

# Intermediaries & Investment Products

Our mission is to safeguard investor interests and work in partnership with the industry to facilitate market development.

## [ Achievements ]

- Prudential regulation
  - Managed down financial risks of the securities industry by requiring brokers to tighten their margin loan credit policy and increase their capital base
  - Minimised the risks to the market of a few firms by imposing licensing conditions and/or obtaining undertakings
  - Secured a new fidelity insurance scheme for SEHK and HKFE participants
  - Obtained public support for the proposals to address risks arising from securities margin financing
- Conduct supervision
  - Released a report on mis-selling practices of investment advisers
  - Survey on fund trading practices, theme inspection and subsequent regulatory action
  - Published the code on analyst conflicts of interest
- Smooth migration of licensees to the SFO regime
- Facilitate the market to develop new products
  - Facilitated the processing of UCITS III fund applications
  - Proposed relaxation of geographical restriction on overseas investments by SFC-authorized REITs
- Operational work
  - Granted 4,743 new licences and approved 8,346 migration applications
  - Inspected 170 firms and conducted 62 prudential meetings
  - Authorised 302 new Collective Investment Schemes

## [ This Chapter Is About ]

- An overview of licensees, the securities industry and authorised investment products
- Safeguarding investor interests
  - Regulatory action
  - Enhancing investor protection
  - Raising professional standards
- Market facilitation
  - Facilitating intermediaries
  - Product facilitation
- Operational functions
  - Licensing
  - Supervision
  - Investment products authorisation

## Investors First



Ms Franki Yip has attended the SFC's teachers workshop for several years to learn more about investing.



Mr Kwok Kin Wai has won our Smart Investor Awards twice with his reports of financial scams.



Retiree Mr Kung Kam Ho has been a stock investor for almost 30 years.

## What We Do

- Act as the gatekeeper of the industry, by licensing only those individuals and firms that are fit and proper to conduct regulated activities;
- Monitor the financial positions of licensed firms and supervise their business conduct;
- Raise the professional standards of intermediaries;
- Impose authorisation requirements on the sale of investment products to the Hong Kong public and their advertisements in accordance with product codes and industry standards;
- Monitor disclosures and ongoing compliance of investment products; and
- Carry out policy reforms to enhance investor protection and foster market development.

## How We Help Investors



Our primary objective is to protect investors and reduce systemic risks to the market. We recognise that investors expect licensed persons to be fit and proper, adopt high standards and act in the investors' best interests.

To achieve this, the Division has an ongoing risk based supervision programme of intermediaries. We prioritise our resources towards resolving regulatory issues that have significant market impact, which may result in a contagion effect or substantial investor losses. By exercising both prudential and conduct supervision to identify and reduce risks as far as possible, we try to promote high standards amongst practitioners because investors rely heavily on the practitioners' skills, integrity and professionalism. In addition, we constantly review our codes and guidelines to assist market practitioners and facilitate new products for Hong Kong's financial market.

Firms may still fail due to market volatility and business risks. With this in mind, our aim is to ensure that such firms, as far as possible, make an orderly exit and minimise any adverse impact on the investing public and the reputation of Hong Kong as an international financial centre. We also emphasise the ongoing role senior management play to properly manage the business risk of their firms.

Over the last five years, our focus and first priority was on managing down the margin financing risks of brokers. Thorough measures have been put in place and rigorously enforced to manage down the financial risks of brokers, subject to the implementation of measures to reduce the pooling and re-pledging risks in margin financing.

We are now at a stage where the brokerage industry is more financially sound, so going forward, we are refocusing our attention on intermediary conduct issues especially those relating to investment advisers, sponsors and fund managers. In this year, we have undertaken cross-sector activities covering fund managers, brokers, investment advisers and corporate finance advisers. These activities include theme inspections and investor surveys in order to examine whether there are any gaps in the compliance standards of intermediaries and the applicable regulatory requirements.

## Intermediaries & Investment Products

### What We Did

#### An Overview of Licensees, the Securities Industry and Authorised Investment Products

Over the last five years, we have managed down the risks to the industry by requiring firms to strengthen their credit policies and where necessary, increase their capital base, in order to provide an adequate buffer against market shocks or loan shortfalls. This is shown in the improvement of average margin loan collateral

coverage from 3.8 times to 4.6 times and the increase in capital of the whole industry by 54% to \$77 billion.

The market recovery and various market facilitation measures taken by the SFC have benefited the industry and industry practitioners. Over the past year, we have seen an 89% increase in net profit of the industry as a whole, a 35% increase in personnel wage costs for the industry and an 11% increase in employment as defined by the number of licensed persons from 20,510 a year ago to 22,726.

**Number of Licensees**  
As at 31 March 2005 (Figures as at 31 March 2004 in brackets)

1  
Table

	Corporations		Representatives		Responsible Officers		Total	% Change
SEHK Participants	394	(448)	7,613	(7,390)	1,146	(1,130)	9,153 (8,968)	2%
HKFE Participants	113	(122)	377	(404)	54	(45)	544 (571)	-5%
SEHK and HKFE Participants	11	(5)	549	(217)	61	(24)	621 (246)	152%
Non-Participants	714	(723)	10,150	(8,750)	1,544	(1,252)	12,408 (10,725)	16%
<b>Grand Total</b>	<b>1,232</b>	<b>(1,298)</b>	<b>18,689</b>	<b>(16,761)</b>	<b>2,805</b>	<b>(2,451)</b>	<b>22,726 (20,510)</b>	<b>11%</b>

**Financial and Market Highlights of the Securities Market**

2  
Table

	As at 31/12/2004	As at 31/12/2003
Total number of securities dealers & securities margin financiers	663	673
Total number of active clients <sup>1</sup> (-10%)	685,827	759,042
	HK\$ million	HK\$ million
Total assets (+22%)	331,613	271,800
Total shareholders' fund (+21%)	76,990	63,431
<b>Period from 1 January 2004 to 31 December 2004</b>		
Total value of transactions (+59%)	16,620,090	10,456,801
Net securities commission income (+37%)	18,225	13,329
Net profit (+89%)	12,828	6,788

1. The drop in the number of active clients was primarily due to the surrender of the licence by a major licensed corporation that was formerly an exempt dealer. That corporation's dealing activities are now done within its banking operations, which are regulated by the HKMA.

**Number of Authorised Collective Investment Schemes**

3  
Table

	As at 31/03/2005	As at 31/03/2004
Unit trusts and mutual funds	1,942	1,872
Investment-linked assurance schemes	177	160
Pooled retirement funds	37	37
MPF master trust schemes	45	46
MPF pooled investment funds <sup>1</sup>	274	255
Others <sup>2</sup>	78	44
<b>Total<sup>3</sup></b>	<b>2,553</b>	<b>2,414</b>

1. There are 118 funds included in this category that are offered both as retail unit trusts as well as pooled investment funds for MPF purpose.
2. Other schemes comprised 68 equity-linked deposits, 9 paper gold schemes and 1 REIT.
3. During the year, 302 products were newly authorised for offer to the public in Hong Kong, while 163 products were withdrawn.

Our market facilitation measures include granting capital rule modifications, hence allowing more efficient deployment of capital by licensed corporations. We also assisted them to capitalise on emerging business opportunities by speedy processing and approval of subordinated loans as a partial substitute for regulatory capital. Last year, we approved 40 subordinated loans worth nearly \$5 billion, most of which were applied to enable the licensed corporations to carry out more IPO business.

The single licensing regime provides flexibility for industry participants to carry out various regulated activities under one licence. We provided them with guidance on licensing procedures through circulars, seminars and meetings with industry associations.

On product authorisation, we have a number of firsts. We are one of the first jurisdictions in the world to approve the sale of hedge funds to local retail investors. Last year we authorised three retail hedge funds, bringing the total to 13 with an aggregate net asset value of US\$1.174 billion - an increase of 190% compared to the previous year.

We are the first regulator in the Asia Pacific region to have issued interim measures to facilitate the processing of UCITS III funds, which include a fast track procedure for funds that do not significantly change their investment policies. Up to 31 March 2005, we had authorised 384 UCITS III funds, representing over 82% of the applications received. Last year, we authorised the first ETF tracking an A-share index and proposed the relaxation of overseas investments for authorised REITs.

All these achievements are the result of our collective work over the last few years. They have reduced the overall levels of risk to investors in addition to facilitating industry development. Going forward, our focus will be less on monitoring the industry as a whole, and more on targeting individual risky firms and addressing conduct issues using a risk-based approach.

## Safeguarding Investor Interests

### ■ Regulatory Action

#### ▣ Examination of Investment Advisers' Compliance Standards

We have been monitoring cases of mis-selling of financial products to investors in Hong Kong by investment advisers both in Hong Kong and overseas. In order to formulate an appropriate regulatory response, we conducted a theme inspection on a good mix of 15 licensed investment advisers, focusing on their selling practices and assessing their compliance with the relevant rules and regulations.

Based on the inspection findings and SFC's other investigations, we released the Report on Selling Practices of Licensed Investment Advisers in February 2005. We reminded all licensed investment advisers that they should adhere closely to the standards of conduct expected of them. We will further study some of the disclosure and investor protection issues identified in the report.

#### ▣ Review of Fund Managers' Business Practices

In tandem with global regulatory trends to discourage inappropriate market timing and late trading practices of fund managers, the SFC released the Report of the Survey on Fund Trading Practices in July 2004. It was the first such report published by a securities regulator in Asia.

The findings indicated that although market timing was not a widespread phenomenon in Hong Kong, our market is not immune to approaches by market timers who wish to exploit arbitrage opportunities through market timing and late trading activities, and that local fund managers are aware of the relevant issues.

In an inspection, supervision staff noted that First State Investment (Hong Kong) Limited (FSIL), being an investment manager and a Hong Kong Representative of the First State Global Umbrella Fund PLC, forwarded trades from two hedge funds to the Fund's overseas administrator for processing after normal trading hours. This action

## Intermediaries & Investment Products

amounted to a technical breach of the dealing deadlines in the Fund's prospectus. In February 2005, FSIL settled the case with the SFC, without admission of fault or liability, by making financial arrangements to the affected parties and stepping up its internal controls and monitoring systems. We have reminded fund managers to ensure that appropriate measures are in place to monitor and prevent improper practices.

### ☒ Misappropriation of Assets from an Unauthorised Hedge Fund

In June 2004, upon becoming aware that client assets were possibly being misappropriated from a hedge fund that was advised by Charles Schmitt & Associates Limited (CSAL), we issued a restriction notice to CSAL and obtained an injunction from the Court to preserve the assets in a timely manner. Shortly thereafter, the SFC obtained a court judgment to appoint an administrator for the property of the CEO of CSAL, Mr Charles Schmitt, in order to further protect the assets of the firm's clients. The fund was not SFC-authorized.

### ☒ Compensation for Fund Investors

The Code on Unit Trusts and Mutual Funds sets out the circumstances under which investors should be compensated in the case of pricing errors that involve administrative errors on fund valuation or pricing. Last year, we investigated 37 cases of pricing errors and, in all cases, required the responsible fund managers to rectify the situation and enhance their internal controls. We required compensation be made to the funds and the investors involved in 28 cases.

## ■ Enhancing Investor Protection

### ☒ Fit and Proper Licensees

Investors expect their financial needs to be served by professional and qualified persons and firms that meet the SFC's fit and proper standard. Those who do not meet this standard will not be licensed. During the past year, 84 licensing applications were withdrawn because they failed

to meet our licensing requirements. We imposed specific licensing conditions on 1,918 new licensees to ensure that investors' interests and market integrity were adequately protected. We also revoked 38 bankrupt persons' licences as such individuals are not fit and proper to deal with investors.

### ☒ Improving Transparency of Fees and Charges

We issued Guidelines on Disclosure of Fees and Charges Relating to Securities Services in November 2004 to supplement the Code of Conduct. The fees and charges are to be put in six categories and disclosed. The Guidelines came into effect in January 2005, placing investors in a better position to understand the fee structures of firms and thereby enhancing transparency and fair competition.

### ☒ More Comprehensive Fidelity Insurance for Brokers

We successfully secured a better fidelity insurance scheme for 2004-2005 in partnership with an industry working group and by way of tender. This scheme offers an additional layer of protection to the clients of SEHK and HKFE participants. It was the first such scheme for HKFE participants. SEHK participants saved 35% in premiums compared with a year ago.

## ■ Raising Professional Standards

### ☒ Addressing Analyst Conflicts of Interest

We published a code to address the issue of analyst conflicts of interest in November 2004. Taking into consideration IOSCO's guidelines, international developments and local market characteristics, the code aims to remove, reduce and manage conflicts faced by analysts and their firms. The code only came into effect in April 2005 to allow firms sufficient time to establish the necessary compliance systems.

### ☒ Securities Margin Financing Reform

To provide more effective investor protection and to strengthen the overall regulatory framework for brokerage firms, the SFC released for public

consultation Proposed Measures To Address Risks Arising From Securities Margin Financing in September 2004. There are two principal measures, namely imposing a limit on the re-pledging of margin clients' collateral and adjusting the haircut percentages applied to margin clients' collateral under the Securities and Futures (Financial Resources) Rules.

All respondents generally accepted the rationale of the reform, which is to enhance investor protection. We provided a status report to the Legislative Council Panel on Financial Affairs in December 2004.

#### Enhancing Regulation of Sponsors and IFAs

We engaged an independent research centre to gather a comprehensive picture of the investing public's views on the regulation of listing sponsors. The investor survey findings report, released in March 2005, showed that:

- respondents have a fair understanding of a sponsor's role in the listing process;
- respondents are almost unanimous that sponsor standards need to be raised; and
- the majority of the respondents consider that the sponsor firm's internal controls and systems, human and organisational resources including staff competence and experience, are important factors affecting sponsor standards.

The findings will assist the SFC in formulating an enhanced regulatory framework for sponsors and Independent Financial Advisers (IFAs). We will consult the public on a specific set of eligibility criteria for sponsors and IFAs in 2005.

#### Anti-Money Laundering Initiatives

In order to meet operational changes and the latest international standards, we have comprehensively reviewed our anti-money laundering guidelines and plan to consult the public on proposed revisions in 2005. We issued 17

advisory circulars during the year to alert licensed corporations to persons designated by international bodies as terrorists.

## Market Facilitation

### Facilitating Intermediaries

#### Smooth Migration of Licensees to the New Licensing Regime under the SFO

At the end of the two-year transitional period on 31 March 2005, 96% of the firms registered under the previous regime had applied to migrate into the new regime in order to continue their business. The remainder had orderly exited the industry. Various initiatives were taken during the past year to ensure an orderly transition. We issued three circulars and seven letters to the intermediaries and obtained assistance from industry associations in reminding the licensees to meet the deadline. To ensure that investor interests are safeguarded, we also:

- approached 172 firms to understand their concerns and migration strategies;
- monitored the return of client assets by firms not migrating;
- informed the public about the progress of the migration, and advised investors to enquire about their intermediary's migration status and make alternative arrangements concerning their assets where necessary; and
- published in the public register the migration status of each intermediary.

#### Specialist Team for Hedge Fund Managers Applications

In light of the rapid growth of the hedge fund management industry, we set up a focus team in October 2004 to process applications and manage issues involving hedge fund managers to facilitate their applications. We had received 13 licence applications, of which seven had been approved.

## Intermediaries & Investment Products

### ☒ Others

We facilitated market development by flexibly applying our regulations. We approved 40 applications for subordinated loans and granted 59 modifications and waivers of certain regulatory requirements to intermediaries. We also approved four applications for associated entities to conduct other business in cases where we believed that investor protection would not be compromised.

To keep pace with industry development and foster better investor protection, we issued a consultation paper proposing amendments to Schedule 5 to the SFO. The proposals aimed to fine-tune the legal definitions of certain regulated activities, including asset management, dealing in securities, advising on securities and advising on futures contracts.

### ■ Product Facilitation

#### ☒ Processing of UCITS III Funds

Beginning from 2004, a major policy initiative has been the processing of UCITS III funds. UCITS III is a new set of regulations issued by the European Union (EU) Commission governing funds domiciled in the EU member states. Since many SFC authorised funds are domiciled in European jurisdictions, such as Luxembourg and Ireland, they are required to convert to meet the new EU regulations.

Up to 31 March 2005, we had authorised 384 UCITS III funds (including conversions), representing over 82% of the UCITS III fund applications received. We formulated interim measures with the fund industry, which include a fast track procedure for processing funds that meet all the necessary requirements and do not intend to significantly change their investment policies.

We also initiated an investor education programme to inform investors of the new investment flexibility offered under UCITS III funds. As a start, we issued FAQs in March 2005 to help investors understand the basic information about UCITS III funds.

#### ☒ Authorisation of REIT

During the past year, we licensed the first REIT management company and authorised the company's REIT, namely the Link REIT, which attracted about \$280 billion in its Hong Kong public offering. While the offering of the Link REIT lapsed, all application monies (from about 510,000 investors) were refunded in a timely and orderly manner.

#### ☒ Overseas Investments for REITs

Following the publication of the Code on REITs in July 2003, a Taskforce on Overseas Real Estate Investments by Real Estate Investment Trusts was set up to study the regulation of overseas property investments by SFC-authorised REITs.

A public consultation paper was issued in March 2005 to lift the geographical restrictions on overseas investment by REITs and to give concrete guidance on the application of the Code principles to overseas property investments, with an emphasis on the competency of the management company, its due diligence and disclosures.

#### ☒ Fund Investments in Overseas REITs

Separately, as we recognise the growing importance of listed REITs as a separate asset class for investment, we consulted the public in February 2005 on a proposal to allow all SFC-authorised schemes to invest in listed REITs in accordance with the existing investment limits applicable to listed securities.

## Review of Hedge Funds Guidelines

We intend to review the Guidelines on Hedge Funds and publish a consultation paper in the first half of 2005. We aim to clarify certain regulatory requirements, such as the assessment of the fund managers' experience, and to enhance disclosure standards among retail hedge funds.

## Operational Functions

### Licensing

In the second year of the SFO regime, the number of licence applications increased by 32% to 4,915 (Table 4). This could be attributed to the increased number of applications for fast tracked provisional licence from 1,511 in 2003-2004 to 2,477 in 2004-2005. Similar to previous years, dealing in securities accounted for the largest number of applications, followed by advising on securities.

Last year, we approved specialised courses to facilitate the re-entry by former practitioners who

had left the industry for three to eight years. These courses are conducted by the Hong Kong Securities Institute (HKSI) for securities and futures, and the Vocational Training Council for leveraged foreign exchange. They serve as an alternative to taking licensing exams or attending five Continuous Professional Training (CPT) hours for each year of absence from the industry.

In addition, we approved the Hong Kong Polytechnic University's Management and Executive Development Centre and the Hong Kong Capital Markets Association as new CPT providers. Licensed persons now have a wider range of institutions to undergo CPT to enhance their technical knowledge and professional expertise. We also assisted the HKSI in implementing measures to improve its Licensing Examinations without lowering competence standards.

Applications for Licence/Regulated Activity  
For the period from 1 April 2004 to 31 March 2005 (Previous year's figures in brackets)

4  
Table

Applications	Business Corporations		Individuals		Total		%Change		
	Licence		Licence		Licence				
Received	119	(61)	4,429	(3,396)	367	(275)	4,915 (3,732)	32%	
Approved	110	(46)	4,316	(2,962)	317	(243)	4,743 (3,251)	46%	
Refused	0	0	0	0	0	0	0	0%	
Withdrawn	2	(11)	70	(117)	12	(16)	84 (144)	-42%	
	Regulated Activity		Regulated Activity		Regulated Activity		Regulated Activity		%Change
Received	185	(118)	9,874	(5,673)	663	(619)	10,722 (6,410)	67%	
Approved	160	(90)	9,706	(4,995)	550	(512)	10,416 (5,597)	86%	
Refused	0	0	0	0	0	0	0	0%	
Withdrawn	6	(32)	104	(218)	25	(33)	135 (283)	-52%	

## Intermediaries & Investment Products

### Statistical Information on Securities Market <sup>1</sup>

5
Table

	As at 31/12/2004	As at 31/12/2003
Total number of active cash clients <sup>2,3</sup>	609,281	687,802
Total number of active margin clients <sup>2</sup>	76,546	71,240
<b>Balance Sheet</b>		
	HK\$ million	HK\$ million
Cash in hand and at bank <sup>4</sup>	110,176	88,209
Amounts receivable from margin clients <sup>5</sup>	17,158	15,327
Amounts receivable from clients and other dealers arising from dealing in securities	65,357	63,261
Proprietary positions	77,777	55,189
Other assets	61,145	49,814
<b>Total assets (+22%)</b>	<b>331,613</b>	<b>271,800</b>
Amounts payable to clients and other dealers arising from dealing in securities	124,739	109,517
Total borrowings from financial institutions	56,264	36,786
Short positions held for own account	26,552	24,510
Other liabilities	47,068	37,556
Total shareholders' fund	76,990	63,431
<b>Total liabilities and shareholders' fund (+22%)</b>	<b>331,613</b>	<b>271,800</b>
	<b>12 months to 31/12/2004</b>	<b>12 months to 31/12/2003</b>
<b>Profit and loss</b>		
	HK\$ million	HK\$ million
Total value of transactions <sup>6</sup>	16,620,090	10,456,801
Net securities commission income	18,225	13,329
Gross interest income	2,555	2,034
Net profit on proprietary trading	1,494	1,565
Other income <sup>7</sup>	29,354	18,804
Total overheads and interest expense <sup>8</sup>	(38,800)	(28,944)
<b>Net profit (+89%)</b>	<b>12,828</b>	<b>6,788</b>

1. The above data were extracted from the monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by securities dealers and securities margin financiers.

2. Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

3. The drop in number of active cash clients was primarily due to the surrender of the licence by a major licensed corporation that was formerly an exempt dealer.

4. Cash in hand and at bank includes trust monies held on behalf of clients amounting to \$49,305 million (2003: \$41,126 million).

5. Average collateral coverage (the number of times the aggregate market value of securities collateral deposited by clients covers the amounts receivable from margin clients on a given date on an industry-wide basis):

As at 31/12/2004	As at 31/12/2003
4.6	4.2

6. The value of transactions includes trading in equities and bonds both in Hong Kong and overseas.

7. Other income mainly comprises corporate finance income, fund management income, net profit/loss on proprietary trading, inter-company charges and others.

8. Total overheads include salary and staff benefits paid to non-commission based staff of licensed corporations. Commission paid to account executives and others has been netted off with commission income to arrive at the net securities commission income.

	12 months to 31/12/2004 (\$ million)	12 months to 31/12/2003 (\$ million)
Salary and staff benefits	19,786	14,634

## ■ Supervision

By flexibly applying the regulatory tools under the SFO, we worked with a number of firms to improve their capital adequacy and liquidity, and raise their professional standards.

We inspected 170 firms and carried out 62 prudential meetings.

During our inspections, we identified various breaches of rules and regulations and required the firms to take prompt rectification measures (Table 6).

Inspections are conducted not only as a means of detecting breaches, but also to help intermediaries maintain and raise their standards. Thus, while breaches of criminal provisions in the SFO and serious misconduct will be referred to the Enforcement Division for investigation and further

action, we issue letters of deficiencies in cases of less serious and technical infractions of rules and regulations.

We have also been working with targeted intermediaries to find ways to strengthen their financial positions and internal controls, as well as to rectify improper business practices. Discussions with senior management to focus their attention on addressing our concerns have yielded positive results in most cases.

To enhance the transparency of financial information about the securities industry, we published the Quarterly Financial Review of the Securities Industry and the Half-Yearly Financial Stability Report. These regular publications provide useful analyses on the overall financial performance of the securities industry.

Breaches by Licensed Corporations Noted During SFC Inspections

6  
Table

Nature of Breaches	Total Number of Breaches	
	2004-2005	2003-2004
Failure to comply with Financial Resources Rules	17	38
Failure to safekeep client securities	32	34
Failure to maintain proper books	20	21
Failure to safekeep clients' money	25	33
Unlicensed dealing & other registration issues	20	14
Breach of licensing condition	4	3
Breach of requirements of contract notes/statements of account/receipts	48	72
Failure to make filing/notification	5	3
Breach of margin requirements	6	8
Marketing malpractices	3	4
Illegal short selling of securities	1	2
Breach of Code of Conduct	280	253
Breach of Code on Unit Trusts & Mutual Funds	2	0
Breach of Corporate Finance Adviser Code of Conduct	6	2
Breach of Fund Manager Code of Conduct	16	18
Non-compliance with anti-money laundering guidelines	10	30
Breach of other rules and regulations of the Exchanges	7	5
Internal control weaknesses	201	226
Others	37	44
<b>Total</b>	<b>740</b>	<b>810</b>

## Intermediaries & Investment Products

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As part of ongoing education, we reminded our intermediaries in a circular to comply with the telephone-recording requirement. In addition, we issued 26 circulars about current industry issues such as ways to combat fake websites, advice to firms offering IPO financing, alerts regarding fraudulent activities targeting brokerage firms, and issues relating to anti-money laundering and combat of terrorist financing.

### ■ Investment Products Authorisation

As at 31 March 2005, the total number of SFC authorised investment products available to the public stood at 2,553, a 5.8% increase from last year's 2,414. While standard bond and equity funds still comprised the bulk of the funds population, specialised investment products such as guaranteed funds remained popular over the past year.

At the year-end, there were 309 authorised guaranteed funds, compared to 244 a year ago. The SFC authorised three more hedge funds during the year, bringing the total to 13, with an aggregate net asset value of US\$1.174 billion, an increase of 190% compared to the previous year.

Issuers are required to seek our approval on any advertisements or marketing materials of authorised products before they are issued to the public. In the past year, we authorised 5,981 product advertisements.

Amidst positive market sentiment and improved investment environment, the aggregate net asset value of all authorised unit trusts and mutual funds rose 3.2% during the year to US\$551 billion as at 31 December 2004 (Table 7). Funds authorised in Hong Kong continued to show a strong international flavour (Table 8).

We have closely monitored the recent development of retail funds that offer exposure to the A-share market in China. The first ETF tracking an A-share index was authorised in November 2004. Up to 31 March 2005, the SFC had authorised six equity funds with an investment policy to participate in the A-share market, most of which investing indirectly in A-shares via equity-linked investments issued by QFIs.

The annual Fund Management Activities Survey was conducted in early 2004. Unlike previous years where the survey covered only licensed corporations that were engaged in asset management or advisory business, we invited, for the first time, authorised financial institutions to report on their asset management and other private banking activities. The survey found that total assets under management or advice in the fund management business in Hong Kong amounted to about \$3 trillion as at the end of 2003.

**Authorised Unit Trusts and Mutual Funds  
as at 31 March 2005**

7
Table

	Number	%	Total NAV* (US\$ million)	%
Bond	303	17	112,486	20.4
Equity	884	50	272,962	49.5
Diversified	111	6	38,433	7.0
Money Market	56	3	94,540	17.2
Fund of Funds	76	4	4,813	0.9
Index	19	1	7,362	1.3
Guaranteed	309	17	18,403	3.3
Hedge	13	1	1,174	0.2
Other specialised#	7	1	1,046	0.2
	1,778	100	551,219	100
Umbrella structures	164			
<b>No. of Authorised Funds</b>	<b>1,942</b>			

\* Net Asset Value as at 31 December 2004

# Includes: Futures &amp; Options Funds &amp; Leveraged Funds

**Origin/Net Asset Value of Authorised Unit Trusts and Mutual Funds  
as at 31 March 2005**

8
Table

	Umbrella Number	Sub-funds Number	Single Funds Number	Total Number	%	Total NAV* (US\$ million)	%
Hong Kong	15	55	31	101	5.2	8,355.4	1.5
Luxembourg	54	826	10	890	45.8	361,825.3	65.6
Ireland	43	312	16	371	19.1	110,225.0	20.0
Guernsey	3	32	1	36	1.9	2,843.5	0.5
United Kingdom	2	38	8	48	2.5	30,448.2	5.5
Other Europe	0	0	8	8	0.4	6,481.8	1.2
Bermuda	2	22	8	32	1.6	2,732.8	0.5
British Virgin Islands	5	12	9	26	1.3	1,928.6	0.4
Cayman Islands	39	332	50	421	21.7	24,933.6	4.5
Others	1	1	7	9	0.5	1,445.1	0.3
<b>No. of Authorised Funds</b>	<b>164</b>	<b>1,630</b>	<b>148</b>	<b>1,942</b>	<b>100</b>	<b>551,219.3</b>	<b>100</b>

\* Net Asset Value as at 31 December 2004 (excluding "umbrella funds")