

Products

We authorise and regulate investment products offered to the public and monitor their ongoing compliance with regulatory requirements. We also formulate policy initiatives to develop Hong Kong as a full-service global asset and wealth management centre and a preferred fund domicile.

Authorisations and market development

As of 31 March 2020, a total of 2,728 SFC-authorized collective investment schemes (CIS) were on offer to the public. During the year, we authorised 126 CIS, comprising 122 unit trusts and mutual funds, two mandatory provident fund (MPF) pooled investment funds, one paper gold scheme, and one real estate investment trust (REIT).

We authorised 146 unlisted structured investment products for public offering during the year.

Authorised CIS

	As at 31.3.2020	As at 31.3.2019	As at 31.3.2018
Unit trusts and mutual funds	2,135	2,216	2,215
Investment-linked assurance schemes	299	300	299
Pooled retirement funds	33	34	34
MPF schemes	29	31	31
MPF pooled investment funds	206	191	194
Others	26 [^]	25	26
Total	2,728	2,797	2,799

[^] Comprising 14 paper gold schemes and 12 REITs.

Unlisted structured investment products

	2019/20	2018/19	2017/18
Unlisted structured investment products ^a	146	130	114
Authorisations granted under section 105 of the Securities Futures Ordinance ^b	111	102	84

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 Under section 105, offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

¹ Dalian Commodity Exchange.

ETFs and leveraged and inverse products

As of 31 March 2020, the number of SFC-authorized exchange-traded funds (ETFs) listed on The Stock Exchange of Hong Kong Limited (SEHK) was 130, including 24 leveraged and inverse (L&I) products, with total assets under management (AUM) of \$279.15 billion. Daily turnover in these ETFs averaged \$5.96 billion in the preceding 12 months.

We authorised the world's first iron ore futures ETF. It tracks the DCE¹ Iron Ore Futures Price Index and was listed in March 2020.

During the year, we relaxed the leverage cap for inverse products to a factor of two-times negative (-2x). We also streamlined requirements to allow an SFC-authorized feeder ETF to invest in an eligible overseas master ETF on a case-by-case basis.

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We worked with SEHK to enhance the efficiency and liquidity of the ETF market. A new buy-in exemption for ETF market makers to cover short positions associated with their market making activities was introduced in July 2019. A new spread table and a continuous quoting market making regime were approved for introduction later this year.

Open-ended fund companies

The first authorised ETF structured as a public open-ended fund company (OFC) was listed in January 2020. We also registered two private OFCs during the year.

To encourage more private funds to set up as OFCs in Hong Kong, we launched a consultation in December 2019 on proposed enhancements to the OFC regime. For private OFCs, proposals included allowing securities brokers to act as custodians and expanding the investment scope to include loans as well as shares and debentures of Hong Kong private companies.



Ms Christina Choi (right), Executive Director, Investment Products, at an awards ceremony

We also proposed a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong and a requirement for OFCs to keep a register of beneficial shareholders to enhance anti-money laundering and counter-terrorist financing measures.

SFC-authorised renminbi investment products

	As at 31.3.2020
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	58
Paper gold schemes with renminbi features	1
Recognised Mainland funds under the Mainland-Hong Kong Mutual Recognition of Funds arrangement	50
Unlisted structured investment products issued in renminbi ^a	146
Unlisted funds (non-renminbi denominated) with renminbi share classes	236
Listed products	
ETFs primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	30
Renminbi gold ETFs ^b	1
Renminbi REITs	1
ETFs (non-renminbi denominated) with renminbi trading counters	18

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

b Only includes gold ETF denominated in renminbi.

Renminbi products

As of 31 March 2020, there were 58 SFC-authorized unlisted funds² and 30 ETFs³ primarily investing in the onshore Mainland securities market⁴ or offshore renminbi bonds, fixed income instruments or other securities. The increasing number of UCITS⁵ funds offering renminbi share classes provided more renminbi investment options in the Hong Kong market.

Mutual market access

To broaden the investor base for Hong Kong funds and encourage the development of local investment expertise, we promote cross-border offerings of qualified Hong Kong public funds to the Mainland and other overseas markets through mutual recognition arrangements.

We signed a mutual recognition of funds (MRF) agreement with The Netherlands Authority for the Financial Markets in May 2019 which allows eligible Dutch and Hong Kong public funds to be distributed in the other market through a streamlined vetting process.

We entered into an addendum to our memorandum of understanding with the UK Financial Conduct Authority (FCA) to ensure the smooth operation of the UK-Hong Kong MRF arrangement after the UK's withdrawal from the European Union (commonly known as Brexit). In addition, we informed the market about the continuous acceptability of UK-domiciled UCITS funds as recognised jurisdiction schemes and that UK management companies with appropriate permissions from the FCA may continue to manage SFC-authorized funds post-Brexit.

Laying a foundation for the future

We work 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. We played an active role in recent Government-driven initiatives to establish a limited partnership regime for funds and provide tax concessions for carried interest to attract private equity funds.

We also 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

or its size, or where its central management is located, significantly strengthening Hong Kong's competitiveness as an international fund management centre.

	Public funds	Private funds	
Policy initiatives	Broaden investor base	Facilitative measures	Collaboration with Government
	Enhance regulations	Tax incentives	
	Improve market infrastructure	Flexible legal structure	

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

3 Refers to unlisted funds or ETFs which are renminbi denominated.

4 Refers to onshore Mainland investment through the Renminbi Qualified Foreign Institutional Investor, Stock Connect, Bond Connect and the China Interbank Bond Market.

5 Undertakings for collective investment in transferable securities.

Products

During the year, we authorised the first Luxembourg UCITS fund under the Luxembourg-Hong Kong MRF scheme.

Under the Mainland-Hong Kong MRF regime, 10 Hong Kong MRF funds were approved by the China Securities Regulatory Commission during the year. As of 31 March 2020, a total of 79 funds were approved under the regime and the aggregate net subscription for both Mainland and Hong Kong MRF funds was about RMB15.6 billion.

Asset and wealth management activities

We released the *Asset and Wealth Management Activities Survey 2018* in July 2019. To provide a more comprehensive overview of Hong Kong's asset and wealth management industry, the scope of this annual survey was extended to cover assets held by firms providing trust services in Hong Kong. The survey found that the AUM of Hong Kong's asset and wealth management business amounted to \$23,955 billion as at 31 December 2018. Net fund inflows in 2018 were \$783 billion, despite a 5% year-on-year decline in the adjusted AUM⁶.

Regulatory enhancements

Revised UT Code

The 12-month transition period for the implementation of the revised Code on Unit Trusts and Mutual Funds (UT Code) ended on 31 December 2019. Enhanced investor protection safeguards include setting a limit for derivative usage by plain vanilla funds. For greater transparency, SFC-authorised funds are now denoted on the SFC website as derivative or non-derivative funds (ie, plain vanilla funds). As at 31 March 2020, there were 1,787 non-derivative funds and 115 derivative funds.

Depositaries of SFC-authorised funds

We launched a consultation in September 2019 on a proposed framework for a new type of regulated activity (RA 13) – acting as a depositary⁷ of an SFC-authorised CIS. Bringing depositaries under our licensing, supervision and enforcement regime will provide more protection for investors in public funds.



Asset and Wealth Management Activities Survey

FAQs

In view of the market volatility related to the COVID-19 outbreak, we issued frequently asked questions (FAQs) to allow 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 our prior approval, subject to certain conditions. We also reminded fund managers that they are expected to carefully consider and deploy these and other liquidity risk management tools with the primary objective of ensuring the fair treatment of all investors.

⁶ The adjusted AUM, which amounted to \$23,047 billion as of 31 December 2018, excludes assets held under trusts by non-licensed corporations and registered institutions.

⁷ Depositaries are trustees for SFC-authorised CIS in unit trust form, and custodians at the top of the custodial chain for SFC-authorised CIS in other forms.

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 conduct thematic surveillance focused on topical issues such as the impact of new product features and the deterioration of a particular country's or market sector's credit quality.

We also closely monitor the liquidity of SFC-authorized funds through reports from asset managers on unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems.

In view of the volatility and uncertainty in local and international markets, we heightened our supervision and surveillance by strengthening reporting requirements focusing on funds with large redemptions and funds' liquidity profiles. In response to the COVID-19 outbreak, we also stepped up our monitoring of locally domiciled high-yield bond funds and issued a circular to remind fund managers and



Encouraging more OFCs in Hong Kong

depositories of their obligations to properly manage the liquidity of SFC-authorized funds and ensure the fair treatment of investors under volatile market conditions.

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.

Message from Chairman and CEO

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