



# ***Hong Kong – Luxembourg Mutual Recognition of Funds***

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Webinar • 14 March 2019

## ***Important Notice***

*Whilst a best effort approach has been taken to ensure the accuracy of the information provided in this presentation, as at the date thereof, this information is only designed to provide with summarised, and therefore non complete information regarding the topics covered. As such, this presentation does not constitute legal advice, it does not substitute for the consultation with legal counsel required prior to any undertakings and it should not be understood as investment guidelines.*

## **Speakers**

### **Eleanor Wan**

*Chief Executive Officer, BEA Union Investment Management Limited*

### **Stewart Aldcroft**

*Chairman, Cititrust Limited, Senior Advisor, Asian Region AM Business, Citi*

### **Alwyn Li**

*Partner, Financial Services Group, Deacons*

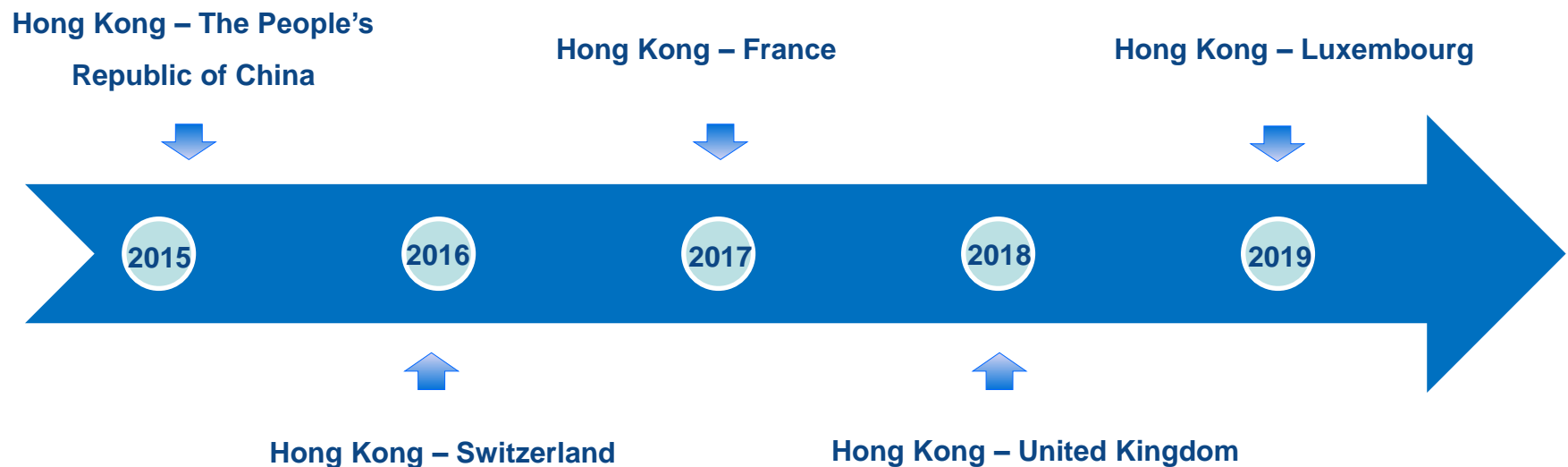
### **Stéphane Karolczuk**

*Partner, Investment Management, Arendt & Medernach*

# ***Agenda***

- **Introduction and overview of MRFs in force to date**
- **Common features of existing MRFs**
- **Comments on the HK-PRC MRF**
- **HK-Lux MRF specificities and conditions**
- **HK-Lux MRF expected benefits for Hong Kong and Lux fund managers**
- **Practical experiences in relation to MRFs so far**
- **Q&A**

# Introduction and overview of MRFs in force



*After China, Switzerland, France and the UK, were you expecting the next MRF to be entered into with Luxembourg? Which countries are next on the list in your view?*

## Common features of existing MRFs

	Mainland China	Switzerland	France	United Kingdom	Luxembourg
<b>Date of MOU</b>	July 2015	December 2016	July 2017	October 2018	January 2019
<b>Authority</b>	CSRC	FINMA	AMF	FCA	CSSF
<b>Eligible HK fund</b>	Hong Kong Covered Fund authorised by SFC to be allowed to be offered , marketed and distributed to public within Hong Kong				
<b>Eligible fund from host</b>	The Covered Fund remains authorized by the authority in home jurisdiction, be allowed for public offering within home jurisdiction				
<b>Eligible fund type</b>	<ul style="list-style-type: none"> <li>• General equity funds, bond funds and mixed funds</li> <li>• Unlisted index funds</li> <li>• physical index-tracking exchange traded funds</li> </ul>	<ul style="list-style-type: none"> <li>• General equity funds, bond funds and mixed funds</li> <li>• Feeder funds, fund of funds</li> <li>• Money market/Cash management Funds</li> <li>• Index Funds</li> <li>• Structured funds</li> <li>• Funds invest in FDIs</li> <li>• Index-tracking ETFs</li> </ul>	<ul style="list-style-type: none"> <li>• General equity funds, bond funds and mixed funds</li> </ul>	<ul style="list-style-type: none"> <li>• General equity funds, bond funds and mixed funds</li> <li>• Feeder funds, fund of funds</li> <li>• Index Funds</li> <li>• Passive managed index-tracking ETFs</li> </ul>	<ul style="list-style-type: none"> <li>• General equity funds, bond funds and mixed funds</li> <li>• Feeder funds, fund of funds</li> </ul>
<b>Fund type not allowed</b>	<ul style="list-style-type: none"> <li>• Commodity</li> <li>• Money Market</li> <li>• Structured</li> </ul>	<ul style="list-style-type: none"> <li>• Commodity</li> </ul>	<ul style="list-style-type: none"> <li>• Commodity</li> <li>• Money Market</li> <li>• ETF</li> <li>• Index Fund</li> <li>• Structured</li> </ul>	<ul style="list-style-type: none"> <li>• Commodity</li> </ul>	<ul style="list-style-type: none"> <li>• Commodity</li> <li>• ETF</li> <li>• Index</li> <li>• Structured</li> </ul>

## Common features of existing MRFs (cont.)

	Mainland China	Switzerland	France	United Kingdom	Luxembourg
<b>Other requirements</b>	<ul style="list-style-type: none"> <li>• Appoint HK Rep</li> <li>• Management firm registered and operated in Mainland</li> </ul>	<ul style="list-style-type: none"> <li>• Appoint HK Rep</li> <li>• Managed by Swiss Management Company</li> </ul>	<ul style="list-style-type: none"> <li>• Appoint HK Rep</li> <li>• Managed by France Management Company</li> </ul>	<ul style="list-style-type: none"> <li>• Appoint HK Rep</li> <li>• Managed by UK Management Company</li> </ul>	<ul style="list-style-type: none"> <li>• Appoint HK Rep</li> <li>• Managed by Luxembourg Management Company</li> </ul>
	<ul style="list-style-type: none"> <li>• Min 1 year track record, min RMB200 million (equivalent) AUM</li> <li>• ≤ 20% of the investments in the home jurisdiction market</li> <li>• The value of the shares/units sold to investors of the host jurisdiction investors ≤ 50% of the AUM</li> </ul>		<ul style="list-style-type: none"> <li>• No leverage exceeding 100% of NAV under the commitment approach</li> <li>• No share classes with hedging arrangements other than currency hedging</li> </ul>	<ul style="list-style-type: none"> <li>• No leverage exceeding 100% of NAV under the commitment approach</li> <li>• No share classes with hedging arrangements other than currency hedging</li> </ul>	<ul style="list-style-type: none"> <li>• No leverage exceeding 100% of NAV under the commitment approach</li> <li>• No share classes with hedging arrangements other than currency hedging</li> </ul>
				<ul style="list-style-type: none"> <li>• Min. 20% French Covered Fund's NAV attributed to investors in France</li> </ul>	<ul style="list-style-type: none"> <li>• Must not invest in real estate</li> </ul>

# Comments on the HK – PRC MRF

## *Hong Kong's Perspective*

- Build and grow domestic asset management skills
- More “added-value” jobs
- Leverage existing range of financial services providers, for securities, forex, banking
- Gain closer partnership with China

## *But*

- The 50%/50% split of source of investors seen as restrictive
- Little focus beyond regional funds
- Domestic fund range generally too small, many use FDI
- MPFA APIFs suitable, but face regulatory issues

## *China's Perspective*

- Provides domestic investor market more product choices
- Increase competition within the fund management business
- Improve investment management standards
- Increase competition for distributors

## *But*

- Investors using non-MRF products
- Only allows RMB denominated funds/units
- Significant volume of fund sales made in HK to Mainland
- Many concerns within China on outflow of RMB
- Transaction to buy and sell via ChinaClear
- No concept of nominee accounts or “umbrella” funds

Source: Citi – Asian Region Fund Passporting Schemes – Update 2019



# HK - Lux MRF Specificities and Conditions

*From a Hong Kong perspective*

## Eligibility

- UCITS authorized by the CSSF
- General equity, bond or mixed funds; Feeder funds
- No leverage exceeding 100% of fund's NAV under commitment approach
- No investments in physical commodities, crypto-assets or currencies or certificates thereof
- No share classes with hedging arrangements other than currency hedging
- Managed by Luxembourg authorized ManCo

## Requirements

- HK representative
- Home jurisdiction supervision
- Changes subject to further approval
- Sales/distribution conducted by intermediaries licensed or registered with the SFC
- CSSF approved prospectus
- Offering documents and notices must be provided in English and Chinese

## Application

- Process under the revamped fund authorization process
- Documentations
- 5 business days to assess application duly and properly submitted
- Eligibility certificate from CSSF to SFC
- Standard application - 1 to 2 months fast track authorization
- Non-standard application - 2 to 3 months
- Application lapse – 6 months no authorization

# HK - Lux MRF Specificities and Conditions

*From a Luxembourg perspective*

## Eligibility

- Hong Kong domiciled funds authorized by the SFC
- General equity, bond or mixed funds; Feeder funds
- No leverage exceeding 100% of fund's NAV under commitment approach
- No investments in physical commodities, crypto-assets or currencies or certificates thereof
- No share classes with hedging arrangement other than currency hedging
- Managed by Hong Kong covered management company
- Min one dealing day for redemption every two weeks

## Requirements

- Appoint Luxembourg paying agent
- Compliance with marketing rules
- Changes subject to further approval
- SFC approved prospectus
- Offering documents, notices and others shall either be in French, German, English or Luxembourgish, and provided in website

## Application

- Documentation and Information
- 5 business days to assess application duly and properly submitted
- Eligibility certificate from SFC to CSSF requested by Management Company
- 1 month standard authorization
- 2 months authorization should a request for information be issued
- Refuse application within two months if outstanding issues not addressed

# Expected benefits for HK and Lux managers

## Fast - track market access in 1 – 2 months

*SFC → Luxembourg Covered Fund managed by Luxembourg Covered Management Company*

*CSSF → Hong Kong Covered Fund managed by Hong Kong managers for Luxembourg domestic distribution*

### Hong Kong Manager

#### At first glance:

- ✓ Approach Luxembourg investors
  - Private banks
  - Insurance companies
  - Funds
  - Retail

#### However:

- ✓ Setup on UCITS is still the solution of wider EU/global market access and certain type of investors access
- ✓ Flows in funds through MRF are limited

### Luxembourg UCITS

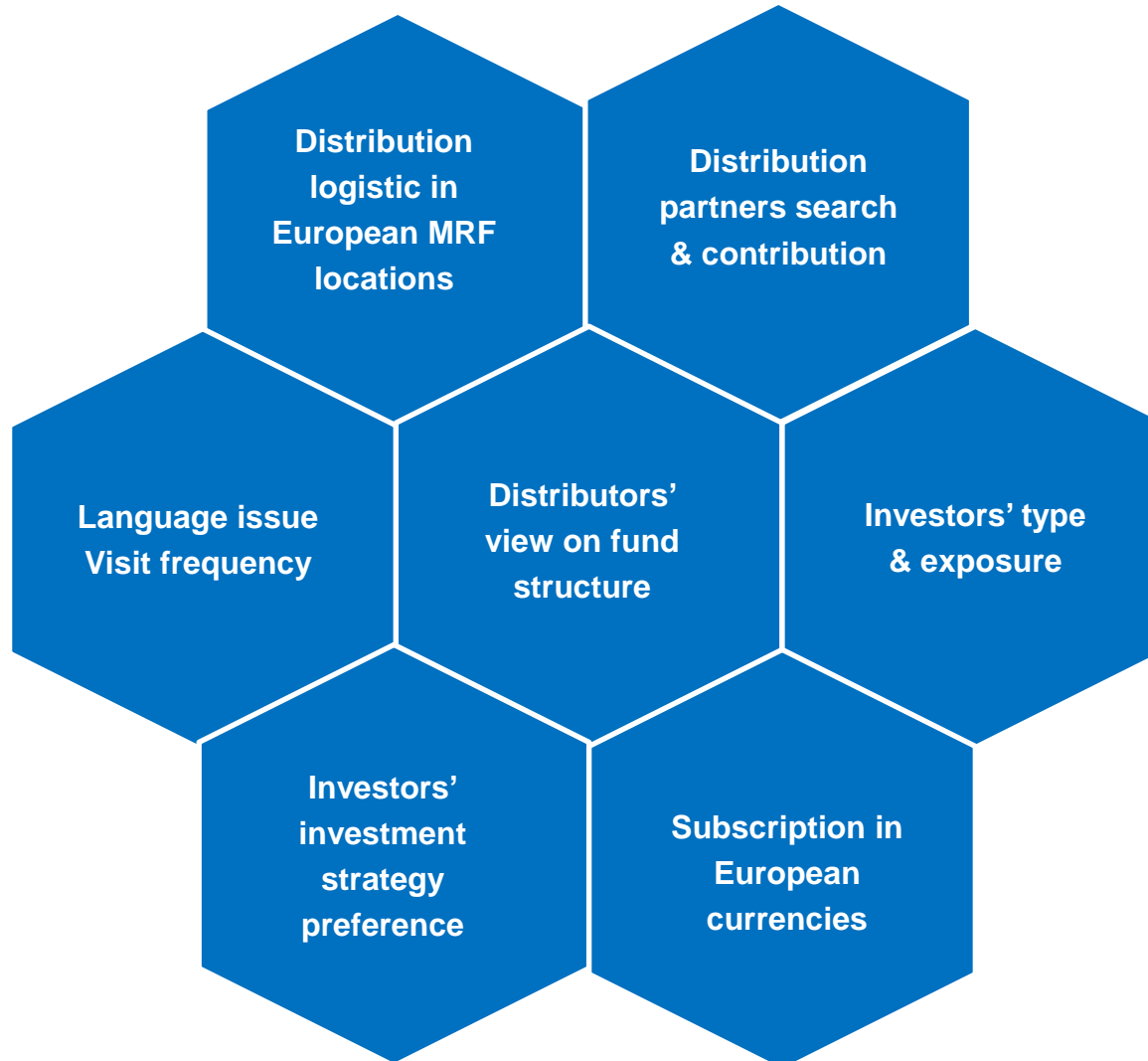
#### At first glance:

- ✓ Revamped process would also apply to unregistered platform (subject to MRF conditions)
- ✓ More reliance put on CSSF issued certificate regarding MRF compliance of a fund
- ✓ More certainty of SFC file handling in 1-2 months

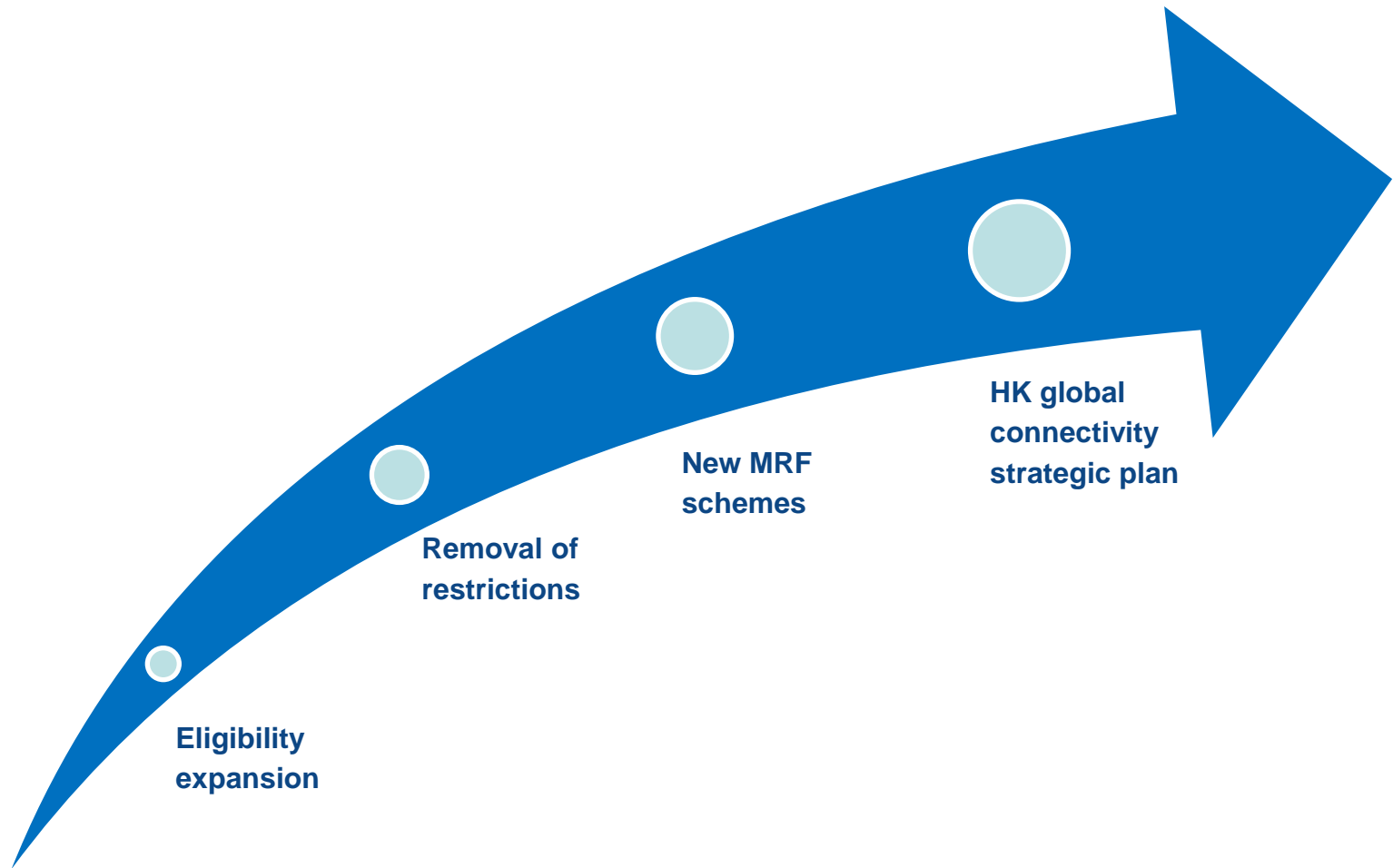
#### However:

- ✓ Limited for large UCITS which is benefiting revamped approval process (new plain vanilla sub-fund)

# Practical experiences in relation to MRFs



# Looking forward





***Thank you !***

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