

# Something for everyone

New plans to support the development of the  
Greater Bay Area unveiled

2020

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## Introduction

The People's Bank of China CBIRC<sup>1</sup>, CSRC<sup>2</sup> and SAFE<sup>3</sup> have jointly unveiled a new plan<sup>4</sup> for the financial services sector to further promote and support the development of the Greater Bay Area (the "Joint Opinion").

We will describe some of the key highlights of that Joint Opinion in this publication. If you are looking for professional advice about the new initiatives of the Greater Bay Area ("GBA"), please feel free to reach out to us.

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1 China Banking and Insurance Regulatory Commission

2 China Securities Regulatory Commission

3 State Administration of Foreign Exchange

4 Entitled "Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong Macao Greater Bay Area"

# What is the significance?

The Joint Opinion is the most substantial development for the GBA since the release of the "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" released in February 2019.

The Joint Opinion, comprised in a 30-point plan, supports the enhancement of the GBA's financial services industry with initiatives directed at:

- promoting cross-border trade and investment into the GBA;
- furthering the "opening-up" of financial markets within the GBA;
- increasing the interconnectivity of the regions of the GBA;
- promoting innovation in the financial services industry in the GBA; and
- preventing cross-border financial risks.

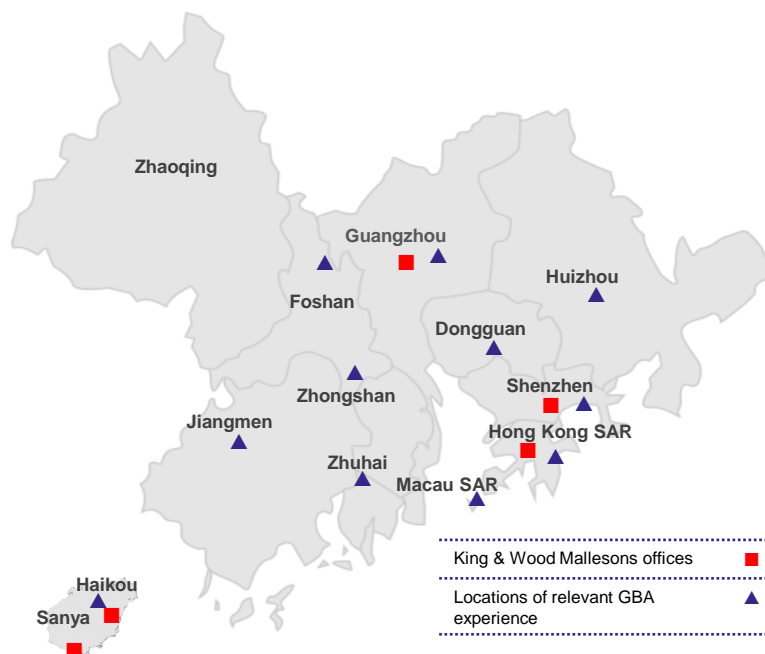
The Joint Opinion also highlights the significant role that it is envisioned for Hong Kong<sup>5</sup> and Macau<sup>6</sup>.



## GBA at a glance

### Key facts

- Consists of Hong Kong SAR, Macau SAR and 9 cities in Guangdong - Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing.
- Total population: 70 million



**5** GBA offices in Hong Kong, Shenzhen, Guangzhou, Sanya and Haikou

**Over 600** lawyers in the GBA offices

*Innovation in strategy and changing behaviours – KWM International Center*  
Financial Times Asia-Pacific, 2019

<sup>5</sup> Hong Kong means the Hong Kong Special Administrative Region of the People's Republic of China.

<sup>6</sup> Macau means the Macau Special Administrative Region of the People's Republic of China.

# Increasing cross-border investment

The Joint Opinion presents initiatives to increase cross-border investments. These include the following.

## ▪ “Wealth management connect”

The Joint Opinion reveals that Mainland residents in the GBA will be able to purchase wealth management products sold by Hong Kong or Macau banks in Hong Kong and Macau. Similarly, Hong Kong and Macau residents will be able to purchase wealth management products sold by Mainland banks in the GBA. The scheme will provide Hong Kong and Macau individuals the opportunity to diversify their investment portfolio with exposure to the growth potential of the GBA whilst also expanding the investment options to Mainland residents in the GBA.

Wealth management connect will further expand existing access programmes, such as QFII, QDII, Stock Connect and Bond Connect. We anticipate the concepts and infrastructure applicable to Bond Connect and Stock Connect will be adopted for wealth management connect. For example:

- investors are likely to hold their investments through custodian arrangements offered by qualified participating banks in the GBA, which will act as gate-keepers of capital into, and out of, the Mainland; and
- “home” rules are likely to apply to govern the investment accounts in which the relevant wealth management products are sold.

We anticipate banks with extensive networks throughout the GBA will have the advantage in serving Mainland and Hong Kong residents under wealth management connect.

- QDLP (Qualified Domestic Limited Partner programme) allows foreign asset managers (by establishing an investment entity in Mainland China as a general partner) to raise Renminbi from wealthy and institutional investors in the Mainland for overseas investment.
- QDIE (Qualified Domestic Investment Enterprise) is a similar pilot program to allow domestic investors to invest in foreign private companies, hedge funds and real estate.
- QFLP (Qualified Foreign Limited Partners) program allows foreign investors to form an onshore Renminbi fund (by setting up a foreign management entity in the Mainland) to invest in private Chinese companies.

## ▪ Unlisted equity investment onshore and overseas

In October 2019, SAFE relaxed its restriction which only permitted foreign-invested enterprises that used the express term “equity investment” in their registered business scope to use their registered capital for further equity investment in Mainland China. Instead, under the relevant circular, foreign-invested non-investment enterprises could do so as long as the project was “genuine” and “compliant”.

Echoing the policy behind those measures, the Joint Opinion further encourages and opens up cross-border equity investment by clarifying that the GBA will also have the benefit of the QDLP, QDIE and QFLP schemes.

## ▪ Opening-up of the securities industry

The Joint Opinion supports establishing foreign-held securities companies, fund management companies and futures companies. It also expresses support for Hong Kong and Macau private equity funds to participate in financing innovative enterprises in the GBA.



# Banking reforms and initiatives

To support cross-border investment and cash flows, the Joint Opinion includes initiatives for bank account reforms and the banking industry generally within the GBA, these include:

- **Cross-border multicurrency cash pools** - SAFE rules were amended on 15 March 2019 to allow onshore and offshore member companies within the same group to establish a multi-currency cross-border cash pooling arrangement with a Mainland bank. Building on this, a pilot program will be launched to allow the cash-pooling of Renminbi and foreign currencies in the Mainland portions of the GBA. It is expected that the ability to cash-pool will further encourage cross-border participation by multinationals into the GBA. It remains to be seen whether or what quota control is applied to cash-pools in the GBA. PBOC has now set up a working group to streamline the regulatory approaches taken towards Renminbi and foreign currencies.
- **Same account forex** - it is envisaged that a bank account system to integrate Renminbi and foreign exchange will be developed to enable accountholders to settle different currencies in the same account. This would help to relax the current complex formalities and exchange costs for residents and non-residents and is similar to the initiatives launched in the Shanghai Pilot Free Trade Zone and the Hainan, Tianjin and Guangdong Free Trade Zones in recent years.
- **Easing Type II and Type III account opening procedures for Hong Kong and Macau individuals** - also unveiled in the Joint Opinion is a pilot program to allow individuals in Hong Kong and Macau to open type II accounts (for investment and wealth management) and type III accounts (for micropayments) using agent witnessing procedures in the GBA. This would have the effect of easing account-opening procedures and further support investment into the GBA. Currently, Bank of China is the only bank in Hong Kong which provides such agent witnessing procedures. Whether or not type I accounts (general accounts which impose no limits on transfers and withdrawals) can be opened by individuals in Hong Kong and Macau remain to be seen.
- **A GBA Bank** - also touted under the Joint Opinion is the establishment of an international commercial bank in the Guangdong Pilot Free Trade Zone to serve the GBA. The development of such a bank would be of strategic importance in consolidating the financial markets and infrastructure within the GBA.

- **AICs** – these are subsidiaries established by banks to conduct debt-to-equity swap transactions (e.g. convertible bonds, debt-to-preferred shares) for banks which are established under CBIRC rules promulgated in June 2018. The CBIRC has also recently announced rules that AICs can now expand through funding sources through private sales to qualified investors. There are currently five AICs established by each of the five state-owned banks.
- **WMCs** – foreign investment in WMCs currently take the form of (i) non-controlling shareholding in a wealth management subsidiary of a bank; or (iii) controlling shareholding in a wealth management joint venture established by a foreign asset management institution and a subsidiary of a Chinese-funded bank.

- Other key initiatives to encourage the opening of the banking industry of the GBA set out in the Joint Opinion includes:
  - encouraging commercial banks to establish financial asset investment companies (“AICs”) and wealth management companies (“WMCs”) in the Mainland portions of the GBA with no limit on the shareholding of the overseas investors;
  - encouraging Hong Kong and Macau branches of Mainland banks to grant loans for the construction of the GBA. Similarly, Mainland banks in the GBA are encouraged to grant cross-border loans to Hong Kong and Macau institutions and projects;
  - encouraging overseas banks to set up branches in the Mainland portions of the GBA; and
  - in support of developing the offshore Renminbi market, Renminbi clearing banks in Hong Kong and Macau will gradually be permitted to participate in the inter-bank funding market in Mainland China.

## Asset transfers and trade financing

Cross-border asset transfer transactions have been implemented through pilot programs such as in Shenzhen, Guangdong and Hainan. Those schemes focus on transfers of non-performing loans, trade finance assets, paper assets and forfaiting. Building on those schemes, the Joint Opinion reveals there is an intention to expand the types of assets which will be available for cross-border transfers. It remains to be seen what assets will be included. There is also general support for Mainland portions of the GBA to make asset transfers for trade financing.

## Insurance

The Joint Opinion includes plans to connect the insurance industry between the regions in the GBA. These include the following:

- **Cross-border remittance for offshore insurance projects** - to encourage a flow-back of Renminbi insurance funds from Hong Kong and Macau, the PRC regulators will seek to further facilitate Mainland Banks in the GBA to provide cross-border funds remittance and exchange services in respect of insurance policies to Mainland residents who have purchased Hong Kong or Macau insurance products. Further guidance on the type of insurance products which this initiative will cover remains to be seen. As at 23 May 2020, the latest update from the CBIRC is that support will be given to develop cross-border car and medical insurance projects.
- **GBA “after-sales service centre”** - to further develop the insurance sector in the GBA, an after-sales service centre in the mainland part of the GBA under the Mainland-Hong Kong Closer Economic Cooperation (CEPA) arrangement is also contemplated.
- **Innovation in insurance** - against the backdrop of Covid-19, innovation in the insurance sector is encouraged, including cross-border medical insurance and innovative methods to provide customers services such as claim settlement services. For example, during the Covid-19 pandemic, insurance providers in the Mainland relied on blockchain technology to help fast-track claims payments.
- **Opening-up of the insurance industry** - the Joint Opinion expresses support for the establishment of foreign-holding life insurance companies in the Mainland portions of the GBA. Similarly, foreign-funded reinsurance institutions, insurance agencies and insurance assessment companies are encouraged to set-up in the Mainland portions of the GBA.

## Green finance vision

Moving in line with the global trend towards "greener finance", the Joint Opinion reveals a plan to develop the GBA into a green finance hub. In particular, it has unveiled plans to:

- **Carbon emission trading** - establish a pilot programme for carbon emission trading in the mainland portions of the GBA and to allow qualified overseas institutional and individual investors to participate in the carbon emission trading with foreign exchange or Renminbi;
- **Unified green finance standards** - establish unified green finance standards in the GBA;
- **Mainland Green bonds issued into Hong Kong and Macau** - support local corporate and financial institutions in Guangdong to issue green financial bonds and other green financial products in Hong Kong and Macau to raise funds to support green projects in the GBA; and
- **Hong Kong to become an internationally recognized green bond certification body** - support Hong Kong in becoming an internationally recognized green bond certification body and becoming a green finance centre in the GBA – which comes with encouragement for enterprises in the GBA to utilize the available platforms in Hong Kong and Macau to certify green projects.

## Fintech and innovation

The *Fintech Development Plan (2019-2021)* which was released in August 2019 by the PBOC outlined a plan to develop fintech and its importance in the financial services. The push for technological development in the GBA also features in the Joint Opinion with an intention to establish a blockchain trade financing information service platform. Such a platform would allow participating banks to share and exchange digitized cross-border trade information in a safe and reliable manner.

The Joint Opinion also:

- supports cross-border capital flow of venture capital funds and cross-border funds remittance;
- supports facilitating Hong Kong and Macau residents' use of mobile electronic payment tools in the Mainland to make payments in Renminbi; and
- supports research on innovative technologies including in blockchain, big data, and artificial intelligence and on how to apply those technologies in customer marketing, risk management and financial supervision.

## Cross-border financial risk management

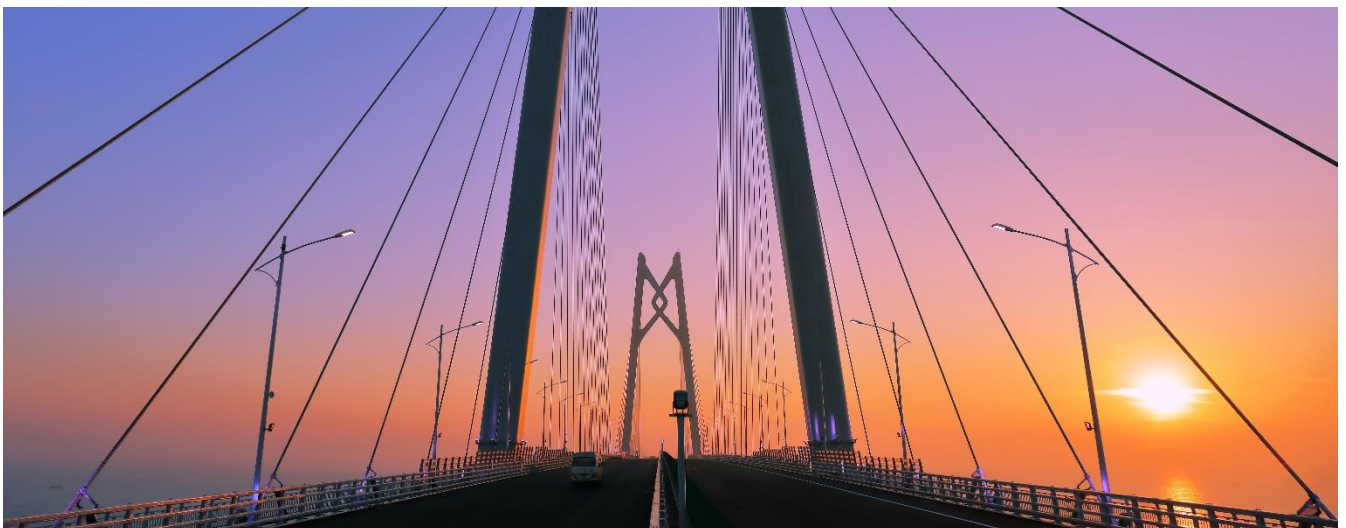
Ultimately, the expansion of the financial services industry in the GBA must be done with adequate financial risk management. This is recognised in the Joint Opinion which provides that it will seek to manage financial risks by:

- strengthening cooperation between the Guangdong, Hong Kong and Macau in financial supervision;
- establishing a sound financial risk warning and prevention system;
- establishing a regulatory "sandbox" for cross-border financial innovation;
- strengthening consumer rights and interests in Guangdong, Hong Kong and Macau; and
- establishing a financial dispute mechanism in line with international standards.

## King & Wood Mallesons in the GBA

The Joint Opinion is an exciting blueprint for the financial services sector in the GBA. As can be seen from the key highlights above, the initiatives are far-reaching and present ample opportunities for financial players both within China and overseas. With these opportunities, it is likely that a unique set of challenges also awaits. The detailed reform measures are likely to be implemented on an incremental basis with further guidance in the initiatives expected to follow. King & Wood Mallesons is monitoring this closely and will bring you our insights "as and when".

In June 2018, King & Wood Mallesons established the KWM International Center in the GBA which gives our clients access to the combined expertise of our Hong Kong SAR, Shenzhen, Guangzhou, Sanya and Haikou offices, in addition to access to our global network. This places King & Wood Mallesons in the ideal position to provide comprehensive legal services for our clients.



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