

# Wealth Management Connect: Now ready to go live!

September 2021

## A concrete step in GBA development

The launch of Wealth Management Connect (WMC) is one of the first tangible steps towards realizing the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) vision. It allows eligible investors to transfer up to RMB1m into a remittance (or settlement) account in their jurisdiction. These funds can then be invested in eligible products in an investment account opened in a cross-boundary jurisdiction. In this way, Southbound investors can invest in wealth management products (e.g. funds, bonds) in Hong Kong and Macau, while Northbound investors can invest in wealth management products elsewhere in Guangdong.

The closed loop mechanism allows Southbound investors to gain exposure to wealth management products denominated in a wide range of currencies while ensuring control over cross-border fund flows. When investors liquidate their investment, funds are transferred from their investment account back to their remittance account in RMB.

### Role of market players

Banks and asset managers will play the role of product distributors and product manufacturers respectively.

### Eligible participating banks

Hong Kong/Macau (retail and private) banks with relevant licenses and Mainland banks which meet specific conditions.

### Scope of products

Low-to-medium risk, non-complex products are permitted.

### Eligible investors

Designated investment accounts where suitability is determined by participating banks.

## Key highlights of new announcements on WMC

Since the issuance of final regulatory guidelines on 10 September 2021, eligible banks in Hong Kong and Macau which are interested in launching WMC business can submit their applications and relevant assessment reports to their regulator now. Applicants in Guangdong can perform their regulatory submission starting from 10 October 2021.

Southbound investors can open an investment account through witnessed account opening. Northbound investors need to open an account in person or designate an account they already have with a Mainland bank as a dedicated investment account. A remittance account in their jurisdiction is opened / designated to pair with the dedicated investment account. Only one pair of such accounts can be opened by each investor.

In general, the HKMA and AMCM stipulate execution-only mode for banks, meaning they should follow clients' instructions without soliciting or offering investment advice. Hong Kong and Macau banks can solicit or offer advice to Southbound clients if they are physically located in the same jurisdiction, but they must comply with suitability requirements and ensure that advice is reasonable.

Hong Kong banks, and the fund companies that have entered into distribution agreements with them, can participate in briefings held on the Mainland and organised by their Mainland partner banks.

The aggregate quotas for the Southbound and Northbound legs, calculated on a net basis, are RMB150bn each. The quota in each direction is shared between Hong Kong and Macau.



## PwC's view on the impact of WMC

### What are the opportunities for investors from WMC?

The scheme offers Mainland's retail investors some diversification opportunities that were previously only available to the very wealthy or to institutions. They will now be able to gain exposure to products denominated in HK\$ and other mainstream currencies. Hong Kong and Macau investors, in turn, can easily access higher yield products elsewhere in the GBA.

### How does the financial services industry benefit?

All three jurisdictions will benefit from a new pool of investors with different demographics, thus broadening the market and fostering product innovation. WMC is based on bank-to-bank trading, so the role of banks is greatly enhanced. Other industry participants – including asset managers – will also benefit from the increased demand for investment products.

WMC is a great opportunity for financial institutions to acquire a customer base with a distinctive investment preference profile. This will prove extremely valuable to banks as this segment starts to increase investments in other products under a controlled and safe mechanism.

### How does this prepare the ground for Phase 2?

WMC is the first step in creating an infrastructure to improve financial connectivity in the GBA for the wealth management industry. Successful monitoring of closed-loop fund flows and measures to ensure investor protection will prepare the ground for increased quotas and an expanded product range.

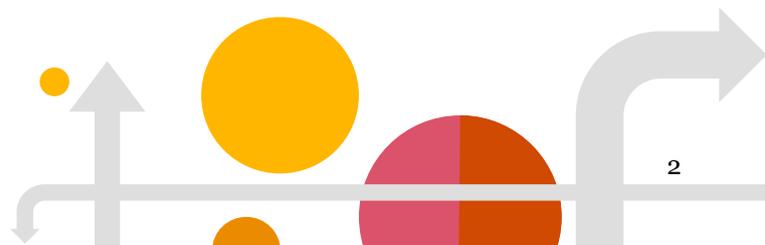
### What are the tax implications of WMC?

We have yet to see specific tax policy for WMC. Investors need to have a better understanding of tax implications as this can be a significant part of their investment costs. For example, it is unclear whether investment income derived from WMC will be subject to PRC individual income tax for mainland investors. Also, will investors from Hong Kong and Macau be subject to PRC withholding tax on their investment income? We hope that there will be clarification or even tax incentives introduced in the near term in order to create certainty and make WMC more attractive.

## Looking forward....

In the first phase of WMC, low-to-medium risk products such as investment funds, bonds and deposits will be offered. Once a smooth rollout of the first phase has been achieved, we hope that WMC may include larger individual and aggregate quotas and more complex products. There is certainly demand for these from high-net-worth investors in the GBA. In the longer run, we would expect private banks, alternative asset managers and family offices to benefit from WMC as well. The success of WMC will also spur the roll-out of other GBA initiatives, such as Insurance Connect.

Investor education will be critical to the success of WMC, as well as being an important way for market participants to differentiate themselves in a crowded market place. Availability of talent with understanding of the multi-jurisdictional regulatory environment will continue to be a major challenge. Greater investment in training, coupled with mutual recognition of qualifications within the GBA, would be a great help in resolving this issue.





## How can PwC help?

PwC supports its clients with end-to-end solutions across the lifecycle of WMC.

### Advisory services

- We provide various advisory services to help establish your WMC business:
  - We can advise on communicating your plan to participate in WMC with Mainland regulators, HKMA and AMCM. We can also provide support for the compilation of regulatory application, assessment report, business plan and other supplementary documents.
  - We can perform IT-related independent assessment (including system control and other system function enhancements related to WMC) as required by the relevant regulators to facilitate upgrade of existing systems or to implement a new system (e.g. relevant e-banking system, key business systems or systems used for processing / storing / transmitting of customer data) and material outsourcing to third parties to facilitate the launch of your WMC business.
  - We can advise on the design of operational processes and control systems relevant to WMC, for example:
    - Customer due diligence (CDD) and account opening;
    - Designated account management, and marketing and sales practices;
    - Cross-border closed-loop fund management and quota monitoring;
    - Relevant IT system controls;
    - Identification of suitable investment products;
    - Record keeping and regulatory reporting.
  - We provide advisory services on strategy and market due diligence to assist our clients to establish a medium and long-term business strategy that aligns with ongoing GBA development.
  - We provide advisory services in the risk assessment of anti-money laundering and counter-financing of terrorism of WMC business and relevant risk control measures in accordance with regulatory requirements.
  - We can give advice on responding to queries or additional information requests by Mainland regulators, HKMA and AMCM during their review of the application.
  - We can provide staff training prior to the launch of your WMC business.

### Tax services

- Provision of tax advisory services:
  - In the absence of a specific taxation framework under WMC, we can assist financial institutions and investors to understand their potential tax exposure;
  - Identify ways to mitigate tax exposure concerning cross-border transactions;
  - Represent clients to clarify tax treatments with the relevant tax authorities;
  - Review tax sections in fund offering documents;
  - Advise on individual and employer tax implications for executives with cross-border responsibilities.
- Provision of tax compliance services:
  - Hong Kong/Macau profits tax filing;
  - China corporate income tax / Value-added tax filing;
  - Individual and employer tax filings.



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