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Hong Kong SFC Clarifies Listing Requirements for Closed-Ended Funds

February 19, 2025

On February 17, 2025, the Securities and Futures Commission (SFC) of Hong Kong issued a circular specifying regulatory requirements for the listing of closed-ended alternative investment funds (listed alternative funds) on the Stock Exchange of Hong Kong Limited (SEHK).

Below is an overview of the key SFC regulatory requirements on listed alternative funds.

Requirements for the fund

	SFC requirements	Our interpretation
Investment target	Mainly private, illiquid assets in a well-diversified portfolio, comprising assets with varying investment life cycles, where appropriate	The rules are not targeting to list single-asset project funds, regardless of the actual scale of such funds
Fund income streams	Depending on investment strategies, such fund should **preferably** be able to generate regular income on a continuous basis	Closed-ended funds with stable income streams over a certain period of time will likely be favored for listing purposes over those with more volatility/less predictability in their revenue model (e.g., traditional venture capital funds)
Listing thresholds	The fund should be sizeable, with an expected market capitalization of US$100 million at the time of listing Generally, the public shall hold at least 25% of the total units or shares of the fund at all times	At least a quarter of the fund's interests need to be offered to and at all times held by the public, which could fundamentally change the investor base and governance mechanism of a fund
Borrowing cap	20% of the fund's net asset	Regulatory borrowing restriction regardless of

Borrowing cap	30% of the fund's net asset value (NAV)	Regulatory borrowing restriction regardless of the type and investment strategies of the fund
Fund of funds (FoF)	For FoFs, there is a 20% investment limit for each underlying target fund, and such underlying target fund may not be investing in other funds	Regulatory single-deal limit (applies to FoF investments)
Mandatory reporting	The fund's NAV is expected to be calculated and published on the fund's website at least on a quarterly basis	Performance results of the fund will be made public

Requirements for the fund manager

The relevant fund manager should have sizeable assets under management of at least US$100 million, invested in relevant alternative assets on a groupwide basis. The SFC also will consider whether such fund manager:

- Has the requisite competence and experience on a groupwide basis in managing a publicly listed vehicle and complying with applicable regulatory requirements, or able to demonstrate the ability to do so.
- Has a good track record of regulatory compliance.

The management company of an SFC-authorized listed alternative fund also is expected to carry out extensive investor education before launching the fund in Hong Kong.

Conclusion

This new SFC guidance is consistent with the Hong Kong government's policy to broaden the scope of private equity fund offerings in Hong Kong. While these new rules clarify certain requirements, investment managers need to be mindful that one of the key criteria for these offerings is that the fund should preferably be able to generate regular income streams, which means that the fund's investment strategy is critical to its listing application.

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