

MEMO# 29019

May 27, 2015

Mutual Recognition of Funds Between Mainland China and Hong Kong

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TO: ICI GLOBAL ASIA PACIFIC SENIOR LEADERS No. 6-15
ICI GLOBAL MUTUAL RECOGNITION TASK FORCE No. 1-15
ICI GLOBAL REGULATED FUNDS COMMITTEE No. 23-15
INTERNATIONAL COMMITTEE No. 27-15
INTERNATIONAL OPERATIONS ADVISORY COMMITTEE No. 14-15 RE: MUTUAL RECOGNITION OF FUNDS BETWEEN MAINLAND CHINA AND HONG KONG

The long awaited Mutual Recognition of Funds (MRF), which will allow eligible Mainland and Hong Kong funds to be distributed in each other's market, will start on 1 July 2015.

On 22 May 2015, the China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission of Hong Kong (SFC) entered into a Memorandum of Regulatory Cooperation in respect of the MRF. On the same day, the CSRC published the "Provisional Rules for Recognized Hong Kong Funds", [\[1\]](#) while the SFC released a Circular on the "Mutual Recognition of Funds (MRF) between the Mainland and Hong Kong". [\[2\]](#) These two documents set out the eligibility requirements, application procedures, operational requirements, and regulatory arrangements of the MRF. They will form the basis of regulation and enforcement under the MRF, and they will govern the market participants' business operations.

We hereby highlight the main eligibility and operational requirements for the Hong Kong and Mainland funds wishing to participate in the MRF scheme. The detailed rules and application procedures governing the Hong Kong funds can be found in the "Provisional Rules for Recognized Hong Kong Funds" released by the CSRC and available only in Mandarin. Alternatively, we have attached a summary in English titled "Analysis on the Interim Provisions on the Administration of Recognized Hong Kong Funds" written by LLinks Law Offices. [\[3\]](#) Meanwhile, the eligibility criteria for the Mainland funds entering Hong Kong can be found in the SFC Circular on the "Mutual Recognition of Funds (MRF) between the Mainland and Hong Kong".

According to the SFC and the CSRC, at the initial stage, only general equity funds, bond funds, mixed funds, unlisted index funds, and physical index-tracking exchange traded funds would be eligible under the MRF. However, both regulators may consider extending

the MRF to include other types of products in the future.

Eligibility criteria for the Hong Kong Funds entering Mainland China

Hong Kong funds wishing to participate in the MRF must meet the following eligibility requirements as set out in the “Provisional Rules for Recognized Hong Kong Funds” released by the CSRC:

- The Recognised Hong Kong Fund should be a unit trust, mutual fund, or other collective investment scheme that is domiciled, operating, and publicly offered in Hong Kong;
- The Recognised Hong Kong Fund should adopt custody structure, with trustee or custodian that meets the qualification requirements of the SFC;
- The Recognised Hong Kong Funds should have been established for at least one year, and with asset under management of not less than RMB 200 million (or its equivalent in foreign currency). Furthermore, the Fund must not primarily invest in the Mainland market, and the values of shares/units in the fund sold to investors in the Mainland shall not exceed 50% of the value of the fund’s total assets;
- The Recognised Hong Kong Fund shall not have more than 50% of its total assets raised from distribution in the Mainland.

The management company of a Recognised Hong Kong Fund must also meet certain requirements as highlighted below:

- The management company must be registered and operating in Hong Kong, holding the relevant Hong Kong asset management license (i.e. licensed for Type 9 regulated activity);
- The management company has not delegated its investment management function to any organisation in another country or region;
- The management company must not have been the subject of any major regulatory actions by the SFC in the most recent three years or, since the date of its establishment if the company has been established for less than 3 years;
- The management company should appoint qualifying Mainland institutions as agent (“Mainland Agent”) for handling the fund’s onshore affairs.

Eligibility criteria for the Mainland Funds entering Hong Kong

According to the SFC Circular on the “Mutual Recognition of Funds (MRF) between the Mainland and Hong Kong”, Mainland funds applying for SFC authorisation must meet the following eligibility requirements:

- The fund is established and managed and operates in accordance with the Mainland laws and regulations and its constitutive documents;
- The fund is a publicly offered securities investment fund registered with the CSRC under the Securities Investment Fund Law of the People's Republic of China;
- The fund must be established for more than 1 year, and it must have a minimum fund size of not less than RMB 200 million or its equivalent in a different currency;
- The fund must not primarily invest in the Hong Kong market;
- The value of shares/units in the fund sold to investors in Hong Kong shall not be more than 50% of the value of the fund’s total assets.

The management company of a Recognised Mainland Fund must also meet certain requirements as highlighted below:

- The management company must be registered and operated in the Mainland in

accordance with Mainland laws and regulations and is licensed by the CSRC to manage publicly offered securities investment funds;

- The management company cannot delegate its investment functions to a party operating outside the Mainland;
- The management company must not have been the subject of any major regulatory actions by the CSRC in the past 3 years or, since the date of its establishment if the management company has been established for less than 3 years;
- The management company must appoint intermediaries properly licensed by or registered with the SFC to conduct the sale and distribution of a Recognised Mainland Fund in Hong Kong.

ICI Global welcomes the announcement by the Mainland and Hong Kong regulators. Meanwhile, we will continue to monitor the development of the MRF, and we will work closely with the regulators on both sides to share our views on the MRF implementation as the new scheme gets underway.

Qiumei Sophie Yang
CEO, ICI Global Asia Pacific

endnotes

[1]

<http://www.csrc.gov.cn/pub/zjhpublic/G00306201/201505/P020150522552573901196.pdf>

[2] Circular on the “Mutual Recognition of Funds (MRF) between the Mainland and Hong Kong” by the Securities and Futures Commission, 22 May 2015, available from

<http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=15EC29>

[3] Analysis on “Interim Provisions on the Administration of Recognized Hong Kong Funds” by LLinks Law Offices, May 2015, available from

<http://www.llinkslaw.com/shangchuan/201552600414.pdf>