[redacted]

Frequently Asked Questions on the Implementation and Transition Arrangements of the Code on Unit Trusts and Mutual Funds (Effective on 1 January 2019)

This FAQ is prepared by the Investment Products and Mutual Funds effective on 1 January 2019 (“revised UT Code”). 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 UT Code. Please note that each application for authorization is considered on a case-by-case basis.

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

The information set out below is not meant to be exhaustive. This FAQ may be updated and revised from time to time. This FAQ is only for general reference. Compliance with all the requirements in this FAQ does 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 FAQ.*

(2) For the purpose of this FAQ, “existing fund(s)” refers to funds which are authorized by the SFC as at the effective date of the revised UT Code and funds which applied for the SFC’s authorization prior to such date and are subsequently authorized by the SFC.

	Question	Answer
		Code. After the Transition Period and with effect from 1 January 2020, existing funds must comply with the enhanced disclosures requirements on offering documents set out in the revised UT Code. Some of the enhanced disclosures requirements on the offering documents under the revised UT Code are codification of existing requirements or practices. As such, during the Transition Period, existing funds shall continue to comply with the existing disclosures requirements set out in the relevant circulars and guidance (such as the Guide on Practices and Procedures for Application for Authorization on Unit Trusts and Mutual Funds (“Application Guide”), frequently asked questions etc.

	Question	Answer
4A.	If an SFC-authorized UCITS fund, which currently discloses that the fund may use derivatives	

	Question	Answer
	Constitutive documents	
6.	If the funds' constitutive documents are revised to comply with the enhanced contents requirements under the revised UT Code, will these amendments be subject to the prior approval by the SFC? Will advance notice be required to be given to the holders of the funds?	Where changes to the constitutive documents are made to reflect the enhanced disclosure and content requirements necessary for compliance with the revised UT

	Question	Answer
13.	If an SFC-authorized	

	Question	Answer
		(i) debt instruments that meet the qualifying criteria to be Additional Tier 1 Capital or Tier 2 Capital under the Banking (Capital) Rules. The same principle applies to debt instruments issued under an equivalent regime of non-Hong Kong jurisdictions[3]; and (ii) debt instruments that meet the qualifying criteria to be external LAC debt instruments under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules; and debt instruments issued under a regime of non-Hong Kong jurisdictions which implements Financial Stability Board's standards for "Total Loss-absorbing Capacity Term Sheet". "Non-preferred senior debt instruments" (may be named as "Tier 3" in some jurisdictions) and senior or subordinated debt instruments issued by a holding company of a financial institution which fall within the above circumstances will be in

	Question	Answer

	Question	Answer
Investment in other funds		
19.	Can a Chapter 7 Fund[4] invest in an underlying fund with an NDE exceeding 50% of the NAV of the underlying fund? What will be the requirement if the NDE of the underlying fund is not available?	For the purposes of Note (3) to 7.11B of the UT Code, a Chapter 7 Fund may, subject to the spread of investments requirement, invest in an underlying fund with an NDE exceeding 50% of its NAV if such underlying fund is: (i) an SFC-authorized fund (except for hedge funds under 8.7 of the UT Code); or (ii) an eligible scheme[5] which is not authorized by the SFC. In this case, investment by a Chapter 7 Fund in any single underlying fund mentioned in (i) and (ii) above should not be more than 30% of its NAV. For the avoidance of doubt, a Chapter 7 Fund may also invest not more than 10% of its NAV in non-eligible schemes and not authorized by the SFC pursuant to 7.11 of the UT Code (even where the NDE is not available). The SFC will review each fund application holistically, taking into account the circumstances of each case. For a Chapter 7 Fund which proposes to invest more than 30%[6] of its NAV in any underlying fund with an NDE exceeding 50% of such underlying fund's NAV, the SFC would assess the V,e VyDE,Spa (y)- no thh fundn a casbscas si s