



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

Asset and Wealth Management Activities Survey 2018

July 2019

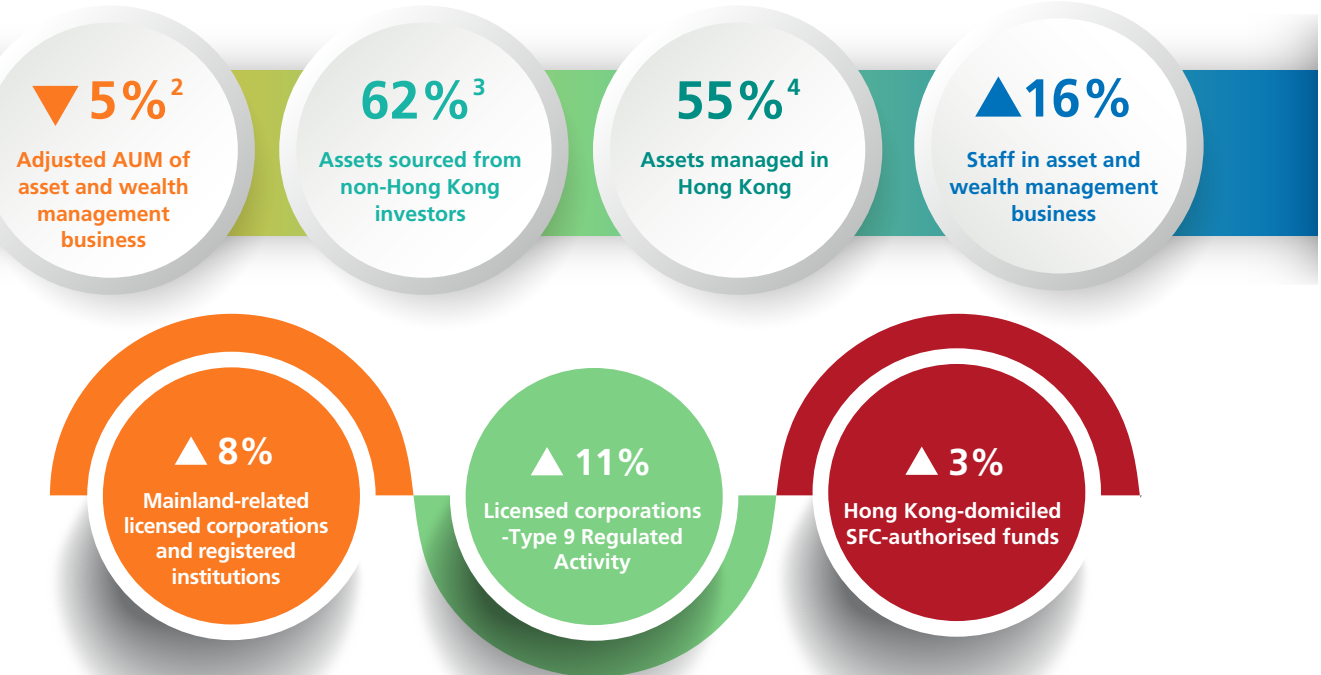
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Highlights



Items above refer to the AUM of the relevant businesses. Certain assets reported under items C and D were managed by LCs or RIs and therefore were also reported under item B. Consequently, item A is not a direct sum of items B, C and D. For details, please refer to Chart 1 on page 9 of this report.



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

² Year-on-year change in the AUM of the asset and wealth management business between December 2017 and December 2018, adjusted to exclude assets held under trusts attributable to non-LCs/RIs due to the extension of the survey scope.

³ For the AUM of the asset and wealth management business (excluding REITs and assets held under trusts attributable to non-LCs/RIs).

⁴ In the AUM of the asset management business (excluding fund advisory business and REITs).

I. Introduction

1. The Asset and Wealth Management Activities Survey (AWMAS) is conducted annually by the Securities and Futures Commission (SFC) to collect information and data on the asset and wealth management industry in Hong Kong. It helps the SFC plan its policies and operations.
2. In previous years, this survey focused on the asset and wealth management activities of the following types of firms in Hong Kong:
 - (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 Insurance Ordinance and derive gross operating income from wealth management products.
3. The scope of this year’s AWMAS was extended to cover the assets held by firms providing trust services in Hong Kong (collectively “trustees”) to provide a more comprehensive overview of the asset and wealth management industry in Hong Kong.
4. The AWMAS covers the asset and wealth management industry landscape from an entity perspective (ie, LCs, RIs, ICs and trustees) as well as from a client perspective (ie, private banking and private wealth management business derived from assets or relationships managed out of Hong Kong by LCs and RIs).
5. Survey questionnaires were sent to licensed corporations and, with the assistance of the Hong Kong Monetary Authority, the Hong Kong Federation of Insurers, the Insurance Authority and the Hong Kong Trustees’ Association, to registered institutions, insurance companies and trustees to enquire about their asset and wealth management activities as at 31 December 2018.

Responses

General

- 854 firms reported that they conducted asset management, fund advisory, private banking and private wealth management business or trust services during the survey period. These included 747 licensed corporations, 45 registered institutions, 35 insurance companies and 27 trustees.

Licensed corporations

- A breakdown of the activities of the 747 licensed corporations which engaged in (i) asset management (AM), (ii) fund advisory business (ADV) or (iii) private banking and private wealth management business (PB) is shown below:

Respondents with AM only	462
Respondents with ADV only	70
Respondents with PB only	9
Respondents with AM and ADV	182
Respondents with AM and PB	9
Respondents with ADV and PB	3
Respondents with AM, ADV and PB	12
	<hr/>
	747
	<hr/>

Registered institutions

- A breakdown of the activities of the 45 registered institutions which engaged in AM or PB is shown below:

Respondents with AM only	2
Respondents with PB only	38
Respondents with both AM and PB	5
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	45
	<hr/>

Insurance companies

- 35 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 AWMAS.

Trustees

- 27 trustees providing trust services in Hong Kong responded to the AWMAS.

II. Findings

Executive Summary

The key findings of the AWMAS for 2018 are illustrated below:

A

Asset and wealth management business

At the end of a volatile year for global financial markets, the AUM of Hong Kong's asset and wealth management business amounted to \$23,955 billion¹ (US\$3,059 billion).

Net fund inflows of \$783 billion (US\$100 billion) were recorded in 2018 despite a 5% year-on-year dip^{2,5} in the adjusted AUM of the asset and wealth management business to \$23,047 billion (US\$2,943 billion) at a time when leading Asia-Pacific equity markets experienced more substantial corrections amidst global market volatility.

B

Asset management and fund advisory business

The AUM of the asset management and fund advisory business conducted by licensed corporations and registered institutions decreased by 6%⁵ year-on-year to \$16,447 billion (US\$2,100 billion) as at 31 December 2018.

C

Private banking and private wealth management business

As at 31 December 2018, the AUM of the private banking and private wealth management business decreased slightly by 2%⁵ year-on-year to \$7,624 billion (US\$973 billion).

D

Assets held under trusts

As at 31 December 2018, assets held under trusts amounted to \$4,333 billion¹ (US\$553 billion).

Assets sourced from non-Hong Kong investors

Non-Hong Kong investors remained a major source of funding for the asset and wealth management business⁶, accounting for 62% of the AUM.

Assets managed in Hong Kong

Assets managed in Hong Kong made up 55% of the AUM of the asset management business⁷, with 50% of these assets invested in equities as at 31 December 2018.

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

² Year-on-year change in the AUM of the asset and wealth management business between December 2017 and December 2018, adjusted to exclude assets held under trusts attributable to non-LCs/RIs due to the extension of the survey scope.

⁵ Year-on-year changes in 2018: MSCI World Index (USD) (-10.4%); MSCI AC Asia Index (USD) (-15.6%); FTSE Developed Asia Pacific ex Japan Total Return Index (USD) (-14.0%); Hang Seng Index (-13.6%); Shanghai Composite Index (-24.6%); and Shenzhen Composite Index (-33.2%).

⁶ Amount excludes REITs and assets held under trusts attributable to non-LCs/RIs.

⁷ Amount excludes the AUM of the fund advisory business and REITs.

Staff

The total number of staff in the asset and wealth management business⁸ as at 31 December 2018 was 42,821, with a growing proportion of staff engaged outside of sales and marketing activities.

Hong Kong-domiciled SFC- authorised funds

As at 31 December 2018, the number of Hong Kong-domiciled SFC-authorized funds increased 3% year-on-year to 775, and their net asset value decreased 13% year-on-year to \$1,081 billion (US\$138 billion).

LCs - Type 9 Regulated Activity

The number of corporations licensed for asset management (Type 9 regulated activity) in Hong Kong increased 11% from 1,477 as at 31 December 2017 to 1,643 as at 31 December 2018.

Mainland-related LCs and RIs

The number of licensed corporations and registered institutions established by Mainland-related groups in Hong Kong increased 8% from 334 as at 31 December 2017 to 362 as at 31 December 2018.

The SFC has been pursuing initiatives to facilitate the development of Hong Kong as a competitive full-service asset and wealth management centre and a preferred place of fund domicile. Following the implementation of mutual recognition of funds (MRF) arrangements with the Mainland and five other markets, the SFC further expanded its MRF network to include the UK in October 2018, Luxembourg in January 2019 and the Netherlands in May 2019. The new open-ended fund companies regime took effect in July 2018. The SFC also relaxed the leverage cap for inverse products to a factor of two-times negative (-2x) and introduced active exchange-traded funds (ETFs) via a revised Code on Unit Trusts and Mutual Funds. Enhanced conduct requirements were introduced in key areas such as securities lending and repurchase agreements, custody of fund assets, liquidity risk management and disclosure of leverage by fund managers. These took effect in November 2018.

⁸ Excluding staff of trustees.

Section II A

**Asset and
Wealth
Management
Business**

Chart 1 below illustrates the relationship among different components (expressed in terms of AUM) of the asset and wealth management business in the AWMAS.

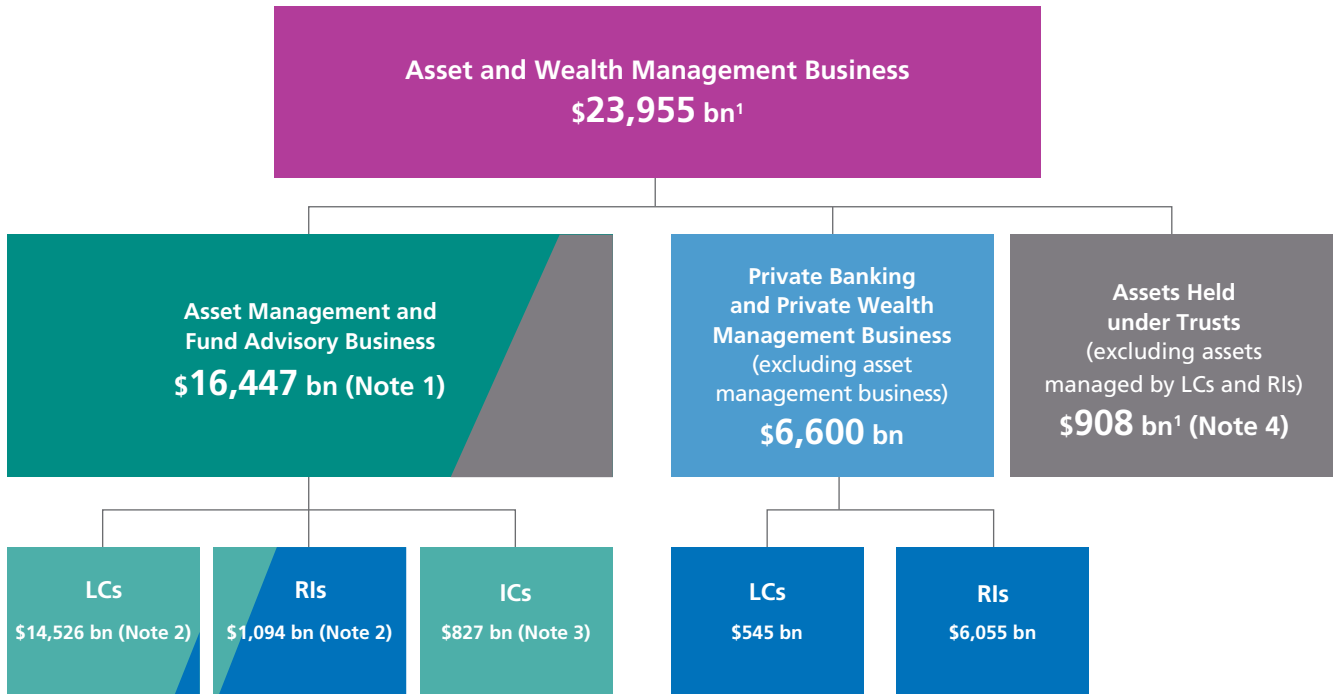


Chart 1: Asset and Wealth Management Business Overview

Notes:

1. The amount of \$16,447 bn includes the assets held under trusts which were managed by LCs and RIs under their asset management business (\$3,425 bn).
2. The amounts of \$14,526 bn and \$1,094 bn include the AUM of the asset management business provided to private banking and private wealth management clients by LCs (\$98 bn) and RIs (\$926 bn) respectively.
3. The amount of \$827 bn represents the AUM of insurance companies excluding those assets which were sub-contracted or delegated to other LCs or RIs in Hong Kong for management.
4. The amount of assets held under trusts was \$4,333 bn¹, out of which \$908 bn¹ represents the assets held under trusts which were not managed by LCs or RIs (assets held under trusts attributable to non-LCs/RIs).

	<u>AUM</u>	<u>Section</u>
 Asset and Wealth Management Business	\$23,955 bn¹	II A
 Asset Management and Fund Advisory Business	\$16,447 bn	II B
 Private Banking and Private Wealth Management Business	\$7,624 bn	II C
 Assets Held under Trusts	\$4,333 bn¹	II D

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

Asset and Wealth Management Business - An Overview

1. At the end of a volatile year for global financial markets, amidst asset market corrections and weak investment sentiment, Hong Kong's asset and wealth management business stood at \$23,955 billion¹. Adjusted asset and wealth management business decreased by 5%^{2, 5} year-on-year to \$23,047 billion as at 31 December 2018.
2. The asset management and fund advisory business decreased 6%⁵ to \$16,447 billion year-on-year.
3. The private banking and private wealth management business, which includes asset management services provided to private banking clients by licensed corporations and registered institutions, decreased slightly by 2%⁵ year-on-year to \$7,624 billion as at 31 December 2018.
4. As at 31 December 2018, assets held under trusts amounted to \$4,333 billion¹.
5. For a breakdown of the asset and wealth management business in 2018, please refer to the Appendix on page 44.

Analysis by Net Fund Inflows

6. Net fund inflows for the asset and wealth management business⁶ amounted to \$783 billion during 2018.

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

² Year-on-year change in the AUM of the asset and wealth management business between December 2017 and December 2018, adjusted to exclude assets held under trusts attributable to non-LCs/RIs due to the extension of the survey scope.

⁵ Year-on-year changes in 2018: MSCI World Index (USD) (-10.4%); MSCI AC Asia Index (USD) (-15.6%); FTSE Developed Asia Pacific ex Japan Total Return Index (USD) (-14.0%); Hang Seng Index (-13.6%); Shanghai Composite Index (-24.6%); and Shenzhen Composite Index (-33.2%).

⁶ Amount excludes REITs and assets held under trusts attributable to non-LCs/RIs.



Sourced from non-Hong Kong investors over the past five years

Analysis by Source of Assets

- Assets from non-Hong Kong investors amounted to \$14,215 billion as at 31 December 2018, representing 62% of the asset and wealth management business⁶.

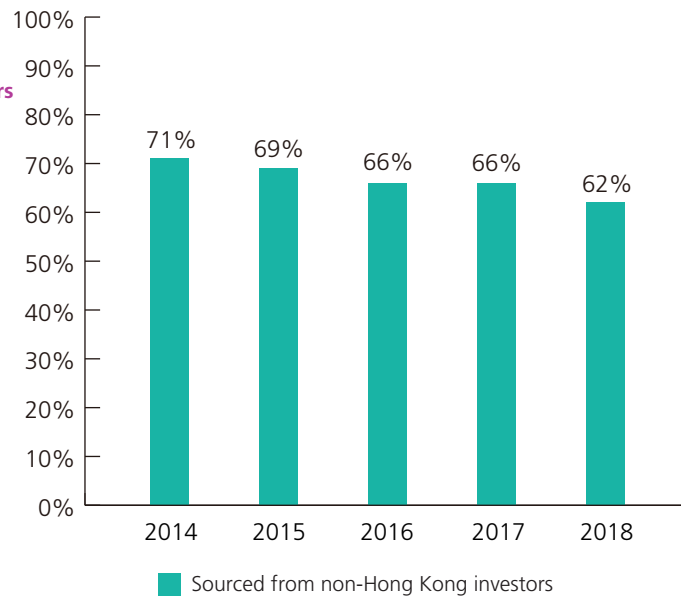


Chart 2A: Asset and Wealth Management Business⁶ (\$22,767 billion) - by Source of Assets

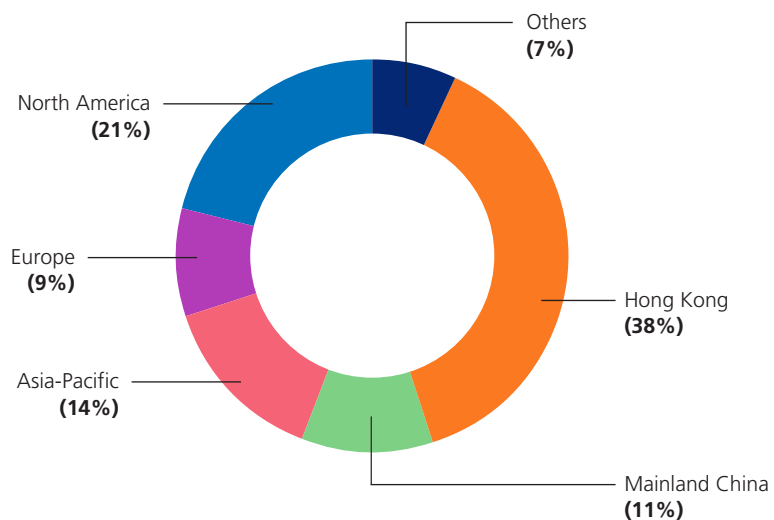


Chart 2B: Asset and Wealth Management Business⁶ (\$22,767 billion) - by Source of Assets

⁶ Amount excludes REITs and assets held under trusts attributable to non-LCs/RIs.

Asset and Wealth Management Business Staff Profile

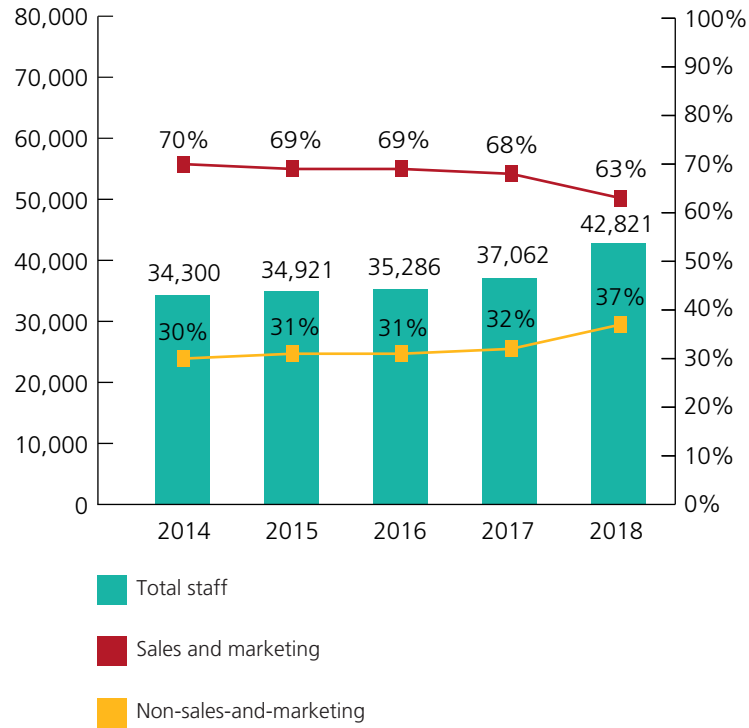


Chart 3A: Asset and Wealth Management Business Staff⁸ Profile - by Job Function

8. The number of staff engaged in asset and wealth management activities⁸ was 42,821 in 2018. The increase was mainly attributable to insurance companies which were new respondents to the AWMAS this year. While sales and marketing staff comprised 63% of the total industry population⁸, the proportion of staff engaging in other activities continued to grow.

⁸ Excluding staff of trustees.

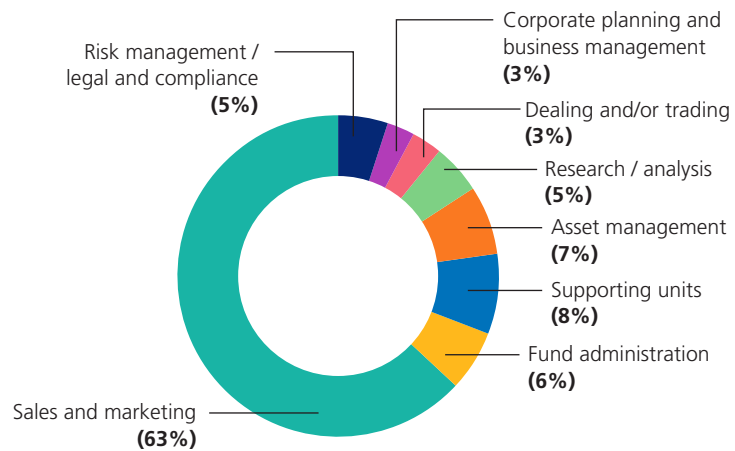


Chart 3B: Asset and Wealth Management Business Staff⁸ Profile – by Job Function (2018)

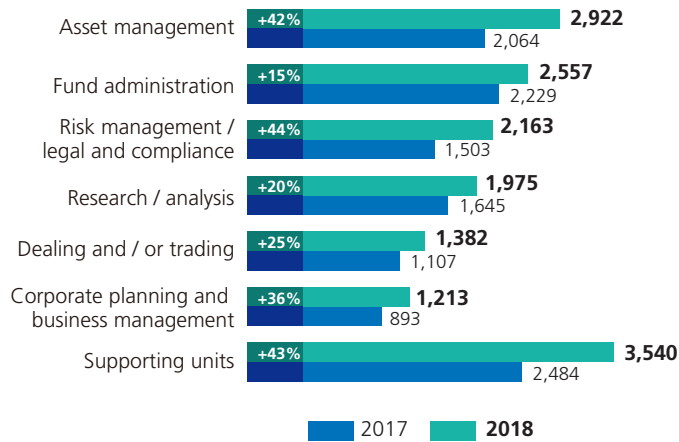


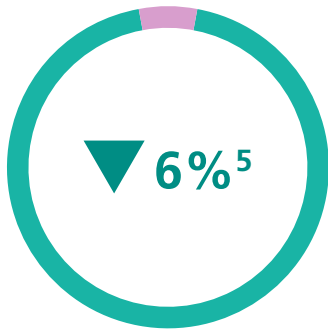
Chart 3C: Asset and Wealth Management Business Staff⁸ Profile – Number of Staff Engaged in Non-Sales-and-Marketing Activities (2018 vs 2017)

⁸ Excluding staff of trustees.

Section II B

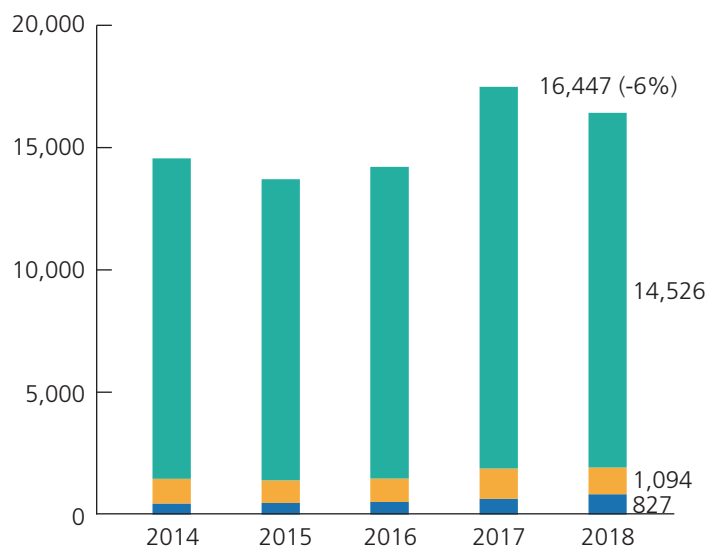
Asset Management and Fund Advisory Business

Asset Management and Fund Advisory Business⁹ - An Overview



Asset management and fund advisory business in Hong Kong

9. This section covers the asset management and fund advisory business carried out by licensed corporations, registered institutions and insurance companies. Fund advisory business mainly comprises institutional fund advisory services provided from Hong Kong by fund managers to overseas management firms.
10. As the main component of the asset and wealth management business in Hong Kong, the total asset management and fund advisory business amounted to \$16,447 billion as at 31 December 2018, despite a moderate drop of 6%⁵ as compared to last year.
11. Overall, more firms participated in the AWMAS this year when compared to the previous year, and the asset management and fund advisory business recorded net fund inflows of \$404 billion¹⁰ for the year. This partially offset the year-on-year drop in asset prices and organisational changes reported by respondents.



- Asset Management and Fund Advisory Business of LCs (including REITs)
- Asset Management Business of RIs
- Asset Management Business of ICs

Chart 4A: Asset Management and Fund Advisory Business (in billions)

⁵ Year-on-year changes in 2018: MSCI World Index (USD) (-10.4%); MSCI AC Asia Index (USD) (-15.6%); FTSE Developed Asia Pacific ex Japan Total Return Index (USD) (-14.0%); Hang Seng Index (-13.6%); Shanghai Composite Index (-24.6%); and Shenzhen Composite Index (-33.2%).

⁹ Please refer to page 45 of this report for the definitions of "asset management" and "fund advisory business".

¹⁰ Amount excludes REITs.

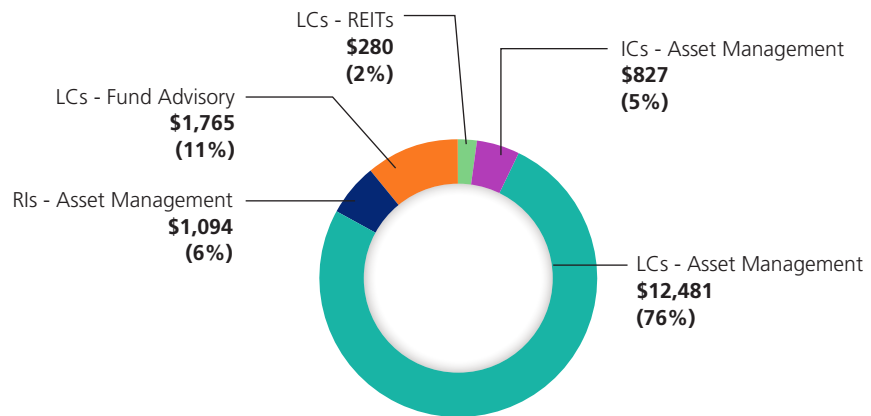


Chart 4B: Asset Management and Fund Advisory Business (\$16,447 billion) – by Market Player (2018) (in billions)

12. The aggregate asset management and fund advisory business conducted by licensed corporations, which dominates the total asset management and fund advisory business in Hong Kong, registered a year-on-year decrease of 7% to \$14,526 billion in 2018.
13. Asset management is a growing industry in Hong Kong. The number of corporations licensed for asset management (ie, Type 9 regulated activity) grew 11% from 1,477 a year earlier to 1,643 by the end of 2018. During 2018, the number of individuals licensed for asset management also increased 11% to 11,689 from 10,530 in the preceding year.

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



Asset management and fund advisory business from professional investors

14. Professional investors accounted for 76% of the asset management and fund advisory business¹⁰ in Hong Kong as at 31 December 2018, with institutional and corporate professional investors accounting for 69% of the total, up from 61% as at 31 December 2017. The increase was primarily attributed to the growing participation by professional investors which were corporations, financial institutions and funds.

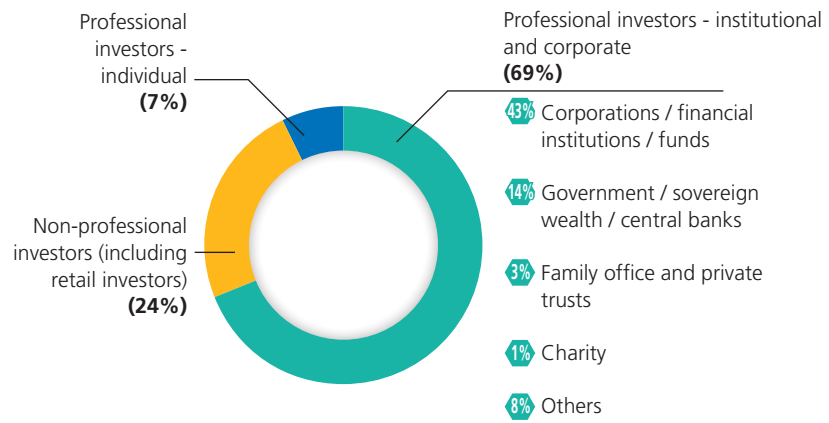


Chart 5A: Asset Management and Fund Advisory Business¹⁰ (\$16,167 billion) - by Client Type (2018)

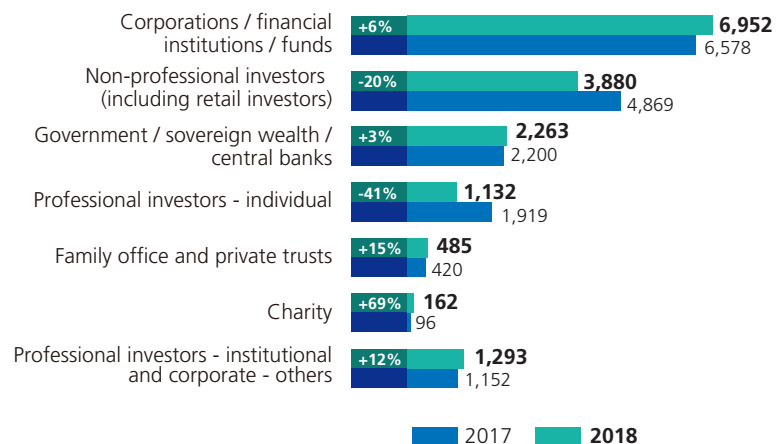


Chart 5B: Asset Management and Fund Advisory Business¹⁰ (\$16,167 billion) - by Client Type (2018 vs 2017)

¹⁰ Amount excludes REITs.

15. Public funds, including both SFC-authorized funds and funds authorised in other jurisdictions, accounted for 35% of the asset management and fund advisory business¹⁰ in Hong Kong in 2018, followed by managed accounts (26%) and private funds (18%). Hedge funds (6%) and private equity and venture capital¹¹ (5%) were included in private funds.

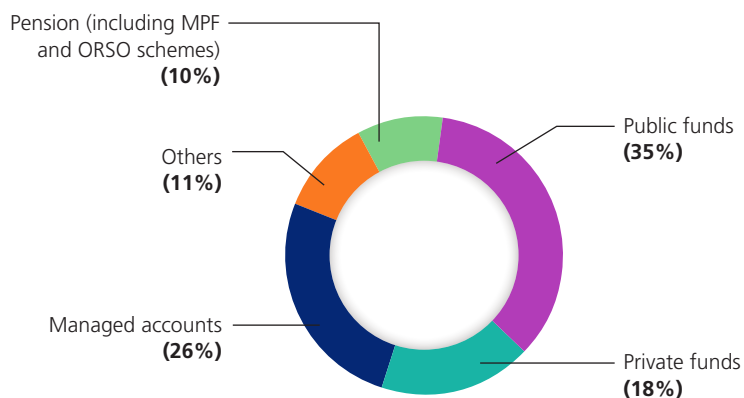


Chart 6A: Asset Management and Fund Advisory Business¹⁰ (\$16,167 billion) - by Product Type (2018)

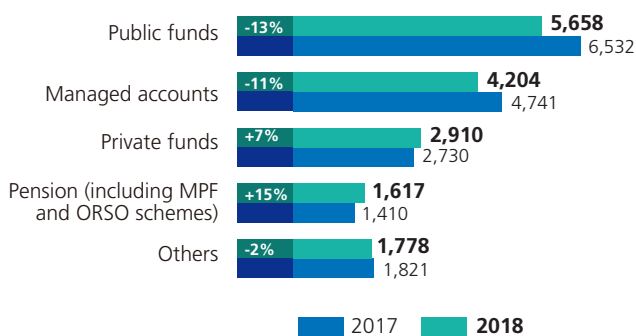
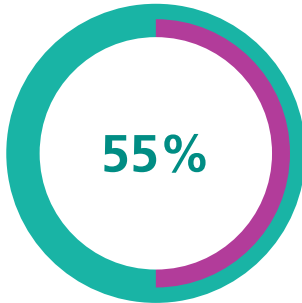


Chart 6B: Asset Management and Fund Advisory Business¹⁰ (\$16,167 billion) - by Product Type (2018 vs 2017)

¹⁰ Amount excludes REITs.

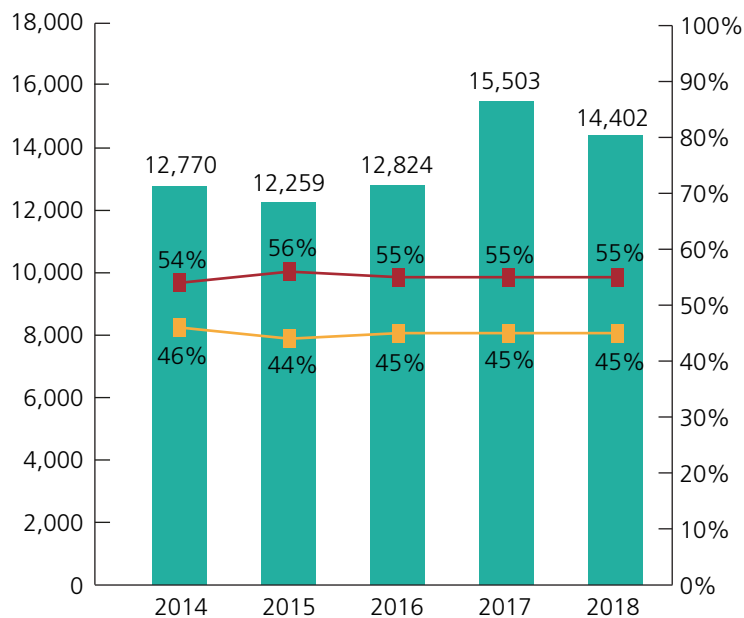
¹¹ It should be noted that there are private equity firms in Hong Kong which are not LCs or RIs. According to the *Asian Venture Capital Journal* (AVCJ), Hong Kong ranked second in Asia after mainland China in 2018 in terms of the total capital under management of private equity funds (excluding real estate funds), which amounted to US\$159 billion (Source: AVCJ as at 25 March 2019).

Asset Management Business⁷ – Analysis by Location of Management



Assets managed in Hong Kong

16. As in previous years, more than half of the asset management business was managed in Hong Kong as at 31 December 2018.
17. Assets managed in Hong Kong decreased from \$8,579 billion in 2017 to \$7,988 billion as at 31 December 2018. Assets managed in Hong Kong⁷ accounted for 55% of the overall total in 2018.



- Asset Management Business⁷
- Asset management business managed in Hong Kong⁷
- Asset management business⁷ sub-contracted or delegated to other offices / third parties overseas for management

Chart 7: Asset Management Business⁷ - by Location of Management (in billions)

18. The total number of SFC-authorized unit trusts and mutual funds recorded a slight drop from 2,205 last year to 2,195 as at 31 December 2018. The number of SFC-authorized Hong Kong-domiciled funds increased 3% year-on-year to 775 as at 31 December 2018, although their net asset value decreased 13% year-on-year to \$1,081 billion (US\$ 138 billion).

⁷ Amount excludes fund advisory business and REITs.

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

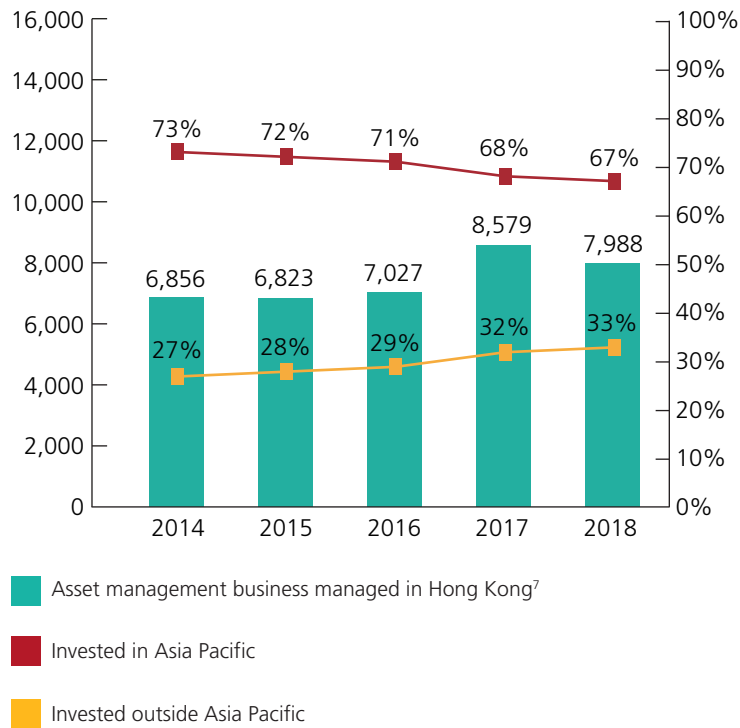
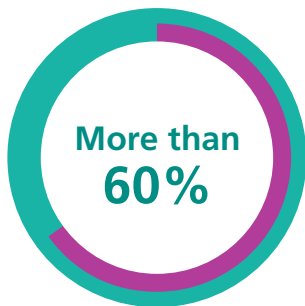


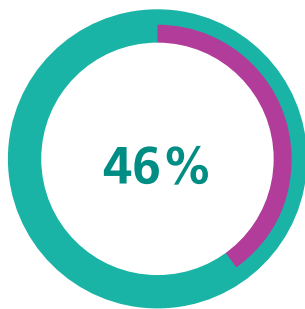
Chart 8A: Assets Managed in Hong Kong⁷ – by Geographical Distribution of Investments (in billions)



Assets invested in Asia Pacific over the past five years

19. Although Asia Pacific remained the most popular investment region amongst Hong Kong managers, representing 67% of the assets managed in Hong Kong⁷ in 2018, a greater portion of investments (27%) was allocated to Europe and North America when compared to 2017 (24%) as managers diversified their asset allocation.

⁷ Amount excludes fund advisory business and REITs.



Assets invested in mainland China and Hong Kong

20. Hong Kong remained a preferred market for fund managers, with investments in this market amounting to \$2,503 billion, representing 31% of all assets managed locally⁷ in 2018.

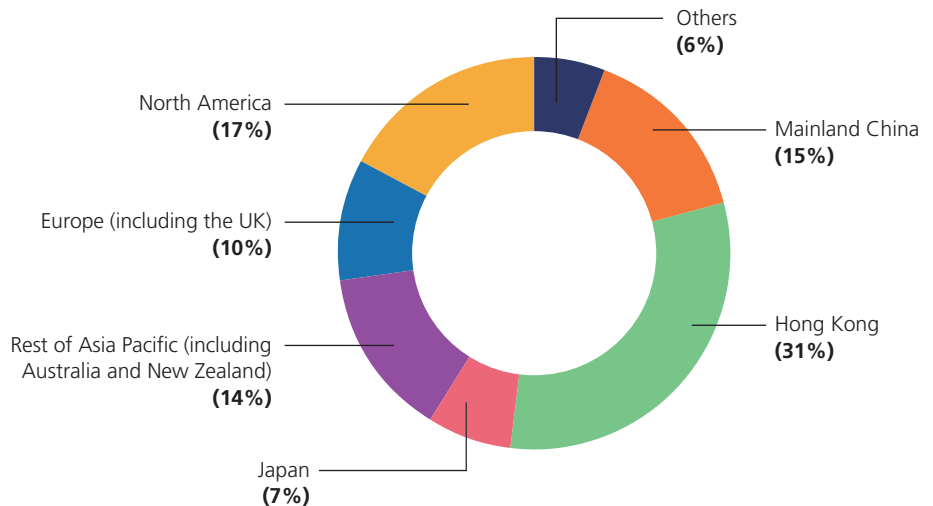


Chart 8B: Assets Managed in Hong Kong⁷ (\$7,988 billion) - by Geographical Distribution of Investments (2018)

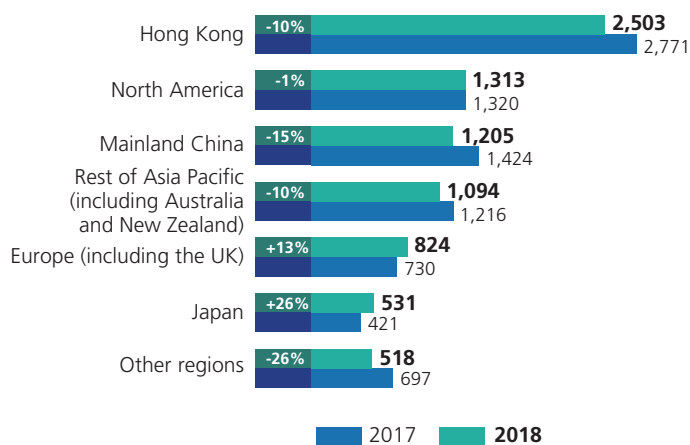
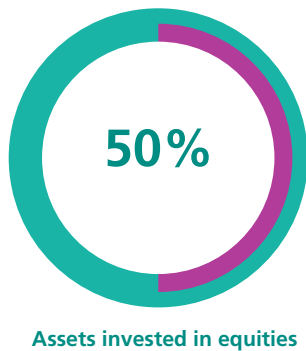


Chart 8C: Assets Managed in Hong Kong⁷ (\$7,988 billion) - by Geographical Distribution of Investments (2018 vs 2017)

⁷ Amount excludes fund advisory business and REITs.

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



21. As at 31 December 2018, whilst a majority of the assets managed in Hong Kong⁷ were still invested in equities, accounting for 50% of the total, the proportion allocated to bonds increased to 32% from 24% last year.

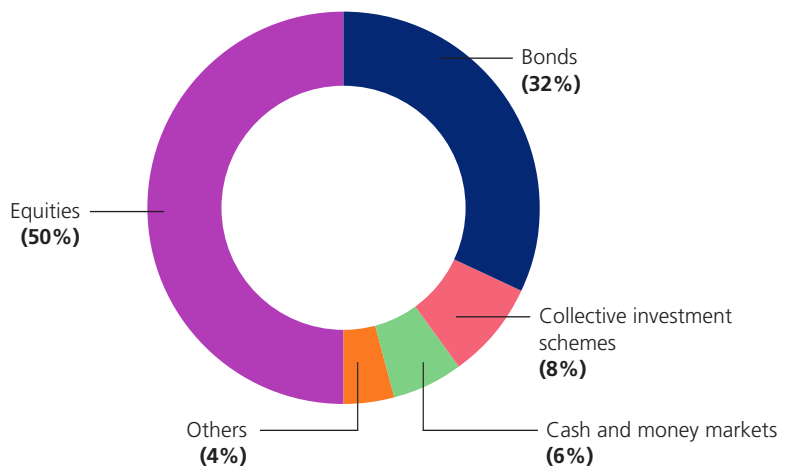


Chart 9A: Assets Managed in Hong Kong⁷ (\$7,988 billion) - by Asset Class (2018)

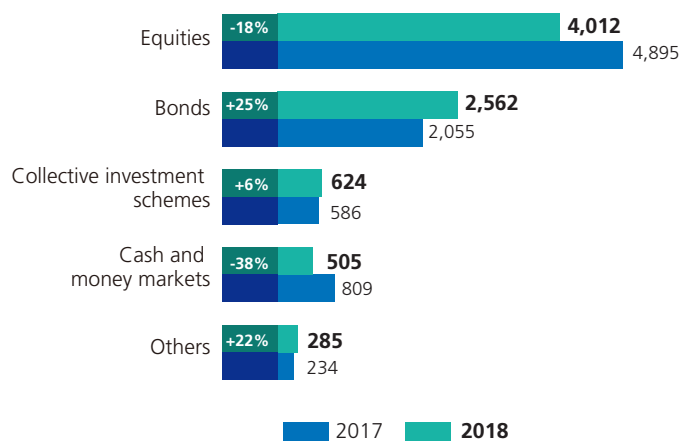


Chart 9B: Assets Managed in Hong Kong⁷ (\$7,988 billion) - by Asset Class (2018 vs 2017)

⁷ Amount excludes fund advisory business and REITs.

SFC-authorized REITs

22. The market capitalisation of all SFC-authorized REITs increased slightly from \$277 billion as at 31 December 2017 to \$280 billion as at 31 December 2018. The Hang Seng REIT Index Total Return Index recorded a gain of 2.7% for the year ended 31 December 2018, outperforming the Hang Seng Index (Gross Total Return Index) which fell by 10.5% in the same period. A number of acquisitions and disposals were made by listed REITs during the year involving an aggregate consideration of over \$16 billion.

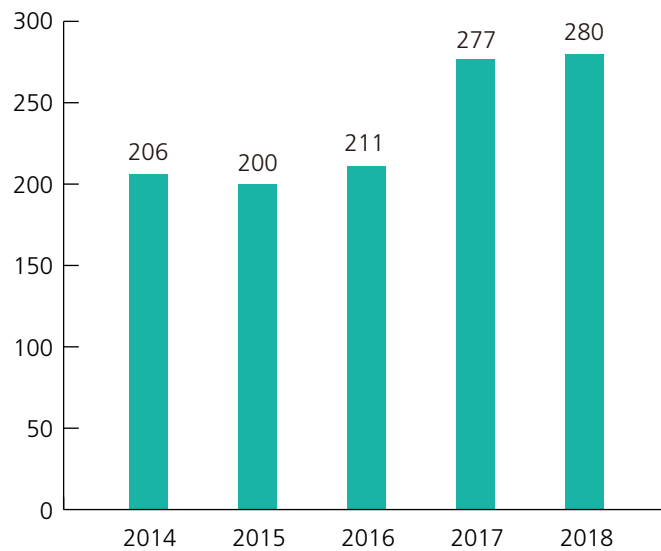


Chart 10: Market Capitalisation of SFC-authorized REITs (in billions)

Section II C

**Private
Banking and
Private Wealth
Management
Business**

Private Banking and Private Wealth Management Business¹² - An Overview



Private banking and private wealth management business

23. As at 31 December 2018, the total assets of the private banking and private wealth management business, which included the asset management services provided to private banking clients by licensed corporations and registered institutions, recorded a mild drop of 2%⁵ to \$7,624 billion¹³ despite recording net fund inflows of \$379 billion for the year. Respondents reported that the decrease was mainly attributable to weaker market performance towards the end of the year.

24. 33 licensed corporations and 43 registered institutions reported that they had conducted private banking or private wealth management business during the survey period.

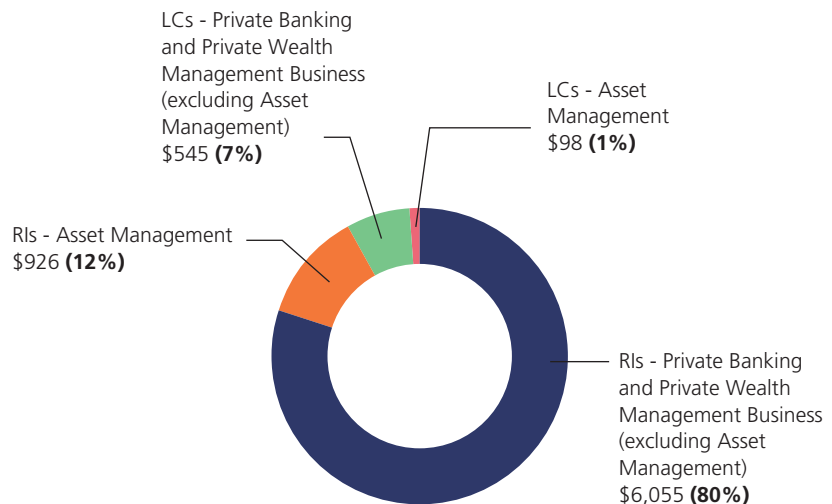


Chart 11: Private Banking and Private Wealth Management Business (2018) (in billions) (\$7,624 billion)

25. As at 31 December 2018, the total number of staff engaged in the private banking and private wealth management business was 7,604, out of which 2,711 were Private Wealth Management Relevant Practitioners¹⁴.

⁵ Year-on-year changes in 2018: MSCI World Index (USD) (-10.4%); MSCI AC Asia Index (USD) (-15.6%); FTSE Developed Asia Pacific ex Japan Total Return Index (USD) (-14.0%); Hang Seng Index (-13.6%); Shanghai Composite Index (-24.6%); and Shenzhen Composite Index (-33.2%).

¹² Please refer to page 45 of this report for the definition of "private banking and private wealth management business".

¹³ This figure represents 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.

¹⁴ The number of staff engaged in the private banking and private wealth management business as at 31 December 2018 as reported by registered institutions was 6,851, out of which 2,526 were Private Wealth Management Relevant Practitioners.

Private Banking and Private Wealth Management Business - Analysis by Source of Assets



26. As at 31 December 2018, 52% of the total assets under management (AUM) for the private banking and private wealth management business were sourced from non-Hong Kong investors, most of which were from the Asia-Pacific region.

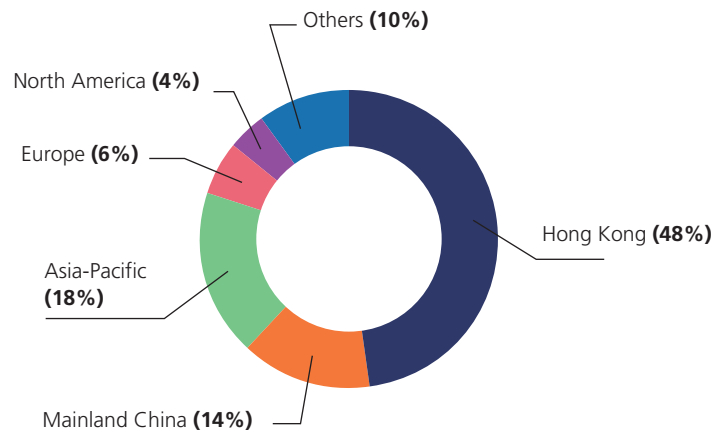


Chart 12: Private Banking and Private Wealth Management Business (\$7,624 billion) - by Source of Assets (2018)

Private Banking and Private Wealth Management Business - Analysis by Client Type

27. Institutional and corporate investors and individual professional investors contributed 64% and 32% of total AUM as at 31 December 2018 respectively.

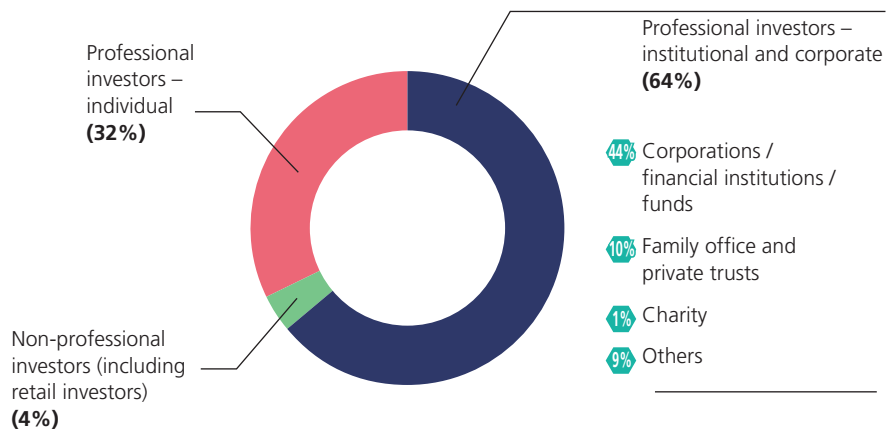


Chart 13A: Private Banking and Private Wealth Management Business (\$7,624 billion) - by Client Type (2018)

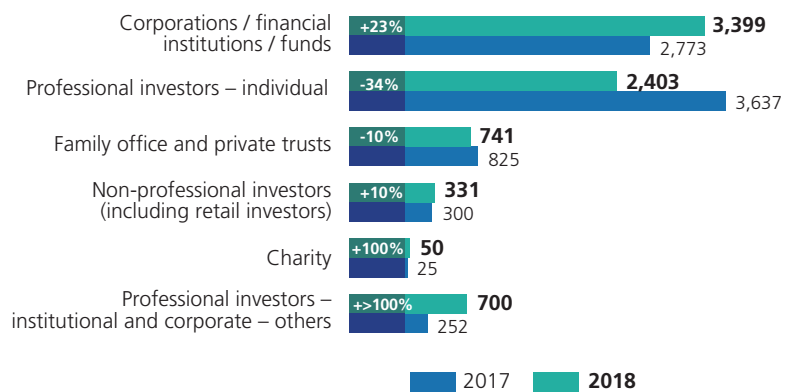


Chart 13B: Private Banking and Private Wealth Management Business (\$7,624 billion) - by Client Type (2018 vs 2017)

Private Banking and Private Wealth Management Business - Analysis by Asset and Product Type

28. Although both local and major overseas equity markets experienced corrections during the year, listed equities accounted for the largest portion of invested assets of the private banking and private wealth management business, representing 38% of the total AUM as at 31 December 2018. The remaining assets were diversified into other types of products, such as private funds (including hedge funds, private equity and venture capital¹¹), bonds, cash and deposits.

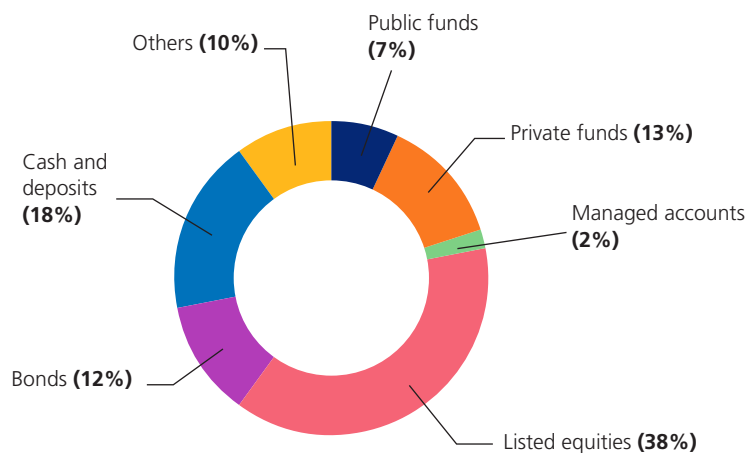


Chart 14A: Private Banking and Private Wealth Management Business (\$7,624 billion) - by Asset and Product Type (2018)

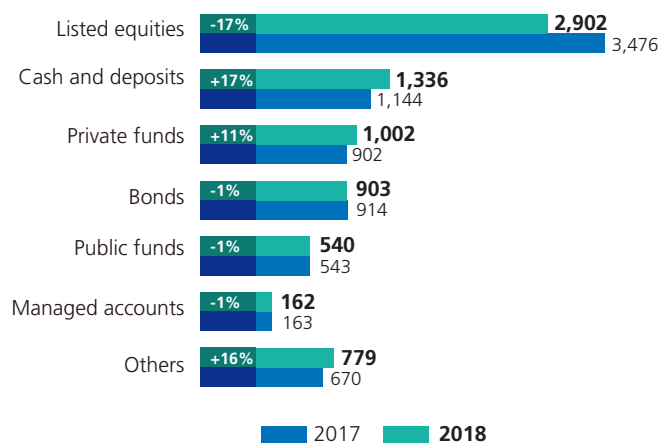
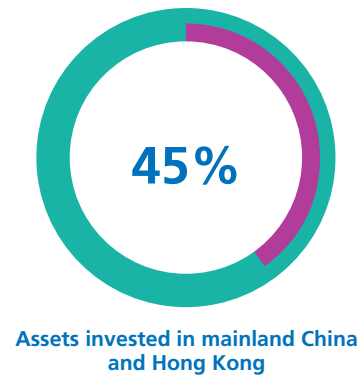


Chart 14B: Private Banking and Private Wealth Management Business (\$7,624 billion) - by Asset and Product Type (2018 vs 2017)

¹¹ 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 2018 in terms of the total capital under management of private equity funds (excluding real estate funds), which amounted to US\$159 billion (Source: AVCJ as at 25 March 2019).

Private Banking and Private Wealth Management Business - Analysis by Geographical Distribution



29. In 2018, 53% of the AUM of the private banking and private wealth management business was invested in the Asia-Pacific Region, with 45% invested in mainland China and Hong Kong.

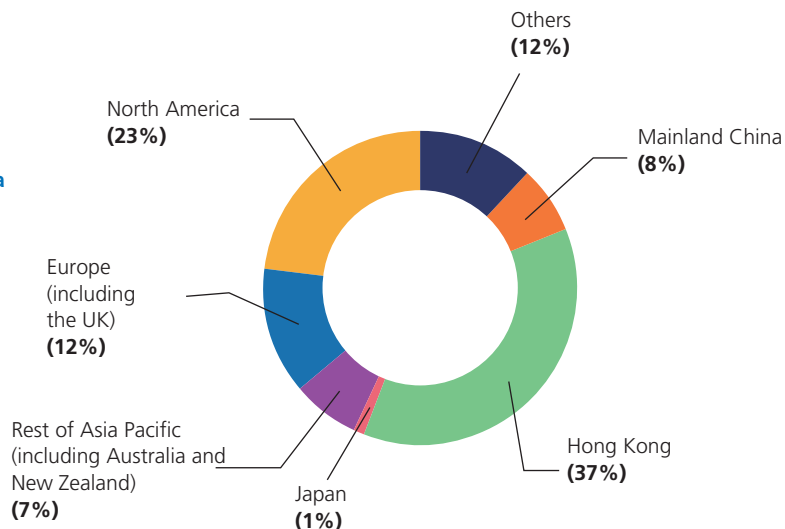


Chart 15A: Private Banking and Private Wealth Management Business (\$7,624 billion) - by Geographical Distribution of Investments (2018)

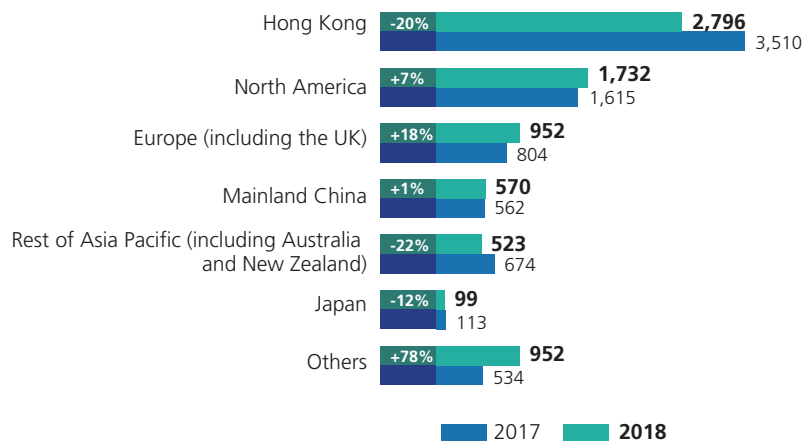


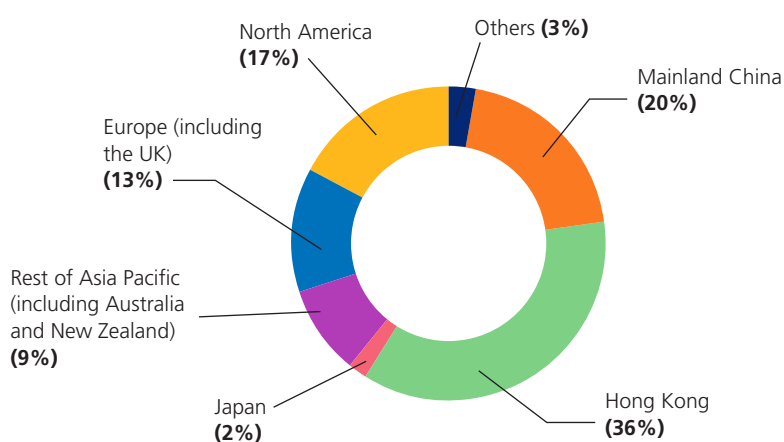
Chart 15B: Private Banking and Private Wealth Management Business (\$7,624 billion) - by Geographical Distribution of Investments (2018 vs 2017)

Section II D

Assets Held under Trusts

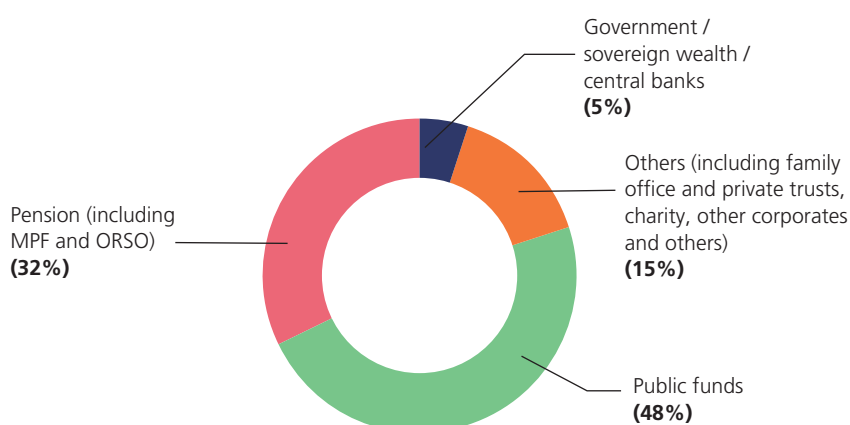
Assets Held under Trusts

30. In view of the importance of trust services to the overall asset and wealth management industry, the scope of this year's AWMAS was extended to provide a more comprehensive overview of the asset and wealth management industry in Hong Kong.
31. As at 31 December 2018, assets held under trusts amounted to \$4,333 billion¹, of which 79% was managed by licensed corporations or registered institutions.
32. Out of the total assets held under trusts as at 31 December 2018, 56% were located in mainland China and Hong Kong.



**Chart 16: Assets held under trusts (\$4,333 billion¹)
- by Geographical Distribution of Investments (2018)**

33. Public funds and pension (including MPF and ORSO) accounted for 80% of the assets held under trusts as at 31 December 2018.



**Chart 17: Assets held under trusts (\$4,333 billion¹)
- by Client Type (2018)**

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

Section III

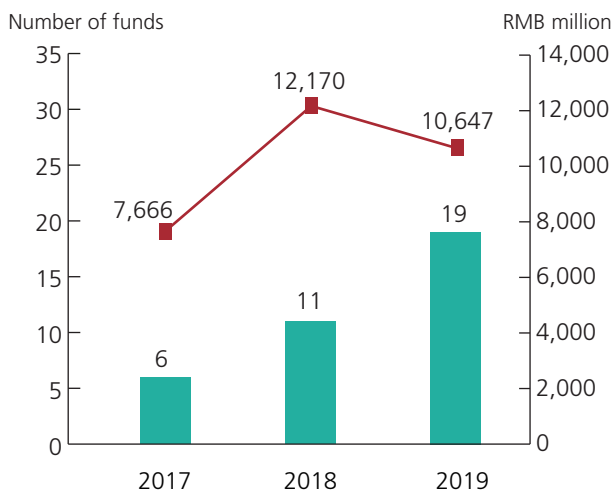
Hong Kong's Role as the Pre-eminent Offshore Renminbi Centre

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

Hong Kong is the pre-eminent offshore renminbi centre offering a wide range of renminbi financial products.

MRF between the Mainland and Hong Kong

Under the Mainland-Hong Kong MRF scheme implemented in July 2015, 50 southbound MRF funds had been authorised by the SFC and 19 northbound MRF funds had been approved by the China Securities Regulatory Commission (CSRC) up to 31 March 2019. The AUM in southbound MRF funds attributable to Hong Kong investors recorded a slight drop of 1% to RMB453 million as at 31 March 2019, whilst the AUM in northbound MRF funds attributable to Mainland investors registered a decrease of 13% to RMB10,647 million.

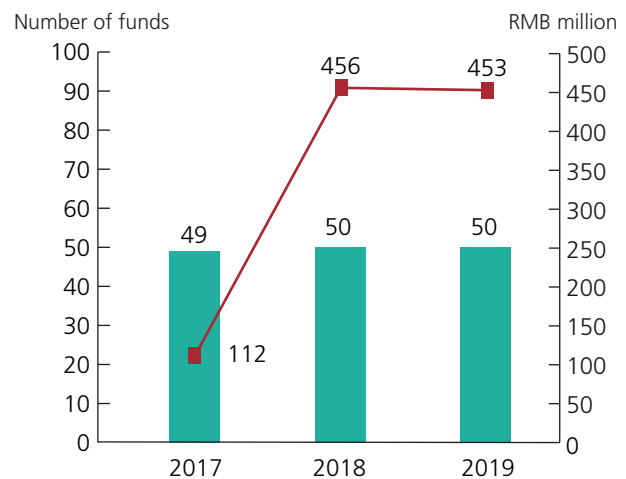


Number of funds approved under the Mainland-Hong Kong Mutual Recognition of Funds Arrangement

AUM of MRF funds attributable to Mainland investors

(Figures as at 31 March of each year)

Chart 18: Northbound MRF Funds



Number of funds approved under the Mainland-Hong Kong Mutual Recognition of Funds Arrangement

AUM of MRF funds attributable to Hong Kong investors

(Figures as at 31 March of each year)

Chart 19: Southbound MRF Funds

Retail Renminbi-denominated and Related Products

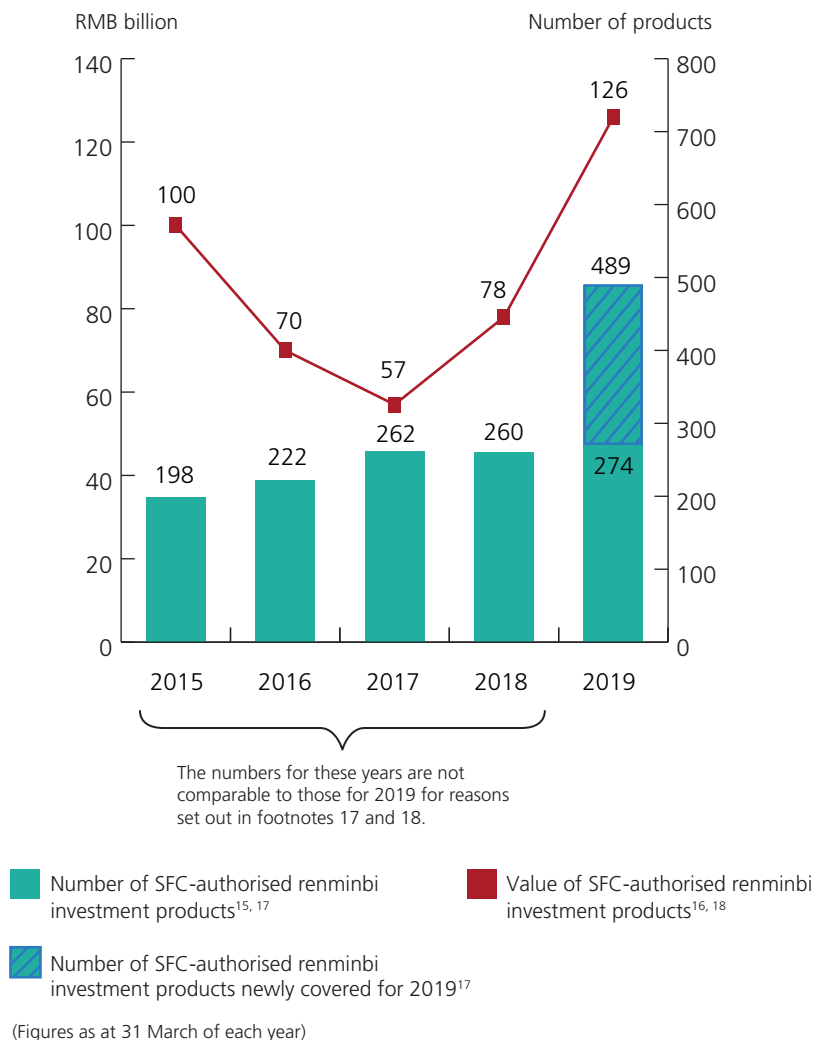


Chart 20: Number and Value of SFC-authorized Renminbi Investment Products

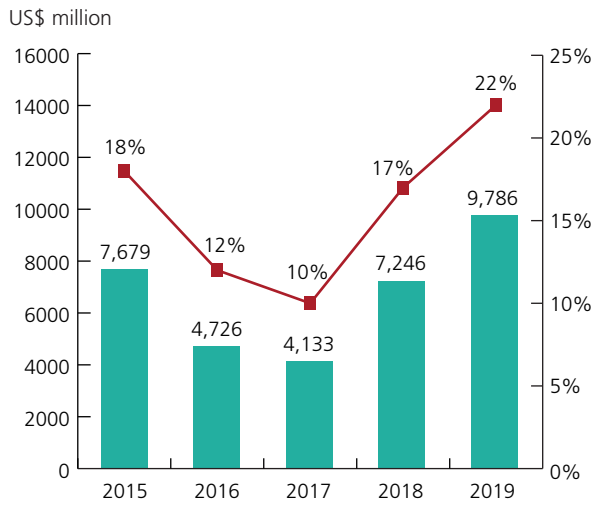
¹⁵ Unlisted structured investment products issued in renminbi on a “one product per key facts statement” basis.

¹⁶ Comprising:

- Net asset value of (i) ETFs (renminbi-denominated) primarily investing in the onshore Mainland securities markets through the Renminbi Qualified Foreign Institutional Investor (RQFII) quota, Stock Connect, Bond Connect and the China Interbank Bond Market (CIBM) or offshore renminbi bonds, fixed income instruments or other securities; (ii) unlisted funds (renminbi-denominated) primarily investing in the onshore Mainland securities markets through RQFII, Stock Connect, Bond Connect and CIBM or offshore renminbi bonds, fixed income instruments or other securities; (iii) recognised Mainland funds under Mainland-Hong Kong MRF attributable to Hong Kong investors; and (iv) renminbi gold ETFs;
- outstanding amount of unlisted structured investment products issued in renminbi;
- renminbi-denominated account exposure of paper gold schemes with renminbi features;
- market capitalisation of renminbi REITs; and
- aggregate net asset value of renminbi-denominated share classes of unlisted funds (non-RMB denominated) which were offered to Hong Kong investors.

¹⁷ The coverage of the number of SFC-authorized renminbi investment products was expanded to include unlisted funds (non-renminbi denominated) with renminbi share classes and ETFs (non-renminbi denominated) with renminbi trading counters. Therefore, the number for 2019 is not comparable to those for previous years.

¹⁸ The coverage of the value of SFC-authorized renminbi investment products was expanded to include unlisted funds (non-renminbi denominated) with renminbi share classes, but excluding ETFs (non-renminbi denominated) with renminbi trading counters. Therefore, the number for 2019 is not comparable to those for previous years.

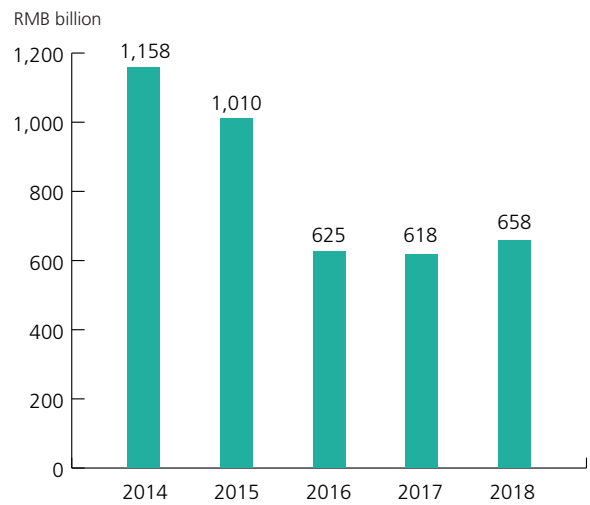


■ Total market capitalisation of SFC-authorized ETFs (renminbi-denominated) primarily investing in the onshore Mainland securities markets through RQFII, Stock Connect, Bond Connect and CIBM

■ % of SFC-authorized ETFs (renminbi-denominated) primarily investing in the onshore Mainland securities markets through RQFII, Stock Connect, Bond Connect and CIBM out of all ETFs in Hong Kong

(Figures as at 31 March of each year)

Chart 21: SFC-authorized ETFs (renminbi-denominated) primarily investing in the onshore Mainland securities markets through RQFII, Stock Connect, Bond Connect and CIBM



Source: Hong Kong Monetary Authority Annual Report
(Figures as at 31 December of each year)

Chart 22: Total Outstanding Renminbi Customer Deposits and Certificates of Deposit (in RMB billions)

Growing Mainland Participation in the Hong Kong Market

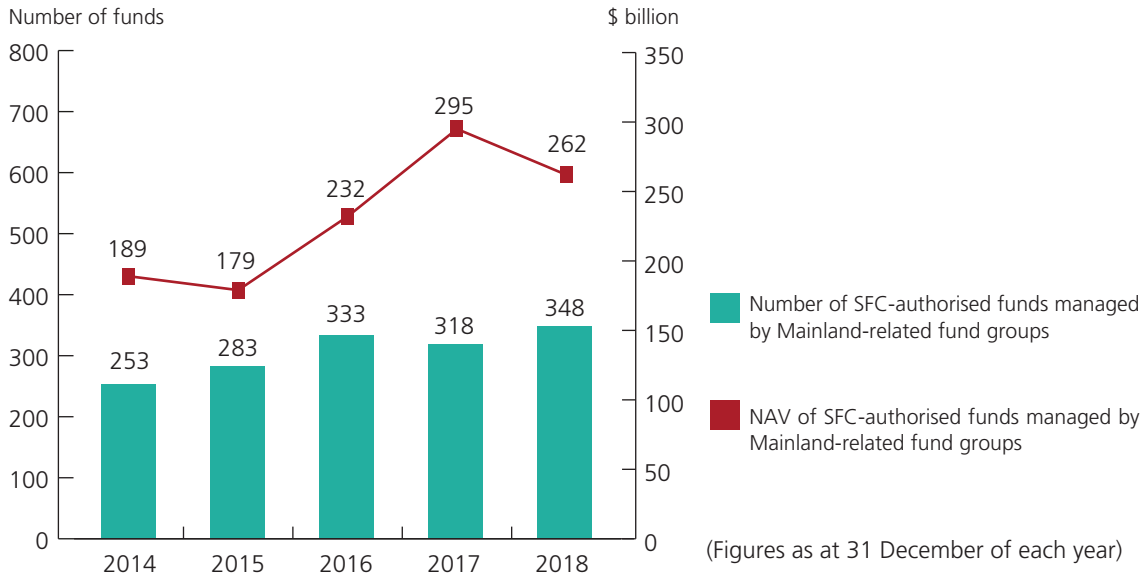
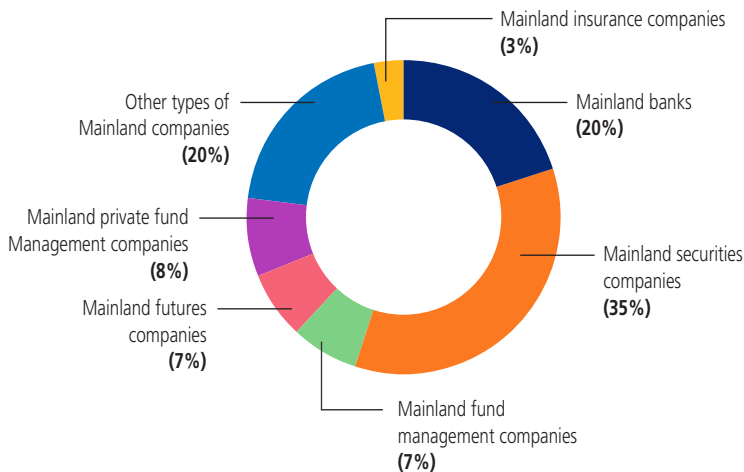
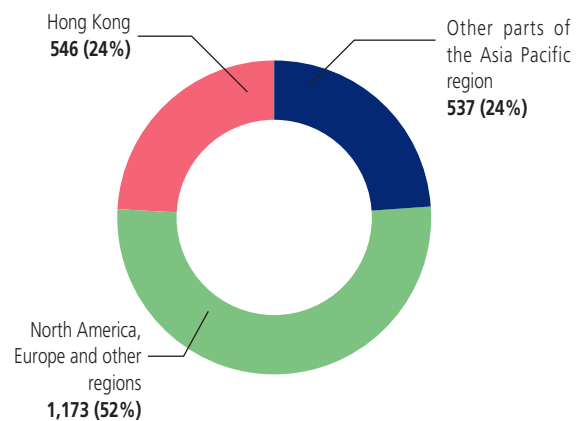


Chart 23: Number and Net Asset Value of SFC-authorized Funds Managed by Mainland-related Fund Groups



As at 31 December 2018 (total: 362)

Chart 24: Breakdown of Licensed Corporations and Registered Institutions Established by Mainland-related Groups in Hong Kong (▲ 8% year-on-year)



As at 31 December 2018 (total: \$2,256 billion)

Chart 25: Assets sourced from Mainland Investors including Qualified Domestic Institutional Investors and other Mainland investors – by Geographical Distribution of Investments

Section IV

Recent Developments and Outlook

IV. Recent Developments and Outlook

Facilitating the development of the asset and wealth management industry in Hong Kong

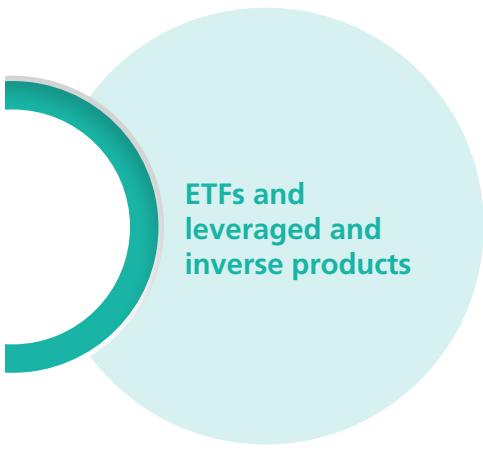


To broaden the investor base for Hong Kong funds, promote Hong Kong as a competitive asset and wealth management centre and fund domicile and to encourage the development of local investment expertise, the SFC has been promoting cross-border offerings of qualified Hong Kong public funds into overseas markets through mutual recognition arrangements.

Following the implementation of the MRF arrangements with the Mainland and other markets¹⁹, the SFC expanded its MRF network to include the UK in October 2018, Luxembourg in January 2019 and the Netherlands in May 2019. The SFC also secured eligibility for SFC-authorized funds structured in the form of open-ended fund companies (OFC) under the MRF agreements with Switzerland, France, the UK, Luxembourg and the Netherlands. MRF arrangements with other overseas jurisdictions are also being pursued.

The Mainland-Hong Kong MRF regime saw an increase in applications for and approvals of northbound MRF funds. For the year ended 31 March 2019, a total of eight funds were approved under the MRF scheme, bringing the total to 69.

¹⁹ Including Australia, Malaysia (for Islamic funds), Taiwan (for ETFs), Switzerland and France.



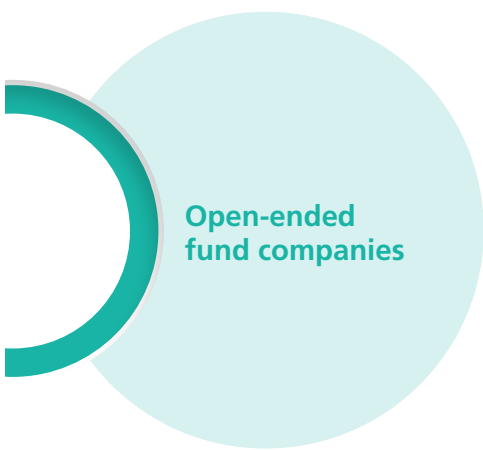
ETFs and leveraged and inverse products




As of 31 March 2019, 137 SFC-authorized exchange-traded funds (ETF) were listed on The Stock Exchange of Hong Kong Limited, including 22 leveraged and inverse (L&I) products. The market capitalisation of ETFs and L&I products increased 2% year-on-year to \$348 billion as of 31 March 2019, with an average daily turnover of \$5.8 billion for March 2019.

The SFC relaxed the leverage cap for inverse products to a factor of two-times negative (-2x).

In addition, the SFC introduced active ETFs via the revised Code on Unit Trusts and Mutual Funds (UT Code). Unlike a passive ETF, an active ETF does not track an index, but seeks to achieve an investment objective by investing in a portfolio of stocks, bonds and other assets. The revised UT Code also allows listed and unlisted share classes to co-exist in a single fund pursuing the same investment strategy, enlarging distribution channels²⁰.



Open-ended fund companies



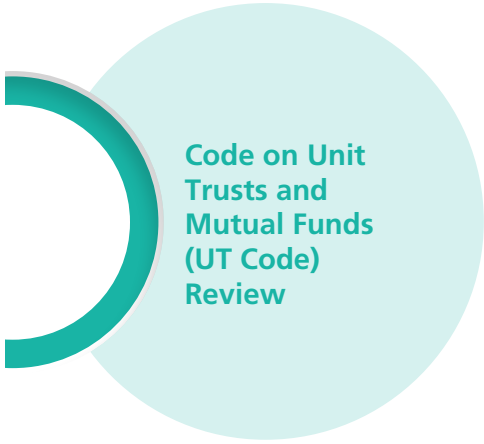
The new OFC regime enables funds with variable capital to be established in corporate form in Hong Kong starting 30 July 2018. By providing a corporate fund structure in addition to a unit trust form, the OFC regime broadens the choice of investment vehicles and facilitates the distribution of Hong Kong funds in overseas markets. The SFC issued the new OFC code in July 2018 following a public consultation.

²⁰ For example, an unlisted index fund distributed via the secondary market and a passive ETF with an unlisted share class for distribution in the primary market.




The SFC implemented a revamped process to streamline the vetting of scheme changes and related revised documents subject to the SFC's approval in February 2018. Since then, there has been an overall improvement in the quality of applications and shorter processing times.

Enhancing the regulatory regime for better investor protection



Code on Unit Trusts and Mutual Funds (UT Code) Review



Amendments to the UT Code took effect on 1 January 2019, with a 12-month transition period. A public consultation, concluded in December 2018, proposed amendments based on a holistic review of the UT Code which involved extensive engagement with stakeholders.

Changes were made to the UT Code in three major areas.

Derivative investments

To help investors better differentiate between products, the revised UT Code sets out a clear 50% limit for derivative investments by plain vanilla public funds. Funds with derivative investments over this limit are subject to enhanced distribution requirements.

To improve transparency, SFC-authorized funds have been categorised as derivative funds or non-derivative funds on the SFC website starting from 1 January 2019.

Trustees and custodians

The SFC enhanced the obligations and internal control requirements for trustees and custodians of public funds, which have important obligations to safeguard fund assets and perform independent oversight. The SFC is exploring further measures to introduce a new regulatory regime for the safekeeping and custody of assets by trustees and custodians of public funds.

New product types

The revised UT Code introduces new fund types, such as active ETFs, to encourage product development and offer investors wider investment choices.

To facilitate the implementation of the revised UT Code, the SFC published new guidance and frequently asked questions on its website and held two briefings for more than 250 industry participants.



**Asset
management
regulation**




Revised fund management conduct requirements, which took effect in November 2018, enhance asset management regulation in key areas including securities lending and repurchase agreements, custody of fund assets, liquidity risk management as well as disclosure of leverage by fund managers.

Enhancements to point-of-sale transparency to better address conflicts of interest in selling investment products came into effect in August 2018. Important changes included requirements governing the use of the term “independent” by intermediaries and enhanced disclosures of trailer fees, commissions and other monetary benefits. Additional protective measures for the sale of complex products became effective in July 2019, including the requirement to ensure the suitability of complex products sold on an unsolicited basis, whether distributed through online or offline platforms.

New guidelines for the design and operation of online distribution and advisory platforms took effect in July 2019, including specific guidance on the provision of automated or robo-advice and clarification of how the suitability requirement operates in the online environment.



**Surveillance and
monitoring**



The SFC launched enhanced fund data reporting requirements for SFC-authorized funds²¹ in June 2018. The requirements cover periodic reporting of fund data in the areas of subscriptions and redemptions, asset liquidity profiles, asset allocation and securities financing and borrowing transactions.

²¹ SFC-authorized funds refer to funds that are authorized by the SFC under the UT Code, save for UCITS funds, Recognised Jurisdiction Schemes and those under MRF arrangements.

Fostering the development of green finance



To help the SFC consider how asset managers should disclose how environmental and climate-related risks are factored into their investment processes and risk assessments, the SFC conducted a survey of the ESG investment practices of asset managers and asset owners in Hong Kong. The results will be considered together with global regulatory developments in this area when the SFC formulates new policies.



The SFC issued a circular in April 2019 to provide guidance on disclosures by SFC-authorized green or ESG funds. The SFC will also create a central database of these funds on its website to increase their visibility.

Breakdown of Asset and Wealth Management Business in 2018

The table below provides a numeric illustration of the composition of the asset and wealth management business in terms of the type of business and the nature of entity to which the assets relate.

(billion)	LCs	RIs	ICs	Trustees	Asset and Wealth Management Business	Asset Management and Fund Advisory Business	Private Banking and Private Wealth Management Business	Assets Held under Trusts
Private banking and private wealth management business (excluding Item 1 below)	545	6,055	-	-	6,600	-	6,600	-
Asset management business provided to private banking and private wealth management clients (Item 1)	98	926	-	-	1,024	1,024	1,024	-
Asset management business to other clients	12,383	168	827	-	13,378	13,378	-	-
Fund advisory business	1,765	-	-	-	1,765	1,765	-	-
SFC-authorized REITs	280	-	-	-	280	280	-	-
Assets held under trusts								
- managed by LCs/RIs	-	-	-	-	-	-	-	3,425 ¹
- attributable to non-LCs/RIs	-	-	-	908 ¹	908 ¹	-	-	908 ¹
Total	15,071	7,149	827	908¹	23,955¹	16,447	7,624	4,333¹
Relevant sections in this report					Section II A	Section II B	Section II C	Section II D

¹ Due to the extension of the scope of the AWMAS, 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, private banking and private wealth management, SFC-authorized real estate investment trusts management and trust services in Hong Kong.
 - “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 generating gross operating income for the service providers. 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.
- “Private Wealth Management Relevant Practitioners” refers to “Relevant Practitioners” as set out in a circular issued by the Hong Kong Monetary Authority entitled “Enhanced Competency Framework for PWM Practitioners (ECF)” and pages 2 to 5 of the ECF document dated 24 June 2014 enclosed therewith.
- “AUM” means assets under management.
- Unless stated otherwise, the values given in this report are in Hong Kong dollars.