J M L

Jeffrey Mak Law Firm
麦振兴律师事务所
www.jmaklegal.com

Hong Kong Licensed Corporations Alert
香港持牌法团快讯

2026.11.25

Hong Kong Securities and Futures Commission Sets Expectations for Phishing-Resistant Authentication and Enhanced Surveillance for Internet Brokers and Virtual Asset Trading Platforms

Phishing attacks remain the most prevalent cybersecurity threat facing Hong Kong's licensed corporations. In 2025, fraudsters conducted large-scale SMS phishing campaigns indiscriminately targeting clients of internet brokers and SFC-licensed virtual asset service providers (VASPs), impersonating these corporations with fake messages purporting to come from regulators. Clients lured onto fraudulent websites unwittingly entered login credentials and one-time passwords (OTPs), enabling fraudsters to execute man-in-the-middle attacks, hijack accounts and conduct unauthorised transactions.

In response, the Hong Kong Securities and Futures Commission (SFC) issued a circular on July 9, 2026, setting out expectations for authentication, monitoring and incident response — and, notably, phasing out OTP-based authentication as inadequate.

Four Pillars of Expected Conduct

Area	Requirement
(A) Prevention	Phishing-resistant authentication for login and device binding
(B) Detection	Monitoring and surveillance for suspicious account activity
(C) Response	Prompt containment, client notification and SFC reporting
(D) Awareness	Proactive client education on phishing risks

(A) Preventive Controls — OTP No Longer Acceptable

The SFC states plainly that OTP (SMS or email) is not a phishing-resistant authentication solution and should no longer be relied on for login or device binding. In its place, two methods are endorsed:

- Passkeys — password-less credentials using public-key cryptography. The private key never leaves the client's device, so it cannot be phished, and passkeys only work with the genuine website or app for which they were created.
- Device binding — linking a client's device to their account via securely enrolled attributes, combined with an additional factor such as biometrics or a password.

Operational limits remain: generally no more than three passkeys and/or three devices per client without additional assessment, and idle session timeouts generally limited to no more30 minutes unless justified and closely monitored.

(B) Detection and Surveillance

Internet brokers and VASPs must notify clients promptly, through multiple channels, of logins and high-risk activity (new devices, device binding, passkey changes), and are encouraged to require client confirmation of material changes before further transactions proceed. Expected monitoring includes:

- Transaction monitoring — thresholds calibrated to client profiles, flagging patterns inconsistent with prior trading, unusual-hour transactions, rapid large losses, sudden volume in illiquid/small-cap stocks, or trades shortly after a password reset or device change.
- Login/device monitoring — logs reviewed for binding from unusual locations, multiple accounts on one device, multi-location logins in short windows, or abnormally long sessions.

(C) Incident Response

Internet brokers and VASPs must be able to immediately halt unauthorised activity, safeguard assets, notify clients and report incidents to the SFC without delay, followed by root cause analysis and remedial action.

(D) Client Awareness

Internet brokers and VASPs should proactively alert clients to phishing tactics and reinforce that credentials should never be disclosed, alongside regular guidance on password hygiene and activity alerts.

Implementation Timeline

- Immediately: enhance notification, monitoring and response procedures (B–C).
- As soon as practicable: roll out client awareness measures (D).
- By 8 July 2027 (12 months): implement phishing-resistant authentication (A). Large internet brokers must implement immediately, with no grace period.

Throughout the transition, OTP remains vulnerable, so internet brokers and VASPs must tighten monitoring and suspend accounts promptly where suspicious activity is detected. Those anticipating difficulty meeting the deadline should notify their case officer immediately.

Authentication Methods in Practice

Passkey solutions must carry FIDO certification, with registration backed by strong identity verification. The SFC sets out onboarding flows for new clients, existing bound-device clients, and existing unbound clients (who may initially use SMS OTP during the transition, but need robust verification or an in-person visit afterward). Clear policies are required for passkey revocation when a device is lost or compromised.

For device binding, weak methods (credentials, OTP) are themselves phishing-vulnerable, so robust verification must be used — examples include cross-device passkey authentication, biometric/liveness verification against onboarding records, ID document verification via OCR matched with a selfie, or in-person verification. After the 12-month period, only these robust methods will be acceptable.

Senior Management Accountability

Responsibility sits with senior management — particularly the Managers-in-Charge of Overall Management and of Information Technology — alongside the existing Code of Conduct obligation (paragraph 4.3) to protect clients from financial loss from theft and fraud. The SFC has signalled it will hold intermediaries accountable for client losses where inadequate measures failed to prevent, detect or stop large-scale unauthorised transactions.

This circular marks a decisive shift: OTP is now treated as inadequate, with a hard deadline for replacement. Internet brokers and VASPs should treat the 12-month window as a priority, starting immediately with the monitoring and client-communication enhancements that carry no grace period.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=26EC35

Hong Kong Securities and Futures Commission Bans Former Licensed Representative for Life Over Falsified Academic Qualifications

On November 17, 2026, the Hong Kong Securities and Futures Commission (SFC) announced that it had prohibited Mr Kim Chung Wan (Kim) from re-entering the industry for life under section 194 of the Securities and Futures Ordinance (SFO). The SFC found that Kim repeatedly misrepresented his academic qualifications in licence-related applications to the SFC and to his former employers, and that he supplied a false degree certificate in support. Kim was formerly licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities between September 8, 2011 and August 23, 2023, and Type 9 (asset management) between February 16, 2017 and August 23, 2023. He is not currently licensed.

Inconsistent Applications Trigger the SFC's Enquiries

Between 2011 and 2022, Kim made six applications to the SFC relating to his licence as a licensed representative (including a transfer of accreditation) and one application for approval to become a responsible officer (RO) of a licensed corporation. In his applications in 2011 and 2015 (for a licence) and in 2018 (for a transfer of accreditation), Kim stated that he held a Bachelor of Science degree (BSc) from Victoria University of Wellington (VUW) in New Zealand, awarded in 1994. A purported VUW certificate and a résumé were submitted in support of the 2011 application, and in a résumé supporting the 2015 application, Kim added that he also held a Master of Business Administration degree (MBA) from VUW. In his RO application in December 2022, however, Kim instead claimed a BSc from the University of California, Berkeley, and both a BSc and an MBA from the London School of Economics and Political Science.

The SFC identified these inconsistencies when it reviewed the RO application. When it raised enquiries in early 2023, Kim maintained that he held a VUW BSc and said he was

retrieving supporting documents from New Zealand. The SFC then opened an investigation.

Investigation Findings

The SFC's investigation found that Kim was not a graduate of VUW, Berkeley or the London School of Economics, and that he held none of the degrees he had claimed in his applications in 2011, 2015, 2018 and 2022. The applications, including the three supporting résumés, contained false representations, and the purported VUW certificate given to the SFC was a false document.

The SFC also found that, between 2008 and 2022, Kim made similar misrepresentations to his former employers and provided a false degree certificate in support. In 2008, he submitted a résumé claiming a VUW BSc (1994) in a job application, and in 2017 he submitted a résumé claiming a VUW BSc and MBA. In a 2018 job application, he submitted a résumé claiming BScs from VUW and the London School of Economics and an MBA from an unspecified university, together with the purported VUW certificate and a copy of a certificate from a fictitious, non-accredited "university". He also submitted three résumés claiming BScs from Berkeley and the London School of Economics and an MBA from the London School of Economics in support of the RO application.

SFC's Conclusion and Sanction

The SFC concluded that Kim is not fit and proper to be a regulated person. It described his repeated misrepresentations and use of false documents over an extended period as plainly dishonest, casting serious doubt on his qualifications, character, reliability and ability to carry on regulated activities competently and honestly. It also found that he breached section 383 of the SFO by knowingly or recklessly making false or misleading representations in support of his applications to the SFC.

In deciding the sanction, the SFC took into account all relevant circumstances, including the seriousness and recurring nature of the misconduct over an extended period.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/enforcement-news/openAppendix?refNo=26PR195&appendix=0
https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/enforcement-news/doc?refNo=26PR195

Hong Kong Regulators Report Findings from Cross-Sectoral Cyber Mapping Exercise

The Hong Kong Monetary Authority (HKMA), the Hong Kong Securities and Futures Commission (SFC), the Hong Kong Insurance Authority (IA), and the Hong Kong Mandatory Provident Fund Schemes Authority (MPFA) issued a joint circular on July 29, 2026, addressed to authorized institutions, stored value facility licensees, retail payment systems, licensed corporations, authorized insurers, and MPF approved trustees, reporting the outcomes of the first production run of a cross-sectoral Cyber Mapping exercise.

Background

As Hong Kong financial institutions increasingly rely on shared technologies, infrastructure, and third-party service providers, the risk grows that a cyber incident targeting one common party — such as a technology service provider — could propagate across the broader financial system. To address this "borderless" threat, the four regulators collaborated, with support from the Financial Services and the Treasury Bureau, on a Cyber Mapping exercise aligned with the International Monetary Fund's analytic framework and informed by a Financial Sector Assessment Program recommendation, aiming to build a Cyber Map of risk concentration and interdependencies within Hong Kong's financial system.

Key Takeaways from the First Production Run

Completed in March 2026, the exercise produced a Cyber Map visualizing how over 50 participating Hong Kong financial institutions across banking, retail payment, securities and capital markets, MPF, and insurance sectors are connected at both business and technology levels. Three key takeaways emerged:

- No new major "unknown-unknown" systemic risk — the largest nodes in the system remain the financial institutions, financial market infrastructures, and major technology and data service providers (such as cloud and data centre operators) already known to support critical functions.
- Certain third-party providers may warrant increased supervisory attention — deeper analysis revealed similar adoption patterns among participating institutions in their use of network infrastructure appliances and cybersecurity solutions supporting security event monitoring and privileged access management, along with recurring specialist vendors in select payment processing and customer communication workflows. This does not mean the providers identified are unsafe or that a

systemic issue exists, but it supports early, forward-looking supervisory monitoring.
- Cyber Mapping is a useful risk management tool — its dashboard-based design allows dynamic filtering by scenario, turning complex data into actionable insights that support more precise third-party risk supervision and incident response. The regulators see potential to eventually extend dashboard capabilities to financial institutions themselves, for their own risk management.

While no immediate systemic risk emerged outside existing supervisory radar, the exercise reaffirmed that the Hong Kong financial sector is highly interconnected and growing more complex as technology and third-party roles evolve, underscoring the importance of continued work to strengthen institutions' cyber resilience across the full risk management lifecycle.

Next Steps

The regulators will incorporate the Cyber Map into day-to-day supervisory work, particularly around third-party risk and incident management, and may pursue further cross-sectoral collaboration such as drill exercises, thematic reviews, and additional contingency arrangements. Insights and supervisory feedback specific to participating institutions will be shared bilaterally and on a confidential basis.

Given the exercise's demonstrated value, the regulators intend to make Cyber Mapping a recurring fixture, with the next exercise expected in 2027/2028. In preparing for it, the regulators will continue to collect only data necessary for an effective Cyber Map and prioritize data security, while refining the methodology, data scope, and participant coverage, and building permanent infrastructure. Further details will be shared with the industry in advance.

Technical Note on Cross-Sectoral Cyber Mapping Exercise

An accompanying Technical Note sets out the exercise's methodology. The map was designed around two objectives: helping the regulators understand cyber risk concentration and interdependencies, and enabling more targeted supervision and incident response through precise mapping of third-party dependencies and potential spillover pathways.

Following consultation with the IMF and peer regulators, and a pilot run with selected Hong Kong financial institutions, the regulators developed a three-layered data collection structure spanning financial services, critical operations and supporting applications, and underlying IT infrastructure components.

Data collection began in late 2025 from around 50 participating Hong Kong financial institutions, selected across sectors based on market presence, systemic importance, cyber risk profile, and interconnectedness. The process involved extensive engagement and iterative data cleansing, ultimately capturing some 2,900 dependencies.

The resulting Cyber Map uses a dashboard-based network visualization: each entity is depicted as a node, with connecting lines varying in thickness, direction, and color to represent the materiality and direction of dependencies (for example, data transmission or system hosting relationships). Nodes are color-coded by entity type — participating institution, ICT service provider, and so on — with node size reflecting how heavily an entity is relied upon by others. Customized filtering options allow targeted analysis based on the scenario under review.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=26EC45

Hong Kong Securities and Futures Commission Flags Forged Documents and Cross-Border Correspondent Relationship Failures in Account Opening Review

The Hong Kong Securities and Futures Commission (SFC) issued a circular on May 22, 2026, following a review of account opening practices at 12 licensed securities brokers, identifying significant deficiencies in due diligence on account opening documentation and in due diligence and ongoing monitoring of cross-border correspondent relationships (CBCR) with overseas intermediaries.

The review found that some brokers accepted questionable or forged documents and failed to identify red flags during due diligence and monitoring of overseas CBCRs — in the most serious case, over 50% of sampled accounts at one broker had used forged documents. Some of these accounts were later linked to suspicious fund transfers without any trading activity, raising serious money laundering and terrorist financing concerns. Licensed corporations (LCs) must watch for red flags including accounts used solely as fund depositories that go inactive after withdrawal, frequent bank account changes, shared bank accounts or addresses among unrelated clients, and overseas intermediary client profiles

inconsistent with that intermediary's jurisdiction or typical client base.

The SFC has stated it has zero tolerance for forged documents in client onboarding, and will pursue supervisory action against non-compliant brokers, including requiring look-back reviews by external consultants, imposing licensing conditions, and enforcement action.

Key Findings and Expected Standards

Inadequate due diligence on account opening documentation: brokers approved applications despite irregularities such as identical statements from different clients with only names or account numbers altered, inconsistent fonts or formats, conflicting information, impossible dates, and missing or invalid QR codes. LCs must conduct thorough due diligence before approving any account, complete all know-your-client and customer due diligence procedures with comprehensive management review, adopt procedures to guard against record falsification, refrain from establishing or should terminate high-risk relationships where documentation cannot be verified, warn clients of the consequences of submitting forged documents, and conduct an internal review as soon as practicable to detect past use of questionable or forged documents.

Deficiencies in CBCR due diligence and monitoring: some brokers relied solely on self-reported questionnaires from overseas intermediaries despite discrepancies with actual circumstances, including one case where an intermediary falsely claimed local regulatory registration. LCs must take a risk-based approach to additional due diligence, understanding the overseas intermediary's nature, reputation, licensing status, and typical client base; exercising heightened vigilance where underlying client profiles don't align with the intermediary's jurisdiction; verifying reputation and regulatory standing through public sources; and conducting in-depth reviews — including on-site visits where appropriate — for higher-risk relationships rather than relying solely on intermediary confirmations. All CBCRs require ongoing monitoring, and relationships with unmitigated risk should be avoided or terminated.

Deficiencies in client identity verification: under the designated Hong Kong bank account approach, one broker failed to collect sufficient information to confirm bank account ownership; under remote onboarding of overseas clients, another relied solely on initial deposits without using required identity-verification technology. LCs must take all reasonable steps to establish each client's true identity, obtain sufficient evidence confirming fund transfers originate from the client's own account, and ensure independent qualified assessors have confirmed the appropriateness of any identity verification technology used.

Inadequate CID collection controls: some brokers failed to properly apply the identification document "waterfall" (Hong Kong ID card, then national identification document, then passport), allowing clients to use lower-priority documents without confirming they lacked higher-priority ones. LCs must implement proper controls, including obtaining client representations and warranties confirming no higher-priority document exists.

Deficiencies in client address review: brokers generally failed to assess the reasonableness of client addresses — in the most serious case, one broker onboarded roughly 190 clients who all provided the same commercial building address, without follow-up. LCs must review addresses for anomalies such as shared addresses among unrelated clients, inconsistencies with expected residential locations, or unverifiable addresses, and follow up accordingly.

Additional Measures for Chinese Mainland Investors

As most questionable or forged documents identified involved Chinese Mainland investor accounts, the circular sets out additional required measures — defined as individuals using a PRC resident identity card and/or passport:

Measure 1 — Closure of accounts opened with questionable or forged documents: upon SFC request, LCs must conduct an independent external consultant review of accounts opened since January 2023 (or another specified period), identify responsible parties and control failings, complete the review within three months, give clients advance written notice suspending new transactions and signaling closure, allow reasonable time to unwind positions, close accounts within six months of review completion, safeguard client assets throughout, review transactions for suspicious activity red flags and report where necessary, and permanently bar affected clients from reopening accounts with the LC or its affiliates.

Measure 2 — Closure of zero-balance dormant accounts: defined as accounts with no asset balance as of May 22, 2026 (or another specified reference date) and no client-initiated activity in the preceding 12 months. Upon SFC request, LCs must identify such accounts within three months, suspend them pending reactivation (confirming updated KYC information and completing Measure 3 declarations), and close accounts within six months if

reactivation isn't satisfactorily completed, while safeguarding client interests throughout.

Measure 3 — Opening new accounts: effective immediately, LCs must obtain a written declaration from Chinese Mainland investors confirming funds originate from lawful sources outside the Mainland, confirming no prior account was closed or suspended elsewhere for forged documents, undertaking to notify the LC of information changes within seven business days, and acknowledging potential disclosure to law enforcement or regulators. LCs must require settlement through the investor's own-name bank account at a Hong Kong-licensed bank or one supervised in an eligible jurisdiction, and must close accounts if funding sources are later found unlawful.

These additional measures do not apply to corporate or institutional clients, nor to accounts opened under joint Hong Kong–Mainland schemes such as Southbound Wealth Management Connect.

Providing Services to Investors Outside Hong Kong

LCs providing services to investors outside Hong Kong — directly or through affiliates, third parties, or overseas intermediaries — must comply with all relevant legal and regulatory requirements in both Hong Kong and the applicable jurisdiction, and must not engage in or facilitate illegal activity. The SFC specifically flags the joint notice issued by the China Securities Regulatory Commission (CSRC) and other Mainland authorities on May 22, 2026, concerning remediation of illegal cross-boundary securities, futures, and investment fund activities. Breaches of overseas regulatory requirements may constitute non-compliance with the Code of Conduct and must be reported to the SFC immediately if material.

Senior Management Responsibility

Senior management bears ultimate responsibility for appropriate conduct standards, robust internal controls, prevention of forged document acceptance, and regulatory compliance. They must promptly address the issues raised, strengthen controls, and ensure proper staff training — failure to do so may call into question the fitness and properness of the LC and its senior management, and may trigger supervisory or enforcement action. The SFC will continue monitoring compliance through off-site monitoring, on-site inspections, thematic reviews, and cross-border regulatory collaboration.

Source:

https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=26EC29

Hong Kong Securities and Futures Commission Flags Fraud Risks in Simplified eDDA Deposit Arrangements

The Hong Kong Securities and Futures Commission (SFC) issued a circular on August 20, 2026, highlighting risks associated with the growing use of simplified Electronic Direct Debit Authorization (eDDA) arrangements by licensed corporations, SFC-licensed virtual asset service providers, and associated entities (collectively, "licensed firms") — including internet brokers and virtual asset trading platform operators — for receiving client deposits.

Under a simplified eDDA arrangement, the licensed firm, as payee, initiates an eDDA setup request based on pre-authorization and information the client provides, rather than the client initiating the request directly through their own bank (a standard eDDA arrangement). Depending on the payer bank's practices, the bank account owner may not be required to confirm the setup request, and the licensed firm may instead be required to confirm authorization itself and indemnify its bank against resulting losses or claims.

Risks of Simplified eDDA Arrangements

Where a setup request is processed without confirmation from the bank account owner, the licensed firm bears primary responsibility for ensuring proper authorization was obtained. This exposes firms to two key risks:

- Impersonation and unauthorized access risk — a setup request may be initiated using stolen personal and bank account information, without the account owner's knowledge; and
- Indemnity and financial risk — firms face liability under indemnities given to their payee banks, including from fraudulent or erroneous setup requests based on inaccurate client-supplied information.

Risk Assessment Expectations

Licensed firms are reminded of their obligation to maintain proper internal controls and adequate financial and operational capability to protect operations and clients from fraud and dishonest acts. Before entering into or continuing simplified eDDA arrangements, firms should:

- review the terms of any indemnities provided to their banks;

- identify which payer banks their payee banks support, and whether those payer banks require account-owner confirmation;
- assess the resulting risks, including firms' operational capability to address them and financial resources to meet potential claims; and
- periodically review this assessment, and whenever the scale or risk profile of their arrangements materially changes.

Risk Mitigation Measures

Before processing new eDDA setup requests, licensed firms should take reasonable steps to verify that the request is authorized by the bank account owner. This may involve:

- where the payer bank requires account-owner confirmation, assessing whether that bank's authentication process is robust, including through enquiries with the payee or payer bank; or
- where confirmation is not required or cannot be verified, requiring a one-off small-value transfer from the designated account and cross-checking the account holder's name against the deposit record obtained from the firm's own bank (firms should not rely solely on documents supplied by the client).

Firms should also verify the bank account owner's identification information, either by accepting only information matching the firm's existing client records, or by obtaining the identification document used to open the bank account where the information differs.

Where these measures cannot be reasonably satisfied, or where red flags are detected, firms should decline the setup request and/or withhold processing of deposits pending further investigation. Red flags include:

- repeated failures in setup requests or deposits;
- frequent or large deposits within a short period lacking a legitimate purpose;
- deposits inconsistent with a client's financial profile or historical pattern;
- a new eDDA setup followed by whitelisting of a new virtual asset wallet address, or vice versa, particularly for existing clients; and
- suspicious deposits subsequently converted into virtual assets and withdrawn shortly after.

Firms should promptly investigate such activity and consider reporting to relevant authorities, including the Joint Financial Intelligence Unit or the Anti-Deception Coordination Centre, as appropriate, alongside existing SFC notification obligations.

Firms should also consider supplementary safeguards such as transaction limits, withholding periods, or step-up authentication calibrated to client risk profiles. Where risks cannot be adequately mitigated, firms should fall back on alternative deposit methods such as standard eDDA or bank transfers.

Disclosure of eDDA Settings and Client Reminders

Licensed firms should disclose eDDA settings — including transaction limits and expiry dates — to clients and obtain their consent, reminding them to review these settings with their banks. Firms should also encourage clients to regularly review registered bank accounts and monitor transactions for irregularities, reporting suspicious activity to the firm, their bank, or the Hong Kong Police Force as appropriate.

The SFC recognizes the value of simplified eDDA arrangements and is engaging with relevant authorities on associated safeguards, but expects licensed firms to continue assessing and mitigating these risks on an ongoing basis.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=26EC51

Hong Kong Securities and Futures Commission Reports Improved Sponsor Resources, Sets Out Standards for Bookbuilding and Placing Activities

The Hong Kong Securities and Futures Commission (SFC) issued a circular on October 13, 2026, addressed to licensed corporations carrying out sponsor work **and** those engaging in bookbuilding and placing activities. It covers two distinct areas: an update on Sponsor and Principal resourcing since the SFC's January 2026 circular, and standards of conduct for overall coordinators (OCs) and capital market intermediaries (CMIs) in bookbuilding and placing — including red flags for dubious arrangements that may create suspicious orders or artificially inflate investor demand in initial public offerings (IPOs).

Since January, Sponsors have generally cooperated with supervisory engagement, engaging additional Principals, reallocating engagements, and ceasing or postponing certain listing engagements. At the same time, the SFC's vetting of listing applications and supervision of intermediaries involved in Sponsor work, bookbuilding and placing has uncovered arrangements that may undermine the quality and integrity of Hong Kong's capital market.

Improved Principal Capacity

As of September 30, 2026, over 610 active listing applications were in the pipeline, involving 64 Sponsors and 325 signing Principals — up from over 420 applications, 53 Sponsors and 261 Principals in January.

- Concentration eased: the share of applications involving the five most active Sponsors fell from around 77% to 65%.
- Average workload improved despite rising volume: Active Listing Engagements rose from over 520 to over 660, while the average per signing Principal fell from 3.4 to 3.0.
- Strained Principals (supervising six or more engagements) dropped 78%, from 45 to 10.

Uneven Quality in Principal Submissions

Of 210 submissions received, 50 were returned or withdrawn, mostly for incomplete information. New Principal approvals rose 65% year-on-year, bringing the total to 495. Recurring deficiencies include:

- Responsible Officers not meeting competence requirements, including regulatory examinations;
- overstated or unsubstantiated IPO experience; and
- failure to demonstrate the required five years of corporate finance experience.

Listing Application Quality

Following a December 2025 joint letter to 13 Concerned Sponsors citing 57 problematic applications, vetting of 65 applications was suspended between January and September, with 14 resuming by October 1. The SFC issued further communications to 11 Sponsors on 13 further applications, citing concerns including insufficient disclosure on products and revenue, inadequate due diligence on revenue genuineness, sustainability given persistent losses, legality questions, unrealistic listing timetables, and unrepresentative track records following reorganization.

Supervisory Expectations on Sponsor Resources

Sponsors should prioritize quality over quantity, exercising professional skepticism and substantive due diligence rather than a process-driven approach. Principal submissions must be complete and well-supported, with Management critically assessing eligibility before filing. Sponsors must remain ultimately responsible for their own due diligence rather than over-relying on experts or third parties.

The SFC will prioritize submissions from Sponsors with a track record of credible applications, and may escalate concerns to group-level senior management. Notably, where overseas headquarters staff's actual functions amount to carrying on Type 6 regulated activity in Hong Kong, proper licensing is required regardless of job title or location.

Active Listing Engagements

Following SEHK's extension of listing application validity from six to 12 months, an engagement may generally be regarded as inactive once Sponsors have received both a hearing bundle letter from SEHK and a no comment letter from the SFC — though renewed concerns can reactivate it. Where a listing is postponed, Sponsors must notify regulators in writing, with the engagement treated as inactive until reactivation or outstanding responses are provided.

General Standards for Bookbuilding and Placing

Separately from the dubious-arrangements concerns below, the SFC reiterates that OCs and CMIs engaging in bookbuilding and placing must act at all times in the interests of maintaining market integrity. This includes two standing obligations that apply to every bookbuilding exercise, not only where red flags arise:

- an OC must document all changes to the order book throughout the bookbuilding process; and
- an OC must report, in a timely manner, any material changes to information previously provided to the SFC and SEHK, whether through the Fast Interface for New Issuance (FINI) or otherwise.

Dubious IPO and Post-IPO Arrangements

The SFC is seriously concerned about arrangements involving undisclosed funding of investor subscriptions, guaranteed returns, concentration of placing shares among designated investors, and corporate funds channeled to connected investors. Red flags include:

- substantial payments or loans to investors shortly before listing;
- investors apparently related to or introduced by the listing applicant;
- applicant involvement in investor selection or allocation beyond its ordinary role;
- unusual orders shortly before book close, or inconsistent with an investor's financial profile;
- arrangements concealing ultimate investor identities; and

- pre-agreed commitments leading to inadequate offer-size adjustment despite weak genuine demand.

Supervisory Expectations on Dubious Arrangements

Sponsors, OCs and CMIs must assess red flags individually and collectively, conduct further enquiries, and properly document their assessments. OCs and CMIs must reject suspicious orders where concerns remain unresolved, and all parties should report dubious arrangements to the SFC and SEHK.

Sponsors must ensure complete disclosure, implement robust due diligence, and ensure allotment announcements confirm no undisclosed side agreements exist, including reviewing fund flows for material transactions before listing and conducting substantive bring-down due diligence interviews with senior management.

OCs' and CMIs' enquiries where concerns arise should cover investors' funding sources, relationships with the listing applicant, and any arrangements affecting disclosure accuracy, public float compliance or post-listing market integrity. Where such concerns arise, OCs and CMIs should promptly escalate the matter within their organizations.

Regulatory Escalation

Sponsors, OCs and CMIs should promptly escalate suspected dubious arrangements to the SFC and SEHK. Those involved in IPOs raising such concerns may face enhanced scrutiny, and the SFC may intensify supervisory engagement with repeat offenders and their group-level management.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=26EC62

Hong Kong Securities and Futures Commission Sets Roadmap for Investor Identification Regime in the Exchange-Traded Derivatives Market

The Hong Kong Securities and Futures Commission (SFC) issued a circular on September 30, 2026, setting out the implementation roadmap for the Hong Kong Investor Identification Regime for the Exchange-traded Derivatives Market (HKIDR-DM), providing guidance to licensed corporations (LCs) and registered institutions (RIs) subject to the regime — collectively, "Relevant Regulated Intermediaries" or RRIs.

Following the Consultation Paper issued September 22, 2025 and the Consultation Conclusions issued June 23, 2026, RRIs will be subject to HKIDR-DM requirements modeled closely on the existing Hong Kong Investor Identification Regime for the securities market (HKIDR-S).

Main Obligations Under the HKIDR-DM

RRIs will be required to:

- assign a unique "Broker-to-Client Assigned Number" (BCAN) to each Relevant Client who has placed or intends to place orders for futures contracts, options contracts, or stock options on the Hong Kong Futures Exchange (HKFE) trading system;
- collect up-to-date client identification data (CID) and submit it, together with the client's BCAN, as a "BCAN-CID Mapping File" to a central data repository maintained by Hong Kong Exchanges and Clearing Limited (HKEX), within prescribed timeframes;
- include the Relevant Client's BCAN in the order information for each order transmitted to the HKFE trading system; and
- implement robust data privacy and security measures, including obtaining express consent from individual clients for collection and handling of their personal data.

Implementation Timeline

Subject to market readiness and successful system testing, the HKIDR-DM is scheduled for implementation in the second quarter of 2028. RRIs are expected to complete preparatory tasks on the following indicative timeline:

- obtaining appropriate client consent — Q3 2026 to Q4 2027;
- updating individual and corporate clients' CID — Q3 2026 to Q4 2027;
- enhancing order management systems alongside HKEX's Orion Derivatives Platform rollout — Q3 2026 to Q3 2027;
- assigning BCANs to Relevant Clients — Q3 to Q4 2027;
- preparing BCAN-CID Mapping Files — Q3 to Q4 2027;
- participating in end-to-end testing and market rehearsals — Q3 to Q4 2027;
- submitting BCAN-CID Mapping Files to HKEX's data repository — Q4 2027 to Q1 2028; and
- launch of the HKIDR-DM — Q2 2028.

Obtaining Client Consent

RRIs must obtain written or other express consent from individual clients for collection and transfer of their personal data to HKEX and the SFC — corporate clients are not subject to this requirement. Consent must cover the purposes of use specified in the SFC's companion Consent Circular, also published September 30, 2026. Existing consent need not be refreshed if it was already expressly obtained and covers all specified purposes of use.

Consent may be obtained through written and signed acknowledgment, email, other electronic means such as instant messaging, or by phone, provided the measures set out in the Consent Circular — including client identity authentication and record-keeping requirements — are observed.

Updating Client Identification Data

RRIs must collect specific CID depending on client type:

- Individual clients: full name as shown on identity document, issuing country or jurisdiction, document type (in priority order: HKID card, national identification document, passport), and document number.
- Corporate clients: full name, issuing country or jurisdiction, document type (in priority order: LEI registration document, certificate of incorporation, business registration certificate, other equivalent documents), and document number.
- Trusts: the trustee's CID, or for investment funds, the CID of the asset management company or individual fund that opened the trading account.
- Joint accounts: CID for all named clients should be provided under the same BCAN assigned to that account.

RRIs should notify existing derivatives trading account holders of the identity document waterfall and request required or updated documentation ahead of implementation.

System Enhancements and BCAN Assignment

From now until the third quarter of 2027, RRIs should undertake system enhancements enabling BCAN tagging of trade orders and submission of BCAN-CID Mapping Files via HKEX's Electronic Communication Platform (ECP).

Each RRI is responsible for assigning unique BCANs to its own Relevant Clients, without needing to cross-check with other RRIs. A BCAN consists of the RRI's six-character Central Entity Number followed by a separator dot and a numeric identifier of up to 10 digits. RRIs may reuse the same BCAN already assigned under HKIDR-S or the Stock Connect northbound trading regime, provided uniqueness is maintained across regimes.

Preparing and Submitting BCAN-CID Mapping Files

The RRI assigning a BCAN is responsible for collecting the corresponding CID and preparing the Mapping File. Any update — whether from client onboarding, account closure, or changed CID — requires a complete file resubmission covering all Relevant Clients on the day the update is made. Files may be submitted via HKEX's ECP portal directly, or through another LC or RI via the SFC's WINGS platform, with encryption per HKEX requirements in the latter case.

RRIs should take reasonable steps to ensure submitted data remains accurate and current, including obtaining client representations and warranties, and may align this review with their existing periodic client review obligations under the AML/CFT Guideline.

Testing and Training

RRIs are expected to participate in end-to-end testing and market rehearsals for Mapping File submissions and BCAN tagging ahead of implementation, with details to be announced by the SFC and HKEX. The SFC will also collaborate with HKEX from the fourth quarter of 2026 to run training sessions supporting market readiness.

New Code of Conduct Paragraph 5.6A

The circular's Annex sets out a new paragraph 5.6A of the Code of Conduct, to be gazetted and brought into effect on a future date aligned with the implementation timeline. Key features include:

- a BCAN must be permanently and exclusively linked to one client, though a client with multiple trading accounts may receive multiple BCANs — provided orders through the same account always use the same BCAN;
- in an intermediating chain of brokers, the last RRI in the chain whose direct client is not itself an RRI bears responsibility for BCAN assignment, CID collection, and Mapping File submission;
- joint accounts receive a single BCAN assigned to the account itself, distinct from any individual BCAN held by an account holder in their sole name;

- order information submitted to HKFE's trading system must include both the RRI's Central Entity Number and the relevant BCAN (or a specific code for aggregated orders);
- RRIs transmitting orders to non-RRI parties in an intermediating chain must take reasonable steps to ensure BCANs are passed through to the next RRI in the chain;
- RRIs must maintain automated order management systems ensuring BCAN accuracy and validity; and
- where consent cannot be obtained from an individual client, the RRI must not submit that client's BCAN or CID, and may only process orders that close out existing positions — not open new ones.

Consent records must be retained for as long as the client relationship continues, and for at least two years thereafter.

Further Guidance

The requirements outlined are not exhaustive. RRIs should consult the SFC webpage and HKEX's HKIDR-DM Web Corner for further guidance, with FAQs to be published periodically. Queries on HKIDR-DM requirements should be directed to the SFC, while ECP access, file submission, and testing arrangements should be directed to HKEX.

Source: https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=26EC61

Hong Kong Securities and Futures Commission Sets Client Consent Requirements Under the Investor Identification Regime for Exchange-Traded Derivatives

The Hong Kong Securities and Futures Commission (SFC) issued a circular on September 30, 2026, setting out requirements for Relevant Regulated Intermediaries (RRIs) — SFC-licensed corporations and SFC-registered institutions subject to the Hong Kong Investor Identification Regime for the Exchange-traded Derivatives Market (HKIDR-DM) — to obtain express consent from individual clients for the collection and transfer of their personal data to the SFC and Hong Kong Exchanges and Clearing Limited (HKEX). HKIDR-DM is scheduled to launch in the second quarter of 2028.

The consent requirement under paragraph 5.6A(p) of the Code of Conduct applies only to individual clients; no personal data is collected from corporate clients. Consent may be obtained by signed written acknowledgment, email, other electronic means such as instant messaging, or by phone.

Express Consent

Client consent must be explicit — the client must clearly indicate agreement to the collection and transfer of personal data for the purposes specified. Consent cannot be implied from a client's conduct, silence, or omission.

Explanation of Consent

Before or when obtaining consent, an RRI must explain its purpose and the consequences of withholding it. RRIs should have procedures in place for obtaining consent and explaining these implications. No order or trade opening new positions may proceed without consent. Where consent cannot be obtained, the RRI must not submit the client's BCAN or CID to HKEX, and may only process orders that close out the client's existing open positions — a sell order to close long positions, or a buy order to close short positions.

Authentication of Client Identity

The identity of the client giving consent must be properly authenticated and validated. Where there is any doubt, the RRI should make further enquiries and verify through a different communication channel than the one originally used.

Purposes of Use and Minimum Content of Consent

Client consent must expressly cover:

- disclosure and transfer of the client's personal data (including CID and BCANs) by the RRI to HKEX and the SFC, in accordance with their rules as updated from time to time;
- allowing HKEX to collect, store, process and use the data for market surveillance and enforcement, disclose it to relevant regulators and law enforcement agencies (including the SFC) in performing their statutory functions, and use it for market oversight analysis; and
- allowing the SFC to collect, store, process and use the data for its own statutory monitoring, surveillance and enforcement functions, and disclose it to relevant regulators and law enforcement agencies in accordance with applicable laws.

RRIs may adopt the SFC's template wording (set out in the Annex) or use their own version, provided all the above purposes are included.

Recording Consent and Withdrawals

RRIs must retain records of all client consent and withdrawals, regardless of the means by which they were provided. For written consent, the record (including the date provided) must be retained. For verbal, email, or other electronic consent, the corresponding record and date must similarly be kept.

RRIs must also maintain a written log of all consents and withdrawals, recording at minimum: the client's name, the date provided, and the means by which it was provided.

Record Retention

Consent records and logs must be retained for as long as the individual remains a client, and for at least two years after the relationship ends. Records must be centrally maintained and securely stored against unauthorized, accidental, or inappropriate access, modification, deletion, or loss, and must remain readily accessible for compliance monitoring and audit. Where phone or electronic records are kept, RRIs must have adequate storage and backup arrangements, and must provide the SFC with access to or copies of these records upon request.

Reliance on Existing Consent

RRIs need not obtain fresh consent if: (i) express consent was already obtained from the client for use of their personal data; and (ii) that consent expressly covers all the purposes of use set out above. The purposes need not be reproduced verbatim, provided they are clearly covered — consent will not satisfy this requirement where the purposes can only be implied or inferred. Where either condition is not met, RRIs must obtain new express consent, either covering all required purposes or using the SFC's template.

Template Consent Wording

The circular's Annex provides template wording RRIs may adopt. The template confirms the client's agreement to the RRI collecting, storing, processing, using, disclosing and transferring their personal data (including CID and BCANs) for providing derivatives-related services and complying with SEHK, HKFE and SFC requirements as updated from time to time. It covers the same three purposes of use set out above, and includes an acknowledgment that personal data may continue to be stored, processed, used, disclosed or transferred for these purposes even after a purported withdrawal of consent. The template also notes that failure to provide personal data or consent may mean the RRI cannot carry out the client's trading instructions or provide derivatives-related services, other than processing orders to close out existing positions.

Not Legal Advice

The SFC notes that the circular should not be regarded as legal advice on compliance with the Personal Data (Privacy) Ordinance or other applicable data privacy laws, and RRIs should seek professional advice as necessary to ensure compliance.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=26EC60

Hong Kong Securities and Futures Commission Issues Guidance for Implementation of Revised Retail Fund Regime

On October 28, 2026, the Hong Kong Securities and Futures Commission (SFC) published a set of guidance to help the fund industry prepare for the revised Code on Unit Trusts and Mutual Funds (UT Code), which will take effect on November 1, 2026. The revised UT Code aligns Hong Kong's retail fund regime with international standards and strengthens investor protection.

The guidance comprises circulars, frequently asked questions (FAQs) and updated guides covering applications for the authorization of new funds, the use of derivatives and the application of the UT Code to Undertakings for Collective Investment in Transferable Securities (UCITS) funds. It highlights key changes under the revised UT Code, including the adoption of a Value-at-Risk (VaR) approach for managing funds' derivatives exposure, enhanced liquidity risk management requirements and strengthened investment and disclosure requirements for money market funds (MMFs).

Implementation and Transitional Arrangements

The SFC issued its consultation conclusions on the proposed amendments to the UT Code on October 7, 2026. The revised UT Code was subsequently gazetted on October 16, 2026 and will take effect on November 1, 2026.

The SFC has issued a new set of FAQs addressing the implementation of the revised UT Code and the transitional arrangements applicable during the 12-month transitional period. It has also provided specific guidance on the implementation and transitional arrangements for existing and new funds.

Value-at-Risk Approach for Derivatives Exposure

The revised UT Code introduces a VaR approach for managing the derivatives exposure of authorized funds. The SFC has published a revised guide on derivatives setting out the applicable VaR requirements, including the relevant calculation methodology and standards.

Enhanced Liquidity Risk Management

The SFC has issued a supplemental circular setting out detailed requirements for liquidity risk management. These include requirements concerning:

- the appropriate assessment of a fund's asset liquidity;
- the appropriate assessment of its portfolio liquidity;
- the alignment of the fund's liquidity profile with its redemption terms; and
- the appropriate design, calibration and use of liquidity risk management tools and measures.
- Enhanced Requirements for Money Market Funds

The SFC has published new FAQs and an updated application guide addressing the enhanced regulatory requirements for authorized MMFs. Among other matters, the guidance specifies the minimum credit quality standards applicable to eligible high-quality money market instruments in which authorized MMFs may invest.

The revised guidance also introduces enhanced KFS disclosure requirements for MMFs that offer a constant net asset value.

Revised Key Facts Statement Templates

To enhance the transparency of authorized funds, the SFC has published revised KFS templates for different types of funds. The updated templates contain enhanced disclosure requirements relating to product classification and liquidity risk management tools.

Application to UCITS Funds

The SFC has updated its guide on the application of the UT Code to UCITS funds. The updated guide forms part of the broader set of materials intended to support the implementation of the revised retail fund regime.

Facilitative Measures under the Revised UT Code

The guidance also covers facilitative measures introduced under the revised UT Code, including streamlined requirements concerning the acceptability of management companies and feeder funds.

In addition, the SFC has updated other FAQs to reflect current regulatory practices and expectations. The updated materials provide guidance on:

- facilitative measures for covered-call strategies;
- investment limits for SFC-authorized funds investing in leveraged and inverse products and virtual asset exchange-traded products;
- more advanced tokenization features for tokenized products;
- orderly secondary trading of exchange-traded funds, leveraged and inverse products and tokenized products; and
- financial reporting requirements and the termination process for open-ended fund companies.

Overall, the guidance sets out the SFC's regulatory expectations under the revised UT Code and clarifies certain existing regulatory practices concerning authorized funds. It is intended to support the fund industry in implementing and complying with Hong Kong's strengthened retail fund regime.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=26PR176

Hong Kong Securities and Futures Commission Issues Supplemental Guidance on Liquidity Risk Management for SFC-Authorized Funds

The Hong Kong Securities and Futures Commission (SFC) issued a supplemental circular on October 28, 2026, to management companies (Managers) of SFC-authorized funds, building on the SFC's July 2016 circular on liquidity risk management. The new guidance aligns Hong Kong's framework with the latest international standards following work by the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) on liquidity risk in open-ended funds (OEFs), prompted by the market stresses of 2020.

The FSB published Revised Policy Recommendations in December 2023, and IOSCO followed with its own Revised Recommendations in May 2025. The SFC has incorporated the key enhancements from these into the Code on Unit Trusts and Mutual Funds (UT Code) — namely, promoting consistency between fund asset

liquidity and redemption terms, and promoting greater and more consistent use of anti-dilution tools (ADTs).

Scope

The circular applies generally to all SFC-authorized OEFs. Exchange-traded funds (ETFs) and money market funds (MMFs) are expected to maintain structural features and liquidity practices achieving equivalent outcomes, and should also refer to other applicable SFC guidance, including the 2016 Circular.

Consistency Between Asset Liquidity and Redemption Terms

Under UT Code paragraph 5.10(g), Managers must ensure:

- a fund's investment strategy and asset liquidity remain consistent with its subscription and redemption terms, both at design and on an ongoing basis, with redemption terms based on asset liquidity under normal and stressed conditions;
- funds investing mainly (generally more than 50% of assets) in less liquid assets while offering daily dealing must implement and consistently use ADTs to ensure transacting investors bear the associated liquidity costs; and
- funds allocating a significant proportion (generally more than 30%) of assets to illiquid assets should redeem less frequently than daily, and/or require appropriate notice or settlement periods.

Assessing Asset and Portfolio Liquidity

Managers should assess liquidity holistically, considering quantitative factors (market depth, turnover, days to trade, trading costs) and qualitative factors (pricing mechanism efficiency, market impact, valuation certainty), classifying assets into three categories:

- Liquid — readily convertible to cash without significant market impact in normal and stressed conditions;
- Less liquid — generally convertible without significant impact in normal conditions, but potentially subject to significant discounts and valuation difficulty under stress; and
- Illiquid — little or no secondary market, with transactions taking weeks or months even in normal conditions.

Managers should also factor in stress-testing results and potential liabilities, including investor concentration and behavior, historical redemption patterns, and margin or collateral calls.

Liquidity Management Tools and Measures

Under UT Code paragraph 5.10(f), Managers must adopt and use a broad range of liquidity management tools (LMTs), categorized as:

- Anti-dilution LMTs (ADTs) — allocate estimated liquidity costs to transacting investors by adjusting NAV or transaction price; examples include swing pricing, subscription/redemption fees, anti-dilution levies, and dual pricing.
- Quantitative-based LMTs — limit liquidity available to redeeming investors to ensure orderly processing, particularly useful during stressed conditions; examples include suspensions, redemption gates, and extended notice or settlement periods.
- Other liquidity management measures — including in-kind redemptions, side pockets, soft closures, and borrowing or credit facilities.

Managers should adopt a combination of tools appropriate to each fund's size, strategy, liquidity profile and investor base — notably, they should not rely exclusively on quantitative-based LMTs, which may unduly restrict redemption rights and encourage investors to front-run anticipated restrictions. Managers need internal systems and controls for designing, calibrating and triggering these tools, and should conduct ongoing reviews incorporating stress testing and market conditions.

Calibrating ADTs

The guiding principle is fair treatment between transacting and remaining investors. Managers should estimate liquidity costs using a pro-rata approach as the starting point — particularly in stressed conditions and for funds holding less liquid assets — adjusted through professional judgment where appropriate. Liquidity cost estimates should incorporate:

- Explicit transaction costs — direct costs such as brokerage fees, trading levies, taxes and settlement fees;
- Implicit transaction costs — indirect costs including bid-ask spread, estimated using commercial databases, broker data, or valuation models; and
- Significant market impact — the additional cost from executing large transactions relative to available liquidity, assessed before execution and estimated using internal trading expertise and historical execution data.

Where Managers set activation thresholds for ADTs, these should be set prudently based on fund size, strategy, liquidity profile, investor base, historical flows and anticipated market conditions, and reviewed regularly.

Quantitative-Based LMTs and Other Measures

These tools are generally reserved for exceptional circumstances — market dislocations, prolonged market closures, significant operational disruptions, or material liquidity stress. Managers must establish clear governance frameworks, including senior management escalation, for activation, review and deactivation, and must provide investors with transparency on the general circumstances, governance, and communication arrangements involved.

Managers must immediately report to the SFC when such tools (other than borrowing or credit facilities) are activated. Activation thresholds should be objective and prudent, considering impact on investors and market functioning. Following activation, Managers must regularly reassess continued use and restore normal operations as soon as practicable once conditions improve, providing investors with periodic updates where tools remain in place for a prolonged period.

Disclosure to Investors

Under UT Code paragraph 5.10(h), fund offering documents must disclose:

- redemption terms, including dealing frequency, notice and settlement periods, lock-up periods, liquidity profile, and associated risks;
- an overview of the liquidity risk management process and key measures used;
- the availability and potential use of LMTs, including objectives, circumstances of use, general descriptions of liquidity cost components, and potential impact on the fund and investors (without disclosing precise activation thresholds or real-time usage data that could undermine tool effectiveness); and
- the general approach to managing liquidity under stressed conditions or substantial net redemptions.

Implementation

Managers must enhance their liquidity risk management policies and procedures to implement this guidance as soon as practicable, and no later than October 31, 2027 — the end of the 12-month transitional period from the UT Code's effective date. Managers should also refer to the SFC's FAQs on implementation and transitional arrangements for details applicable to existing funds and new applications. The SFC will continue monitoring international developments and may issue further guidance as appropriate.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=26EC67

Hong Kong Securities and Futures Commission Updates Fund Authorisation Simple Track for Funds from Mutual Recognition Jurisdictions

The Hong Kong Securities and Futures Commission (SFC) issued a revised circular on October 28, 2026, to applicants seeking SFC authorisation of unit trusts and mutual funds, announcing the launch of a new "Fund Authorisation Simple Track" (FASTrack) — an expedited pathway for simple funds domiciled and regulated in jurisdictions with which Hong Kong has mutual recognition of funds (MRF) arrangements.

The SFC currently processes new fund applications under a two-stream approach — standard and non-standard. Over the past five years, average processing time has consistently beaten target, at under 1.5 months for standard applications and under 2.5 months for non-standard applications, against targets of one to two months and two to three months respectively.

Given that MRF Jurisdictions offer investor protection comparable to Hong Kong's and maintain cooperation arrangements with the SFC, including information exchange, the SFC sees scope to further expedite authorisation for simple funds from these jurisdictions. The SFC currently has mutual fund recognition arrangements with Australia, France, Ireland, Luxembourg, Mainland China, Malaysia, the Netherlands, Switzerland, Taiwan, Thailand, the United Arab Emirates, and the United Kingdom.

FASTrack aims to grant authorisation within 15 business days of a successful application, supporting overall efficiency and the competitiveness of Hong Kong's asset management industry.

Scope of FASTrack Funds

A fund will be processed under FASTrack if it meets the following criteria:

Type of fund:

- an equity, bond, or mixed fund; an exchange-traded or unlisted fund tracking an index already adopted by an existing SFC-authorised fund, or a plain vanilla index (generally a free float market capitalisation weighted equities index, excluding strategy indices, smart-beta/value-based indices, equal-weighted equities indices, or indices with covered call or hedging elements); or a feeder fund whose underlying master fund is itself FASTrack-eligible; and
- not a complex product — generally, a fund without terms, features or risks that retail investors would not reasonably be expected to understand.

Management company and investment delegate:

- the management company is located in an MRF Jurisdiction or a jurisdiction with an SFC-acceptable inspection regime (AIR Jurisdiction) and has a good regulatory record; and
- any investment delegate is either located in an MRF or AIR Jurisdiction, or is an affiliate of the management company or already manages other SFC-authorised funds.

FASTrack Funds are not expected to contain novel features, raise material issues, or carry wider policy implications.

Processing Time and Performance Pledges

Because FASTrack Funds are already subject to home regulator supervision, the SFC will adopt a more risk-based vetting approach. Under the expected timeframe, the SFC will:

- take up or refuse an application within five business days of receipt; and
- grant authorisation within 10 business days from take-up, if successful — aiming for a total of 15 business days for complete and quality submissions.

The SFC will conduct post-vetting to confirm ongoing compliance with authorisation conditions.

Implementation

FASTrack took effect on November 4, 2024, with a six-month pilot period that ended May 4, 2025. Applications meeting the criteria above received on or after the effective date are processed under FASTrack; others continue under the existing standard or non-standard processes. The relevant Information Checklist and FAQs have been updated and published on the SFC website, and new applications can be submitted via e-IP. The SFC will monitor FASTrack's operation and consider further enhancements ahead of formal adoption.

Applicant Obligations

Applicants remain responsible for ensuring their SFC-authorised funds comply with the Code on Unit Trusts and Mutual Funds, applicable principles and requirements under the SFC Handbook, and other SFC guidelines issued from time to time. The SFC will take appropriate regulatory action in cases of non-compliance to uphold investor protection.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=26EC68

Hong Kong Securities and Futures Commission Sets Enhanced Disclosure and Complex Product Rules for Funds Exposed to Private Market Assets

The Hong Kong Securities and Futures Commission (SFC) issued a circular on September 3, 2026, providing guidance to management companies of SFC-authorised funds (Funds) that gain exposure to private credit and private equity (collectively, private market assets), either directly through loans or equity investments in unlisted companies, or indirectly through vehicles such as business development companies (BDCs), collateralised loan obligations (CLOs), or financial derivative instruments. The circular does not apply to listed closed-ended alternative asset funds, which are covered separately.

Direct investment in private market assets generally carries higher inherent risk than publicly listed securities, given their illiquidity, valuation difficulty, limited regulatory oversight, and higher credit and default risk. While indirect exposures may carry somewhat lower risk, the SFC notes rising concerns including increasing default risk among underlying private credit fund investments and widening price-to-NAV discounts for listed BDCs. Certain indirect exposures may also lack transparency due to layered structures or complex instruments that retail investors may not reasonably understand.

Given limited familiarity among Hong Kong retail investors with private market assets, the SFC expects fund managers to provide a clear, sufficiently complete, and balanced picture of the characteristics, nature, and risks of a Fund's private market exposure, and to ensure chosen distributors are appropriate for the Fund's target market.

Enhanced Disclosure in Offering Documents

Where a Fund has direct or indirect exposure to private market assets, its offering document — including the key facts statement (KFS) — must clearly disclose:

- the extent and means of access of exposure (for example, the percentage of NAV invested in listed BDCs, or the percentage gaining exposure to private loans via senior CLO tranches);
- the nature and characteristics of the underlying private market assets (for example, minimum credit ratings of CLOs invested in, or the composition of total return swaps referencing unsecuritised syndicated loans); and
- the key risks associated with the Fund's specific exposure types, including the impact and implications for the Fund and its investors (for example, how limited liquidity and lack of transparency in underlying BDC assets can create valuation uncertainty affecting the Fund's NAV).

Complex Product Designation

A Fund will be treated as a complex product if its aggregate direct and indirect exposure to private market assets reaches 50% or more of its NAV. Below that threshold, the SFC may still designate a Fund as complex on a case-by-case basis, considering factors including:

- the Fund's aggregate private market exposure;
- its overall investment strategy, portfolio composition, and liquidity/risk profile;
- the extent, nature, and characteristics of specific asset types held (for example, CLO tranches and credit ratings, or SRT structures and underlying assets); and
- any distribution restrictions or conditions imposed by the Fund's home regulators.

The SFC will take a holistic, case-specific approach to this assessment. A Fund classified as a complex product becomes subject to the SFC's existing requirements for complex product sales, including ensuring suitability for investors regardless of whether solicitation or recommendation is involved.

Target Market Identification and Distributor Selection

Fund managers are reminded to observe the SFC's existing guidance on internal product approval processes, including target market identification and distributor selection. Managers should carefully identify the target market to ensure the Fund — including its underlying investments and risks — would be generally understood by that market, and that its investment objectives and risk/return profile match investor needs and risk appetite. Distributors chosen must be appropriate for the identified target market, possess sufficient product knowledge (including awareness of complex product status), and be able to assign appropriate risk ratings and advise investors accordingly.
Marketing materials must also continue to comply with the SFC's Advertising Guidelines Applicable to Collective Investment Schemes, requiring fair, balanced presentation with adequate risk disclosure.

Other Considerations

New fund applications involving direct or indirect private market asset exposure may face closer SFC scrutiny, and in some cases may not be eligible for processing under the Fund Authorisation Simple Track (FASTrack).

For existing SFC-authorised funds with such exposure, fund managers are expected to review their funds, take appropriate action — including updating offering documents as soon as practicable — and ensure proper communication with distributors in light of this guidance. Managers are encouraged to consult the SFC early if in doubt about a Fund's complex product classification.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=26EC55

Hong Kong Securities and Futures Commission Updates Guidance on Classification and Distribution of Complex Products

On October 30, 2026, the Hong Kong Securities and Futures Commission (SFC) updated Questions 28, 33, 34 and 36 of its Frequently Asked Questions on the Guidelines on Online Distribution and Advisory Platforms and paragraph 5.5 of the Code of Conduct. The FAQs, which may also be relevant to offline transactions, clarify the classification of SFC-authorized and unauthorized funds and the regulatory treatment of financing for non-complex products.

Classification of Unauthorized Funds

An unauthorized fund may be classified as either complex or non-complex. Platform Operators should determine its classification with due skill, care and diligence, taking into account the factors in paragraph 6.1 of the Guidelines and the SFC's non-exhaustive lists of complex and non-complex products.

An unauthorized fund may generally be treated as non-complex if:

- it is authorized or approved for public offering in a specified jurisdiction; and
- its terms, features and risks are not too complex for a retail investor to understand.

For non-exchange-traded unauthorized funds, specified jurisdictions include jurisdictions in which recognized jurisdiction schemes are regulated and those that have entered into mutual recognition of funds arrangements with the SFC.

For example, an unauthorized plain-vanilla Undertaking for Collective Investment in Transferable Securities (UCITS) fund approved for offering to retail investors in Luxembourg is likely to be non-complex if its terms, features and risks are readily understandable to retail investors.

Platform Operators should exercise particular caution where a fund is neither regulated in nor traded on an exchange in a specified jurisdiction. Non-public funds are also less likely to be classified as non-complex, particularly where information about the fund is limited or there is insufficient liquidity in the secondary market.

The assessment should consider the fund's structure, investment strategy and underlying investments by reference to its disclosure documents. Platform Operators are not expected to calculate the fund's precise allocation to each underlying investment.

Where the distribution of an unauthorized fund involves a solicitation or recommendation, the intermediary must comply with the suitability requirement under paragraph 5.2 of the Code of Conduct, regardless of the fund's classification.

Classification of SFC-Authorized Funds

Platform Operators may determine the classification of an SFC-authorized fund by referring to its offering documents, including the Key Facts Statement, and the SFC's "List of publicly offered investment products" webpage.

From November 1, 2026, subject to the applicable transitional arrangements, offering documents will also indicate whether an SFC-authorized fund is classified as complex or non-complex.

Financing the Purchase of Non-Complex Products

Providing financing for the purchase of a non-complex product does not alter the product's terms, features or risks. Accordingly, the product does not become complex solely because an intermediary finances its purchase, and the complex-product requirements do not apply on that basis alone.

For example, shares listed and traded on The Stock Exchange of Hong Kong Limited do not become complex products merely because their purchase is financed by an intermediary.

Other applicable regulatory requirements continue to apply. Under paragraph 5.3 of the Code of Conduct, an intermediary providing services in relation to leveraged transactions should satisfy itself that the client understands the nature and risks of the products and has sufficient net worth to assume the risks and bear potential trading losses.

Licensed corporations conducting securities margin financing activities must also comply with Schedule 5 to the Code of Conduct and the Guidelines for Securities Margin Financing Activities.

Source:
https://www.sfc.hk/en/faqs/intermediaries/supervision/Guidelines-on-Online-Distribution-and-Advisory-Platforms/Guidelines-on-Online-Distribution-and-Advisory-Platforms#F18D2C63EDFA48C9BDCD27C99392C237

Hong Kong Securities and Futures Commission Updates Framework for Listed Structured Funds, Extending Leveraged and Inverse Product Rules to Defined Outcome Funds and Single Stock Products

The Hong Kong Securities and Futures Commission (SFC) issued a revised circular on July 24, 2026, supplementing the structured fund requirements in the Code on Unit Trusts and Mutual Funds (UT Code). The circular sets out additional requirements for authorising listed structured funds for public offering in Hong Kong, with particular focus on leveraged and inverse products (L&I Products) and the newer category of Defined Outcome Listed Structured Funds. It incorporates and supersedes the SFC's May 2020 circular on L&I Products and its related supplement.

Listed structured funds are complex collective investment schemes listed on a stock exchange, typically embedding derivatives and leverage, or offering defined outcomes, protection, or structured payouts upon pre-determined conditions. Hong Kong currently authorises L&I Products tracking broad-based equity or commodities indices, as well as Single Stock L&I Products tracking a single stock's daily price return. Overseas markets have seen growing popularity of Defined Outcome Listed Structured Funds, which use options-based strategies to deliver capped

upside exposure in exchange for downside protection — commonly known as defined outcome ETFs in the US. Given growing demand in Hong Kong, the SFC is prepared to consider authorising these products under this framework.

General Requirements

Listed structured funds must meet the applicable requirements in the Overarching Principles Section and UT Code, particularly the ETF-related requirements given their exchange-traded nature, plus additional safeguards given their novelty and complexity:

- Product naming must differentiate these funds from conventional ETFs and reflect their specific features.
- Product structure may extensively use derivatives, including futures-based or swap-based replication, or options-based strategies; the SFC will reference Listing Rules Chapter 15A for underlying asset eligibility where appropriate.
- Offering document disclosure must include upfront key risks in the Product Key Facts Statement (KFS), covering the investment time horizon, potential divergence between futures-based returns and spot price returns, heightened volatility risk, and potential cost escalation from derivatives such as roll costs. Swap-based synthetic replication funds must clearly disclose swap counterparty costs not captured by the ongoing charges figure, plus the maximum redemption fee.
- Market making requires at least one market maker at trading commencement and on an ongoing basis.
- Performance simulators must generally be made available (except for delta-one products), covering the fund's full history since launch, with a user-friendly interface and accompanying website narrative explaining key assumptions and methodology.
- Investor education should be conducted extensively before launch.
- Distribution remains subject to Code of Conduct requirements for derivative products, with intermediaries expected to ensure staff training and awareness that gearing compounds underlying risk.

Additional Requirements for Leveraged and Inverse Products

The Appendix carries forward and extends the SFC's 2020 L&I Products framework, now explicitly covering Single Stock L&I Products.

Product structure: the SFC will only accept applications for L&I Products referencing liquid, broad-based equity indices; non-equity indices (including commodities) assessed case-by-case where roll costs won't disproportionately affect performance; swap-based products referencing Mainland equity indices; and Single Stock L&I Products referencing a highly liquid mega-cap stock on a major exchange (excluding dual-listed or Mainland-listed shares).

- Leverage limits: generally capped at 2x to -2x, except Inverse Products referencing Mainland equity indices (capped at -1x), and Single Stock L&I Products (potentially lower, depending on underlying volatility). Products with highly dynamic capacity may adopt a flexible leverage structure, with the next trading day's targeted leverage factor published on the product's and HKEX's websites after market close.

- Product naming: L&I Products must not be called "ETFs," and must instead use "Leveraged Product" or "Inverse Product," always including the leverage factor and the word "daily" (for example, "[Issuer] [Index] Daily (2x) Leveraged Product"). Flexible-leverage products must reflect this feature and state the maximum leverage factor in their name. L&I Products receive standalone categorisation on SFC and HKEX websites, with distinctive stock short names beginning with "L" or "I" and designated stock code ranges.

- Disclosure: Product KFS and websites must warn against holding beyond the rebalancing interval (typically daily), clarify these are short-term trading tools for sophisticated investors who monitor daily, note that overnight performance may deviate from the underlying, and disclose maximum portfolio construction costs deducted daily from NAV. Flexible-leverage products require additional disclosure of historical leverage graphs, website references for daily targeted factors, and the circumstances under which leverage may fall below the maximum.

- Market making: an L&I Product must terminate if all market makers resign, with sufficient notice for orderly unwinding and advance investor notice under UT Code 11.5. HKEX monitors market

maker performance on an ongoing basis, with permit revocation possible for underperformance.

- Margin financing: exchange participants are advised not to provide margin financing for L&I Product trading, per HKEX's existing circular.

- Capacity monitoring: providers must continuously monitor product capacity (the size of leveraged/inverse exposure a product can support) and take timely action — monitoring underlying market movements, maintaining communication with brokers and counterparties, onboarding additional counterparties where needed, and diversifying means of obtaining exposure. Providers must notify the SFC promptly of potential capacity issues that could constrain daily rebalancing or creation.

Additional Safeguards for Single Stock L&I Products

Given their heightened volatility and complexity, Single Stock L&I Products face further requirements:

- Provider acceptability will be assessed holistically, considering prior L&I Product management experience and track record, whether the provider belongs to a reputable, sizeable fund management group, and demonstrated diversified counterparty arrangements with sufficient initial capacity (for example, indicative term sheets from swap counterparties).
- A robust business continuity plan (BCP), acceptable to the SFC, must address heightened operational and price volatility risk, covering guiding principles, clearly defined triggers for SFC reporting and contingency activation, specific contingency measures (such as deleveraging or suspension of creation), defensive measures for extreme volatility, and investor notification and complaint-handling arrangements.
- Defensive measures (such as a pre-agreed stop-loss mechanism with swap counterparties) must be implemented and disclosed in offering documents.
- Trading suspension is mandatory for products referencing Hong Kong-listed shares where the underlying share is halted or suspended. For non-Hong Kong-listed underlying shares, providers must assess whether to request a trading halt from HKEX, having regard to investors' best interests and factors such as expected halt duration and counterparty capacity.

Application

For L&I Products domiciled outside Hong Kong, the SFC will assess applications case-by-case, potentially applying modified requirements to provide investor safeguards comparable to Hong Kong-domiciled products. Fund groups are encouraged to consult the SFC's Investment Products Division early, particularly for structured payout, defined outcome, or protection-based proposals.

Source: https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=26EC43

Hong Kong Exchanges and Clearing Limited Expands Integrated Fund Platform Infrastructure to Streamline Regional Fund Distribution Lifecycles

On October 28, 2026, Hong Kong Exchanges and Clearing Limited (HKEX) launched Platform and Nominee Services on its Integrated Fund Platform (IFP). This operational expansion establishes a business-to-business market infrastructure connecting distributors, fund managers, transfer agents, and other participants through standardized workflows across onboarding, order processing, settlement, payments, reconciliation, and reporting.

The deployment of Platform and Nominee Services builds upon the Fund Repository launched in December 2024 and the Order Routing Service launched in July 2025. The platform expands capabilities across the fund distribution lifecycle through master distribution, nominee, and administrative services. Its participant base has grown from an initial cohort of 33 participants at the launch of the Order Routing Service to over 60 distributors, fund houses, and transfer agents. Integrated Fund Platform Limited is a member of HKEX Group and is licensed by Hong Kong Securities and Futures Commission (SFC) to carry out Type 1 regulated activity under Central Entity number BVK386.

Functional mechanics and operational scope

The platform provides an operating framework designed to streamline processes across fund distribution lifecycles. Its specific functional scope includes:

- Holding and administration of fund units or shares;
- Streamlining cash flows for payment and settlement; and
- Simplifying reconciliation and reporting processes.

Developed in collaboration with Hong Kong Special Administrative Region Government, SFC, and industry

stakeholders, the platform supports efforts to strengthen the fund distribution ecosystem in Hong Kong.

The expansion of Platform and Nominee Services centralizes fund distribution workflows into a regulated market infrastructure. By unifying master distribution, holding, settlement, and reporting functions, the platform alters operational workflows for distributors and fund managers operating within the Hong Kong asset and wealth management industry.

Source:
https://www.hkex.com.hk/News/News-Release/2026/261028news?sc_lang=en
https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=26PR175

Hong Kong Securities and Futures Commission Updates Requirements for SFC-Authorised Funds with Exposure to Virtual Assets

The Hong Kong Securities and Futures Commission (SFC) issued a revised circular on May 27, 2026, setting out requirements for authorising investment funds with virtual asset (VA) exposure exceeding 10% of net asset value (NAV) for public offering in Hong Kong (SFC-authorised VA Funds), along with the VA-related activities such funds may engage in. The revised circular supersedes the SFC's April 2025 circular and does not apply to exposure to Relevant Stablecoins or tokenised deposits, which are addressed separately in the FAQs on the Code on Unit Trusts and Mutual Funds (UT Code).

As global demand grows for investment products offering VA exposure — including VA-related ETFs in major overseas markets — the SFC has progressively introduced regimes enabling appropriate VA product offerings in Hong Kong, including accepting applications for VA futures ETFs since October 2022 and licensing virtual asset trading platforms (VATPs) since June 2023. This circular sets requirements for SFC-authorised funds to gain direct exposure to spot VA tokens accessible on SFC-licensed VATPs, and/or indirect exposure through futures or other exchange-traded products.

Requirements for SFC-Authorised VA Funds

VA Funds must meet applicable requirements under the Overarching Principles Section and UT Code, plus the additional requirements below and relevant requirements in the SFC's joint circular on intermediaries' VA-related activities.

Management companies must demonstrate a good track record of regulatory compliance and employ at least one competent staff member with relevant VA management experience, and are subject to additional terms and conditions that may be imposed by the SFC's Intermediaries Division.

Eligible underlying VA is limited to tokens accessible to the Hong Kong public for trading on SFC-licensed VATPs.

Investment Strategy

- VA futures must trade on conventional regulated futures exchanges, with the management company demonstrating adequate liquidity and manageable, well-managed roll costs.
- Indirect exposure via other exchange-traded products remains subject to applicable UT Code requirements and any further SFC conditions.
- No leveraged VA exposure is permitted at the fund level.
- Funds primarily using a futures-based strategy are expected to adopt active management, allowing flexibility in portfolio composition (such as diversified futures positions across expiry dates), rolling strategy, and handling of market disruption events.

Transactions and Direct Acquisition of Spot VA

Transactions and acquisitions must occur through SFC-licensed VATPs or authorised institutions (AIs) compliant with Hong Kong Monetary Authority requirements. For in-cash subscriptions and redemptions, spot VA ETFs are expected to acquire and dispose of VA through SFC-licensed VATPs (on- or off-platform). For in-kind subscriptions and redemptions, participating dealers (PDs) transfer spot VA to and from the fund's custody accounts at SFC-licensed VATPs or AIs. Both in-kind and in-cash arrangements are permitted for spot VA ETFs, and PDs must be SFC-licensed corporations or registered institutions subject to additional Intermediaries Division conditions.

Custody

A VA Fund's trustee/custodian may only delegate VA custody to an SFC-licensed VATP, an AI meeting HKMA custody standards, or another SFC-acceptable entity. Custodians and delegates must:

- segregate VA holdings from their own assets and other clients' assets (unless held in a compliant omnibus account);
- store most holdings in cold wallets, minimizing hot wallet amount and duration to subscription/redemption needs; and

- ensure seeds and private keys are securely stored in Hong Kong, tightly restricted to authorised personnel, resistant to speculation or collusion (for example, through non-deterministic generation, multi-signature, or key sharding), and properly backed up against single points of failure.

Valuation

Spot VA must be valued using an indexing approach based on trade volume across major VA trading platforms — specifically, a benchmark index from a reputable provider reflecting a significant share of underlying trading activity.

Service Providers

Management companies must confirm that all necessary service providers — fund administrators, PDs, market makers, and index providers — are competent, available, and ready to support the fund.

Disclosure and Investor Education

Offering documents, including the key facts statement (KFS), must disclose investment limits and key risks related to VA exposure, including:

- price risk, custody risk, cybersecurity risk, and fork risk for spot VA investments; and
- potentially large roll costs and operational risks, including margin risk and risks from mandatory measures imposed by relevant parties, for VA futures investments.

Management companies must also conduct investor education before launch, consistent with existing UT Code requirements.

Distribution

Distribution of SFC-authorised VA Funds remains subject to the relevant requirements for intermediaries set out in the joint circular on VA-related activities.

Engaging in VA-Related Activities

Consistent with the SFC's "ASPIRe" roadmap, the SFC may permit VA Funds to engage in staking and other VA-related activities through SFC-licensed VATPs or eligible AIs, subject to guiding principles:

- activities must be consistent with the fund's investment objective and strategy;
- management companies must implement robust internal controls to manage material risks and conflicts of interest, with appropriate custody arrangements in investors' best interests;
- proper due diligence and ongoing monitoring of counterparties and service providers is required;
- offering documents, including the KFS, must disclose the amount of VA used for such activities and associated key features and risks;
- material changes to investment objective, strategy, or risk profile arising from such activities require reasonable prior notice to investors, with assessment of whether shareholder approval or constitutive document amendments are needed; and
- interim and annual reports must disclose, per Appendix E of the UT Code, the proportion of NAV committed to each VA-related activity type, along with associated revenue and expenses.

Application and Prior Consultation

These requirements generally do not apply to Recognised Jurisdiction Schemes (including UCITS funds) or funds under mutual recognition arrangements. However, prior consultation with and approval from the SFC is required for: funds seeking authorisation with VA exposure exceeding 10% of NAV; existing SFC-authorised funds planning to exceed that threshold; and SFC-authorised VA Funds intending to engage in staking or other VA-related activities. The SFC may introduce additional requirements or conditions as it deems necessary in discharging its functions.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=26EC31

Hong Kong Securities and Futures Commission Sets Out Requirements for Secondary Trading of Tokenised Investment Products

The Hong Kong Securities and Futures Commission (SFC) issued a circular on April 20, 2026, setting out the requirements under which it would consider permitting secondary trading of tokenised SFC-authorised investment products (Tokenised Products) by the public in Hong Kong. The requirements cover trading arrangements, fair pricing, liquidity provision, investor disclosures, client onboarding, and regulatory notifications, with the aim of ensuring fair and orderly secondary trading.

Following the publication of its tokenisation circulars in November 2023, the SFC has observed encouraging progress in the development of Tokenised Products in Hong Kong. To support further market growth and

scalability, the SFC is now facilitating secondary trading to improve product tradability and integration with Hong Kong's broader Web3.0 ecosystem.

Drawing on the experience of Hong Kong's ETF market and SFC-licensed virtual asset trading platform operators (VATPs), the SFC has established requirements principally designed to facilitate on-platform secondary trading of SFC-authorised open-ended funds. Other types of products may be considered subject to modified requirements.

Trading and Fair Pricing Requirements

Secondary trading may be offered to retail investors through on-screen automatic matching provided by SFC-licensed VATPs, subject to the existing trading rules and risk controls under the VATP Guidelines. VATPs may execute trades only where clients have sufficient capital or product holdings of equivalent trading fungibility to cover the transactions. Product Providers should also work with relevant VATPs to test trading arrangements and ensure operational processes, risk controls, and system readiness before launch.

To ensure fair pricing, VATPs must implement effective supervisory and risk management controls, including Price Deviation Alerts where execution prices deviate significantly from the product's real-time or near real-time indicative net asset value (iNAV). Investors must also be informed that they may subscribe or redeem at NAV through the primary market instead of trading on the secondary market, together with the implications of dealing windows, liquidity risk management tools, and forward pricing.

VATPs must additionally implement automated pre-trade and regular post-trade monitoring, as well as appropriate controls to prevent excessive price fluctuations and market manipulation. Connecting Brokers facilitating client trades must similarly display Price Deviation Alerts and inform investors of the primary market alternative.

Liquidity Provision

Product Providers should use their best endeavours to arrange at least one market maker for each Tokenised Product, with at least one market maker required to provide three months' notice before terminating its arrangement. They should closely monitor trading activity and liquidity, maintain dialogue with market makers, establish contingency plans, and appoint SFC-licensed corporations or registered institutions as distributors to process third-party creation and redemption requests.

Product Providers must also establish arrangements with VATPs to facilitate transfers between primary and secondary markets, allowing tokens created in the primary market to be traded in the secondary market and tokens acquired through secondary trading to be redeemed in the primary market.

SFC-licensed VATPs are expected to conduct due diligence and regularly monitor market makers, ensuring they remain competent and adequately resourced. They must also ensure appropriate commitments regarding bid-ask spreads, order sizes, minimum order maintenance periods, and participation rates. Arrangements with market makers should specify eligibility criteria, applicable obligations, and contingency measures where a market maker is no longer available.

Disclosure and Investor Protection

Offering documents, including the product key facts statement (KFS), must clearly disclose secondary trading risks, including liquidity and price deviation risks, price fragmentation across trading channels, and reliance on market makers. They should also explain trading and settlement arrangements, pre-funding requirements, market-making arrangements, incentive schemes, applicable fees, potential suspension circumstances, and any conflicts of interest arising from affiliated market makers.

VATPs and Connecting Brokers must maintain dedicated online interfaces providing details of trading arrangements, market-making arrangements, fee schedules, bid-ask spreads, and market maker eligibility criteria. These interfaces must also provide real-time or near real-time iNAV, typically updated at least every 15 seconds during trading hours, and the latest official NAV.

Risks associated with secondary trading must be prominently highlighted, and VATPs and Connecting Brokers must obtain client confirmation that these risks are understood before onboarding investors for secondary trading.

Notification and Prior Approval

Product Providers should provide early alerts to the SFC regarding circumstances that may adversely affect product operations, secondary trading, or liquidity, including the resignation of the last market maker. They must immediately notify the SFC and investors as soon as practicable if primary or secondary dealing ceases or is suspended, or if market-making activities cease, are

disrupted, or are suspended. Notifications should include an assessment of the impact, remedial actions, and contingency plans.

Product Providers introducing tokenisation features into new investment products must consult the SFC in advance, while existing SFC-authorised products require prior consultation and approval. Material changes to previously approved secondary trading arrangements must also be discussed with the SFC beforehand.

Intermediaries, including VATPs and those intending to conduct over-the-counter secondary trading, must notify and discuss their proposals with their SFC case officers before commencing such activities. Registered institutions must also notify the Hong Kong Monetary Authority (HKMA), where applicable.

Overall, the circular establishes a framework for expanding the secondary market for tokenised investment products while maintaining investor protection, market integrity, and adequate liquidity. Relevant Product Providers and intermediaries should review their trading, market-making, disclosure, and compliance arrangements before commencing secondary trading activities.

Source: https://apps.sfc.hk/edistributionWeb/api/circular/openFile?lang=EN&refNo=26EC23

Hong Kong Securities and Futures Commission Permits Virtual Asset Trading Platforms to Accept Affiliated Market Makers to Boost Liquidity

The Hong Kong Securities and Futures Commission (SFC) issued a circular on February 11, 2026, setting out its regulatory approach and expected standards for SFC-licensed virtual asset trading platform operators (Platform Operators) to allow an affiliated company to engage in market making on their virtual asset trading platforms (VATPs).

Liquidity on Hong Kong's VATPs remains subdued given the current stage of digital asset market development. Under Pillar A (Access) of its ASPIRe roadmap, the SFC has prioritized enhancing VATP liquidity and attracting liquidity providers. An affiliated market maker (AFMM) could help alleviate liquidity constraints by providing more consistent liquidity, supporting the roadmap's broader goals of deepening liquidity, reinforcing market resilience, and strengthening Hong Kong's position as a digital asset center.

Under the existing VATP Guidelines, a Platform Operator's group companies are generally barred from proprietary virtual asset trading through the Platform Operator, except where permitted by the SFC case-by-case. Allowing AFMMs to participate increases conflict of interest risk, since AFMM orders may interact with client orders — the SFC therefore expects Platform Operators to implement effective conflict of interest controls wherever AFMM participation is permitted.

Regulatory Requirements

Under VATP Guidelines paragraph 13.1, a Platform Operator must avoid — and ensure its associates avoid — any material interest in a client transaction or relationship giving rise to an actual or potential conflict of interest. A Platform Operator may permit AFMM market making only where effective conflict of interest controls are implemented and client interests are prioritized. Specifically, the Platform Operator should:

- ensure the AFMM is functionally independent from the Platform Operator;
- implement robust conflict of interest policies and procedures regarding the AFMM;
- designate at least one Responsible Officer (RO) or Manager-in-Charge (MIC) responsible for overseeing AFMM-related conflicts of interest;
- maintain effective data security measures and information barriers to prevent information leakage;
- ensure client orders always take priority over AFMM orders transacted at the same price level;
- identify AFMM-executed trades in post-trade data; and
- disclose to clients any preferential treatment given to the AFMM regarding pre-trade transparency, order placing and execution, along with associated risks.

Notification to the SFC

A Platform Operator accepting AFMM participation becomes subject to Terms and Conditions (set out in the circular's Appendix), which will be imposed as a condition on the Platform Operator's license. Before allowing AFMM market making, a Platform Operator must:

- notify the SFC in writing of its intention; and
- submit a report from a sufficiently qualified independent professional firm detailing its review of the Platform Operator's policies and controls for compliance with the Terms and Conditions, confirming their effectiveness.

The written notification must be signed by the Platform Operator's MIC of Overall Management Oversight (MIC OMO), accompanied by: a declaration that the Platform Operator has established and continues to maintain effective policies and controls fully complying with the Terms and Conditions; and an undertaking that AFMM market making will be immediately suspended upon any breach of the Terms and Conditions with significant client impact, as determined by the SFC.

Senior management — particularly ROs, the MIC OMO, the MIC of Compliance, and the board of directors — are expected to remain vigilant in implementing effective conflict of interest policies and controls, recognizing that ongoing compliance is a prerequisite for continued AFMM participation.

Terms and Conditions for Accepting Affiliated Market Makers

Conflicts of Interest Controls

- Functional independence: the AFMM must be organizationally and administratively segregated from the Platform Operator's operating environment, per VATP Guidelines paragraph 11.5.
- Robust policies and procedures must prevent, manage and monitor actual or potential conflicts, with at least one RO or MIC responsible for AFMM conflict management.
- Effective data security policies, procedures, and information barriers must prevent the AFMM from accessing confidential data — including client data, system data, and pre-trade information — and prevent information leakage, per the Management, Supervision and Internal Control Guidelines.
- Periodic reviews of access logs must confirm the continued effectiveness of information barriers.

Order Handling

- Client orders must always take priority over AFMM orders at the same price level.
- Post-trade data provided to clients must indicate, trade-by-trade, which trades were AFMM-executed.
- Technical access available to the AFMM and other market makers — including market data feeds, connectivity, and order type availability — must be identical.

Disclosure

Platform Operators must clearly disclose to clients the AFMM's presence and role, and associated risks, including:

- all formal and informal arrangements with, or preferential treatment given to, the AFMM regarding pre-trade transparency, order placing, and execution;
- any difference between the AFMM's order book access and client access; and
- any extra services provided between the Platform Operator and the AFMM in either direction.

Other Ongoing Obligations

- AFMM orders and trades must be captured in the Platform Operator's market surveillance systems, with a focus on reinforcing independence and governance so existing surveillance obligations apply effectively to AFMM activity.
- Platform Operators must immediately report to the SFC: any actual or potential material breach of the Terms and Conditions, and any regulatory action taken against the AFMM by any regulatory or law enforcement authority.
- Compliance with these conditions must be covered in the Platform Operator's annual independent professional review of its activities and operations, and reported to the SFC.

Source:
https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=26EC6

Information in this update is for general reference only and should not be relied on as legal advice.

本资讯内容仅供参考及不应被依据作为法律意见。

© 2026 JCHM Limited. All rights reserved.