



Consultation Conclusions on Proposed

Glossary of key terms

Introduction

Implementation

- Revised UT Code and transition period
- Changes made by existing schemes, offering documents and constitutive documents
- Management companies and investment delegates
- Trustees / custodians
- Investment requirements
- Derivatives investments
 - Enhanced KFS disclosure
 - Changes in the use of derivatives
 - Transparency on SFC website
- Scheme changes and notification requirements
- Financial reports

Some questions and answers

Appendix

- Updated FAQs – updated questions

Glossary of key terms

Revised UT Code

- the revised UT Code which is effective from the Effective Date

Effective Date

- 1 January 2019, the effective date of the revised UT Code

12-month transition period

- a period of 12 months from the Effective Date to 31 December 2019

Existing schemes

- (i) schemes authorized by the SFC as at the Effective Date; and (ii) schemes which applied for SFC's authorization prior to the Effective Date and are subsequently authorized by the SFC

Existing operators

- (i) management companies which were managing SFC-authorized schemes as at the Effective Date; and (ii) trustees/custodians which were acting as the trustee/custodian of SFC-authorized schemes as at the Effective Date

New schemes

- schemes which applied/apply for SFC's authorization on or after the Effective Date (i.e. new fund applications submitted on or after the Effective Date)

New operators

- (i) management companies which were not managing any SFC-authorized schemes as at the Effective Date; and (ii) trustees/custodians which were not acting as the trustee/custodian of any SFC-authorized schemes as at the Effective Date

Net derivative exposure

- has the meaning as defined in 7.26 of the revised UT Code

Consultation paper on proposed amendments to the Code on Unit Trusts and Mutual Funds (UT Code) issued on 18 December 2017

Consultation conclusions paper issued on 6 December 2018

- Revised UT Code became effective on 1 January 2019 (Effective Date)
- A 12-month transition period for existing schemes and existing operators

Guidance issued/updated

- To enhance transparency and provide guidance to the industry on SFC's expectation on compliance
- To streamline and simplify forms and checklists
- Published documents
 - (New) FAQs on the Implementation and Transition Arrangements of the Revised UT Code (Implementation FAQs)
 - (New) Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds (SFC Derivative Guide)
 - (New) Application of the UT Code on UCITS funds
 - (New) KFS template for active ETFs
 - (Updated) Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds
 - (Updated) Five existing KFS templates
 - (Updated) Three existing circulars, 13 sets of existing FAQs, and forms and checklists (including a new confirmation on derivatives)

Revised UT Code and transition period

A new scheme with a new management company and a new trustee/custodian

- Compliance with the revised UT Code with immediate effect from the Effective Date

Existing schemes and existing operators

- A 12-month transition period for compliance with the new requirements

New money market funds (managed by new or existing operators)

- Compliance with 8.2 of the revised UT Code

Appointment of new operator(s) for existing schemes

- Relevant requirements under the revised UT Code will apply:
 - New management companies

- In general, no SFC's prior approval and advance notice to investors are required if:
 - changes/revisions are made to comply with the revised UT Code; and
 - there are no material changes to the scheme's investment objectives, policies or strategies
- Management companies should provide necessary update to the holders of the schemes regarding the changes/revisions as soon as reasonably practicable (whether by a specific notice or in the financial report of the scheme)

6.15(f) of the revised UT Code

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Key personnel (KP)

- KP must dedicate sufficient time and attention in the management of a scheme [5.5(b) of the revised UT Code]
 - An individual may be designated as the KP for one or more management companies and/or investment delegates
 - See Question 8B of the UT Code FAQs
- Public fund experience of the KP may be satisfied on a group-wide basis [5.5(a) of the revised UT Code]
 - Applicable to management companies and/or investment delegates belonging to well-established fund management groups
- Existing management companies and/or investment delegates for existing schemes may leverage on these flexibilities with immediate effect
 - SFC's prior approval and notification to investors are not required
 - Existing management company: (i) with at least 5 years experience in managing SFC-authorized funds and (ii) belongs to a well-established fund management group managing public funds in AIR for at least 5 years
 - Management companies' obligation to ensure compliance with the relevant requirements – consult the SFC if in doubt

Management companies and investment delegates (cont'd)

- A new fund management group which intends to use or rely on group investment expertise and experience
 - Information to demonstrate compliance (e.g., corporate structure, AUM, experience in managing public funds, etc.)
- Forms and checklists have been updated to reflect the flexibility for fund managers with multi-national presence to leverage group resources in meeting the public fund investment management experience requirements for KP

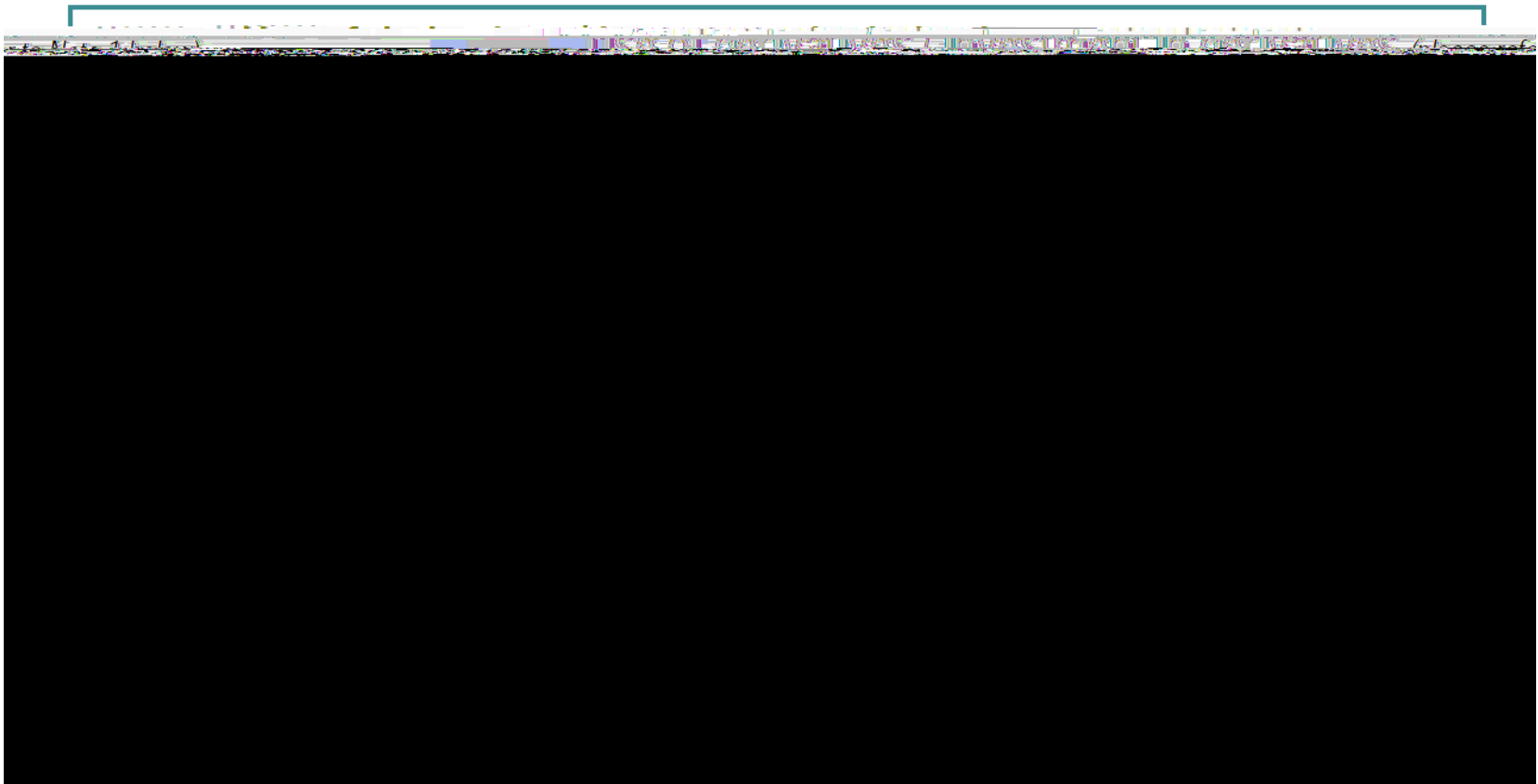
Trustees / custodians

Derivatives investments – Enhanced KFS disclosure

Enhanced disclosure on derivatives investments in the KFS

- SFC-authorized funds (including UCITS funds) offered to the public in Hong Kong
- Existing schemes: the KFS must be updated with the enhanced disclosure from 1 January 2020 (i.e. by the expiry of the 12-month transition period)

KFS illustrative template



Derivatives investments – Enhanced KFS disclosure (cont'd)

Revised KFS to reflect the enhanced disclosure

- Fund managers are encouraged to produce the updated KFS for their existing schemes as soon as reasonably practicable
- Filing form for notice of scheme change(s) falling within 11.1B of the revised UT Code
 - Confirmation on Use of Derivatives for Unit Trusts and Mutual Funds to be submitted

Existing schemes – disclosure requirements during the 12-month transition period

- See the updated Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds

- Reasonable

Enhanced disclosure requirements in the financial reports (Appendix E of the revised UT Code)

- Enhanced transparency to investors on the fund's financial performance and portfolio information, e.g.:
 - Derivatives usages and investments
 - Securities financing and borrowing transactions
 - Collateral holdings
 - Soft dollar arrangements
 - Transaction costs

Existing schemes

- 12-month transition period for compliance with the enhanced disclosure requirements on the financial reports under Appendix E of the revised UT Code
 - Compliance of the enhanced Appendix E for the financial period starting on or after 1 January 2020

Some questions and answers

1. Concentration and diversification investment limits

(i) Single entity and group concentration limits [7.1 and 7.1A of the revised UT Code]

- (i) Securities (e.g. equities, bonds, fixed income instruments, money market instruments, etc.); (ii) exposure from underlying assets of derivatives; (iii) net counterparty exposure from OTC derivatives; (iv) collateral received; (v) exposure arising from collateral re-investments; and (vi) counterparty exposure from guarantor
- Cash deposits are not subject to 7.1 and 7.1A (see below)
- Money market instruments (e.g. commercial papers, certificate of deposits) should comply with 7.1 and 7.1A
- An ETF structured as a sub-fund of an umbrella fund would be considered as a separate entity
 - Subject to the 10% single entity concentration limit under 7.1
 - ETFs would not generally be considered as “entities within the same group” under 7.1A

(ii) Cash deposit limits [7.1B of the revised UT Code]

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Appendix: Updated FAQs (questions updated)

FAQs (last updated on 17 Dec 2018)	Questions updated
Application Procedures for Authorization of Unit Trusts and Mutual Funds under the Revamped Process	Questions 5A, 5A1 and 12
Code on Unit Trusts and Mutual Funds (UT Code FAQs)	Questions 1, 3, 4, 6, 8, 8A, 8B (new), 10, 11, 11A, 11C (new), 13, 16A, 16B, 16C (new), 18-21, 23-26, 27A, 27B, 28-32, 34C and 36
Exchange Traded Funds and Listed Funds	Questions 1-9, 12,13 (new), 14 (new) and 15 (new)
Leveraged and Inverse Products	Questions 1A (new), 2, 5, 6 and 20 (new)
SFC Authorization of UCITS Funds	Questions 1, 1A (new), 2-5, 7 and 8
Mainland-Hong Kong Mutual Recognition of Funds	Section A: Questions 10 and 12 Section C: Question 3 Section D: Question 4A Section H: Questions 1, 3

Appendix: Updated FAQs (questions updated) (cont'd)

FAQs (last updated on 17 Dec 2018)	Questions updated

A large, stylized graphic of a bird, possibly a phoenix, in shades of light blue and teal. The bird is depicted in profile, facing right, with its wings spread wide. The graphic is composed of several overlapping, curved shapes that create a sense of movement and form. It occupies the left and center portions of the slide, with its tail feathers extending towards the bottom left and its wings reaching towards the top right.

Thank you.

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