Annex 1

Regulatory Requirements on the Southbound Scheme

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

1. Eligible banks

1.1 Registered institutions registered under the Securities and Futures Ordinance (“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 Southbound Scheme activities in accordance with this Circular.

1.2 To embark on Southbound 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 set out in this Circular). Eligible Mainland banks are financial institutions of the Mainland’s 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 Southbound Scheme activities.

1.3 Under the Southbound Scheme, Mainland partner banks undertake the cross-boundary funds remittances and transfers through dedicated remittance accounts, and Hong Kong banks undertake the sale of wealth management products, including the opening of dedicated investment accounts for eligible Mainland investors.

Hong Kong banks intending to embark on Southbound 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 Southbound Scheme services). Before officially launching Cross-boundary WMC activities and embarking on Southbound Scheme activities with the Mainland partner bank, Hong Kong banks should ensure 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 Southbound Scheme activities or have material changes to their Southbound 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 assets and funds of their existing customers) (if applicable), the timetable for arrangements of the exit or relevant changes, relevant control measures etc. They should consult the HKMA in advance on their plans for the exit or relevant changes.

2. Eligible investors

2.1 Investors participating in the Southbound Scheme should comply with the criteria set out by the Mainland regulatory authorities. Southbound 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 Mainland partner banks are responsible for verifying the above-mentioned eligibility of the Mainland investors for participating in the Southbound Scheme. A Hong Kong bank should regard an investor eligible as a Southbound Scheme customer only after receiving the confirmation of the investor's eligibility from its partnering Mainland partner bank and assessing the investor as not being a vulnerable customer ("VC") (see paragraph 3.5 below). 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 Before opening a dedicated investment account under the Southbound Scheme (including an investment account and relevant settlement account) for an investor, Hong Kong banks should receive confirmation from their Mainland partner banks about the investor's eligibility for the Southbound Scheme and assess the investor as not being a VC (see paragraph 3.5 below). Regardless of whether such investor already has accounts with the Hong Kong bank, a separate investment account and a related settlement account should be opened with the Hong Kong bank as the dedicated investment account for such investor's Southbound Scheme investments. This is to enable effective monitoring of funds remittances and transfers conducted through dedicated investment accounts and implementation of the closed-loop funds flow management (see paragraph 4.1 below). Hong Kong banks should confirm (either in writing or through an internal system) with their Mainland partner banks the particulars of the investors, such as their dedicated remittance account numbers.

3.2 Hong Kong banks should conduct customer due diligence for customers opening a dedicated investment account in accordance with the prevailing requirements[1], including taking all reasonable steps to establish the true and full identity of each of their customers, and of each customer's financial situation, investment experience, and investment objectives. Besides, Hong Kong banks should assess the customers' risk profile[2]. As to a Southbound Scheme dedicated investment account, customers should (i) apply for a dedicated investment account for the Southbound Scheme by attestation, i.e. the verification of client identity, sighting of identification documents and signing of client agreement to be certified by the Mainland partner bank; or (ii) go to Hong Kong to

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1 Including the HKMA's requirements and paragraph 5.1 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ("SFC Code of Conduct") issued by the Securities and Futures Commission ("SFC").

2 Please refer to Q2 and Q3 of the Frequently Asked Questions ("FAQs") on Compliance with Suitability Obligations by Licensed or Registered Persons issued by the SFC.

apply for a dedicated investment account for the Southbound Scheme with the relevant bank.

To facilitate the account opening process, if the account will be opened through the approach as mentioned in (ii) above, Hong Kong banks can offer online channels for customers to submit information, or Mainland partner banks can, in accordance with customers' instructions, assist the customers to fill in the required account opening documents beforehand and transfer such documents to Hong Kong banks on the customers' behalf. Customers can then travel to Hong Kong to complete the account opening procedures after preliminary approval by Hong Kong banks.

3.3 Each eligible investor under the Southbound Scheme should, at all times, newly open only one dedicated remittance account or designate his/her account maintained with the same Mainland partner bank as a dedicated remittance account[3], and open only one Hong Kong bank's dedicated investment account[4]. Hong Kong banks and their Mainland partner banks should take corresponding measures to ascertain that investors have not conducted Southbound Scheme activities with other Hong Kong banks. Such dedicated investment account should be used only for investment purposes under the Southbound Scheme, and should not be used for the provision of any other services of the Hong Kong bank.

3.4 Prior to opening a dedicated investment account under the Southbound Scheme for customers, Hong Kong banks should provide sufficient disclosure and proper explanation to customers to ensure that they understand the requirements of the Southbound Scheme (including the respective roles and responsibilities of Mainland partner banks and Hong Kong banks, closed-loop funds flow and two-way funds transfer requirements, and 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").

3.5 Hong Kong banks should not provide Cross-boundary WMC

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

[4] Southbound Scheme investors can choose at most one bank in Hong Kong and Macao respectively to open a new dedicated investment account. For details, please refer to the Mainland Guidance.

services to VCs. Prior to opening a dedicated investment account for a customer, Hong Kong banks should conduct an assessment according to the relevant guidelines[5] issued by the HKMA to determine whether the customer is a VC. After opening a dedicated investment 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 investment account. If the customer chooses to keep such dedicated investment account, Hong Kong banks can continue to provide Southbound Scheme services to the customer. In doing so, Hong Kong banks should comply with all prevailing regulatory requirements on providing enhanced investor protection measures to VCs, where applicable.

3.6 Hong Kong banks should notify their Mainland partner banks whether or not a dedicated investment account is successfully opened. If a dedicated investment account is successfully opened, it should be paired with the investor's dedicated remittance account maintained with the Mainland partner bank, thereby ensuring closed-loop funds flow.

4. Cross-boundary remittance

4.1 Closed-loop fund flow: Hong Kong banks should ensure that an investor's dedicated investment account will only be used to transfer funds to or receive funds from the dedicated remittance account with which such dedicated investment account is paired, and to receive investment proceeds arising from Southbound Scheme investments. Funds in the dedicated investment account should only be used for purchasing eligible wealth management products (see section on "Eligible wealth management products") or be remitted back to the dedicated remittance account. Hong Kong banks should ensure that their customers will not transfer funds from the dedicated investment accounts to any other accounts than the dedicated remittance accounts they are paired with (including accounts outside

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5 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". When conducting the VC holistic assessment according to the aforementioned requirement for a Southbound Scheme customer, in respect of whether the customer possesses investment experiences, in general, the customer could be regarded as possessing investment experience in non-complex products if the customer possesses investment experience (for example having purchased funds with Mainland banks, irrespective of a complex or non-complex product). Hong Kong banks should not accept a "VC for non-complex products" as an investor under the Southbound Scheme.

Hong Kong), withdraw cash from the dedicated investment accounts or use funds in the dedicated investment accounts for purposes such as pledging such amounts or using such amounts as leverage or guarantee.

4.2 Cross-boundary remittance should be conducted in Renminbi ("RMB"): All cross-boundary remittances between dedicated remittance accounts and dedicated investment accounts should be conducted in RMB. That means, dedicated remittance accounts maintained by Mainland partner banks should only conduct cross-boundary outward remittance of RMB funds or receive inward remittance of RMB funds. Dedicated investment accounts maintained by Hong Kong banks should only receive inward remittance of RMB funds from or conduct cross-boundary outward remittance RMB funds to dedicated remittance accounts. Regardless of the settlement currencies of the wealth management products being invested, funds should be converted into RMB when customers exit their investments and remitted back to the dedicated remittance accounts.

4.3 Hong Kong banks may provide foreign exchange services to Southbound Scheme customers for purchasing eligible products denominated in Hong Kong dollars and foreign currencies. Customers may also invest directly in eligible products denominated in RMB in the offshore market.

4.4 Both the principal and investment proceeds of Southbound 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 transaction records of dedicated investment accounts, including the inflow and outflow of funds, trading of wealth management products, interest income, etc., in order to explain and reflect the operation of their Southbound Scheme activities and all the customer assets received or held by the Hong Kong banks. Such records should also be kept 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")[6]. Remittances by other means are not allowed. (See paragraph 5.3 below)

5. Aggregate quota

5.1 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.

5.2 The aggregate quota for the Southbound 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 Southbound Scheme through the CIPS following payment instructions set out in the Mainland Guidance. The PBoC Guangdong Provincial Branch and Shenzhen Branch will update the usage of the aggregate quota each trading day on their websites.

5.4 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

5.5 Hong Kong banks 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 quota. When the usage of the aggregate quota under the Southbound Scheme reaches its upper limit, Hong Kong banks cannot accept inward remittance from the Mainland and can only

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

proceed with outward remittances back to the Mainland under the Southbound Scheme.

5.6 Hong Kong banks and Mainland partner banks should not conduct cross-boundary remittances related to the Southbound Scheme through other channels. Prior to providing Southbound 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 remittances from the Mainland to Hong Kong under the 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.

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[7] under the Southbound 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 Southbound Scheme is RMB 3 million. If an investor simultaneously selects both a bank and a licensed corporation for investment under Southbound Scheme, the individual investor quota allocated between the bank and the licensed corporation will each be RMB 1.5 million.

6.3 The usage of banks' individual investor quota under the Southbound Scheme is calculated as follows:

> Usage of banks' individual investor quota under the Southbound Scheme = cumulative remittances from the Mainland to the dedicated investment accounts of Hong Kong and Macao's banks under the Southbound Scheme – cumulative remittances from the dedicated investment accounts of Hong Kong and Macao's banks back to the

[7] Includes the remittance of the Southbound Scheme investor to his/her dedicated investment accounts opened in Hong Kong and Macao.

Mainland under the Southbound Scheme

7. Eligible wealth management products

7.1 Eligible wealth management products under the Southbound Scheme include:

Investment products (excluding investment products listed and traded on the Hong Kong Exchanges and Clearing Limited)

(1) All funds domiciled in Hong Kong and authorized by the SFC, primarily investing in Greater China equity and assessed as "non-complex" by Hong Kong banks distributing such products;
(2) Except for the funds specified in item (1), funds that are domiciled in Hong Kong and authorized by the SFC and are assessed as "low" risk to "medium-high" risk and "non-complex" by Hong Kong banks distributing such products, excluding high-yield bond funds and single emerging market equity funds;
(3) bonds assessed as "low" risk to "medium" risk and "non-complex" by Hong Kong banks distributing such products; and

Deposits[8]
(4) RMB, Hong Kong dollar and foreign currency deposits.

8. Product due diligence ("PDD")

8.1 Hong Kong banks should ensure the products sold are eligible wealth management products.

8.2 Hong Kong banks should conduct pre-sale and ongoing due diligence on investment products under the Southbound Scheme. Hong Kong banks should have a thorough understanding of the nature, features and risks of investment products, such as product structure; how they work; the nature of underlying investments; the level of risks they bear; the experience, financial conditions and reputation of product issuers, guarantors and service providers; the relative performance and liquidity of investment products;

[8] Refer to the definition of "deposits" in the Banking Ordinance ("BO"). For the purpose of this Circular, deposits are regarded as wealth management products.

termination conditions; valuation and unit pricing; fees and charges; and safe custody arrangements, etc. Hong Kong banks may also need to consider market and industry risks, economic and political environments, regulatory restrictions and any other factors which may directly or indirectly impact on the risk return profiles and growth prospects of the investments depending on the nature of the investment products[9].

8.3 Hong Kong banks should have in place appropriate and effective mechanisms for assessing the risk and assigning risk ratings for investment products.

8.4 In addition, Hong Kong banks should determine the complexity of investment products[10]. Factors to be considered include:
(i) whether it is a derivative product;
(ii) whether a secondary market is available for the investment product at publicly available prices;
(iii) whether adequate and transparent information about the investment product is available to investors;
(iv) whether there is a risk of losing more than the amount invested;
(v) whether any features or terms of the investment product could fundamentally alter the nature or risk of the investment or pay-out profile or include multiple variables or complicated formulas to determine the return; and
(vi) whether any features or terms of the investment product might render the investment illiquid and/or difficult to value.

8.5 Hong Kong banks should establish and implement appropriate and effective systems and controls to ensure that PDD assessment of the investment product should be fair and balanced. The risk management function of Hong Kong banks should ensure that all risks are well understood and adequately assessed, and all relevant functions (e.g. risk control and legal and compliance) should be consulted as appropriate. Approval from senior management on

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9 Please refer to Q4 of the SFC's Frequently Asked Questions ("FAQs") on Compliance with Suitability Obligations by Licensed or Registered Persons and paragraph 5.7 of Guidelines on Online Distribution and Advisory Platforms issued by the SFC on the pre-sale and ongoing due diligence.

10 For the definition of complex products, please refer to the SFC's website and paragraph 5.5 of the SFC Code of Conduct. Among others, complex SFC-authorized funds, in general, refer to derivative funds with a net derivative exposure (according to SFC's Code on Unit Trusts and Mutual Funds) of more than 50% of its net asset value. Complex bonds refer to bonds with special features (including, but 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) and/or bonds comprising one or more special features.

the PDD assessment result should be obtained, and proper documentation of the PDD work done should be maintained.

8.6 In principle, the assessment conducted by Hong Kong banks on the risks and complexity of investment products distributed under the Southbound Scheme should not be different from that of the same products distributed through other channels.

8.7 Where a Hong Kong bank, in the course of its ongoing product due diligence of investment products it distributes, upward adjusts the product risk rating of investment products, the Hong Kong bank should disclose such circumstances to customers who have purchased and are still holding such products.

If the Hong Kong bank considers a wealth management product no longer suitable to be an eligible wealth management product under the Southbound Scheme (for example, the product is no longer a "non-complex" product), the Hong Kong bank should stop distributing such wealth management product through the Southbound Scheme. In addition, the Hong Kong bank should disclose the relevant circumstances to customers who have purchased and are still holding such wealth management product, and allow those customers to choose to retain the product in his/her dedicated investment account or sell the wealth management product, and keep a record of the choice of the customer. Nevertheless, no solicitation and recommendation (for example, recommendation on whether the customer should retain or sell the wealth management product) should be involved by the Hong Kong bank in such process[11].

8.8 Hong Kong banks should also:

- ensure that investors meet the investor eligibility specified in the offering documents of the investment products; and
- have appropriate control measures to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance or Part IV of the SFO.

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11 Please also refer to paragraphs 9.4(b) and 9.9 of Annex 1.

9. Promotion and sale

Promotion targeting the Mainland public[12] without a dedicated investment account and/or dedicated remittance account under the Southbound Scheme

9.1 **Hong Kong banks** may display and provide in Hong Kong (including the place of business or through appropriate ways such as telephone, video conferences, online channels, etc.):

(i) general information about the Cross-boundary WMC (including the scope and categories of eligible products, quota, funds remittance and transfer arrangements, and investor protection, and others);

(ii) factual representations that the bank provides Southbound Scheme services (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 bank; contact details of the bank; and a representation made in a prescribed manner[13] on the cooperation between the Mainland partner bank and the Hong Kong bank); and

(iii) broad description of the scope and categories of wealth management products under the Southbound Scheme, for example, number of products (including number of products under sub-categories, such as number of funds by market or industry), nature, risks, features, fees and charges and range of return, etc.

Upon request of an individual Mainland investor, **Hong Kong banks** may provide factual information on the services and individual products under the Southbound Scheme (including a list of wealth management products offered, offering documents / prospectuses of individual products, product key fact statements), and respond to enquiries on investment services provided by Hong Kong banks and individual products under the Southbound Scheme (e.g. explaining the features (such as underlying assets, past investment performance) and risks of individual products or certain product categories).

9.2 **Hong Kong banks** may provide information on macroeconomic conditions, market environment, industry segments, sectoral trends,

[12] Includes non-Southbound Scheme customers of Hong Kong banks / Mainland partner banks.

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

general financial information, or general information on the Cross-boundary WMC, etc., and provide investor education (for example, educate investors how to interpret different types of product documents). Hong Kong banks may send staff to participate (and may participate jointly with staff of partner fund companies that have entered distribution agreements with Hong Kong banks) in briefings and seminars organised by their Mainland partner banks on the Mainland for the Mainland public, presenting the aforementioned information in paragraphs 9.1(i), (ii), (iii) and 9.2. However, Hong Kong banks (and staff of partner fund companies) which do not have qualification for securities investment consultancy business on the Mainland should not provide information [14] which involves investment analysis, forecast or advice on securities and their product values, market trends, etc. in briefings and seminars on the Mainland.

<u>Distribution of products to customers with a Southbound Scheme account (including both dedicated investment account and dedicated remittance account)</u>

9.3 Hong Kong banks should conduct transactions and relevant services with customers through appropriate channels in their place of business. In general, Mainland customers may, after the login process to the online platform or mobile platform of the Hong Kong banks, browse further product information under the Southbound Scheme and conduct transactions directly. When dealing with customers, **Hong Kong banks** should adequately disclose relevant key information, including product nature and risks. In addition, to assist customers to make investment decision, Hong Kong banks should assess customers' risk profile[15], and ensure the risk profiling result is valid when conducting transactions of investment products with the customers. Where there is a risk mismatch in such transaction (i.e. the risk rating of the product being higher than the customer's risk profiling result), the Hong Kong bank should alert the customer, and seek confirmation from the customer as to whether to proceed with such transaction.

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[14] For the avoidance of doubt, irrespective of whether the target audience is Mainland public or customers with a Southbound Scheme account, Hong Kong banks and their partner fund companies should comply with the requirements in paragraph 9.2 and relevant Mainland laws and regulations when sending staff to attend briefings and seminars on the Mainland.

[15] Please refer to Q2 and Q3 of the FAQs on Compliance with Suitability Obligations by Licensed or Registered Persons and paragraph 5.7 of Guidelines on Online Distribution and Advisory Platforms issued by the SFC.

9.4 (a) **Hong Kong banks** may, upon an individual customer's request, provide services and a list of wealth management products available under the Southbound Scheme and factual information on individual products, and respond to customer enquiries on the investment services and individual products provided by Hong Kong banks under the Southbound Scheme.

(b) **Hong Kong banks** may, upon an individual customer's request and after considering the customer's personal circumstances, introduce products which meet the risk appetite of the customer[16].

9.5 Subject to paragraphs 9.4(b) and 9.9, **Hong Kong banks** should establish appropriate policies, procedures and controls with reference to the guidance set out by the SFC on triggering of suitability obligations[17] to ensure that the relevant investment transactions do not involve solicitation or recommendation[18].

9.6 **Hong Kong banks** may provide customers with research reports for reference, but the content thereof should not involve any individual products.

Post-sale follow-up

9.7 **Hong Kong banks** may proactively contact customers to provide updates on their investment portfolios. They may also provide information on macroeconomic conditions, etc. **Hong Kong banks** should establish a mechanism to ensure that the process of their interaction with customers does not involve solicitation or recommendation[19]; and does not constitute an offer to the Mainland public in relation to investment in individual products or constitute active marketing of the Hong Kong bank's Cross-boundary WMC services to the Mainland public.

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[16] Hong Kong banks should comply with the requirements of the HKMA and paragraph 5.2 of the SFC Code of Conduct.

[17] Includes SFC's FAQs on Triggering of Suitability Obligations and FAQs on Guidelines on Online Distribution and Advisory Platforms and Paragraph 5.5 of the SFC Code of Conduct.

[18] For transactions that do not involve solicitation or recommendation, Hong Kong banks do not have to conduct suitability assessment for such customers. For the avoidance of doubt, Hong Kong banks should conduct PDD (see section 8 of Annex 1); and conduct risk profiling assessment for customers and alert customers when there is a risk mismatch (see paragraph 9.3 of Annex 1).

[19] Please also refer to paragraphs 9.4(b) and 9.9 of Annex 1.

9.8 **Hong Kong banks** may refer to the requirements in paragraph 9.4(a) above in responding to customer enquiries on individual products.

Arrangements when Southbound Scheme customers are present in Hong Kong

9.9 For Southbound Scheme customers who are present in Hong Kong, **Hong Kong banks** should provide services to such customers in accordance with Hong Kong's laws and regulatory requirements, as well as ensuring compliance with the requirements set out in this guidance, including but not limited to the requirements on quotas and scope of eligible wealth management products. Hong Kong banks may make solicitation or recommendation to Southbound Scheme customers present in Hong Kong, but should ensure compliance with suitability requirements and make sure that the solicitation or recommendation to such customer is reasonable in all the circumstances.

General principle

9.10 The information provided by Hong Kong banks in accordance with paragraphs 9.1 to 9.4(a) should be factual and fair representations and should not (i) involve solicitation or recommendation; (ii) constitute an offer to the Mainland public in relation to investment in individual products; or (iii) constitute active marketing of the Hong Kong bank's Cross-boundary WMC services to the Mainland public. When Hong Kong banks send staff to participate in briefings and seminars organised by their Mainland partner banks on the Mainland for the Mainland public as mentioned in paragraph 9.2, the Hong Kong banks should not (i) promote Southbound Scheme services of the bank to Mainland public; (ii) promote or carry on regulated activities, or involve individual wealth management products or circumstances of individual customers; or (iii) market the banking, deposit or wealth management services of the bank to the Mainland public (unless the required licenses / registrations for relevant banking service, deposit-taking service or regulated activities have been obtained). For detailed promotion and sale arrangements, please refer to the FAQs at the Appendix to this Circular.

10. Controls and Supervision[20]

10.1 Hong Kong banks 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 sufficient manpower, expertise and resources (finance, risk management, compliance, etc.) to engage in the relevant business and manage the risks involved.

10.2 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.

10.3 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.

11. Non-compliance and breaches

11.1 The HKMA will conduct on-site examinations and off-site surveillances on Hong Kong banks' Southbound Scheme business. Where there are non-compliance or breaches by Hong Kong banks of requirements set out in this guidance or applicable law, regulations and codes of conduct in their course of business under the Southbound Scheme, the HKMA and the PBoC will consider the non-compliance and breaches, and suspend the relevant banks' eligibility to engage in the Southbound Scheme or the Cross-boundary WMC. In the event of such suspension, the Hong Kong bank concerned should handle the investments and assets of existing Southbound Scheme customers in accordance with the HKMA's instructions, including but not limited to retaining the invested

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

wealth management 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 time limit.

11.2 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 breaches of statutory and regulatory requirements and codes of conduct applicable to the Cross-boundary WMC.

11.3 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 / Hong Kong investment account), it should file a report with 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 Southbound 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.

12. Investor protection and complaint handling mechanism

12.1 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.

12.2 Should a Southbound Scheme investor file a complaint (including complaints involving wealth management products and the sale process) to a Hong Kong bank, the Hong Kong bank should handle the complaint 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.

12.3 Hong Kong banks should provide cross-boundary complaint channels for Southbound Scheme investors to facilitate the cross-boundary submission and follow-up of complaints by investors. Such channels may include online platforms, toll-free hotlines, emails, instant messaging applications and others.

12.4 Regarding complaints about cross-boundary funds remittances under the Southbound Scheme, Hong Kong banks should refer the complaint 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.

13. Staff's knowledge and training[21]

13.1 Hong Kong banks should ensure that their relevant staff members engaged in Southbound Scheme activities are properly registered / licensed, including assigning relevant individuals to handle the opening of dedicated investment accounts under the Southbound Scheme, respond to enquiries in relation to Southbound Scheme's operation, product scope, and other relevant matters, as well as distribution of investment products, etc.

13.2 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, sale process, product knowledge, complaint handling mechanism, market information 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.

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

14. Data reporting and submission

14.1 Hong Kong banks should collect, compile and report data or information on Southbound Scheme activities as requested by the HKMA, including but not limited to information on accounts, cross-boundary funds remittance and transfer, sales of wealth management products, product categories, product lists, product risk ratings and their changes (if any), customer complaints and compliance with relevant regulatory requirements, etc.

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

15. Personal data

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