

SWITZERLAND-HONG KONG MUTUAL RECOGNITION OF FUNDS A TIMELY LINK TO EUROPE

In December 2016 the Hong Kong Securities and Futures Commission (SFC) and the Swiss Financial Market Supervisory Authority (FINMA) announced they had signed an agreement allowing eligible Swiss and Hong Kong public funds to be distributed in each other's markets through a streamlined vetting process.

The Memorandum of Understanding on Switzerland-Hong Kong Mutual Recognition of Funds is the first such deal to be signed between an Asian and a European domicile and is a timely opportunity for institutional investors and asset managers in both jurisdictions. BNP Paribas Securities Services is uniquely positioned to help them seize that opportunity.

STRATEGIC DRIVERS

The initiative was driven in part by Hong Kong regulators as part of their bid to promote the city as an international asset management centre and develop the local fund management industry, which more than doubled in size from 2009 to the end of 2015 to reach HKD 17.4 trillion (USD 2.2 trillion) (source: SFC Fund Management Activities Surveys, 2015).

The deal is appealing from multiple perspectives. Firstly, Swiss investors will obtain access to new strategies and ways to increase their exposure to Asian markets and assets, benefiting from the strong expertise of local fund managers. Distributors in Switzerland, for their part, will also be able to extend the range of products available for local investors beyond those currently available under the UCITS wrapper, which currently account for over 99% of all foreign funds in Switzerland (source: FINMA, 2017).

Secondly, fund managers in Hong Kong will obtain access to the large pool of private wealth in one of the world's premier banking centres. Swiss private wealth is projected to reach USD 2 trillion by 2019 (source: BNP Paribas, 2017). Access to these funds gives Hong Kong-based fund managers a crucial opportunity to market their products in Europe and expand their own assets under management (AUM), thereby also reducing their total expense ratio.

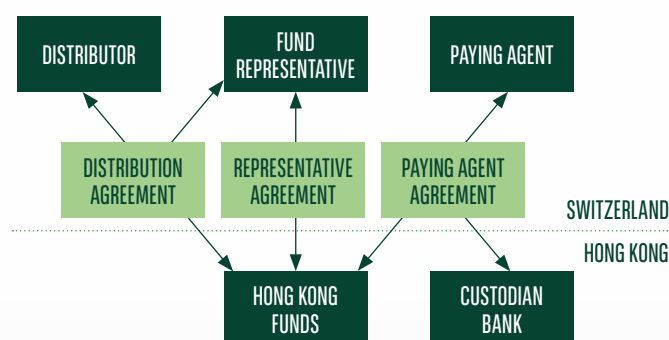
Thirdly, an ancillary benefit is that accessing this increased pool of assets will help Hong Kong fund managers grow the AUM of their local funds, benefiting those that are distributable in mainland China through the 2015 China-Hong Kong Mutual Recognition of Funds (MRF) scheme. This is because the MRF scheme imposes a rule that no more than 50% of the value of a fund's assets can be sold to mainland investors, so the larger the overall AUM, the larger the amount that can be sold on the mainland.

SWISS FUND REPRESENTATION

The Switzerland-Hong Kong agreement allows a wide variety of Swiss funds to be distributed in Hong Kong, including vanilla equity funds, bond funds and mixed funds, but also feeder funds, funds of funds, money market funds, index funds, structured funds, those that invest in derivatives, and index-tracking ETFs.¹

Various types of Hong Kong funds are also eligible to be distributed in Switzerland, with some exceptions. These include real estate, commodities and precious metals funds, and those that use strategies based on short selling or investment in derivatives. There are also limits on permissible leverage.²

In either case, fund managers will need a representative in the local market and to familiarise themselves with the respective regulatory regimes. Importantly, foreign collective investment schemes distributed in Switzerland require the asset management company to mandate both a representative and a paying agent in the country in fulfilment of its regulatory obligations for both non-qualified investors and qualified investors. BNP Paribas is licenced by as a bank by FINMA so can offer both services.



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Indeed, BNP Paribas Securities Services in Zurich already acts as a representative for more than 70 foreign fund providers with about 1,300 foreign collective investment schemes. We also monitor around 160 distributors with 1,500 agreements as representative (February 2017, distribution to non-qualified investors). With more than 20 years' relevant experience we are a leading provider of such services in Switzerland.

HONG KONG FUND ADMINISTRATION

Prior to distribution in Switzerland, fund providers must meet the requirements for Hong Kong domiciled funds. Here too BNP Paribas is your trusted partner: we have the experience and track record to assist in every aspect, from setup, trustee and transfer agency services, to fund administration and portfolio valuation.

As mentioned, the Switzerland-Hong Kong agreement is part of a broader push by Hong Kong regulators to bolster the local industry and promote the city as an international asset management centre. Other steps it has taken with the same goal include the recent approval of leveraged and inverse ETFs, the MRF scheme with mainland China, and measures to fast-track the fund approval process.

At the same time, though, the SFC has also enhanced some regulatory requirements to protect investors. Fund managers must be responsible for product governance covering the entire chain from inception to post-sales, and must have a detailed fair valuation policy and procedures in place. Guidance on suspension of dealing as well as disclosures on ongoing charges and past performance, as well as payment of dividends out of capital, must be published.

Given the heightened expectations of investors and regulators in Hong Kong, the role of the trustee is particularly crucial. A trustee needs to oversee everything from safekeeping trust assets and verifying the management company's NAV calculation and compliance with investment and borrowing limitations, to keeping a register of unitholders and issuing an annual report, among other responsibilities.

We are well resourced to be your partner in this crucial fiduciary position. At the same time we can also provide the full range of administration services for investment portfolios. Our track record speaks for itself: globally we have over USD 2.06 trillion of assets under administration in more than 10,100 portfolios, while in Asia we administer USD 42bn of assets across nearly 250 portfolios (December 2016), all to relevant financial reporting standards and with ISAE 3402 certification (2017).

The benefits of our fund administration and portfolio valuation services are multidimensional. We offer comprehensive coverage of assets across a wide range of instruments and possible portfolio structures. We provide tailored solutions, including centralised and flexible valuation and pricing options, benchmarked to global market standards, and tailored reporting services through an online portal, Neolink, that is compliant with diverse financial standards. Our solutions are also seamless, with dataflows integrated with custody and reconciliation processes as well as risk/performance and compliance monitoring systems.

Additionally, Hong Kong fund managers can benefit from our transfer agency services in Hong Kong right across the value chain, from registry maintenance and distributor order collection and processing, to client service, cash transfers and FATCA reporting.

ALL-ROUND SUPPORT

Maximising opportunities from regulatory breakthroughs like the Switzerland-Hong Kong Mutual Recognition of Funds deal requires moving swiftly and surely in jurisdictions that may not be familiar. Success therefore requires comprehensive, seamless and trustworthy all-round support. BNP Paribas can provide this in both markets: in Switzerland as a fund representative and local paying agent, as well as a contact point for FINMA and monitor of distributors; and in Hong Kong through a range of seamless and flexible trustee, fiduciary and fund administration services.

The Switzerland-Hong Kong Mutual Recognition of Funds agreement underscores Hong Kong's ambitions to become a world-class fund management centre. Those with ambitions to make the most of the opportunity need a partner with a sound track record and deep experience in each market. BNP Paribas is that partner.

¹ For a full list of requirements see SFC circular: <http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=16EC63>

² For a full list of requirements see FINMA guidance: <https://www.finma.ch/en/~media/finma/dokumente/dokumentencenter/myfinma/1bewilligung/20161202-finma-requirements.pdf?la=en>

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