Annex 2

Regulatory Requirements on the Northbound Scheme

The Northbound Scheme refers to eligible Hong Kong investors investing in eligible wealth management products offered by banks on the Mainland via designated channels. An eligible Hong Kong investor should open a bank account in Hong Kong with cross-boundary remittance function ("dedicated remittance account"). Eligible banks on the Mainland should have an account on the Mainland with investment function ("dedicated investment account") for an eligible Hong Kong investor, and pair it with his/her dedicated remittance account in Hong Kong, with closed-loop management of funds flow between the accounts. Subsequently, such Hong Kong investor will be able to remit funds through the dedicated remittance account in Hong Kong to the dedicated investment account on the Mainland and purchase eligible wealth management products offered by the bank on the Mainland via the dedicated investment account.

1. Eligible banks

1.1 Registered institutions registered under the SFO for carrying on Type 1 regulated activity (dealing in securities), and engaging in retail banking or private banking business ("Hong Kong banks") may embark on Northbound Scheme activities in accordance with this Circular.

1.2 To embark on Northbound Scheme activities, a Hong Kong bank should partner with an eligible Mainland bank and sign a cooperation agreement on Cross-boundary WMC business setting out clearly each party's responsibilities and obligations (including that the Mainland partner bank should comply with the relevant requirements in this Circular). Eligible Mainland banks are financial institutions of the Mainland banking industry in the GBA which meet the criteria set by Mainland regulatory authorities ("Mainland partner banks"). A Hong Kong bank may at the same time partner with more than one Mainland partner bank to embark on Northbound Scheme activities.

1.3 Under the Northbound Scheme, Hong Kong banks undertake the cross-boundary funds remittances and transfers through dedicated remittance accounts, and Mainland partner banks undertake the sale of wealth management products, including the opening of dedicated investment accounts for eligible Hong Kong investors. Hong Kong banks intending to embark on Northbound Scheme activities are not required to seek approval from the HKMA, but should notify and submit a self-assessment to the HKMA at least one month prior to the launch of such activities. The HKMA may provide comments or request for supplementary information from the banks as needed. After obtaining "no objection" notification from the HKMA, Hong Kong banks can embark on such activities (including starting to display and/or provide factual representations that the bank provides Northbound Scheme services). Before officially launching Cross-boundary WMC activities and embarking on Northbound Scheme activities with the Mainland partner banks, Hong Kong banks should ensure that the Mainland partner bank has been confirmed by the relevant Mainland regulatory authorities that it is eligible for providing Cross-boundary WMC services. The HKMA and the PBoC will have reciprocal notification arrangements on the particulars of banks embarking on Cross-boundary WMC activities in their respective jurisdictions.

1.4 Hong Kong banks intending to exit their Northbound Scheme activities or have material changes to their Northbound Scheme activities (for example, switch to another Mainland partner bank) should devise a plan for the exit or relevant changes, including but not limited to arrangements on affected customers (including arrangements for notifying affected customers and arrangements for the funds of their existing customers) (if applicable), the timetable for arrangements of the exit or relevant changes, relevant control measures etc., and consult the HKMA in advance on their plans for the exit or relevant changes.

2. Eligible investors

2.1 All Hong Kong residents who hold a Hong Kong identity card, including permanent and non-permanent residents, who are assessed by Hong Kong banks as not being a VC can participate in the Northbound Scheme. Northbound Scheme investors should invest in their personal capacity, but not as joint-name or corporate customers, and should not authorize a third party to operate the account.

2.2 Hong Kong banks are responsible for verifying Hong Kong customers' eligibility for participating in the Northbound Scheme. Hong Kong banks should conduct customer due diligence ("KYC") on all customers according to the prevailing requirements. For details, please refer to the section on "Account opening arrangements".

3. Account opening arrangements

3.1 After verifying a Hong Kong investor's eligibility for participating in the Northbound Scheme, Hong Kong banks should open an account for the Northbound Scheme investor (regardless of whether such investor already has accounts with the Hong Kong bank) as a dedicated remittance account under the Northbound Scheme. The Hong Kong bank should confirm (either in writing or through an internal system) with its partnering Mainland partner bank that it has verified the eligibility of the investor concerned for the Northbound Scheme as well as confirmed the particulars of the investor, such as his/her dedicated remittance account number.

3.2 Hong Kong banks should conduct customer due diligence for customers opening a dedicated remittance account according to the prevailing requirements.

3.3 Each eligible investor under the Northbound Scheme should apply to newly open a dedicated investment account under the Northbound Scheme with the Mainland partner bank, or designate his/her account maintained with the same Mainland partner bank as a dedicated investment account, in accordance with the relevant requirements on the Mainland[1].

To facilitate the account opening process in person, Mainland partner banks can offer online channels for customers to submit information, or Hong Kong banks can, in accordance with customers' instructions, assist customers to fill in the required account opening documents[2] beforehand and transfer such documents to the Mainland partner banks on the customers' behalf. Customers can then travel to the Mainland to complete the account opening procedures after preliminary approval by the Mainland partner banks.

3.4 Each Hong Kong resident holding a Hong Kong identity card can open only one dedicated remittance account under the Northbound Scheme with one Hong Kong bank. Hong Kong banks and their

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[1] For details, please refer to the Mainland Guidance.

[2] If applicable, the account opening documents should clearly state that the subject Mainland partner bank is not an authorized institution ("AI") under the Banking Ordinance ("BO") and is not subject to the supervision of the Monetary Authority, and that the Mainland partner bank cannot carry on in Hong Kong any banking business or business of taking deposits.

Mainland partner banks should take corresponding measures to ascertain that the investors have not conducted any Northbound Scheme activities with other banks. Such dedicated remittance account should be used only for remittance purposes under the Northbound Scheme, and should not be used for the provision of any other services of the Hong Kong bank[3].

3.5 Prior to opening dedicated remittance accounts under the Northbound Scheme for customers, Hong Kong banks should provide sufficient disclosure and proper explanation to customers to ensure that they understand the requirements of the Northbound Scheme (including the respective roles and responsibilities of Hong Kong banks and Mainland partner banks, closed-loop fund flow and two-way funds transfer requirements, complaint handling mechanism, etc.), investor responsibility, associated risks (including exchange rate risk and risks under quota management, etc.), disclosure of information to relevant regulatory authorities and handling of non-compliance or breaches by investors upon identification (see section on "Non-compliance and breaches"). Hong Kong banks should remind customers to understand the rules and procedures relevant to transactions in the Mainland wealth management product market, and consider their own circumstances before making investment decisions.

3.6 Hong Kong banks should not provide Cross-boundary WMC services to VCs. Prior to opening a dedicated remittance account for a customer, Hong Kong banks should conduct an assessment according to the relevant guidelines[4] issued by the HKMA to determine whether the customer is a VC. After opening a dedicated remittance account, if a customer becomes a VC due to a change in personal circumstances, Hong Kong banks should take follow-up actions. In general, the customer can keep or terminate such dedicated remittance account. If the customer chooses to keep such dedicated remittance account, Hong Kong banks can continue providing Northbound Scheme services to the customer, and should notify the Mainland partner banks to facilitate them in making any appropriate arrangements.

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[3] For the avoidance of doubt, customers can, without involving cross-border remittance to/from the Mainland, remit funds from the dedicated remittance account to other accounts, or remit funds from other accounts to the dedicated remittance account under the Northbound Scheme.

[4] For details, please refer to section (A)(III.2) of Annex 1 to the circular issued by the HKMA on 25 September 2019 entitled "Investor Protection Measures in respect of Investment, Insurance and Mandatory Provident Fund Products". Hong Kong banks should not accept a "VC for non-complex investment products" as an investor under the Northbound Scheme.

3.7 After receiving confirmation from a Mainland partner bank of the successful opening of a dedicated investment account, the Hong Kong bank should pair the investor's dedicated remittance account with his/her dedicated investment account maintained with the Mainland partner bank to form a one-to-one matching, thereby ensuring a closed-loop funds flow. In case an investor fails to open a dedicated investment account, he/she may still retain the remittance account, and use such account for other purposes.

4. Cross-boundary remittance

4.1 <u>Closed-loop fund flow:</u> Hong Kong banks should ensure that funds remitted from an investor's dedicated remittance account to the Mainland will only be credited to the dedicated investment account with which such dedicated remittance account is paired, and funds remitted from the Mainland can only be from the paired dedicated investment account. Fund transfers between a dedicated remittance account and other Mainland accounts are not allowed.

4.2 Cross-boundary Renminbi ("RMB") remittance to the Mainland under the Northbound Scheme is not subject to the daily maximum quota per person for individual Hong Kong and Macao residents' inward remittance to bank accounts under the same name on the Mainland.

4.3 <u>Cross-boundary remittance should be conducted in RMB:</u> All cross-boundary remittances between dedicated remittance accounts and dedicated investment accounts should be conducted in RMB. That means, dedicated remittance accounts maintained by Hong Kong banks should only conduct cross-boundary outward remittance of RMB funds or receive inward remittance of RMB funds. Dedicated investment accounts maintained by Mainland partner banks should only conduct cross-boundary outward remittance of RMB funds to and receive inward remittance of RMB funds from dedicated remittance accounts maintained by Hong Kong banks.

4.4 Both the principal and investment proceeds of Northbound Scheme investors in the dedicated investment accounts can be remitted back in RMB to the dedicated remittance accounts with which they are paired.

4.5 Hong Kong banks should maintain proper records of the flows of funds into and out of dedicated remittance accounts for compliance review and auditing by the relevant regulatory authorities on the Mainland and in Hong Kong. Hong Kong banks should clearly explain to customers and obtain their consent to transfer such information to the relevant regulatory authorities during the account opening process. Regarding the record keeping period, Hong Kong banks should comply with the prevailing relevant requirements on record keeping.

4.6 Cross-boundary remittances between dedicated remittance accounts and dedicated investment accounts should be conducted through the Cross-border Interbank Payment System ("CIPS")[5]. Remittances by other means are not allowed. (See paragraph 5.3 below)

5. Aggregate quota

5.1 Remittance to the Mainland under the Northbound Scheme is subject to an aggregate quota. The aggregate quota is calculated on a net basis. The cumulative net remittance to the Mainland through the Northbound Scheme should not, at any time, exceed the aggregate quota.

5.2 The aggregate quota for the Northbound Scheme is initially set at RMB 150 billion.

5.3 Hong Kong banks and their Mainland partner banks should conduct all cross-boundary remittances related to the Northbound Scheme through the CIPS following payment instructions set out in the Mainland Guidance. The PBoC Guangzhou Branch and Shenzhen Central Sub-branch will update the usage of the aggregate quota each trading day on their websites.

5.4 The usage of 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 back to Hong Kong and

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[5] Including making use of the CIPS cross-boundary payment service offered by RMB Participating Banks in Hong Kong.

Macao under the Northbound Scheme

5.5 Hong Kong banks should check the usage of the aggregate quota before proceeding with outward remittance under the Northbound Scheme to ensure that the net remittance to the Mainland does not exceed the quota. When the usage of the aggregate quota under the Northbound Scheme reaches its upper limit, Hong Kong banks cannot proceed with outward remittance from Hong Kong to the Mainland and can only accept inward remittance back to Hong Kong under the Northbound Scheme.

5.6 Hong Kong banks and Mainland partner banks should not conduct cross-boundary remittances related to the Northbound Scheme through other channels. Prior to providing Northbound Scheme services to customers, Hong Kong banks and Mainland partner banks should explain in detail the possible impact of the restrictions of the aggregate quota on these customers (i.e. instructions for funds remittances from Hong Kong to the Mainland under the Northbound Scheme may be put on hold as a result of the aggregate quota being used up while remittances from the Mainland to Hong Kong and investment instructions using funds already remitted to the dedicated investment accounts will not be affected) and the associated risks.

6. Individual Investor Quota

6.1 Individual investor quota is calculated on a net basis. The net cumulative remittance from a dedicated remittance account to a dedicated investment account under the Northbound Scheme by each investor should not, at any time, exceed the individual investor quota.

6.2 The individual investor quota for each investor under the Northbound Scheme is RMB 1 million.

6.3 The usage of the individual investor quota under the Northbound Scheme is calculated as follows:

> Usage of individual investor quota under the Northbound Scheme = cumulative remittances to the Mainland under the Northbound Scheme – cumulative remittances from the Mainland under the Northbound Scheme

6.4 Hong Kong banks should monitor cross-boundary remittances to and from dedicated remittance accounts. Prior to proceeding with any outward remittance to an investor's dedicated investment account on the Mainland, Hong Kong banks should confirm that the investor's net cumulative remittance to the Mainland does not exceed the individual investor quota. If the amount that an investor plans to remit exceeds his/her remaining individual investor quota, Hong Kong banks should refuse to remit such funds or only remit the amount of the remaining individual investor quota.

7. Eligible wealth management products

7.1 Eligible wealth management products under the Northbound Scheme mainly include wealth management products distributed by banks that are of "low" risk to "medium" risk and relatively simple. For details, please refer to the implementation arrangements issued by the Mainland regulatory authorities.

8. Promotion and sale

8.1 A **Hong Kong bank** may through appropriate ways such as media, communication channels, etc., in Hong Kong, display and provide factual representations to the public (including non-Northbound Scheme customers) that the bank provides the Northbound Scheme services (including the operational arrangements, product categories, services provided by the bank under the Northbound Scheme, and a representation made in a prescribed manner[6] on the cooperation between the Hong Kong bank and the Mainland partner bank). The contents of the promotional materials should be factual and fair representations and should not involve solicitation and recommendation, and should not constitute an offer to the Hong Kong public in relation to investment in individual products or constitute active marketing of the Mainland partner bank's Cross-boundary WMC services to the Hong Kong public[7].

8.2 **Hong Kong banks** may organise briefings and seminars in Hong Kong for the Hong Kong public to introduce the content set out in paragraph 8.1 above, and information on macroeconomic conditions, market environment, industry segments, sectoral trends or general

[6] Please refer to the FAQs at the Appendix to this Circular for the prescribed manner.

[7] In respect of an offer to the Hong Kong public in relation to investment in individual products, please refer to section 103 of the SFO. In respect of the restriction of active marketing to the Hong Kong public of any services which constitute a regulated activity under the SFO, please refer to section 115 of the SFO.

financial information, etc.

8.3 For detailed promotion and sale arrangements, please refer to the FAQs at the Appendix to this Circular.

9. Controls and Supervision[8]

9.1 Hong Kong banks should conduct a thorough assessment before embarking on Northbound 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 sufficient manpower, expertise and resources (finance, risk management, compliance, etc.) to engage in the relevant business and manage the risks involved.

9.2 The senior management of Hong Kong banks should adequately supervise the operations under the Cross-boundary WMC. This includes putting in place appropriate systems and controls, as well as appropriate monitoring and audit mechanisms to ensure compliance with applicable laws and regulations and timely submission of complete and accurate management information reports to the senior management, so that the senior management stays vigilant of any risks or non-compliance. Executive Officers should directly supervise and be responsible for their Hong Kong banks' operations under the Cross-boundary WMC.

9.3 The compliance department of Hong Kong banks should ensure that the Hong Kong banks comply with the statutory and regulatory requirements and codes of conduct applicable to the Cross-boundary WMC, monitor and review their compliance status, and regularly report compliance matters to the senior management.

10. Non-compliance and breaches

10.1 The HKMA will conduct on-site examinations and off-site surveillances on Hong Kong banks' Northbound Scheme business. Where there are non-compliance or breaches by Hong Kong banks of the requirements set out in this guidance or applicable law, regulations and codes of conduct in their course of business under the Northbound Scheme, the HKMA and the PBoC will consider the non-compliance and breaches, and suspend the relevant banks'

[8] The HKMA's Supervisory Policy Manual ("SPM") module IC-1 "Risk Management Framework".

eligibility to engage in the Northbound Scheme or the Cross-boundary WMC. In the event of such suspension, the Hong Kong bank concerned should handle the funds of existing Northbound Scheme customers in accordance with the HKMA's instructions.

10.2 The HKMA and the SFC may take supervisory and/or enforcement actions against the relevant Hong Kong banks and/or their relevant personnel in respect of non-compliance or breach of statutory and regulatory requirements and codes of conduct applicable to the Cross-boundary WMC.

10.3 If a Hong Kong bank becomes aware of any non-compliance or breach by an individual investor of any requirements set out in this guidance or relevant regulations (for example becomes aware of an investor possessing more than one dedicated remittance/investment account), it should file a report to the HKMA immediately. The HKMA and the PBoC will review the relevant non-compliance or breach and instruct the Hong Kong bank and the Mainland partner bank concerned to take follow-up action, including but not limited to requiring it to suspend the investor from engaging in the Northbound Scheme; to dispose of the products held by the investor and terminate his/her dedicated investment account and dedicated remittance account; or allow the investor to hold the products until redemption at maturity while forbidding investment in any new products. Hong Kong banks should ensure that the relevant customer agreements are contractually effective in addressing the above situation and should clearly explain the situation to the customer.

11. Investor protection and complaint handling mechanism

11.1 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.

11.2 Hong Kong banks should handle complaints involving cross-boundary funds remittances under the Northbound Scheme in accordance with the HKMA's SPM module IC-4 "Complaint Handling Procedure". The SPM module stipulates that banks in Hong Kong 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 bank is able to identify and remedy any recurring problems, as well as any specific issues. Hong Kong banks should also handle complaints within the time limit prescribed in the SPM module IC-4.

11.3 Regarding complaints about wealth management products and services under the Northbound Scheme, Hong Kong banks should refer the complaints to the Mainland partner banks for follow-up and assist investors as appropriate. After referral of any complaint, Hong Kong banks should take appropriate follow-up actions to ensure that the complaint is duly handled and addressed by the relevant Mainland partner banks within a reasonable time.

12. Staff's knowledge and training[9]

12.1 Hong Kong banks should ensure that their relevant staff members engaged in Northbound Scheme activities are properly registered / licensed. Hong Kong banks should assign relevant individuals to handle the opening of dedicated remittance accounts under the Northbound Scheme, respond to enquiries in relation to Northbound Scheme's operation, product scope, and other relevant matters. Nevertheless, in general, it is not a must that customers' remittance instructions under the Northbound Scheme be handled by relevant individuals only.

12.2 The Board of Directors and senior management of Hong Kong banks are responsible for ensuring the competence and ethics of their staff members, including monitoring and assessing their knowledge, skills and performance; continuously providing staff members with adequate, appropriate and timely training and guidance, such as training on the operation, complaint handling mechanism and regulatory requirements of the two jurisdictions in relation to the Cross-boundary WMC; ensuring that staff members are competent at all times; and addressing any shortcomings in a timely manner.

13. Data reporting and submission

13.1 Hong Kong banks should collect, compile and report data or information on Northbound Scheme activities as requested by the HKMA, including but not limited to information on account opening, cross-boundary funds remittance and transfer, customer complaints and compliance with relevant regulatory requirements, etc.

[9] The HKMA's SPM module CG-6 "Competence and Ethical Behaviour".

13.2 Hong Kong banks should designate at least two staff members as the contact persons for liaising with the HKMA.

14. Personal Data

14.1 Hong Kong banks should handle the personal data of their customers in accordance with the Personal Data (Privacy) Ordinance at all times.