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[UK-Hong Kong fund deal to help small firms post-Brexit](#)

## **UK-Hong Kong fund deal to help small firms post-Brexit**

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By Siobhan Riding

The newly agreed UK-Hong Kong mutual recognition deal will not be transformative for the UK post-Brexit but could bring opportunities for small and mid-sized UK managers, analysts say.

The Financial Conduct Authority and the Hong Kong Securities and Futures Commission yesterday [announced](#) a deal to allow UK retail funds to be sold in Hong Kong under a streamlined procedure and vice-versa.

The move comes as the UK looks towards its post-Brexit future and seeks to cultivate its [global ties](#) with a view to retaining its status as a leading fund hub.

Analysts tell *Ignites Europe* that the deal with Hong Kong could give a boost to small and mid-sized UK managers that do not have funds domiciled in continental Europe.

European Ucits funds can already be sold to investors in Hong Kong. However, after Brexit, UK funds will no longer be categorised as Ucits funds.

The UK-Hong Kong deal therefore comes at a good time for such managers, says Sean Tuffy, head of market and regulatory intelligence at Citi Custody and Fund Services.

Mr Tuffy says: "It should give asset managers that currently sell UK-domiciled funds into Hong Kong comfort that they can continue to do so even after losing the Ucits label post-Brexit."

However, the deal will likely have no impact on large UK managers, since most of these firms have funds domiciled in Luxembourg or Ireland that can already be sold into Hong Kong.

Stewart Aldcroft, managing director of Citi Markets and Securities Services, says that approximately 1,200 Ucits funds are currently offered for sale in Hong Kong.

"[Ucits funds] have been well established in Hong Kong for almost 30 years," says Mr Aldcroft.

"They are widely used and very popular."

The stranglehold of Ucits funds in Hong Kong means that any funds applying to sell into the territory via the UK scheme face an uphill challenge, says Mr Aldcroft.

“[Hong Kong] investors have already got an enormous range of products,” says Mr Aldcroft.

It will be challenging for UK funds to differentiate themselves in this crowded marketplace, especially in light of the fact that only basic investment strategies are eligible to apply for the UK-Hong Kong scheme in the first instance, he says.

More generally the eligibility requirements tied to the scheme may prove costly and tricky to implement for firms, says Mr Aldcroft.

For example, UK managers applying for the scheme have to appoint a representative in Hong Kong. They also need to provide their offering documents in both English and Chinese.

Mr Aldcroft says firms will have to weigh up whether the expense of complying with these requirements will be offset by the amount of assets they will raise in Hong Kong.

Previous mutual fund recognition deals between European countries and Hong Kong do not bode well. “Almost nothing” has been sold under the scheme agreed between [France](#) and Hong Kong last year, he says.

However, Mr Aldcroft notes that Brexit means there is more of an impetus for UK firms to seek to sell their funds via this route.

Firms that have not sold their funds previously in Hong Kong may wish to dip their toes in this market in order to “broaden their appeal” and garner experience in Asia, he adds.

This may be helpful as China’s asset management market progressively opens up, creating opportunities for UK firms over the long term, according to Mr Aldcroft.

He adds that the UK is expected to seek to strike a separate mutual fund deal with China post-Brexit.

Attilio Veneziano, founder of London-based law firm Veneziano & Partners, says the deal between the UK and Hong Kong will be “one of a long series of strategic alliances that the UK will create with specific domiciles”.

Mr Tuffy adds that asset managers may even see the Hong Kong deal as a potential template for a future deal between the UK, Luxembourg and Ireland.

Jervis Smith, head of investor services for Luxembourg at Citigroup, agrees, saying: “In the event of a hard Brexit, one could expect Britain to look for these type of mutual recognition deals, starting with Europe of course.”

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