



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

Asset and Wealth Management Activities Survey 2019

August 2020

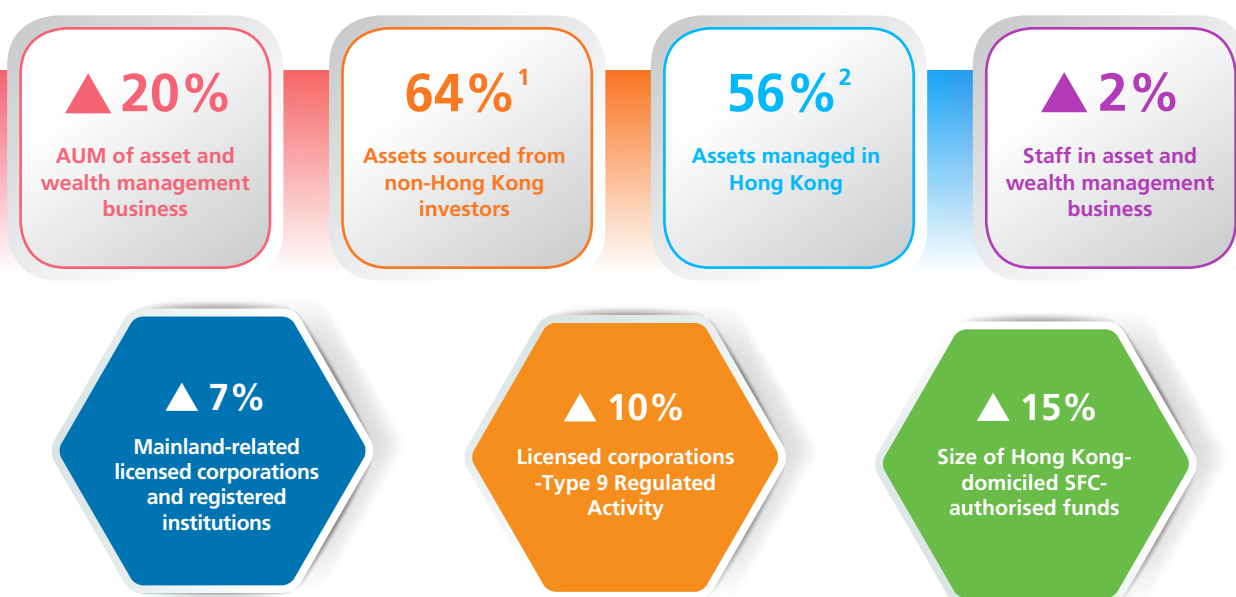
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Highlights



Items above refer to the assets under management (AUM) of the relevant businesses. Certain assets reported under items C and D were managed by licensed corporations or registered institutions and therefore were also reported under item B. Accordingly, item A is not the sum of items B, C and D. For details, please refer to Chart 1 on page 10 of this report.



¹ For the AUM of the asset and wealth management business (excluding real estate investment trusts (REITs) and assets held under trusts which were not managed by LCs and RIs (ie, assets held under trusts attributable to non-LCs/RIs).

² 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. As in the previous year, this survey covers 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;
 - (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; and
 - (d) firms providing trust services (“trustees”).
3. The AWMAS analyses the asset and wealth management industry from the perspectives of both firms (ie, LCs, RIs, ICs and trustees) and clients (ie, clients of private banking and private wealth management businesses derived from assets or relationships managed out of Hong Kong by LCs and RIs).
4. As in previous years, survey questionnaires were sent to licensed corporations and, with the assistance of the Hong Kong Monetary Authority, 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 2019.
5. Unless stated otherwise, the values given in this report are in Hong Kong dollars.

Responses

General

1. In view of the operational challenges facing the industry due to the COVID-19 outbreak in 2020, the SFC extended the survey response period.
2. 818 (2018: 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 704 (2018: 747) licensed corporations, 46 (2018: 45) registered institutions, 41 (2018: 35) insurance companies and 27 (2018: 27) trustees. The response rate to the AWMAS 2019 was largely in line with last year.

Licensed corporations

3. A breakdown of the activities of the 704 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	438
Respondents with ADV only	52
Respondents with PB only	7
Respondents with AM and ADV	179
Respondents with AM and PB	8
Respondents with ADV and PB	2
Respondents with AM, ADV and PB	18
	<hr/>
	704
	<hr/>

Registered institutions

4. A breakdown of the activities of the 46 registered institutions which engaged in AM or PB is shown below:

Respondents with AM only	3
Respondents with PB only	36
Respondents with both AM and PB	7
	<hr/>
	46
	<hr/>

Insurance companies

5. 41 insurance companies which carried out long-term business of providing services covering wealth management, life and annuity and retirement planning products, but were not licensed by the SFC, responded to the AWMAS.

Trustees

6. 27 trustees providing trust services in Hong Kong responded to the AWMAS.

II. Findings

Executive Summary

The key findings of the AWMAS for 2019 are illustrated below:

A

Asset and wealth management business

At a time when global markets have been uncertain and challenging, and despite social unrest and geopolitical tensions between the US and China, Hong Kong's asset and wealth management business thrived in 2019, with a 20% year-on-year increase in AUM to \$28,769 billion (US\$3,694 billion).

Net fund inflows of \$1,668 billion³ (US\$214 billion) were recorded for the asset and wealth management business⁴ during 2019 (2018: \$783 billion (US\$100 billion)).

B

Asset management and fund advisory business

As at 31 December 2019, the AUM of the asset management and fund advisory businesses conducted by licensed corporations and registered institutions increased year-on-year by 22% to \$20,040 billion (US\$2,574 billion).

C

Private banking and private wealth management business

As at 31 December 2019, the AUM of the private banking and private wealth management business increased by 19% year-on-year to \$9,058 billion (US\$1,163 billion).

D

Assets held under trusts

As at 31 December 2019, the assets held under trusts increased 11% to \$3,844 billion (US\$494 billion) from \$3,467 billion⁵.

Assets sourced from non-Hong Kong investors

Non-Hong Kong investors remained a major source of funding for the asset and wealth management business⁴, accounting for 64% of the AUM.

Assets managed in Hong Kong

Assets managed in Hong Kong made up 56% of the AUM of the asset management business⁶, with 52% of these assets invested in equities as at 31 December 2019.

³ Some fund inflows were attributable to business restructuring by international firms which allocated more AUM to Hong Kong in 2019.

⁴ Excludes REITs and assets held under trusts attributable to non-LCs/RIs.

⁵ The amount of assets held under trusts as at 31 December 2018 was adjusted to \$3,467 billion from \$4,333 billion due to adjustments reported by a respondent after publication of the AWMAS 2018. The amount of assets held under trusts attributable to non-LCs/RIs as at that date remained unchanged.

⁶ Excludes the AUM of fund advisory business and REITs.

Staff

The total number of staff in the asset and wealth management business as at 31 December 2019 was 45,132⁷, with an increasing proportion directly engaged in asset management and other support functions.

Hong Kong-domiciled SFC- authorised funds

As at 31 December 2019, the number of Hong Kong-domiciled SFC-authorized funds decreased slightly by 2% year-on-year to 763, and their net asset value increased by 15% year-on-year to \$1,246 billion (US\$160 billion) despite an uncertain and challenging global market situation.

LCs – Type 9 Regulated Activity

The number of licensed corporations licensed to carry out asset management (Type 9 regulated activity) in Hong Kong increased by 10% from 1,643 as at 31 December 2018 to 1,808 as at 31 December 2019.

Mainland-related LCs and RIs

The number of licensed corporations and registered institutions established by Mainland-related groups in Hong Kong increased by 7% from 362 as at 31 December 2018 to 387 as at 31 December 2019.

Market outlook

Despite the uncertain and challenging global market situation due to the COVID-19 outbreak and increasing geopolitical tensions between the US and China, Hong Kong's financial market has remained resilient so far in 2020.

In line with global market dislocations and a "flight to safety" in Q1 2020 due to the COVID-19 outbreak, the Hang Seng Index saw a drop of 16% at the end of March 2020 and the net asset value of Hong Kong-domiciled public funds decreased by 14% to \$1,070 billion (US\$138 billion) compared to the previous quarter, with net fund outflows of \$16 billion (US\$2 billion).

However, there was a rebound in Q2 2020 with an increase of 12% of the net asset value of Hong Kong-domiciled public funds to \$1,201 billion (US\$155 billion) as well as net fund inflows of \$27 billion (US\$3.5 billion).

Hong Kong's stock and futures markets have also been holding up well. Average daily turnover in the securities market increased by 20% year-on-year to \$117.5 billion (US\$15.2 billion) in the first half of 2020. During the same period, the average daily volume of futures and options traded in the derivatives market was 1,175,231 contracts, comparable to the first half of 2019.

⁷ The scope of the survey was expanded to include the staff profile of trustees in the AWMAS 2019. For comparison purposes, the number of staff engaged in asset and wealth management business (excluding trustees) as of 31 December 2019 was 43,631, representing a year-on-year increase of 2%.

The IPO market has continued to thrive during the first half of 2020, with a total of \$92.8 billion (US\$12 billion) in IPO funds raised and the secondary listings of two Mainland companies. Bond Connect trading volumes hit record highs, with average daily turnover increasing 202% year-on-year to RMB19.9 billion (US\$2.8 billion). Stock Connect remained active, with new turnover records set for both Northbound and Southbound Trading.

Update on SFC initiatives

The SFC works to facilitate the development of Hong Kong as a competitive full-service asset and wealth management centre and preferred fund domicile. It is pursuing enhancements to the mutual recognition of funds (MRF) arrangement already implemented with the Mainland and six other markets.

To provide more choices for Mainland and Hong Kong investors to access investment opportunities in one another's market, the SFC and China Securities Regulatory Commission (CSRC) will soon introduce an exchange-traded fund (ETF) cross-listing pilot scheme.

To facilitate more private funds to set up as open-ended fund companies (OFC) in Hong Kong, the SFC will remove all investment restrictions on private OFCs under the OFC Code. It will soon publish consultation conclusions on this and other enhancements to the OFC regime, including to allow licensed or registered securities brokers to act as custodians for private OFCs.

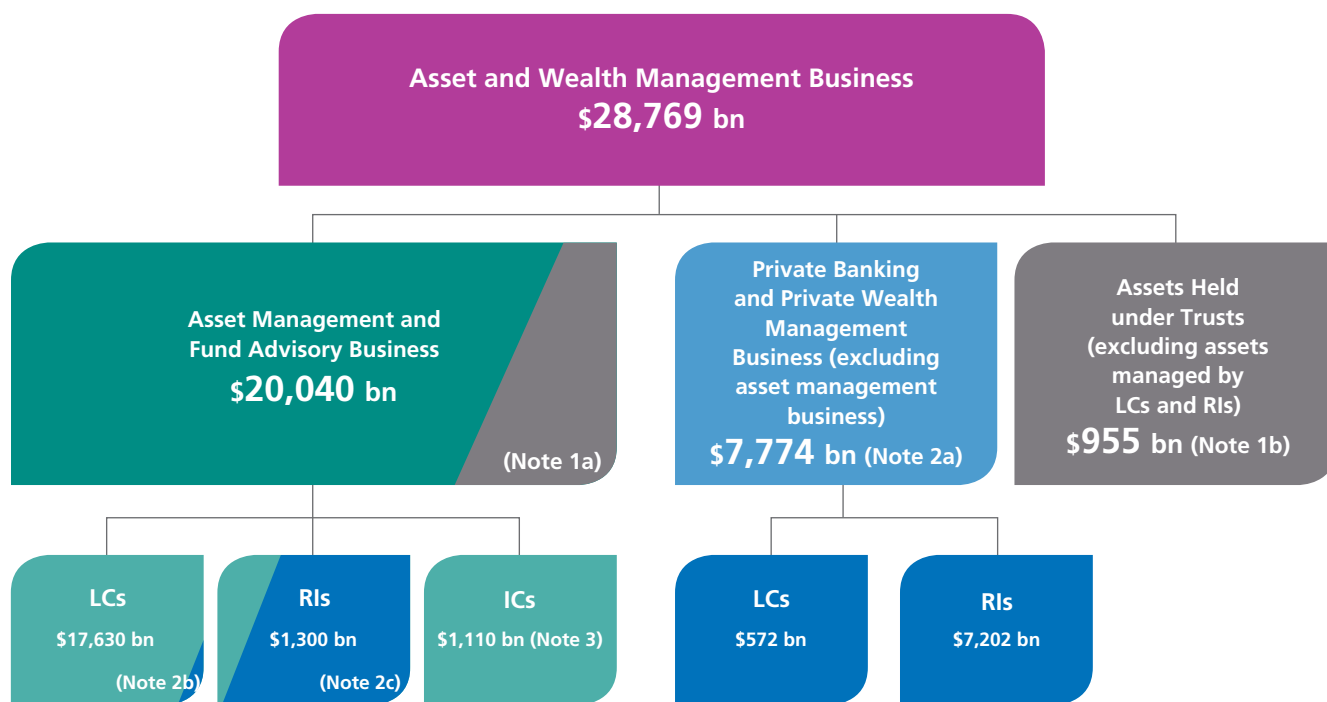
In view of overall market support for the proposed enhancements to the Code on REITs set out in a recent public consultation, the SFC aims to implement them shortly.

Section II A

Asset and Wealth Management Business

Chart 1 below illustrates the different components of the asset and wealth management business expressed in terms of AUM.

Chart 1: Asset and Wealth Management Business Overview



	<u>AUM</u>	<u>Section</u>
 Asset and Wealth Management Business	\$28,769 bn	II A
 Asset Management and Fund Advisory Business	\$20,040 bn	II B
 Private Banking and Private Wealth Management Business	\$9,058 bn (Note 2)	II C
 Assets Held under Trusts	\$3,844 bn (Note 1)	II D

Notes:

1. The total amount of assets held under trusts was \$3,844 bn comprising:
 - a. \$2,889 bn under trusts managed by LCs and RIs
 - b. \$955 bn under trusts not managed by LCs and RIs
2. The AUM of private banking and private wealth management business was \$9,058 bn of which:
 - a. \$7,774 bn was attributable to private banking and private wealth management business for LCs and RIs (excluding asset management business)
 - b. \$167 bn was attributable to the AUM of the asset management business of LCs for private banking and private wealth management clients
 - c. \$1,117 bn was attributable to the AUM of the asset management business of RIs for private banking and private wealth management clients
3. The AUM by insurance companies excluding those assets which were sub-contracted or delegated to other LCs or RIs in Hong Kong for management.

Asset and Wealth Management Business – An Overview

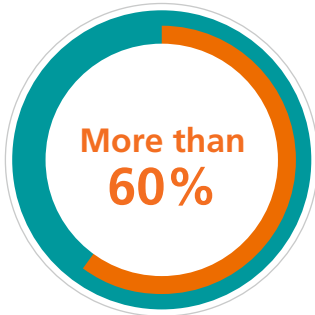
1. At a time when global markets have been uncertain and challenging, and despite social unrest and geopolitical tensions between the US and China, Hong Kong's asset and wealth management business thrived in 2019, with a 20% year-on-year increase in AUM to \$28,769 billion (US\$3,694 billion).
2. The asset management and fund advisory business increased by 22% to \$20,040 billion year-on-year.
3. The private banking and private wealth management business, which includes asset management services provided to private banking clients by LCs and RIs, increased by 19% year-on-year to \$9,058 billion as at 31 December 2019.
4. As at 31 December 2019, assets held under trusts amounted to \$3,844 billion, which was an increase of 11% from \$3,467 billion⁸.
5. Please refer to the Appendix on page 48 for a breakdown of the asset and wealth management business in 2019.
6. Net fund inflows for the asset and wealth management business⁹ amounted to \$1,668 billion¹⁰ during 2019 (2018: \$783 billion).

⁸ The amount of assets held under trusts as at 31 December 2018 was adjusted to \$3,467 billion from \$4,333 billion due to adjustments reported by a respondent after publication of the AWMAS 2018. The amount of assets held under trusts attributable to non-LCs/RIs as at that date remained unchanged.

⁹ Excludes REITs and assets held under trusts attributable to non-LCs/RIs.

¹⁰ Some fund inflows were attributable to business restructuring by international firms which allocated more AUM to Hong Kong in 2019.

Asset and Wealth Management Business – Analysis by Investor Base



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

7. Assets from non-Hong Kong investors amounted to \$17,656 billion as at 31 December 2019, representing 64% of the asset and wealth management business¹¹.

Chart 2A: Asset and Wealth Management Business¹¹ (\$27,525 billion) – Assets from non-Hong Kong Investors

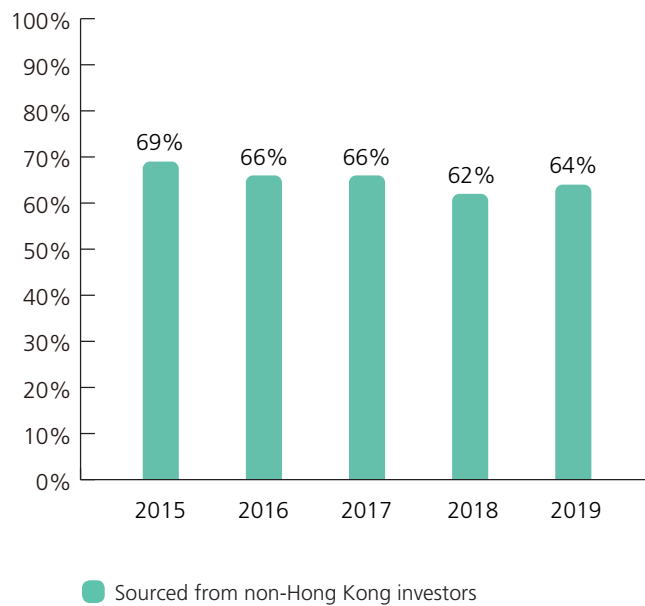
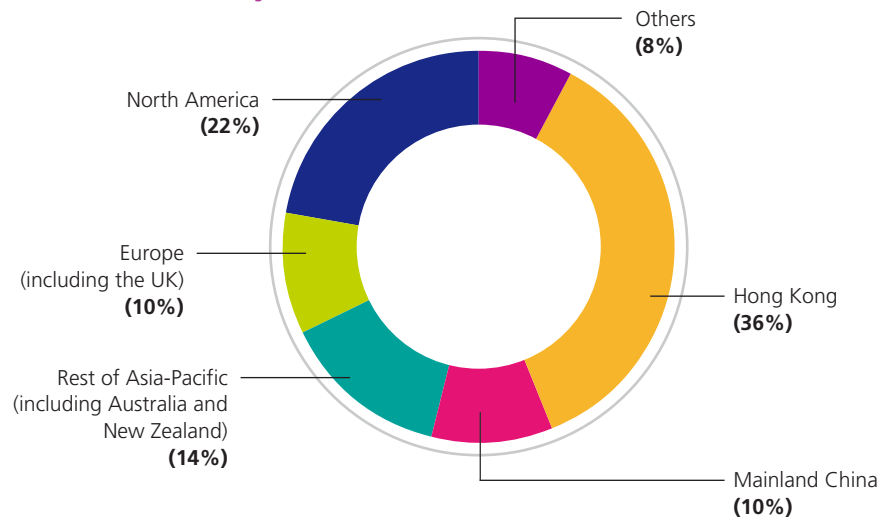


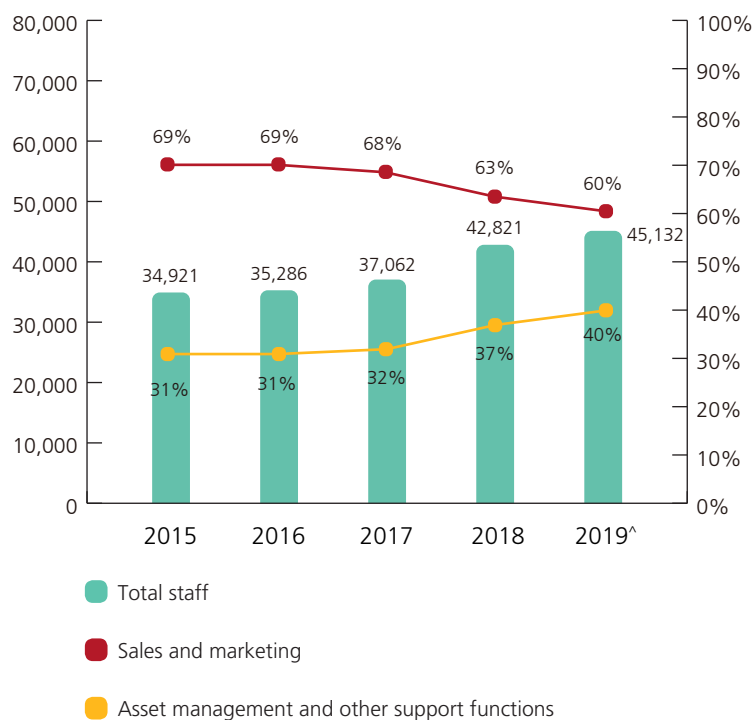
Chart 2B: Asset and Wealth Management Business¹¹ (\$27,525 billion) – by Investor Base



¹¹ 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 Staff Profile – by Job Function



[^] The coverage of the number of staff was expanded to include trustees in 2019.

8. The number of staff engaged in asset and wealth management activities was 45,132 in 2019¹². Notwithstanding the expansion of the scope of the survey to include the staff profile of trustees, the growth was mainly attributable to the increase of staff in insurance companies. While sales and marketing staff accounted for 60% of the total industry population, the proportion of staff directly engaging in asset management and related support functions continued to grow.

¹² The scope of the survey was expanded to include the staff profile of trustees in the AWMAS 2019. For comparison purposes, the number of staff engaged in asset and wealth management business (excluding trustees) as at 31 December 2019 was 43,631, representing a year-on-year increase of 2%.

Chart 3B: Asset and Wealth Management Business Staff Profile – by Job Function

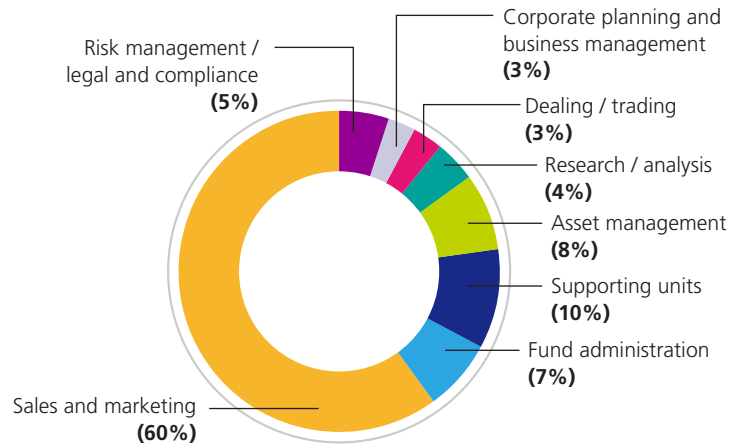
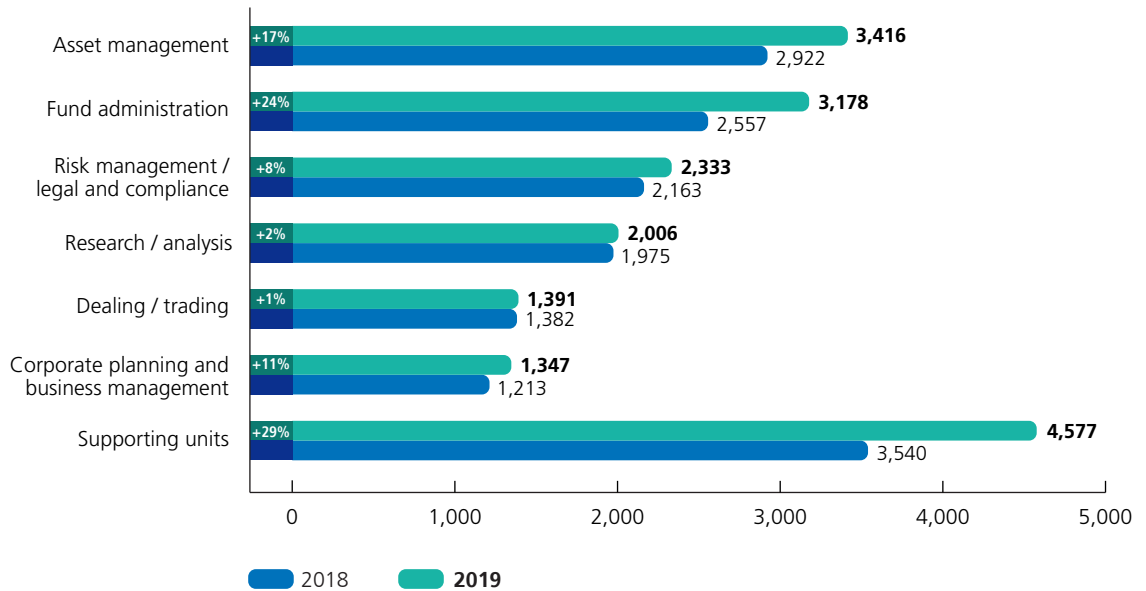


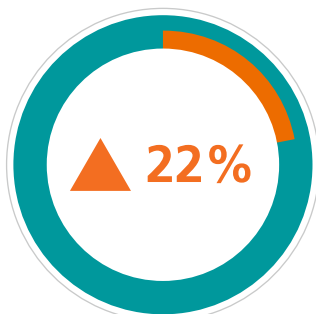
Chart 3C: Asset and Wealth Management Business Staff Profile – Number of Staff Directly Engaged in Asset Management and Related Support Functions (2019 vs 2018)



Section II B

Asset Management and Fund Advisory Business

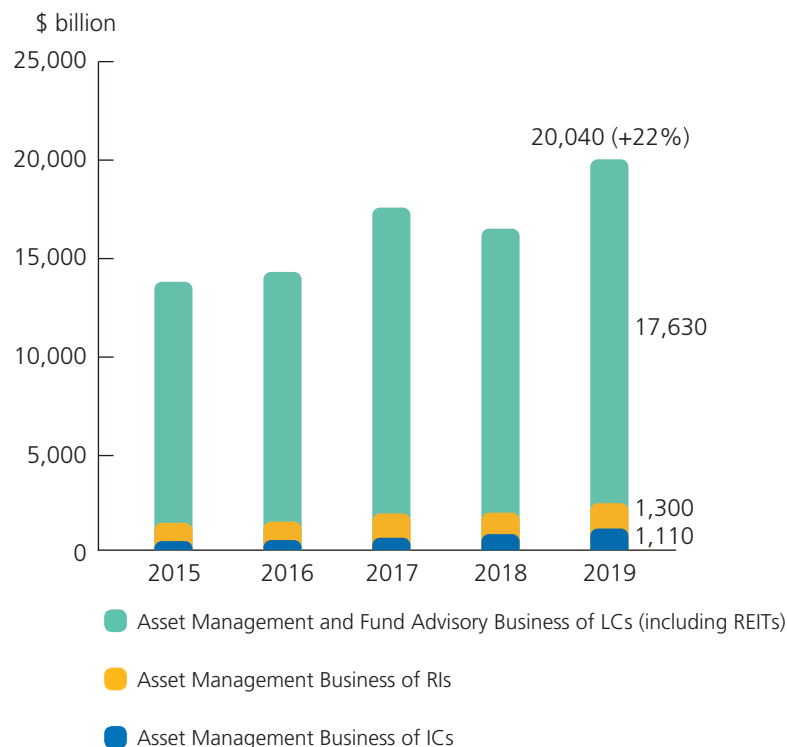
Asset Management and Fund Advisory Business¹³ – An Overview



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. A main component of Hong Kong's asset and wealth management business, the asset management and fund advisory business recorded a year-on-year increase of 22% to \$20,040 billion as at 31 December 2019.
11. Despite the difficulties presented by the COVID-19 pandemic, a similar number of firms participated in the AWMAS this year as in the previous year. The asset management and fund advisory business recorded net fund inflows of \$987 billion^{14, 15} for 2019 (2018: \$404 billion). These inflows, coupled with the year-on-year growth in asset prices, contributed to the growth of asset management and fund advisory business during 2019.

Chart 4A: Asset Management and Fund Advisory Business

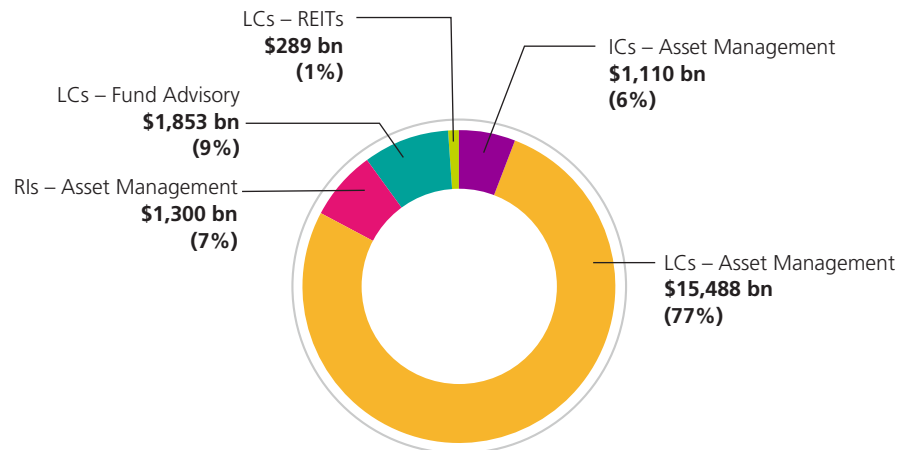


¹³ Please refer to page 49 of this report for the definitions of "asset management" and "fund advisory business".

¹⁴ Excludes REITs.

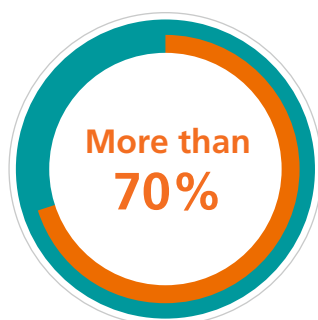
¹⁵ Some fund inflows were attributable to business restructuring by international firms which allocated more AUM to Hong Kong in 2019.

**Chart 4B: Asset Management and Fund Advisory Business (\$20,040 billion)
– by Market Player**



12. The aggregate asset management and fund advisory business conducted by licensed corporations saw a year-on-year increase of 21% to \$17,630 billion in 2019.
13. Asset management remains a growing industry in Hong Kong. The number of licensed corporations licensed to carry out asset management activities (ie, Type 9 regulated activity) increased by 10% to 1,808 as at 31 December 2019 from 1,643 a year earlier. During 2019, the number of individuals licensed for asset management also grew 9% year-on-year from 11,689 to 12,686.

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



Asset management and fund advisory business from professional investors

14. As at 31 December 2019, professional investors¹⁶ accounted for 74% of the asset management and fund advisory business¹⁷ in Hong Kong. The AUM attributable to professional investors increased 19% year-on-year from \$12,287 billion to \$14,616 billion. The increase was mainly due to the growing investments attributable to professional investors which were corporations, financial institutions and funds.

Chart 5A: Asset Management and Fund Advisory Business¹⁷ (\$19,751 billion) – by Client Type

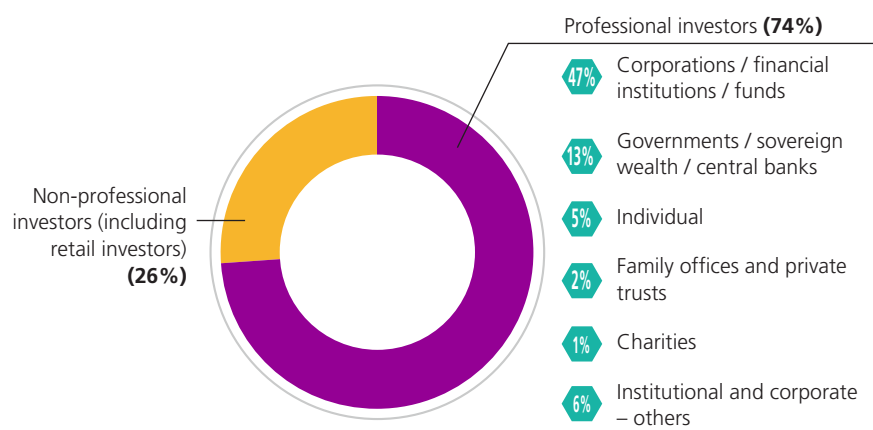
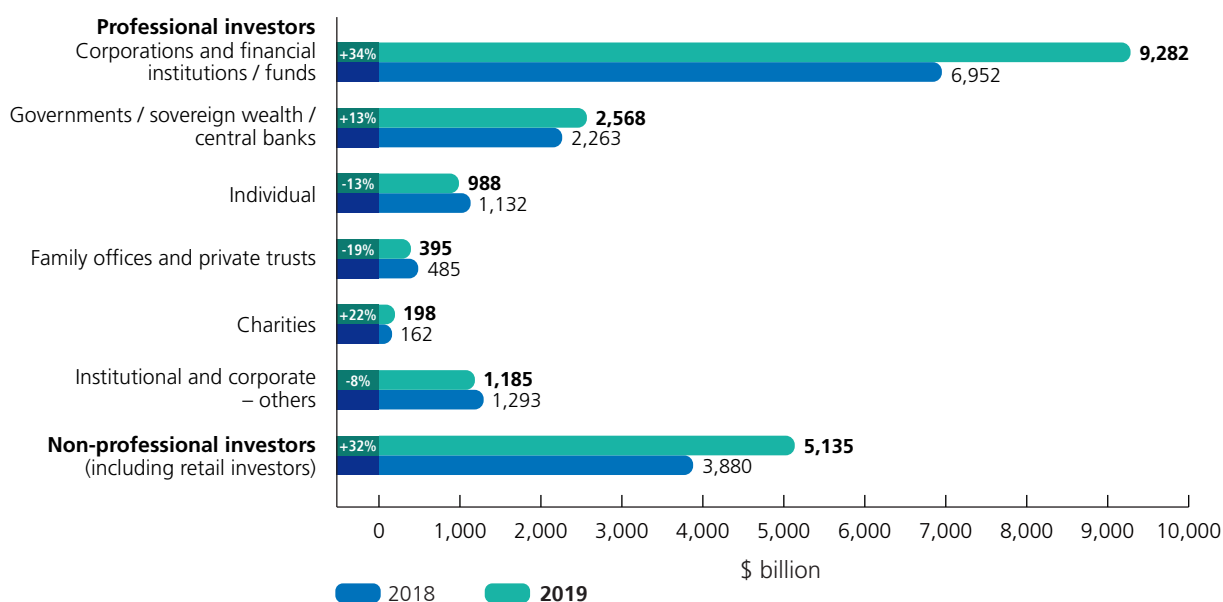


Chart 5B: Asset Management and Fund Advisory Business¹⁷ (\$19,751 billion) – by Client Type (2019 vs 2018)



¹⁶ Please refer to page 50 of this report for the definition of “professional investors”.

¹⁷ Excludes REITs.

15. Public funds, including both SFC-authorized funds and those from other jurisdictions, accounted for 38% of the asset management and fund advisory business¹⁸ in Hong Kong in 2019, followed by managed accounts (32%) and private funds (15%). Hedge funds (4%) and private equity and venture capital¹⁹ (4%) were included in private funds. The AUM attributable to managed accounts increased 50% year-on-year from \$4,204 billion to \$6,320 billion.

Chart 6A: Asset Management and Fund Advisory Business¹⁸ (\$19,751 billion) – by Product Type

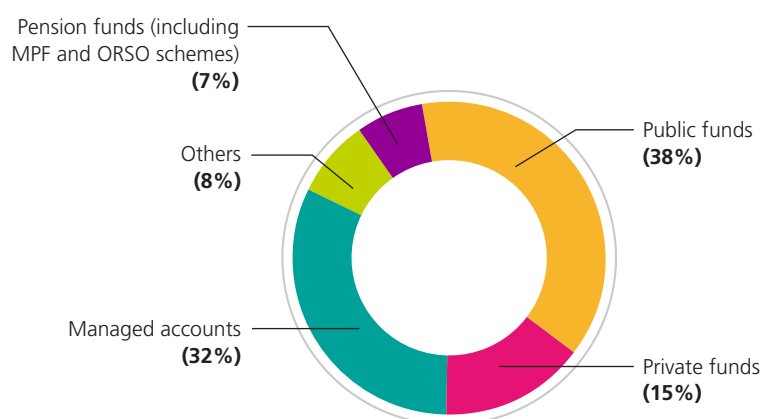
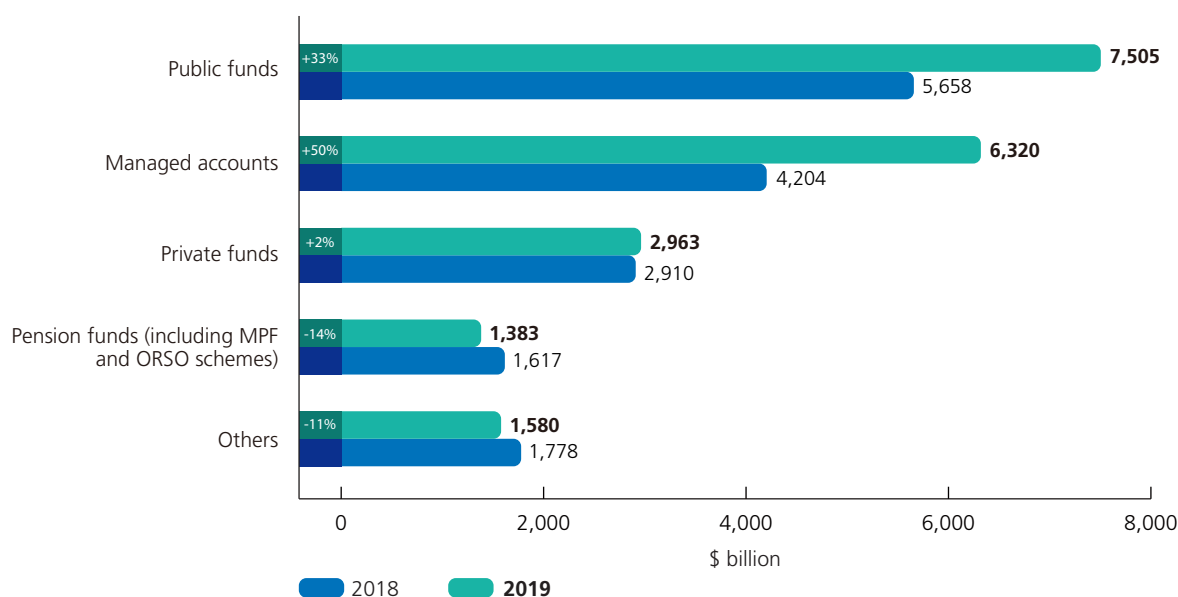


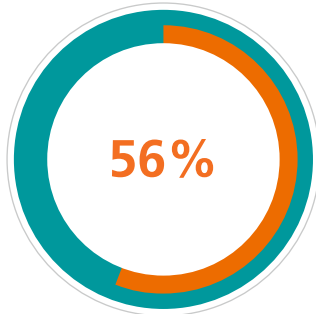
Chart 6B: Asset Management and Fund Advisory Business¹⁸ (\$19,751 billion) – by Product Type (2019 vs 2018)



¹⁸ Excludes REITs.

¹⁹ There are private equity firms in Hong Kong which are neither LCs nor RIs. According to the *Asian Venture Capital Journal* (AVCJ), Hong Kong ranked second in Asia after Mainland China in 2019 in terms of the total capital under management by private equity funds (excluding real estate funds), which amounted to US\$161 billion (Source: AVCJ).

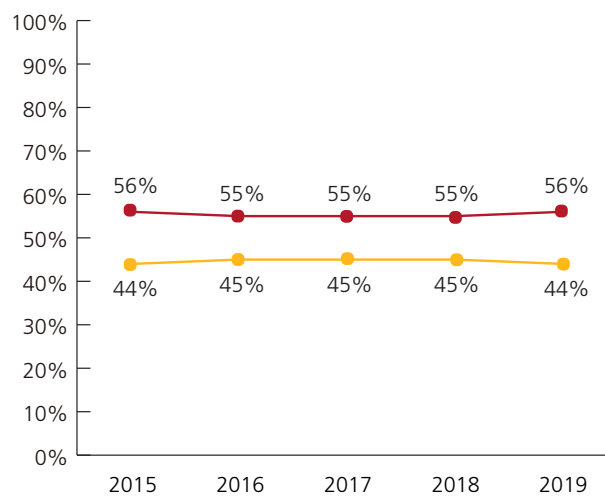
Asset Management Business²⁰ – Analysis by Location of Management



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 2019. Assets managed in Hong Kong made up 56% of the overall total in 2019.

Chart 7: Asset Management Business²⁰ (2019: \$17,898 billion) – by Location of Management

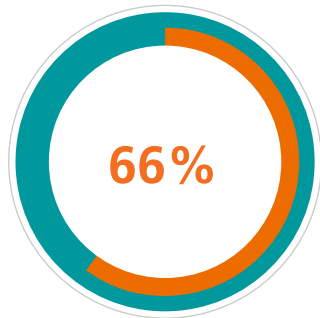


Managed in Hong Kong without further delegation

Sub-contracted or delegated to other offices / third parties overseas for management

²⁰ Excludes fund advisory business and REITs.

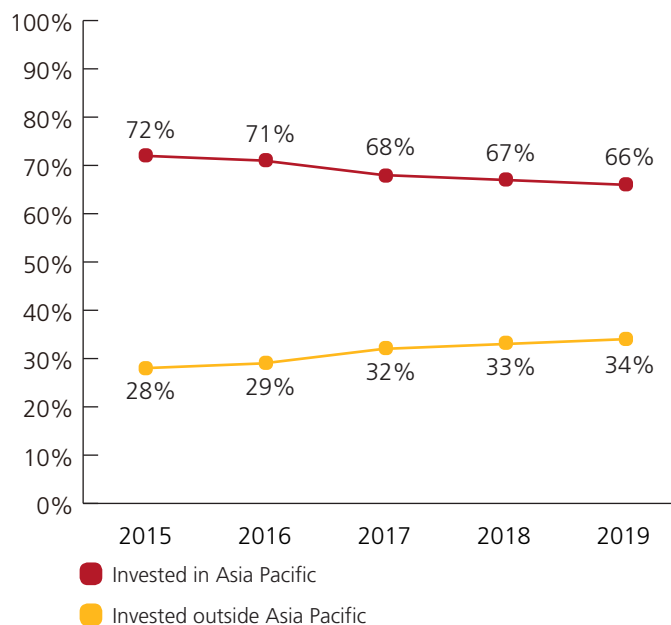
Assets Managed in Hong Kong²¹ – Analysis by Geographical Distribution of Investments



Assets invested in Asia Pacific

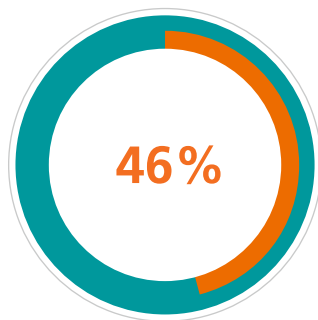
17. Assets managed in Hong Kong²¹ increased by 24% year-on-year from \$7,988 billion in 2018 to \$9,943 billion as at 31 December 2019.

Chart 8A: Assets Managed in Hong Kong²¹ (2019: \$9,943 billion) – by Geographical Distribution of Investments



18. Asia Pacific remained the most popular investment region amongst Hong Kong managers, representing 66% of the assets managed in Hong Kong²¹ in 2019.

²¹ Excludes fund advisory business and REITs.



Assets invested in Mainland China and Hong Kong

19. Hong Kong remained a preferred market for fund managers, with investments amounting to \$2,782 billion, representing 28% of all assets managed locally²² in 2019. Investment allocation to Mainland China increased to 18% from 15% in the previous year, representing a 48% year-on-year growth to \$1,783 billion from \$1,205 billion.

Chart 8B: Assets Managed in Hong Kong²² (\$9,943 billion) – by Geographical Distribution of Investments

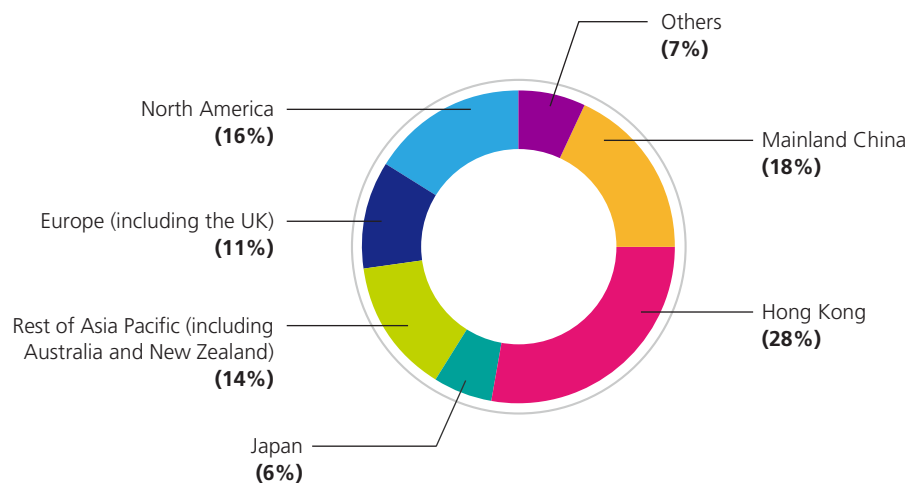
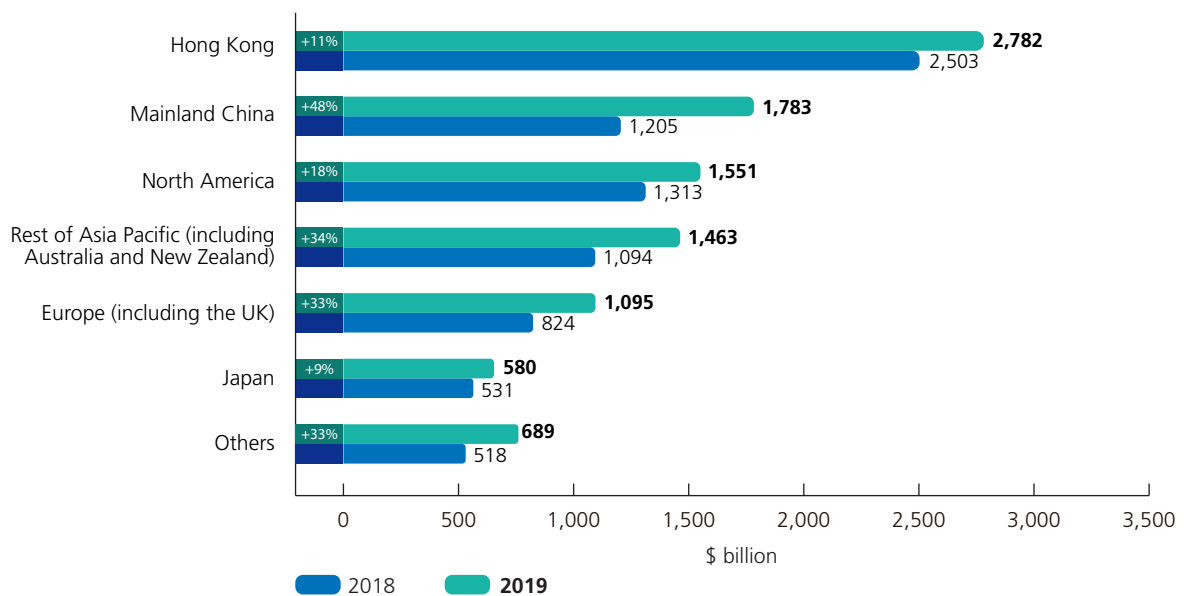
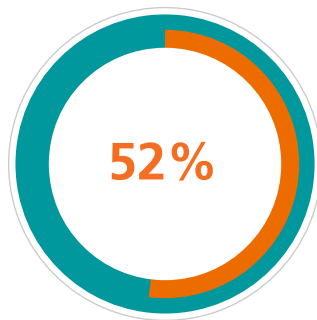


Chart 8C: Assets Managed in Hong Kong²² (\$9,943 billion) – by Geographical Distribution of Investments (2019 vs 2018)



²² Excludes fund advisory business and REITs.

Assets Managed in Hong Kong²³ – Analysis of Investments by Asset Class



Assets invested in equities

20. As at 31 December 2019, the majority of the assets managed in Hong Kong²³ were invested in equities, accounting for 52% of the total, followed by bonds, accounting for 31%.

Chart 9A: Assets Managed in Hong Kong²³ (\$9,943 billion) – by Asset Class

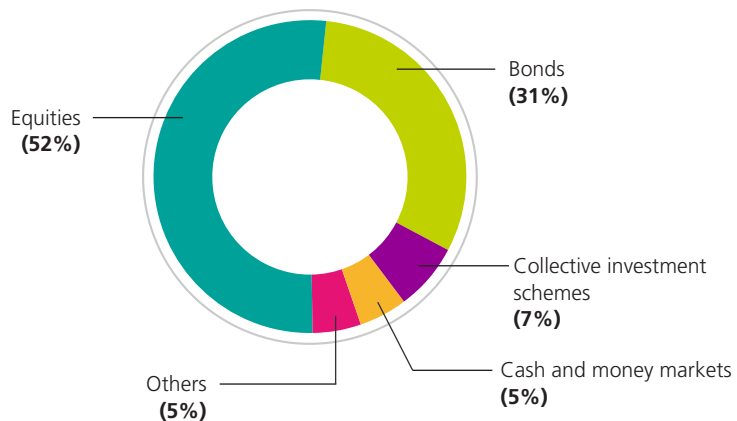
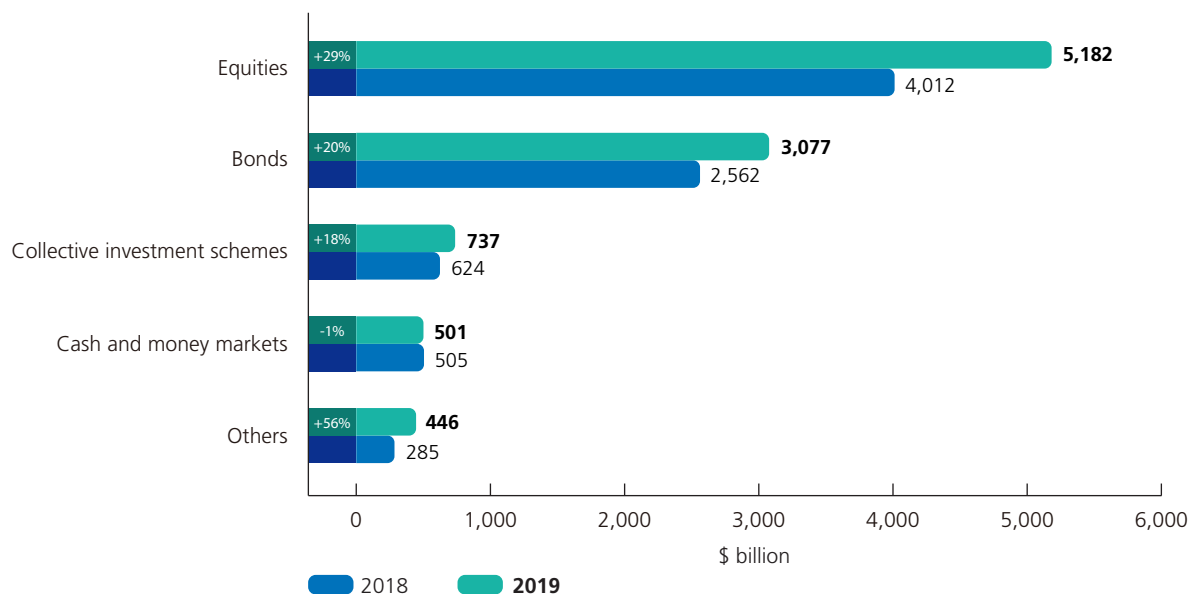


Chart 9B: Assets Managed in Hong Kong²³ (\$9,943 billion) – by Asset Class (2019 vs 2018)

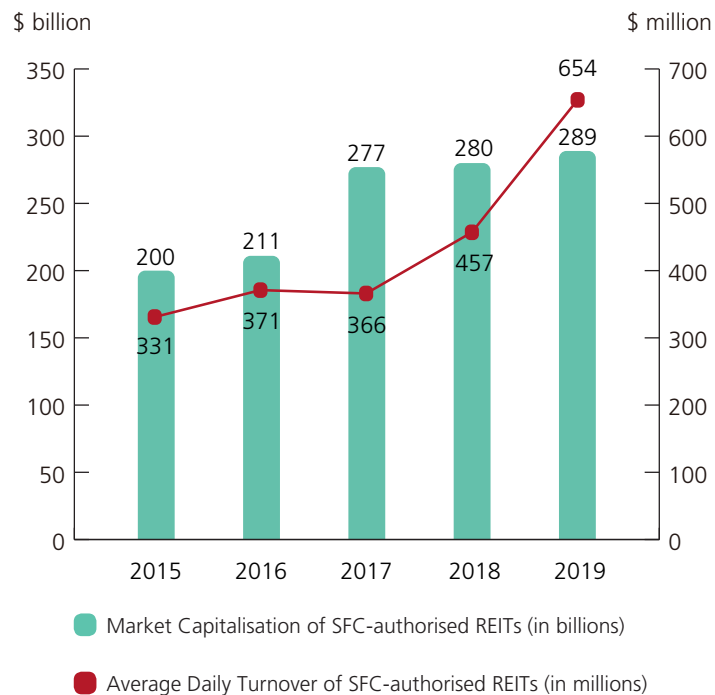


²³ Amount excludes fund advisory business and REITs.

SFC-authorized REITs

21. Hong Kong's REIT market continued to grow in 2019. The market capitalisation of all SFC-authorized REITs increased from \$280 billion as at 31 December 2018 to \$289 billion as at 31 December 2019. Average daily turnover for all SFC-authorized REITs increased from \$457 million for 2018 to \$654 million for 2019. The Hang Seng REIT Index Total Return Index recorded a gain of 7% in the same period.
22. A new REIT was listed during the year which offers exposure to commercial properties in the Greater Bay Area. A number of acquisitions and disposals were made by listed REITs during the year involving an aggregate consideration of approximately \$10 billion.

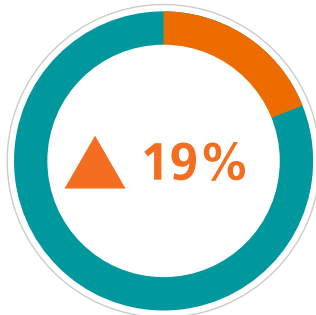
Chart 10: Market Capitalisation and Average Daily Turnover of SFC-authorized REITs



Section II C

Private Banking and Private Wealth Management Business

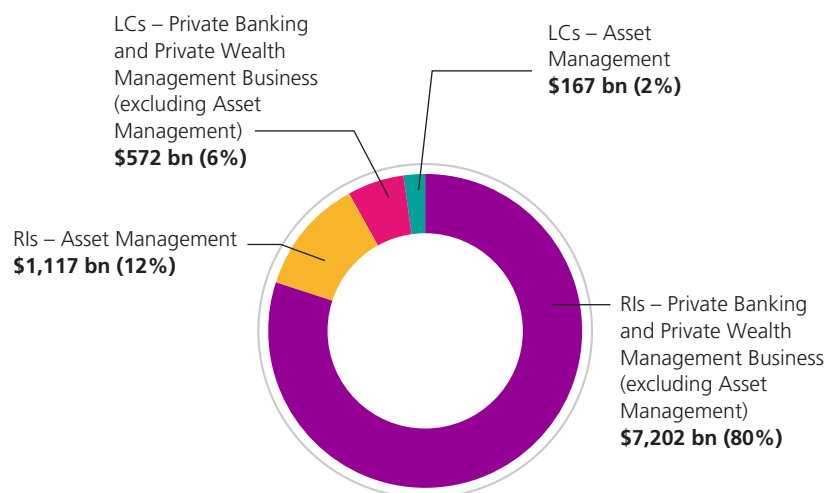
Private Banking and Private Wealth Management Business²⁴ – An Overview



Private banking and private wealth management business

23. As at 31 December 2019, 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, increased from the previous year by 19% to \$9,058 billion²⁵. Net fund inflows amounted to \$681 billion²⁶ in 2019 (2018: \$379 billion).
24. 35 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 (\$9,058 billion) – by Market Player



25. As at 31 December 2019, the total number of staff engaged in the private banking and private wealth management business was 7,786, of which 2,742 were Private Wealth Management Relevant Practitioners²⁷.

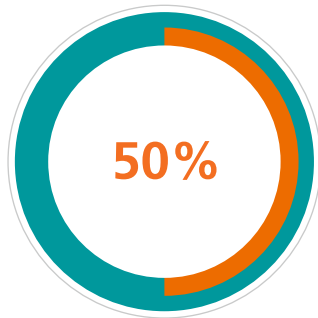
²⁴ Please refer to page 49 of this report for the definition of “private banking and private wealth management business”.

²⁵ 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 LCs and RIs which are part of a larger banking group, or for which the relationship managers are accountable.

²⁶ Some fund inflows were attributable to business restructuring by international firms which allocated more AUM to Hong Kong in 2019.

²⁷ The number of staff engaged in the private banking and private wealth management business as at 31 December 2019 as reported by registered institutions was 7,277, of which 2,555 were Private Wealth Management Relevant Practitioners.

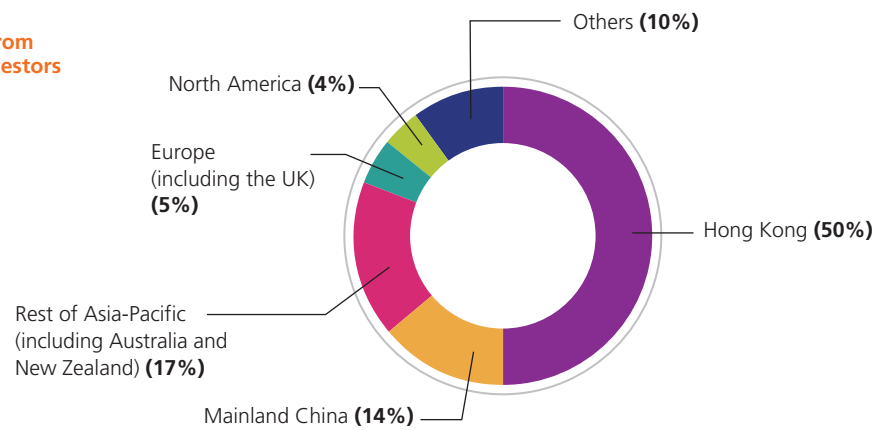
Private Banking and Private Wealth Management Business – Analysis by Investor Base



Assets sourced from non-Hong Kong investors

26. As at 31 December 2019, 50% of the total assets under management (AUM) by 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 (\$9,058 billion) – by Investor Base



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

27. Institutional and corporate investors and individual professional investors²⁸ contributed 66% and 30% of total AUM as at 31 December 2019 respectively.

Chart 13A: Private Banking and Private Wealth Management Business (\$9,058 billion) – by Client Type

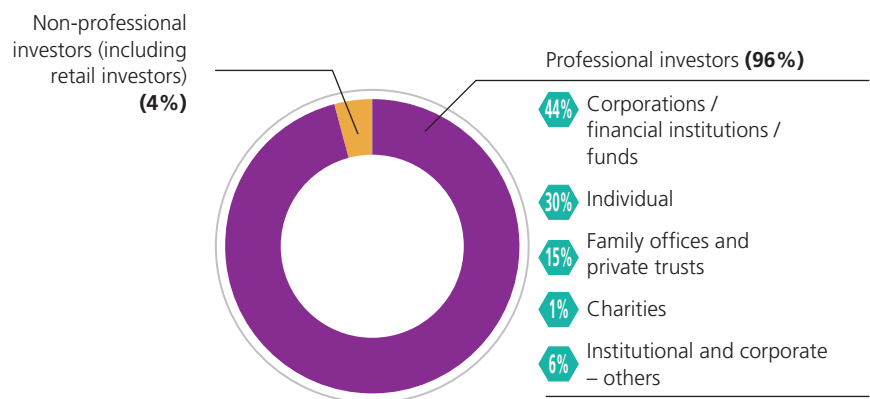
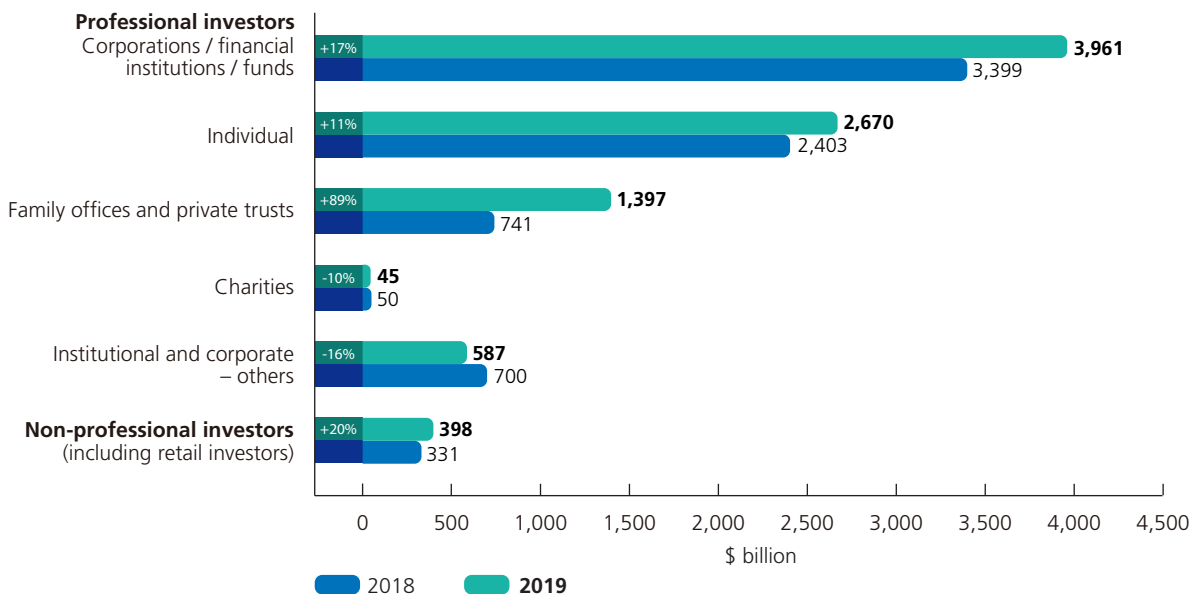


Chart 13B: Private Banking and Private Wealth Management Business (\$9,058 billion) – by Client Type (2019 vs 2018)



²⁸ Please refer to page 50 of this report for the definition of “professional investors”.

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

28. Listed equities continued to account for the largest portion of invested assets of the private banking and private wealth management business, representing 42% of the total AUM as at 31 December 2019. The remaining assets were diversified into other products, such as private funds (including hedge funds, private equity and venture capital²⁹), bonds, cash and deposits.

Chart 14A: Private Banking and Private Wealth Management Business (\$9,058 billion) – by Asset and Product Type

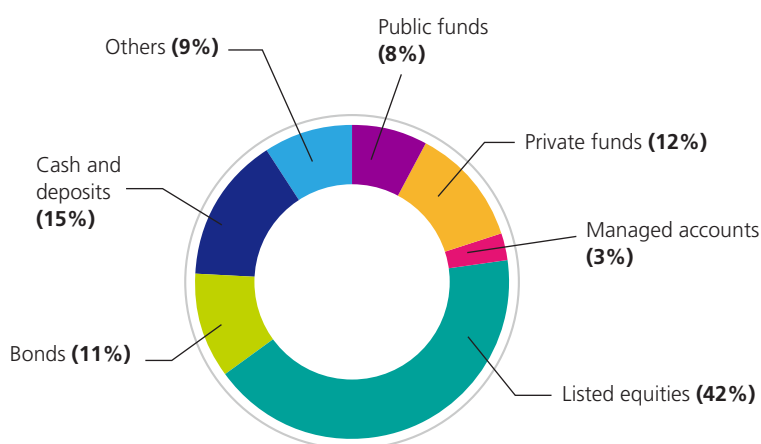
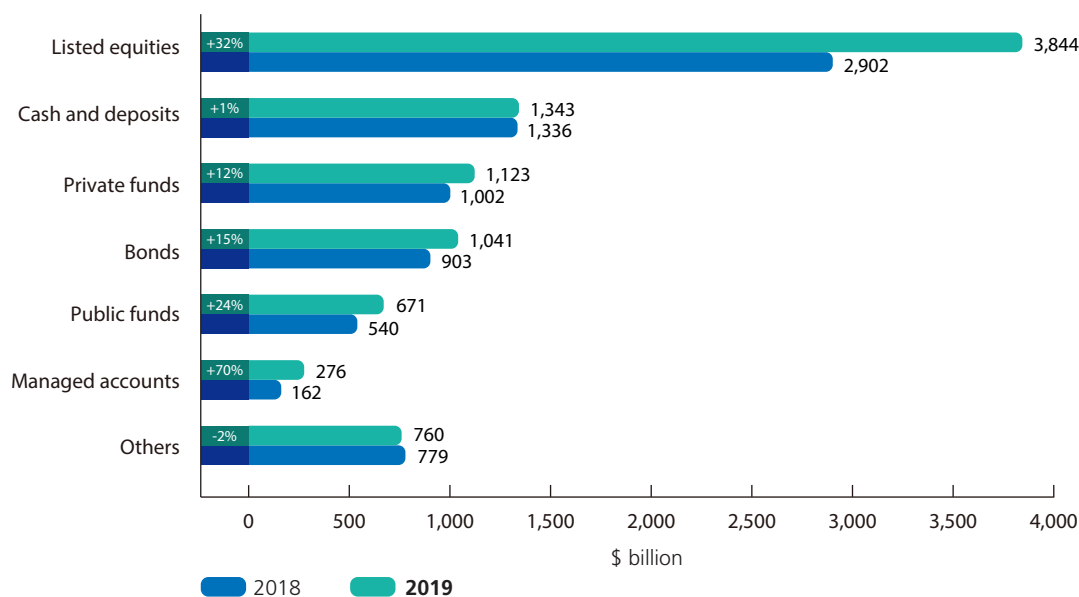
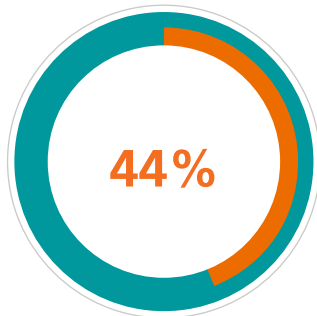


Chart 14B: Private Banking and Private Wealth Management Business (\$9,058 billion) – by Asset and Product Type (2019 vs 2018)



²⁹ There are private equity firms in Hong Kong which are neither LCs nor RIs. According to the *Asian Venture Capital Journal (AVCJ)*, Hong Kong ranked second in Asia after Mainland China in 2019 in terms of the total capital under management by private equity funds (excluding real estate funds), which amounted to US\$161 billion (Source: AVCJ).

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



Assets invested in Mainland China and Hong Kong

29. In 2019, 51% of the AUM of the private banking and private wealth management business was invested in the Asia-Pacific Region, with 44% invested in Mainland China and Hong Kong.

Chart 15A: Private Banking and Private Wealth Management Business (\$9,058 billion) – by Geographical Distribution of Investments

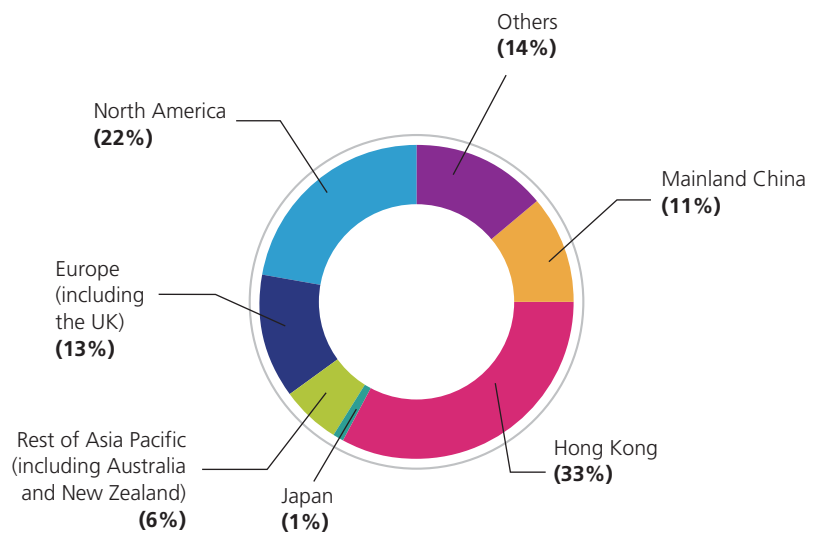
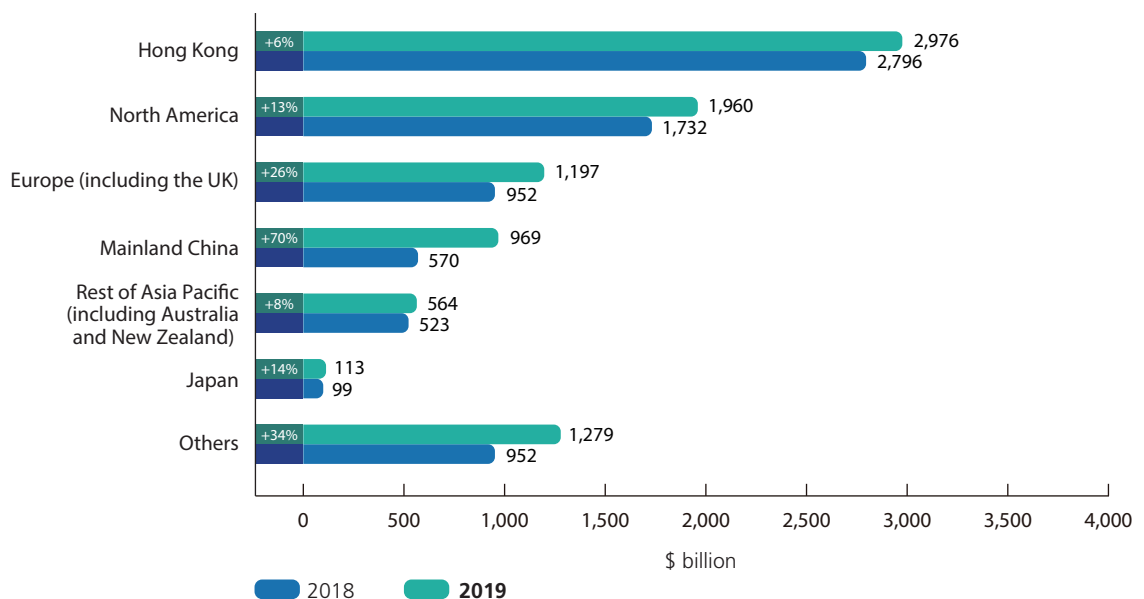


Chart 15B: Private Banking and Private Wealth Management Business (\$9,058 billion) – by Geographical Distribution of Investments (2019 vs 2018)



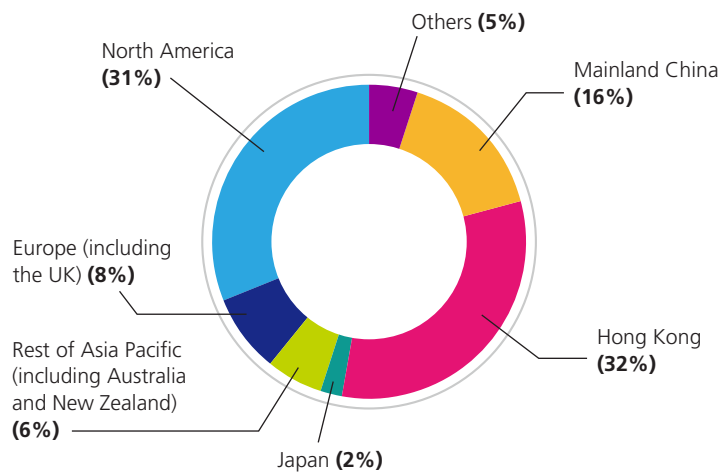
Section II D

Assets Held under Trusts

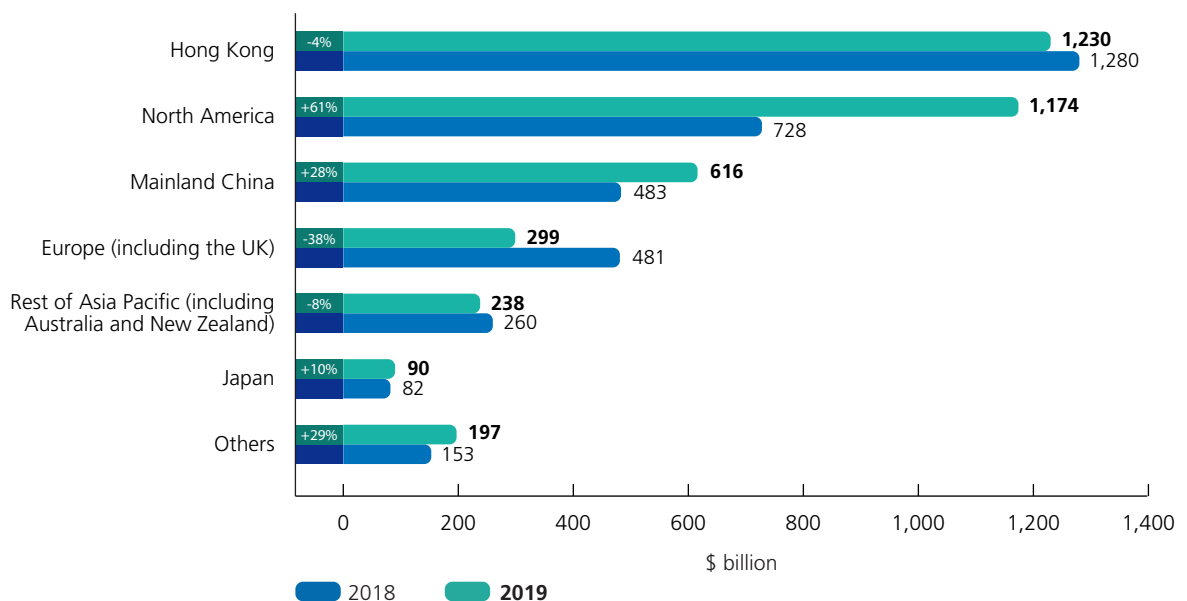
Assets Held under Trusts

30. Assets held under trusts in Hong Kong amounted to \$3,844 billion as at 31 December 2019, up 11%³⁰ from a year earlier. 75% of the total was managed by LCs or RIs.
31. Of the total assets held under trusts as at 31 December 2019, 48% were located in Mainland China and Hong Kong.
32. Hong Kong investors constituted a major source of funding for assets held under trusts, accounting for 79% of AUM.

**Chart 16A: Assets held under trusts (\$3,844 billion)
– by Geographical Distribution of Investments**



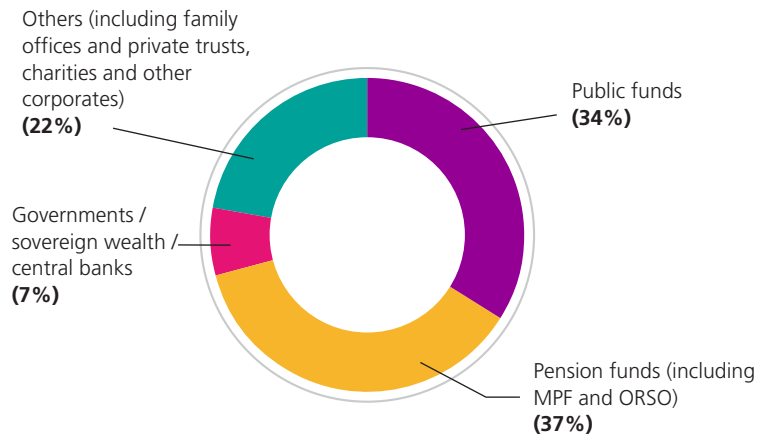
**Chart 16B: Assets held under trusts (\$3,844 billion)
– by Geographical Distribution of Investments (2019 vs 2018³⁰)**



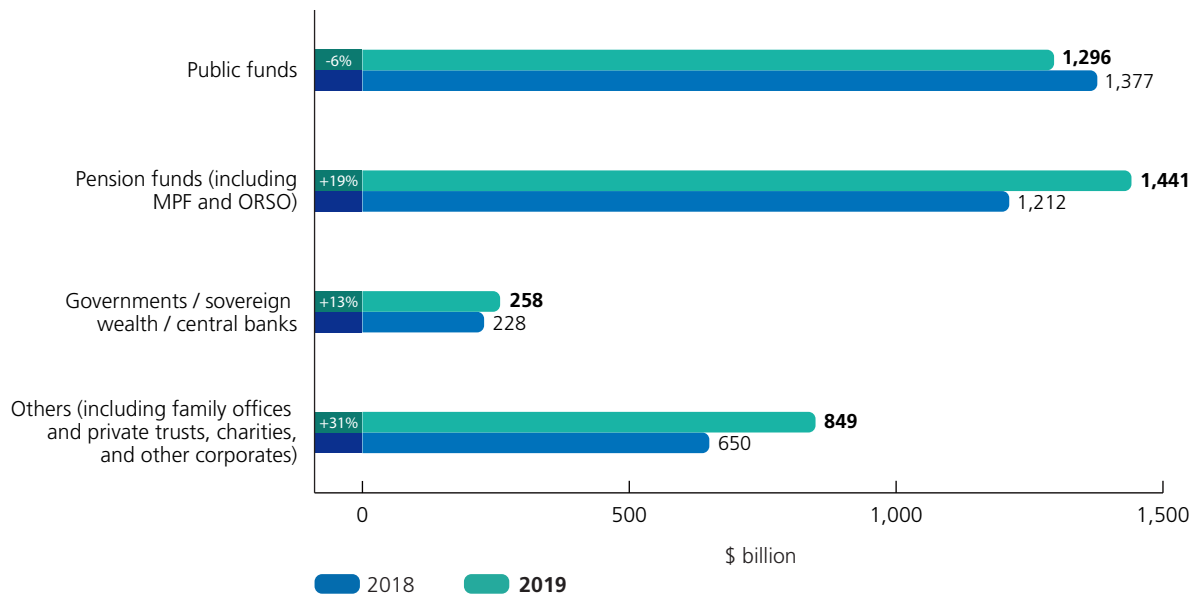
³⁰ The amount of assets held under trusts as at 31 December 2018 was adjusted to \$3,467 billion from \$4,333 billion due to adjustments reported by a respondent after publication of the AWMAS 2018. The amount of assets held under trusts attributable to non-LCs/RIs as at that date remained unchanged.

33. Public funds and pension funds, including mandatory provident funds (MPF) and occupational retirement schemes (ORSO), accounted for 71% of the assets held under trusts as at 31 December 2019.

**Chart 17A: Assets held under trusts (\$3,844 billion)
– by Client Type**



**Chart 17B: Assets held under trusts (\$3,844 billion)
– by Client Type (2019 vs 2018³¹)**



³¹ The amount of assets held under trusts as at 31 December 2018 was adjusted from \$4,333 billion to \$3,467 billion due to adjustments reported by a respondent after publication of the AWMAS 2018. The amount of assets held under trusts attributable to non-LCs/RIs as at that date remained unchanged.

Section III

Hong Kong as the Pre-eminent Offshore Renminbi Centre

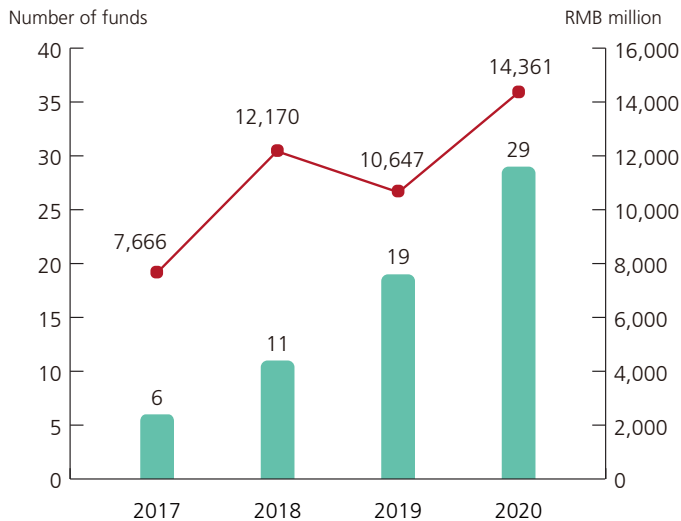
III. Hong Kong as the Pre-eminent Offshore Renminbi Centre

Hong Kong continues to be 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 Mainland MRF funds had been authorised by the SFC and 29 Hong Kong MRF funds had been approved by the China Securities Regulatory Commission (CSRC) up to 27 March 2020. The AUM of Mainland MRF funds attributable to Hong Kong investors dropped 17% to RMB374 million as at 27 March 2020, whilst the AUM in Hong Kong MRF funds attributable to Mainland investors went up 35% to RMB14,361 million.

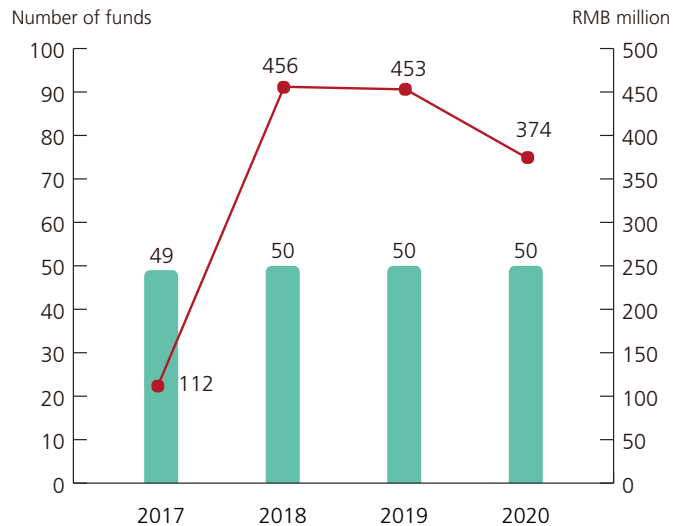
Chart 18: Hong Kong MRF Funds



- Number of Hong Kong MRF funds approved
- AUM of MRF funds attributable to Mainland investors

(Figures as at 27 March for 2020 and 31 March for 2017 to 2019)

Chart 19: Mainland MRF Funds

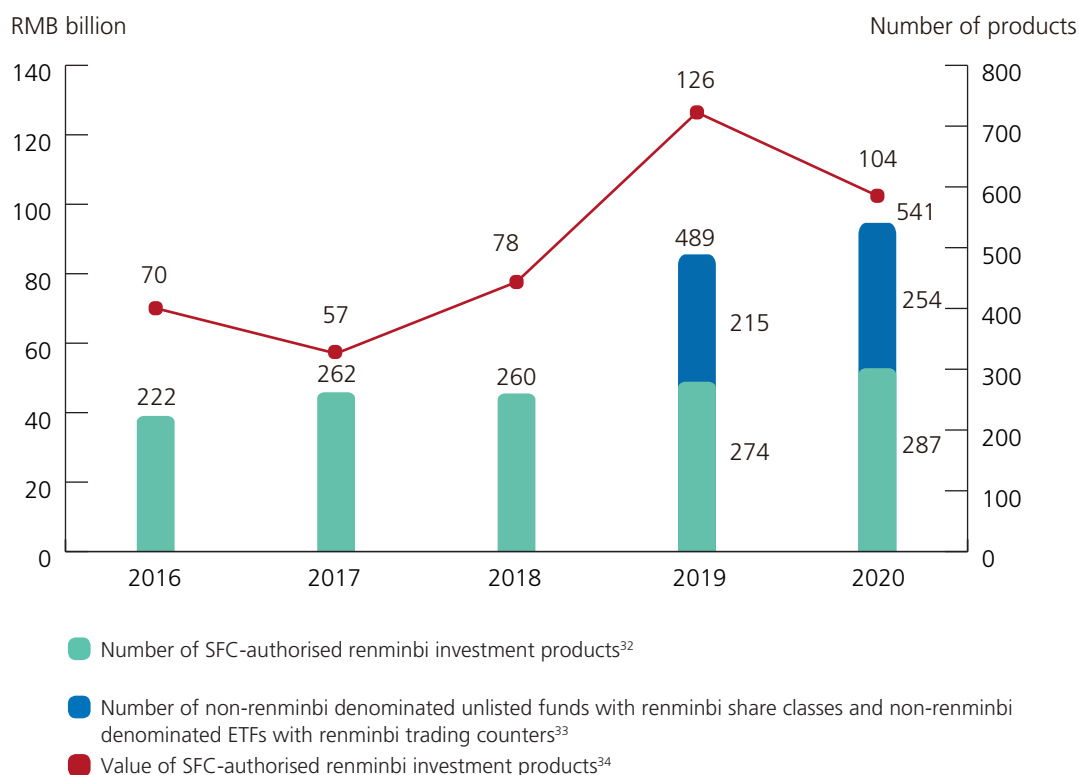


- Number of Mainland MRF funds approved
- AUM of MRF funds attributable to Hong Kong investors

(Figures as at 27 March for 2020 and 31 March for 2017 to 2019)

Retail Renminbi-denominated and Related Products

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



(Figures as at 31 March of each year)

³² This represents the number of SFC-authorized Renminbi Investment Products mentioned in (a) to (d) of note 34 below.

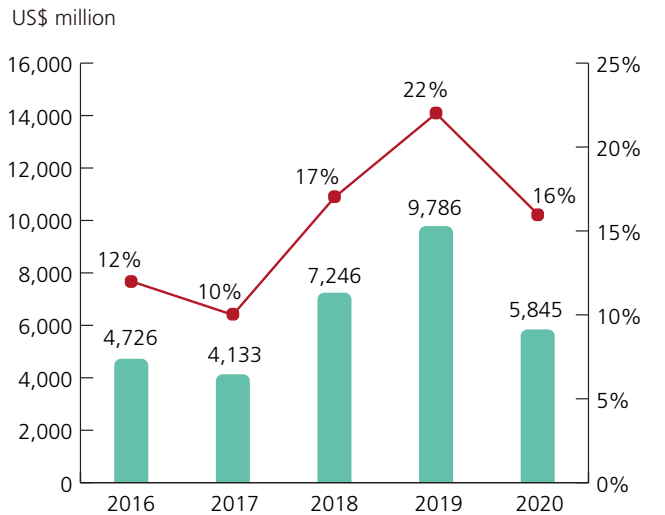
³³ This represents the number of SFC-authorized Renminbi Investment Products mentioned in (e) of note 34 below, and the number of ETFs (non-renminbi denominated) with renminbi trading counters. In 2019 and 2020, the coverage was expanded to include these products.

³⁴ 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), 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 the 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-renminbi denominated) which were offered to Hong Kong investors.

In 2019 and 2020, the coverage was expanded to cover the value of products mentioned in (e) above, but excluding ETFs (non-renminbi denominated) with renminbi trading counters.

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

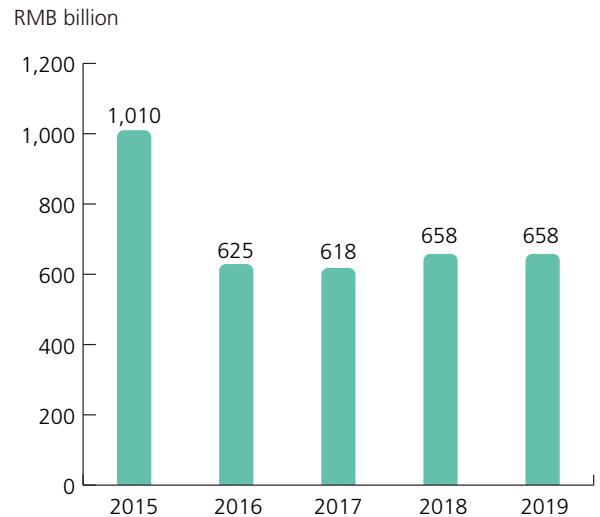


■ Total market capitalisation of SFC-authorized ETFs (renminbi-denominated) primarily investing in the onshore Mainland securities markets through RQFII, StockConnect, Bond Connect and CIBM (US\$ million)

● % of market capitalisation 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 22: Total Outstanding Renminbi Customer Deposits and Certificates of Deposit

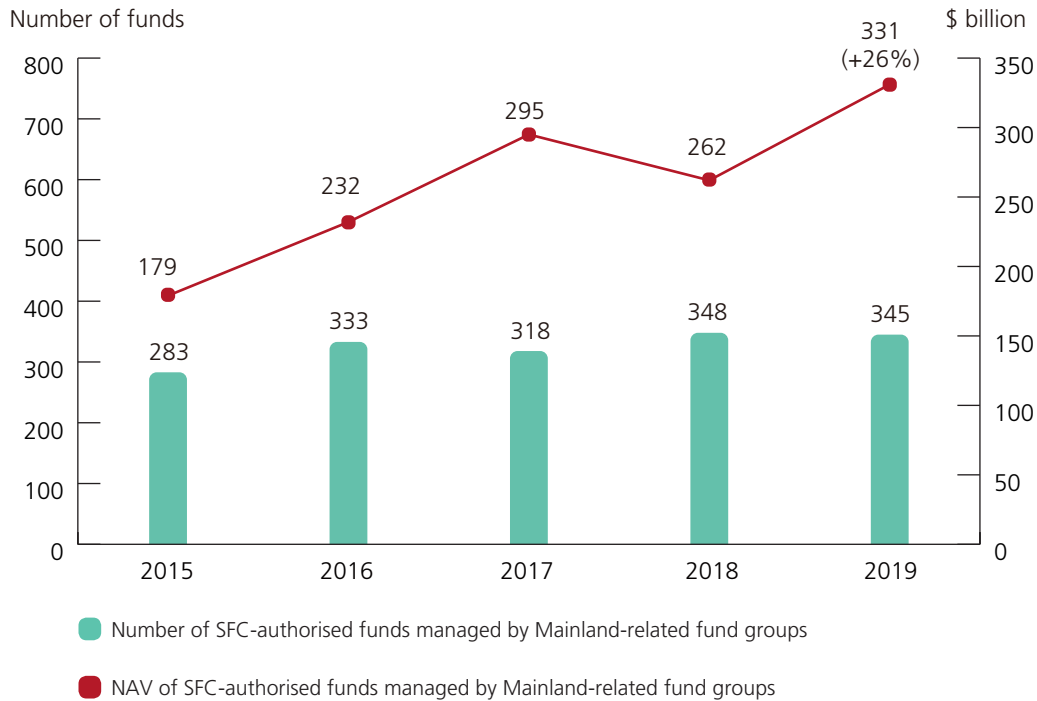


Source: Hong Kong Monetary Authority Annual Report

(Figures as at 31 December of each year)

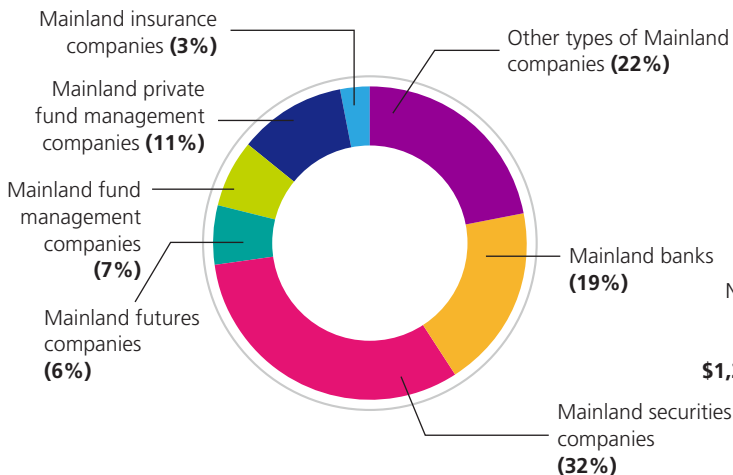
Growing Mainland Participation in the Hong Kong Market

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



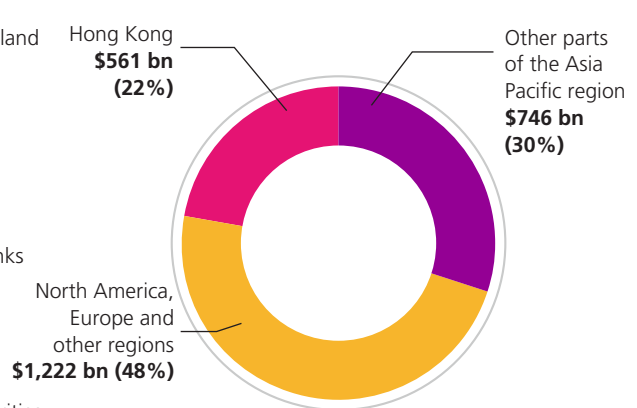
(Figures as at 31 December of each year)

Chart 24: Breakdown of Licensed Corporations and Registered Institutions Established by Mainland-related Groups in Hong Kong (7% year-on-year growth)



As at 31 December 2019 (total: 387)

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



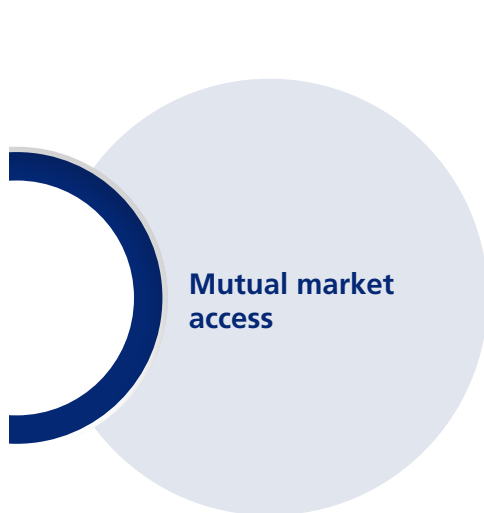
As at 31 December 2019 (total: \$2,529 billion)

Section IV

Recent Developments and Outlook

IV. Recent Developments and Outlook

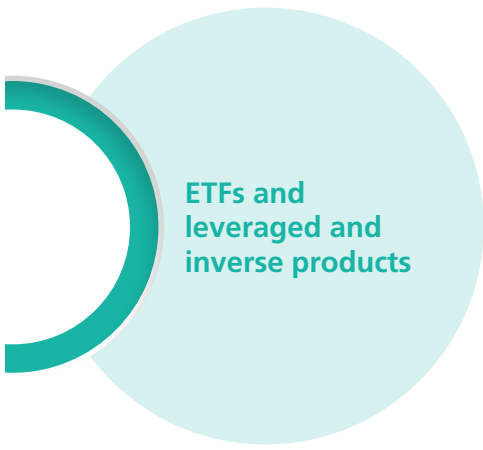
Facilitating the development of the asset and wealth management industry in Hong Kong



To broaden the investor base for Hong Kong funds, promote the development of local investment expertise and strengthen Hong Kong's position as an asset and wealth management centre and fund domicile, the SFC promotes cross-border offerings of qualified Hong Kong public funds into overseas markets through mutual recognition arrangements.

Following the implementation of MRF arrangements with the Mainland and other markets, the SFC continues to expand its MRF network, particularly with Mainland China.

The Mainland-Hong Kong MRF regime saw an increase in approvals of northbound funds. During the year ended 31 March 2020, the China Securities Regulatory Commission approved 10 Hong Kong MRF funds. As of 31 March 2020, 79 funds were approved under the regime.



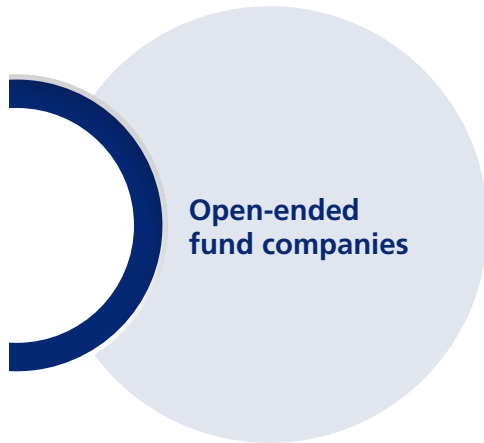
ETFs and leveraged and inverse products

As of 31 March 2020, 130 SFC-authorized ETFs, including 24 leveraged and inverse (L&I) products, were listed on The Stock Exchange of Hong Kong Limited (SEHK) with market capitalisation of \$279.15 billion (2019: \$348 billion). The daily turnover of these ETFs averaged \$5.96 billion in the 12 months preceding 31 March 2020 (2019: \$4.12 billion).

The SFC also facilitated the development of new ETFs in Hong Kong, including:

- Hong Kong's first inverse products with a factor of two-times negative (-2x) (listed in May 2019)
- Hong Kong's first active ETF (listed in June 2019)
- the world's first iron ore futures ETF. It tracks the Dalian Commodity Exchange (DCE) Iron Ore Futures Price Index (listed in March 2020)
- Hong Kong's first gold futures leveraged 2x product (listed in June 2020)
- Hong Kong's first batch of swap-based leveraged and inverse products tracking a Mainland A-share index with a leverage factor up to two-times (2x) and negative one-time (-1x) (listed in July 2020)
- Hong Kong's first feeder ETF adopting streamlined requirements which allow an SFC-authorized feeder ETF to invest in an eligible UCITS master ETF (listed in July 2020)

The SFC worked with SEHK to enhance the efficiency and liquidity of the ETF market by introducing a new buy-in exemption for ETF market makers to cover short positions associated with their market making activities in July 2019, and by launching a new spread table and continuous quoting market making regime in June 2020.



The first authorised ETF structured as an OFC was listed in January 2020. The SFC also authorised one public unlisted OFC in May 2020 and registered two private OFCs during 2019.


To facilitate more private funds to set up as OFCs in Hong Kong, the SFC will remove all investment restrictions on private OFCs under the OFC Code. It will soon publish consultation conclusions on this and other enhancements to the OFC regime, including to allow licensed or registered securities brokers to act as custodians for private OFCs. The SFC also proposed a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong and requirements to enhance anti-money laundering and counter-terrorist financing measures for OFCs.



The SFC works closely with the Government and other local regulators on policies to promote Hong Kong as an onshore fund management hub and a preferred domicile for investment funds. The SFC has been actively participating in recent Government-driven initiatives to establish a limited partnership regime for funds and provide a tax concession for carried interest to attract private equity funds.




**Profits tax
exemption for
funds**



The SFC contributed to the introduction of the new unified profits tax exemption for funds which took effect in April 2019. The exemption will apply regardless of the structure of the fund, its size or where its central management is. This will make Hong Kong significantly more competitive as an international fund management centre.



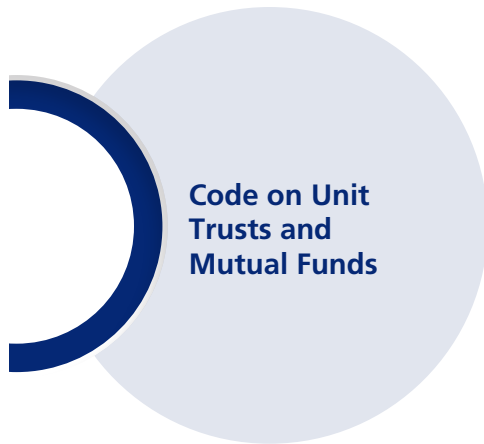
REITs



In June 2020, the SFC launched a two-month consultation on proposed enhancements to the Code on REITs to provide Hong Kong REITs with more flexibility in making investments.

Key proposals include allowing minority holdings in portfolio properties, providing more flexibility to invest in property development projects and increasing the borrowing limit from 45% to 50% of gross asset value. The SFC also proposed to broadly align the requirements for REITs' connected party and notifiable transactions with the requirements for listed companies.

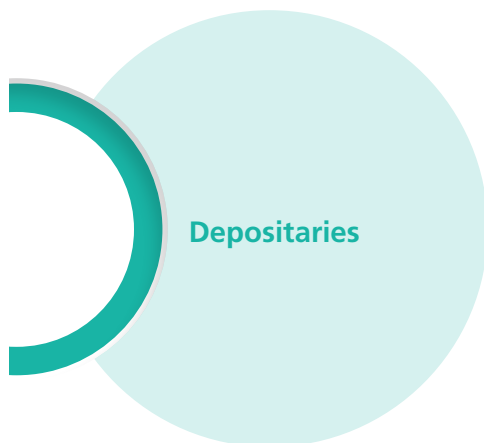
Enhancing the regulatory regime for better investor protection



The revised Code on Unit Trusts and Mutual Funds (UT Code) took effect on 1 January 2019 and the 12-month transition period ended on 31 December 2019.

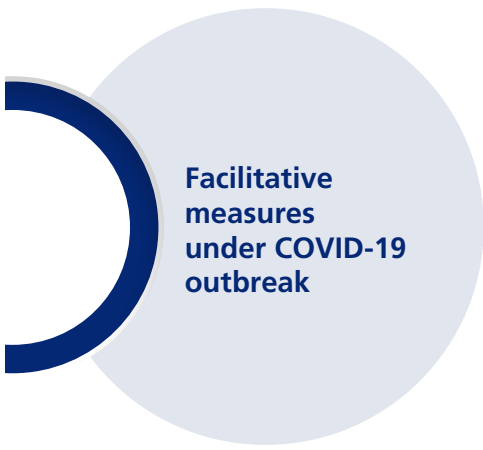
Among the enhanced investor protection safeguards introduced in the revised UT Code, a limit was set for derivatives usage by plain vanilla funds.

To help investors better differentiate between products and to improve transparency, SFC-authorized funds have been denoted as derivative funds or non-derivative funds (ie, plain vanilla funds) on the SFC website. There were 1,787 non-derivative funds and 115 derivative funds as at 31 March 2020.




The SFC launched a consultation in September 2019 on a proposed framework for a new type of regulated activity (RA 13) – acting as a depositary³⁵ of an SFC-authorized collective investment schemes (CIS). Bringing depositaries under the SFC’s licensing, supervision and enforcement regime will provide more protection for investors in public funds.

³⁵ Depositaries are trustees for SFC-authorized CIS in unit trust form, and custodians at the top of the custodial chain for SFC-authorized CIS in other forms.



**Facilitative
measures
under COVID-19
outbreak**



In view of the market volatility caused by the COVID-19 outbreak, the SFC allowed fund managers to increase or apply a swing factor (or anti-dilution levy) exceeding the one disclosed in the funds' offering documents as a temporary measure without the SFC's prior approval, subject to certain conditions. Additionally, to safeguard investors' interests, the SFC reminded fund managers that they are expected to carefully consider and deploy liquidity risk management tools with the primary objective of ensuring the fair treatment of all investors. We also provided temporary relief measures to alleviate the administrative burden on fund managers by allowing the submission of only soft copies of application documents, taking up new applications with application fees to follow and accepting unsigned application documents with signed copies to follow.



Surveillance and monitoring

We monitor the risk exposure of Hong Kong domiciled SFC-authorized funds through key data reported periodically by asset managers, including subscription and redemption flows, liquidity profiles, asset allocations and securities financing and borrowing transactions.

In addition, we regularly monitor the performance of SFC-authorized funds and the market landscape. We closely monitor the liquidity of SFC-authorized funds through reports from asset managers of unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems.

In light of the volatility and uncertainties in local and international markets, the SFC heightened supervision and surveillance by enhancing reporting requirements, with a focus on funds with large redemptions and lower liquidity. In response to the COVID-19 outbreak, the SFC enhanced its monitoring of locally domiciled high-yield bond funds. It also issued a circular to remind fund managers and depositaries of their obligations to properly manage the liquidity of SFC-authorized funds and ensure fair treatment of investors, in particular under volatile market conditions.

In response to a temporary disruption of ETF market making arrangements, we issued a circular to remind ETF managers to closely monitor secondary market trading and liquidity of ETFs and to urge market makers to ensure proper business contingency plans are in place to deal with operational disruptions.

In view of the unprecedented volatility in overseas crude oil futures markets, we issued a circular to remind managers of futures-based ETFs to remain vigilant to extreme market movements and intermediaries to ensure compliance with conduct requirements when providing trading services for futures-based ETFs. In addition, we worked with the Investor and Financial Education Council to enhance investor education about commodities futures ETF products.

We perform routine surveillance of advertisements and handle complaints about property-related or other suspected arrangements which may be CIS. We looked into 35 suspicious CIS cases during the year ended 31 March 2020.

Promoting the development of green finance



Climate change risk for asset managers

Climate change is an urgent, potentially existential source of financial risk for businesses. Investors need relevant information about environmental, social and governance (ESG) risks, especially those associated with climate change, in order to make informed investment decisions and allocate capital efficiently.

The SFC conducted an industry-wide survey to understand how and to what extent licensed asset managers consider ESG risks, particularly those relating to climate change. A survey report published in December 2019 set out policy initiatives to align the SFC's regulatory regime with global standards in this area.

Subsequently, the SFC established a Climate Change Technical Expert Group in early 2020. Members of the group will provide technical support to help the SFC formulate regulatory responses to manage climate change risks and provide practical guidance to the asset management industry.



Green and ESG funds

In April 2019, the SFC issued a circular to provide guidance on enhanced disclosures by management companies of SFC-authorized green and ESG funds to improve their comparability. A central database was also posted on the SFC's website to increase their visibility.

Breakdown of Asset and Wealth Management Business in 2019

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)	572	7,202	–	–	7,774	–	7,774	–
Asset management business provided to private banking and private wealth management clients (Item 1)	167	1,117	–	–	1,284	1,284	1,284	–
Asset management business for other clients	15,321	183	1,110	–	16,614	16,614	–	–
Fund advisory business	1,853	–	–	–	1,853	1,853	–	–
SFC-authorized REITs	289	–	–	–	289	289	–	–
Assets held under trusts								
– managed by LCs/RIs	–	–	–	–	–	–	–	2,889
– attributable to non-LCs/RIs	–	–	–	955	955	–	–	955
Total	18,202	8,502	1,110	955	28,769	20,040	9,058	3,844
Relevant sections in this report					Section II A	Section II B	Section II C	Section II D

Definitions

- “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, 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.
- “AUM” means assets under management.
- “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.
- “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.

- “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.
- “Professional investors” comprises of institutional professional investors, corporate professional investors and individual professional investors.
 - “Institutional professional investors” refers to persons falling under paragraphs (a) to (i) of the definition of “professional investor” in section 1 of Part 1 of Schedule 1 to the SFO;
 - “Corporate professional investors” refers to trust corporations, corporations or partnerships falling under sections 3(a), (c) and (d) of the Securities and Futures (Professional Investor) Rules (Chapter 571D) (“Professional Investor Rules”); and
 - “Individual professional investors” refers to individuals falling under section 3(b) of the Professional Investor Rules.
- “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).
- “REITs” refers to SFC-authorized real estate investment trusts.