

Revised on 16 May 2024

## **Circular on streamlined requirements for eligible exchange-traded funds adopting a master-feeder structure**

### **Background**

1. Currently, an exchange-traded fund (ETF) adopting a master-feeder structure is permitted under the Code on Unit Trusts and Mutual Funds (UT Code) provided that both the feeder ETF and the master ETF are authorised by the Securities and Futures Commission (SFC).
2. Recently, the SFC has received a number of requests to allow more flexibility in the master-feeder ETF structure so that an SFC-authorized feeder ETF may invest its assets in an overseas-listed master ETF without SFC authorisation. In particular, some product issuers have expressed strong interest in bringing overseas actively managed ETFs to Hong Kong through the streamlined route, as demand for these ETFs has been growing significantly globally. This arrangement would facilitate the development of ETF product line-up more cost-effectively, offering more investment choices to investors.
3. In response to the requests received, the SFC has prepared the following requirements under which it would consider authorising such feeder ETF.

### **General principles**

4. Balancing the needs for investor protection and the potential benefits of making available a broader range of ETFs from different markets to Hong Kong investors, the SFC is prepared to consider authorising a feeder ETF that invests in an overseas-listed passively or actively managed master ETF without SFC authorisation on a case-by-case basis, having regard to the following principles:
  - a) satisfactory safeguards and measures are in place to address investor protection concerns; and
  - b) there are demonstrable benefits to the Hong Kong market, taking into account factors such as the size and significance of the master ETF, its track record, and whether its underlying assets, investment strategy and underlying index (if applicable) are acceptable to the SFC.

### **Requirements**

#### **Master ETF**

5. The master ETF should, at a minimum, meet the following key requirements:
  - a) the master ETF must be a scheme with satisfactory safeguards and measures in place to provide substantially comparable investor protection as an ETF

- authorised under the UT Code, taking into account its underlying assets, investment strategy, applicable rules and regulations in home jurisdiction<sup>1</sup>;
- b) the master ETF, together with its management company and trustee/custodian, must have a good compliance record with the rules and regulations of its home jurisdiction and (in the case of master ETF) the listing venue; and
  - c) the master ETF must have sizeable assets under management with a good track record.

### Feeder ETF

6. Feeder ETF seeking SFC authorisation for public offering in Hong Kong should comply with the applicable requirements in the Overarching Principles Section and the UT Code in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products and all other applicable regulatory requirements and guidelines as may be issued by the SFC from time to time.
7. In addition, the feeder ETF should meet the following requirements:
  - a) the feeder ETF must be a Hong Kong-domiciled ETF authorised by the SFC;
  - b) the feeder ETF must be managed by a management company which is licensed or registered for Type 9 regulated activity and has a good compliance record;
  - c) the management company of the feeder ETF should report to the SFC as soon as practicable if the master ETF ceases to comply with the requirements set out in this circular and take appropriate remedial action to promptly rectify the situation; and
  - d) the management company of the feeder ETF should put in place appropriate arrangements to inform Hong Kong investors of any material changes to, or events that have significant adverse impact on, the master ETF in a timely manner.
8. The SFC may consider introducing additional requirements or conditions as deemed necessary or appropriate in the discharge of its functions.

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<sup>1</sup> Apart from eligible schemes under a mutual recognition of funds arrangement (MRF) and recognised jurisdiction schemes (RJS), the SFC may consider authorisation of feeder ETFs with respect to the following schemes as master ETFs pursuant to this circular on a case-by-case basis: (i) actively managed ETFs; (ii) schemes that are not RJS or not managed by a management company in an acceptable inspection regime (AIR); and (iii) schemes that are not eligible under a MRF.



## **Application**

9. If you wish to seek clarification of any aspects of this circular or apply for authorisation of feeder ETFs under this circular, please contact the relevant team supervisor, case officer or any executive staff of the Investment Products Division.

**Investment Products Division  
Securities and Futures Commission**