



Letter from the Investment Company Institute

20 January 2026

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

Submitted electronically to utc-consultation@sfc.hk.

Re: *Consultation Paper on Proposed Amendments to the Code on Unit Trusts and Mutual Funds*

Dear Sir or Madam,

The Investment Company Institute (ICI)¹ appreciates the opportunity to provide feedback on the Securities and Futures Commission (SFC) consultation on the proposed amendments to the Code on Unit Trusts and Mutual Funds (UT Code) (“Consultation”).²

ICI’s mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. We welcome the SFC’s efforts to review the UT Code to ensure that Hong Kong’s regulatory regime for retail funds remains aligned with international standards and global market practices and adaptable to new market developments and product innovations.

We particularly appreciate that the SFC will allow SFC-authorized funds to use other internationally well-recognized methodologies in addition to the current net derivative exposure (NDE) approach in calculating derivatives exposures of a fund. We also welcome the SFC’s work on expanding retail investor access to private markets through SFC-authorized funds.

¹ The [Investment Company Institute](https://www.ici.org) (ICI) is the leading association representing the global asset management industry in service of individual investors. ICI members are located in North America, Europe, and Asia and manage fund assets of US\$54.3 trillion, including mutual funds, exchange-traded funds (ETFs), UCITS, closed-end funds, unit investment trusts (UITs) and similar funds in these different jurisdictions. ICI has offices in Washington, DC, Brussels, and London.

² Securities and Futures Commission, *Consultation Paper on Proposed Amendments to the Code on Unit Trusts and Mutual Funds* (22 October 2025).
<https://apps.sfc.hk/edistributionWeb/gateway/EN/consultation/doc?refNo=25CP10>.

These amendments will provide global asset managers greater flexibility to offer a more diverse range of investment strategies to investors in Hong Kong.

To accomplish the goal of maintaining robust retail fund regulation in Hong Kong while providing sufficient room for product innovations, we encourage the SFC to incorporate the following recommendations as it reviews the UT Code.

Financial Derivative Instruments and Complex Product Classification

- Further clarifying that SFC-authorized UCITS are deemed as compliant with derivative limits in Hong Kong if meeting limits under either the Value-at-Risk (VaR) or commitment approach in their home jurisdictions.
- Explicitly clarifying that SFC-authorized funds that meet regulatory limits under either the VaR or commitment approach in their home jurisdictions are generally regarded as non-complex.
- Generally classifying an SFC-authorized fund as non-complex if it meets the requirements for offering to retail investors in its home jurisdiction.

Liquidity Risk Management

- Clarifying that any market impact estimates in the context of applying anti-dilution liquidity management tools (ADTs) to capture costs of subscriptions and redemptions should be made on a best-effort basis.

Retail Investors' Access to Private Markets

- Explicitly indicating in the revised UT Code that non-complex funds investing more than 15% of net asset value (NAV) in illiquid assets will be considered on a case-by-case basis.
- Adopting a flexible approach in reviewing the features of non-complex funds investing more than 15% in illiquid assets.
- Continuing to expand the range of private market products available for retail investors in Hong Kong over time.

Requirements for Money Market Funds (MMFs)

- Clarifying proposed amendments related to the requirements of MMFs' underlying investments will not be applicable to UCITS MMFs, provided that they meet the requirements for short-term MMFs under the EU Money Market Fund Regulation.

- Considering a more modest increase on liquid asset requirements specifically for constant net asset value MMFs (CNAV MMFs) to be in line with common practice in major jurisdictions.
- Not limiting CNAV MMFs to only function as government CNAV MMFs.
- Continuing to allow SFC-authorized MMFs with constant NAV share classes in the EU UCITS framework to be offered in Hong Kong, provided that they have met the respective requirements in their home jurisdictions.

Requirements to Appoint Key Personnel

- Clarifying that management companies and investment delegates from jurisdictions that are on SFC's lists of acceptable inspection regimes and recognised jurisdiction schemes will also be deemed as compliant with the requirements on appointing key personnel.

Implementation Timeline

- The case-by-case determinations for non-complex funds investing more than 15% of NAV in illiquid assets will be effective immediately upon gazettal, while allowing a longer transition period for the proposed changes to MMF requirements.

Below please find our response to certain questions the SFC raised in the Consultation.

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?

We welcome and fully support the addition of the VaR approach. We further recommend explicitly clarifying that SFC-authorized UCITS are deemed as compliant with the derivative limits in Hong Kong if they meet limits under either the VaR or commitment approach in their home jurisdictions.

ICI strongly supports the proposal to allow SFC-authorized funds to use the VaR approach as an alternative methodology to the current NDE approach, and to align the regulatory limits under the VaR approach with those in major global jurisdictions, *i.e.*, 200% of the reference portfolio for relative VaR or 20% of a fund's NAV for absolute VaR. This is a welcome step in aligning with international practices to assess and limit risks for regulated funds related to the use of derivatives.

We also welcome that the SFC will deem authorized UCITS compliant with the derivative exposure limits in Hong Kong if they comply with their home regulations. Specifically, we

recommend the SFC to explicitly clarify that such deemed compliance is applicable to SFC-authorized UCITS that use either the VaR or commitment approach.

Both the VaR and commitment approaches are widely used as effective regulatory tools to limit risk from derivative exposure among UCITS that are offered to retail investors under the EU regulatory framework. It is therefore important to clarify that SFC-authorized UCITS will be deemed compliant if they meet the limits under either the VaR or commitment approach in their home jurisdictions. This clarity will facilitate fund managers to expand the availability of global investment products that use either the VaR or commitment approach in a cost-effective manner to investors in Hong Kong.

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

- A. We recommend clarifying that SFC-authorized funds that meet regulatory limits under either the VaR or commitment approach in their home jurisdictions will generally be classified as non-complex.***

ICI is pleased that the SFC has adopted our recommendation to classify an SFC-authorized fund that meets the proposed regulatory limits under the VaR approach as a non-complex product in Hong Kong. Uses of derivatives can benefit regulated funds, and by extension the funds' investors, in many ways, such as, managing interest rate risk and duration, enhancing the liquidity profile of a fund, and gaining or reducing exposures to certain asset classes.

In line with our prior recommendation in Question 1, we further recommend the SFC to explicitly clarify that an SFC-authorized fund will generally be classified as a non-complex product in Hong Kong, provided that it meets the regulatory limits under either the VaR or commitment approach in its home jurisdiction.

Major jurisdictions, such as the European Union, use both the VaR or commitment approach for assessing and limiting risks related to the derivative usage of funds offered to retail investors. Generally classifying SFC-authorized funds that meet the regulatory limits under the VaR or commitment approach in their respective home jurisdictions as non-complex will promote greater consistency with international practices on limiting and managing a retail fund's risk exposure from derivatives.

- B. We recommend that an SFC-authorized fund should generally be classified as non-complex in Hong Kong if it meets the regulatory requirements for offering to retail investors in its home jurisdiction.***

We recognise that the SFC will retain discretion to designate certain SFC-authorized funds as complex based on investor protection considerations. In making such determinations, we recommend that an SFC-authorized fund which meets the requirements for offering to retail investors in its home jurisdiction, should generally be classified as non-complex in Hong Kong.

This approach would reinforce alignment between Hong Kong’s regulatory framework for retail funds with international practices.

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?

A. We welcome that the SFC’s proposed amendments retain the flexibility that fund managers have on using liquidity management tools as they see appropriate in specific context.

ICI has engaged extensively with the International Organization of Securities Commissions (IOSCO) on issues related to liquidity risk management for open-ended funds and has been broadly supportive of IOSCO’s focus on safeguarding the interests and protection of investors and maintaining the orderliness and robustness of markets. In this context, we also have highlighted that fund managers are best positioned to manage liquidity risk and need the flexibility to access a broad set of tools to effectively do so in the interest of investors.

As such, we appreciate that in incorporating the IOSCO Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes (“Revised IOSCO Recommendations”)³ that the SFC does not mandate the use of any specific liquidity management tool and instead allows fund managers to design tailored approaches based on the characteristics of a given fund. This flexibility for fund managers will also facilitate continued alignment with international practices and interoperability among global retail fund regimes.

B. We recommend clarifying that any market impact estimates in the context of applying ADTs to capture costs of subscriptions and redemptions should be made on a best-effort basis.

Estimating market impact involves subjective assessments, sometimes in the absence of robust or consistent data. Fund managers should retain the flexibility to incorporate market impact costs only where such estimates are practicable and can be performed with a high degree of confidence based on sufficiently reliable data. Consistent with the Revised IOSCO

³ International Organization of Securities Commissions, *Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes: Final Report* (26 May 2025).
<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD798.pdf>.

Recommendations,⁴ we recommend the SFC to clarify that any market impact estimates in the context of applying ADTs should be made on a best-effort basis.

C. We recommend explicitly indicating in the revised UT Code that non-complex funds investing more than 15% in illiquid assets will be considered on a case-by-case basis.

ICI welcomes that the SFC will allow SFC-authorized funds to invest in illiquid assets beyond the current limit of 15% of the NAV on a case-by-case basis. This flexibility will be an important step in enabling retail investors in Hong Kong to access private markets. It is becoming increasingly important to empower retail investors to have access to these opportunities, which have typically been limited to wealthier or institutional investors, while preserving effective investor protections. In this regard, regulated funds and their managers, subject to the existing, well-established regulatory framework on their governance, operations, and disclosures, are well-positioned to provide private market access to retail investors. To provide additional clarity and transparency to fund managers, we recommend the SFC to explicitly indicate in the revised UT Code that it will consider non-complex funds to invest more than 15% of NAV in illiquid assets on a case-by-case basis.

D. We recommend adopting a flexible approach in reviewing the features of non-complex funds investing more than 15% in illiquid assets.

When making these case-by-case determinations, we recommend that the SFC maintain flexibility not only in the allocation to illiquid assets, but also when reviewing the other features of the fund in order to make a holistic determination of its appropriateness for retail investors. A broadly flexible approach will allow fund managers to tailor a diverse range of investment strategies, portfolio allocations, and fund features to provide retail investors with access to private markets under a well-regulated and non-complex fund structure. For example, where a non-complex fund intends to gain indirect exposure to private market assets through a fund-of-funds structure, such a fund may need flexibility to invest beyond the current 10% of NAV limit in investing in an underlying private market asset fund. As another example, in cases where a non-complex fund may intend to gain exposure to real assets or private credit, this fund may need flexibility in terms of the existing requirements in the UT Code on limitations on making loans.

Further, we encourage the SFC to work with the Mandatory Provident Fund Schemes Authority in expanding investors' access to private markets through fund vehicles in their retirement plan

⁴ *Id.* at 29. In the explanatory text to Recommendation 7, IOSCO noted that "Responsible entities are expected to estimate any significant market impact on a best-effort basis."

accounts. Retirement savers are the ultimate long-term investors and would benefit from the diversification offered by the inclusion of private market assets.

E. We recommend continuing to expand the range of private market products available for retail investors in Hong Kong over time.

We encourage the SFC to continue industry engagements and discussions to expand the range of product structures with private market exposures that are appropriate for retail investors. ICI welcomes the opportunity to continue the ongoing dialogue with the SFC to facilitate retail investors in Hong Kong to access a wider range of well-regulated private market investment vehicles globally, such as U.S. closed-end funds (including interval funds, tender offer funds, and business development companies (BDCs)) and EU Alternative Investment Funds (AIFs) (including European Long Term Investment Funds (ELTIFs)).

III. MMFs

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

We support maintaining flexibility on selecting and implementing ADTs for MMFs.

ICI appreciates that the SFC's proposal retains flexibility for fund managers in selecting which ADT is most appropriate and in how to calibrate and determine activation thresholds for the relevant ADT. Fund managers are best positioned to make these decisions and to exercise this discretion in a manner that prioritizes the best interest of investors.

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

We welcome the clarification regarding the eligibility of short-term deposits redeemable with a fee for MMFs. We also recommend clarifying that the proposed amendments related to underlying investments of MMFs will not be applicable to UCITS MMFs, provided that they meet the requirements for short-term MMFs under the EU Money Market Fund Regulation.

ICI appreciates that the SFC adopted our recommendation to clarify that short-term deposits that are redeemable with a fee meet the proposed criteria of "repayable on demand or with the right to be withdrawn by an MMF at any time." This clarity is important for fund managers using term deposits, certificates of deposits, and commercial paper, which can typically be redeemed with a fee at any time under certain break clauses.

We also recommend the SFC to clarify that, in line with the streamlined approach to the SFC-authorized UCITS, the proposed amendments related to underlying investments of MMFs are

not applicable to UCITS MMFs, provided that they meet the requirements for short-term MMFs under the EU Money Market Funds Regulation.⁵

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

A. We do not support the degree of proposed increases on liquid asset requirements specifically for CNAV MMFs, and recommend considering a more modest increase to be in line with common practice in major jurisdictions.

We do not support the degree of the proposed increases in the daily and weekly liquid asset requirements specifically for CNAV MMFs. Overly large increases in the required daily and weekly liquid assets could present challenges for MMFs in accessing sufficient liquidity in the market and could reduce returns for investors without meaningfully enhancing resilience.

Several major jurisdictions are also in the process of evaluating the need to, and if necessary, the extent of, an increase in liquid asset requirements for MMFs.⁶ However, these discussions are not yet resolved, and in the meantime, major jurisdictions such as the European Union and the United Kingdom continue to require 10% for the daily liquid assets and 30% for the weekly liquid assets.⁷ Although the United States increased the weekly liquid asset requirements for MMFs to 50% in July 2023, such an increase could be more challenging to implement in other

⁵ Only sections 8.2(b), (c), (d), and (o) in the UT Code are applicable to UCITS short-term money market funds that have complied with the EU Money Market Funds Regulation. See Securities and Futures Commission, *Application of the Code on Unit Trusts and Mutual Funds on UCITS funds* (28 November 2025), https://www.sfc.hk/-/media/files/PCIP/FAQ-PDFS/Application-of-Code-on-Unit-Trusts-and-Mutual-Funds-on-UCITS-funds_20251128.pdf?rev=0189b8a084d740768f5d38651916c8ed.

⁶ The UK Financial Conduct Authority (FCA) consulted in December 2023, among others, to increase liquidity buffers for all MMF types to minimum weekly liquid assets of 50% and minimum daily liquid assets of 15%. However, the UK FCA to date has not yet finalized the proposal. See Financial Conduct Authority, *CP23/28 Updating the regime for Money Market Funds* (6 December 2023), <https://www.fca.org.uk/publications/consultation-papers/cp23-28-updating-regime-money-market-funds>. ICI recommended the UK FCA to not increase the weekly liquid asset requirement, given that the removal of the regulatory link between liquidity levels and the imposition of liquidity fees or redemption gates will enhance the resilience of MMFs and allow MMF managers to access liquidity that they have been unable to access. See ICI, *Letter to the FCA on Updating the Regime for Money Market Funds* (8 March 2024), <https://www.ici.org/system/files/2024-03/24-icig-cl-fca-mmfs-uk-response.pdf>. The European Union has to date not released any formal proposal to raise the regulatory requirements for liquid assets for MMFs.

⁷ Under the EU Money Market Funds Regulation, a short-term CNAV MMFs (including the low volatility net asset value MMFs and public debt MMFs) are required to have weekly liquidity ratios of 30% and daily liquidity ratios of 10%. An ICI simulation study based on US institutional CNAV MMFs showed that, in the absence of a regulatory link between MMF liquidity and fee and gate thresholds, existing liquidity risk management requirements (including for 10% daily and 30% weekly liquid assets) were quite robust and capable of handling even extreme market stress events like in March 2020. For additional details, please see ICI, *Letter to the Financial Stability Board* (13 August 2021), <https://www.ici.org/system/files/2021-08/21ltrfsbmmfs.pdf>.

markets, as US MMFs benefit from deeper market liquidity and access to the Federal Reserve's Overnight Reverse Repurchase facility.

Against this backdrop, it is important that the SFC's proposal regarding liquid asset requirements for CNAV MMFs provides sufficient flexibility such that SFC-authorized CNAV MMFs can continue to be offered in Hong Kong as global practices continue to evolve. If the SFC determines to increase the minimum liquid asset requirements specifically for CNAV MMFs, we recommend the SFC to consider a more modest increase at this stage (*i.e.*, 10% for the daily liquid assets and 30% for the weekly liquid assets).

B. We do not support the proposed approach of limiting CNAV MMFs to only function as government CNAV MMFs.

We recommend against the proposed requirement for all CNAV MMFs to invest at least 99.5% of their NAV in cash or high credit quality money market instruments issued or guaranteed by a government. CNAV MMFs should retain the flexibility to invest in a range of assets that is in line with their respective stated investment focuses. In addition to government CNAV MMFs, other types of CNAV MMFs can play an important role in markets as well as serving as a source of financing for the real economy.

If the SFC adds such a requirement, we recommend that any such requirement only apply to CNAV MMFs specifically focused on government instruments. Such an approach would be in line with international practices. For example, only government MMFs in the United States and public debt short-term MMFs in the European Union are required to follow similar investment limitation given their stated investment focus, while other types of MMFs in the United States and the European Union are not subject to such a limitation.

C. We recommend continuing to allow SFC-authorized MMFs with constant NAV share classes in the EU UCITS framework to be offered in Hong Kong, provided that they have met the respective requirements in their home jurisdictions.

We also encourage the SFC to clarify that, authorized MMFs with constant NAV share classes, such as the low volatility net asset value MMFs (LVNAV MMFs) and the public debt short-term MMFs in the EU UCITS framework, will be deemed as compliant with the requirements for MMFs in Hong Kong and can continue to be offered in Hong Kong, provided that they are compliant with the respective requirements in their home jurisdictions. Such an approach would enable investors in Hong Kong to continue to have access to a wide range of MMF strategies available globally.

IV. Key Personnel of Management Companies (KP Requirements)

Question 7: Do you support the proposed approach regarding the KP Requirements

We recommend clarifying that management companies and investment delegates from jurisdictions that are on SFC's lists of acceptable inspection regimes and recognised jurisdiction schemes will also be deemed as compliant with the KP Requirements.

ICI welcomes the SFC's proposal of deeming management companies and their investment delegates as compliant with the KP Requirements if they meet certain conditions.

We recommend the SFC clarify that, in addition to the jurisdictions with which the SFC has entered into mutual recognition of funds arrangements ("MRF Jurisdictions"), public fund managers that are based in jurisdictions on the SFC's lists of acceptable inspection regimes and recognised jurisdiction schemes will also be deemed as compliant with the KP Requirements. As the SFC has noted, these jurisdictions are recognised on the basis that the relevant funds are governed by laws and regulations which are comparable to the UT Code, or the overseas regulatory authorities carry out inspections of investment management firms in a manner consistent with the SFC.

Providing this clarity would be in keeping with the SFC's goal of enhancing operational efficiency while maintaining adequate protections, given that all of the jurisdictions in the above-referenced lists have comparable regulatory or inspection requirements as Hong Kong.

V. Proposed Implementation Timeline

We recommend that the case-by-case determinations for non-complex funds investing more than 15% of NAV in illiquid assets to be effective immediately upon gazettal. We also recommend a longer transition period for the proposed changes to MMF requirements.

ICI welcomes that the key proposals related to financial derivative instruments (Part 1 under Section 1 in the Consultation) and miscellaneous items (Part IV under Section 1 in the Consultation) will be effective immediately upon gazettal. We recommend that SFC's case-by-case determinations for non-complex funds investing more than 15% of NAV in illiquid assets will also be effective immediately upon gazettal. This will facilitate the discussion and process in cases where fund managers are already ready to consult the SFC on the potential increase in illiquid asset allocation of their existing products and/or new products.

We further recommend the SFC to allow a longer transition period, for example, 12-18 months, for the proposed changes to MMF requirements. As discussed above, the requirements of MMFs on liquidity management in major jurisdictions are still evolving internationally. The additional time would allow global fund managers to carefully review and coordinate with their internal teams globally to implement necessary changes.

* * *

Thank you again for the opportunity to provide feedback on the Consultation. We welcome continuing this dialogue with you. If you have any questions, please contact me at tracey.wingate@ici.org, Matthew Mohlenkamp at matthew.mohlenkamp@ici.org, and Lisa Cheng at lisa.cheng@ici.org.

Sincerely,

/s/ Tracey Wingate

Tracey Wingate
Chief Global Affairs Officer
Investment Company Institute