

Regulatory requirements on Licensed Corporations Participating in the Southbound Scheme

1. The Southbound Scheme of the Cross-Boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (“Cross-boundary WMC” or “Cross-boundary WMC Pilot Scheme”) (for licensed corporations (“LCs”)) refers to eligible Mainland investors investing in eligible investment products offered by LCs in Hong Kong via designated channels.
2. LCs which meet the entry requirements are eligible to participate in the Southbound Scheme. Eligible LCs which participate in the Cross-boundary WMC (“Participating LCs”) should comply with the requirements set out below when providing services to their clients under the Southbound Scheme (“Southbound Scheme clients”). They should also comply with the prevailing regulatory requirements applicable to the conduct of their regulated activities.

Eligible licensed corporations

Entry and on-going requirements

3. LCs which wish to participate in the Southbound Scheme should fulfil the following entry requirements:
 - (a) Financial resources: Both paid-up capital and shareholders’ funds are not less than HK\$100 million;
 - (b) Licence: Being licensed by the Securities and Futures Commission (“SFC”) to carry on Type 1 regulated activity;
 - (c) Experience: With at least 3 years of experience in distributing investment products (ie, funds and/ or bonds);
 - (d) Transaction volume in investment products (ie, funds and/ or bonds): With transaction volume of not less than HK\$ 500 million during any 12-month period in the past 3 years; and
 - (e) Systems of controls: Implemented internal controls, operating procedures and systems, and have sufficient financial resources and operational capabilities to conduct the business and ensure compliance with applicable requirements, including the “closed-loop fund flow arrangement” under paragraphs 21 to 27 below.
4. Participating LCs should maintain paid-up capital and shareholders’ funds at HK\$100 million or above at all times. The Participating LC should notify the SFC within one business day of becoming aware that its paid-up capital or shareholders’ funds:
 - (a) falls below HK\$110 million but exceeds HK\$100 million. It should also provide an undertaking in writing that its shareholders will inject capital so as to ensure that the

paid-up capital and shareholders' funds of the Participating LC will be maintained at HK\$100 million or above and devise an exit plan, including but not limited to:

- (i) arrangements on affected clients (including arrangements for notifying affected clients and arrangements for the assets and funds of its existing clients (see Appendix 1), if applicable);
 - (ii) relevant measures and the financial, human and operational resources required to execute the exit plan; and
 - (iii) assigning designated personnel, who have sufficient authority to act for the Participating LC in executing the exit plan; and
- (b) falls below HK\$100 million. It should also immediately cease providing any services under the Southbound Scheme. Notwithstanding, the SFC may permit the Participating LC to carry on limited activities, such as holding the invested investment products until redemption upon maturity and remitting the relevant funds back to the clients within a specified timeframe.

Partnership arrangement with Mainland broker(s)

5. Participating LCs should have partnership arrangements with **one or more** eligible Mainland broker¹ for providing Southbound Scheme services ("Partner Broker(s)"). Before launching its Southbound Scheme activities and embarking on such activities with a Partner Broker, the Participating LC should ensure that the Partner Broker is an eligible Mainland broker and should enter into a written partnership agreement with the Partner Broker that clearly sets out the roles and responsibilities of the Participating LC and the Partner Broker.
6. Participating LCs should implement adequate procedures and controls to ensure that its Partner Broker(s) would assist them in, amongst other things:
 - (a) verifying the eligibility of the Mainland investors to participate in the Southbound Scheme;
 - (b) ascertaining whether the Mainland investor only has one investment account opened with an eligible Hong Kong Bank² and/ or one investment account opened with a Participating LC under the Southbound Scheme. The Partner Broker(s) should input "Cross-boundary WMC filing information" into the RMB Cross-Border Payment & Receipt Management Information System;
 - (c) monitoring the usage of individual investment quota by the Southbound Scheme clients³; and

¹ An eligible Mainland broker refers to a Mainland broker that has been confirmed by the relevant Mainland regulatory authorities that it is eligible for providing Cross-boundary WMC services.

² An eligible Hong Kong bank refers to a Hong Kong bank that has been confirmed by the relevant Hong Kong regulatory authorities that it is eligible for providing Cross-boundary WMC services.

³ Partner Brokers should monitor cross-boundary remittances. Before remitting funds from Mainland investors to Participating LCs, Partner Brokers should ascertain that the cumulative net remittance to Hong Kong from the investor does not exceed the individual investor quota. If the amount that an investor plans to remit exceeds his/ her remaining individual investor quota, Partner Brokers should refuse to remit the funds or only remit the amount of the remaining individual investor quota.

- (d) handling fund deposits and withdrawals of the Southbound Scheme clients.

Application procedures and on-going arrangements

7. In general, LCs that intend to participate in the Southbound Scheme should, at least three months prior to launching their Southbound Scheme activities:
 - (a) notify the SFC of their plan (covering, amongst other things, their roles and services to be provided, closed-loop fund flow arrangement, review and monitoring mechanism, senior management oversight, promotion and sales arrangements and their partnership arrangements with their Partner Brokers);
 - (b) provide information regarding their experience in distributing funds and bonds and the corresponding transaction volume; and
 - (c) submit a self-assessment report certified by their Manager-in-Charge (“MIC”) – Overall Management Oversight, MIC – Compliance and head of internal audit function to demonstrate their operational readiness.

After obtaining the no objection notification from the SFC, the LCs can embark on such activities.

8. Participating LCs should also:
 - (a) obtain the no objection notification from the SFC before they enter into or terminate the partnership arrangement with their Partner Broker(s);
 - (b) conduct a self-assessment on an annual basis to assess their compliance with the regulatory requirements of the Cross-boundary WMC and take immediate rectification measures upon the identification of any issues. A copy of the report should be provided to the SFC upon its request; and
 - (c) submit information on their Cross-boundary WMC related business as requested by the SFC on a regular basis. Please refer to the section of “Data reporting and submission” under paragraph 79 below.

Exit from the Southbound Scheme and material changes to Southbound Scheme activities

9. Participating LCs intending to exit their Southbound Scheme activities or have material changes to their Southbound Scheme activities should devise a plan for the exit or relevant changes, including but not limited to:
 - (a) arrangements on affected clients (including arrangements for notifying affected clients and arrangements for the assets and funds of these clients (see Appendix 1), if applicable);
 - (b) the timetable for arrangements of the exit or relevant changes;
 - (c) relevant measures and the financial, human and operational resources required to execute the plan; and

- (d) assigning designated personnel, who have sufficient authority to act for the Participating LC in executing the plan.
10. Participating LCs should consult the SFC in advance of their plans for the exit or relevant changes and ensure that they have sufficient time and resources to implement the exit plan or material changes before they trigger the plan or effect the changes.

Reciprocal notification arrangement with the Mainland regulator

11. The SFC and the China Securities Regulatory Commission will have reciprocal notification arrangements on the particulars of Hong Kong LCs/ Mainland brokers embarking on Cross-boundary WMC activities in their respective jurisdictions.

Eligible investors

12. Mainland investors participating in the Southbound Scheme are subject to the criteria set by the Mainland regulatory authorities. Southbound Scheme investors should invest in their personal capacity, but not as joint-name or corporate clients, and should not authorise a third party to operate the account.
13. Mainland investors should be a client of the Partner Broker of the Participating LC. Partner Brokers are responsible for verifying the eligibility of the Mainland investor for participating in the Southbound Scheme. Participating LCs should only regard an investor eligible as a Southbound Scheme client after receiving confirmation from their Partner Broker(s).

Account opening arrangements

14. Mainland investors should open an account with investment function (“dedicated investment account”) with the Participating LCs. The Participating LCs should conduct customer due diligence on the Mainland investors in accordance with the prevailing requirements⁴, including taking all reasonable steps to establish the true and full identity of each of their clients, and of each client’s financial situation, investment experience, and investment objectives. The Participating LCs should also assess their clients’ risk profile⁵.
15. Mainland investors may open a dedicated investment account with Participating LCs using a face-to-face or non-face-to-face approach. For investors not physically present for identification purposes, the Participating LCs should conduct proper procedures to verify the client’s identity⁶. Participating LCs may also rely on their Partner Brokers to verify the client’s identity.

⁴ Including paragraph 5.1 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (“SFC Code of Conduct”) and the applicable anti-money laundering and counter-financing of terrorism guidelines for LCs issued by the SFC.

⁵ Please refer to answer to questions 2 and 3 of the Frequently Asked Questions on Compliance with Suitability Obligations by Licensed or Registered Persons issued by the SFC (“Suitability FAQs”).

⁶ Please refer to the SFC’s website (<https://www.sfc.hk/en/rules-and-standards/account-opening>) regarding account opening approaches that the SFC would consider to be acceptable for the purposes of paragraph 5.1 of the SFC Code of Conduct.

16. Each eligible Mainland investor can only participate in the Southbound Scheme through one of the following approaches: (i) selecting a Participating LC; (ii) selecting an eligible Hong Kong or Macao⁷ bank; or (iii) selecting both approaches mentioned in (i) and (ii) above. Partner Brokers should take corresponding measures to ascertain that the Mainland investors have only participated in the Southbound Scheme through one of these approaches.
 17. Should an eligible Mainland investor who has already opened a dedicated investment account with another Participating LC wish to open a new dedicated investment account, he/ she should first close his/ her existing dedicated investment account with such Participating LC. Partner Brokers should take corresponding measures to check the status of such investors.
 18. Mainland investors' dedicated investment accounts opened with the Participating LCs should be used only for investment purposes under the Southbound Scheme, and should not be used for any other services provided by the Participating LCs.
 19. Prior to opening a dedicated investment account under the Southbound Scheme for clients, apart from complying with the prevailing requirements⁸, Participating LCs should provide disclosure and proper explanation in writing to the clients to ensure that they understand the requirements of the Southbound Scheme, including:
 - (a) roles and responsibilities of the Participating LC and the Partner Broker;
 - (b) closed-loop fund flow and fund transfer requirements;
 - (c) usage of the dedicated investment account;
 - (d) complaint handling mechanism;
 - (e) investor responsibility;
 - (f) associated risks (for example, exchange rate risk and risks under quota management) (see paragraph 32 below); and
 - (g) disclosure of information to relevant regulatory authorities and handling of non-compliance or breaches by investors upon identification (see "Non-compliance and breaches" under paragraphs 67 to 73 below).
- Where an account opening procedure other than a face-to-face approach is used, the covering correspondence should specifically direct the client's attention to the aforesaid disclosure.
20. Participating LCs' records should clearly designate the dedicated investment accounts of Southbound Scheme clients as "WMC accounts".

⁷ An eligible Macao bank refers to a Macao bank that has been confirmed by the relevant Macao regulatory authority that it is eligible for providing Cross-boundary WMC services.

⁸ For example, providing risk disclosure statements as specified in Schedule 1 to the SFC Code of Conduct to clients.

Closed-loop fund flow arrangement

21. Southbound Scheme clients should open or designate their personal fund accounts with Partner Brokers as the remittance accounts under the Southbound Scheme (“dedicated remittance accounts”), and indicate clearly to Partner Brokers their consent for the Partner Brokers and Participating LCs to assist in transferring their funds between their dedicated remittance accounts and dedicated investment accounts.
22. Partner Brokers should open a new or designate an existing segregated account used solely for Cross-boundary WMC purpose with a Mainland bank which has launched its business under the Cross-boundary WMC Pilot Scheme (“Mainland omnibus account”). For the avoidance of doubt, the Partner Broker may only open or designate one account with one Mainland bank as the Mainland omnibus account.
23. Participating LCs should:
 - (a) open a new or designate an existing segregated account used solely for Cross-boundary WMC purpose with a Hong Kong bank which has launched its business under the Cross-boundary WMC Pilot Scheme (“Hong Kong omnibus account”). The Participating LC should clearly designate the Hong Kong omnibus account as a “WMC client account” or “WMC trust account”. For the avoidance of doubt, the Participating LC may only open or designate one account with one Hong Kong bank as the Hong Kong omnibus account; and
 - (b) pair the Hong Kong omnibus account with the Mainland omnibus account of their Partner Broker(s).
24. The Hong Kong omnibus account should solely be used by a Participating LC for receiving funds from its Southbound Scheme clients through the Mainland omnibus account of its Partner Broker (or for remitting funds from its Southbound Scheme clients to the Mainland omnibus account of its Partner Broker). The funds received can only be kept in the Hong Kong omnibus account or used for Cross-boundary WMC investment purposes. These funds received from the Southbound Scheme clients should not be:
 - (a) used for other purposes, such as pledging such amounts or using such amounts as leverage or guarantee; or
 - (b) withdrawn by the Southbound Scheme client, except for remitting back to the client’s dedicated remittance account through the Mainland omnibus account of the Partner Broker.
25. Upon receipt of the Southbound Scheme clients’ instruction, Participating LCs could only remit both the clients’ principal and investment proceeds back to the Mainland omnibus account of their Partner Brokers. Partner Brokers are responsible for ensuring that the client funds are remitted back to the Southbound Scheme clients’ dedicated remittance accounts.
26. All cross-boundary remittances between the Mainland omnibus accounts of the Partner Brokers and the Hong Kong omnibus accounts of the Participating LCs should be conducted in RMB and through the Cross-border Interbank Payment System. All cross-

boundary remittances related to the Southbound Scheme cannot be conducted through other channels.

(A chart illustrating the closed-loop fund flow arrangement is enclosed in Appendix 2.)

27. Participating LCs should record in detail and monitor the funds of each Southbound Scheme client, and maintain proper transaction records of the Hong Kong omnibus account and the dedicated investment accounts of Southbound Scheme clients, including the inflow and outflow of funds, trading of investment products, etc. in order to explain and reflect the operation of their Southbound Scheme activities and all the client assets received or held by the Participating LCs or their associated entities. The records should be kept to enable reviews or investigations to be carried out by the Participating LCs, their auditors and the SFC⁹.
28. For the avoidance of doubt, Participating LCs may adopt the existing settlement arrangements with the counterparties or product issuers.

Aggregate quota

29. Remittances from the Mainland under the Southbound Scheme is subject to an aggregate quota. The aggregate quota is calculated on a net basis. The cumulative net remittance from the Mainland under the Southbound Scheme should not, at any time, exceed the aggregate quota.
30. The aggregate quota for the Southbound Scheme is initially set at RMB 150 billion. The usage of the aggregate quota under the Southbound Scheme is calculated as follows:

Usage of aggregate quota under the Southbound Scheme = cumulative remittances from the Mainland to Hong Kong and Macao under the Southbound Scheme – cumulative remittances from Hong Kong and Macao back to the Mainland under the Southbound Scheme

The Guangdong Provincial Branch¹⁰ and Shenzhen Branch¹¹ of the People's Bank of China will update the usage of the aggregate quota on each trading day on their websites.

31. Participating LCs should check the usage of the aggregate quota before accepting remittances under the Southbound Scheme to ensure that the net remittance from the Mainland does not exceed the upper limit. When the usage of the aggregate quota under the Southbound Scheme reaches its upper limit, Participating LCs can only proceed with outward remittances back to the Mainland under the Southbound Scheme and cannot accept inward remittance under the Southbound Scheme.
32. Prior to providing Southbound Scheme services to clients, Participating LCs should explain in detail the possible impact of the restrictions of the aggregate quota on the clients (ie, instructions for remittances from the Mainland to Hong Kong under the

⁹ Part IV(6) of Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC ("Internal Control Guidelines").

¹⁰ <http://guangzhou.pbc.gov.cn/guangzhou/129196/4332364/4332372/4332394/index.html>

¹¹ <http://shenzhen.pbc.gov.cn/shenzhen/4334824/4334830/4334837/index.html>

Southbound Scheme may be put on hold as a result of the aggregate quota being used up while remittances from Hong Kong back to the Mainland and investment instructions using funds already remitted to the dedicated investment accounts will not be affected) and the associated risks.

Individual investor quota

33. Individual investor quota is calculated on a net basis. The net cumulative remittance from a dedicated remittance account to a dedicated investment account¹² of a Participating LC under the Southbound Scheme by each Southbound Scheme client should not, at any time, exceed the individual investor quota.
34. The individual investor quota for each investor under the Southbound Scheme is RMB 3 million. If an investor simultaneously selects both an eligible Hong Kong bank and a Participating LC for investment under the Southbound Scheme, the individual investor quota allocated between the eligible Hong Kong bank and the Participating LC will each be RMB 1.5 million. The Participating LCs and Partner Brokers should take corresponding measures to monitor the usage of individual quota. The usage of the individual investor quota under the Southbound Scheme is calculated as follows:

Usage of brokers' individual investor quota under the Southbound Scheme =
cumulative remittances from the Mainland to Participating LCs and Macao brokers
under the Southbound Scheme – cumulative remittances from Participating LCs and
Macao brokers back to the Mainland under the Southbound Scheme

Eligible investment products

35. Subject to paragraph 36 below, eligible investment products under the Southbound Scheme include the following investment products:
- (a) all funds domiciled in Hong Kong and authorised by the SFC which primarily invest in Greater China equities and are assessed as “non-complex” by Participating LCs distributing such funds;
 - (b) apart from the funds mentioned under sub-paragraph (a) above, funds domiciled in Hong Kong and authorised by the SFC which are assessed as “low” risk to “medium to high” risk and “non-complex” by Participating LCs distributing such funds, but excluding high-yield bond funds and single emerging market equity funds; and
 - (c) bonds which are assessed as “low” risk to “medium” risk and “non-complex” by Participating LCs distributing the bonds.
36. Eligible investment products do not include investment products listed and traded on the Hong Kong Exchanges and Clearing Limited.

¹² Includes the remittance of the Southbound Scheme client to his/ her dedicated investment accounts opened in Hong Kong and Macao.

Product due diligence (“PDD”)

37. Participating LCs should ensure the investment products distributed to clients are eligible investment products. They should conduct pre-sale and ongoing due diligence on investment products under the Southbound Scheme by referring to the PDD requirements prescribed by the SFC¹³. They should also put in place appropriate and effective mechanisms for assessing the risk and determining the risk ratings of investment products.
38. Since complex products are excluded from the Southbound Scheme, Participating LCs should determine whether an investment product is a complex product by referring to the guidance set out in the Online Platform Guidelines¹⁴ and the examples of complex products posted on the SFC’s website¹⁵. For instance,
 - (a) complex SFC-authorized funds, in general, refer to derivative funds with a net derivative exposure of more than 50% of its net asset value¹⁶; and
 - (b) complex bonds refer to bonds with special features¹⁷ and bonds comprising one or more special features.
39. Participating LCs should establish and implement appropriate and effective systems and controls to ensure that PDD assessment of the investment products is fair and balanced. All relevant features and risks should be well understood and adequately assessed during the PDD process. Participating LCs should maintain proper documentation of the PDD work done and corresponding internal approval obtained for the distribution of the products under the Southbound Scheme.
40. In principle, the assessment conducted by Participating LCs on the risk and complexity of investment products distributed under the Southbound Scheme should not be different from that of the same products distributed through other channels.
41. Where Participating LCs, in the course of their ongoing PDD of investment products they distribute, upward adjust the product risk rating of investment products, the Participating LCs should disclose such rating change to those Southbound Scheme clients who have purchased and are still holding such products.
42. If Participating LCs consider a product no longer suitable to be an eligible investment product under the Southbound Scheme (for example, it is no longer a “non-complex” product), the Participating LCs should stop distributing such investment product through the Southbound Scheme. In addition, the Participating LCs should disclose the relevant circumstances to those Southbound Scheme clients who have purchased and are still holding such investment product, and allow those clients to choose to retain the product in their dedicated investment account or sell the investment product, and keep a record

¹³ Please refer to answer to question 4 of the Suitability FAQs and paragraph 5.7 of the Guidelines on Online Distribution and Advisory Platforms issued by the SFC (“Online Platform Guidelines”).

¹⁴ For example, the factors to determine whether an investment product is complex or not are set out in paragraph 6 of the Online Platform Guidelines.

¹⁵ <https://www.sfc.hk/en/rules-and-standards/suitability-requirement/non-complex-and-complex-products>

¹⁶ Please refer to paragraph 7.26 of the SFC’s Code on Unit Trusts and Mutual Funds.

¹⁷ Bonds with special features include, but are not limited to, perpetual or subordinated bonds, or those with variable or deferred interest payment terms, extendable maturity dates, or those which are convertible or exchangeable or have contingent write down or loss absorption features, or those with multiple credit support providers and structures.

of the choice of the client. Nevertheless, subject to paragraphs 54 and 61 below, no solicitation or recommendation (for example, recommendation on whether the client should retain or sell the investment product) should be provided by the Participating LCs in such process.

43. Participating LCs should also:

- (a) ensure that the Southbound Scheme clients meet the investor eligibility specified in the offering documents of the investment products; and
- (b) have appropriate control measures to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Part IV of the Securities and Futures Ordinance.

Promotion and sales

Promotion targeting the Mainland public¹⁸ without a Southbound Scheme account (either a dedicated investment account or a dedicated remittance account)

44. Participating LCs may display and provide in Hong Kong (including their place of business or through appropriate channels such as telephone, video conferences, online platforms, media, etc.):

- (a) general information about the Cross-boundary WMC (including the scope and categories of eligible products, quota, fund remittance and transfer arrangements and investor protection);
- (b) factual representations on the Southbound Scheme services provided by the Participating LCs (including the detailed arrangements for opening a dedicated investment account under the Southbound Scheme to conduct investment; categories of products and relevant services provided by the Participating LCs; contact details of the Participating LCs; and a representation made in a prescribed manner¹⁹ on the partnership arrangement between the Participating LCs and their Partner Broker(s)); and
- (c) broad description of the scope and categories of investment products under the Southbound Scheme. For example, number of products (including breakdown of number of products under sub-categories, such as number of funds by market or industry), nature, risks, features, fees and charges, range of return, etc.

45. Participating LCs may provide filtering function on their websites, mobile platforms and other electronic channels to allow the Mainland public to identify, in a self-directed manner, the eligible investment products provided by the Participating LCs under the Southbound Scheme.

46. Upon request by an individual Mainland investor, Participating LCs may provide factual information on the services and individual investment products under the Southbound Scheme (including a list of investment products offered, offering documents/

¹⁸ Includes non-Southbound Scheme clients of Participating LCs and their Mainland brokers (if any).

¹⁹ Please refer to the Frequently Asked Questions ("FAQs") to this circular for the prescribed manner.

prospectuses of individual products and product key fact statements), and respond to enquiries on investment services and individual investment products provided by Participating LCs under the Southbound Scheme (for example, explaining the features (such as underlying assets and past investment performance) and risks of individual products or certain product categories).

47. Participating LCs may provide information on macroeconomic conditions, market environment, industry segments, sectoral trends, general financial information, information such as that generally related to the Cross-boundary WMC, as well as investor education (for example, educating investors on how to read and understand different types of product documents). They may also send staff to participate (or invite fund companies that have entered into distribution agreements with the Participating LCs to jointly participate) in briefings and seminars organised by Partner Brokers on the Mainland for the public to explain the information mentioned under paragraph 44 above and this paragraph. Participating LCs may disclose in public marketing materials that they offer gifts and/ or provide promotional offers for investors opening dedicated investment accounts (but investors would need to check with the relevant Participating LCs for the details of such gifts and/ or promotional offers). Upon request by individual investors, Participating LCs may introduce the details of such gifts and/ or promotional offers for opening dedicated investment accounts.
48. The information provided by Participating LCs to the Mainland public as mentioned under paragraphs 44 to 47 above should be factual and fair representations and should not (i) involve solicitation or recommendation²⁰; (ii) constitute an offer to the Mainland public in relation to individual investment products; or (iii) constitute active marketing of the Participating LCs' Cross-boundary WMC services to the Mainland public.

Distribution of investment products to clients with a Southbound Scheme account (including both dedicated investment accounts and dedicated remittance accounts)

49. Southbound Scheme clients may log in and access the websites or mobile platforms of Participating LCs to browse further investment product information under the Southbound Scheme.
50. Participating LCs may, upon request by Southbound Scheme clients, provide factual information on the services and individual investment products under the Southbound Scheme (including a list of investment products offered, offering documents/ prospectuses of individual products and product key fact statements), and respond to enquiries on investment services and individual investment products provided by Participating LCs under the Southbound Scheme (for example, explaining the features (such as underlying assets and past investment performance) and risks of individual products or certain product categories).
51. The information provided by Participating LCs to existing Southbound Scheme clients as mentioned under paragraphs 49 and 50 above should include all relevant key information, including product nature and risks, and should be factual and fair representations. It should not involve solicitation or recommendation.

²⁰ Including advising on securities and fund investments.

52. Participating LCs may provide Southbound Scheme clients with their research reports for reference, but the content therein should not involve individual investment products. Participating LCs may offer gifts (including gifts specific for Cross-boundary WMC services) to Southbound Scheme clients. However, such gifts should not be offered for specific investment products. Participating LCs may also provide other promotional offers (including promotional offers specific for Cross-boundary WMC services), such as discounts/ waivers/ rebates for transaction fees, other fees or charges.
53. Southbound Scheme clients may place their orders directly to Participating LCs through, amongst other things, the websites or mobile platforms of the Participating LCs, but may not rely on Partner Brokers to relay their orders to the Participating LCs.
54. Participating LCs may, upon request by Southbound Scheme clients not physically present in Hong Kong, conduct investment product screening based on the clients' personal situation, and introduce and explain the information of the products (for example, the key features and risks, investment objectives and strategies of the products) through appropriate communication channels (including telephone, video conferences and instant messaging applications) at their place of business²¹.
55. For those transactions which do not involve solicitation or recommendation and complex products, Participating LCs do not have to conduct suitability assessment for transactions executed by Southbound Scheme clients. For the avoidance of doubt, Participating LCs should perform PDD (see paragraph 37 above) and conduct risk profiling assessment for clients (see paragraph 56 below).
56. In addition, to facilitate Southbound Scheme clients in making investment decisions, Participating LCs should assess clients' risk profile²² and ensure the risk profiling result is valid when conducting transactions on investment products with the clients. Where there is a risk mismatch in such transaction (ie, the risk rating of the product is higher than the client's risk profiling result), Participating LCs should alert the client and seek confirmation from the client as to whether to proceed with such transaction.

Post-sale follow-up

57. Participating LCs may contact their Southbound Scheme clients to provide updates on their investment portfolios. They may also provide information on macroeconomic conditions and other information.
58. Subject to paragraph 54 above and paragraph 61 below, Participating LCs should establish a mechanism to ensure that their interaction with their Southbound Scheme clients does not involve solicitation or recommendation.
59. Participating LCs should refer to the requirements under paragraphs 50 and 54 above in responding to Southbound Scheme clients' enquiries on individual investment products.
60. When Participating LCs conduct activities in the Mainland, whether targeting the Mainland public or clients with a Southbound Scheme account, they should comply with

²¹ Participating LCs are required to comply with paragraph 5.2 of the SFC Code of Conduct.

²² Please make reference to answer to questions 2 and 3 of the Suitability FAQs and paragraph 5.7 of the Online Platform Guidelines.

relevant Mainland laws and regulations. For instance, Participating LCs without the securities investment consultancy qualification in the Mainland should not provide investment analysis, forecasts or recommendations about, amongst other things, the value of securities and their related products as well as market trends. In addition, where Participating LCs send staff to participate in briefings and seminars organised on the Mainland for the Mainland public as mentioned under paragraph 47 above, they should not (i) promote their Southbound Scheme services to the Mainland public; (ii) promote or carry on regulated activity or promote individual investment products; and (iii) market their investment services unless the required licence or registration for the relevant regulated activity has been obtained from the Mainland regulatory authorities.

Arrangements for Southbound Scheme clients physically present in Hong Kong

61. For Southbound Scheme clients who are physically present in Hong Kong, Participating LCs should provide services to such clients in accordance with Hong Kong's laws and regulatory requirements, as well as ensuring compliance with the requirements set out in this circular, including but not limited to the requirements on quotas and scope of eligible investment products. Participating LCs may make solicitation or recommendation to Southbound Scheme clients physically present in Hong Kong, but should ensure compliance with the suitability obligations²³.
62. For detailed promotion and sales arrangements, please refer to the FAQs to this circular.

Financing arrangements

63. Participating LCs should not provide financial accommodation to facilitate Southbound Scheme clients in acquiring any eligible investment products.

Controls, supervision and staff competency

64. Participating LCs should have robust governance arrangements in place for overseeing the operations under the Cross-boundary WMC as well as adequate internal control procedures and financial and operational capabilities to ensure that the operations are carried out properly²⁴.
65. Senior management of Participating LCs bears primary responsibility for ensuring that Participating LCs comply with the LC's internal policies and procedures and all applicable laws, rules and codes²⁵. In particular, the senior management of the Participating LCs should:
 - (a) assign at least one responsible officer responsible for the direct supervision of the Participating LC's Cross-boundary WMC business;
 - (b) put in place appropriate systems and controls, as well as appropriate monitoring, compliance and audit mechanisms to ensure compliance with the Participating LC's internal policies and procedures and applicable legal and regulatory requirements;

²³ Paragraph 5.2 of the SFC Code of Conduct.

²⁴ GP3 and paragraph 4.3 of the SFC Code of Conduct and Internal Control Guidelines.

²⁵ GP9 of the SFC Code of Conduct.

- (c) establish appropriate reporting and escalation mechanisms to ensure that timely and accurate management information reports are provided to the senior management and keep the senior management informed on a timely basis of any risks or non-compliance;
 - (d) recruit staff who are fit and proper and have adequate level of knowledge and skills to provide services to clients²⁶; and
 - (e) provide regular and appropriate training to staff and ensure that they keep abreast of developments of the industry and comply with internal policies and procedures and applicable regulatory requirements²⁷.
66. Participating LCs should conduct a thorough assessment before embarking on Southbound Scheme activities to ensure that the relevant parties (including the Board of Directors or its designated committees and senior management) fully understand the risks involved and have adequate internal procedures and sufficient manpower, expertise and resources (finance, risk management, compliance, etc.) to engage in the relevant business and manage the risks involved.

Non-compliance and breaches

Non-compliance and breaches by Participating LCs

67. Where non-compliance or breaches by Participating LCs of requirements set out in this circular, applicable laws, rules or codes in their course of business under the Southbound Scheme are noted (for example, through self-reporting by the Participating LCs²⁸ and the SFC's on-going supervision), the SFC will consider the non-compliance and breaches and determine whether the Participating LCs' eligibility to engage in the Southbound Scheme or the Cross-boundary WMC should be suspended.
68. In the event of such suspension, the Participating LC concerned should handle the investments and assets of existing Southbound Scheme clients in accordance with the SFC's instructions, including but not limited to retaining the invested investment products until redemption upon maturity and remittance of the relevant funds back to the Mainland upon maturity or withdrawal of the investments within a specified timeframe (see Appendix 1).
69. The SFC may take supervisory and/ or enforcement actions against the relevant Participating LCs and/ or their relevant personnel in respect of non-compliance or breaches of any requirements applicable to the provision of the Cross-boundary WMC service.

²⁶ Including, but not limited to, handling the opening of dedicated investment accounts, responding to enquiries in relation to the operation of the Cross-boundary WMC, product scope and distribution of investment products.

²⁷ Including, but not limited to, training on operation of the Cross-boundary WMC, sale process, product knowledge, complaint handling mechanism, market information and regulatory requirements of the two jurisdictions in relation to the Cross-boundary WMC.

²⁸ Paragraph 12.5 of the SFC Code of Conduct.

Non-compliance and breaches by Mainland investors

70. Participating LCs should not open a dedicated investment account for a Mainland investor if they are aware that the Mainland investor has already maintained a dedicated investment account with another Participating LC²⁹. They could do so only if the Mainland investor has closed the existing dedicated investment account.
71. If Participating LCs become aware of any non-compliance or breach by a Mainland investor of any requirements set out in this guidance or relevant regulations (for example, becoming aware of an investor possessing more than one dedicated investment account), they should file a report with the SFC immediately.
72. The SFC will review the relevant non-compliance or breach and instruct Participating LCs to take follow-up action, including but not limited to requiring them:
 - (a) to suspend the investor from engaging in the Southbound Scheme;
 - (b) to dispose of the investment products held by the investor and terminate his/ her dedicated investment account; and
 - (c) allow the investor to hold the investment products until redemption at maturity while forbidding investment in any new investment products.
73. Participating LCs should ensure that the relevant client agreements are contractually effective in addressing the above situation and should clearly explain the situation to the client.

Investor protection and complaint handling mechanism

74. The transactions carried out by Southbound Scheme investors via their dedicated investment accounts are subject to the protection of Hong Kong's laws and regulations and regulatory regime. Participating LCs should also provide Southbound Scheme investors with proper investor education on, amongst other things, communication with Participating LCs and remittance channels, and issue anti-scam alerts.
75. Should a Southbound Scheme investor file a complaint (including complaints involving investment products and the sale process) to Participating LCs, the Participating LCs should handle the complaint in accordance with the requirements prescribed by the SFC³⁰.
76. Participating LCs should put in place appropriate management controls as well as appropriate and effective complaint handling procedures, to ensure that complaints are handled fairly, consistently and promptly, and that the Participating LCs are able to identify and remedy any recurring problems, as well as any specific issues.

²⁹ For example, by requiring investors to make a declaration and pass the checking by Partner Brokers prior to account opening (see paragraph 6(b) above).

³⁰ Including paragraph 12.3 of the SFC Code of Conduct, part V(5) of the Internal Control Guidelines, and other guidance published by the SFC, such as the Circular on handling of client complaints dated 31 March 2022.

77. Participating LCs should provide cross-boundary complaint channels for Southbound Scheme investors to facilitate the cross-boundary submission and follow-up of complaints by investors regarding the services provided by the Participating LCs. Such channels may include online platforms, toll-free hotlines, emails and others.
78. Regarding complaints about cross-boundary fund remittances under the Southbound Scheme, Participating LCs should refer the complaint to the relevant Partner Broker for follow-up and assist investors as appropriate. After referral of any complaint, Participating LCs should take appropriate follow-up actions to ensure that the complaint is duly handled and addressed by the relevant Partner Broker within a reasonable time.

Data reporting and submission

79. Participating LCs should collect, compile and report data or information on Southbound Scheme activities as requested by the SFC, including but not limited to information on accounts, sales of investment products, product categories, product lists, client complaints and compliance with relevant regulatory requirements, etc.
80. Participating LCs should designate at least two staff members as the contact persons for liaising with the SFC.

Handling of personal data

81. Participating LCs should handle the personal data of their clients in accordance with the Personal Data (Privacy) Ordinance at all times.

Exchange of information under the Memorandum of Understanding

82. The SFC has entered into a memorandum of understanding with the Hong Kong Monetary Authority and the Mainland regulatory authorities, under which the parties thereto will exchange information on supervisory and enforcement cooperation.

Appendix 1

Procedures for handling client assets when Participating LCs are suspended from participating in the Southbound Scheme

1. Participating LCs' eligibility to engage in the Southbound Scheme may be suspended:
 - (a) when there are material non-compliance or breaches by Participating LCs of requirements set out in the applicable laws, rules, codes and circulars in their course of business under the Southbound Scheme, or
 - (b) when requested by the Participating LCs.

("Suspended LCs")
2. In the event of such suspension, the Suspended LC concerned should handle the investments and assets of existing Southbound Scheme clients in accordance with the SFC's instructions. Amongst other things:
 - the client can maintain the investments in the account with the Suspended LC and the Suspended LC can only sell the investments on behalf of the client or hold them till maturity;
 - the corresponding proceeds will be remitted back to the client's dedicated remittance account; and
 - the client cannot open an investment account with another Participating LC or eligible Hong Kong bank until the client has closed the dedicated investment account maintained with the Suspended LC.

Closed-loop fund flow arrangement for Participating LCs

