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SFC PUBLISHES 2015 FUND MANAGEMENT ACTIVITIES SURVEY

The Securities and Futures Commission (**SFC**) has published its Fund Management Activities Survey for 2015. Each year, the SFC conducts a Fund Management Activities Survey that covers three types of firms in Hong Kong:

- **Licensed Corporations** – firms that are licensed to engage in fund advisory and asset management;
- **Registered Institutions** – banks that engage in private banking and asset management, and are subject to the requirements of the Securities and Futures Ordinance in respect of fund management activities; and
- **Insurance Companies** – insurance companies registered under the Insurance Companies Ordinance (**ICO**), but not licensed with the SFC, which offers services that constitute long term businesses under the ICO and derive gross operating income from asset management.

Below is a breakdown of the firms that participated in the survey:

	Licensed Corporations	Registered Institutions	Insurance Companies
Asset management only	359	4	
Fund advisory only	56		

Private banking only		20	
Asset management and fund advisory	140		
Asset management and private banking		21	
Services covering wealth management, life and annuity and retirement planning products			21
Total	555	45	21

Summary of survey findings

The survey found that Hong Kong's combined fund management business decreased 1.6% to 17.393 trillion HKD in 2015, mostly due to lower asset prices that resulted in reduced assets under management.

However, the private banking business grew by over 18.4% to 3.666 trillion HKD in 2015, while aggregate private wealth management increased 4.3% to 4.775 trillion HKD. The number of corporations licensed for asset management increased by 10.1%, while the number of staff engaged in core asset management activities increased by 4.3%. The number of SFC-authorized unit trusts and mutual funds increased by 4.3%. Overseas funding comprised 68.5% of all funding for Hong Kong's fund management business and 55.7% of all assets in the asset management business were managed in Hong Kong. These figures show that despite the reduction of asset prices in 2015, the fund management business in Hong Kong is growing.

Fund management business excluding real estate investment trusts

The following table summarises the fund management businesses of Licensed Corporations, Registered Institutions and Insurance Companies:

	HKD (% Change) during 2015		
	Licensed Corporations	Registered Institutions	Insurance Companies
Asset management	10.855 trillion (- 4%)	0.936 trillion (- 7.2%)	0.468 trillion (+ 3.5%)
Fund advisory	1.268 trillion (- 21.3%)		
Private banking		3.666 trillion (+ 18.4%)	
Aggregate asset management and fund advisory	12.123 trillion (- 6.2%)		
Aggregate asset management and private banking		4.602 trillion (+ 12.1%)	

Licensed Corporations reported decreased business due to fund outflows, market volatility, lower market value of assets and organisational adjustments. However, those that expanded their businesses in Asia reported fund inflows. Registered Institutions reported sustained capital inflows from private banking clients and the expansion of private banking operations in Hong Kong. Insurance Companies reported growth in the traditional life insurance and retirement scheme business, but a decrease in linked long term business. Overseas funding comprised 68.5% of all funding for Hong Kong's fund management business.

The number of corporations licensed for asset management grew 10.1% to 1,135, while the number of individuals licensed for asset management grew 10.9% to 8,572. Among the 104 newly licensed corporations, 20 were from Mainland China and 8 were from overseas.

Asset management and fund advisory business

The following table summarises the types of funds in the asset management and fund advisory business in Hong Kong in 2015:

Type of Fund	Number (% Change)
Other funds (mainly overseas retail funds, hedge funds, private equity funds and insurance portfolios)	4,292 (+ 0.5%)
Institutional funds	3,273 (- 4.3%)
SFC-authorized retail funds	1,549 (- 14.2%)
Government funds	1,401 (- 3.7%)
Pension funds	1,302 (- 5.1%)
Private client funds	1,109 (- 25.3%)
Mandatory provident funds	601 (+ 4.9%)

55.7% of all assets in the asset management business were managed in Hong Kong, although that amount decreased by 0.5% to 6.823 trillion HKD. The Fund Management Activities survey credits the Mainland-Hong Kong Mutual Recognition

of Funds scheme with increasing the number of Hong Kong-domiciled funds. The number of SFC-authorized Hong Kong-domiciled funds grew 10.4% to 656, while the number of SFC-authorized unit trusts and mutual funds increased 4.3% to 2,133.

Hong Kong and Mainland China were the investment destinations for 50.2% of all assets managed in Hong Kong; 70% of all assets were invested in Asia Pacific. Assets that were invested outside of Asia Pacific increased 3.2% to 1.942 trillion HKD. 58.4% of the assets managed in Hong Kong were invested in equities. 19.3% were invested in bonds. Of all SFC-authorized unit trusts and mutual funds, equity funds accounted for 47.7% of total net asset value. Bond funds accounted for 33.2% and other funds accounted for 19.1%.

The Fund Management Activities Survey states that the SFC is taking steps to facilitate the development of Hong Kong as an asset management centre, including the Mainland-Hong Kong Mutual Recognition of Funds scheme and the introduction of a new open-ended fund companies structure. It is also working with the Exchange to explore the possibility of creating an exchange-based platform for fund distribution.

Funds from private wealth management business

The private wealth management business includes the private banking business of Registered Institutions and private client funds of Licensed Corporations and Registered Institutions. The private banking business amounted to 3.666 trillion HKD and private client funds amounted to 1.109 trillion HKD. Overall, the private wealth management business grew 4.3%.

SFC-authorized real estate investment trusts

The aggregate consideration of real estate investment trust (REIT) activities was over 24 billion HKD. The Hang Seng REIT Total Return Index increased by over 7%. The market capitalisation of SFC-authorized REITs decreased 2.9% to 200 billion HKD.

Fund management business staff

There was a net increase of fund management business staff by 1.8% (or 621 people) to 34,921 people during 2015. The vast majority of these individuals, 69.3%, were sales and marketing staff. The number of individuals engaged in asset management-related activities (asset management, research/analysis and dealing and/or trading) increased by 4.25% to 4,581 people. The Fund Management Activities

Survey attributes this increase of asset management staff to the Shanghai-Hong Kong Stock Connect programme and the Mainland-Hong Kong mutual recognition of funds scheme.

Mainland-related fund activities

The survey states that Hong Kong has played a major role in internationalising the use of renminbi. There was an overall increase in the number of SFC-authorized renminbi investment products during 2015, particularly Mainland funds under the Mainland-Hong Kong mutual recognition of funds scheme launched in July 2015. Only the number of unlisted structured products with renminbi features saw any decrease. As at 31 March 2016, 29.3% of the exchange-traded funds (ETFs) in the Hong Kong market were Renminbi Qualified Foreign Institutional Investor ETFs or Shanghai-Hong Kong Stock Connect ETFs.

Overall, Mainland participation in the Hong Kong fund market increased in 2015. The number of SFC-authorized funds managed by Mainland-related fund groups grew by 11.9%, the number of Licensed Corporations or Registered Institutions established by Mainland-related groups grew by 15.4% and the amount of Mainland assets from Qualified Domestic Institutional Investors that are managed in Hong Kong grew by 16%.

Other regulatory developments

In November 2015, the SFC launched a six-month pilot programme to revamp the fund authorisation process. The survey reports that as a result, overall processing time for new applications was shortened and the quality of fund applications has improved. The new process was formally adopted after the pilot period and was extended to Mainland funds under the Mainland-Hong Kong mutual recognition of funds scheme.

In February 2016, the SFC announced new requirements under which it would consider authorising the first leveraged and inverse products structured as ETFs. Such ETFs were first authorised in June 2016. Additionally, the SFC authorised the first crude oil futures ETF and first ETFs with multiple trading counters in April and June 2016.

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