



SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

Asset and Wealth Management Activities Survey 2017

July 2018

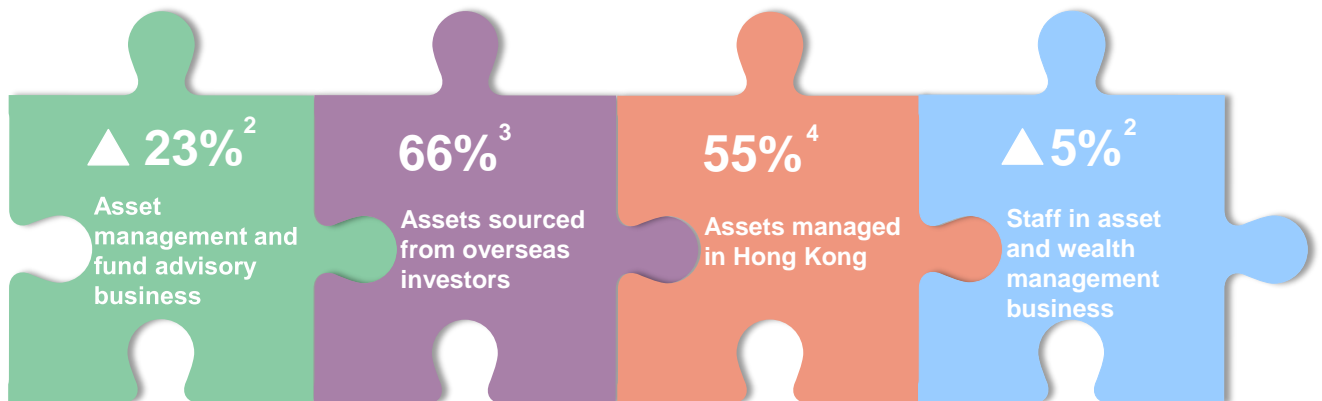
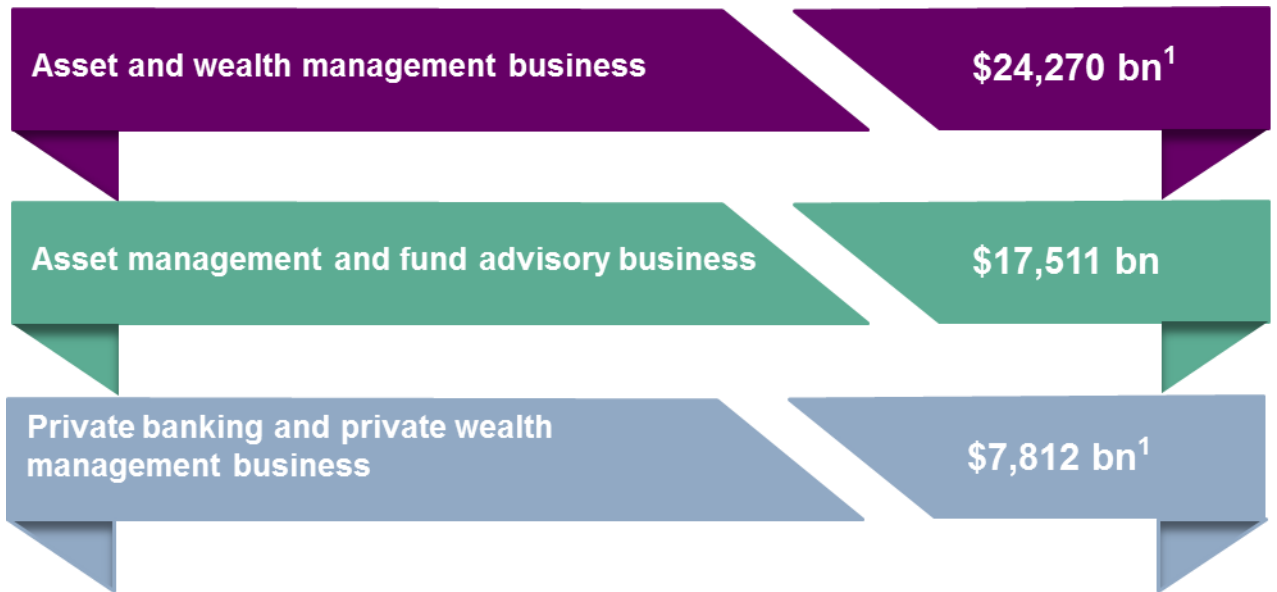


Table of Contents

Major Findings	2
I. Introduction	3
Responses	4
II. Findings	
Executive Summary	5
A. Asset and Wealth Management Business	7
An Overview	9
Asset and Wealth Management Business Staff Profile	10
B. Asset Management and Fund Advisory Business	11
An Overview	12
Asset Management and Fund Advisory Business – Analysis by Client and Product Types	14
Asset Management Business – Analysis by Location of Management	15
Assets Managed in Hong Kong – Analysis by Geographical Distribution of Investments	16
– Analysis of Investments by Asset Class	18
SFC-authorized REITs	19
C. Private Banking and Private Wealth Management Business	20
An Overview	21
Analysis by Source of Assets and Client Type	22
Analysis by Asset and Product Type and Geographical Distribution	23
III. Hong Kong's Role as the Pre-eminent Offshore Renminbi Centre	24
IV. Recent Developments and Outlook	27
Appendix - Breakdown of Asset and Wealth Management Business in 2017	31
Definitions	32



Major Findings



Mainland-related licensed corporations and registered institutions

▲ 12%²



Licensed corporations - Type 9 Regulated Activity

▲ 14%²



Hong Kong-domiciled SFC-authorized funds

▲ 7%²
AUM ▲ 30%²

¹ Due to the extension of the scope of the Survey, comparative figures are not available.

² Between December 2016 and December 2017.

³ For the asset and wealth management business (excluding REITs).

⁴ In asset management business (excluding REITs).



I. Introduction

1. The Asset and Wealth Management Activities Survey (Survey), previously known as the Fund Management Activities Survey (FMAS), is conducted annually by the Securities and Futures Commission (SFC) to collect information and data on the general state of affairs of the asset and wealth management industry in Hong Kong. It helps the SFC plan its policies and operations.
2. The Survey covers the asset and wealth management activities of three types of firms in Hong Kong, namely:
 - (a) corporations licensed by the SFC which engage in asset management and fund advisory business (collectively “licensed corporations” or LCs);
 - (b) banks engaging in asset management, private banking and private wealth management business (collectively “registered institutions” or RIs), and which are subject to the same regulatory regime as licensed corporations (ie, the Securities and Futures Ordinance (SFO)) in respect of their asset management activities; and
 - (c) insurance companies (ICs) registered under the Insurance Ordinance, but not licensed with the SFC, which provide services constituting classes of long-term business as defined in Part 2 of Schedule 1 of the Ordinance and derive gross operating income from wealth management products.
3. The Survey questionnaires were sent to licensed corporations and, with the assistance of the Hong Kong Monetary Authority and the Hong Kong Federation of Insurers, to registered institutions and insurance companies to enquire about their asset and wealth management activities as at 31 December 2017.

Extended survey scope

4. To provide a more comprehensive overview of the asset and wealth management industry in Hong Kong, the scope of the Survey was extended to cover the total assets under private banking and private wealth management clients’ accounts generated, managed or served by Hong Kong relationship managers of licensed corporations and registered institutions which are part of a larger banking group, or for which the relationship managers are accountable. This covers assets managed and services provided beyond those regulated under the SFO. Accordingly, the references to “combined fund management business” as adopted in the FMAS conducted in previous years are changed to “asset and wealth management business” in the Survey to reflect the extended survey scope.
5. With the extended scope, the Survey aims to outline the asset and wealth management industry landscape from an entity perspective (ie LCs, RIs, ICs) as well as a client perspective (ie private banking and private wealth management business derived from assets or relationships managed out of Hong Kong). In addition, the Survey was expanded to collect additional information about clients, assets and products as well as the locations of investments.



Responses

General

1. A total of 572 firms responded to the questionnaires and reported that they conducted asset management, fund advisory or private banking and private wealth management business during the survey period. These included 508 licensed corporations, 44 registered institutions and 20 insurance companies.

Licensed corporations

2. A breakdown of the activities of the 508 licensed corporations which engaged in (i) asset management (AM), (ii) advisory business on funds or portfolios (ADV), or (iii) private banking and private wealth management business (PB) is shown below:

Respondents with AM only	326
Respondents with ADV only	37
Respondents with PB only	4
Respondents with AM and ADV	134
Respondents with AM and PB	4
Respondents with ADV and PB	1
Respondents with AM, ADV and PB	2
	<hr/>
	508

Registered institutions

3. A breakdown of the activities of the 44 registered institutions which engaged in AM or PB is shown below:

Respondents with AM only	5
Respondents with PB only	24
Respondents with both AM and PB	15
	<hr/>
	44

Insurance companies

4. Twenty insurance companies with long-term business providing services covering wealth management, life and annuity and retirement planning products, but which were not licensed by the SFC, responded to the Survey.



II. Findings

Executive Summary

Key findings of the Survey of Hong Kong's asset and wealth management industry for 2017 are illustrated below:



Asset and wealth management business

Hong Kong's asset and wealth management business amounted to \$24,270 billion¹ as at 31 December 2017.



Asset management and fund advisory business

The asset management and fund advisory business conducted by licensed corporations and registered institutions grew by 23% to \$17,511 billion (US\$2,242 billion) in 2017 amid a global economic upswing.



Private banking and private wealth management business

As at 31 December 2017, the total assets under management by the private banking and private wealth management business amounted to \$7,812 billion¹ (US\$1,000 billion), of which 52% was invested in mainland China and Hong Kong.



Assets sourced from overseas investors

Overseas investors remained a major source of funding for the asset and wealth management business⁵, accounting for 66%.



Assets managed in Hong Kong

Assets managed in Hong Kong made up 55% of the asset management business⁵, with 57% of these assets invested in equities as at 31 December 2017.



Staff

The total number of staff in the asset and wealth management business increased 5% to 37,062 in 2017, with staff engaged in non-sales-and-marketing activities accounting for an increasing proportion.

¹ Due to the extension of the scope of the Survey, comparative figures are not available.

⁵ Amount excludes REITs.



Hong Kong-domiciled SFC- authorised funds

The number of Hong Kong-domiciled SFC-authorized funds increased 7% to 755 and their net asset value increased 30% to \$1,244 billion (US\$159 billion) in the 12 months ended 31 December 2017.



LCs - Type 9 Regulated Activity

The number of corporations licensed for asset management (Type 9 regulated activity) in Hong Kong increased 14% from 1,300 as at 31 December 2016 to 1,477 as at 31 December 2017.



Mainland-related LC and RI

The number of licensed corporations and registered institutions established by Mainland-related groups in Hong Kong increased 12% from 298 as at 31 December 2016 to 334 as at 31 December 2017.



The SFC recognises that enhancements to the market infrastructure for the asset management business are instrumental in developing Hong Kong into a full-service asset management centre and a preferred place of fund domicile, and is actively pursuing various initiatives to this end. The SFC concluded Mutual Recognition of Funds (MRF) arrangements with Switzerland and France respectively in 2016 and 2017 following the launch of Mainland-Hong Kong MRF in 2015. Meanwhile, the new legal framework for open-ended fund companies (OFC) will take effect on 30 July 2018 following the completion of the legislative process in July 2018 and enhancements to asset management regulation and point-of-sale transparency will come into effect in November and August 2018. New guidelines on online distribution and advisory platforms which will take effect in April 2019 will allow investors more flexibility to manage their investments online whilst providing additional protection for complex products.



Section II A

**Asset and Wealth
Management Business**

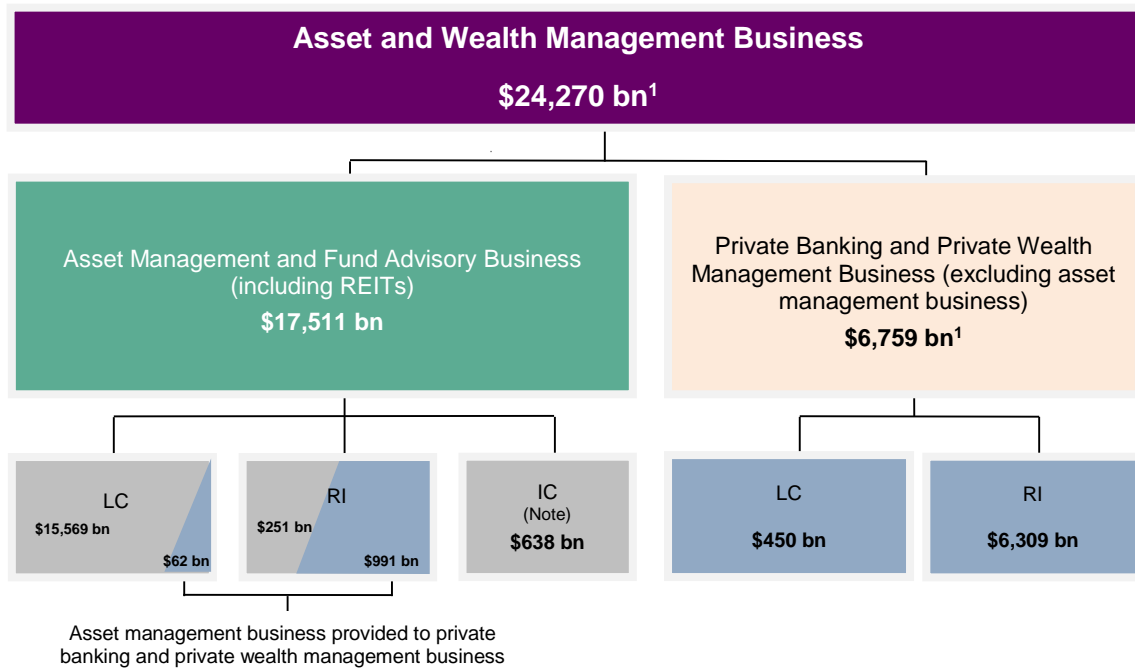


Chart 1: Asset and Wealth Management Business Overview

	<u>Amount</u>	<u>Section</u>	
	Asset and Wealth Management Business	\$24,270 bn¹	II A
	Asset Management and Fund Advisory Business	\$17,511 bn	II B
	Private Banking and Private Wealth Management Business	\$7,812 bn¹	II C

Note: Assets under management (AUM) by insurance companies do not include those assets which are sub-contracted or delegated to other licensed corporations or registered institutions in Hong Kong for management.

¹ Due to the extension of the scope of the Survey, comparative figures are not available.



Asset and Wealth Management Business - An Overview

▲ **23%**
Asset management and fund advisory business in Hong Kong

1. With strong market performance and a net inflow of funds resulted from the global economic upturn during the year, Hong Kong's asset and wealth management business amounted to \$24,270 billion¹ as at 31 December 2017.
2. Asset management and fund advisory business increased 23% to \$17,511 billion year-on-year.
3. The private banking and private wealth management business, which amounted to \$7,812 billion¹ as at 31 December 2017, included asset management services provided to private banking clients by licensed corporations and registered institutions.
4. For a breakdown of the asset and wealth management business in 2017, please refer to the Appendix on page 31.

Analysis by Source of Assets

5. Reflecting Hong Kong's status as a key sales and distribution centre in Asia, overseas investors continued to be the main source of assets. Overseas investors' assets increased to \$15,928 billion in 2017 from \$11,996 billion in the previous year, representing 66% of the asset and wealth management business⁵.

More than 60%
Sourced from non-Hong Kong investors over the past five years

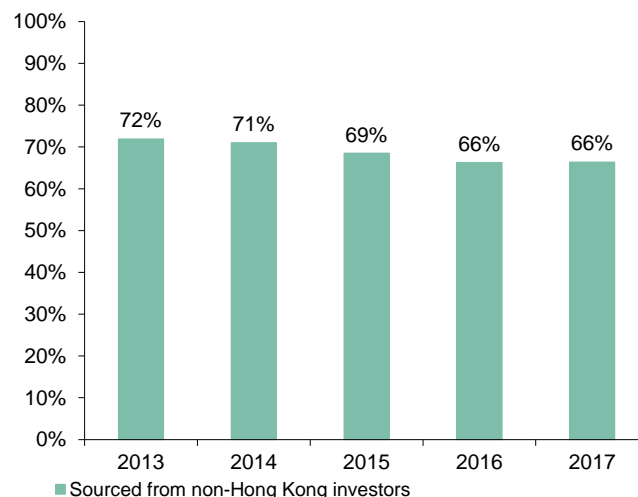


Chart 2: Asset and Wealth Management Business⁵ - by Source of Assets

¹ Due to the extension of the scope of the Survey, comparative figures are not available.

⁵ Amount excludes REITs.



Asset and Wealth Management Business Staff Profile

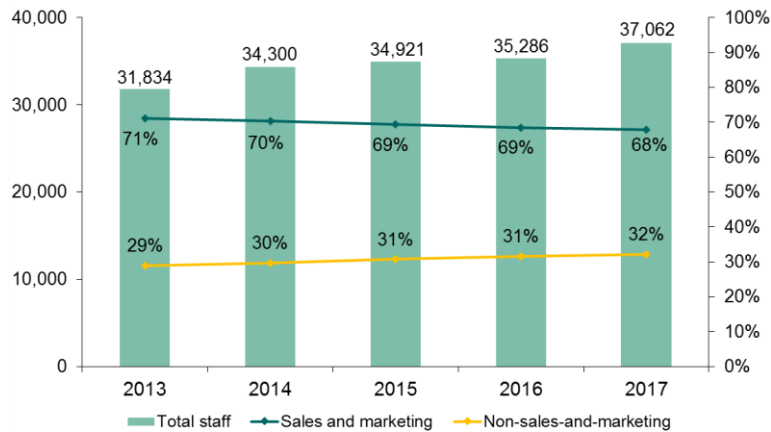


Chart 3A: Asset and Wealth Management Business Staff Profile - by Job Function

6. The number of staff engaged in asset and wealth management activities saw moderate growth during 2017 whilst staff engaging in non-sales-and-marketing activities accounted for an increasing proportion in recent years.
7. Sales and marketing remain the major functions of staff engaged in asset and wealth management activities, comprising 68% of the total industry population as at 31 December 2017.

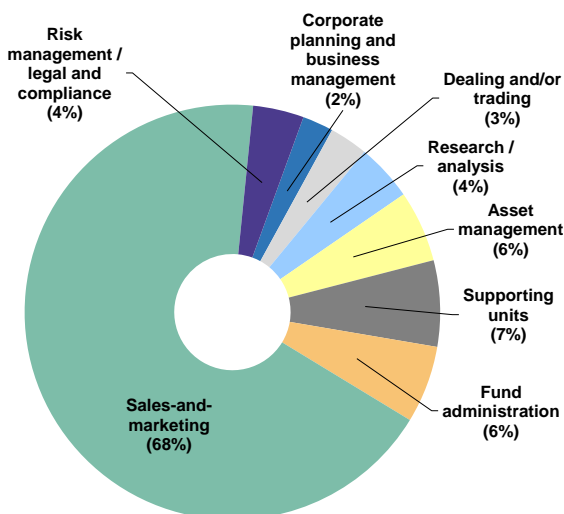


Chart 3B: Asset and Wealth Management Business Staff Profile - by Job Function (2017)

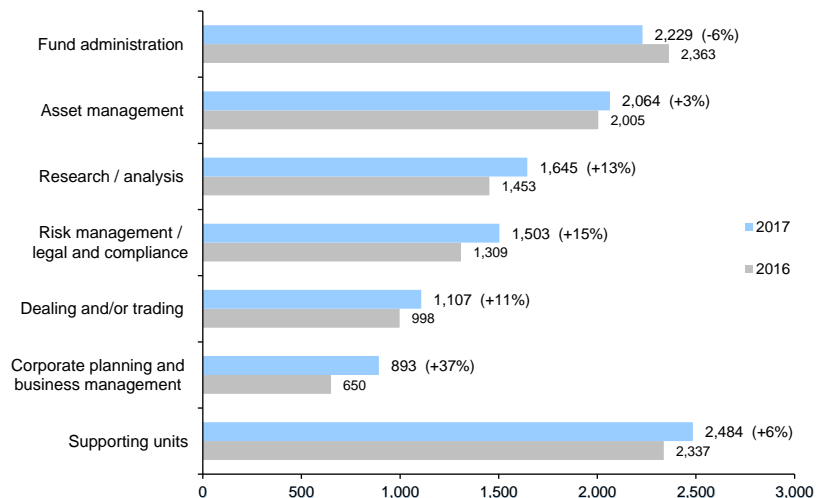


Chart 3C: Asset and Wealth Management Business Staff Profile - Number of Staff Engaged in Non-Sales-and-Marketing Activities (2017 vs 2016)



Section II B

Asset Management and Fund Advisory Business



Asset Management and Fund Advisory Business – An Overview

8. This section covers the asset management and fund advisory business carried out by licensed corporations, registered institutions and insurance companies. Asset management is the core component of the asset and wealth management business in Hong Kong. In 2017, total asset management and fund advisory business in Hong Kong recorded a year-on-year increase of 23% to \$17,511 billion.

▲ **23%**
Asset management and fund advisory business in Hong Kong

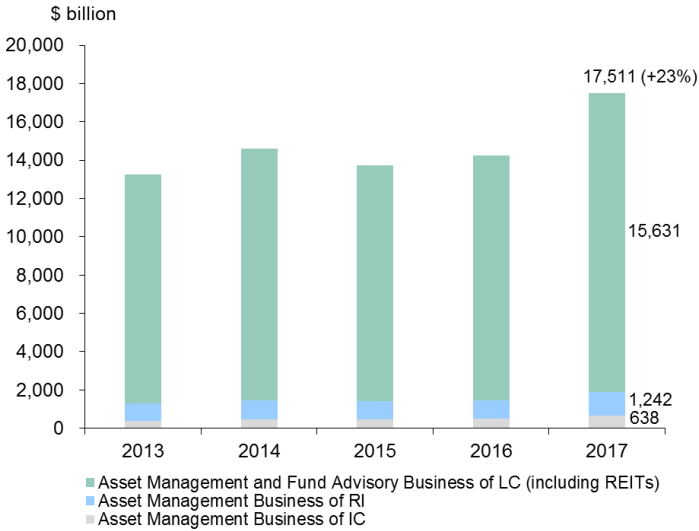


Chart 4A: Asset Management and Fund Advisory Business

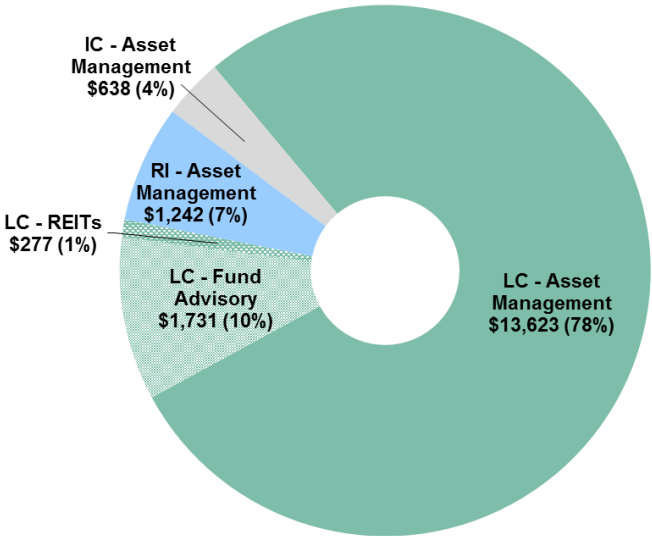


Chart 4B: Asset Management and Fund Advisory Business – by Market Player (2017) (in billions)



Asset Management and Fund Advisory Business – An Overview (Cont'd)

9. Licensed corporations continued to play a dominant part in the asset management and fund advisory business in Hong Kong. Their aggregate asset management and fund advisory business registered a year-on-year increase of 22% to \$15,631 billion in 2017.
10. Asset management is a growth sector in Hong Kong, as evidenced by the increasing numbers of corporations and personnel over the past few years. By the end of 2017, the number of corporations licensed for asset management (ie, Type 9 regulated activity) grew by 14% to 1,477 corporations from 1,300 a year earlier. During 2017, the number of individuals licensed for asset management also increased 10% to 10,530 from 9,543 in the preceding year.



Asset Management and Fund Advisory Business – Analysis by Client and Product Types

11. Institutional and corporate professional investors accounted for 61% of the asset management and fund advisory business⁵ in Hong Kong in 2017, while non-professional investors (including retail investors) accounted for slightly less than one-third (28%).

More than 70%
Asset management
and fund advisory
business from
professional investors

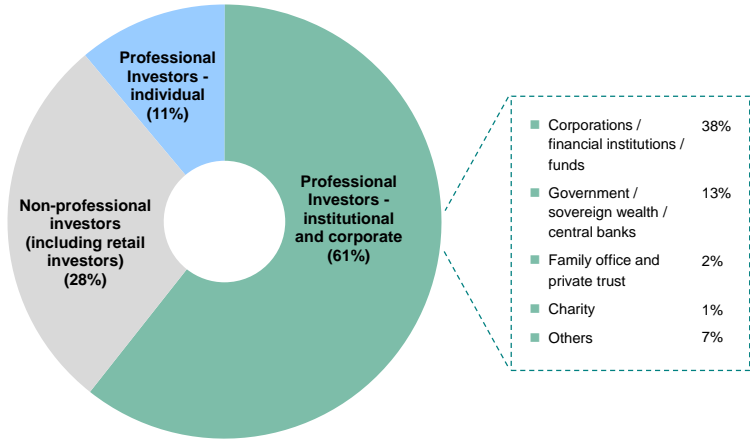


Chart 5A: Asset Management and Fund Advisory Business⁵ (\$17,234 billion) - by Client Type (2017)

12. Public funds, including both SFC-authorized funds and funds authorised in other jurisdictions accounted for 38% of the asset management and fund advisory business⁵ in Hong Kong in 2017, followed by managed accounts (27%) and private funds (16%). Hedge funds (6%) and private equity and venture capital⁶ (4%) were included in private funds.

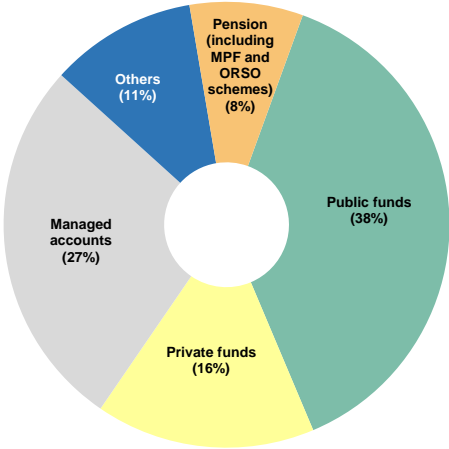


Chart 5B: Asset Management and Fund Advisory Business⁵ (\$17,234 billion) - by Product Type (2017)

⁵ Amount excludes REITs.

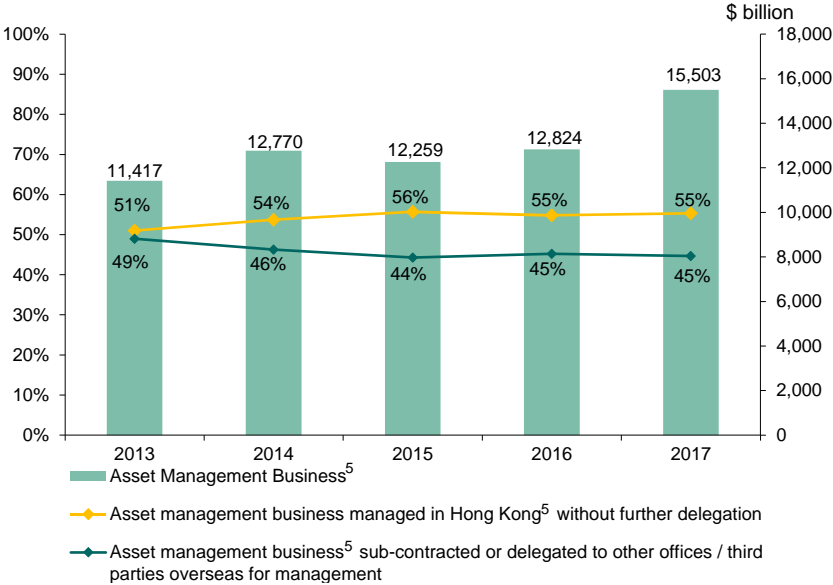
⁶ It should be noted that there are private equity firms in Hong Kong which are not LCs or RIs. According to the Asian Venture Capital Journal (AVCJ), Hong Kong ranked second in Asia after mainland China in 2017 in terms of the total capital under management of private equity funds (excluding real estate funds), which amounted to US\$141 billion (Source: AVCJ as at 4 July 2018).



Asset Management Business – Analysis by Location of Management

13. As in previous years, more than half of the asset management and fund advisory business was managed in Hong Kong as at 31 December 2017. Hong Kong’s well-established investment platform and new initiatives such as Stock Connect and Bond Connect attracted both international and Mainland companies to operate asset management business in Hong Kong.

More than 50%
Asset management
business managed in
Hong Kong over the
past five years



**Chart 6: Asset Management Business⁵
- by Location of Management**

14. The amount of assets managed in Hong Kong increased from \$7,027 billion in 2016 to \$8,579 billion as at 31 December 2017. Assets managed in Hong Kong⁵ accounted for 55% of the overall total in 2017.

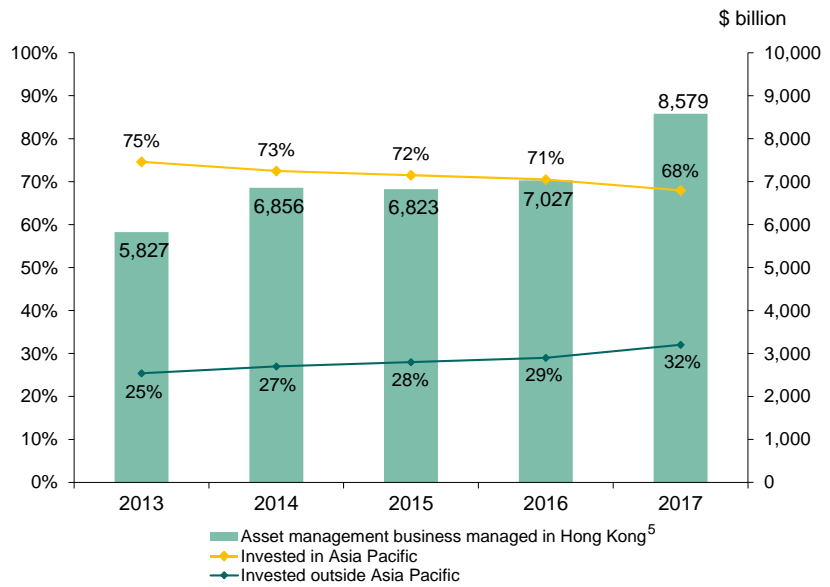
15. Hong Kong has become increasingly popular as a fund domicile. The total number of SFC-authorized unit trusts and mutual funds increased slightly from 2,196 last year to 2,205 as at 31 December 2017, of which the number of SFC-authorized Hong Kong-domiciled funds grew by 7% to 755. The net asset value of these Hong Kong-domiciled public funds increased 30% to \$1,244 billion (US\$159 billion) during the same period.

⁵ Amount excludes REITs.



Assets Managed in Hong Kong – Analysis by Geographical Distribution of Investments

More than 65%
 Assets invested in Asia Pacific over the past five years



**Chart 7A: Assets Managed in Hong Kong⁵
- by Geographical Distribution of Investments**

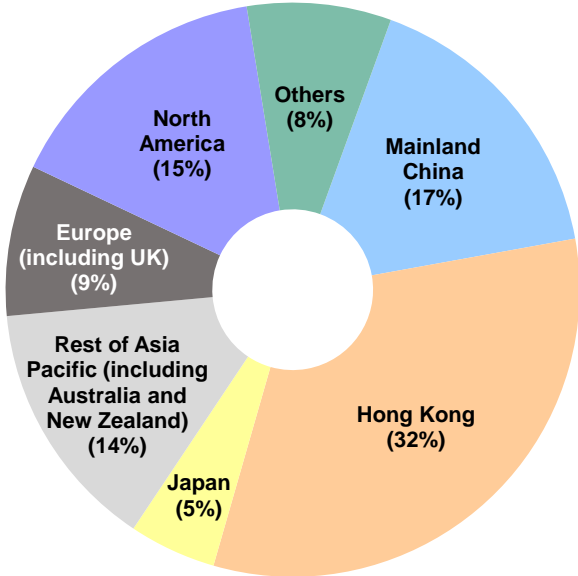
16. Over 65% of the assets managed in Hong Kong⁵ were invested in Asia Pacific in 2017 as managers leveraged their experience and knowledge of the region.
17. Fund managers in Hong Kong diversified their asset allocation to Europe and North America. Total assets invested outside of Asia Pacific⁵ increased to \$2,747 billion in 2017 from \$2,073 billion a year ago.

⁵ Amount excludes REITs.



Assets Managed in Hong Kong – Analysis by Geographical Distribution of Investments (Cont'd)

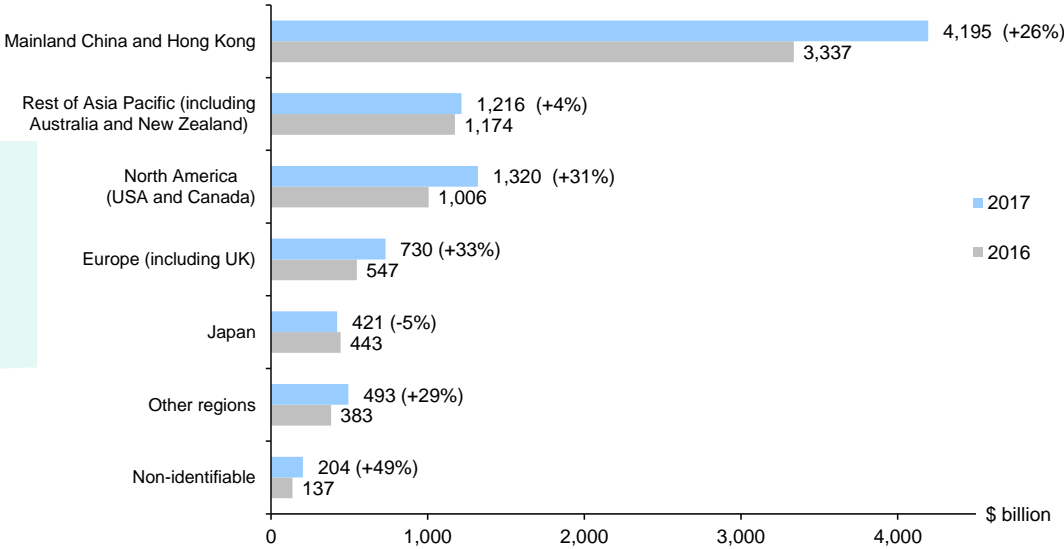
18. Mainland China and Hong Kong remained preferred markets for fund managers, with investments in these two markets increasing by 26% to \$4,195 billion from \$3,337 billion in 2016 and representing 49% of all assets managed locally⁵ in 2017.



**Chart 7B: Assets Managed in Hong Kong⁵
- by Geographical Distribution of Investments (2017)**

▲ 26%

Assets invested in mainland China and Hong Kong



**Chart 7C: Assets Managed in Hong Kong⁵
- by Geographical Distribution of Investments (2017 vs 2016)**

⁵ Amount excludes REITs.

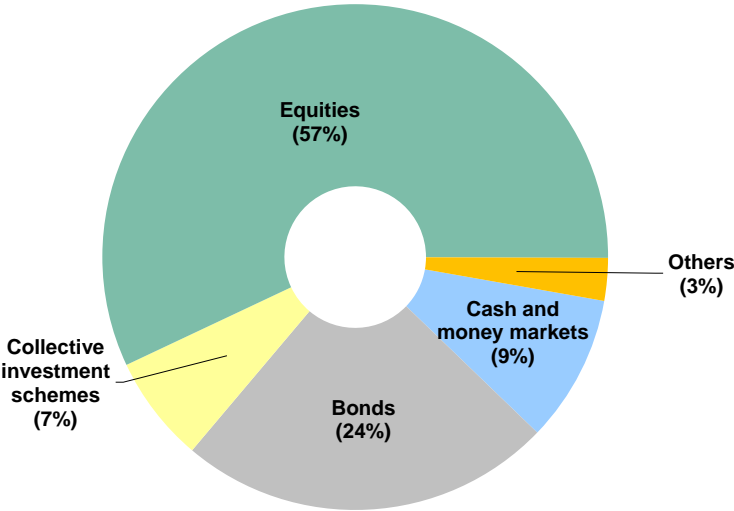


Assets Managed in Hong Kong – Analysis of Investments by Asset Class

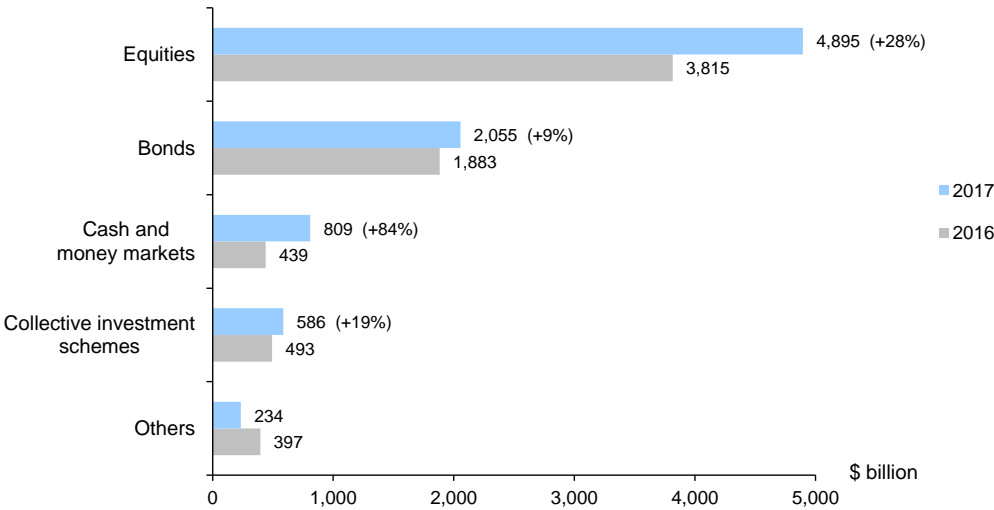
19. Equities remained the most popular asset class among Hong Kong managers, accounting for 57% of the assets managed in Hong Kong⁵ as at 31 December 2017. Although investment allocated to cash and money markets only represented 9% of the assets managed in Hong Kong as at 31 December 2017, such investments recorded increase of 84% from \$439 billion to \$809 billion as at 31 December 2017.

More than 50%

Assets invested in equities



**Chart 7D: Assets Managed in Hong Kong⁵
- by Asset Class (2017)**



**Chart 7E: Assets Managed in Hong Kong⁵
- by Asset Class (2017 vs 2016)**

⁵ Amount excludes REITs.



SFC-authorized REITs

20. Hong Kong's REIT market continued to develop in 2017. The market capitalisation of all SFC-authorized REITs increased by approximately 31% to \$277 billion as at 31 December 2017. The dividend yield of the Hang Seng REIT Index was 5.6% for the year ended 31 December 2017, which was higher than the 2.9% of the Hang Seng Index as Hong Kong REITs generally have a higher dividend payout ratio.
21. A number of acquisitions and disposals were made by listed REITs during the year involving an aggregate consideration of over \$36 billion. There was also a general increase in the valuation of properties held by listed REITs during the year.

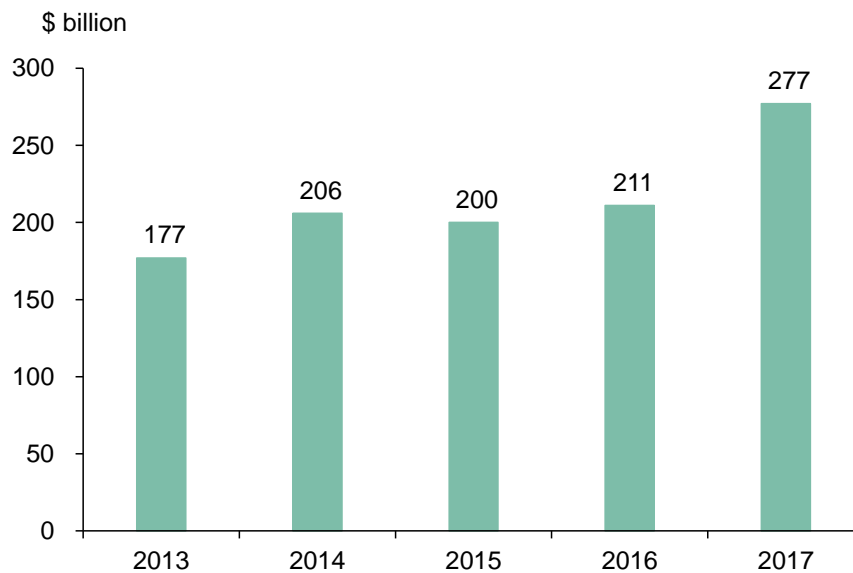


Chart 8: Market Capitalisation of SFC-authorized REITs



Section II C

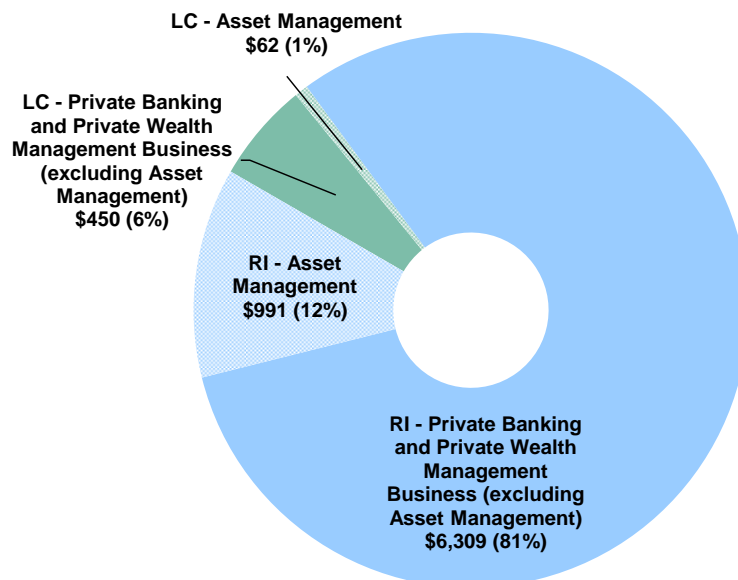
Private Banking and Private Wealth Management Business



Private Banking and Private Wealth Management Business – An Overview

\$7,812 bn¹
Private banking and
private wealth
management business

22. Additional data was obtained for the year ended 31 December 2017 as a result of the extended survey scope this year to cover the total assets under private banking and private wealth management clients' accounts generated, managed or served by Hong Kong relationship managers of licensed corporations and registered institutions which are part of a larger banking group, or for which the relationship managers are accountable.
23. Accordingly, for the purposes of the Survey, the total assets of the private banking and private wealth management business, which amounted to \$7,812 billion¹ as at 31 December 2017, included asset management services provided to private banking clients by licensed corporations and registered institutions.
24. Thirty-nine registered institutions and 11 licensed corporations reported that they conducted private banking or private wealth management business during the survey period.



**Chart 9: Private Banking and Private Wealth Management Business (2017)
(in billions)**

¹ Due to the extension of the scope of the Survey, comparative figures are not available.



**Private Banking and Private Wealth Management Business
– Analysis by Source of Assets and Client Type**

25. As at 31 December 2017, 57% of the total AUM for the private banking and private wealth management business were sourced from overseas investors.

More than 50%
Assets sourced from non-Hong Kong investors

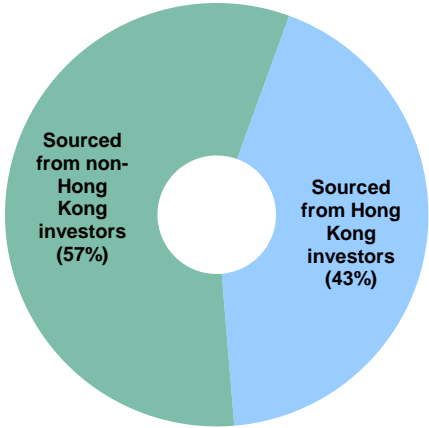


Chart 10A: Private Banking and Private Wealth Management Business - by Source of Assets (2017)

26. Institutional and corporate investors plus individual professional investors represented the vast majority of the clients of the private banking and private wealth management business in Hong Kong, contributing 50% and 46% of the total AUM for private banking and private wealth management business as at 31 December 2017.

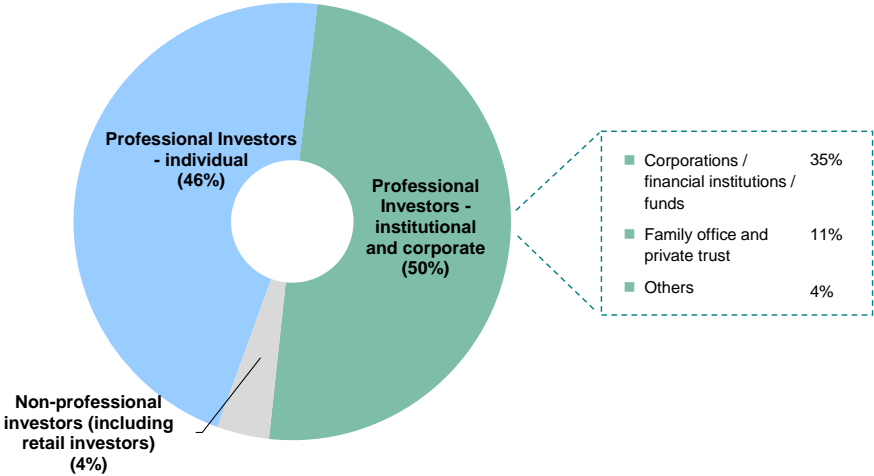


Chart 10B: Private Banking and Private Wealth Management Business - by Client Type (2017)



**Private Banking and Private Wealth Management Business
– Analysis by Asset and Product Type and Geographical Distribution**

27. Propelled by a surge in both local and major overseas equity markets, listed equities represented 44% of the total AUM for the private banking and private wealth management business as at 31 December 2017. Assets managed under this business were also diversified into other types of products, such as private funds (including hedge funds, private equity and venture capital⁶), bonds, cash and deposits.

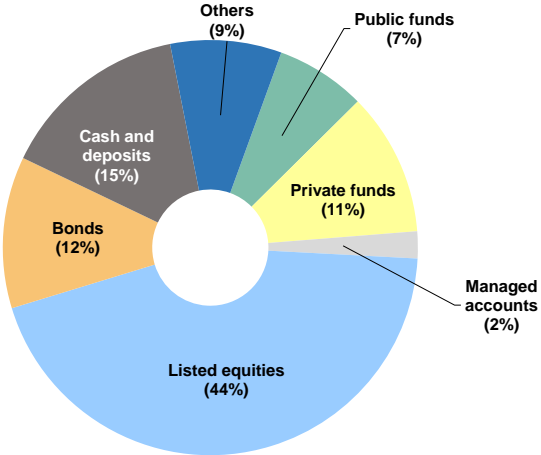


Chart 10C: Private Banking and Private Wealth Management Business - by Asset and Product Type (2017)

28. In 2017, 62% of the AUM of the private banking and private wealth management business were invested in the Asia-Pacific Region, among which 52% of the assets were invested in mainland China and Hong Kong.

More than 50%
Assets invested in
mainland China and
Hong Kong

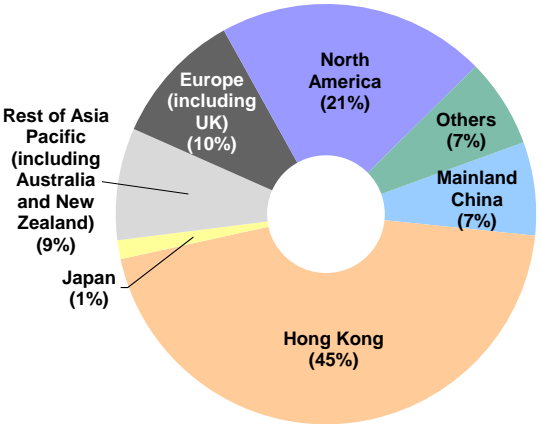


Chart 10D: Private Banking and Private Wealth Management Business - by Geographical Distribution of Investments (2017)

⁶ It should be noted that there are private equity firms in Hong Kong which are not LCs or RIs. According to the Asian Venture Capital Journal (AVCJ), Hong Kong ranked second in Asia after mainland China in 2017 in terms of the total capital under management of private equity funds (excluding real estate funds), which amounted to US\$141 billion (Source: AVCJ as at 4 July 2018).



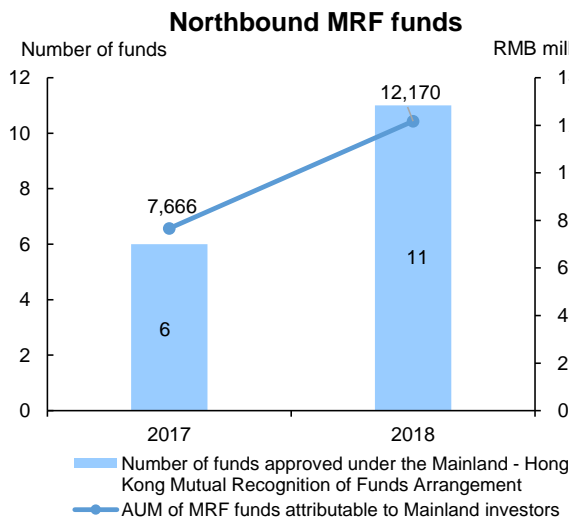
III. Hong Kong's Role as the Pre-eminent Offshore Renminbi Centre

As the pre-eminent offshore renminbi centre, Hong Kong continued to play a major role in the transformation of the renminbi into an internationally accepted and widely-used currency. Further expansion of Stock Connect and Bond Connect consolidated Hong Kong's position as Asia's major offshore renminbi hub offering a wide range of renminbi financial products.

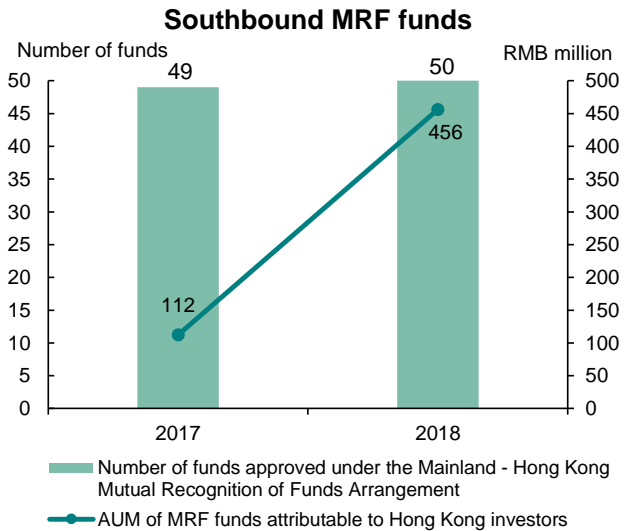
MRF between the Mainland and Hong Kong

Northbound MRF and Southbound MRF Funds

- Under the Mainland-Hong Kong MRF scheme implemented in July 2015, 50 Southbound MRF funds were authorised by the SFC and 15 Northbound MRF funds were approved by the China Securities Regulatory Commission (CSRC) as at 31 May 2018. The AUM in Southbound MRF funds attributable to Hong Kong investors recorded a sharp increase of 307% to RMB456 million as at 31 March 2018, whilst the AUM in Northbound MRF funds attributable to Mainland investors registered steady growth of 59% to RMB12,170 million.



(Figures as at 31 March of each year)

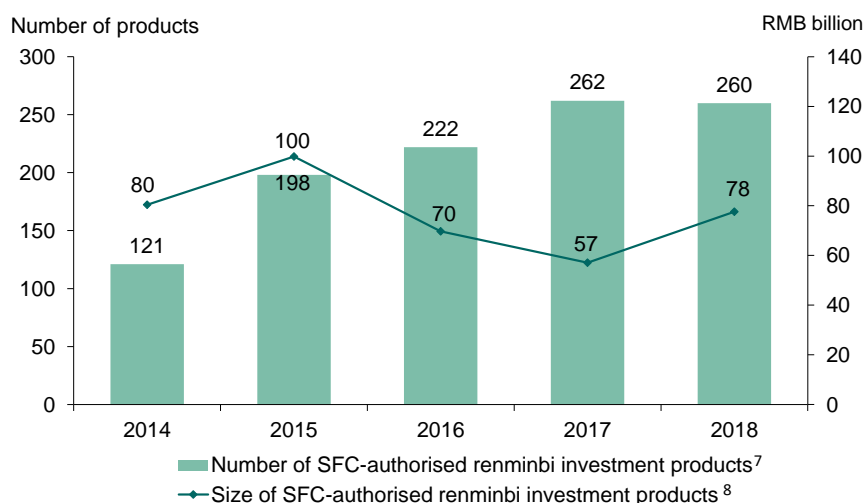


(Figures as at 31 March of each year)



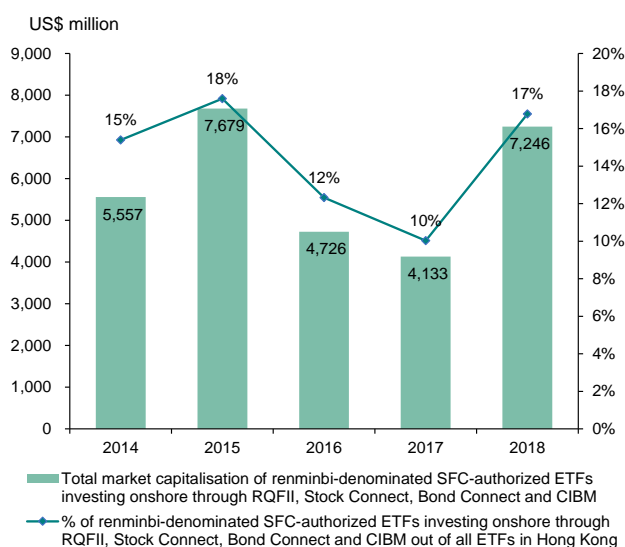
Retail Renminbi-denominated and Related Products

Number and Size of SFC-authorized Renminbi Investment Products⁹



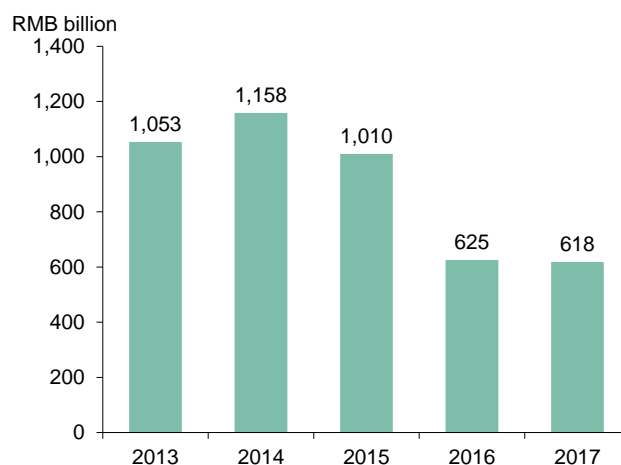
(Figures as at 31 March of each year)

Renminbi-denominated SFC-authorized ETFs investing onshore through RQFII, Stock Connect, Bond Connect and CIBM



(Figures as at 31 March of each year)

Total Outstanding Renminbi Customer Deposits and Certificates of Deposit



Source: Hong Kong Monetary Authority Annual Report

(Figures as at 31 December of each year)

⁷ Unlisted structured investment products with renminbi features on a "one product per key facts statement" basis.

⁸ Comprising:

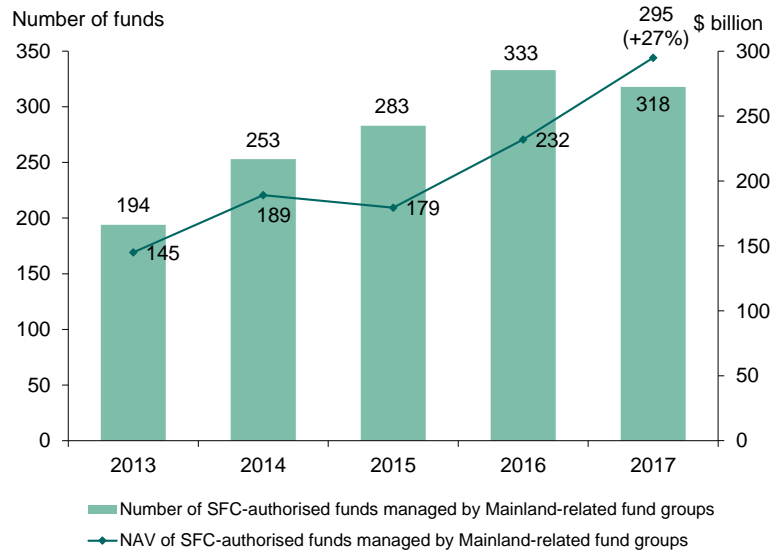
- (a) Net asset value of renminbi-denominated exchange-traded funds (ETFs) investing onshore through the Renminbi Qualified Foreign Institutional Investor (RQFII) quota, Stock Connect, Bond Connect and the China Interbank Bond Market (CIBM) and renminbi-denominated unlisted funds investing onshore through RQFII, Stock Connect, Bond Connect and CIBM, recognised Mainland funds under Mainland-Hong Kong MRF, unlisted funds investing primarily in offshore dim sum bonds, fixed-income securities and money market instruments and renminbi gold ETFs;
- (b) outstanding amount of unlisted structured investment products denominated in renminbi;
- (c) renminbi-denominated account exposure of paper gold schemes with renminbi features; and
- (d) market capitalisation of renminbi REITs.

⁹ Renminbi investment products exclude non-renminbi denominated funds with renminbi share classes offered to Hong Kong investors and non-renminbi denominated ETFs with renminbi trading counters.



Growing Mainland Participation in the Hong Kong Market

Number and Net Asset Value of SFC-authorized Funds Managed by Mainland-related Fund Groups

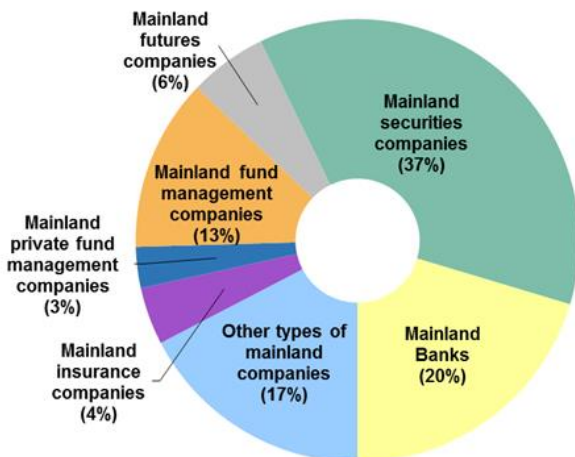


(Figures as at 31 December of each year)

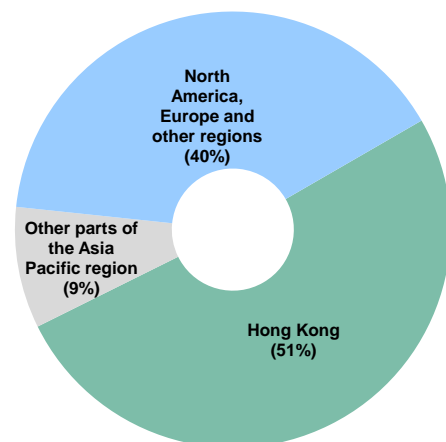
Breakdown of Licensed Corporations and Registered Institutions Established by Mainland-related Groups in Hong Kong

Mainland Assets Managed in Hong Kong and Sourced from Qualified Domestic Institutional Investors and Mutual Recognition of Funds – by Geographical Distribution of Investments

▲ 12% compared to 31 December 2016



As at 31 December 2017 (total: 334)

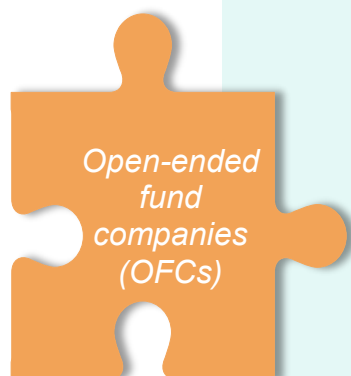


As at 31 December 2017 (total: \$255 billion)



IV. Recent Developments and Outlook

Building market infrastructure for the development of the asset management industry in Hong Kong



*Open-ended
fund
companies
(OFCs)*

The OFC regime will broaden the choice of investment fund vehicles. Detailed legal and regulatory requirements applicable to the new OFC structure are set out in the Securities and Futures (Open-ended Fund Companies) Rules (OFC Rules) and the Code on Open-ended Fund Companies on which the SFC consulted the public in June 2017. Following the completion of the legislative process in July 2018, the new regime will take effect on 30 July 2018. Furthermore, private OFCs will be able to benefit from the profits tax exemption provided by the Inland Revenue (Amendment) (No.2) Ordinance 2018, which also commences on 30 July 2018. SFC-authorized public OFCs will be entitled to the same profits tax exemption as other SFC-authorized funds.



*MRF with the
Mainland,
France and
other
jurisdictions*

Following the implementation of MRF with the Mainland, the SFC concluded similar arrangements with overseas jurisdictions and is discussing potential arrangements with a number of others.

In July 2017, the SFC signed a Memorandum of Understanding (MoU) on MRF with Autorité des Marchés Financiers which allows eligible French and Hong Kong public funds to be distributed in the other market through a streamlined vetting process. This opens up the opportunity for Hong Kong funds to be sold directly to retail investors in a leading European Union market. To facilitate the implementation of this arrangement, the SFC held an industry briefing in July 2017 and also issued a circular, frequently asked questions (FAQs) and an information checklist to provide guidance on specific requirements and application procedures.

Separately, under the Switzerland-Hong Kong MRF arrangement, four SFC-authorized funds were approved by the Swiss Financial Market Supervisory Authority for distribution to retail investors in Switzerland as of 31 March 2018.



Building market infrastructure for the development of the asset management industry in Hong Kong (Cont'd)



*Renminbi
investment
products*

To broaden investor choice, we updated our FAQs in January 2018 to provide guidance on Undertakings for Collective Investment in Transferable Securities (UCITS) funds seeking to offer renminbi shares classes to the public in Hong Kong. This initiative will allow greater flexibility for SFC-authorized UCITS funds to offer renminbi share classes to investors directly or through a Hong Kong-domiciled feeder fund structure.



*ETF
market and
related
topical
issues*

In January 2018, the SFC published a research paper on the Hong Kong exchange-traded fund (ETF) market and related topical issues in light of recent local and international developments. The paper is intended to provide context for future policy discussions.

Meanwhile, the SFC is working closely with the CSRC as well as Mainland and Hong Kong stock exchanges and clearing houses to study proposals for implementing ETF Connect and related technical issues.



Encouraging online fund distribution channels and streamlining the post-authorisation process



New guidelines will take effect in April 2019 to provide tailored guidance on the design and operation of online platforms, including specific guidance on the provision of automated or robo-advice and clarification of how the suitability requirement would operate in the online environment. The guidelines were the subject of a public consultation concluded in March 2018, following which the SFC launched a further consultation on proposed requirements applicable to the offline sale of complex products.

The SFC hopes that the new guidelines will facilitate the growth of online platforms to give investors greater choice and better access to investment advice. Whilst providing additional protection on the sale of complex products, the guidelines will facilitate transactions in simple products which investors can reasonably be expected to understand. This will broaden distribution channels for many public funds and benefit both the industry and investors.



The SFC regularly reviews and seeks to improve its fund authorisation and approval process wherever practicable without compromising investor protection.

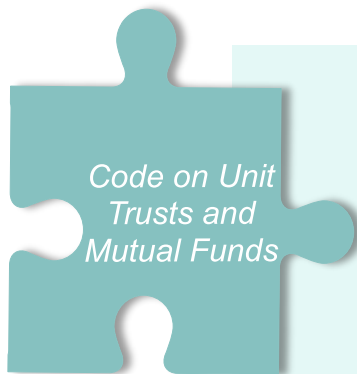
On 1 February 2018, the SFC formally adopted a revamped application process for the approval of post-authorisation changes (including scheme changes, termination, merger and withdrawal of authorisation) and authorisation of revised offering documents for SFC-authorised funds. The revamped process increases procedural transparency, enables timely notification of post-authorisation changes to investors and a more efficient use of the SFC's resources.



Enhancing the regulatory regime for better investor protection



Following the conclusion of a public consultation in November 2017, enhancements to asset management regulation will come into effect in November 2018. In addition, enhancements to point-of-sale transparency to better address conflicts of interest in the selling of investment products will become effective in August 2018. The SFC also launched a further consultation, which concluded in May 2018, on requirements for the disclosure of monetary and non-monetary benefits by licensed or registered persons to discretionary account clients.



To ensure that the regulations governing public funds in Hong Kong remain robust and align with international standards and market developments, the SFC launched a three-month public consultation in December 2017 on proposed amendments to the Code on Unit Trusts and Mutual Funds. Key proposals include strengthening the requirements for key operators, providing greater flexibility and enhanced safeguards for funds' investment activities and introducing new fund types, including active ETFs.



Appendix

Breakdown of Asset and Wealth Management Business in 2017

(\$ billion)	LC	RI	IC	Asset and Wealth Management Business	Asset Management and Fund Advisory Business	Private Banking and Private Wealth Management Business
Private banking and private wealth management business (excluding Item 1 below)	450	6,309	-	6,759 ¹	-	6,759 ¹
Asset management business provided to private banking and private wealth management clients (Item 1)	62	991	-	1,053	1,053	1,053
Asset management business to other clients	13,561	251	638	14,450	14,450	-
Fund advisory business	1,731	-	-	1,731	1,731	-
SFC-authorized REITs	277	-	-	277	277	-
Total	16,081	7,551	638	24,270¹	17,511	7,812¹
Relevant sections of the Survey				Section II A	Section II B	Section II C

¹ Due to the extension of the scope of the Survey, comparative figures are not available.



Definitions

- “Licensed corporation” means a corporation granted a licence under section 116 or 117 of the Securities and Futures Ordinance (SFO) (Chapter 571) to carry on a regulated activity in Hong Kong.
- “Registered institution” means an authorised financial institution registered under section 119 of the SFO. An “authorised financial institution” means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155).
- “Insurance company” means an insurance company registered under the Insurance Ordinance (Chapter 41) which provides services that constitute classes of long-term business as defined in Part 2 of the First Schedule of the Insurance Ordinance and is not licensed by the Securities and Futures Commission (SFC). For those insurance companies which are also licensed by the SFC, their reported assets under management (AUM) are categorised under those of licensed corporations.
- “Asset and wealth management business” comprises asset management, fund advisory business, private banking and private wealth management business and SFC-authorized real estate investment trusts management business.
 - “Asset management” refers to:
 - (i) the provision of services that constitute Type 9 regulated activity as defined in Schedule 5 of the SFO carried out by licensed corporations and registered institutions (excluding assets from clients who are also licensed by or registered with the SFC); and
 - (ii) the management of financial assets arising from the provision of services that constitute classes of long-term business as defined in Part 2 of the First Schedule of the Insurance Ordinance (Chapter 41) (excluding assets sub-contracted or delegated to other licensed corporations or registered institutions in Hong Kong for management), but excludes fund advisory business and private banking and private wealth management business. “Assets managed” shall be construed in the same manner.
 - “Fund advisory business” refers to the provision of pure investment advisory services for funds or portfolios. It constitutes Type 4 and Type 5 regulated activities as defined in Schedule 5 of the SFO. Such service is generally provided to overseas managers who manage a global or regional portfolio and need expert advice from a manager in Hong Kong or its delegate with respect to the Hong Kong portion or a specific geographic segment of the global or regional portfolio.
 - “Private banking and private wealth management business” is a generic term that refers to the provision of banking or other financial services to private banking customers.

Total assets of private banking and private wealth management business refers to total assets under private banking and private wealth management clients’ accounts which have been generated, managed or served by Hong Kong relationship managers, or for which the relationship managers are accountable, and assets managed by licensed corporations and registered institutions in Hong Kong, ie, including i) assets managed and services provided which constitute regulated activities as defined in Schedule 5 to the SFO and ii) assets managed and services provided beyond those activities regulated under the SFO, including but not limited to cash and deposits, spot foreign exchange, currency-linked deposits/notes/ instruments, and physical commodities.
- “REITs” refers to SFC-authorized real estate investment trusts.
- Unless stated otherwise, the values given in this report are in Hong Kong dollars.