LLINKS Law Offices
通力律师事务所

Implications of New Mainland Rules on Retail Fund Distribution Fees for Northbound MRF Funds

By Sandra Lu | Lily Luo | Elaine Wang

On 31 December 2025, the China Securities Regulatory Commission ("**CSRC**") released the *Provisions on the Administration of Distribution Fees for Publicly Offered Securities Investment Funds* ("**Distribution Fee Rules**"), revising the *Provisions on the Administration of Distribution Fees for Open-ended Securities Investment Funds*. The revision is intended to further standardize the administration of various distribution fees applicable to Mainland retail funds. Pursuant to the *Provisions on the Administration of Recognised Hong Kong Funds* ("**MRF Regulation**"), matters such as subscription, redemption and fee arrangements of Northbound MRF funds shall be governed by the requirements of the Hong Kong Securities and Futures Commission ("**SFC**") and the terms stipulated in the fund's legal documents, while the distribution of Northbound MRF funds in the Chinese Mainland shall also comply with the relevant Mainland laws and regulations governing the distribution of Mainland retail funds. Therefore, the overarching application principle of the Distribution Fee Rules to Northbound MRF funds is to regulate the distribution activities conducted in the Mainland, particularly with respect to the administration of trailer fees and fee disclosure requirements. The specific fee levels prescribed in the Distribution Fee Rules for Mainland-domiciled retail funds do not apply directly to Northbound MRF funds.

Based on this principle, certain requirements under the Distribution Fee Rules will have an impact on the practice of distributing Northbound MRF funds in the Mainland. The following sections analyze these potential impacts and provide recommendations in light of the key provisions of the new rules.

I. Trailer Fees

Trailer fees (client maintenance fee) are payments, agreed upon between the Hong Kong managers and the fund distributors, to the distributors to cover costs associated with fund distribution and client servicing activities. As such, trailer fees are subject to the *Measures for Supervision and Administration of Fund Distributors of Publicly Offered Securities Investment Funds* and its supporting rules (collectively, the "**Distribution Measures**") as well as the relevant requirements of the Distribution Fee Rules. The new Distribution Fee Rules retain but further refine the trailer fee cap regime established under the Distribution Measures. Compared with the earlier rules, Article 12 of the Distribution Fee Rules differentiates among fund types and explicitly reduces the maximum ratio of trailer fees from 30% to 15% of the management fee (representing a 50% reduction) for the distribution of funds other than equity and mixed funds to non-individual investors. The detailed caps are as follows:

- For holdings attributable to sales to individual investors, trailer fee shall not exceed 50% of the management fee.

- For holdings attributable to sales to non-individual investors,

  - Equity and mixed funds: trailer fee shall not exceed 30% of the management fee;

  - Other fund types: trailer fee shall not exceed 15% of the management fee.

In addition, Article 18 of the Distribution Fee Rules requires that where a fund distributor concurrently provides fund investment advisory services to investors, it is prohibited from receiving trailer fees for holdings generated through its advisory services, in order to prevent conflicts of interest.

II. Requirements for Fund Distribution Fees

The Distribution Fee Rules further strengthen the regulation of fund distribution fees, the key impacts of which on Northbound MRF funds are set out below:

1. Fee Disclosure in Marketing Materials

   The specific standards of subscription and redemption fees shall be fully disclosed to investors in the fund marketing materials.

2. Information Disclosure by Fund Distributors

   Fund distributors shall prominently display the following information at distribution venues in a clear and easily understandable manner:

   (1) Types and applicable rates of fund distribution fees;

   (2) The aggregate expense level applicable to different share classes and holding periods in respect of investor holdings of the same fund;

   (3) Trailer fee levels;

   (4) Other information as required by the CSRC.

3. Optimization of Fund Documents

   Pursuant to Article 22 of the Distribution Fee Rules, relevant fee information shall be stated in fund prospectuses, product key facts statements and other documents. At present, the prospectuses and key facts statements of Northbound MRF funds have disclosed the fee structure in accordance with the *Guidelines on Application Documents for Registration of Recognised Hong Kong Funds*. Going forward, it will be necessary to monitor for more detailed fee disclosure requirements from Mainland regulators, for instance, how to disclose the fund's aggregate expense level to investors in a simple and clear format with illustrative examples.

   As for the annual and interim reports of Northbound MRF funds, such periodic reports are translated from the original Hong Kong versions, and pursuant to Article 7 of the MRF Regulation, their content and format are governed by the SFC requirements and the fund's legal documents. Consequently, additional disclosures under Article 23 of the Distribution Fee Rules are not required.

In addition, Article 15 of the Distribution Fee Rules explicitly prohibits applying differential fee rates through arrangements such as the creation of exclusive share classes for particular distributors which would result in unfair treatment of different investors in the same fund. Currently, the share-class differentiation of Northbound MRF funds is mainly based on currency, hedging arrangements, and distribution policy rather than fee levels. Therefore, this provision has limited impact on the existing business of Northbound MRF funds. Article 16 of the Distribution Fee Rules further prohibits setting exclusive fund products for particular distributors, and implementing discriminatory, exclusionary or bundled distribution arrangements. Based on our current market observation, the distribution channel structure for Northbound MRF funds does not show a significant trend towards single-distributor models. Nonetheless, we suggest that Hong Kong managers continue to monitor this aspect in their future collaborations with Mainland distributors to avoid commercial arrangements that could potentially contravene these prohibitions and to ensure regulatory compliance.

III. Transition Arrangements

The Distribution Fee Rules have taken effect on 1 January 2026, with a 12-month transition period for relevant institutions to make necessary adjustments. For Hong Kong fund managers and Mainland agents, key follow-up actions include:

1. Revising fee clauses in the existing distribution agreements that do not comply with the new trailer fee caps during the transition period;

2. Ensuring that newly executed fund distribution agreements meet the trailer fee cap requirements under the Distribution Fee Rules;

3. Optimizing fund prospectuses, key facts statements;

4. Requiring fund distributors to complete necessary adjustments during the transition period to ensure compliance with the distribution fee disclosure requirements;

5. Supplementing the marketing materials with the required fund distribution fee information.

Overall, under the current legal and regulatory framework governing Northbound MRF funds, the major impacts of the Distribution Fee Rules lie in the new trailer fee caps and enhanced disclosure requirements for distribution fees. It warrants continuous monitoring of regulatory developments to see whether other provisions of the Distribution Fee Rules, such as those concerning subscription and redemption fees, will be further extended to Northbound MRF funds in the future.

If you would like to know more information about the subjects covered in this publication, please contact:

Sandra Lu
+86 21 3135 8776
Sandra.lu@llinkslaw.com

Lily Luo
+86 21 3135 8732
lily.luo@llinkslaw.com

Elaine Wang
+86 21 3135 8752
elaine.wang@llinkslaw.com

SHANGHAI

19F, ONE LUJIAZUI
68 Yin Cheng Road Middle
Shanghai 200120 P.R.China
T: +86 21 3135 8666
F: +86 21 3135 8600

BEIJING

30F, Central Tower, China Overseas Plaza, 8 Guanghuadongli,
Chaoyang District
Beijing 100020 P.R.China
T: +86 10 5081 3888
F: +86 10 5081 3866

SHENZHEN

18F, China Resources Tower
2666 Keyuan South Road,
Nanshan District
Shenzhen 518063 P.R.China
T: +86 755 3391 7666
F: +86 755 3391 7668

HONG KONG

Room 3201, 32/F, Alexandra House
18 Chater Road
Central, Hong Kong
T: +852 2592 1978
F: +852 2868 0883

LONDON

1/F, 3 More London Riverside
London SE1 2RE
United Kingdom
T: +44 (0)20 3283 4337
D: +44 (0)20 3283 4323

www.llinkslaw.com

Wechat: LlinksLaw

WE LINK LOCAL LEGAL INTELLIGENCE WITH THE WORLD