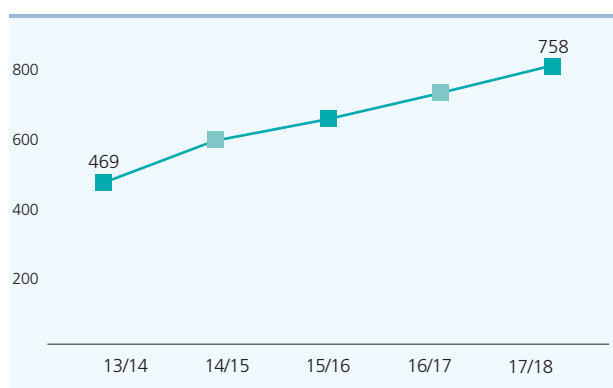


Investment products

We authorise and regulate investment products offered to the public and monitor their ongoing compliance with regulatory requirements.

Our vision is to formulate policies which facilitate market growth and product innovation while supporting the development of Hong Kong as a leading asset management centre and preferred place of fund domicile.

Hong Kong-domiciled SFC-authorized funds



Facilitating market development Authorisations

As of 31 March 2018, a total of 2,799 SFC-authorized collective investment schemes (CIS) were on offer to the public. During the year, we authorised 134 CIS, comprising 120 unit trusts and mutual funds, one investment-linked assurance scheme (ILAS) and 13 mandatory provident fund (MPF) pooled investment funds.

We also authorised 114 unlisted structured investment products for public offering.

Authorised CIS

| | As at 31.3.2018 | As at 31.3.2017 | As at 31.3.2016 |
|------------------------------|--------------------|--------------------|--------------------|
| Unit trusts and mutual funds | 2,215 | 2,203 | 2,133 |
| ILAS | 299 | 300 | 301 |
| Pooled retirement funds | 34 | 34 | 34 |
| MPF schemes | 31 | 35 | 37 |
| MPF pooled investment funds | 194 | 182 | 173 |
| Others | 26 ^a | 26 | 26 |
| Total | 2,799 | 2,780 | 2,704 |

^a Comprising 15 paper gold schemes and 11 real estate investment trusts (REIT).

Unlisted structured investment products

| | 2017/18 | 2016/17 | 2015/16 |
|--|---------|---------|---------|
| Unlisted structured investment products ^a | 114 | 100 | 94 |
| Authorisations granted under section 105 of the SFO ^b | 84 | 84 | 85 |

^a On a "one product per key facts statement" basis, the number of unlisted structured investment products authorised during the period, most of which were equity-linked investments and deposits.

^b Offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

ETFs and leveraged and inverse products

The total number of SFC-authorized exchange-traded funds (ETF) listed on The Stock Exchange of Hong Kong Limited stood at 134 (including 27 leveraged and inverse (L&I) products) as of 31 March 2018. In January 2018, we published a research paper on the Hong Kong ETF market and related topical issues in light of recent local and international developments. This paper is intended to provide context for future policy discussions.

Investment products

Renminbi products

We facilitate the development of renminbi products for offering to the public in Hong Kong. The total number of SFC-authorized unlisted funds and ETFs investing onshore in the Mainland securities markets¹ stood at 57 and 32 respectively as of 31 March 2018.

Mutual recognition of funds

France

In July 2017, we signed a Memorandum of Understanding (MoU) on mutual recognition of funds (MRF) with Autorité des Marchés Financiers. The MoU allows eligible French and Hong Kong public funds to be distributed in the other market through a streamlined vetting process. This opens up the opportunity for Hong Kong funds to be sold directly to retail investors in a leading European Union market.

To facilitate the implementation of this arrangement, we held an industry briefing in July 2017. We also issued a circular, frequently asked questions and an

information checklist to provide guidance on specific requirements and application procedures.

Switzerland

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

Mainland China

We granted authorisation for 50 Mainland funds under the Mainland-Hong Kong MRF scheme while the China Securities Regulatory Commission (CSRC) authorised 11 Hong Kong funds as of 31 March 2018.

ETF Connect

We work closely with the CSRC as well as stock exchanges and clearing houses in the Mainland and Hong Kong to study technical issues and proposals for implementing ETF Connect.

SFC-authorized renminbi investment products

| | As at 31.3.2018 |
|--|-----------------|
| Unlisted products | |
| Unlisted funds investing onshore through RQFII, Stock Connect, Bond Connect and CIBM | 57 |
| Unlisted funds investing primarily in offshore dim sum bonds, fixed income securities and money market instruments | 18 |
| Paper gold schemes with renminbi features | 1 |
| Recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds | 50 |
| Unlisted structured investment products with renminbi features ^a | 100 |
| Listed products | |
| ETFs investing onshore through RQFII, Stock Connect, Bond Connect and CIBM | 32 |
| Renminbi gold ETFs ^b | 1 |
| Renminbi REITs | 1 |

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

^b Only includes gold ETF denominated in renminbi.

¹ These unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities markets through the Renminbi Qualified Foreign Institutional Investor (RQFII) quota, Stock Connect, Bond Connect and the China Interbank Bond Market (CIBM).

Revamped post-authorisation process

On 1 February 2018, we formally adopted the revamped process for applications for approval of post-authorisation changes (including scheme changes, termination, merger and withdrawal of authorisation) and authorisation of revised offering documents for SFC-authorized funds². The revamped process increases procedural transparency, enables timely notification of post-authorisation changes to investors and makes more efficient use of our resources.

Open-ended fund companies

In June 2017, we launched a public consultation on the Securities and Futures (Open-ended Fund Companies) Rules and the Code on Open-ended Fund Companies, which set out the detailed legal and regulatory requirements applicable to the new open-ended fund companies (OFC) structure. The OFC regime will broaden the choice of investment fund vehicles. Consultation conclusions were published in May 2018 and the regime will take effect following the completion of the legislative process.

New system for investment product information management

In 2017, we put in place a new Investment Product Management system to facilitate our product authorisation work, which involves processing large volumes of data and information. The system captures all case-related information for both product applications and post-authorisation matters, while simplifying and standardising processes and workflows.

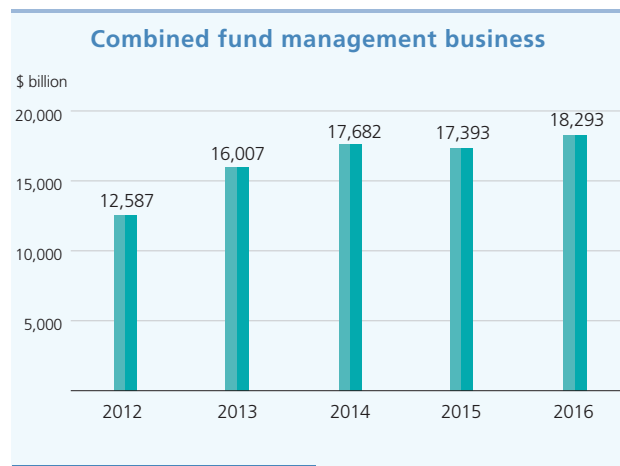
This helps us closely monitor performance pledges^a and data accuracy, greatly enhancing operational efficiency. Moreover, the new system is more fully integrated with our other systems, including the SFC Online Portal^b, allowing us to collect timely data from the industry for regulatory purposes and monitor market risks more effectively.

^a See performance pledges on page 30 for details.
^b The SFC Online Portal enables market participants to file documents, make submissions and pay fees to the SFC electronically.

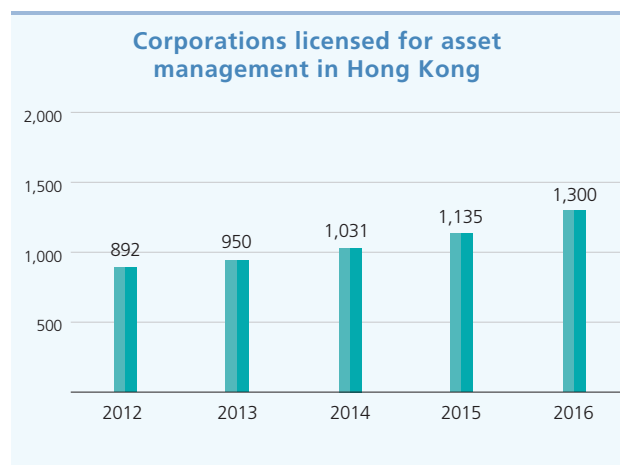
Fund management activities

We published the 18th annual Fund Management Activities Survey in July 2017. Hong Kong’s combined fund management business increased by 5.2% year-on-year to \$18,293 billion as of 31 December 2016, while private wealth management business grew by 9% to \$5,203 billion.

The number of corporations licensed for asset management in Hong Kong also increased by 14.5% in 2016, while the number of staff who engaged in activities other than sales and marketing increased by 3.7% year-on-year to 11,115 in 2016.



Source: Fund Management Activities Survey



² Excluding mandatory provident funds authorised only under the SFC Code on MPF Products.

Investment products



Ms Christina Choi, Executive Director, Investment Products speaks at the MPFA's Workshop on Governance of MPF Trustees

Enhanced regulation

Asset management

Following a public consultation concluded in November 2017, enhancements to asset management regulation proposed in light of international developments will come into effect in November 2018. In addition, enhancements to point-of-sale transparency to better address conflicts of interest in selling investment products, including by governing the use of the term "independent" by intermediaries, will become effective in August 2018. We also launched a further consultation on disclosure requirements applicable to discretionary accounts.

Online distribution and advisory platforms

In May 2017, we launched a three-month public consultation on proposed guidelines for online distribution and advisory platforms which provide tailored guidance to the industry on the design and operation of online platforms and clarify how the suitability requirement would operate in the online environment. We published consultation conclusions and launched a further consultation on proposed requirements applicable to offline sale of complex products in March 2018. The guidelines will become effective in April 2019.

Code on Unit Trusts and Mutual Funds

To update the regulatory regime for SFC-authorized funds, we launched a three-month public consultation in December 2017 on proposed amendments to the Code on Unit Trusts and Mutual Funds³ which seek to ensure that the regulations governing public funds remain robust and aligned with international standards and market developments. Key proposals include strengthening requirements for key operators, providing greater flexibility and enhanced safeguards for funds' investment activities and introducing new fund types, including active ETFs.

Surveillance and monitoring

As part of our ongoing surveillance and monitoring work, we closely monitor the liquidity of SFC-authorized funds through reports from their managers on any unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems. We regularly review abnormal fluctuations of the daily unit prices of Hong Kong-domiciled public funds as compared with their respective peer groups. We also monitor ETFs and L&I products through analysing data related to pricing, exposure to counterparties and, in the case of L&I products, daily rebalancing activities.

We regularly conduct surveillance of the marketing materials of SFC-authorized funds and fund managers' websites to ascertain whether they comply with regulatory requirements.

We also conduct routine surveillance of advertisements and handle complaints about property-related or other suspected arrangements which may be CIS. We raised around 40 enquiries about suspicious CIS during the year.

³ Consequential amendments were also proposed to the SFC Code on MPF Products, the Code on Pooled Retirement Funds and the Code on Investment-Linked Assurance Schemes.