

Client Alert

October 2018



For further information, please contact:

Karl Egbert
Partner
+1 212 626 4649
karl.egbert@bakermckenzie.com

Karen Man
Partner
+852 2846 1004
karen.man@bakermckenzie.com

Sophia Man
Partner
+852 2846 2175
sophia.man@bakermckenzie.com

Fan Lei
Special Counsel
+86 21 6105 8581
lei.fan@bakermckenziefenxun.com

CSRC allows Hong Kong entities to provide investment advisory services to Mainland Chinese investors and research reports

The China Securities Regulatory Commission (CSRC) has opened a new avenue for Hong Kong-licensed asset managers to serve as sub-advisers to Chinese funds. On 27 June 2018, the CSRC issued the *Interim Provisions Regarding Securities Investment Fund Managers Using Securities Investment Advisory Service Provided by Hong Kong Institutions* (the “**Interim Provisions**”), which took effect on 1 July 2018. Under the Interim Provisions, Chinese fund managers can now directly engage Hong Kong asset managers with both type 4 (advising on securities) and type 9 (asset management) licenses granted by Securities and Futures Commission of Hong Kong (SFC). Such Hong Kong asset managers will now be permitted to act as investment advisors to domestic Chinese funds that invest in Hong Kong equities via Stock Connect (“**Stock Connect funds**”). In addition, research reports focused on “southbound” stocks (i.e., HK-listed equities) issued by Hong Kong institutions with type 4 licenses will now be permitted to be distributed in mainland China subject to certain conditions.

Background

Stock Connect is a unique collaboration between the Hong Kong, Shanghai and Shenzhen Stock Exchanges, which allows mainland Chinese and international/Hong Kong investors to trade securities in each other's markets through the trading and clearing facilities of their home exchange.¹ While access to the Shanghai and Shenzhen Stock Exchange for international investors drew significant attention to Stock Connect, Chinese investors also gained access to certain equities listed on the Hong Kong Stock Exchange. With the gradual growth in the southbound trading volume, mainland Chinese investors increasingly need Hong Kong-focused research and advisory services. The Interim Provisions provide new business opportunities for Hong Kong financial institutions and asset managers to access mainland Chinese clients.

Distribution of Research Reports

Hong Kong entities will need to rely on Chinese securities companies to distribute these reports. Under the Interim Provisions, a Hong Kong entity with SFC type 4 license may authorize a Chinese securities company to distribute research reports prepared by the Hong Kong entity. The research reports must be limited to the Hong Kong equities eligible for Stock Connect.

Conditions to fulfil: The preparation of research reports must comply with both all applicable SFC requirements and the laws and regulations in

¹ A proposed London Stock Connect is in development but would focus on mutual trading of global depository receipts instead of direct access to the trading and clearing facilities of the London Stock Exchange.



mainland China, including the regulatory requirements of CSRC regarding research business.

Restrictions: Except in the limited circumstances (i.e., joint conference call with clients accompanied by the Chinese securities company or email forwarded by the Chinese securities company), the Hong Kong entity is prohibited from discussing with the clients in mainland China the contents of the research reports issued by the Hong Kong entity.

Investment Advisory Services

Under the Interim Provisions, a Chinese fund manager may engage a Hong Kong entity with both SFC type 4 and type 9 licenses as an investment advisor to Stock Connect funds managed by such Chinese fund manager.

Conditions to fulfill: The Hong Kong entity must comply with both all applicable SFC requirements and the laws and regulations in mainland China, including the CSRC's regulatory requirements regarding investment advisory businesses. In addition, the Hong Kong entity is required to register with the Asset Management Association of China (AMAC) for providing investment advisory services, and the Chinese fund manager that engages such Hong Kong entity must file the required documents of the Hong Kong entity with the local branch of CSRC, and, where such Hong Kong entity is not affiliated with the Chinese fund manager or such Hong Kong entity falls below the prescribed parameters (i.e., both 5 years track record and HKD 10 billion AUM), obtain the pre-approval of the local branch of CSRC regarding the qualification of the Hong Kong entity. While this opportunity is tailor-made for Hong Kong affiliates of Chinese fund managers, international managers with SFC-licensed affiliates may wish to explore pre-approval with the CSRC.

On 19 September 2018, AMAC issued a circular to start accepting registration of a Hong Kong entity providing investment advisory services to mainland Chinese funds pursuant to the Interim Provisions. This has clarified the last uncertain point under the Interim Provisions as to the timing and procedures of the AMAC registration. Going forward, a qualified Hong Kong entity should have no obstacle in fulfilling the relevant regulatory requirements in China when pursuing this new business opportunity.

Restriction: Note that the Hong Kong manager may not accept discretionary mandates from clients in mainland China to provide investment advisory services.

The Interim Provisions should promote additional collaboration between the mainland China and Hong Kong asset management industry and provide an additional approach to expand into mainland China.

www.bakermckenziefenxun.com
www.bakermckenzie.com
www.fenxunlaw.com

Baker McKenzie FenXun (FTZ) Joint
Operation Office
Unit 1601, Jin Mao Tower
88 Century Avenue, Pudong
Shanghai 200121, PRC
Tel: +86 21 6105 8558
Fax: +86 21 5047 0020

Shanghai
Unit 1601, Jin Mao Tower
88 Century Avenue, Pudong
Shanghai 200121, PRC
Tel: +86 21 6105 8558
Fax: +86 21 5047 0020

Beijing
Suite 3401, China World Tower 2
1 Jianguomenwai Dajie
Beijing 100004, PRC
Tel: +86 10 6535 3800
Fax: +86 10 6505 2309

Hong Kong
14th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong SAR
Tel: +852 2846 1888
Fax: +852 2845 0476