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

Circular

24 April 2020

Circular to management companies of SFC-authorized exchange traded funds and to intermediaries

Futures-based ETFs

1. This circular is directed to all management companies (the "Managers") of SFC-authorized exchange traded funds (the "ETFs") and intermediaries.

2. In view of the unprecedented volatility noted in overseas crude oil futures markets, it is important that the Managers remain vigilant to respond to extreme market circumstances so that the ETFs can be managed in the best interests of investors (including the forthcoming local public holidays when overseas markets will remain open). To this end, the Managers are reminded to:

   (i) ensure that the relevant margin obligations are and will be fulfilled in a timely manner for ETFs that invest in futures (in particular, the futures-based ETFs);

   (ii) closely monitor the market movements of the underlying investments of the ETFs and ensure that there are proper contingency plans in place to respond to extreme market movements;

   (iii) ensure that any actions taken or to be taken by the Managers must be permitted under the ETF's constitutive documents, and comply with the applicable laws and regulatory requirements. The Managers should also consult the relevant trustee or custodian of the ETF before taking such actions;

   (iv) promptly and efficiently communicate these actions to investors of the ETF, taking into account any possible delay of communication due to the administrative arrangements and other requirements associated with the listing of ETFs on The Stock Exchange of Hong Kong Limited, including the holiday arrangement; and

   (v) give the SFC early alerts of any untoward circumstances relating to the ETFs under their management, including without limitation, any issues which may adversely affect the operations, investments and secondary market trading and liquidity of their ETFs.

3. Intermediaries are reminded that futures-based ETFs are derivative products. When providing trading services to clients in derivative products, intermediaries should ensure compliance with the requirements under paragraphs 5.1A (derivative knowledge) and 5.3 (understands the risks and has sufficient net worth) of the Code of Conduct[1]. Where

[1] Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission

there has been solicitation or recommendation, intermediaries should also comply with the suitability obligations[2] under the Code of Conduct.

4. Managers of ETFs and intermediaries are welcome to contact the SFC in case of any questions on the above.

Investment Products Division
Securities and Futures Commission

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

[2] The suitability obligations are set out in paragraph 5.2 of the Code of Conduct and supplemented by FAQs on Triggering of Suitability Obligations and FAQs on Compliance with Suitability Obligations issued in December 2016