

December 22, 2004

Hon. Bernard Chan
Chairman of the Panel on Financial Affairs
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong

Dear Mr. Chan,

Re: Proposed amendments to the Securities and Futures Ordinance (“SFO”) re the proposal to separate the duties and functions of the Chairman of the SFC from the executive by creating a new post of Chief Executive Officer (“CEO”)

On behalf of the Hong Kong Investment Funds Association, a non-profit-making professional body that represents the fund management industry, I write to support the captioned proposed amendments to the SFO.

In line with the international trend towards good governance, we believe that the SFC - which plays a pivotal role in the regulatory role of the securities market in Hong Kong - should set an example by demonstrating its commitment to the highest corporate governance standards.

The proposed amendment would be conducive to the development of an effective governance structure which will improve the transparency and accountability of the SFC. It helps to reinforce the mechanism for ensuring checks and balances on the various powers given to the SFC by enhancing the independence of its governing body. Our concern is that if the powers of policy setting and day-to-day execution are vested with one person, this may lead to over-concentration of power. Internal controls might not be sufficient safeguards to ensure that there are adequate checks in place.

In addition, an executive chairman may be overwhelmed by the substantial demands of ensuring successful day-to-day execution of policy, thus having insufficient time and resources to focus his/her attention on strategic policy and priority setting. Under the proposed structure, our members believe that policy implementation could be more efficient and the response to international market developments might be more timely.

There are a number of policy issues that have far-reaching repercussions on the development of the fund management industry in Hong Kong. An important current example is UCITS III, a series of directives governing unit trusts introduced by the European Union (Note 1).

UCITS III incorporates a fundamental change in the regulatory approach and requires a paradigm shift not only for the fund managers, but for the regulators. We believe that the SFC's response to UCITS III is a key test of whether Hong Kong can maintain its position as an international asset management centre; and its claim that it is an open international platform.

Take the case of UCITS III, our members generally believe that if the Chairman were non-executive, he/she would have more time to keep abreast of the latest developments in the EU, and more importantly, to have the vision to identify the strategic implications of UCITS III for the long-term development of the asset management industry in Hong Kong. He/she would be more better-positioned to put the issue in perspective when it was brought up for debate by the governing Board. Only with these, can the Board be able to, first of all, appreciate the significance of UCITS III and then map out an appropriate policy to ensure that Hong Kong can leverage on UCITS III to reinforce its position as an international asset management centre. The chief executive, who would focus primarily on the day-to-day running of the SFC, would implement the policies formulated by the Board and ensure that the office is equipped with the necessary systems and resources to pursue its mission. This would avoid the problem where tactical considerations would prevail over policy or strategic ones; and will go a long way to strengthen the oversight and independence of the Board to ensure effective monitoring.

As information, I herewith provide the HKIFA backgrounder (Note 2) and a list of members (Note 3) for your reference. We would be delighted to discuss our comments in further detail. Please contact our Executive Committee members and myself on 2537 9912.

Yours sincerely,

Sally Wong
Executive Director

Note 1

Undertakings for Collective Investment in Transferable Securities ("UCITS") III consist of two directives - the "**Product Directive**" and the "**Management Directive**":

- **The Product Directive** removes barriers to the cross-border marketing of units of collective investment funds by extending the range of financial assets in which collective investment undertakings benefiting from the single EU licence may invest.
- **The Management Directive** seeks to, inter alia, widen the scope of activities that may be undertaken by management companies (including additional non-core activities such as custody, administration, investment advice, transfer agency services and the management of portfolios on behalf of private and institutional investors including pension funds); (b) give management companies a "European passport" so that once authorised in their home-state, the authorisation extends to all EU member states, subject to compliance with host state notifications.

Hong Kong Investment Funds Association

Note 2

Introduction

The Hong Kong Investment Funds Association ("HKIFA") is the professional body that represents the fund management industry of Hong Kong.

Established in 1986, the HKIFA has two major roles, namely the promotion of Hong Kong managed investments products and consultation with the appropriate authorities to enhance the quality of Hong Kong managed funds.

On consultation, it acts as the representative and consulting body for its members and the fund management industry generally in all dealings concerning the Government of the HKSAR and the regulation of unit trusts, mutual funds, retirement funds and other funds of a similar nature. Towards this end, it reviews, promotes, supports or opposes legislative and other measures affecting the fund management industry of Hong Kong.

Another very important task is to educate the public about the role of investment funds in personal financial planning as well as in retirement planning.

The HKIFA has four categories of member, namely full member, overseas member, affiliate member and associate member. A fund company can qualify as a full member or an overseas member if it is either the manager or the investment adviser of at least one Investment Fund.

An "Investment Fund" means

- an authorized unit trust/mutual fund; or
- a pooled retirement fund authorized under the Code on Investment-Linked Assurance Schemes or the Code on Pooled Retirement Funds; or
- a retirement scheme registered under the Occupational Retirement Schemes Ordinance; or
- a provident fund scheme registered under the Mandatory Provident Fund Schemes Ordinance; or
- a Closed end investment company listed on a Recognised Exchange

The main difference between these two types of member is that a full member must be a company incorporated in Hong Kong or if it is incorporated outside Hong Kong, it has established a place of business in Hong Kong whereas an overseas member must be a company incorporated in any part of the world other than Hong Kong.

An affiliate member is a company that has obtained a licence from the Hong Kong Securities and Futures Commission for type 9 regulated activities or it is a fund company incorporated in the People's Republic of China; and its primary business is fund management including the management of discretionary accounts, segregated portfolios or providing investment management services for non-collective investment schemes or the manager or investment adviser of any fund investment company or arrangement not included as an Investment Fund.

An associate member is a company conducting or providing any service of accounting, legal, trustee, custodian, administration, banking, distribution, and technological support to the fund management industry or any related professional services.

At present, HKIFA has 44 fund management companies as full/overseas members, managing about 1,000 active SFC-authorized funds. Assets under management amounted to about US\$285 billion as at the end of October 2004. In addition, it has 46 associate members, which include trustees, lawyers, accountants and other professionals engaged in the setting up and administration of funds.

(Prepared: December 2004)

Hong Kong Investment Funds Association**LIST OF MEMBERS****Full/Overseas Members 會員公司**

ABN AMRO Asset Management (Asia) Limited 荷銀投資管理(亞洲)有限公司
Access Investment Management (H.K.) Limited 安信投資管理(香港)有限公司
Allianz Dresdner Asset Management Hong Kong Limited 德盛安聯資產管理香港有限公司
AXA Rosenberg Investment Management Asia Pacific Limited 安盛羅森堡投資管理亞太有限公司
Baring Asset Management (Asia) Limited 霸菱國際投資管理(亞洲)有限公司
BNP Paribas Asset Management Asia Limited 法國巴黎資產管理亞洲有限公司
BOCI-Prudential Asset Management Limited 中銀國際英國保誠資產管理有限公司
Citigroup Asset Management
Credit Agricole Asset Management Hong Kong Limited 東方匯理資產管理香港有限公司
Daiwa SB Investments (HK) Limited 大和住銀投信投資顧問(香港)有限公司
Dao Heng Fund Management Limited 道亨基金管理有限公司
Deutsche Asset Management (Hong Kong) Limited 德意志資產管理(香港)有限公司
Fidelity Investments Management (HK) Limited 富達基金(香港)有限公司
First State Investments (Hong Kong) Limited 首域投資(香港)有限公司
Franklin Templeton Investments (Asia) Limited 富蘭克林鄧普頓投資(亞洲)有限公司
GAM Hong Kong Limited 環球投資(香港)有限公司
Hang Seng Investment Management Limited 恒生投資管理有限公司
HSBC Asset Management (Hong Kong) Limited 匯豐投資管理(香港)有限公司
ING Investment Management Asia Pacific (Hong Kong) Limited
INVESCO Asia Limited 景順投資管理有限公司
Investec Asset Management Asia Limited 天達資產管理亞洲有限公司
Janus International (Asia) Ltd. 駿利國際(亞洲)有限公司
JF Asset Management Limited 怡富資產管理有限公司
Kingsway Fund Management Limited 匯富環球基金管理有限公司
Lloyd George Management (Hong Kong) Limited 羅祖儒投資管理有限公司
Lloyds TSB Pacific Limited 萊斯遠東有限公司
Man Investments (Hong Kong) Limited
Mansion House Asset Management Limited 萬勝資產管理有限公司
Manulife Asset Management (Hong Kong) Limited 宏利資產管理(香港)有限公司
Merrill Lynch Investment Managers 美林投資管理
New-Alliance Asset Management (Asia) Limited 新地寶聯資產管理(亞洲)有限公司
New Star International Investment Products (Asia) Limited
Nomura Asset Management Hong Kong Limited 野村投資管理香港有限公司
OppenheimerFunds (Asia) Limited 凱萬資產管理(亞洲)有限公司
Panurgy Limited
Principal Global Investors (Asia) Limited 信安環球投資(亞洲)有限公司
Schroder Investment Management (Hong Kong) Limited 寶源投資管理(香港)有限公司
SHK Fund Management Limited 新鴻基投資管理有限公司
Standard Chartered Investment Services 渣打投資服務
Standard Life Investments (Asia) Limited 標準人壽投資(亞洲)有限公司
State Street Global Advisors Asia Limited 道富環球投資管理亞洲有限公司
UBS Global Asset Management (Hong Kong) Ltd. 瑞銀環球資產管理(香港)有限公司
Value Partners Limited 惠理基金管理公司
Worldsec Asset Management Limited 和昇投資管理有限公司

Associate Members 附屬機構

Allens Arthur Robinson Lawyers 安德慎律師事務所
Baker & McKenzie 麥堅時律師行
Bank Consortium Trust Company Limited 銀聯信託有限公司
Barclays Global Investors North Asia Limited 巴克萊國際投資管理北亞有限公司
Belgian Bank 華比銀行
Bermuda Trust (Far East) Limited 百慕達銀行
Citibank N. A. 花旗銀行
Clifford Chance 高偉紳律師行
Commerzbank Asset Management Asia Limited 德國商業國際資金管理亞洲公司
Computershare Hong Kong Investor Services Limited 中央證券登記有限公司
Comgest Far East Limited
CMG Asia Limited 康聯亞洲有限公司
Deacons 的近律師行
Deloitte Touche Tohmatsu 德勤·關黃陳方會計師行
Deutsche Bank AG, Hong Kong Branch 德意志銀行香港分行
Dexia Trust Services Hong Kong Limited 達亞信託香港有限公司
Ernst & Young 安永會計師事務所
FT Interactive Data (Hong Kong) Limited 金融時報資訊(香港)有限公司
FTSE 富時指數
FTSE Xinhua Index 新華富時指數有限公司
Herbert Smith 史密夫律師事務所
HSBC Trustee (Hong Kong) Limited 匯豐銀行信託有限公司
Income Partners Asset Management (HK) Limited 豐收投資管理(香港)有限公司
Johnson Stokes & Master 孖士打律師行
Korea Investment Management Asia Limited 韓國投資信託
KPMG 畢馬威會計師事務所
Linklaters & Alliance 年利達律師行
Lipper Asia Limited 理柏分析服務亞洲有限公司
Long Investment Management Limited
Marsh (Hong Kong) Limited 達信風險管理及保險服務(香港)有限公司
Mercer Investment Consulting
Morgan Stanley Capital International Inc.
Morgan Stanley Dean Witter & Co.
Northern Trust Company of Hong Kong Limited, The 北美信託香港有限公司
Pegasus Fund Managers Limited 東驥投資管理有限公司
PricewaterhouseCoopers 羅兵咸永道會計師事務所
Reuters Hong Kong Limited
Sidley Austin Brown & Wood 盛德律師事務所
Simmons & Simmons 西盟斯律師行
SINOPIA Asset Management (Asia Pacific) Limited 信匯資產管理(亞太)有限公司
Standard & Poor's Fund Services Asia Limited 標準普爾基金評鑑
State Street Trust (HK) Limited 美國道富銀行
Stephenson Harwood & Lo 羅夏信律師樓
Towry Law (Asia) Hong Kong Limited 羅德利(亞洲)有限公司
Xinhua Investment Group Hong Kong Limited 新華投資集團香港有限公司
Zurich Life Insurance Company Limited 蘇黎世人壽