Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds

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Key updates:

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Chapter 1 - Introduction

1. This Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds ("Guide") is prepared by the Investment Products Division of the Securities and Futures Commission (the "SFC"). It aims to provide general guidance to applicants in preparing their applications and their compliance with the requirements under the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products (the "Handbook"), including the Code on Unit Trusts and Mutual Funds (the "UT Code")[1] therein, Frequently Asked Questions ("FAQs") and other applicable regulatory requirements as may be issued and/or updated by the SFC from time to time. This Guide also includes guidance in respect of preparation of an application involving an open-ended fund company ("OFC") and its compliance with the Code on Open-ended Fund Companies (the "OFC Code").

2. This Guide is only for general reference and is not meant to be exhaustive. It may be updated and revised from time to time for providing further guidance.

3. Compliance with all the requirements in this Guide does not necessarily mean an application will be accepted or authorization will be granted. An applicant should refer to the Handbook, the UT Code and other guidance (including this Guide) that may be issued and/or updated by the SFC from time to time (such guidance will be referred to in this Guide collectively as "Published Guidance") for details and seek professional advice in case of doubt. Applicants are reminded to ensure compliance with all applicable requirements before making the application to the SFC.

4. Applicants are encouraged to consult the Investment Products Division of the SFC if in doubt on any specific issues arising from the application / interpretation of the Handbook or the UT Code or the OFC Code (in the case of OFCs). Please note that each application for authorization will be considered on a case-by-case basis.

5. **The applicant should note that any representation in, or referred to in, an application, and any representation made from time to time in support of the application, which is false or misleading in a material particular, the provision of any information to the SFC which is false or misleading in a material particular and the provision of any record or document which is false or misleading in a material particular constitute an offence under either section 383(1), 384(1) and/or 384(3) of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO").**

6. For the purpose of this document, UCITS means (i) Undertakings for Collective Investment in Transferable Securities (UCITS) domiciled in France, Luxembourg, Ireland and the Netherlands, and (ii) collective investment schemes domiciled in the United Kingdom authorized as UK UCITS.

7. Unless otherwise specified, the term "ETF" used in this Guide shall cover SFC-authorized passive ETF, active ETF and listed unit/share class of unlisted fund.

8. For reference, below are the hyperlinks to the Handbook, the UT Code, the OFC Code, various Published Guidance, application form, information checklists and templates on the SFC website for applicants' preparation of their applications.

Handbook
UT Code
• List of Acceptable Inspection Regimes • List of Recognized Jurisdiction Schemes

[1] The UT Code refers to the Code on Unit Trusts and Mutual Funds effective on 1 January 2019.

Published Guidance

- Application of Code on Unit Trusts and Mutual Funds on UCITS funds
- Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds
- FAQs applicable to SFC-authorized funds, including without limitation:
  - FAQs on Application Procedures for Authorization of Unit Trusts and Mutual Funds
  - FAQs on the Implementation and Transition Arrangements of the Code on Unit Trusts and Mutual Funds (Effective on 1 January 2019)
  - FAQs on the Code on Unit Trusts and Mutual Funds
  - FAQs on Exchange Traded Funds and Listed Funds
  - FAQs on SFC Authorization of UCITS Funds
  - FAQs on Leveraged and Inverse Products
  - FAQs on Mainland-Hong Kong Mutual Recognition of Funds
  - FAQs on Switzerland-Hong Kong Mutual Recognition of Funds
  - FAQs on France-Hong Kong Mutual Recognition of Funds
  - FAQs on United Kingdom-Hong Kong Mutual Recognition of Funds
  - FAQs on Luxembourg-Hong Kong Mutual Recognition of Funds
  - FAQs on Netherlands-Hong Kong Mutual Recognition of Funds
  - FAQs on Thailand-Hong Kong Mutual Recognition of Funds and Hong Kong Feeder Fund Investing in Thai Master Fund
  - FAQs on Ireland-Hong Kong Mutual Recognition of Funds
  - FAQs on United Arab Emirates-Hong Kong Mutual Recognition of Funds
  - FAQs on Malaysia-Hong Kong Mutual Recognition of Funds
  - FAQs relating to Open-ended Fund Companies

Various published circulars applicable to SFC-authorized funds including without limitation:

- Circular to Issuers of SFC-authorized Investment Products Concerning the US Foreign Account Tax Compliance Act *(issued on 21 March 2014)*
- Circular to Issuers of SFC-authorized Investment Products Concerning the US Foreign Account Tax Compliance Act *(issued on 13 November 2014)*
- Circular to Management Companies of SFC-authorized Unit Trusts and Mutual Funds – Launch of Pilot Revamped Fund Authorization Process *(issued on 9 October 2015)*
- Circular on Guidance on Internal Product Approval Process *(issued on 4 March 2016)*
- Circular to Management Companies of SFC-authorized Funds on Liquidity Risk Management *(issued on 4 July 2016)*
- Circular to Management Companies of SFC-authorized Unit Trusts and Mutual Funds – Formal Adoption of Revamped Fund Authorization Process *(revised as of 2 December 2016)*
- Circular to Management Companies of SFC-authorized Funds - Disclosure of the Ongoing Charges Figure and Past Performance Information in the Product Key Facts Statements *(issued on 3 March 2017)*
- Circular to Management Companies and Trustees / Custodians of SFC-authorized Funds Relating to Fair Valuation of Fund Assets *(revised as of 17 December 2018)*
- Circular to management companies of SFC-authorized unit trusts and mutual funds - ESG funds *(issued on 29 June 2021)*
- Circular on tokenization of SFC-authorised investment products (*issued on 2 November 2023)*
- Circular on SFC-authorised funds with exposure to virtual assets *(issued on 22 December 2023)*
- Circular to applicants seeking SFC authorisation of unit trusts and mutual funds – Launch of a new Fund Authorisation Simple Track (FASTrack) *(issued on 21 October 2024)*
- Circulars applicable to listed products:
  - Circular to Management Companies of SFC-authorized Exchange Traded Funds and Unlisted Index Funds – Disclosure of Tracking Difference and Tracking Error*(issued on 4 July 2014)*

- Circular to Management Companies of SFC-authorised Exchange Traded Funds ("ETFs") - List of Potential Events Triggering Ongoing Disclosure *(issued on 17 December 2018)*
- Circular to management companies and market makers of SFC-authorized exchange traded funds – ETF market making *(issued on 17 April 2020)*
- Circular to management companies of SFC-authorized exchange traded funds and to intermediaries - Futures-based ETFs *(issued on 24 April 2020)*
- Supplemental Circular on Leveraged and Inverse Products *(issued on 22 May 2020)*
- Circular on Virtual Asset Futures Exchange Traded Funds *(issued on 31 October 2022)*
- Circular on streamlined requirements for eligible exchange-traded funds adopting a master-feeder structure *(issued on 16 May 2024)*

- Circulars applicable to mutual recognition of Funds (MRF):
  - Circular on Mutual Recognition of Funds (MRF) between the Mainland and Hong Kong *(revised as of 20 December 2024)*
  - Circular on Mutual Recognition of Funds (MRF) between Switzerland and Hong Kong *(revised as of 24 April 2020)*
  - Circular on Mutual Recognition of Funds (MRF) between France and Hong Kong *(issued on 10 July 2017)*
  - Circular on Mutual Recognition of Funds (MRF) between United Kingdom and Hong Kong *(revised as of 21 May 2019)*
  - Circular on Mutual Recognition of Funds (MRF) between Luxembourg and Hong Kong *(revised as of 28 February 2020)*
  - Circular on Mutual Recognition of Funds (MRF) between the Netherlands and Hong Kong *(revised as of 17 April 2020)*
  - Circular on Mutual Recognition of Funds (MRF) between Thailand and Hong Kong *(issued on 15 November 2022)*
  - Circular on Mutual Recognition of Funds (MRF) between Ireland and Hong Kong *(issued on 14 May 2025)*
  - Circular on Mutual Recognition of Funds (MRF) between the United Arab Emirates (UAE) and Hong Kong *(issued on 17 September 2025)*
  - Circular on Mutual Recognition of Funds (MRF) between Malaysia and Hong Kong *(revised as of 23 July 2026)*

Press releases applicable to SFC-authorized funds, including without limitation:

- Press Release on the New Measures to Raise Investors' Awareness of Synthetic ETFs dated 18 November 2010
- Press Release on Enhanced Investor Protection for Domestic Synthetic ETFs dated 29 August 2011

Forms, checklists and templates

Application Form[2], Information Checklists[3] and Confirmation of Fulfilment of Authorization Conditions are accessible via the following link:
https://www.sfc.hk/en/Forms/products/Investment-products-Forms-and-checklists

Templates

- Products Key Facts Statements ("KFS") Illustrative Templates
- Template of Instrument of Incorporation for Umbrella Public OFC

[2] The Application Form for registration of a public OFC is set out in the Annex to the "Application Form for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products".

[3] The Information Checklist for the registration of a public OFC is set out in the Schedule to the "Information Checklist for Application for Authorization of Unit Trusts and Mutual Funds".

Chapter 2 - Basic documentary requirements at the time of application

General

1. An applicant must submit to the Investment Products Division of the SFC a duly completed and properly executed Application Form and Information Checklist[4], together with all relevant confirmations / documents as required to be submitted pursuant to the Information Checklist. Please refer to Questions 1 and 3 of the FAQs on Application Procedures for Authorization of Unit Trusts and Mutual Funds (the "FAQs on Application Procedures") for details. For an applicant which seeks to establish a public OFC (as defined in the OFC Code), please also refer to Questions 1 to 3 of the FAQs relating to Open-ended Fund Companies for details[5].

2. During the vetting process, the SFC may from time to time request additional supporting information or documents in considering each application.

3. As set out in the Information Checklist, an applicant is required to submit soft copies of all application documents in text-searchable format.

Information Checklist

4. An applicant must ensure that the Information Checklist[6] is duly completed, including ticking all relevant boxes for a scheme under application.

5. The Information Checklist and all relevant confirmations must be properly executed in accordance with the execution requirements set out in the confirmation templates in the Information Checklist.

6. **By executing the Information Checklist and the relevant confirmations in the Information Checklist and/or by ticking the relevant boxes in the Information Checklist that apply to a scheme, the party providing the confirmation is deemed to have confirmed compliance with the applicable requirements as specifically set out or referred to in this Guide.**

Application fees

7. Application fees[7] should be paid to the SFC.

8. For the current fee schedule, please refer to Question 2 of the FAQs on Application Procedures.

Hong Kong offering documents

9. Advanced draft of the English Hong Kong offering documents (including the main Hong Kong offering document and the Product Key Facts Statement ("KFS")) of a scheme under application (collectively, the "HKOD") must be submitted at the time of application and, where applicable, marked up against the previous version filed with the SFC. Applicants are required to submit the Chinese version of the HKOD and the corresponding executed Chinese translation certificate(s) before the authorization may become effective. In the case where the scheme is offering both listed and unlisted unit/share classes, separate KFS for listed and unlisted unit/share classes must be submitted at the time of application.

10. For an overseas scheme, the draft HKOD submitted at the time of application must be consistent with the scheme's overseas offering documents (i) authorized / approved by, or in the process of

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4 Please refer to paragraph 6 of Chapter 1 for the applicable Information Checklist for a new fund application.

5 An application for registration and authorization of a public OFC will be reviewed in tandem. The registration and authorization of a public OFC will take effect upon issuance of a certificate of incorporation by the Companies Registry. The applicant should also submit the application documents and fees in respect of incorporation and business registration to the Companies Registry via the SFC.

6 The Information Checklist for the registration of a public OFC is set out in the Schedule to the "Information Checklist for Application for Authorization of Unit Trusts and Mutual Funds".

7 In respect of a public OFC, there is no separate fee for application for registration of the OFC.

obtaining authorization / approval from, the home regulator of the scheme, or (ii) filed with (and with no subsequent comments from) the home regulator of the scheme in the case where authorization / approval of the scheme's overseas offering documents by such home regulator is not required.

11. The draft HKOD are not required to be annotated at the time of application. However, please refer to Chapter 7 of this Guide for the submission and annotation requirements in respect of the finalised drafts of the HKOD before the authorization of a scheme may become effective.

Constitutive documents

12. If the scheme under application involves a new umbrella fund or single fund, its constitutive documents are required to be submitted at the time of application.

13. In the case of an application of a new sub-fund under an existing SFC-authorized umbrella fund where proposed changes will be made to the version of the constitutive documents previously filed with the SFC, applicants are required to submit at the time of application the revised constitutive documents as marked up against the previous version filed with the SFC.

14. Constitutive documents of a scheme are not required to be annotated against the applicable compliance / disclosure requirements at the time of application. However, in the case of Hong Kong domiciled schemes and other non-UCITS schemes, please refer to Chapter 7 of this Guide for the submission and annotation requirements in respect of their constitutive documents before the authorization of the schemes may become effective.

15. Applicants must ensure that nothing in the constitutive documents of a scheme should in any way contradict or result in any breach of the applicable provisions of the UT Code, the applicable provisions in the Overarching Principles Section of the Handbook or the Published Guidance.

16. For a scheme constituted as an OFC, applicants must also ensure that nothing in the instrument of incorporation of the scheme should in any way contradict or result in any breach of the SFO, the Securities and Futures (Open-ended Fund Companies) Rules (Cap. 571AQ) (the "OFC Rules") or the OFC Code. Please also refer to the Template of Instrument of Incorporation for Umbrella Public OFC[8].

[8] In particular, the instrument of incorporation of an OFC must also contain provisions in compliance with requirements under section 112K of the SFO, rule 13(2) of the OFC Rules and 5.5, 8.1, 8.2, 9.1 and 10.6 of the OFC Code.

Chapter 3 – General matters

Name of a scheme

1. The name of a scheme (including both the English and Chinese names) must be available at the time of the application and satisfy the requirements under 5.1 and 5.2 of the Overarching Principles Section of the Handbook and 7.42 of the UT Code.

2. Illustrative examples of non-compliance with the requirements set out in paragraph 1 above include:

   2.1 scheme names which may suggest that the scheme will not lose money or will deliver a level of performance / return which may not be achieved by the scheme (e.g. "No Loss", "Forever Winning");

   2.2 scheme names which are inconsistent with the investment objectives / policy – e.g. "Global equities" fund for a scheme which may, as part of its active investment strategy, hold less than 10% of its net asset value ("NAV") in equity securities from time to time;

   2.3 scheme names which include the name or brand of a fund house that is not or no longer involved in the investment management of the schemes;

   2.4 scheme names which may give investors a sense of assurance or security not justified by the underlying features of the schemes, or which do not accurately reflect the nature or extent of the guarantee or capital / principal protection, taking into account the impression that may give to the investing public – e.g. a scheme proposes to be named as "wealth preservation" fund (of which investors might not expect any loss) even though significant loss may be suffered by the investors at any time; or

   2.5 scheme names which do not reflect the underlying investments – e.g. a scheme proposes to be named as "RMB fund" when less than 70% of its NAV is invested in Renminbi ("RMB") underlying assets or when it merely offers RMB share class(es) without any RMB underlying assets.

3. For scheme names which include words such as "real estates", "properties", or "REITS" (or to similar effect), applicants are expected to include a disclaimer in the HKOD (including the KFS) and all marketing materials in a prominent manner to the effect that the schemes are not authorized by the SFC under the Code on Real Estate Investment Trusts.

4. If the scheme under application is an unlisted index fund or a passive ETF, the name of the scheme must comply with the requirements under 8.6(m) or 8.6 (r) of the UT Code respectively.

5. In the case of an OFC, the name must also end with "Open-ended Fund Company" or "OFC", and must not be the same as the name of another existing OFC[9].

Nomination of approved person

6. Pursuant to 1.5 of the UT Code, an applicant should nominate an individual to act as the approved person for the purpose of section 104(2) and section 105(2) of the SFO in accordance with the requirements under 1.6 of the UT Code.

7. An individual nominated as an approved person for a scheme for the purpose of section 104(2) of the SFO should generally be nominated also for the issue of any advertisement, invitation or document in respect of such scheme for the purpose of section 105(2) of the SFO.

[9] Please refer to section 112H of the SFO and 4.4 and 4.5 of the OFC Code.

Waiver application

8. In principle, new fund applications are expected to comply in full with all applicable requirements under the Handbook and the UT Code. Applicants should refer to Question 12 of the FAQs on the Code on Unit Trusts and Mutual Funds (the "FAQs on UT Code") if they wish to apply for a waiver from any of the UT Code requirements. An application involving an OFC should also comply with the applicable requirements in the OFC Code, and applicants who wish to apply for a waiver from such requirements should refer to 1.5 of the OFC Code.

9. Applicants are encouraged to consult the SFC in advance before submitting any formal application should they wish to apply for any waiver.

One-off authorization of advertisements with respect to schemes constituted in corporate form

10. Since 1 August 2008, the SFC has ceased pre-vetting advertisements that are eligible for the exemptions under section 103 of the SFO (being the issue of any advertisement made by or on behalf of an intermediary licensed or registered for Type 1, Type 4 or Type 6 regulated activity in respect of securities including interests in any collective investment schemes ("CIS")).

11. To facilitate schemes that are constituted in corporate form to utilise the exemptions under section 103 of the SFO and to ensure that such advertisements would not otherwise be subject to the prospectus regime under the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), in the case of a mutual fund, an applicant should submit an application for one-off authorization of the issue of advertisements pursuant to section 105(1) of the SFO (see Annex G to the Information Checklist).

Application for exemption under section 309(2) of the SFO with respect to schemes listed on The Stock Exchange of Hong Kong Limited

12. Under Part XV of the SFO, investors are under a duty to disclose their notifiable interests and short positions in the relevant share capital of corporations whose securities are listed on The Stock Exchange of Hong Kong Limited.

13. Where applicable, for schemes that are constituted in corporate form, an applicant should submit an application to the Investment Products Division of the SFC for an exemption under section 309(2) of the SFO in respect of the scheme. For further details, the applicants should refer to the Guidelines for the Exemption of Listed Corporations and Other Persons from Part XV of the Securities and Futures Ordinance (Disclosure of Interests) published by the SFC: *http://en-rules.sfc.hk/net_file_store/new_rulebooks/h/k/HKSFC3527_699_VER20.pdf*.

Compliance with the UT Code and the Handbook

14. Applicants should ensure compliance with the UT Code and the Overarching Principles Section of the Handbook (and the OFC Code in the case of OFCs), including amongst others the applicable disclosure requirements.

15. Applicants should also ensure compliance with GP 1 of the Overarching Principles Section of the Handbook which provides that product providers shall act honestly, fairly and professionally. As such, applicants should avoid arrangements which might lead to unequal treatment of all investors and/or which may be prejudicial to individual retail investors. For example,

    15.1 there should not be preferential treatment to selected group of investors through prioritised redemptions or side letter arrangements;

    15.2 for unlisted funds, management companies should not effect redemptions in specie without disclosing in the HKOD that prior consent from investors must be obtained for doing so;

    15.3 dealing for redemption and payment of redemption proceeds are not effected in compliance with the applicable requirements under the UT Code and the constitutive documents; and

15.4 the constitutive documents should not contain provisions allowing compulsory redemption and/or cancellation of units unless the management company, when doing so, acts in good faith, on reasonable grounds and pursuant to applicable laws and regulations and the grounds for doing so are set out clearly in the constitutive documents.

Incomplete or non-compliant application / material changes post submission

16. As stated in the Information Checklist, the SFC reserves the right to return forthwith, without processing, an incomplete or non-compliant application to the extent the Application Form, the Information Checklist and/or the accompanying documents are not properly or fully completed, and/or where negative responses in the Information Checklist are not properly explained, and/or the application is accompanied by documents that do not meet the applicable requirements, are not in good order or otherwise are not suitable for clearance.

17. For illustrative purposes, an application may be considered as incomplete or non-compliant by the SFC if at the time of application:

17.1 not all required documents and confirmations have been properly executed and/or submitted (e.g. carve-outs / disclaimers in the required confirmations);

17.2 disclosure in the draft HKOD is materially deficient (including where the HKOD contain glaring inconsistency or are drafted in incomprehensible language);

17.3 there is non-compliance with the Handbook, the UT Code or the Published Guidance (and the OFC Code in the case of OFCs); and/or

17.4 there are structural or policy related issue(s) with respect to the scheme under application such that the authorization of such scheme may not be in the interest of the investing public.

17A. Applicants are expected to conduct a thorough check on the application documents and their senior personnel are expected to provide proper oversight and supervision to ensure compliance and quality submission in this regard.

18. Applicants are expected to provide proper and complete response(s) in a timely manner to the requisition(s) raised by the SFC in accordance with 4.1(b) of the Overarching Principles Section of the Handbook.

19. Applicants should notify the SFC immediately if there are any changes to the information and/or confirmations provided to the SFC at the time of application and from time to time in connection with the application or where the applicants have become aware of any matters or changes in circumstances that may affect the SFC's assessment of the application. Where applicants subsequently become aware of any material or fundamental changes to the application after submission, they should make a proper assessment as to whether to proceed with or to withdraw the application, taking into account the fact that the information, representations and confirmations previously submitted to the SFC may in any material aspect no longer be true, accurate and valid.

Chapter 4 – Key operating parties to a scheme

A. Management companies (and the investment delegates)

Appointment of a management company

1. Every scheme seeking authorization should appoint a management company acceptable to the SFC and should comply with Chapter 5 of the UT Code on an ongoing basis pursuant to 5.1 of the UT Code.

2. Applicants should refer to Chapter 5 of the UT Code, which sets out, among others, the criteria for the acceptability of a management company and the general obligations of a management company for an SFC-authorized fund. References may also be made to Questions 8 to 11 of the FAQs on the UT Code, which set out practical guidance with respect to the eligibility of the management company of a scheme.

3. In the case of an OFC, it must have an investment manager licensed or registered for Type 9 (asset management) regulated activity.

Delegation of investment management functions

4. Whilst the UT Code allows a management company to delegate its investment management functions to third parties, the responsibilities and obligations of the management company may not be delegated. Where such functions are delegated, there should be ongoing supervision and regular monitoring of the competence of the delegate(s) by the management company to ensure that the company's accountability to investors is not diminished. In case of doubt, applicants are encouraged to discuss any proposed delegation arrangements (including all-time delegation) with the SFC prior to formal application.

5. As stated in Questions 8, 8B, 9 and 10 of the FAQs on the UT Code, both the management company as the principal and the investment delegate(s) (if any) are expected to meet the eligibility criteria of a management company set out in Chapter 5 of the UT Code.

6. Under this Part A, references to the management company of a scheme are deemed to include the investment delegate(s) (if applicable), unless otherwise stated.

Acceptable inspection regimes

7. In accordance with 5.1 of the UT Code, in general, the management company and the investment delegate(s) (if applicable) should be either licensed or registered in Hong Kong, or based in a jurisdiction with an inspection regime acceptable to the SFC ("AIR"). Please refer to the current list of acceptable inspection regimes ("List of AIR") posted on the SFC website and Question 9 of the FAQs on the UT Code for details of AIR and related information.

8. For delegation of the investment management functions to investment delegate(s) which is/are not based in AIR, please refer to paragraphs 18 to 20 below.

Disciplinary proceedings / records

9. In assessing whether a management company is acceptable to the SFC for the purpose of 5.1 of the UT Code, one of the relevant considerations is that, in principle, the management company should not be the subject of any disciplinary proceedings in respect of its licence or registration to conduct any regulated activities, or subject to any actions by an exchange, regulated market or self-regulatory organisation for breaches of any applicable rules, which may materially affect its financial condition, status as a licensed or regulated entity, or ability to perform its licensed or regulated activities. Please refer to Section C of the Information Checklist (and the relevant annexes indicated therein) for the specific confirmations required to be provided by a management company managing SFC-authorized fund(s) (including a new management company (as defined in paragraph 11 below)) at the time of application.

Compliance with 5.2 - 5.5 of the UT Code

10. Among other requirements, a management company should at all times comply with the requirements under 5.2 to 5.5 of the UT Code. However, investment delegates are not subject to the minimum capital requirements of HK$10 million (or its equivalent in a foreign currency) under 5.2(b) of the UT Code. In this connection:

    10.1 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. As such, at least two key personnel, possessing at least five years of investment experience managing public funds with reputable institutions, should be designated for the management company. Key personnel must dedicate sufficient time and attention in the management of the scheme(s) under application;

        10.1.1 Question 8B of the FAQs on the UT Code sets out further guidance regarding an individual acting as the key personnel for one or more management companies and/or investment delegates.

    10.2 any proposed key personnel who has only been assuming a role with functions such as legal, compliance, administration, research, operational and/or general managerial role, without conducting any investment management functions (such as portfolio or fund management with investment decision-making), would generally be unacceptable for the purpose of compliance with 5.5(a) of the UT Code; and

    10.3 the financial resources requirements set out under 5.2(b) to (d) of the UT Code should be assessed and satisfied at the entity level of the management company (and **not** at the holding company group level or on a consolidated group basis).

New management companies (for all schemes)

11. A "new management company" means that the management company of the scheme under application is not, at the time of application, managing any SFC-authorized funds. A management company which is not managing any SFC-authorized funds will be regarded as a "new management company" even though it is part of a management/corporate group where one or more of its group companies is/are currently managing SFC-authorized scheme(s).

12. In determining whether a new management company is subject to an AIR, reference should be made to the requirements and conditions applicable to the jurisdiction concerned set out in the Notes to the List of AIR (eg, whether it holds a valid licence for managing investment schemes / CIS). As part of the vetting process, the SFC will also conduct regulatory checks on the new management company with its home regulator.

13. Each of the key personnel of the new management company for the purpose of 5.5(a) of the UT Code is expected to be properly licensed or regulated in Hong Kong or an overseas jurisdiction (as the case may be) to carry out Type 9 regulated activity under the SFO or an equivalent in the relevant overseas jurisdiction (as the case may be), except where the key personnel is not required to be licensed to carry out asset management activities under relevant overseas laws and regulations.

14. Applicants should ensure that all requirements applicable to the new management company are satisfied at the time of application, save as follows. If the new management company is in the process of applying for the required licensing or registration status under Part V of the SFO to carry on the required regulated activity at the time of a new fund application, applicants are reminded that the authorization of the new fund application may be granted by the SFC only when, among others, the requirement provided under 5.6 of the UT Code has been complied with to the satisfaction of the SFC.

Board of directors or investment managers of self-managed schemes

15. For a scheme seeking authorization which is managed by its board of directors that performs the functions of a management company (ie, a self-managed scheme), references in the UT Code to the directors of a management company are deemed to be references to the directors of a self-managed scheme.

16. Under this Part A, for self-managed schemes, references to the management company are deemed to be references to the investment manager of the schemes, unless otherwise stated.

17. The board of directors of a self-managed scheme should at all times comply with the requirements under 5.4 and 5.5 of the UT Code. Pursuant to 5.7 of the UT Code, the investment management function of a self-managed scheme should be delegated at all times to a qualified investment delegate in compliance with Chapter 5 of the UT Code.

Non-AIR delegation of investment management functions

18. In general, a management company may delegate its investment management functions to an entity that is not based in an AIR ("Non-AIR delegation") provided that satisfactory safeguards and measures are in place to ensure that investors' interests are not compromised. Various conditions in relation to the Non-AIR delegation are set out under paragraphs 19 to 20 below. Please also refer to Question 11 of the FAQs on the UT Code for further details.

19. By submitting an application for a scheme involving a new Non-AIR delegation arrangement (ie, not currently adopted by any existing SFC-authorized funds), the management company is taken to have confirmed and undertaken to the SFC all of the following:

    19.1 the management company is either a corporation licensed by or registered with the SFC to carry out Type 9 regulated activity or is subject to supervision in an AIR;

    19.2 [Deleted]

    19.3 the delegate is properly licensed or registered by its home regulator to manage investment funds and has a good regulatory record;

    19.4 the delegate is subject to proper ongoing supervision and regular monitoring by the management company in compliance with 5.5(e) of the UT Code;

    19.5 the management company remains responsible for the delegate's activities in respect of the delegated investment management functions of the scheme;

    19.6 the management company will report, or procure the delegate to report, to the SFC immediately upon any material breaches, instances of infringement of or non-compliance with any laws and regulations administered by the home or principal regulator with whom the delegate is licensed *(Note: The management company should have the same reporting obligations where the management company committed any such breaches, infringement or non-compliance)*;

    19.7 the management company will, upon request, arrange within a reasonable time to make available the transaction records relating to the delegated activities of the scheme in Hong Kong for the SFC's inspection;

    19.8 enquiries from the SFC about the transaction records relating to the delegated activities of the scheme will be answered, and the SFC will have access to relevant officers, directors and other personnel of the delegate for answers to the enquiries;

    19.9 the SFC may instruct accountants, auditors or any other persons to carry out an inspection of the books and records of the scheme, and such costs should be borne by the management company or the delegate, but not charged to the scheme; and

19.10 the management company will procure the delegate and the Hong Kong representative (where applicable) to make appropriate arrangements to enable the management company to carry out its duties stipulated in 19.5 to 19.9 above.

20. In case of doubt, applicants should discuss any plans of new non-AIR delegation arrangements with the SFC prior to formal application. The SFC will take into account relevant factors in assessing the jurisdiction in which the delegate is based, including the presence of a developed or substantial fund market with international fund management firms in the jurisdiction and/or the home regulator being a signatory to international cooperation arrangements among securities or financial regulators.

Management companies managing specific funds

(a) Management companies of Qualified Investors ("QI")[10] schemes

21. The management company of a QI scheme and/or any other QI holders for the purpose of the scheme under application should have a valid QI licence from the China Securities Regulatory Commission ("CSRC") at the time of application.

(b) Management companies of exchange-traded funds ("ETFs")

22. A management company of an ETF should possess relevant experiences (whether acquired from similar previous transactions and/or via its key personnel) in managing and operating ETFs.

(c) Management companies of hedge funds

23. A management company of a hedge fund should comply with the requirements under 8.7(a) of the UT Code. Please refer to Part L in Chapter 5 of this Guide for further requirements applicable to a management company of hedge funds.

(d) Management companies of funds of hedge funds ("FoHFs")

24. A management company of FoHFs should comply with the requirements under 8.7(k) of the UT Code, ie, to ensure that each of the key personnel of the management company of an underlying fund possesses at least two years' experience in the relevant hedge fund investment strategy.

(e) Management companies of futures-based passive ETFs

25. A management company of a futures-based passive ETF should comply with the additional requirements set out in Question 15 of the FAQs on Exchange Traded Funds and Listed Funds.

B. Trustees / custodians

26. Every scheme seeking authorization should appoint a trustee or custodian acceptable to the SFC pursuant to 4.1 of the UT Code. The trustee or custodian should ensure compliance with Chapter 4 of the UT Code at the time of application and at any time for so long as the scheme remains authorized by the SFC.

27. In accordance with the requirements under 5.4 and 5.5 of the Overarching Principles Section of the Handbook, the management company of a unit trust or mutual fund and the unit trust or mutual fund itself and (where the fund is a mutual fund corporation by nature) its board of directors should exercise reasonable care and diligence in the selection of the trustee or custodian.

[10] Qualified Investors, or "QI", refer to qualified foreign institutional investors who have been approved by the CSRC to invest in Mainland China's securities and futures markets.

28. To comply with 4.1 and 4.2 of the UT Code, a new trustee or custodian (i.e. an entity which is not currently acting as the trustee or custodian of any SFC-authorized funds) that falls under 4.2(d) of the UT Code, is generally expected to be part of a banking group or substantial financial institution (as defined in the UT Code) being subject to prudential regulation and supervision by an overseas supervisory authority acceptable to the SFC on an ongoing basis. Applicants of new funds with new trustees or custodians (other than a trustee or custodian that is licensed or registered under Part V of the SFO to carry out Type 13 regulated activity ("RA 13 depositary")) should provide documentary evidence to the SFC at the time of application, including:

    28.1 certificate of incorporation / registration of the trustee / custodian; and

    28.2 the appropriate licence or certificate issued by its primary supervisory authority.

29. A new trustee or custodian (other than an RA 13 depositary) is generally required to provide the following documents to the SFC at the time of application to demonstrate its compliance with 4.1 of the UT Code:

    29.1 an audit certificate with respect to the trustee or custodian's internal controls and systems[11]; or

    29.2 an undertaking from the trustee or custodian (subject to ongoing regulatory supervision)[12] to the SFC stating that if the SFC is not satisfied with such ongoing regulatory supervision, an independent auditor would be appointed to periodically review its internal controls and systems on the terms of reference agreed with the SFC, and such report would be filed with the SFC.

30. In confirming its compliance with Chapter 4 of the UT Code, the trustee or custodian should ensure strict adherence to the financial resources requirements set out in 4.3 to 4.4 of the UT Code at all times. For the avoidance of doubt, such requirements should be assessed and satisfied at the entity level of the trustee or custodian (and **not** at the holding company group level or on a consolidated group basis).

31. The trustee or custodian and the management company should be persons who are independent of each other pursuant to 4.7 of the UT Code or deemed to be independent of each other pursuant to 4.8 of the UT Code.

32. The trustee or custodian is expected to update the management company (and the OFC where the scheme is an OFC) and the SFC (via the management company or the OFC where the scheme is an OFC) on any changes that would affect its eligibility or capacity to act as the trustee or custodian of SFC-authorized funds (including the regulatory status and/or financial position of the trustee or custodian).

33. Upon being satisfied with the relevant regulatory requirements, the trustee or custodian and/or management company must submit the duly completed and properly executed confirmations (together with relevant supporting documents) to the SFC at the time of application set out in the Information Checklist.

34. Please refer to Chapter 5 of this Guide for other requirements applicable to trustees or custodians of different scheme types.

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[11] Only applicable to new trustees or custodians whose functions are mainly carried out in a non-AIR jurisdiction. In this case, an audit certificate is generally required, and applicants should consult with the SFC in advance.

[12] This is generally required for new trustees or custodians whose functions are: (i) mainly carried out in AIR jurisdictions and with the primary supervisory authority with whom the SFC has cooperation agreements; or (ii) carried out by the head or branch office(s) of a banking institution in an AIR jurisdiction whereby a separate arm or office of the banking institution is currently acting as trustee or custodian for SFC-authorized funds. Trustees or custodians whose functions are carried out in Luxembourg or Ireland would not normally be required to provide an audit certificate or an undertaking referred to in this paragraph 29.

35. To comply with rule 115(1) of OFC Rules, an overseas custodian of an OFC should also note that it must have a process agent at all times in Hong Kong for the purpose of accepting the service of notices and documents in Hong Kong, unless it is a registered non-Hong Kong company.

C. Hong Kong representatives (for non-Hong Kong based schemes only)

36. A non-Hong Kong-based scheme (ie, its management company is not incorporated and does not have a place of business in Hong Kong) should appoint a Hong Kong representative pursuant to 9.1 of the UT Code to represent the scheme and the management company, and to carry out the functions set out in 9.3 of the UT Code.

37. The applicant should ensure its compliance with the following requirements in respect of the appointment of the Hong Kong representative of a scheme:

    37.1 the Hong Kong representative is licensed or registered under the SFO or is a trust company registered under Part VIII of the Trustee Ordinance (Cap. 29 of the Laws of Hong Kong) and such company is an affiliate of an authorized financial institution defined under the SFO and is acceptable to the SFC; and

    37.2 the Hong Kong representative agreement contains provisions in compliance with 9.3 of the UT Code to cover the functions of a Hong Kong representative and with 9.10 of the UT Code regarding the jurisdiction.

38. If the new Hong Kong representative is in the process of applying for the required licensing or registration status at the time of application, the applicant is required to confirm to the SFC prior to the authorization becoming effective (by use of the “Confirmation of Fulfilment of Authorization Conditions” contained in Annex 2 to this Guide) that a Hong Kong representative has been appointed in respect of the scheme in accordance with the requirements under Chapter 9 of the UT Code. Please refer to Chapter 7 of this Guide for details.

D. Directors (for OFCs)

39. An OFC must have at least two natural person directors who must not be undischarged bankrupt (except with the leave of the court). They must submit their profile and vetting authorization form under the Information Checklist, to demonstrate their compliance with rule 100 of the OFC Rules and 5.1 of the OFC Code.

40. At least one of the OFC’s directors must be an independent director, who must not be a director or employee of the custodian, to comply with 5.2 of the OFC Code.

41. A director whose residential address is outside Hong Kong must have a process agent pursuant to rule 102(1) of the OFC Rules.

Chapter 5 - Specific scheme types

A. Hong Kong domiciled schemes[13]

1. In principle, Hong Kong domiciled schemes should fully comply with all the requirements under the UT Code, including Chapter 7 of the UT Code in relation to the core requirements of the investment limitations and prohibitions of a scheme and/or Chapter 8 of the UT Code in relation to the guidelines for various types of specialized schemes (where applicable).

2. A fundamental principle regarding the investments of any scheme seeking authorization for offering to the public in Hong Kong is that the scheme should maintain proper diversification of its investments and liquidity to meet redemptions by investors from time to time.

3. In relation to the use of financial derivative instruments ("FDIs") by a Hong Kong domiciled scheme falling within Chapter 7 of the UT Code (a "Ch. 7 scheme"):

   3.1 a Ch. 7 scheme may use FDIs for hedging purpose;

   3.2 a Ch. 7 scheme may use FDIs for investment purposes subject to the investment limit(s) and requirements under Chapter 7 of the UT Code;

   3.3 in general, a Ch. 7 scheme is expected to be a plain vanilla fund not seeking to use FDIs extensively for investment purposes or with net derivative exposure[14] not more than 50% of its NAV; and

   3.4 for schemes that seek to acquire FDIs for investment purposes but do not meet the specific criteria set out in the relevant provisions in Chapter 7 of the UT Code and this Guide, they should comply with the applicable requirements for specialized schemes as set out in Chapter 8 of the UT Code, e.g. 8.7 on hedge funds (see Part K below), 8.8 on structured funds (see Part L below) and 8.9 on funds that invest extensively in FDIs (see Part M below).

4. (deleted)

5. For the purpose of 7.11A of the UT Code, "eligible schemes" means those UCITS schemes domiciled in Luxembourg and Ireland, and collective investment schemes domiciled in the United Kingdom authorized as UK UCITS. Please refer to Note 7 of the list of recognized jurisdiction schemes ("RJS") posted on the SFC website ("List of RJS") (see paragraph 9 below) for further details.

6. In relation to the investment in real estate investment trusts ("REITs") by SFC-authorized funds and whether REITs are considered as CIS or securities for the purpose of Chapter 7 of the UT Code, please refer to Note to 7.14 of the UT Code and Question 17 of the FAQs on UT Code.

7. In relation to whether ETFs are considered as CIS or listed securities for the purpose of Chapter 7 of the UT Code, please refer to the Note to "Investment in other schemes" under Chapter 7 of the UT Code.

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[13] Non-Hong Kong domiciled schemes which do not fall under Part B (Schemes established in recognized jurisdictions) or Part C (Schemes under mutual recognition arrangements / other fund authorization arrangements) shall be treated as Hong Kong domiciled schemes for the purpose of new fund applications.

[14] Please refer to the "Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds" for further guidance on calculation of net derivative exposure.

B. Schemes established in recognized jurisdictions

8. Schemes that are established outside of Hong Kong are normally expected to comply with the applicable provisions of the Handbook, the UT Code and the Published Guidance in order to be authorized in Hong Kong by the SFC for offering to the public in Hong Kong.

9. The UT Code accepts that some schemes already comply with certain provisions of the UT Code by virtue of prior authorization in a regulated jurisdiction. The SFC recognizes the types of scheme in jurisdictions set out in the List of RJS. RJS will generally be reviewed on the basis that the scheme's structural and operational requirements, and core investment restrictions, already comply in substance with the UT Code. Reference should be made to 1.2 of the UT Code and the List of RJS for further details on the concept of RJS.

10. For the avoidance of doubt, all RJS schemes seeking authorization should, in general, comply in full with the requirements applicable to the trustee / custodian and the management company (and the investment delegate(s), if applicable) of the schemes as provided under the UT Code, including, the provisions under Chapter 4 and Chapter 5 of the UT Code respectively.

11. The Notes to the List of RJS set out the application and authorization requirements applicable to various RJS. In particular, Note 2 of the List of RJS refers to the Application of the Code on Unit Trusts and Mutual Funds on UCITS funds (as amended from time to time) ("UCITS Streamlined Measures") which is applicable to (i) UCITS domiciled in France, Luxembourg, Ireland and the Netherlands, and (ii) UK UCITS. Applicants seeking authorization of UCITS schemes domiciled in these recognized jurisdictions should note that the schemes' constitutive documents are required to comply with all applicable home jurisdiction's laws and regulations and home regulator's requirements and 9.10 of the UT Code and the schemes are required to comply with D12 of Appendix D to the UT Code regarding connected party transactions.

12. A UCITS scheme should be approved by the home regulator at the time of application and its overseas offering documents (that are consistent with the scheme's HKOD) should be (i) approved by the home regulator, or (ii) in the case where authorization / approval of the scheme's overseas offering documents by the home regulator is not required, filed with (and with no subsequent comments from) such home regulator, prior to the authorization becoming effective. Despite the home regulator's approval of the scheme, applicants should ensure compliance with all applicable requirements under the Handbook, the UT Code and the Published Guidance in seeking the SFC's authorization. The SFC will review the application and, where necessary, raise requisitions on the application documents. Before making the formal application to the SFC, applicants are welcome to discuss their proposed applications with the SFC prior to receiving formal approval of the fund(s) by the home regulator.

13. An applicant of a UCITS scheme should inform the SFC of any waivers granted or special requirements and/or conditions imposed by the home regulator of the scheme that have not been stated in the evidence of approval granted by the home regulator at the time of application.

14. [Deleted]

15. For a UCITS scheme whose net derivative exposure exceeds / will exceed 50% of its NAV, the scheme or its management company and the investment delegate(s) (if applicable) or the investment manager of a self-managed scheme should ensure (i) there are suitable risk management and control systems which are commensurate with the scheme's risk profile to monitor, measure and manage all the relevant risks in relation to the scheme; and (ii) the home regulator of the management company or the investment manager of a self-managed scheme has either approved the risk management policy ("RMP") or has no comments on the RMP as duly filed.

16. For a scheme that is established outside Hong Kong seeking to be listed in Hong Kong[15] and proposing to appoint an overseas auditor to carry out a PIE engagement[16] (e.g. an auditor's

[15] Applicable to passive ETF, listed open-ended fund (also known as active ETF), listed unit/share class of unlisted fund, listed leverage and inverse product and listed closed-ended fund.

[16] Please refer to Part 1 of Schedule 1A of the FRCO for the meaning of PIE engagement.

report on annual financial statements) for the scheme, such scheme is required to apply to the Financial Reporting Council ("FRC") for the recognition of its overseas auditor under the Financial Reporting Council Ordinance ("FRCO"). To apply for recognition of its overseas auditor with the FRC, the scheme is required to obtain a statement of no objection ("SNO") from the SFC for the appointment of an overseas auditor to carry out a PIE engagement[16] for it. Please refer to Questions 17 and 18 of the FAQs on Exchange Traded Funds and Listed Funds for further details regarding the arrangement for SNO.

C. Schemes under mutual recognition arrangements / other fund authorization arrangements

17. For applicants seeking authorization of funds pursuant to or in accordance with the mutual recognition arrangements and/or such other fund authorization arrangements that have been entered into between the SFC and the related countries or jurisdictions, they should follow the specific requirements and guidance issued by the SFC related thereto and prepare the application accordingly[17].

D. Self-managed schemes

18. Instead of revising its constitutive documents for the purpose of complying with 5.9(b) of the UT Code, the SFC would accept a self-managed scheme to demonstrate compliance with 5.9(b) of the UT Code by way of disclosure in the HKOD of a maximum aggregate amount for directors' remuneration and that any increase in the directors' remuneration beyond the stated maximum would require shareholders' prior approval at a general meeting, together with a confirmation from the board of directors to such effect.

E. QI funds

General

19. QI funds are funds which invest 70% or more of their NAV through its QI status.

20. The management company and the trustee / custodian of a QI fund should always ensure that proper arrangements referred to in Section 4 of the disclosure guidance ("Disclosure Guidance") (contained in Annex 1 to this Guide) are put in place for the safe custody and segregation of the fund's assets. The management company should ensure that relevant disclosure is included in the HKOD (see Chapter 6 of this Guide for details).

21. The management company of a QI fund and/or any other QI holder for the purpose of the fund under application should have a valid QI licence from the CSRC at the time of application. The fund should comply with the QI rules in terms of the investment policies and strategies of the fund as well as the custodian arrangements in the PRC.

22. The applicant is required to confirm to the SFC prior to the authorization becoming effective (by use of the "Confirmation of Fulfilment of Authorization Conditions" contained in Annex 2 to this Guide) that (i) the relevant accounts (including securities account(s) and cash account(s)) have been opened in the Mainland or (ii) undertake to open the said accounts in the Mainland prior to launching the scheme. Please refer to Chapter 7 of this Guide for details.

F. Feeder funds (7.12 of the UT Code)

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[17] Currently, Hong Kong has mutual recognition of funds arrangements with a number of markets, including (i) the Mainland; (ii) Malaysia; (iii) Taiwan, China (in respect of ETFs); (iv) Australia; (v) Switzerland; (vi) France; (vii) the United Kingdom; (viii) Luxembourg; (ix) the Netherlands; (x) Thailand; (xi) Ireland; and (xii) the United Arab Emirates. For applicants seeking authorization of funds pursuant to or in accordance with these arrangements, they should follow the specific requirements set out in the relevant circulars, the related guidance including FAQs as may be issued by the SFC from time to time, and use the Application Form and the applicable information checklist for the application. In case of doubt, please contact the Investment Products Division.

23. In addition to other requirements applicable to funds under Chapter 7 of the UT Code, a feeder fund should comply with the requirements under 7.12 of the UT Code.

G. Funds that invest in other schemes (7.11, 7.11A, 7.11B, 7.11C and 7.11D of the UT Code)

24. A fund that invests in other schemes should fully comply with the requirements under 7.11, 7.11A, 7.11B, 7.11C and 7.11D of the UT Code.

H. Money market funds ("MMF") (8.2 of the UT Code)

25. A MMF is a scheme which invests in short-term and high quality money market investments and seeks to offer returns in line with money market rates.

26. A MMF should fully comply with the requirements under 8.2 of the UT Code. A UCITS short-term MMF which has complied with the Europe Money Market Funds Regulation[18] is deemed to have substantially complied with the investment restrictions under 8.2 of the UT Code. However, such UCITS short-term MMF is required to comply with 8.2(b), (c), (d) and (o) of the UT Code. Please refer to the UCITS Streamlined Measures for details.

27. A MMF seeking authorization is expected to adopt a variable NAV (i.e. not a stable / constant NAV). For a MMF which offers a stable / constant NAV and/or adopts an amortized cost accounting for valuation of its asset may only be considered by the SFC on a case-by-case basis pursuant to 8.2(o) of the UT Code. Applicants should consult the SFC in advance should their MMFs wish to adopt a stable / constant NAV and/or use amortized cost accounting for valuation. Among others, the SFC must be satisfied with the overall measures and safeguards put in place by the MMF to properly address relevant risks associated with these features having taken into account applicable international regulatory standards and requirements (e.g. Policy Recommendations for Money Market Funds, a final report issued by the International Organization of Securities Commissions in October 2012).

I. Funds with guaranteed features (7.39 of the UT Code)

28. A fund with guaranteed features is a scheme with a structure whereby a guaranteed amount will be paid to investors who hold units / shares in the scheme at a specified date in the future.

29. A fund with guaranteed features should comply with the requirements under 7.39 of the UT Code and the core requirements in Chapter 7 of the UT Code and relevant provisions in Chapter 8 of the UT Code should also apply to the scheme where appropriate, depending on the nature and the underlying investments of the scheme.

30. UCITS schemes with guaranteed features should comply with all the provisions under 7.39 of the UT Code.

31. In order to limit the concentration risk and net single counterparty exposure, the scheme's net single counterparty exposure to the guarantor should be taken into account in compliance with the limits on single entity and/or entities within the same group under 7.1 and 7.1A of the UT Code respectively. In addition, the scheme's net single counterparty exposure to the guarantor may not exceed 10% of the NAV of the scheme at all times. Structurally, guaranteed funds would likely also have features of a structured fund and offer structured pay-outs (i.e. in the form of a guarantee) when certain pre-determined conditions are met. In such cases, the scheme should also comply with applicable requirements under 8.8 of the UT Code (including without limitation the collateral requirements in 7.36) and the relevant guidance set out in the Published Guidance (if any).

J. Unlisted index funds and index tracking exchange traded funds ("passive ETFs") (8.6 of the UT Code)

[18] Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds.

General

32. An unlisted index fund / passive ETF should fully comply with the requirements under 8.6 of the UT Code. Passive ETFs should also observe the requirements under the FAQs on Exchange Traded Funds and Listed Funds.

33. For an unlisted index fund / passive ETF where the underlying index / benchmark is not tracked by any SFC-authorized unlisted index fund / passive ETF, the applicant should submit supporting information to demonstrate that the relevant index / benchmark fulfils the acceptability criteria under 8.6(e) of the UT Code.

34. The applicant of a passive ETF is expected to assess the impact of the Volcker Rule in the US and ensure that there is no adverse impact on the market making activities. The relevant confirmation should be provided at the time of application.

35. A passive ETF / listed unit/share class of an unlisted index fund is required to provide the following trading information to the public through the passive ETF's own website or such other channels as the SFC considers appropriate, namely the real time or near-real time iNAV per unit/share (updated at least every 15 seconds during trading hours), last NAV per unit/share and last NAV of the passive ETF (updated on a daily basis), full holdings of the passive ETF (updated on a monthly basis within one month of the end of each month), rate of foreign exchange used and its sources (where applicable). For multi-counter ETFs, the relevant information should be provided for each counter.

UCITS unlisted index funds and passive ETFs

36. For UCITS unlisted index funds and passive ETFs, they are deemed to comply with the investment restrictions of the UT Code for the purposes of 8.6(a) to (a)(b), (b) to (c), (g) to (i) and (r) of the UT Code, but are specifically required to comply with 8.6(a)(c), (c)(a), (d), (e), (f), (j), (k), (l), (m), (n), (o), (p), (q), (s), (t), (u), (v), (w), (x) and (y) of the UT Code, in addition to the requirements set out in the UCITS Streamlined Measures.

Physical ETFs with securities financing transactions

37. Physical ETFs that undertake securities financing transactions should also comply with the requirements as set out in 8.6(w) of the UT Code and Question 7 of the FAQs on Exchange Traded Funds and Listed Funds.

38. For securities financing transactions for physical ETFs, the collateral management should be marked to market on a daily basis. The arrangement will be similar to the collateral management timeline for ETFs investing in funded swap transactions / China A-share access products ("CAAPs") as set out in 41.4 below. It is noted that such timeline may be modified depending on the specific circumstances (such as the location of the relevant markets and/or the funds and the normal settlement cycle of the collateral) subject to prior consultation with the SFC.

Futures-based passive ETFs

39. For futures-based passive ETFs, applicants should also comply with all the requirements under 8.8 of the UT Code and the requirements as set out in Question 15 of the FAQs on Exchange Traded Funds and Listed Funds, unless any waiver is granted by the SFC.

40. To reflect the nature of the futures-based passive ETFs, the word "futures" must appear in the name of the scheme.

Synthetic ETFs

41. Synthetic ETFs are subject to the following additional requirements in order to raise investors' awareness:

41.1 Management companies of synthetic ETFs are required to:

41.1.1 add a marker X at the beginning of the English and Chinese stock short names of all synthetic ETFs listed on The Stock Exchange of Hong Kong Limited; and

41.1.2 annotate the name by putting an asterisk (*) and an annotation in English (*This is a synthetic ETF)" and in Chinese (*此基金為一隻合成交易所買賣基金), as the case may be, right after the name of a synthetic ETF.

For details, please refer to the Press Release on the new measures to raise investors' awareness of synthetic ETFs dated 18 November 2010.

41.2 Hong Kong domiciled and non-UCITS synthetic ETFs primarily regulated by the SFC are subject to additional measures to enhance the level of collateral and transparency, including:

41.2.1 collateral held must represent at least 100% of the synthetic ETF's gross total counterparty risk exposure and be maintained, marked to market on a daily basis with a view to ensuring that there is no uncollateralised counterparty risk exposure;

41.2.2 where collateral taken is in the nature of equity securities, such collateral should be subject to an additional requirement such that the market value of such equity collateral represents at least 100% of the related gross counterparty risk exposure;

41.2.3 the collateral must meet the requirements in 7.36 of the UT Code, as supplemented by such other guidance from the SFC from time to time;

41.2.4 the management company, as a fiduciary and with due care and skill, should adopt a prudent hair-cut policy on any non-equity collateral held by the synthetic ETF taking into account all relevant factors, including without limitation, the credit quality, liquidity, duration and other relevant terms of the collateral held;

41.2.5 the management company, as a fiduciary, should dynamically manage the collateral with due care and skill, and in the interest of the unitholders/shareholders, having due regard to the market circumstances from time to time; and

41.2.6 the management company is required to publish the latest collateral management policy of the ETF on the ETF's website on an ongoing basis.

41.3 For synthetic ETFs / unlisted index funds using funded swap transaction(s) or CAAPs other than Hong Kong domiciled and non-UCITS synthetic ETFs primarily regulated by the SFC, the management company should manage the funds to ensure that the collateral held by the funds will represent at least 100% of the funds' gross total counterparty risk exposure and be maintained, marked to market on a daily basis, with a view to ensuring that there is no uncollateralised counterparty risk exposure at the end of a trading day.

41.4 The valuation of the collateral and the calculation of counterparty risk exposure for synthetic ETFs / unlisted index funds using funded swap transaction(s) in respect of any trading day T generally occurs on the end of that trading day. If the collateral held by the fund is not at least 100% of the fund's gross total counterparty risk exposure in respect of any trading day T, by the end of that trading day T, the management company will generally require that each swap counterparty deliver additional collateral assets to make up for the difference in value, with the settlement of such delivery expected to occur on or before trading day T+2.

41.5 For synthetic ETFs / unlisted index funds using unfunded swap transaction(s), the management company should manage the fund with the objective to reduce to nil its single counterparty net exposure on the basis that where the fund's net exposure to each swap counterparty exceeds 0% at the end of a trading day T, by the end of that trading day T, the management company will generally require that each swap counterparty should make cash payment to the fund so that the net exposure of the fund to each swap counterparty is

limited to no more than 0% of its NAV. The settlement of such cash payment is expected to occur on or before trading day T+2.

41.6 Subject to prior consultation with the SFC, the above collateral / counterparty exposure management timeline may be modified depending on the specific circumstances (such as the location of the relevant markets and/or the fund and the normal settlement cycle of the collateral).

41.7 Management companies of synthetic ETFs should also comply with the relevant requirements under 8.6(v) and 8.8 of the UT Code and Question 14 of the FAQs on Exchange Traded Funds and Listed Funds.

K. Hedge funds (8.7 of the UT Code)

42. Hedge funds (or alternative investment funds or absolute return funds) are generally regarded as non-traditional funds that possess different characteristics and utilise different investment strategies from traditional funds.

43. Hedge funds (including UCITS funds with similar features) should fully comply with the requirements under 8.7 of the UT Code.

44. The management company of a hedge fund should, amongst others, put in place suitable internal controls and risk management systems commensurate with its business and risk profile in compliance with 8.7(a)(iv) of the UT Code.

45. Where a scheme invests all its non-cash assets in other hedge funds, it is a FoHFs and should comply with the requirements under 8.7(j) and 8.7(k) of the UT Code.

L. Structured funds (including index funds / ETFs that adopt a synthetic replication strategy) (8.8 of the UT Code)

46. A structured fund (including index fund / ETF that adopts a synthetic replication strategy) is a scheme which seeks to achieve its investment objective primarily through investment in FDIs, for example futures, swap or market access products or similar arrangements. A structured fund is passively managed and usually tracks the performance of an index and/or offers structured pay-outs when certain pre-determined conditions are met and its net derivative exposure (see Note to 7.26 of the UT Code) exceeds 50% of its total NAV. The core requirements in Chapter 7 of the UT Code will apply with modifications, exemptions or additional requirements as set out under 8.8 of the UT Code.

47. A structured fund (including UCITS fund with similar features) should fully comply with the requirements under 8.8 of the UT Code. For example:

47.1 a management company of a structured fund should be independent from the FDI issuer(s) in accordance with 8.8(a) of the UT Code;

47.2 the majority of the board of directors of the scheme should be independent directors in compliance with 8.8(b) of the UT Code (applicable where the scheme is a mutual fund company); and

47.3 the management company of a structured fund should put in place detailed contingency plans regarding credit events as required under 8.8(f) of the UT Code.

48. In respect of the asset portfolio of a structured fund investing in unfunded swap:

48.1 the fund should have daily reset mechanism in place to limit the exposure of the fund to the counterparty risk of the FDI issuer to no more than 0% of the NAV of the fund;

48.2 there is no securities lending, repo, reverse repo or other similar over-the-counter transactions; and

48.3 the invested assets under an unfunded swap structure should comply with the collateral requirements in 7.36 of the UT Code with necessary changes as if they were applicable to invested assets. Please refer to Question 16A of the FAQs on UT Code for details.

49. For structured funds which are linked to one or more indices:

    49.1 the index adopted by the structured fund should fulfil the acceptability criteria under 8.6(e) of the UT Code.

    49.2 where the index is provided for the use of the structured fund only, the applicant should be able to justify the propriety of the fund seeking exposure to such index.

    49.3 the index provider should be an independent person or should ensure the index provider is functionally and operationally independent from the swap counterparty in terms of personnel and reporting line if the index provider is a connected person.

50. In relation to the FDI issuer and the guarantor of the FDI issuer:

    50.1 each of the FDI issuer and the guarantor of the FDI issuer should be a "substantial financial institution", which is defined to mean an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum NAV of HK$2 billion or its equivalent in foreign currency.

M. Funds that invest extensively in financial derivative instruments (8.9 of the UT Code)

51. An actively managed Hong Kong domiciled scheme or other non-UCITS scheme which has principal objective of investment in FDIs, or which seeks to acquire FDIs extensively for investment purposes, but does not meet the relevant provisions in Chapter 7 of the UT Code, should comply with the requirements under 8.9 of the UT Code. For avoidance of doubt:

    51.1 the scheme should also comply with the provisions in Chapter 7 of the UT Code subject to the modifications, exemptions, or additional requirements as set out in 8.9 of the UT Code;

    51.2 UCITS schemes whose net derivative exposure exceeds 50% of the NAV are deemed to have already complied with the relevant UCITS requirements and thus are not required to comply with 8.9 of the UT Code, except for the disclosure requirements set out in 8.9(j) of the UT Code and the disclosure requirement in the schemes' KFS regarding the purpose of, and expected maximum leverage arising from FDI; and

    51.3 collateral held by the scheme should comply with the requirements set out in 7.36 of the UT Code.

N. Listed open-ended funds (also known as active ETFs) (8.10 of the UT Code)

52. An active ETF should fully comply with the requirements under 8.10 of the UT Code and also observe the applicable requirements under the FAQs on Exchange Traded Funds and Listed Funds.

53. An active ETF shall also comply with the provisions in Chapter 7 unless otherwise modified under 8.10 of the UT Code.

54. Subject to consultation with the SFC, a scheme under Chapter 7 or 8.10 of the UT Code may have unlisted and/or listed unit/share classes. The unlisted class and listed class shall comply with the requirements in Chapter 7 and 8.10 of the UT Code respectively. Applicants should refer to Question 27B of the FAQs on UT Code for details.

55. An active ETF, or a listed share class, shall comply with the criteria as set out in 8.6(o) to (q), (s) to (u), (w) and (x).

56. An active ETF should also take into account the guidance provided under paragraphs 34, 35, 37 and 38 in Chapter 5 of this Guide.

O. Closed-ended funds (8.11 of the UT Code)

57. A closed-ended fund is a scheme which is generally subject to redemption restrictions.

58. A closed-ended fund should fully comply with the requirements under 8.11 of the UT Code.

59. It is generally expected that there should be an initial public offering of the units or shares and an open market should be maintained for all closed-ended funds seeking authorization under 8.11 of the UT Code.

60. The management company should note that listed closed-ended funds structured in corporate form would be subject to disclosure of interests requirements under the Securities and Futures Ordinance. For closed-ended funds structured in other forms, the management company should consider including disclosure of interests obligations on holders in the constitutive documents of their schemes where appropriate.

61. The applicant should submit supporting information to demonstrate compliance with the requirements under (i) 8.11(b) for procedure(s) and mechanism(s) in place for the scheme to be widely held, and (ii) 8.11(c) for measure(s) and mechanism(s) which are fair and equitable to holders to address any prolonged significant discount of its secondary trading price on the SEHK to its net asset value.

Chapter 6 – Disclosure guidance for Hong Kong offering documents (including KFS) / constitutive documents

A. General principles and requirements

1. A scheme's HKOD should comply with all applicable disclosure requirements of the SFC as issued and/or updated from time to time, including the requirements under the Handbook, the UT Code (including Appendix C) and the Published Guidance, as well as the OFC Code in the case of an OFC.

2. An applicant should comply with GP 2 and the disclosure requirements under Chapter 6 of the Overarching Principles Section of the Handbook.

3. An applicant should prepare a KFS in accordance with the requirements under 6.5 to 6.8 of the Overarching Principles Section of the Handbook and 6.2A of the UT Code. Illustrative templates of the KFS for different scheme types are available on the SFC website. It is expected that the sections headed "Objectives and investment strategy" and "What are the key risks" in a KFS should not be more than four pages.

B. Guidance on disclosure on topical areas

Disclosure Guidance

4. In addition to the topical areas covered below, please refer to the Disclosure Guidance (contained in Annex 1 to this Guide) for general guidance with respect to the SFC's expectations in relation to the disclosure for a scheme's HKOD and the compliance requirements for the constitutive documents of Hong Kong domiciled schemes and other non-UCITS schemes.

4A. [Deleted]

Investment objective and strategy

5. The HKOD of a scheme submitted at the time of application should contain full and proper disclosure of the investment policy and strategy with sufficient details and be in compliance with the applicable disclosure requirements for the relevant scheme type(s).

6. Applicants should ensure that the disclosure reflects the actual investment strategy and policy adopted by the scheme in practice. Disclosure seeking maximum flexibility in the scheme's policy whilst such investment strategy / policy will unlikely be pursued should be avoided.

7. Please refer to Section 1 of the Disclosure Guidance (contained in Annex 1 to this Guide) for the disclosure guidance regarding the investment objective and strategy in the KFS of certain scheme types.

Other scheme features

8. A scheme may enter into securities lending, sale and repurchase and reverse repurchase transactions (collectively, "securities financing transactions"), provided that they are in the best interests of holders to do so and the associated risks have been properly mitigated and addressed. The scheme should also comply with the relevant requirements set out in 7.32 to 7.35 of the UT Code and the disclosure requirements in the HKOD under Appendix C of the UT Code.

9. If a scheme may pay dividends out of capital, the HKOD should disclose the information set out in Question 34 of the FAQs on UT Code.

UCITS schemes

10. For UCITS schemes that use a global offering document which contains information of both SFC-authorized funds and non-SFC-authorized funds, please refer to Question 3 under Section 1 of the FAQs on SFC Authorization of UCITS Funds for the additional disclosure to be made in the Hong Kong wrapper of the global offering document for the purposes of distribution to the public in Hong Kong.

11. For UCITS schemes the net derivative exposure of which may exceed 50% of the NAV, the HKOD (including the KFS) should contain the following disclosure:

    11.1 information as set out in Appendix C to Section 1 of the Disclosure Guidance (contained in Annex 1 to this Guide) (in both the KFS and the main Hong Kong offering document);

    11.2 additional risk disclosure including the risks associated with investments in FDIs (in both the KFS and the main Hong Kong offering document);

    11.3 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 (in the main Hong Kong offering document only); and

    11.4 a summary of the risk management policy and methods employed by the fund to effectively measure and manage the risks associated with the investments in FDIs (in the main Hong Kong offering document only).

Funds investing in Mainland securities

12. If the fund's aggregate exposure to Mainland securities (e.g. China A shares, China B shares and/or Mainland debt securities) (directly or indirectly) amounts to 30% or more of its NAV, the following disclosure should be made in the HKOD with reference to the Disclosure Guidance (contained in Annex 1 to this Guide):

    12.1 the percentage of exposure to the relevant types of Mainland securities (directly or indirectly) and the access channel / regime through which the exposures to Mainland securities are obtained (e.g. QI, Shanghai-Hong Kong / Shenzhen-Hong Kong Stock Connect (collectively, "Stock Connect"), CIBM Direct[19], Bond Connect[20] and/or access products);

    12.2 (Applicable to QI funds[21] / CIBM funds[22] only) the trustee's arrangements relating to safe custody and segregation of the fund's assets invested via QI / CIBM Direct regime; and

    12.3 the risks associated with such investment.

13. [Deleted]

RMB dim sum bond funds

14. RMB dim sum bond funds are required to comply with the investment restrictions under 8.2(g)(i), 8.2(g)(iii) and 8.2(g)(a) of the UT Code in respect of holding of deposits (unless such holding is not substantial (i.e. not more than 30% of the fund's NAV) and the fund will only hold deposits temporarily or under extreme market conditions).

15. [Deleted]

16. [Deleted]

17. [Deleted]

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19 In February 2016, the People's Bank of China announced the opening-up of the mainland China's Interbank Bond Market ("CIBM") to a wider group of eligible foreign institutional investors free of quota restriction via CIBM Direct scheme ("CIBM Direct").

20 As defined in the joint announcement of the People's Bank of China and the Hong Kong Monetary Authority dated 16 May 2017, the "Bond Connect" is an arrangement that establishes mutual bond market access between Hong Kong and mainland China. Overseas investors can invest in the CIBM through Northbound Trading of the Bond Connect.

21 i.e. funds investing 70% or more of their NAV through QI status.

22 i.e. funds investing 70% or more of their NAV through CIBM Direct regime.

18. [Deleted]

19. [Deleted]

20. [Deleted]

Feeder funds (7.12 of the UT Code)

21. The HKOD of a feeder fund should comply with the disclosure requirements under 7.12(b) of the UT Code.

Money market funds ("MMF") (8.2 of the UT Code)

22. The HKOD of a MMF should disclose the matters set out in 8.2(b), (c), (e), (f), (g), (g)(a), (h), (i), (j), (k), (l), (m) and (n) of the UT Code.

23. A MMF that offers a stable or constant NAV or which adopts an amortized cost accounting for valuation of its assets may only be considered by the SFC on a case by case basis.

Funds with guaranteed features (7.39 of the UT Code)

24. The HKOD of a scheme with guaranteed features should disclose the matters set out in 7.39(b), (c) and (d) of the UT Code.

25. Please refer to the KFS template for guaranteed fund.

Unlisted index funds and passive ETFs (8.6 of the UT Code)

26. The HKOD of an unlisted index fund / passive ETF should disclose the matters set out in 8.6(f), (h), (i), (j) and (k) of the UT Code.

27. For passive ETFs and unlisted index funds, the HKOD should also include disclosure of the following:

    27.1 (Applicable to ETFs only) 8.6(u), (v) and (w) of the UT Code (where applicable) and the procedures / conditions in respect of the creation / redemption mechanism as required under Question 1 of the FAQs on Exchange Traded Funds and Listed Funds;

    27.2 (Applicable to ETFs only) that at least one market maker is subject to three months' termination notice requirement. For multi-counter ETFs, this requirement is applicable to market makers in each counter and details of the multi-counter arrangement such as publication of trading information, distribution policy of the units traded under different counters and associated risks. Please refer to the Disclosure Guidance (contained in Annex 1 to this Guide) for details; and

    27.3 index-related risk disclosures e.g. risk relating to potential termination of index licence agreement and risk relating to index compilation by the index provider.

28. All SFC-authorized passive ETFs and unlisted index funds are subject to the disclosure requirements of tracking difference. Please refer to the Circular to management companies of SFC-authorized exchange traded funds and unlisted index funds – on disclosure of tracking difference and tracking error dated 4 July 2014 for details on disclosure in the offering document and on the website disclosures.

29. Please refer to the KFS template for passive ETFs / unlisted index funds.

Hedge funds (8.7 of the UT Code)

30. The HKOD of a hedge fund should disclose the matters set out in 8.7(b)(ii)(Note) (if applicable), (b)(iv) (if applicable), (b)(iv)(Note) (if applicable), (c), (d), (e) (if applicable), (f), (g), (h), (i) (if applicable), (i)(Note) (if applicable), (l), (m), (m)(Note), (n), (o), (p), (q), (r), (s) and (t) of the UT Code and the risk management policy in place as required under C2 of Appendix C to the UT Code.

31. In addition, a FoHFs should also disclose the matters set out in 8.7(a)(iv) (Note(c)), (j), (k)(iii), k(iv), k(v) and k(vi) (if applicable) of the UT Code.

Structured funds (including index funds / ETFs that adopt a synthetic replication strategy) (8.8 of the UT Code)

32. The HKOD of a structured fund (including index fund / ETF that adopts a synthetic replication strategy) should disclose the matters set out in 8.8(c), (d), (e), (f), (g) and (h) of the UT Code.

Funds that invest extensively in FDIs (8.9 of the UT Code)

33. The HKOD of a fund that invests extensively in FDIs should disclose the matters set out in 8.9(a), (f), (g), (h), (i), (j) and (k) of the UT Code.

Active ETFs (8.10 of the UT Code)

34. The HKOD of an active ETF should include disclosure of the following:

    34.1 8.6(u) and (w) of the UT Code (where applicable) and the procedures / conditions in respect of the creation / redemption mechanism as required under Question 1 of the FAQs on Exchange Traded Funds and Listed Funds; and

    34.2 that at least one market maker is subject to three months' termination notice requirement. For multi-counter ETFs, this requirement is applicable to market makers in each counter and details of the multi-counter arrangement such as publication of trading information, distribution policy of the units traded under different counters and associated risks. Please refer to the Disclosure Guidance (contained in Annex 1 to this Guide) for details.

35. Where the performance of an active ETF makes reference to a benchmark, the relevant benchmark shall be disclosed in its offering document.

36. Please refer to the KFS template for active ETFs / listed share classes[23].

Closed-ended funds (8.11 of the UT Code)

37. The HKOD of a closed-ended fund should disclose the matters set out in 8.11 (e), (g), and (h) of the UT Code.

Target date funds

38. Target date funds should make the following additional disclosure in the HKOD:

    38.1 an explanation of the nature and features of a target date fund, including an explanation that the allocation among different types of investments of the fund (the "asset allocation") changes over time;

    38.2 disclosure regarding the date at which the asset allocation becomes fixed, and if such date is different from the target date, disclosure highlighting such fact;

[23] Active ETFs are subject to investment restrictions in Chapter 7 of the UT Code. Depending on an active ETF's objectives and investment strategy, an applicant should prepare the KFS with reference to Section 1 of the Disclosure Guidance (contained in Annex 1 to this Guide).

38.3 where applicable, a statement that the fund will not be automatically terminated at the target date, but will continue to be managed in accordance with the existing investment objectives and policies disclosed in the HKOD of the fund;

38.4 where a date has been set for the fund to be terminated (the "maturity date"), details of any switching out option available to investors prior to or at the maturity date, and actions that will be taken by the management company / trustee at the maturity date;

38.5 corresponding disclosure on the risks and considerations that are important for investors when deciding whether to invest in a target date fund, including a statement that a target date fund should not be selected based solely on age or retirement date, that investors may suffer loss at and after the target date, and that there is no guarantee that investors will receive the principal on retirement date;

38.6 an asset allocation chart, graph and/or table that clearly depicts the intended asset allocation in percentage terms over the entire duration of the fund at identified periodic intervals that are no longer than five years in duration, including the asset allocation at the launch of the fund, at the target date, at the date when the asset allocation becomes fixed (if different from the target date) and, where applicable, at the maturity date. If the asset allocation becomes fixed at the target date, corresponding disclosure in the chart, graph and/or table; and

38.7 appropriate disclosure where such intended asset allocation may be subject to change.

Risk disclosure

39. An applicant should ensure that all relevant risks associated with a scheme are clearly and properly disclosed in the HKOD. Please refer to Section 2 of the Disclosure Guidance (contained in Annex 1 to this Guide) for some common examples of risk disclosure in the KFS of a scheme.

Fees and expenses

40. Ongoing charges

40.1 An applicant is required to disclose the ongoing charges figure in a scheme's KFS in accordance with the requirements set out in the revised Circular to management companies of SFC-authorized funds on disclosure of the ongoing charges figure and past performance information in the Product Key Facts Statements dated 3 March 2017, as may be amended from time to time ("Circular"). Such figures should be calculated and presented in accordance with the methodologies set out in the Guidelines for the disclosure and calculation of the ongoing charges figure set out in the Circular ("Ongoing Charges Guidelines").

40.2 Where applicable, the applicant should also comply with Questions 36 and 37 of the FAQs on UT Code.

41. Performance fees

41.1 Where a performance fee is levied by a scheme, the scheme should comply with 6.17 of the UT Code. The SFC notes that various methodologies may be used for the charging and accrual of performance fees based on the basic principles in 6.17 of the UT Code.

41.2 Where a performance fee is levied by a scheme, the HKOD should contain the required disclosures pursuant to 6.17 and C14 in Appendix C to the UT Code.

41.3 Where a performance fee is levied, the scheme should disclose in its KFS (i) an ongoing charges figure incorporating the performance fees; and (ii) another ongoing charges figure without incorporating the performance fees in accordance with paragraph 6(e) of the Ongoing Charges Guidelines.

41.4 Where a performance fee is levied by a FoHFs, the HKOD of the scheme should contain additional disclosure of the following matters as required under 8.7(i) of the UT Code:

41.4.1 whether a performance fee is levied at both the fund level and the underlying funds level;

41.4.2 summarise the bases of how performance fees are calculated and paid by the underlying funds; and

41.4.3 appropriate warnings about the possibility of charging performance fees at various levels within a FoHFs and the implications to investors.

41.5 Please note that 6.17 of the UT Code does not apply to the underlying funds of a FoHFs.

Performance information

42. An applicant is required to disclose the past performance information in a scheme's KFS in accordance with the requirements set out in the Supplemental Circular. Such information should be calculated and presented in accordance with the methodologies set out in the Guidelines for the disclosure and calculation of past performance information set out in the Supplemental Circular.

Tax-related disclosure

43. The HKOD of a scheme (i) are expected to contain disclosure that investors should seek professional tax advice on the possible consequences for investing into the scheme; and (ii) should contain details of Hong Kong and principal taxes levied on the scheme's income and capital, including tax, if any, deducted on distribution to investors and provisioning policies, if any.

44. The applicant must ensure that all the tax-related disclosure in the HKOD is at all times true and accurate by obtaining competent tax advice and opinion on the tax status of the scheme and on the tax-related disclosure.

45. US Foreign Account Tax Compliance Act ("FATCA")

45.1 Information related to FATCA is generally expected to be disclosed in the HKOD. For the disclosure requirements, please refer to the Circulars to issuers of SFC-authorized investment products concerning the US Foreign Account Tax Compliance Act dated 21 March 2014 and 13 November 2014 and Question 35 of the FAQs on UT Code for details.

45.2 Competent tax advice and opinion should be obtained on the FATCA status of a scheme and on the FATCA disclosure in the HKOD being true and accurate. In addition, no indemnification on FATCA should be imposed on unitholders/shareholders.

Investments in debt instruments with loss-absorption features ("LAP")[24]

46. Funds that may invest in debt instruments with loss-absorption features (e.g. contingent convertible debt securities, senior non-preferred debts, etc.) should make the following additional disclosure in the HKOD:

46.1 the types / examples of instruments to be invested and the fund's expected total maximum investment/exposure in debt instruments with loss-absorption features in the KFS; and

46.2 the risks associated with investments in debt instruments with loss-absorption features in the HKOD (including, where LAP investments may be substantial, the KFS as well).

OFCs

47. The HKOD of an OFC should, in addition to the applicable disclosure guidance discussed above, disclose the matters set out in 4.2, 5.5, 6.3, 7.4, 7.5, 8.3 and 10.9 of the OFC Code. Please refer to Section 3A of Annex 1 to this Guide for details.

[24] Please refer to the questions under the section headed "Debt instruments with loss-absorption features" in the FAQs on the Implementation and Transition Arrangements of the Code on Unit Trusts and Mutual Funds (Effective on 1 January 2019).

Credit rating-related disclosure

48. Under Note (4) of 5.10(f) of the UT Code, management companies must maintain effective internal policies and procedures in assessing the credit risk of securities or instruments invested by the fund. External rating shall only be one of the factors to take into consideration in assessing the credit quality of an instrument. Mechanistic reliance on external ratings should be avoided. Management companies should exercise professional independent judgment on credit assessment.

49. Management companies should ensure that proper disclosures are included in the HKOD (including KFS) of the credit rating disclosed (including associated risk factors, if applicable).

Investments in insurance-linked securities ("ILS") and ILS-related products

50. SFC-authorized funds are prohibited from investing in ILS issued in Hong Kong and their repackaged products and derivatives[25].

51. Subject to the restrictions mentioned in paragraph 50 above, if an SFC-authorized fund may invest in ILS issued outside Hong Kong and/or any ILS-related products ("**ILS Investments**"), it should observe the investment and disclosure requirements set out in Question 20A of the FAQs on UT Code. An SFC-authorized fund is not expected to invest more than 10% of its net asset value in ILS Investments.

Investments in virtual assets

52. Applicants should consult the SFC in advance if any of their fund(s) may have exposure to virtual assets.

53. For further details, please refer to the Circular on SFC-authorised funds with exposure to virtual assets.

[25] The Insurance Ordinance (Cap.41) was amended on 29 March 2021 to include a regulatory framework for the issuance of ILS in Hong Kong. In its Consultation Conclusions on Draft Insurance (Special Purpose Business) Rules, the Insurance Authority specified that funds targeting at the general public are not regarded as eligible ILS investors.

Chapter 7 – Documentation requirements following SFC authorization and prior to the authorization becoming effective

1. Under section 104(1) and section 105(1) of the SFO, the SFC may, where it considers appropriate, authorize a scheme and the issue of its HKOD respectively, subject to such conditions as the SFC considers appropriate. Please refer to Question 17 of the FAQs on Application Procedures for details.

2. The authorization conditions which the SFC may impose and as set out in an authorization letter ("Authorization Letter") generally comprise of (i) conditions precedent to the authorization becoming effective; and (ii) conditions which must be complied with on an ongoing basis so far as the scheme and its HKOD remain authorized by the SFC (collectively the "Authorization Conditions").

3. For the authorization of a scheme and its HKOD to become effective, the applicant is required to fully comply with all such conditions precedent to the authorization becoming effective as may be imposed by the SFC and as set out in the Authorization Letter within two months from the date of such letter (or such extended period(s) as may be agreed by the SFC upon the submission of proper justifications by the applicant), including the following (where applicable):

   3.1 authorization fees and the annual fee must be paid (on cleared funds basis) for the scheme under application in the form of a cheque made payable to "Securities and Futures Commission" (Please consult the SFC in advance for other means of payment).

   <u>For non-MRF applications</u>

   3.2 the applicant must submit to the SFC a duly completed and properly executed Confirmation of Fulfilment of Authorization Conditions (a standard form of which is contained in Annex 2 to this Guide) confirming, amongst others, its agreement to all the Authorization Conditions and that all such conditions have been fulfilled and/or will be complied with (as the case may be), together with the documents referred to in paragraph 3.3 below. In particular, where applicable, the applicant must confirm / undertake (as the case may be) the following:

      3.2.1 in respect of schemes whose HKOD are subject to comments of the SFC as set out in the Authorization Letter, the finalised draft of the HKOD has properly addressed all such comments;

      3.2.2 in respect of overseas funds, the finalised draft of the HKOD is consistent with the overseas offering documents (i) as approved / authorized by the home regulator of the scheme, or (ii) as filed with (and with no subsequent comments from) the home regulator of the scheme in the case where approval / authorization of the scheme's overseas offering documents by such home regulator is not required;

      3.2.3 in respect of QI schemes, the relevant accounts (including securities account(s) and cash account(s)) have been opened in the PRC or the said accounts will be opened in the PRC prior to the launch of the scheme;

      3.2.4 in respect of non-Hong Kong based schemes, a Hong Kong representative has been appointed in respect of the scheme in accordance with the requirements under Chapter 9 of the UT Code*;* and

      3.2.5 such other confirmations / undertakings that are required to be submitted pursuant to the Authorization Letter.

   3.3 the applicant must submit to the SFC the following documents:

      3.3.1 the finalised draft of the English HKOD, with (i) changes (shown in mark-ups against previously submitted version) properly addressing all the comments of the SFC on the HKOD (if any) as set out in the Authorization Letter; and (ii) annotations against Appendix C to the UT Code;

      3.3.2 Chinese HKOD and executed Chinese translation certificate(s);

3.3.3 in respect of overseas schemes whose overseas offering documents were in the process of obtaining approval / authorization from the home regulator, documentary evidence to confirm that the overseas offering documents of the schemes have been duly approved / authorized by the home regulator;

3.3.4 copy of duly executed constitutive documents for:

3.3.4.1 all Hong Kong domiciled schemes and other non-UCITS schemes, with annotations against Appendix D to the UT Code and the key provisions as set out in Section 5 of the Disclosure Guidance (contained in Annex 1 to this Guide)[26]; and

3.3.4.2 new UCITS umbrella funds, new UCITS single funds or UCITS schemes with changes to the version of the constitutive documents previously filed with the SFC;

3.3.5 in respect of ETFs/listed funds, listing approval granted to the scheme or the listed unit/share class(es) by The Stock Exchange of Hong Kong Limited; and

3.3.6 such other documents which are required to be submitted pursuant to the Authorization Letter.

For MRF applications

3.4 the applicant must submit to the SFC a duly completed and properly executed Confirmation of Fulfilment of Authorization Conditions (a standard form of which may be found in the information checklist of the relevant MRF arrangements) confirming, amongst others, its agreement to all the Authorization Conditions and that all such conditions have been fulfilled and/or will be complied with (as the case may be), together with all such documents which are required to be submitted pursuant to the Authorization Letter.

For OFC Applications

3.5 the applicant must, in addition to the documents discussed above, submit to the SFC the application documents required by the Companies Registry for the processing of the incorporation and business registration of an OFC. Such documents will be forwarded by the SFC to the Companies Registry for processing if the authorization requirements are met[27]. The authorization will only take effect after the date of issuance of the Certificate of Incorporation, whereupon the OFC would be established.

[26] In the case of an OFC, annotations should be made to show compliance with the applicable provisions of the SFO, OFC Rules and OFC Code. Please refer to the Template of Instrument of Incorporation for Umbrella Public OFC. In the case of other mutual fund corporations, the key provisions as set out in Section 5 of the Disclosure Guidance (contained in Annex 1 to this Guide) may be set out in the custodian agreement and/or the management agreement, instead of the articles of association.

[27] For details of the Companies Registry's requirements in respect of incorporation and business registration of an OFC, please refer to the Companies Registry's website: https://www.cr.gov.hk/en/ofc/.

Annex 1
Disclosure Guidance

Preamble

- The disclosure wordings and key provisions set out in this Annex form part of the Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds (the "**Guide**"). They aim to provide general guidance to applicants with respect to the SFC's expectations in relation to the disclosures (in the case of the fund's Product Key Facts Statement (the "**KFS**") and the main Hong Kong offering documents) (the "**Expected Disclosures**") and the compliance requirements (in the case of the fund's constitutive documents) (the "**Compliance Requirements**") on the topics set out below. In the case where the scheme is offering both listed and unlisted unit/share classes, separate KFS for the listed and unlisted unit/share classes should be prepared.

- The Expected Disclosures are for reference only and are neither intended, nor should they be construed, as exhaustive. The actual relevant disclosure required in each case may vary from fund to fund, depending on its specific features and risks. Management companies should ensure that, as a minimum, (i) disclosure in the Hong Kong offering documents (including the KFS) of their funds is in line with the Expected Disclosures; and (ii) the constitutive documents of the funds conform in substance with the provisions set out herein with no material deviation/dilution to the intended operative effect thereof.

- It is the management companies' responsibility to ensure that at all times, the KFS and the main Hong Kong offering documents of a fund contain the information necessary for investors to make an informed judgment of the proposed investments and also meet all applicable disclosure requirements of the SFC (including the requirements pursuant to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products (the "**Handbook**") and the Code on Unit Trusts and Mutual Funds (the "**UT Code**")) from time to time, and that the KFS is consistent with the main Hong Kong offering document of the fund. In the case of OFCs, the offering documents (including the KFS) must also comply with all applicable disclosure requirements in the Code on Open-ended Fund Companies (the "**OFC Code**").

- As such, management companies are expected to take into account the specific features and risks of the fund and adapt the Expected Disclosures to cater for their specific cases as appropriate. Management companies are reminded that they should exercise due care and professional judgment at all times in preparing the Hong Kong offering documents of their funds adhering to, among others, the following overarching principles: (i) the KFS must be clear, concise and not misleading and should be kept at a minimal length so as to enable investors to comprehend the key features and risks of the fund; and (ii) the main Hong Kong offering document of the fund must contain all information necessary for investors to appraise the position of the fund or an investment proposed in it . Hence, it is expected that the sections headed "Objectives and investment strategy" and "What are the key risks" in a KFS should not be more than 4 pages.

- The Expected Disclosures and/or Compliance Requirements may be revised or updated from time to time by the Investment Products Division of the SFC.

- Applicants must ensure that all information that is necessary for the SFC's assessment of their applications has been properly disclosed and provided at all times. When submitting the application, applicants are therefore expected to provide all necessary information relating to the application, including the information marked with "[x]" in the Expected Disclosures and to ensure that the application is in compliance with all other applicable requirements, including, the Compliance Requirements. A lack of the required information/any non-compliance in/with respect to the application or any substantial changes during the course of an application may cause the application to be returned or refused.

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Section 1: Objectives and Investment Strategy (for KFS)

This Section 1 sets out the Expected Disclosures in the KFS of certain types of funds as listed below with respect to the fund's objectives and investment strategy.

- Equity funds / bond funds / mixed funds / funds that primarily invest in other schemes (see 1.1 below) [1]
- Money market funds (see 1.2 below)
- Passive ETFs / unlisted index funds (see 1.3 below)

For other types of funds (including any specialized schemes under Chapter 8 of the UT Code not covered above), applicants should refer to the UT Code and the Guide to ensure compliance with the relevant disclosure requirements with regard to the objectives and investment strategy of the fund.

1.1 For equity funds / bond funds / mixed funds / funds that primarily invest in other schemes

Objectives

The fund seeks to / The investment objective of the fund is to [*(please specify the objective of the fund)* e.g. achieve long-term capital growth / provide income and capital growth / maximise total return etc.].

Strategy

a) **Primary investments**
Please refer to Appendix A

b) **Specific types of asset classes / investments / markets / strategy *(To the extent applicable)***
Please refer to Appendix B

c) **Use of financial derivative instruments ("FDI")**
Please refer to Appendix C

[1] Active ETFs are subject to investment restrictions in Chapter 7 of the UT Code. Depending on an active ETF's objectives and investment strategy, an applicant should prepare the KFS with reference to the relevant Expected Disclosures in this section.

1.2 For money market funds

Objectives

The fund's objective is to invest in short-term and high quality money market investments. The fund seeks to [*(please specify the objective of the fund)* e.g. achieve a return in [currency of denomination of the fund] in line with prevailing money market rate].

Strategy

a) Primary investments

[At least/ Not less than [x]% / [(*insert a fraction number*)] of the fund's net asset value ("**NAV**")] will be invested in [RMB-denominated and settled / *(please specify the other currency)*-denominated] short-term deposits and high quality money market instruments issued by [*(please specify the types of issuers)*, e.g. governments, quasi-governments, international organisations, financial institutions, other corporations, etc.] [in/outside] [countries or regions] [*(if applicable)* and money market funds that are authorized by the SFC [under 8.2 of the UT Code] or regulated in [name(s) of the relevant jurisdiction(s) (Note: The money market fund should be regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC)].

(This statement could be disclosed under the section headed "What is this product?" in the KFS) The purchase of a [unit/share] in the fund is not the same as placing funds on deposit with a bank or deposit-taking company, that the [management company] has no obligation to redeem [units/shares] at the offer value and that the fund is not subject to the supervision of the Hong Kong Monetary Authority.

Weight average maturity and weighted average life

The fund will maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and will not purchase an instrument with a remaining maturity of more than 397 days, or two years in the case of government and other public securities.

Credit rating *(if applicable)*

The fund will invest [all of its assets/ at least/not less than [x]% of its NAV] in money market instruments rated investment grade or above by [*(please specify the name of internationally recognised credit rating agencies as disclosed in the main Hong Kong offering document)*, e.g. Fitch, Moody's and/or Standard and Poor's].

b) Specific types of asset classes / investments / markets / strategy *(To the extent applicable)*

Please refer to Appendix B.

1.3 For Passive ETFs / unlisted index funds

Objectives

The fund seeks to / The investment objective of the fund is [*(please specify the objective of the fund)* e.g. to provide investment results that, before fees and expenses, closely correspond to the performance of the index/benchmark].

Strategy

c) General investment strategy

In seeking to achieve the fund's investment objective, the [manager] will:-

i) use a full replication strategy by investing all or substantially all of its assets in the constituents of the index, broadly in proportion to the respective weightings of the constituents[2]; and/or

ii) use a representative sampling strategy by investing in a portfolio featuring high correlation with the index and the [manager] may invest in other securities that are not included in the index[2]; and/or

iii) use a synthetic replication strategy through investing directly in the following:-

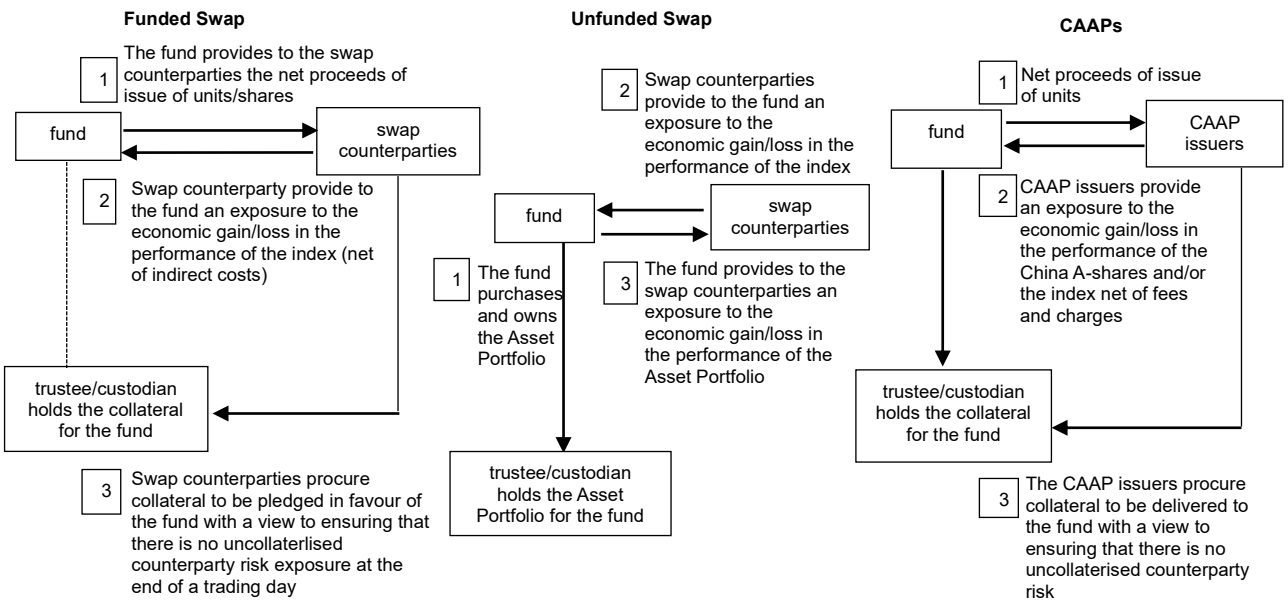
- China A-share access products ("**CAAPs**") issued by counterparties, which will provide the fund with an exposure to the economic gain/loss in the performance of the China A-shares and/or index net of fees and charges; or

- funded swap transaction(s) whereby the fund will pass on substantially all of the net proceeds of any issue of its units/shares to the swap counterparties and in return the swap counterparties will provide the fund with an exposure to the economic gain/loss in the performance of the index (net of indirect costs); or

- unfunded swap transaction(s) whereby the fund will receive from the swap counterparties, an exposure to the economic gain/loss in the performance of the index. In return the fund will provide the swap counterparties an exposure to the economic gain/loss in the performance of a portfolio of assets which the fund will purchase ("**Asset Portfolio**") with the net proceeds of any issue of its units/shares. The fund will own the Asset Portfolio.

[2] In the case where an unlisted index fund / passive ETF invests in China-A shares as included in the index, it may invest through its QI status and/or any other QI holder registered with the State Administration of Foreign Exchange of the People's Republic of China ("**SAFE**") and/or the Shanghai-Hong Kong Stock Connect and/or the Shenzhen-Hong Kong Stock Connect.

d) Illustrative Examples on the diagrams of synthetic ETFs / unlisted index funds



e) Invested asset/collateral arrangements *(for synthetic ETFs / unlisted index funds)*

For synthetic ETFs / unlisted index funds

A prudent haircut policy will be adopted. Each counterparty or its guarantors would be a substantial financial institution (as defined in the UT Code). The manager is independent of the counterparties (or means by which possible conflicts of interests will be addressed).

For synthetic ETFs / unlisted index funds using CAAP(s)

The manager will obtain collateral that represents at least 100% of the fund's gross total counterparty risk exposure so that there will be no uncollateralised counterparty risk. All investments in CAAPs will be fully collateralised. Collateral received will not consist of any structured products. Collateral received and held by the trustee will be held in a segregated account opened in the name of or to the order of the trustee. The value of the CAAPs and the collateral is marked to market on a daily basis by the manager.

For synthetic ETFs / unlisted index funds using unfunded swap transaction(s)[3]

The manager will manage the fund with the objective to reduce to nil its single counterparty net exposure on the basis that where the fund's net exposure to each swap counterparty exceeds 0% at the end of a trading day T, by the end of that trading day T, the manager will generally require that each swap counterparty should make cash payment to the fund so that the net exposure of the fund to each swap counterparty is limited to no more than 0% of its NAV. The settlement of such cash payment is expected to occur on or before trading day T+2. The management of single counterparty net exposure in this manner, however, is subject to market risk, price movements and settlement risk.

[3] For unfunded swap transaction(s), the collateral management timeline may be modified depending on the specific circumstances (such as the location of the relevant markets and/or the fund and the normal settlement cycle of the collateral).

For synthetic ETFs / unlisted index funds using funded swap transaction(s)[4]

The manager will manage the fund to ensure that the collateral held by the fund will represent at least 100% of the fund's gross total counterparty risk exposure and be maintained, marked to market on a daily basis, with a view to ensuring that there is no uncollateralised counterparty risk exposure at the end of a trading day (subject to intra-day price movements, market risk and settlement risk). The valuation of the collateral and the calculation of counterparty risk exposure in respect of any trading day T generally occurs on the end of that trading day. If the collateral held by the fund is not at least 100% of the fund's gross total counterparty risk exposure in respect of any trading day T, by the end of that trading day T, the manager will generally require that each swap counterparty deliver additional collateral assets to make up for the difference in value, with the settlement of such delivery expected to occur on or before trading day T+2.

For synthetic ETFs domiciled in Hong Kong only

The manager will obtain collateral that represents at least 100% of the fund's gross total counterparty risk exposure so that there will be no uncollateralised counterparty risk. Where collateral is taken in the nature of equity securities, the market value of the equity collateral will represent at least 100% of the related gross counterparty exposure.

f) Additional disclosure *(where applicable)*

For physical passive ETFs

The fund may enter into securities lending transactions for up to [(*please specify*)] of its NAV at any one time and is able to recall the securities lent out at any time. As part of its securities lending transactions, the fund will receive collateral, the value of which, during the duration of the securities lending agreement, will be equal to at least 100% of the global valuation of the securities lent, marked to market on a daily basis. [The fund will not engage in any reinvestment of collateral received other than reinvestment of cash collateral in cash or cash equivalent instruments.]

For fixed income passive ETFs / unlisted index funds

The investment in any below investment grade and unrated sector constituents may not exceed a weighting of 30% of the index at every month end and the manager will seek to limit the amount of overall holdings in below investment grade and unrated sector bonds to a maximum of 30% of the NAV of the fund within a reasonable period of time taking into account the interests of unitholders.

g) Index

The index/benchmark is denominated in [currency]. The index/benchmark was launched on [date]. The constituents of the index and their respective weightings are published at [publicly accessible website]. The manager and its connected persons are independent of the index/benchmark provider (or means by which possible conflicts of interests will be addressed).

For equity index

The index is a [total/price] return, [free float market capitalisation/equal] weighted index. As at [date], it comprised of [number] securities listed in [countries] with total market capitalisation of [amount]. The base date of the index is set out [date].

[4] For funded swap transaction(s), the collateral management timeline may be modified depending on the specific circumstances (such as the location of the relevant markets and/or the fund and the normal settlement cycle of the collateral).

For fixed income index

The index is a [total/price] return, [market capitalisation/equal] weighted index. As at [date], it comprised of [number] securities with total market capitalisation of [amount]. It is currently designed to measure the performance of [description]. The base date of the index is set out [date].

h) Specific types of asset classes / investments / markets / strategy *(To the extent applicable)*

Please refer to Appendix B.

Appendix A: Investment Strategy – Primary Investments

(i) For equity funds / bond funds

- The fund will invest [primarily/principally] (i.e. at least/not less than [x]% / [(*insert a fraction number*)]) of its NAV in [*(please specify and elaborate on the type(s) of primary investment(s) of the fund)*].

  For illustrative purposes, below are some examples of disclosures in describing the applicable type(s) of primary investment(s) (the "**Primary Investments Disclosure**").

  - Geographic region

    - Equities of companies that are listed, or have their registered offices in [region] or that generate a predominant share of their sales and/or their profits in [region].

    - Fixed or floating rate securities issued or guaranteed by companies registered in [region] or with significant operations [in aforementioned region].

  - Industry/ sector

    - Equities of worldwide companies [in [x] and related industry / in [x] sectors].

  - Market capitalisation

    - [*(please specify the methodology to determine the market capitalisation focus of the fund)*] e.g. equities of companies that are included in the [*(please specify the names of the large-cap/small-cap indices)*] or that have a market capitalisation [below/above] the [highest/lowest] market capitalisation of companies in these indices].

  - Currency denomination

    - [*(name of currency)*]-denominated and settled interest-bearing securities that are issued [inside/outside][name of country].

  - Categorisation of securities

    - Securities issued by [*(please specify the types of issuers)* e.g. government, sovereign, corporates, etc.].

    - [*(Different types/nature of securities)* e.g. listed equities, ADRs, GDRs, MLPs, listed debt securities, bonds, convertible bonds, REITs, ETFs, etc.].

  - Credit rating

    - Debt securities rated below investment grade by *[(please specify the name of internationally recognised credit agency as disclosed in the main Hong Kong offering document)* e.g. Standard & Poor's, Moody's, Fitch], or unrated debt securities.

    - [*(name of currency)*, e.g. USD]-denominated debt securities rated investment grade by [*(please specify the name of internationally recognised credit agency as disclosed in the main Hong Kong offering document)* e.g. Fitch, Moody's and/or Standard & Poor's)].

(ii) For mixed funds (including balanced funds and dynamic asset allocation funds)

- The fund may invest [*(please specify the relevant types of securities and the corresponding exposures)* e.g. up to [x]% / [(*insert a fraction number*)] of its NAV in [each of the following:] equities and debt securities / [x% to x]% / [(*insert a fraction number*) to (*insert a fraction number*)] of its NAV in equities and the remaining assets in debt securities].
- [*(please elaborate on the relevant types of securities)* e.g. The fund does not have requirement on the credit rating of the underlying debt securities / may invest up to [x]% / [(*insert a fraction number*)] of its NAV in debt securities rated below investment grade by [*(please specify the name of internationally recognised credit agency as disclosed in the main Hong Kong offering document)* e.g. Standard & Poor's or the equivalent by Moody's or Fitch]) or unrated debt securities. The fund is not subject to any limitation on the portion of its NAV that may be invested in any one country or region. *(please refer to the Primary Investments Disclosure in section (i) under this Appendix A above for other illustrative examples of disclosure regarding the fund's primary investments)*].
- [*(please describe the asset allocation strategy of the fund, including the criteria in determining the allocation to different asset classes and/or the selection criteria of underlying securities)* e.g. The asset allocation of the fund will change according to the investment manager's views of fundamental economic and market conditions and investment trends across the globe, taking into consideration factors such as liquidity, costs, timing of execution, relative attractiveness of individual securities and issuers available in the market].

(iii) For funds that primarily invest in other schemes

- The fund will invest [all of its assets / primarily (i.e. at least/not less than [x]%) / [(*insert a fraction number*)] of its NAV] in other collective investment schemes.
- [*(please elaborate on any particular focus of the underlying investments of the underlying schemes)* e.g. The underlying asset classes of the underlying schemes include equities, fixed income and money market instruments. The fund invests with no prescribed regional, country, industry sector or market capitalisation limits for investment by its underlying schemes. *(please refer to the Primary Investments Disclosure in section (i) under this Appendix A above for other illustrative examples of disclosure regarding the fund's primary investments)*].
- [*(please state whether the underlying* schemes *are authorized by the SFC and/or are eligible schemes)* e.g. The fund will only invest in other funds authorized by the SFC or in eligible schemes domiciled in [*(please specify the fund domicile(s))* e.g. Luxembourg, Ireland and/or the United Kingdom (whether authorized by the SFC or not)], except that not more than 10% of the fund's NAV may be invested in non-eligible schemes not authorized by the SFC.]
- [*(please elaborate on the extent of use of FDI of the underlying schemes for investment / non-hedging purposes)* e.g. The fund may/will invest in underlying schemes of which may use FDI primarily/extensively for investment purposes / the net derivative exposure is more than 50% of the underlying schemes' NAV].

Appendix B: Investment Strategy – Specific Types of Asset Classes / Investments / Markets / Strategy *(to the extent applicable)*

I) General

- In general, if the fund invests in 30% or more of its NAV in any particular type of asset classes or investments or markets (or engages in any particular type of strategy attributing to 30% or more of the fund's NAV), regardless of whether such exposure forms part of the primary or ancillary investment of the fund, such exposure and the associated risk(s) are expected to be disclosed in the sections headed "Objectives and investment strategy" and "What are the key risks?" in the KFS respectively.

- Notwithstanding the above, depending on the specific circumstance of the fund, it is the management company's responsibility and obligation to exercise professional judgment at all times in determining the relevant key features and risks associated with the fund that in their view/opinion should be disclosed or highlighted in the fund's KFS (regardless of whether such asset class or investment or market or strategy may or may not amount to 30% or more of the fund's NAV) in order to enable investors to appraise the position of the fund.

- In addition, disclosure in the Hong Kong offering documents of the fund (including the main Hong Kong offering document and the KFS) should be complete, accurate and fair. The management company must exercise professional judgment at all times to ensure compliance with the requirements and to avoid material omission of disclosure to investors, including, without limitations, to determine as to whether to include any negative statements with respect to the fund's non-investment/engagement in certain and/or any specific types of asset classes / investments / markets / strategy taking into account the specific circumstance of the fund.

II) 30% or more exposure to certain types of asset classes / investments / markets / strategy

a) For funds that may invest in 30% or more of its NAV in other collective investment schemes/funds

- The fund may invest 30% or more of its NAV in other [collective investment schemes/funds], which will have a similar [investment objectives and/or strategies] as the fund.

b) For funds which may have 30% or more exposure to mainland China

- The fund may invest 30% or more of its NAV in [*(Please specify the type(s) of Mainland securities)* e.g. China A-shares, China B-shares and/or Mainland debt securities] [directly (e.g. through its QI status / Stock Connect / CIBM Direct / Bond Connect) or indirectly by way of [e.g. access products or funds investing in China A-shares]].

c) For funds which may have 30% or more exposure to any combination(s) of the following investments (on an aggregate basis or with respect to each of the 3 types of investments individually):

1) urban investment bonds (城投債); and/or

2) debt securities rated below investment grade (in the case where the credit rating is designated/assigned by an internationally recognised credit agency as disclosed in the main Hong Kong offering document or in the case the credit rating is

designated/assigned by a PRC credit rating agency, an appropriate credit rating which fairly reflects the credit risk of the securities as below investment grade as determined by the management company) or unrated; and/or

3) collateralised and/or securitised products (such as asset backed securities, mortgage backed securities and asset backed commercial papers)

- The fund may invest 30% or more of its NAV in (1) urban investment bonds (城投債), which are debt instruments issued by Mainland local government financing vehicles (**"LGFVs"**); and/or (2) debt securities rated [below investment grade *(in the case where the credit rating is designated/assigned by an internationally recognised credit agency as disclosed in the main Hong Kong offering document or in the case the credit rating is designated/assigned by a PRC credit rating agency, an appropriate credit rating which fairly reflects the credit risk of the securities as below investment grade as determined by the management company)*] or unrated; and/or (3) collateralised and/or securitised products such as asset backed securities, mortgage backed securities and asset backed commercial papers).

- *(for funds investing in urban investment bonds (城投債))* These LGFVs are separate legal entities established by local governments and / or their affiliates to raise financing for public welfare investment or infrastructure projects.

- *(for funds investing in unrated debt securities)* For the purpose of the fund, "unrated bond" is defined as a bond which neither the bond itself nor its issuer has a credit rating.

d) For funds which may have 30% or more exposure to securities lending, sale and repurchase and/or reverse repurchase transactions (collectively, "securities financing transactions") on an aggregate basis

- The fund may conduct [securities lending, sale and repurchase and/or reverse repurchase transactions (collectively, "securities financing transactions") *(for sale and repurchase and/or reverse repurchase transactions, please disclose if they are listed on recognised exchanges or over-the-counter based)*] in aggregate for up to [x]% of its NAV.

e) For funds which may have substantial investment in cash under exceptional circumstances

Under exceptional circumstances (e.g. market crash or major crisis), the fund may be invested temporarily up to [e.g. 100%] in liquid assets such as bank deposits, certificates of deposit, commercial paper and treasury bills for cash flow management.

III) More than 10% exposure to debt securities issued and/or guaranteed by a single sovereign issuer

a) For funds which have more than 10% exposure to debt securities (e.g. for a bond fund, an equity fund with ancillary investments in debt securities, a mixed fund) that are issued and/or guaranteed by a single sovereign issuer

- The fund may invest more than 10% and up to [x]% of its NAV in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade (i.e. [*(please disclose the identity(ies) of potential sovereign(s))*]).

- [*(please disclose the reasons for such concentration)* e.g. Such investments are based on (i) the reference to a particular benchmark *(please name such benchmark)*; and/or (ii) the

professional judgment of the investment manager whose reasons for investment may include a favourable / positive outlook on the sovereign issuer, potential for ratings upgrade and the expected changes in the value of such investments due to the ratings changes].

- [*(if applicable)* Please note the ratings of sovereign issuers may change from time to time and the abovementioned sovereign is named only for reference and is subject to change as its ratings changes.]

IV) Investments in debt instruments with loss-absorption features (LAP)

a) For funds which may invest in debt instruments with loss-absorption features

- The fund may invest in debt instruments with loss-absorption features [*(please disclose the type(s) / examples of LAP to be invested)* e.g. contingent convertible debt securities, senior non-preferred debts, etc.]. [These instruments may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s).]

- The fund's expected total maximum investments in LAP will be [up to [x]%] / [not more than [x]%] of its NAV.

Appendix C: Investment Strategy – Use of Financial Derivative Instruments

Use of FDI / investments in FDI calculated with reference to net derivative exposure

(a) KFS disclosures

In satisfying the disclosure requirements in the KFS, the term "net derivative exposure" has the meaning as defined in 7.26 of the UT Code and should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time. A "Guide on the Use of Financial Derivative instruments for Unit Trusts and Mutual Funds" published by the SFC is available at the SFC website.

Please refer to the illustrative templates of the KFS which are available on the SFC website for different types of funds for the required disclosures in respect of use of / investments in FDI.

(b) Additional disclosures for funds with net derivative exposure exceeding 50% of the fund's NAV

- FDI strategy

  [*(please disclose information relating to the strategy being employed in order to achieve the investment target, or in the absence of strategy, a negative statement*) e.g. These FDI can be used with a view to adjusting the exposure of the portfolio in terms of interest rate, credit sector or single credit name, currency or volatility exposure. / Long/short strategy may be adopted with respect to the use of FDI. / The fund may use FDI at its absolute discretion.]

- FDI positions not correlated with underlying investments (where applicable)

  The [long and short active currency positions] implemented by the fund may not be correlated with the underlying securities positions held by the fund[5].

[5] This disclosure is applicable to funds that may have significant net derivative exposure (i.e. more than 1/3 of the fund's NAV) to FDI of asset classes not correlated to the underlying investment of the fund.

Section 2: Some Common Examples of Risk Disclosures (for KFS)

This Section 2 sets out some illustrative examples of the Expected Disclosures on risk disclosures in the fund's KFS.

For other risk disclosures not covered in this Section, applicants should refer to the Handbook, the UT Code and the Guide to ensure compliance with the relevant disclosure requirements with regard to the features and risks pertaining to the fund.

2.1 Investment risk and Currency risk

2.1.1 General investment risk

- The fund's investment portfolio may fall in value due to any of the key risk factors below and therefore your investment in the fund may suffer losses. There is no guarantee on the repayment of principal.

2.1.2 Currency risk (*if applicable*)

- Underlying investments of the fund may be denominated in currencies other than the base currency of the fund. Also, a class of shares may be designated in a currency other than the base currency of the fund. The NAV of the fund may be affected unfavorably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

- *(Where applicable)* RMB is currently not freely convertible and is subject to exchange controls and restrictions which, under exceptional circumstances, may cause a delay in payment of redemptions and/or dividend payments in RMB. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

2.2 Other risk disclosures (to the extent applicable)

2.2.1 Risks associated with equities

- Equity market risk

  The fund's investment in equity securities is subject to general market risks, and its value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.

- Risk associated with small-capitalisation / mid-capitalisation companies *(if applicable)*

  The stocks of small-capitalisation/ mid-capitalisation companies may have lower liquidity and their prices are more volatile and susceptible to adverse economic developments than those of larger capitalisation companies in general.

- Risk associated with high volatility of the [equity] market in [country/region] *(if applicable)*

  High market volatility and potential settlement difficulties in the markets may also result in significant fluctuations in the prices of securities traded on such markets and may thereby adversely affect the value of the fund.

- Risk associated with [regulatory/exchanges] [requirements/policies] of the [equity] market in [country/region] *(if applicable)*

  Securities exchanges in [county/region] typically have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets and thus the fund.

2.2.2 Risks associated with debt securities

- Credit / Counterparty risk

  The fund is exposed to the credit/default risk of issuers of the debt securities that the fund may invest in.

- Interest rate risk

  Investment in the fund is subject to interest rate risk. In general, the prices of debt securities tend to rise when interest rates fall, and vice versa.

- Volatility and liquidity risk *(if applicable)*

  The debt securities in [country/region] markets may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of such securities may be subject to fluctuations. [The bid and offer spreads of the price of such securities may be large and the fund may incur significant trading costs.]

- Downgrading risk *(if applicable)*

  The credit rating of a debt instrument or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the fund may be adversely affected. The manager may or may not be able to dispose of the debt instruments that are being downgraded.

- Risk associated with debt securities rated below investment grade *(in the case where the credit rating is designated/assigned by an internationally recognised credit agency or in the case the credit rating is designated/assigned by a PRC credit rating agency, an appropriate credit rating which fairly reflects the credit risk of the securities as below investment grade as determined by the management company)* or unrated *(if applicable)*

  The fund may invest in debt securities rated below investment grade *(in the case where the credit rating is designated/assigned by an internationally recognised credit agency or in the case the credit rating is designated/assigned by a PRC credit rating agency, an appropriate credit rating which fairly reflects the credit risk of the securities as below investment grade as determined by the management company)* or unrated. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities.

- Sovereign debt risk *(if applicable)*

  The fund's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the fund to participate in restructuring such debts. The fund may suffer significant losses when there is a default of sovereign debt issuers.

- Risks associated with collateralised and/or securitised products (such as asset backed securities, mortgage backed securities and asset backed commercial papers) *(if applicable)*

  The fund invests in [(*please specify the collateralised and/or securitised products*) e.g. asset backed securities] which may be highly illiquid and prone to substantial price volatility. These

instruments may be subject to greater credit, liquidity and interest rate risks compared to [other debt securities]. They are often exposed to extension and prepayment risks, and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities.

- Valuation risk *(if applicable)*

  Valuation of the fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the NAV calculation of the fund.

- Credit rating risk *(if applicable)*

  Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

- Credit rating agency risk (*for funds invest in mainland China onshore debt securities)*

  The Mainland's credit appraisal system and rating methodologies may be different from those employed in other markets. Credit ratings given by Mainland rating agencies may therefore not be directly comparable with those given by other international rating agencies.

2.2.3 Risks associated with specific investment strategy

- Concentration risk / [country/region] market risk

  The fund's investments are concentrated in specific [industry sectors/ instruments/ geographical location etc.]. The value of the fund may be more volatile than that of a fund having a more diverse portfolio of investments.

  (*For funds with geographical concentration*) The value of the fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the [country/region] market.

- Emerging market risk

  The fund invests in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility.

- Risk of specific investment strategy

  The [*(please specify the investment strategy)* e.g. dynamic asset allocation, downside risk management process] may not achieve the desired results under all circumstances and market conditions.

- Risk relating to dynamic asset allocation strategy

  The investments of the fund may be periodically rebalanced and therefore the fund may incur greater transaction costs than a fund with static allocation strategy.

- Risk relating to downside protection strategy

  While the downside risk management process aims at managing losses of the fund through [*(please specify the way to manage losses)* e.g. reducing exposure to equities], it may also [*(please specify the trade-off of the downside protection)* e.g. preclude the fund from fully capturing the upside in rising markets.] The fund may underperform funds not adopting the

downside protection strategy in [*(please specify the market circumstance which the fund may underperform and the reason)* e.g. rising equity markets as the fund's exposure to equities may remain relatively low in early stages of market recovery].

2.2.4 Risks associated with certain types of investments

- Risks of investing in convertible bonds

  Convertible bonds are a hybrid between debt and equity, permitting holders to convert into shares in the company issuing the bond at a specified future date. As such, convertibles will be exposed to equity movement and greater volatility than straight bond investments. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments.

- Risks associated with investments in debt instruments with loss-absorption features (LAP)

  Debt instruments with loss-absorption features are subject to greater risks when compared to traditional debt instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of [a pre-defined] trigger event[s] (e.g. when the issuer is near or at the point of non-viability or when the issuer's capital ratio falls to a specified level), which are likely to be outside of the issuer's control. Such trigger events are complex and difficult to predict and may result in a significant or total reduction in the value of such instruments.

  In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class. Debt instruments with loss-absorption features may also be exposed to liquidity, valuation and sector concentration risk.

  (if applicable) The fund may invest in contingent convertible debt securities, commonly known as CoCos, which are highly complex and are of high risk. Upon the occurrence of the trigger event, CoCos may be converted into shares of the issuer (potentially at a discounted price), or may be subject to the permanent write-down to zero. Coupon payments on CoCos are discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time.

  (if applicable) The fund may invest in senior non-preferred debts. While these instruments are generally senior to subordinated debts, they may be subject to write-down upon the occurrence of a trigger event and will no longer fall under the creditor ranking hierarchy of the issuer. This may result in total loss of principal invested.

- Risks of investing in other collective investment schemes/funds

  (if applicable) The fund is a fund of funds and will be subject to the risks associated with the underlying funds. The fund does not have control of the investments of the underlying funds and there is no assurance that the investment objective and strategy of the underlying funds will be successfully achieved which may have a negative impact to the NAV of the fund.

  The underlying [collective investment schemes/funds] in which the fund may invest may not be regulated by the SFC. There may be additional costs involved when investing into these underlying [collective investment schemes/funds]. There is also no guarantee that the underlying [collective investment schemes/funds] will always have sufficient liquidity to meet the fund's redemption requests as and when made.

2.2.5 Risks associated with investments in financial derivative instruments

- Risks associated with investment in FDI

  Risks associated with FDI include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of an FDI can result

in a loss significantly greater than the amount invested in the FDI by the fund. Exposure to FDI may lead to a high risk of significant loss by the fund.

- High leverage risk[6] *(if applicable)*

  The fund may have a net leveraged exposure of more than 100% of the NAV of the fund. This will further magnify any potential negative impact of any change in the value of the underlying asset on the fund and also increase the volatility of the fund's price and may lead to significant losses.

- Risks of implementing active [asset class(es) of FDI not correlated with underlying asset of the fund, e.g. currency] position[7] *(if applicable)*

  As the active [currency] position implemented by the fund may not be correlated with the underlying securities positions held by the fund, the fund may suffer a significant or total loss even if there is no loss of the value of the underlying securities positions being [(*please specify)* e.g. equities, fixed income securities, etc.] held by the fund.

2.2.6 Risks associated with securities lending, sale and repurchase and/or reverse repurchase transactions (collectively, "securities financing transactions")

- Risks relating to securities lending transactions

  Securities lending transactions may involve the risk that the borrower may fail to return the securities lent out in a timely manner and the value of the collateral may fall below the value of the securities lent out.

- Risks relating to sale and repurchase transactions

  In the event of the failure of the counterparty with which collateral has been placed, the fund may suffer losses as there may be delays in recovering collateral placed out or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate pricing of the collateral or market movements.

- Risks relating to reverse repurchase transactions

  In the event of the failure of the counterparty with which cash has been placed, the fund may suffer losses as there may be delays in recovering cash placed out or difficulties in realising collateral or proceeds from the sale of the collateral may be less than the cash placed with the counterparty owing to inaccurate pricing of the collateral or market movements.

2.2.7 Risks associated with distribution out of/effectively out of the fund's capital

- Payment of dividends [out of capital and/or effectively out of capital] amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investments. Any such distributions may result in an immediate reduction of the NAV per share/ unit.

- *(Where applicable)* The distribution amount and NAV of the [hedged share class] may be adversely affected by differences in the interest rates of the reference currency of the [hedged share class] and the fund's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other [non-hedged] share classes.

[6] Applicable to funds with maximum net derivative exposure greater than 100% of NAV.

[7] Applicable to funds with significant net derivative exposure (i.e. more than 33% of NAV) to FDI of asset classes not correlated to the underlying assets of the fund.

2.2.8 Risks associated with performance fee charged by the fund

- Performance fees may encourage the manager of the fund to make riskier investments than would be the case in the absence of a performance-based incentive system.

- (*if applicable*) Given there is no equalisation arrangement for the calculation of the performance fee, a redeeming investor may still incur a performance fee in respect of his investments, even though he has suffered a loss of investment capital.

- In addition, performance fees may be paid on unrealised gains which may never be realised by the fund.

2.2.9 Risks associated with investments / exposure to mainland China

- Risks relating to funds investing in companies listed on boards with generally lower listing eligibility criteria than main boards (e.g. ChiNext market, the Science and Technology Innovation Board) (*if applicable*)

  Companies listed on boards with generally lower listing eligibility criteria than main boards are usually of emerging nature with a smaller operating scale. The rules and regulations regarding companies listed on such boards may be less stringent in terms of matters such as profitability, track record and share capital than those on the main boards. Hence, investments in such boards may be subject to higher fluctuations in stock prices as well as liquidity, over-valuation and delisting risks, and may result in significant losses for the fund and its investors.

- Risks relating to investment in urban investment bonds (城投債) (*if applicable*)

  Urban investment bonds are issued by local government financing vehicles ("LGFVs"), and are typically not guaranteed by the Central Government or local governments of the Mainland. In the event that the LGFVs default on payments of principal or interest of the urban investment bonds, the fund could suffer a substantial loss and its NAV could be adversely affected.

- Risks associated with the access channel(s) [e.g. QI regime / Stock Connect / CIBM Direct / Bond Connect] (as *applicable*) for investment in the mainland China market

  The relevant rules and regulations (including restrictions on investments, repatriation of principal and profits, taxation) in the PRC are subject to change which may have potential retrospective effect. Where a suspension or intervention in the trading through the programme is effected, the fund's ability to achieve its investment objective could be negatively affected.

  (Where applicable) The fund may suffer substantial losses if the fund ceases to be eligible for the relevant programme as the fund may be prohibited from trading of relevant securities and repatriation of the fund's monies, or if any of the key operators (including the relevant custodian/brokers) is bankrupt/in default and/or is disqualified from performing its obligations.

  (Where applicable) Where the programme is subject to quota limitations, the fund may not be able to make its intended investments if there is a change in quota or the quota is fully utilized.

- PRC tax risk [with respect to capital gains *(This may be relevant to an equity fund which is established before 17 November 2014 or a fund which substantially invests in debt securities) and/or, if applicable, other PRC tax]*

  There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of [capital gains realised] via [*(Please specify the access regime)* e.g. QI / Stock Connect / CIBM Direct / Bond Connect] or access products on the fund's investments in the PRC. Any increased tax liabilities on the fund may adversely affect the fund's value.

  Based on professional and independent tax advice, the fund will/will not make the following tax

provisions (i.e. [*(please specify the tax provision)* e.g. [x]% on [realised and/or unrealised capital gains] on [types of securities]).

[(*If tax provision has been made by the fund*) Any shortfall between the provision and the actual tax liabilities, which will be debited from the fund's assets, will adversely affect the fund's NAV.

2.2.10 Risks relating to passive ETFs and unlisted index funds

- Passive investment risk

  The fund is passively managed and the manager will not have the discretion to adapt to market changes due to the inherent investment nature of the fund. Declines in the index are expected to result in corresponding decreases in the fund's value.

- Tracking error risk

  The fund may be subject to tracking error risk, which is the risk that the fund's performance may not track that of the index exactly. This tracking error may result from the investment strategy used, and fees and expenses. The manager will monitor and seek to manage such risk in minimising the tracking error. There can be no assurance of an exact or identical replication of the index performance at any given time.

- Fundamental [single-factor / multi-factor] weighted index risk *(if applicable)*

  The index is a fundamental [single-factor / multi-factor] weighted index whereby constituents are selected and weighted based on [a quantitative investment factor / certain quantitative investment factors]. There can be no assurance that the index will outperform the market at any time. It is possible that the index may underperform capitalisation weighted indices or other benchmarks in certain market environments, potentially for extended periods. The fund by tracking the index may also have relatively large holdings in companies with relatively smaller market capitalisation than it would have held if tracking a capitalisation weighted index.

2.2.11 Additional risks relating to ETFs

- Trading risks

  The trading price of the units on the SEHK is driven by market factors such as the demand and supply of the units. Therefore, the units may trade at a substantial premium or discount to the fund's NAV.

  As investors will pay certain charges (e.g. trading fees and brokerage fees) to buy or sell units on the SEHK, investors may pay more than the NAV per unit when buying units on the SEHK, and may receive less than the NAV per unit when selling units on the SEHK.

  [(*applicable to ETFs with RMB traded units*) The units in the RMB counter are RMB denominated securities traded on the SEHK and settled in CCASS. Not all stockbrokers or custodians may be ready and able to carry out trading and settlement of the RMB traded units. The limited availability of RMB outside the PRC may also affect the liquidity and trading price of the RMB traded units.]

- Trading differences risks

  As the [relevant stock exchanges] may be open when units in the fund are not priced, the value of the securities in the fund's portfolio may change on days when investors will not be able to purchase or sell the fund's units.

Differences in trading hours between [relevant stock exchanges] and the SEHK may also increase the level of premium or discount of the unit price to its NAV.

[(*applicable to China A-shares ETFs*) China A-shares are subject to trading bands which restrict increase and decrease in the trading price. Units listed on the SEHK are not. This difference may also increase the level of premium or discount of the unit price to its NAV.]

- Termination risk

  The fund may be terminated early under certain circumstances, for example, where the index is no longer available for benchmarking or if the size of the fund falls below [a pre-determined NAV threshold as set out in the constitutive documents and offering documents]/[*(please specify the NAV)*]. Investors may not be able to recover their investments and suffer a loss when the fund is terminated.

- Reliance on market maker risks

  Although the manager will ensure that at least one market maker will maintain a market for the units [traded in each counter] and that at least one market maker [to each counter] gives not less than 3 months' notice prior to terminating market making arrangement under the relevant market maker agreement, liquidity in the market for the units may be adversely affected if there is no or only one market maker for the [RMB or HKD traded] units. There is also no guarantee that any market making activity will be effective.

  [(*applicable to ETF with RMB traded units*) There may be less interest by potential market makers making a market in units denominated and traded in RMB. Any disruption to the availability of RMB may adversely affect the capability of market makers in providing liquidity for the units.]

- Reliance on the same group risk *(if applicable)*

  Although separate legal entities and operationally independent, each of the [relevant operators] are presently part of the same financial group. In the event of a financial catastrophe or the insolvency of any member of the group, the NAV and liquidity of the fund may be adversely affected and its operation may be disrupted.

  Given that the [relevant operators] are all members of the group, conflicts of interest in respect of the fund may arise from time to time amongst any of them. The manager will vigorously manage any such conflict in the best interest of investors.

- Multi-counter risks *(if applicable)*

  If there is a suspension of the inter-counter transfer of units between the counters and/or any limitation on the level of services by brokers and CCASS participants, unitholders will only be able to trade their units in one counter only, which may inhibit or delay an investor dealing. The market price of units traded in each counter may deviate significantly. As such, investors may pay more or receive less when buying or selling units traded in HKD on the SEHK than in respect of units traded in RMB or other currencies and vice versa.

- General risks relating to synthetic ETFs *(for synthetic ETFs)*

  Derivative instruments are susceptible to price fluctuations and higher volatility, which may result in large bid and offer spreads with no active secondary market. The fund may suffer losses potentially equal to the full value of the derivatives.

- Synthetic replication risks *(for synthetic ETFs)*

  The manager seeks to mitigate the counterparty risks by fully collateralising all counterparty exposures. There is a risk that the value of the collateral may be substantially lower than the amount secured and so the fund may suffer significant losses. Any loss would result in a reduction in the NAV of the fund and impair the ability of the fund to achieve its investment objective to track the index.

  The fund may suffer significant losses if the counterparty fails to perform its obligations under the funded swap/unfunded swap/CAAPs. The value of the [collateral assets *(for funded swap/CAAPs ETFs)* / asset portfolio *(for* unfunded *swap ETF)*] may be affected by market events and may diverge substantially from the performance of the index, which may cause the fund's exposure to the swap counterparty/CAAPs issuer to be [under-collateralised *(for funded swap/CAAPs ETFs)* / larger than zero *(for unfunded swap ETF)*] and therefore result in significant losses.

- Risk associated with rolling of futures contracts *(for futures-based ETFs)*

  "Rolling" means replacing existing futures contracts that are about to expire with futures contract that will expire at a later date. [If the prices of the longer-term contracts are higher than those of the expiring contracts (i.e. a contango market), the proceeds from selling the expiring contracts will not be sufficient to buy the same number of longer term contracts.] A loss may incur compared to the spot price performance of the futures contracts' underlying assets (i.e. a negative roll yield) and would adversely affect the NAV.

  (Note: For inverse products, please edit the paragraph in square brackets accordingly.)

- Risk related to mandatory measures imposed by relevant parties on futures positions *(for futures-based ETFs)*

  Under extreme market circumstances, relevant parties (such as clearing brokers and execution brokers) may impose certain mandatory measures in relation to the fund's futures positions, such as limiting the size and number of the fund's futures positions and/or mandatory liquidation of the fund's futures positions without advance notice to the manager. In response to such mandatory measures, the manager may have to take corresponding actions in the best interests of the fund's investors and in accordance with the fund's constitutive documents, including but not limited to implementing alternative investment and/or hedging strategies, which may have an adverse impact on the fund.

- Risk related to restrictions on holding futures contracts *(for futures-based ETFs)*

  [Describe the applicable position limits.] If the fund's holdings exceed the applicable position limits, the fund's ability to seek additional exposure by futures contracts could be impaired, hence the fund's ability to achieve its investment objective could be adversely affected. In addition, the manager could be required to suspend creations of units. This may result in divergence between the secondary market price of the fund and its NAV.

Section 3: Performance fee

The management company may adopt different parameters and methodologies to calculate performance fee. However, it is the management company's responsibility to ensure that appropriate disclosure is clearly and properly disclosed in the fund's Hong Kong offering document (including the KFS). This Section 3 only sets out one of the examples to calculate performance fee. If the management companies adopt other parameters and methodologies, they should ensure the level of disclosure is comparable to the example described below.

3.1 Disclosure on performance fee (for KFS)[8]

What are the fees and charges?	
Ongoing fees payable by the fund	
Performance fee	[10]% of the outperformance of the NAV per share during a performance period over the High Water Mark. Outperformance means the amount by which the increase in NAV per share during the relevant performance period exceeds the High Water Mark. High Water Mark is the higher of (i) the initial subscription price and (ii) the NAV per share as at the end of the performance period in respect of which a performance fee was last paid. Where a performance fee is payable for a performance period, the NAV per share on the last valuation day of that performance period will be set as the High Water Mark for the next performance period. Performance fee accrues on each valuation day if the NAV per share exceeds the High Water Mark. On each valuation day, the performance fee accrual made (if any) on the previous valuation day will be reversed and a new performance fee accrual will be calculated. If the NAV per share is lower than or equal to the High Water Mark, any performance fee accrual will be reversed and no performance fee will be accrued. For details and illustrative examples of the performance fee calculation, please refer to [x] of the prospectus.

[8] As an illustration, this Section 3.1 sets out the Expected Disclosures for the case where performance fee is calculated on a high-on-high basis without equalisation arrangement for a fund with a single share class for which daily valuation is performed.

3.2 Disclosure on performance fee (in the offering documents)[9]

Performance fee

The manager is entitled to charge a performance fee for each performance period.

(i) Performance fee calculation

Performance fee is payable annually on a high-on-high basis (i.e. when the NAV per share as at the last valuation day of a performance period exceeds the High Water Mark (as defined below)) in accordance with the following formula:

(A-B) X C X D

where:

"A" is the NAV per share (before deduction of any provision for the performance fee [and any distribution declared or paid in respect of that performance period]) as at the last valuation day of a performance period.

"B" is the **High Water Mark**, which is the higher of:

(i) the initial subscription price; and

(ii) the NAV per share as at the end of any previous performance period in respect of which a performance fee was paid (after deduction of all fees including any performance fee [and any distribution declared or paid in respect of that performance period]).

Where a performance fee is payable for a performance period, the NAV per share on the last valuation day of that performance period will be set as the High Water Mark for the next performance period.

"(A-B)" means the outperformance of NAV per share, i.e. the amount by which the increase in NAV per share during the relevant performance period exceeds the High Water Mark.
"C" is the rate of performance fee payable (i.e. [10]%)

"D" is the average number of shares in issue in the relevant performance period, calculated by adding the total number of shares in issue as at a valuation point on each valuation day of the relevant performance period divided by the total number of valuation days in such performance period.

Each performance period corresponds to the financial year of the fund, except that the first performance period is from [the first valuation day following the close of the initial offer period] to [the last valuation day of the fund's financial year].

Any performance fee payable shall be paid to the manager [as soon as practicable/within a specified period] after the end of the relevant performance period.

(ii) Performance fee accrual

The performance fee shall be accrued on each valuation day throughout a performance period. If the NAV per share exceeds the High Water Mark, a performance fee accrual will be made. If not, no performance fee accrual will be made. On each valuation day, the accrual made on the previous valuation day will be reversed and a new performance fee accrual will be calculated and made in accordance with the above. If the NAV per share on a valuation day is lower than or equal to the High

[9] This is an illustration of disclosure for the case where performance fee is calculated on a high-on-high basis without equalisation arrangement for a fund with a single share class for which daily valuation is performed using the average number of shares in issue during the relevant performance period.

Water Mark, all provision previously accrued performance fee will be reversed and no performance fee will be accrued.

The price of shares subscribed for or redeemed during a performance period will be based on the NAV per share (after accrual of performance fee as calculated in accordance with the above). Depending upon the performance of the fund during the year, the price at which shareholders subscribe for or redeem shares at different times will be affected by performance of the fund and this could have a positive or negative effect on the performance fee borne by them.

There is no equalisation arrangement in respect of the calculation of performance fee. That means there is no adjustment of equalisation credit or equalisation losses on an individual shareholder basis based on the timing the relevant shareholder subscribes or redeems the relevant shares during a performance period. The shareholder may be advantaged or disadvantaged as a result of this calculation methodology.

For instance, a shareholder will be advantaged if he subscribes to the fund during a performance period when the NAV per share is below the High Water Mark, and redeems prior to the end of such performance period when the NAV per share has increased up to but does not exceed the High Water Mark at the time of his redemption, and thus, no performance fee is payable even though he has made a profit.

Likewise, a shareholder will be disadvantaged if he subscribes to the fund during a performance period when the NAV per share is above the High Water Mark and redeems prior to or at the end of such performance period when the NAV per share at the time of redemption has decreased but remains above High Water Mark. Under such circumstances, he has paid the performance fee despite of a loss as his subscription price of the shares has taken into account a provision for the performance fee.

(iii) Illustrative examples

The examples below are shown for illustration purposes only and may contain simplifications.
Assumptions:

- The initial subscription price for the relevant share is HKD100.
- The performance fee payable is 10% of the increase in the NAV per share during a performance period above the High Water Mark (i.e. outperformance of NAV per share).

(I) <u>First performance period (NAV per share above High Water Mark at the end of performance period – performance fee payable)</u>

Investor A subscribes for one share during the initial offer period at the initial subscription price. Thereafter, investor B subscribes for one share within the first performance period at a subscription price of HKD110. High Water Mark is the initial subscription price, which is HKD100.

By the end of the first performance period, the NAV per share is HKD105. The outperformance of NAV per share is thus HKD5. The average number of shares in issue on this valuation day is 2 shares.

The total performance fee payable by the fund would be calculated as:
(HKD105 – HKD100) x 10% x 2 shares = HKD1.

At the end of the first performance period, the NAV per share will be reduced by HKD0.50. In effect, each of Investors A and B will have borne the HKD0.50 performance fee in respect of the first performance period.

(II) Second performance period (NAV per share below High Water Mark on a particular valuation day – no performance fee accrual; NAV below High Water Mark at the end of performance period – no performance fee payable):

At the start of the second performance period, the High Water Mark is HKD104.50 (being the NAV per share at the end of the last performance period in respect of which a performance fee was paid (after deduction of performance fee)).

Mid-way through the second performance period, the NAV per share is HKD98.50. Investor A redeems his share. Investor C subscribes for one share. On this valuation day, the NAV per share is below the High Water Mark. Therefore, no performance fee is accrued in respect of the share redeemed by Investor A.

At the end of the second performance period, the NAV per share becomes HKD102.50. There has been no outperformance of NAV per share. No performance fee is therefore payable in the second performance period.

Section 3A: Additional disclosure requirements for an OFC (in the offering documents and for KFS)

This Section 3A sets out the additional disclosure requirements for offering documents in the case that the relevant fund is an OFC or its sub-fund[10]. The matters under paragraphs 1-3 must also be set out in the KFS.

1. A statement that the OFC is a public OFC (as defined in 2.18 of the OFC Code).

2. A statement that the OFC is an open-ended fund company with variable capital with limited liability [*(applicable in the case of an umbrella OFC only)*, and segregated liability between sub-funds].

3. The following statement:-

   SFC registration and authorization do not represent a recommendation or endorsement of an OFC nor do they guarantee the commercial merits of an OFC or its performance. They do not mean the OFC is suitable for all investors nor do they represent an endorsement of its suitability for any particular investor or class of investors[11].

4. [*(Applicable in the case of an umbrella OFC only)* the following warning statement:-

   Important - while section 112S of the SFO provides for segregated liability between sub-funds, the concept of segregated liability is relatively new. Accordingly, where claims are brought by local creditors in foreign courts or under foreign law contracts, it is not yet known how those foreign courts will react to section 112S of the SFO.]

5. The circumstances under which the directors must cease to hold office and the procedures of removal from office.

6. The circumstances under which the appointment of the investment manager must cease to hold office and the procedures of removal from office.

7. The custody arrangements in respect of the scheme property of the OFC and any material risks associated with the arrangements.

8. The circumstances under which the custodian must cease to hold office and the procedures of removal from office.

9. The manner in which shareholders may obtain relevant information in relation to the OFC and make enquiries with the OFC.

10. The following matters in relation to termination:-
    (a) a summary of the circumstances under which an OFC can be terminated;
    (b) parties who may apply for termination of the OFC; and
    (c) the extent to which approval or consent from the OFC's shareholders is required to effect termination.

[10] Please refer to 4.2, 5.5, 6.3, 7.4, 7.5, 8.3 and 10.9 of the OFC Code

[11] The disclosure of this paragraph in the offering documents would suffice in meeting the requirement of 11.14 of the UT Code.

Section 4: Custody arrangements relating to QI / CIBM funds (in the offering documents)

The disclosure in this Section 4 sets out the disclosure guidance on the trustee's arrangements for QI / CIBM funds. The management company should make the following disclosure in the offering documents for its fund (in the case of a single fund) or the first sub-fund under an umbrella fund that invests 70% or more of its NAV through its QI status / the CIBM Direct regime. For other sub-funds under the same umbrella fund that invest 70% or more of its NAV through its QI status / the CIBM Direct regime, it is expected that the arrangements for safe custody and segregation of the assets of the sub-funds are in compliance with the UT Code and are the same as the initial sub-fund, and that there are no material adverse changes to its operational conditions. For the avoidance of doubt, management companies are reminded that notwithstanding a fund investing less than 70% of its NAV through its QI status / the CIBM Direct regime is not required to make the disclosure below, the management company and the trustee must always ensure that proper arrangements referred to below are being put in place for safe custody and segregation of the fund's assets.

The [Trustee/custodian] {delete as appropriate} has put in place proper arrangements to ensure that:

(i) the [Trustee/custodian] {delete as appropriate} takes into its custody or under its control the assets of the fund, including onshore PRC assets which will be [maintained by the PRC Custodian(s) via the securities account(s) with the relevant depositories and any assets deposited in the cash account(s) with the PRC Custodian(s)] / [deposited in the bond account(s) and cash of the fund deposited in the dedicated cash account(s) or RMB special deposit account with or otherwise held by China Central Depository & Clearing Co., Ltd. (CCDC) , Shanghai Clearing House (SHCH) or the [PRC Custodian(s) and] Onshore Settlement Agent], and holds the same in trust for the [unitholders/shareholders] {delete as appropriate};

(ii) cash and registrable assets of the fund, including assets deposited in the [securities account(s) with the relevant depositories and cash of the fund deposited in the cash account(s) with or otherwise held by the PRC Custodian(s)] / [bond account(s) and cash of the fund deposited in the dedicated cash account(s) or RMB special deposit account with or otherwise held by CCDC, SHCH or the [PRC Custodian(s) and] Onshore Settlement Agent], are registered in the name of or held to the order of the [Trustee/custodian] {delete as appropriate}; and

(iii) the PRC Custodian(s) and/or Onshore Settlement Agent will look to the [Trustee/custodian] {delete as appropriate} (directly or indirectly) for instructions and solely act in accordance with the [Trustee's/custodian's] {delete as appropriate} instructions, save as otherwise required under applicable regulations.

Section 5: Key provisions of constitutive documents for Hong Kong domiciled funds and other non-UCITS funds

The constitutive documents[12] of the scheme must conform in substance with the following provisions[13] with no material deviation/dilution to the intended operative effect of the provision[14]:-

1. The management company and the trustee/custodian shall in the performance of their respective duties under the constitutive documents with respect to the scheme at all times comply with the applicable provisions of the UT Code and shall act at all times in compliance with and in a manner consistent with the UT Code (as may be modified by any applicable waivers or exemptions granted by the SFC).

2. Notwithstanding any other provisions in the constitutive documents, nothing in the constitutive documents may provide that the trustee/custodian, management company or directors of the scheme can be exempted from any liability to holders imposed under Hong Kong law or the law of the scheme's place of domicile or breaches of trust through fraud or negligence, nor may they be indemnified against such liability by holders or at holders' expense.

3. Nothing in the constitutive documents shall diminish or exempt any of the management company or the trustee/custodian from any of its duties and liabilities under the UT Code.

4. The trustee/custodian must take into its custody or under its control all the property of the scheme and hold it in trust for the holders (in the case of a unit trust) or the scheme (in the case of a mutual fund corporation) in accordance with the provisions of the constitutive documents.

5. The trustee/custodian must register cash and registrable assets in the name of or to the order of the trustee/custodian.

6. The trustee/custodian must be liable for the acts and omissions of nominees, agents and delegates in relation to assets forming part of the property of the scheme. The trustee/custodian shall be liable for the acts and omissions of its nominees, agents and delegates which are connected persons of the trustee/custodian as if the same were the acts or omissions of the trustee/custodian. For the purpose of satisfying these obligations in respect of a nominee, agent or delegate that is not a connected person of the trustee/custodian, the trustee/custodian shall (i) exercise reasonable care and diligence in the selection, appointment and ongoing monitoring of its nominees, agents and delegates; and (ii) be satisfied that the nominees, agents and delegates retained remain suitably qualified and competent to provide the relevant service.

   [Note: The trustee/custodian is not generally expected to be liable for any act, omission, insolvency, liquidation or bankruptcy of any central securities depositary or clearing system.]

7. The trustee/custodian may empower its appointed custodian/sub-custodian to further appoint its nominees, agents and/or delegates provided that such appointment is made:-

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[12] "Constitutive documents" means the principal documents governing the formation of the scheme, and includes the trust deed in the case of a unit trust, the instrument of incorporation in the case of an OFC and the articles of association in the case of other mutual fund corporations. In the case of a mutual fund corporation, these key provisions may also be set out in the custodian agreement and the management agreement instead of the instrument of incorporation or articles of association, as appropriate.

[13] In the case of an OFC, the instrument of incorporation must also contain provisions in compliance with requirements under section 112K of the SFO, rule 13(2) of the OFC Rules and 5.5, 8.1, 8.2, 9.1 and 10.6 of the OFC Code. Please also refer to the Template of Instrument of Incorporation for Umbrella Public OFC.

[14] Any disclaimer of liability in the constitutive documents must be subject to the compliance with the provisions as set out in this Section.

i. with the prior consent in writing of the trustee/custodian; or
ii. with the trustee/custodian's agreement in writing; or
iii. with no objection in writing by the trustee/custodian.

[Note: For the purposes of satisfying the above, the trustee/custodian may pre-clear such appointment or provide consent/no objection in advance to an agreed-upon process provided that it is satisfied that its appointed custodian/sub-custodian will exercise reasonable care and diligence in the selection, appointment and ongoing monitoring of its nominees, agents and/or delegates and has appropriate and adequate processes and procedures in place for doing so.

The trustee/custodian shall also exercise reasonable care and diligence:-

a) to ensure that the processes and procedures have been properly implemented by the custodian/sub-custodian; and

b) to conduct regular reviews of such custodian/sub-custodian's processes and procedures to ensure that the trustee/custodian remains satisfied that such processes and procedures remain appropriate and adequate for the selection, appointment and ongoing monitoring of such nominees, agents and/or delegates.]

8. Notwithstanding any other provisions in the constitutive documents, the management company may adjust the value of any cash, deposits and/or investments or permit some other method of valuation to be used if such adjustment is required to reflect the fair value provided that such adjustment may only be made:-

   i. upon consultation with the trustee/custodian; or
   ii. with the prior consent in writing of the trustee/custodian.

9. For so long as the scheme is authorized by the SFC under section 104 of the Securities and Futures Ordinance, section 41O of the Trustee Ordinance shall not apply to the extent that is inconsistent with the clause in the constitutive documents reflecting 4.5(a)(iii) of the UT Code and/or with the trustee's duties and responsibilities under the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, and shall not in any way operate to exempt or diminish any liability of the trustee as set out in the relevant clause in the constitutive documents reflecting 6.6 of the UT Code (where applicable).

10. Nothing in the constitutive documents may exclude the jurisdiction of the courts of Hong Kong to entertain an action concerning the scheme.

Annex 2
Confirmation of fulfilment of authorization conditions

Dated: _____ *(Note 1)*

To: Securities and Futures Commission (the "SFC")
Name of the scheme(s): _____ (the "Scheme(s)")

We refer to the letter from the SFC dated _____ (*insert date)* granting authorization of the Scheme(s) and the Hong Kong offering document (the "Authorization Letter").

Confirmations/undertakings

We hereby confirm our agreement to all the conditions for the authorization of the Scheme(s) as set out in the Authorization Letter ("Authorization Conditions"). We further confirm and undertake that the Authorization Conditions have been fulfilled and will be complied with in respect of the Scheme(s).

(Please tick if applicable) In particular:

☐ *(Applicable only to schemes whose HKOD are subject to comments of the SFC)* We confirm that the finalised draft of the Hong Kong offering document of the Scheme(s) ("HKOD") has properly addressed all the comments of the SFC on the HKOD as set out in the Authorization Letter.

☐ *(Applicable only to overseas scheme(s))* We confirm that the finalised draft of the HKOD is consistent with the overseas offering documents (i) as approved / authorized by _____ (*insert name of home regulator)*, the home regulator of the Scheme(s), or (ii) as filed with (and with no subsequent comments from) _____ (*insert name of home regulator)*, the home regulator of the Scheme(s) in the case where approval / authorization of the Scheme(s)' overseas offering documents by such home regulator is not required.

☐ *(Applicable only to QI schemes)*

- ☐ We confirm that the relevant accounts (including securities account(s) and cash account(s)) have been opened in the PRC; or
- ☐ We undertake to open the relevant accounts (including securities account(s) and cash account(s)) in the PRC prior to the launch of the Scheme(s).

☐ *(Applicable only to non-Hong Kong based schemes)* We confirm that a Hong Kong representative which complies with 9.4 of the Code on Unit Trusts and Mutual Funds (the "UT Code") has been duly appointed in respect of the Scheme(s) in accordance with Chapter 9 of the UT Code.

☐ *(Applicable only to non-Hong Kong based schemes that seek to be listed in Hong Kong (Note 2) and propose to appoint an overseas auditor) [(Applicable in the case that the overseas auditor has not been recognized by the FRC prior to the date of the authorization letter)* We

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Note 1: Please refer to "Chapter 7 – Documentation requirements following SFC authorization and prior to the authorization becoming effective" of the Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds ("Guide"), including the timeframe within which the applicant is required to submit this Confirmation to the SFC.

Note 2: Applicable to passive ETF, listed open-ended fund (also known as active ETF), listed unit/share class of unlisted fund, listed leverage and inverse product and listed closed-ended fund.

confirm that the overseas auditor proposed to be appointed for the Scheme(s) has been recognized by the Financial Reporting Council ("FRC") to carry out a PIE engagement (as defined under Part 1 of Schedule 1A of the Financial Reporting Council Ordinance ("FRCO")) for the Scheme(s) on [*date*].] We [further] confirm that we shall inform the SFC promptly if (1) the recognition of the overseas auditor of the Scheme(s) has expired (and not renewed) or been [subsequently] revoked or suspended by the FRC or (2) an overseas auditor is no longer appointed by the Scheme(s).

☐ All other confirmations and/or undertakings that are required to be submitted in accordance with the Authorization Letter are set out below: *(use separate sheet(s) if necessary)*

_____

_____

Supporting documentation

We confirm that all the documents as required to be submitted pursuant to the Authorization Letter is enclosed and listed below:

☐ A cheque made payable to the "Securities and Futures Commission", or other means of payment acceptable to the SFC, in the total sum of _____*(insert amount)* in payment of the authorization fees and annual fees in respect of the Scheme(s)

☐ Finalised draft of the English HKOD, with (i) changes (shown in mark-ups against previously submitted version) properly addressing all the comments of the SFC on the HKOD (if any) as set out in the Authorization Letter and (ii) annotations against Appendix C to the UT Code [*(applicable only to an OFC)* and (iii) annotations against the provisions applicable to an OFC as referred to in Section 3A of the Disclosure Guidance (contained in Annex 1 to the Guide)]

☐ Chinese version of the HKOD and the executed Chinese translation certificate(s)

☐ *(Applicable only to overseas schemes whose overseas offering documents were in the process of obtaining approval / authorization from the home regulator)* Documentary evidence to confirm that the overseas offering documents of the Scheme(s) have been duly approved/authorized by the home regulator

☐ *(Applicable only to UCITS schemes whose constitutive documents had been submitted at the time of application*) Copy of duly executed constitutive documents

☐ (*Applicable only to Hong Kong domiciled schemes and other non-UCITS schemes*) Copy of duly executed constitutive documents, with annotations against Appendix D to the UT Code and the key provisions for the constitutive documents of Hong Kong domiciled schemes and other non-UCITS schemes as set out in Section 5 of the Disclosure Guidance (contained in Annex 1 to the Guide)

☐ *(Applicable only to ETFs/listed funds)* Listing approval granted to the Scheme(s) or the listed unit/share class(es) by The Stock Exchange of Hong Kong Limited

☐ *(Applicable only to non-Hong Kong based schemes that seek to be listed in Hong Kong (Note 2) and propose to appoint an overseas auditor)* Recognition application granted by the FRC to the Scheme(s) for the appointment of the overseas auditor to carry out a PIE engagement (as defined under Part 1 of Schedule 1A of the FRCO) for the Scheme(s)

☐ *Please list out such other documents that are required to be submitted pursuant to the Authorization Letter: (use separate sheet(s) if necessary)*

_____

_____

Signed for and on behalf of:
(please tick relevant box(es))

Name of Applicant : _____

Applicant : ☐ *(For self-managed scheme(s) only)*
The board of directors of the Scheme(s)

☐ *(For scheme(s) which is/are not self-managed scheme(s))*
(Please state the name of the management company of the Scheme(s))

_____

Name of authorized signatory : ☐ *(For self-managed scheme(s) only)*

_____
(Insert name of at least one executive director (or above)[3] of the Scheme(s))

: ☐ *(For non-self-managed scheme(s) with SFC-licensed management company)*

_____
(Insert name of the Responsible Officer (in respect of Type 9 Regulated Activity) of the management company)

: ☐ *(For non-self-managed scheme(s) with management company which is not SFC-licensed)*

_____
(Insert name of at least one executive director (or above)[3] of the management company of the Scheme(s))

Signature : _____

Title / Position : _____

Date (date / month / year) : _____

[3] Equivalents include, for example, CEO, managing director, etc. Essentially, the signatory is expected to be a senior-ranking executive with overall responsibility over the new fund application.

Annex 3
Reference on annotations for the HKOD against Appendix C to the UT Code

1. As set out in Chapter 7 of the Guide, the Hong Kong offering documents ("**HKOD**") of a scheme as annotated are required to be submitted to the SFC before the authorization of the scheme may become effective. This document aims to assist applicants of new fund applications in annotating the finalised draft of the HKOD of a scheme under application against Appendix C to the Code on Unit Trusts and Mutual Funds ("**UT Code**").

2. The directors of the scheme or the management company are obliged to disclose any information which may be necessary for investors to make an informed judgment.

3. Please refer to the UCITS Streamlined Measures for the relevant provisions in the UT Code that are applicable to UCITS schemes.

Appendix C to the UT Code
TABLE 1 – Basic disclosure requirements
Constitution of the Scheme
Appendix C1
Investment Objectives and Restrictions
Appendix C2[1]
Appendix C2(a)[2]
Appendix C2(b)[2]
Appendix C2(c)[2]
Appendix C2(d)[2]
Appendix C2(e)[2]
Appendix C2(f)[2]
Appendix C2(g)[2]
Appendix C2(h)[2]
Core Requirements as set out in the UT Code
UT Code - 7.1[2]
UT Code - 7.1A[2]
UT Code - 7.1B[2]
UT Code - 7.2[2]
UT Code - 7.3[2]
UT Code - 7.3A (*if applicable*)[2]
UT Code - 7.4[2]
UT Code - 7.5[2]
UT Code - 7.10[2]

[1] Please note that UCITS with disclosed net derivative exposure of more than 50% of its NAV as well as non-UCITS falling under 8.7, 8.8 and 8.9 of the UT Code are required to disclose the risk management policy in place in the HKOD.

[2] The disclosure requirements are deemed to have complied by (i) UCITS domiciled in France, Luxembourg, Ireland and the Netherlands, and (ii) UK UCITS.

Appendix C to the UT Code
UT Code - 7.11[2]
UT Code - 7.11A[2,3] *(if applicable)*
UT Code - 7.11B[2] *(if applicable)*
UT Code - 7.11C[2]
UT Code - 7.11D
UT Code - 7.12(a) *(if applicable)*
UT Code - 7.12(b) *(if applicable)*
UT Code - 7.12(c) *(if applicable)*
UT Code - 7.12(d) *(if applicable)*
UT Code - 7.12(e) *(if applicable)*
UT Code - 7.14[2]
UT Code - 7.15[2]
UT Code - 7.16[2]
UT Code - 7.17[2]
UT Code - 7.18[2]
UT Code - 7.18A[2]
UT Code - 7.19[2]
UT Code - 7.20[2]
UT Code - 7.21[2]
UT Code - 7.25[2] *(if applicable)*
UT Code - 7.26[2] *(if applicable)*
UT Code - 7.27[2] *(if applicable)*
UT Code - 7.28(a)[2] *(if applicable)*
UT Code - 7.28(b)[2] *(if applicable)*
UT Code - 7.28(c)[2] *(if applicable)*
UT Code - 7.28(d)[2] *(if applicable)*
UT Code - 7.29[2] *(if applicable)*
UT Code - 7.30(a)[2] *(if applicable)*
UT Code - 7.30(b)[2] *(if applicable)*
UT Code - 7.31[2] *(if applicable)*
UT Code - 7.32[2] *(if applicable)*
UT Code - 7.33[2] *(if applicable)*
UT Code - 7.34[2] *(if applicable)*
UT Code - 7.35[2] *(if applicable)*
UT Code - 7.36(a)[2] *(if applicable)*
UT Code - 7.36(b)[2] *(if applicable)*
UT Code - 7.36(c)[2] *(if applicable)*
UT Code - 7.36(d)[2] *(if applicable)*
UT Code - 7.36(e)[2] *(if applicable)*

[3] For the purposes of 7.11A of the UT Code, “eligible schemes” means UCITS schemes domiciled in Luxembourg and Ireland, and UK UCITS.

Appendix C to the UT Code	
	UT Code - 7.36(f)[2] *(if applicable)*
	UT Code - 7.36(g)[2] *(if applicable)*
	UT Code - 7.36(h)[2] *(if applicable)*
	UT Code - 7.36(i)[2] *(if applicable)*
	UT Code - 7.36(j)[2] *(if applicable)*
	UT Code - 7.36(k)[2] *(if applicable)*
	UT Code - 7.36(l)[2] *(if applicable)*
	UT Code - 7.40[2]
	UT Code - 7.41[2]
	UT Code - 7.42[2]
	See **TABLE 2** for additional disclosure requirements for specialized and other schemes
Collateral policy and criteria	
Appendix C2A(a)[2]	
Appendix C2A(b)[2]	
Appendix C2A(c)[2]	
Appendix C2A(d)[2]	
Appendix C2A(e)[2]	
Appendix C2A(f)[2]	
Appendix C2A(g)[2]	
Appendix C2A(h)[2]	
Appendix C2A(i)[2]	
Appendix C2A(j)[2]	
Appendix C2A(k)[2]	
Valuation of property and pricing	
Appendix C2B	
Liquidity risk management	
Appendix C2C(a)	
Appendix C2C(b)	
Appendix C2C(c)	
Operators and Principals	
Appendix C3 (a)	
Appendix C3 (b)	
Appendix C3 (c)	
Appendix C3 (d)	
Appendix C3 (e)*(if different from C3(d))*	
Appendix C3 (f)	
Appendix C3 (g)	
Characteristics of Units / Shares	
Appendix C4	
Appendix C5	

Appendix C to the UT Code
Appendix C6
Appendix C7
Application and Redemption Procedures
Appendix C8
Appendix C9
Appendix C10
Appendix C11
Appendix C12
Distribution Policy
Appendix C13 *(if applicable)*
Fees and Charges
Appendix C14(a)
Appendix C14(b)
Appendix C14(c)
Appendix C15
Taxation
Appendix C16
Financial reports
Appendix C17
Appendix C18
Appendix C18A
Warnings
Appendix C19(a)
Appendix C19(b)
Product KFS
Appendix C19A
General Information
Appendix C20
Appendix C21
Appendix C22[4]
Appendix C22A *(if available)*
Appendix C23
Termination of Scheme
Appendix C24
Appendix C25
Custody arrangements
Appendix C26

[4] For those schemes which are domiciled in one of the "Recognized Jurisdictions" and the home regulator of such scheme has approved a responsibility statement set out in the HKOD of such scheme, the scheme is deemed to have complied with paragraph 22 of Appendix C to the UT Code. For the purposes of this document, "Recognized Jurisdictions" means those jurisdictions set out in the "List of Recognized Jurisdiction Schemes" available on the SFC website.

Appendix C to the UT Code	
TABLE 2 – Additional Disclosure Requirements for Specialized and Other Schemes	
Applicable only to Funds with Guaranteed Features	
	UT Code – 7.39 (b)(i)(1)
	UT Code – 7.39 (b)(i)(2)
	UT Code – 7.39 (b)(i)(3)
	UT Code – 7.39 (b)(ii)(1)
	UT Code – 7.39 (b)(ii)(2)
	UT Code – 7.39 (b)(iii)(1)
	UT Code – 7.39 (b)(iii)(2)
	UT Code – 7.39 (b)(iii)(3)
	UT Code – 7.39 (b)(iii)(4)
	UT Code – 7.39 (b)(iii)(5) *(if relevant)*
	UT Code – 7.39 (b)(iv)(1)
	UT Code – 7.39 (b)(iv)(2)
	UT Code – 7.39 (b)(iv)(3)
	UT Code – 7.39 (b)(iv)(4)
	UT Code – 7.39 (b)(iv)(5) *(if any)*
	UT Code – 7.39 (b)(iv)(6)
	UT Code – 7.39 (b)(iv)(7) *(if applicable)*
	UT Code – 7.39 (c)
	UT Code – 7.39 (d)
Applicable only to Money Market Funds	
	UT Code – 8.2(b)
	UT Code – 8.2(c)
	UT Code – 8.2(e)[5]
	UT Code – 8.2(f)[5]
	UT Code – 8.2(g)(i)[5]
	UT Code – 8.2(g)(ii)[5]
	UT Code – 8.2(g)(iii)[5]
	UT Code – 8.2(g)(a)[5]
	UT Code – 8.2(h)[5]
	UT Code – 8.2(i)[5]
	UT Code – 8.2(j)[5]
	UT Code – 8.2(k)[5]
	UT Code – 8.2(l)[5]
	UT Code – 8.2(n)[5]
Applicable only to Unlisted Index Funds and Index Tracking Exchange Traded Funds)	
	UT Code – 8.6(f)
	UT Code – 8.6(h)(i)

[5] The disclosure requirements are deemed to be complied by UCITS short-term money market funds which has complied with the Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds.

Appendix C to the UT Code	
	UT Code – 8.6(h)(ii)
	UT Code – 8.6(i)
	UT Code – 8.6(j)(i)
	UT Code – 8.6(j)(ii)
	UT Code – 8.6(j)(iii)
	UT Code – 8.6(j)(iv) *(if necessary)*
	UT Code – 8.6(j)(v)
	UT Code – 8.6(j)(vi)
	UT Code – 8.6(j)(vii)
	UT Code – 8.6(j)(viii)
	UT Code – 8.6(j)(ix)
	UT Code – 8.6(j)(x)
	UT Code – 8.6(j)(xi)
	UT Code – 8.6(j)(xii)
	UT Code – 8.6(j)(xiii)
	UT Code – 8.6(j)(xiv)
	UT Code – 8.6(j)(xv)
	UT Code – 8.6(k)
	UT Code – 8.6(m)
	UT Code – 8.6(r)
	UT Code – 8.6(u)
	UT Code – 8.6(v)
	UT Code – 8.6(w)
Applicable only to Hedge Funds	
	UT Code – 8.7(a)(iv)(Note (c)) *(only applicable to funds of hedge funds)*
	UT Code – 8.7(b)(ii)(Note) *(if applicable)*
	UT Code – 8.7(b)(iv) *(if applicable)*
	UT Code – 8.7(b)(iv)(Note) *(if applicable)*
	UT Code – 8.7(c)
	UT Code – 8.7(d)
	UT Code – 8.7(e) *(if applicable)*
	UT Code – 8.7(f)
	UT Code – 8.7(g)
	UT Code – 8.7(h)
	UT Code – 8.7(i) *(if applicable)*
	UT Code – 8.7(i)(Note)
	UT Code – 8.7(l)
	UT Code – 8.7(m)
	UT Code – 8.7(m) (Note)
	UT Code – 8.7(n)
	UT Code – 8.7(o)

Appendix C to the UT Code	
	UT Code – 8.7(p)
	UT Code – 8.7(q)
	UT Code – 8.7(r)(i)
	UT Code – 8.7(r)(ii)
	UT Code – 8.7(r)(iii)
	UT Code – 8.7(r)(iv)
	UT Code – 8.7(s)
	UT Code – 8.7(t)
Applicable only to Fund of Hedge Funds	
	UT Code – 8.7(j)(i)
	UT Code – 8.7(j)(ii)
	UT Code – 8.7(k)(iii)
	UT Code – 8.7(k)(iv)
	UT Code – 8.7(k)(v)
	UT Code – 8.7(k)(vi) *(if applicable)*
Applicable only to Structured Funds (Including Index Funds That Adopt a Synthetic Replication Strategy)[6]	
	Other Disclosure Requirements Applicable to Structured Funds
	UT Code – 8.8(c)
	UT Code – 8.8(d)
	UT Code – 8.8(e)
	UT Code – 8.8(f)
	UT Code – 8.8(h)(i)
	UT Code – 8.8(h)(ii)
	UT Code – 8.8(h)(iii)
	UT Code – 8.8(h)(iv)
	UT Code – 8.8(h)(v)
	UT Code – 8.8(h)(vi)
Applicable only to Funds That Invest Extensively in Financial Derivative Instruments	
	UT Code – 8.9(a)[7]
	UT Code – 8.9(f)
	UT Code – 8.9(g)[7]
	UT Code – 8.9(h)[7]
	UT Code – 8.9(i)[7]
	UT Code – 8.9(j)(i)
	UT Code – 8.9(j)(ii)
	UT Code – 8.9(j)(iii)

[6] Requirements in 7.36 of the UT Code are also applicable to asset portfolio of a structured fund investing in unfunded swap.

[7] UCITS domiciled in Luxembourg and Ireland, and UK UCITS that use FDIs for investment purposes have already complied with the relevant local laws and regulations governing these funds and thus are not required to comply with 8.9 except for the disclosure requirements set out in 8.9(j) of the UT Code.

Appendix C to the UT Code	
Applicable only to Listed open-ended Funds (also known as active ETFs)	
	UT Code – 8.6(u)
	UT Code – 8.6(w)
	UT Code – 8.10(e)
Applicable only to Closed-ended Funds	
	UT Code – 8.11(a)
	UT Code – 8.11(d)
	UT Code – 8.11(e)
	UT Code – 8.11(f)
	UT Code – 8.11(g)
	UT Code – 8.11(h)