SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

Circular

Revised on 5 June 2026

Circular on listed structured funds

1. This circular supplements the structured fund related requirements in 8.8 of the Code on Unit Trusts and Mutual Funds (UT Code). It sets out the additional requirements under which the Securities and Futures Commission (SFC) would consider authorising listed structured funds for public offerings in Hong Kong under sections 104 and 105 of the Securities and Futures Ordinance (SFO), particularly for specific types of listed structured funds, notably L&I Products and Defined Outcome Listed Structured Funds (as defined below).

2. It incorporates and supersedes the SFC's Circular on Leveraged and Inverse Products and the related supplemental circular both dated 22 May 2020.

Background

3. Listed structured funds are collective investment schemes (CIS) listed on a stock exchange which are complex investment products typically embedded with derivatives and leverage, or offer defined outcomes, protection or structured payouts when certain pre-determined conditions are met. Currently, listed structured funds authorised by the SFC in Hong Kong include leveraged and inverse products (L&I Products) that track broad-based equity indices or commodities indices, as well as those that aim to deliver a daily return equivalent to a multiple of a single stock's price return (Single Stock L&I Products).

4. In overseas markets, other types of listed structured funds have emerged and become increasingly popular, such as those using options-based strategies to obtain long exposure to an underlying asset (such as an equity index) with capped upside potential in exchange for downside protection[1] (Defined Outcome Listed Structured Funds).

5. In Hong Kong, the demand for these products is also growing. To meet such demand and facilitate market development, the SFC is prepared to consider the authorisation of these listed structured funds under the framework set out in this circular. The framework comprises general requirements for listed structured funds and additional safeguards applicable to specific types of listed structured funds.

6. The SFC may consider introducing additional requirements applicable to specific types of listed structured funds as necessary.

General requirements

7. Listed structured funds seeking SFC authorisation for public offering in Hong Kong must meet the applicable requirements in the Overarching Principles Section (Overarching Principles Section) and UT Code in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products (SFC Handbook), in particular the applicable requirements related to exchange-traded funds (ETFs) in 8.6 of the UT Code given their exchange-traded nature.

[1] Generally known as defined outcome ETFs in the United States.

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8. In view of their novelty and technical complexity, listed structured funds should also meet the additional requirements set out in this circular (including those set out in the **Appendix**) to protect the interests of the investing public and maintain the integrity of the Hong Kong market.

Product naming

9. Listed structured funds should be named or identified differently to differentiate them from conventional ETFs and other listed CIS products, and to reflect their product features.

Product structure

10. Listed structured funds may extensively invest in and use financial derivative instruments to achieve their investment objectives or outcomes, including the adoption of futures-based or swap-based replication structures or options-based investment strategies.

11. Where appropriate, the SFC will make reference to Chapter 15A of the Listing Rules in considering the eligibility of underlying assets for listed structured funds (eg, market capitalisation threshold) and make necessary adjustments to reflect the features of a particular type of listed structured funds.

Offering documents disclosure

12. In addition to the requirements under 8.6, 8.8, and Appendix C of the UT Code, the offering documents of listed structured funds shall contain upfront disclosure of their key risks and features in the product key facts statement (Product KFS), so that investors will be aware of the different risk-return profile of listed structured funds from conventional ETFs and other listed CIS products. For example:

    (a) the time horizon of the investment objective if the products are not intended for buy-and-hold or if there is a periodic reset to the products' risk-return profile associated with options-based strategies;

    (b) the return of a futures-based investment strategy may not correlate with the spot price return of the futures' reference asset;

    (c) heightened product volatility risk, where applicable; and

    (d) potential escalation of costs that are associated with derivatives and are internalised by the products, such as roll costs[2].

13. For listed structured funds using swap-based synthetic replication structures, we expect clear disclosure of the costs of entering into the swap with the counterparty in the Product KFS. These should include all costs which are not captured by the ongoing charges figure under the circular to management companies of SFC-authorised Funds on "Disclosure of the ongoing charges figure and past performance information in the

[2] Roll costs are costs incurred when replacing near-term futures contracts with long-dated ones (also known as rolling).

Product Key Facts Statements", as amended from time to time. We also expect clear disclosure of the maximum redemption fee.

Market making arrangements

14. The provider of a listed structured fund shall ensure that there is at least one market maker for the listed structured fund when its trading commences and on an ongoing basis.

Performance simulator

15. The provider of a listed structured fund (excluding a delta-one product whose price movements are expected to mirror those of its underlying assets on a one-to-one basis) is generally required to make available a "performance simulator", which allows investors to select a historical time period and simulate the performance of the fund during that period based on historical data. To demonstrate the fund's performance under different market conditions, we expect that:

    (a) The historical period available in the performance simulator should cover the period since the launch of the fund.

    (b) The interface of the performance simulator should be user-friendly, highly intelligible and easy to navigate, using diagrams and tables where appropriate.

    (c) The website of the fund should include narratives to help investors understand the results of the "performance simulator" and set out the key assumptions, parameters and formulae used in the calculation.

Investor education

16. Providers of listed structured funds are expected to conduct extensive investor education before launching the funds in Hong Kong.

Distribution

17. As listed structured funds are derivative products, intermediaries are subject to the applicable requirements under the Code of Conduct[3], particularly paragraphs 5.1A to 5.3 which are relevant to providing services to clients with respect to derivative products.

18. Intermediaries should also put in place appropriate measures, such as staff training, to ensure that their staff are familiar with the risks and features of the investment products and comply with the applicable requirements when serving their clients. For details, please refer to the SFC's circular on "Code of Conduct Requirements with respect to Derivative Products" dated 31 August 2010.

19. Intermediaries are also reminded to act in the best interests of their customers when conducting their business activities. They need to be aware that gearing to invest in a product compounds the underlying risk.

[3] Code of Conduct for Persons Licensed by or Registered with the SFC.

Application

20. If you wish to seek clarification of any aspects of this circular, please contact the team supervisor or case officer of the Investment Products Division (IPD) who is responsible for overseeing the SFC-authorised funds of your fund group or client.

21. You are also encouraged to consult the responsible IPD case team early on listed structured fund proposals, particularly those that offer structured payouts or certain defined outcome or protection.

Investment Products Division
Securities and Futures Commission

Appendix

Additional requirements for Leveraged and Inverse Products

1. This appendix sets out the additional requirements under which the SFC would consider authorising leveraged and inverse products, referred to as "Leveraged Products" and "Inverse Products" respectively, and "L&I Products" collectively[4].

2. These requirements are carried forward from the previous Circular on Leveraged and Inverse Products and the related supplemental circular both dated 20 May 2020, and have been extended to cover Single Stock L&I Products, which are a sub-set of L&I Products that reference a single stock.

Requirements

Product structure

3. Given their technical complexities, the SFC will only accept applications for:

   (a) L&I Products referencing (i) liquid and broad-based equity indices, (ii) on a case-by-case basis, non-equity indices, including commodities indices where roll costs do not have potentially outsized impact on the performance of the products[2];

   (b) Swap-based L&I Products referencing Mainland equity indices, where we will keep in view the eligible replication structure of L&I Products from time to time; and

   (c) Single Stock L&I Products referencing a highly liquid mega-cap stock listed on a major exchange[5].

   Amended

   In considering the applications of L&I Products, we will generally assess (i) the liquidity of underlying assets, (ii) costs internalised by the products, and (iii) fairness of product design, among other factors.

4. L&I Products, including Single Stock L&I Products, should be subject to a maximum leverage factor of 2x to -2x in general, except that:

   (a) Inverse Products referencing Mainland equity indices should be subject to a maximum leverage factor of one time (-1x); and

   (b) subject to an underlying stock's volatility, only a lower leverage factor may be allowed for Single Stock L&I Products.

[4] Leveraged Products typically aim to deliver a daily return equivalent to a multiple of the underlying asset return that they track. Inverse Products typically aim to deliver the opposite of the daily return of the underlying asset that they track. To produce the specified leveraged or inverse return, these products have to rebalance their portfolios, typically on a daily basis.
[5] This, however, excludes shares of companies which may be dually listed in Hong Kong and the Mainland, as well as shares listed on any Mainland exchange.

Product naming

5. In view of the day trading nature of L&I Products as opposed to the investment nature of conventional ETFs, SFC-authorised L&I Products should not be named "ETFs". Instead, these products must be named "Leveraged Product" or "Inverse Product", as the case may be. In addition, the product name should always include the leverage or inverse factor and the word "daily" to emphasise their daily rebalancing feature. To illustrate:

   (a) a two-time Leveraged Product should be called "[Issuer] [Index / Stock Name] Daily (2x) Leveraged Product"[6]; and

   (b) a one-time Inverse Product should be called "[Issuer] [Index / Stock Name] Daily (-1x) Inverse Product"[7].

6. In addition, L&I Products will be put under a standalone product category on the websites of the SFC and Hong Kong Exchanges and Clearing Limited (HKEX). They will have their own distinctive stock short names that begin with an "L" for Leveraged Products and an "I" for Inverse Products. Distinct stock code ranges will also be designated for L&I Products.

7. Further details regarding the stock short name and stock code arrangements can be found on the HKEX webpage[8].

Offering documents disclosure

8. The offering documents of L&I Products shall contain upfront disclosure of the following in the Product KFS to alert investors that L&I Products do not share the buy-and-hold characteristics of conventional ETFs:

   (a) a warning against holding L&I Products for longer than the rebalancing interval, typically one day;

   (b) L&I Products are designed as a trading tool for short-term market timing or hedging purposes and not for long-term investment;

   (c) L&I Products are only suitable for sophisticated trading-oriented investors who constantly monitor the performance of their holdings on a daily basis; and

   (d) the performance of L&I Products, when held overnight, may deviate from the underlying indices or assets.

Market making arrangements

9. To enable an L&I Product to meet its investment objectives as a short-term trading tool, it is important that investors are able to enter and exit their investments. As such, the

[6] The Chinese name of the Leveraged Product is expected to be [發行人][指數 / 公司]每日槓桿(2x)產品.
[7] The Chinese name of the Inverse Product is expected to be [發行人][指數 / 公司]每日反向(-1x)產品.
[8] Please refer to HKEX website at https://www.hkex.com.hk/products/securities/exchange-traded-products/overview.

presence of market makers as well as their performance is particularly important for L&I Products. In view of this,

(a) we require an L&I Product to be terminated in the event of resignations of all market makers. The termination should take place at about the same time as the resignation of the last market maker becomes effective. The L&I Product provider and market maker should provide for a sufficiently long resignation notice period to allow for an orderly unwinding and termination of the product. In addition, advance notices of termination must be issued to investors pursuant to 11.5 of the UT Code; and

(b) the performance of market makers will be monitored by HKEX on an ongoing basis. Those failing to meet the performance requirements set by HKEX may have their market maker permits revoked and/or be banned from applying for market maker permits for other L&I Products for a period of time. Please refer to the HKEX website for details of the relevant HKEX requirements.

Margin financing

10. Please see the HKEX circular to exchange participants advising them not to provide margin financing to investors for trading of L&I Products[9].

Capacity monitoring and enhancement

Added

11. L&I Products providers should continuously monitor their products' capacities[10] and make timely enhancements to maintain a reasonable capacity buffer committed by brokers and derivatives counterparties to mitigate disruption to product operation. For example, the product providers should:

(a) closely monitor the market movements of the underlying assets to assess any adverse impact on the products' capacities;

(b) maintain close communication with existing brokers and derivatives counterparties to keep abreast of evolving market conditions and their implications on the products' capacities;

(c) engage with existing brokers and derivatives counterparties, and/or onboard additional ones to increase the products' capacities, where appropriate; and

(d) diversify the means of obtaining the leveraged and inverse exposure, with due considerations given to the associated cost implications (eg, by enabling the use of options and/or margin positions).

12. L&I Products providers should notify the SFC as soon as practicable of any potential adverse issues relating to their products' capacities, including where the remaining available capacity has reached a low level that may constrain the products' daily

[9] Available via http://www.hkex.com.hk/eng/market/partcir/sehk/2016/Documents/MKDCMS00116E.pdf.
[10] L&I Products' capacities refer to the size of the underlying leveraged or inverse exposure that a product can support, taking into account factors such as swap exposures committed by counterparties, position limits applicable to futures and options, daily rebalancing liquidity needs and the availability of alternative means to achieve the intended exposure.

Added

rebalancing activities and creation, together with an assessment of the associated operational risks and corresponding mitigation measures.

Additional safeguards for Single Stock L&I Products

13. Given the additional price volatility and operational complexity associated with Single Stock L&I Products, we will require the following additional safeguards on these products.

Acceptability of product provider

Added

14. In addition to the requirements as set out in 5.5 of the UT Code, the acceptability of Single Stock L&I Products providers will also be assessed holistically, considering the following factors:

(a) whether the product provider has sufficient prior experience in managing L&I Products with a proven track record;

(b) whether the product provider belongs to a reputable and sizeable fund management group, such that it can leverage the group's relevant experience and resources; and

(c) whether the product provider can demonstrate diversified counterparty arrangements and sufficient initial product capacity during the application process (eg, by submitting indicative term sheets from swap counterparties evidencing the aggregate notional amount of swap exposure available).

Business continuity plan (BCP)

Added

15. In addition to the contingency plans regarding credit events of the derivatives issuer as set out in 8.8(f) of the UT Code, Single Stock L&I Products providers should establish a robust BCP acceptable to the SFC for addressing the heightened operational risk and price volatility of the products. The plan should cover:

(a) the guiding principles underpinning the course of actions to be taken;

(b) clearly defined triggers (eg, based on a product's remaining capacity or price deviation from a product's net asset value (NAV)) for reporting to the SFC and activating different contingency measures;

(c) details of different contingency measures (eg, deleveraging and suspension of creation);

(d) details of defensive measures to address extreme price volatility of the products (see paragraph 16 below); and

(e) notifications to investors and arrangements for handling complaints and enquiries when contingency measures are activated.

Defensive measures

Added

16. To address extreme price volatility risk, Single Stock L&I Products providers should put in place appropriate defensive measures (eg, a stop-loss mechanism pre-agreed with swap counterparties) and provide corresponding disclosures in the offering documents to enable investors to better understand and assess the potential implications for their investments.

Trading suspension

Added

17. To ensure orderly trading in the Hong Kong market, Single Stock L&I Products referencing Hong Kong-listed shares must be halted or suspended from trading, where their underlying shares are halted or suspended from trading.

18. For Single Stock L&I Products referencing non-Hong Kong-listed shares, where their underlying shares are halted or suspended from trading, the L&I Products providers should assess whether it is appropriate to request HKEX to halt or suspend the trading of the relevant products. In making such assessment, the product providers should have regard to the best interests of investors and consider factors such as the expected duration of the underlying shares' trading halt or suspension, ability of swap counterparties to provide the investment exposure, as well as liquidity implications for and orderly trading of the products.[11]

Application

Added

19. For L&I Products domiciled outside Hong Kong, the SFC will assess applications on a case-by-case basis. Such products may be subject to modified requirements, with a view to providing investors with safeguards comparable to those applicable to Hong Kong-domiciled products.

[11] Please refer to *Guidance to the ETF Industry (SFC, HKEX)* for more details, available at https://www.sfc.hk/en/faqs/Publicly-offered-investment-products/Guidance-to-the-ETF-Industry.