

CSRC ISSUES UPDATE INDICATING PRC FUNDS MAY INVEST IN HONG KONG FUNDS

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Investment Management Alert

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Based on recently-updated Review Guidelines of Fund of Funds issued by the China State Securities Regulatory Commission ("CSRC") to members of the People's Republic of China ("PRC") asset management community, we understand that PRC fund of funds may now invest in Hong Kong authorized funds that are eligible to be sold in the PRC via the Mutual Fund Recognition Scheme between the PRC and Hong Kong ("MFR").^[1]

This means that, as long as a fund is authorized by the Securities and Futures Commission in Hong Kong and is approved by the CSRC as an MFR fund, it may be invested in directly by PRC fund of funds through which it would have access to such PRC fund of funds' underlying PRC retail investors. This could provide foreign fund managers with a new and potentially huge institutional distribution and fund-raising channel in the PRC.

At the same time, PRC funds wishing to diversify their asset base will now have a new and more straightforward way to invest in offshore assets through such MFR funds.

It remains to be seen how successful this new channel will be as the PRC's fund of funds market is still nascent. However, this latest development demonstrates that the PRC regulators appear to be trending towards relaxing the investment restrictions surrounding such fund of funds (for example, in March 2018, they permitted PRC pension fund of funds designed to address PRC retail investors' retirement needs to invest in such MFR funds). If so, foreign asset managers who wish to fundraise in the PRC but are restricted from directly accessing the PRC market may find the MFR a viable means to do so indirectly.

We will track the development of this exciting change and deliver more detailed analysis when more information becomes available.

Notes:

[1] CSRC Review Guidelines of Fund of Funds (基金中基金 (FOF) 审核指引)

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