

SECURITIES AND FUTURES ORDINANCE (Chapter 571)

Pursuant to section 399 of the Securities and Futures Ordinance, the Securities and Futures Commission publishes the following amendments to the Code on Unit Trusts and Mutual Funds as set out in Section II of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products ("UT Code").

The amendments shall become effective on 1 November 2026.

1. Substitute paragraph 1.3(f) of the UT Code:—

"(f) application fee; and"

2. Substitute paragraph 1.6(c) of the UT Code:—

"(c) be capable of being contacted by the Commission during business hours;"

3. Substitute paragraph 5.5(a) of the UT Code:—

"(a) 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) 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.

(2) 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."

4. Repeal paragraphs 5.5(b) and 5.5(c) of the UT Code.

5. Substitute paragraph 5.5(d) of the UT Code:—

- “(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 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."

6. Substitute paragraph 5.10(f) of the UT Code:—

- “(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;”

7. Substitute note (3) to paragraph 5.10(f) of the UT Code:–

- “(3) *maintain and implement effective liquidity risk management policies and procedures in accordance with the requirements and guidance issued by the Commission published on the Commission’s website which may be updated from time to time (including adopting and using a broad range of quantitative-based and anti-dilution liquidity management tools and measures, stress testing, where applicable) to monitor the liquidity risk of the scheme and mitigate material investor dilution, taking into account factors including the investment strategy and objectives, investor base, liquidity profile, underlying obligations and redemption policy of the scheme;*”

8. Substitute paragraph 5.10(g) of the UT Code:–

- “(g) ensure the scheme is designed fairly, and operated according to such product design on an ongoing basis, including, among others, managing the scheme in a cost-efficient manner taking into account the size of the scheme and the level of fees and expenses, and ensuring that the scheme’s investment strategy and the liquidity of its assets are consistent with the terms and conditions governing subscriptions and redemptions, etc.; and

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

- (1) the redemption terms that the scheme offers to investors should be based on the liquidity of its asset holdings in normal and stressed market conditions;*
- (2) a scheme that invests mainly in less liquid assets and offers daily dealing should implement and use anti-dilution liquidity management tools to mitigate material investor dilution to ensure that investors bear the costs of liquidity associated with fund subscriptions and redemptions. Such tools should be used consistently and should impose on subscribing and redeeming investors the explicit and implicit costs of subscriptions and redemptions, including any significant market impact estimated on a best-effort basis; and*
- (3) a scheme that allocates a significant proportion of its assets under management to illiquid assets should redeem shares at a lower frequency than daily and/or require appropriate notice or settlement periods.”*

9. Add the following paragraph after paragraph 5.10(g) of the UT Code:–

- “(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.”

10. Substitute note (1) to paragraph 6.13 of the UT Code:–

“(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. When determining the dealing frequency for units/shares in the scheme, the management company should take into account its liquidity risk management process that enables effective processing of redemptions and other payment obligations. The redemption terms that the scheme offers to investors should be based on the liquidity of its assets in normal and stressed market conditions.”

11. Add the following note after paragraph 6.18(d) of the UT Code:–

“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.”

12. Substitute the note under the section “Investment in other schemes” after paragraph 7.10 of the UT Code:–

“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. 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.”

13. Substitute note (3) to paragraph 7.11B of the UT Code:–

- “(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), 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.”*

14. Substitute paragraph 7.12(a) of the UT Code:–

- “(a) the underlying scheme (“master fund”) must be 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.”*

15. Repeal paragraph 7.12(b)(ii) of the UT Code.

16. Add the following note after note (3) to paragraph 7.26 of the UT Code:–

“(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.”

17. Add the following note after paragraph 7.33 of the UT Code:–

“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.”

18. Substitute paragraph 7.36(h) of the UT Code:–

“(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)].”

19. Substitute the note to paragraph 8.2(e) of the UT Code:–

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

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

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

20. Substitute note (3) to paragraph 8.2(n) of the UT Code:–

“(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.”

21. Substitute the note to paragraph 8.2(o) of the UT Code:–

“Notes: (1) Among others, the Commission must be satisfied with the overall measures and safeguards put in place by the scheme to properly address relevant risks associated with these features, having taken into account applicable international regulatory standards and requirements. Non-exhaustive examples of safeguards may include setting out clear and reasonable criteria for the types of instruments and the circumstances under which a scheme may use amortized cost accounting, ongoing monitoring of the difference between the amortized cost of an instrument and its market value or the difference between the constant net asset value of the scheme and its marked-to-market net asset value (as the case may be), procedures in place to ensure appropriate actions are to be taken promptly in the interests of the investors when such difference exceeds a pre-determined threshold, enhanced measures to satisfy redemption requests including holding higher level(s) of daily and/or weekly liquid assets.

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

- (a) The scheme must invest at least 99.5% of its net asset value in liquid and high quality money market instruments issued or guaranteed by a government, its public or local authorities or other multilateral agencies, reverse repurchase transactions secured by these money market instruments and in cash (including short-term deposits [see Note (3) to 8.2(e)]);*
- (b) The scheme must hold at least 15% of its total net asset value in daily liquid assets and at least 50% of its total net asset value in weekly liquid assets [see Note to 8.2(n)];*
- (c) The difference between the unchanging net asset value per unit or share and the net asset value per unit or share calculated using latest market value must be monitored and published daily in an appropriate manner [see Note to 11.7];*
- (d) The management company must act in the best interests of investors at all times, including taking appropriate steps and*

actions to ensure that the scheme's net asset value fairly reflects the latest market value subject to, among others, the use of anti-dilution liquidity management tools; and

- (e) *Such other requirements as may be imposed by the Commission."*

22. Add the following paragraph after paragraph 8.2(o) of the UT Code:–

"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."

23. Substitute paragraph 8.6(c)(a) of the UT Code:–

- "(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 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]."

24. Substitute paragraph 8.6(v) of the UT Code:–

- "(v) If a passive ETF's net derivative exposure 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."

25. Substitute the foreword of Chapter 8.7 of the UT Code:–

"Foreword

The following criteria apply to collective investment schemes that are commonly known as hedge funds (or alternative investment funds). Hedge funds are generally regarded as 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 advanced investment strategies 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.”

26. Substitute paragraph 8.7(j)(i) of the UT Code:–

- “(i) a FoHFs must invest not more than 30% of its total net asset value in any one underlying fund; and”

27. Substitute paragraph 8.7(l) of the UT Code:–

- “(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.”

28. Substitute the heading for paragraph 8.8 of the UT Code and paragraph 8.8 of the UT Code:–

“8.8 Structured funds and other complex funds

The following general criteria shall apply to schemes, which seek to achieve their investment objectives primarily through investment in financial derivative instruments exceeding the permitted limits under 7.26 of this UT Code and/or other complex investment strategies. A structured fund 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. 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.”

29. Repeal note (1) to paragraph 8.8 of the UT Code.

30. Substitute note (2) to paragraph 8.8 of the UT Code:–

- “(2) *An unlisted fund or an ETF must also comply with the requirements in 8.8 of this UT Code if it is a structured fund or a complex fund.*”

31. Substitute paragraph 8.8(a) of the UT Code:–

- “(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."*

32. Repeal paragraphs 8.8(c), 8.8(e) and 8.8(g) of the UT Code.

33. Substitute paragraph 8.8(h)(iv) and 8.8(h)(v) of the UT Code:–

"(iv) in the case of structured funds, clear disclosure of the costs 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"

34. Repeal 8.9 of the UT Code.

35. Substitute paragraphs 8.10(b) and 8.10(c) of the UT Code:–

"(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 of this UT Code."

36. Substitute paragraph 11.2B of the UT Code:–

"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 Hong Kong contact details for investors to make enquiries."

37. Substitute note (2) to paragraph 11.5 of the UT Code:–

“(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.*”

38. Add the following note after note (2) to paragraph 11.5 of the UT Code:–

“(3) *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.*”

39. Substitute paragraph C2 of Appendix C to the UT Code:–

“**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 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.”

40. Substitute paragraph 6(a) under the section “Investment Portfolio” of Appendix E to the UT Code:–

“(a) the type(s) of securities involved in each type of securities financing transactions and securities borrowing transactions;”

41. Substitute paragraph 1 under the section “Information on exposure arising from financial derivative instruments” of Appendix E to the UT Code:–

“1. The lowest, highest and average exposures arising from the use of financial derivative instruments during the period in respect of the following:”

42. Substitute paragraph 1(b) under the section “Information on exposure arising from financial derivative instruments” of Appendix E to the UT Code:–

“(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.”

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