

Legal Commentary

July 1, 2020

The Next Connect Initiative – Cross-boundary Wealth Management

Authors: TieCheng YANG | Yin GE | Ting ZHENG | Yaoyao SI

Days before the 23rd anniversary of Hong Kong's return to Mainland China, on 29 June 2020, the People's Bank of China, the Hong Kong Monetary Authority, and the Monetary Authority of Macao jointly issued an announcement on the launch of a cross-boundary wealth management connect pilot scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (the "**Wealth Management Connect**"). The Wealth Management Connect was officially proposed by the *Opinions on Financial Support for Guangdong-Hong Kong-Macao Greater Bay Area* jointly issued by the People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and State Administration of Foreign Exchange on April 24, 2020, and it embarks on a new cross-boundary connect scheme following the Shanghai/Shenzhen-Hong Kong Stock Connect, the Bond Connect, the China-Japan ETF Connect, and the Shanghai-London Stock Connect. In contrast to earlier connect schemes, the Wealth Management Connect is intended to link three jurisdictions under one scheme and will not involve intermediary platforms, such as stock exchanges under the Stock Connects or CFETS and offshore electronic bond trading platforms under the Bond Connect.

The key features of the Wealth Management Connect are:

I Two components: Southbound and Northbound

Under the Southbound Wealth Management Connect, residents of Mainland cities in the Greater Bay Area can invest in eligible investment products by opening designated investment accounts with banks in Hong Kong and Macao. Under the Northbound Wealth Management Connect, residents of Hong Kong and Macao can invest in eligible wealth management products by opening designated investment accounts with Mainland banks in the Greater Bay Area.

II RMB fund transfer in a closed loop with quotas

Cross-boundary fund flows under the Wealth Management Connect will be conducted and managed in a closed loop through the bundling of designated bank accounts to ensure that the relevant funds will be used only to invest in eligible investment products. Only RMB may be transferred cross-boundary, and currency conversion will take place in the offshore jurisdictions. Cross-boundary fund remittance will be subject to aggregate and individual investor quotas, with the aggregate quota being adjusted through a macro-prudential coefficient.

III Legal and regulatory frameworks

The Wealth Management Connect will be governed by the respective laws and regulations on retail wealth management products applicable in the Mainland, Hong Kong, and Macao, with due regard to international norms and practices. The relevant financial regulators in the three jurisdictions are expected to provide details on implementing the Wealth Management Connect, including investor eligibility, mode of investment, scope of eligible investment products, investor protection, and dispute resolution. The regulators will enter into memoranda of understanding on regulatory co-operation to protect investors' interests and to maintain orderly and fair trading, and also to take actions necessary to tackle any illicit activities based on the principle of territorial administration.

The formal launch of the Wealth Management Connect will depend on the implementation details, which will be released in due course. When officially launched, the Wealth Management Connect will facilitate cross-boundary investment by individual residents in the Greater Bay Area, and promote RMB internationalization and the opening-up of the Mainland's financial markets as well as the mutual social and economic developments of the Mainland, Hong Kong and Macao.

Important Announcement

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If you have any questions regarding this publication, please contact:

TieCheng YANG

Tel: +86 10 8516 4286

Email: tiecheng.yang@hankunlaw.com

Yin GE

Tel: +86 21 6080 0966

Email: yin.ge@hankunlaw.com