

ALFI RESPONSE

TO THE SFC CONSULTATION ON
THE REVISION OF THE HONG-KONG CODE
ON UNIT TRUSTS AND MUTUAL FUNDS

Luxembourg, 21 January 2026

ALFI Position

Introduction

We thank the Securities and Futures Commission (SFC) for the opportunity to participate in its consultation regarding proposed amendments to the Code on Unit Trusts and Mutual Funds (the Code).

We would like to provide targeted input on the questions that have been identified as most relevant by our Members.

Feedback to the consultation

1) Section I: Financial derivative instruments

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?

ALFI response:

Currently, an SFC-authorized non-complex fund distributed in Hong Kong may use financial derivative instruments for investment purposes as long as its net derivative exposure (NDE) does not exceed 50% of the fund's NAV (NDE limit). The limit is intended to set a clear threshold to control the leverage arising from derivative usage. The SFC now proposes that the existing NDE approach shall generally remain as the baseline approach for a vast majority of Hong Kong-domiciled funds, but the SFC may, on a case-by-case basis, also permit certain funds to adopt the widely-accepted Value-at-Risk (VaR) approach within the specific VaR Limits.

The calculation and monitoring of the current NDE requirements place a burden on fund managers, as the calculation according to the SFC methodology is considered not straightforward. Furthermore, the current requirements mean that fund managers have to monitor a fund's derivative exposure using multiple methodologies: the Hong Kong NDE and the EU VaR / commitment approach. Accepting the VaR approach on a case-by-case basis would provide important flexibility and facilitate the registration of UCITS in Hong Kong. We therefore welcome this proposal which offers the possibility of accepting the VaR approach within the Hong Kong retail fund framework. This would foster alignment of thresholds (VaR limits), governance and risk management measures with those of major overseas fund regimes. In order to provide legal certainty, we suggest to explicitly state in the Code that funds which

fulfil the requirements related to the VaR approach under the UCITS framework should be deemed compliant.

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

ALFI response:

The proposed changes shall empower the SFC to classify an authorised fund as a complex product in view of its characteristics and risks, regardless of its NDE or VaR measure. In determining whether to classify a fund as complex, the SFC intends to consider all relevant characteristics of a fund holistically, including its primary investment strategy, underlying assets as well as derivative usage and leverage. The proposal further foresees that each SFC-authorized fund shall be required to disclose its non-complex / complex product classification in its product key facts statements (KFS). This will replace the current NDE disclosure requirement in the KFS.

We agree with the SFC that the classification of products as complex or non-complex should not be limited to the usage of the derivatives. Other criteria should also be considered, such as dealing frequency, investment strategy and fund liquidity. In addition, we are of the view that it is indeed more appropriate to disclose whether a product is non-complex or complex rather than the current NED disclosure which may be difficult to understand for retail investors.

This said, we recommend going one step further in terms of simplification and aligning the classification of (non-)complex products with the requirements under the European Markets in Financial Instruments Delegated Regulation and respective ESMA Q&A of 2009.

2) Section II: Liquidity risk management

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

ALFI response:

The SFC intends to align the requirements of the Code with updated international standards, referring explicitly to the Board of the International Organization of Securities Commissions' (IOSCO) "Guidance for Open-ended Funds for Effective Implementation of the Recommendations for Liquidity Risk Management" of May 2025 which operationalise the Financial Stability Board's (FSB) "Revised Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds" of December 2023.

We note that for the definitions of “less liquid” and “illiquid” assets, the SFC uses the IOSCO definitions. We would suggest that the SFC provides in addition specific examples of “less liquid assets” for the industry’s reference.

Referring to the SFC’s intention of providing greater retail access to private markets, we understand that the SFC would allow SFC-authorized unlisted funds to exceed the 15% illiquid asset investment limit under the Code on a case-by-case basis. We would like to raise the question whether the SFC considers revising section 7.3 of the UT Code accordingly.

3) Section III: Money market funds

Question 4: Do you have any comments on the proposed requirements for the use of ADTs (anti-dilution liquidity management tools)?

ALFI response:

In order to align with Financial Stability Board (FSB) Policy Proposals, the SFC proposes that SFC-authorized Money Market Funds (MMFs) have in place at least one ADT to mitigate material investor dilution resulting from subscription or redemption of units. Management companies should evaluate and implement appropriate ADTs.

In our view, it would be beneficial to clarify whether a definitive list of permissible ADTs will be established, and whether this list will be consistent with the fees and gates envisaged under the EU Money MMF Regulation. If the SFC intends such alignment with its proposal, the impact on UCITS MMFs should be limited. In this case, we would be in favour of the proposal.

Furthermore, we agree with the consideration that the use of liquidity management tools should be left to the discretion of the fund manager / board.

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

ALFI response:

The lack of clarity that we noted regarding the use of ADTs extends to this question on underlying investments for MMFs as well. In particular, it would be helpful if the SFC could clarify the minimum timeline envisaged for the withdrawal of short-term deposits. If this timeline is consistent with the requirements under the EU MMFR, we would agree with such alignment which would facilitate the registration of MMFs in Hong Kong.

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

ALFI response:

The SFC proposes, among others, increased liquidity levels for CNAV MMFs which would result in higher levels compared to the current requirements under the MMF Regulation.

As per ALFI's long standing position, we are of the view that MMFs proved to be resilient during the recent periods of market stress and at the onset of the COVID-19 pandemic. During the onset of the pandemic in particular, it should be noted that short-term European MMFs entered March 2020 already with weekly liquidity levels well above their regulatory minima and that the average liquidity levels for the whole first half of 2020 remained at around 50% (EFAMA, European MMFs in the Covid-19 market turmoil, November 2020 p. 17). Despite the liquidity challenges faced by European MMFs at the time, none of them had to introduce redemption fees or gates or suspend redemptions during the market turmoil in March 2020 (ESMA report on Trends, Risks and Vulnerabilities, September 2020, p. 34). These aspects as well as the quick recovery of MMFs after this period show that the systems operated well.

Hence, we do not see a need for the proposed increased liquidity levels.

For further details, we would like to refer to ALFI's [response](#) to the 2021 FSB consultation on policy proposals to enhance Money Market Fund resilience.

In addition, we would like to take the opportunity to flag the current gap in the SFC Code regarding Standard MMFs. We would welcome a review of the SFC's position on this matter and a reconsideration of their definition of MMFs to explicitly include Standard MMFs.

4) Section IV: Miscellaneous

Point A: Key personnel of management companies

Question:

Do you support the proposed approach regarding the key personnel requirements?

ALFI response:

The SFC proposes that Management companies that are licensed to manage public funds in jurisdictions which have entered into mutual recognition of funds arrangements with the SFC (so-called MRF Jurisdictions) should be deemed to have complied with the Hong Kong key personnel requirements.

The existing requirements that solely focus on two key individuals with experience and a track record is in our view too limited. By contrast, the proposed change enables to focus on the

overall governance of the management company as approved by a recognized jurisdiction. We welcome this suggestion which would streamline the process for overseas fund managers.

However, unless due to oversight, we could not reconcile this proposal with the draft text of the amended Code. We would therefore suggest to explicitly state this deemed compliance in the amended Code.

Point C: Streamlining of specialised schemes in the UT Code

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

ALFI response:

In view of the proposal on financial derivatives instruments detailed in section 1.1, the SFC proposes merging Chapter 8.8 (structured funds) and 8.9 (funds that invest extensively in financial derivative instruments) into a single chapter to cover specialised schemes comprising structured funds and other complex funds.

We are in favour of merging chapters 8.8 and 8.9. This would streamline the restrictions currently applied to these complex products.

5) Chapter 11 of the Code: Notification requirements

In addition to the questions in the consultation, we would like to provide comments on the draft amendments in Chapter 11 of the Code regarding notification requirements.

The SFC intends to allow the possibility of aligning the current SFC's notification requirements with those of a fund's home jurisdiction, including the notice periods and content requirements. While we agree with the proposal, we also suggest that the SFC provides the option of aligning the termination notice period with the requirements of the home regulator, provided that all requirements set out in the SFC Ongoing Compliance Form have been met. This would enable UCITS to be deemed compliant with rule 11.5 of the Code. If this is not possible for the SFC, we propose shortening the termination notice period for UCITS, provided that the fund manager can confirm and justify that the termination is in the interest of investors. This could be in cases where the assets under management fall below a certain limit or any other reasons that apply as accepted by the constitutive documents.

About ALFI

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community. The Association is committed to the development of the Luxembourg fund industry by striving to create new business opportunities, and through the exchange of information and knowledge.

Created in 1988, the Association today represents over 1,500 Luxembourg domiciled investment funds, asset management companies and a wide range of business that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialised IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg domiciled investment funds are distributed in more than 70 countries around the world.