



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

## Asset and Wealth Management Activities Survey 2020

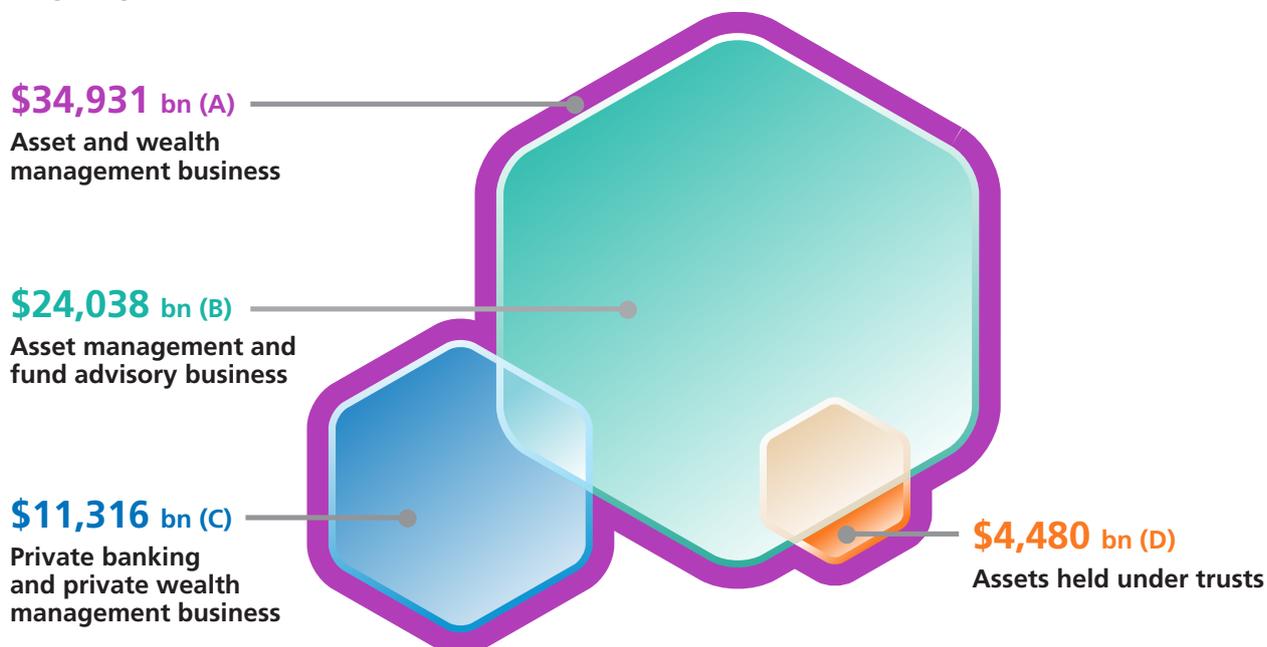
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July 2021

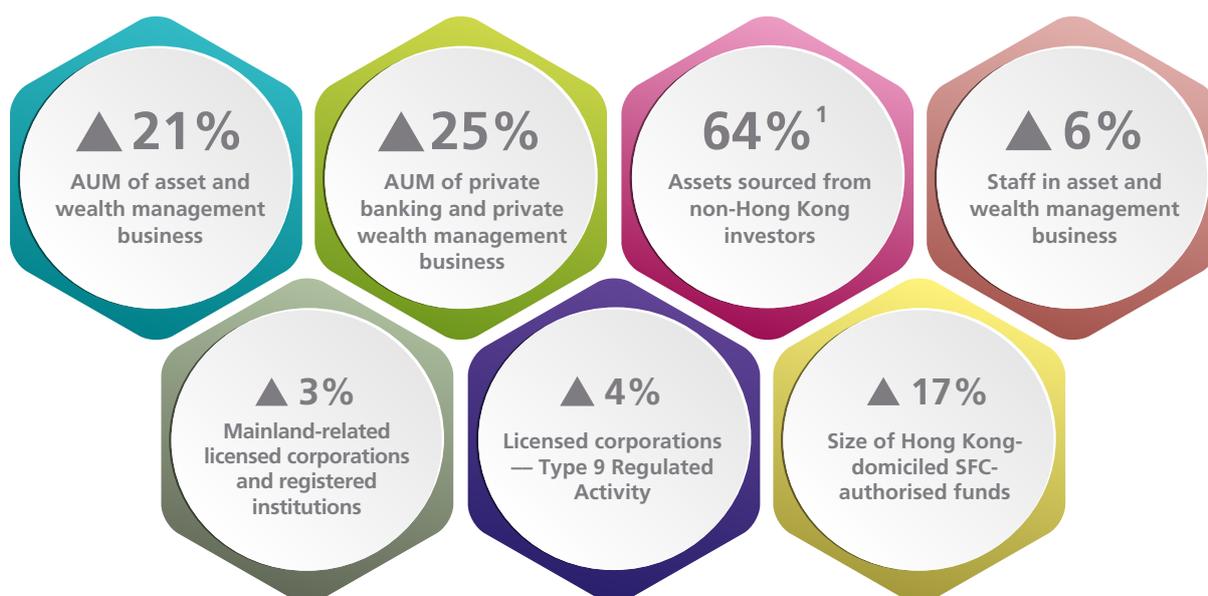
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## Highlights



Items above refer to the assets under management (AUM) of the relevant businesses. Certain assets reported under items C and D were managed by licensed corporations or registered institutions and therefore were also reported under item B. Accordingly, item A is not the sum of items B, C and D. For details, please refer to Appendix II on page 47 of this report.



<sup>1</sup> Of the AUM of the asset and wealth management business (excluding real estate investment trusts (REITs) and assets held under trusts which were not managed by LCs and RIs (ie, assets held under trusts attributable to non-LCs/RIs)).

## I. Introduction

1. The Asset and Wealth Management Activities Survey (AWMAS) is conducted annually by the Securities and Futures Commission (SFC) to collect information and data on the asset and wealth management industry in Hong Kong. It helps the SFC plan its policies and operations.
2. As in the previous year, this survey covers the asset and wealth management activities of the following types of firms in Hong Kong:
  - (a) corporations licensed by the SFC which engage in asset management and fund advisory business (collectively “licensed corporations” or LCs);
  - (b) banks engaging in asset management, private banking and private wealth management business (collectively “registered institutions” or RIs), and which are subject to the same regulatory regime as licensed corporations, ie, the Securities and Futures Ordinance (SFO), in respect of their asset management activities;
  - (c) insurance companies (ICs) registered under the Insurance Ordinance, but not licensed with the SFC, which provide services constituting classes of long-term business as defined in Part 2 of Schedule 1 of the Insurance Ordinance and derive gross operating income from wealth management products; and
  - (d) firms providing trust services (trustees).
3. The AWMAS analyses the asset and wealth management industry from the perspectives of both firms (ie, LCs, RIs, ICs and trustees) and clients (ie, clients of private banking and private wealth management businesses derived from assets or relationships managed out of Hong Kong by LCs and RIs).
4. As in previous years, survey questionnaires were sent to licensed corporations and, with the assistance of the Hong Kong Monetary Authority, the Insurance Authority and the Hong Kong Trustees’ Association, to registered institutions, insurance companies and trustees to enquire about their asset and wealth management activities as at 31 December 2020.
5. Unless stated otherwise, the values given in this report are in Hong Kong dollars.
6. 942 (2019: 818) firms reported that they conducted asset management, fund advisory, private banking and private wealth management business or trust services during the survey period. These included 830 (2019: 704) licensed corporations, 47 (2019: 46) registered institutions, 39 (2019: 41) insurance companies and 26 (2019: 27) trustees. The response rate improved compared to the previous year. Please refer to the Appendix I on page 46 for details of respondents.



**Section II A**

**Asset and  
Wealth  
Management  
Business**



## Asset and Wealth Management Business – An Overview

The key findings of the AWMAS for 2020 are illustrated below:

	<p><b>Asset and wealth management business</b></p>	<p>Whilst the local stock market was considerably volatile due to the COVID-19 pandemic, Hong Kong’s asset and wealth management business continued to grow in 2020, with a 21% year-on-year increase in AUM to \$34,931 billion<sup>2</sup> (US\$4,505 billion).</p>
	<p><b>Asset management and fund advisory business</b></p>	<p>As at 31 December 2020, the AUM of the asset management and fund advisory business conducted by licensed corporations and registered institutions increased year-on-year by 20% to \$24,038 billion<sup>2</sup> (US\$3,100 billion).</p>
	<p><b>Private banking and private wealth management business</b></p>	<p>As at 31 December 2020, the AUM of the private banking and private wealth management business recorded a year-on-year increase of 25% to \$11,316 billion<sup>2</sup> (US\$1,460 billion).</p>
	<p><b>Assets held under trusts</b></p>	<p>As at 31 December 2020, the assets held under trusts increased 17% to \$4,480 billion<sup>2</sup> (US\$578 billion).</p>
	<p><b>Net fund inflows</b></p>	<p>Net fund inflows of \$2,035 billion (US\$262 billion) were recorded for the asset and wealth management business<sup>3</sup> during 2020 (2019: \$1,668 billion (US\$214 billion)), accounting for 33% of the year-on-year increase in the asset and wealth management business.</p>
	<p><b>Assets sourced from non-Hong Kong investors</b></p>	<p>Non-Hong Kong investors remained a major source of funding for the asset and wealth management business<sup>3</sup>, accounting for 64% of the AUM.</p>
	<p><b>Assets managed in Hong Kong</b></p>	<p>Assets managed in Hong Kong made up 58% of the AUM of the asset management business<sup>4</sup>, with 54% of these assets invested in equities as at 31 December 2020.</p>

<sup>2</sup> Please refer to the Appendix II on page 47 for a breakdown of the asset and wealth management business in 2020.

<sup>3</sup> Excluded REITs and assets held under trusts attributable to non-LCs/RIs.

<sup>4</sup> Excluded the AUM of fund advisory business and REITs.

	<b>Staff</b>	The total number of staff in the asset and wealth management business increased by 6% to 48,006 as at 31 December 2020.
	<b>Hong Kong-domiciled SFC-authorized funds</b>	As at 31 December 2020, the number of Hong Kong-domiciled SFC-authorized funds increased by 6% year-on-year to 810, and their net asset value increased by 17% <sup>5</sup> year-on-year to \$1,427 billion (US\$184 billion) <sup>6</sup> .
	<b>LCs – Type 9 Regulated Activity</b>	The number of licensed corporations licensed to carry out asset management (Type 9 regulated activity) in Hong Kong increased by 4% from 1,808 as at 31 December 2019 to 1,878 as at 31 December 2020.
	<b>Mainland-related LCs and RIs</b>	The number of licensed corporations and registered institutions established by Mainland-related groups in Hong Kong increased by 3% from 387 as at 31 December 2019 to 397 as at 31 December 2020.

<sup>5</sup> The net asset value of Hong Kong-domiciled SFC-authorized funds as at 31 December 2019 was restated to \$1,223 billion (US\$157 billion), excluding the NAV of feeder funds whose master funds are authorized by the SFC, to better reflect the total assets under management.

<sup>6</sup> 107 out of 810 Hong Kong-domiciled SFC-authorized funds were approved pooled investment funds (retail AIFs) which mandatory provident funds may invest into and may also be offered to the public in Hong Kong. Their net asset value amounted to \$519 billion (US\$67 billion).

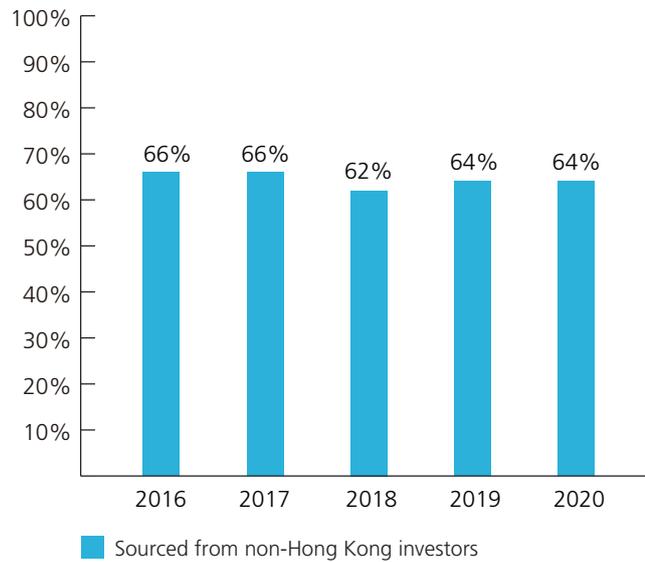
## Asset and Wealth Management Business – Analysis by Investor Base



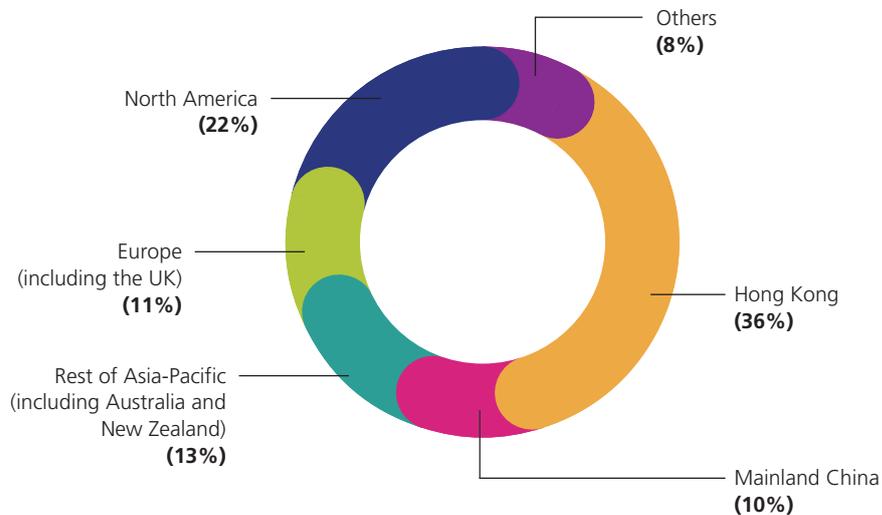
Sourced from non-Hong Kong investors over the past five years

7. Assets from non-Hong Kong investors amounted to \$21,336 billion as at 31 December 2020, representing 64% of the asset and wealth management business<sup>7</sup>.

**Chart 1A: Asset and Wealth Management Business<sup>7</sup> (\$33,594 billion) – Assets from non-Hong Kong Investors**



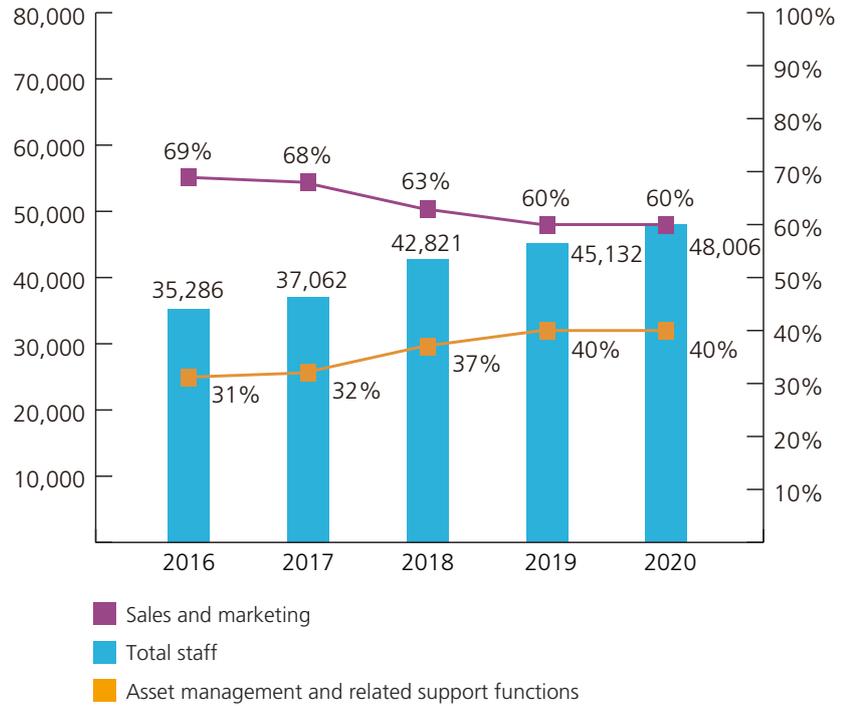
**Chart 1B: Asset and Wealth Management Business<sup>7</sup> (\$33,594 billion) – by Investor Base**



<sup>7</sup> Excluded REITs and assets held under trusts attributable to non-LCs/RIs.

## Asset and Wealth Management Business Staff Profile

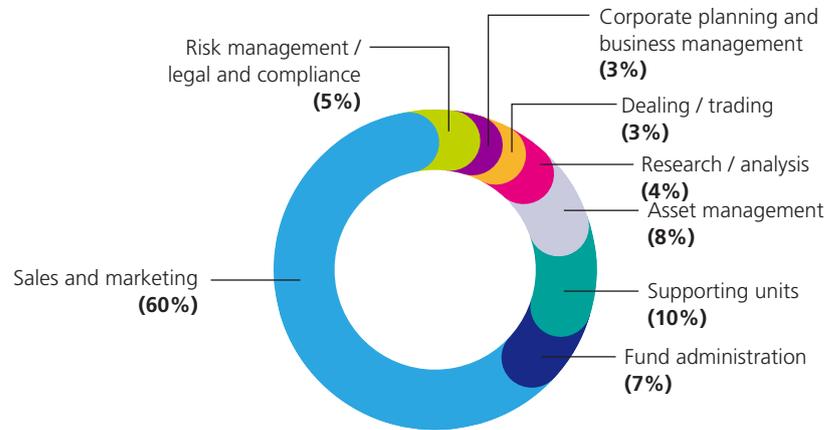
**Chart 2A: Asset and Wealth Management Business Staff Profile – by Job Function**



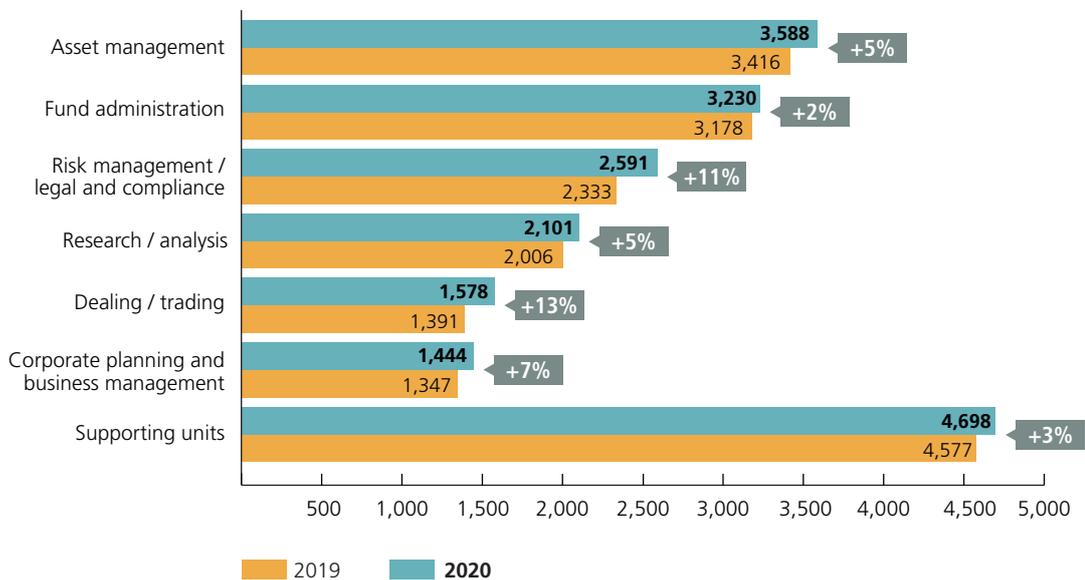
Note: Coverage was expanded to include trustees in 2019 and 2020.

8. The number of staff engaged in asset and wealth management activities was 48,006 in 2020. The growth was mainly attributable to insurance companies.

**Chart 2B: Asset and Wealth Management Business Staff Profile – by Job Function**



**Chart 2C: Asset and Wealth Management Business Staff Profile – Number of Staff Directly Engaged in Asset Management and Related Support Functions (2020 vs 2019)**





**Section II B**

**Asset  
Management  
and Fund  
Advisory  
Business**



## Asset Management and Fund Advisory Business<sup>8</sup> – An Overview



Asset management and fund advisory business in Hong Kong

9. This section covers the asset management and fund advisory business carried out by licensed corporations, registered institutions and insurance companies. Fund advisory business mainly comprises institutional fund advisory services provided from Hong Kong by fund managers to overseas management firms.
10. A main component of Hong Kong's asset and wealth management business, the asset management and fund advisory business recorded a year-on-year increase of 20% to \$24,038 billion as at 31 December 2020.
11. The asset management and fund advisory business recorded net fund inflows of \$1,379 billion<sup>9</sup> for 2020 (2019: \$987 billion). These inflows accounted for 34% of the year-on-year increase in the asset management and fund advisory business.

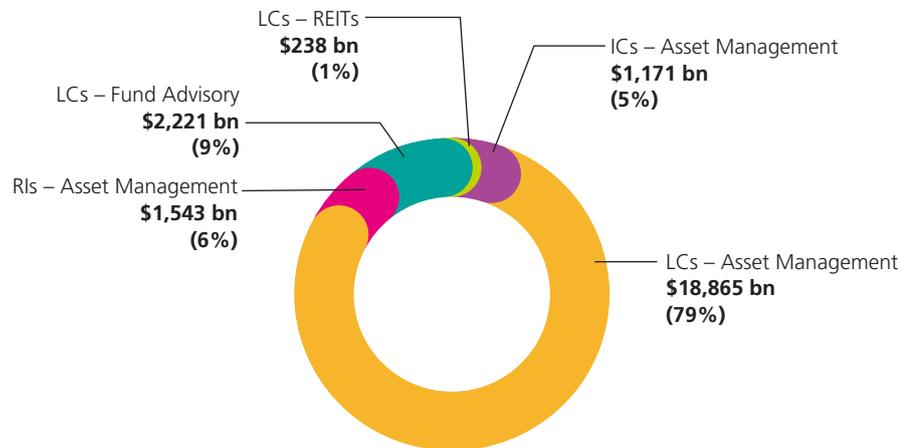
**Chart 3A: Asset Management and Fund Advisory Business**



<sup>8</sup> Please refer to page 48 of this report for the definitions of "asset management" and "fund advisory business".

<sup>9</sup> Excluded REITs.

**Chart 3B: Asset Management and Fund Advisory Business (\$24,038 billion)  
– by Market Player**



12. The aggregate asset management and fund advisory business conducted by licensed corporations saw a year-on-year increase of 21% to \$21,324 billion in 2020.
13. Asset management remains a growing industry in Hong Kong. The number of licensed corporations licensed to carry out asset management activities (ie, Type 9 regulated activity) increased by 4% to 1,878 as at 31 December 2020 from 1,808 a year earlier. During 2020, the number of individuals licensed for asset management also grew 3% year-on-year from 12,686 to 13,074.

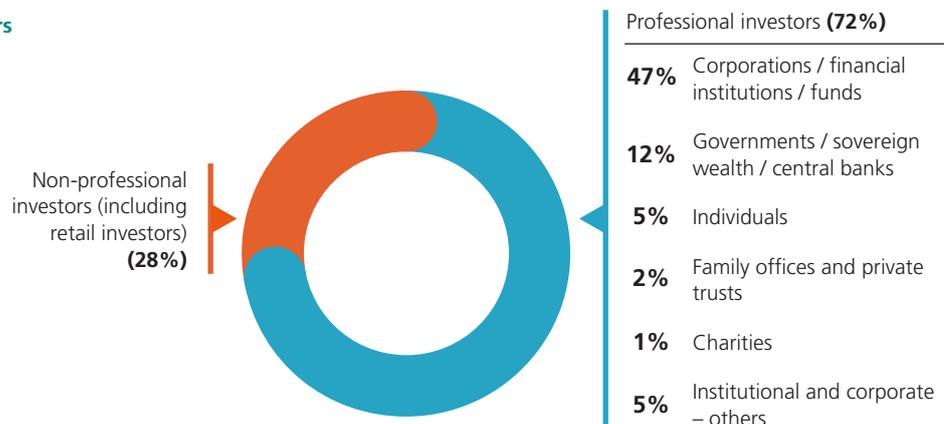
## Asset Management and Fund Advisory Business – Analysis by Client and Product Types



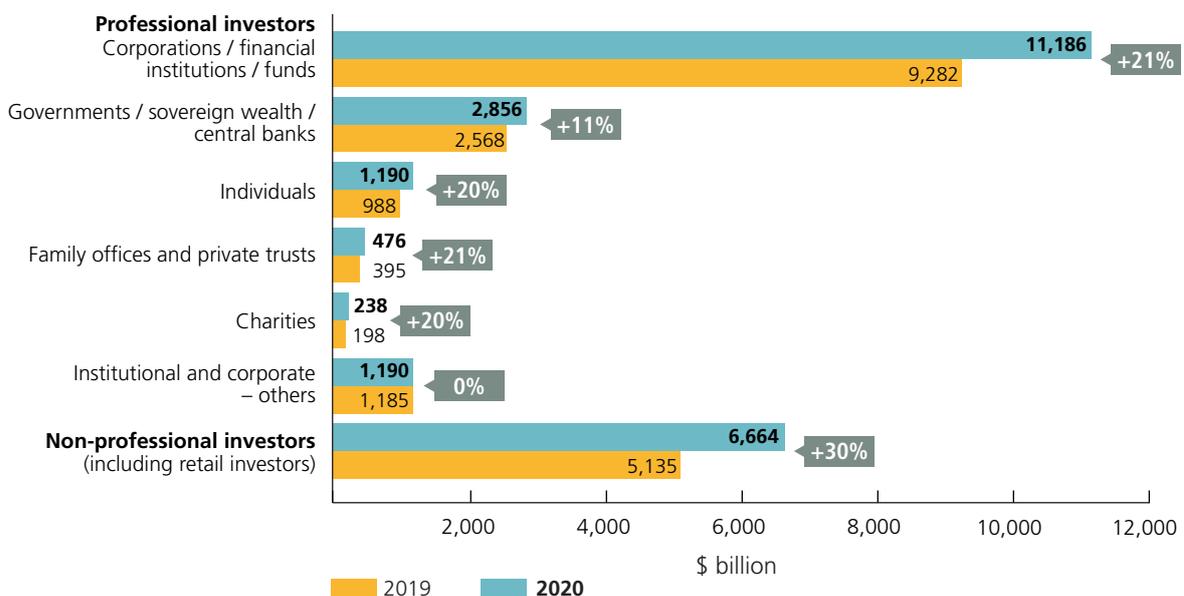
Asset management and fund advisory business from professional investors

14. As at 31 December 2020, professional investors<sup>10</sup> accounted for 72% of the asset management and fund advisory business<sup>11</sup> in Hong Kong. The AUM attributable to professional investors increased 17% year-on-year from \$14,616 billion to \$17,136 billion. The increase was mainly due to the growing investments attributable to professional investors which were corporations, financial institutions and funds.

**Chart 4A: Asset Management and Fund Advisory Business<sup>11</sup> (\$23,800 billion) – by Client Type**



**Chart 4B: Asset Management and Fund Advisory Business<sup>11</sup> (\$23,800 billion) – by Client Type (2020 vs 2019)**

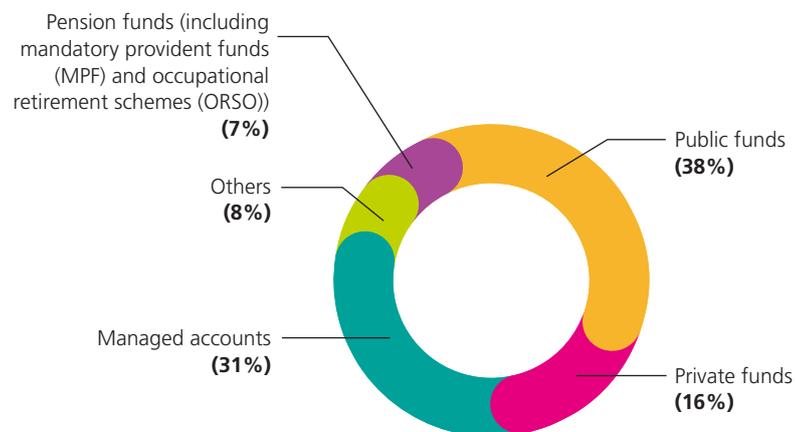


<sup>10</sup> Please refer to page 49 of this report for the definition of “professional investors”.

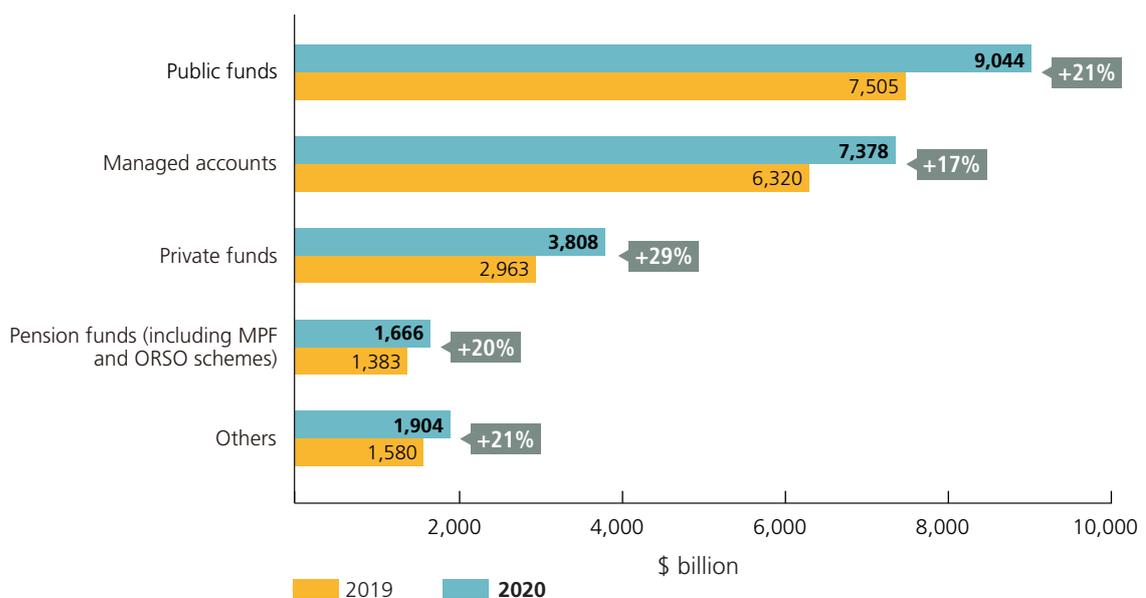
<sup>11</sup> Excluded REITs.

15. Public funds, including both SFC-authorized funds and those from other jurisdictions, accounted for 38% of the asset management and fund advisory business<sup>12</sup> in Hong Kong in 2020, followed by managed accounts (31%) and private funds (16%). Hedge funds (5%) and private equity and venture capital<sup>13</sup> (4%) were included in private funds. The AUM attributable to managed accounts increased 17% year-on-year from \$6,320 billion to \$7,378 billion.

**Chart 5A: Asset Management and Fund Advisory Business<sup>12</sup> (\$23,800 billion) – by Product Type**



**Chart 5B: Asset Management and Fund Advisory Business<sup>12</sup> (\$23,800 billion) – by Product Type (2020 vs 2019)**



<sup>12</sup> Excluded REITs.

<sup>13</sup> There are private equity firms in Hong Kong which are neither LCs nor RIs. According to the Asian Venture Capital Journal (AVCJ), Hong Kong ranked second in Asia after Mainland China in 2020 in terms of the total capital under management by private equity funds (excluding real estate funds), which amounted to US\$164 billion (2019: US\$161 billion).

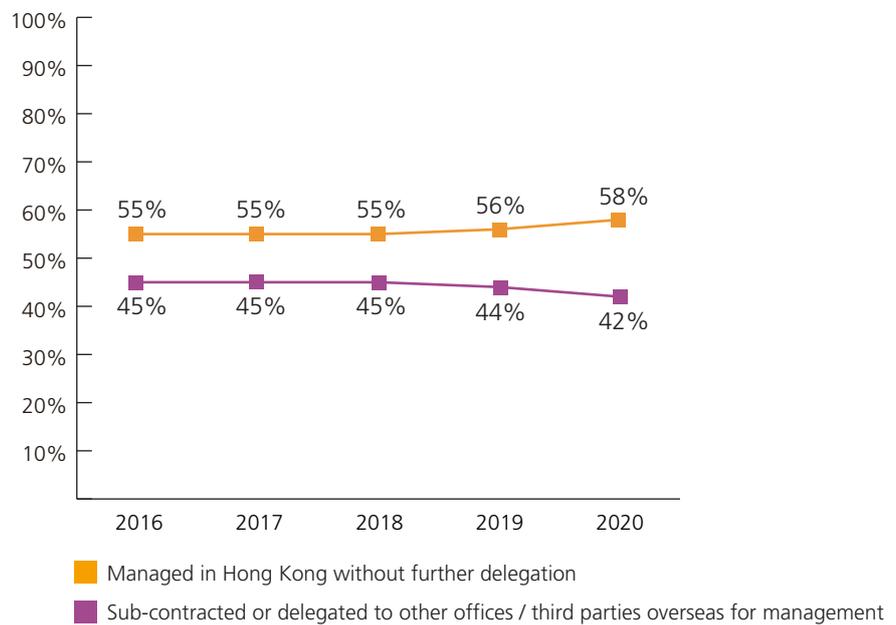
## Asset Management Business<sup>14</sup> – Analysis by Location of Management



Assets managed in Hong Kong

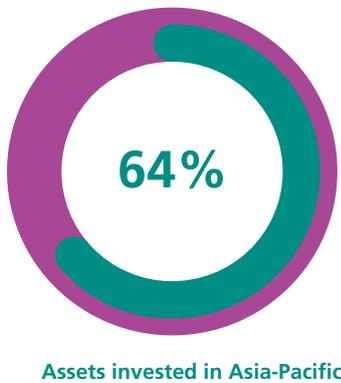
16. As in previous years, more than half of the asset management business was managed in Hong Kong as at 31 December 2020. Assets managed in Hong Kong made up 58% of the overall total<sup>14</sup>.

**Chart 6: Asset Management Business<sup>14</sup> (2020: \$21,579 billion) – by Location of Management**



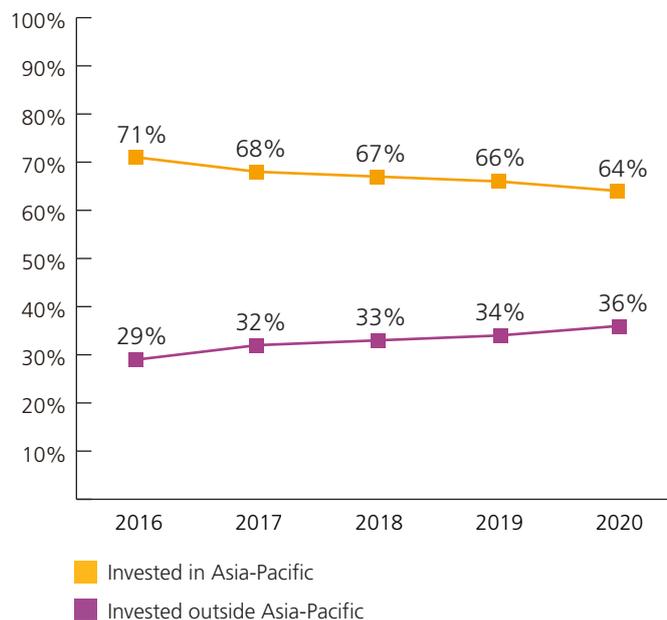
<sup>14</sup> Excluded fund advisory business and REITs.

## Assets Managed in Hong Kong<sup>15</sup> – Analysis by Geographical Distribution of Investments



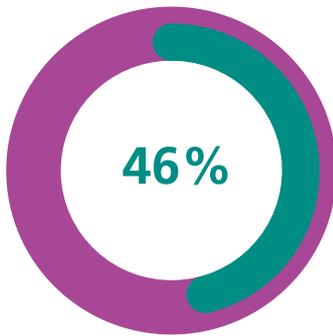
17. Assets managed in Hong Kong<sup>15</sup> increased by 25% year-on-year from \$9,943 billion in 2019 to \$12,419 billion as at 31 December 2020.

Chart 7A: Assets Managed in Hong Kong<sup>15</sup> (2020: \$12,419 billion) – by Geographical Distribution of Investments



18. Asia-Pacific remained the most popular investment region amongst Hong Kong managers, accounting for 64% of the assets managed in Hong Kong<sup>15</sup> in 2020.

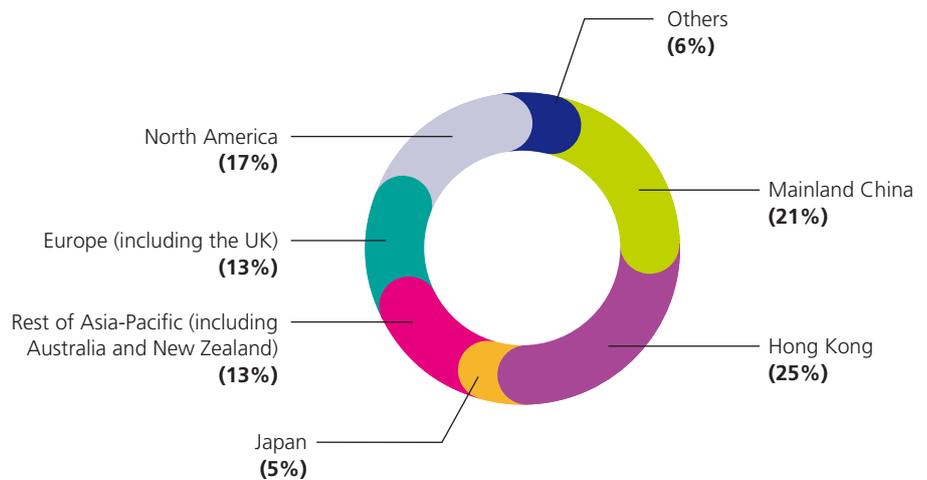
<sup>15</sup> Excluded fund advisory business and REITs.



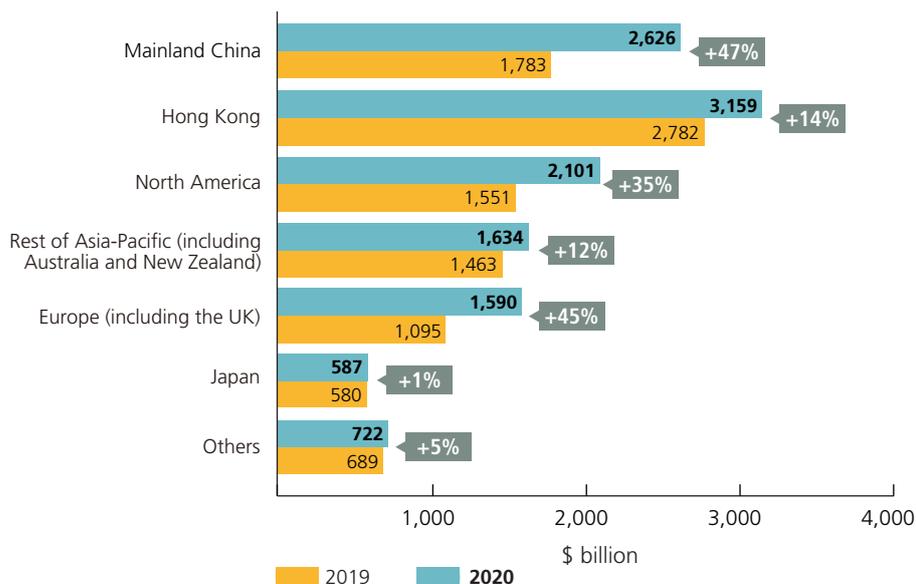
**Assets invested in Mainland China and Hong Kong**

19. Hong Kong remained a preferred market for fund managers, with investments amounting to \$3,159 billion, representing 25% of all assets managed locally<sup>16</sup> in 2020. Investment allocation to Mainland China increased to 21% from 18% in the previous year, representing a 47% year-on-year growth to \$2,626 billion from \$1,783 billion.

**Chart 7B: Assets Managed in Hong Kong<sup>16</sup> (\$12,419 billion) – by Geographical Distribution of Investments**



**Chart 7C: Assets Managed in Hong Kong<sup>16</sup> (\$12,419 billion) – by Geographical Distribution of Investments (2020 vs 2019)**



<sup>16</sup> Excluded fund advisory business and REITs.

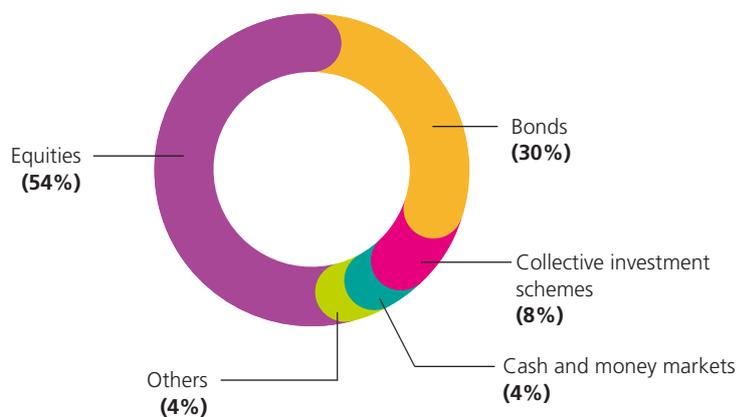
## Assets Managed in Hong Kong<sup>17</sup> – Analysis of Investments by Asset Class



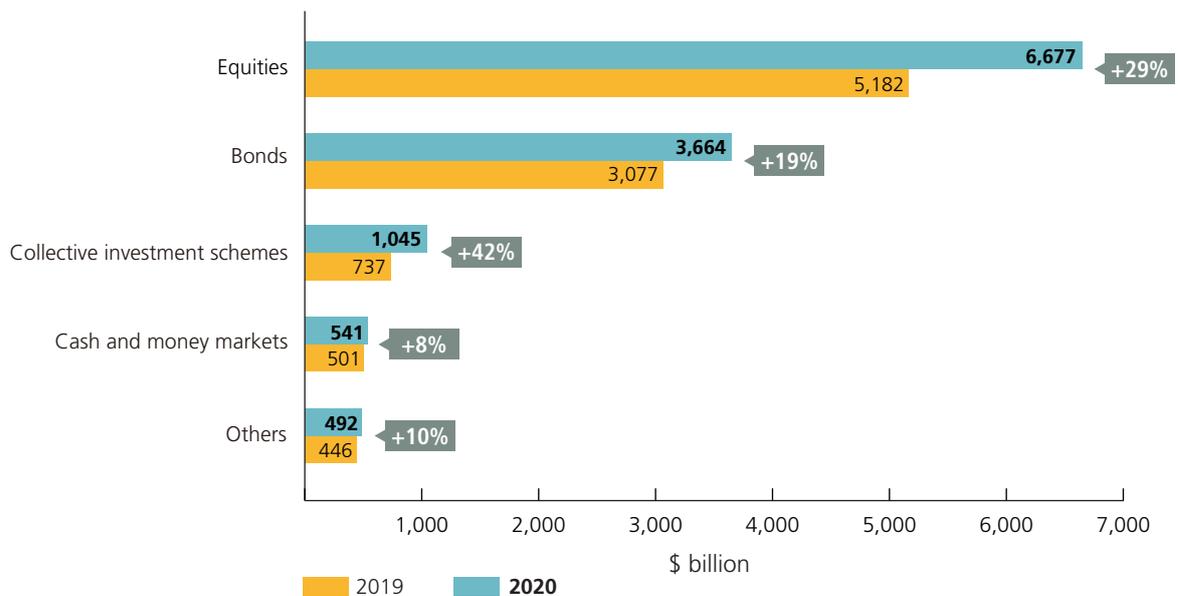
Assets invested in equities

20. As at 31 December 2020, the majority of the assets managed in Hong Kong<sup>17</sup> were invested in equities, accounting for 54% of the total, followed by bonds, which accounted for 30%.

**Chart 8A: Assets Managed in Hong Kong<sup>17</sup> (\$12,419 billion) – by Asset Class**



**Chart 8B: Assets Managed in Hong Kong<sup>17</sup> (\$12,419 billion) – by Asset Class (2020 vs 2019)**



<sup>17</sup> Excluded fund advisory business and REITs.



## SFC-authorized REITs

21. Despite a decrease in the market capitalisation of all SFC-authorized REITs to \$238 billion as at 31 December 2020, listed REITs made a number of acquisitions during the year with an aggregate consideration of approximately \$4.5 billion. The first logistics-focused REIT was listed in May 2021.



Section II C

**Private  
Banking and  
Private Wealth  
Management  
Business**



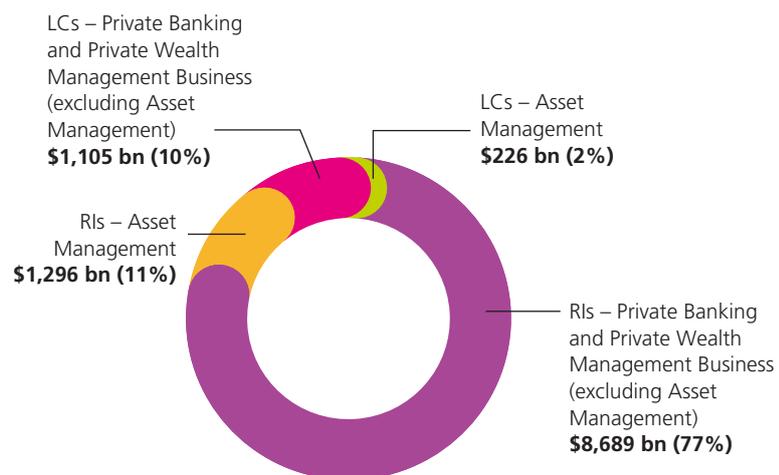
## Private Banking and Private Wealth Management Business<sup>18</sup> – An Overview



Private banking and private wealth management business

22. As at 31 December 2020, the total assets of the private banking and private wealth management business, which included the asset management services provided to private banking clients by licensed corporations and registered institutions, increased from the previous year by 25% to \$11,316 billion<sup>19</sup>. Net fund inflows amounted to \$656 billion in 2020 (2019: \$681 billion), which accounted for 29% of the year-on-year increase in the private banking and private wealth management business.
23. 47 licensed corporations and 42 registered institutions reported that they had conducted private banking or private wealth management business during the survey period.

**Chart 9: Private Banking and Private Wealth Management Business (\$11,316 billion) – by Market Player**



24. As at 31 December 2020, the total number of staff engaged in the private banking and private wealth management business was 8,084, of which 2,819 were Private Wealth Management Relevant Practitioners<sup>20</sup>.

<sup>18</sup> Please refer to page 48 of this report for the definition of “private banking and private wealth management business”.

<sup>19</sup> This figure represents the total assets under private banking and private wealth management clients’ accounts generated, managed or served by Hong Kong relationship managers of LCs and RIs which are part of a larger banking group, or for which the relationship managers are accountable.

<sup>20</sup> The number of staff engaged in the private banking and private wealth management business as at 31 December 2020 as reported by registered institutions was 7,173, of which 2,479 were Private Wealth Management Relevant Practitioners.

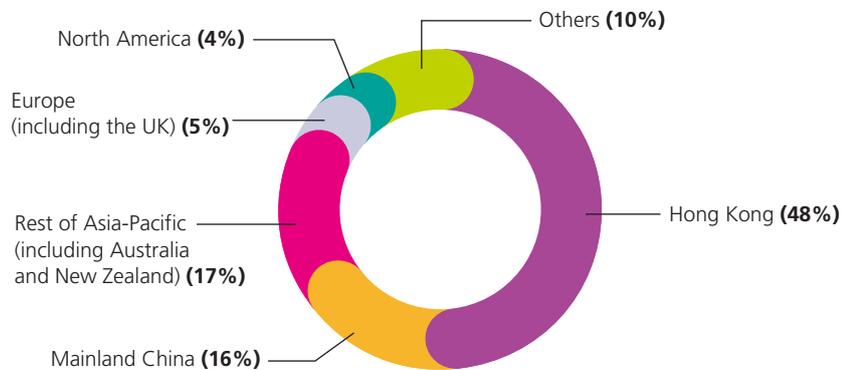
## Private Banking and Private Wealth Management Business – Analysis by Investor Base



Assets sourced from non-Hong Kong investors

25. As at 31 December 2020, 52% of the total AUM by the private banking and private wealth management business were sourced from non-Hong Kong investors, most of which were from the Asia-Pacific region.

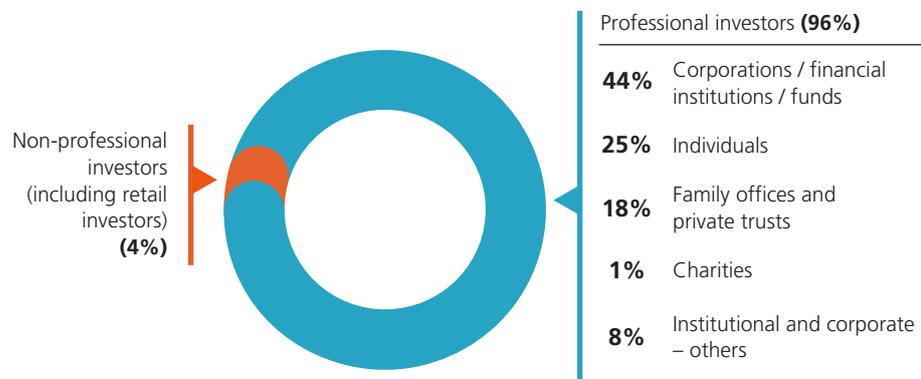
**Chart 10: Private Banking and Private Wealth Management Business (\$11,316 billion) – by Investor Base**



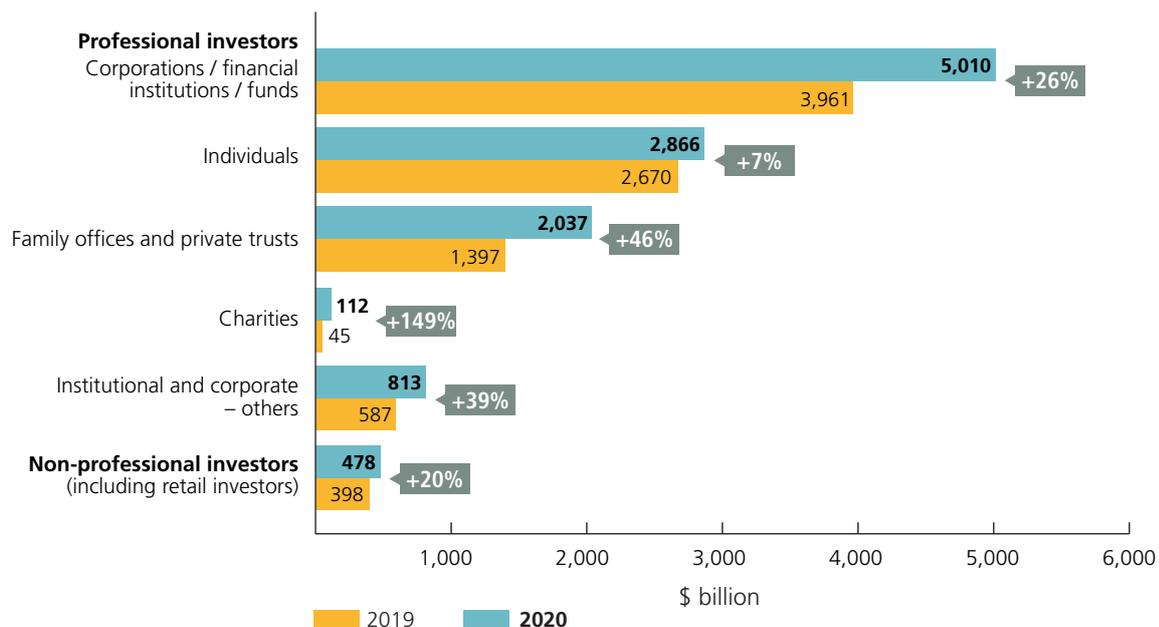
## Private Banking and Private Wealth Management Business – Analysis by Client Type

26. As at 31 December 2020, institutional and corporate investors and individual professional investors<sup>21</sup> contributed 71% and 25% of total AUM, respectively.

**Chart 11A: Private Banking and Private Wealth Management Business (\$11,316 billion) – by Client Type**



**Chart 11B: Private Banking and Private Wealth Management Business (\$11,316 billion) – by Client Type (2020 vs 2019)**

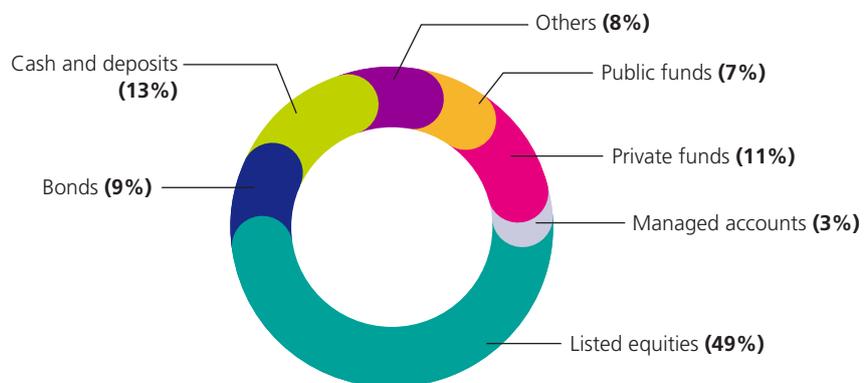


<sup>21</sup> Please refer to page 49 of this report for the definition of “professional investors”.

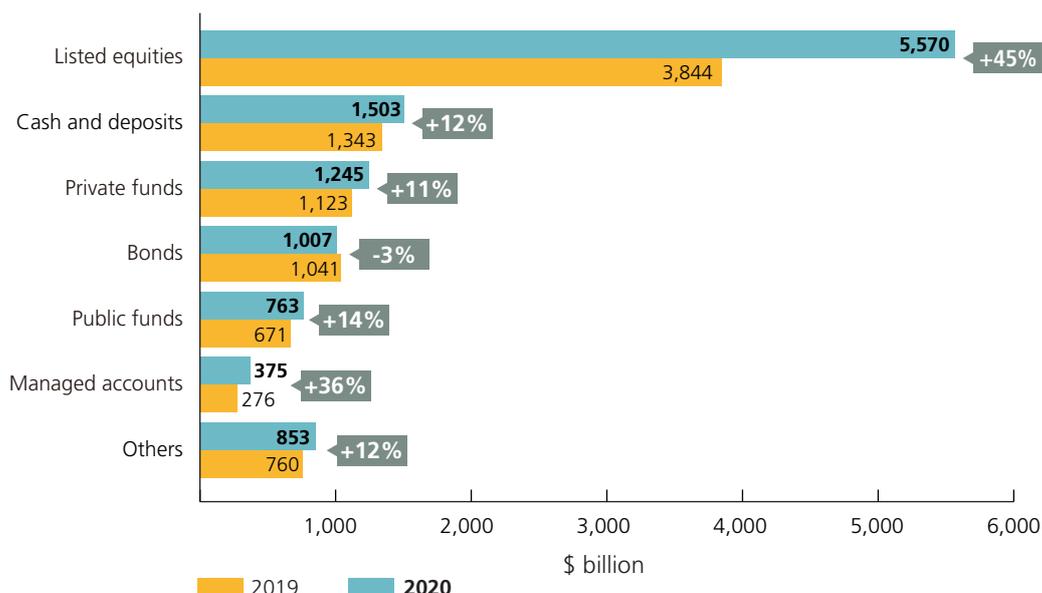
## Private Banking and Private Wealth Management Business – Analysis by Asset and Product Type

27. Listed equities continued to account for the largest portion of invested assets of the private banking and private wealth management business, representing 49% of the total AUM as at 31 December 2020. The remaining assets were diversified into other products, such as private funds (including hedge funds, private equity and venture capital<sup>22</sup>), bonds, cash and deposits.

**Chart 12A: Private Banking and Private Wealth Management Business (\$11,316 billion) – by Asset and Product Type**

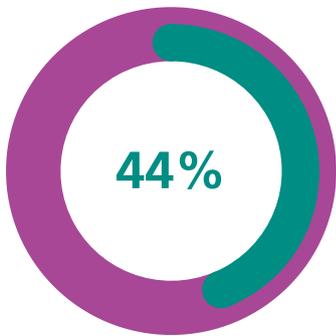


**Chart 12B: Private Banking and Private Wealth Management Business (\$11,316 billion) – by Asset and Product Type (2020 vs 2019)**



<sup>22</sup> There are private equity firms in Hong Kong which are neither LCs nor RIs. According to the Asian Venture Capital Journal (AVCJ), Hong Kong ranked second in Asia after Mainland China in 2020 in terms of the total capital under management by private equity funds (excluding real estate funds), which amounted to US\$164 billion (2019: US\$161 billion).

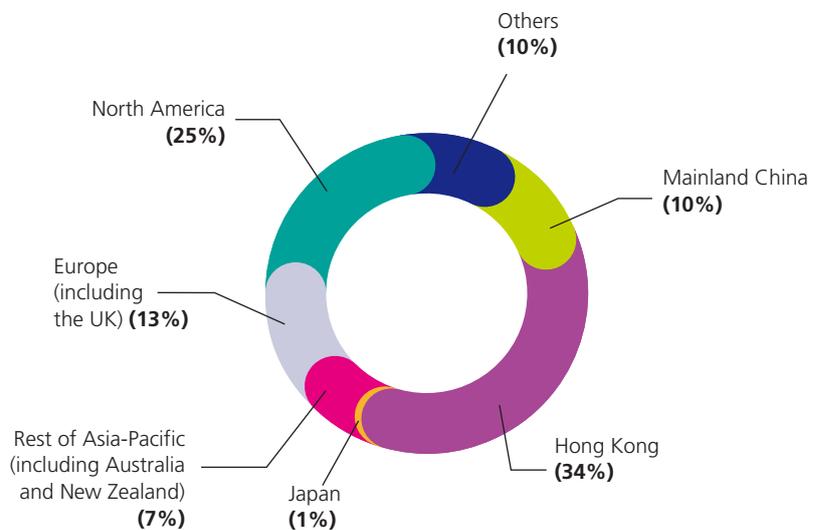
## Private Banking and Private Wealth Management Business – Analysis by Geographical Distribution



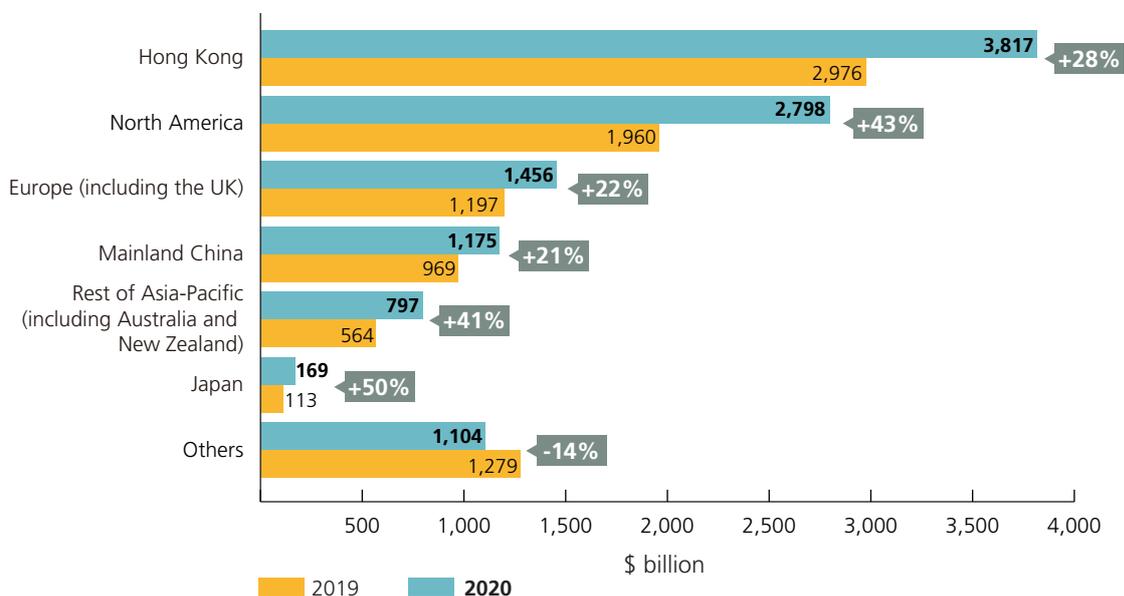
Assets invested in Mainland China and Hong Kong

28. In 2020, 52% of the AUM of the private banking and private wealth management business was invested in the Asia-Pacific region, with 44% invested in Mainland China and Hong Kong.

**Chart 13A: Private Banking and Private Wealth Management Business (\$11,316 billion) – by Geographical Distribution of Investments**



**Chart 13B: Private Banking and Private Wealth Management Business (\$11,316 billion) – by Geographical Distribution of Investments (2020 vs 2019)**





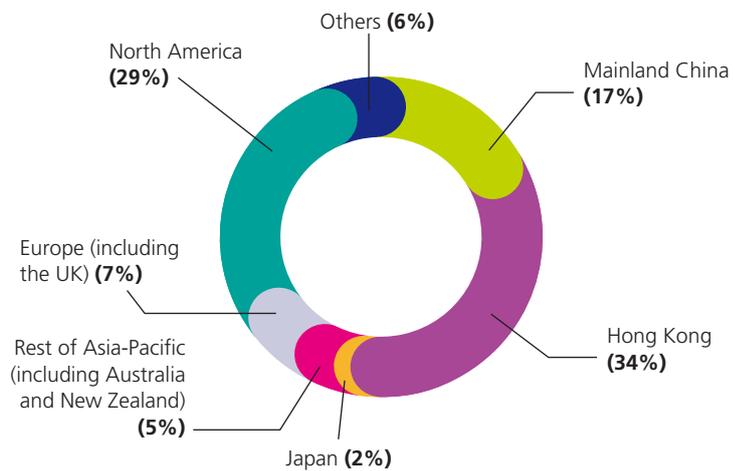
Section II D

# Assets Held under Trusts

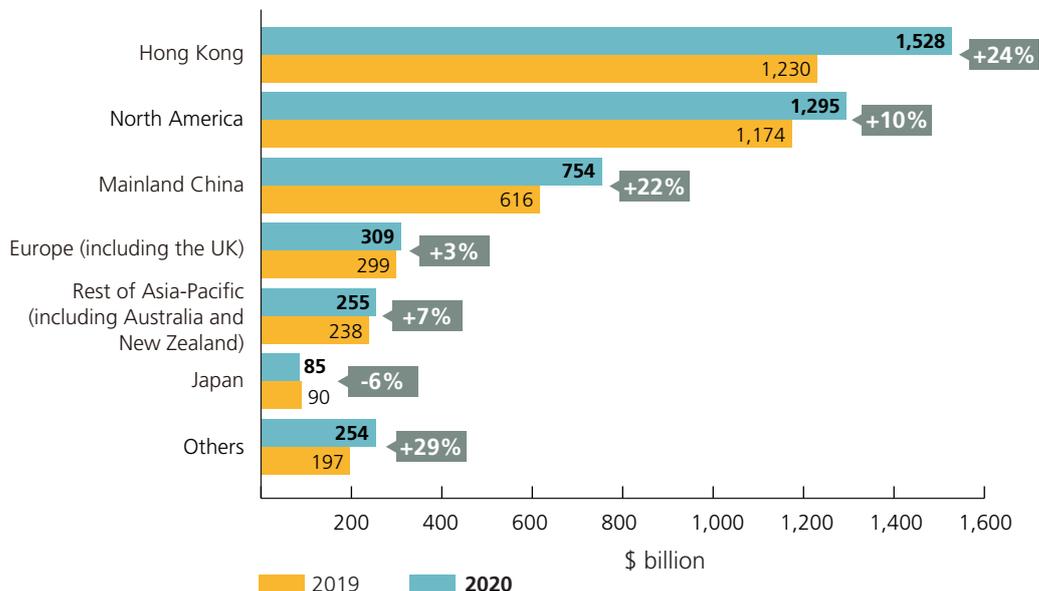
## Assets Held under Trusts

29. Assets held under trusts in Hong Kong amounted to \$4,480 billion as at 31 December 2020, up 17% from a year earlier. 75% of the total (ie, \$3,381 billion) was managed by LCs or RIs.
30. Of the total assets held under trusts as at 31 December 2020, 51% were located in Mainland China and Hong Kong.
31. Hong Kong investors constituted a major source of funding for assets held under trusts, accounting for 81% of AUM.

**Chart 14A: Assets Held under Trusts (\$4,480 billion) – by Geographical Distribution of Investments**

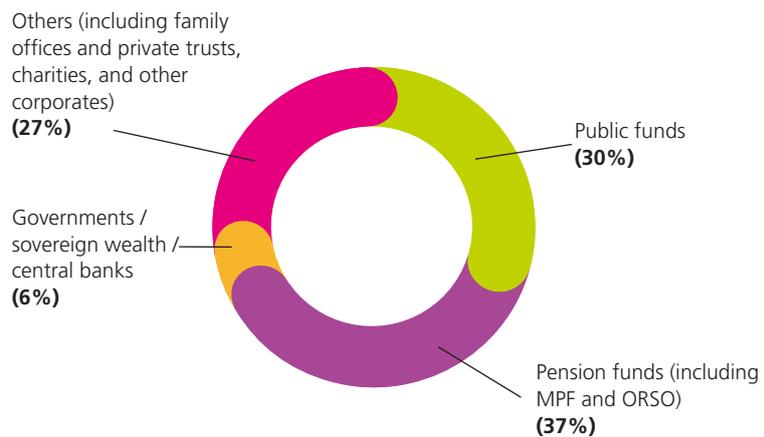


**Chart 14B: Assets Held under Trusts (\$4,480 billion) – by Geographical Distribution of Investments (2020 vs 2019)**

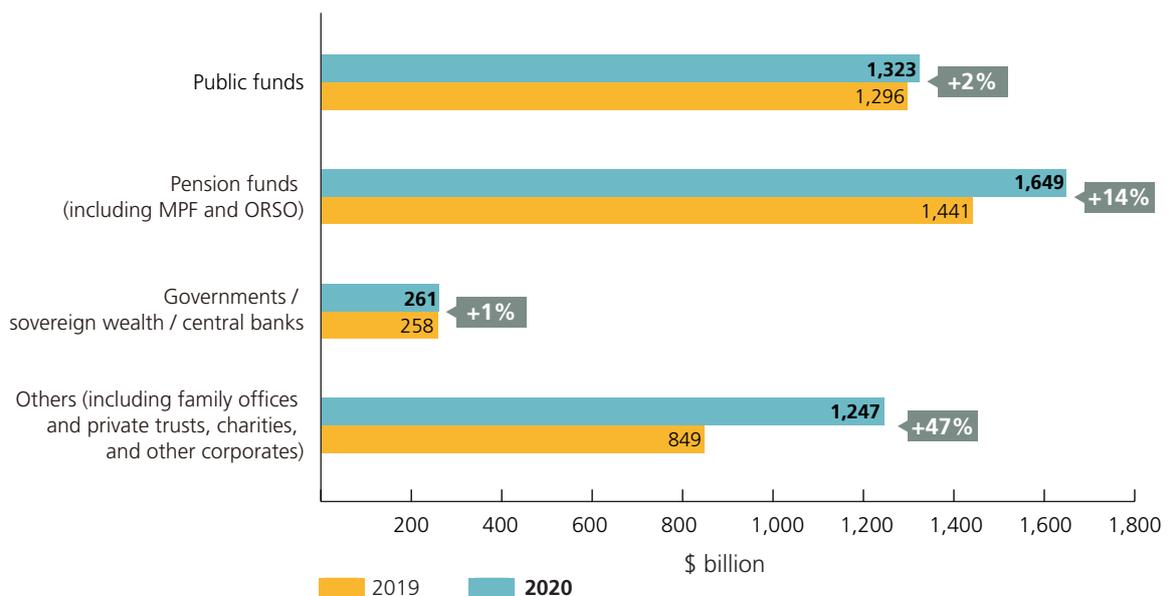


32. Public funds and pension funds, including mandatory provident funds (MPF) and occupational retirement schemes (ORSO), accounted for 67% of the assets held under trusts as at 31 December 2020.

**Chart 15A: Assets Held under Trusts (\$4,480 billion) – by Client Type**



**Chart 15B: Assets Held under Trusts (\$4,480 billion) – by Client Type (2020 vs 2019)**





**Section III**

**Hong Kong  
as the  
Pre-eminent  
Offshore  
Renminbi  
Centre**



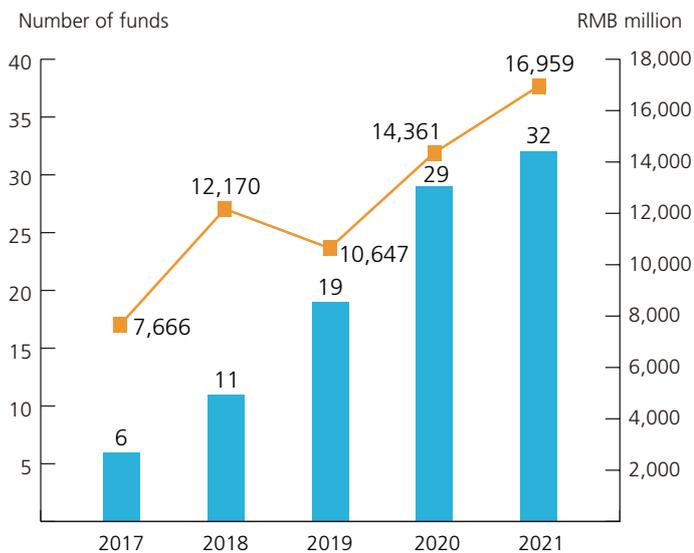
### III. Hong Kong as the Pre-eminent Offshore Renminbi Centre

Hong Kong continues to be the pre-eminent offshore renminbi centre offering a wide range of renminbi financial products.

#### MRF between the Mainland and Hong Kong

Under the Mainland-Hong Kong MRF scheme implemented in July 2015, 50 Mainland MRF funds had been authorised by the SFC and 32 Hong Kong MRF funds had been approved by the China Securities Regulatory Commission (CSRC) up to 26 March 2021. The AUM of Mainland MRF funds attributable to Hong Kong investors increased 134% to RMB874 million as at 26 March 2021, whilst the AUM in Hong Kong MRF funds attributable to Mainland investors rose 18% to RMB16,959 million.

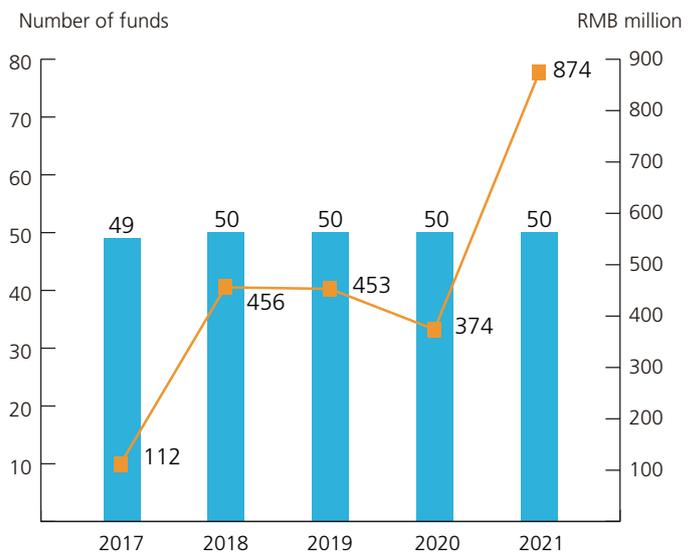
Chart 16: Hong Kong MRF Funds



■ AUM of MRF funds attributable to Mainland investors  
■ Number of Hong Kong MRF funds approved

(Figures as at 26 March for 2021, 27 March for 2020 and 31 March for 2017 to 2019)

Chart 17: Mainland MRF Funds

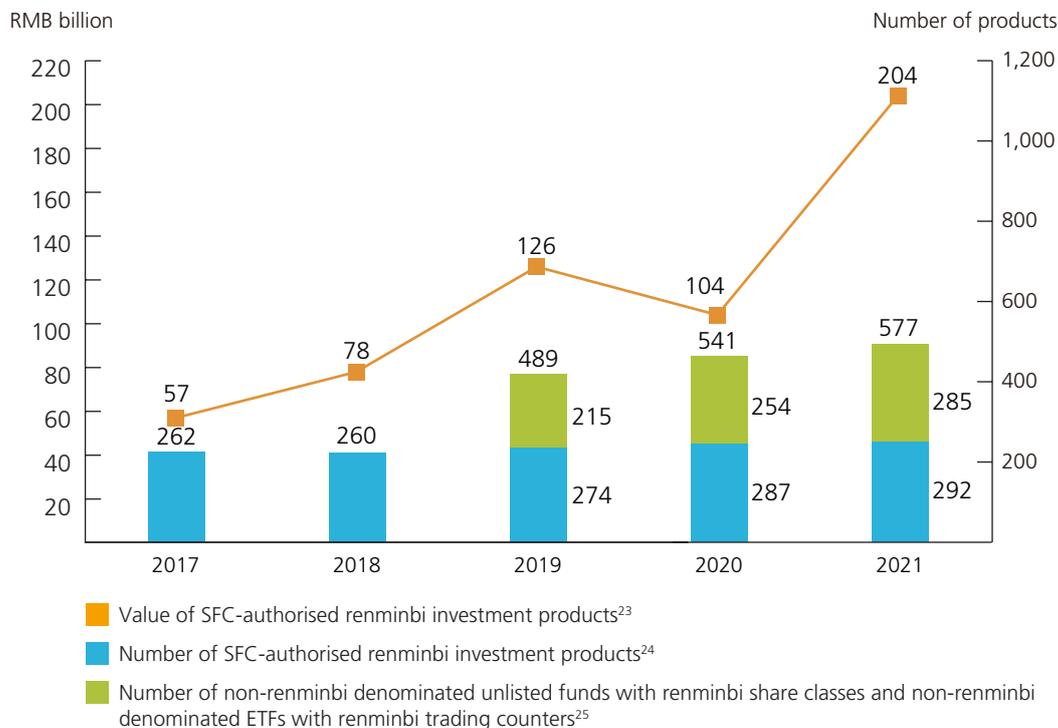


■ AUM of MRF funds attributable to Hong Kong investors  
■ Number of Mainland MRF funds authorised

(Figures as at 26 March for 2021, 27 March for 2020 and 31 March for 2017 to 2019)

## Retail Renminbi-denominated and Related Products

Chart 18: Number and Value of SFC-authorized Renminbi Investment Products



(Figures as at 31 March of each year)

<sup>23</sup> Comprising:

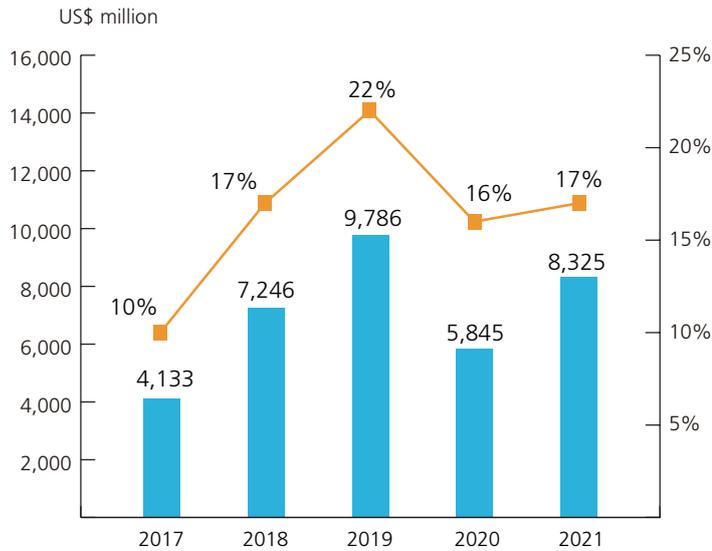
- net asset value of (i) ETFs (renminbi-denominated) primarily investing in the onshore Mainland securities markets through the Qualified Foreign Investor (QI), Stock Connect, Bond Connect and the China Interbank Bond Market (CIBM) or offshore renminbi bonds, fixed income instruments or other securities; (ii) unlisted funds (renminbi-denominated) primarily investing in the onshore Mainland securities markets through QI, Stock Connect, Bond Connect and CIBM or offshore renminbi bonds, fixed income instruments or other securities; (iii) recognised Mainland funds under the Mainland-Hong Kong MRF attributable to Hong Kong investors; (iv) renminbi gold ETFs; and (v) renminbi leveraged and inverse (L&I) products;
- outstanding amount of unlisted structured investment products issued in renminbi;
- renminbi-denominated account exposure of paper gold schemes with renminbi features;
- market capitalisation of renminbi REITs; and
- aggregate net asset value of renminbi-denominated share classes of unlisted funds (non-renminbi denominated) which were offered to Hong Kong investors.

In 2019 to 2021, the coverage was expanded to include the value of products mentioned in (e) above, but excluding ETFs (non-renminbi denominated) with renminbi trading counters.

<sup>24</sup> This represents the number of SFC-authorized Renminbi Investment Products mentioned in (a) to (d) of note 23 above.

<sup>25</sup> This represents the number of SFC-authorized Renminbi Investment Products mentioned in (e) of note 23 above, and the number of ETFs (non-renminbi denominated) with renminbi trading counters. The coverage was expanded to include these products in 2019 to 2021.

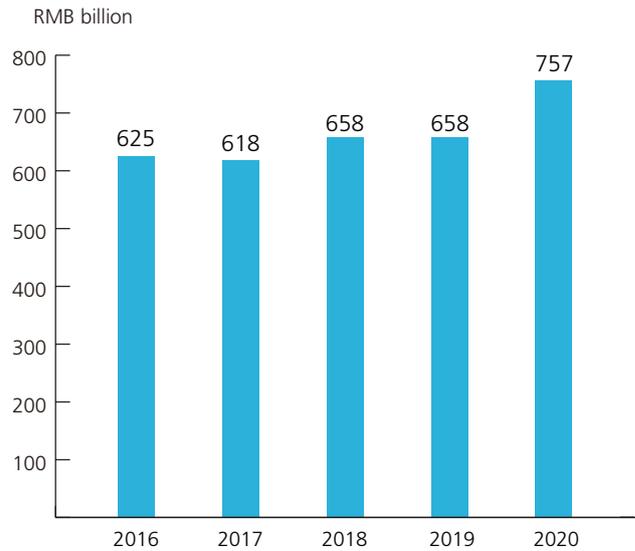
**Chart 19: SFC-authorized ETFs (renminbi-denominated) primarily investing in the onshore Mainland securities markets through QI, Stock Connect, Bond Connect and CIBM**



- Market capitalisation of SFC-authorized ETFs (renminbi-denominated) primarily investing in the onshore Mainland securities markets through QI, Stock Connect, Bond Connect and CIBM as a percentage of all ETFs in Hong Kong
- Total market capitalisation of SFC-authorized ETFs (renminbi-denominated) primarily investing in the onshore Mainland securities markets through QI, StockConnect, Bond Connect and CIBM (US\$ million)

(Figures as at 31 March of each year)

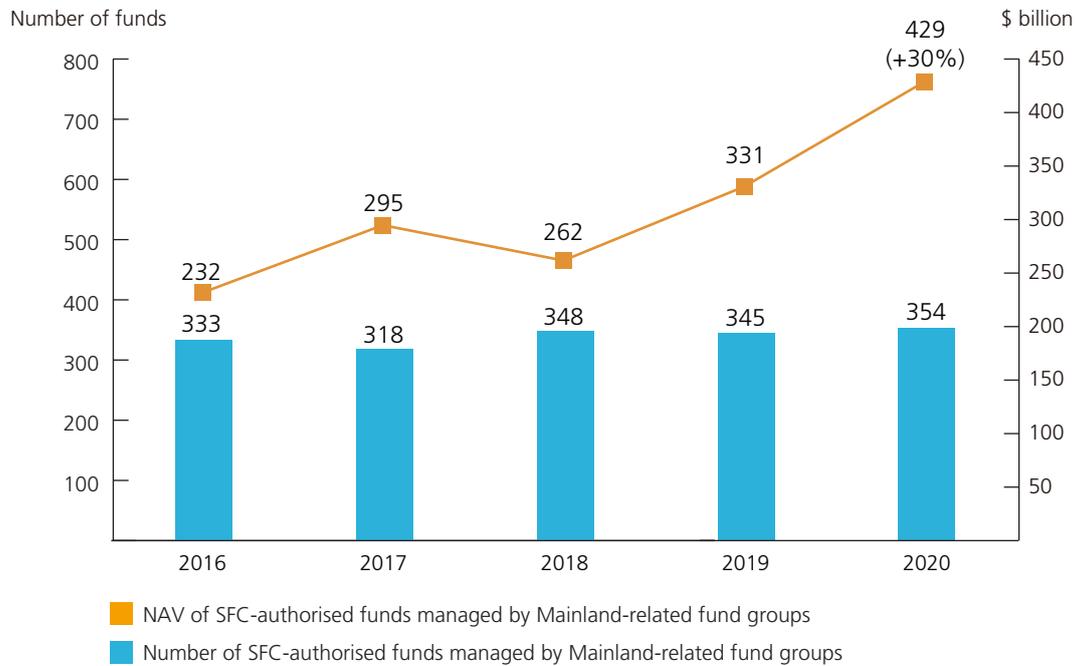
**Chart 20: Total Outstanding Renminbi Customer Deposits and Certificates of Deposit**



Source: Hong Kong Monetary Authority Annual Report  
(Figures as at 31 December of each year)

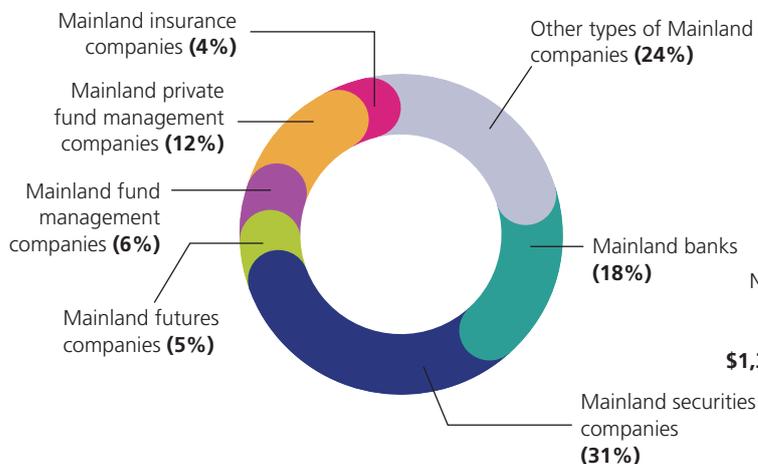
## Growing Mainland Participation in the Hong Kong Market

**Chart 21: Number and Net Asset Value of SFC-authorized Funds Managed by Mainland-related Fund Groups**



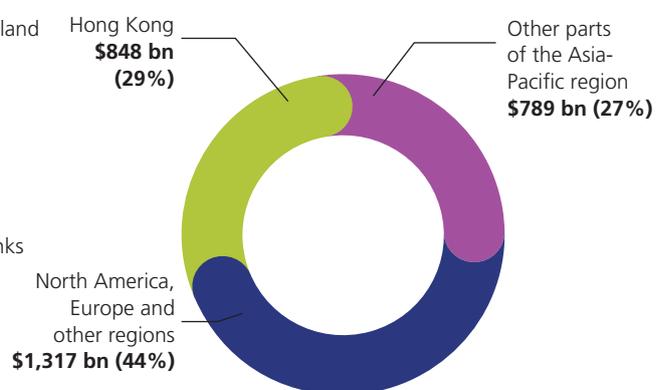
(Figures as at 31 December of each year)

**Chart 22: Breakdown of Licensed Corporations and Registered Institutions Established by Mainland-related Groups in Hong Kong (3% year-on-year growth)**



As at 31 December 2020 (total: 397)

**Chart 23: Assets sourced from Mainland Investors including Qualified Domestic Institutional Investors – by Geographical Distribution of Investments**



As at 31 December 2020 (total: \$2,954 billion)



**Section IV**

# **Recent Developments and Outlook**



## IV. Recent Developments and Outlook

### Facilitating the development of the asset and wealth management industry in Hong Kong

#### ETFs and leveraged and inverse products

As of 31 March 2021, the number of SFC-authorized exchange-traded funds (ETFs) listed on the Stock Exchange of Hong Kong Limited (SEHK) was 148, including 26 leveraged and inverse (L&I) products, with total assets under management (AUM) of \$394.41 billion (up 41% year-on-year, 2020: \$279.15 billion). The average daily turnover of these ETFs was \$7 billion in the preceding 12 months (up 17% year-on-year, 2020: \$5.96 billion).

During the year, the SFC and the CSRC approved four ETFs under a scheme which facilitates the cross-listing of ETFs between the Hong Kong and Mainland markets (ETF Cross Listing). The total AUM of the four cross-listed ETFs was \$729.3 million as of 31 March 2021. To provide more investment opportunities for both local and overseas investors, we are working with the CSRC and stock exchanges to continue taking forward the scheme. Following the cross-listing of Hong Kong ETFs on the Shenzhen Stock Exchange (SZSE) in October 2020, we worked with the CSRC to expand the scheme to cover the Shanghai Stock Exchange (SSE). The first pair of ETFs cross-listed on SEHK and SSE were listed in June 2021. We are also working with the CSRC and the stock exchanges on the implementation of ETF Connect.

We also worked with SEHK to enhance the efficiency and liquidity of ETFs in the secondary market. A new spread table and a continuous quoting market making regime for ETFs were introduced in June 2020. Effective May 2021, the trading tariff and minimum stock settlement fee for fixed income and money market ETFs were waived. In addition, different trading fee exemption rates for securities market maker transactions now apply to ETFs and L&I products based on their liquidity and investment exposures.

To mitigate mispricing risk, we collaborated with SEHK to impose price limits of 15% on ETFs during the pre-opening session of their first trading day.

### Open-ended fund companies

The SFC registered 10 OFCs during the year ending 31 March 2021, including the first unlisted public OFC. It also approved the establishment of a number of OFC sub-funds, including five authorised ETFs.

To encourage and facilitate the formation of private OFCs, the SFC removed all investment restrictions for private OFCs and allowed eligible licensed or registered securities brokers to act as custodians for private OFCs since September 2020.

Currently, the SFC is working closely with the Government on legislative amendments to introduce a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong as OFCs. Initiatives to refine the OFC regime in relation to winding-up procedures and AML/CFT are also underway.

The SFC concluded a further consultation in December 2020 on requiring OFCs to appoint a responsible person to carry out AML/CFT functions.

### Grant scheme for OFCs and REITs in Hong Kong

As an initiative to strengthen the competitiveness of Hong Kong as a global asset and wealth management centre and a preferred fund domicile, the SFC worked closely with the Government to introduce a three-year grant scheme to subsidise the formation of OFCs and listing of REITs in Hong Kong.

Effective 10 May 2021, the grant scheme covers 70% of eligible expenses incurred in setting up or re-domiciling an OFC or listing a REIT in Hong Kong, subject to a cap of \$1 million per OFC and \$8 million per REIT.

Administered by the SFC, the scheme will reinforce Hong Kong's role as a leading capital raising venue and its status as an international asset and wealth management centre by encouraging the use of the OFC structure and broadening the REIT market.

## Mutual recognition of funds

The SFC proactively promotes cross-border offerings of eligible Hong Kong public funds to the Mainland and other overseas markets through mutual recognition arrangements. This helps to broaden the investor base for Hong Kong public funds, strengthen Hong Kong as a competitive global asset and wealth management centre and encourage the development of local investment expertise.

In January 2021, the SFC entered into a memorandum of understanding (MoU) on mutual recognition of funds (MRF) with the Securities and Exchange Commission of Thailand (SEC) which allows eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process and expedites the approval process for local feeder funds investing in MRF-eligible master funds in the other market. The MRF arrangement came into effect in June 2021. Briefings were organised to explain the new initiative to the industry.

Under the Mainland-Hong Kong MRF regime, a total of three Hong Kong MRF funds were approved by the CSRC and one Mainland MRF fund was authorised by the SFC during the year, bringing the total to 82. For the year ended 31 March 2021, Mainland MRF funds recorded total net subscriptions of about RMB337.88 million while Hong Kong MRF funds recorded total net redemptions of about RMB211.93 million.

The SFC is working with the CSRC to enhance the Mainland-Hong Kong MRF scheme, including relaxing the sales limit and restrictions on overseas delegation to offer Mainland investors a more diversified pool of funds managed in Hong Kong.

### Greater Bay Area Wealth Management Connect

In January 2021, the SFC entered into an MoU with the People's Bank of China, China Banking and Insurance Regulatory Commission, CSRC, State Administration of Foreign Exchange, Hong Kong Monetary Authority and the Monetary Authority of Macao on the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. The MoU provides a framework for the exchange of supervisory information and enforcement cooperation as well as a liaison mechanism for investor protection issues.

The scheme will enable investors in the region to gain access to wealth management products through bank distribution channels, including Hong Kong domiciled public funds subject to eligibility requirements. The SFC is collaborating with the other signatories on the operational details.

### Tax concessions and related initiatives

The SFC is actively involved in the Government's taskforce on providing tax concessions for carried interest distributed by eligible private equity funds operating in Hong Kong and other tax initiatives to increase Hong Kong's appeal as a preferred fund domicile.

## Enhancing the regulatory regime for better investor protection

### Real estate investment trusts

Following a two-month consultation, enhancements to the Code on REITs took effect in December 2020 to provide Hong Kong REITs with more flexibility in making investments. Key enhancements include allowing investments in minority-owned properties, providing more flexibility to invest in property development projects, increasing the borrowing limit from 45% to 50% of a REIT's gross asset value and broadly aligning the requirements for REITs' connected party and notifiable transactions with the requirements for listed companies.

### Pooled retirement funds

In view of the wide participation in Hong Kong by employers and employees of occupational retirement schemes which invest in pooled retirement funds, the SFC launched a public consultation on proposals to update the Code on Pooled Retirement Funds in December 2020. Key proposals would strengthen investor protection by enhancing the requirements for fund operations and clarifying the obligations of key operators. The consultation ended in March 2021. A conclusions paper will be issued later this year.

### Investment-linked assurance schemes

To help the SFC maintain an effective regulatory regime and achieve better investor outcomes, the SFC is conducting a holistic review of ILAS and will issue further guidance to the industry on ILAS product design and disclosures. The SFC is also working on facilitative measures to enhance the authorisation process for ILAS to reduce the approval time for simple and standard applications.

### Regulated activity 13

Following the end of a consultation on the proposed regulatory framework for RA 13 regarding depositories of SFC-authorized funds, the SFC will publish consultation conclusions and launch a further consultation on proposed amendments to subsidiary legislation and SFC codes and guidelines.

**Electronic dissemination of investment product documents**

In view of the increasing use of electronic media, the SFC issued guidance to the industry in September and October 2020 to facilitate the dissemination of post-sale investment product documents in electronic form.

## Promoting the development of green finance

### Green and ESG funds

Since the publication of the SFC's circular on green or ESG funds in April 2019, investor awareness of ESG investing has grown. The number of ESG funds offered to the public in Hong Kong more than doubled over the past two years. In view of the rapid development of ESG funds and international regulatory developments, the SFC published a revised circular on 29 June 2021 to provide further disclosure guidance for ESG funds and additional guidance for ESG funds with a climate-related focus.

The SFC maintains a central database of all SFC-authorized ESG funds on its website. There are currently about 60 SFC-authorized ESG funds. To enhance the transparency of these funds, the SFC plans to provide information in the database on the key features of each ESG fund on its website in the near future.

### Climate change risk for asset managers

Climate change is increasingly recognised as a source of extreme risk including potential financial risks for businesses. In October 2020, the SFC proposed amendments to the Fund Manager Code of Conduct to require fund managers to incorporate climate-related risks into their investment and risk management processes and make appropriate disclosures. These measures aim to improve the comparability of information across different fund managers to help investors make more informed decisions.

## Responding to a changing market to safeguard investors' interests

### Surveillance, monitoring and risk management

To monitor the risk exposure of Hong Kong-domiciled SFC-authorized funds, the SFC requires asset managers to report key data periodically, including subscription and redemption flows, liquidity profiles, asset allocations and securities financing and borrowing transactions.

The SFC also closely monitors the liquidity of SFC-authorized funds through reports from asset managers on unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems.

Amidst geopolitical tensions, the SFC monitors and assesses the impact of measures imposed by foreign authorities on the operation of SFC-authorized funds. In particular, the SFC closely monitors the impact on retail funds and structured products of the US executive order prohibiting investments in specific Mainland companies. It actively engaged with relevant managers, trustees and custodians and reminded them that any actions taken by them should be fair having regard to the best interests of investors.

In anticipation of the potential discontinuation of the London Interbank Offered Rate after the end of 2021, the SFC conducted a survey of licensed management companies of Hong Kong-domiciled SFC-authorized funds to assess their readiness and reminded them to properly manage the associated risks.

In light of market stress induced by the COVID-19 pandemic, the SFC also conducted a survey to gather information on the liquidity risk management policies adopted in practice by selected fund managers of Hong Kong-domiciled SFC-authorized funds, in particular their experience handling redemption pressures during this period.

The SFC performs routine surveillance of advertisements and handles complaints about property-related or other suspected arrangements which may be collective investment schemes (CIS). The SFC looked into nine suspicious CIS cases during the year ended 31 March 2021.

Going forward, the SFC plans to collect additional data on public funds' use of leverage to enhance its monitoring of their activities and its understanding of developing trends in financial markets. The SFC will also participate in the International Organization of Securities Commissions' leverage data reporting exercise at the global level.

**Details of Survey Respondents**

**Licensed corporations**

1. A breakdown of the activities of the 830 licensed corporations which engaged in (i) asset management (AM), (ii) fund advisory business (ADV) or (iii) private banking and private wealth management business (PB) is shown below:

Respondents with AM only	530
Respondents with ADV only	59
Respondents with PB only	13
Respondents with AM and ADV	194
Respondents with AM and PB	12
Respondents with ADV and PB	4
Respondents with AM, ADV and PB	18
	<hr/>
	830
	<hr/>

**Registered institutions**

2. A breakdown of the activities of the 47 registered institutions which engaged in AM or PB is shown below:

Respondents with AM only	5
Respondents with PB only	35
Respondents with AM and PB	7
	<hr/>
	47
	<hr/>

**Insurance companies**

3. 39 insurance companies which carried out long-term business of providing services covering wealth management, life and annuity and retirement planning products, but were not licensed by the SFC, responded to the survey.

**Trustees**

4. 26 trustees providing trust services in Hong Kong responded to the survey.

**Breakdown of Asset and Wealth Management Business in 2020**

The table below provides a numeric illustration of the composition of the asset and wealth management business in terms of the type of business and the nature of the entity to which the assets relate.

(billion)	LCs	RIIs	ICs	Trustees	Asset and Wealth Management Business	Asset Management and Fund Advisory Business	Private Banking and Private Wealth Management Business	Assets Held under Trusts
Private banking and private wealth management business (excluding Item 1 below)	1,105	8,689	–	–	9,794	–	9,794	–
Asset management business provided to private banking and private wealth management clients (Item 1)	226	1,296	–	–	1,522	1,522	1,522	–
Asset management business for other clients	18,639	247	1,171	–	20,057	20,057	–	–
Fund advisory business	2,221	–	–	–	2,221	2,221	–	–
SFC-authorized REITs	238	–	–	–	238	238	–	–
Assets held under trusts								
– managed by LCs/RIIs	–	–	–	–	–	–	–	3,381
– attributable to non-LCs/RIIs	–	–	–	1,099	1,099	–	–	1,099
<b>Total</b>	<b>22,429</b>	<b>10,232</b>	<b>1,171</b>	<b>1,099</b>	<b>34,931</b>	<b>24,038</b>	<b>11,316</b>	<b>4,480</b>
<b>Relevant section in this report</b>					<b>Section II A</b>	<b>Section II B</b>	<b>Section II C</b>	<b>Section II D</b>

## Definitions

- “Asset and wealth management business” comprises asset management, fund advisory, private banking and private wealth management, SFC-authorized real estate investment trusts management and trust services in Hong Kong.
  - “Asset management” refers to:
    - (i) the provision of services which constitute Type 9 regulated activity as defined in Schedule 5 of the SFO carried out by licensed corporations and registered institutions (excluding assets from clients who are also licensed by or registered with the SFC); and
    - (ii) the management of financial assets arising from the provision of services which constitute classes of long-term business as defined in Part 2 of the First Schedule of the Insurance Ordinance (Chapter 41) (excluding assets sub-contracted or delegated to other licensed corporations or registered institutions in Hong Kong for management), but excludes fund advisory business and private banking and private wealth management business. Assets managed shall be construed in the same manner.
  - “Fund advisory business” refers to the provision of pure investment advisory services for funds or portfolios generating gross operating income for the service providers. It constitutes Type 4 and Type 5 regulated activities as defined in Schedule 5 of the SFO. Such service is generally provided to overseas managers who manage a global or regional portfolio and need expert advice from a manager in Hong Kong or its delegate with respect to the Hong Kong portion or a specific geographic segment of the global or regional portfolio.
  - “Private banking and private wealth management business” is a generic term which refers to the provision of banking or other financial services to private banking customers.

Total assets of private banking and private wealth management business refers to total assets under private banking and private wealth management clients’ accounts which have been generated, managed or served by Hong Kong relationship managers, or for which the relationship managers are accountable, and assets managed by licensed corporations and registered institutions in Hong Kong, including i) assets managed and services provided which constitute regulated activities as defined in Schedule 5 to the SFO and ii) assets managed and services provided beyond those activities regulated under the SFO, including but not limited to cash and deposits, spot foreign exchange, currency-linked deposits/notes/instruments, and physical commodities.
- “AUM” means assets under management.
- “Insurance company” means an insurance company registered under the Insurance Ordinance (Chapter 41) which provides services that constitute classes of long-term business as defined in Part 2 of the First Schedule of the Insurance Ordinance and is not licensed by the SFC. For those insurance companies which are also licensed by the SFC, their reported AUM are categorised with those of other licensed corporations.
- “Licensed corporation” means a corporation granted a licence under section 116 or 117 of the SFO to carry on a regulated activity in Hong Kong.

- “Private Wealth Management Relevant Practitioners” refers to Relevant Practitioners as set out in a circular issued by the Hong Kong Monetary Authority entitled Enhanced Competency Framework for PWM Practitioners (ECF) and pages 2 to 5 of the ECF document dated 24 June 2014 enclosed therewith.
- “Professional investors” includes institutional professional investors, corporate professional investors and individual professional investors.
  - “Institutional professional investors” refers to persons falling under paragraphs (a) to (i) of the definition of “professional investor” in section 1 of Part 1 of Schedule 1 to the SFO;
  - “Corporate professional investors” refers to trust corporations, corporations or partnerships falling under sections 3(a), (c) and (d) of the Securities and Futures (Professional Investor) Rules (Chapter 571D) (“Professional Investor Rules”); and
  - “Individual professional investors” refers to individuals falling under section 3(b) of the Professional Investor Rules.
- “Registered institution” means an authorised financial institution registered under section 119 of the SFO. An authorised financial institution means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155).
- “REITs” refers to SFC-authorized real estate investment trusts.