Advisory Partner of PwC

Deputy President of South China Committee of CPA Australia

The Greater Bay Area (GBA) initiative presents The GBA's position in the financial services sector is unique. The three key cooperative zones of Qianhai, Hengqin and Nansha are supporting the deepening of cooperation in Guangdong, Hong Kong and Macao by developing and implementing opening-up policies to encourage foreign investment.

Recruiting, retaining and upskilling talent has always been a major challenge for the financial services industry. The type of skills and experience required varies across different sub-sectors of the industry. For example, the asset and financial management industry is actively seeking relationship managers who are familiar with the needs of clients with different nuances in the GBA in order to offer the right services and products. FinTech companies, banks and insurance companies are investing heavily in digital and e-platforms but there is a dearth of tech-savvy talent. In addition, with three legal, tax and financial systems in the GBA and an ever-changing regulatory environment, all companies will need to hire professionals who can handle the associated compliance issues.

To facilitate the flow of talent in the GBA, the industry is keen to act early and pilot implementation in the following areas:

- Introduce more user-friendly immigration rules and visa application procedures to attract top overseas talent to the GBA
- Remove restrictions on overseas professionals applying for Mainland vocational examinations
- Improve the mechanism for evaluating the skill level of overseas professionals
- Formulate detailed measures to expedite the introduction of overseas professionals to practice in the region
- Accelerate the mutual recognition of professional qualifications
- Implement more flexible staff deployment and workplace arrangements for talents working across borders between cities in the GBA
- Streamline tax filing arrangements in the three tax jurisdictions to avoid double taxation and reduce tax compliance costs
- Encourage greater cooperation among the three governments to implement solutions and optimise issues such as living environment, education and welfare facilities.

Hong Kong and Macao residents with professional qualifications in the fields of finance, taxation, accounting and law are already allowed to practice in Shenzhen after registration. New policies are also being introduced in several areas in other cities in the GBA. All these measures will further promote the development of the financial services sector.

There are differences in the personal tax systems within the three jurisdictions and the effective tax cost for those employed in Mainland China is higher. To attract talent, financial subsidies has been introduced to young people from Hong Kong and Macao who meet the criteria for high-end and scarce talent working in the nine Mainland GBA cities. This policy reduces the tax burden from a maximum nominal tax rate of 45 per cent to an effective rate of 15 per cent. In the Hengqin Guangdong-Macao In-Depth Cooperation Zone, the portion of the individual income tax burden exceeding 15 per cent will be exempted for both domestic and foreign talent, provided that the organisations in which they work meet certain requirements. In Nansha, the preferential personal income tax policy exempts all Hong Kong and Macao residents working in Nansha from the "talent qualification" restriction. The policy exempts the portion of their personal income tax liability that exceeds the tax liability of Hong Kong and Macao, which may be lower than 15 per cent.

The implementation of these tax incentives has undoubtedly enhanced the attractiveness and competitiveness in the GBA. Local tax authorities and finance bureaus should consider further simplifying the relevant procedures, issuing practical guidelines and promoting an advance ruling system to reduce the compliance burden and enhance the level of certainty for companies and employees.

The future of the financial services sector in the GBA

The GBA has made considerable progress over the past five years. Financial cooperation between Guangdong, Hong Kong and Macao has deepened and the region is transforming into an international bay area.

Major cooperation zones such as Qianhai, Hengqin and Nansha have been established to act as catalysts for further reform and opening up in the GBA. Looking ahead, the GBA is likely to continue its evolution towards being a central node for investment, a tech-driven bay area and a green financial hub.

A central node for investment

The two-way cross-border capital flow is expected to be further loosened, driving additional investment demand in the GBA. A couple of initiatives are going to take effect soon including the Swap Connect, which will provide a convenient and secure channel for overseas investors to trade interest rate swap products in the Mainland.

On 2 September 2022, "18 measures for Supporting the Linked Development of Shenzhen and Hong Kong Venture Capital Investments in Qianhai by the Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen Municipality and the Financial Services" was announced.[54]

The measures provide monetary incentives for funds to set up in Qianhai and list in Hong Kong, for example, a one-time reward of RMB2 million (around US$300,000) will be given to Qianhai venture capital institutions listed on the Hong Kong Exchange, and a one-time reward of RMB1 million (around US$200,000) will be given to Qianhai venture capital institutions and their fully owned Hong Kong subsidiaries for sponsoring a Special Purpose Acquisition Company and getting it listed on the Hong Kong Exchange.

Moreover, a Shenzhen-Hong Kong international venture capital cluster will be established in Qianhai, hosting large funds, international capital management institutions, leading venture capital institutions and private equity investment institutions.

The governments and regulators in the GBA are looking to further expand the channels for the two-way flow of cross-boundary RMB funds to develop more offshore RMB products and allow stocks traded via Southbound Trading of Stock Connect to be denominated in RMB.

Market connection systems will also be expanded. For example, the potential implementation of Insurance Connect will allow the direct settlement of health claims at public hospitals in Shenzhen with Hong Kong and Macao insurers.[55] Meanwhile, Hengqin is exploring the construction of an electronic fence monitoring system to be applied to offshore financial markets to better prevent systemic financial risks and ensure a safe and orderly opening-up of the Mainland's financial market.[56]

[54] Financial Services and the Treasury Bureau (2022) **18 measures for Supporting the Linked Development of Shenzhen and Hong Kong Venture Capital Investments in Qianhai by the Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen Municipality and the Financial Services and the Treasury Bureau of the Government of the Hong Kong Special Administrative Region**

[55] National Development and Reform Commission (2022) **Opinions of the National Development and Reform Commission and the Ministry of Commerce on Various Special Measures to Relax Market Access in Developing Shenzhen into a Pilot Demonstration Zone of Socialism with Chinese Characteristics** (Chinese only)

[56] State Administration of Foreign Exchange (2021) **Transcript of SCIO Press Conference on the Development of Hengqin and Qianhai**

A tech-driven GBA

The e-CNY will continue to mature and might become a solution to challenges in the traditional financial services ecosystem. Its traceability could enable new ways of streamlining cross-boundary foreign exchange retail payments.

The large amounts of transaction data generated by the use of e-CNY opens up opportunities for banks and asset managers to gather real-time economic insights about changing consumer behaviours. Data circulation and sharing between GBA cities is expected to be further facilitated with the launch of the GBA Cross-boundary Data Mutual Recognition Platform and the recent release of the Measures for the Security Assessment of Cross-Border Data Transfer.[57]

A green financial hub

The momentum in the GBA's green finance market is likely to be sustained in the coming years. It is expected that sustainable financial investment in the GBA will reach US$450 billion by 2030.[58] Looking ahead, the GFEX is likely to roll out emissions derivative products and launch commodity futures and innovative products such as cross-exchange futures. There will also be closer collaboration between authorities in different GBA cities.

The HKEX and the GFEX are working together on exploring the feasibility of cooperation on product development in both onshore and offshore markets. At the same time, the HKEX and the Guangzhou-based China Emissions Exchange are jointly exploring the development of a voluntary carbon emission reduction program in the GBA. They are working together to share research and experiences on carbon market financing and global carbon market standards to boost the internationalisation of the Mainland's carbon market.

Attracting talent

Integration of the GBA is going to drive demand for digital and finance roles in the near future. The governments across the GBA have been developing mutual recognition of professional qualifications to facilitate cross-border flow of talent.

For accountants, Hong Kong practising CPAs will likely be allowed to become partners of accounting firms in Qianhai without Chinese CPA practising qualifications. They may also be able to engage in specific businesses or perform certain managerial functions.[59] Hong Kong practising CPAs may also be included in Qianhai's policies for high-end talent, in which the individual income tax is capped at 15 per cent.

[57] Cyberspace Administration of China (2022) **Measures for Security Assessment for Cross-Border Data Transfers** (Chinese only)

[58] Hong Kong Information Services Department (n.d.) **Hong Kong: Asia's Green Finance Hub**

[59] Hong Kong SAR Government (2022) **LCQ2: Agreement on Development Strategies for the Accounting Profession in Guangdong, Hong Kong and Macao**

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Paul Chan, GBM, GBS, MH, JP

Financial Secretary of Hong Kong SAR

Tim Lui, SBS, JP

Chairman, Securities and Futures Commission, Hong Kong SAR

Honorary FCPA member of CPA Australia

Eden Wong FCPA (Aust.)

Divisional President of Greater China 2022 of CPA Australia

Chairman of the Financial Services Committee 2022 of CPA Australia

Founder and Chairman of VIIPARK Financial Group

Eddie Yue, JP

Chief Executive of the Hong Kong Monetary Authority

Tenghui Chi

Acting Director of Financial Development Bureau in Guangdong-Macao In-Depth Cooperation Zone in Hengqin

Adam Kwok, SBS

Standing Committee Member of the All-China Youth Federation

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Executive Director of Sun Hung Kai Properties Limited

Wilson Pang FCPA (Aust.)

Senior Partner of Advisory at KPMG

Standing committee member of Dongguan Municipal Committee of the Chinese People's Political Consultative Conference

Deputy Chair of GBA Committee of CPA Australia

Nicolas Aguzin

Chief Executive Officer of Hong Kong Exchanges and Clearing Limited

Sirui Xiao

General Manager Assistant of the Guangzhou Emissions Exchange

Deputy Secretary-General of Guangdong Green Finance Committee

[60] In order of appearance in this publication.

William Huang FCPA (Aust.)
Managing Partner of EY China South

Chair of South China Committee 2019-2021 of CPA Australia

Simon Chan, BBS, JP
Chairman of Hong Kong Cyberport Management Company Limited

Anthony Lin
Chief Executive Officer of the Greater Bay Area at Standard Chartered Bank

John Lo FCPA (Aust.)
Chief Financial Officer of Tencent Group

Divisional Councillor of Greater China of CPA Australia

Marcellus Wong FCPA (Aust.)
Chair of the Greater Bay Area Committee of CPA Australia

Zhongbin You
China Banking & Capital Markets Industry Leader of China Data Science CoE

Leader and Analytics & Cognitive offering Leader of Deloitte Consulting China

Sidney Cheng FCPA (Aust.)
Managing Partner of Deloitte Macao SAR

Member of Greater Bay Area Committee of CPA Australia

Rebecca Wong FCPA (Aust.)
China Tax and Business Advisory Partner of PwC

Deputy President of South China Committee of CPA Australia

Contact information

Hong Kong

+852 2175 6783
hk@cpaaustralia.com.au
20/F Tai Yau Building
181 Johnston Road
Wanchai, Hong Kong

Macao

+853 2838 9207
macau@cpaaustralia.com.au
Rua de Pequim, nos 230-246 Macau Finance Centre,
9th Floor, H9 Macau

South China

+86 20 8393 0610
guangzhou@cpaaustralia.com.au
Room 2504 Tower A G T Land Plaza 85-87 Huacheng
Avenue, Zhujiang New Town, Tianhe District
Guangzhou 510623, China

cpaaustralia.com.au