Frequently Asked Questions on Mainland-Hong Kong Mutual Recognition of Funds

These frequently asked questions (FAQs) are prepared by the Investment Products Division to provide guidance to market practitioners regarding the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme. Firms are encouraged to contact the relevant case team in the Investment Products Division if they are in doubt on any specific issues arising from the application/interpretation of the matters relating to the MRF.

The information set out below is not meant to be exhaustive. These FAQs may be updated and revised from time to time. These FAQs are only for general reference. Compliance with all the requirements in these FAQs does not necessarily mean that an application will be accepted or an authorization will be granted. The SFC reserves the rights to exercise all powers conferred under the law.

Unless otherwise defined herein, all capitalised terms shall have the meanings given to them in the Circular on Mutual Recognition of Funds between the Mainland and Hong Kong (Circular) issued by the SFC on 22 May 2015.

	Question	Answer
	A. Eligibility requirements	
1.	One of the MRF eligibility requirements is that a fund must be established for more than one year. If an SFC-authorized fund that is domiciled in an overseas jurisdiction would like to be re-domiciled in Hong Kong, from which day is this 1-year requirement calculated?	The 1-year period is calculated from the day on which the fund is re-domiciled in Hong Kong.

	Question	Answer
2.	One of the MRF eligibility requirements is that a Recognised Mainland Fund must not primarily invest in the Hong Kong market. What does "primarily" mean in the above context?	A Mainland fund applying for SFC authorization should not invest more than 20% of its assets in the Hong Kong market.
3.	One of the MRF eligibility requirements is that the management firm of a Recognised Mainland Fund must not have been the subject of any major regulatory actions by the CSRC in the past 3 years or, if it has been established for less than 3 years, since the date of its establishment. What kind of information does the management firm need to provide to the SFC to support that it meets this requirement?	The management firm must clearly disclose to the SFC if it has been the subject of any regulatory actions by the CSRC in the past 3 years or, if it has been established for less than 3 years, since the date of its establishment. If regulatory actions by CSRC have been taken, the firm must disclose the nature of the breach. When processing the application, the SFC will also conduct regulatory check with the CSRC. The SFC will take into consideration all relevant factors such as the nature of the breach, the regulatory action taken by CSRC (for example, whether or not it is a public reprimand) and the remedial actions taken by the management firm to rectify the breach in determining whether the management firm meets the eligibility requirement.
4.	One of the MRF eligibility requirements is that the management firm of a Recognised Mainland Fund cannot delegate its investment management functions to a party operating outside the Mainland. Can the management firm delegate its investment management functions to a party operating within the Mainland? Can the management firm appoints an investment advisor that is outside the Mainland?	The management firm of a Recognised Mainland Fund may delegate its investment management function to a party operating within the Mainland. There is, however, no restriction on the location of the investment advisor. The management firm can appoint an investment advisor that is within or outside the Mainland.

	Question	Answer
5.	Will the management firm be required to set up a new share class for a Recognised Fund for offering to investors in the Host Jurisdiction?	There are no specific requirements for using existing share classes or setting up a new share class for a Recognised Fund for offering to investors in the Host Jurisdiction. The management firm may set up a new share class for investors in the Host Jurisdiction, with potentially different charges/expenses and dealing arrangements subject to the relevant laws and regulations in the Home Jurisdiction and the constitutive documents of the Recognised Fund. This is a commercial decision. In deciding whether to use existing share class(es) or set up a new share class for investors in the Host Jurisdiction, the management firm should consider which approach would bring a fair outcome to investors in both the Home Jurisdiction and the Host Jurisdiction, e.g. whether using the existing share class(es) would cause dilution to or adversely affect Home Jurisdiction investors. The management firm should take into account differences in market conditions and investment practices between the two jurisdictions.
5A.	In respect of Recognised Hong Kong Funds, would the setting up of a new share class for offering to Mainland investors require SFC's prior approval?	Under the Code on Unit Trusts and Mutual Funds, the setting up of a new share class by an SFC-authorized fund does not require SFC's prior approval. A Recognised Hong Kong Fund may set up new RMB share class(es) for subscription by Mainland investors under the MRF without prior approval or consultation with the SFC. The management firm should update the Hong Kong offering documents and where appropriate, inform holders in accordance with 11.1B of the Code on Unit Trusts and Mutual Funds, such as stating that a new share class has been / will be set up and the relevant risks associated with the inclusion of this new share class as the management firm considers appropriate e.g. how the new share class may affect the investment returns and risk profile of the fund as a whole (if applicable). The revised Hong Kong offering documents should be filed with the SFC in accordance with 11.1B of the Code on Unit Trusts and Mutual Funds. In addition, where a Recognised Hong Kong Fund has received approval from the CSRC for offering to Mainland investors and/or a share class is only available to

	Question	Answer
		Mainland investors, the management firm should disclose these facts in the Hong Kong offering documents.
6.	Will the management firm be required to create HKD-denominated share class/units for Recognised Mainland Funds to be distributed in Hong Kong? Would the management firm be required to create RMB-denominated share class/units for Recognised Hong Kong Funds to be distributed in the Mainland?	There are no restrictions on the currency denomination for Recognised Mainland Funds and Recognised Hong Kong Funds under the MRF. These funds can set up share classes in multicurrency and issue units in any currency so long as they comply with the relevant laws and regulations and their constitutive documents.
7.	Will funds that use leverage or invest in financial derivative instruments (FDIs) be eligible under the MRF?	Recognised Funds should generally be managed and operate in accordance with the relevant laws and regulations in their Home Jurisdiction and their constitutive documents, including with respect to their use of leverage or FDIs. At the initial stage, only simple products would be eligible. These products are not expected to have high leverage. In the case of Recognised Mainland Funds, the use of FDIs should be for hedging purposes only. In the case of Recognised Hong Kong Funds, the use of FDIs should meet the requirements in Chapter 7 of the Code on Unit Trusts and Mutual Funds.
8.	Will retail SFC-authorized Approved Pooled Investment Funds offered to the public in Hong Kong (APIFs) be qualified as Recognised Mainland Funds?	All SFC-authorized funds that meet the eligibility requirements of the MRF can seek approval from the CSRC for distribution in the Mainland. SFC-authorized APIFs currently invested by MPF schemes may be eligible for the MRF.
9.	One of the MRF eligibility requirements is that the Recognised Fund must be a general equity fund, a bond fund, a mixed fund, an unlisted index fund or a physical	Categorisation should in general be based on the relevant laws and regulations of the Home Jurisdiction.

	Question	Answer
	index-tracking exchange traded fund (ETF). On what basis should a management firm categorise a Recognised Fund?	
10.	Are gold ETFs, listed open-ended funds (LOFs), fund of funds, structured funds and guaranteed funds eligible under the MRF?	At this stage, gold ETFs, LOFs, fund of funds, structured funds and guaranteed funds are not eligible under the MRF.
11.	How should ETFs be offered in the Host Jurisdiction? Would ETFs have to be cross-listed to the Host Jurisdiction?	The MRF allows investors in the Host Jurisdiction to make primary subscription and redemption of a fund (including an ETF) approved or authorized in the Home Jurisdiction, subject to the relevant laws and regulations and its constitutive documents. Alternatively, the ETF may be offered in the Host Jurisdiction through a feeder fund. If a Mainland ETF (Mainland Master ETF) adopts a feeder fund structure for offering in Hong Kong, the feeder fund (Mainland ETF Feeder) should invest substantially all of its assets in the Mainland Master ETF. Applications for SFC authorization of Mainland ETF Feeders under the MRF will generally be considered as unlisted index funds that adopt a feeder fund structure. The feeder fund structure is expected to substantially meet the requirements in 7.12 of the Code on Unit Trusts and Mutual Funds. In view of the feeder fund structure, both the Mainland ETF Feeder and the Mainland Master ETF should seek SFC authorization and meet all the MRF eligibility requirements. The SFC is working with the relevant authorities to resolve the technical and operational issues surrounding the cross-listing and secondary trading of ETFs.
12.	Will Mainland funds that engage in securities lending and/or repo be eligible for the MRF?	Mainland funds that engage in securities lending and/or repo in accordance with the relevant Mainland laws and regulations and their constitutive documents are eligible for the MRF. If a Mainland fund engages in securities lending and/or repo, details of such

	Question	Answer
		arrangements should be disclosed in the fund's offering documents. Please refer to FAQ21 on the Code on Unit Trusts and Mutual Funds for details further guidance on the relevant disclosure requirements.
	B. Failure to meet eligibility requirements	
1.	One of the MRF eligibility requirements is that the value of shares/units in the fund sold to investors in the Host Jurisdiction shall not be more than 50% of the value of the fund's total assets (50% Limit). What will happen if initially, the value of shares/units in the fund sold to investors in the Home Jurisdiction exceeds 50%; but subsequently, there is redemption in the Home Jurisdiction so that the value of shares/units in the fund sold to investors in the Home Jurisdiction falls below 50%?	The management firm should be responsible for ensuring that the fund complies with the 50% Limit by managing subscription or creation orders in the primary market. When the value of shares/units in the fund sold to investors in the Host Jurisdiction is approaching the 50% Limit, the fund should notify the SFC in writing immediately, and suspend subscription or apply a fair arrangement to apportion subscription orders until the 50% Limit is reached. Such arrangement should be disclosed clearly in the offering documents of the fund. Compulsory redemption of shares/units held by existing holders in the Host Jurisdiction will not be required.
2.	What should the management firm of a Recognised Mainland Fund do if, after receiving SFC authorization, the Recognised Mainland Fund's asset under management has shrunk to below the minimum requirement of RMB 200 million?	Following SFC authorization, if the asset under management of a Recognised Mainland Fund is approaching the RMB200 million minimum requirement, the management firm shall notify the SFC in writing immediately and explain to the SFC the reasons behind the decline in asset under management. Flexibility may be allowed in respect of the meeting of the RMB200 million minimum requirement on a case-by-case basis by the SFC, taking into account all relevant factors, for example, relevant market conditions, exchange rates fluctuations, the best interest of investors and whether other MRF eligible requirements are met. The SFC has the power to require the Recognised Mainland Fund to suspend marketing to the public in Hong Kong and to not accept new subscriptions.

	Question	Answer
	C. Disclosure	
1.	What are the disclosure requirements of Recognised Mainland Funds?	The Hong Kong offering documents of Recognised Mainland Funds should contain the information necessary for investors to be able to make an informed judgement of the investment. The Hong Kong offering documents shall comprise (i) the latest version of the offering documents registered with the CSRC, (ii) a Hong Kong covering document and (iii) a product key facts statement (Product KFS).
2.	What information should be included in the Hong Kong covering documents of Recognised Mainland Funds?	At the minimum, the following information should be included in the Hong Kong covering documents: • The eligibility requirements that must be met by the Recognised Mainland Funds under the MRF, and the detailed arrangements in the event that the fund ceases to meet any of the eligibility requirements; • share class(es) offered to Hong Kong investors; • applicable tax disclosure (including tax considerations for Hong Kong investors, FATCA disclosure etc.); • currency exchange arrangement; • dealing and settlement procedures applicable to Hong Kong investors; • the documents available to Hong Kong investors, and in respect of these documents, the update frequency, the means of dissemination and the place at which they are made available for inspection by the public in Hong Kong; • voting arrangements by Hong Kong investors through nominee holders (if applicable); • circumstance(s) under which the Recognised Mainland Fund may effect compulsory redemption; • information regarding how Hong Kong investors' enquiries and complaints will be

	Question	Answer
		handled; • the contact details of the Hong Kong representative; • a statement that the Mainland and Hong Kong investors will receive fair and the same treatment, including in respect of investor protection, exercise of rights, compensation and disclosure of information; • responsibility statement by the management firm pursuant to C22 of Appendix C to the Code on Unit Trusts and Mutual Funds; • other requirement set out in the Circular; • any substantive differences between the information available to Mainland investors and Hong Kong investors; and • any other information that may have a material impact on Hong Kong investors.
3.	What are the risks expected to be disclosed in the Product KFS and/or Hong Kong covering document of Recognised Mainland Fund?	It is expected that risks relating to the product features of a Recognised Mainland Fund in general have been included in its Mainland offering documents, which form part of the offering documents for Hong Kong investors. The Hong Kong covering document of a Recognised Mainland Fund should therefore provide additional risk disclosures taking into account the specific risks relating to the MRF arrangement and the differences in market practices and investor expectation in the two markets. Set out below are some illustrative examples of risk disclosures that are expected to be included, if applicable, in the Hong Kong covering document. Management firms shall determine, in light of the specific circumstances of a Recognised Mainland Fund, the key risks to be highlighted in the Product KFS. Management firms are also reminded to disclose such risks in the Product KFS in a clear, concise and effective manner. • Risks associated with the MRF arrangement, e.g. quota restrictions, failure to meet eligibility requirements, Mainland tax risk, different market practices, different fund classification (if applicable); • Investment risk;

	Question	Answer
		• Concentration risk / Mainland market risk; • RMB currency and conversion risks; • Mainland equity risk, e.g. market risk, volatility risk, liquidity risk, high valuation risk, policy risk, risk associated with small-capitalisation / mid-capitalisation companies; • Mainland debt securities risk, e.g. volatility and liquidity risks, counterparty risk, interest rate risk, downgrading risk, credit rating agency risk, risk associated with urban investment bonds, risk associated with asset-backed securities, risk associated with debt securities which are rated BB+ or below by a Mainland credit rating agency or unrated; • Risks associated with unlisted index funds, e.g. passive investment risk, tracking error risk, index-related risk; • Risks associated with the Small and Medium Enterprise board and/or ChiNext market, e.g. higher fluctuation on stock prices, over-valuation risk, differences in regulation, delisting risk; and • Risks associated with repurchase transactions and reverse repurchase transactions. To provide further guidance to the industry, we have provided an explanation of these risks in greater detail in Appendix A. The above list as well as the related explanation are not intended to be an exhaustive list of the risk disclosures to be included in the Product KFS and/or Hong Kong covering document. Management firms shall exercise their professional judgment and take into account the specific circumstances of a Recognised Mainland Fund in preparing the risk disclosures in the Product KFS and/or Hong Kong covering document.
4.	What information should be included in the Hong Kong covering documents of	The offering documents (including the Product KFS) of a Recognised Mainland Fund should contain the information necessary for investors to make an informed

	Question	Answer
	Recognised Mainland Funds regarding FATCA?	judgement about the SFC-authorized funds, including information on FATCA compliance if relevant. Please refer to FAQ35 on the Code on Unit Trusts and Mutual Funds for further guidance on FATCA-related disclosure.
5.	What information should be included in the Product KFS of Recognised Mainland Funds?	The Product KFS should highlight the key information in respect of the Recognised Mainland Fund, including its key features and risks, in a clear, concise and effective manner. Please follow this link for the Product KFS template for Recognised Mainland Funds (http://www.sfc.hk/web/EN/regulatory-functions/products/product-authorization/products-key-facts-statements.html).
6.	What are the language requirements for the Hong Kong offering documents of Recognised Mainland Funds?	The Hong Kong offering documents of the Recognised Mainland Funds should be prepared in English and traditional Chinese. Applicants should submit the English version of the fund's Hong Kong offering documents at the time of application. Applicants are required to submit the traditional Chinese version of such offering documents prior to authorization. Applicants should submit written translation certificate (in prescribed form as set out in the Information Checklist http://www.sfc.hk/web/EN/forms/products/forms.html) regarding the truth and accuracy of the English and traditional Chinese translation. The English and traditional Chinese translations should take into account market practices and customary use of Chinese language in Hong Kong.
7.	The constitutive documents and financial statements of Mainland funds are prepared in simplified Chinese. Are these documents	The constitutive documents and financial reports of a Recognised Mainland Fund can be made available to Hong Kong investors in simplified Chinese.

	Question	Answer
	required to be translated into English and traditional Chinese when a Mainland fund seeks SFC authorization?	The language in which these documents are made available to Hong Kong investors should be clearly disclosed in the Hong Kong offering documents. Upon request by investors, specific information regarding the constitutive documents and/or the financial report should be made available to Hong Kong investors in English and/or traditional Chinese. Information regarding how investors can make such information requests should also be clearly disclosed in the Hong Kong offering documents.
8.	What are the requirements regarding the names of Recognised Mainland Funds?	In general, fund names should not be undesirable or misleading. Examples of undesirable or misleading fund names include: i. Fund names which may suggest some form of intelligence and/or good judgment on the management company ii. Fund names which includes the name / brand of a fund house that is not / no longer involved in the investment management of the fund iii. Fund names which may give investors a sense of assurance or security not justified by the underlying features of the fund – e.g. a fund proposes to be named as “wealth preservation” fund (of which ordinary investors might not expect any loss) iv. Fund names which are inconsistent with the investment objectives / policy – e.g. “equity fund” for a fund that does not primarily invest in the equity markets
9.	How do the disclosure requirements as set out under paragraph 30 of the Circular apply to the quarterly reports of a Recognised Mainland Fund?	Paragraph 30 of the Circular sets out the information to be supplemented by the Recognised Mainland Fund when using its Mainland financial reports as basis for distribution in Hong Kong, including, the disclosure on investment portfolio as per clauses 1 and 4 of the “Investment portfolio” Section (Portfolio Disclosure) of Appendix E of the Code on Unit Trusts and Mutual Funds (UT Code). It is noted that annual reports and half-yearly reports of all SFC-authorized funds are required to contain the Portfolio Disclosure under Appendix E of the UT Code. As

	Question	Answer
		such, the Portfolio Disclosure requirements in paragraph 30(a) of the Circular are not applicable to quarterly reports of a Recognised Mainland Fund. For the avoidance of doubt, quarterly reports of a Recognised Mainland Fund are only required to comply with the disclosure requirements in paragraph 30(b) of the Circular, if the fund is described as having been authorized by the SFC in its quarterly reports as per 1.10 of the Overarching Principles Section of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products.
	D. Ongoing disclosure/ Scheme change	
1.	When is a notice required to be given to Hong Kong investors?	As a general principle, fair and the same treatment should be applied to investors in the Mainland and Hong Kong. Accordingly, notices (including prospectus summary) that are required to be made available to Mainland investors pursuant to Mainland laws and regulations should be made available to Hong Kong investors at the same time. Any notices that are filed with the CSRC should also be filed with the SFC at the same time (HK Notice Filing Requirement). The management firm should ensure that notices to Hong Kong investors comply with the applicable disclosure requirements set out in the Circular (e.g., bilingual notice, mention of SFC-authorization), the authorization condition regarding name annotation (if applicable) and related guidance as may be issued by the SFC from time to time (HK Notice Disclosure Requirements). In respect of notices on issues that affect Hong Kong investors only (for example, change of Hong Kong representative), the requirements in Chapter 11 of the Code on Unit Trusts and Mutual Funds will apply. In this connection, we note that the streamlined measures in accordance with the circular entitled “Streamlined Measures to Enhance the Processing of Application for Scheme Changes and Revision of Offering Documents of SFC-authorized Funds” issued by the SFC on 14 June 2013 will also apply. The HK Notice Filing Requirement and HK Notice Disclosure Requirements do not

	Question	Answer
		apply to: i. notices solely to individual Mainland investors or individual classes of Mainland investors; and ii. notices on issues that have no impact on Hong Kong investors including circumstances where the Recognised Mainland Fund has not been offered in Hong Kong or where there are no Hong Kong investors in the Recognised Mainland Fund. To the extent that the notices issued after the date of SFC authorization contain information necessary for Hong Kong investors to be able to make an informed judgement of the investment proposed to them and affecting the disclosure in the Hong Kong offering documents, management firms are reminded that the Hong Kong offering documents are expected to be accompanied by these notices. Please refer to FAQ D5A on Mainland-Hong Kong Mutual Recognition of Funds for details. Notwithstanding the above, where the management firm for any reason makes available to Hong Kong investors notices mentioned in (i) and (ii) above (including, for example, by posting them on the website of the Recognised Mainland Fund or by accompanying them with the Hong Kong offering documents), such notices should comply with the HK Notice Disclosure Requirements and be filed with the SFC as soon as possible.
2.	How should notices be dispatched to Hong Kong investors?	The management firm shall take reasonable steps and measures to ensure that notices are dispatched to investors in the Mainland and Hong Kong at the same time. Notices to Hong Kong investors should be in English and traditional Chinese. Management firms should dispatch the notices to Hong Kong investors by posting the notices on the website of the Recognised Mainland Fund or such other means as specified in the Hong Kong offering documents.

	Question	Answer
		The Hong Kong representative of the Recognised Mainland Fund should comply with the ongoing obligations regarding provision of information to investors under Chapter 9 of the Code on Unit Trusts and Mutual Funds. Hong Kong distributors are also reminded of their ongoing disclosure obligations to their clients under the relevant Hong Kong laws and regulation.
3.	Are Recognised Mainland Funds required to maintain a separate website for Hong Kong investors?	A Recognised Mainland Fund should, as a matter of best practice, maintain a website for Hong Kong investors for publication of its offering documents, circulars, notices, announcements, financial reports and the latest available offer and redemption prices or net asset value of the scheme.
4.	What are the changes to a Recognised Mainland Fund that will require SFC prior approval?	Changes to a Recognised Mainland Fund shall be made in accordance with the applicable Mainland laws and regulations and the provisions of the constitutive documents. These changes shall be effective upon approval by the CSRC or compliance with the appropriate procedures. Thereafter, such changes shall be submitted to the SFC for filing. (i) Changes that concern the eligibility of a Recognised Mainland Fund under the MRF (Eligibility Changes); (ii) changes that affect Hong Kong investors only and fall within 11.1 of the UT Code; and/or (iii) changes which require the Commission’s prior approval as set out in the Commission’s authorization letter will require SFC’s prior approval (collectively, Prior Approval Change(s)). Eligibility Changes refer to changes that would render a Recognised Mainland Fund ineligible under the MRF. For the avoidance of doubt, changes in investment objective or investment strategy resulting in re-categorisation of eligible fund type under the MRF (for example, from an equity fund to a bond fund), or a change of management firm or custodian in compliance with the MRF eligibility requirements, will generally not require SFC’s prior approval.

	Question	Answer
4A.	What are the change(s) to a Recognised Mainland Fund that will not require SFC's prior approval?	Changes that are not Prior Approval Changes will generally be classified as changes not requiring SFC's prior approval (Non-Prior Approval Changes). Hong Kong offering documents may be updated to incorporate Non-Prior Approval Changes and reissued without further authorization provided the content and format of such document remains fundamentally the same as the version previously authorized. Set out below are some examples of Non-Prior Approval Changes: • changes that are not Eligibility Changes; • changes that do not affect Hong Kong investors, for example, changes in distribution arrangements in the Mainland; • changes affecting Hong Kong investors only and falling within 11.1 of the UT Code but do not require the Commission's approval (i.e. Immaterial Changes). Please refer to illustrative examples of Immaterial Changes in FAQ 9 under "Section 2: Others" on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds; • administrative changes e.g. change in address of the key operators, addition and resignation of directors of the scheme; • changes to punctuation or grammar; and • correction of a manifest error.
4B.	Does the SFC approve notice(s) (Notice(s)) notifying holders of proposed Prior Approval Change(s)? Will the applicant need to submit the draft Notice(s) in connection with an application for Prior Approval Change(s) (Application for Prior Approval Change(s))?	In general, notices to Hong Kong investors issued by a Recognised Mainland Fund on matters relating to Prior Approval Change(s) need not be approved by the SFC prior to issuance but are required to comply with the HK Notice Disclosure Requirements, HK Notice Filing Requirements and where applicable, the requirements in Chapter 11 of the UT Code. However, to facilitate holders to be informed of Prior Approval Change(s) in a timely manner, under the Revamped Post Authorization Process, the following will apply:

	Question	Answer
		• For Simple Applications, applicants will generally not be required to submit the draft Notices to the SFC (unless specifically required by the SFC) but they must set out clearly the salient terms of the proposed Prior Approval Change(s) in the Form for Scheme Change Application(s) or Filing of Notice of Scheme Change(s) in relation to Recognised Mainland Funds; • For Complex Applications, applicants are expected to submit the draft Notice(s) in support of the Application for Prior Approval Change(s) to the SFC. In preparing the Notice(s), applicant may, where applicable, refer to FAQs 16B and 16B1 under "Section 2: Others" on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds, which are subject to amendments and updates from time to time, for guidance and illustrative examples of the information expected to be disclosed. Guiding comments on the submitted draft Notice(s) (Guiding Comments) may be given by the SFC regarding the information to be disclosed in the final Notice(s). No revised draft Notice(s) should be submitted to the SFC for further comments upon incorporating all the Guiding Comments (if any) from the SFC. For the avoidance of doubt, Applications for Prior Approval Change(s) must be approved by the SFC prior to the distribution of the relevant Notice(s) to Hong Kong investors. Notices currently subject to SFC's prior approval (i.e. notices on merger, termination and withdrawal of authorization) will still be required to be submitted to the SFC for approval. In case of doubt, an applicant should contact the team supervisor or case officer of the Investment Products Division who is responsible for overseeing the Recognised Mainland Funds of its fund group or client.
5.	Will changes to the Hong Kong offering documents of a Recognised Mainland Fund require SFC's prior approval?	In general, changes made to the Hong Kong offering documents to reflect Prior Approval Change(s) will require SFC's prior approval.

	Question	Answer
5A.	What steps should the management firm take when they issue notice(s) which contain(s) information that affects the disclosure in the Hong Kong offering documents of Recognised Mainland Fund(s)?	The Hong Kong offering documents of Recognised Mainland Funds must be up-to-date and contain information necessary for investors to be able to make an informed judgement of the investment proposed to them. Where a management firm issues notice(s) which contain(s) information that affects the disclosure in the Hong Kong offering documents of Recognised Mainland Fund(s), the management firm should update the Hong Kong offering documents with such information in accordance with the requirements under the Circular and the related guidance as may be issued by the SFC from time to time. In the event that the Hong Kong offering documents are yet to be updated, the Hong Kong offering documents are expected to be accompanied by such notice(s). As such, the management firm should make appropriate arrangements with its distributors and the Hong Kong Representative to provide the Hong Kong offering documents together with copies of the relevant notice(s) to Hong Kong investors.
5B	What are the requirements for mark-up and annotation of the changes to the revised Hong Kong offering documents?	For mark-up and annotation requirements, the general guidance is set out below: *Prior Approval Change(s)* Change(s) made to the Hong Kong offering documents to reflect Prior Approval Change(s) that are subject to SFC's prior approval, including amendments consequential to the Prior Approval Change(s) (Prior Approval ROD Changes), must be shown as mark-up and annotated clearly in the: • draft revised Hong Kong offering documents at the initial submission and throughout the application process for authorization of the revised Hong Kong offering documents; and • revised Hong Kong offering documents at the time of submission of the Confirmation of fulfilment of approval / authorization conditions in relation to Recognised Mainland Fund. Nature or brief details of the Prior Approval ROD Changes must also be set out in the relevant application form in a clear and succinct manner at the initial submission.

	Question	Answer
		<u>Other Changes</u> For post-filing purpose, Non-Prior Approval Change(s) are required to be shown as mark-up in the revised Hong Kong offering documents filed to the SFC though annotation is not required. Applicants must set out the relevant section number / heading of these changes in the relevant filing forms in a clear and succinct manner to facilitate the SFC to conduct post-vetting.
6.	What steps should the management firm of a Recognised Mainland Fund take when there is a pricing error?	The management firm should generally follow the relevant laws and regulations in the Mainland if an error occurred in the pricing of units/shares. If notification to the CSRC and Mainland investors is required as a result of the pricing error, the SFC and Hong Kong investors should be notified at the same time.
7.	When is a financial report required to be given to Hong Kong investors?	Applying the principle of fair and same treatment to investors in the Mainland and Hong Kong, financial reports (including quarterly reports, half-yearly reports, annual reports, annual report summary and half-yearly report summary of Recognised Mainland Funds (基金年度報告摘要/基金半年度報告摘要)) that are required to be made available to Mainland investors pursuant to Mainland laws and regulations should be made available to Hong Kong investors at the same time. Any financial reports that are filed with the CSRC should also be filed with the SFC at the same time (HK Financial Report Filing Requirement). The management firm should ensure that financial reports to Hong Kong investors comply with the applicable disclosure requirements set out in paragraph 30 of the Circular, the authorization condition regarding name annotation (if applicable) and related guidance as may be issued by the SFC from time to time (HK Financial Report Disclosure Requirements). For the avoidance of doubt, annual report summary and half-yearly report summary of a Recognised Mainland Fund are only required to comply with the disclosure requirements in the authorization condition regarding

	Question	Answer
		name annotation (if applicable) and paragraph 30(b) of the Circular. For details about how the requirements in paragraph 30 of the Circular apply to quarterly reports, half-yearly reports and annual reports of Recognised Mainland Funds, please refer to FAQ C9 on Mainland-Hong Kong Mutual Recognition of Funds. Where the Recognised Mainland Fund has not been offered in Hong Kong, or where there are no Hong Kong investors in the Recognised Mainland Fund, the HK Financial Report Disclosure and HK Financial Report Filing Requirements do not generally apply to financial reports issued after the date of SFC authorization. Management firms are reminded that upon the offering of a Recognised Mainland Fund in Hong Kong, the management firms should ensure that the Hong Kong offering document must be accompanied by a copy of the latest annual report and if published thereafter, the latest half-yearly and quarterly report of the Recognised Mainland Fund. Notwithstanding the above, where the management firm for any reason makes available to Hong Kong investors financial reports mentioned in the third paragraph above (including, for example, by posting them on the website of the Recognised Mainland Fund or by accompanying them with the Hong Kong offering documents), such financial reports should comply with the HK Financial Report Disclosure Requirements and be filed with the SFC as soon as possible.
	E. Operational issues	
1.	What should be the dealing arrangements for a Recognised Fund on the days that are holidays in either the Mainland or Hong Kong?	Subscription and redemption is generally only practicable on days that are working days in both the Mainland and Hong Kong. For any other arrangements that affect investors in the Host Jurisdiction, please consult the Host Jurisdiction regulator.
2.	Are there any requirements regarding the	There are no specific regulatory requirements. The routing of orders and

	Question	Answer
	routing of subscription/redemption orders and confirmations? Are management firms and distributors required to route orders and confirmations via any particular centralised platforms?	confirmations is a commercial decision to be agreed by the management firms, the distributors and other relevant parties.
3.	Units of funds are usually registered under the names of the end investors in the Mainland, but under the names of the nominees (usually the distributors) in Hong Kong. What is the arrangement for Recognised Mainland Funds to be sold in Hong Kong?	The sales and distribution arrangements of Recognised Mainland Funds to be sold in Hong Kong should follow the relevant laws and regulations and common market practices in Hong Kong. Units of a Recognised Mainland Fund sold in Hong Kong can be registered in the name of a nominee.
4.	In respect of Recognised Hong Kong Funds, what is the cut-off time for receiving orders from Mainland investors?	The fundamental principle is that forward pricing must be strictly observed by the management firm and that there is no late trading by any investors in the fund so as to protect the interests of all existing investors in the fund. This generally means that a management firm should only accept an order as a T-day order if (i) the management firm can be assured that the investor places the order with the distributor before the fund's cut-off time, and (ii) the order is transmitted through a secured order-routing channel as soon as practicable to the management firm. As management firms in general sell their funds through distributors and do not have direct dealings with end investors who are clients of the relevant distributors, it is incumbent on management firms to take reasonable care and proper measures to perform due diligence, regular review and ongoing monitoring on distributors and order-routing channels to ensure that orders which do not meet the principle of forward-pricing and may constitute late trading are not accepted. Distributors should legally commit, and have proper measures in place, not to accept orders from investors beyond the fund’s cut-off time.

	Question	Answer
		Subject to compliance with the foregoing, it is recognised that distributors may need time for administrative and operational reasons to process and consolidate orders from their clients for transmission to the management firm beyond the fund's cut-off time.
5.	What should the management firm of a Recognised Mainland Fund note if there is a suspension of trading on the securities market(s) on which all or a substantial part of the investments of the fund are traded and such suspension continues until the close of such market(s) (Market Suspension)?	The management firm of a Recognised Mainland Fund should take note of the principles and considerations as set out in FAQs 3B and 3C under "Section 2: Others" on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds and take all necessary actions. Fund managers are reminded to file the relevant notices and revised offering documents (if any) to the Commission in accordance with the requirements as set out in the Circular and these FAQs. In addition, in the spirit of fair treatment of investors, the management firm of a Recognised Mainland Fund should use its best endeavours to ensure that the dealing and settlement arrangements applicable to units offered to Hong Kong investors due to the triggering of Market Suspension should be consistent with dealing and settlement arrangements applicable to units offered to Mainland investors as much as possible.
	F. Hong Kong representative	
1.	Will the Hong Kong representative of a Recognised Mainland Fund be required to be licensed by the SFC?	To be eligible to act as a Hong Kong representative, the Code on Unit Trusts and Mutual Funds requires a Hong Kong representative must (i) be licensed or registered under the Securities and Futures Ordinance; or (ii) be a trust company registered under Part VIII of the Trustee Ordinance and such company being an affiliate of an authorized financial institution as defined under the Securities and Futures Ordinance and is acceptable to the SFC. The Code on Unit Trusts and Mutual Funds does not mandate that the Hong Kong representative must be licensed or registered for any particular regulated activity. However, Hong Kong representatives that carry on regulated activities under the Securities and Futures Ordinance must be licensed or registered accordingly. For

	Question	Answer
		example, if the Hong Kong representative would like to distribute the Recognised Mainland Fund in Hong Kong, it would need to be licensed for Type 1 Regulated Activity. Please refer to Chapter 9 of the Code on Unit Trusts and Mutual Funds for further details.
2.	Can different Hong Kong representatives be appointed for different Recognised Mainland Funds managed by the same management firm?	Yes.
	G. Sales and distribution	
1.	Who can issue marketing materials in respect of Recognised Mainland funds? Will these marketing materials need SFC's prior authorization?	All advertisements and marketing materials in relation to a Recognised Mainland Fund issued in Hong Kong shall comply with the relevant Hong Kong laws and regulations, including but not limited to the requirements set out in the Advertising Guidelines Applicable to Collective Investment Schemes Authorized under the Product Codes issued by the SFC. Recognised Mainland Funds should issue advertisement and marketing materials via a representative or distributor who is licensed or registered for Type 1, 4 or 6 regulated activity or based on other applicable exemptions under section 103 of the Securities and Futures Ordinance. Such materials would not be subject to authorization/pre-vetting by the SFC but would be subject to post-vetting by the SFC. The representative or distributor should also take responsibility for the advertisements and marketing materials that it issues.
2.	Can non-Hong Kong investors invest in Recognised Mainland Funds sold in Hong Kong?	Hong Kong is an open market. Non-Hong Kong investors may invest in Recognised Mainland Funds sold in Hong Kong according to relevant Hong Kong laws and regulations.

	Question	Answer
3.	What are the licensing requirements for selling or distributing Recognised Mainland Fund in Hong Kong?	Any corporation, which intends to carry on a business in selling or distributing funds in Hong Kong, needs to hold a Type 1 licence (dealing in securities). Any individual, who intends to perform a regulated function for a licensed corporation in relation to a regulated activity carried on as a business in Hong Kong, needs a licence as well. If a licensed corporation, which holds a Type 1 licence for selling or distributing funds, intends to engage any individual to perform a regulated function in relation to its Type 1 regulated activity, such individuals also have to be licensed for Type 1 regulated activity. In other words, SFC will not grant a licence to any individual unless s/he is accredited to a licensed corporation in Hong Kong to perform a regulated function for it. Any person (corporate or individual), who applies for an SFC licence, has to satisfy us that it/he/she is fit and proper to be licensed. Individuals intending to seek a licence from the SFC may refer to the SFC's Guidelines on Competence or FAQs on Licensing/Competence for the relevant competence requirements.
4.	If my employer, which is a Mainland fund management company, is to deploy me to our group company licensed in Hong Kong to sell or distribute Recognised Mainland Fund here but I will only visit Hong Kong occasionally on a need basis, do I need to hold an SFC licence?	Yes, as long as you carry on any regulated activity in Hong Kong, you need a licence. If you are an itinerant professional as envisaged in paragraph (7) of Appendix E to the Guidelines on Competence (also see Q15 and Q16 of the FAQs on Licensing/Competence), you may consider seeking the relevant exemption from taking local regulatory framework paper from the SFC when applying for a licence.
5.	Will the staff of the management firm of a Recognised Mainland Fund that visits Hong Kong for the purposes of providing training and education to the Hong Kong distributors of Recognised Mainland Fund have to be licensed by the SFC?	Providing training and education to distributors is not a regulated activity. The staff of the management firm does not have to be licensed by the SFC.
6.	Who will be responsible for the AML related work on the Mainland investors buying Recognised Hong Kong Funds?	Management firms of Recognised Hong Kong Funds, being a SFC-licensed corporation or registered institution, are required to comply with all applicable anti-money laundering and counter-financing of terrorism (AML/CFT) legislation and regulatory requirements in Hong Kong, including the Anti-Money Laundering and

	Question	Answer
		Counter-Terrorist Financing (Financial Institutions) Ordinance (AMLO). Licensed corporations should observe the Guideline on Anti-Money Laundering and Counter-Terrorist Financing (AML Guideline) published by the SFC, while registered institutions should observe the AML Guideline published by both the HKMA and the SFC. The AML Guidelines give a consistent set of guidance for complying with, among others, the AMLO requirements relating to customer due diligence (CDD). Management firms of Recognised Hong Kong Funds should already be familiar with these AML/CFT and CDD requirements applicable to investors from outside Hong Kong buying into their Recognised Hong Kong Funds as there would be overseas investors investing in their funds currently. The same requirements would generally apply regardless of whether an investor is from the Mainland or another overseas jurisdiction.
7.	Where a Recognised Hong Kong Fund is distributed to investors in the Mainland through a CSRC-licensed Mainland distributor and Mainland investors' shares/units in the Recognised Hong Kong Fund are held through an omnibus account set up by the Mainland distributor on behalf of its underlying customers, would the Hong Kong management firm be required to identify and verify the underlying customers of the Mainland distributor in the Mainland?	Since the Mainland is a member of the Financial Action Task Force, the management firm may apply simplified customer due diligence (SDD) measures and would not be required to identify and verify the underlying customers of the Mainland distributor on whose behalf the Mainland distributor is acting, provided that the management firm is satisfied that the Mainland distributor is, among others, an institution that can satisfy with the requirements set out in s.4(3)(b), Schedule 2 to the AMLO and the applicable guidance in paragraph 4.10.1 to 4.10.7 of the AML Guideline are being observed (SDD criteria). It should be noted that if the omnibus account is not opened in the own name of the Mainland distributor but in the name of its nominee subsidiary company, such nominee subsidiary company may not be able to satisfy these SDD criteria. In such case, the management firm would not be able to apply SDD measures and would need to identify and verify the underlying customers of the Mainland distributor.
	H. Others	
1.	How should Mainland funds that would like to	As set out in the SFC's circular entitled "Formal adoption of revamped fund

	Question	Answer
	seek SFC authorization submit their applications? What types of applications will be eligible for the "Standard Applications" stream?	authorization process", as amended from time to time, the revamped fund authorization process (Revamped Process) is extended to applications of Mainland funds seeking authorization under the MRF received by the SFC on or after 9 May 2016. Mainland fund applications were initially classified and processed as Non-standard Applications under the Revamped Process. With effect from 19 December 2016, Mainland fund applications will be classified into "Standard Applications" stream or "Non-standard Applications" stream pursuant to the "two-stream" approach under the Revamped Process. As such, Mainland fund application received by the SFC on or before 16 December 2016 in respect of which no authorization has been granted will continue to be processed under the Revamped Process as Non-standard Applications. For such applications, applicants should use the existing information checklist. With effect from 19 December 2016, Mainland fund applications received by the SFC will generally be processed as Standard Application if the following criteria are met: i. The new fund(s) is/are managed by existing approved management company/delegated investment managers managing other existing SFC-authorized fund(s) with good regulatory records; ii. The relevant new fund is a general (i) equity fund; or (ii) bond fund; or (iii) mixed fund; or (iv) physical ETF or unlisted index fund tracking an index which is adopted by other existing SFC-authorized fund(s) or is a plain vanilla index[1]; iii. The application documentation is complete and in good order and quality; and

[1] Plain vanilla index will generally include free float market capitalization weighted equities index and will generally exclude strategy index, smart-beta/value-based index, equities index with covered call and/or hedging elements, etc.

	Question	Answer
		iv. There are no material issues and/or policy implications relating to the application as considered by the SFC. For all new fund application received by the SFC on or after 19 December 2016, the applicant must, among other requirements, complete the new information checklist, as amended by the SFC from time to time. Applicants should submit physical copies of all the relevant application documents to the SFC at: Investment Products Division Securities and Futures Commission 35/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong Applicants that would like to submit soft copies of the application documents can email the documents to ipmrf@sfc.hk. Applicants should clearly indicate the names of the applicants and the names of the funds under application in both the emails' subject and body. An application is considered received by the SFC only upon the SFC's receipt of the physical copies of all the required application documents and application fees. In general, the Investment Products Division will issue a letter (Take-up Letter) within 5 business days upon the receipt of the Application Form, the Information Checklist, all the necessary documents in support of the application and the applicable application fee, to inform the applicant that the SFC will process the application. The date of the Take-up Letter (i.e. the Take-up Date) is the date on which the SFC formally takes up the application. Once an application is taken up, the application fee will not be refunded.

	Question	Answer
2.	Will the Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds (the Guide), as revised/updated from time to time, apply to Mainland funds seeking SFC's authorization?	The Guide contains detailed guidance to facilitate applicants' preparation of their applications seeking SFC's authorization of unit trusts and mutual funds and compliance with the requirements under the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the Code on Unit Trusts and Mutual Funds and other applicable regulatory requirements as may be issued by the SFC from time to time. Applicants should refer to the Guide for necessary information and reference and must exercise professional judgment at all times to ensure compliance with the applicable regulatory requirements as set out in the Guide. Applicants are encouraged to contact the relevant case team in the Investment Products Division if they have any questions.
3.	How should a Recognised Mainland Fund submit an application for approval of post authorization changes and authorization of revised Hong Kong offering documents? Will the revamped post authorization process apply to Recognised Mainland Funds?	As set out in the SFC's circular entitled "Launch of pilot revamped process to enhance the processing of post authorization applications" dated 30 June 2017 issued by the Investment Products Division, the revamped post authorization process (Revamped Post Authorization Process) will apply to all applications for the approval of post authorization changes (including Prior Approval Change(s), termination, merger and withdrawal of authorization) and authorization of revised Hong Kong offering documents of SFC-authorized funds (which includes Recognised Mainland Fund authorized under the MRF) received by the SFC on or after 1 August 2017. Post authorization applications received before 1 August 2017 will not be processed under the Revamped Post Authorization Process. For such applications, applicants should use the existing application and filing forms. From 1 August 2017 onwards, applicants must, among other requirements, complete the new application and filing forms, as amended by the SFC from time to time. Applicants should refer to the Frequently Asked Questions on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds for the procedures and guidance concerning the Revamped Post Authorization Process.

	Question	Answer
		Applicant must exercise professional judgment at all times to ensure compliance with the applicable regulatory requirements under the Revamped Post Authorization Process. Applicants are encouraged to contact the relevant case team in the Investment Products Division if they have any questions.
	I. Taxation	
1.	Are there any information regarding Mainland taxation concerning MRF?	On 18 December 2015, the Ministry of Finance, State of Administration of Taxation and China Securities Regulatory Commission jointly released the notice (Taxation Notice) regarding the Mainland taxation treatment applicable to investments in Recognised Mainland Funds and Recognised Hong Kong Funds under the MRF. These Mainland tax rules are largely in line with the existing tax arrangements under the Shanghai-Hong Kong Stock Connect. A copy of the Taxation Notice can be found at (http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201512/t20151218_1620646.html).
2.	Are Hong Kong and overseas investors required to pay Mainland taxes when they invest in Recognised Mainland Funds?	According to the Taxation Notice, there are certain temporary Mainland tax exemptions available to Hong Kong and overseas investors when investing in Recognised Mainland Funds. In particular, capital gains from the investments of Hong Kong and overseas investors in Recognised Mainland Funds are temporarily exempt from Mainland taxes. Please refer to the Taxation Notice for more details.
3.	Are Mainland investors required to pay Mainland taxes when they invest in Recognised Hong Kong Funds?	According to the Taxation Notice, Mainland investors are subject to Mainland taxes on their investments in Recognised Hong Kong Funds with certain temporary exemptions available. Please refer to the Taxation Notice for details.
4.	What are the matters concerning Hong Kong stamp duty that managers of Recognised Hong Kong Funds should be aware of when offering those funds in the Mainland?	Reference is made to the frequently asked questions issued by the Inland Revenue Department on Hong Kong stamp duty concerning Recognised Hong Kong Funds (IRD FAQs on Stamp Duty) at (http://www.ird.gov.hk/eng/faq/mrf.htm). Managers of Recognised Hong Kong Funds are reminded to make the necessary arrangements with their Mainland representatives and/or Mainland distributors as set out in IRD

	Question	Answer
		FAQs on Stamp Duty and the requirements therein. (http://www.ird.gov.hk/eng/faq/mrf.htm#q11)

Last update: 30 June 2017

Appendix A

Mainland-Hong Kong Mutual Recognition of Funds (MRF)

Explanation of illustrative examples of risk disclosures in the Hong Kong covering document of a Recognised Mainland Fund

Set out below is the explanation of the illustrative examples of risk disclosures that are expected to be included, if applicable, in the Hong Kong covering document of a Recognised Mainland Fund.

1. Risks associated with the MRF arrangement

- *Quota restrictions*: The Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme is subject to an overall quota restriction. Subscription of units in the Fund may be suspended at any time if such quota is used up.

- *Failure to meet eligibility requirements*: If the Fund ceases to meet any of the eligibility requirements under the MRF, it may not be allowed to accept new subscriptions. In the worst scenario, the SFC may even withdraw its authorization for the Fund to be publicly offered in Hong Kong for breach of eligibility requirements. There is no assurance that the Fund can satisfy these requirements on a continuous basis.

- *Mainland tax risk*: Currently, certain tax concessions and exemptions are available to the Fund and/or its investors under the MRF regime. There is no assurance that such concessions and exemptions or Mainland tax laws and regulations will not change. Any change to the existing concessions and exemptions as well as the relevant laws and regulations may adversely affect the Fund and/or its investors and they may suffer substantial losses as a result.

- *Different market practices*: Market practices in the Mainland and Hong Kong may be different. In addition, operational arrangements of the Fund and other public funds offered in Hong Kong may be different in certain ways. For example, subscriptions or redemption of units of the Fund may only be processed on a day when both Mainland and Hong Kong markets are open, or it may have different cut-off times or dealing day arrangements versus other SFC-authorized funds. Investors should ensure that they understand these differences and their implications.

- *Different fund classification* [applicable to *enhanced index funds]*: The fund classification and names used by Recognised Mainland Funds (including the Fund) may be different from those that are customarily used in Hong Kong. The Fund is an "enhanced index fund" in the Mainland. An "enhanced index fund" aims to outperform its designated benchmark by investing a portion of its assets in securities that closely match the performance of an index and actively managing the remaining portion. The Fund is different from a typical SFC-authorized passively managed index tracking fund in Hong Kong and should be regarded as actively managed/general equity fund in Hong Kong. Investors should read the offering documents to understand the investment strategy deployed by the Fund.

2. Investment risk

- The Fund is an investment fund. There is no guarantee of the repayment of principal or payment of dividend or distribution. Further, there is no guarantee that the Fund will be able to achieve its investment objectives and there is no assurance that the stated strategies can be successfully implemented.

3. Concentration risk / Mainland market risk

- The Fund invests primarily in securities related to the Mainland market and may be subject to additional concentration risk. Investing in the Mainland market may give rise to different risks including political, policy, tax, economic, foreign exchange, legal, regulatory and liquidity risks.

4. RMB currency and conversion risks

- RMB is currently not freely convertible and is subject to exchange controls and restrictions.

- Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Fund.

- Investors may not receive RMB upon redemption of investments and/or dividend payment or such payment may be delayed due to the exchange controls and restrictions applicable to RMB.

5. Mainland equity risk *[for equity funds / mixed funds]*

- *Market risk*: The Fund's investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.

- *Volatility risk*: High market volatility and potential settlement difficulties in the Mainland equity markets may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the Fund.

- *Liquidity risk:* Securities markets in Mainland China may be less liquid than other developed markets. The Fund may suffer substantial losses if it is not able to dispose of investments at a time it desires.

- *High valuation risk:* The stocks listed on the Mainland stock exchanges may have a higher price-earnings ratio. Such high valuation may not be sustainable.

- *Policy risk*: Securities exchanges in Mainland typically have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets. All these may have a negative impact on the Fund.

- *Risk associated with small-capitalisation / mid-capitalisation companies*: The stock of small-capitalisation / mid-capitalisation companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general.

6. <u>Mainland debt securities risk</u> *[for bond funds / mixed funds]*

- *Volatility and liquidity risks*: The Mainland debt securities markets may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations.

- *Counterparty risk*: The Fund is exposed to the credit/default risk of issuers of the debt securities that the Fund may invest in.

- *Interest rate risk*: Investment in the Fund is subject to interest rate risk. In general, the prices of debt securities rise when interest rates fall, whilst their prices fall when interest rates rise.

- *Downgrading risk*: The credit rating of a debt instrument or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the Fund may be adversely affected. The Manager may or may not be able to dispose of the debt instruments that are being downgraded.

- *Credit rating agency risk*: The credit appraisal system in the Mainland and the rating methodologies employed in the Mainland may be different from those employed in other markets. Credit ratings given by Mainland rating agencies may therefore not be directly comparable with those given by other international rating agencies.

- *Risk associated with urban investment bonds*: The Fund may invest in urban investment bonds. Urban investment bonds are issued by local government financing vehicles (LGFVs), such bonds are typically not guaranteed by local governments or the central government of the Mainland. In the event that the LGFVs default on payment of principal or interest of the urban investment bonds, the Fund could suffer substantial loss and the net asset value of the Fund could be adversely affected.

- *Risk associated with asset-backed securities*: The Fund may invest in asset-backed securities (including asset-backed commercial papers) which may be highly illiquid and prone to substantial price volatility. These instruments may be subject to greater credit, liquidity and interest rate risk compared to other debt securities. They are often exposed to extension and prepayment risks and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities.

- *Risk associated with debt securities which are rated BB+ or below by a Mainland credit rating agency or unrated*: The Fund may invest [substantially/extensively] in debt securities rated BB+ or below by a Mainland credit rating agency or unrated. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities.

7. <u>Risks associated with unlisted index funds</u>

- *Passive investment risk*: The Fund is passively managed and the Manager may not have the discretion to adapt to market changes due to the inherent investment nature of the Fund. Falls in the index are expected to result in corresponding falls in the value of the Fund.

- *Tracking error risk*: The Fund may be subject to tracking error risk, which is the risk that its performance may not track that of the index exactly. This tracking error may result from the investment strategy used, and fees and expenses. The Manager will monitor and seek to manage such risk in minimizing tracking error. There can be no assurance of exact or identical replication at any time of the performance of the index.

- *Index-related risk*: There may be errors in index data which may not be identified or corrected for a period of time. This may have an adverse impact on the Fund and its unitholders. Index provider may change the securities which comprise the index from time to time and the securities may be delisted. The SFC may withdraw authorization of the Fund if the index is no longer considered acceptable.

Note: Where applicable, management firms should also disclose a statement to the effect that the investment of the Fund may be concentrated in the securities of a single issuer or several issuers and a warning in relation to any licensing conditions (including indemnity given to the index provider, if any) for using the index, and the contingency plan in the event of cessation of the availability of the index.

8. <u>Risks associated with the Small and Medium Enterprise (SME) board and/or ChiNext market</u>

- *Higher fluctuation on stock prices*: Listed companies on the SME board and/or ChiNext market are usually of emerging nature with smaller operating scale. Hence, they are subject to higher fluctuation in stock prices and liquidity and have higher risks and turnover ratios than companies listed on the main board.

- *Over-valuation risk:* Stocks listed on SME board and/or ChiNext may be overvalued and such exceptionally high valuation may not be sustainable. Stock price may be more susceptible to manipulation due to fewer circulating shares.

- *Differences in regulation* [Applicable to ChiNext market only]: The rules and regulations regarding companies listed on the ChiNext market are less stringent in terms of profitability and share capital than those in the main board and SME board.

- *Delisting risk*: It may be more common and faster for companies listed on the SME board and/or ChiNext market to delist. This may have an adverse impact on the Fund if the companies that it invests in are delisted.

Investments in the SME board and/or the ChiNext market may result in significant losses for the Fund and its investors.

9. Risks associated with repurchase transactions

- For repurchase transactions, the Fund may suffer substantial loss as there may be delay and difficulties in recovering collateral pledged with the counterparty or the cash originally received may be less than the collateral pledged with the counterparty due to inadequate valuation of the collateral and market movements upon default of the counterparty.

10. Risks associated with reverse repurchase transactions

- The collateral pledged under the reverse repurchase transactions in the interbank market may not be marked to market. In addition, the Fund may suffer substantial loss as there may be delay and difficulties in recovering the cash placed out or realizing the collateral, or proceeds from the sale of collateral may be less than the cash placed with the counterparty due to inadequate valuation of the collateral and market movements upon default of the counterparty.