

25 October 2023

## **Circular on Disclosure / Use of Annualised Returns for Money Market Funds**

1. This circular sets out the requirements for the presentation of annualised returns based on periods of less than one year for money market funds authorised by the Securities and Futures Commission (SFC) under Chapter 8.2 of the Code on Unit Trusts and Mutual Funds (UT Code) (MMFs).

### **Background**

2. Paragraph 16 of the Advertising Guidelines Applicable to Collective Investment Schemes Authorised under the Product Codes (Advertising Guidelines) provides that annualised returns are only acceptable for presentation of performance figures for periods of more than one year. The SFC has recently received enquiries from the industry regarding the presentation of annualised returns based on periods of less than one year for MMFs, say a seven-day period, due to increasing demand for such information from investors.
3. It has been observed that the performance of MMFs is more stable and predictable than other types of funds given their substantial investments in short-term and high-quality money market investments. Also, a number of major jurisdictions<sup>1</sup> allow annualised returns based on periods of less than one year for money market funds, subject to proper safeguards and requirements.
4. Given the above, the SFC is issuing guidance for fund managers and intermediaries regarding the presentation of annualised returns by MMFs for periods of less than one year (Annualised Returns) in factsheets, marketing materials or other documents (Relevant Materials), subject to the general principles and requirements set out below.

### **General principles**

5. All requirements in the Advertising Guidelines shall apply to the presentation of Annualised Returns where applicable.
6. Issuers of the Relevant Materials (eg, the fund managers and/or their intermediaries) showing Annualised Returns should be responsible for ensuring compliance with this circular, relevant requirements in the Advertising Guidelines and all other applicable requirements.
7. To ensure the consistency of information provided to investors, where an intermediary intends to present Annualised Returns in the Relevant Materials, the intermediary should reach an agreement with the fund manager on the computation basis to ensure the Annualised Returns are calculated on a consistent basis<sup>2</sup> and in compliance with the relevant requirements, before such figures are published.

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<sup>1</sup> For example, Australia, Canada, mainland China, the European Union and the United States.

<sup>2</sup> In case where a fund manager determines the computation basis of the Annualised Returns and communicates it to the intermediaries for their adoption, intermediaries should follow the computation basis provided by the fund manager.

## Requirements

### Period covered and computation basis

8. The presentation of Annualised Returns should be calculated based on a seven-day period (7-day Annualised Returns). To allow flexibility for fund managers and their intermediaries, additional Annualised Returns based on other periods may also be presented (Additional Annualised Returns) so long as the 7-day Annualised Returns are presented in the same document.
9. As the calculation methodologies for Annualised Returns and terminologies<sup>3</sup> used to describe them may vary for different MMFs, the SFC does not intend to prescribe a calculation formula for or mandate a particular phrase/term to describe Annualised Returns, provided that the phrase/term used is accompanied with a clear disclosure of the computation basis, and the computation basis (eg, annualisation based on change in net asset value (NAV) or change in net income excluding capital gain/loss) is fair, consistently applied, clearly disclosed and not misleading to investors. That said, the issuers of the Relevant Materials showing the Annualised Returns are expected to properly justify the appropriateness of phrase/term used and the computation basis adopted upon requests from investors and the SFC.

### Existing requirements on Advertising Guidelines

10. Given that the Annualised Returns are perceived as performance information, the existing requirements on the presentation of performance information, in particular, paragraphs 8, 11, 12, 13, 15 and 23 under the Advertising Guidelines, should be complied with when the Annualised Returns are presented.
11. Same as the presentation of performance information of all SFC-authorized funds,
  - a) as required in paragraph 8 of the Advertising Guidelines, the reference date for calculating the Annualised Returns should not be arbitrary and the computation basis should be stated;
  - b) as required in paragraph 11 of the Advertising Guidelines, the Annualised Returns may be presented only if the MMF has an investment track record of not less than six months;
  - c) as required in paragraph 12 of the Advertising Guidelines, the Annualised Returns, if presented, should at a minimum include the returns (eg, NAV / price returns, where applicable) of the immediately preceding five years (or, subject to paragraph 11 of the Advertising Guidelines, the period since launch if shorter), presented based on a complete 12-month period (or shorter periods for the earliest / latest period presented);
  - d) as required in paragraph 13 of the Advertising Guidelines, less-than-one year's figures (ie, 7-day Annualised Returns and Additional Annualised Returns) should be presented in the same format as and no more prominently than the most recent

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<sup>3</sup> It is observed in other markets that some industry participants may use the term "yield" and others may use the term "return" to describe Annualised Returns.

- one-year figure (or since launch figure if the MMF has a track record of shorter than one year);
- e) as required in paragraph 15 of the Advertising Guidelines, issuers of the Relevant Materials showing the Annualised Returns are reminded of their responsibilities to ensure the performance information on the Relevant Materials should be up-to-date. In particular, information should be updated if more recent information is significantly different (eg, a variation of 10% or more from that last published statistics to the current performance figure would be considered significant); and
  - f) as required in paragraph 23 of the Advertising Guidelines, the Relevant Materials showing the Annualised Returns should contain all applicable warning statements.

Additional requirements

- 12. The presentation of Annualised Returns (including the 7-day Annualised Returns and Additional Annualised Returns) should be accompanied with a disclosure of the computation basis and period(s) covered. Where Additional Annualised Returns are presented, the presentation should also be accompanied with a disclosure of the 7-day Annualised Returns.
- 13. Additional Annualised Returns calculated based on periods of shorter than seven days (eg, one day) should:
  - a) if published via interactive means (eg, websites), be updated on a daily basis; and
  - b) if published via other non-interactive means (eg, printed advertisement), be accompanied by a clear note directing investors to the most up-to-date daily figures published in an interactive system.

They should comply with other requirements as set out in this circular.

Additional warning statements

- 14. Additional warning statements should be disclosed to the effect that:
  - a) the 7-day Annualised Returns [and the Additional Annualised Returns] [is/are] based on a 7-day period [and a [x-day] period] of the MMF's past performance [respectively] and [does/do] not represent an actual one-year return; and
  - b) the assumptions involved in the calculation of the 7-day Annualised Returns [and the Additional Annualised Returns] are hypothetical.

Updated figures of Annualised Returns

- 15. Once a fund manager or its intermediary(ies) start(s) using the Annualised Return(s) in relation to an MMF, the fund manager or the intermediary(ies) concerned should always maintain the updated figure(s) of all relevant Annualised Return(s) on its website for investor's information, in compliance with this circular.



Illustration

16. Examples illustrating the requirements in paragraphs 10-15 above are set out in the Appendix to this circular. Please note that the examples are for illustrative purposes only and are not meant to be complete or exhaustive.

**Application**

17. If you wish to seek clarification of any aspects of this circular, please contact the relevant case team member of the Investment Products Division in charge of your fund group or client.

Investment Products Division  
Securities and Futures Commission

**Illustrative example 1**

[Name of the advertisement issuer]

**Important notes and warning statements:**

1. XXX
2. XXX
3. Investment involves risk.
4. The offering documents should be read for further details including the risk factors.
5. The past performance information presented is not indicative of future performance.
6. The 1-day annualised return, 7-day annualised return and the 30-day annualised return are based on 1-day period, 7-day period and 30-day period of XXX Money Market Fund's past performance respectively and do not represent an actual one-year return.
7. The assumptions involved in the calculation of the 1-day annualised return, 7-day annualised return and the 30-day annualised return are hypothetical.

**XXX Money Market Fund**

- XXX
- XXX

7-day annualised return*: XX%	1-day annualised return*: XX%#	30-day annualised return*: XX%	Most recent 1-year return*: XX%
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\*Computation basis and periods covered:

- 7-day annualised return is calculated by annualising the change of NAV, [with/without] dividend reinvested, for the period from xx Aug 2023 to xx Aug 2023
- 1-day annualised return is calculated by annualising the change of NAV, [with/without] dividend reinvested, for the period from xx Aug 2023 to xx Aug 2023
- 30-day annualised return is calculated by annualising the change of NAV, [with/without] dividend reinvested, for the period from xx Aug 2023 to xx Sep 2023
- Most recent 1-year return is calculated by annualising the change of NAV, [with/without] dividend reinvested, for the period from xx Aug 2022 to xx Aug 2023

#For the most up-to-date daily figure, please refer to [www.xxx.com].

Notes:

Returns [(which are calculated based on the change of NAV, [with/without] dividend reinvested)] of the immediately preceding 5 years:

Year to date up to no earlier than 30 Aug 2023: xx%  
 2022: xx%  
 2021: xx%  
 2020: xx%  
 2019: xx%  
 2018: xx%

**Illustrative example 2**

[Name of the advertisement issuer]

**Important notes and warning statements:**

1. XX
2. XX
3. Investment involves risk.
4. The offering documents should be read for further details including the risk factors.
5. The past performance information presented is not indicative of future performance.
6. The 1-day annualised yield, 7-day annualised yield and the 30-day annualised yield are based on 1-day period, 7-day period and 30-day period of XXX Money Market Fund's past performance respectively and do not represent an actual one-year yield.
7. The assumptions involved in the calculation of the 1-day annualised yield, 7-day annualised yield and the 30-day annualised yield are hypothetical.

**XXX Money Market Fund**

- XX
- XX

7-day annualised yield*: XX%	1-day annualised yield*: XX% <sup>#</sup>	30-day annualised yield*: XX%	Most recent 1-year yield*: XX%
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\*Computation basis and periods covered:

- 7-day annualised yield is calculated by annualising the net income, excluding capital gain/loss, for the period from xx Aug 2023 to xx Aug 2023
- 1-day annualised yield is calculated by annualising the net income, excluding capital gain/loss, for the period from xx Aug 2023 to xx Aug 2023
- 30-day annualised yield is calculated by annualising the net income, excluding capital gain/loss, for the period from xx Aug 2023 to xx Sep 2023
- Most recent 1-year yield is calculated by annualising the net income, excluding capital gain/loss, for the period from xx Aug 2022 to xx Aug 2023

<sup>#</sup>For the most up-to-date daily figure, please refer to [www.xxx.com].

**Notes:**

Returns [(which are calculated based on change of NAV, [with/without] dividend reinvested)] of the immediately preceding 5 years:

Year to date up to no earlier than 30 Aug 2023: xx%

- 2022: xx%
- 2021: xx%
- 2020: xx%
- 2019: xx%
- 2018: xx%