

Products

We authorise and regulate investment products offered to the public in Hong Kong and monitor their ongoing compliance with regulatory requirements. We also formulate policy initiatives to strengthen Hong Kong's position as a global asset and wealth management centre and a preferred fund domicile.

Product authorisation

Authorisations

As of 31 March 2022, a total of 2,849 SFC-authorized collective investment schemes (CIS) were on offer to the public. During the year, we authorised 166 CIS, comprising 152 unit trusts and mutual funds (including 75 Hong Kong-domiciled funds), two investment-linked assurance schemes (ILAS), one real estate investment trust (REIT), one paper gold scheme and 10 mandatory provident fund (MPF) pooled investment funds. We also authorised 187 unlisted structured investment products for public offering.



Ms Christina Choi, Executive Director of Investment Products, at the SFC Regulatory Forum 2021

Authorised CIS

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Unit trusts and mutual funds – Hong Kong-domiciled	866	835	762
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,381	1,382	1,373
ILAS	300	298	299
Pooled retirement funds	32	33	33
MPF schemes	26	27	29
MPF pooled investment funds	219	212	206
Others	25 [^]	25	26
Total	2,849	2,812	2,728

[^] Comprising 14 paper gold schemes and 11 REITs.

Authorised unlisted structured investment products

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Unlisted structured investment products [^]	187	146	146

[^] On a "one product per key facts statement" basis, including equity-linked investments and deposits.

Open-ended fund companies (OFCs)

	As at 31.3.2022	As at 31.3.2021	As at 31.3.2020
Registered OFCs	62 [^]	13	3

[^] This figure includes 53 private OFCs.

ETFs and L&I products

As of 31 March 2022, 160 SFC-authorized exchange-traded funds (ETFs) were listed on the Stock Exchange of Hong Kong Limited (SEHK), including 28 leveraged and inverse (L&I) products, with total market capitalisation of \$429.89 billion. The average daily turnover of these ETFs was \$8 billion in the preceding 12 months.

Following the first cross-listings of Hong Kong ETFs on the Shenzhen Stock Exchange in October 2020, we worked with the China Securities Regulatory Commission (CSRC) to expand the cross-listing scheme to the Shanghai Stock Exchange (SSE). The first batch of ETFs were cross-listed on SEHK and SSE in June 2021. As of 31 March 2022, the total market capitalisation of the six cross-listed ETFs was \$6.55 billion.

During the year, we authorised the first three ETFs tracking the MSCI China A 50 Connect Index—the underlying index of the first A-share futures contract traded in Hong Kong. We also authorised the first batch of L&I products tracking Taiwan's equity indices, the first crude oil futures inverse product and the first gold futures inverse product.

In addition, we authorised the first carbon emission allowances futures¹ ETF in Hong Kong. Tracking the ICE EUA Carbon Futures Index, the ETF was listed in March 2022 and provides retail investors with access to the carbon market.

We worked with SEHK to enhance the efficiency and liquidity of ETFs in the secondary market. Effective May 2021, the trading tariff and minimum stock settlement fees are waived for fixed income and money market ETFs. In addition, different trading fee exemptions

Authorised unit trusts and mutual funds domiciled in Hong Kong – fund flows by type^a (US\$ million)

For the year ended 31 March 2022, Hong Kong-domiciled funds reported overall net inflows of US\$12,396 million.

	12 months to 31.3.2022			12 months to 31.3.2021		
	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)
Bond ^b	12,169	16,563	(4,394)	24,805	16,411	8,394
Equity ^b	20,714	21,220	(506)	24,441	22,083	2,358
Mixed ^b	12,774	9,619	3,155	9,867	10,105	(238)
Money market	19,290	18,842	448	18,870	17,794	1,076
Feeder funds ^c	3	2	1	26	2	24
Index ^d	49,752	36,054	13,698	39,103	34,210	4,893
Guaranteed	0	6	(6)	0	12	(12)
Total	114,702	102,306	12,396 ^e	117,112	100,617	16,495

a Based on data reported by funds domiciled in Hong Kong.

b From 31 March 2021, fund of funds (excluding feeder funds) have been re-categorised into other types of funds based on the underlying exposure of their investment strategies. For comparison purposes, similar adjustments have been made to the fund flows figures of certain fund types for the 12 months ended 31 March 2021.

c From 31 March 2021, feeder funds have been separated from the previous "Fund of funds" category. For comparison purposes, similar adjustments have been made to the fund flows figures for feeder funds for the 12 months ended 31 March 2021. In addition, the subscription and redemption amounts of feeder funds whose master funds are authorised by the SFC have been excluded from the fund flows figures under the "Feeder funds" category to better reflect the total fund flows.

d Including ETFs and leveraged and inverse products.

e This figure includes net fund outflows of US\$930 million reported by retail approved pooled investment funds which MPFs may invest into and may also be offered to the public in Hong Kong.

1 Commonly known as carbon futures.

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for securities market maker transactions now apply to ETFs and L&I products based on their liquidity and investment exposures. As part of enhancements to the ETF market infrastructure, actively traded ETFs and L&I products were included under the volatility control mechanism starting in May 2022.

In February 2022, we issued a revised circular on streamlined requirements for eligible ETFs adopting a master-feeder structure to relax the fund size and track record requirements for overseas-listed master ETFs, with a view to offering more investment choice to investors and facilitating the growth of Hong Kong's ETF market.

Retail unlisted ELLs

We authorised the first retail equity-linked investments (ELLs) linked to eligible US-listed stocks in August 2021, making a wider range of ELI products available to Hong Kong's investing public. To facilitate the industry's introduction of these ELLs, we also published frequently asked questions (FAQs) to provide guidance on the eligibility requirements for these stocks as reference assets for SFC-authorized unlisted structured investment products.

SFC-authorized RMB investment products

	As at 31.3.2022
Unlisted products	
Unlisted funds primarily investing in onshore Mainland securities markets or offshore RMB bonds, fixed income instruments or other securities	54
Unlisted funds (non-RMB denominated) with RMB share classes	339
Paper gold schemes with RMB features	1
Recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds arrangement	47
Unlisted structured investment products issued in RMB ^a	186
Listed products	
ETFs primarily investing in onshore Mainland securities markets or offshore RMB bonds, fixed income instruments or other securities	50
ETFs (non-RMB denominated) with RMB trading counters	11
RMB L&I products	2
RMB gold ETFs ^b	1
RMB REITs	1

a The number is on a "one product per key facts statement" basis.

b Only includes gold ETF denominated in RMB.

2 Excluding recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds arrangements.

3 This refers to unlisted funds or ETFs which are denominated in RMB.

4 This refers to onshore Mainland investments through a Qualified Foreign Investor, Stock Connect, Bond Connect and the China Interbank Bond Market.

Open-ended fund companies

During the year, we registered 49 new open-ended fund companies (OFCs) and approved 87 OFC sub-funds, including 15 authorised ETFs. The Government's grant scheme for OFCs launched in May 2021 was welcomed by the asset management industry and the total number of registered OFCs has more than quadrupled since its introduction.

To facilitate the re-domiciliation of overseas corporate funds to Hong Kong using the OFC structure, we introduced a statutory re-domiciliation mechanism which took effect on 1 November 2021. The new regime helps provide legal and tax certainty to overseas corporate funds which migrate to Hong Kong as OFCs. In April 2022, we registered the first private Cayman Islands corporate fund as a re-domiciled private OFC in Hong Kong.

RMB products

As of 31 March 2022, there were 54 SFC-authorized unlisted funds² and 50 ETFs³ primarily investing in onshore Mainland securities markets⁴ or offshore renminbi (RMB) bonds, fixed income instruments or other securities.

Market development

Greater Bay Area Wealth Management Connect

In September 2021, the People’s Bank of China (PBoC), Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Macao announced the launch of Greater Bay Area Wealth Management Connect. A pilot scheme commenced in October with 19 banks in Hong Kong initially eligible to provide related services.

The number of eligible Hong Kong banks was later increased to 24 (see sidebar below).

We worked closely with the PBoC, HKMA and other authorities on the pilot scheme, contributing to the scheme’s design and operations, including the product scope and conduct-related matters. In December 2021, we provided input to HKMA’s FAQs on the scheme’s enhancements to clarify that lists of eligible products may be provided upon investors’ request and explain the permissible promotional activities.

Wealth Management Connect

The launch of Wealth Management Connect presents new opportunities for cross-boundary retail investment and addresses the demand for wealth management solutions in Hong Kong from the massive investor base in the Guangdong-Hong Kong-Macao Greater Bay Area, one of the most affluent regions in China with a population of more than 70 million and US\$1.6 trillion in gross domestic product.

At the scheme’s launch in October 2021, more than 100 SFC-authorized HK-domiciled funds managed by over 30 asset managers were available to Mainland investors via participating Hong Kong banks. Participation in both directions has steadily increased.

The scheme strengthens Hong Kong’s unique role in intermediating global capital between mainland China and the rest of the world.

Key features



Enables cross-boundary investments by GBA residents



Closed-loop cross-boundary remittance



Subject to aggregate quota and individual quota



Governed by local laws and regulations



Ms Christina Choi at the Wealth Management Connect and Southbound Bond Connect Conference

We work closely with the Mainland authorities, HKMA and other stakeholders to review the scheme and consider enhancements such as increasing quotas, expanding the scope of eligible investment products, inviting more participating organisations and improving distribution arrangements.

	As of 31 March 2022
Aggregate remittance	RMB829 million
Northbound investors	16,726
Southbound investors	9,110
Number of participating Hong Kong banks	24
Number of participating Mainland banks	27
Number of SFC-authorized funds available under the scheme	125

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ETF Connect

In December, the Mainland and Hong Kong exchanges and clearing houses jointly announced their agreement on arrangements to include eligible ETFs in Stock Connect. We are working closely with the CSRC, Mainland stock exchanges, Hong Kong Exchanges and Clearing Limited and other stakeholders on the operational details, including the business and technical preparations.

Mutual recognition of funds

We promote cross-border offerings of eligible Hong Kong public funds to the Mainland and other overseas markets through mutual recognition arrangements. This broadens the investor base for Hong Kong public funds, strengthens Hong Kong's position as a competitive global asset and wealth management centre and supports the development of local investment expertise.

The Hong Kong-Thailand Mutual Recognition of Funds (MRF) arrangement came into effect in June 2021, allowing eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process.

Under the Mainland-Hong Kong MRF regime, a total of six funds were approved during the year, bringing the total to 85. As of 31 March 2022, the aggregate net subscription for both Mainland and Hong Kong MRF funds was about RMB13.3 billion.

Asset and wealth management activities

In July 2021, we published the *Asset and Wealth Management Activities Survey 2020*, which showed that Hong Kong's asset management, fund advisory, private banking and private wealth management businesses posted strong growth, with net fund inflows of \$2,035 billion in 2020.

As at the end of 2020, the AUM of Hong Kong's asset and wealth management business recorded a 21% year-on-year increase to \$34,931 billion. The AUM of the asset management and fund advisory business increased 20% to \$24,038 billion and that of the private banking and private wealth management business grew 25% to \$11,316 billion.

Hong Kong's asset and
wealth management business

**AUM increased to
\$34,931 billion**

Grant scheme for OFCs and REITs

In May 2021, we announced the implementation of the Government's three-year grant scheme to encourage a broader range of investment vehicles by providing subsidies for qualified OFCs and REITs to set up in Hong Kong. The scheme covers 70% of eligible expenses paid to Hong Kong-based service providers, subject to a cap of \$1 million per OFC and \$8 million per REIT. We issued a press release to set out the details, including the eligibility criteria and application process, and published a set of FAQs to provide guidance to the industry.

Regulatory enhancements

ILAS

Following a holistic review of ILAS conducted in collaboration with the Insurance Authority (IA) and consultations with other stakeholders, we issued a circular in November 2021 to provide enhanced guidance on ILAS product design. The enhancements will foster better investor protection by requiring ILAS fees and charges to be commensurate with comparable alternative products and aligned with the insurance protection offered, as well as by reducing product complexity and enhancing disclosures relating to fees. An 18-month transition period will be allowed for existing products. Separately, the IA issued further guidance on ILAS in December 2021 to enhance their requirements for ILAS product design and point-of-sale information disclosure. We also enhanced the ILAS authorisation process to reduce the approval time for simpler and more standard applications.

We published new FAQs and held a workshop for the industry to facilitate the implementation of the enhanced requirements.

ESG funds

In view of the rapid growth of environmental, social and governance (ESG) funds and global regulatory developments⁵ and to reduce greenwashing risk, we published a circular in June 2021 which set out enhanced requirements for disclosures and annual assessments of ESG funds, especially those with a climate-related focus. We also hosted briefing sessions to explain the requirements to the industry.

As of 31 March 2022, there were 121 SFC-authorized ESG funds with a total AUM of US\$142.7 billion.

Depositaries of SFC-authorized funds

In February 2022, we released consultation conclusions on a proposed framework for the new Type 13 regulated activity (RA 13) which will enable the SFC to directly supervise depositaries of SFC-authorized CIS. We also began a further consultation on the approach to defining RA 13 and proposed amendments to subsidiary legislation and SFC codes and guidelines to implement the RA 13 regime.

Pooled retirement funds

We concluded a public consultation in October 2021 on proposed amendments to the Code on Pooled Retirement Funds⁶ (PRF Code). Key amendments included enhancing the requirements for the operation of PRFs and clarifying the obligations of key operators to strengthen investor protection and ensure that our regulations are up-to-date and fit for purpose. The amendments took effect in December 2021. A 12-month transition period was provided for existing PRFs to comply.

COVID-19 measures

In view of the COVID-19 pandemic and an increase in the number of firms adopting work-from-home arrangements, we issued a circular in February 2022 to

remind issuers of SFC-authorized investment products to review and maintain up-to-date and effective business continuity plans to ensure the continuous operations of SFC-authorized investment products.

Surveillance and monitoring

To monitor the risk exposure of Hong Kong-domiciled SFC-authorized funds, we require asset managers to report key data periodically, including subscription and redemption flows, liquidity profiles, asset allocations and securities financing and borrowing transactions. During the year, we enlarged the scope of the fund data we collect to include the use of leverage, credit quality and currency exposure as a means to strengthen our monitoring of fund activities and better understand developing trends in financial markets.

We stay abreast of market developments and tailor our monitoring programme in response to different market circumstances and stress events. 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.

We also perform routine surveillance of advertisements and handle complaints about property-related or other arrangements suspected to be CIS which may not be offered to the public in Hong Kong.

New unauthorised CIS alert list

To enhance investor protection, we launched a new alert list on our website in August 2021 to warn the public about unauthorised investment arrangements involving overseas properties and other investments suspected to be CIS. We liaised with the Consumer Council and Estate Agents Authority and also worked with the Investor and Financial Education Council to raise awareness and publicise the risks of investing in unauthorised CIS.

⁵ See Green and Sustainable Finance on pages 36-39.

⁶ Pooled retirement funds are only available to occupational retirement schemes in Hong Kong as defined under the Occupational Retirement Schemes Ordinance.