

# Products

Our policy initiatives seek to enhance Hong Kong's position as a global asset and wealth management centre and a preferred fund domicile, whilst providing investors with better protection and a wider variety of investment options. We also authorise and regulate investment products offered to the public in Hong Kong and monitor their ongoing compliance with our regulatory requirements.



Ms Christina Choi, Executive Director of Investment Products, at the Saudi Arabia ETF Investment Forum



funds), 16 investment-linked assurance schemes (ILAS), one paper gold scheme and 16 mandatory provident fund (MPF) pooled investment funds. A total of 2,951 SFC-authorized CIS were offered to the public.

We also authorised 349 unlisted structured investment products for public offering during the year.

## OFC registrations

During the year, we registered 172 open-ended fund companies (OFCs), including six re-domiciled OFCs, and approved 328 OFC sub-funds, comprising 17 SFC-authorized funds, amongst which there were eight exchange-traded funds (ETFs) with a total market capitalisation of over \$507 million (US\$64 million). Of the 302 OFCs registered as of 31 March 2024, eight were corporate funds re-domiciled in Hong Kong as private OFCs.

## Hong Kong-domiciled funds

For the 926 Hong Kong-domiciled funds, overall net inflows of US\$11.5 billion were recorded during the year.

## Gatekeeping investment products<sup>1</sup>

### Authorisations

During the year, we authorised 170 collective investment schemes (CIS), comprising 137 unit trusts and mutual funds (including 69 Hong Kong-domiciled

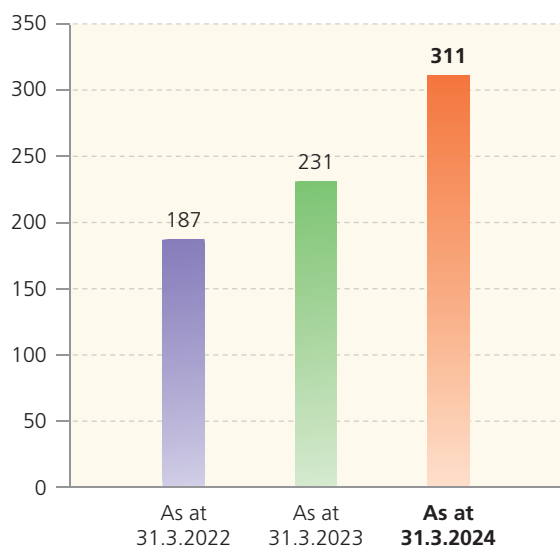
### Authorised CIS

	As at 31.3.2024	As at 31.3.2023	As at 31.3.2022
Unit trusts and mutual funds — Hong Kong-domiciled	926	913	866
Unit trusts and mutual funds — non-Hong Kong-domiciled	1,425	1,417	1,381
ILAS	319	305	300
Pooled retirement funds	32	32	32
MPF schemes	26	26	26
MPF pooled investment funds	197	221	219
Others <sup>^</sup>	26	25	25
<b>Total</b>	<b>2,951</b>	<b>2,939</b>	<b>2,849</b>

<sup>^</sup> Comprising 15 paper gold schemes and 11 real estate investment trusts.

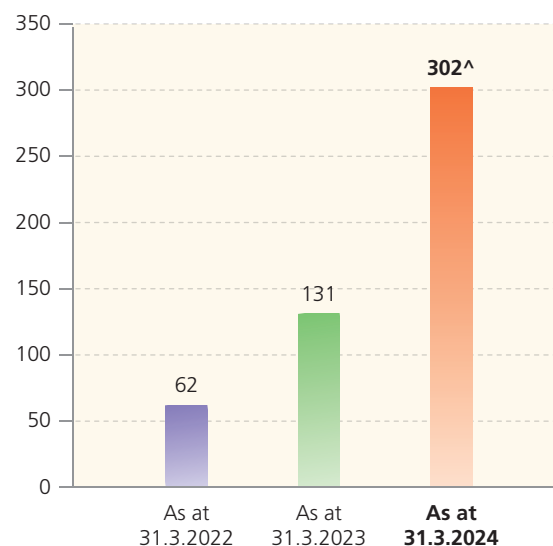
<sup>1</sup> All figures are as of 31 March 2024 unless otherwise specified.

### Authorised unlisted structured investment products<sup>^</sup>



<sup>^</sup> On a "one product per key facts statement" basis, including equity-linked investments and deposits.

### Registered OFCs



<sup>^</sup> As of 31 March 2024, this figure included 274 private OFCs.

### Authorised unit trusts and mutual funds domiciled in Hong Kong — fund flows by type<sup>a</sup> (US\$ million)

Hong Kong-domiciled funds reported overall net inflows of \$89.6 billion (US\$11.5 billion), which was primarily attributed to index funds and money market funds.

	12 months to 31.3.2024			12 months to 31.3.2023		
	Subscription	Redemption	Net subscription/ (redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/ (redemption) <sup>b</sup>
Bond	11,523	11,737	(215)	9,923	12,045	(2,122)
Equity	11,557	16,595	(5,038)	13,628	13,923	(295)
Mixed	4,344	7,530	(3,186)	7,313	8,831	(1,518)
Money market	61,610	51,586	10,024	33,293	26,634	6,659
Feeder funds <sup>c</sup>	2	6	(4)	3	4	(1)
Index <sup>d</sup>	69,797	59,972	9,824	65,412	60,285	5,127
Guaranteed	–	5	(5)	0	4	(4)
Other specialised <sup>e</sup>	148	93	55	78	65	13
<b>Total<sup>b</sup></b>	<b>158,980</b>	<b>147,525</b>	<b>11,455<sup>f</sup></b>	<b>129,650</b>	<b>121,791</b>	<b>7,859</b>

<sup>a</sup> Based on data reported by funds domiciled in Hong Kong.

<sup>b</sup> Figures may not add up to total due to rounding.

<sup>c</sup> The subscription and redemption amounts of feeder funds whose master funds are authorised by the SFC have been excluded to better reflect the total fund flows.

<sup>d</sup> Including ETFs and leveraged and inverse products.

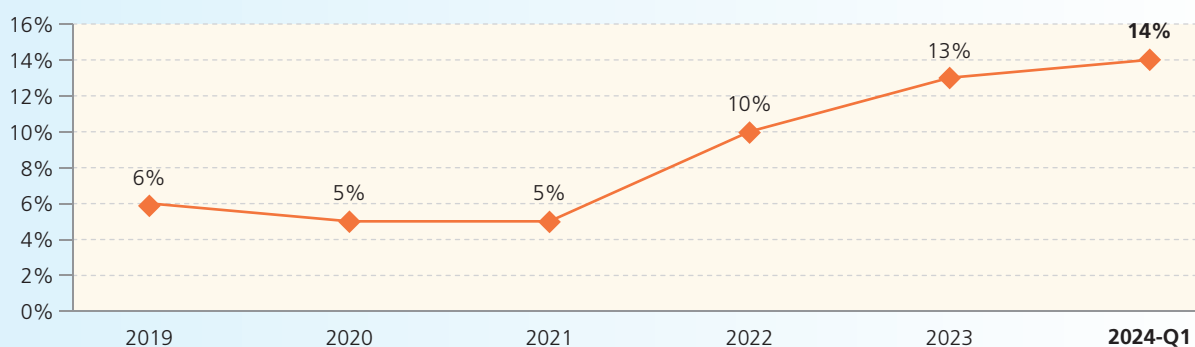
<sup>e</sup> Including virtual asset futures ETFs.

<sup>f</sup> This figure includes net fund outflows of \$44.4 billion (US\$5.7 billion) reported by retail approved pooled investment funds which MPFs may invest into and may also be offered to the public in Hong Kong.

### Growing vibrancy of Hong Kong’s ETF market

The launch of ETF Connect in July 2022 has spurred the growth in Hong Kong’s ETF market turnover. ETFs’ share of trading on the Main Board reached 14% in the first quarter of 2024, more than doubling since 2021.

#### Trading of HK ETFs as % of the turnover of the Main Board of the Hong Kong stock market (%)

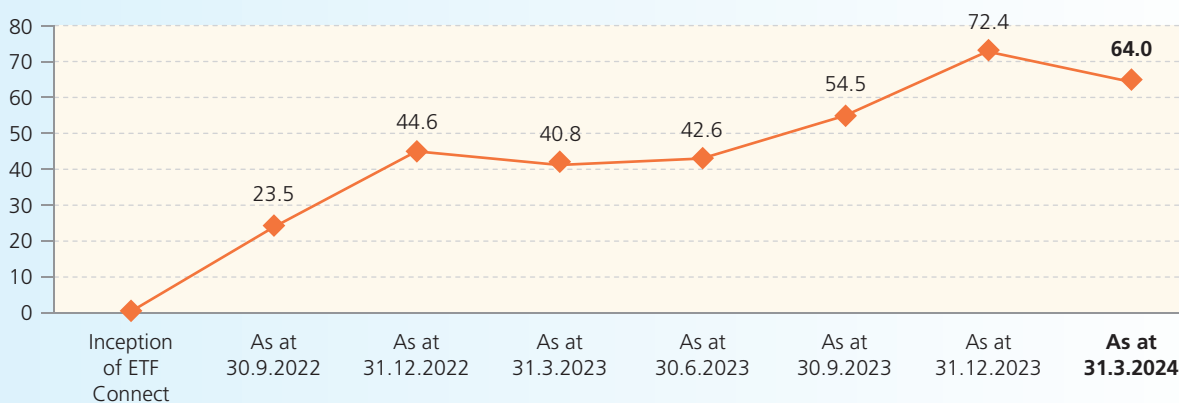


Source: Hong Kong Exchanges and Clearing Limited (HKEX)

ETF Connect contributed close to 10% of the local ETF market’s overall turnover since its launch. Eligible ETFs have also recorded cumulative inflows since their inclusion under the scheme.

#### Cumulative fund inflows to eligible Hong Kong ETFs since the inception of ETF Connect

(HK\$ billion)



Source: HKEX

ETF Connect — Southbound trading and fund flows of eligible Hong Kong ETFs<sup>a</sup>

Six months ended	Number of eligible Hong Kong ETFs as of period end	Market capitalisation as of period end (\$ million)	Southbound trading average daily turnover (\$ million)	As % of eligible ETFs' turnover (%)	Fund inflow/ (outflow) of eligible Hong Kong ETFs (\$ million)
2024.3.31	8	196,197	2,140	10.2	9,405
2023.9.30	6	203,005	3,217	14.0	13,777
2023.3.31	5	203,835	1,561	6.8	17,231

<sup>a</sup> Based on data from HKEX.

## ETFs and L&amp;I products

A total of 179 SFC-authorized ETFs, including 25 leveraged and inverse (L&I) products, were listed on the Stock Exchange of Hong Kong Limited, up 4.1% from 31 March 2023. Their total market capitalisation reached \$386.4 billion (US\$49.4 billion), down 5.1% from 2023 levels. Full-year net inflows to these ETFs amounted to \$73.4 billion (US\$9.4 billion), with \$17.9 billion (US\$2.3 billion) in net inflows during January to

March 2024<sup>2</sup>. Their average daily turnover decreased 1.2% from the previous quarter to \$13.3 billion (US\$1.7 billion), but rose 5.8% to \$13.7 billion (US\$1.8 billion) year-on-year.

During the year, we authorised Asia's first and the world's largest ETF investing in Saudi Arabian-listed stocks. The ETF was listed in November 2023 (see sidebar below).

## Market connectivity with the Middle East

We authorised Asia's first and the world's largest ETF investing in Saudi Arabia-listed stocks. Listed in Hong Kong last November, the ETF provides retail investors with exposure to the Saudi Arabian market by tracking the performance of the FTSE Saudi Arabia Index. As at 31 March 2024, the ETF's market capitalisation amounted to US\$1.13 billion, up 13.5% since listing.

To enhance connectivity with the Middle East, we co-hosted a high-level roundtable and a seminar in Hong Kong with the Dubai Financial Services Authority (DFSA) in April 2024. More than 40 members of Hong Kong's asset management industry attended. Participants gained a deeper understanding of the regulatory requirements for offering Hong Kong-domiciled funds in the Dubai International Financial Centre (DIFC) and the opportunities in DIFC for Hong Kong asset managers, including accessing to investors in the wider United Arab Emirates (UAE) market through the UAE fund passporting regime.

Following the events, we published a quick reference guide on our website to provide an overview of DIFC's market landscape and how Hong Kong funds can be offered there and in the UAE via DIFC by way of the UAE fund passporting regime.



(From left to right) Ms Christina Choi; Mr Ian Johnston, Chief Executive of the DFSA; Ms Julia Leung, Chief Executive Officer of the SFC; Mr David Tait, Associate Director of Conduct, Supervision, of the DFSA

<sup>2</sup> Since the second quarter of 2023, market capitalisation and fund flow statistics have been calculated based on the units or shares of all ETFs held in Hong Kong. Prior to that, these statistics were calculated based on the total units or shares of ETFs, except for the SPDR Gold Trust.

## Products

We authorised the first two active ETFs adopting a covered call writing strategy in Hong Kong. Listed in February 2024, the ETFs invest in constituent stocks in the Hang Seng Index and Hang Seng China Enterprises Index, and sell call options on the two indices to receive premium from option buyers.

During the year, eight ETFs were eligible for southbound trading of ETF Connect. Their average daily turnover amounted to \$2,679 million (US\$342 million) and accounted for 12% of eligible Hong Kong ETFs' turnover.

### RMB products

A total of 58 SFC-authorised unlisted funds<sup>3</sup> and 51 ETFs<sup>4</sup> primarily invested in the onshore Mainland securities markets<sup>5</sup> or offshore renminbi bonds, fixed income instruments or other securities.

## Facilitating market development

### Cross-boundary Wealth Management Connect

To deepen financial market connectivity in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), financial regulatory authorities from the Mainland, Hong Kong and Macao issued revised rules and guidance for enhancements to the scheme in January 2024. Effective this February, the new measures include allowing eligible licensed corporations to participate in the scheme, expanding the eligible investment product scope to cover all non-complex Greater China equity funds and other non-complex funds rated by distributors as "low" to "medium-high" risk (excluding high-yield bond funds

### SFC-authorised RMB investment products

	As at 31.3.2024
<b>Unlisted products</b>	
Unlisted funds primarily investing in onshore Mainland securities markets or offshore RMB bonds, fixed income instruments or other securities	58
Unlisted funds (non-RMB denominated) with RMB share classes	431
Paper gold schemes denominated in RMB	1
Recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds arrangement	44
Unlisted structured investment products issued in RMB <sup>a</sup>	310
Investment-linked assurance schemes with policy currency in RMB	8
<b>Listed products</b>	
ETFs primarily investing in onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	51
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	28
RMB L&I products	3
RMB gold ETFs <sup>b</sup>	1
RMB REITs	1

<sup>a</sup> The number is on a "one product per key facts statement" basis.

<sup>b</sup> Only includes gold ETF denominated in RMB.

<sup>3</sup> Excluding recognised Mainland funds under the Mainland-Hong Kong Mutual Recognition of Funds arrangement.

<sup>4</sup> Refers to unlisted funds or ETFs which are denominated in RMB.

<sup>5</sup> Refers to onshore Mainland investments through the Qualified Foreign Investor scheme, Stock Connect, Bond Connect and the China Interbank Bond Market.

and single emerging market equity funds) which are domiciled in Hong Kong and authorised by the SFC. The measures also clarify the sale and distribution arrangements, increase the individual investor quota and support greater participation by GBA residents.

### ETF Connect enhancements

ETF Connect has been an important driver of the growth and turnover of Hong Kong's ETF market since its launch in July 2022. The SFC has been working closely with the China Securities Regulatory Commission (CSRC) and exchanges in both markets to further expand the product scope. In April 2024, Hong Kong Exchanges and Clearing Limited (HKEX) and the Mainland exchanges announced several enhancements to ETF Connect, including lowering the minimum fund size requirement and relaxing the weighting requirements for the underlying index tracked by an ETF. The exchanges will announce the implementation date when they complete the technical preparations.

### Inclusion of REITs under Stock Connect

To build on the success of Stock Connect, we have also been working with the Mainland authorities and exchanges on the proposed expansion of the scheme to cover real estate investment trusts (REITs).

### Mainland-Hong Kong MRF

We reached an agreement with the CSRC on relaxing the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme.

Under the scheme, a total of 38 Hong Kong funds were approved by the CSRC and 44 Mainland funds were authorised by the SFC as at 31 March 2024.

During the year, Hong Kong funds and Mainland funds recorded net subscriptions of about RMB10.9 billion and net redemptions of RMB92.5 million, respectively. The aggregate cumulative net subscription for both Hong Kong and Mainland funds was about RMB26.6 billion as at 31 March 2024.

### New integrated platform for retail fund distribution

The SFC has been working closely with HKEX and other stakeholders on launching an integrated fund platform (IFP) for retail fund distribution. The IFP will provide a business-to-business service model initially and cover the front-to-back distribution life cycle and value chain for distributing SFC-authorized funds in Hong Kong. The IFP is expected to increase participation and diversification in Hong Kong's retail fund market. It will also generate new business opportunities and reinforce Hong Kong's position as a leading international asset and wealth management centre.

### Supporting the New Capital Investment Entrant Scheme (New CIES)

The Government announced the launch of the New CIES in March 2024 to enrich the talent pool in Hong Kong and attract more new capital. Eligible CIS will be among the financial assets allowed for investment by scheme applicants. These will cover various SFC-

## Mainland-Hong Kong MRF scheme — fund flows<sup>a</sup> (RMB million)

	Six months ended 31.3.2024			Six months ended 30.9.2023			Six months ended 31.3.2023		
	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>	Subscription	Redemption	Net subscription/(redemption) <sup>b</sup>
Hong Kong funds	14,269	5,109	9,160	5,984	4,201	1,782	7,360	4,146	3,215
Mainland funds	21	112	(91)	201	202	(1)	182	165	16

<sup>a</sup> Based on data from the State Administration of Foreign Exchange.

<sup>b</sup> Figures may not add up to total due to rounding.

## Products

authorised and registered products which meet the requirements, including funds, ILAS, REITs and OFCs. In connection with the scheme's launch, we published a list of eligible CIS under the New CIES on a dedicated webpage on our website. The SFC will continue to support the Government's work to facilitate the smooth operation of the New CIES.

### Grant scheme for OFCs and REITs

Since its introduction in May 2021, the Government's grant scheme for OFCs and REITs has been well received by the asset management industry. The number of registered OFCs increased 131% year-on-year to 302.

The grant scheme has been extended for another three years until 9 May 2027. We issued a press release to set out the details. For instance, the extended scheme covers 70% of eligible expenses paid to Hong Kong-based service providers, subject to a cap of \$1 million per public OFC, \$500,000 per private OFC and \$8 million per REIT.

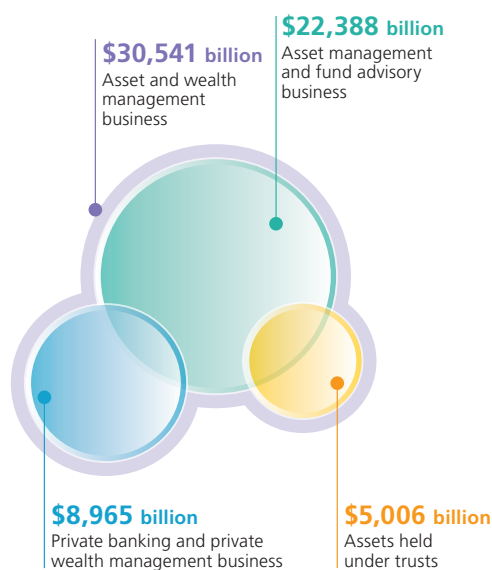
### ESG funds

The 224 SFC-authorized environmental, social and governance (ESG) funds<sup>6</sup> had total assets under management (AUM) of \$1,358.3 billion (US\$173.6 billion), up 14.4% from 2023. During the year, we maintained a dialogue with fund managers of new ESG funds with novel strategies, and worked closely with the Investor and Financial Education Council to raise investors' awareness of ESG funds.

### Hong Kong's asset and wealth management activities in 2022

In August 2023, we published our annual Asset and Wealth Management Activities Survey (AWMAS), which recorded total AUM of \$30,541 billion (US\$3,912 billion) for Hong Kong's asset and wealth management business as at end-2022. Net fund inflows amounted to \$88 billion (US\$11 billion). The AUM fell 14% from 2021, in line with the 15% drop in the AUM of worldwide regulated funds during 2022, and slightly outran major market indices.

## Highlights of the AWMAS



## Enhancing regulations

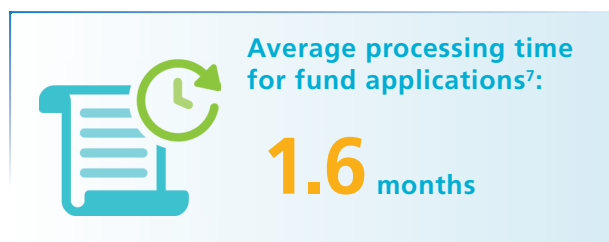
### Regulating depositaries of SFC-authorized CIS

Following the completion of the legislative process in May 2023, the new Type 13 regulated activity (RA 13) will come into effect in October 2024. The SFC issued a circular to provide further licensing guidance on RA 13 and began accepting corporate licence or registration applications in July 2023. As of 31 December, all depositaries of public funds operating in Hong Kong had submitted their RA 13 applications to the SFC. We also spoke to the industry about the new regime in training seminars hosted by the Hong Kong Trustees' Association and the Hong Kong Institute of Certified Public Accountants.

### Tokenisation of investment products

We provided guidance allowing primary dealing of tokenised SFC-authorized products subject to additional safeguards in November. We are also committed to engaging with market participants to establish appropriate measures that address issues relating to secondary trading of tokenised SFC-authorized products. The first tokenised SFC-registered private OFC was launched in December 2023, and the first tokenised retail gold product was authorised by us in March 2024 (see sidebar on page 57).

<sup>6</sup> See Sustainability on pages 115-124.



### Streamlined measures for SFC- authorised funds

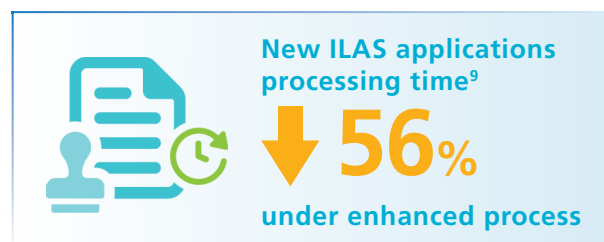
Our December 2023 circular and updated guidance set out a number of streamlined measures to enhance the operational efficiency and approval processes of SFC-  
authorised funds, such as the disclosure and reporting requirements relating to changes in investment delegates, reporting of pricing errors and breaches by SFC-  
authorised UCITS<sup>8</sup> funds and other post-  
authorisation notifications.

### Disclosing annualised returns for money market funds

In October 2023, we issued guidance to allow SFC-  
authorised money market funds to present annualised returns for periods of less than one year in factsheets, marketing materials or other documents, subject to certain disclosure and other requirements. This was in response to the industry's request to provide more fund performance information to investors, considering the adoption of similar practices in several major jurisdictions.

### Enhancing REIT regime and SFO market conduct regime for listed CIS

In March 2024, we launched a public consultation on proposals to introduce a statutory scheme of arrangement and compulsory acquisition mechanism for REITs and to enhance the market conduct regime for listed CIS under the Securities and Futures Ordinance (SFO). The proposals would enable Hong Kong REITs to conduct privatisation and corporate restructuring in a way that is similar to other listed companies with a number of safeguards. Under the proposals, various SFO market conduct regimes would also be explicitly extended to listed CIS to help enhance market integrity and investor protection.



### ILAS

To foster better investor protection, we have been working closely with the industry and other stakeholders on implementing the enhanced guidance on ILAS product design. The enhancements require ILAS fees and charges to be commensurate with comparable alternative products and align with the insurance protection offered, in addition to reducing product complexity and enhancing fees-related disclosures. We authorised a total of 22 ILAS with different product features.

### Ensuring an orderly market

To monitor the risk exposure of Hong Kong-domiciled SFC-  
authorised funds, we require asset managers to report key data periodically, including subscription and redemption flows, liquidity profiles, asset allocations, credit quality, currency exposure, use of leverage, as well as securities financing and borrowing transactions. We stay abreast of market developments and tailor our monitoring programme in response to different market circumstances and stress events.

We closely monitor the liquidity of SFC-  
authorised funds through reports from asset managers of unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems. In addition, we are conducting liquidity stress tests on selected Hong Kong-domiciled SFC-  
authorised funds.

### Cautioning against suspicious investment products

Through our alert list on suspicious investment products on the SFC's website, we continue to caution and provide early warning to the public about unauthorised investment products suspected to be CIS or structured products falling under the SFO, other suspicious financial products under the SFO or products which are sold by unlicensed entities to Hong Kong investors.

During the year, we cautioned the public against 28 suspicious investment products involving real property, digital tokens and other investments through alert list postings, press releases and social media posts.

<sup>7</sup> The overall average processing time dropped from 1.9 months (for the year 2022/23) to 1.6 months (for the year 2023/24). Since the adoption of the revamped fund authorisation process in 2016, the processing time for all fund applications consistently falls within our targeted processing time, which is on average within one to two months for standard applications and within two to three months for non-standard applications.

<sup>8</sup> Undertaking for collective investment in transferable securities.

<sup>9</sup> Since the introduction of enhanced authorisation process in November 2021, the average processing time for new ILAS applications decreased by 56%, from 4.8 months to 2.1 months.