

SFC Authorisation of UCITS III Funds Frequently Asked Questions and Answers (“FAQ”)

This FAQ is prepared by the Investment Products Department and aims to provide basic information to market practitioners concerning the authorisation of UCITS III funds by the SFC. Applicants are encouraged to contact the Investment Products Department if in doubt on any specific issues arising from the application/interpretation of the relevant requirements. Please note that each application for authorisation is considered on a case-by-case basis.

The information set out below is not meant to be exhaustive. This FAQ may be updated and revised from time to time.

Note: For ease of reference, collective investment schemes that are generally known as unit trusts or mutual funds are referred to as “funds” in the following FAQ.

	Question	Answer
1.	What does SFC authorisation of a UCITS III fund involve?	<p>In addition to the general procedures and requirements as described under the Code on Unit Trusts and Mutual Funds (“UT Code”) and the FAQ about SFC Authorisation of Unit Trusts and Mutual Funds, we have adopted interim measures, which include a fast track procedure, to facilitate the processing of UCITS III funds in Hong Kong. The interim measures set out the disclosure and submission requirements for the authorisation of UCITS III funds domiciled in Luxembourg, Ireland and the UK, which are the main origins of the UCITS III funds in Hong Kong.</p> <p>Please refer to the interim measures, which is available with the Circular dated 31 March 2005, from the “Circulars” section of the “Intermediaries, Licensing & Investment Products - Investment Products Related Matters” page at the SFC website.</p> <p>Pursuant to the interim measures, the risk management and control process (“RMP”) of the fund manager must be provided to us in support of applications for authorisation</p>

		of UCITS III funds that use expanded investment powers , especially those using financial derivative instruments (“FDI”) for investment purposes, under UCITS III regulations. We have prepared a guide to the information relating to the RMP that we normally expect to be provided with. A copy of the guide is available with the Circular dated 23 August 2006, from the “Circulars” section of the “Intermediaries, Licensing & Investment Products - Investment Products Related Matters” page at the SFC website.
2.	What specific information should I disclose in the offering document/advertisements for UCITS III funds utilising expanded investment powers in FDI , i.e. investing in FDI other than for hedging and efficient portfolio management purposes?	<p>UCITS III funds using FDI for investment purposes should include the following information in their offering documents and any advertisements:</p> <ul style="list-style-type: none"> i) a statement indicating that FDIs may be used for the purpose of meeting the investment objective of the fund; and ii) such investment policies or portfolio management techniques may lead to a higher volatility to the net asset value of the fund.
3.	Does the SFC require the distribution of the Simplified Prospectus (“SP”) to Hong Kong investors?	<p>Whether the SP needs to be distributed to Hong Kong investors mainly depends on the relevant legal and regulatory requirements of the home jurisdiction of your UCITS III fund. Our interim measures have not mandated the distribution of the SP in Hong Kong so long as the Hong Kong offering document (“HKOD”) complies fully with the disclosure requirements of the UT Code and the interim measures.</p> <p>If, however, you intend to distribute the SP to the public in Hong Kong, you are required to prepare the SP in both English and Chinese and seek our authorisation of the bilingual SP prior to issue.</p> <p>On the other hand, if:</p> <ul style="list-style-type: none"> i) you will only make the SP available upon the specific request of a Hong Kong investor following his or her receipt of the HKOD of the fund; and

		<p>ii) the SP will be sent to that Hong Kong investor directly from the fund's administrator outside Hong Kong, together with another copy of the HKOD of the fund and a personalised cover letter;</p> <p>the SFC's authorisation of the SP will not normally be required. Please consult the Investment Products Department if in doubt.</p>
4.	What documents should I submit if I wish to seek SFC authorisation of the SP?	<p>You should submit the SP of your fund together with the following:</p> <ul style="list-style-type: none"> • written confirmation that the SP is consistent with the HKOD and that the SP will be distributed in Hong Kong together with the HKOD • evidence of approval of the SP by the home regulator of your fund, or written confirmation that the SP has been filed with the home regulator and the home regulator has no further comments on it. <p>We also expect the SPs that seek our prior authorisation to disclose the following items (the list is not exhaustive):</p> <ul style="list-style-type: none"> • direction to the HKOD for further details • computation basis of performance figures • where funds not authorised by the SFC are mentioned in the SP, a statement to the effect that such funds are not authorised by the SFC and are not available to Hong Kong investors • where a website not authorised by the SFC is quoted, a statement that the website is not authorised by the SFC and may contain information of unauthorised funds.
5.	The home regulator of my UCITS funds requires that the fund performance figures in the offering	We consider that SFC-authorised UCITS funds should update the performance figures in their offering documents/SP at least on an annual basis to provide relevant and

	document/SP be updated annually. What is the SFC's requirement on this aspect?	current information to investors.
6.	Has the SFC published any investor education materials on UCITS III funds?	Yes, we have prepared a set of Frequently Asked Questions ("UCITS III Q&A") to provide investors with some general information and address some basic queries regarding UCITS III. The UCITS III Q&A are available under "Funds – FAQs – Others" in the "Features and Dr Wise" section of the SFC-operated investor portal, the Electronic Investor Resources Centre (eIRC) at www.eirc.hk .

Last updated: 4 October 2006