Growing Asia's Markets

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The Securities and Futures Commission
Investment Products Division
54/F, One Island East
18 Westlands Road
Quarry Bay, Hong Kong

Email: utc-consultation@sfc.hk

SFC Consultation on Proposed Amendments to the Code on Unit Trusts and Mutual Funds ("UT Code")

Dear Sir/Madam,

On behalf of the Asset Management Group ("**AAMG**") of Asia Securities Industry & Financial Markets Association ("**ASIFMA**")[1], I would like to submit for the Securities and Futures Commission ("**SFC**")'s consideration our comments on the proposed amendments to the UT Code set out in the SFC's Consultation Paper on Proposed Amendments to the UT Code dated October 2025 (the "**Consultation Paper**").

Before responding to the specific questions in the Consultation Paper, we wish to express our appreciation to SFC for involving AAMG in the soft consultations related to the proposed amendments over the past two years and for taking into account many of our comments. We and our members fully support the SFC's review and update of the UT Code to ensure that it is aligned with international regulatory standards, fosters product innovation and market development, and enhances Hong Kong's competitiveness as an international financial centre.

Set out below are our members' comments on the proposed amendments.

[1] ASIFMA is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional and consulting firms, and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative and competitive Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practice and standards to benefit the region.

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Question 1: Do you agree with the proposal to accept the VaR approach alongside the existing NDE approach under Hong Kong's retail fund framework?

Yes, we wholeheartedly agree with the SFC's proposal to accept the UCITs VaR approach under Hong Kong's retail fund framework, with the same thresholds (i.e., 200% of the reference portfolio for relative VaR or 20% of a fund's NAV for absolute VaR) and governance and risk management measures as those of major overseas fund regimes (e.g., UCITS). We note that the Consultation Paper repeatedly references fixed income funds when discussing the VaR approach. We assume and trust that the VaR approach is not limited to fixed income funds and that the VaR approach may be used regardless of a fund's underlying asset type (e.g., multi-asset or equities).

We notice that this question states that the proposal to accept the VaR approach is "alongside" the existing NDE approach, which has given rise to some questions on whether the VaR approach is an alternate approach to, or an approach to be used alongside, the NDE approach. We believe it is the former because under the proposed Note (4) to 7.26 of the revised UT Code, VaR may be accepted as an "alternative" to NDE. We suggest that the SFC clarify this in its Consultation Conclusions to avoid management companies having to calculate leverage under both the VaR and NDE approaches and risking a different result. It would also be helpful if the SFC could clarify that for funds using the VaR approach, they will no longer be required to observe and follow the *Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds* (the "**FDI Guide**"), which sets out guidance on the use of the NDE approach.

In connection with the above, we also assume that treatment of temporary surges/spikes in derivatives positions, which are allowed under the NDE approach subject to certain conditions, will be similarly applied under the VaR approach. It would be helpful if the SFC could also clarify this in its Consultation Conclusions and the revised UT Code or FAQs.

<u>NDE approach</u>

We understand that the NDE will remain the baseline approach for a vast majority of Hong Kong-domiciled funds but the SFC may, on a case-by-case basis, permit certain of these funds to adopt the VaR approach within the specific VaR limits. We appreciate it if SFC can provide more specific guidance on the circumstances under which the VaR approach will be accepted for a Hong Kong-domiciled fund. In addition, we assume that the VaR approach and limits for Hong Kong-domiciled funds will be the same for UCITS funds. Otherwise, it may create confusion and unnecessary complications. It would be helpful if this could also be clarified.

Some of our members wonder if SFC has reviewed the NDE calculation as they would like SFC to consider expanding the four circumstances ("**Excluded Circumstances**") under which the use of derivatives may be excluded from the NDE calculation. For example, whether synthetic ETF for market access purpose can be excluded from the NDE calculation if they are not Leveraged & Inverse ("**L&I**") products. Also, expanding netting of risks among interest rate products despite them being in different currencies or maturities, beyond the existing requirement where such products need to be "in a highly correlated currency" and "with a similar duration" as the underlying asset according to the FDI Guide. Additionally, we would like to seek further clarity on the covered-call netting arrangement given the strategy's growing popularity in the market. Specifically, whether the SFC would permit active equity strategies that primarily invest in the same underlying asset as the covered call, with a similar weighting, to also qualify as a netting arrangement.

We think that a review of the NDE approach and/or calculation should be part of the overall UT Code review exercise as it is important to level the playing field between Hong Kong-domiciled authorized funds and UCITS funds in terms of both the approach to financial derivative management and the limits.

Commitment approach

We notice that the Consultation Paper does not mention accepting the commitment approach even though this was proposed in the July 2025 soft consultation although footnote 10 of the Consultation Paper states that "*SFC-authorised UCITS funds which comply with their home regulations and are not subject to specific distribution restrictions to retail investors, in principle, would be deemed to have complied with 7.26 of the UT Code regarding the NDE Limit*". We suggest that the SFC clarifies that use of the commitment approach is permitted for SFC-authorised UCITS funds. Otherwise, it would limit the number and type of UCITS funds that can actually benefit from SFC's streamlined measures for SFC-authorised UCITS funds because many equity funds use the commitment approach for risk management. We strongly urge SFC to permit the use of the commitment approach for UCITS funds to avoid complicating the streamlined approach adopted for such funds when it comes to determining whether a fund is a complex or non-complex product or a derivatives fund ("**D fund**") or non-D fund.

Question 2: Do you support the proposed classification of non-complex products and complex products under the proposed framework?

We support the proposition that SFC-authorised funds that comply with either the NDE Limits or the VaR Limits will generally be classified as non-complex products for distribution in Hong Kong. This is important to ensure consistency with SFC-recognized overseas funds regimes (e.g., UCITS), simplify compliance processes and supervisory assessment, and still maintain investor protection, which is also a cornerstone of the UCITS framework.

However, our members are concerned that SFC retains the power to designate an authorized fund as a complex product for distribution in Hong Kong in view of its characteristics and risks, regardless of its NDE or VaR measure. Our members do not want to see a situation where their fund, which complies with the VaR limits and therefore is a non-complex product in Luxembourg, designated as a complex product in Hong Kong. Therefore, we strongly recommend that SFC includes in the amended provision(s) of the UT Code or related FAQs the limited types of investment strategy and underlying assets, or other characteristics and risks (such as derivative usage and leverage) that would lead the

SFC to disregard the NDE or VaR (or commitment) limits to classify a fund as a complex product. For example, will funds with non-traditional investment strategies, such as long-short equity with substantial short exposure or unconstrained strategies, referenced in the soft consultation on 30 July 2025, or inverse single (-1x) leveraged ETFs or covered call strategy ETFs, be considered complex products by the SFC notwithstanding that they are within the NDE or VaR limits? It would also be helpful if the SFC can clarify what numerical threshold it would consider something to be "substantial" (see proposed amendments to 8.6(c)(a) and (v) of the UT Code).

Our members also wonder whether the foregoing means that every fund (Hong Kong-domiciled or UCITS) that plans to use the VaR approach has to first make a submission to the SFC before doing so (including changing from NDE approach to VaR approach). It would be helpful if the SFC can provide explicit guidance on the steps, if any, for an authorized fund that is a UCITS or a Hong Kong-domiciled fund to use or change to the use of the VaR approach or commitment approach. As SFC-authorised UCITS funds that comply with their home regulations would be deemed compliant with 7.26 of the revised UT Code, we hope that the process for UCITS funds changing from the NDE to VaR or commitment approach will be streamlined by giving a notice to the SFC without the need for prior approval from the SFC. We suggest that this be clearly the case where a fund's complex/non-complex fund status remains the same, or where a complex fund becomes a non-complex fund after the change.

We agree with SFC's proposal that each SFC-authorised fund disclose whether it is a complex or non-complex product in its product key facts statement (KFS) in place of the current NDE disclosure requirement in the KFS. Some of our members would like to know if the SFC plans to come out with a new KFS template.

Eligible schemes

We note that in revised UT Code 7.11B, Note (3), SFC proposes to delete from the Note that a scheme may invest in "*eligible scheme(s) [see 7.11A] of which the net derivative exposure [see Note to 7.26] does not exceed 100% of its total net asset value*". Does this deletion mean that there is no need to look through the derivative exposure of underlying schemes invested in by a scheme? It would be helpful if the SFC could clarify the foregoing in its Consultation Conclusions, in the revised UT Code or FAQ 19 in the *FAQs on the Implementation and Transition Arrangements of the Code on Unit Trusts and Mutual Funds*.

Question 3: Do you have any comments on the proposals on incorporating the updated international standards on liquidity risk management of funds?

We support the SFC's proposals to align the UT Code with updated international standards on liquidity risk management of funds. We have the following comments on the SFC's key proposals in paragraph 22 of the Consultation Paper.

Subscription and Redemption terms

We agree that the subscription/redemption terms that a fund offers to investors should be based on the liquidity of its asset holdings in both normal and stressed market conditions. But we urge the SFC not to be too prescriptive in its requirements on subscriptions/redemptions so as to allow funds to adopt a liquidity risk management approach that is tailored to their funds' unique characteristics. For example, we believe that restricting daily subscriptions may be unnecessarily restrictive and may not be in the best interest of investors who would like to subscribe more frequently than not. If liquidity management is properly calibrated to ensure consistency between fund asset liquidity and subscription terms, daily subscriptions should not pose a structural risk to a fund's liquidity and therefore should not be subject to any limit.

Paragraph 22(c) of the Consultation Paper proposes that a fund allocating a "*significant*" proportion (i.e., more than 30%) of their assets under management ("**AUM**") to "*illiquid assets*" should: (i) create and redeem shares at a lower frequency than daily; and/or (ii) require long notice or settlement periods (see also new Note 3 to 5.10(g) of the revised UT Code). Currently, 6.13 of the UT Code only requires redemption to be available "at least one regular dealing day per month (except for a closed-ended fund authorized pursuant to 8.11 of the UT Code)".

While we generally agree that daily ***redemptions*** are likely to pose a higher structural and liquidity risk to a fund with significant exposure to private assets and redemptions should, therefore, occur less frequently (e.g., monthly, quarterly, or semi-annually), we are of the view that daily ***subscriptions*** do not present the same liquidity risk to the fund. Therefore, we suggest that the SFC differentiate between the requirements of subscription and redemption frequencies and amend the language in the proposed Note (3) to 5.10(g) of the Code that a scheme allocating a significant proportion of their AUM to illiquid assets should consider allowing redemption of shares at a lower frequency than daily. This would better reflect the unique liquidity profile of a fund with significant private asset exposure and enable fund managers to structure such funds appropriately.

In addition, we believe that using a 30% threshold for defining what is a "significant" portion of AUM may be too low for requiring redemption of the scheme to be less frequent than daily. Therefore, we suggest that SFC considers either increasing the 30% threshold or softening the language of this requirement to say that a fund allocating a significant portion of their AUM to illiquid assets should "consider allowing redemption of shares at a lower frequency than daily . . . ".

Our members also have questions over what the SFC considers to be "lower frequency than daily" and what the SFC considers to be "long" notice or settlement periods. It would be helpful if these questions could be addressed in the SFC's Consultation Conclusions and the revised UT Code. For example, would "lower frequency than daily" include weekly, bi-weekly or monthly and would "long notice or settlement periods" include one month or longer?

In addition, we assume that the requirement on "long" settlement periods does not affect the settlement cycle of ETFs, which follows the Hong Kong stock market requirements. It would be helpful if the SFC can confirm that our understanding is correct.

Separately, we would like to take this opportunity to suggest that SFC consider adopting a more flexible approach for SFC-authorised funds investing a significate portion in illiquid assets so that they can have redemption frequencies that align with the respective underlying assets (with fund level gating) and/or the underlying private market funds, such as quarterly, rather than a prescribed frequency of at least monthly redemption.

Less liquid or *illiquid* assets

In connection with the foregoing, some of our members also have questions on what the SFC considers to be "less liquid" or "illiquid" assets. We strongly suggest that their definitions, currently set out in footnotes 15 and 18 in the Consultation Paper, be included in the revised UT Code so that such definitions are clear and consistent throughout the Code. For example, 7.3 of the existing UT Code refers to "*securities and other financial products or instruments that are neither listed, quoted, nor dealt in on a market*" which is slightly different from "*illiquid assets*" in footnote 18 of the Consultation Paper. We wonder if they should be consolidated or standardized.

Funds that invest in private assets

We notice that there is no specific mention of funds that invest in real or private assets in the liquidity risk management section of the Consultation Paper. It would be helpful if SFC can clarify the liquidity risk management requirements for these types of funds. We assume that for such products or a blend of public/private asset product, there would be fewer or different liquidity requirements and that there may be a new chapter in the UT Code for these funds. We suggest that the SFC consults further on the liquidity risk management requirements for these types of funds.

Anti-dilution tools

We also agree that a fund that invests mainly in *less liquid* assets should implement and use *anti-dilution tools* ("**ADTs**") to mitigate material investor dilution to ensure that investors bear the costs of liquidity associated with fund subscriptions and redemptions. We appreciate that the SFC is not prescribing which ADT or how many ADT such a fund should use as the decision is best left to the management company considering the fund's characteristic and risk. However, some of our members would like to know what other types of ADTs besides those examples set out in footnote 16 of the Consultation Paper the SFC would consider acceptable. For example, would SFC consider redemption gating, which is a liquidity management tool ("**LMT**"), an acceptable ADT?

Finally, with regards to Note (2) in 5.10(g) of the revised UT Code, some of our members do not agree that the calibration of liquidity costs should be required to include "*significant market impact of asset sales to meet those redemptions*", which is quite prescriptive. We note in the IOSCO "*Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes*" that responsible entities are expected to manage future cash flows to assist with liquidity management on a "*best efforts*" basis. We suggest that the above wording in 5.10, Note (2) be removed and the "best efforts" be added for consistency and clarity.

Retail access via SFC-authorised funds into private markets

We welcome the SFC's efforts in expanding retail access to private market assets and appreciate the phased approach by first clarifying the requirements for listed closed-ended alternative asset funds and now proposing to allow retail investors to gain exposure to private market access via unlisted SFC-authorised funds by increasing the current 15% limit on their investments in "*securities and other financial products or instruments that are neither listed, quoted nor dealt in on a market*". We note, however, that this would be allowed on a case-by-case basis. We would like to reiterate the importance of maintaining flexibility in the requirements applied to SFC-authorised funds that invest in private market assets given the nature of such assets and their risks, which will vary depending on the type of such assets, as well as the proportion such assets take up in a fund's total AUM.

We note that 7.3 of the UT Code is not being amended to reflect the above proposal. In addition, there appears to be a lack of clarity in Chapter 7 on whether investments in real assets or private credit are even permitted (e.g., 7.17 of the UT Code seems to restrict a scheme from lending, assuming, guaranteeing, endorsing or otherwise becoming directly or contingently liable for or in connection with any obligation of indebtedness of any person). Therefore, it would be helpful if SFC could address these questions in the revised UT Code or related FAQs.

Some members also raised the concern that the proposed relaxation may be unworkable operationally unless the SFC also addresses the constraints imposed by 7.11 of the UT Code. Retail funds' private market exposure is commonly obtained through indirect means, such as investment in pooled funds which may not be eligible schemes for investment. Therefore, the 10% investment limit in non-eligible schemes under 7.11 of the UT Code will severely limit the allocation to private market assets by SFC-authorised retail funds. We urge the SFC to take a holistic approach that includes targeted exemptions from 7.11 of the UT Code for funds seeking to exceed the current 15% illiquid asset threshold under 7.3, subject to appropriate safeguards.

Question 4. Do you have any comments on the proposed requirements for the use of ADTs?

Given the vulnerabilities of money market funds ("**MMFs**") exposed during the March 2020 market turmoil and the significant growth in MMFs in Hong Kong over the past few years, most of our members agree with SFC's proposal that SFC-authorised MMFs should have at least one ADT (to be determined by the management company) to allocate redemption costs to redeeming investors as this is an equitable approach to ensure that investors remaining in the MMF are not disadvantaged by those opting to redeem from the fund.

According to the SFC document "*Application of the Code on Unit Trusts and Mutual Funds on UCITS funds*", UCITS short-term money market funds are deemed to have complied with 8.2 of the UT Code except for 8.2(b), (c), (d), and (o). Therefore, based on the foregoing, we assume that UCITS MMFs will be deemed to comply with the proposed amendments in 8.2(e) and (n) and the newly added 8.2(p) of the revised UT Code. If not, we would appreciate it if SFC could clarify.

Separately, we understand that 8.2 of the UT Code does not apply to Mandatory Provident Funds ("**MPFs**") and Approved Pooled Investment Fund ("**APIFs**") which are authorised under the MPF Code and not the UT Code. We would be grateful if the SFC could confirm if our understanding is correct.

Question 5. What is your view on the proposed requirements on underlying investments by MMFs?

Currently, 8.2(e) of the UT Code provides that an MMF "may only invest in short-term deposits and high quality money market instruments [see Note(1) to 7.36(j)], and money market funds that are authorized by the Commission under 8.2 of the UT Code or regulated in a manner generally comparable with the requirements of the Commission and acceptable to the Commission".

Short-term deposits

While the newly added Note (3) of the revised 8.2 of the UT Code states that "short-term deposits are expected to be repayable on demand or with the right to be withdrawn by the scheme at any time", one of our members noted that currently term deposits in Hong Kong do not meet these criteria as there is no early withdrawal or deposit breakage option. If a depositor wants to withdraw the deposit early, they will need to seek the consent of the bank, which is not obligated to grant such consent. Hence, if SFC intends to include these criteria in the revised UT Code, it should discuss them with HKMA to ensure that time deposits may be repayable on demand or withdrawn at any time subject to possible penalties related thereto.

Unrated or low investment grade instruments

We agree with the SFC's proposal in Note (2) of the revised UT Code that a management company should have prudent internal procedure for assessing the credit quality and liquidity profile of the instrument invested by their MMF, taking into consideration multiple factors and not relying exclusively on external credit ratings. We also agree that MMFs should not generally invest in unrated or low investment grade instruments. Therefore, it would be helpful to understand the circumstances under which an MMF in Hong Kong may invest in unrated or low investment grade instruments. Otherwise, we think that it would be clearer to provide that MMFs in Hong Kong should not invest in unrated or low investment grade instruments. Also, it would be helpful if SFC could clarify what it considers as "low investment grade".

Credit ratings

The proposed amendments to 8.2 of the UT Code state that high quality money market instruments "*generally refer to money market instruments (**or their respective issuers in case of unrated instruments**) with one of the two highest short-term credit ratings provided by an internationally recognised credit rating agency, **or** money market instruments issued by a **substantial financial institution**.*" (emphasis added)

We mentioned above our concern with MMFs possibly investing in unrated instruments. As for short-term credit ratings, we understand that the two highest short-term credit ratings by international credit ratings agencies are:

- **Moody's:** P-1*, P-2
- **S&P:** A-1+, A-1
- **Fitch:** F1+, F1

* *A member noted that Moody's P-1 is equivalent to S&P's A-1+ and A-1 and Fitch's F1+ and F1.*

It would be helpful if SFC could confirm these are the ratings that would be acceptable for SFC-authorised MMFs and whether ratings of the issuers can be accepted if no short-term rating is available for the money market instrument, even if there may be a long-term rating available.

Substantial financial institution

Some money market instruments issued by "substantial financial institutions" (as defined under the UT Code) may fall in the low investment grade category or are not "high quality". Therefore, we do not agree with the inclusion of such instruments without any credit-based criteria as underlying investments of MMFs just because they are issued by a substantial financial institution.

Question 6. Do you agree with the proposed requirements for CNAV MMFs?

SFC proposes that MMFs that offer a stable or constant net asset value ("**CNAV**") will be subject to additional requirements, such as holding at least 15% of its total net asset value in daily liquid assets and at least 50% of its total net asset value in weekly liquid assets ("**WLA**"). We do not agree with raising the WLA to 50% as it is uncommon in global MMF regulations. Although the US SEC recently adopted a 50% WLA rule, it faced strong industry opposition, and the structural differences in short-term funding markets make this threshold less feasible in Hong Kong than in the US. A member is of the view that a CNAV MMF can only invest in government securities by virtue of the definition of eligible assets.

Another member suggests that SFC consider a lower WLA percentage such as 30%, which is akin to the EU regulations on MMFs [2], to achieve a more balanced outcome, ensuring the fund has sufficient liquidity, both during normal market conditions and periods of market stress, without materially compromising investor utility.

[2] Please refer to Article 24 of the Regulation (EU) 2017/1131 of The European Parliament and of The Council of 14 June 2017 on Money Market Funds, accessible here: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1131

A third member suggests that while it does not believe that it is necessary to have higher levels of liquidity in a CNAV fund, the WLA should include government bills and bonds as well as government guaranteed paper out to 190 days (as opposed to hard natural maturities) which is akin to the EU regulations.

SFC also proposes that management companies of CNAV MMFs must establish robust internal controls and systems to monitor discrepancies between the CNAV per unit or share and the NAV per unit or share calculated using the latest market value, and the difference must be monitored and published daily in an appropriate manner. Our members raised concerns that there are currently no third-party providers which could supply daily prices for HKD instruments (unlike in the US and EU markets for their instruments). Therefore, this requirement may not be possible or feasible for management companies to implement.

In addition, our members would like to know what action(s) SFC expect management companies to take in case the NAV calculated using the latest market value of the MMF falls below the CNAV.
Finally, a member noted that in practice, to support a CNAV structure, management companies need to have a mechanism to smooth gains or losses on sale of assets. While the mechanisms by which this is achieved in the EU and US differ, they have the same effect. If not written in the revised UT Code, it is suggested that the SFC should issue a guidance note thereon along with the UT Code changes.

Question 7. Do you support the proposed approach regarding the KP Requirements?

We welcome the SFC's proposals that the Key Personnel ("**KP**") Requirements will be deemed to have been complied with by (a) Hong Kong management companies belonging to a "*well-established fund management group with relevant investment management experience and a track record*" and (b) non-Hong Kong management companies licensed to manage funds in jurisdictions which have entered into mutual recognition of funds ("**MRF**") arrangements with the SFC.

We note that footnote 36 of the Consultation Paper states that "References to the management company of an SFC-authorised fund are deemed to include the investment delegate(s) (if any)." It would be helpful if the SFC could clarify whether for (b) above, the investment delegates of non-Hong Kong management company must also be located in jurisdictions that have entered into an MRF arrangement with the SFC to benefit from the deemed compliance of the KP Requirements. Or if the non-Hong Kong management company is not licensed in an MRF jurisdiction but its investment delegate is, whether it can benefit from the deemed compliance of the KP Requirements. Of course, our members would prefer that (a) above can also be applied to non-Hong Kong management companies that are part of the same "well established fund management group".

It would also be helpful for the SFC to clarify what it considers to be "*well-established*", "*relevant investment experience*" and a sufficient "*track record*".

Separately, we note that, in respect of the SFC's proposal to amend the requirements for master funds under 7.12(a) of the UT Code, SFC does not require the master fund to be in an MRF Jurisdiction, only that it must be a fund with safeguards and measures in place to provide substantially comparable investor protection as an SFC-authorised fund, taking into account its underlying assets, investment strategy, applicable rules and regulations in its home jurisdiction. We suggest that a similar approach could be taken by the SFC in relation to the KP Requirements without jeopardizing investor protection.

Questions 8. Do you have any comments on the proposals on investment in non-SFC authorized master fund?

We support the proposals on investment by an SFC-authorised fund in non-SFC authorized funds.

However, we would be grateful if the SFC could clarify what the approval process for the master fund would be. Some of my members believe that it would simply be part of the authorization process of the feeder fund.

Question 9. Do you have any comments on the proposal of merging Chapter 8.8 and 8.9 of the UT Code into a single chapter?

Regarding the proposal to merge Chapters 8.8 (structured funds) and 8.9 (funds that invest extensively in financial derivative instruments) of the UT Code into a single chapter, some of our members are of the view that not all structured funds invest extensively in financial derivative instruments ("**FDIs**") and how the merger of the two chapters would deal with such differentiation. For example, some funds are structured to provide higher visibility of income and/or capital protection to investors. For these types of structured funds which have lower risk, we suggest that the SFC adopt a case-by-case review to determine whether they should be classified as a complex product as the latter would hinder the development and availability of this type of structured fund for investors in Hong Kong. Examples of the investment strategy of this type of structured fund include: (a) constant proportion portfolio insurance (CPPI) which is a strategy that provides a capital guarantee, protecting against downside risks offering lower drawdowns and volatility compared to directly investing in the underlying riskier asset; and (b) other capital protection products which include combination such as a zero-coupon bond paired with a vanilla option on index equity.

Question 10: Do you have any comments on the proposed consequential amendments to the PRF Code, the MPF Code, the ILAS Code and the REIT Code?

We do not have any comments on these proposed amendments but please see our further comments below.

Scheme Change, Notification and Reporting

We would be grateful if SFC could clarify (perhaps by way of FAQs) that any amendments as a result of changes to the UT Code should not be considered a scheme change requiring the SFC's approval, including implementation of LMT/ADT for MMF and reclassification from complex to non-complex product for UCITS funds, and that to the extent any prior notice is required to be provided to investors, the fund manager should not be required to justify any re-classification beyond providing an explanation that the re-classification is due to changes prescribed under the new rules.

Separately, on 28 November 2025, the SFC published a circular on further streamlined measures on post-authorisation matters for SFC-authorised UCITS funds. The circular removed the SFC's requirement on prior approval for material changes in investment objectives, policies and restrictions which comply with the fund's home jurisdiction requirements, except for changes that involve novel or complex product features and/or which may have local policy implications. We would like to know if SFC intends to amend Chapter 11.1(c)(i) of the UT Code given these streamlined measures apply only to UCITS funds and not Hong Kong-domiciled funds.

Transition Period

In the Consultation Paper, SFC proposed that certain proposals will have immediate effect (i.e. from the gazettal of the revised UT Code), such as the new requirements on the use of financial derivative instruments and the classification of complex and non-complex products. Many fund managers may need to re-calculate the leverage of their SFC-authorised funds due to the change in approach they wish to adopt. Given the work required to undertake such calculations and update offering document disclosures (including the KFS), especially where funds are re-classified from complex to non-complex, our members that have a large number of affected funds are of the view that even a six-month transition period is not enough. They think that, at a minimum, the transition period should be 12 months, especially for the adoption or introduction of ADTs to their funds.

In addition, some members would prefer to update the offering documents at the next available opportunity rather than on the effective date of the revised UT Code as there may be challenges in aligning the issuance of the offering documents with the effective date, particularly for APIFs where the Mandatory Provident Fund Authority may need to review any amendments.

On the other hand, other members who plan to offer new non-complex products that might have been classified as complex under the NDE approach would like to benefit from the changes as soon as possible. We would, therefore, suggest that fund managers and distributors should be given flexibility to take advantage of the new requirements from the effective date based on their operational readiness.

We also suggest that during the transition period, distributors should continue to use the existing fund classifications until they receive updated classification from the fund manager since fund managers will have sufficient time to deal with the above changes without having to provide distributors with new fund classifications during the transition period.

We hope you will find the above comments helpful. Please contact me at eshen@asifma.org or Tel: 2531 6570 if you have any questions on the above comments.

Yours sincerely,

Eugenie Shen

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