

**MEMO# 31889**

August 5, 2019

# China Issues New Rules on Fund Product Disclosure

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August 5, 2019 TO: ICI Global Members

ICI Global Pacific Chapter

ICI Global Regulated Funds Committee

International Operations Advisory Committee SUBJECTS: International/Global RE: China Issues New Rules on Fund Product Disclosure

On 26 July 2019, the China Securities Regulatory Commission (CSRC) released a set of new guidance<sup>[1]</sup> outlining enhanced disclosure requirements for publicly offered securities investment funds in China. The guidance is effectively a follow-through from the public consultation paper on the *Administrative Measures on Information Disclosure of Publicly Offered Securities Investment Funds*, issued by the CSRC on 3 August 2018. The new guidance aims to simplify disclosure requirements for public mutual funds by requiring fund houses to publish simple, concise product information. The new rules will become effective on 1 September 2019.

This memo will briefly summarize the new disclosure requirements and their impacts on public funds sold in China, including northbound funds distributed in China under the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme.

## Key Changes to the Disclosure Requirements

The new guidance primarily follows the fund disclosure requirements which have been in effect since July 2004 but with three key enhancements. The enhancements are intended to promote the timeliness, simplicity, ease of accessibility, and quality of information disclosed, with the aim of improving information transparency for investors and creating efficiency for fund houses.

### 1. Optimizing the Channels for Disclosure of Information

Currently, fund houses and custodians are required to disclose the full text of all funds' information (such as the prospectus, fund contract, quarterly and annual reports, key document updates, etc.) on three designated media platforms, namely the Securities Times, China Securities Journal, and the Shanghai Securities News. Under the new guidance, fund houses and custodians are no longer required to disclose the full text. Instead, they only need to disclose an "indicative public

announcement” in one of the media outlets. The format of the “indicative public announcement” will be announced by the Asset Management Association of China (AMAC) at a later date. In addition, the CSRC has added its official website (<http://eid.csrc.gov.cn/fund>) as a mandatory channel for information disclosure of publicly offered funds.

## 2. Introducing Products Key Facts Statement (“KFS”)

The new guidance primarily borrows from the experience of the Hong Kong Securities and Futures Commission (SFC) in creating the concept of a Product Key Facts Statement. A KFS is a concise and user-friendly summary of the key features and risks of a fund. Under the CSRC’s new requirements, fund managers only need to disclose the key features of a fund, within a maximum of four pages. Fund managers also have the discretion to create a KFS for each asset class of a fund. The KFS needs to be updated at least once a year.

## 3. Disclosures Relating to New Significant Events

The new guidance requires fund managers to disclose significant events in a timely manner. Significant events include fund-related changes such as a merger of funds, change of fund manager, switch of asset classes or fund types, termination of fund listing, outsourcing of fund service, etc. The disclosures need to be made within two days of such events happening.

## Impacts on Northbound Funds Under the MRF Scheme

Northbound funds distributed in China under the MRF scheme will need to abide by the new disclosure requirements. Currently, northbound funds are required to use a wrapper to comply with local CSRC disclosure requirements, on top of the disclosures required by the SFC in Hong Kong. We expect the SFC will be in discussion with the CSRC to clarify the additional disclosure requirements for northbound MRF funds.

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### endnotes

[1] The new guidance, 基金募集158号, 基金募集信息披露指引, released by the CSRC on 26 July 2019 is available at: <http://neris.csrc.gov.cn/falvfagui/rdqsHeader/mainbody?navbarId=1&secFutrsLawId=05fba00d554a4937b2ad17d1f510b3b9>

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