

# Investment products

## Authorizations

As of 31 December, there were 2,779 SFC-authorized collective investment schemes (CIS) on offer to the public. During the quarter, we authorized 61 CIS, comprising 41 unit trusts and mutual funds and 20 mandatory provident fund (MPF) pooled investment funds. We also authorized 24 unlisted structured investment products for public offering.

## Renminbi products

As of 31 December, the total number of renminbi-denominated SFC-authorized unlisted funds and exchange-traded funds (ETFs) investing onshore in the Mainland securities markets<sup>1</sup> were 68 and 26 respectively.

## Suitability, platforms and advice

Following the issue on 23 December of further guidance (in the form of two circulars) on the existing suitability obligations of licensed or registered persons when recommending or soliciting investments, we plan to provide more tailored guidance to the industry on how the suitability requirement should be implemented in the context of online distribution and advisory platforms. We aim to launch a public consultation in the first quarter of 2017.

## Leveraged and inverse products

Six months after the launch of the initial batch of leveraged and inverse (L&I) products, we extended these products' eligible indices to include liquid and broad-based Hong Kong equity indices and, on a case-by-case basis, non-equity indices. We began accepting applications for L&I products tracking such indices on 9 January 2017. Details are set out in a circular issued on 23 December. Previously, the only eligible indices for these products were foreign equity indices.

## MPF default investment strategy

To prepare for the implementation of the MPF default investment strategy (DIS)<sup>2</sup>, we authorized all DIS-related constituent fund (CF) applications<sup>3</sup> as well as all relevant pooled investment fund applications.

## Mutual recognition of funds

### Switzerland

On 2 December, we signed a Memorandum of Understanding with the Swiss Financial Market Supervisory Authority on mutual recognition of funds (MRF). The agreement allows eligible Swiss and Hong Kong public funds to be distributed in the others' market through a streamlined vetting process, and establishes a framework for information exchange and regular dialogue as well as regulatory cooperation in relation to cross-border offerings of public funds. In addition, Switzerland is now included in the lists of recognised jurisdiction schemes<sup>4</sup> and acceptable inspection regimes<sup>5</sup>. To give further details about the MRF scheme, we issued a circular, frequently asked questions (FAQs) and an information checklist. We also held four industry briefing sessions for Hong Kong asset managers and trustees in December 2016 and January 2017.

### Mainland China

Under Mainland-Hong Kong MRF, as of 31 December, we authorized a total of 48 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission approved six Hong Kong funds.

With effect from 19 December, Mainland fund applications are classified as "Standard" or "Non-standard" under a two-stream approach<sup>6</sup>. To facilitate these applications, we updated the related circular, FAQs, information checklists and key facts statement template.

<sup>1</sup> These unlisted funds and ETFs primarily invest in the Mainland securities markets through the Renminbi Qualified Foreign Institutional Investor quota, Stock Connect and the China Interbank Bond Market.

<sup>2</sup> The Mandatory Provident Fund Schemes Authority announced that the DIS will launch on 1 April 2017.

<sup>3</sup> Comprising new CF applications for 29 MPF schemes, applications for converting existing CFs to DIS CFs for two schemes and applications for both new CFs and the conversion of existing CFs for two schemes.

<sup>4</sup> Including schemes which the SFC accepts have complied in substance with certain provisions of the Code on Unit Trusts and Mutual Funds on the basis of prior authorization in another jurisdiction.

<sup>5</sup> The investment management operations of a fund management company or an investment adviser are required to be based in a jurisdiction with an inspection regime acceptable to the SFC.

<sup>6</sup> Under the two-stream approach adopted as part of the revamped fund authorization process, new fund applications will be processed as standard applications and fast tracked if certain criteria are met.

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## Enhancing asset management regulation

To enhance asset management standards and point-of-sale transparency, we launched a consultation in November on proposals which cover topics including securities lending and repurchase agreements, custody of fund assets, liquidity risk management and disclosure of leverage by fund managers. The consultation closes on 22 February 2017.

## Industry guidance

We continued to provide the industry with practical guidance, including an FAQ on the disclosure and approval requirements for investments made by authorized funds through Shenzhen-Hong Kong Stock Connect. We also issued a circular reminding issuers of SFC-authorized CIS to consider and assess the potential implications of the automatic exchange of financial account information (AEOI)<sup>7</sup> on their business operations.

### Authorized CIS<sup>a</sup>

	As at 31.12.2016	As at 31.3.2016	Change (%)	As at 31.12.2015	YoY change (%)
Unit trusts and mutual funds	2,196	2,133	3	2,110	4.1
Investment-linked assurance schemes	300	301	-0.3	297	1
Pooled retirement funds	34	34	0	34	0
MPF schemes	35 <sup>b</sup>	37	-5.4	37	-5.4
MPF pooled investment funds	188 <sup>c</sup>	173	8.7	173	8.7
Others	26 <sup>d</sup>	26	0	24	8.3
<b>Total</b>	<b>2,779</b>	<b>2,704</b>	<b>2.8</b>	<b>2,675</b>	<b>3.9</b>

<sup>a</sup> Excluding unlisted structured investment products.

<sup>b</sup> 56 authorized constituent funds under these MPF schemes were DIS-related.

<sup>c</sup> Of which 20 were DIS-related.

<sup>d</sup> Comprising 15 paper gold schemes and 11 real estate investment trusts.

### Unlisted structured investment products

	Quarter ended 31.12.2016	Nine months ended 31.12.2016	Nine months ended 31.12.2015	YoY change (%)
Unlisted structured investment products <sup>a</sup>	24	83	83	0
Authorizations granted under section 105 of the SFO <sup>b</sup>	14	62	65	-4.6

<sup>a</sup> On a "one product per key facts statement" basis, the number of unlisted structured investment products authorized during the period, most of which were equity-linked investments and deposits.

<sup>b</sup> Offering documents and advertisements for unlisted structured investment products offered to the Hong Kong public.

<sup>7</sup> Under AEOI, financial institutions are required to identify financial accounts held by tax residents of reportable jurisdictions and provide this information annually to the Hong Kong Inland Revenue Department, which will exchange it on a reciprocal basis with appropriate tax authorities elsewhere.