LCQ14: Cross-boundary Wealth Management Connect

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (July 21):

Question:

In June last year, the authorities of the Mainland, Macao and Hong Kong made a joint announcement on the decision to implement a two-way cross-boundary wealth management connect pilot scheme in the Guangdong-Hong Kong-Macao Greater Bay Area, which would allow residents in the Greater Bay Area to carry out cross-boundary investment in wealth management products distributed by banks in the area. They also signed a memorandum of understanding earlier this year on matters such as the principles of supervisory co-operation involved. On May 6 this year, the People's Bank of China Guangzhou Branch issued the Guangdong-Hong Kong-Macao Greater Bay Area Cross-Boundary Wealth Management Connect Pilot Scheme implementation details (Consultation Paper) (Consultation Paper). In this connection, will the Government inform this Council:

(1) as the Consultation Paper has mentioned that Hong Kong and Macao investors carrying out businesses under the "Northbound Wealth Management Connect" should meet the relevant requirements set by the financial regulators in Hong Kong and Macao, whether the Hong Kong Monetary Authority (HKMA) has drawn up the relevant requirements in this regard; if so, of the details; if not, the reasons for that;

(2) as the Consultation Paper has mentioned that the investment products which may be purchased by Mainland investors under the "Southbound Wealth Management Connect" will be subject to the regulations set by the regulators in Hong Kong and Macao, whether HKMA has drawn up the regulations in this regard; if so, of the details; if not, the reasons for that; and

(3) whether HKMA has discussed with the Mainland authorities, in order to tie in with the implementation of the "Southbound Wealth Management Connect", allowing banks in Hong Kong to make enquiries, through the credit information system of the People's Bank of China, about the credit reports of those Mainland investors who intend to purchase investment products offered in Hong Kong; if so, of the details; if not, the reasons for that?

Reply:

President,

The People's Bank of China, the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Macao jointly announced in June 2020 the decision to implement the two-way cross-boundary wealth management connect pilot scheme (Wealth Management Connect) in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) to allow residents in Hong Kong, Macao and nine Mainland cities of the GBA to carry out cross-boundary investment in wealth management products distributed by banks in the area to address the wealth management needs of the residents. Not only will Wealth Management Connect bring enormous business opportunities to the entire financial industry value chain and other professional services in Hong Kong, it will also promote the cross-boundary flow and use of Renminbi (RMB), reinforcing further Hong Kong's position as the global offshore RMB business hub and the international asset management centre. The regulators of the three places announced in early February this year that they have signed a Memorandum of Understanding on the principles of supervisory co-operation under Wealth Management Connect. In May, the Guangdong regulators promulgated the draft implementation guidelines for public consultation. The HKMA has been working closely with the relevant authorities of the three places on various preparation work with a view to expediting the implementation of the scheme.

My reply to the various parts of the question is as follows:

(1)&(2) The HKMA has conducted several rounds of industry consultation in drawing up the implementation details of Wealth Management Connect. The industry provided many constructive suggestions that have helped us draw up the scheme with a view to offering investors and the industry the necessary convenience while ensuring proper risk management. Our current proposal on the implementation arrangement for the Northbound investor eligibility and the Southbound wealth management product scope is as follows:

Northbound investor eligibility: Hong Kong residents who hold Hong Kong identity cards (including permanent and non-permanent residents) and are assessed by Hong Kong banks as not being vulnerable customers in accordance with the HKMA's circular of September 25, 2019 "Investor Protection Measures in respect of Investment, Insurance and Mandatory Provident Fund Products" (Note) can participate in the Northbound Scheme.

Southbound wealth management product scope: Considering the need for individual investors to gradually gain a better understanding of the wealth management products and market landscape across the boundary, we plan to include relatively low-risk and simple wealth management products at the initial stage of the implementation of the scheme. Therefore, structured products or products mainly involving derivatives (e.g. futures and options) will not be included in the scope of eligible products. We expect that at the initial stage, the Southbound Scheme will mainly cover deposits, low to medium-risk and non-complex bonds and Hong Kong domiciled funds authorised by the Securities and Futures Commission.

(3) Based on the current proposal of the implementation arrangement, Mainland investors' funds in their Hong Kong investment accounts should originate from their Mainland remittance accounts or be generated through investment gain under the Southbound Scheme. These funds can only be used to purchase eligible wealth management products under Wealth Management Connect and

cannot be used for purposes such as pledging, or as leverage or guarantee. Therefore, we expect that Hong Kong banks do not need to obtain the credit conditions of Mainland investors for conducting due diligence and managing subsequent investment activities.

Note: Vulnerable customers (VCs) refer to customers who have lower ability to understand the risk and withstand the potential losses of an investment. In determining whether a customer is a VC, banks consider holistically the circumstances of a customer, including the level of financial sophistication (e.g. investment experience), the state of mind (e.g. ability to make investment decision) and the level of wealth.