






# Interpretation of the Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macao Greater Bay Area



On 14 May 2020, the People’s Bank of China (PBOC), China Banking and Insurance Regulatory Commission (CBIRC), China Securities Regulatory Commission (CSRC) and State Administration of Foreign Exchange (SAFE) jointly issued *the Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macao Greater Bay Area* (“the Opinions”).

With the aim of serving the real economy, collaborating to achieve mutually beneficial growth, maintaining a market-oriented focus and preventing systemic financial risks, the Opinions put forward a total of 26 detailed measures across five areas:

-  Promoting cross-border trade and investment and providing the seamless delivery of financial services in the Greater Bay Area (“GBA”);
-  Continued opening up of the financial services sector;
-  Promoting the integration of financial markets and financial infrastructure;
-  Increasing innovation in the financial services industry in the GBA; and
-  Effectively managing cross-border financial risks.

The Opinions constitute a more comprehensive and clearly defined outline for the GBA’s financial development initiatives, following the issuance of the *Outline Development Plan of the Central Government and the State Council for the Guangdong-Hong Kong-Macao Greater Bay Area* (“the Outline Development Plan”) in February 2019. While the timing, environment and social conditions are right for the development of the GBA, pain points around liquidity, currency, regulatory and talent challenges need to be addressed. The specific measures introduced in the Opinions provide responses and solutions to these pain points.

In the following sections, we will analyse the impact of the Opinions on promoting the development of financial services in the GBA across four aspects: interconnectivity, attracting foreign investment, financial technology (fintech) and cross-border financial risk management.





## Interconnectivity between new products and new types of business

The GBA has a world-class transportation and logistics network. This network will create ever-increasing opportunities for companies in different places to work in closer cooperation, establish partnerships and conduct business, allowing for new products and types of business in the region. With the promotion of the policies in the Opinions, the interconnectivity between cities, talent and resources will be further strengthened.

### **Cross-border transfer of assets and pilot of cross-border investment in private equity funds**

The Opinions provide support for domestic financial institutions in the GBA to conduct business such as cross-border asset transfers for trade financing, while meeting risk management requirements. The Opinions also allow institutional investors from Hong Kong and Macao to invest in domestic private equity funds and venture capital funds in the GBA through qualified overseas limited partnerships.

In addition, the Opinions support the participation of Hong Kong and Macao private equity funds in the financing of innovative enterprises, resolving the financing issues of innovative businesses, and expanding different types of financing channels to meet demands for a wider allocation of financial assets.

The Opinions also enable the establishment of a financial support platform through a regional market for equity trading to provide support for Hong Kong private equity funds' participation in GBA financing initiatives, and to allow innovative technology companies to access listing and fundraising platforms in Hong Kong. This has widened the cross-border investment scope for Hong Kong and mainland Chinese residents and institutions, while at the same time strongly promoting the development of fintech firms that focus on wealth management, big data credit reporting and integrated services.

### **Establishment of RMB outbound investment and loan funds to promote the development of the offshore RMB market**

The Opinions support the development of offshore RMB business in Hong Kong and Macao, and RMB fundraising from institutions and individuals from mainland China, Hong Kong, Macao and overseas jurisdictions. They also strengthen Hong Kong's status as the global offshore RMB business hub and provide support for Hong Kong to develop more offshore RMB, bulk commodity and other risk management tools.

These changes will gradually expand the scale and scope of cross-border RMB use in the GBA, facilitate the seamless cross-border flow and exchange of RMB, and provide investment and financing services for Chinese enterprises that are expanding overseas so that they can conduct investments or M&A transactions. They will also assist in the further development of the Belt and Road Initiative, promote the internationalisation of the RMB, and enhance the RMB's international competitiveness.

## Promoting the development of green finance in the GBA

The Opinions support Hong Kong in establishing a centre for green finance in the GBA and its efforts to set up an internationally-recognised green bond certification institution. They also support the establishment of an environmental rights trading and financial service platform in the GBA, as well as efforts to explore the development of a set of unified green finance standards.

In addition, the Opinions encourage more enterprises in the GBA to leverage Hong Kong and Macao as financing and certification platforms for their green projects. They also indicate support for local financial institutions in Guangdong to issue green bonds and other green financial products in Hong Kong and Macao in order to raise funds for green enterprises and projects in the GBA.

## Leveraging strengths in financial services

The Opinions also propose leveraging Hong Kong's role and status as an international finance, asset management and risk management centre. They also provide support for Macao to join the Asian Infrastructure Investment Bank once it meets certain requirements, and support for the Silk Road Fund and relevant financial institutions to set up branches in Hong Kong and Macao. All of these measures highlight the specialisation of financial development in Hong Kong and Macao, while also promoting the diversification of capital financing channels in Guangdong, Hong Kong and Macao.

## Summary

The Opinions aim to further strengthen the interconnectivity between cities, talent and resources. To facilitate the development of financial services in the GBA, a number of measures are suggested to enable the cross-border transfer of assets and investment in private equity funds, further develop the offshore RMB market and to establish the GBA as a centre for green and sustainable finance.





## Attracting foreign investment

The Opinions state that the banking, securities and insurance sectors will be further opened up, and offer support for banks and other financial institutions in Hong Kong and Macao to expand their footprint in the GBA. In addition, foreign investors will be encouraged to establish foreign-controlled securities, fund management and futures companies and life insurance companies in the GBA.

As industries continue to develop and grow in the GBA, an increasing number of wealthy individuals and talented professionals working in global high-end industries will settle in the region. This will drive greater demand for asset management and cross-border financial services in the GBA.

Banks in the GBA will be allowed to conduct cross-border RMB lending, RMB spot and forward business, RMB-related derivative business, and the cross-selling of wealth management products. In this case, mainland Chinese residents will be able to buy wealth management products sold by Hong Kong and Macao banks.

Banks in Hong Kong can develop and strengthen their onshore capabilities by establishing branches to capitalise on wealth management opportunities in the region. They should actively explore the best type of cross-border collaboration in order to make use of government policies in the most effective way. With the expectation of increasing cross-border business activities such as remote account opening, careful consideration should be given to risk management and controls to meet the regulatory requirements in areas such as anti-money laundering.

The Opinions have raised again the possibility of establishing the GBA International Commercial Bank in the Guangdong Pilot Free Trade Zone. The bank will be an important measure for connecting the financial markets and infrastructure in the GBA, and will further promote the development of innovative financial services in the region. The Opinions have highlighted the strategic importance of the bank and the policy support that the government may provide in order to make it a success.

With regards to facilitating cross-border investment in insurance, after the Shenzhen Cross-Border Insurance Service Centre takes its first step towards connecting insurance products in the GBA, there may be opportunities in the future for Hong Kong insurers to market certain cross-border insurance products. Hong Kong's insurance sector is a relatively mature market and has advantages in terms of investment management capabilities, product development, and underwriting and claim handling procedures.

With growing interaction between insurers in the GBA, mainland Chinese insurance companies based in the GBA will look at opportunities for strategic cooperation with Hong Kong insurance companies to benefit from their experience. From the perspective of Hong Kong insurance companies, partnering with mainland Chinese insurance companies will give them an opportunity to gain a better understanding of the mainland China insurance market and consumers' needs so that they can develop products and channel strategies that are better aligned with the mainland China market.



## Summary


As the banking, securities and insurance industries continue to open up, this will present a number of significant opportunities for mainland Chinese, Hong Kong and Macao financial institutions, as well as foreign investors. The growing number of wealthy individuals and skilled professionals settling in the GBA will also generate strong demand for financial services. Financial institutions should seek to partner and work closely with their counterparts in the region to drive mutually beneficial growth.





## Fintech

The Opinions note that financial services innovation in the GBA needs to be further improved. There is a need to foster technological innovation in financial services, strengthen cooperation with venture capital institutions, support venture capital funds' cross-border capital flows, and establish and improve big data infrastructure. The Opinions also call for:

-  The deepening of fintech cooperation in the GBA;
-  Building a blockchain trade financing information service platform;
-  Supporting research on innovative technologies such as blockchain, big data and artificial intelligence, and their application in customer marketing, risk management and financial supervision;
-  Facilitating Hong Kong and Macao residents' use of mobile electronic payment tools in mainland China to make payments in RMB;
-  Promoting the use of mobile payments in the GBA; and
-  The expansion of mainland Chinese non-bank payment institutions into Hong Kong and Macao.

Building on Shenzhen's strong technology and innovation capabilities, and Hong Kong's role as an international finance centre, the GBA is well-placed to leverage these advantages to foster fintech development and innovation in the region.

The *Fintech Development Plan (2019-2021)* issued by the People's Bank of China in August 2019 outlined the importance and development path of fintech, and the recently released Opinions clearly state that qualified innovative enterprises are encouraged to go to Hong Kong and Macao for financing and listing opportunities. KPMG expects that as an increasing number of Chinese fintech enterprises become more mature in the coming years, they may seek cross-border financing and make plans for an IPO.

Traditional financial institutions in the GBA are making full use of technology and digital solutions to cooperate with fintech enterprises in building ecosystems. These financial institutions are focused on digital transformation, innovation, agility and enhancing customer experience, while carefully managing the related risks. All of these efforts are conducive to establishing and highlighting the GBA's competitive advantages.







## Summary

There is a need to enhance financial services innovation through greater collaboration and the effective development and use of fintech. Shenzhen's technology and innovation capabilities and Hong Kong's strength as an international finance centre will help to drive fintech development and innovation in the region.





## Cross-border financial risk management


Risk management is an essential part of financial development. The continuous opening-up and development of the GBA must go hand-in-hand with the robust management of financial risks and effective communication and coordination between the financial regulatory authorities in the three regions. The Opinions state that cross-border financial risks should be effectively managed by:


-  Strengthening financial supervision cooperation between Guangdong, Hong Kong and Macao;
-  Improving financial supervision rules in the field of innovation;
-  Establishing a supervision "sandbox" for cross-border financial innovation;
-  Establishing and improving early warning, prevention and mitigation systems for financial risks;
-  Strengthening the protection of financial consumers' rights and interests in Guangdong, Hong Kong and Macao; and
-  Promoting cooperation between Guangdong, Hong Kong and Macao in the development and training of financial professionals.

The establishment of a long-term mechanism for financial risk management may bring about the following regulatory measures:

 **The authority of regulatory bodies will be adjusted.** By exploring financial regulatory innovation, certain innovation supervision functions that are close to the market can be decentralised in order to realise cross-sector, cross-industry and cross-market business supervision and information exchange.

 **An information-sharing platform can be established.** A financial supervision information system can be set up in the GBA that connects and enables data exchange between the different systems. Such a system can realise the timely and effective compilation of comprehensive financial statistics, information analysis and early risk warnings.






 **The supervision of innovative business will be strengthened.** Supervisory models and systems for innovative financial products that suit China's national conditions can be explored through the financial supervision "sandbox".

 **The monitoring of cross-border capital flows will be strengthened.** By actively investing in R&D and the application of new technologies such as artificial intelligence, blockchain, big data and cloud computing, regulators will accurately and efficiently monitor capital flows in real-time across different business scenarios.



The improvement of the GBA's long-term mechanism for risk management is directly related to financial institutions' risk control and compliance management systems. Financial institutions in the GBA should build an agile, comprehensive and intelligent internal control ecosystem that facilitates mutual development and further opening-up through the development of core capabilities in risk control and management.

To achieve this goal, financial institutions should:

-  Enhance their governance frameworks for internal control compliance;
-  Transform their second line of defence management functions from traditional reactive risk prevention and supervision to real-time and proactive risk disclosure and evaluation;
-  Improve the timeliness and effectiveness of their risk warning, prevention and mitigation systems;
-  Strengthen data governance by exploring the in-depth application of fintech in risk control and compliance, and improving the quality and efficiency of risk control and compliance management.
-  Establish unified standards and tools around internal control compliance with a view to enhancing the entire ecosystem's capability to effectively manage risks.



## Summary

Risk management is essential to the GBA's financial development. Greater financial supervision cooperation and coordination between the three regions, the launch of a supervision "sandbox", and improving early warning, prevention and mitigation systems will be key to ensuring that financial risks are properly managed as the GBA continues to develop and open up.



## Conclusion

Ongoing global business disruption and the outbreak of COVID-19 have sent shock waves through the entire global economy. However, the Opinions have introduced unprecedented opportunities for the development of the GBA, particularly in the financial services industry. The Opinions provide robust support for the development of an internationally competitive bay area and a world-class city cluster, and promote the further opening up of China's capital markets.

The issuance of the Opinions promises more opportunities for the development of domestic and overseas companies by making cross-border activity more convenient. It also emphasises the need for companies to redefine their strategies and market positioning, develop resources and offer appropriate products or services.

KPMG China has a deep understanding of the developmental challenges facing companies in the GBA with respect to strategic deployment, tax planning, talent development, listing and financing arrangements, risk management, and other areas. The firm has extensive experience helping companies in the region address these challenges. We will continue to closely monitor the financial developments and policy changes in the GBA and share related insights as they arise.

# Contact us

**Andrew Weir**

Vice-Chairman KPMG China and  
Senior Partner, Hong Kong  
KPMG China  
T: +852 2826 7243  
E: andrew.weir@kpmg.com

**Ricky Wong**

Senior Partner, Southern Region  
KPMG China  
T: +86 (20) 3813 8833  
E: ricky.wong@kpmg.com

**Ayesha Lau**

Managing Partner, Hong Kong  
KPMG China  
T: +852 2826 7165  
E: ayesha.lau@kpmg.com

**Ivan Li**

Head of Financial Services,  
Southern Region  
KPMG China  
T: +852 2826 8063/+86 (755) 2547 1218  
E: ivan.li@kpmg.com

**Bonn Liu**

Partner, Head of Asset Management,  
ASPAC; Head of Financial Services,  
Hong Kong  
KPMG China  
T: +852 2826 7241  
E: bonn.liu@kpmg.com

**Vivian Chui**

Partner, Head of Securities & Asset  
Management, Hong Kong  
KPMG China  
T: +852 2978 8128  
E: vivian.chui@kpmg.com

**Terence Fong**

Partner, Head of Chinese Banks  
KPMG China  
T: +852 2978 8953  
E: terence.fong@kpmg.com

**Walkman Lee**

Head of Insurance, Mainland China  
KPMG China  
T: +852 2140 2282/+86 (10) 8508 7043  
E: walkman.lee@kpmg.com

**Karmen Yeung**

Head of Tax  
Southern Region  
KPMG China  
T: +852 2143 8818/+86 (755) 2547 1038  
E: karmen.yeung@kpmg.com

**Maggie Lee**

Partner, Audit,  
Capital Markets Development, Hong Kong  
KPMG China  
T: +852 2826 8063  
E: maggie.lee@kpmg.com

**Darren Bowdern**

Partner, Head of Alternative Investments  
KPMG China  
T: +852 2826 7166  
E: darren.bowdern@kpmg.com

**Wilson Pang**

Head of Advisory, Southern Region;  
Head of Portfolio Solutions Group, China &  
Asia Pacific  
KPMG China  
T: +86 (20) 3813 8802  
E: wilson.pang@kpmg.com

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