Frequently Asked Questions on Leveraged and Inverse Products

These FAQs are prepared by the Investment Products Division and aims to provide basic information to market practitioners in respect of leveraged and inverse products (L&I Products), which are subject to 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 ("UT Code") effective on 1 November 2026. Applicants are encouraged to contact the relevant case team in the Investment Products Division of the Securities and Futures Commission (the "SFC") if in doubt on any specific issues arising from the application/interpretation of the Handbook or these FAQs. Please note that each application for authorization is considered on a case-by-case basis.

The information set out below is not meant to be exhaustive. These FAQs may be updated and revised from time to time. These FAQs are only for general reference. Compliance with all the requirements in these FAQs do not necessarily mean an application will be accepted or authorization will be granted. The SFC reserves the rights to exercise all powers conferred under the law.

Notes: (1) For ease of reference, collective investment schemes that are generally known as unit trusts or mutual funds are referred to as "funds" in the following FAQs.

(2) Unless otherwise specified, the term "exchange traded fund" or "ETF" used in these FAQs shall cover SFC-authorized passive ETF, active ETF and listed unit/share class of unlisted fund.

	Question	Answer
	Authorization of L&I Products	
1.	Can an L&I Product be established as a sub-fund under an existing umbrella fund that contains other SFC-authorized unlisted funds or exchange traded funds (ETFs)?	As explained in FAQ4 on the UT Code, in general, we expect sub-funds in the same umbrella fund should share similar investment objectives and risk profiles. Given that L&I Products have different risk profiles from unlisted funds and conventional ETFs and are required to adopt a different naming convention, we do

	Question	Answer
		not expect L&I Products to be established under the same umbrella fund as other SFC-authorized unlisted funds and ETFs. L&I Products adopting different replication strategies (e.g. swap-based or futures-based) may be established under the same umbrella fund.
1A.	What are the requirements for L&I Products?	Relevant requirements are set out in the Circular on listed structured funds and the appendix for additional requirements for L&I Products.
2.	What are the factors that the SFC may take into account when assessing the acceptability of the management company of futures-based L&I Products?	Relevant requirements are set out in Chapter 5 of the UT Code.
3.	This FAQ is obsolete and has been removed.	
3A.	What are required to be submitted from applicants of swap-based L&I Products tracking Mainland equity indices to start an application?	In addition to the documents required to be submitted under Frequently Asked Questions on Application Procedures for Authorization of Unit Trusts and Mutual Funds under the Revamped Process (Fund Applications FAQs), the management company of swap-based L&I Products tracking Mainland equity indices (Manager) is required to submit the following to the SFC to start an application: (i) Manager's confirmation that it has signed the index licence agreement with the index provider for each L&I Product; (ii) Manager's confirmation of procuring more than one swap counterparty for each L&I Product; (iii) at least two term sheets with detailed explanation on the swap structure and

	Question	Answer
		collateral arrangement (if any), including but not limited to, the following key terms of the swap arrangements, as acknowledged by the Manager and the respective swap counterparty: • notional amount of the swap; • swap fees, including the description of the basis for calculation and amount under normal and extreme circumstances; • maximum unwinding fee; • margin and collateral arrangement; and • events which may lead to early termination of the swap; (iv) Manager's confirmation that the swap structure and collateral arrangement in the term sheets under item (iii) are in compliance with 8.8 (d) of the UT Code; (v) proposed investments to be made by the products other than the swap ("Asset Portfolio"), and the Manager's confirmation that the Asset Portfolio will comply with the requirements in 7.36-7.38 of the UT Code; and (vi) contingency plan for the products to continue to achieve their investment objectives in the event of early termination of the swap, or exposure to Mainland equity indices is no longer obtainable by the products. As such, an application of swap-based L&I Products tracking Mainland equity indices will only be taken up by the SFC when an applicant has submitted all the relevant documents that meet the applicable requirements (see Fund Applications FAQ 1) as well as those documents set out in these FAQs to our satisfaction. Please refer to Fund Applications FAQs 1, 3 and 8 for details.
	Disclosure	
4.	Does the SFC require information relating to how an L&I Product would perform under different market conditions to be disclosed in the offering	The offering documents of L&I Products should contain disclosure to illustrate that the performance of L&I Products, when held overnight, may deviate from the underlying indices.

	Question	Answer
	documents?	To illustrate how the performance of the L&I Products may deviate from the underlying indices, the offering documents should include examples to illustrate the performance of L&I Products and the underlying indices under different market conditions, the associated risks and the impact on investors. At a minimum, the following market conditions should be used for the illustration: (i) in an upward trending market; (ii) in a downward trending market; and (iii) in a volatile market.
5.	What information is required to be displayed in the performance simulator to be made available by the provider of an L&I Product?	Reference is made to the SFC Circular on Listed Structured Funds issued on 23 January 2025 as amended from time to time which requires the provider of a listed structured fund (including L&I Product) to make available a "performance simulator", which allows investors to select a historical time period and simulate the performance of the listed structured fund during that period based on historical data. The performance simulator of an L&I product should display the following minimum information: (i) the performance of the L&I Product, measured by its NAV; and (ii) the performance of the non-leveraged, non-inverse version of the underlying asset tracked by the L&I Product.
	Disclosure of tracking difference and tracking error	
6.	How would the tracking difference and tracking error disclosure requirements set out in the circular entitled "Disclosure of Tracking Difference and Tracking Error" (the "TD/TE Circular") apply to SFC-authorized L&I Products?	To improve transparency and provide further information to investors concerning the tracking performance of SFC-authorized L&I Products, the requirements set out in the TD/TE Circular are generally applicable. However, due to the day trading nature of L&I Products and L&I Products' objective of delivering a multiple or the opposite of the return of their underlying assets only on a daily basis, tracking differences should be considered over one-day periods (i.e. daily tracking differences), as

	Question	Answer
		opposed to over a longer period of time (typically one year) for passive ETFs. In view of this, we have modified the requirements in the TD/TE Circular as set out in the FAQs below for compliance by L&I Product providers.
7.	What is the methodology for calculating the daily tracking differences ("Daily TD") of L&I Products?	Daily TD is the difference between the daily return of an L&I Product and the Applicable Underlying Asset Performance (as defined below). Set out below is the formula for calculating the Daily TD of an L&I Product: TD = $(NAV_T - NAV_{T-1}) / NAV_{T-1}$ - Applicable Underlying Asset Performance Where: a. NAV_T refers to net asset value ("NAV") per unit of an L&I Product on a dealing day, when both the NAV of the L&I Product and the Applicable Underlying Asset Performance are calculated and available. b. NAV_{T-1} refers to NAV per unit of an L&I Product on the immediately preceding dealing day before the dealing day specified in part (a), when both the NAV of the L&I Product and the Applicable Underlying Asset Performance are calculated and available. c. "Applicable Underlying Asset Performance" is defined as: (i) if the L&I Product aims to deliver a multiple or the opposite of the return of its underlying asset on a daily basis: $[(\text{Underlying Asset Value}_T - \text{Underlying Asset Value}_{T-1}) / \text{Underlying Asset Value}_{T-1}] * LF$ Where: A. Underlying Asset Value$_T$ refers to the closing value of the underlying

	Question	Answer
		asset tracked by the L&I Product on a dealing day. B. Underlying Asset Value$_{T-1}$ refers to the closing value of the underlying asset tracked by the L&I Product on the immediately preceding dealing day before the dealing day specified in part (A). C. LF refers to the specified leverage factor of the L&I Product (i.e. 2 for a 2x Leveraged Product and -1 for a -1x Inverse Product). (ii) if the L&I Product tracks a leveraged or inverse index: [(Index Value$_T$ - Index Value$_{T-1}$) / Index Value$_{T-1}$] Where: A. Index Value$_T$ refers to the closing value of the underlying index tracked by the L&I Product on a dealing day B. Index Value$_{T-1}$ refers to the closing value of the underlying index tracked by the L&I Product on the immediately preceding dealing day before the dealing day specified in part (A) An L&I Product tracking a total return index ("TRI") should use the underlying TRI as a benchmark to measure the Daily TD and an L&I Product tracking a price return index ("PRI") should use the underlying PRI as the benchmark accordingly. The calculation of the actual Daily TD of an L&I Product tracking TRI may be done on the assumption/basis that the actual distributions made by the L&I Product during the relevant calculation period are (immediately or as soon as reasonably practicable thereafter) reinvested into the L&I Product in a consistent manner. Daily TD should be shown in percentage term and rounded to two decimal places (i.e. 0.01%), given that the Daily TD is calculated based on the daily return of L&I

	Question	Answer
		Products. For the purpose of disclosure of the Daily TD of a L&I Product set out in the FAQs here, the Daily TD shall be calculated and disclosed on a day when both the NAV of the L&I Product and the Applicable Underlying Asset Performance are calculated and available, as the purpose of this calculation is to assess how well the L&I Product tracks the underlying asset on a daily basis.
8.	What are the disclosure requirements of Daily TD by newly listed L&I Products?	*Estimated Annual Average Daily TD* For a newly listed L&I Product, the estimated annual average Daily TD (the "Estimated Annual Average Daily TD") should be calculated and disclosed in the key facts statement ("KFS") and on the website on the following basis and assumptions: a. a reasonable estimate of the initial product size by the L&I Product provider; b. the performance of the underlying asset one year prior to listing of the L&I Product as the performance of the L&I Product; c. there is no creation/redemption during the first year; and d. the assumptions, methodologies and treatment in respect of rebalancing, capital gains tax provisions, investment restrictions and dividend policies as disclosed in offering documents of the L&I Product. The L&I Product provider shall ensure the accuracy of the Estimated Annual Average Daily TD is kept under review. If the actual Daily TD substantially deviates from the Estimated Annual Average Daily TD as disclosed in the KFS and on the website, a notice should be issued to investors as soon as practicable to explain such deviation with an updated Estimated Annual Average Daily TD based on the L&I Product provider's latest assumptions and updated information ("Notice on TD Deviation").

	Question	Answer
		Website disclosure Please see Appendices 1 and 2 for illustrative examples of website disclosure of Daily TD and average Daily TD of a leveraged product tracking a leveraged index and a leveraged product aiming to deliver a daily return equivalent to two times of the underlying asset return; and see Appendices 3 and 4 for illustrative examples of website disclosure of an inverse product tracking an inverse index and an inverse product aiming to deliver the opposite of the daily return of the underlying asset respectively during its first year of listing. Please note the following: a. The Estimated Annual Average Daily TD should be disclosed on the website of the L&I Product upon its listing. b. The following items shall be presented on the L&I Product's website after the L&I Product has been listed for a period of at least a full month with a month-end date of that month during this period: (i) the actual Daily TD – this shall be presented in two graphs: (i) a graph showing both the Applicable Underlying Asset Performance and L&I Product's daily performance, and (ii) a graph showing the actual Daily TD. The two graphs shall be updated monthly on a rolling basis; and (ii) the actual average Daily TD since the L&I Product's listing date – this shall be presented in a table and such figure should be updated monthly. c. For L&I Products tracking PRI, please disclose in the graph that "*L&I Product's performance is calculated on an NAV to NAV basis without any reinvestment of distributions*". d. For L&I Products tracking TRI, where applicable, please disclose in the graph that "*L&I Product's performance is calculated on an NAV to NAV basis and assumes reinvestment of distributions*".

	Question	Answer
		e. If a Notice on TD Deviation is issued, the Estimated Annual Average Daily TD as well as other relevant information on the website should be updated accordingly. *KFS Disclosure* Please note the following: a. The Estimated Annual Average Daily TD should be disclosed in the KFS under the section headed "Quick facts" of L&I Products in addition to the estimated ongoing charges figure. b. The KFS under the section headed "Quick facts" should contain a statement to the effect that the Estimated Annual Average Daily TD is an estimated annual average daily TD figure and that investors should refer to the L&I Product website for information on the actual average Daily TD. c. If a Notice on TD Deviation is issued, the Estimated Annual Average Daily TD shall be updated accordingly. Any revisions to the KFS must be made in accordance with the requirements under the Code on Unit Trusts and Mutual Funds.
9.	What are the disclosure requirements of Daily TD by L&I Products beyond its first year of listing?	*Website disclosure* Please see Appendices 5 and 6 for illustrative examples of website disclosure of a leveraged product tracking a leveraged index and a leveraged product aiming to deliver a daily return equivalent to two times of the underlying asset return; and see Appendices 7 and 8 for illustrative examples of website disclosure of an inverse product tracking an inverse index and an inverse product aiming to deliver the opposite of the daily return of the underlying asset respectively beyond its first year of listing. Please note the following: a. The actual Daily TD for the past 12 months shall be presented on the website in

	Question	Answer
		two graphs and shall be updated monthly: (i) a graph which shows both the Applicable Underlying Asset Performance and the L&I Product's daily performance, and (ii) a graph which shows the actual Daily TD. b. The actual average Daily TD for the past 12 months shall be updated monthly on a rolling basis. c. If an L&I Product has been listed for more than one full calendar year, the actual average Daily TD of (i) each of the last ten calendar years; or (ii) each of the calendar years since the L&I Product was listed if the L&I Product has been listed for less than ten calendar years should be presented (see Appendices 5-8). d. For L&I Products tracking PRI, please disclose in the graph that "*L&I Product's* performance *is calculated on an NAV to NAV basis without any reinvestment of distributions*". e. For L&I Products tracking TRI, where applicable, please disclose in the graph that "*L&I Product's performance is calculated on an NAV to NAV basis and assumes reinvestment of distributions*". For items (a) and (b) above, the management companies of SFC-authorized L&I Products are encouraged to update the disclosure more frequently. *KFS Disclosure* Please note the following: a. The actual average Daily TD of the most recent calendar year shall be disclosed in the KFS under the section headed "Quick facts".

	Question	Answer
		b. The KFS under the section headed "Quick facts" shall also contain a statement to the effect that the tracking difference disclosed in the KFS is the actual average Daily TD of the most recent calendar year and that investors should refer to the L&I Product website for updated actual average Daily TD information. c. L&I Product providers shall update the actual average Daily TD for the most recent calendar year on the KFS as soon as practicable after the calendar year end and in any event, no later than four months after 31 December (i.e. before end of April of the following year).
10.	What is the methodology for calculating the tracking error ("TE") of L&I Products?	Tracking error ("TE") measures how consistently an L&I Product follows its underlying asset and is an indicator of the quality of replication. It is also commonly referred to as the volatility (as measured by standard deviation) of the differences in the daily returns of a L&I Product and the Applicable Underlying Asset Performance. TE is measured by the standard deviation of the Daily TD. Standard deviation is calculated based on the Daily TD over the applicable one year period. Daily TD is calculated based on the formula set out in FAQ 7 above. TE should be shown in percentage term and rounded to two decimal places (i.e. 0.01%), given that TE is calculated with reference to the daily return of L&I Products.
11.	What are the disclosure requirements for TE of L&I Products?	A L&I Product should disclose its annual TE on its website after one year of its listing (Please see Appendices 5-8). Such annual TE for the past year as disclosed on the website should be updated monthly on a rolling basis.
12.	What is considered the "listing date" in complying with the disclosure requirements for L&I	When considering the listing history of the L&I Product in complying with the requirements in the FAQs, the listing date of the L&I Product shall be the first listing

	Question	Answer
	Products?	date on its primary listing market, whether in Hong Kong or overseas.
13.	When is the deadline for updating the information of Daily TD and TE on the website of the L&I Products?	L&I Product providers shall publish the information of Daily TD and TE on the L&I Product's website within 5 business days of each month end in respect of such information required to be disclosed or updated on a monthly basis under the FAQs.
14.	Can the L&I Products provider present additional Daily TD and TE information other than those required by FAQs 6-13?	FAQs 6-13 set out the minimum requirements for disclosure of Daily TD and TE for L&I Products. So long as the L&I Product has complied with the Daily TD and TE disclosure required under FAQs 6-13, the L&I Product provider may present additional Daily TD and TE information, which shall only be in numerical presentation, using other basis and assumptions provided that such basis and assumptions are clearly set out and the presentation is fair, accurate and not misleading.
	Disclosure of ongoing charges figure and past performance information	
15.	Does the Ongoing Charges Guidelines and the Performance Information Guidelines attached to the circular entitled "Disclosure of the ongoing charges figure and past performance information in the Product Key Facts Statements" apply to SFC-authorized L&I Products?	To enhance the transparency and disclosure requirements of L&I Products, the requirements as set out in the Ongoing Charges Guidelines and the Performance Information Guidelines are generally applicable to L&I Products, subject to the modifications set out in FAQs 16 and 17 below.
16.	What are the ongoing charges figure disclosure requirements for L&I Products?	In view of the day trading nature of L&I Products, in addition to the disclosure of the ongoing charges figures as defined in the Ongoing Charges Guidelines, the annual average daily ongoing charges figure (as defined below) should also be disclosed in the KFS for L&I Products. Annual average daily ongoing charges figure (%) is equal to the ongoing charges figure (%) (as defined in the Ongoing Charges Guidelines) divided by the number of dealing days of the L&I Products during the year.

<table>
<tr><th></th><th>Question</th><th>Answer</th></tr>
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KFS Disclosure

The annual average daily ongoing charge figure is expected to be disclosed in brackets, alongside the ongoing charges figure for L&I Products.

An illustrative example showing the minimum information expected to be disclosed in the KFS is set out below:

<table>
<tr><td colspan="2">Quick facts:</td></tr>
<tr><td>Ongoing charges over a year# (annual average daily ongoing charges*)</td><td>Class X [●]% ([●]%)
Class Y [●]% ([●]%)</td></tr>
</table>

the ongoing charges figure is based on expenses for the year ended [date]. This figure may vary from year to year. [Please disclose the basis of calculating the ongoing charges, including, for example, when estimates are used for newly-set-up L&I Products or due to material change(s), rebates or fee waivers.]

* the annual average daily ongoing charges figure is equal to the ongoing charges figure divided by the number of dealing days for the year ended [date]. This figure may vary from year to year. [Please disclose the basis of calculating the annual average daily ongoing charges if it is not already been included in footnote # above.]

For the avoidance of doubt, unless otherwise modified in this FAQ 16, the requirements in relation to the disclosure of the ongoing charges figure set out in the Ongoing Charges Guidelines, including the requirements in relation to the basis of calculation and frequency of update, should continue to apply to the ongoing charges figure for L&I Products and, if appropriate, the annual average daily
</td></tr>
</table>

	Question	Answer
		ongoing charges figure.
17.	What are the past performance information disclosure requirements for L&I Products?	Given L&I Products' objective of delivering a multiple or the opposite of the return of their underlying assets on a daily basis or tracking a leveraged/inverse index, the benchmarks to be disclosed in the presentation of past performance information for L&I Product for the purposes of paragraph 15 of the Performance Information Guidelines shall be: ○ the non-leveraged and non-inverse version of the underlying asset tracked by the L&I Product; and ○ if the L&I Product tracks a leveraged or inverse index, the leveraged (for leveraged products) or inverse (for inverse products) index tracked by the L&I Product. Please see Appendices 9-12 for illustrative examples of how past performance information should be presented in the KFS for L&I Products. For the avoidance of doubt, unless otherwise modified in this FAQ 17, the requirements in relation to the disclosure of the past performance information set out in the Performance Information Guidelines, including the requirements in relation to the format of disclosure and frequency of update, should continue to apply to the past performance information for L&I Products.
	Prior notice to investors regarding dividend distribution	
18.	What should management companies of SFC-authorized L&I Products note on giving prior notice to investors regarding dividend distribution?	The requirements regarding dividend distribution to investors of SFC-authorized listed CIS products as set out in Question 10 of the Frequently Asked Questions on the Exchange Traded Funds and Listed Funds would be equally applicable to L&I Products. Please refer to Question 10 of the Frequently Asked Questions on the Exchange Traded Funds and Listed Funds for further details.

	Question	Answer
	Market making arrangement	
19.	What should L&I Product managers note if the sole market maker for units/shares (traded in any counter) of an L&I Product were to resign?	The requirements regarding resignation of last market maker, and cessation of market making activities, of SFC-authorized ETFs as set out in Question 12 of the Frequently Asked Questions on Exchange Traded Funds and Listed Funds would be equally applicable to L&I Products. In particular, we require that an L&I Product must be terminated in the event of resignations of all market makers. The termination should take place at about the same time as the resignation of the last market maker becoming effective. The L&I Product provider and market maker should provide for a sufficiently long resignation notice period to allow for an orderly unwinding and termination of the product.
19A	Can L&I Product manager provide remunerations and/or incentives to market makers for providing liquidity in the secondary market trading of SFC-authorized L&I Products?	The requirements regarding remunerations and/or incentives to market makers of SFC-authorized ETFs as set out in Question 12A of the Frequently Asked Questions on Exchange Traded Funds and Listed Funds would be equally applicable to L&I Products. Please refer to Question 12A of the Frequently Asked Questions on the Exchange Traded Funds and Listed Funds for further details.
19B	HKEX's Designated Specialist (DS) programme permits liquidity providers who are not exchange participants to take part in market making activities of ETFs (including L&I Products) in Hong Kong. Does SFC consider having a DS for an L&I Product as its liquidity provider/market maker as satisfying the market making requirement under 8.6(p) of the UT Code?	The requirements regarding the compliance of 8.6(p) of the UT Code by having a DS as a liquidity provider / market maker for SFC-authorized ETFs as set out in Question 12B of the Frequently Asked Questions on Exchange Traded Funds and Listed Funds would be equally applicable to L&I Products. Please refer to Question 12B of the Frequently Asked Questions on the Exchange Traded Funds and Listed Funds for further details.

	Question	Answer
19C	We note that under the revised market making rules of HKEX, each of market maker and DS is effectively required to give not less than three months' written notice to HKEX before cessation of their market making activities for ETFs (including L&I Products). Does it have any implications on how management company of L&I Products complies with 8.6(p) of the UT Code?	The requirements regarding how management company of an ETF may comply with 8.6(p) of the UT Code in view of the recent amendments to the market making rules of HKEX as set out in Question 12C of the Frequently Asked Questions on Exchange Traded Funds and Listed Funds would be equally applicable to L&I Products. Please refer to Question 12C of the Frequently Asked Questions on the Exchange Traded Funds and Listed Funds for further details.
	Conditions and requirements imposed as a result of proposed termination and/or deauthorization and delisting of an SFC-authorized L&I Products	
20.	Pursuant to 8.6(t) of the UT Code, where an SFC-authorized ETF ceases trading on the Stock Exchange of Hong Kong ("SEHK") as a result of proposed termination and/or deauthorization and delisting, the requirements in 6.1, 8.6(u)(i) and (ii), 10.7 and 11.1B of the UT Code may be modified and/or not be applicable depending on the specific circumstances of each case and subject to such conditions and requirements as may be imposed by the SFC. Does 8.6(t) of the UT Code also apply to an SFC-authorized L&I Product ("Terminating Product") which ceases trading on the SEHK? If so, what are the conditions and requirements that the SFC may impose?	Where a Terminating Product ceases trading on the SEHK as a result of proposed termination, deauthorization and delisting, they may still maintain its SFC authorization status for a period of time until outstanding assets or liabilities are settled and the completion of the proposed termination, deauthorization and delisting. Given the Terminating Product will no longer be marketed to the public and have limited operations when it ceases trading, pursuant to 8.6(t) of the UT Code, the Terminating Product may continue to maintain its authorization status without strictly complying with certain provisions of the UT Code provided that certain conditions and requirements imposed by the SFC are satisfied. Set out below are the conditions and requirements imposed by the SFC. Please note that the management company is expected to disclose the applicable conditions and requirements in the termination announcement of the Terminating Product. **10.7 of the UT Code – Suspension of dealings** Under 10.7 of the UT Code, the management company is required to immediately

	Question	Answer
		notify the SFC if dealing in units/shares ceases or is suspended; and publish the fact that dealing is suspended immediately following the decision to suspend and at least once a month during the period of suspension in an appropriate manner. The management company may continue to manage the Terminating Product without strict compliance with 10.7 of the UT Code, subject to the condition that a statement shall be posted in a prominent position of the L&I Product's own website from the date the Terminating Product ceases trading ("Trading Cessation Date") until the deauthorization date to notify investors that the units/shares of the Terminating Product have ceased trading on the SEHK from the Trading Cessation Date, and draw investors' attention to the termination announcement and all other relevant announcements. **8.6(u)(i) and (ii) of the UT Code – Real time or near-real time indicative NAV and last NAV** Under 8.6(u)(i) and (ii) of the UT Code, the Terminating Product is required to provide real time or near-real time indicative NAV per unit/share (updated at least every 15 seconds during trading hours) and last NAV per unit/share and last NAV of the Terminating Product (updated on a daily basis) on the L&I Product's own website or such other channels as the SFC considers appropriate. The management company may continue to manage the Terminating Product without strict compliance with 8.6(u)(i) and (ii) of the UT Code, subject to the following conditions: (A) the NAV per unit/share of the Terminating Product as of the last trading day, which is the latest NAV per unit/share of the Terminating Product, will be published on the L&I Product's own website; and (B) the management company shall update the latest available NAV per unit/share of the Terminating Product on the L&I Product's own website as soon as practicable should there be any other change to the NAV of the

	Question	Answer
		Terminating Product. The management company should list out the applicable examples of the events which may cause the NAV of the Terminating Product to change in the termination announcement. For example: (i) interim distribution; (ii) final distribution; (iii) any further distribution; (iv) any change in the market value of any scrip dividend receivable by the Terminating Product concerned; (v) dividend from suspended stocks; and (vi) any deduction of transaction costs or taxes relating to the realization of the assets of the Terminating Product. **6.1 and 11.1B - Updating of offering documents** Under 6.1 and 11.1B of the UT Code, the offering documents of the Terminating Product must be up-to-date. The management company may continue to manage the Terminating Product without updating the offering documents of the Terminating Product as required under 6.1 and 11.1B of the UT Code from the Trading Cessation Date provided that the management company would: (A) promptly notify investors of any changes to the Terminating Product or to the offering documents (including the KFS) by means of publishing further announcement(s) on its and the HKEX's websites; (B) ensure that each further announcement shall include a statement to refer investors to read the termination announcement together with the offering documents (including the KFS), and any other further announcement(s); and

	Question	Answer
		(C) issue an updated offering document to remove all references to the Terminating Product upon deauthorization of the Terminating Product (applicable if the same offering document is also used for other existing SFC-authorized funds).
	Orderly trading of SFC-authorised L&I Products	
21.	What are the regulatory expectations for managers in maintaining orderly trading of SFC-authorised L&I Products?	Managers should implement appropriate monitoring, communication and escalation arrangements to help maintain orderly trading of SFC-authorised L&I Products. For example, they should: • closely monitor trading premiums/discounts, the nominal prices and market making activities of each trading counter of a product under their management; • establish a pre-defined communication protocol with relevant parties (eg, market makers) to timely identify and resolve trading anomalies, as well as an escalation protocol to inform senior management where necessary (eg, the relevant responsible officer(s) of the product manager); and • notify the SFC immediately of any issue that may disrupt orderly trading (eg, where the price of any trading counter of a product approaches the trading price ceiling or floor prescribed by HKEX), together with an assessment of the associated risks, potential investor impact and proposed mitigating measures (eg, unit consolidation or splitting). Managers are also encouraged to enhance their internal policies and procedures, and/or incorporate sufficient flexibility into the products' constitutive documents to enable timely implementation of mitigating measures.

Appendix 1 - Website disclosure for a Leveraged Product tracking a leveraged version of the underlying index during its first year of listing

ABC Issuer DEF Index Daily (2x) Leveraged Product

Tracking Difference/ Tracking Error

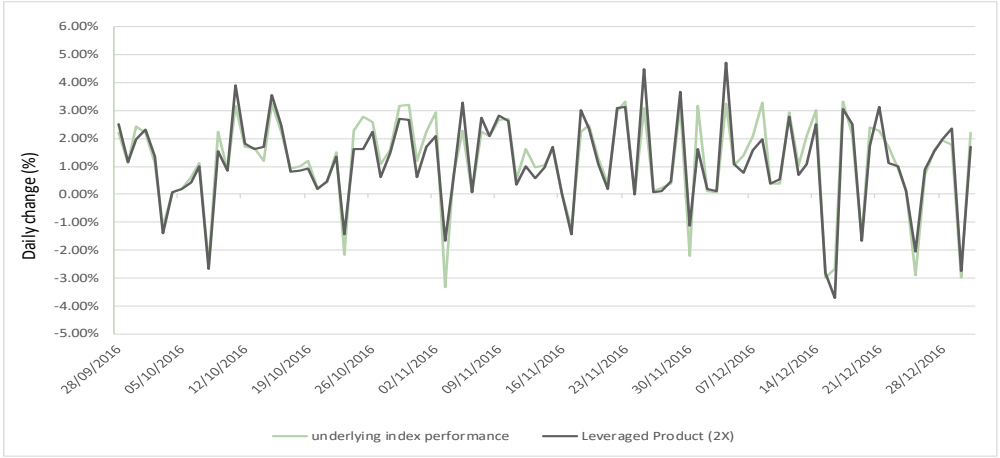
Daily Tracking Difference (Daily TD)
- Daily TD is the difference between the daily return of a Leveraged Product and the daily performance of the underlying index, which is a leveraged index.
- Tracking error measures how consistently a Leveraged Product delivers the daily performance of the underlying index. It is the volatility (measured by standard deviation) of that return difference

Tracking Difference

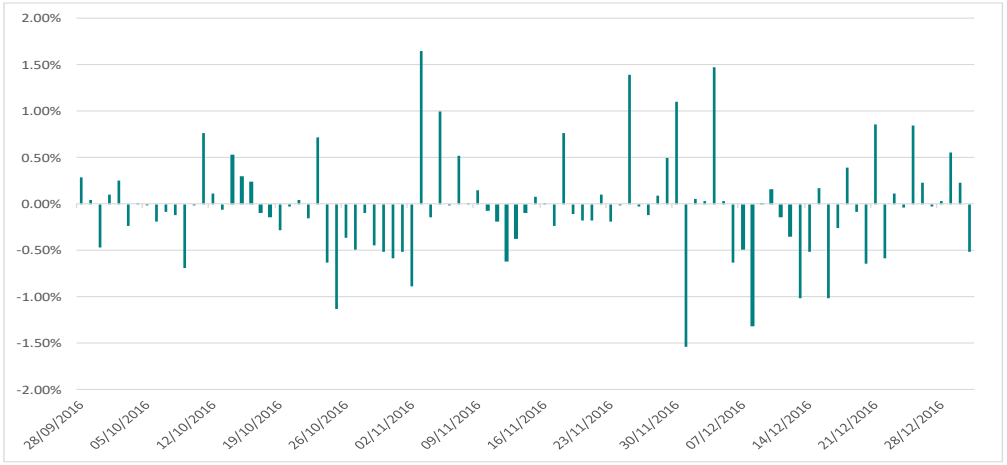
As of 31 Dec 2016
Fund Listing Date: 28 Sep 2016
- Estimated Annual Average Daily TD: X.XX%

Actual Average Daily TD:
Since Listing (28 Sep 2016): Y.YY%

Graph (a) - Daily return of the Leveraged Product and the daily performance of the underlying index, which is a leveraged index



Graph (b) - Actual daily tracking difference



Appendix 2 - Website disclosure for a Leveraged Product tracking a non-leveraged version of the underlying index during its first year of listing

ABC Issuer DEF Index Daily (2x) Leveraged Product

Tracking Difference/ Tracking Error

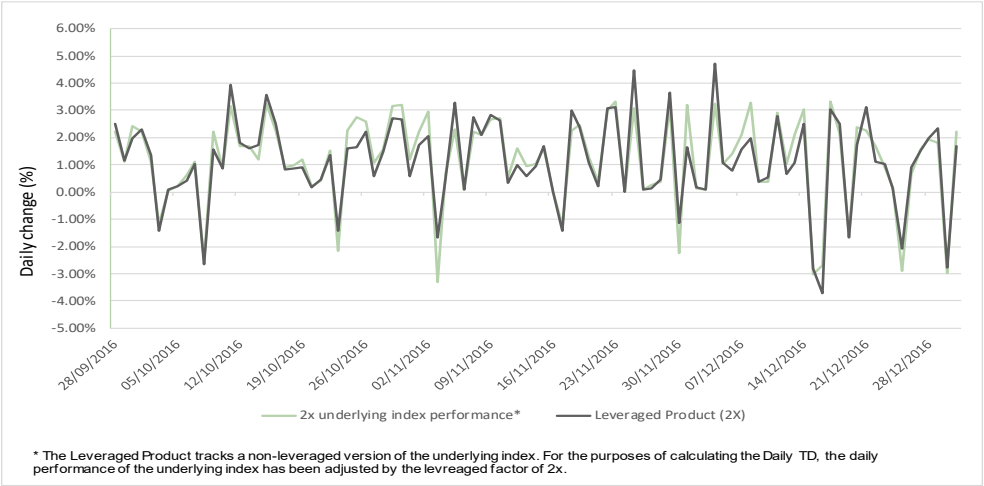
Daily Tracking Difference (Daily TD)
- Daily TD is the difference between the daily return of an Leveraged Product and the 2x daily performance of the underlying index.
- Tracking error measures how consistently a Leveraged Product delivers the 2x daily performance of the underlying index. It is the volatility (measured by standard deviation) of that return difference

Tracking Difference

As of 31 Dec 2016
Fund Listing Date: 28 Sep 2016
- Estimated Annual Average Daily TD: X.XX%

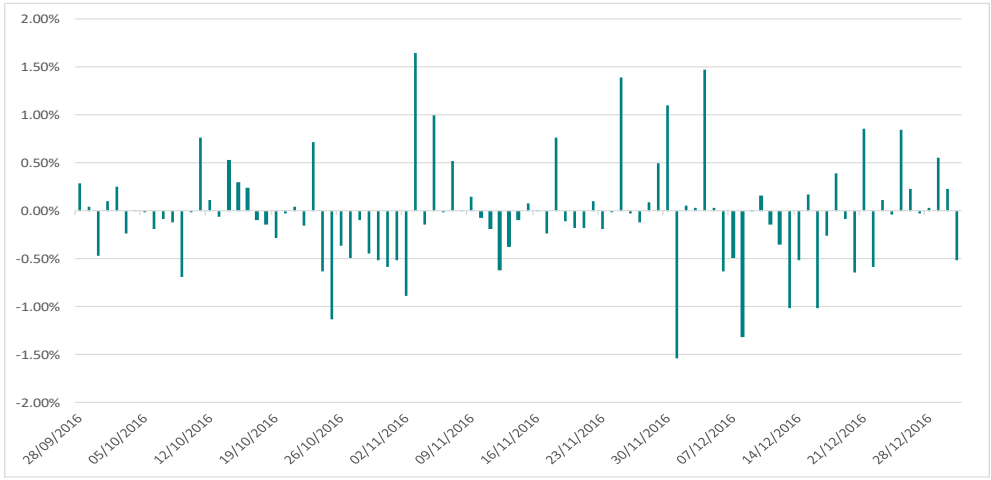
Actual Average Daily TD:
Since Listing (28 Sep 2016): Y.YY%

Graph (a) - Daily return of the Leveraged Product and the 2x daily performance of the underlying index



* The Leveraged Product tracks a non-leveraged version of the underlying index. For the purposes of calculating the Daily TD, the daily performance of the underlying index has been adjusted by the levreaged factor of 2x.

Graph (b) - Actual daily tracking difference



Appendix 3 - Website disclosure for an Inverse Product tracking an inverse version of the underlying index during its first year of listing

ABC Issuer DEF Index Daily (-1x) Inverse Product

Tracking Difference/ Tracking Error

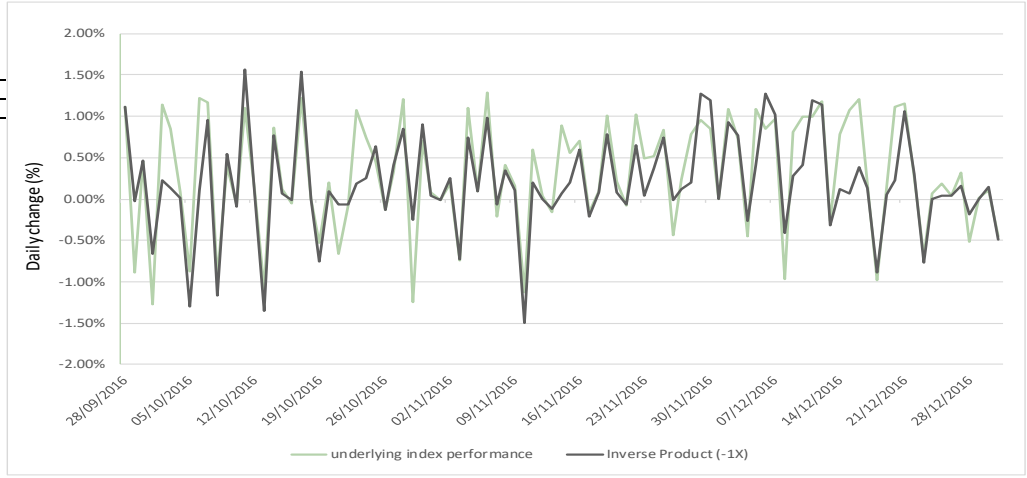
Daily Tracking Difference (Daily TD)
- Daily TD is the difference between the daily return of an Inverse Product and the daily performance of the underlying index, which is an inverse index.
- Tracking error measures how consistently an Inverse Product delivers the daily performance of the underlying index. It is the volatility (measured by standard deviation) of that return difference

Tracking Difference

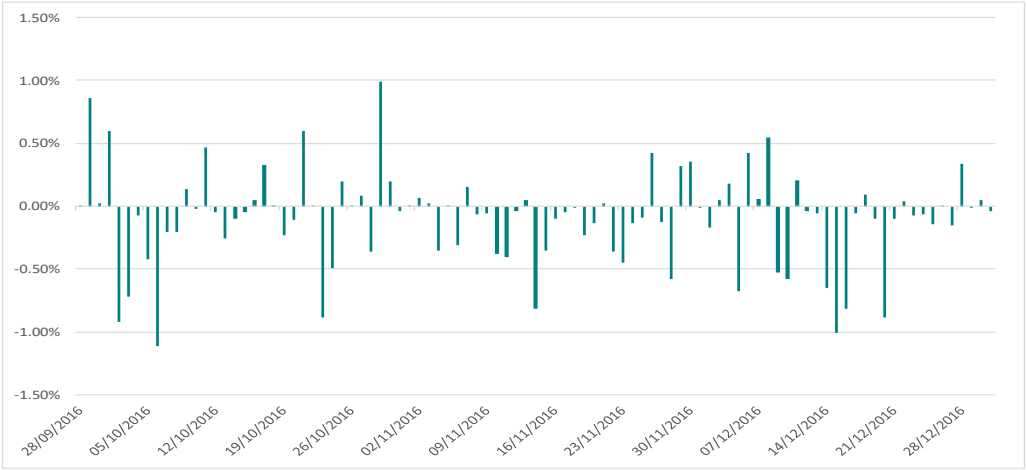
As of 31 Dec 2016
Fund Listing Date: 28 Sep 2016
- Estimated Annual Average Daily TD: X.XX%

Actual Average Daily TD:
Since Listing (28 Sep 2016): Y.YY%

Graph (a) - Daily return of the Inverse Product and the daily performance of the underlying index, which is an inverse index



Graph (b) - Actual daily tracking difference



Appendix 4 - Website disclosure for an Inverse Product tracking a non-inverse version of the underlying index during its first year of listing

ABC Issuer DEF Index Daily (-1x) Inverse Product

Tracking Difference/ Tracking Error

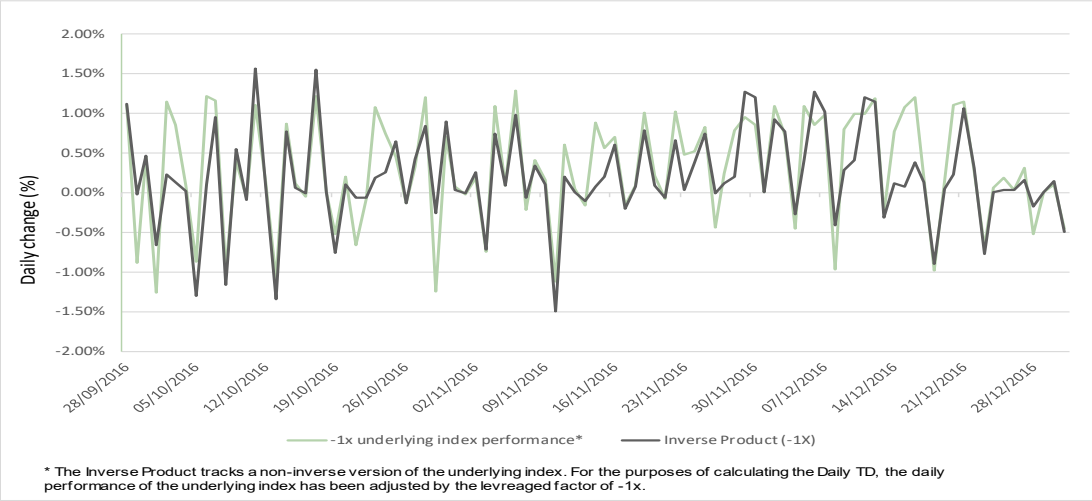
Daily Tracking Difference (Daily TD)
- Daily TD is the difference between the daily return of an Inverse Product and the daily performance of the -1x underlying index.
- Tracking error measures how consistently an Inverse Product delivers the daily performance of the -1x underlying index. It is the volatility (measured by standard deviation) of that return difference

Tracking Difference

As of 31 Dec 2016
Fund Listing Date: 28 Sep 2016
- Estimated Annual Average Daily TD: X.XX%

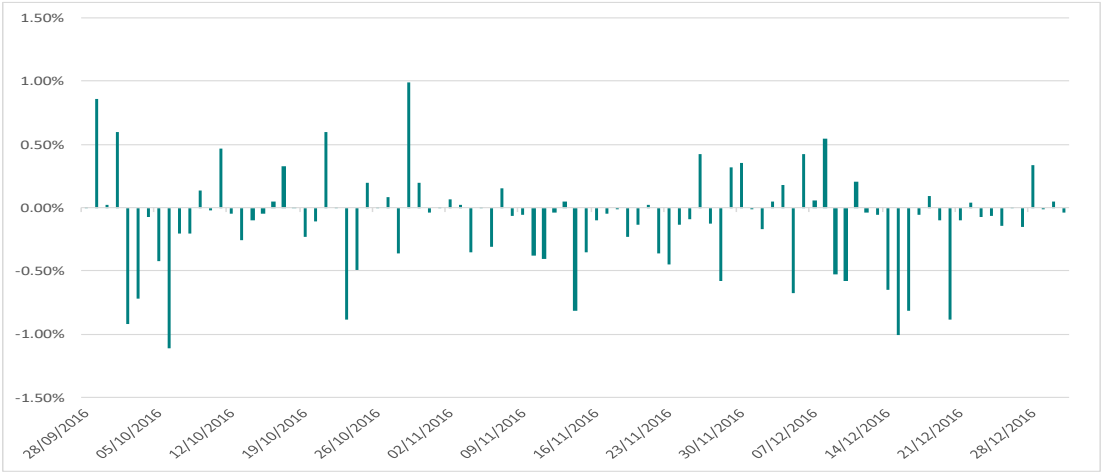
Actual Average Daily TD:
Since Listing (28 Sep 2016): Y.YY%

Graph (a) - Daily return of the Inverse Product and the -1x daily performance of the underlying index



* The Inverse Product tracks a non-inverse version of the underlying index. For the purposes of calculating the Daily TD, the daily performance of the underlying index has been adjusted by the levreaged factor of -1x.

Graph (b) - Actual daily tracking difference



Appendix 5 - Website disclosure for a Leveraged Product tracking a leveraged version of the underlying index beyond its first year of listing

ABC Issuer DEF Index Daily (2x) Leveraged Product

Tracking Difference/ Tracking Error

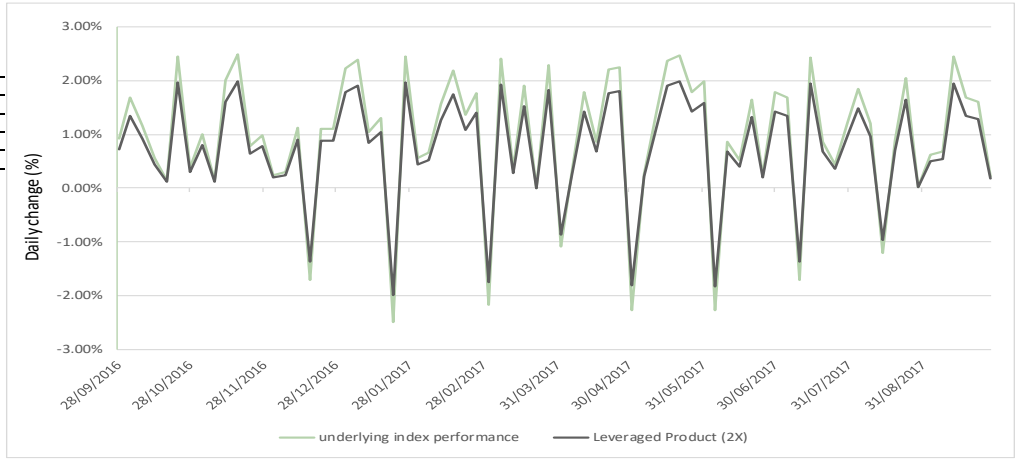
Daily Tracking Difference (Daily TD)
- Daily TD is the difference between the daily return of an Leveraged Product and the daily performance of the underlying index, which is a leveraged index.
- Tracking error measures how consistently a Leveraged Product delivers the daily performance of the underlying index. It is the volatility (measured by standard deviation) of that return difference

Tracking Difference

As of 28 Sep 2017
Fund Listing Date: 28 Sep 2012
Rolling 1-Year Actual Average Daily TD: X.XX%

Actual Average Daily TD for calendar year 2016: X.XX%
Actual Average Daily TD for calendar year 2015: X.XX%
Actual Average Daily TD for calendar year 2014: X.XX%
Actual Average Daily TD for calendar year 2013: X.XX%

Graph (a) - Daily return of the Leveraged Product and the daily performance of the underlying index, which is a leveraged index

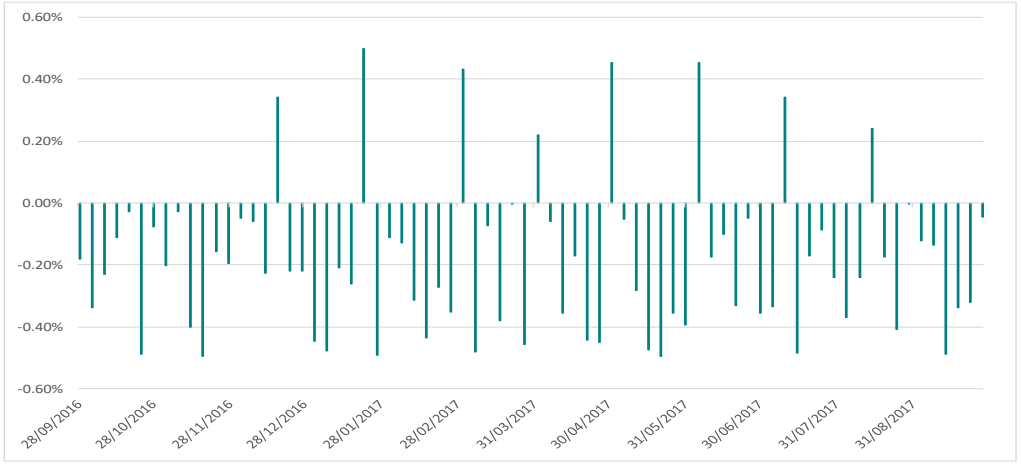


Tracking Error

As of 28 Sep 2017
Fund Listing Date: 28 Sep 2012

Rolling 1-Year TE^: Y.YY%
^ TE is measured by the standard deviation of the Daily TD. The standard deviation is calculated based on the Daily TD over the rolling one year period.

Graph (b) - Actual daily tracking difference



Appendix 6 - Website disclosure for a Leveraged Product tracking a non-leveraged version of the underlying index beyond its first year of listing

ABC Issuer DEF Index Daily (2x) Leveraged Product

Tracking Difference/ Tracking Error

Daily Tracking Difference (Daily TD)
- Daily TD is the difference between the daily return of an Leveraged Product and the 2x daily performance of the underlying index.
- Tracking error measures how consistently a Leveraged Product delivers the 2x daily performance of the underlying index. It is the volatility (measured by standard deviation) of that return difference

Tracking Difference

As of 28 Sep 2017
Fund Listing Date: 28 Sep 2012
Rolling 1-Year Actual Average Daily TD: X.XX%

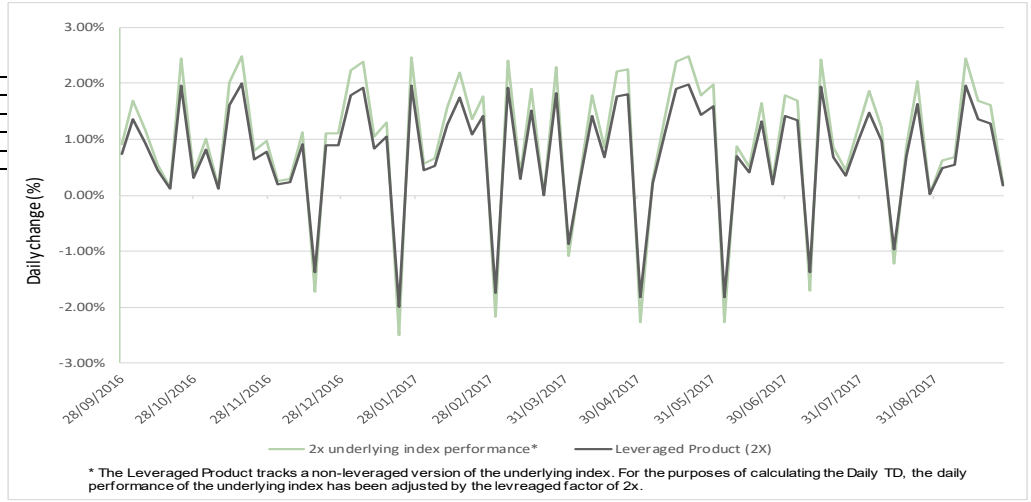
Actual Average Daily TD for calendar year 2016: X.XX%
Actual Average Daily TD for calendar year 2015: X.XX%
Actual Average Daily TD for calendar year 2014: X.XX%
Actual Average Daily TD for calendar year 2013: X.XX%

Tracking Error

As of 28 Sep 2017
Fund Listing Date: 28 Sep 2012

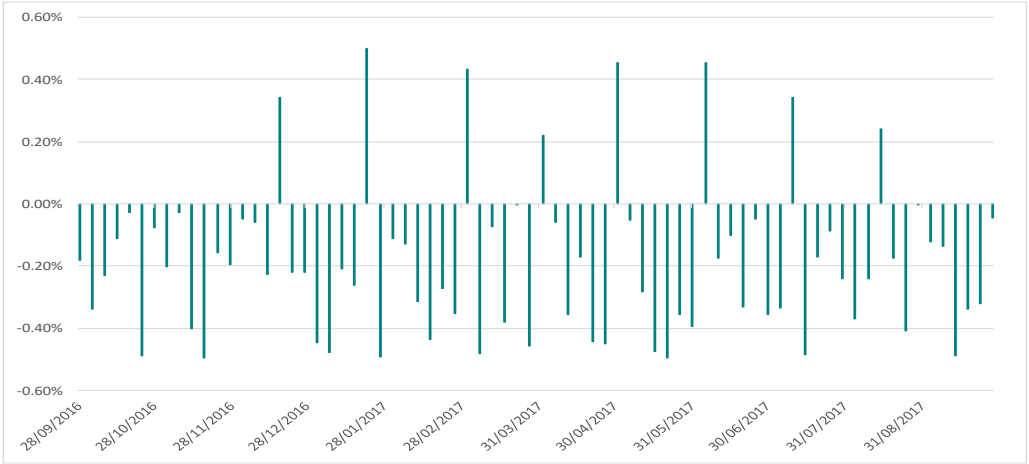
Rolling 1-Year TE^: Y.YY%
^ TE is measured by the standard deviation of the Daily TD. The standard deviation is calculated based on the Daily TD over the rolling one year period.

Graph (a) - Daily return of the Leveraged Product and the 2x daily performance of the underlying index



* The Leveraged Product tracks a non-leveraged version of the underlying index. For the purposes of calculating the Daily TD, the daily performance of the underlying index has been adjusted by the levreaged factor of 2x.

Graph (b) - Actual daily tracking difference



Appendix 7 - Website disclosure for an Inverse Product tracking an inverse version of the underlying index beyond its first year of listing

ABC Issuer DEF Index Daily (-1x) Inverse Product

Tracking Difference/ Tracking Error

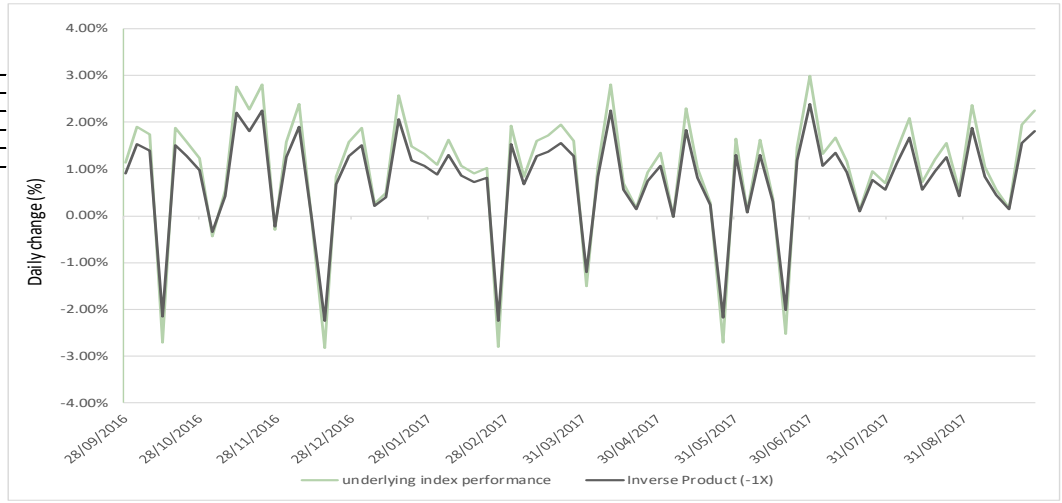
Daily Tracking Difference (Daily TD)
- Daily TD is the difference between the daily return of an Inverse Product and the daily performance of the underlying index, which is an inverse index.
- Tracking error measures how consistently an Inverse Product delivers the daily performance of the underlying index. It is the volatility (measured by standard deviation) of that return difference

Tracking Difference

As of 28 Sep 2017
Fund Listing Date: 28 Sep 2012
Rolling 1-Year Actual Average Daily TD: X.XX%

Actual Average Daily TD for calendar year 2016: X.XX%
Actual Average Daily TD for calendar year 2015: X.XX%
Actual Average Daily TD for calendar year 2014: X.XX%
Actual Average Daily TD for calendar year 2013: X.XX%

Graph (a) - Daily return of the Inverse Product and the daily performance of the underlying index, which is an inverse index

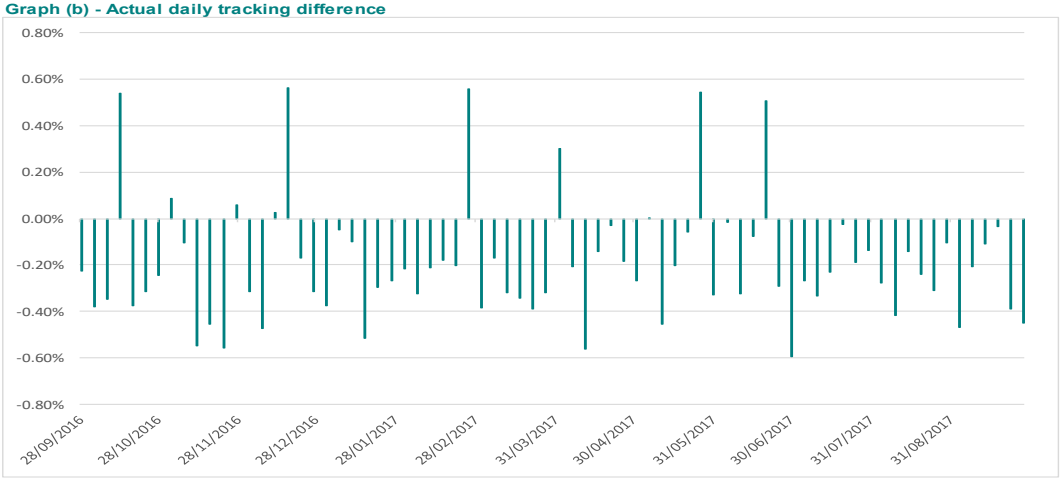


Tracking Error

As of 28 Sep 2017
Fund Listing Date: 28 Sep 2012

Rolling 1-Year TE^: Y.YY%
^ TE is measured by the standard deviation of the Daily TD. The standard deviation is calculated based on the Daily TD over the rolling one year period.

Graph (b) - Actual daily tracking difference



Appendix 8 - Website disclosure for an Inverse Product tracking a non-inverse version of the underlying index beyond its first year of listing

ABC Issuer DEF Index Daily (-1x) Inverse Product

Tracking Difference/ Tracking Error

Daily Tracking Difference (Daily TD)
- Daily TD is the difference between the daily return of an Inverse Product and the -1x daily performance of the underlying index.
- Tracking error measures how consistently an Inverse Product delivers the -1x daily performance of the underlying index. It is the volatility (measured by standard deviation) of that return difference

Tracking Difference

As of 28 Sep 2017
Fund Listing Date: 28 Sep 2012
Rolling 1-Year Actual Average Daily TD: X.XX%

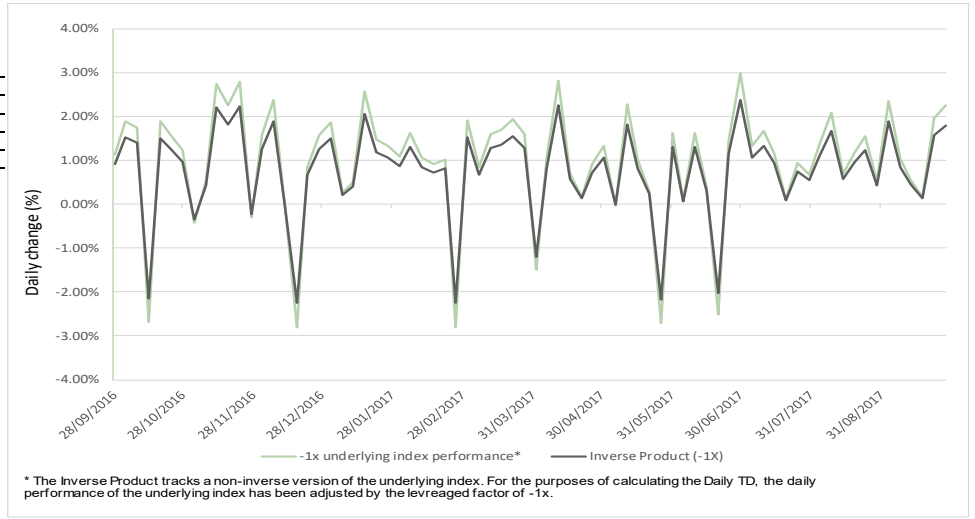
Actual Average Daily TD for calendar year 2016: X.XX%
Actual Average Daily TD for calendar year 2015: X.XX%
Actual Average Daily TD for calendar year 2014: X.XX%
Actual Average Daily TD for calendar year 2013: X.XX%

Tracking Error

As of 28 Sep 2017
Fund Listing Date: 28 Sep 2012

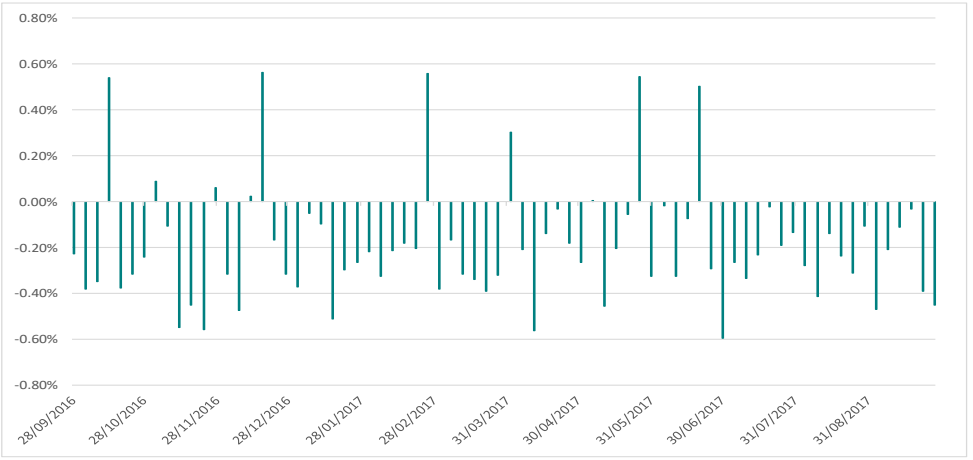
Rolling 1-Year TE^: Y.YY%
^ TE is measured by the standard deviation of the Daily TD. The standard deviation is calculated based on the Daily TD over the rolling one year period.

Graph (a) - Daily return of the Inverse Product and the -1x daily performance of the underlying index

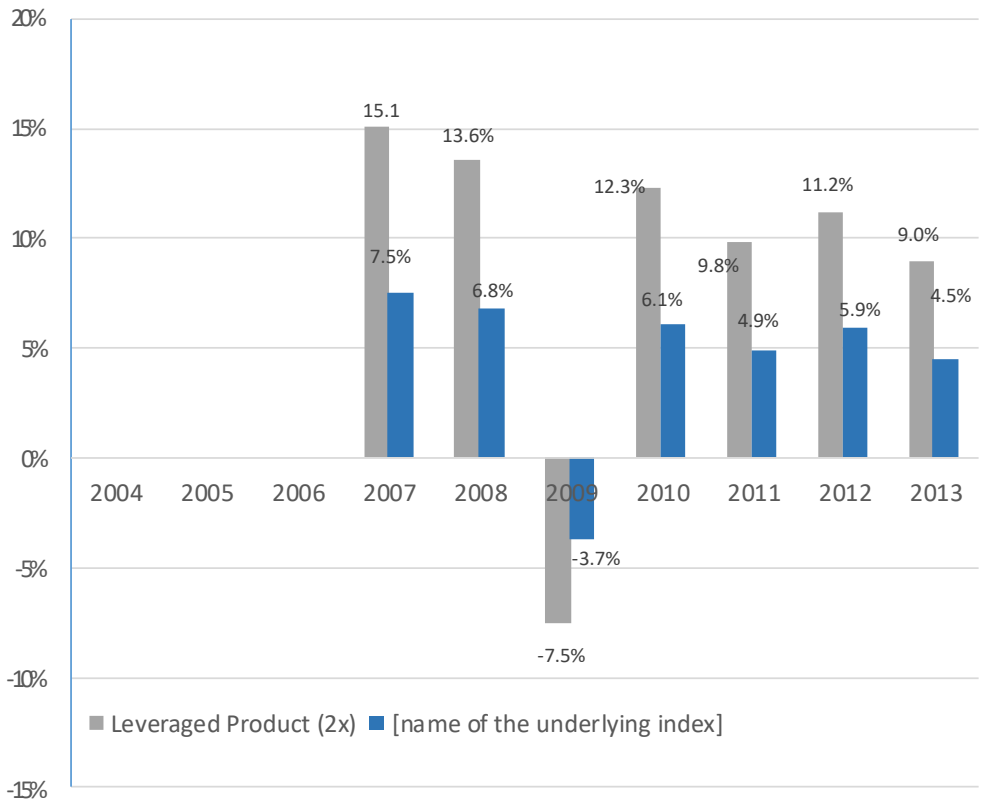


* The Inverse Product tracks a non-inverse version of the underlying index. For the purposes of calculating the Daily TD, the daily performance of the underlying index has been adjusted by the levreaged factor of -1x.

Graph (b) - Actual daily tracking difference

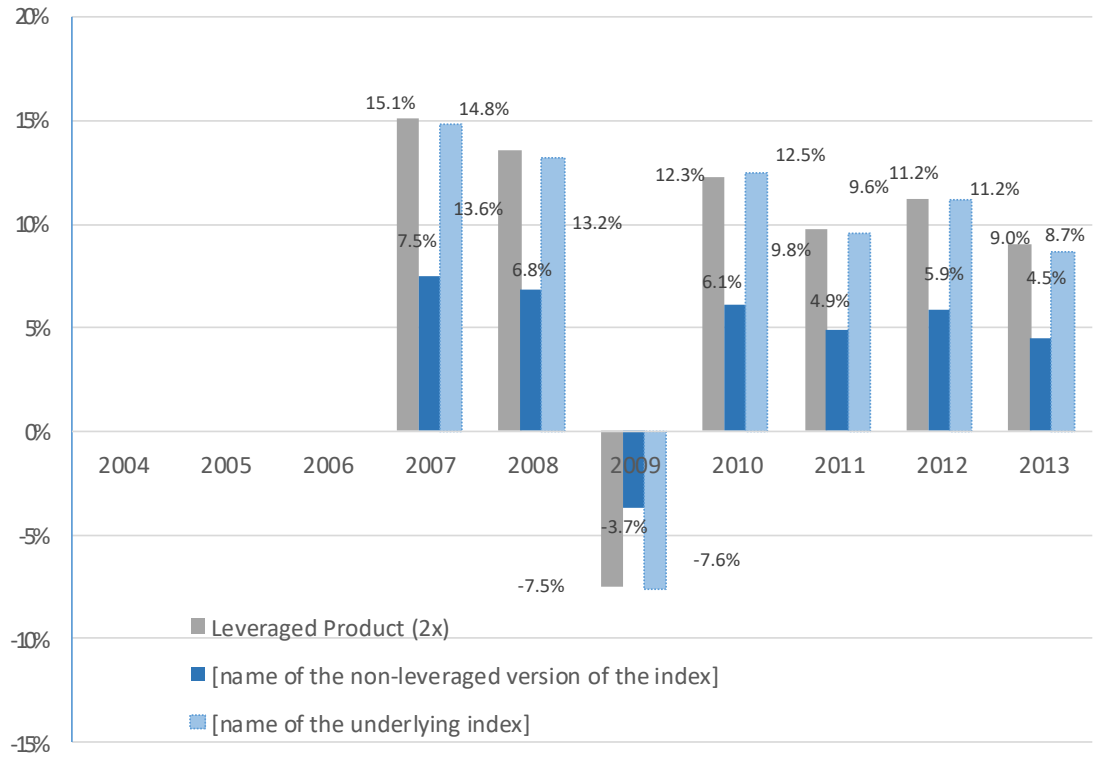


Appendix 9: Illustrative example – Leveraged Product's past performance vs underlying asset (graphical form presented in the KFS) (for a Leveraged Product aiming to deliver a daily return equivalent to two times of the underlying asset return)



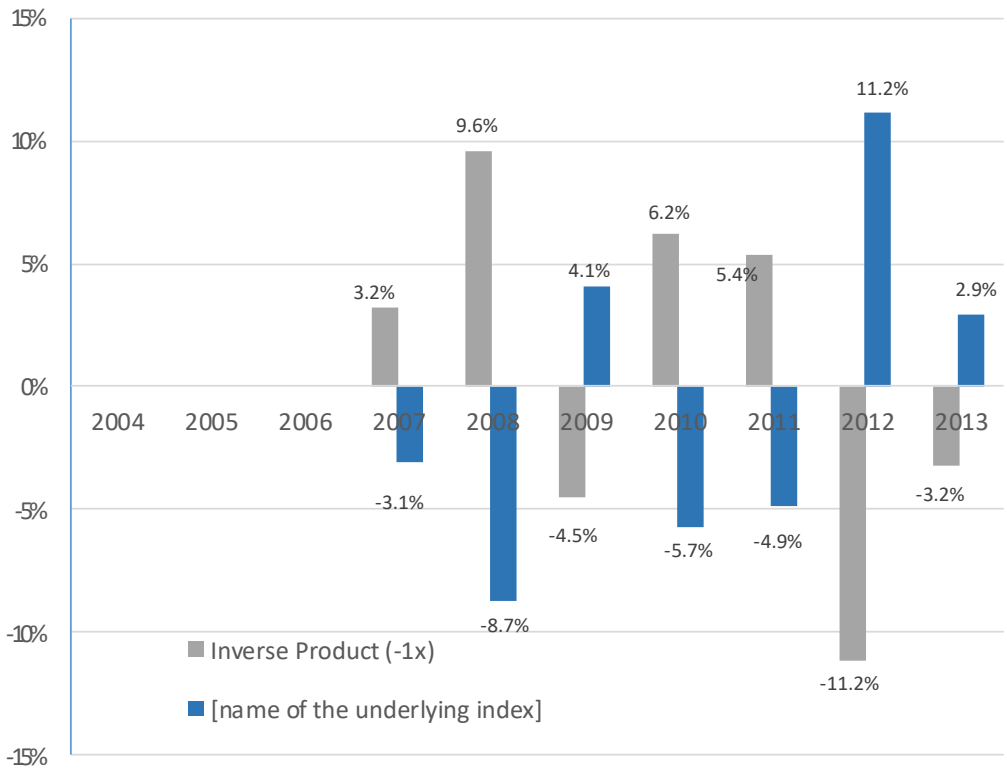
- Past performance information of the Leveraged Product is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of performance of the Leveraged Product is based on the calendar year end, NAV-To-NAV, with dividend reinvested.
- The graph shows how much [the Leveraged Product]/[share class] and the underlying asset increased or decreased in value during the calendar year being shown.
- Performance of the Leveraged Product has been calculated in [USD] taking into account ongoing charges and excluding your trading costs on SEHK.
- The Leveraged Product seeks to achieve its stated investment objective in one day and rebalances at the end of the day. That is, the performance of the Leveraged Product may not correspond to two times the return of the underlying asset over a one-year period or any period beyond one day. Investors should refer to the [Prospectus] for more information about the differences between the performance of the Leveraged Product and two times the return of the underlying asset over a period longer than one day.
- Where no past performance is shown there was insufficient data available in that year to provide performance. *[This note is not required if performance data is available in all the relevant years.]*
- Fund launch date: 2006

Appendix 10: Illustrative example – Leveraged Product's past performance vs underlying index (graphical form presented in the KFS) (for a Leveraged Product tracking a leveraged index)



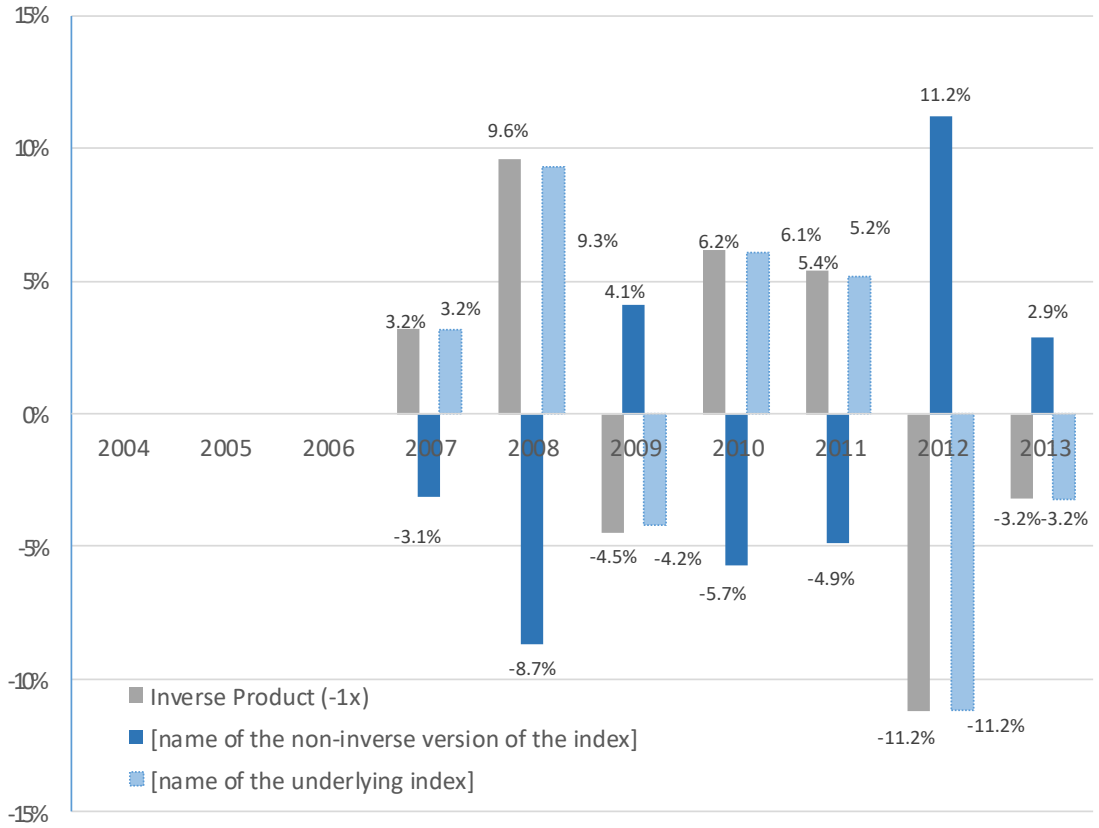
- Past performance information of the Leveraged Product is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of performance of the Leveraged Product is based on the calendar year end, NAV-To-NAV, with dividend reinvested.
- The graph shows how much [the Leveraged Product]/[share class], the non-leveraged version of index and the leveraged index increased or decreased in value during the calendar year being shown.
- Performance of the Leveraged Product has been calculated in [USD] taking into account ongoing charges and excluding your trading costs on SEHK.
- The Leveraged Product seeks to achieve its stated investment objective in one day and rebalances at the end of the day. That is, the performance of the leveraged index may not correspond to two times the non-leveraged version of the index over a one-year period or any period beyond one day. Investors should refer to the [Prospectus] for more information about the differences between these two indices over a period longer than one day.
- Where no past performance is shown there was insufficient data available in that year to provide performance. *[This note is not required if performance data is available in all the relevant years.]*
- Fund launch date: 2006

Appendix 11: Illustrative example – Inverse Product's past performance vs underlying asset (graphical form presented in the KFS) (for an Inverse Product aiming to deliver the opposite of the daily return of the underlying asset)



- Past performance information of the Inverse Product is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of performance of the Inverse Product is based on the calendar year end, NAV-To-NAV, with dividend reinvested.
- The graph shows how much [the Inverse Product]/[share class] and the underlying asset increased or decreased in value during the calendar year being shown.
- Performance of the Inverse Product has been calculated in [USD] taking into account ongoing charges and excluding your trading costs on SEHK.
- The Inverse Product seeks to achieve its stated investment objective in one day and rebalances at the end of the day. That is, the performance of the Inverse Product may not correspond to the opposite return of the underlying asset over a one-year period or any period beyond one day. Investors should refer to the [Prospectus] for more information about the differences between the performance of the Inverse Product and the opposite return of the underlying asset over a period longer than one day.
- Where no past performance is shown there was insufficient data available in that year to provide performance. *[This note is not required if performance data is available in all the relevant years.]*
- Fund launch date: 2006

Appendix 12: Illustrative example – Inverse Product's past performance vs underlying index (graphical form presented in the KFS) (for an Inverse Product tracking an inverse index)



- Past performance information of the Inverse Product is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of performance of the Inverse Product is based on the calendar year end, NAV-To-NAV, with dividend reinvested.
- The graph shows how much [the Inverse Product]/[share class], the non-inverse version of index and the inverse index increased or decreased in value during the calendar year being shown.
- Performance of the Inverse Product has been calculated in [USD] taking into account ongoing charges and excluding your trading costs on SEHK.
- The Inverse Product seeks to achieve its stated investment objective in one day and rebalances at the end of the day. That is, the performance of the inverse index may not correspond to opposite return of the non-inverse version of the index over a one-year period or any period beyond one day. Investors should refer to the [Prospectus] for more information about the differences between these two indices over a period longer than one day.
- Where no past performance is shown there was insufficient data available in that year to provide performance. *[This note is not required if performance data is available in all the relevant years.]*
- Fund launch date: 2006