



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Mutual Recognition of Funds Symposium

3 July 2015

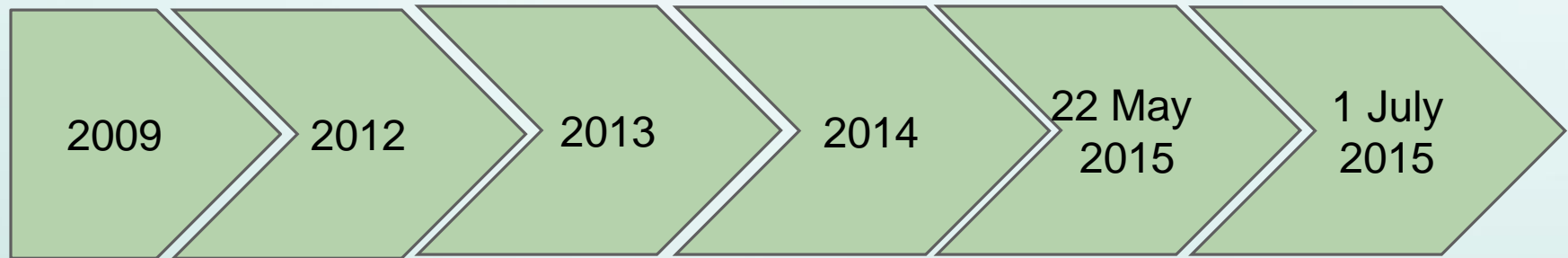
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Objectives

- **Investors**: Provide more diverse fund investment products to Mainland and Hong Kong investors
- **Fund management firms**: Expand the business opportunities and enhance the international competitiveness of Mainland and Hong Kong fund management firms
- **Hong Kong**: Further Hong Kong as a preferred fund domicile and investment management center for funds
- **Mainland**: Further integration into the world's capital market
- **Asia**: Lay the foundation for the CSRC and SFC to jointly develop a fund regulatory standard, promote the integration and development of the Asian asset management industry, and encourage the transformation of Asian savings into cross-border investments



Key milestones



Introduced the concept of Mainland-HK Mutual Recognition of Funds to Mainland authorities

Formed working group comprising members from SFC, CSRC and SAFE

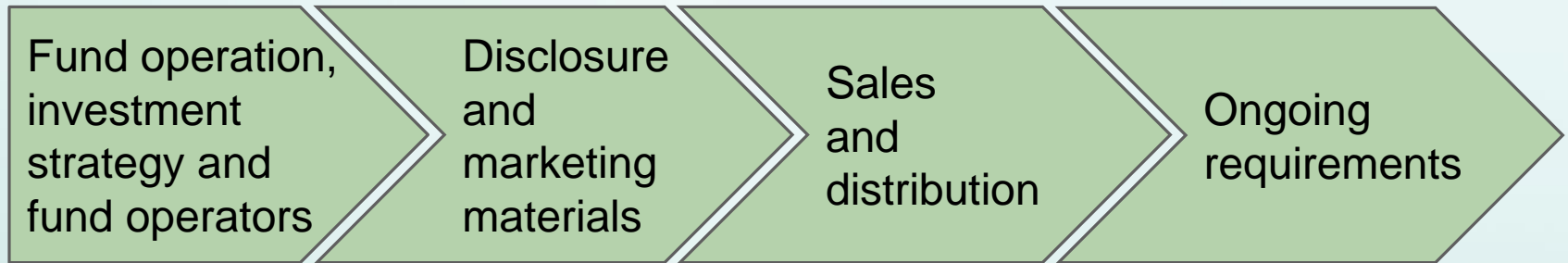
- Regulatory standards mapping and eligibility criteria were discussed within working group
- Preparation of MOU and related rules and circular etc
- Technical working group on operational issues

MOU on Mainland-HK Mutual Recognition of Funds was signed between SFC and CSRC

Official launch of Mainland-HK Mutual Recognition of Funds

General regulatory principles

Ensure robust investor protection through:



- Based on home rules
- Comprehensive mapping against host requirements and international standards

- Based on home offering documents
- Supplemented by additional disclosure to meet host jurisdiction investor expectation and market practice

- Based on host jurisdiction's licensing and point of sale requirements

- Generally based on home rules
- Supplemented by additional disclosure to meet host jurisdiction investor expectation and market practice

- **Overriding principles of fair and the same treatment**
- **Framework for exchange of information, regular dialogue and regulatory cooperation between home regulator and host regulator via a new MOU between SFC and CSRC**
- **Streamlined fund approval process**

Steps taken by SFC since announcement

- **Circular**
- **Information checklist**
- **KFS template**
- **Disclosure examples**
- **FAQs**
- **Enquiries, meetings and briefings to industry associations**
- **Continue to resolve outstanding operational and implementation issues with relevant Mainland and Hong Kong authorities**



Key aspects of MRF requirements

- **Eligibility – funds**
- **Eligibility – key operators**
- **Operational and ongoing requirements**
- **Disclosure, sale and distribution**



Eligibility – funds

Key requirements:

- **Established and managed at home jurisdiction**
- **Registered / authorized for offering to the public in the home jurisdiction**
- **Established for more than 1 year**
- **Minimum fund size of RMB200 million**
- **Not primarily invest in the host jurisdiction**
- **The value of shares/units sold to host jurisdiction investors should not be more than 50% of the value of the fund's total assets**
- **Eligible fund types: Regular/simple products, e.g. equity funds, bond funds, mixed funds, unlisted index funds and physical index-tracking ETFs**



Eligibility – funds

Points to note:

- **Delegation: No overseas delegation. Investment adviser is permitted without jurisdictional requirements (FAQ A4)**
- **Established for more than 1 year: For SFC-authorized funds re-domiciled from overseas jurisdictions to Hong Kong – calculated from the day on which the fund received SFC authorization (FAQ A1)**
- **Value of units sold to host jurisdiction investors not more than 50% of total assets: No compulsory redemption when fail to meet the requirement (FAQ B1)**
- **Not primarily invest in the host jurisdiction: No more than 20% invested in the host jurisdiction. H-shares and Red Chips are treated as Hong Kong securities (FAQ A2)**



Eligibility– key operators

Key requirements:

- **Fund managers**
 - Registered, operate and licensed in the home jurisdiction
 - Have not been the subject of any major regulatory actions in the past three years
- **Custodians**
 - Qualified to act as custodians for publicly offered funds pursuant to home jurisdiction laws and regulations
- **Local representatives**
 - Appoint a qualified firm in the host jurisdiction to be the fund's local representative and process agent



Operational and ongoing requirements

Key requirements:

- **Same treatments to investors in the Mainland and Hong Kong in respect of investor protection, exercise of rights, compensation, and disclosure of information**
- **Scheme changes and revisions of offering documents**
 - **Changes should generally be made in accordance with home jurisdiction laws and regulations and constitutive documents**
 - **Changes that affect the eligibility of a Recognised Mainland Fund will require SFC's prior approval**
- **Breach of eligibility requirements**
 - **Notify the host regulator immediately**
 - **Cease to be marketed to the public in the host jurisdiction and cease to accept new subscriptions**



Operational and ongoing requirements

Points to note:

- **Nominee account: Nominee accounts can be used for recognized Mainland and Hong Kong funds (FAQ E3)**
- **Cut-off time: (FAQ E4)**
 - Fair, forward-pricing, and no late trading
 - Fund management firms are responsible, and should perform necessary due diligence, regular review and ongoing monitoring on distributors and order-routing channels
 - Distributors should legally commit and strictly follow cut-off time for receiving orders from investors
- **Dealing arrangements: For investors in the host jurisdiction, practicable only on working days in both jurisdictions (FAQ E1)**

Disclosure, sale and distribution

Key requirements:

- **Hong Kong offering documents include**
 - The latest CSRC-registered offering documents
 - Hong Kong covering document
 - Product key facts statement
- **Sales and distribution based on host rules**
 - Disclosure of commission and other point of sale disclosure by intermediaries
 - Suitability
 - Local practice in host jurisdiction



Disclosure, sale and distribution

Points to note:

- **Notices and updates: Fair and the same treatment (FAQ D1)**
- **Anti-money laundering: Apply existing requirements as in the case of other overseas investors. May apply simplified customer due diligence subject to certain conditions (FAQs G6 & G7)**



Thank you

