

Consultation Conclusions on Proposed Amendments to the Code on Unit Trusts and Mutual Funds

7 October 2026

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Executive summary

1. The Securities and Futures Commission (SFC) issued a Consultation Paper on Proposed Amendments to the Code on Unit Trusts and Mutual Funds (UT Code) on 22 October 2025. The proposals in the consultation aimed to ensure that the regulatory regime for SFC-authorised funds remains aligned with international regulatory standards and appropriately addresses the opportunities and risks presented by product innovation and market development.
2. The consultation ended on 21 January 2026. The SFC received 16 written submissions from a broad range of industry participants, including asset managers, industry associations, professional firms and one individual. A list of respondents is set out in **Appendix F**.
3. Respondents generally supported the proposals and considered that the amendments would enhance the competitiveness and attractiveness of Hong Kong's retail fund regime. The key comments focused on the proposed amendments relating to financial derivative instruments, liquidity risk management, money market funds (MMFs), and various implementation and operational matters.
4. The SFC has engaged with relevant industry stakeholders to better understand their comments, discuss implementation issues, and consider possible refinements to the proposals.
5. Having carefully considered the comments received, the SFC will adopt the proposals with appropriate modifications or clarifications. In particular:
 - (a) **Financial derivative instruments:** We will introduce the Value-at-Risk (VaR) approach alongside the existing net derivative exposure (NDE) approach under the Hong Kong retail fund regime. Funds complying with the applicable NDE or VaR limits will generally be classified as non-complex products, while the SFC will retain the discretion to designate certain products as complex, having regard to their features and risks. Additional guidance relating to the VaR framework and complex product classification will be provided.
 - (b) **Liquidity risk management:** We will align the UT Code with updated international standards on liquidity risk management. Funds investing mainly in less liquid assets and offering daily dealing will be required to implement and use appropriate anti-dilution liquidity management tools (ADTs). Additional guidance will be issued regarding liquidity assessment, calibration of ADTs and investor disclosures.
 - (c) **Retail access to private market assets:** While respondents broadly supported facilitating greater retail access to private market assets, we consider it important to preserve the core characteristics of Hong Kong's mainstream retail fund regime for a non-complex fund. Existing requirements regarding diversification, liquidity and redemption rights will continue to apply. We will consider, on a case-by-case basis, whether a non-complex fund may exceed the 15% limit on direct investment in illiquid assets (including private market assets), taking into account investor protection, liquidity management and valuation.
 - (d) **Money market funds:** To strengthen investor protection and liquidity resilience, all SFC-authorised MMFs will be required to maintain at least one ADT. We will

also refine the requirements relating to eligible money market instruments and deposits, issue guidance on minimum credit quality standards, and introduce enhanced safeguards for MMFs offering constant net asset value (CNAV MMFs), including stricter liquidity and investment requirements.

- (e) **Miscellaneous amendments:** We will proceed with the proposals relating to key personnel requirements, feeder fund structures, streamlining specialised scheme provisions and active exchange-traded funds (ETFs), together with corresponding clarifications and implementation guidance. In particular, we will clarify the key personnel requirements for non-Hong Kong management companies and investment delegates, and the framework for SFC-authorised feeder funds investing in non-SFC-authorised master funds.

Implementation

6. The marked-up text of the amendments to the UT Code is set out in **Appendix A**. The revised UT Code will become effective, tentatively on 1 November 2026, following its gazettal.
7. New schemes will be required to comply with the revised requirements immediately upon the effective date. Existing schemes will generally be given a 12-month transitional period to comply with the revised requirements relating to liquidity risk management, MMFs and disclosure obligations, thereby allowing sufficient time for necessary operational and system enhancements.
8. **Appendices B to E** set out the marked-up consequential amendments to the relevant product codes. We will also publish supplementary guidance, frequently asked questions (FAQs) and revised templates to facilitate the implementation of the new requirements.
9. We would like to thank all respondents for their detailed and thoughtful comments.
10. The consultation paper, the responses (other than those withheld from publication at the respondents' request) and this paper are available on the SFC website at www.sfc.hk.

Section 1: Proposals on amendments to the UT Code

I. Financial derivative instruments

The SFC proposed to accept the VaR approach alongside the existing NDE approach for SFC-authorised funds, with the same thresholds, governance and risk management requirements as those of major overseas fund regimes. Funds complying with the applicable NDE or VaR limits will generally be classified as non-complex products. The SFC will retain the discretion to designate certain products as complex, having regard to their features and risks, regardless of their NDE or VaR measures.

Question 1. Do you agree with the proposal to accept the VaR approach alongside the existing NDE approach under Hong Kong's retail fund framework?

Question 2. Do you support the proposed classification of non-complex products and complex products under this proposed framework?

VaR approach

Public comments

11. Respondents generally supported the proposal to accept the VaR approach, noting that this would align Hong Kong with major overseas fund jurisdictions, provide managers with greater flexibility in portfolio construction and widen investors' product choice.
12. Most responses sought clarifications on matters including:
 - (a) the circumstances in which the VaR approach would be accepted for Hong Kong-domiciled funds and how the approval process would operate in practice;
 - (b) whether the VaR approach would be an alternative to, or operate in parallel with, the existing NDE approach;
 - (c) the quantitative parameters, governance and risk management requirements applicable to the use of the VaR approach by SFC-authorised funds;
 - (d) whether SFC-authorised UCITS funds¹ adopting the VaR or commitment approach in home jurisdictions will need to calculate NDE; and
 - (e) relevant disclosure requirements in financial reports and offering documents.

The SFC's response

13. Given the supportive feedback received, we will proceed with the proposal.

¹ UCITS funds refer to (i) Undertakings for Collective Investment in Transferable Securities (UCITS) domiciled in France, Luxembourg, Ireland and the Netherlands, and (ii) collective investment schemes domiciled in the United Kingdom authorised as UK UCITS.

14. For Hong Kong-domiciled funds that intend to adopt the VaR approach, we will assess such applications on a case-by-case basis², having regard to a fund's investment strategy, features and risks, interests of investors, the proposed VaR model specifications and the expertise of the risk management personnel responsible for the model.
15. For funds adopting the VaR approach, there will be detailed requirements covering the calculation methodology and standards, back-testing, stress-testing, model validation, governance and ongoing maintenance, as well as the responsibilities of risk management personnel and the documentation required for prior consultation with the SFC (VaR Guidance). They will also be subject to specific disclosure requirements in offering documents (calculation methodology, reference portfolio and the notional value of financial derivative instruments) and annual reports (model parameters, VaR limit utilisation and the notional value of financial derivative instruments). The VaR Guidance will be set out in the revised Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds (FDI Guide).
16. While the VaR Guidance is intended primarily for Hong Kong-domiciled funds, we expect SFC-authorized UCITS funds that adopt the VaR approach in their home jurisdictions to generally meet the standards set out in the VaR Guidance, which closely aligns with international standards.
17. For SFC-authorized UCITS funds adopting either the VaR or commitment approach in home jurisdictions, they will be deemed to comply with the derivative exposure limit under 7.26 of the UT Code. Accordingly, an SFC-authorized UCITS fund adopting the VaR or commitment approach in its home jurisdiction will not be required to calculate NDE³.

Complex product classification

Public comments

18. Respondents were supportive of the proposal that SFC-authorized funds which comply with either the NDE limit⁴ or VaR limits⁵ (including SFC-authorized UCITS funds as explained in paragraph 17) would generally be classified as non-complex products for distribution in Hong Kong.
19. Respondents also noted the SFC's discretion to designate certain SFC-authorized funds as complex products for distribution in Hong Kong in view of their characteristics and risks, irrespective of their NDE or VaR measures. In this regard, respondents suggested the following:
 - (a) further SFC guidance to set out examples of the types of investment strategies, underlying assets, thresholds and/or other characteristics and risks, such as derivative usage and leverage, that would lead the SFC to designate an SFC-authorized fund as a complex product;

² The NDE approach will remain the baseline approach for a vast majority of Hong Kong-domiciled funds.

³ However, if an SFC-authorized UCITS fund chooses to adopt the NDE approach in Hong Kong, instead of relying on the deemed-compliance arrangement, it needs to calculate NDE for compliance with the Hong Kong retail fund regime.

⁴ An SFC-authorized non-complex fund offered in Hong Kong may use financial derivative instruments for investment purposes as long as its NDE does not exceed 50% of the fund's NAV.

⁵ 200% of the reference portfolio for relative VaR or 20% of a fund's NAV for absolute VaR.

- (b) derivative-based passive funds, such as delta-one synthetic ETFs with no leverage, should be treated as non-complex products;
 - (c) certain structured funds, such as defined outcome funds employing straightforward buffer strategies or those offering downside protection, are designed to provide investors with enhanced income and/or certain degree of capital protection and hence should not be regarded as complex products; and
 - (d) extending the current NDE netting arrangement for covered call strategies⁶ on identical underlying assets to highly correlated assets, so that similar investment strategies can be treated consistently for the purposes of NDE calculation and product complexity classification.
20. Finally, respondents generally agreed with the proposal to require SFC-authorized funds to disclose their non-complex or complex product classification in the product key facts statement (KFS).

The SFC's response

21. Having considered the supportive feedback, we will proceed with the proposal that SFC-authorized funds which comply with either the NDE limit or VaR limits⁷ would generally be classified as non-complex products for distribution in Hong Kong.
22. Regarding the SFC's discretion to designate a specific SFC-authorized fund as a complex product regardless of its NDE or VaR measures, the key consideration is whether a product contains terms, features and risks that are too complex for retail investors to understand. Existing examples include synthetic ETFs, futures-based ETFs, leveraged and inverse products, defined outcome funds, virtual asset funds, listed closed-ended alternative asset funds and hedge funds. We do not currently see a compelling basis to revise the complex product classification of these products.
23. We will provide additional examples of investment strategies and product features that are likely to result in a fund being designated as a complex product. We will also review and update these examples from time to time, as the market evolves.
24. Regarding the suggestion to extend the NDE netting arrangement for covered call strategies on identical underlying assets to highly correlated assets, we will incorporate it into the revised FDI Guide to facilitate product innovation and diversity. As always, we will keep under review the circumstances excluded for NDE calculations in the FDI Guide to maintain an appropriate balance between market development and investor protection.
25. We will implement the disclosure of non-complex or complex product classification in the KFS by providing a revised KFS template. Concurrently, we will enhance the disclosure of derivative usage in the template to help the industry determine the appropriate distribution arrangements for a particular product from a derivatives usage perspective.

⁶ Based on the current FDI Guide, for a fund adopting a covered call investment strategy without other structured return features, its call positions can be qualified as a netting arrangement to the fund's exposure to the same underlying asset.

⁷ Including an SFC-authorized UCITS fund which adopts the commitment approach in compliance with its home regulations.

II. Liquidity risk management

The SFC proposed to incorporate the recently updated international standards on liquidity risk management for open-ended funds on SFC-authorized funds. The key enhancements ensure alignment between the liquidity of a fund's asset holdings and its redemption terms, and require funds investing mainly in less liquid assets to implement and use ADTs appropriately.

Question 3. Do you have any comments on the proposals on incorporating the updated international standards on liquidity risk management of funds?

Public comments

26. Respondents generally supported the proposal to align the UT Code with updated international standards on liquidity risk management, including the use of ADTs to mitigate investor dilution. Nevertheless, the respondents highlighted that managers should have the discretion to decide on the actual use and calibration of liquidity management tools, based on their professional judgement, a fund's characteristics and liquidity profile, and specific circumstances.
27. Some respondents suggested that the estimation of significant market impact for using ADTs should be made on a best-effort basis, consistent with the relevant international guidance⁸.
28. A few respondents suggested that it is not necessary to introduce the proposed restriction on daily subscriptions by funds allocating a significant proportion of assets to illiquid assets, as daily subscriptions should not give rise to the same liquidity risk as daily redemptions for these funds.
29. Clarification and guidance were sought on:
 - (a) the scope and application of the proposed requirements, including whether ETFs and MMFs would be in-scope;
 - (b) the meaning of certain terms used in the proposed requirements, including "less liquid" assets, "illiquid" assets and "lower frequency than daily"; and
 - (c) the calibration and operation of ADTs, particularly for funds investing in less liquid assets.

The SFC's response

30. In view of the supportive comments received, we will proceed with the proposal to align the UT Code with updated international standards on liquidity risk management.
31. We have clarified in 5.10(g) of the revised UT Code that:
 - (a) the requirement to implement and use ADTs to mitigate material investor dilution applies to funds that invest mainly in less liquid assets and offer daily dealing;

⁸ Available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD799.pdf>.

- (b) significant market impact for the use of ADTs is expected to be estimated on a best-effort basis; and
 - (c) funds that allocate a significant proportion of assets to illiquid assets may offer daily subscriptions but not daily redemptions, and these funds should have appropriate notice and/or settlement periods.
32. We will publish supplemental guidance to provide further details on effective implementation of the updated liquidity risk management standards for SFC-authorized funds. In particular, the guidance will:
- (a) clarify how the updated standards apply to different types of SFC-authorized open-ended funds, in line with the relevant international guidance;
 - (b) align the definitions of key terms, such as “less liquid assets” and “illiquid assets”, with those adopted in the relevant international guidance;
 - (c) elaborate on the regulatory expectations relating to (i) maintaining consistency between fund asset liquidity and redemption terms; (ii) assessment of asset and portfolio liquidity; (iii) design, use and calibration of ADTs; (iv) use of quantitative-based liquidity management tools and other liquidity risk management measures; and (v) disclosures to investors.

Retail access via SFC-authorized non-complex funds into private markets

Recognising the growing demand for diversified portfolios that include private market assets and following the issuance of the Circular on listed closed-ended alternative asset funds⁹, the SFC noted that it may permit higher allocations by non-complex retail funds to private market assets in excess of the existing 15% threshold¹⁰ on a case-by-case basis, provided that the fund provides full monthly redemptions to investors.

Public comments

33. Respondents generally welcomed the broadening of non-complex retail funds’ direct investments in private assets. However, some respondents commented that certain UT Code requirements may require further relaxation to facilitate investments in private market assets¹¹. A number of respondents also noted that a dedicated regulatory regime may be more appropriate since such assets have distinct liquidity, valuation and dealing characteristics compared with assets commonly held by mainstream SFC-authorized funds.
34. Several respondents further highlighted the need for additional safeguards where an SFC-authorized fund’s investment in private market assets exceeds 15% of its net

⁹ The SFC issued a circular in February 2025 to clarify the requirements for listed closed-ended alternative asset funds, available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=25EC9>.

¹⁰ Under 7.3 of the UT Code, the value of a scheme’s investments in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a market may not exceed 15% of its total net asset value.

¹¹ Suggested relaxations include allowing less frequent redemption frequency (eg, quarterly instead of monthly), permitting redemption caps (eg, 3% for monthly redemption, 5-10% for quarterly redemption) and more flexible single asset diversification (eg, beyond the 10% single issuer limit).

asset value (NAV), particularly in relation to liquidity risk management, valuation, redemption terms, concentration risk and potential conflicts of interest.

The SFC's response

35. The SFC agrees that retail access to private market assets should be introduced in a prudent and incremental manner⁹, with appropriate regard to product structure, liquidity management and investor understanding.
36. In particular, for a non-complex retail fund, the existing expectation that investors should have adequate opportunities to redeem their investments in full (ie, without any redemption cap) at least monthly remains a hallmark of the retail fund regime. Existing requirements under the UT Code, including investment restrictions and redemption requirements, should therefore continue to apply.
37. In this regard, where a fund seeks to make use of the flexibility to exceed the 15% limit on investments in illiquid assets, the management company should demonstrate that the fund's portfolio composition and liquidity profile support the proposed redemption arrangements, including the ability to provide full monthly redemption opportunities. We consider that a case-by-case approach strikes an appropriate balance between facilitating product innovation and maintaining investor protection.
38. The SFC notes respondents' suggestions that retail access to private market assets should be subject to a dedicated regulatory regime. At this stage, however, we consider that a gradual approach is more appropriate. The SFC will continue to monitor market developments¹² and international regulatory experience relating to retail access to private market assets, and will adopt a careful, step-by-step approach in considering whether further refinements to the regulatory framework are warranted.

¹² Recent market developments have prompted regulators to pay closer attention to private market assets. On 3 September 2026, the SFC issued a circular to provide guidance on SFC-authorised funds with exposure to private credit and private equity to enhance their transparency on underlying investments and associated risks, available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=26EC55>.

III. Money market funds (MMFs)

In light of evolving international standards, reforms in other major jurisdictions and the growth of the Hong Kong MMF market, the SFC proposed to introduce additional requirements for the use of liquidity management tools to mitigate dilution risks arising from subscriptions and redemptions, and to strengthen the requirements for underlying investments, including clearer standards on credit quality, liquidity and eligible assets. These enhancements are intended to align Hong Kong's framework with global best practices while supporting the continued growth and resilience of the MMF sector.

Question 4. Do you have any comments on the proposed requirements for the use of ADTs?

Question 5. What is your view on the proposed requirements on underlying investments by MMFs?

Question 6. Do you agree with the proposed requirements for CNAV MMFs?

Liquidity management tools

Public comments

39. Respondents generally agreed with the proposed requirement for the use of ADTs. Some respondents sought clarification on examples of ADTs acceptable to the SFC and how the proposed requirement applies to UCITS MMFs. Some respondents also requested a longer transitional period to adopt ADTs.

The SFC's response

40. As mentioned in the consultation paper, the purpose of ADTs is to mitigate material investor dilution resulting from subscription or redemption of units. Hence, the ADTs that are acceptable should be those that can allocate the estimated liquidity cost associated with subscriptions and redemptions to transacting investors. Examples include swing pricing, subscription and redemption fees, anti-dilution levy, dual pricing and other economically equivalent measures. It is for the management company of a MMF to determine which ADT to employ, as well as when and how to utilise it in the best interests of all investors.
41. Some respondents suggested the SFC to follow those requirements in other jurisdictions, in particular, in Europe, where MMFs are only required to have one liquidity management tool which may not be an ADT. However, we consider that ADTs are crucial to protect the interests of remaining investors and manage liquidity risk of MMFs. Therefore, we maintain the proposal that all SFC-authorised MMFs (including UCITS short-term MMFs) must have at least one ADT to ensure a consistent level of investor protection across SFC-authorised MMFs.
42. Given that certain SFC-authorised MMFs may need to revise their constitutive documents and offering documents to use ADTs, we will extend the transitional period from 6 months to 12 months to provide sufficient time for all SFC-authorised MMFs to comply with the proposed requirement.

Underlying investments by MMFs

Public comments

43. Respondents in general agreed with the SFC's proposal for MMFs to invest in liquid and high quality money market instruments. Respondents sought clarification on the meaning of "one of the two highest short-term credit ratings" and suggested the SFC set out the minimum credit rating requirements for money market instruments that are acceptable. A respondent further sought clarity on whether the credit rating requirements only apply at the time of purchase of such instruments.
44. Some respondents also suggested the SFC to apply the same credit rating requirements to instruments issued by substantial financial institutions.
45. For short-term deposits, some respondents noted that time deposits in Hong Kong do not generally contain contractual terms that allow deposit breakage or early withdrawal prior to maturity. They raised concerns on complying with the proposed requirement that deposits should be readily accessible, either on demand or capable of early withdrawal, so that MMFs can meet redemption requests effectively.
46. One respondent suggested explicit guidance on eligible deposits (eg, the credit quality of the issuer, early termination features and collateralisation) to be set out.

The SFC's response

47. Having considered industry feedback, the SFC will issue guidance on the minimum credit rating requirements for high-quality money market instruments and, in the case of unrated instruments, their issuers¹³, to promote consistent application by fund managers of the applicable requirements under the revised UT Code.
48. With respect to whether the credit rating requirement only applies at the point of purchase, the management company should ensure ongoing compliance with the credit rating requirements. In line with existing requirements¹⁴, the management company should take as a priority objective all steps as are necessary within a reasonable period of time to remedy any breaches of investment limits, taking due account of the interests of the holders.
49. In addition, we have refined the relevant requirements (see 8.2(e) of the revised UT Code) to clarify that:
 - (a) Money market instruments issued by substantial financial institutions should be of comparable credit quality to those receiving one of the two highest short-term credit ratings; and

¹³ High quality money market instruments applicable to all MMFs (including CNAV MMFs) are:

- (1) Money market instruments (or their respective issuers in case of unrated instruments) with a minimum short-term rating of F-1 by Fitch, P-1 by Moody or A-1 by Standard and Poor;
- (2) Money market instruments rated other than by the credit rating agencies specified in (1) above, for which the management company has determined that the quality of the instrument is comparable to those with ratings specified in (1) above; and
- (3) Unrated money market instruments issued by a substantial financial institution for which the management company has determined that the credit worthiness of the issuer is comparable to those ratings specified in (1) above.

¹⁴ 7.41 of the UT Code.

(b) Short-term deposits which can be withdrawn at any time are considered acceptable.

50. Guidance will also be published to clarify that short-term deposits are generally expected to be placed with substantial financial institutions, and early withdrawals of deposits can be achieved by mutual consent between MMFs and relevant banks with a fee for MMFs. However, where a liquidity fee is incurred, the management company should assess and consider the use of ADTs to ensure fair treatment for all investors.

Safeguards for CNAV MMFs

Public comments

51. Some respondents expressed concern about the proposed increase in liquidity requirements and suggested that the SFC consider adopting the liquidity requirements for CNAV MMFs in Europe (ie, daily and weekly maturing assets at 10% and 30% of NAV, respectively). One respondent recommended that CNAV MMFs should have the flexibility to invest in a range of different assets apart from government securities.
52. One respondent enquired about the expected follow-up action to be taken by a management company when the NAV calculated using market value falls below the CNAV.

The SFC's response

53. CNAV MMFs are inherently more vulnerable to redemption pressure during periods of market stress. Where the market value of underlying assets falls below the CNAV, investors may have an incentive to redeem early, creating a first-mover advantage that may exacerbate liquidity stress and disadvantage remaining investors.
54. Accordingly, while the current approach to consider CNAV MMFs on a case-by-case basis¹⁵ will be maintained, heightened requirements for liquidity profile and underlying investments are necessary. In this connection, we will adopt the proposed requirements for underlying investments and higher daily and weekly liquid asset levels as proposed in the consultation paper.
55. Management companies must establish robust internal controls and systems to monitor the discrepancies between the CNAV per unit or share and the NAV per unit or share calculated using the latest market value. Fund managers should act in the best interests of investors in case of any discrepancies and ensure proper disclosures in offering documents.

Application of proposed requirements to UCITS MMFs

Public comments

56. Some respondents enquired whether UCITS short-term MMFs can be deemed compliant with the proposed requirements for MMFs.

¹⁵ Under paragraph 8.2(o) of the UT Code.

The SFC's response

57. Currently, UCITS short-term MMFs which comply with the European Union's Money Market Funds Regulation are required to comply with the requirements for offering document disclosure, naming, filing and CNAV MMFs under 8.2(b), (c), (d) and (o) of the UT Code.
58. Given the importance of liquidity risk management and fair treatment of investors, UCITS short-term MMFs should also be subject to the requirement to have at least one ADT¹⁶.
59. UCITS short-term MMFs (which seek to be authorised as CNAV MMFs in Hong Kong) should comply with 8.2(o) of the revised UT Code. UCITS short-term MMFs that do not comply with the requirements under 8.2(o) of the revised UT Code will not be regarded and cannot be marketed as CNAV MMFs in Hong Kong.

¹⁶ 8.2(p) of the revised UT Code.

IV. Miscellaneous

A. Key personnel of management companies

The SFC proposed to streamline the requirement regarding management companies' investment management experience by deeming the existing key personnel requirements satisfied for management companies within well-established fund management groups and for management companies from jurisdictions with mutual recognition of funds arrangements with the SFC (MRF Jurisdictions). The key personnel requirements will continue to apply to other firms, including newly established fund management groups.

Question 7. Do you support the proposed approach regarding the KP Requirements?

Public comments

60. Most respondents welcomed the proposal. Some respondents enquired whether management companies and investment delegates licensed in jurisdictions without MRF arrangements with the SFC (MRF Jurisdictions) can also be deemed compliant with the requirements of appointing two key personnel (KP) who have demonstrable investment track record in managing public funds and who are able to dedicate sufficient time and attention to manage the fund (KP Requirements).
61. One respondent raised concern that the proposal may favour international fund managers which could leverage personnel resources abroad and make it tougher for boutique Hong Kong asset management firms to compete.
62. A number of respondents also asked for clarification as to how a fund management group can be considered "well-established".

The SFC's response

63. The objective of the proposed revised KP Requirements is to ensure that SFC-authorized funds are managed by appropriately experienced personnel while maintaining regulatory efficiency and avoiding unnecessary duplication of oversight.
64. While the assessment of investment management experience and track record will be applied consistently to both Hong Kong and non-Hong Kong management companies and investment delegates, it is unavoidable that well-established fund management groups are more likely to be eligible for a streamlined approach given their longer track record, broader resources and proven experience in managing public funds. Similarly, management companies regulated in MRF Jurisdictions may be deemed compliant with the KP requirements, since they are already subject to a regulatory framework and supervision that are comparable to those of the SFC.
65. In addition, taking into account the comparable supervisory regime and exchange of information arrangement with the SFC, investment delegates from an acceptable inspection regime (AIR) may also be deemed compliant with the KP Requirements.
66. In other cases (for example, management companies that are not from MRF Jurisdictions or well-established fund management groups), the KP Requirements will remain applicable and relevant in assessing whether appropriate investment management experience and expertise are in place.

67. With respect to the queries regarding the meaning of a “well-established fund management group”, as explained in the consultation paper¹⁷, management companies of SFC-authorized funds that are part of a well-established fund management group with proven fund management track record may already leverage relevant group resources to satisfy the KP investment experience requirements in managing public funds. A similar approach will continue to apply under the revised UT Code.
68. In assessing compliance with the KP requirements, the SFC will also take into account the nature and complexity of the fund to be managed. For example, the experience expected of managers overseeing a plain vanilla fund may differ from that required for more specialised products. Given the wide range of fund types that may be authorised by the SFC, it would not be practicable to prescribe thresholds and an exhaustive list of examples or criteria applicable to all circumstances.

B. Feeder fund

The SFC proposed to allow an SFC-authorized feeder fund (both listed and unlisted) to invest in a master fund approved by the SFC without separate authorisation, provided that the master fund provides substantially comparable investor protection to an SFC-authorized fund and has a satisfactory compliance record.

Question 8. Do you have any comments on the proposals on investment in a non-SFC-authorized master fund?

Public comments

69. Most respondents supported the proposal and sought further clarity on how the SFC “approves” the master fund. Some respondents also enquired whether certain specific master-feeder structures would be considered acceptable to the SFC.
70. Some respondents suggested that the SFC set out disclosure requirements for SFC-authorized feeder funds investing in non-SFC-authorized master funds, in particular relevant risk and remedial actions where the master fund ceases to comply with relevant requirements.
71. One respondent was concerned that the proposed framework could allow fund managers to utilise master-feeder structures to gain exposure to non-SFC-authorized master funds with limited regulatory oversight, and that investors may not be adequately informed of material issues affecting the master fund.

The SFC’s response

72. Given the general support from respondents, we will adopt the proposal as set out in the consultation paper.

¹⁷ “Well-established fund management group” includes a fund management group of at least five years of establishment in managing public funds and with good regulatory records.

73. In response to the feedback received:
- (a) the SFC will only “approve” an underlying master fund that provides substantially comparable investor protection to a fund authorised under the UT Code, so that investor protection is not compromised by the master-feeder structure; and
 - (b) key information relating to the master fund, including its domicile, key operators, investment strategy and fee structure, should be disclosed in the feeder fund’s offering documents and will form part of the SFC’s assessment when considering the feeder fund’s authorisation.
74. The SFC will publish additional guidance on the relevant risk disclosure with respect to the master-feeder structure in the Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds. Product issuers are encouraged to consult the SFC as early as possible where a proposed feeder fund invests in a master fund that is not SFC-authorised.

C. Streamlining of specialised schemes in the UT Code

The SFC proposed to streamline the regulation of specialised funds by consolidating the existing frameworks for structured funds and funds investing extensively in financial derivative instruments into a single chapter covering structured and other complex funds.

Question 9. Do you have any comments on the proposal of merging Chapters 8.8 and 8.9 of the UT Code into a single chapter?

Public comments

75. Respondents generally supported the proposal to merge Chapters 8.8 and 8.9 of the UT Code to simplify the framework for SFC-authorised funds that seek to achieve their investment objectives primarily through investment in financial derivative instruments exceeding the permitted limits under 7.26 of the UT Code and/or complex investment strategies¹⁸.
76. Respondents suggested the following to supplement the proposal:
- (a) clarification on the NDE limits applicable to funds authorised under the proposed merged regime (ie, revised Chapter 8.8 of the UT Code);
 - (b) further SFC guidance on what types of products and investment strategies would constitute a “structured fund” or a “complex fund”, the terms, features and risks of which are not reasonably likely to be understood by a retail investor; and
 - (c) the SFC to provide specific KFS disclosures to help investors understand the risks of structured funds and complex funds respectively.

¹⁸ Such funds are likely to be classified as complex products.

The SFC's response

77. Given the broad support from respondents, we will proceed with the proposal to merge Chapters 8.8 and 8.9 of the UT Code into a single chapter. For the avoidance of doubt, a fund authorised under the revised Chapter 8.8 of the UT Code may have its NDE exceeding 50% of its NAV.
78. As noted in paragraph 23, we will provide additional examples of investment strategies and product features that are likely to result in a fund falling within the scope of the revised Chapter 8.8 of the UT Code and being designated as a complex product.
79. In assessing whether to designate a fund as a complex product, we will consider all relevant characteristics of a fund holistically, including its primary investment strategy, underlying assets, risk profile, as well as derivative usage and leverage.
80. Regarding the suggestion on KFS risk disclosures, we will update and enhance the disclosure guidance in the Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds with respect to structured funds and complex funds.

D. Other comments

Public comments

81. One respondent enquired about regulatory expectations regarding the roles and responsibilities of trustees and custodians in relation to certain proposed amendments to the UT Code, such as the adoption of the VaR approach, use of ADTs and stricter requirements for underlying investments held by MMFs.

The SFC's response

82. Trustees and custodians, as part of their existing obligations, are expected to have internal control policies and procedures in place that enable them to oversee fund operations and monitor management companies' compliance with relevant requirements, including those concerning investment monitoring. They should take reasonable steps to ensure that management companies and other relevant operators have adequate controls and procedures in place to ensure ongoing compliance with the UT Code and other applicable requirements, taking into account the nature, scale and complexity of the funds and their investment activities. We will clarify this in the FAQs on the UT Code.

E. Listed open-ended funds (active ETFs)

83. Respondents generally had no comments or objections to the proposed clarification in Chapter 8.10 of the UT Code that active ETFs which also fall within other specialised fund categories, such as MMFs, structured funds or complex funds, must comply with the applicable requirements for those categories under Chapter 8. Accordingly, we will adopt the proposed clarification.

F. Consequential amendments to the Code on Pooled Retirement Funds (PRF Code), the SFC Code on MPF Products (MPF Code), the Code on Investment-Linked Assurance Schemes (ILAS Code), and the Code on Real Estate Investment Trusts (REIT Code)

84. Respondents agreed with or had no comments on the consequential amendments to the PRF Code, the MPF Code, the ILAS Code and the REIT Code. Accordingly, the SFC will adopt the consequential amendments to these codes as set out in **Appendices B, C, D and E** to this conclusions paper.

Section 2: Implementation

Transitional period

Public comments

85. Several respondents suggested extending the transitional period for implementing the revised UT Code from 6 months as proposed in the consultation paper to 12 months, while one respondent suggested extending the period up to 18 months.
86. Respondents explained that a longer transitional period is required for management companies to adopt or introduce ADTs to their funds, as some existing SFC-authorized funds (including MMFs and those investing mainly in less liquid assets) may not currently be allowed to use ADTs pursuant to their constitutive documents and offering documents. Some SFC-authorized MMFs may also need time to rebalance their portfolio to meet the revised standards.
87. One respondent suggested that the SFC allow SFC-authorized funds to adopt the VaR approach immediately following the effective date of the revised UT Code.

The SFC's response

88. For implementation of the revised UT Code:
- (a) "New schemes" refer to funds which apply for the SFC's authorisation on or after the effective date; and
 - (b) "Existing schemes" refer to funds which are authorised by the SFC as at the effective date; and funds which have applied for the SFC's authorisation prior to the effective date and are subsequently authorised by the SFC.
89. For new schemes, the revised UT Code will apply immediately from the effective date, which is tentatively scheduled for 1 November 2026.
90. For existing schemes, we will provide a 12-month transitional period from the effective date for them to comply with the revised requirements relating to liquidity risk management, MMFs and offering document disclosures. By the end of the transitional period, existing schemes should have updated their KFS using the revised KFS templates¹⁹.
91. Nevertheless, SFC-authorized funds may start to adopt the facilitative changes relating to financial derivative instruments, key personnel of management companies and feeder funds immediately after the effective date. In particular, SFC-authorized funds will be permitted to adopt the VaR approach from the effective date, subject to the following:
- (a) SFC-authorized funds domiciled in Hong Kong should obtain prior approval from the SFC for adopting the VaR approach. The information required to be submitted

¹⁹ Changes to KFS templates include product complexity classification and enhanced disclosures on derivative usage. A new KFS template for MMFs will also be published to provide further disclosure guidance for SFC-authorized MMFs, including to indicate whether the MMF is a CNAV MMF.

to the SFC for assessment will be set out in the revised FDI Guide.

- (b) SFC-authorized UCITS funds should submit the necessary confirmations and representations to the SFC. Prior vetting by the SFC will generally not be required unless the adoption of the VaR approach results in a change to the fund's product complexity classification. Further implementation details will be set out in the FAQs on the implementation and transitional arrangements of the revised UT Code.
92. From the effective date, the existing indicator on the SFC website showing whether an SFC-authorized fund is a derivative fund will be replaced by an indicator of whether the fund is classified as a complex or non-complex product, based on the current classification. An SFC-authorized fund may only be re-classified from a complex product to a non-complex product after the necessary confirmations and representations have been submitted to and considered by the SFC, the applicable notice period to investors has been observed, and the revised KFS has been issued. Further implementation details will be set out in the FAQs on the implementation and transitional arrangements of the revised UT Code.
93. For the remaining amendments to the UT Code, existing schemes are generally not expected to take any action to maintain compliance.
94. The same implementation timetable will apply to the revised PRF Code, MPF Code, ILAS Code and REIT Code.

Implementation arrangements

Public comments

95. Clarification was sought on whether changes necessary for compliance with the revised UT Code will require the SFC's prior approval and advance notice to investors.

The SFC's response

96. The SFC's prior approval and advance notice to investors will generally not be required for changes made to comply with the revised UT Code. We will provide further guidance to the industry by way of a set of FAQs in respect of the approval and notification requirements for the implementation of the revised UT Code.

Implementation table of the revised UT Code

Topics	Provisions of the revised UT Code	New schemes	Existing schemes
I. Financial derivative instruments			
Financial derivative instruments	7.26	Immediately effective	
Unlisted index funds and index tracking exchange traded funds	8.6	Immediately effective	
Information to be disclosed in the offering document	Appendix C	Immediately effective	12-month transitional period
II. Liquidity risk management			
General obligations of a management company	5.10	Immediately effective	12-month transitional period ²⁰
III. Money market funds			
Money market funds	8.2	Immediately effective	12-month transitional period
IV. Miscellaneous			
Key personnel of management companies	5.5	Immediately effective	
Feeder fund	7.12	Immediately effective	
Streamlining of specialized schemes in the UT Code	8.8 8.9	Immediately effective	
Listed open-ended funds (also known as active ETFs)	8.10	Immediately effective	

²⁰ The 12-month transitional period is also applicable to new sub-funds which are under umbrella funds that are existing schemes and which apply for the SFC's authorisation on or after the effective date.

Topics	Provisions of the revised UT Code	New schemes	Existing schemes
V. Others			
General matters	Chapter 1	Immediately effective	
Operational requirements	Chapter 6	Immediately effective	
Core investment requirements (except for financial derivative instruments set out above)	Chapter 7	Immediately effective	
Hedge funds	8.7	Immediately effective	
Scheme changes, notifications and reporting	Chapter 11	Immediately effective	
Financial reports	Appendix E	Immediately effective	

Proposed amendments to the UT Code

Chapter 1: Authorization procedures

1.3 An applicant for authorization of a scheme must submit a completed Application Form and an Information Checklist as set out on the Commission's website. The application must also be accompanied by the following and such other documents as may be required by the Commission from time to time:

- (f) application fee ~~in the form of a cheque payable to the "Securities and Futures Commission"~~; and

1.6 An approved person should:

- (c) be capable of being contacted by the Commission ~~by post, telephone, facsimile and electronic mail~~ during business hours;

Chapter 5: Management company and auditor

5.5 The acceptability of the management company will be assessed on the following criteria:

- (a) ~~The key personnel of the management company and those of the investment delegate are expected to possess at least five years investment experience in managing public funds with reputable institutions. The expertise gained should be in the same or similar type of investments as those proposed for the funds seeking authorization. The management company should have relevant investment management experience and it must have sufficient human and technical resources to manage public funds and should not rely solely on an individual's expertise.~~
- (i) With respect to a management company and an investment delegate belonging to a well-established fund management group (e.g. a fund management group of at least five years of establishment in managing public funds and with good regulatory records), this requirement may be satisfied where on a group wide basis the management company and the investment delegate possess(es) the requisite experience and resources as well as having in place the appropriate oversight, monitoring and supervision systems to administer public funds.

Notes: (1) ~~With respect to a management company and an investment delegate belonging to a well-established fund management group(s), the requirement for the key personnel to possess public funds experience may be satisfied if the management company or the investment delegate (as the case may be) on a group-wide basis is able to demonstrate that it possesses the requisite experience and resources as well as appropriate oversight, monitoring and supervision systems to administer public funds (i.e. a fund management group of at least five years of establishment in managing public funds and with good regulatory records). The Commission will take into account various factors in assessing the fund management group's relevant overall experience, resources and capabilities, including, without limitations, types of assets and funds under management, the amount of assets under management attributable to public funds, the group-wide internal controls and risk management systems in place in connection with the management of public funds, and the jurisdiction(s) where the related investment management function(s) and operation(s) of the group is/are based in (with reference to the list of acceptable inspection regimes published on the Commission's website [see Note to 5.1]). The Commission may require substantiation on the experience in managing public funds and the track record of the management company and its group companies, where applicable.~~

- (2) ~~For the avoidance of doubt, the key personnel are expected to possess at least five years investment experience notwithstanding Note (1) to 5.5(a). The Commission may require evidence of the experience in managing public funds and the track record of the management company or the~~

investment delegate (as the case may be) and its group companies, where applicable.

- (ii) In other cases, there must be at least two key personnel designated for the management company or the investment delegate (as the case may be) in managing the scheme seeking authorization. Designated key personnel must dedicate sufficient time and attention to the management of a scheme and are expected to possess at least five years of investment experience in managing public funds with reputable institutions which should be in the same or similar type of investments as those proposed for the scheme seeking authorization.

Note: The management company should maintain proper up-to-date records regarding the key personnel of the scheme from time to time and such records must be made available to the Commission upon request.

- (b) ~~Key personnel shall have a demonstrable investment track record in the management of public funds in accordance with 5.5(a) and must dedicate sufficient time and attention in the management of a scheme. [deleted]~~

~~Notes: (1) In general, there must be at least two key personnel designated for each of the management company and investment delegate (if any) in managing the scheme seeking authorization. In any event, the management company should maintain proper up-to-date records regarding the key personnel of the scheme from time to time and such records must be made available to the Commission upon request.~~

~~(2) In the case of a multimanager scheme which is generally expected to have at least three sub-managers delegated with investment function in managing the scheme's assets under the active monitoring of the management company, the Commission may accept that the key personnel of such sub-managers have demonstrable investment experience in areas not limited to that relating to public funds on a case-by-case basis. The offering document of the scheme should clearly disclose, among others, the due diligence processes adopted by the management company in selecting and monitoring the sub-managers on an ongoing basis.~~

- (c) ~~Sufficient human and technical resources must be at the disposal of the management company, which should not rely solely on a single individual's expertise. [deleted]~~
- (d) The Commission must be satisfied with the overall integrity of the applicant management company. Reasonable assurance must be secured of the adequacy of internal controls and the existence of written procedures, which should be regularly monitored by its senior management for updatedness up-to-dateness and compliance. Conflicts of interests must be properly addressed to safeguard investors' interests.

Note: The Commission may on a case-by-case basis require independent review on the internal controls and systems [see 5.10(f)] of the management company which does not have demonstrable relevant management experience and track record in managing public funds with

the same or similar type of investments as those proposed for the schemes seeking authorization.

5.10 A management company must:

- (f) put in place proper risk management and control systems to effectively monitor and measure the risks of the positions of the scheme and their contribution to the overall risk profile of the scheme's portfolio; ~~and~~

Notes: Among others, the management company must:

- (3) *maintain and implement effective liquidity risk management policies and procedures in accordance with the requirements and guidance issued by the Commission published on the Commission's website which may be updated from time to time (including adopting and using a broad range of quantitative-based and price-based anti-dilution liquidity management tools and measures, stress testing, where applicable) to monitor the liquidity risk of the scheme and mitigate material investor dilution, taking into account factors including the investment strategy and objectives, investor base, liquidity profile, underlying obligations and redemption policy of the scheme;*
- (g) ensure the scheme is designed fairly, and operated according to such product design on an ongoing basis, including, among others, managing the scheme in a cost-efficient manner taking into account the size of the scheme and the level of fees and expenses, and ensuring that the scheme's investment strategy and the liquidity of its assets are consistent with the terms and conditions governing subscriptions and redemptions, etc.; and

Notes: Among others, the management company should ensure that:

- (1) the redemption terms that the scheme offers to investors should be based on the liquidity of its asset holdings in normal and stressed market conditions;*
- (2) a scheme that invests mainly in less liquid assets and offers daily dealing should implement and use anti-dilution liquidity management tools to mitigate material investor dilution to ensure that investors bear the costs of liquidity associated with fund subscriptions and redemptions. Such tools should be used consistently and should impose on subscribing and redeeming investors the explicit and implicit costs of subscriptions and redemptions, including any significant market impact of asset sales to meet those redemptions estimated on a best-effort basis; and*
- (3) a scheme that allocates a significant proportion (e.g. 30% or more) of its assets under management to illiquid assets should create and redeem shares at a lower frequency than daily and/or require long appropriate notice or settlement periods.*
- (h) provide adequate disclosure of information (as well as any material changes to the information) of the scheme which is necessary for holders to make an informed judgement of their investment in the scheme.*

Chapter 6: Operational requirements

- 6.13 There must be at least one regular dealing day per month except for a closed-ended fund authorized pursuant to 8.11 of this UT Code. Any offer price which the management company or the distribution company quotes or publishes must be the maximum price payable on purchase and any redemption price must be the net price receivable on redemption.

Notes: (1) The management company should ensure that the scheme's investment strategy and the liquidity of its assets are consistent with the terms and conditions governing subscriptions and redemptions of units/shares in a scheme both at the time of designing the scheme and on an ongoing basis. The management company should ensure that it sets aWhen determining the dealing frequency for units/shares in the scheme~~which is appropriate for its investment objectives and approach, taking the management company should take~~ into account its liquidity risk management process that enables effective processing of redemptions and other payment obligations. ~~The management company should give due consideration to the structure of the scheme and the appropriateness of the dealing frequency having regard to, among others, the investor base, investment objectives and strategy and also the nature and expected liquidity of the underlying assets of the scheme. The redemption terms that the scheme offers to investors should be based on the liquidity of its assets in normal and stressed market conditions.~~

- 6.18 The following fees, costs and charges must not be paid from the scheme's property:
- (a) commissions payable to sales agents arising out of any dealing in units/shares of the scheme;
 - (b) expenses arising out of any advertising or promotional activities in connection with the scheme;
 - (c) expenses which are not ordinarily paid from the property of schemes authorized in Hong Kong; and
 - (d) expenses which have not been disclosed in the constitutive documents as required by D10 of Appendix D.

Note: Deviation of the fee structure of a scheme from the requirements under 6.18 (a) or (b) may be considered by the Commission on a case-by-case basis supported with proper justification by the management company.

Chapter 7: Investment: core requirements

Investment in other schemes

The following provisions govern the spread of investments in other collective investment schemes. 7.1, 7.1A, 7.2 and 7.3 are not applicable to such investments, unless otherwise stated.

Note: For the avoidance of doubt, exchange traded funds that are:

- (i) authorized by the Commission under 8.6 or 8.10 of this UT Code; or*
- (ii) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and:*
 - the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of this UT Code; or*
 - the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under 8.10 of this UT Code,*

may either be considered and treated as (a) listed securities for the purposes of and subject to the requirements in 7.1, 7.1A and 7.2; or (b) collective investment schemes for the purposes of and subject to the requirements in 7.11, 7.11A and 7.11B. ~~However, the investments in exchange traded funds shall be subject to 7.3 and t~~
The relevant investment limits in exchange traded funds by a scheme should be consistently applied and clearly disclosed in the offering document of a scheme.

7.11B In addition, each underlying scheme's objective may not be to invest primarily in any investment prohibited by this Chapter, and where such scheme's objective is to invest primarily in investments restricted by this Chapter, such investments may not be in contravention of the relevant limitation.

Notes:

- (3) For the avoidance of doubt, a scheme may invest in scheme(s) authorized by the Commission under Chapter 8 (except for hedge funds under 8.7 of this UT Code), ~~eligible scheme(s) [see 7.11A] of which the net derivative exposure [see Note to 7.26] does not exceed 100% of its total net asset value, and~~ exchange traded funds satisfying the requirements in the Note under "Investment in other schemes" of this Chapter in compliance with 7.11 and 7.11A.*

7.12 A scheme may invest 90% or more of its total net asset value in a single collective investment scheme and will be authorized as a feeder fund. In this case:

- (a) the underlying scheme ("master fund") must be ~~authorized~~ approved by the Commission to ensure it is regulated in a manner generally comparable with the requirements of this UT Code and acceptable to the Commission;

Notes: (1) Where the master fund is not authorized by the Commission, the following key requirements must be met, at a minimum:

(a) the master fund must be a scheme with safeguards and measures in place to provide substantially comparable investor protection as a scheme authorized under the UT Code, taking into account its underlying assets, investment strategy, applicable rules and regulations in its home jurisdiction; and

(b) the master fund, 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 listed funds) the listing venue.

(2) Where the master fund is not authorized by the Commission, the management company of the scheme should:

(a) report to the Commission as soon as practicable if the master fund ceases to comply with the requirements set out in this UT Code and take appropriate remedial action to promptly rectify the situation;

(b) 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 fund in a timely manner; and

(c) comply with such other requirements as may be imposed by the Commission.

(b) the offering document must state that:

(ii) ~~[deleted]for the purpose of complying with the investment restrictions, the feeder fund and its master fund will be deemed a single entity;~~

7.26 A scheme may also acquire financial derivative instruments for non-hedging purposes (“investment purposes”) subject to the limit that the scheme’s net exposure relating to these financial derivative instruments (“net derivative exposure”) does not exceed 50% of its total net asset value.

Notes:

(4) The Commission may accept Value-at-Risk (VaR) which is a risk management approach, as an alternative to net derivative exposure limit on a case-by-case basis, subject to guidance issued by the Commission which may be updated from time to time.

7.33 A scheme should have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions [see 7.36].

Note: In the case of sale and repurchase transactions, a scheme may receive cash (as collateral) for an amount which equals the market value (after haircut) of the securities sold to the counterparty by the scheme, provided that the haircut imposed by the counterparty is fair and reasonable, and in line with the current market practices and standards.

- 7.36 To limit the exposure to each counterparty as set out in 7.28(c) and 7.33, a scheme may receive collateral from such counterparty, provided that the collateral complies with the requirements set out below:
- (h) Independent custody – collateral must be held by the trustee/custodian of the scheme or its nominees, agents and delegates [see 4.5(a)(iii)];

Chapter 8: Specialized schemes

8.2 Money market funds

- (e) Subject to the provisions below, a scheme may only invest in short-term deposits and high quality money market instruments [see Note(1) to 7.36(j)], and money market funds that are authorized by the Commission under 8.2 of this UT Code or regulated in a manner generally comparable with the requirements of the Commission and acceptable to the Commission.

Notes: (1) Subject to 8.2(j), money market instruments may include asset-backed securities such as asset-backed commercial papers.

(2) Management company should have a prudent credit risk assessment and monitoring procedure as to whether or not a money market instrument invested by the scheme is of high quality, having regard to multiple factors, including liquidity and credit quality but without over-reliance on external credit ratings. A scheme is generally not expected to invest in unrated or low-investment-grade money market instruments. In this regard, high quality money market instruments generally refer to money market instruments (or their respective issuers in case of unrated instruments) with one of the two highest short-term credit ratings provided by an internationally recognised credit rating agency (or equivalent) or money market instruments issued by a substantial financial institution with comparable credit quality.

(3) Short-term deposits are generally expected to be repayable on demand or ~~with the right able to be withdrawn by the scheme at any time, subject to the use of anti-dilution liquidity management tools when meeting redemption requests under normal or anticipated stressed market conditions, while considering pertinent factors such as penalties or other costs associated with the early withdrawal of deposits.~~

- (n) A scheme must hold at least 7.5% of its total net asset value in daily liquid assets and at least 15% of its total net asset value in weekly liquid assets.

Notes:

(3) In addition, it is expected that (i) periodic stress testing to be carried out by the management company in monitoring the scheme's liquidity and (ii) daily and weekly liquid assets held by a scheme to be increased pursuant to prevailing market conditions and anticipated redemptions.

- (o) A scheme that offers a stable or constant net asset value or which adopts an amortized cost accounting for valuation of its assets may only be considered by the Commission on a case-by-case basis.

Notes: (1) Among others, the Commission must be satisfied with the overall measures and safeguards put in place by the scheme to properly address relevant risks associated with these features, having taken into account applicable international regulatory standards and

requirements. Non-exhaustive examples of safeguards may include setting out clear and reasonable criteria for the types of instruments and the circumstances under which a scheme may use amortized cost accounting, ongoing monitoring of the difference between the amortized cost of an instrument and its market value or the difference between the constant net asset value of the scheme and its marked-to-market net asset value (as the case may be), procedures in place to ensure appropriate actions are to be taken promptly in the interests of the investors when such difference exceeds a pre-determined threshold, enhanced measures to satisfy redemption requests including holding higher level(s) of daily and/or weekly liquid assets.

(2) A scheme that seeks to maintain an unchanging net asset value per unit or share (i.e. a constant / stable net asset value money market fund) will be subject to the following requirements:

- (a) The scheme must invest at least 99.5% of its net asset value in liquid and high quality money market instruments issued or guaranteed by a government, its public or local authorities or other multilateral agencies, reverse repurchase transactions secured by these money market instruments and in cash (including short-term deposits [see Note (3) to 8.2(e)]):
- (b) The scheme must hold at least 15% of its total net asset value in daily liquid assets and at least 50% of its total net asset value in weekly liquid assets [see Note to 8.2(n)]:
- (c) The difference between the unchanging net asset value per unit or share and the net asset value per unit or share calculated using latest market value must be monitored and published daily in an appropriate manner [see Note to 11.7]:
- (d) The management company must act in the best interests of investors at all times, including taking appropriate steps and actions to ensure that the scheme's net asset value fairly reflects the latest market value subject to, among others, the use of anti-dilution liquidity management tools; and
- (e) Such other requirements as may be imposed by the Commission.

Liquidity risk management tools

- (p) A scheme should have at least one anti-dilution liquidity management tool which allocates redemption costs to redeeming investors to mitigate material investor dilution and ensure all investors are treated fairly. Management companies should calibrate and set thresholds to enable dynamic activation of the anti-dilution liquidity management tool taking into account all relevant circumstances in the best interests of investors.

8.6 Unlisted index funds and index tracking exchange traded funds

- (c)(a) An index fund must also comply with the requirements in 8.8 of this UT Code if the index fund's net derivative exposure ~~[see Note to 7.26]~~ exceeds 50% of its total net asset value or, where an alternative approach is accepted by the Commission, has substantial exposure to financial derivative instruments [see Notes to 7.26].
- (v) If a passive ETF's net derivative exposure ~~[see Note to 7.26]~~ exceeds 50% of its total net asset value or, where an alternative approach is accepted by the Commission, has substantial exposure to financial derivative instruments [see Notes to 7.26], the passive ETF shall make available, through the passive ETF's own website or other acceptable channels, the information on financial derivative instruments acquired by the passive ETF (such as counterparty exposure and collateral information) to investors on an ongoing basis. The offering document should direct investors to the website or other channels where this information is published.

8.7 Hedge funds

Foreword

The following criteria apply to collective investment schemes that are commonly known as hedge funds (or alternative investment funds ~~or absolute return funds~~). Hedge funds are generally regarded as ~~non-traditional~~ funds that possess different characteristics and utilize different investment strategies from traditional funds. In considering an application for authorization, the Commission will, among other things, consider the following:

- (i) the choice of asset class; and
- (ii) the use of ~~alternative advanced~~ investment strategies ~~such as long/short exposures, leverage, and/or hedging and arbitrage techniques which may involve financial instruments which are not liquid, financial derivatives, concentration of investments, leverage, short selling or other speculative strategies that are not often used by traditional funds~~.
- (j) The FoHFs must comply with the following:
- (i) a FoHFs must invest ~~in at least five underlying funds, and~~ not more than 30% of its total net asset value ~~may be invested~~ in any one underlying fund; and
- (l) There must be at least one regular dealing day per month except for a closed-ended fund authorized pursuant to 8.11 of this UT Code. The management company should ensure that the terms and conditions governing subscriptions and redemptions of units/shares in a scheme are consistent with the scheme's investment strategies and the liquidity of its assets both at the time of designing the scheme and on an ongoing basis.

8.8 Structured funds and other complex funds

The following general criteria shall apply to ~~a scheme, known as structured funds~~schemes, which ~~seeks~~seek to achieve ~~its~~their investment ~~objective~~objectives primarily through investment in financial derivative instruments, ~~for example futures, swap or market access products or similar arrangements, exceeding the permitted limits under 7.26 of this UT Code and/or other complex investment strategies.~~ A structured fund ~~is passively managed and~~ usually tracks the performance of an index [see 8.6(e)] and/or offers structured pay-outs when certain pre-determined conditions relating to its underlying asset(s) are met ~~and its net derivative exposure [see Note to 7.26] exceeds 50% of its total net asset value.~~ A complex fund generally refers to a fund whose terms, features and risks are not reasonably likely to be understood by a retail investor. The core requirements in Chapter 7 will apply with the modifications, exemptions or additional requirements as set out under 8.8 of this UT Code.

Notes: (1) ~~[deleted]The requirements under 8.9 of this UT Code are intended to apply to actively managed schemes that gain exposure by investing in financial derivative instruments and therefore are not applicable to structured funds.~~

(2) An unlisted ~~index~~ fund or an ~~passive~~ ETF must also comply with the requirements in 8.8 of this UT Code if ~~the unlisted index fund's or the passive ETF's net derivative exposure [see Note to 7.26] exceeds 50% of its total net asset value~~it is a structured fund or a complex fund.

(a) The management company of a structured fund or a complex fund and the issuer of financial derivative instruments shall be independent of each other.

Notes: (1) *The management company cannot also act as the issuer of financial derivative instruments.*

(2) *The index adopted by the scheme (if any) shall be objectively calculated, measurable and transparent to the public, for instance, the index is rules-based with minimal or no discretion exercisable by the issuer of the financial derivative instruments, and the index level or its calculation formula is accessible by the public. Where such index is provided for the use of the structured fund or complex fund only, this would raise questions as to the propriety of the fund seeking exposure to such index.*

(c) ~~[deleted]The valuation of the financial derivative instruments must meet the requirements set out in 7.28(d).~~

(e) ~~[deleted]The collateral requirements in 7.36 shall also be complied with by a scheme falling under 8.8 of this UT Code.~~

(g) ~~[deleted]The collateral disclosure requirements in 7.37 and 7.38 shall also be complied with by a scheme falling under 8.8 of this UT Code.~~

(h) In addition to the information in Appendix C, the offering document must contain the following:

(iv) in the case of structured funds, clear disclosure of the costs ~~of entering~~associated with investing into the swap or market access products or similar arrangements with the counterparty (including costs entering into

the instrument and brokerage commission), and the maximum amount of redemption or unwinding fee;

- (v) in the case of structured funds, in respect of the asset portfolio of a scheme investing in unfunded swap, the selection criteria and nature of the asset portfolio [see C2A of Appendix C]; and

8.9 ~~[deleted]Funds that invest extensively in financial derivative instruments~~

~~The following general criteria shall apply to an actively managed scheme, the principal objective of which is investment in financial derivative instruments, or which seeks to acquire financial derivative instruments extensively for investment purposes, but does not meet the relevant provisions in Chapter 7. For the avoidance of doubt, the scheme shall also comply with provisions in Chapter 7 subject to the modifications, exemptions or additional requirements as set out in 8.9 of this UT Code.~~

~~Financial derivative instruments investments and related operational requirements~~

- ~~(a) Notwithstanding 7.26, a scheme may acquire financial derivative instruments for investment purposes subject to the limit that the scheme's net derivative exposure [see Note to 7.26] does not exceed 100% of the total net asset value of the scheme.~~
- ~~(b) [deleted]~~
- ~~(c) [deleted]~~
- ~~(d) [deleted]~~
- ~~(e) [deleted]~~
- ~~(f) The requirements on financial derivative instruments in 7.28(a), (b) and (d) shall also be complied with by a scheme falling under 8.9 of this UT Code.~~
- ~~(g) The limitation on counterparty exposure in 7.28(c) shall also be complied by a scheme falling under 8.9 of this UT Code.~~
- ~~(h) The collateral requirements in 7.36 shall also be complied with by a scheme falling under 8.9 of this UT Code.~~
- ~~(i) For the avoidance of doubt, financial derivative instruments acquired for hedging purposes will not be counted towards the 100% limit referred to in 8.9(a).~~

~~Disclosure~~

- ~~(j) The offering document shall contain information in plain language to facilitate investors' understanding of the scheme's investment strategy and risk profile, including:
 - ~~(i) additional risk disclosures including the risks associated with investments in financial derivative instruments;~~~~

- ~~(i) a statement indicating how and where information regarding the risk management and control policy, procedures and methods employed by the scheme will be made available to Hong Kong investors upon request; and~~
- ~~(ii) a summary of the risk management policy and methods employed by the scheme to effectively measure and manage the risks associated with the investments in financial derivative instruments.~~
- ~~(k) The collateral disclosure requirements in 7.37 and 7.38 shall also be complied with by a scheme falling under 8.9 of this UT Code.~~

8.10 Listed open-ended funds (also known as active ETFs)

- (b) A listed open-ended fund shall also comply with provisions in Chapter 7 unless otherwise modified below. If it is also a specialized scheme falling under the categories in Chapter 8, it shall comply with the relevant requirements under Chapter 8, in addition to the requirements in Chapter 7 with modifications, exemptions or additions as set out in Chapter 8.
- (c) Subject to consultation with the SFC, a scheme under Chapter 7 or 8.10 of this UT Code may have unlisted and/or listed unit/share classes. The unlisted class and listed class shall comply with the relevant requirements in Chapter 7 and ~~8.10~~ of this UT Code ~~respectively~~.

Chapter 11: Scheme changes, notifications and reporting

- 11.2B The management company has the responsibility to ensure that notices to holders are not misleading and contain accurate and adequate information to keep investors informed. All notices should contain a Hong Kong contact number details for investors to make enquiries.
- 11.5 If a scheme is to be merged or terminated, the management company should follow the procedures as set out in the scheme's constitutive documents or governing law. Notice should be given to investors as determined by the Commission. Such notice should be submitted to the Commission for prior approval and contain information necessary to enable holders to make an informed judgement of the proposed merger or termination by the management company (including the reasons for the merger or termination, the relevant provisions under the constitutive documents that enable such merger or termination, the consequences of the merger or termination and their effects on existing investors, the alternatives available to investors (including, if possible, a right to switch without charge into another authorized scheme), the estimated costs of the merger or termination and who is expected to bear them).

Notes:

- (2) *A shorter notice period may be accepted by the Commission on a case-by-case basis for specific circumstances in the best interests of holders.*
- (23) *In effecting a merger or termination, the management company must put in place proper measures to minimize the opportunity of any holders to benefit from more favourable or advantageous conditions of the scheme, taking due account of the interests of the holders.*

Appendix C

Information to be disclosed in the offering document

- C2** Details of investment objectives and policy, including a summary of investment and borrowing restrictions [see Chapter 7 and Chapter 8 (for specialized schemes) of this UT Code]. If the nature of the investment policy so dictates (such as schemes falling under 8.7 and, ~~8.8 and 8.9~~ of this UT Code), a warning that investment in the scheme is subject to special risks, a description of the risks involved, and where appropriate, the risk management policy in place.

Appendix E

Contents of financial reports

Investment Portfolio

6. Details in respect of securities financing transactions and securities borrowing transactions:
 - (a) the type(s) of securities involved in each type of securities financing transactions and securities borrowing transactions;

Information on exposure arising from financial derivative instruments

1. The lowest, highest and average exposures arising from the use of financial derivative instruments during the period in respect of the following:
 - (b) Net derivative exposure [see Note to 7.26 of this UT Code] as a proportion to the scheme's total net asset value, where applicable.

Appendix B

Final form of the consequential amendments to the PRF Code

Chapter 4: Product Provider

4.4 The Product Provider shall:

- (e) take reasonable care to ensure that the relevant parties are properly qualified for the performance of their respective duties and functions and discharging their respective obligations under this Code, having regard to the requirements as set out in the relevant Chapters of this Code; ~~and~~
- (f) ensure the scheme is designed fairly, and operated according to such product design on an ongoing basis, including, among others, managing the scheme in a cost-efficient manner taking into account the size of the scheme and the level of fees and expenses; and~~5.10(g) of the UT Code applies.~~

(g) 5.10(h) of the UT Code applies.

Chapter 5: Management Company

5.6A A management company must comply with the following:

- (c) 5.10(e) of the UT Code applies; ~~and~~
- (d) 5.10(f) of the UT Code applies; ~~and~~.
- (e) ensure that the scheme's investment strategy and the liquidity of its assets are consistent with the terms and conditions governing subscriptions and redemptions, etc.

Note: Notes to 5.10(g) of the UT Code apply.

Chapter 8: Operational Requirements

8.9A 6.18 of the UT Code applies.

Note: References therein to:

- (i) “D10 of Appendix D” shall be replaced by “paragraph (h) of Appendix B to this Code”; and*
- (ii) “management company” shall be replaced by “Product Provider”.*

8.10A (b) Furthermore, any underlying fund must be a ~~non-derivative~~ fund that complies with 7.26 of the UT Code.

~~Note: A non-derivative fund is one with a net derivative exposure of up to 50% of its NAV under the UT Code. Please refer to the Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds, as updated from time to time, for guidance on the calculation methodology of the net derivative exposure of a fund and the “Derivative funds” column in the list of SFC-authorized unit trusts and mutual funds shown on the SFC website, as updated from time to time, which indicates whether an underlying SFC-authorized fund is, or is not a derivative fund.~~

8.10D (c) A direct investment fund must be a ~~non-derivative~~ fund that complies with 7.26 of the UT Code.

~~Note: A non-derivative fund is one with a net derivative exposure of up to 50% of its NAV under the UT Code. Please refer to the Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds, as updated from time to time, for guidance on the calculation methodology of the net derivative exposure of a fund and the “Derivative funds” column in the list of SFC-authorized unit trusts and mutual funds shown on the SFC website, as updated from time to time, which indicates whether an underlying SFC-authorized fund is, or is not a derivative fund.~~

Final form of the consequential amendments to the MPF Code

Chapter 4: Application Procedures

4.2 An approved person should:

- (c) be capable of being contacted by the Commission ~~by post, telephone, facsimile and electronic mail~~ during business hours;

4.5 Each application must contain a completed Application Form as set out on the Commission's website and be accompanied by the following and such other documents as may be required by the Commission from time to time:

- (i) application fee ~~in the form of a cheque payable to the "Securities and Futures Commission"~~; and

Final form of the consequential amendments to the ILAS Code

Chapter 1: Authorization procedures

Nomination of an individual as approved person

1.5 An approved person should:

- (c) be capable of being contacted by the Commission ~~by post, telephone, facsimile and electronic mail~~ during business hours;

Documents to be supplied to the Commission

1.7 An applicant for authorization of a scheme must submit a completed Application Form and an Information Checklist as set out on the Commission's website. The application must also be accompanied by the following and such other documents as may be required by the Commission from time to time:

- (d) application fee ~~in the form of a cheque payable to the "Securities and Futures Commission"~~; and

Chapter 4: Applicant company

Responsibilities of applicant company

4.7 The applicant company must provide adequate disclosure of information (as well as any material changes to the information) of the scheme which is necessary for scheme participants to make an informed judgement of their investment in the scheme.

Chapter 7: Post-authorization requirements

Notices to scheme participants

7.13 The applicant company has the responsibility to ensure that the notices to scheme participants are not misleading and contain accurate and adequate information to keep them informed. All notices should contain a Hong Kong contact ~~details~~number for scheme participants to make enquiries.

Appendix E

Final form of the consequential amendments to the REIT Code

Chapter 3: Basic Requirements for the Authorisation of a REIT

3.4 An approved person shall:

- (c) be capable of being contacted by the Commission ~~by post, telephone, facsimile and electronic mail~~ during business hours;

Chapter 5: Management Company, Auditor, Listing Agent and Financial Adviser

5.10 The management company shall satisfy the Commission as to the overall integrity of the management company. The management company shall ensure that it has reasonable assurance of the adequacy of internal controls and the existence of written procedures, which shall be regularly monitored by the management company's senior management for ~~updatedness~~ up-to-dateness and compliance. Conflicts of interests shall be properly addressed to safeguard investors' interests.

Note: The Commission may on a case-by-case basis require independent review on the internal controls and systems [see 5.4] of the management company which does not have demonstrable relevant management experience and track record in investment management and/or property portfolio management.

Chapter 9: Operational Requirements

9.13 The following fees, costs and charges shall not be paid from the scheme's property:

- (a) commissions payable to sales agents arising out of any dealings in units of the scheme;
- (b) expenses arising out of any advertising or promotional activities in connection with the scheme;
- (c) expenses which are not ordinarily paid from the property of schemes authorised in Hong Kong; and
- (d) expenses which have not been disclosed in the offering documents or constitutive documents as required by Appendix D.

Note: Deviation of the fee structure of a scheme from the requirements under 9.13 (a) or (b) may be considered by the Commission on a case-by-case basis supported with proper justification by the management company.

Appendix F

List of respondents

(In alphabetical order)

1. Alternative Investment Management Association
2. Association of the Luxembourg Fund Industry
3. Asia Securities Industry & Financial Markets Association
4. BlackRock
5. Boswell Capital Management Limited
6. CFA Society Hong Kong and CFA Institute
7. ComplianceOne Consulting Limited
8. CompliancePlus Consulting Limited
9. Deacons
10. Hong Kong Investment Funds Association
11. Hong Kong Trustees' Association
12. Investment Company Institute
13. JK Chan²¹
14. The Law Society of Hong Kong
15. Submission of 1 respondent is published on a “no-name” basis upon request
16. Submission of 1 respondent is withheld from publication upon request

²¹ Respondents were generally asked to indicate whether they consented to publication of both their name and content of submission, or publication of their submission on a no-name basis. Taking note of JK Chan's consent provided to the SFC, JK Chan has been included under anonymous comments for the purpose of publication of responses on the SFC website.