



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

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

October 2025

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Foreword

The Securities and Futures Commission (SFC) invites market participants and interested parties to submit written comments on the proposals in this consultation paper or to comment on related matters that might have a significant impact upon the proposals no later than 21 January 2026. Persons submitting comments on the proposals on behalf of an organisation should provide details of the organisation whose views they represent.

Please note that the names of the commentators and the contents of their submissions may be published on the SFC website and in other documents to be published by the SFC. In this connection, please read the Personal Information Collection Statement attached to this consultation paper.

You may not wish the SFC to publish your name, submission or both. If this is the case, please state so in your submission.

Written comments may be sent to the SFC as follows:

By mail to: Securities and Futures Commission
54/F, One Island East
18 Westlands Road
Quarry Bay, Hong Kong

Re: Consultation Paper on Proposed Amendments to the Code
on Unit Trusts and Mutual Funds

By fax to: (852) 2877 0318

By online submission at: <https://www.sfc.hk/edistributionWeb/gateway/EN/consultation/>

By e-mail to: utc-consultation@sfc.hk

All submissions received before the end of the consultation period will be taken into account before the proposals are finalised and a consultation conclusions paper will be published in due course.

Securities and Futures Commission
Hong Kong

22 October 2025

Personal Information Collection Statement

1. This Personal Information Collection Statement (PICS) is made in accordance with the guidelines issued by the Privacy Commissioner for Personal Data¹. The PICS sets out the purposes for which your Personal Data will be used following collection, what you are agreeing to with respect to the SFC's use of your Personal Data and your rights under the Personal Data (Privacy) Ordinance (Cap. 486) (PDPO).

Purpose of collection

2. The Personal Data provided in your submission to the SFC in response to this consultation paper may be used by the SFC for one or more of the following purposes:
 - (a) to administer the relevant provisions² and codes and guidelines published pursuant to the powers vested in the SFC;
 - (b) in performing the SFC's statutory functions under the relevant provisions;
 - (c) for research and statistical purposes;
 - (d) for other purposes permitted by law.

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3. Personal Data may be disclosed by the SFC to members of the public in Hong Kong and elsewhere as part of this public consultation. The names of persons who submit comments on this consultation paper together with the whole or part of their submission may be disclosed to members of the public. This will be done by publishing this information on the SFC website and in documents to be published by the SFC during the consultation period or at its conclusion.

Access to data

4. You have the right to request access to and correction of your Personal Data in accordance with the provisions of the PDPO. Your right of access includes the right to obtain a copy of your Personal Data provided in your submission on this consultation paper. The SFC has the right to charge a reasonable fee for processing any data access request.

Retention

5. Personal Data provided to the SFC in response to this consultation paper will be retained for such period as may be necessary for the proper discharge of the SFC's functions.

¹ Personal Data means personal data as defined in the Personal Data (Privacy) Ordinance (Cap. 486).

² The term "relevant provisions" is defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571) and refers to the provisions of that Ordinance together with certain provisions in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), the Companies Ordinance (Cap. 622) and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615).

Enquiries

6. Any enquiries regarding the Personal Data provided in your submission on this consultation paper, or requests for access to Personal Data or correction of Personal Data, should be addressed in writing to:

Data Privacy Officer
Securities and Futures Commission
54/F, One Island East
18 Westlands Road
Quarry Bay, Hong Kong
7. A copy of the Privacy Policy Statement adopted by the SFC is available upon request.

Executive summary

Background and objectives

1. The SFC's three-year strategic priorities for 2024-2026 outline its plan to enhance Hong Kong's competitiveness as an international financial centre.
2. One of these strategic priorities is to enhance the global competitiveness and appeal of Hong Kong's capital market. In line with this objective, we are reviewing the requirements under the Code on Unit Trusts and Mutual Funds (UT Code) to ensure that the regulatory regime for SFC-authorized funds remains aligned with international regulatory standards and appropriately addresses the opportunities and risks presented by product innovation and market development.
3. Since the last revision of the UT Code effective in 2019, there have been significant regulatory and market changes both in Hong Kong and internationally. To ensure Hong Kong remains at the forefront as a premier asset and wealth management centre, the SFC is committed to maintaining robust retail fund regulations, fostering product innovation and enhancing operational efficiency.

Overview of key proposals

4. The main areas for consultation include:
 - (a) **Financial Derivative Instruments:** We propose to accept the Value-at-Risk (VaR) approach alongside the existing net derivative exposure (NDE) limit. This proposal allows eligible and well-experienced fund managers greater flexibility in using derivatives and aligns with the practices in major fund jurisdictions like Europe and the US, thus expanding product offerings for investors and enhancing the competitiveness of Hong Kong's fund regime.
 - (b) **Liquidity Risk Management:** We propose to incorporate the latest international standards for liquidity risk management in open-ended funds (OEFs) and more particularly IOSCO's³ *Final Report on Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes* (Revised IOSCO Recommendations) published in May 2025⁴. Proposed enhancements include ensuring alignment between the liquidity of a fund's asset holdings and its redemption terms, as well as implementing anti-dilution liquidity management tools (ADTs) for OEFs that mainly invest in less liquid assets. These measures aim to protect investors from undue costs associated with potential liquidity mismatches in OEFs.
 - (c) **A phased approach to retail access into private markets:** To foster product innovation, we will take a step-by-step approach to enable retail investors to access private markets. Following the issuance of the SFC's circular in February 2025 clarifying the regulatory requirements for listed closed-ended alternative asset funds, we will, subject to proper safeguards, provide flexibility for SFC-authorized unlisted funds to invest in illiquid assets, including private market assets, beyond the 15% investment limit under the UT Code on a case-

³ International Organization of Securities Commissions.

⁴ Available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD798.pdf>.

by-case basis.

- (d) **Money Market Funds (MMFs):** MMFs in Hong Kong are subject to enhanced MMF requirements implemented in 2019. In response to the 2020 market turmoil observed in various global jurisdictions, the Financial Stability Board (FSB) issued several policy recommendations relating to MMFs' regulatory requirements. MMFs in Hong Kong have recorded significant and sustained growth in recent years. In this context, we propose further strengthening the MMF requirements, including mandatory use of at least one ADT, more transparent requirements for eligible high quality money market instruments, and MMFs offering constant net asset value (NAV).
5. This consultation paper also includes other proposals, such as refining the acceptability requirements for management companies, enhancing the flexibility of a feeder fund's investment in an SFC-approved underlying master fund without separate authorisation, and consolidating the regulatory framework for specialised schemes. These adjustments are designed to enhance operational efficiency and ensure that management companies are adequately equipped to manage public funds effectively.
6. The proposed amendments to the UT Code are set out in Appendix A. They have been formulated after the SFC's soft consultation with industry participants and relevant stakeholders, including various fund associations and the SFC's Products Advisory Committee.
7. The SFC invites comments on the proposed amendments to the UT Code by 21 January 2026. A consultation conclusions paper will be published as soon as practicable after the end of the consultation period.

Section 1: Proposals on amendments to the UT Code

I. Financial derivative instruments

Background

8. Currently, an SFC-authorised 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 (NDE Limit)⁵. The NDE Limit is intended to set a clear threshold to control the leverage arising from derivative usage of non-complex funds.
9. In other major fund jurisdictions such as Europe and the US, retail funds (eg, UCITS⁶ funds in Europe and funds registered under the Investment Company Act of 1940 in the US) adopting the VaR approach are subject to separate / distinct regulatory limits and enhanced risk management measures. VaR is a widely accepted risk management measure that quantifies the maximum expected loss of a fund's portfolio at a given confidence level over a specific time horizon⁷. Regulatory limits on the VaR measure hence limit the funds' overall market risk, including leverage and other risks arising from derivative usage⁸. The VaR approach is typically used by fixed income funds to facilitate portfolio investments and manage various market-related risks, such as interest rate, duration and currency risks. In Europe and the US, funds that comply with the VaR limits are generally classified as non-complex products for distribution.
10. As the market evolves, fund managers have suggested that the SFC review the requirements on derivative use for SFC-authorised funds, particularly to enable fixed income funds to use derivatives such as interest rate swaps, futures, and options for efficient portfolio and risk management, and/or replicate the performance of certain debt securities at lower costs. While these derivative exposures do not result in substantial incremental leverage or market risks to the funds, they often prevent the funds from adhering to the NDE Limit.
11. As such, fund managers have recommended that the SFC adopt the VaR approach as an alternative to the NDE approach. This could facilitate more product offerings for Hong Kong investors, improve operational efficiency, and reduce costs for funds. This alignment with major fund jurisdictions would also enhance the competitiveness of Hong Kong's fund regime.

⁵ Chapter 7 of the UT Code.

⁶ Undertakings for Collective Investment in Transferable Securities.

⁷ Fund managers can use either the absolute VaR or relative VaR approach, depending on the risk profile and investment strategy of the funds. Absolute VaR limits potential loss without reference to a benchmark, while relative VaR sets the limit by comparing the fund's VaR to that of a designated, unleveraged benchmark or reference portfolio. The typical parameters for calculation of VaR are: (i) confidence level of 99%; (ii) time horizon of one month; (iii) minimum historical data period of one year for model calibration; and (iv) stress testing and back testing to validate the model.

⁸ The VaR of funds that adopt the relative VaR approach should not be greater than twice the VaR of the reference portfolio, whereas the absolute VaR of a fund cannot be greater than 20% of its NAV. The same limits are adopted in the US.

Key proposals

12. In view of the above, we propose to accept the VaR approach in our retail fund framework, with the same thresholds⁹ (VaR Limits) and governance and risk management measures as those of major overseas fund regimes.
13. The NDE approach will remain the baseline approach for a vast majority of Hong Kong-domiciled funds, but the SFC may, on a case-by-case basis, permit certain funds to adopt the VaR approach within the specific VaR Limits. In these cases, the SFC will assess whether the VaR approach is appropriate for a particular fund, considering its investment strategy, features and risks, and interests of investors. The fund managers would also have to demonstrate to the satisfaction of the SFC that they are able to calculate the VaR measure and maintain robust internal controls and risk management procedures that align with international standards, including calculation parameters, risk coverage, back testing, stress testing, oversight, model validation, documentation and disclosure.
14. SFC-authorized funds¹⁰ that comply with either the NDE Limit or the VaR Limits will generally be classified as non-complex products for distribution in Hong Kong. We expect this enhancement will mostly benefit fixed income funds as explained in paragraph 10.
15. For investor protection purposes, the SFC is empowered to designate an authorised fund as a complex product for distribution in Hong Kong in view of its characteristics and risks, regardless of its NDE or VaR measure. Existing examples include synthetic ETFs, futures-based ETFs, structured funds, leveraged and inverse products, and virtual asset funds. In determining whether to designate a fund as complex, we will consider all relevant characteristics of a fund holistically, including its primary investment strategy, underlying assets as well as derivative usage and leverage.
16. As a consequence of the above, to ensure transparency and clarity, we propose that each SFC-authorized fund be required to disclose its non-complex / complex product classification in its product key facts statements (KFS). This will replace the current NDE disclosure requirement in the KFS. In addition, the SFC's webpage on "[Non-complex and complex products](#)" will be updated accordingly.

Amendments to the UT Code

17. Details of the proposed amendments are set out in Chapter 7 of the draft amended UT Code (Appendix A).

⁹ 200% of the reference portfolio for relative VaR or 20% of a fund's NAV for absolute VaR.

¹⁰ The SFC has been adopting a streamlined approach to the authorisation of UCITS funds domiciled in France, Luxembourg, Ireland and the Netherlands, and collective investment schemes domiciled in the UK which are authorised as UK UCITS. Currently, UCITS funds comprise a large portion of SFC-authorized funds. Upon implementation of the proposed framework, SFC-authorized UCITS funds which comply with their home regulations and are not subject to specific distribution restrictions to retail investors, in principle, would be deemed to have complied with 7.26 of the UT Code regarding the NDE Limit.

Questions

1. Do you agree with the proposal to accept the VaR approach alongside the existing NDE approach under Hong Kong's retail fund framework?
2. Do you support the proposed classification of non-complex products and complex products under this proposed framework?

II. Liquidity risk management

Background

18. Following the 2008 global financial crisis, a substantial amount of work has been undertaken by the FSB and IOSCO to assess and address the risks from non-bank financial intermediation. In particular, liquidity risk management of OEFs has been a key area of international regulatory focus.
19. In December 2023, the FSB published the revised policy recommendations to address structural vulnerabilities from liquidity mismatch in OEFs (Revised FSB Recommendations) to enhance the regulatory and supervisory framework in this regard¹¹. In May 2025, IOSCO published its Revised IOSCO Recommendations and the accompanying guidance, to operationalise the Revised FSB Recommendations¹².
20. The Revised IOSCO Recommendations focus on two major enhancements for OEFs, namely (i) promoting consistency between fund asset liquidity and redemption terms and (ii) promoting greater use and greater consistency in the use of ADTs and measures to mitigate material investor dilution¹³.
21. IOSCO expects that securities regulators will actively promote the implementation of the Revised IOSCO Recommendations by fund managers alongside the accompanying guidance. IOSCO will review the implementation progress by member jurisdictions beginning in 2026.

Key proposals

22. To align with these updated international standards, we propose incorporating into the UT Code the following requirements:
 - (a) a fund's investment strategy and the liquidity of its assets should be consistent with the terms and conditions governing subscriptions and redemptions; in particular, the redemption terms (including dealing frequency, notice period and settlement period) that a fund offers to investors should be based on the liquidity of its asset holdings in both normal and stressed market conditions;
 - (b) a fund that invests mainly¹⁴ in less liquid assets¹⁵ should implement and use ADTs¹⁶ 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

¹¹ Available at <https://www.fsb.org/uploads/P201223-1.pdf>.

¹² Available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD799.pdf>.

¹³ See Recommendations 3, 6 and 7 of the Revised IOSCO Recommendations.

¹⁴ Investing more than 50% of assets under management of a fund in less liquid assets is likely to constitute "mainly investing".

¹⁵ "Less liquid" assets are those assets whose liquidity is contingent on market conditions, but they would generally be readily convertible into cash without significant market impact in normal market conditions. In stressed market conditions, they might not be readily convertible into cash without significant discounts and their valuations might become more difficult to assess with certainty.

¹⁶ Examples of ADTs include swing pricing, subscription and redemption fees, anti-dilution levy or other economically equivalent measures.

redemptions; and

- (c) a fund that allocates a significant proportion¹⁷ of their assets under management to illiquid assets¹⁸ should create and redeem shares at a lower frequency than daily and/or require long notice or settlement periods.

Retail access via SFC-authorized funds into private markets

23. Relatedly, the SFC will adopt a phased approach to enable retail investors to gain investment exposure to private market assets via SFC-authorized funds:
- (a) Asset managers are increasingly pursuing investment strategies which focus on portfolio diversification across multiple asset classes, including private market assets, to enhance long-term returns for investors. This corresponds with the international trend to give retail investors more investment exposure to private market assets¹⁹.
 - (b) In Hong Kong, the SFC will take a step-by-step approach to facilitate new fund offerings for retail access to private markets. As a first step, the SFC issued a circular²⁰ in February 2025 to clarify the requirements for listed closed-ended alternative asset funds which will enable retail investors to gain exposure to private market assets. There has been substantial interest from the industry and the SFC will adopt a prudent approach in assessing these applications, ensuring that, among other criteria, underlying assets in the respective proposals are of high quality and that fund managers have good track records.
 - (c) Separately, retail investors may also gain exposure to private market assets via SFC-authorized unlisted funds which are currently allowed to invest in illiquid assets, including private market assets, up to 15% of a fund's NAV²¹.
 - (d) To facilitate product innovation by allowing greater investment flexibility for retail funds to invest in a wider range of different assets, and to broaden the scope of products available to retail investors, the SFC may on a case-by-case basis permit an SFC-authorized fund to exceed the 15% investment limit. The overarching principle is that the proposed redemption frequency of the fund should be consistent with the fund's asset liquidity and in accordance with the proposed requirements as set out in paragraph 22 above. While daily redemption would not be appropriate for such fund, the fund must ensure adequate full redemption opportunities for investors, ie, at least once a month, which is a hallmark of our mainstream retail fund regime²². The SFC will adopt a holistic approach and consider, among other things, the nature and types of illiquid assets, the respective proportion of the fund's illiquid and liquid assets,

¹⁷ Investing more than 30% of assets under management of a fund in illiquid assets is likely to constitute "allocating a significant proportion".

¹⁸ "Illiquid" assets include those for which there is little or no secondary market trading, and buying and selling assets is difficult and time consuming (ie, weeks or months, not days) even in normal market conditions. Individual transactions of "illiquid" assets may, therefore, be more likely to affect market values.

¹⁹ "[Vision 2030 - The future of Hong Kong's fund management industry](#)" by KPMG and HKIFA. Among others, it was reported that there is increasing participation from high-net-worth individuals and sophisticated professional investors in private markets, and a growing interest in private markets at the retail level.

²⁰ Available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=25EC9>.

²¹ Under 7.3 of the UT Code, the value of a fund's investment 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 NAV.

²² 6.13 of the UT Code.

the reliability and transparency of the valuation of the illiquid assets, expected cash flows for meeting investor redemptions and returns to investors. In particular, the SFC will also evaluate whether there are robust safeguards on the fund's overall liquidity risk management²³, including the use of liquidity management tools and their interaction with the redemption frequency.

- (e) In line with the SFC's commitment to strengthen Hong Kong's position as an international financial centre, we will keep in view the market and regulatory developments including those in Hong Kong relating to listed funds that invest mainly in private market assets and those unlisted funds that invest more than 15% in illiquid assets as described above. We will continue our dialogue with the industry to explore product proposals of funds that mainly invest in private market assets, provided that they feature sound product design and appropriate safeguards for retail investors.

Amendments to the UT Code

- 24. Details of the proposed amendments are set out in Chapter 5 of the draft amended UT Code (Appendix A).

Questions

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

²³ Among others, the fund manager must have sufficient data support to perform the requisite liquidity risk management.

III. Money market funds (MMFs)

Background

25. In Hong Kong, MMFs authorised by the SFC for offering to the public are required to comply with the enhanced requirements under 8.2 of the UT Code as last amended in 2019²⁴.
26. In addition to the enhanced regulatory requirements, the SFC conducts ongoing monitoring of SFC-authorised Hong Kong-domiciled MMFs (HK MMFs) through the reporting of daily large redemptions, monthly subscription and redemption reports, as well as quarterly data collection on investment portfolios and liquidity profiles, among others.
27. During the financial market turmoil in March 2020, investors in other markets dashed to cash to honour payment obligations elsewhere (eg, margin payments) and partly to allay their fear of being unable to redeem their investments at a future date. In Hong Kong, HK MMFs received positive net subscriptions, with no reported liquidity problems or deferral of redemptions in meeting redemption requests. No suspension of dealings was reported by HK MMFs.
28. Upon a holistic review of the March 2020 market turmoil, the FSB published a framework and toolkit (FSB Policy Proposals)²⁵ for members to assess MMF vulnerabilities in their jurisdictions and consider any policy reforms for their jurisdictions, including mechanisms to impose the cost of redemptions on redeeming fund investors, to reduce threshold effects and liquidity transformation, while maintaining flexibility for individual jurisdictions to tailor measures to their specific circumstances.
29. It is also noted that regulators in major fund jurisdictions have been assessing their local regulatory regimes for policy reforms in MMFs²⁶ or have amended their rules for MMFs²⁷.
30. HK MMFs have recorded significant and sustained growth in the past few years. From 31 December 2018 to 31 August 2025, their number surged by 300% from 22 to 88, and their aggregate assets under management expanded over 15 times from US\$4.5 billion to US\$76.4 billion.

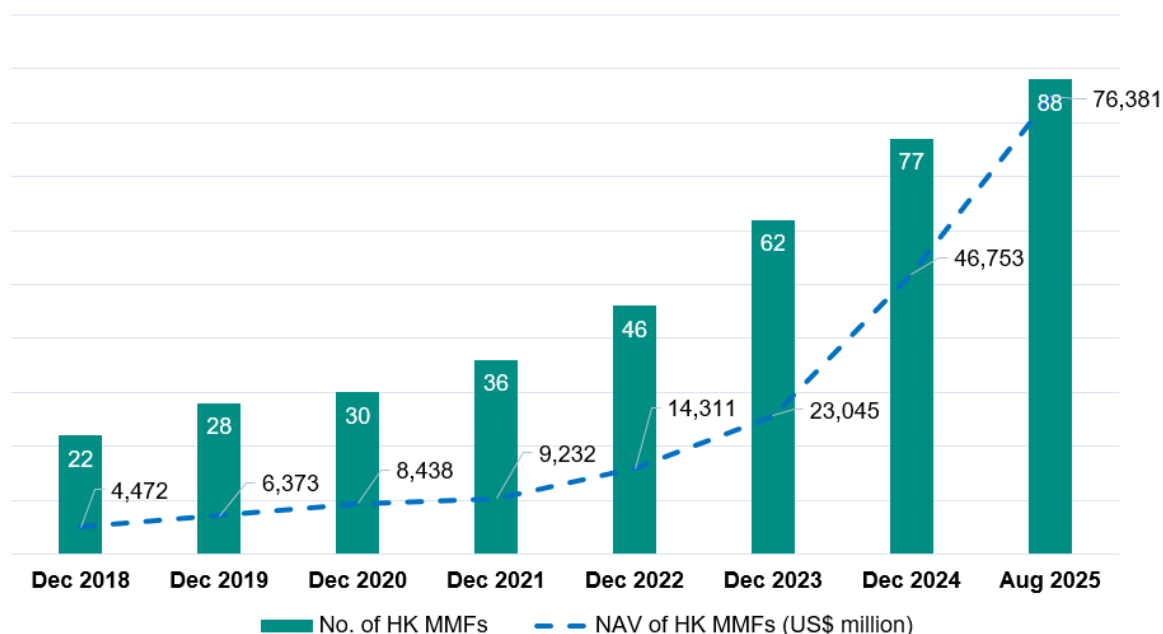
²⁴ Key UT Code revisions included enhanced requirements with respect to maturity, liquidity and underlying assets of MMFs to align with the policy recommendations published by IOSCO in 2012.

²⁵ The FSB's *Final report on Policy proposals to enhance money market fund resilience* dated 11 October 2021 at <https://www.fsb.org/uploads/P111021-2.pdf>.

²⁶ For example, the UK Financial Conduct Authority (FCA) proposed in its consultation paper published in December 2023 to require, among others, MMFs to have at least one liquidity management tool that may mitigate the effects of any material dilution in the value of the MMF's assets resulting from the issue or cancellation of shares available for use and enhanced liquidity requirements.

²⁷ For example, the US Securities and Exchange Commission (SEC) issued the Final Rule on MMF reforms in July 2023, which, among other measures, established a mandatory liquidity fee framework for institutional MMFs and enhanced liquidity requirements.

Chart 1 – Number and aggregate NAV of HK MMFs (December 2018 – August 2025)²⁸



31. In view of the above, we propose to introduce further enhancement to the requirements for MMFs under the UT Code to align with the latest international regulatory standards.

Key proposals

(i) Liquidity management tools

32. Currently, management companies are required to maintain and implement effective liquidity risk management policies and procedures²⁹ and employ suitable liquidity management tools that are permitted under the constitutive documents and disclosed in the offering documents³⁰.
33. To align with FSB Policy Proposals³¹, we propose that SFC-authorized MMFs have at least one ADT to mitigate material investor dilution resulting from subscription or redemption of units.
34. We believe that management companies are best placed to determine which ADTs to employ, as well as when and how to utilise them in the best interests of all investors. Consequently, management companies should evaluate and implement appropriate ADTs. In this context, the calibration methodologies and activation thresholds

²⁸ Source: SFC.

²⁹ It is required under Note (3) to 5.10(f) of the UT Code that management companies must maintain and implement effective liquidity risk management policies and procedures to monitor the liquidity risk of the scheme, taking into account factors including the investment strategy and objectives, investor base, liquidity profile, underlying obligations and redemption policy of the scheme.

³⁰ Appendix C of the UT Code requires the funds' offering documents to contain a description of the liquidity risk management tools that may be employed, including the circumstances in which the tools may be activated and the impact on the fund and holders upon activation.

³¹ One of the FSB Policy Proposals is to impose on redeeming investors the cost of their redemptions by way of swing pricing (or economically equivalent measures).

established and adopted by the MMF should enable the dynamic activation of ADTs, taking into account relevant factors and circumstances, including prevailing market conditions.

35. Management companies must be able to demonstrate to the SFC, upon request, that the calibration methodologies and activation thresholds of ADTs are appropriate and sufficiently prudent under both normal and stressed market conditions.

(ii) Underlying investments by MMFs

36. The FSB Policy Proposals recommend that jurisdictions consider imposing limits on MMFs' eligible assets and requiring MMFs to invest a higher portion of their assets in shorter dated and/or more liquid instruments, to reduce liquidity transformation.

37. Currently, 8.2(e) of the UT Code requires that an MMF only invest in short-term deposits, high quality money market instruments and MMFs that are authorised by the SFC under 8.2 of this UT Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC.

38. To promote consistency and enhance transparency, we propose the following requirements regarding the underlying investments by MMFs:

(a) In determining whether a money market instrument³² is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instrument must be taken into account. Management companies should have a prudent internal procedure for assessing whether the instrument invested by their MMFs is of high quality with regard to multiple factors, including but without over-reliance on external credit ratings. In particular,

- MMFs are generally not expected to invest in unrated or low-investment-grade money market instruments³³; and
- High quality money market instruments generally refer to money market instruments (or 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 money market instruments issued by a substantial financial institution³⁴.

(b) Short-term deposits are expected to be repayable on demand or with the right to be withdrawn by an MMF at any time, subject to the use of ADTs 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.

³² As defined under Note 1 to 7.36(j) of the UT Code, money market instruments refer to securities normally dealt in on the money markets, for example, government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc.

³³ To codify the existing requirement set out in the SFC's "[Circular to management companies of SFC-
authorised money market funds](#)" (issued on 17 December 2024).

³⁴ As defined under 3.13 of the UT Code, substantial financial institution means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which on an ongoing basis is subject to prudential regulation and supervision, with a minimum NAV of HK\$2 billion or its equivalent in foreign currency.

(iii) Safeguards for MMFs offering constant NAV (CNAV MMFs)

39. To limit the threshold effect and associated excess redemption pressure, the FSB Policy Proposals outlined two options, namely (a) the removal of ties between regulatory thresholds and the imposition of fees and redemption gates, and (b) the removal of CNAV MMFs.
40. In Hong Kong, there are no ties between regulatory thresholds and imposition of fees/gates under the UT Code. Under 8.2(o) of the UT Code, CNAV MMFs may be considered by the SFC on a case-by-case basis subject to proper safeguards. Currently, there are no HK MMFs offering constant NAV.
41. To ensure continued investor protection while maintaining a degree of flexibility for product structure, we propose to set out more explicit requirements for CNAV MMFs, including but not limited to the following:
- (a) For the purpose of SFC-authorised MMFs, CNAV MMFs are MMFs that aim to maintain unchanging NAVs per unit or share.
 - (b) Underlying investments – in addition to the existing requirements under 8.2 of the UT Code, CNAV MMFs must invest at least 99.5% of their NAV in liquid and high credit 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 instruments and in cash.
 - (c) Liquidity requirements – CNAV MMFs will be subject to higher liquidity requirement, with minimum daily liquid assets at 15% and weekly liquid assets at 50% of the MMF's NAV, respectively.
 - (d) Internal controls and monitoring – management companies of CNAV MMFs must establish robust internal controls and systems to monitor discrepancies between the CNAV per unit or share and the NAV per unit or share calculated using the latest market value. The difference between the two must be monitored and published daily in an appropriate manner³⁵.
42. The management company should act in the best interests of investors at all times, including taking appropriate steps and actions to ensure that the CNAV MMF's NAV fairly reflects the latest market value subject to, among others, the use of ADTs. In this connection, the SFC will issue guidance where appropriate.

³⁵ Including websites (see Note to 11.7 of the UT Code) and other effective means of public communications.

Amendments to the UT Code

43. Details of the proposed amendments are set out in Chapter 8.2 (money market funds) of the draft amended UT Code (Appendix A).

Questions

4. Do you have any comments on the proposed requirements for the use of ADTs?
5. What is your view on the proposed requirements on underlying investments by MMFs?
6. Do you agree with the proposed requirements for CNAV MMFs?

IV. Miscellaneous

A. Key personnel of management companies

44. For an SFC-authorised fund, the management company must have sufficient human and technical resources to manage public funds and should not rely solely on an individual's expertise. At present, management companies of SFC-authorised funds³⁶ are required to appoint two key personnel (KP) who have demonstrable investment track record in managing public funds and must dedicate sufficient time and attention to manage the fund (KP Requirements) under 5.5 (a) and (b) of the UT Code.
45. To enhance operational efficiency while maintaining adequate protection, we propose to adopt the following approach in assessing the investment management experience of management companies of SFC-authorised funds and the applicability of the KP Requirements:

(a) Hong Kong management companies³⁷

The KP Requirements will be deemed to have been complied with by management companies belonging to a well-established fund management group with relevant investment management experience and a track record³⁸. In other cases, the KP Requirements will remain applicable, for example, for newly established fund management group.

(b) Non-Hong Kong management companies

Management companies licensed to manage public funds in jurisdictions which have entered into mutual recognition of funds arrangements with the SFC (MRF Jurisdictions) are subject to the supervision of their respective home jurisdictions which are considered to be comparable with the SFC's regulatory requirements. Accordingly, we propose that these management companies³⁹ also be deemed to have complied with the KP Requirements.

Amendments to the UT Code

46. Details of the proposed amendments are set out in Chapter 5 of the draft amended UT Code (Appendix A).

Questions

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

³⁶ References to the management company of an SFC-authorised fund are deemed to include the investment delegate(s) (if any).

³⁷ A management company should be properly licensed or registered under Part V of the Securities and Futures Ordinance to carry on its regulated activities (see 5.6 of the UT Code).

³⁸ The current UT Code requirements already allow management companies from a well-established and experienced fund management group to leverage group resources in satisfying the KP's investment experience requirement in managing public funds.

³⁹ For example, for a UCITS fund domiciled in Luxembourg or Ireland seeking the SFC's authorisation for public offering in Hong Kong, its management company which is supervised and regulated by its home regulator (Commission de Surveillance du Secteur Financier or the Central Bank of Ireland, as the case may be) will be deemed compliant with the KP Requirements.

B. Feeder fund

47. Currently, pursuant to requirements under 7.12 of the UT Code, an SFC-authorized fund may invest 90% or more of its NAV in another scheme as a feeder fund, provided that such scheme (the master fund) is authorised by the SFC. Since December 2019, the SFC has allowed an SFC-authorized feeder exchange-traded fund (ETF) to invest its assets in a non-Hong Kong-listed master ETF where the master ETF is approved by the SFC but without separate authorisation, under streamlined requirements⁴⁰.
48. In addition to this existing practice, the SFC recognises the value of extending the flexibility to unlisted feeder funds. This will enable investors to access a broader range of eligible investment opportunities without necessitating duplicate authorisations for both feeder and master funds, provided that the underlying master funds are regulated in a manner generally comparable with the requirements of the UT Code and considered acceptable by the SFC.
49. In view of the above, we propose to amend the requirements for master funds under 7.12(a) of the UT Code such that an SFC-authorized feeder fund (both listed and unlisted feeders) may invest its assets in an eligible master fund which is approved by the SFC without separate authorisation, provided that the following requirements, at a minimum, are met:
- (a) The master fund must be a fund with safeguards and measures in place to provide substantially comparable investor protection as an SFC-authorized fund, taking into account its underlying assets, investment strategy, applicable rules and regulations in its home jurisdiction⁴¹; 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.

Amendments to the UT Code

50. Details of the proposed amendments are set out in Chapter 7 of the draft amended UT Code (Appendix A).

Questions

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

⁴⁰ See the SFC's "[Circular on streamlined requirements for eligible exchange traded funds adopting a master-feeder structure](#)" (updated on 16 May 2024).

⁴¹ For example, recognised jurisdictions and MRF Jurisdictions.

C. Streamlining of specialised schemes in the UT Code

51. Chapter 8.8 (structured funds) and 8.9 (funds that invest extensively in financial derivative instruments) of the UT Code set out the requirements for specialised schemes based on their investment strategies and NDE.
52. In view of the proposal on financial derivatives instruments detailed in section 1.I, we propose merging Chapter 8.8 and 8.9 into a single chapter to cover specialised schemes comprising structured funds and other complex funds. These funds typically seek to achieve their investment objectives primarily through investments in financial derivatives instruments and/or complex investment strategies.
- (a) A structured fund usually offers structured pay-outs when certain pre-determined conditions relating to its underlying asset(s) are met. Examples include leverage and inverse products and defined outcome structured funds, as referenced in the SFC's *Circular on listed structured funds*⁴².
- (b) A complex fund adopts an investment strategy with terms, features and risks that are not reasonably likely to be understood by a retail investor. The SFC will assess whether a particular fund would fall under this category by considering holistically all its relevant characteristics, including its primary investment strategy, underlying assets as well as derivative usage and leverage.
53. The core requirements currently set out in Chapter 8.8 and 8.9 will be consolidated into the revised Chapter 8.8. Chapter 8.9 will be removed.
54. This proposal aims to simplify the regulatory framework by housing the specific requirements for funds which possess associated features as outlined above. Funds authorised under the revised Chapter 8.8 will likely be classified as complex products⁴³.

Amendments to the UT Code

55. Details of the proposed amendments are set out in Chapter 8.8 of the draft amended UT Code (Appendix A).

Questions

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

⁴² Available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=25EC4>.

⁴³ SFC-authorised funds which are classified as complex products are subject to enhanced distribution requirements in Hong Kong.

D. Listed open-ended funds (active ETFs)

56. We propose clarifying in Chapter 8.10 (listed OEFs) of the UT Code that, if an active ETF is also a specialised scheme under other categories of Chapter 8 (eg, MMF, structured fund or complex fund), the fund should also comply with the relevant requirements under Chapter 8, which is consistent with the SFC's current practice in authorising active ETFs.

E. Other amendments to the UT Code

57. The draft amended UT Code is set out in Appendix A to this consultation paper reflecting the key proposals as discussed above and other proposed revisions to the UT Code.

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

58. Certain consequential amendments are proposed to be made to the relevant provisions of 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). The proposed amendments are set out in Appendices B, C, D and E to this consultation paper.

Questions

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| 10. Do you have any comments on the proposed consequential amendments to the PRF Code, the MPF Code, the ILAS Code and the REIT Code? |
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Section 2: Implementation timeline

59. The proposals set out in this consultation paper will be subject to a three-month public consultation. A consultation conclusions paper will then be issued together with the final form of the proposed revised UT Code, taking into account the consultation feedback, which will become effective upon its gazettal (Effective Date).
60. We appreciate that management companies and other relevant stakeholders may wish to make appropriate arrangements, such as enhancements to their systems and controls, to align with the final proposals. We have also considered the fact that many of the proposed enhancements are codifications of existing requirements or practices. The SFC proposes that a six-month transition period from the Effective Date will generally be allowed for compliance with the amendments to the UT Code, except the following:
- (a) The key proposals discussed in Part I and IV under Section 1 which will take effect immediately from the Effective Date; and
 - (b) The proposed enhanced requirements for MMFs discussed under Part III of Section 1 will become immediately effective upon the Effective Date with respect to all new MMFs which apply for the SFC's authorisation on or after the Effective Date. A six-month transition period from the Effective Date will generally be allowed for compliance by existing SFC-authorised MMFs.
61. The amended PRF Code, MPF Code, ILAS Code and REIT Code will take effect on the Effective Date. Where the provisions under the proposed amended UT Code apply to PRF Code or MPF Code, the same implementation arrangement will apply.

Seeking comments

62. The SFC welcomes any comments from the public and the industry on the proposals made in this consultation paper and the indicative draft of the proposed amendments to the UT Code in **Appendix A**, and the consequential amendments to the PRF Code, MPF Code, ILAS Code and REIT Code set out in **Appendices B, C, D and E** to this consultation paper. Please submit comments to the SFC in writing by no later than 21 January 2026.

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~~

Note: Among others, the management company must:

- (3) *maintain and implement effective liquidity risk management policies and procedures (including adopting and using a broad range of quantitative and price-based 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 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; and
- (3) a scheme that allocates a significant proportion (e.g. 30% or more) of their assets under management to illiquid assets should create and redeem shares at a lower frequency than daily and/or require long 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 a~~When 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 money market instruments issued by a substantial financial institution.

(3) Short-term deposits are expected to be repayable on demand or with the right 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;
- (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

Proposed 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.~~

Proposed 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

Proposed 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.

Proposed 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.