

Fostering Hong Kong's development as an asset management hub

Hong Kong Securities and Investment Institute webinar

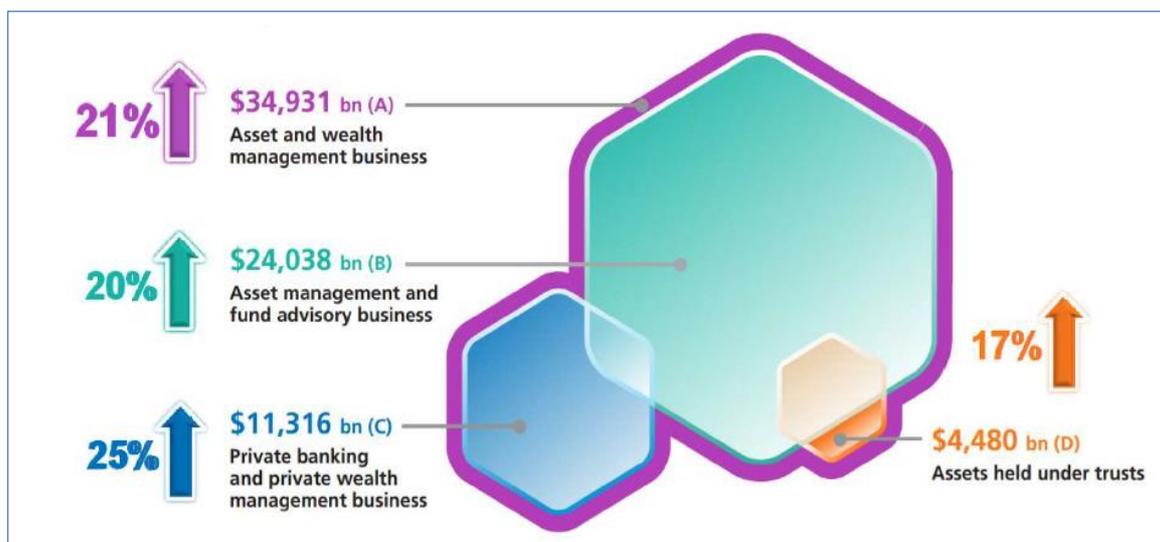
Ms Christina Choi
Executive Director, Investment Products

7 September 2021

In a webinar hosted by the Hong Kong Securities and Investment Institute on 7 September 2021, Ms Christina Choi shared updates on recent initiatives to advance Hong Kong's position as an asset and wealth management hub and discussed some of the latest investment product and market developments.

Ms Choi began by providing an overview of the state of the market. Hong Kong's asset and wealth management business maintained strong growth last year and recorded a 21% year-on-year increase in assets under management to \$34,931 billion as at the end of 2020, according to the [Asset and Wealth Management Activities Survey 2020](#) published by the Securities and Futures Commission (SFC) in July 2021.

Hong Kong's asset and wealth management business in 2020



Despite recent volatility in the local equity markets, the value of Hong Kong-domiciled retail funds grew 9% year-on-year as at the end of June, with net fund inflows of \$62 billion. The number of SFC licensed firms with Type 9 regulated activity increased 3% to 1930.

Market landscape

	As of 31 December 2020	Year-on-year change	As of 30 June 2021	Year-to-date change
Hong Kong-domiciled SFC-authorized funds				
• Number	810	+6%	838	+3%
• Net asset value (HK\$)	\$1,427 billion	+17%	\$1,556 billion	+9%
• Net inflows during the period (HK\$)	\$73 billion (FY 2020)	-	\$62 billion (1st half 2021)	-
Number of firms licensed to carry out asset management (Type 9 regulated activity)				
	1,878	+4%	1,930	+3%

Real estate investment trusts (REITs)

Both the Government and the SFC are keen to promote REITs and develop Hong Kong as a vibrant REIT market in Asia, Ms Choi emphasised. This will provide investors with a broader choice of investments offering a relatively stable return and help strengthen the city's position as a capital raising hub and premier asset and wealth management centre.

Ms Choi explained that Hong Kong is well-positioned to attract new REIT listings and the latest initiatives can provide momentum to stimulate the REIT industry. Hong Kong is a top equity fundraising venue and maintains a sound regulatory regime for REITs which is in line with comparable overseas jurisdictions. Ms Choi also outlined the streamlined and transparent authorisation and listing process which is in line with that for a corporate IPO listing on the Hong Kong stock exchange.

Last year's enhancements to the REIT Code provided REIT managers with additional flexibility in investing and clarified that a stapled structure¹ may be adopted. This will help maintain the competitiveness of Hong Kong's REIT market whilst ensuring investor protection, Ms Choi said.

¹ This refers to the stapling of a REIT's units with securities of another listed entity.

Addressing some common questions about REIT listings, Ms Choi explained that there are no restrictions on the geographic location or type of property in which Hong Kong REITs may invest. The key regulatory focus is on a REIT's ability to generate recurrent income or fee streams. Although currently Hong Kong REITs mainly invest in offices, shopping malls and hotels, the SFC welcomes REITs investing in other asset types² to seek a listing in Hong Kong to broaden investors' choice of products. The first logistics REIT listed earlier this year is a good start, she added.

A Hong Kong REIT may invest in infrastructure properties, such as highways, bridges, tunnels, power plants and telecommunication towers, if the key requirements in the REIT Code are complied with in substance. These include that the properties can generate recurrent income or fee streams; the REIT has legal and proper right, concession or mandate to operate the properties or projects; and the REIT manager has the necessary experience, technical expertise and resources to manage them.

Ms Choi added that the recent launch of publicly-listed infrastructure REITs in the Mainland would also provide more opportunities for the Hong Kong REIT market in terms of regulatory co-operation and connectivity, which will facilitate the long-term development of both markets.

Noting recent enquiries about private equity funds using a REIT listing as an exit strategy, Ms Choi pointed out that the SFC has issued guidance in its [Frequently Asked Questions](#) on the level of recourse expected of REITs. In addition, the SFC is working with the Government on potential legislative amendments to address the industry's concern about the absence of a statutory compulsory acquisition and scheme of arrangement mechanism for REITs to facilitate a privatisation or an exit.

Ms Choi expects the recent removal of the 10% limit on REITs investments imposed on Mandatory Provident Funds (MPF)² to boost MPF funds' investments in Hong Kong REITs and substantially broaden their investor base.

The Government is very supportive of the development of the Hong Kong REIT market, Ms Choi noted. The launch of the Government's three-year grant scheme for REITs is an important initiative. The grant covers 70% of eligible expenses incurred in the listing of a REIT and paid to Hong Kong-based service providers, subject to a cap of \$8 million per REIT.

Ms Choi welcomes potential applicants to contact the SFC for pre-application consultations on new REIT listing proposals. The SFC will also soon launch a dedicated webpage for REITs and is collaborating with stakeholders to further develop the Hong Kong REIT market.

Open-ended fund companies (OFCs) and tax initiatives

Next, Ms Choi discussed other important initiatives relating to the asset and wealth management industry on which the SFC has been working closely with the Government and other authorities.

These include the introduction of new fund structures, namely the OFC regime administered by the SFC and the new limited partnership fund structure administered by the Companies

² Including logistics, data centres, hospitals and infrastructure properties.

² Since May 2020, MPF funds may invest 100% in Hong Kong REITs.

Registry. Ms Choi noted that the industry has been keen to set up both public and private OFCs in Hong Kong following the enhancements to the OFC regime last September and the launch of the Government's grant scheme for OFCs in May. Moreover, it is envisaged that the proposed statutory re-domiciliation mechanism, which provides legal and tax certainty, will give further impetus to the uptake of the OFC structure in Hong Kong.

The SFC has also been actively involved in the Government's taskforce on introducing a new unified profits tax regime for funds to provide profits tax exemptions to eligible onshore and offshore funds alike, providing tax concessions for carried interest distributed by locally managed private equity funds and other tax initiatives to increase Hong Kong's appeal as a preferred fund domicile.

Green and sustainable finance

Sustainability, particularly the environment, has become a priority for governments and regulators globally. Ms Choi emphasised that the SFC plays a key role in the development of green and sustainable finance in Hong Kong.

To enhance disclosure by asset managers, the SFC amended the Fund Manager Code of Conduct and issued a circular in August 2021 setting out the expected standards for fund managers managing collective investment schemes to consider climate-related risks in their investment and risk management processes and make appropriate disclosures.

Ms Choi also pointed to the SFC's June 2021 circular which provided guidance to management companies of SFC-authorized public funds on enhanced disclosures for funds which incorporate ESG³ factors as a key investment focus and introduced periodic assessments to address the risk of greenwashing.

The SFC has considered global regulatory trends in its policy formulation to work towards harmonisation with and comparability of standards across different jurisdictions. The new requirements put Hong Kong at the forefront of international developments in sustainability practices in the financial sector and help maintain its position as a green finance hub both regionally and internationally, Ms Choi said.

Mainland market access schemes

Ms Choi also provided updates on the SFC's work in expanding mutual market access schemes with the Mainland, including Wealth Management Connect (WMC) and the cross-listing of exchange-traded funds (ETFs).

Following the announcement of a pilot framework for WMC in June 2020, the SFC entered into a memorandum of understanding on the WMC pilot scheme with seven other regulatory authorities⁴ in January. Once implemented, the scheme would enable eligible residents in the Greater Bay Area to access wealth management products across the border.

³ Environmental, social and governance.

⁴ These include the State Administration of Foreign Exchange, People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission, Hong Kong Monetary Authority and the Monetary Authority of Macao.



Ms Choi described the launch of the Mainland-Hong Kong ETF cross-listing scheme as part of the SFC's ongoing efforts to enhance mutual market access. It provides an additional avenue for Mainland and Hong Kong investors to gain access to ETFs in each other's market. The first Hong Kong ETFs were cross-listed on the Shenzhen Stock Exchange last October and on the Shanghai Stock Exchange in June 2021.

In the meantime, the SFC is working with the China Securities Regulatory Commission and the Mainland and Hong Kong stock exchanges towards the launch of ETF Connect.

Ms Choi concluded by saying that the SFC will continue to explore ways to enhance and enlarge the scope of mutual market access schemes with the Mainland. Strengthening Hong Kong's competitiveness as a leading asset and wealth management centre and a preferred fund domicile remains one of the SFC's top priorities. In facilitating market growth, the SFC strives to protect investors and ensure that its regulations keep pace with global developments and the industry's business needs.