

Launching Leveraged and Inverse Products in Hong Kong

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Introduction to Leveraged and Inverse Products (L&I Products)

1. [What are L&I Products?](#)

Leveraged Products typically aim to deliver a daily return equivalent to a multiple of the underlying index return that they track. For example, if the underlying index rises by 10 per cent on a given day, a two-time (2x) Leveraged Product aims to deliver a 20 per cent return on that day.

Inverse Products typically aim to deliver the opposite of the daily return of the underlying index that they track. For example, if the underlying index rises by 10 per cent on a given day, an Inverse Product should incur a 10 per cent loss on that day.

L&I Products structured as Exchange Traded Funds (ETFs) are authorised by the Securities and Futures Commission (SFC) as Collective Investment Schemes (CIS) and are listed and traded on the securities market of HKEX. In overseas markets, L&I Products are commonly known as Leveraged and/or Inverse ETFs.

2. [Structure of L&I Products](#)

Both swap-based synthetic replication and futures-based replication structures are allowed for L&I Products subject to SFC authorisation.

The following caps on the leverage factor are set at the initial stage, subject to review going forward:

- Leveraged Products seeking SFC authorisation shall be subject to a maximum leverage factor of two times (2x).
- Inverse Products seeking SFC authorisation shall be subject to a maximum leverage factor of one time (-1x) (i.e. Inverse Products cannot be leveraged).

3. [Providing Services to Clients with respect to L&I Products](#)

As stated in the SFC's [Circular on Leveraged and Inverse Products](#), L&I Products are derivative products. The SFC would like to remind intermediaries to observe all the applicable requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC (SFC's Code of Conduct), in particular paragraphs 5.1A to 5.3 which are relevant when providing services to clients with respect to derivative products. Intermediaries should also put in place appropriate measures, such as providing training to staff to ensure that their staff are familiar with the risks and features of the investment products and comply with the applicable requirements when serving their clients. For details, please refer to the SFC's [Circular on Providing Services to Clients with respect to Leveraged and Inverse Products](#).

Authorisation and Listing of L&I Products

1. [Eligibility of L&I Product providers](#)

Potential L&I Product providers should contact the SFC for information about their eligibility as L&I Product providers. Related information can be found on the SFC's [Circular on Leveraged and Inverse Products](#).

2. [Authorisation of L&I Products](#)

Pursuant to the Securities and Futures Ordinance (SFO), authorisation by the SFC is required for all L&I Products listed in Hong Kong. The [Code on Unit Trusts and Mutual Funds](#) establishes guidelines for the authorisation of CIS which include L&I Products. Please also refer to the SFC's [Circular on Leveraged and Inverse Products](#) and [Supplemental Circular on Leveraged and Inverse Products](#) which set out the additional requirements under which the SFC would consider when authorising L&I Products.

Potential L&I Product providers should seek authorisation of their L&I Products from the SFC prior to seeking a listing on HKEX.

3. [Listing of L&I Products](#)

After obtaining the SFC's authorisation with conditions, a formal listing application of L&I Products can be submitted to the Listing Division of HKEX. Listings of L&I Products are regulated under [Chapter 20 of the Listing Rules](#) and the application form is available on HKEX website.

Trading of L&I Products

1. [Trading counters for L&I Products](#)

L&I Products can be traded, cleared and settled in HKD, RMB and/or USD. Multiple counters of L&I Products are permissible, subject to the approval of the SFC and HKEX.

2. Short selling and tick rule exemption for L&I Products

Subject to approval by the SFC, an individual L&I Product may be designated for short selling with tick rule exemption from its listing day.

Clearing of L&I Products

1. Admission as eligible securities for L&I Products

Similar to ETFs, the trustees will have to apply to Hong Kong Securities Clearing Company Limited (HKSCC) for the admission of L&I Product units as eligible securities for deposit, clearing and settlement in CCASS before the L&I Product is listed.

2. Settlement arrangements for L&I Products traded on the Exchange

T+2 through CCASS on a Continuous Net Settlement (CNS) basis, similar to ETFs and other securities.

3. Service agent by HKCAS

HK Conversion Agency Services Limited (HKCAS) can act as a service agent to facilitate the book-entry deposit/withdrawal of the L&I Product units into/from CCASS for the L&I Product units created/redeemed outside CCASS. The L&I Product provider, as a manager, trustee (or custodian as the case maybe), registrar, Participating Dealers (PDs) and its agent (where applicable) and any other relevant parties are required to sign a service agreement with HKSCC and HKCAS, similar to ETFs, as creation and redemption are done outside CCASS.

Potential L&I Product providers are advised to contact HKSCC as early as possible in parallel with the process of seeking the SFC authorisation.

Fees required

1. Authorisation

For fees charged by the SFC for L&I Product authorisation, please contact the SFC directly.

2. Listing

Fees charged by HKEX relating to the listing of L&I Products will be the same as ETFs. Please refer to Section 3 under [Appendix 8 of the Listing Rules](#).

3. Trading

Trading of L&I Products is subject to transaction costs including trading fee, trading tariff and transaction levy. Click [here](#) for the details of transaction costs.

4. Clearing

Click [here](#) for the details of fee for clearing and settlement.

Fees charged by HKCAS as service agent:

- Book-entry deposit / withdrawal transaction: HK\$1,000 per transaction, payable by PD.
- Reconciliation fee: HK\$5,000 per month, payable by the L&I Product provider.

Product education for L&I Products

1. Performance simulator

Performance simulators will be provided by L&I Product providers to facilitate the understanding of L&I Products to interested retail investors. The performance simulators should allow investors to select a historical time period and simulate the performance of the L&I Product during that time period based on historical data. The historical period available in the performance simulator should cover the period since the launch of the L&I Product.

Please see the SFC's Circular on Leveraged and Inverse Products for further details.

HKEX's L&I Product webpage will contain hyperlinks to the performance simulator for each L&I Product when they are listed.

2. Other product education initiatives

HKEX plans to coordinate educational seminars with L&I Product providers prior to the listing of the first L&I Product.

Risk mitigation measures

As L&I Products are derivatives products, intermediaries are subject to the applicable requirements under the SFC's Code of Conduct when they provide services to clients with respect to L&I Products.

In view of the leveraged and/or inverse features of L&I Products and the additional leverage impact from margin financing, Exchange Participants (EPs) are advised not to provide margin financing to investors for trading of L&I Products.

Please refer to HKEX's participant circular [Launch of Leveraged and Inverse Products](#), SFC's Circular on Leveraged and Inverse Products and SFC's Circular on Providing Services to Clients with respect to Leveraged and Inverse Products for details.

On-going disclosure

1. Monitoring reports

Each L&I Product provider will be required on a daily basis to provide the following information to HKEX:

- day-end NAV, day-end AUM, premium/discount, suspension of primary dealing and net subscription/redemption.
- daily rebalancing activities such as rebalancing instruments, trading amount of daily rebalancing.

2. How will the end-of-day NAV per unit be calculated and disseminated?

The end-of-day NAVs will be provided by the L&I Product providers similar to ETFs and disseminated on HKEXnews.