

Allianz Global Investors

30 December 2009

Securities and Futures Commission
8th Floor, Chater House
8 Connaught Road Central
Hong Kong

Attention: Consultation on Proposals to Enhance Protection for the Investing Public

Dear Sirs:

**Re: Consultation Paper on Proposals to Enhance Protection for the Investing Public
(the “Consultation Paper”)**

We are fully supportive of the current initiative of the Securities and Futures Commission in respect of its proposals to enhance investors’ protection as set out in the Consultation Paper.

We are pleased to share our views with the Commission on some of its proposals as follows.

Part II – Products

Key Fact Statements (“KFS”)

We are supportive of the introduction of KFS.

KFS, if implemented properly, will serve as a useful tool to ensure key information in respect of a product is readily accessible by investors in a concise format. Such will facilitate the dissemination of important information to investors, assist them to make informed decision in respect of their investment and ultimately protect their interest.

In order to achieve the above objective, we are of the view that KFS should be a concise document which must be distributed to an investor at the point of sale. The information contained in the KFS should be current and be updated on an as needed basis. However, given the summary nature of KFS, it should not replace or constitute part of the offering document.

At the same time, regulators of the European Community are working on similar documentation requirement, namely the Key Investor Document (“KID”), under their UCITS¹ IV regulations. The contents of KFS and KID are similar.

As the costs for preparation of KFS and KID are chargeable to the products and borne by investors, in order to ensure efficiency, reduce costs and protect investment return, we

¹ UCITS stands for “Undertakings for Collective Investment in Transferable Securities”.



encourage the Commission to align the requirements of KFS with KID, so that product providers will be able to prepare one document to satisfy the requirements of both the European Community and Hong Kong. Specifically, product providers should be permitted to use KID of a UCITS scheme to satisfy the requirement of KFS in respect of that UCITS scheme and vice versa. We, together with our group company in Europe who is conversant with the requirements of KID, would be happy to explore and work with the Commission in this regard.

Annual Reports

We are supportive of the requirement that annual reports of authorized funds that are not recognized jurisdiction schemes be published in both English and Chinese.

As annual reports, in all likelihood, will be prepared in English first and, once finalized, be translated into Chinese, we suggest that preparation of the Chinese version of the annual reports of foreign schemes be given slightly longer time than the English version, say, six months after the relevant financial year end.

Electronic Communications

We are fully supportive of the flexibility to provide financial reports through collection by investors, in printed or electronic forms.

Today, the electronic platform is at least an equally, if not more, acceptable and common means of communication as printed materials. Distribution of materials in electronic form is almost instantaneous and the associated costs are significantly lower than that of printed forms. Any cost savings resulting from the replacement of printed forms by electronic forms will directly benefit investors.

We suggest the Commission to consider the posting of financial reports on the website of product providers as an acceptable means for distribution of financial reports as required under the Code on Unit Trusts and Mutual Funds (the "UT Code"). As the timeframe for availability of financial reports are clearly mandated in the UT Code, to avoid unnecessary printing, postage and administrative processes, product providers should not be required to notify investors every time a financial report is available and ready for collection, but should only be required to ensure timely availability of financial reports, in printed or electronic forms, for collection by investors at a physical office or through the website, as the case may be.

Physical distribution of printed financial reports should only be required upon specific request by investors.

Recognized Jurisdictions

We are supportive of the current list of recognized jurisdictions.

Hong Kong, as a key financial center in Asia Pacific, should recognize and encourage cooperation, collaboration and exchange of information with other important financial centers in the region, such as Japan, Korea and Singapore. The mutual recognition of matured regulatory regimes permit effective sharing of experiences and knowledge, which is crucial to the continuous development of good governance framework and the healthy growth of the fund management industry.

To this end, we propose that the Commission include countries in Asia that have a matured fund management regulatory regime, such as Australia, Japan, Korea, Singapore and Taiwan, as recognized jurisdictions over time, but continue to exclude those countries that are subject to a closed currency policy. The conclusion of a comprehensive Memorandum of Understanding between the Commission and the respective regulator of such countries that confirm and reinforce mutual recognition and collaboration would facilitate closer communication and cooperation between the regulators and benefit the industry.

Performance Fee

We welcome the option to calculate performance fee with reference to the performance of a benchmark or an asset class.

We believe that performance fee to be payable no more frequently than annually is appropriate for schemes governed by the UT Code given such an approach is consistent with the intended longer term investment by investors in those schemes. To permit performance fee to be payable more frequently will increase administrative costs which would not be in the interest of long-term investors.

Provided investors are properly informed of how performance fee is levied and calculated and are fairly treated in the calculation of a performance fee, product providers should have the option to decide whether performance fee is calculated with reference to a benchmark, an asset class or the past performance of the product.

Code on Unlisted Structured Products (the "SP Code")

We would welcome clarification from the Commission on the application of the UT Code and SP Code.

For example, in relation to a product that has features that fall within the scope of both Codes, say, a guarantee fund that is authorized as a structured fund, do the SP Code and Chapter 8.5 of the UT Code apply concurrently, or are the 2 Codes mutually exclusive? Furthermore, in the event of conflict or inconsistencies between the 2 Codes, which one would take precedence? As the UT Code is the more comprehensive of the two, we propose the UT Code to be the prevailing one.

Part III – Intermediaries Conduct

Investor characterization

We welcome clear requirements and expectations upon licensed and registered persons in respect of their investor characterization process.

If the objective of the proposed changes is to ensure investment suitability, we are of the view that such could be achieved through proper and clear product communication at the point of sale.

Instead of prescribing the knowledge required of investors, we believe the focus should be on informed decision by investors through proper and clear product communication. Licensed and registered persons should be well-trained and well-versed in respect of their product so that they are equipped to explain important product features to investors and answer questions that investors may have.

Besides proper advice and disclosure by licensed and registered persons, investor's accountability should be emphasized.

In the context of investor characterization and knowledge, it is important to set out clearly under what circumstances the relevant requirements are applicable and how such requirements are to be met. We ask the Commission to re-consider in respect of which kind of products specifically investor's knowledge is to be a prerequisite. We are of the view that the use of derivatives, whether for investment or hedging purpose, should not be a product feature that automatically triggers investor characterization, given the Commission already imposes a separate set of requirements, from a risk management perspective, on products that use derivatives.

Professional Investors

We welcome guidance from the Commission on the classification of professional investors.

We believe that the criteria on professional investors as proposed by the Commission should serve as a set of general guidelines. As each investor has his or her own specific circumstances and experiences, licensed and registered persons should have the discretion to decide on a case by case basis whether an investor is a professional investor, provided such decision is sufficiently documented and substantiated.

Audio Recording

We are of the view that the current audio recording requirement under the Code of Conduct for Persons Licensed by or Registered with the Commission ("Code of Conduct") is adequate at this time. Besides, meeting notes are also kept to ensure there is a proper

record of the discussion that has taken place.

For the same reasons highlighted in the Consultation Paper, we are of the view that any extension or broadening of the current requirement is neither practical nor cost-effective and will reduce distribution activities and, ultimately, investors' choice.

In the event of any extension or broadening of the current audio recording requirement, the Commission needs to consider and explain how such requirement would apply to Mandatory Provident Fund Schemes products, especially in light of the anticipated opening up of employees' choice.

Part IV – Post-sale arrangements

Post-sale cooling-off period

We request the Commission to exclude open-ended schemes from any requirement of post-sale cooling-off period.

We are of the view that post-sale cooling-off period is not necessary for open-ended schemes where regular dealing days, be it daily, weekly or monthly, are available as such schemes provide ready liquidity. Investors are able to redeem their investment on the next dealing day through the normal dealing procedures. Furthermore, product providers will incur additional costs to implement a cooling-off period, costs which appear to be unnecessarily in light of the said liquidity.

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We hope the above is helpful to the Commission.

Please do not hesitate to contact us at any time should the Commission wish to discuss any of the foregoing.

Yours sincerely,
For and on behalf of
Allianz Global Investors Hong Kong Limited



Frank Klausfelder
Chief Executive Officer