# HKIFA Luncheon

**Mr Ashley Alder**
**Chief Executive Officer**

We have therefore been in close contact with the China Securities Regulatory Commission (CSRC) not only to ensure the programme continues to operate smoothly, but also to discuss the way forward.

One topic which is frequently discussed amongst the fund industry relates to the approval process fn issue with the CSRC in due course to see whether this might be included as part of the MRF model.

We have also heard from many in the industry about the 50% sales limit for MRF funds. This is the rule under which Mainland investors cannot hold more than 50% of the value of an MRF fund's total assets.

We are well aware of the arguments in favour of relaxing this limit. But as things stand right now, the total value of Hong Kong funds sold to Mainland investors under MRF is still well below 50%.

However, we will certainly keep an eye on how MRF develops and take the point up with the CSRC at the right time. So in this area I would encourage the HKIFA and its members to keep a close eye on the numbers and any changes in market structure as further data points for us to consider.

**Exchange-traded funds (ETFs)**

A related possibility in which many of you have an interest is "ETF Connect". Amongst other things, opening up this channel should be of relevance to big Mainland wealth managers and pension funds who may wish to allocate more assets globally.

We have been working very hard with the CSRC and the Hong Kong and Mainland exchanges to make this happen. As with many things involving the potential further opening up of the Mainland market, it has been very challenging to resolve the operational, legal, clearing and settlement issues.

These issues are more complex than they may first appear. Questions have also been raised about whether the costs may outweigh the benefits, which in turn may depend on the types of ETFs eligible to qualify. We will, however, keep working hard to resolve the outstanding issues to achieve this further expansion of Stock Connect.

**Retail fund distribution**

I now want to touch on what has become a familiar theme – problems with the distribution of funds to Hong Kong retail investors.

It has been obvious for some time that the distribution chain is extremely concentrated when compared with other global markets. There is also a lack of product diversity. It has been widely reported that in Hong Kong about 80% of retail funds are sold through banks and 70% of all sales are made by just three banks.

This raises a number of familiar concerns: limited investor choice, lack of market competition, high barriers to entry for fund managers and products as well as high trailing commissions and costs.

Some of our recent reforms could help. We have enhanced point-of-sale transparency about conflicts of interest. We also introduced new rules governing the use (or abuse) of the term "independent" by intermediaries. New guidance has been issued on the design and operation of online distribution and advisory platforms. And we have consulted the market about equivalent rules for face-to-face distribution.

First, it is