

22 December 2023

Circular to management companies of SFC-authorized unit trusts and mutual funds

Updated guidance on streamlined measures for SFC-authorized funds

1. The Securities and Futures Commission (SFC) regularly reviews its operational processes and guidance to ensure their efficiency and fitness for purpose without compromising investor interests and protection.
2. Following a recent review and engagement with market participants, the SFC has updated its guidance (Updated Guidance) to set out and clarify a number of streamlined measures to enhance the operational efficiency and approval processes of SFC-authorized funds in implementing changes and fulfilling the disclosure and reporting requirements for such funds.
3. The Updated Guidance covers the following key streamlined measures:
 - (i) **Appointment of investment delegates** – Classification of an application to appoint new investment delegate(s) by a new fund seeking the SFC’s authorisation as a “standard application” or an existing SFC-authorized fund as a “simple application”, which will be processed by the SFC within a shorter targeted approval time; removal of the SFC’s prior approval requirement for a fund’s appointment of an investment delegate which is managing other SFC-authorized funds.
 - (ii) **UCITS¹ funds** – Removal of the reporting requirement for the pricing errors of UCITS funds which have no Hong Kong investors during the affected period; the adoption of a streamlined reporting requirement for breaches by UCITS funds that are under their home regulator’s supervision, subject to fund managers filing a standard form with the SFC.
 - (iii) **Post-authorisation notifications** – Streamlining of the notification requirements for post-authorisation matters, including informing investors of the suspension of a fund’s dealings on the fund’s website, a shorter prior notice to investors regarding changes where written consents from all affected investors have been obtained, and dispensation with the need for a separate notice to inform investors of the fund’s annual report publication where the fund’s offering documents contain relevant disclosures.
 - (iv) **Derivative investments** – Dispensation with the SFC’s prior approval for a reduction in a fund’s derivative investments; provision of further guidance in the SFC’s *Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds* on the calculation of funds’ net derivative exposure.

¹ Undertakings for the Collective Investment in Transferable Securities.

- (v) **Disclosure guidance** – Clarification that the disclosure guidance set out in the *Guide on Practices and Procedures for Application for Authorization of Units Trusts and Mutual Funds* is non-mandatory and for reference only, with an aim to facilitate the preparation of funds' offering documents.
4. The streamlined measures set out in the Updated Guidance will take immediate effect.
 5. Should you wish to clarify any aspects of this circular, please contact the relevant case officers in charge.

Investment Products Division
Securities and Futures Commission

End

Annex

Updated Guidance (as published on the SFC website)

1. Investment delegates:
 - FAQs on Post Authorization Compliance²: Question 11A – updated;
 - FAQs on Application Procedures³: Question 5A – updated; and
 - FAQs on Revamped Post Authorization Process⁴: Question 3A – updated.
2. Pricing errors and breaches of UCITS funds:
 - FAQs on Post Authorization Compliance:
 - Questions 1, 4 and 4A – updated;
 - Questions 4B – 4G – newly added;
 - On-Going Compliance Form for Reporting Pricing Errors of UCITS schemes – updated and renamed as On-Going Compliance Form for Filing of Pricing Errors;
 - On-Going Compliance Form for Filing of Material Breach(es) – newly added; and
 - On-Going Compliance Form for Reporting of Material Breach(es) – newly added.
3. Notification requirements for certain post-authorisation changes / matters:
 - FAQs on Post Authorization Compliance:
 - Questions 3A1 and 27 – updated; and
 - Question 16E – newly added.
4. Use of financial derivative instruments:
 - FAQs on Post Authorization Compliance: Question 5 – updated; and
 - Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds: Annex 2 Paragraph 2(a) – updated.
5. Disclosure guidance:
 - FAQs on Post Authorization Compliance: Questions 19 and 20 – updated;
 - FAQs on Mainland-HK MRF⁵: Question 3 under Section C and Appendix A – updated; and
 - Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds – updated.

² "FAQs on Post Authorization Compliance" refers to Section 2 of Frequently Asked Questions on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds.

³ "FAQs on Application Procedures" refers to Frequently Asked Questions on Application Procedures for Authorization of Unit Trusts and Mutual Funds under the Revamped Process.

⁴ "FAQs on Revamped Post Authorization Process" refers to Frequently Asked Questions on Revamped Post Authorization Process of SFC-authorized Unit Trusts and Mutual Funds.

⁵ "FAQs on Mainland-HK MRF" refers to Frequently Asked Questions on Mutual Recognition of Funds: Mainland-Hong Kong.