



Are you riding the
next wave of growth
in Hong Kong's
wealth and asset
management sector?

■ ■ ■
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EY

Building a better
working world

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Introduction



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Change is inevitable

In a dynamic financial hub like Hong Kong Special Administrative Region (HKSAR), changes lead to trends, which translate into opportunities and growth. In 2020 and beginning of 2021, we witnessed several new developments within the wealth and asset management (WAM) sector. Financial regulators, who have been much more proactive since the last financial crisis, have been a driving force behind many of these initiatives: reshaping business models, driving new technologies and creating consumer demand.

In this report, we explore some transformative trends that have long and lasting consequences within the WAM sector in Hong Kong. We look into each trend briefly and discuss potential merits, possible concerns and challenges and ultimately propose strategies based on our experience assisting various participants within the sector.

The WAM sector is very broad, encompassing asset managers, trustees and banks. While the initiatives are tailored for some of these subgroups, it may be useful to be aware of and evaluate each one to gauge potential benefits, especially as the businesses are so interlinked.



Banks



Trustees



Asset Managers



1

The ESG factors and climate risk transformation

What do climate change and sustainability issues mean to asset managers in Hong Kong?

Meeting investor demand and growing assets under management (AUM)

- ▶ According to the 2020 EY Climate Change and Sustainability Services Institutional Investor survey, 72% of investors surveyed said they conducted a structured, methodical evaluation of nonfinancial disclosures – a significant jump from the 32% in 2018.
- ▶ In 2020, sustainable fund assets hit a record of US\$1.7 trillion. As a result of strong investor demand, inflows into sustainable funds hit a record high during the fourth quarter, up 88% to US\$152.3 billion, with Europe-domiciled funds accounting for 80% of the total inflows, or US\$120.8 billion¹.

72% of investors evaluated nonfinancial disclosures

US\$1.7 trillion

In 2020, sustainable fund assets hit record US\$1.7 trillion

Complying with local regulatory requirements and avoiding greenwashing

Securities and Futures Commission (SFC) set out the investment strategy and process, monitoring and disclosure requirements pertaining to SFC authorized green or ESG funds.

SFC launched a proposal to amend the Fund Manager Code of Conduct (FMCC), requiring asset managers to take climate-related risks into consideration in their investment and risk management processes and make appropriate disclosures to investors.

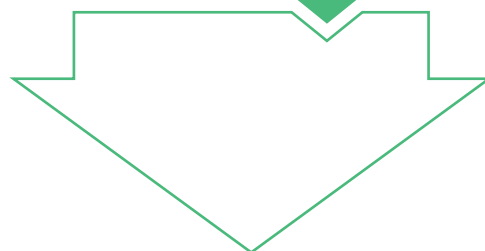
SFC

2018

SFC authorized ESG Funds

2020

Fund Manager Code of Conduct



1. Sustainable fund assets hit record \$1.7 trln in 2020: Morningstar, Reuters website, <https://www.reuters.com/article/us-global-funds-sustainable-idUSKBN29X2NM>, 29 January 2021.

2018AMAC
self-assessment
evaluation report**2020**

HKEX ESG Reporting

2020MAS guidelines on
environmental risk
management**2020**UK Financial
Reporting Council
Stewardship Code**2021**

EU SFDR

Aligning with the global regulatory landscape

Following the Green Investment Guidelines launched in 2018, the Asset Management Association of China (AMAC) issued a notice for fund managers to submit the self-assessment evaluation report for the Green Investment Guidelines.

Amendments on Hong Kong Stock Exchange's ESG Reporting Guide and related listed rules came into effect in July 2020.

In December 2020, the Monetary Association of Singapore (MAS) finalized the guidelines on environmental risk management for asset managers, banks and insurers. The guidelines are intended to set out sound practices in relation to these financial institutions' governance, risk management and disclosure of environmental risk.

In 2020, the Financial Reporting Council in the United Kingdom (UK) revised the UK Stewardship Code to reflect and integrate ESG elements to guide responsible allocation, management and oversight of investment capital.

The Sustainable Finance Disclosure Regulation (SFDR) came into force on 10 March 2021 in the European Union (EU). The SFDR imposes new transparency obligations and periodic reporting requirements on asset managers to make certain pre-contractual, website and periodic disclosures on various sustainable investment issues at both a product and manager level.

How can asset managers harness the ESG and climate change trend?

Senior management to implement a strategic plan for the long term through the inclusion of ESG factors into existing and new initiatives

Understand the alignment with regulatory expectations and consumer demand

Strengthen ESG capabilities and focus on capacity building

Establish investment processes and risk management framework

Enhance disclosure and education

Conduct ESG stress testing and performance analysis

How can asset managers start this transformational journey?

- 1** Formulate for the organization:
Vision: Define the desired future position of the organization
Mission: Describe the organization's business, objectives and the approach
Target: Build a detailed action plan with time milestones
- 2** Set out ESG policy to demonstrate the commitments
- 3** Assemble an ESG committee
- 4** Source reliable feed for ESG data, research and resource tools
- 5** Incorporate ESG factors into investment universe and asset allocation
- 6** Establish ESG risk management system and manage ESG due diligence to value risk exposure
- 7** Conduct regular ESG scenario and stress testing analysis
- 8** Document ESG governance, investment and risk management policies
- 9** Map against relevant ESG regulations and requirements
- 10** Ensure ESG communication with investors and stakeholders on a regular basis
- 11** Consider ESG factors in developing exit strategies
- 12** Ensure reporting and disclosures are in accordance with well-recognized principles or standards, such as United Nations Principles for Responsible Investment (UNPRI)

Highlights of an actual journey towards ESG transformation undertaken by a China-based asset management group with EY:

- 1 Collaborate with senior management to strategize ESG investing
- 2 Explore the existing competitive landscape
- 3 Map policies against relevant regulatory requirements
- 4 Design investment and risk management policies
- 5 Provide staff training
- 6 Discuss data sourcing and analytic tools
- 7 Consider marketing materials

Highlights of an actual journey towards ESG transformation undertaken by a global asset management group with EY

FIRST PHASE

Regulatory gap analysis against the EU, Luxembourg and Hong Kong's sustainable finance regulations on clients':

- ▶ ESG strategy
- ▶ ESG investment process
- ▶ Disclosures

Guidelines and recommendations:

- ▶ ESG corporate strategy (based on asset manager's ambitions and goals in-line with regulators expectations)
- ▶ ESG product strategy

SECOND PHASE

Holistic advisory:

- ▶ Implementation of ESG characteristics into specific funds (such as setting policies and procedures)
- ▶ ESG data identification and collection
- ▶ Disclosures
- ▶ Aligning with EU Taxonomy
- ▶ Transitioning of Article 6 of Undertakings for the Collective Investment in Transferable Securities (UCITS) to Article 8 or 9 of the UCITS



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2

The digital transformation



How prevalent is digitization within the WAM sector?

Guangdong-Hong Kong-Macao Greater Bay Area (GBA) Southbound Wealth Connect



The launch of Wealth Management Connect

In June 2020, authorities jointly announce the launch of a cross-boundary wealth management connect pilot scheme (Wealth Management Connect) in the Guangdong-Hong Kong-Macao GBA.

Purpose of Southbound Wealth Connect

It refers to the arrangement whereby residents of the Mainland cities in the GBA can invest in eligible investment products distributed by banks in Hong Kong and Macao by opening designated investment accounts with these banks.

Cross-boundary remittances

Closed loop system with cross-boundary remittances in Renminbi (RMB) will be conducted and managed through bundling of designated remittance and investment accounts to ensure funds are invested in eligible investment products conditional upon aggregate and individual investor quotas.

Tech-enabled customer solutions

Banks to adopt technology-enabled cross-boundary customer solutions, enabling remote account management including possible account opening² for nonlocal residents and in compliance with all suitability and regulatory requirements.

Investment orders execution

GBA Mainland investors will execute their investment orders remotely, and the banks in Hong Kong must ensure that their online execution, distribution and advisory systems comply with the relevant regulations under the Hong Kong Monetary Authority (HKMA), SFC and the Wealth Management Connect².

RMB clearing and conversion

Banks in Hong Kong involved in RMB clearing and conversion for all southbound transactions by customers from the Mainland cities in the GBA will need to ensure they have the appropriate systems and support designated for performing currency conversion and order execution.

2. 关于《粤港澳大湾区“跨境理财通”业务试点实施细则（征求意见稿）》公开征求意见的通知。
<http://guangzhou.pbc.gov.cn/guangzhou/129142/129156/129119/4243085/index.html>, 6 May 2021.

Why should banks in Hong Kong consider participating in the GBA Southbound Wealth Connect?

Population over 64 million,
37 million registered residents

1

At the end of 2019, the permanent population in the Pearl River Delta Economic Zone (PRDZ) amounted to over 64 million, 37 million of whom have residence registrations³.

RMB 6.2 trillion household
savings within PRDZ

2

Total resident or household savings within PRDZ in 2019 was approximately RMB6.2 trillion compared with RMB5.4 trillion in 2018, a growth of 13%. The per capita GDP increased by 5.5% from 2018 reaching RMB136,000 at the end of 2019³.

US\$2.2 trillion AUM in China
as of end June 2020

3

China is among the top five mutual fund markets worldwide and one of the fastest growing. Its open-end mutual fund assets were RMB15 trillion (US\$2.2 trillion) as of the end of June 2020⁴.

Sales of domestic retail funds
growth of nearly 200%

4

One of the predominant channels for retail fund distribution in China is through commercial banks. Per China Fund News reports issued in March 2021, banks reported sales volume growth of nearly 200% in domestic retail investment into mutual funds during 2020⁵.

Preference for electronic
distribution channels

5

Fund investors in China show a strong preference for electronic distribution channels, resulting in more cost effectiveness for banks in Hong Kong to manage in the long run.

3. 2020 Statistical Yearbook, Guangdong Bureau of Statistics website, http://stats.gd.gov.cn/gdtjnj/content/post_3098041.html, 9 October 2020

4. Public Fund Industry Data, Asset Management Association of China, <https://www.amac.org.cn/researchstatistics/datastatistics/mutualfundindustrydata/>, February 2021.

5. 2020 新基金太火了！有银行代销狂增近200%，中国基金报, <https://mp.weixin.qq.com/s/-Nqi4NRil8KikY5OXRfcmg>, 27 March 2021.

Steps that banks in Hong Kong should take to prepare for GBA Southbound Wealth Connect

STEP 1:

Have processes and internal controls in place to ensure each individual investor is an **eligible GBA resident** who satisfies the account opening requirements in Hong Kong and under the Wealth Management Connect⁶.

STEP 2:

Ensure **financial products** offered to investors comply with the regulatory rules and must ensure clients acknowledge the restrictions, conditions and associated risks.

STEP 3:

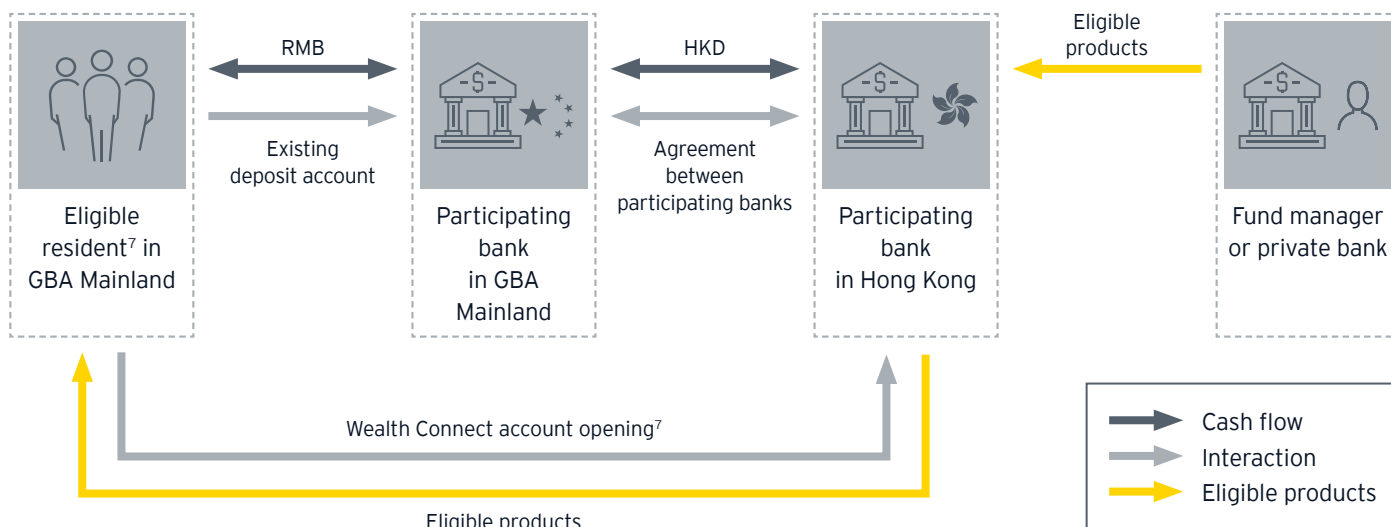
Develop its system and workflow to monitor the utilization of **aggregate and individual investor quotas** and to offer currency conversion.

STEP 4:

Ensure the cross-boundary remittance is **managed in a closed loop** through the bundling of designated remittance and investment accounts and that funds are only used to invest in eligible investment products.

6. 关于《粤港澳大湾区“跨境理财通”业务试点实施细则（征求意见稿）》公开征求意见的通知, <http://guangzhou.pbc.gov.cn/guangzhou/129142/129156/129119/4243085/index.html>, 6 May 2021.

How will the closed loop system potentially work?



7. 关于《粤港澳大湾区“跨境理财通”业务试点实施细则（征求意见稿）》公开征求意见的通知。
<http://guangzhou.pbc.gov.cn/guangzhou/129142/129156/129119/4243085/index.html>, 6 May 2021.

Highlights of an actual journey toward GBA Southbound Wealth Connect undertaken by a global bank together with EY:

- 1 Established a digital wealth platform in the GBA in anticipation of Wealth Connect
- 2 Provided support on its business strategy review
- 3 Conducted control review for full front-to-back process
- 4 Assessed anti-money laundering controls
- 5 Reviewed suitability and pricing governance



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Evolution of the MPF system: the Electronic Mandatory Provident Fund (eMPF) platform

“

In 2020, there were 10.3 million Mandatory Provident Fund (MPF) accounts with about 4.4 million members investing in over 400 constituent funds. As of December 2020, total MPF assets amounted to over HK\$1 trillion.⁸

8. Mandatory Provident Fund Schemes Statistical Digest, <https://www.mpfa.org.hk/en/info-center/research-reports/quarterly-reports/mpf-schemes>, December 2020.

1 Automate existing administrative processes

In 2021, the Mandatory Provident Fund Schemes Authority (MPFA) announced the appointment of the operator to the eMPF platform, which will automate existing administrative processes undertaken by trustees and administrators in the MPF system.

2 Data migration

The eMPF platform will impact all stakeholders within the MPF ecosystem in particular the trustees, which are expected to support the orderly transition to the platform in batches starting from 2023 with the platform fully operational by 2025.

3 Align interfaces

This digital transition will require market participants to modify their business and operational models to align with the interfaces of the eMPF platform and to prepare for increased digitization of the member and employer journeys.

4 Holistic view of assets

It is expected that the eMPF platform will also provide members with higher transparency of underlying fund investments and should in the future enable digital switching of schemes and funds. This may lead to wider investment choices from product providers, which are part of this digital open architecture.

Who will benefit?

1

Members who will gain a holistic view of their MPF assets and the ability to transact digitally with their MPF accounts

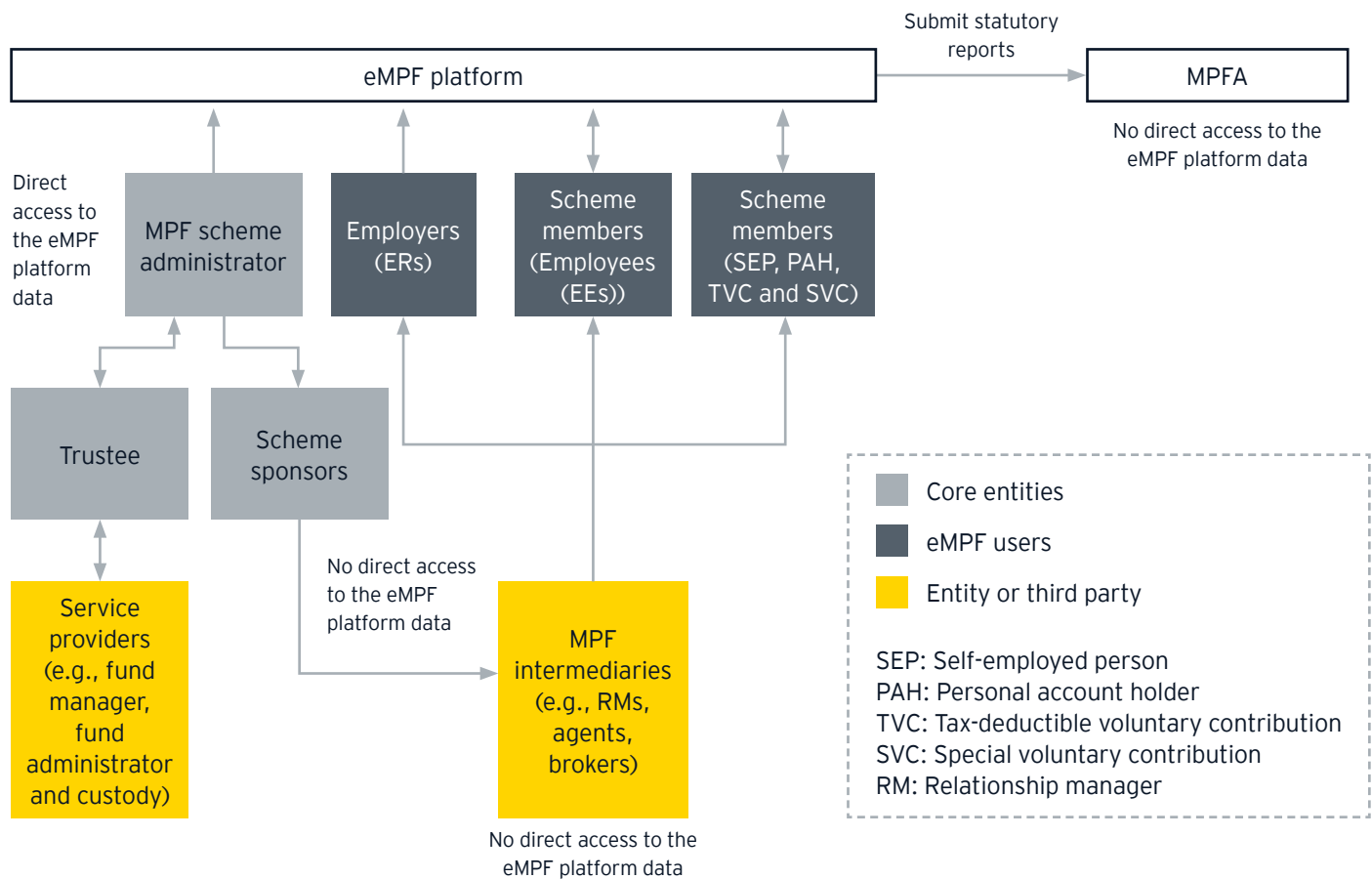
2

MPF operators who can integrate eMPF with their wider offerings to increase stickiness and improve cross-selling

3

Potential to build a pension advisory industry in Hong Kong, helping secure the long term financial wellness of the Hong Kong population and create new business opportunities for the community

What will eMPF mean to the MPF ecosystem of Hong Kong?



Highlights of an actual journey toward the eMPF platform undertaken by the largest MPF provider together with EY:

- 1 Create a growth strategy for their business
- 2 Conduct a holistic analysis on market trends
- 3 Identify challenges and envision the future
- 4 Prioritize and develop an implementation plan for the growth strategy and migration



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Electronic data service providers (EDSP)

Use of external EDSPs

In response to the shift of data format from physical to digital, the SFC issued a circular to licensed corporations (LCs) in 2019, followed by a frequently asked questions (FAQs) document in 2020 to set out their general obligations in relation to the storage of electronic regulatory records with external data storage data providers. Expectations are that LCs:

1 LCs must appoint Hong Kong-based MIC or RO

Must appoint Hong Kong-based managers-in-charge (MIC) or responsible officer (RO) responsible for electronic data storage who have the knowledge, expertise and authority to access all regulatory records kept with an EDSP at any time. The MIC must ensure information security and provide access of relevant records to the SFC in a timely manner.

2 Initial due diligence and ongoing effective governance

Should conduct proper initial due diligence and ongoing effective governance of the EDSP. This would typically include the implementation of a comprehensive information security policy.

3 Audit trail

Must provide audit trail information or data access logs, which detail a complete record of any access by the licensed corporation to the Regulatory Records stored by the EDSP.

4 Access map

Should prepare an access map that provides an overview on types of and how electronic regulatory records are stored exclusively with affiliates of the LC or EDSP, unless data is stored with a local server or an undertaking and signature is obtained from the EDSP.

Typical approach for licensed corporations (LCs) to address their EDSP obligations



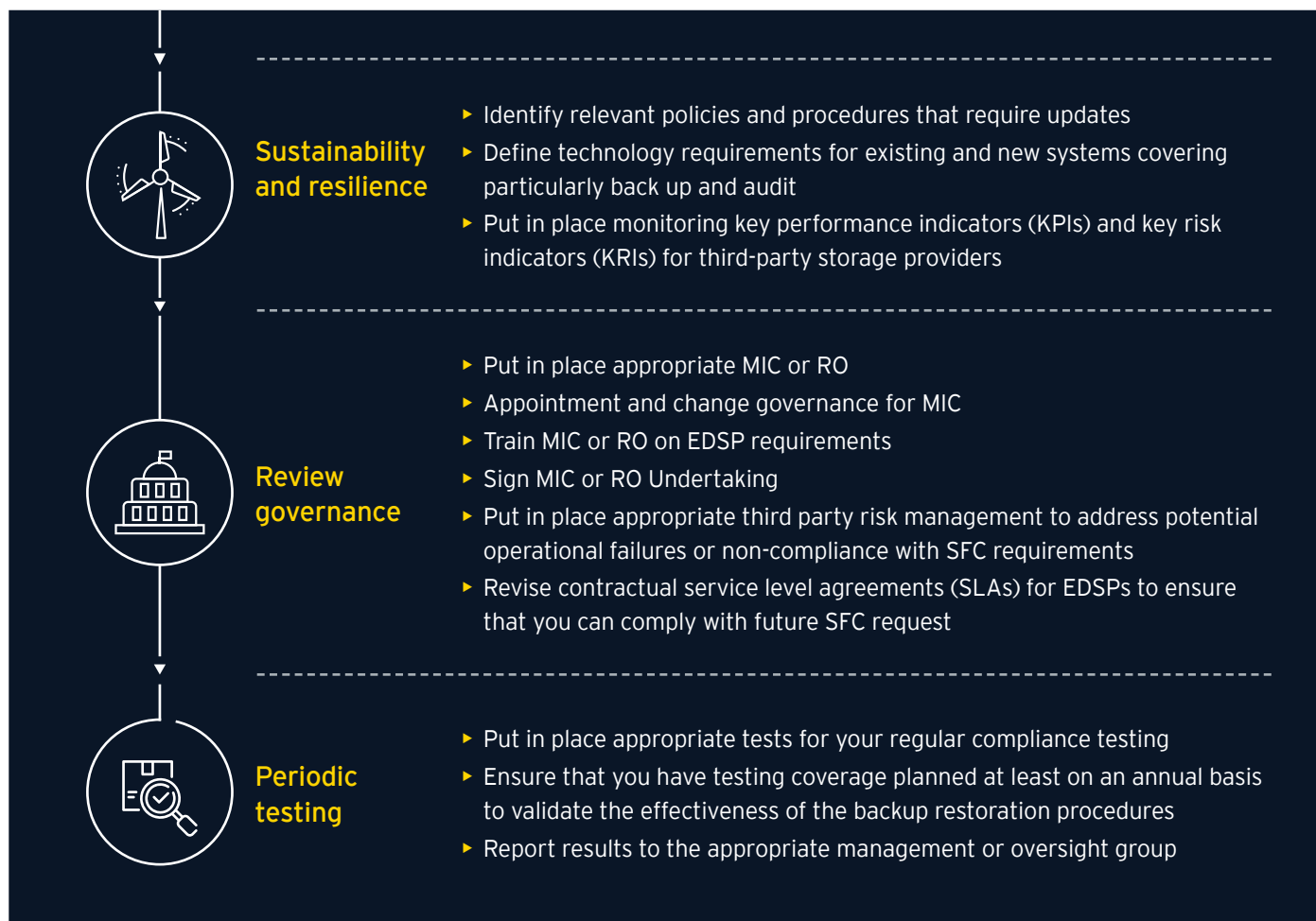
Identify scope of records

- ▶ Define, or ideally reuse, a definition of data records to understand which are regulatory records required by the SFC
- ▶ Confirm which regulatory records are in scope
- ▶ Map the regulatory records to a system or storage provider



Create the access map

- ▶ Create and populate the access map
- ▶ Capture related information, such as audit information in, or near, the access map
- ▶ Communicate with third party EDSPs to articulate SFC requirements and understand capabilities
- ▶ Consider technology requirements to address any gaps identified by the access map
- ▶ Issue Section 130 approval notice to the SFC, including access map and any compliance plan



Highlights of an actual journey toward EDSP undertaken by a global investment bank together with EY:

- 1 Assisted a global investment bank with their EDSP journey across their organization
- 2 Defined regulatory records with reference to SFC regulations
- 3 Created global access map across the organization
- 4 Captured data locations including third parties for hundreds of systems and regulatory record types



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Digitization – a lasting legacy

How can financial institutions start this transformational journey?

- 1** Examine technologies that benefit sections of business, e.g., automation, cloud storage and data analytics
- 2** Evaluate the competitive landscape and formulate strategic mid- to long-term plans
- 3** Update existing system and diligent vendor selection
- 4** Investing in hardware
- 5** Hire new staff or reskill
- 6** Restructure operations and business models
- 7** Reposition value chain and cost structures
- 8** Ensure business as usual, and set targets for new revenue generation
- 9** Communication with clients

“

Digital transformation requires organizational changes that are customer-centric, backed by leadership, driven by radical challenges to corporate culture, and the leveraging of technologies that empower and enable employees.

Implementation of digitization

Customer experience

Establish an innovation portfolio and end-to-end innovation capabilities to incubate ideas and business models with the customer at heart

Platform thinking

Create, design and activate rapid development of products and services to quickly realize business value, enabled by disruptive technologies and platforms

Digital operations transformation

Align, enhance and automate to optimize control, performance, efficiency and proficiency in the institutions today

Digital trust

Identify new risks, design and deliver a control model to meet regulations and build trust with their customers, regulators, shareholders and employees

Be digital

Supporting clients to be agile, evolving the delivery model and rethinking the talent model will be critical win and lead in the digital age

Highlights of an actual journey toward digital transformation undertaken by a global bank together with EY:

- 1 Assisted a global bank with their end-to-end digital transformation journey
- 2 Included the design of platform, solution, and integration architecture, design of data flow and requirements
- 3 Supported front-to-back business capability decomposition
- 4 Assisted microservices build, and facilitation on knowledge transfer and transition support



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3

Tax concessions and new legal structures in Hong Kong for asset managers

Carried interest tax concession

Why is a new tax concession regime needed?



To resolve the uncertainty about tax treatment of carried interest in Hong Kong

1 Uncertainty in tax treatment

Uncertainty in tax treatment of carried interest in Hong Kong has given rise to concerns by fund managers.

2 Carried interest

Taxation of carried interest is a contentious issue and not always straightforward.

3 Choice of jurisdiction

Tax treatment is a major consideration among others that will affect the choice of jurisdiction for fund domiciliation and day-to-day management.

4 Clarity of carried interest taxation

Clarity in treatment of carried interest taxation is important to both fund managers and investment professionals, who receive corporate carry and individual carry from the funds, respectively.

Developing Hong Kong as a premier private equity (PE) fund center

1 PE funds have been gaining popularity

In recent years, PE funds have been gaining popularity amongst investors and are a key impetus to the growth of asset and wealth management business.

2 Shape Hong Kong into a globally competitive premier PE fund hub

The authorities seek to attract more PE funds to operate in Hong Kong, which will elevate investment management and related activities. Also, authorities took the initiative to introduce the tax concession to shape Hong Kong into a globally competitive premier PE fund hub.

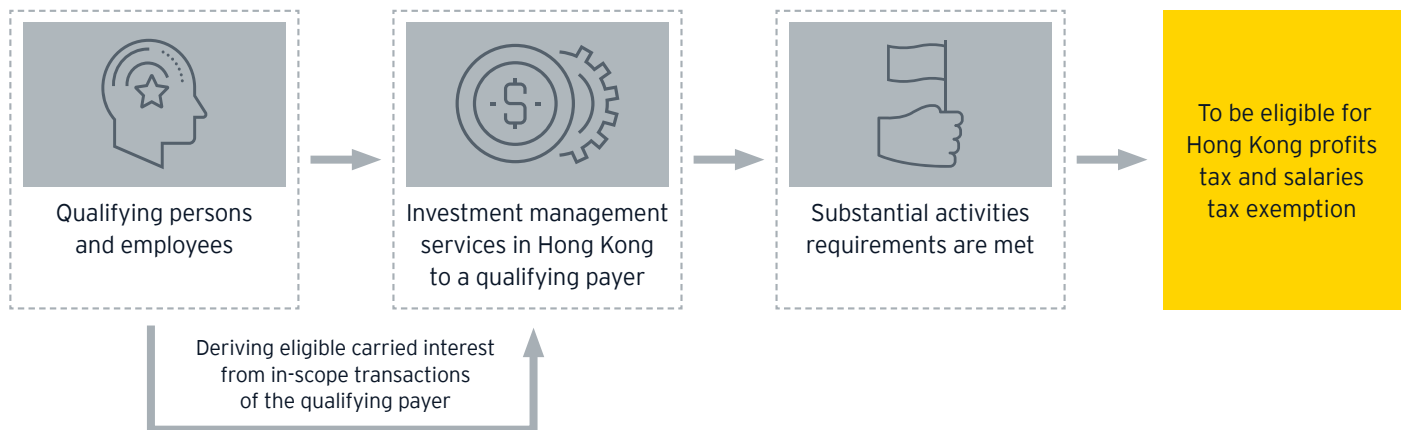
3 Legislative bill – tax concession

A legislative amendment has been introduced to provide tax concession. The key qualifying requirements for the proposed tax concession are outlined in the next section.

How to qualify for the carried interest tax concession?

Overall design principle of the tax concession⁹

Any recipients (qualifying persons and qualifying employees) providing investment management services in Hong Kong to a qualifying payer (namely certified investment fund and its associated corporation or partnership or the Innovation and Technology Venture Fund Corporation) and deriving eligible carried interest from in-scope transactions of the qualifying payer would be eligible for Hong Kong profits tax and salaries tax exemption, provided that the substantial activities requirements are met.



9. The tax alert can be downloaded from this link:
https://www.ey.com/en_cn/hong-kong-tax-alerts/legislative-bill-to-introduce-tax-concession-for-carried-interests

Compliance and monitoring requirements

In addition to fulfilling the eligibility conditions outlined in the design principle of the tax concession regime, the following compliance and ongoing monitoring requirements are required to be adhered to:

- 1 HKMA-certified investment fund**
 Certification by the HKMA: Application should be made to the HKMA by the fund or its authorized local representative (for nonresident fund), supported by the relevant documents and information in order to qualify as a certified investment fund.
- 2 External auditor report**
 External auditor's report: In the year of carried interest distribution, a report from an external auditor should be obtained to evaluate the relevant substantial activities requirements are met in the relevant tax years and the fund invests in private equity transactions.
- 3 Report to the IRD**
 Provision of information to the Inland Revenue Department (IRD): Qualifying payers and qualifying recipients are required to report to the IRD, in writing, particulars of the carried interest paid or received or accrued.

How can fund managers harness the benefits of the tax concession?

Subject to the fund's operating model and Hong Kong profits tax position of the fund as well as the structure of the carry plan, a fund manager may consider **if they are eligible for the profits tax and salaries tax exemption** under the tax concession regime.

Further consideration or assessment would be needed to evaluate whether any **operational/structural changes are required**.

How can fund managers start this transformational journey?

- 1 Design the structure of the carry plan to take advantage of the tax concession and align the strategic priority of the remuneration policy.
- 2 Perform a gap analysis and assess whether the eligibility conditions under the tax concession regime can be met.
- 3 Implement changes (if any) to the existing carry plan and carry flow.
- 4 Understand the ongoing considerations and requirements that must be met to qualify for the tax concession.
- 5 Consider alternatives other than the tax concession to mitigate tax risk of the carried interest distribution of the funds if needed.
- 6 Understand the fund manager's and fund executives' tax implications and reporting requirements before and after implementation of tax concession.
- 7 Apply for the HKMA certification to become a certified investment fund.
- 8 Engage external auditor for the auditor's report in the year of carried interest distribution

Highlights of the journey toward tax transformation by the industry with EY:

- 1 Worked closely with the industry throughout the process of the legislation for the carried interest tax concession
- 2 Assisted PE fund houses and PE arms of global firms in assessing and restructuring their carry plan
- 3 Fulfilled the proposed requirements under the tax concession regime level
- 4 Recommended changes to our PE fund clients to mitigate the Hong Kong tax risks of their existing carry plan

Hong Kong open-ended fund companies (OFC) and limited partnership funds (LPF)

Why is the choice of jurisdiction of fund's domicile important?

Increasingly stringent regulatory and tax requirements in traditional offshore fund hubs

1 Traditional offshore fund hubs

Over recent years, fund managers in traditional offshore fund hubs have to deal with more rules and regulations, such as enactment of the Private Funds Law 2020 and the Mutual Funds (Amendment) Law 2020 in Cayman Islands.

2 Registration and operating obligations

More onerous registration and ongoing operating obligations, such as audit and valuation requirements, increase the costs of setting up and maintaining offshore fund structures in these traditional hubs.

3 Economic substance requirements

Economic substance requirements can be challenging for offshore fund managers who are expected to establish headcount and operating expenditure locally. They are also expected to carry out core income generating activities in the traditional fund hub locations.

Impact of fund structure on the taxation of income from underlying fund investments

1 Anti-treaty shopping provisions

As part of the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) project, anti-treaty shopping provisions were introduced under Action Plan 6. Recent trends suggest treaty abuse is high on the agenda for tax authorities and is impacting the use of offshore fund structures.

2 Special purpose vehicle

Offshore domiciled fund setting up special purpose vehicle in a treaty jurisdiction to obtain treaty access in respect of income from source jurisdiction could result in the denial of treaty benefit if obtaining that benefit was one of the principal purposes of the structure.

3 Permanent establishment

Jurisdictions have widened definitions of "permanent establishment" to capture additional revenue from cross-border interactions. Funds setting up in traditional fund hub locations that do not have a tax treaty network face an increased risk of attribution of profit to other jurisdictions where activities are undertaken on behalf of the fund.



OFC

- ▶ OFC regime that was launched on 30 July 2018 provided an option for Hong Kong domiciled open-ended investment funds to structure in corporate form.
- ▶ Investment restrictions on private OFCs were removed and Type 1 licensees were allowed to act as custodians from 11 September 2020.
- ▶ As of March 2021, a total of 12 public and private OFCs were set up in Hong Kong.¹⁰

Re-domiciliation

- ▶ HKSAR Government is supportive of the re-domiciliation of more offshore funds to Hong Kong so that their substantial business activities can be conducted locally.
- ▶ Legislative proposal will be submitted in the second quarter of 2021 to facilitate foreign investment funds re-domiciling to Hong Kong for registration as OFC or LPF.

What is Hong Kong offering to capture this opportunity to become the fund domicile of choice?

LPF

- ▶ LPF ordinance took effect on 31 August 2020, providing alternative for domiciliation of investment funds in Hong Kong and allowing flexibility for fund managers to meet market demand.
- ▶ LPF is a familiar investment vehicle for fund managers across different jurisdictions.
- ▶ As of March 2021, a total of over 200 LPFs registered under LPF ordinance.¹¹

Subsidy

- ▶ The HKSAR Government plans to provide subsidies for OFCs to be set up in or re-domiciled to Hong Kong in the coming three years.
- ▶ This covers 70% of their expenses paid to local professional service providers, subject to a cap of HK\$1 million per OFC.

10. Open-Ended Fund Companies, SFC Website, <https://apps.sfc.hk/productlistWeb/searchProduct/OFC.do?isUnlist=Y&lang=EN>, March 2021

11. Limited Partnership funds, ICRIS Cyber Search Centre, https://www.icris.cr.gov.hk/csci/list_company_name_lpf.do, March 2021.

What are the benefits of using a Hong Kong-domiciled fund structure to fund managers?



How can fund managers start this transformational journey?

For new funds, fund managers should:

- 1 Determine if there are any investment management activities taking place in Hong Kong.
- 2 Assess if the investment strategy of the new fund is suited to be set up in the form of OFC or LPF.
- 3 Assess and compare the tax implications of using a Hong Kong fund structure versus the traditional offshore fund structure (including the tax implications to the investors of the fund).
- 4 Evaluate the likelihood of obtaining tax treaty access in respect of the fund's investment income.
- 5 Consider the tax compliance requirement of using an OFC or LPF.
- 6 Communicate with investors and get their buy-in to this alternative fund structure.

For existing funds, fund managers should:

- 1 Compare the pros and cons of re-domiciliation versus maintaining the offshore fund structure.
- 2 Assess whether the existing fund structure has any historical Hong Kong tax exposure.
- 3 Consider if any tax risk mitigants should be put in place before the re-domiciliation.

Highlights of a journey toward promoting new legal structures by EY:

- 1 Involved in promoting the use of the OFC and LPF regime as an alternative, viable option to establish investment funds in Hong Kong
- 2 Assisted clients in setting up their OFCs and LPFs
- 3 Structured their funds to enjoy Hong Kong profits tax exemption at fund level and investor level
- 4 Reviewed their fund offering documents to ensure compliance from a tax perspective



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4

EY teams

We bring together professionals with knowledge, experience and passion to help businesses respond to environmental, societal and governance challenges.

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