

Products

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

Authorisations and market development

Authorisations

As of 31 March 2021, a total of 2,812 SFC-authorized collective investment schemes (CIS) were on offer to the public. During the year, we authorised 188 CIS, comprising 180 unit trusts and mutual funds (including 110 Hong Kong-domiciled funds), one investment-linked assurance scheme (ILAS) and seven mandatory provident fund (MPF) pooled investment funds.

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

ETFs and leveraged and inverse products

As of 31 March 2021, the number of SFC-authorized exchange-traded funds (ETFs) listed on the Stock Exchange of Hong Kong Limited (SEHK) was 148, including 26 leveraged and inverse (L&I) products, with total assets under management (AUM) of \$394.41 billion. The average daily turnover of these ETFs was \$7 billion in the preceding 12 months.

During the year, we and the China Securities Regulatory Commission (CSRC) approved four ETFs under a scheme which facilitates the cross-listing of ETFs between the Hong Kong and Mainland markets (ETF Cross Listing). As of 31 March 2021, the total AUM of the four cross-listed ETFs was \$729.3 million.

Authorised CIS

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Unit trusts and mutual funds – Hong Kong-domiciled	835	762	789
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,382	1,373	1,427
ILAS	298	299	300
Pooled retirement funds	33	33	34
MPF schemes	27	29	31
MPF pooled investment funds	212	206	191
Others	25 [^]	26	25
Total	2,812	2,728	2,797

[^] Comprising 13 paper gold schemes and 12 real estate investment trusts (REITs).

Authorised unlisted structured investment products

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Unlisted structured investment products [#]	146	146	125

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

We authorised the first batch of swap-based L&I products tracking Mainland equity indices and the first gold futures leveraged product.

We also authorised the first feeder ETF under streamlined requirements which allow investment in eligible UCITS¹ master ETFs.

We worked with SEHK to further enhance the efficiency and liquidity of ETFs in the secondary market. A new spread table and a continuous quoting market making regime for ETFs were introduced in June 2020.

We also jointly published guidance and organised a webinar with SEHK for the ETF industry on matters commonly encountered by ETF managers, including the publication of announcements, suspension and resumption of primary market dealing and secondary market trading.

To mitigate mispricing risk, we collaborated with SEHK to impose price limits of 15% on ETFs during the pre-opening session of their first trading day.

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

For the year ended 31 March 2021, Hong Kong-domiciled funds reported overall net inflows of US\$16,495 million, which was primarily attributed to bond funds and index funds.

	12 months to 31.3.2021			12 months to 31.3.2020		
	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)
Bond	24,575	16,204	8,371	19,020	14,125	4,895
Equity	23,741	21,339	2,402	14,220	16,959	(2,739)
Mixed	7,923	7,600	323	7,020	8,192	(1,172)
Money market	18,870	17,794	1,076	9,509	7,675	1,834
Fund of funds ^b	2,900	3,458	(558)	2,819	2,875	(56)
Index ^c	39,103	34,210	4,893	25,093	27,006	(1,913)
Guaranteed	0	12	(12)	1	11	(10)
Other specialised ^d	0	0	0	25	31	(6)
Total	117,112	100,617	16,495	77,707	76,874	833

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

b Excluding feeder funds whose master funds are authorised by the SFC.

c Including ETFs and L&I products.

d Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

1 Undertakings for collective investment in transferable securities.

Products

Renminbi products

As of 31 March 2021, there were 53 SFC-authorized unlisted funds² and 39 ETFs³ primarily investing in the onshore Mainland securities markets⁴ or offshore renminbi bonds, fixed income instruments or other securities. The scope of renminbi products continued to expand with the introduction of ETF Cross Listing in August 2020 and the authorisation of the first set of renminbi-denominated L&I products in July 2020.

To encourage and facilitate the set-up of private OFCs, we removed all investment restrictions for private OFCs and allowed eligible licensed or registered securities brokers to act as custodians for private OFCs since September 2020.

We also concluded a further consultation in December 2020 on requiring OFCs to appoint a responsible person to carry out anti-money laundering and counter-financing of terrorism functions.

Open-ended fund companies

We registered 10 open-ended fund companies (OFC) during the year, including the first unlisted public OFC. We also approved the establishment of a number of OFC sub-funds, including five authorised ETFs.

SFC-authorized renminbi investment products

	As at 31.3.2021
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	53
Unlisted funds (non-renminbi denominated) with renminbi share classes	267
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	145
Listed products	
ETFs primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	39
ETFs (non-renminbi denominated) with renminbi trading counters	18
Renminbi L&I products	2
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.

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 Qualified Foreign Investor, Stock Connect, Bond Connect and the China Interbank Bond Market.

Grant scheme for OFCs and REITs in Hong Kong

As one of our initiatives to strengthen the competitiveness of Hong Kong as a global asset and wealth management centre and a preferred fund domicile, we worked closely with the Government to introduce a three-year grant scheme to subsidise the formation of OFCs and listing of REITs in Hong Kong.

Effective 10 May 2021, the grant scheme covers 70% of eligible expenses incurred in setting up an OFC or listing a REIT in Hong Kong, subject to a cap of \$1 million per OFC and \$8 million per REIT.

Administered by the SFC, the scheme strengthens Hong Kong's asset and wealth management industry by encouraging the use of the OFC structure and broadening the REIT market.

Three-year grant scheme

	OFC	REIT
Subsidy (% of eligible expenses)	70%	
Cap	\$1 million	\$8 million

Mutual recognition of funds

We proactively promote cross-border offerings of eligible Hong Kong public funds to the Mainland and other overseas markets through mutual recognition arrangements. This helps to broaden the investor base for Hong Kong public funds, strengthen Hong Kong as a competitive global asset and wealth management centre and encourage the development of local investment expertise.

In January 2021, we signed a mutual recognition of funds (MRF) agreement with the Securities and Exchange Commission of Thailand which allows eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process and expedites the approval process for local feeder funds investing in MRF-eligible master funds in the other market. We hosted a webinar in February 2021 to explain these new initiatives to the industry.

Under the Mainland-Hong Kong MRF regime, a total of four funds were approved during the year, bringing the total to 82. As of 31 March 2021, the aggregate net subscription for both Mainland and Hong Kong MRF funds was about RMB15.7 billion.

Greater Bay Area Wealth Management Connect

In January 2021, we entered into a memorandum of understanding (MoU) with the People's Bank of China, China Banking and Insurance Regulatory Commission, CSRC, State Administration of Foreign Exchange, Hong Kong Monetary Authority and the Monetary Authority of Macao on the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. The MoU provides a framework for the exchange of supervisory information and enforcement cooperation as well as a liaison mechanism for investor protection issues.

Products

Asset and wealth management activities

The *Asset and Wealth Management Activities Survey 2019*, released in August 2020, showed that Hong Kong's asset and wealth management business posted strong growth despite the challenges facing global markets, with AUM increasing by 20% year-on-year to \$28,769 billion as at 31 December 2019. Net fund inflows of \$1,668 billion⁵ were recorded in 2019.

Hong Kong's asset
and wealth management business

AUM increased to
\$28,769 billion

Regulatory enhancements

Real estate investment trusts

Following a two-month public consultation, amendments to the Code on Real Estate Investment Trusts took effect in December 2020 to provide Hong Kong REITs with more flexibility in making investments. Key enhancements include allowing investments in minority-owned properties, providing more flexibility to invest in property development projects, increasing the borrowing limit from 45% to 50% of gross asset value and broadly aligning the requirements for REIT's connected party transactions and notifiable transactions with the requirements for listed companies.

Pooled retirement funds

In view of the wide participation in Hong Kong by employers and employees of occupational retirement schemes which invest in pooled retirement funds, we launched a public consultation on proposals to update the Code on Pooled Retirement Funds in December 2020. Key proposals would strengthen investor protection by enhancing the requirements for fund operations and clarifying the obligations of key operators.



Ms Christina Choi, Executive Director, Investment Products, speaks at the Offshore China Fund Awards 2020

Electronic dissemination of investment product documents

With the use of electronic media increasing, we issued guidance to the industry to facilitate the dissemination of post-sale investment product documents in electronic form.

COVID-19 measures

In view of the volatility and uncertainty in local and international markets caused by the pandemic, our surveillance of locally domiciled high-yield bond funds remains heightened.

We reminded ETF managers to closely monitor the secondary market trading of ETFs and manage ETFs in the best interests of investors even under extreme market conditions. We also urged ETF market makers to have proper business contingency plans to deal with any potential operational disruptions.

To alleviate the administrative burden on fund managers due to the COVID-19 outbreak, we issued frequently asked questions in August 2020 to regularise the temporary relief measures provided for product-related applications, such as allowing document submissions in soft copy only and providing flexibility for fee payments.

⁵ Some fund inflows were attributable to business restructuring by international firms which allocated more AUM to Hong Kong in 2019.

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.

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.

Amidst geopolitical tensions, we monitor and assess the impact of measures imposed by foreign authorities on the operation of SFC-authorized funds. In particular, we closely monitor the impact on retail funds and structured products of the US executive order prohibiting investments in specific Mainland companies. We actively engaged with relevant managers, trustees and custodians and reminded them that any actions taken by them should be fair having regard to the best interests of investors.



Our senior executives engage with the industry on the REIT regime

In anticipation of the potential discontinuation of the London Interbank Offered Rate after the end of 2021, we conducted a survey of licensed management companies of Hong Kong-domiciled SFC-authorized funds to assess their readiness and reminded them to properly manage the associated risks.

We perform routine surveillance of advertisements and handle complaints about property-related or other suspected arrangements which may be CIS. We looked into nine suspicious CIS cases during the year.

Message from Chairman and CEO

Strategic Priorities

Mission and Mandates

Corporate Governance

Our People

Operational Review

Corporate Developments

Corporate Social Responsibility

Financial Statements

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