



# **Consultation Conclusions on Draft Insurance (Special Purpose Business) Rules**

**January 2021**

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## INTRODUCTION

1. On 4 September 2020, the Insurance Authority (“IA”) published for consultation a set of draft Insurance (Special Purpose Business) Rules (“Rules”) proposed to be made under new section 129A<sup>1</sup> of the Insurance Ordinance (Cap. 41) (“IO”) to provide for restrictions on the sale of insurance-linked securities (“ILS”). The draft Rules mainly serve the following three purposes –
  - (i) defining “eligible ILS investors” to whom ILS may be sold or offered for purchase;
  - (ii) prescribing a minimum investment size for ILS; and
  - (iii) prescribing the offences and the relevant penalties whereby (i) and (ii) are contravened.
2. While ILS are useful and effective risk management tools enabling insurers (including reinsurers) to offload insured risks to the capital markets by way of securitization, they are unsuitable for ordinary retail investors. There have also been calls for prohibiting “repackaging” of ILS into other financial products for sale to ordinary retail investors, and for debarring constituent funds of Mandatory Provident Fund Schemes (“MPF funds”) from investing in ILS.
3. The draft Rules confine sale of ILS to the following types of eligible ILS investors –
  - (a) banks or authorized financial institutions;
  - (b) insurance companies (including reinsurance companies);
  - (c) corporations carrying on business of the provision of investment services;
  - (d) governments, central banks and multilateral agencies;
  - (e) authorized exchange companies; and
  - (f) collective investment schemes (“CIS”) excluding, as set out in Rule 3(2) of the draft Rules, retail funds authorized by the Securities and Futures Commission (“SFC”), MPF funds, approved pooled investment funds which can be invested into by MPF funds, and occupational retirement schemes (“ORSO schemes”).

Given that ILS are unsuitable for ordinary retail investors, funds targeting at the general public such as MPF funds, ORSO schemes and retail funds authorized by the SFC, will not be regarded as eligible ILS investors (see paragraph 3(f) above).

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<sup>1</sup> To be added by the Insurance (Amendment) Ordinance 2020 which was enacted by the Legislative Council in July 2020 to provide a bespoke regulatory framework for the issuance of insurance-linked securities in Hong Kong through formation of special purpose insurers.

4. As an additional safeguard, a minimum investment size (with the original proposal being US\$1 million or equivalent) is imposed for each ILS transaction. On the other hand, “insurance-linked securities” carries the meaning given to it by new section 129A of the IO which is “securities issued through insurance securitization”. While “insurance securitization” is further defined in the Insurance (Amendment) Ordinance 2020<sup>2</sup>, the definition of “securities” in section 1, Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571) (“SFO”) which includes derivative products and structured products applies. The act of “repackaging” ILS into derivative products or structured products linked to insurance-linked securities for sale to ordinary retail investors is therefore prohibited under the draft Rules.
5. To provide deterrence, a person contravening the sales restrictions is liable on conviction on indictment to a fine of HK\$200,000 and, in the case of an individual, imprisonment for two years; or on summary conviction to a fine at level 6 (i.e. HK\$100,000) and, in the case of an individual, imprisonment for six months.
6. When the consultation period ended on 16 October 2020, the IA received nine written submissions from industry stakeholders and professional bodies. A list of respondents is at **Annex A**.
7. Pursuant to section 132(3) of the IO, the IA publishes in this paper a summary of major issues contained in the nine submissions, its response and the conclusions drawn.

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<sup>2</sup> “Insurance securitization” as defined in clause 3(4) of the Insurance (Amendment) Ordinance 2020, in relation to an insurer, means “any debt or other financing arrangement entered into by the insurer with an investor, under which repayment or return to the investor is linked to a contract of insurance effected and carried out by the insurer”.

## FEEDBACKS RECEIVED AND RESPONSE OF THE INSURANCE AUTHORITY

8. As part of the consultation, three questions were posed on main aspects of the draft Rules. This section summarizes the feedbacks received on these questions and on other aspects of the draft Rules, as well as response of the IA.

### (a) Scope of eligible investors for ILS

Question 1

Do you agree with the proposed scope of eligible investors for ILS? Are there any types of investors which may be added or excluded?

#### *Feedbacks received*

9. In general, respondents agreed that the scope of eligible ILS investors should strike a fair balance between market development and protection of ordinary retail investors. A few respondents commented that the scope was too narrow, the majority opinion being that it should include –
- (i) pension funds;
  - (ii) sovereign wealth funds;
  - (iii) family offices;
  - (iv) foundations;
  - (v) endowment funds; and
  - (vi) foreign collective investment schemes (“foreign CIS”).
10. Some respondents suggested that the scope of eligible ILS investors should be aligned with the definition of “professional investor” in the SFO. Two respondents advocated that authorized CIS, MPF funds and ORSO schemes should be allowed to invest in ILS, subject to certain additional requirements.

*Response of the IA*

11. In determining the scope of eligible ILS investors, the IA has to weight the suitability of ILS against the sophistication of investors. Given its complex structure and the prospect of losing a substantial part of the sum invested on occurrence of a trigger event, ILS is unsuitable for ordinary retail investors. Our policy intention is to confine ILS solely to qualified institutional investors by private placement. As such, the definition of eligible ILS investors in the draft Rules includes selected categories of institutional investors to cater for market development while ensuring that ordinary retail investors are protected.
12. The IA is aware that overseas pension funds and sovereign wealth funds are allowed to invest in ILS issued by some jurisdictions, and there may be a growing demand from family offices, foundations and endowment funds in future, but considers that the current scope of eligible ILS investor provides sufficient breadth without unduly compromising investor protection.
13. The main outcome of aligning the scope of eligible ILS investors with the definition of “professional investor” in the SFO would be to cover individuals owning a portfolio of not less than HK\$8 million. The IA deems it inappropriate to do so.
14. Similarly, the IA resolves to maintain the list of eligible ILS investors as stated in the draft Rules and exclude therefrom authorized CIS, MPF funds and ORSO schemes since they are accessible by ordinary retail investors. This is not expected to have an adverse impact given that ILS as an asset class appeals mostly to institutional investors with reinsurance expertise.

**(b) Minimum investment size for ILS transactions**

Question 2

Do you agree with the proposed minimum investment size for ILS? If not, what are the reasons?

*Feedbacks received*

15. Respondents argued for a lower minimum investment size, mostly at US\$250,000 (about HK\$2 million) to facilitate market development, maintain liquidity in the secondary market and make Hong Kong a competitive ILS domicile. Some added that a lower threshold was critical to attracting new institutional investors by enabling them to start prudently in this kind of alternative investment without any track record. One respondent pointed out that a lower threshold would facilitate active risk management by reducing the exposure to any single ILS.
16. Furthermore, one respondent submitted that the minimum investment size should be reviewed within five to seven years when the ILS market in Hong Kong became mature.

*Response of the IA*

17. Although protection of ordinary retail investors is conferred first and foremost by the definition of eligible ILS investors, the minimum investment size provides an additional safeguard by discouraging the re-selling or “repackaging” of ILS to less sophisticated institutional investors. In this context, the threshold of US\$1 million (or the equivalent in other currencies) was set based on prevailing ILS transactions by private placement.
18. Realising that imposition of a minimum investment size is not common among leading ILS hubs<sup>3</sup> and a lower threshold is conducive to building up a vibrant ecosystem in Hong Kong, the IA proposes to pitch the level at US\$250,000 that should achieve a balance between market development and investor protection. The amendment is reflected in **Annexes C and D**.
19. The IA acknowledges that the minimum investment size should be reviewed in step with development of the ILS market in Hong Kong.

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<sup>3</sup> For example, for ILS listed on the Bermuda Stock Exchange, the minimum trading size is US\$100,000. There is no statutory requirement on the minimum investment size for ILS in Singapore.

**(c) Offences and penalty levels against contravention of ILS sales restrictions**

Question 3

Do you agree with the formulation of the offence in Rule 3 of the draft Rules? If not, what are the reasons?

*Feedbacks received*

20. Most respondents endorsed the offences and penalty levels prescribed in the draft Rules, but there was a minority view that the offences should be limited to primary issuance as subsequent distribution of ILS would be dealt with under the SFO and the Code of Conduct issued by the SFC.

*Response of the IA*

21. For protection of ordinary retail investors and given the calls to prohibit “repackaging” of ILS into other types of financial products for sale to ordinary retail investors, the IA maintains that the offences should apply to primary issuances as well as secondary transactions of ILS. Since SFC-licensed corporations or registered institutions do not represent all “eligible ILS investors” as defined under the draft Rules, these offences are necessary and proportionate.
22. More details concerning enforcement of the Rules will be set out in guidelines.

**(d) Other feedbacks received**

23. We have received other feedbacks which are not directly related to the three questions posed in the consultation paper. The gist of these feedbacks and response of the IA are set out in **Annex B**.



## CONCLUSIONS AND NEXT STEPS

24. In light of the feedbacks received, the IA decides to amend the draft Rules to lower the minimum investment size (as mentioned in paragraph 18 above), as well as to make a few minor refinements. The clean and marked-up versions of the draft Rules are at **Annexes C and D** respectively.
25. A finalised set of the Rules will be introduced into the Legislative Council for negative vetting in the first quarter of 2021. Subject to progress, the Rules are expected to come into operation in tandem with the Insurance (Amendment) Ordinance 2020.
26. The IA would like to express sincere gratitude to all the respondents for taking part in this consultation exercise.

**List of Respondents (in alphabetical order)**

1. Aon Hong Kong Limited
2. DLA Piper Hong Kong
3. The Hong Kong Federation of Insurers
4. Insurance Industry Regulatory and Development Concern Group
5. The Law Society of Hong Kong
6. Mayer Brown
7. Swiss Re Asia Pte. Ltd., Hong Kong Branch

In addition to the above, there were two respondents who requested anonymity.

**DETAILED RESPONSE TO OTHER FEEDBACKS**

<b>Feedback received</b>		<b>IA's Response</b>
<b><i>(i) Definition of ILS, special purpose insurers ("SPI") and special purpose business ("SPB")</i></b>		
1.	Clarification was sought on – (i) whether SPB is limited to only transferring insurance risk from insurers/reinsurers to capital markets as opposed to also being from body corporates or governments; and (ii) whether the insurance risk transferred can be on a parametric basis in either insurance/reinsurance (with a double trigger) or derivative form.	The IO does not restrict those insured by "fully-funded" contracts of insurance entered through SPIs to insurers and reinsurers, so other body corporates or governments may utilise ILS for purpose of risk mitigation. The IO also does not prevent parametric triggers from being factored in contracts of insurance entered through SPIs.
2.	Clarification was sought on whether ILS is a contract of insurance and whether an ILS investor is regarded as a reinsurer.	A contract of insurance belonging to the class of SPB must be issued by an insurer authorized by the IA. However, ILS is a type of product issued through insurance securitization which is not deemed to be a contract of insurance. ILS investors will thus not be regarded as reinsurers or to be effecting contracts of insurance.
<b><i>(ii) ILS sales restrictions and their enforcement</i></b>		
3.	Clarification was sought on whether MPF service providers and ORSO administrators who also serve non-MPF and non-ORSO functions would be eligible ILS investors.	Insofar as these service providers and administrators are performing functions related to MPF and ORSO, they cannot invest in ILS in that capacity. If not, their eligibility will follow those set out in the draft Rules.
4.	Clarification was sought on whether MPF funds and ORSO schemes may invest in ILS issued in foreign jurisdictions.	The draft Rules are intended to apply to ILS issued through SPIs in Hong Kong. Whether MPF funds or ORSO schemes may invest in ILS issued elsewhere is dependent on legislation and guidelines promulgated by competent authorities of the jurisdiction in question.

<b>Feedback received</b>		<b>IA's Response</b>
5.	Clarification was sought on whether investment restrictions on MPF funds and ORSO schemes would be imposed on the respective regulatory regimes, rather than solely under the IO regime.	The IA will partner with the Mandatory Provident Fund Schemes Authority to disseminate details about the investment restrictions to relevant stakeholders.
6.	Explanation was sought for excluding municipal government authorities from the scope of eligible ILS investors. (cf. Rule 3(4)(f) of the draft Rules).	Similar to the rationale of not aligning with the definition of “professional investors” under the SFO, exclusion of municipal government authorities from the scope of eligible ILS investors is justifiable on account of a wide variation in sophistication within this group of institutional investors.
7.	It was suggested that non-Hong Kong intermediaries (e.g. broker-dealers) and investors should not be required to meet licensing and other requirements under the SFO like Hong Kong intermediaries and investors.	The draft Rules do not alter requirements under the SFO. ILS products caught by the definition of “securities” or activities connected with the sale of ILS products falling within ambit of the SFO will thus be subject to the regulation of SFC.
8.	Clarification was sought on whether ILS would be excluded from the definitions of “securities” and/or “structured products” under the SFO or otherwise benefit from a specific exemption from the licensing regime under the SFO.	
<b><i>(iii) Market development incentives</i></b>		
9.	It was suggested to grant tax concession or exemption on the income derived from SPB and dividend/interest income from ILS.	The IA will examine feasible measures to promote the competitiveness of Hong Kong as an ILS domicile.
10.	It was suggested to launch a subsidy scheme for ILS issuance, as recommended by the Financial Services Development Council.	

Feedback received		IA's Response
<i>(iv) Others</i>		
11.	<p>The following textual amendments to the draft Rules were suggested –</p> <ul style="list-style-type: none"> <li>(i) standardising the term “authorized financial institution” in Rule 2;</li> <li>(ii) the reference to the definition of “constituent fund” in Rule 3(2)(b) should be suitably amended; and</li> <li>(iii) not to mention “offshore scheme” in Rule 3(2)(c) since offshore schemes that are also registered scheme has been covered by draft Rule 3(2)(c)(i), and offshore schemes that are also exempted schemes are not regulated by MPFA.</li> </ul>	<p>Amendments are made accordingly as reflected in <b><u>Annexes C and D</u></b>.</p>
12.	<p>The IA is reminded to update relevant guidelines (e.g. <i>GL13 – Guideline on Asset Management by Authorized Insurers</i>).</p>	<p>The IA will review and take appropriate actions in due course.</p>

**Annex C – Clean version of the Insurance (Special Purpose Business) Rules**

**Insurance (Special Purpose Business) Rules**

(Made by the Insurance Authority under section 129A of the Insurance Ordinance (Cap. 41))

**1. Commencement**

These Rules come into operation on the day on which section 8 of the Insurance (Amendment) Ordinance 2020 (17 of 2020) comes into operation.

**2. Interpretation**

In these Rules—

**authorized financial institution** (認可財務機構) means an authorized institution as defined by section 2(1) of the Banking Ordinance (Cap. 155);

**bank** (銀行) means any institution carrying on business similar to—

- (a) the banking business within the meaning of the Banking Ordinance (Cap. 155) as carried on by an authorized financial institution; or
- (b) the business of taking deposits within the meaning of the Banking Ordinance (Cap. 155) as carried on by an authorized financial institution;

**collective investment scheme** (集體投資計劃) means a collective investment scheme as defined by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

**corporation** (法團) has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

**eligible ILS investor** (合資格保險相連證券投資者) has the meaning assigned to it by rule 3;

**insurance-linked securities** (保險相連證券) has the meaning given by section 129A of the Ordinance;

**recognized clearing house** (認可結算所) has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

**recognized exchange company** (認可交易所) has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

**recognized exchange controller** (認可控制人) has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

**recognized investor compensation company** (認可投資者賠償公司) has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571).

**3. Restrictions on sale of insurance-linked securities**

- (1) A person must not enter into, or offer to enter into, an agreement with another person, or invite or induce, or attempt to invite or induce, another person to enter into an agreement, for that other person to acquire, subscribe for or underwrite insurance-linked securities, or to dispose of insurance-linked securities to that other person, unless—

- (a) that other person is an eligible ILS investor;
  - (b) that other person is not a person mentioned in subrule (2); and
  - (c) the consideration for which the insurance-linked securities are to be acquired, subscribed for, underwritten, or disposed of under the agreement is not less than US\$250,000 or the equivalent of such amount in other currencies.
- (2) A person referred to in subrule (1)(b) is—
- (a) any collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Cap. 571), or any person in that person’s capacity as an operator in relation to any such authorized collective investment scheme;
  - (b) any registered scheme or its constituent fund as defined by section 2(1) of the Mandatory Provident Fund Schemes Ordinance (Cap. 485), or any scheme which is an approved pooled investment fund as defined by section 6 of the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485 sub. leg. A), or any person in that person’s capacity as an approved trustee or service provider in relation to any such registered scheme as defined by section 2(1) of that Ordinance; or
  - (c) any scheme which is a registered scheme as defined by section 2(1) of the Occupational Retirement Schemes Ordinance (Cap. 426), or any person in that person’s capacity as an administrator as defined by section 2(1) of that Ordinance in relation to any such registered scheme.
- (3) A person who contravenes subrule (1) commits an offence and is liable—
- (a) on summary conviction to a fine at level 6 and, in the case of an individual, also to imprisonment for 6 months; or
  - (b) on conviction on indictment to a fine of \$200,000 and, in the case of an individual, also to imprisonment for 2 years.
- (4) In this rule—
- eligible ILS investor*** (合資格保險相連證券投資者) means—
- (a) any recognized exchange company, recognized clearing house, recognized exchange controller or recognized investor compensation company, or any corporation authorized to provide automated trading services under section 95(2) of the Securities and Futures Ordinance (Cap. 571);
  - (b) any licensed corporation or registered institution as defined under the Securities and Futures Ordinance (Cap. 571), or any other corporation carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong;
  - (c) any authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong;
  - (d) any insurer authorized under the Ordinance, or any other person carrying on insurance business and regulated under the law of any place outside Hong Kong;
  - (e) any scheme which—

- (i) is a collective investment scheme that is not the subject of any advertisement, invitation or document that is or contains an invitation to the public to do any act referred to in section 103(1)(b) of the Securities and Futures Ordinance (Cap. 571) and is not authorized, and not required to be authorized, under section 105(1) of that Ordinance; or
- (ii) is similarly constituted under the law of any place outside Hong Kong and, if it is regulated under the law of such place, is permitted to be operated under the law of such place,  
or any person by whom any such scheme is operated;
- (f) any government (other than a municipal government authority), any institution which performs the functions of a central bank, or any multilateral agency; or
- (g) any corporation which is—
  - (i) a wholly owned subsidiary of—
    - (A) a licensed corporation or registered institution as defined under the Securities and Futures Ordinance (Cap. 571), or other corporation carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or
    - (B) an authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong;
  - (ii) a holding company which holds all the issued share capital of—
    - (A) a licensed corporation or registered institution as defined under the Securities and Futures Ordinance (Cap. 571), or other corporation carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or
    - (B) an authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong;
  - (iii) any other wholly owned subsidiary of a holding company referred to in subparagraph (ii).

Insurance Authority

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## Annex D – Marked-up version of the Insurance (Special Purpose Business) Rules

### Insurance (Special Purpose Business) Rules

(Made by the Insurance Authority under ~~sections~~section 129A of the Insurance Ordinance (Cap. 41))

#### 1. Commencement

These Rules ~~comes~~come into operation on the day on which section 8~~A~~ of the Insurance (Amendment) Ordinance 2020 (17 of 2020) comes into operation.

#### 2. Interpretation

In these ~~rules~~Rules—

*authorized financial institution* (認可財務機構) means an authorized institution as defined ~~in~~by section 2(1) of the Banking Ordinance (Cap. 155);

*bank* (銀行) means any institution carrying on business similar to—

- (a) the banking business within the meaning of the Banking Ordinance (Cap. ~~155~~) as carried on by an authorized financial institution; or
- (b) the business of taking deposits within the meaning of the Banking Ordinance (Cap. 155) as carried on by an authorized financial institution;

~~corporation~~ (法團) ~~means a corporation as defined in section 1 of schedule 1 of the Securities and Futures Ordinance (Cap. 571);~~

*collective investment scheme* (集體投資計劃) means a collective investment scheme as defined by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

corporation (法團) has the meaning given by section 1 of ~~schedule~~Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

*eligible ILS investor* (合資格保險相連證券投資者) has the meaning assigned to it ~~in~~by rule 3;

*insurance-linked securities* (保險相連證券) has the meaning ~~assigned to it in~~given by section 129A of the Ordinance;

~~public~~ (公眾、大眾) ~~means the public of Hong Kong, and includes any class of that public.~~

*recognized clearing house* (認可結算所) has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

*recognized exchange company* (認可交易所) has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

*recognized exchange controller* (認可控制人) ~~and~~ has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

*recognized investor compensation company* (認可投資者賠償公司) ~~have~~has the ~~same meanings~~meaning given ~~to them in~~by section 1 of ~~schedule~~Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571).

### 3. Restrictions on sale of insurance-linked securities

- (1) A person must not enter into, or offer to enter into, an agreement with another person, or invite or induce, or attempt to invite or induce, another person to enter into an agreement, for that other person to acquire, subscribe ~~for~~ or underwrite insurance-linked securities, or to dispose of insurance-linked securities to that other person, unless—
- (d) that other person is an eligible ILS investor;
  - (e) that other person is not a person mentioned ~~sub-rule~~in subrule (2); and
  - (f) the consideration for which the insurance-linked securities are to be acquired, subscribed ~~for~~, underwritten, or disposed -of under the agreement is not less than ~~one million United States dollars (US\$1,250,000,000)~~ or the equivalent of such amount in other currencies.
- (2) A person referred to in ~~sub-rule~~subrule (1)(b) ~~of this rule 3,~~ is—
- (d) ~~Any~~any collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Cap. 571), or any person in that person's capacity as an operator in relation to any such authorized collective investment scheme;
  - (e) any registered scheme ~~as defined in section 2(1) of the Mandatory Provident Fund Schemes Ordinance (Cap. 485),~~ or its constituent fund as defined ~~in~~by section 2(1) of the Mandatory Provident Fund Schemes ~~(General) Regulation Ordinance (Cap. 485 sub. leg. A),~~ or any scheme which is an approved pooled investment fund as defined ~~in~~by section 6 of the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485 sub. leg. A), or any person ~~who, in relation to any such registered scheme, is~~in that person's capacity as an approved trustee or service provider in relation to any such registered scheme as defined ~~in~~by section 2(1) of that Ordinance; ~~and~~or
  - (f) any scheme which— is a registered scheme as defined by section 2(1) of the Occupational Retirement Schemes Ordinance (Cap. 426), or any person in that person's capacity as an administrator as defined by section 2(1) of that Ordinance in relation to any such registered scheme
    - ~~(i) is a registered scheme as defined in section 2(1) of the Occupational Retirement Schemes Ordinance (Cap. 426); or~~
    - ~~(ii) is an offshore scheme as defined in section 2(1) of that Ordinance,~~or any person who, in relation to any such scheme, is an administrator as defined in section 2(1) of that Ordinance.
- (3) A person who contravenes ~~sub-rule~~subrule (1) commits an offence and is liable—
- ~~(a) on conviction on indictment to a fine of \$200,000 and to imprisonment for 2 years; or~~
  - (c) on summary conviction to a fine at level 6 and, in the case of an individual, also to imprisonment for 6 months; ~~or~~
  - (d) on conviction on indictment to a fine of \$200,000 and, in the case of an individual, also to imprisonment for 2 years.
- (4) In this rule—

**eligible ILS investor** (合資格保險相連證券投資者) means—

- (h) any recognized exchange company, recognized clearing house, recognized exchange controller or recognized investor compensation company, or any corporation authorized to provide automated trading services under section 95(2) of the Securities and Futures Ordinance (Cap. 571);
- (i) any licensed corporation or registered institution as defined under the Securities and Futures Ordinance (Cap. 571), or any other corporation carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong;
- (j) any authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong;
- (k) any insurer authorized under ~~this~~the Ordinance, or any other person carrying on insurance business and regulated under the law of any place outside Hong Kong;
- (l) any scheme which—
  - (i) is a collective investment scheme that is not the subject of any advertisement, invitation or document that is or contains an invitation to the public to do any act referred to in section 103(1)(b) of the Securities and Futures Ordinance (Cap. 571) and is not authorized, and not required to be authorized, under section 105(1) of ~~the Securities and Futures~~that Ordinance ~~(Cap. 571)~~; or
  - (ii) is similarly constituted under the law of any place outside Hong Kong and, if it is regulated under the law of such place, is permitted to be operated under the law of such place,  
or any person by whom any such scheme is operated;
- (m) any government (other than a municipal government authority), any institution which performs the functions of a central bank, or any multilateral agency; or
- (n) any corporation which is—
  - (i) a wholly owned subsidiary of—
    - (A) a licensed corporation or registered institution as defined under the Securities and Futures Ordinance (Cap. 571), or other corporation carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or
    - (B) an authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong;
  - (ii) a holding company which holds all the issued share capital of—
    - (A) a licensed corporation or registered institution as defined under the Securities and Futures Ordinance (Cap. 571), or other corporation carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or

- (B) an authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong; or
- (iii) any other wholly owned subsidiary of a holding company referred to in subparagraph (ii).

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