

Press Release

LCQ2: Nurturing asset management talents

Wednesday, November 5, 2014

Following is a question by the Hon Martin Liao and a reply by the Acting Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 5):

Question:

Some members of the finance industry have pointed out that Hong Kong is an international asset management centre with a number of large-scale international asset management companies operating in the territory. Yet, local financial institutions are generally small in scale and of little impact, with very few of them having a strong presence, thus making it difficult for the local practitioners to seize the opportunities for development. Such persons have also pointed out that in order to strengthen its status as an asset management centre, Hong Kong should, apart from capitalising on its edges, actively nurture local talents in the field of fund management, so as to cope with the challenges posed by other regions. In this connection, will the Government inform this Council:

(1) whether it knows, in the past five years, the number and percentage of local practitioners and institutions in the finance industry holding an asset management licence; whether it has considered, as suggested by some members of the finance industry, establishing a core fund under the Mandatory Provident Fund schemes with the Government as the central trustee, and entrusting the investment of the fund to local fund managers with the aim of nurturing local talents; if it has, of the details; if not, the reasons for that;

(2) given that the Chief Executive of the Hong Kong Monetary Authority has pointed out in an article that, among the major asset management activities conducted in Hong Kong, about 70% of them merely involve customer relationship management or sales intermediation while very few of them involve upstream high value-added asset management activities (i.e. formulation of investment decisions, asset allocation, research and analysis, product development, risk management, etc.), whether the authorities know the relevant details, including the year-on-year changes in the number of local practitioners engaged in high value-added activities in the past five years;

whether the Government will introduce complementary policies and measures to attract and provide training for more local talents to engage themselves in high value-added asset management activities, and whether it will provide the local practitioners with financial support for professional training, so as to assist them in expanding their scope of services; and

(3) given that the total asset value of the fund management business in Hong Kong as at the end of last year was as high as HK\$16,000 billion, while the total asset value of fund management business in the Mainland as at the end of April this year was only HK\$6,400 billion, and that the implementation of cross-border investment facilitation measures, such as the Shanghai-Hong Kong Stock Connect scheme and the mutual recognition of funds, will bring about new opportunities, whether the Government will introduce new initiatives to facilitate the development of personal wealth management business in the finance industry and to assist practitioners of the finance industry to prepare themselves for engagement in related activities?

Reply:

President,

(1) According to the information provided by the Securities and Futures Commission (SFC), in the past five years, the number of Type 9 (asset management) licensed corporations which are headquartered in Hong Kong increased from about 420 in end 2009 to about 630 in September 2014, representing a growth of about 50%. The number of Type 9 licensed corporations headquartered in Hong Kong as a percentage of all Type 9 licensed corporations increased from about 58% to about 62% during the period. Please refer to Table 1 of Annex for details.

Regarding information on local practitioners of the financial services industry, it is not the SFC's practice to categorise its licensed individuals by nationality, as all licensed individuals regardless of their nationality are subject to the same licensing requirements under the current regulatory regime. Generally speaking, the number of practitioners licensed for Type 9 (asset management) increased from about 4 980 in end 2009 to about 7 670 in September 2014. The number of Type 9 licensed practitioners as a percentage of all licensed practitioners increased from about 15% to about 20% during the

period. Please refer to Table 2 of Annex for details.

There has been a suggestion that the Government should serve as a central trustee of the proposed Mandatory Provident Fund (MPF) "Core Fund" and that local fund managers should be tasked to make investment with a view to nurturing local talents. On this suggestion, we consider that, same as all other constituent funds under an MPF Scheme, "Core Fund" should be managed by investment management companies registered with the SFC. We consider that the suggestion of having the Government to serve as the central trustee would not be conducive to achieving economies of scale, as it would require setting up a new operation system and repeat the administrative tasks undertaken by private trustees. In addition, we cannot underestimate the difficulty for the proposed Core Fund to achieve certain scale and efficiency, as well as a low level of fees within a short period of time. We should emphasise that the arrangement of privately-managed MPF schemes is a result of almost thirty years of deliberation. As such, "Core Fund" should be operated by the market and the local industry could certainly also participate.

(2) and (3) The SFC conducts the Fund Management Activities Survey annually, and the survey findings are based on information provided by respondents from the industry. Survey results of the past five years show that the number of practitioners engaged in the fund management business increased from about 27 700 in 2009 to 31 800 in 2013, and among them, those engaging in job functions other than sales and marketing, including asset management, research/analysis and dealing/trading increased from about 1 200, 720 and 600 respectively in 2009 to about 1 880, 1 230 and 940 respectively in 2013. Please refer to Table 3 of Annex for details.

Practitioners of the local asset management industry have traditionally been engaging in the distribution and marketing functions. We recognise the need to expand other areas of the asset management industry, so as to develop Hong Kong into a more comprehensive fund and asset management hub, which can in turn provide a suitable environment to nurture local talents to engage in functions other than sales and marketing. To this end, we are adopting a multi-pronged approach, including the extension of the profits tax exemption for offshore funds to private equity funds, with a view to attracting more private equity funds to expand their business in Hong Kong, and the introduction of a new open-ended fund company structure to attract more funds

to domicile in Hong Kong, which will help build up Hong Kong's fund manufacturing capabilities to complement the existing fund distribution network and develop Hong Kong into a full fund service centre.

On talent training for the financial services industry, the SFC has made a provision of \$20 million in its 2014-15 budget on training initiatives for intermediaries of the securities sector. Moreover, the Financial Secretary mentioned in his 2014-15 Budget the need to enhance training for professionals and skilled personnel in various areas of the financial services industry. In this regard, we have already gauged views from the industry. Suggestions from the industry include raising the awareness of the young generation about the financial services industry, its job nature and career prospects, facilitating young people to gain exposure to the financial services sector and to enter into the profession, and encouraging existing practitioners to receive ongoing training to sharpen their professional skills. Along these directions, we are now considering new measures to enhance talent training.

In support of the financial services industry to develop the personal wealth management business, the Hong Kong Monetary Authority (HKMA) has worked with the industry to facilitate the establishment of the Private Wealth Management Association (PWMA). One of the objectives is to promote the development of Hong Kong's private wealth management industry. To encourage the ongoing development of competence by private wealth management practitioners, PWMA launched in June this year an Enhanced Competency Framework (ECF), setting out an enhanced level of core competence and on-going professional development of private wealth management practitioners. New entrants and industry practitioners, including those who would like to engage in other related activities, may meet the ECF benchmark by self-study and/or taking accredited training programmes, and passing examinations. Qualified practitioners may be certified by the PWMA as Certified Private Wealth Professional.

The HKMA has also issued a circular to encourage authorised institutions engaged in private wealth management business to adopt the ECF. This would be a major factor for the HKMA to assess, in its supervisory process, authorised institutions' fulfilment of their responsibility to ensure staff competence.

Thank you President.

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