HSBC

Frequently Asked Questions about Mutual Recognition of Fund (MRF)

1. What is Mutual Recognition of Fund (MRF)?

MRF is a new regulatory scheme that will, for the first time, give mainland China and Hong Kong fund products cross-border mobility. Effective 1 July 2015, subject to regulatory product approval by the host jurisdiction*, Chinese asset managers will be authorised to offer fund products registered anywhere in mainland China directly to Hong Kong investors, while recognised Hong Kong fund products will also be made available to mainland China investors. The date on which the funds will be available for subscription is subject to local regulatory product approval by the host jurisdiction*.

This new arrangement gives Hong Kong investors a much wider selection of funds to choose from, ranging from equity funds, bond funds, mixed funds, unlisted index funds to physical index-tracking exchange traded funds. As a result, you can build a more diversified portfolio to suit your risk appetite and meet your financial goals.

2. Why is MRF important to the Hong Kong and Mainland China markets?

The aim of MRF is to deepen China-Hong Kong financial cooperation and promote the development of capital markets on both sides of the border in a way that is mutually beneficial. It also represents another major step forward in the opening-up of China's capital market.

3. How will MRF benefit individual investors in Hong Kong?

With the introduction of MRF, it is possible to invest in mainland China funds, including China A shares through equity funds, in addition to RQFII Funds, directly from Hong Kong. This new arrangement facilitates the flow of cross-border investment capital and makes it more convenient than ever for you to explore and take advantage of the investment options offered by the mainland China market.

By making a wider range of mainland China fund products available to Hong Kong investors, MRF will provide an additional channel through which you can capture the growth potential of mainland China equity and bond markets. With more mainland China funds to choose from, you can now enjoy even more customised investment solutions provided by HSBC to cater to your investment needs.

4. What are the basics that I should know about MRF recognised China funds?

The denomination of all MRF recognised China funds is Renminbi (RMB). Their initial investment amount, investment payment options, product risk level, potential investment risks under MRF, as well as fees and charges, including subscription fee, redemption fee, management fee, etc., and other key product features vary from fund to fund under MRF, which is similar to the funds authorised in Hong Kong. Please refer to the offering documents of respective funds for details.

5. How can HSBC help individual investors capture the opportunities presented by MRF?

As your investment partner, HSBC offers a range of quality, professionally selected funds, including MRF recognised China funds, to meet your financial priorities and enable you to broaden your RMB investment portfolio. We will regularly review the performance of fund products to help you identify opportunities, while our investment experts will conduct strategic financial planning reviews with you and propose tailored investment solutions for growing your wealth.

6. What are the eligibility requirements for MRF recognised funds?

Funds must fulfill the following requirements to be eligible:

Regulatory requirements	• Established, managed and operated in accordance with the laws and regulations, as well as their constitutive documents, of the home jurisdiction* • A publicly offered securities investment fund registered within the home jurisdiction*
Value of sales	The value of shares/units of a fund sold to investors in the host market shall not exceed 50% of the value of the fund.
Representative	A registered and licensed firm in the host jurisdiction* must be appointed as the representative of the fund.
Track record	Funds are required to have been established for more than one year
Fund size	The fund size must not be less than RMB200 million or its equivalent in a different currency
Types of fund	Equity funds, bond funds, mixed funds, unlisted index funds and physical index-tracking exchange traded funds
Investment universe	• Southbound fund: MRF recognised China funds available in Hong Kong must not primarily invest in the Hong Kong market • Northbound fund: MRF recognised Hong Kong funds available in mainland China must not primarily invest in the mainland market
Management	• The management firm of a recognised fund cannot delegate its investment management functions to a party operating outside the home jurisdiction*

7. What are the key potential risks of investing in MRF recognised China funds?

MRF is a new policy and thus investing in MRF recognised China funds will be subject to the risks associated with the policy and the product.

- Mainland tax risk: The tax arrangements on the mainland relating to investment in a MRF recognised China fund are currently unclear. Investors may face uncertainties regarding their mainland tax liabilities.
- Concentration risk/ Mainland market risk: The fund invests primarily in securities related to the mainland market and may be subject to additional concentration risks. Compared to investment in other markets, investing in Mainland China may give rise to different risks including political, policy, tax, economic, foreign exchange, legal, regulatory and liquidity risks.
- RMB currency and conversion risk: RMB is currently not freely convertible and is subject to exchange controls and restrictions. Non-RMB based investors are exposed to foreign exchange risks and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Investors may not receive RMB upon redemption of investment and/or dividend payment or such payment may be delayed due to exchange controls and restrictions applicable to RMB.
- High valuation risk: The stocks listed on the Mainland China stock exchanges are generally considered overvalued and may have a high price-earnings ratio; and such high valuation may not be sustainable.
- Mainland A-Shares risk: The fund's investment in equity securities is subject to general market risks, volatility risks, regulatory risks and risk associated with small-capitalisation / mid-capitalised companies.
- Mainland debt securities risk: The fund's investment in Mainland debt securities may be subject to volatility and liquidity risks, counterparty risk, interest rate risk, downgrading risk, credit rating agency risk, risk associated with urban investment bonds, risk associated with asset-backed securities, and risk associated with debt securities which are rated BB+ or below by a Mainland credit rating agency or unrated.
- Risks associated with unlisted index funds: The fund may be subject to passive investment risk, tracking error risk, and index-related risk.

There are some other aspects with regard to MRF that investors need to consider before they invest. Several restrictions apply to the MRF scheme.

- Quota restrictions: MRF is subject to an overall quota restriction. Subscription to funds may be suspended at any time if the quota has been exceeded.
- Failure to meet MRF eligibility requirements: If a MRF recognised China fund ceases to meet any of the eligibility requirements under MRF, it may not be allowed to accept new subscriptions.
- Different market practices: Market practices in Mainland China and Hong Kong may differ. In addition, certain operational arrangements for MRF recognised China funds may also be different from those of other public funds offered in Hong Kong.

Investment in funds under MRF involved additional risks. You should refer to the offering document of respective fund(s) for the specific risk disclosures.

*Under the MRF arrangement, funds that have been authorized by or registered with the relevant authority in one jurisdiction (home jurisdiction) are required to obtain authorization or approval to be offered to the public in the other jurisdiction (host jurisdiction).

Important Risk Warning

- Unit Trusts are investment products and some may involve derivatives. The investment decision is yours but you should not invest unless the intermediary who sells it to you has explained to you that the product is suitable for you having regard to your financial situation, investment experience and investment objectives.
- Unit Trusts are not equivalent to time deposits.
- Investors should not base on this material alone to make investment decision.
- Investment involves risk and past performance is not indicative of future performance. Please refer to the offering documents for further details, including fees and charges and risk factors.
- In the worst case scenario, the value of the Unit Trusts may be worth substantially less than the original amount you have invested (and in an extreme case could be worth nothing).

Additional risks are disclosed in the “Risk Disclosure” section below. Please refer to “Risk Disclosure” section for details.

Risk Disclosure

- The information contained in this material relating to the Funds and Unit Trusts Offer does not constitute an offer for the purchase or sale of any investment products.
- You should carefully consider whether any investment products or services mentioned herein are appropriate for you in view of your investment experience, objectives, financial resources and circumstances.
- The information contained in this material and the content relating to the Funds and Unit Trusts Offer have not been reviewed by the Securities and Futures Commission of Hong Kong or any regulatory authority in Hong Kong.
- Funds which are invested in certain markets and companies (e.g. emerging, commodity markets and smaller companies etc) may also involve a higher degree of risk and are usually more sensitive to price movements.
- Credit Risk/Interest Rate Risk – a fund that invests in fixed income securities may fall in value if interest rates change, and is subject to the credit risk that issuers may not make payments on such securities. Price of the fund may have a high volatility due to investment in financial derivative instruments and may involve a greater degree of risk than in the case with conventional securities.
- Counterparty Risk – a fund will be exposed to credit risk on the counterparties with which it trades in relation to financial derivative instrument contracts that are not traded on a recognised exchange. Such instruments are not afforded the same protections as may apply to participants trading financial derivative instruments on organised exchanges, such as the performance guarantee of an exchange clearing house. A fund will be subject to the possibility of insolvency, bankruptcy or default of a counter party.

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