Products

We formulate policy initiatives to strengthen Hong Kong's position as a full-service international asset and wealth management centre and a preferred fund domicile. On a day-to-day basis, we authorise and regulate investment products offered to the public in Hong Kong, including monitoring their ongoing compliance with our regulatory requirements.

Facilitating market development

Authorisations

As of 31 March 2019, a total of 2,797 SFC-authorised collective investment schemes (CIS) were on offer to the public. During the year, we authorised 136 CIS, comprising 134 unit trusts and mutual funds, one investment-linked assurance scheme (ILAS) and one mandatory provident fund (MPF) pooled investment fund.

We authorised 130 unlisted structured investment products for public offering during the year.

ETFs and leveraged and inverse products

As of 31 March 2019, the number of SFC-authorised exchange-traded funds (ETF) listed on The Stock Exchange of Hong Kong Limited was 137, including 22 leveraged and inverse (L&I) products.

To offer more investment choices for investors in Hong Kong, we relaxed the leverage cap for inverse products to a factor of two-times negative (-2x).

In addition, we introduced active ETFs in the revised Code on Unit Trusts and Mutual Funds (UT Code). Unlike a passive ETF, an active ETF does not track an index, but seeks to achieve a stated investment objective by investing in a portfolio of stocks, bonds and other assets. The revised UT Code also allows listed and unlisted share classes to co-exist in a single fund pursuing the same investment strategy, expanding the funds' distribution channels[1].

Authorised CIS

	As at 31.3.2019	As at 31.3.2018	As at 31.3.2017
Unit trusts and mutual funds	**2,216**	2,215	2,203
ILAS	**300**	299	300
Pooled retirement funds	**34**	34	34
MPF schemes	**31**	31	35
MPF pooled investment funds	**191**	194	182
Others	**25**[a]	26	26
Total	**2,797**	2,799	2,780

[a] Comprising 14 paper gold schemes and 11 real estate investment trusts (REIT).

Unlisted structured investment products

	2018/19	2017/18	2016/17
Unlisted structured investment products[a]	**130**	114	100
Authorisations granted under the Securities and Futures Ordinance[b]	**102**	84	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] For example, an unlisted index fund distributed via the secondary market and a passive ETF for distribution in the primary market.

Ms Christina Choi, Executive Director, Investment Products, speaks at an industry conference on asset management

Renminbi products

As of 31 March 2019, there were 64 SFC-authorised unlisted funds[2] and 34 ETFs[3] primarily investing in the onshore Mainland securities market[4] or offshore renminbi bonds, fixed income instruments or other securities. The number of UCITS[5] funds offering renminbi share classes increased rapidly after we issued guidance to clarify relevant requirements. This also fostered the development of related products and the introduction of additional renminbi investment options in the Hong Kong market.

SFC-authorised renminbi investment products

	As at 31.3.2019
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	**64**
Paper gold schemes with renminbi features	**1**
Recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds arrangement	**50**
Unlisted structured investment products with renminbi features[a]	**123**
Unlisted funds (non-renminbi denominated) with renminbi share classes	**195**
Listed products	
ETFs primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	**34**
Renminbi gold ETFs[b]	**1**
Renminbi REITs	**1**
ETFs (non-renminbi denominated) with renminbi trading counters	**20**

a The number is on a "one product per key facts statement" basis.
b Only includes gold ETF denominated in renminbi.

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 quota, Stock Connect, Bond Connect and the China Interbank Bond Market.
5 Undertakings for collective investment in transferable securities.

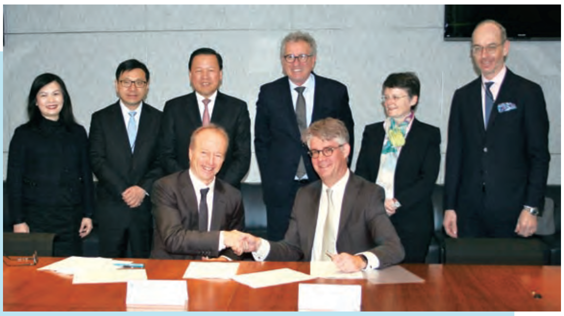
Mutual market access

To broaden the investor base for Hong Kong funds, promote Hong Kong as a competitive asset and wealth management centre and fund domicile and encourage the development of local investment expertise, we are proactive in promoting cross-border offerings of qualified Hong Kong public funds to overseas markets through mutual recognition arrangements.

Following the implementation of the mutual recognition of funds (MRF) arrangements with the Mainland and other markets[6], we expanded our MRF network to include the UK in October 2018, Luxembourg in January 2019 and the Netherlands in May 2019.

After discussions with overseas regulators, we secured eligibility for SFC-authorised funds structured in the form of open-ended fund companies (OFC) under the MRF agreements with Switzerland, France, the UK and Luxembourg. We are exploring MRF arrangements with other overseas jurisdictions.

The Mainland-Hong Kong MRF regime maintained momentum with an increase in both applications and approvals of Hong Kong MRF funds. During the year, a total of eight funds were approved under the MRF, bringing the total to 69. As of 31 March 2019, the aggregate net subscription for both Mainland and Hong Kong MRF funds was about RMB10 billion.



Signing of MRF agreement with the Luxembourg Commission de Surveillance du Secteur Financier

Open-ended fund companies

The new OFC regime, which enables funds with variable capital to be established in corporate form in Hong Kong, came into effect on 30 July 2018. We worked closely with the Government to complete the legislative process for the subsidiary legislation. We also issued the new OFC code in July 2018 following a public consultation. By providing a corporate fund structure in addition to a unit trust form, the OFC regime broadens the choice of investment vehicles and facilitates the distribution of Hong Kong funds in overseas markets.

Revamped post-authorisation process

We implemented a revamped process to streamline the vetting of scheme changes and related revised documents subject to the SFC's approval in February 2018. Since then, there has been an overall improvement in the quality of applications and shorter processing times with more timely responses from applicants.

Asset and wealth management activities

We released the *Asset and Wealth Management Activities Survey 2017* (previously known as the *Fund Management Activities Survey*) in July 2018. To provide a more comprehensive overview of Hong Kong's asset and wealth management industry, the scope of this annual survey was extended to private banking and private wealth management clients' accounts. According to the survey findings, the asset and wealth management business in Hong Kong amounted to $24,270 billion as at 31 December 2017[7]. Of this, $17,511 billion was attributable to asset management and fund advisory business, which recorded a year-on-year increase of 23%.

Regulatory enhancements

UT Code review

Amendments to the UT Code took effect on 1 January 2019, with a 12-month transition period. A public consultation, concluded in December 2018, proposed amendments based on a holistic review of the UT Code which involved extensive engagement with stakeholders. Changes included strengthening the requirements for key operators and introducing new fund types (see sidebar on page 53).

[6] Include Australia, Malaysia (for Islamic funds), Taiwan (for ETFs), Switzerland and France.
[7] Due to the extended scope of the survey, comparative figures are not available.

Updates to fund regulation

As part of a holistic review to update the regulatory regime for public funds, changes were made to the UT Code in three major areas.

Derivative investments

To help investors better differentiate between products, the revised UT Code sets out a clear overall 50% limit for derivative investments by plain vanilla public funds. Funds with derivative investments over this limit are regarded as derivative funds which are subject to enhanced distribution requirements. This measure was refined after consulting a focus group comprising fund managers and industry experts.

To improve transparency, SFC-authorised funds have been listed as derivative funds or non-derivative funds on the SFC website starting from 1 January 2019.

Trustees and custodians

We tightened the obligations and internal controls requirements for trustees and custodians of public funds, which have important obligations to safeguard fund assets and perform independent oversight. We will also explore measures to ensure a robust regulatory regime for the safekeeping and custody of assets by trustees and custodians of public funds.

New product types

The revised UT Code introduces new fund types, such as active ETFs (see page 50), to encourage product development and offer investors wider investment choices.

To facilitate implementation of the revised UT Code, we published new guidance and frequently asked questions on our website and held two briefings for more than 250 industry participants.

Benefits for stakeholders

Asset and wealth management

Revised fund management conduct requirements, which took effect in November 2018, enhance asset management regulation in key areas including securities lending and repurchase agreements, custody of fund assets, liquidity risk management and disclosure of leverage by fund managers.

Enhancements to provide more point-of-sale transparency to better address conflicts of interest when investment products are sold came into effect in August 2018. Important changes include requirements governing the use of the term "independent" by intermediaries and enhanced disclosures of trailer fees, commissions and other monetary benefits. Additional protective measures for the sale of complex products will become effective in July 2019, including the requirement to ensure the suitability of complex products sold on an unsolicited basis, whether distributed through online or offline platforms.

Surveillance and monitoring

We updated the fund data reporting requirements for Hong Kong-domiciled SFC-authorised funds in June 2018 to strengthen our ability to identify potential problem areas and monitor funds' risk exposures. The requirements cover periodic reporting of key data including the fund's subscription and redemption flows, liquidity profile, asset allocation and securities financing and borrowing transactions.

Industry briefing

In addition, we monitor the liquidity of funds through reports from asset managers on any unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems, and review abnormal fluctuations of the daily unit prices of Hong Kong-domiciled public funds as compared with their respective peer groups. We regularly monitor ETFs and L&I products through data related to pricing, exposure to counterparties and, for L&I products, daily rebalancing activities.

We also conduct ongoing surveillance of the marketing materials of SFC-authorised funds and fund managers' websites to monitor their compliance with regulatory requirements. We perform routine surveillance of advertisements and handle complaints about property-related or other suspected arrangements which may be CIS. We looked into 19 suspicious CIS cases during the year.

We handled 13 cases of material non-compliance with regulatory requirements by issuers of SFC-authorised products, which resulted in compensatory payments totalling $29 million to affected Hong Kong investors.