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20 February 2017

Securities and Futures Commission
35/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Re: Consultation Paper on Proposals to Enhance Asset Management Regulation and Point-of-sale Transparency

Dear Sir/Madam,

ICI Global¹ appreciates the time that the Securities and Futures Commission ("SFC") has spent studying and considering possible areas of regulatory enhancement for funds and fund managers reflected in your recent proposals related to the Fund Manager Code of Conduct (FMCC) and the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct). We agree that a robust regulatory regime is fundamental to the growth of Hong Kong as an international asset management center and essential for protecting investors and building strong capital markets. ICI Global and its members have long favored sound regulation to address risks to investors and markets.

As Hong Kong is a global asset management center, the changes have significance for firms licensed in Hong Kong that operate on a global basis. Many fund managers in Hong Kong manage and distribute funds on a cross-border basis and, as a consequence, are highly sensitive to the overlay and interaction of regulations. We commend the SFC's efforts to consider regulatory enhancements in a global context. We generally support the SFC's proposals related to securities lending, custody and liquidity risk management. These proposals are aligned with global approaches and best practices. We also support the SFC's proposed approach on the disclosure of fund leverage. Fund managers should be given the discretion to decide on a method for calculating leverage that is appropriate for each fund.

¹ The international arm of the Investment Company Institute, ICI Global serves a fund membership that includes regulated funds publicly offered to investors in jurisdictions worldwide, with combined assets of US\$18.4 trillion. ICI Global seeks to advance the common interests and promote public understanding of regulated investment funds, their managers, and investors. Its policy agenda focuses on issues of significance to funds in the areas of financial stability, cross-border regulation, market structure, and pension provision. ICI Global has offices in London, Hong Kong, and Washington, DC.

If you would like additional information, please contact

Yours sincerely,

From:
Sent: 20, February, 2017 11:36 AM
To: amrconsultation
Subject: ICI Global Member Comments to the SFC consultation paper on Proposals to Enhance Asset Management Regulation and Point of Sale Transparency

Importance: High

Dear Sir/Madam,

We have received a specific comment from one of our member relating to *Appendix 1, Point 2, pg. 30* of your consultation paper. Kindly refer to the below for the details:

We note that the FMCC will apply to SFC licensed persons whose business involves the discretionary management of: (i) collective investment schemes (whether authorised or unauthorised) and/or (ii) discretionary accounts (in the form of an investment mandate or pre-defined model portfolio), and that Appendix 1 sets out requirements in the FMCC which are not applicable to, and some additional requirements that are applicable to, discretionary accounts managers. These additional provisions include minimum content requirements for client IMAs and requirements for conducting performance review and providing valuation reports, as set out below:

“Performance Review and Valuation Reports

2. Except as agreed otherwise in writing by the client, a Discretionary Account Manager should:
(a) review the performance of each Discretionary Account against any previously agreed benchmark, either in writing to the client or by way of meeting, at least twice a year; and
(b) provide valuation reports to the client on a monthly basis or at such shorter intervals as provided in the Discretionary Client Agreement. The report should, as a minimum, include the following:
(i) the date on which the report is made;
(ii) the cash and investment holdings and value of the Discretionary Account on that date including all income received and charges levied against that account;
(iii) movements in the value of the Discretionary Account; and
(iv) any open positions in relation to derivative transactions.”

We would like to make 2 comments:

1. In Appendix 1, it seems that only the minimum content requirements for IMA are not applicable to institutional/corporate professional investors, but the performance review and reporting requirements are applicable to all clients (i.e. there is no express carve-out for institutional and corporate professional investors for reporting requirements). Under the proposal, this means we would need client agreement not to provide the specified information in the monthly reports. ***We would submit that there should be a carve-out for institutional and corporate professional investors for the reporting requirements as well, as they are in a position to specify their own reporting requirements.***
2. For para (iii) above (i.e. “movements in the value of the Discretionary Account”), our normal practice would be to show current month-end data only and not show previous month-end market value, as the client can get this information by comparing month-end files we sent on monthly basis, and there was never a request from client to have both set of numbers in one file. ***Can the SFC clarify exactly what is required in this regard, e.g. will we be required to show both the previous month-end market value and the current month-end market value of the discretionary account in the same report?***

Thank you for your attention.