

# SFC Regulatory Updates – What Asset Managers Need to Know



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The Securities and Futures Commission (hereinafter the “SFC”) has issued several circulars in the first half of 2025, reflecting a broader commitment to market integrity, product diversification, and investor protection. These developments underscore the SFC’s adaptive approach to emerging risks - from digital asset development to cross-border collaboration – while reinforcing Hong Kong’s position as a global financial hub. Type 9 Licensed Corporations (hereinafter “LCs”) must pay attention to the following key circulars.

## Recent Regulatory Updates from the SFC

### 1. Mutual Recognition of Funds (MRF) between Ireland and Hong Kong

Circular: 14 May 2025

The SFC and the Central Bank of Ireland (hereinafter “CBI”) entered into a further Memorandum of Understanding (hereinafter “MOU”) on 14 May 2025 (The initial MOU, which was dated 5 November 1997 related to the cooperation between SFC and CBI in relation to the supervision of cross-border investment management activity) concerning the enhancement of cooperation and the utilisation of a streamlined process in relation to (i) Collective Investment Schemes (hereinafter “CISs”) domiciled in either Hong Kong or Ireland and offered to the public in Ireland and/or Hong Kong on a cross-border basis, and (ii) management companies of CISs, based in either Hong Kong or Ireland.

- **Streamlined authorisation:** eligible Irish UCITS funds (e.g., equity, bond, mixed funds, funds of funds, unlisted index funds, passively managed index tracking ETFs, actively managed ETFs) meeting specific criteria can access the Fund Authorisation Simple Track (hereinafter the “FASTrack”), which reduces approval time to 15 business days.
- **Two-Stream approach:** for Irish Covered Funds<sup>1</sup> that do not meet the FASTrack criteria, their applications will be classified into the “Standard Applications” and “Non-standard Applications” stream, for which, SFC authorisation (if granted) will be given in 1 to 2 months and 2 to 3 months from the take-up date of the applications, respectively.
- **Eligibility requirements:** funds must comply with Irish and Hong Kong regulations, appoint a Hong Kong representative (in accordance with Chapter 9 and Chapter

<sup>1</sup>Irish Covered Funds refers to Irish funds that are eligible for or have received SFC authorisation under MRF.

11 of the UT Code<sup>2</sup>, ensure equal treatment for investors in both jurisdictions (e.g., simultaneous disclosure of updates and financial reports), distribute Irish Covered Fund through intermediaries licensed or registered with the SFC.

- **Language alignment:** the offering documents and notices to Hong Kong investors of an Irish Covered Fund must be provided in English and Chinese.
- **Notification of breach:** An Irish Covered Management Company<sup>3</sup> should notify the CBI and SFC at the same time in the event of a breach (and rectification) of Irish domestic laws or any Hong Kong related requirements.

This framework strengthens Hong Kong's role as a global fund distribution hub while aligning with international regulatory practices.

You can read the full circular from the SFC [here](#).

## 2. Revised Financial Return Form

Circular: 2 May 2025

The SFC has announced a revision of the Financial Resources Rules (hereinafter the “FRR”) Return:

- **FRR return – Form 12:** a new section C is added in the Form 12 of the FRR Return.
- **Annex A:** a separate form requiring submission if the fund manager has managed one or more Qualifying Hedge Fund six months prior to the current FRR Return reporting month-end.
- **Effective date:** any period ending on or after 23 June 2025.

For more details, you can also refer to our recent [article](#).

You can read the full circular from the SFC [here](#).

## 3. Formal Adoption of Fund Authorisation Simple Track (FASTrack)

Circular: 28 April 2025

The SFC has announced the formal adoption of FASTrack, allowing a streamlined approach for authorisation of simple funds.

- **Impact:** this framework has streamlined the fund authorisation process for simple funds.
- **Applicability:** simple funds domiciled and regulated in MRF Jurisdictions that apply for authorisation for public offering in Hong Kong can access the FASTrack.
- **Estimated approval time:** reduced to 15 business days from the submission of applications.
- **Effective date:** 5 May 2025.

You can read the full circular from the SFC [here](#).

## 4. SFC-Authorised Funds with Exposure to Virtual Assets

Circular: 7 April 2025

This revised circular outlines updated requirements for SFC authorised funds with >10% Net Asset Value (hereinafter “NAV”) exposure to virtual assets (hereinafter “VA”) to ensure investor protection amid growing demand for VA products. Key points include:

- **Regulatory requirement applicability:** SFC-authorized VA Funds should follow the Overarching Principles Section, the Code on Unit Trusts and Mutual Funds (UT Code) in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured

<sup>2</sup>Code on Unit Trusts and Mutual Funds.

<sup>3</sup>Irish Covered Management Company refers to an Irish management company that is eligible to manage Irish Covered Funds.

Investment Products and other relevant VA requirements<sup>4</sup> released by the SFC from time-to-time.

- **Management companies:** the management companies should have a good track record of regulatory compliance and at least one competent staff member with relevant experience in the management of VA or related products.
- **Licensing conditions:** the management companies shall comply with the Terms and Conditions<sup>5</sup> for licensed corporations or registered institutions that manage portfolios investing in virtual assets.
- **Eligible underlying VA:** SFC authorised VA Funds should only invest (directly or indirectly) in (i) VA tokens that are accessible to the Hong Kong public for trading on SFC-licensed VATPs; (ii) Only VA futures traded on conventional regulated futures exchanges are allowed, subject to the management company demonstrating that the relevant VA futures have adequate liquidity and the roll costs of the relevant VA futures are manageable and how such roll costs will be managed; and (iii) Indirect exposures to eligible VA via other exchange-traded products are subject to applicable requirements in the UT Code and other relevant requirements.
- **Investment restrictions:** no leveraged exposure to VA at the fund level.
- **Portfolio composition for futures-based strategy:** adopt an active investment strategy to allow flexibility in portfolio composition (e.g., diversification of futures positions with multiple expiry dates), rolling strategy, and handling of any market disruption events.
- **Subscription and redemption:** both in-cash and in-kind subscription and redemption are acceptable for SFC authorised VA ETFs. For in-kind subscription/redemption, only through the custody accounts with SFC-licensed VATPs.
- **Custody:** custody must be delegated only to an SFC-licensed VATP or an Authorised Institution which meets the HKMA's expected standards of VA custody. Delegated custodians are expected to comply with requirements such as client asset segregation, storing most VA in cold wallets (offline storage) rather than hot wallet (online storage), with seeds and private keys securely stored in Hong Kong. Access should be tightly restricted to authorised personnel only, sufficiently resistant to speculation (e.g., through generation in a non-deterministic manner) or collusion (through measures such as multi-signature and key sharding) and properly backed up to mitigate any single point of failure.
- **Valuation:** an indexing approach based on VA trade volume across major VA trading platforms (i.e., a benchmark index published by a reputable provider that reflects a significant share of trading activities in the underlying spot VA).
- **Service Provider ("SP"):** the management companies should ensure all necessary SPs are competent in supporting the SFC-authorised VA Funds.
- **Disclosure:** the offering documents (including the Product Key Facts Statements (KFS) should disclose key risks (e.g. price risk, custody risk) associated with the SFC-authorised VA Funds.
- **Investor education:** investor education is expected to be carried out before the launch of the VA-authorised fund as per existing requirements under the UT Code.
- **Prior consultation:** prior consultations of launching the SFC-authorised VA Fund with the SFC is required.

You can read the full circular from the SFC [here](#).

<sup>4</sup><https://www.sfc.hk/en/Welcome-to-the-Fintech-Contact-Point/Important-links>.

<sup>5</sup>Refer to Appendix 7 of <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=23EC67>.

## Arrangements for the Collection of Annual Licensing Fees

Circular: 14 March 2025

The SFC has announced the resumption of the collection of annual licensing fees from all intermediaries and licensed individuals, as follows:

Types of intermediary/licensed individual	Types of Regulated Activities	Annual licensing fee (in HKD)
Licensed Corporation	RAs other than Type 3	\$4,740 per RA
	Type 3	\$129,730
Responsible Officer	RAs other than Type 3	\$4,740 per RA
	Type 3	\$5,370
Licensed Representative	RAs other than Type 3	\$1,790 per RA
	Type 3	\$2,420
Registered Institution	RAs other than Type 3 and Type 8	\$35,000 per RA

**Effective Date:** Starting 1 April 2025.

Click [here](#) to view the Guide for Annual Fee Payment.

You can read the full circular from the SFC [here](#).

## 5. Asset and Wealth Management Activities Survey 2024

Circular: 20 February 2025

The SFC has requested all LCs to complete the Asset and Wealth Management Activities Survey 2024.

- **Applicability:** all LCs must complete the survey.
- **Eligibility requirement:** LCs that have generated gross operating income from asset management, giving advice on funds/portfolios and/or private banking/private wealth management (collectively “Specified Activities”) during 2024 must complete the survey in full. Those that have not generated gross operating income from Specified Activities are required only to complete the General Information in the questionnaire.
- **Survey Link is available** [here](#)
- **Cover Period:** 2024
- **Submission deadline:** On or before 22 April 2025.

You can read the full circular from the SFC [here](#).

## Listed Closed-ended Alternative Asset Funds

Circular: 17 February 2025

This circular clarifies the requirements of the SFC when it considers authorising closed-ended collective investment schemes (Alternative Funds) which seek a listing on the Stock Exchange of Hong Kong Limited (SEHK) (hereinafter “Listed Alternative Funds”), and the requirements applicable to the distribution of these funds by intermediaries. Key points include:

- **Regulatory requirement applicability:** the Listed Alternative Fund should meet the applicable requirements under the Overarching Principles Section, the Code on Unit Trusts and Mutual Funds (UT Code) in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products.

- **Expected market capitalisation size requirement:** HK\$780 million (or US\$100 million) at the time of listing.
- **Key personnel and investment delegate:** expected to possess  $\geq 5$  years of investment experience and to demonstrate investment track record in managing public funds with reputable institutions. Experience gained should be in the same/similar type of investments as those proposed for the funds seeking authorisation. In general  $\geq 2$  Key Personnel (with sufficient time allocation) must be designated in the scheme seeking authorisation.
- **Acceptability of management company:** the management company is required to demonstrate (i) the competence and experience on a group-wide basis in managing a public listed vehicle and complying with applicable regulatory requirements; (ii) have Asset Under Management (AUM) of at least HK\$780 million (or US\$100 million) invested in relevant alternative assets on a group-wide basis; and (iii) have a good track record of regulatory compliance.
- **Listing agent:** the Listed Alternative Fund must appoint a listing agent (SFC may require the listing agent to be a sponsor where appropriate) under Chapter 20 of the Listing Rules.
- **Minimum public holding:** public holds at least 25% of the total units or shares of the fund at all times.
- **Investment restriction:** Chapter 7 of the UT Code which generally applies to authorised fund, does not apply to Listed Alternative Funds. Nonetheless, the SFC expects the Listed Alternative Fund: (i) invest in a well-diversified portfolio of alternative asset with verifying investment life cycles (where appropriate); (ii) borrowing  $\leq 30\%$  of NAV.
- **Fund of Fund (“FoF”) structure:** for Listed Alternative Funds which structure as FoF structure, (i) the value of investment  $\leq 20\%$  of the Underlying fund’s NAV; (ii) the investment objective and strategy of each underlying fund aligns with a Listed Alternative Funds; and (iii) the underlying fund’s objective may not be investing primarily in other funds.
- **Distribution or dividend policy:** this must be disclosed in the fund’s offering documents and must not lead to structural decumulation of its capital.
- **Publication of NAV per unit:** the Listed Alternative Fund is required to publish the NAV on the fund’s website at least on a quarterly basis.
- **Valuation:** the Listed Alternative Fund’s investment must independently and fairly value on a regular basis and disclose (i) the selection criteria of the valuation agent and the relationship with the valuation agent and prime broker (where applicable); (ii) limitations/constraints of the valuation policies/methodologies; (iii) frequency of valuation; (iv) valuation method of the investments.
- **Warning in the offering document:** a warning that some underlying investments of the schemes may not be actively traded and uncertainties involved in the valuation of such investments must be included in the offering document of the Listed Alternative Fund.
- **Disclosure:** the Listed Alternative Fund should disclose details such as investment objectives, frequency of the fund’s NAV publication, key risks associated with the closed-ended nature etc. in accordance with s.8.7(r) to (u) of the UT Code.
- **Investor education:** investor education is expected to be carried out before the launch of the Listed Alternative Fund as per existing requirements under the UT Code.
- **Client knowledge test, suitability assessment and risk disclosure:** except for Institutional Professional Investors (IPI) and Qualified Corporate Professional Investors (QCPI), intermediaries should assess whether the clients have knowledge in investing in relevant alternative investment funds or relevant alternative assets and have the adequate net-worth to bear the potential losses. Adequate risk disclosure statements should also be presented to the clients.
- **Prior consultation:** prior consultation of launching the Listed Alternative Fund with the SFC is required.

You can read the full circular from the SFC [here](#).

## 6. Cyber Security Review of Licensed Corporations

Circular: 6 February 2025

The SFC released its 2023/24 Thematic Cyber Security Review Report, highlighting critical vulnerabilities and incidents in LCs from 2021–2024. The report emphasises gaps in cyber security compliance, emerging threats such as ransomware and phishing, and the need for robust risk management. It sets updated standards for network security, patch management, and third-party oversight. Reminders from the SFC are as follows:

- **Implement Adequate Cyber Security Controls:** LCs should pay attention to
  - **Network security:** LCs should implement appropriate controls to prevent and detect unauthorised intrusion, security breach and security attack.
  - **Patch management:** LCs should monitor the security patches or hotfixes released by software providers, conduct testing as soon as practicable and implement the security patches or hotfixes within one month following the completion of testing.
  - **Data encryption:** LCs should apply a strong encryption algorithm to encrypt sensitive information.
  - **User access rights:** LCs should ensure that system access rights are granted on a need-to-have basis. System admin accounts to critical systems and databases should only be granted to a limited number of users and the usage of these accounts should be logged and monitored.
  - **Audit logs:** LCs should retain and review the logs for the activities in all critical servers, network devices and databases to identify and follow-up on any suspicious unauthorised activities.
  - **Monitoring of client accounts:** LCs should implement an effective monitoring and surveillance mechanism to detect unauthorised access to clients' internet trading accounts. (e.g. monitoring the IP address for accessing the client accounts, review changes made to client particulars in the systems and database and promptly identify red flags associated with unauthorised changes to client particulars for follow up actions.
  - **Outsourcing of IT services:** LCs should implement policies and procedures on the management and supervision of the service providers in relation to the relevant cyber security requirements.
  - **Senior management responsibility:** senior management, particularly MIC-IT, bear ultimate responsibility for cyber security risks oversight, including ensuring (a) qualified staff and/or Third Party Providers are appointed; (b) maintain and update (i) the cyber security risk management and (ii) contingency policies and procedures regularly and timely; and (c) conduct cyber security reviews regularly on the LCs' network and system.

You can read the full circular from the SFC [here](#).

## 7. Listed Structured Funds

Circular: 23 January 2025

This circular outlines the SFC's enhanced regulatory framework for broadening the range of listed structured funds in Hong Kong, including new product types such as Single Stock Leveraged and Inverse (hereinafter "L&I") Products and Defined Outcome Listed Structured Funds. The requirements aim to balance market innovation with investor protection. Key points include:

- **Regulatory requirement applicability:** the Listed Structured Fund should meet the applicable requirements under the Overarching Principles Section, the Code on Unit Trusts and Mutual Funds (UT Code) in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, in particular s.8.6 of the UT Code given the exchange-traded nature.
- **Indices referencing:** eligible products must reference liquid equity/non-equity indices (e.g., commodities with controlled roll costs) or swap-based Mainland equity indices, subject to assessments of underlying liquidity, cost structures, and design fairness.
- **Product naming:** product naming must exclude "ETF," instead using "Leveraged/Inverse Product" with explicit leverage factors (e.g., "Daily (2x) Leveraged Product") and distinct stock codes (e.g., "L"/"I" prefixes).

- **Product structure:** listed structured funds may extensively invest in and use financial derivative instruments to achieve their investment objectives or outcomes, e.g., futures-based or swap-based replication structures or options-based investment strategies. The SFC will make reference to Chapter 15A of the Listing Rules in considering the eligibility of underlying assets for listed structured funds (e.g., market capitalisation threshold) and make necessary adjustments to reflect the features of a particular type of listed structured funds.
- **Offering document disclosure:** listed structured funds must include upfront disclosures in their Product Key Facts Statement (KFS) to highlight their unique risks and features beyond conventional ETFs/CIS products. This includes clarifying the investment time horizon (if not buy-and-hold or tied to periodic resets in options-based strategies), explicit disclosure of swap-based replication costs (e.g., uncaptured fees in ongoing charges figures, maximum redemption fees), divergence between futures strategy returns and spot price performance, heightened volatility risks, and escalating derivatives-related costs (e.g., roll costs). In addition, the offering document must warn against long-term holding, clarify suitability for sophisticated traders, and disclose performance deviations.
- **Market making arrangements:** these must ensure  $\geq 1$  market maker at all times.
- **Performance simulator:** the Type 9 LCs must provide a user-friendly performance simulator to allow investors to select a historical time period and simulate the performance of the fund during that period based on historical data. To demonstrate the fund's performance under different market conditions: (a) the historical period should cover the period since the launch of the fund; and (b) the website of the fund should include narratives to help investors understand the results of the "performance simulator" and set out the key assumptions, parameters and formulae used in the calculation.
- **Investor education:** investor education is expected to be carried out before the launch of the listed structured fund in Hong Kong.
- **Distributor:** intermediaries are expected to: (a) include the following know your client procedures when providing services to clients with respect to derivative products (particularly 5.1A to 5.3 of the Code of Conduct); (b) ensure the staff are familiar with the risks and features of the fund; and (c) act in the best interests of the client.
- **Margin financing:** margin financing for L&I Products are discouraged per HKEX guidance. These rules aim to balance innovation with investor protection, emphasising transparency and short-term trading suitability.
- **Leverage:** leverage is capped at 2x (long) to -2x (inverse), reduced to -1x for Mainland equity inverse products, with potential lower caps for volatile single stocks.
- **Product termination:** should the last market maker resign from acting as the market maker, the L&I product is required to be terminated at the same time. The L&I Product provider and market maker should provide for a sufficiently long resignation notice period to allow for an orderly unwinding and termination of the product.
- **Termination notice:** advance notices of termination of at least one month or a longer period as required under applicable laws and regulations (as per section 11.5 of the UT Code).

You can read the full circular from the SFC [here](#).

## How can Waystone help?

Waystone offers a full suite of corporate compliance solutions tailored to the needs of businesses expanding into or operating within Hong Kong. We are committed to enhancing your corporate compliance, so you can concentrate on growing your business with confidence. We can provide the following services:

- **Compliance advice:** we can provide compliance advice and guidance to assist LCs in complying with the new/revised regulatory requirements.
- **Applicability review:** we can assist with reviewing the circular for applicability.
- **Policies and procedures:** we can work with clients to enhance their policies and procedures in accordance with the relevant regulatory update.
- **Compliance review:** we assist with the review of specific compliance areas, in order to identify compliance gaps relating to the new regulatory requirements.
- **Staff training:** we provide specialist training for the client in relation to the regulatory update.

To learn more about our corporate compliance solutions, please reach out to our [APAC Compliance Solutions](#) team today.

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