

Mainland-Hong Kong Mutual Recognition of Funds Symposium

Hong Kong, 3 July 2015

The Securities and Futures Commission (SFC) hosted the Mainland-Hong Kong Mutual Recognition of Funds (MRF) [Symposium](#) on 3 July to provide the industry with further regulatory information about the [landmark scheme](#). Senior executives from the SFC, the China Securities Regulatory Commission (CSRC) and the State Administration of Foreign Exchange (SAFE) delivered briefings on the scheme's regulatory highlights and answered questions posed by the audience. A panel comprised of industry representatives discussed the opportunities and challenges presented by the MRF scheme. The half-day event was attended by over 500 Hong Kong and Mainland representatives from the fund management industry as well as industry associations, legal and accounting firms, regulatory bodies, chambers of commerce and foreign consulates.

A connected fund market for Asia is the goal

In his opening remarks, Mr Ashley Alder, SFC Chief Executive Officer, emphasised the long-term significance of the MRF scheme. By allowing qualified funds in mainland China and Hong Kong to be sold directly into the other market, the scheme not only presents new business and investment opportunities for the asset management industry and investors, but also cements Hong Kong's status as a leading asset management centre in the Asia Pacific region. Mr Alder expressed confidence in the long-term success of the shared vision of the SFC and the CSRC, which is to promote a more integrated financial market in Asia where capital can flow more freely across borders and Asian savings can be channelled to meet Asian investment needs. He also noted that the regulators' current priority is to ensure the scheme's smooth implementation.

Mr Zhang Yujun, CSRC Assistant Chairman, delivered the keynote address in which he stressed that the MRF scheme will bring significant benefits to both markets, including broader investment choices for investors and closer regulatory collaboration. In particular, he said, the scheme will lay the foundation for the CSRC and SFC to jointly promote the integration and development of the Asian asset management industry, which is a vision shared by President Xi Jinping. Mr Zhang added that investor protection is a fundamental principle of the scheme and is high on the list for regulators.

Regulators emphasise smooth implementation

Ms Christina Choi, Senior Director of the Investment Products Division, provided an overview of the scheme and elaborated on key MRF requirements: eligibility of funds and operators (eg, fund managers, custodians and local representatives) as well as operational requirements and important technical points related to the disclosure, sale and distribution of funds under the scheme. She stressed that investors in Hong Kong and the Mainland are subject to the same treatment in respect of investor protection, exercise of rights, compensation and disclosure of information. The SFC will work to resolve any outstanding operational and implementation issues with relevant Hong Kong and Mainland authorities, she added. (Click [here](#) for Ms Choi's presentation).



Representatives from the CSRC's Department of Fund and Intermediary Supervision presented a detailed account of MRF policies and the product registration process. Details about the registration process for Hong Kong fund managers and document requirements were also provided. They also noted that Mainland authorities are now considering a proposal to provide clarity on the tax treatment for investors of the mutually recognised funds. (Click [here](#) for CSRC presentations).

A representative of SAFE's Capital Account Management Department pointed out that the scheme's aggregate quota of RMB300 billion each for both northbound and southbound trading is a straightforward mechanism which will keep things simple for the industry, investors and regulators. He also said that SAFE will soon announce details related to forex control measures to facilitate the implementation.

Opportunities and challenges

During the panel discussion moderated by Ms Julia Leung, Executive Director of the SFC's Investment Products Division, three industry representatives addressed the opportunities and challenges brought about by the MRF scheme. By way of introduction, Ms Leung said that in the past, the industry played a key role in testing out other pilot programmes and every time they came up with innovative products. As such, engaging with the industry will be essential for the smooth implementation and future enhancement of the scheme.

The panellists viewed the MRF scheme as a positive development and welcomed its flexibility, namely that only an aggregate quota had been issued, which was preferable to individual quotas at the fund level. One panellist pointed out that international investors only account for 2% of the Mainland's domestic market but this is expected to grow to 25-30%. That will translate into a capital inflow of RMB15 trillion, and this in turn underpins optimism about how the scheme will help boost fund flows within the region.

One panellist noted that investors throughout the region lack diversification, with Mainland investors known to be too concentrated on property investments. The scheme would help broaden their choices, although time is needed for investor behaviour to change. Behavioural changes are also needed at the bank and distribution levels to help investors learn to diversify asset classes in their portfolios for better returns.

Panellists agreed that the asset management industry needs to focus on long-term strategy and quality products which provide Mainland and Hong Kong investors with "a good experience", and to avoid passing fads. They also reckoned that given the differences between the two jurisdictions, some minor issues were to be expected at the beginning, mainly involving technicalities, but these would ultimately be resolved.

The symposium ended with a Q&A session where officials from the SFC, CSRC and SAFE addressed questions posed by the audience. Topics covered a wide range of issues including eligibility requirements, redemption fees, taxation arrangements, disclosures, opening of settlement accounts and appointment of custodians.