

Press release

LCQ8: Development of Hong Kong as an international asset management centre

Wednesday, July 3, 2013

Following is a question by the Hon Christopher Cheung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (July 3):

Question:

The Financial Secretary mentioned in the Budget of this year that to strengthen its position as a premier international asset management centre, Hong Kong would provide relevant legal and regulatory frameworks, and a clear and competitive tax environment with a view to attracting more funds of various types to base in Hong Kong. Yet, the total value of the fund assets managed in Hong Kong in 2011 decreased by more than 10% when compared to that of 2010. In this connection, will the Government inform this Council:

(a) whether it knows the year-on-year change in the total asset value of fund management business in Hong Kong as at the end of last year, together with a breakdown by asset components;

(b) whether it knows the progress in expanding the distribution network of the fund industry of Hong Kong (including discussing with the Mainland the preparatory work for making Hong Kong the trial area for the "Qualified Domestic Individual Investors Scheme"); of the measures put in place to ensure that the local small and medium-sized securities brokers can still benefit from the Scheme despite the restrictions such as threshold and qualifications for qualifying as the undertaking securities companies;

(c) whether it knows the number of licensed institutions engaged mainly in dealing in securities and financing (commonly known as "Type 1 licence" holders) and the rate of success of such licensed institutions in applying concurrently for an asset management licence (commonly known as "Type 9 licence") in the past five years; the number of applications of which the processing time exceeded the normal 15 weeks; the longest time taken to process a relevant application; apart from the qualifications of the applicants and their responsible personnel and the capital requirements for companies, the factors taken into account by the Securities and Futures Commission (SFC) in vetting and approving applications;

(d) of the details of the "Private Wealth Management Association" which the Government intends to advocate the industry to establish (including the establishment objective, legal standing, members' qualifications, functions and establishment date, etc.); and

(e) as the Government has proposed to SFC to offer financial support for the curriculum development of suitable training courses in asset management in the market, of the relevant details; the measures put in place by the authorities to cater for the need for continued professional training of the small and medium-sized securities brokers?

Reply:

President,

We are adopting multi-pronged strategies to consolidate Hong Kong's leading role as the asset management centre in the Asia-Pacific region, and develop Hong Kong into a more comprehensive fund and asset management centre. For example, we are planning to extend the profits tax exemption for offshore funds to include transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong, and introduce Open-ended Investment Companies (OEIC) into Hong Kong for setting up investment funds. We have also introduced into the Legislative Council the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Bill 2012 and the Trust Law (Amendment) Bill 2013. These two bills aim to improve the Islamic finance platform and reform the trust law, with a view to further fostering an environment conducive to the asset management industry. We are striving to seek the passage of these two bills by this Council before the end of this legislative session.

My reply to the question is as follows:

(a) According to the statistics published by the Hong Kong Investment Funds Association, the gross sales of Securities and Futures Commission (SFC) Authorised Unit Trusts and Mutual Funds by Hong Kong investors reached US\$54.9 billion in 2012, representing a year-on-year increase of 46.4% from US\$37.5 billion in 2011.

SFC is finalising the relevant data of the combined fund management business of Hong Kong in 2012 and is therefore not able to provide the 2012 data at this stage.

(b) We have been maintaining close liaison with the relevant Mainland authorities on

financial co-operation. On March 6, 2013, the China Securities Regulatory Commission announced the revised Renminbi Qualified Foreign Institutional Investor (RQFII) pilot scheme rules, under which the types of institutions eligible for applying for RQFII have been enlarged to cover, amongst others, all Hong Kong-licensed asset management companies with major operations in Hong Kong. The investment restrictions of RQFII funds have also been relaxed. The changes enable more market players to participate in the RQFII scheme, and increase the attractiveness of the RQFII products for investors. As at end June 2013, a total of 31 companies were granted the RQFII qualification, with a combined approved RQFII investment quota of RMB104.9 billion. As regards the Qualified Domestic Individual Investors Scheme (QDII2), we understand that the relevant preparation work is underway. We will continue to liaise with the relevant Mainland authorities with a view to actively seeking the participation of our financial services sector and intermediaries in this scheme.

(c) According to SFC, as of end May 2013, there were 360 licensed corporations which are licensed to carry on Type 1 regulated activity (dealing in securities) only. Seven Type 1 licensed corporations have applied to be licensed to carry on Type 9 regulated activity (asset management) in the past five years (April 1, 2008 - March 31, 2013). All of these applications were successful. The processing time of these applications ranged from 9 to 25 weeks approximately. Many factors affect the processing time of licensing applications, such as the complexity of the applications, whether all relevant information was provided at the time of application, the turnaround time taken in responding to SFC's questions, and whether overseas elements such as relocation of executive personnel from overseas are involved.

When SFC considers applications for licences, it takes into account whether the applicants are fit and proper. Section 129(1) of the Securities and Futures Ordinance (SFO) sets out a number of matters that SFC is obliged to have regard to in assessing a person's fitness and properness, including its/his:

- (a) financial status or solvency;
- (b) educational or other qualifications or experience having regard to the nature of the functions to be performed;
- (c) ability to carry on the regulated activity competently, honestly and fairly; and
- (d) reputation, character, reliability and financial integrity.

SFC's Fit and Proper Guidelines outline a number of matters that SFC will normally consider in determining whether a person is fit and proper. For example, in the case of a corporation, SFC will consider whether the corporate applicant has established

effective internal control procedures and risk management systems to ensure its compliance with all applicable regulatory requirements. SFC will also consider any information relating to the corporate applicant's group companies, its substantial shareholders or officers, or the officers of its group companies.

SFC's Guidelines on Competence set out the matters that SFC will normally consider in assessing whether a person is competent to carry on any regulated activity. In the case of corporate applicants, SFC will consider whether the corporations have a proper organisational and business structure, competent management staff, and good internal systems and qualified personnel to enable it to properly manage the risks it will encounter in carrying on its business. For individual applicants, SFC will consider whether the individual has a good understanding of the regulatory framework, the ethical standards expected of an individual licensee, the financial products that he/she deals in or advises on and the markets in which he/she provides services. For responsible officers, SFC will consider whether an applicant possesses appropriate ability, skills, knowledge and experience to properly manage and supervise the corporation's proposed activities.

(d) The Administration and regulators are actively facilitating the industry to establish a "Private Wealth Management Association"(The Association), the objectives of which are to assist in, promote and encourage the growth and development of the private wealth management industry in Hong Kong; promote proper conduct, integrity and high standards of professional competence on the part of private wealth management practitioners; and represent the industry on private wealth management related matters in Hong Kong.

The Association is expected to be established by the end of this year as a company limited by guarantee. It will initially comprise of authorised institutions and licensed corporations that provide private wealth management services.

(e) As regards the Administration's proposal to SFC to offer financial support for the curriculum development of suitable training courses in asset management in the market, SFC is now working with the Hong Kong Securities and Investment Institute (HKSI) on the details. SFC is also working with HKSI on ways to assist brokers, asset managers and other practitioners in the securities markets to promote their service quality and enlarge their service scope. To cater for the need for continued professional training of the small and medium-sized securities brokers, we have indicated to SFC that the financial support should have a particular focus on the continued professional training for the small and medium sized securities companies. We hope this initiative will better

equip industry practitioners, especially employees of small and medium sized securities companies, to cope with new demands arising from market development.

Ends