



SFC Circular on Virtual Asset Futures Exchange Traded Funds

Shortly after the Hong Kong Government issued its [Policy Statement on the development of Virtual Assets in Hong Kong](#) during Hong Kong Fintech Week 2022 on 31 October 2022, the Securities and Futures Commission (the **SFC**) issued its own [Circular on Virtual Asset Futures Exchange Traded Funds \(VA Futures ETFs\)](#). The circular sets out the requirements under which the SFC will consider authorising ETFs providing exposure to virtual assets (primarily via VA Futures ETFs) for public offering in Hong Kong under sections 104 and 105 of the Securities and Futures Ordinance.

Initially, the SFC will only authorise VA Futures ETFs that have Bitcoin futures or Ether futures traded on the Chicago Mercantile Exchange as their underlying assets, although the SFC states in the Circular that it will keep this under review and may broaden the scope of eligible VA futures markets in future.

The SFC has thus created a limited exception to its professional investors' only stance towards virtual asset funds of November 2018, citing an increased demand for such products in Hong Kong and the ability of SFC-licensed and registered intermediaries to "offer trading of eligible VA Futures ETFs to retail investors in Hong Kong"¹ under the [SFC and HKMA Joint Circular on Intermediaries' Virtual Asset-related Activities](#) issued in January 2022. It signaled that it is now prepared to accept applications for authorisation of VA Futures ETFs.

Requirements on VA Futures ETFs

VA Future ETFs seeking authorisation for local public offering would still be required to meet the usual applicable requirements for ETFs meaning adherence to the Overarching Principles Section and the Code on Unit Trusts and Mutual Funds (the **UT Code**) in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products.

VA Futures ETFs will also need to meet the following additional requirements which are non-exhaustive and subject to the introduction of additional requirements as deemed necessary or appropriate by the SFC:

- a) their management companies will be required to:
 - a. have a good regulatory compliance track record; and
 - b. have three years' proven track record in managing ETFs.

Delegation or co-management may be permitted provided the management company (in the case of delegation) or at least one of the management companies (in the case of co-management) fulfils the two criteria above;

- b) only VA futures traded on conventional regulated futures exchanges will be permitted. Initially, these will be restricted to Bitcoin and Ether futures traded on the Chicago Mercantile Exchange;
- c) management companies will be expected to adopt an active investment strategy to allow flexibility in portfolio composition (such as diversification of futures positions with multiple expiry dates), rolling strategy and dealing with market disruption events. The “net derivative exposure” (as defined under the UT Code) of a VA Futures ETF must not exceed 100% of the ETF’s total net asset value;
- d) upfront disclosure in the product key facts statement of the ETF’s investment objective and key risks associated with investment in virtual asset futures, for example the:
 - a. potentially large roll costs of virtual asset futures; and
 - b. operational risks (eg margin risk and risks associated with mandatory measures imposed by relevant parties) related to virtual asset futures;
- e) intermediaries distributing VA Futures ETFs (which are both derivatives products and virtual asset-related products) will need to comply with the requirements of paragraphs 5.1A and 5.3 of the SFC’s Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and the virtual asset knowledge test requirement under the SFC and HKMA Joint Circular on Intermediaries’ Virtual Asset-related Activities; and
- f) the management companies will be required to carry out extensive investor education before launching the VA Futures ETF in Hong Kong.

The SFC’s Circular is available on the SFC website [here](#).

[1] All quotes are taken from the SFC *Circular on Virtual Asset Futures Exchange Traded Funds* (2022)

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