

## Regulatory Requirements on Licensed Corporations Participating in the Northbound Scheme

1. The Northbound 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”) refers to eligible Hong Kong investors investing in eligible investment products offered by eligible firms in the Mainland<sup>1</sup> via designated channels.
2. Should eligible Hong Kong investors wish to invest in eligible investment products offered by eligible Mainland broker, they should open (a) an account with investment function with an eligible Mainland broker (“dedicated investment account”); and (b) an account with the eligible Mainland broker’s partner licensed corporation (“Participating LC”) in Hong Kong and this account should be used solely for Cross-boundary WMC purposes (“dedicated remittance account”). The Hong Kong investor will have to deposit funds via the dedicated remittance account and purchase eligible investment products offered by the eligible Mainland broker via the dedicated investment account.

### Eligible investors

3. Eligible Hong Kong investors refer to all Hong Kong residents who hold Hong Kong identity cards (including permanent and non-permanent residents). These investors must invest in their personal capacity. Investments in joint names or in the names of corporate clients are not accepted. Neither are they allowed to authorise a third party to operate their accounts.
4. Participating LCs must verify the eligibility of Hong Kong investors to participate in the Northbound Scheme.

### Eligible licensed corporations

5. Licensed corporations (“LCs”) which wish to participate in the Northbound 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);

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<sup>1</sup> Eligible Mainland firms refer to financial institutions of the Mainland financial industry in the Greater Bay Area which meet the criteria set by Mainland regulatory authorities to participate in Cross-boundary WMC, including eligible Mainland banks and eligible Mainland brokers.

- (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 arrangements” under paragraphs 16 to 22 below.
6. 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, 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;
  - (b) falls below HK\$100 million. It should also immediately cease providing any services under the Northbound Scheme. Notwithstanding, the SFC may permit the Participating LC to carry on limited activities, such as remitting the relevant funds back to the clients within a specified timeframe.
7. In general, LCs that intend to participate in the Northbound Scheme should, at least three months prior to launching their Northbound Scheme activities:
- (a) notify the SFC of their plan (covering, amongst other things, their roles and services to be provided, closed-loop fund flow arrangements, review and monitoring mechanism, senior management oversight, promotion and sales arrangements and their partnership arrangements with eligible Mainland broker(s)); and
  - (b) 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.

### **Partnership arrangement with eligible Mainland broker**

8. Participating LCs should have partnership arrangements with an eligible Mainland broker (“Partner Broker”) on Cross-boundary WMC business. Participating LCs may have partnership arrangements with more than one Partner Broker at the same time.
9. Before partnering with any Partner Broker, Participating LCs should ensure that the Partner Broker has been confirmed by the relevant Mainland regulatory authorities that it is eligible for providing Cross-boundary WMC services.
10. Under the Northbound Scheme, Partner Brokers undertake the sale of investment products, including the opening of dedicated investment accounts for eligible Hong Kong investors. Participating LCs may assist Hong Kong investors in opening dedicated investment account with Partner Brokers and handling cross-boundary fund remittance and conduct Cross-boundary WMC related promotional and sales activities as permitted under the Frequently Asked Questions (“FAQ”) to this circular.
11. Participating LCs should enter into partnership agreements in writing with Partner Brokers, under which the roles and responsibilities of Participating LCs and Partner Brokers are to be clearly set out. Participating LCs should obtain the no objection notification from the SFC before they enter into or terminate a partnership arrangement with an eligible Mainland broker under the Northbound Scheme.

### **Account opening**

12. Investors, who wish to open a dedicated investment account with an eligible Mainland Broker, must also open a dedicated remittance account with a Participating LC<sup>2</sup> (These investors are referred to as “Northbound Scheme clients”). Participating LCs should provide disclosure and proper explanation in writing to the clients to ensure that they understand the requirements under the Northbound Scheme, amongst other things:
  - (a) roles and responsibilities of the Participating LC and the Partner Broker;
  - (b) closed-loop fund flow and fund transfer requirements; and
  - (c) complaint handling mechanism.

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 disclosures.

13. Hong Kong investors can open a dedicated investment account with Partner Brokers using a face-to-face or non-face-to-face approach. For non-face-to-face account opening, Participating LCs may assist Partner Brokers in collecting the required account opening documents and information from investors (for example, to assist Partner Brokers in collecting the identity documents of Hong Kong investors, etc.). Participating LCs should provide the investors with a written warning indicating that the Partner Broker is not a licensed corporation as defined in the Securities and Futures Ordinance, and

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<sup>2</sup> This Participating LC should have a partnership arrangement with the eligible Mainland broker at which the investors wish to open the dedicated investment account with.

that investments maintained with the Partner Broker are not protected by the Investor Compensation Fund in Hong Kong.

An example of such warning can be “[Name of the Partner Broker] is incorporated in [name of jurisdiction where it is incorporated] and is not a licensed corporation as defined in the Securities and Futures Ordinance and is not subject to the supervision of the Securities and Futures Commission. [Name of the Partner Broker] cannot carry on any regulated activities in Hong Kong. Any investments maintained with [Name of the Partner Broker] are not protected under the Investor Compensation Fund in Hong Kong.”.

14. Each eligible Hong Kong investor can only participate in the Northbound Scheme through one of the following approaches: (i) selecting an eligible Mainland broker; (ii) selecting an eligible Mainland bank; or (iii) selecting both approaches mentioned in (i) and (ii) above. Partner Brokers should also take corresponding measures to ascertain that the Mainland investors have only participated in the Northbound Scheme through one of these approaches.
15. Should an eligible Hong Kong investor who has already opened a dedicated remittance account with another Participating LC wish to open a new dedicated remittance account, he/ she should close his/ her existing dedicated remittance account with such Participating LC. Partner Brokers should also take corresponding measures to check the status of such investors.

#### **Closed-loop fund flow arrangements**

16. Northbound Scheme clients should indicate clearly to Participating LCs their consent for the Participating LCs and Partner Brokers to assist in transferring their funds between their dedicated remittance accounts and dedicated investment accounts.
17. Participating LCs should 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”). Participating LCs 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 at one Hong Kong bank as the Hong Kong omnibus account.
18. 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”). Participating LCs should pair their Hong Kong omnibus account with the Mainland omnibus account of their Partner Brokers.
19. The Hong Kong omnibus account should solely be used by Participating LCs for remitting funds from the Northbound Scheme clients to the Mainland omnibus account of their Partner Brokers (or for receiving funds of Northbound Scheme clients from the Mainland omnibus account of their Partner Brokers). The funds remitted can only be used for Cross-boundary WMC investment purposes.

20. Upon the receipt of the Northbound Scheme clients' instruction, Partner Brokers could only remit both the clients' principal and investment proceeds back to the Hong Kong omnibus account of the Participating LCs. Participating LCs are responsible for returning the client funds back to the Northbound Scheme clients.
21. All cross-boundary remittances between the Hong Kong omnibus accounts of the Participating LCs and the Mainland omnibus accounts of the Partner Brokers should be conducted in RMB and through the Cross-border Interbank Payment System. All cross-boundary remittances related to the Northbound Scheme cannot be conducted through other channels.
22. Participating LCs should record in detail and monitor the funds of each Northbound Scheme client, and maintain proper transaction records of the Hong Kong omnibus account and the dedicated remittance account of the Northbound Scheme clients, including the inflows and outflows of funds, etc., to ensure that all funds received and held on behalf of the Northbound Scheme clients are promptly and properly accounted for and adequately safeguarded. The records should be retained for review or investigation by Participating LCs, their auditors and the SFC<sup>3</sup>.

### **Aggregate quota**

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

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

The Guangdong Provincial Branch<sup>4</sup> and Shenzhen Branch<sup>5</sup> of the People's Bank of China will update the usage of the aggregate quota on each trading day on their websites.

25. When the usage of the aggregate quota under the Northbound Scheme reaches its upper limit, Participating LCs can only proceed with inward remittance back to Hong Kong under the Northbound Scheme and cannot proceed with outward remittance to the Mainland under the Northbound Scheme.
26. Prior to providing Northbound 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 Hong Kong to the Mainland under the

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<sup>3</sup> Under Part IV(6) of the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission ("Internal Control Guidelines").

<sup>4</sup> <http://guangzhou.pbc.gov.cn/guangzhou/129196/4332364/4332372/4332394/index.html>

<sup>5</sup> <http://shenzhen.pbc.gov.cn/shenzhen/4334824/4334830/4334837/index.html>

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

### **Individual investor quota**

27. The individual investor quota for each investor under the Northbound Scheme is RMB 3 million. If an investor simultaneously selects both an eligible Mainland bank and an eligible Mainland broker for investment under the Northbound Scheme, the individual investor quota allocated between the bank and the broker will each be RMB 1.5 million. Participating LCs and Partner Brokers should take corresponding measures to monitor the usage of the individual investor quota. The usage of the individual investor quota under the Northbound Scheme is calculated as follows:

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

28. Participating LCs should monitor cross-boundary remittances. Before remitting funds from Northbound Scheme clients to Partner Brokers, Participating LCs should ascertain that the cumulative net remittance to Partner Brokers from Northbound Scheme clients does not exceed the individual investor quota. If the amount that a Northbound Scheme client plans to remit exceeds his/ her remaining individual investor quota, Participating LCs should refuse to remit the funds or only remit the amount of the remaining individual investor quota.

### **Eligible investment products**

29. Eligible investment products under the Northbound Scheme mainly include public securities investment funds with risk rating "R1" to "R4" (excluding commodity futures funds) distributed by Partner Brokers. For details, please refer to the implementation arrangements issued by the Mainland regulatory authorities.

### **Promotion and sales**

30. Participating LCs may, through appropriate channels in Hong Kong, display and provide factual representations to the public (including non-Northbound Scheme clients) on the Northbound Scheme services provided by the Participating LCs (including the operational arrangements of the Northbound Scheme services, detailed arrangements for opening a dedicated remittance account under the Northbound Scheme, relevant services provided by the Participating LCs under the Northbound Scheme, contact details of the Participating LCs, and a representation made in a prescribed manner<sup>6</sup> on the partnership arrangement between the Participating LCs and their Partner Broker), and general information about the Cross-boundary WMC (including the scope and categories of eligible investment products, quota, funds remittance and transfer arrangements, investor protection, etc.). Participating LCs may also provide investor

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<sup>6</sup> Please refer to the FAQs to this circular for the prescribed manner.

education (for example, educating investors on how to read and understand different types of product documents).

31. Participating LCs may upon enquiry or request by a Hong Kong investor:
  - (a) provide basic contact information of Partner Brokers (such as name, phone number, branch addresses and website address, etc.); and
  - (b) assist in arranging a direct dialogue or video conference with the Partner Brokers on the Northbound Scheme service. In respect of the investor's first request, Participating LCs may provide the contact information of the Partner Brokers (such as telephone number) to allow the Hong Kong investor to initiate the relevant dialogue or conference (Participating LCs' representatives can participate in such dialogue or conference). If the Hong Kong investor and the Partner Broker agree that the Participating LC can assist the Hong Kong investor in arranging a direct dialogue or conference with the Partner Broker in the future, the Participating LC can arrange the relevant dialogue or conference in the future upon the investor's request.
32. Participating LCs may organise briefings and seminars in Hong Kong for the Hong Kong public to introduce the content set out in paragraph 30 above, and information on macroeconomic conditions, market environment, industry segments, sectoral trends or general financial information, etc.
33. Participating LCs must be cautious that the information provided on the Cross-boundary WMC (i) should be factual and fair representations and should not involve solicitation or recommendation; (ii) should not constitute an offer to the Hong Kong public in relation to individual investment products; and (iii) should not constitute active marketing of the Partner Broker's Cross-boundary WMC services to the Hong Kong public. There should not be any indication which suggests that the Participating LC is the representative or agent of the Partner Broker in Hong Kong.
34. For detailed promotion and sales arrangements, please refer to the FAQs to this circular.

### **Controls, supervision and staff competency**

35. The senior management of Participating LCs should bear primary responsibility for ensuring adherence by the Participating LCs to their internal policies and procedures as well as all applicable laws, rules and codes. This includes putting in place appropriate systems and controls, as well as appropriate monitoring, compliance and audit mechanisms to ensure compliance with the internal policies and procedures as well as applicable legal and regulatory requirements by the Participating LCs; recruiting appropriate staff who have suitable knowledge and skills to provide services to clients; and providing regular and appropriate training to the staff.

## Breaches

36. Where non-compliance or breaches by Participating LCs of the requirements in this circular, applicable laws, rules or codes are found in their course of business under the Northbound Scheme, the SFC will assess the relevant non-compliance and breaches, and determine whether it is necessary to suspend the Participating LCs' eligibility to engage in the Northbound Scheme or the Cross-boundary WMC.
37. The SFC may take supervisory and/ or enforcement actions against the Participating LCs involved and/ or their relevant personnel in respect non-compliance or breaches of the applicable requirements in their course of business under the Cross-boundary WMC.
38. If Participating LCs become aware of any non-compliance or breach by an individual investor of any requirements set out in this circular or relevant regulations (for example become aware of an investor possessing more than one dedicated investment account<sup>7</sup>), they should file a report to the SFC immediately. 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

39. The transactions carried out by the Northbound Scheme investors via their dedicated investment accounts are subject to the protection of the Mainland laws and regulations and regulatory regime. Participating LCs should also provide Northbound Scheme investors with proper investor education on, amongst other things, communication with Participating LCs and remittance channels, and issue anti-fraud alerts.
40. Regarding complaints about investment products and services under the Northbound Scheme, Participating LCs should refer the complaints to the Partner Brokers 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 Brokers within a reasonable time.
41. Participating LCs should handle complaints involving cross-boundary fund remittances under the Northbound Scheme in accordance with the requirements prescribed by the SFC<sup>8</sup>.

## Data reporting and submission

42. Participating LCs should collect, compile and report data or information on Northbound Scheme activities as requested by the SFC, including but not limited to information on accounts, cross-boundary fund remittance and transfer, client complaints and compliance with relevant regulatory requirements, etc.
43. Participating LCs should designate at least two staff members as the contact persons for liaising with the SFC.

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<sup>7</sup> For example, by requiring investors to make a declaration and pass the checking by Partner Brokers prior to account opening (see paragraph 14 above).

<sup>8</sup> Including paragraph 12.3 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, part V(5) of the Internal Control Guidelines, and other guidelines published by the SFC, such as the Circular on handling of client complaints dated 31 March 2022.





### **Personal data**

44. 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**

45. 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.