SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

Fund Manager Code of Conduct

Third Edition
pursuant to the Securities and Futures Ordinance (Cap. 571)

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Contents

Introduction

Persons to whom this Code applies

This Code sets out conduct requirements for persons licensed by or registered with the Securities and Futures Commission (SFC) whose business involves the management of collective investment schemes (whether authorized or unauthorized) and/or discretionary accounts (in the form of an investment mandate or pre-defined model portfolio) (Fund Managers). The particular Code requirements that are not applicable to and additional requirements that are applicable to licensed or registered persons conducting discretionary accounts management are set out in Appendix 1.

This Code applies to all licensed or registered persons acting as Fund Managers, including, as appropriate, their representatives. Certain requirements (as specifically set out in this Code), however, are only applicable to a Fund Manager that is responsible for the overall operation of a fund.

For the avoidance of doubt, all licensed or registered persons should also comply with the requirements set out in other applicable codes and guidelines in force from time to time, including the Code of Conduct for Persons Licensed by or Registered with the SFC (Code of Conduct) and the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC (Internal Control Guidelines). In particular, a Fund Manager managing SFC-authorized collective investment schemes is required to comply with the relevant requirements under the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products in force from time to time.

Interpretation

For the purposes of this Code, a registered person means a “registered institution” and, except where the context otherwise requires, includes a “relevant individual” as defined in section 20(10) of the Banking Ordinance (Cap. 155), and “registered” shall be construed accordingly. A reference in this Code to “representatives” has the same meaning as section 167 of the Securities and Futures Ordinance (Cap. 571) (SFO).

Unless specified otherwise, a reference to a “fund” or “client” in this Code[1] is a reference to a collective investment scheme (whether authorized or unauthorized) managed by a Fund Manager and “fund investors” refers to investors as a whole of a collective investment scheme (whether authorized or unauthorized) managed by the Fund Manager.

Where a Fund Manager is a delegate of another fund manager for the management of a fund or a portfolio within a fund, a reference to its “client” in this Code is a reference to the delegating fund manager, and a reference to “fund” in this Code is a reference to the portfolio managed by the delegated Fund Manager.

[1] Where the licensed or registered persons are conducting discretionary accounts management, the meaning of these terms are defined separately in Appendix 1.

Purpose of this Code

This Code aims, firstly, to supplement codes and guidelines applicable to all categories of licensed or registered person, including, for the avoidance of doubt, the Code of Conduct (including the General Principles set out therein), with guidance in respect of the minimum standards of conduct specifically applicable to Fund Managers. It does not replace any legislative provisions, codes or guidelines issued by the SFC. Secondly, it highlights certain existing requirements applicable to Fund Managers. Further reference should however be made to the legislation, other applicable codes and guidelines, and, in the case of any inconsistency, the more stringent provision will be applied. This Code does not have the force of law and should not be interpreted in a way that would override the provisions of any law.

Effect of breach of this Code

Breach of any of the requirements of this Code will, in the absence of extenuating circumstances, reflect adversely on the fitness and properness of a Fund Manager and may result in disciplinary action. **When considering a person's failure to comply with this Code, SFC staff will adopt a pragmatic approach taking into account all relevant circumstances, including the size of the Fund Manager, and any compensatory measures implemented by its senior management.**

I. Organisation and Structure

1. Organisation and Management Structure

Incorporation and Registration

1.1 A Fund Manager should ensure that its business is properly incorporated and that any person it employs or appoints to conduct business is properly licensed or registered in accordance with all applicable statutory requirements.

Organisation and Resources

1.2 A Fund Manager should maintain:

(a) financial resources in accordance with all applicable statutory requirements;

(b) sufficient human and technical resources and experience for the proper performance of its duties. This would be expected to vary depending on the amount of assets under management by the Fund Manager, and the type and nature of the assets and markets in which the funds managed by the Fund Manager invest. The functions within the Fund Manager, including fund management, operations, compliance, risk management, valuation and audit, should only be performed by qualified and experienced persons, who should receive appropriate training on an ongoing basis;

(c) satisfactory internal controls and written compliance procedures which address all applicable legal and regulatory requirements;

(d) satisfactory risk management governance structure and procedures commensurate with the nature, size, complexity and risk profile of the firm and the investment strategy adopted by each of the funds under its management; and

(e) adequate professional indemnity insurance cover commensurate with its business.

Functional Separation

1.3 Where a Fund Manager is part of a group of companies which undertake other financial activities such as advising on corporate finance, banking or broking, it should ensure there is an effective system of functional barriers (Chinese Walls) in place to prevent the flow of information that may be confidential and/or price sensitive between the different areas of operations. There should be physical separation between the activities and the different persons it employs or appoints to conduct business unless this is not reasonably practicable given the size of the Fund Manager, together with written procedures to document the controls. If physical separation is not reasonably practicable, the Fund Manager should prohibit dealing in price sensitive or confidential information.

Segregation of Duties

1.4 A Fund Manager should ensure that key duties and functions are appropriately segregated, unless this is not reasonably practicable given the size of, or the nature of investment made by, the Fund Manager. In particular:

(a) front office functions (which include making investment decisions, marketing and dealing in funds, and placing orders to deal with brokers) should be physically segregated from back office functions (which include receiving broker confirmations, settling trades, accounting and reconciliation, valuation and reporting to funds and their investors) and should be carried out by different staff with separate reporting lines;

(b) compliance and audit functions should, if possible, be separated from each other, and have separate reporting lines from other functions; and

(c) the investment decision making process should be clearly delineated from the dealing process.

Note: A central dealing function is encouraged but is not mandatory.

Conflicts of interest

1.5 A Fund Manager should maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps designed to identify, prevent, manage and monitor any actual or potential conflicts of interest, including conducting all transactions in good faith at arm's length and in the best interests of the fund on normal commercial terms. Where an actual or potential conflict arises, the conflict should be managed and minimised by appropriate safeguards and measures to ensure fair treatment of fund investors, and any material interest or conflict should properly be disclosed to fund investors.

Responsibilities of Management

"Senior management" means the Managing Director of a Fund Manager or its Board of Directors, Chief Executive Officer or other senior operating management personnel in a position of authority over the Fund Manager's business decisions.

1.6 The senior management of a Fund Manager should:

(a) be principally responsible for compliance by the Fund Manager with all relevant legal and regulatory requirements, as well as the nurturing of a good compliance culture within the Fund Manager;

(b) maintain clear reporting lines with supervisory and reporting responsibilities assigned to qualified and experienced persons;

(c) ensure that all persons performing functions on behalf of the Fund Manager are provided adequate and up-to-date information about the Fund Manager's policies and procedures applicable to them; and

(d) ensure that the performance of the Fund Manager in managing funds (whether authorized or unauthorized) is reviewed at least annually.

Risk Management

1.7.1 The Fund Manager should establish and maintain effective policies and procedures as well as a designated risk management function to identify and quantify the risks, whether financial or otherwise, to which the Fund Manager and, if applicable, the funds are exposed. The Fund Manager should take appropriate and timely action to contain and otherwise adequately manage such risks.

1.7.2 The Fund Manager should refer to and comply with the relevant provisions under the Internal Control Guidelines.

1.7.3 A Fund Manager should review the risk management policies and procedures with appropriate frequency and enhance such policies and procedures whenever necessary.

Compliance

1.8.1 A Fund Manager should:

(a) maintain an effective compliance function, including a compliance officer, within the Fund Manager to ensure that the Fund Manager complies with its own internal policies and procedures, and with all applicable legal and regulatory requirements, including this Code; and

(b) ensure that the compliance function possesses the technical competence and experience necessary for the performance of its functions.

1.8.2 The compliance function and the compliance officer should be independent of other functions and report directly to the Fund Manager's senior management, unless this is not reasonably practicable given the size of the Fund Manager. Where there is no separation of functions, the Fund Manager's senior management should assume the role of compliance officer. Compliance activities may be delegated to an appropriately qualified professional, although the responsibility and obligations may not be delegated.

1.8.3 There should be sufficiently detailed compliance procedures to enable senior management to comply with all applicable requirements at all times.

Audit

1.9 Where practicable, a Fund Manager should maintain an independent and objective audit function to report on the adequacy, effectiveness and efficiency of the Fund Manager's management, operations and internal controls. The audit function should:

(a) where practicable, be free from operating responsibilities, with a direct line of communication to senior management or the audit committee, as applicable;

(b) follow clearly defined terms of reference (including monitoring the timeliness and accuracy of other functions) which set out the scope, objectives, approach and reporting requirements;

(c) adequately plan, control and record all audit work performed, and record the findings, conclusions and recommendations; and

(d) report to senior management on all matters highlighted in the audit report, which should be resolved satisfactorily and in a timely manner.

Where the size of the Fund Manager does not justify a separate internal audit function, the relevant roles and responsibilities should be performed or reviewed by external auditors.

Delegation

1.10 A Fund Manager should exercise due skill, care and diligence in the selection and appointment of third-party delegates. Where functions are delegated to third parties, there should be ongoing monitoring of the competence of delegates, to ensure that the principles of this Code are followed. Although the investment management role of the Fund Manager may be sub-contracted, the responsibilities and obligations of the Fund Manager to the funds it manages may not be delegated.

Withdrawal from Business

1.11 A Fund Manager who withdraws from business should ensure that any affected clients are promptly notified and that proper arrangements remain in place for the safekeeping of client assets. Where a Fund Manager is being wound up, it should comply with all the applicable statutory requirements.

2. Staff Ethics

Personal Account Dealing

Note: The following guidelines are intended to address the basic principles that persons engaged in fund management business, when transacting for themselves, must give the funds managed by the Fund Manager priority and avoid conflicts of interest. In the context of these guidelines, "relevant persons" means any employees or directors of a Fund Manager or persons accredited to a Fund Manager for conducting regulated activities:

- *who in their regular functions or duties make or participate in investment decisions, or obtain information, prior to buying or selling investments on behalf of a fund*; *and/or*

- *whose functions relate to the making of any recommendations with respect to such buying or selling;*

or any persons over whom they exercise control and influence.

As a minimum, these guidelines cover trading in securities and derivatives. Beyond this, however, the scope of investments that should be covered is not defined, as this may vary depending on the business of the Fund Manager and the underlying investments of the funds managed by the Fund Manager. A Fund Manager is expected to define the types of investment intended to be covered, and to respect the principles outlined here.

2.1.1 A Fund Manager should ensure that it has internal rules or provisions in its contracts of employment or other agreements with the relevant persons as follows:

(a) that relevant persons are required to disclose existing holdings upon joining a Fund Manager and at least semi-annually thereafter;

(b) that relevant persons are required to obtain prior written permission for personal account dealing from the compliance officer or other person designated by senior management. The permission should be valid for no more than five trading days, and be subject to the following constraints:

(i) that relevant persons may not buy or sell an investment on a day in which the Fund Manager has a pending "buy" or "sell" order in the same investment until that order is executed or withdrawn;

(ii) that relevant persons may not buy or sell an investment for their personal account within one trading day before (if the relevant person is aware of a forthcoming fund transaction) or after trading in that investment on behalf of a fund;

(iii) that relevant persons may not buy or sell an investment for their personal account within one trading day before (if the relevant person is aware of a forthcoming recommendation) or after a recommendation on that investment is made or proposed by the Fund Manager;

Note: Subject to rules being set down by the senior management, the restrictions in (ii) and (iii) above need not be applied where fund orders have been fully executed and any conflicts of interest have been removed.

(iv) that cross trades between relevant persons and funds be prohibited;

(v) that short-selling of any securities recommended by the Fund Manager for purchase be prohibited; and

(vi) that relevant persons should be prohibited from participating in initial public offerings available to funds managed by the Fund Manager or its connected persons, and should not use their positions to gain access to initial public offerings for themselves or any other person;

(c) that relevant persons are required to hold all personal investments for at least 30 days, unless prior written approval of the compliance officer or other persons designated by senior management is given for an earlier disposal; and

(d) that relevant persons are required, either:

(i) to hold their personal accounts with the Fund Manager or a connected person and place all deals through that corporation; or

(ii) obtain approval from the compliance officer or other persons designated by senior management for outside broking accounts, and ensure that copies of records and statements of personal transactions entered into by them are submitted to the compliance officer or other persons designated by senior management within a defined timeframe.

2.1.2 A Fund Manager should maintain appropriate procedures to distinguish personal transactions for relevant persons from other transactions, and to ensure that such transactions are properly approved and there is an adequate audit trail of such approval and the transaction [see 5.1(a)].

2.1.3 A Fund Manager should not permit relevant persons to delay settlement of personal transactions beyond the normal settlement time for the relevant market.

2.1.4 A Fund Manager should maintain appropriate procedures to ensure compliance with the provisions set out in 2.1.1 (a) to (d) above by all its relevant persons.

Receipt or Provision of Benefits

2.2 A Fund Manager:

(a) should not offer or accept any inducement which is likely to materially conflict with the duties owed to clients;

(b) in the case of a corporation, should maintain:

(i) written guidelines, including monetary limits, for the offer and acceptance by, staff members and persons accredited to it for conducting regulated activities, of gifts, rebates or other benefits, to give effect to (a); and

(ii) a register of benefits received above the specified limit.

II. Fund Management

3. Fund Management

Investment within Mandate

3.1 A Fund Manager should ensure that transactions carried out on behalf of each fund are in accordance with the fund's stated investment strategy, objectives, investment restrictions and guidelines, whether in terms of asset class, geographical spread or risk profile, as set out in the respective constitutive and/or relevant documents of the funds managed by the Fund Manager. In this connection, a Fund Manager should have in place effective and properly-implemented procedures and controls.

Best Execution

3.2 A Fund Manager should ensure that fund orders are executed on the best available terms, taking into account the relevant market at the time for transactions of the kind and size concerned.

Prohibition on Insider Dealing

3.3 A Fund Manager should establish and maintain policies and procedures to prohibit and prevent market misconduct, including, but not limited to, insider dealing and market manipulation. In particular, it should not effect or cause to be effected any transaction based on confidential price sensitive information or when otherwise prohibited from dealing by statutory restrictions on insider dealing, and should have procedures in place to ensure that staff are aware of such restrictions.

Order Allocation

3.4 A Fund Manager should:

(a) ensure that all client orders are allocated fairly;

(b) make a record of the intended basis of allocation before a transaction is effected; and

(c) ensure that an executed transaction is allocated promptly in accordance with the stated intention, except where the revised allocation does not disadvantage a client and the reasons for the re-allocation are clearly documented.

Fund Portfolio Turnover

3.5 A Fund Manager should take into account the fund's stated objectives and not trade excessively on behalf of a fund.

Underwriting

3.6 Unless specifically permitted in the fund mandate, a Fund Manager should not participate in underwriting activities on behalf of a fund. Where underwriting is undertaken on behalf of a fund, all commissions and fees received under such contract should be credited to the fund account.

Participation in Initial Public Offerings

3.7 Where a Fund Manager participates in an initial public offering on behalf of funds managed by it, it should ensure that:

(a) the allocation of stock received in the offering provides for a fair and equitable allocation amongst clients;

(b) preferential allocations are prohibited; and

(c) records of (i) the intended basis of allocation before a transaction is effected and (ii) the actual allocation after the transaction is effected, are made.

Transactions with Connected Persons

3.8.1 A Fund Manager should not carry out any transaction on behalf of a fund with a party which is a connected person unless such transaction is carried out on arm's length terms, consistent with best execution standards, and at a commission rate no higher than customary institutional rates.

3.8.2 A Fund Manager should not, on behalf of a fund, deposit funds with or borrow funds from a connected person unless:

(a) in the case of a deposit, interest is received at a rate not lower than the prevailing commercial rate for a deposit of that size and term; and

(b) in the case of a loan, interest charged and fees levied in connection with the loan are no higher than the prevailing commercial rate for a similar loan.

Cross Trades

For the avoidance of doubt, a reference to "client" in this sub-section also includes a reference to the investors of discretionary accounts managed by the same Fund Manager.

3.9.1 A Fund Manager should only undertake sale and purchase transactions between client accounts (cross trades) where:

(a) the sale and purchase decisions are in the best interests of both clients and fall within the investment objective, restrictions and policies of both clients;

(b) the trades are executed on arm's length terms at current market value;

(c) the reasons for such trades are documented prior to execution; and

(d) such activities are disclosed to both clients.

3.9.2 Cross trades between house accounts and client accounts should only be permitted with the prior written consent of the client, to whom any actual or potential conflicts of interest should be disclosed. Cross trades between staff personal accounts and client accounts should be prohibited.

House Accounts

"House account" means an account owned by a Fund Manager or any of its connected persons over which it can exercise control and influence.

For the avoidance of doubt, a reference to "client" in this sub-section also includes a reference to the investors of discretionary accounts managed by the same Fund Manager.

3.10 When dealing for a house account, a Fund Manager should:

(a) give priority to satisfying a client order. Where a client order has been aggregated with another order, the client's order must take priority in any subsequent allocation if all orders cannot be filled, provided that if a client which is an institutional professional investor requests otherwise, allocation can be effected on the terms specified by the client. Aggregation of house orders with client orders should only be made if it is in the best interests of clients;

(b) not deal in accordance with a recommendation, research or analysis to be published to clients until the clients have had a reasonable opportunity to act on the information; and

(c) except with the prior written consent of the compliance officer or other persons designated by senior management, not deal ahead of any transaction to be carried out on behalf of a fund. The compliance officer or other persons designated by senior management should properly document the reasons for any consents given.

Note: For the avoidance of doubt, a reference to "dealing" in this sub-section includes any acquisition or disposal of securities or other fund assets.

Risk Management

3.11.1 For risk management at the fund level, a Fund Manager should implement adequate risk management procedures (including risk measurements and reporting methodologies) in order to identify, measure, manage and monitor appropriately all risks:

(a) relevant to each investment strategy; and

(b) to which each fund is or may be exposed, such as market, liquidity and counterparty risks, and other risks, including operational risks, which may be material for each fund it manages taking into account the nature, scale and complexity of its business and of the investment strategy of each of the funds it manages.

Note:

Where appropriate, measures to manage risks of a fund may include:

(a) *identifying and managing potential risks of a fund throughout the fund life cycle;*

(b) *ensuring that the risk profile of the fund is consistent with the nature, size, portfolio structure and investment strategies, restrictions and objectives of the fund as provided and represented to fund investors in the constitutive and/or relevant documents; and*

(c) *ensuring ongoing and proper identification, measurement, management and monitoring of risks associated with each investment of the fund and their overall effects on the fund's portfolio (including via the use of suitable stress testing procedures).*

3.11.2 A Fund Manager should take into account, where applicable, the suggested risk-management control techniques and procedures for funds set out in Appendix 2 to this Code in monitoring such risks.

Leverage

3.12 Where the Fund Manager is responsible for the overall operation of a fund, it should disclose to fund investors (i) the expected maximum level of leverage which it may employ on behalf of the fund and (ii) the basis of calculation of leverage which should be reasonable and prudent.

Securities Lending

Paragraphs 3.13.1 to 3.13.8 (inclusive) of this sub-section are only applicable to Fund Managers that engage in securities lending, repurchase agreement (repo) and reverse repo transactions on behalf of the funds managed by them.

3.13.1 The Fund Manager should put in place a collateral valuation and management policy and a cash collateral reinvestment policy governing securities lending, repo and reverse repo transactions and any cash collateral reinvestments in respect of collateral received by the funds managed by the Fund Manager.

3.13.2 The collateral valuation and management policy should require that:

(a) collateral and lent securities are marked to market daily wherever and whenever practicable; and

(b) variation margin is collected at least daily where amounts exceed a minimum acceptable threshold appropriate to the counterparty risk posed as determined by the Fund Manager.

Note: As part of its collateral valuation and management policy, a Fund Manager is generally expected to accept collateral types that it is able, following a counterparty failure, to:

(a) hold for a period without breaching applicable laws or regulations or the relevant mandate;

(b) value; and

(c) risk manage appropriately.

The collateral valuation and management policy should include contingency plans to cover how collateral should be managed following default situations (in particular, the default of the largest market counterparty to securities lending, repo and reverse repo transactions of a fund) and the capabilities to liquidate collateral in an orderly way.

3.13.3 A Fund Manager should have in place an eligible collateral and haircut policy in determining the types of acceptable collateral and their corresponding haircut in connection with securities lending, repo and reverse repo transactions.

3.13.4 A Fund Manager should ensure there is in place a properly designed methodology to calculate haircuts on the collateral received in connection with securities lending, repo and reverse repo transactions of its funds, whether on a transaction level basis or at the collateral portfolio level. This would include there being appropriate policies, procedures, and internal controls to ensure that haircuts are set in accordance with the methodology and are consistently applied.

3.13.5 The cash collateral reinvestment policy should ensure that assets held in the cash collateral reinvestment portfolio are sufficiently liquid with transparent pricing and low risk to meet reasonably foreseeable recalls of cash collateral, and measures are in place to manage the associated liquidity risk. A Fund Manager that reinvests cash collateral received by the funds should formally document and regularly review the cash collateral reinvestment policy and communicate such policy to fund investors.

Note: In designing its cash collateral reinvestment policy, a Fund Manager should consider setting specific requirements for the cash collateral reinvestment portfolio and/or liquidity pool maintained to meet cash collateral recalls, including:

(a) requiring a minimum portion of the cash collateral to be kept in short-term deposits, held in highly liquid short-term assets, or invested in short tenor transactions; and

(b) setting specific limits for the weighted average maturity and/or weighted average life.

3.13.6 A Fund Manager of a fund that is the securities lender should stress test the ability of a cash collateral reinvestment portfolio to meet foreseeable and unexpected calls for the return of cash collateral on an ongoing basis. Stress tests should include an assessment of the ability to liquidate part of the entire reinvestment portfolio under a range of stressed market scenarios.

3.13.7 A Fund Manager that is responsible for the overall operation of a fund should provide information on a fund's securities lending, repo and reverse repo transactions to fund investors at least on an annual basis.

Note: At a minimum, it is expected that the following information should be provided to fund investors from time to time:

(a) Global data:
- *(i) the amount of securities on loan as a proportion of total lendable assets and of the fund's assets under management; and*
- *(ii) the absolute amount of assets engaged in securities lending, absolute amounts of the repo book and the reverse repo book.*

(b) Concentration data:
- *(i) top 10 collateral securities received by issuer;*
- *(ii) top 10 counterparties of securities lending and repo transactions; and*
- *(iii) top 10 counterparties of reverse repo transactions.*

(c) Aggregate securities lending, repo and reverse repo transaction data:
- *(i) by type of collateral received;*
- *(ii) by currency;*
- *(iii) by maturity tenor;*
- *(iv) by geography (counterparty);*
- *(v) cash versus non-cash collateral;*
- *(vi) maturity of collateral; and*
- *(vii) settlement and clearing (tri-party, central counterparty, bilateral).*

(d) Re-use and re-hypothecation data:
- *(i) share of collateral received that is re-used or re-hypothecated, compared to the maximum authorised amount if any; and*
- *(ii) information on any restrictions on type of collateral received.*

(e) Return data, including the split between the return from securities lending, repos and reverse repos and the return from cash collateral reinvestment.

(f) Number of custodians and the amount of collateral assets received / held by each of the custodians.

(g) The proportion of collateral posted by funds which are held in segregated accounts, pooled accounts, or in any other accounts.

3.13.8 Where the Fund Manager is responsible for the overall operation of a fund, it should disclose a summary of the securities lending, repo and reverse repo transactions policy and the risk management policy to fund investors.

Liquidity Management

Paragraphs 3.14.1 to 3.14.3 (inclusive) of this sub-section, except for 3.14.1(b) and 3.14.1(c), are only applicable to a Fund Manager that is responsible for the overall operation of a fund.

3.14.1 A Fund Manager should:

(a) establish, implement and maintain appropriate and effective liquidity management policies and procedures to monitor the liquidity risk of the fund, taking into account the investment strategy, liquidity profile, underlying assets and obligations, and redemption policy of the fund;

(b) integrate liquidity management in investment decisions;

(c) regularly assess the liquidity of the assets of a fund;

(d) regularly assess the liquidity profile of the fund's liabilities;

(e) regularly conduct assessments of liquidity in different scenarios, including stressed situations, to assess and monitor the liquidity risk of the funds accordingly; and

(f) disclose the liquidity risks involved in investing in the fund, the liquidity management policies, and an explanation of any tools or exceptional measure that could affect redemption rights in the fund's offering document or otherwise make such information freely available to fund investors.

Note: The extent of application of these liquidity management principles will depend on the nature, liquidity profile and asset-liability management of the fund. A Fund Manager should consider which principles are relevant to the fund it manages.

3.14.2 A Fund Manager should consider the appropriateness of using liquidity management tools and exceptional measures, taking into account the nature of assets held by the fund and its investor base.

Note:

Protecting the interests of fund investors should be the primary consideration in the use of liquidity risk management tools. A Fund Manager should also ensure that the investment strategy and portfolio profile of a fund are consistently maintained as much as possible when using these tools.

Where a Fund Manager has granted preferential treatment (eg. side letters) to certain investors, it should disclose such fact and the material terms in relation to redemption in the side letters to all relevant potential and existing fund investors.

3.14.3 A Fund Manager should conduct periodic reviews of the effectiveness of its liquidity management policies and procedures and such policies and procedures should be updated as appropriate.

Compliance

3.15 A Fund Manager should ensure that all material non-compliance matters are identified, reported to the SFC and any other relevant regulators on a timely basis where appropriate and remedied promptly.

Termination

Paragraphs 3.16.1 to 3.16.2 (inclusive) of this sub-section are only applicable to a Fund Manager that is responsible for the overall operation of a fund.

3.16.1 A Fund Manager's decision to terminate a fund should take due account of the best interests of investors in the fund. A Fund Manager should ensure that the termination process of a fund is carried out, and fund investors are treated, fairly.

3.16.2 A Fund Manager should make adequate disclosure of all relevant material information in relation to the termination of the fund to all fund investors in an appropriate and timely manner.

Note: Such information should include without limitation termination decisions, implementation plans and material change of circumstances arising during the termination process.

4. Custody

Paragraphs 4.1.2 to 4.4.1 (inclusive) of this sub-section are only applicable to a Fund Manager that is responsible for the overall operation of a fund.

In the case of funds adopting a unit trust structure, for paragraphs 4.1.1 to 4.1.2 (inclusive) and 4.2.2 to 4.3.3 (inclusive) of this sub-section, references to a "custodian" should be read as references to a "trustee" and references to "arrange for the appointment of/arranging for the appointment of" should be read as "appoint (where applicable)/appointing (where applicable)".

Safety of Fund Assets

4.1.1 A Fund Manager should ensure that any fund assets entrusted to it are properly safeguarded. In this connection, a Fund Manager should ensure that fund assets are segregated from the assets of the Fund Manager, and, unless held in an omnibus client account, assets of its affiliates and other clients. Fund assets not capable of being held in custody shall be identified as owned beneficially by the fund and not by the Fund Manager or the custodian through proper record-keeping.

Note: Where fund assets are held in an omnibus client account, the Fund Manager should ensure that adequate safeguards are put in place such that fund assets belonging to each client are appropriately recorded with frequent and appropriate reconciliations being performed.

4.1.2 A Fund Manager should select and arrange for the appointment of, and entrust the fund assets to, a custodian that is functionally independent from it. Where self-custody is adopted, the Fund Manager should ensure that it has policies, procedures, and internal controls in place to ensure that the persons fulfilling the custodial function are independent from the persons fulfilling the fund's management functions.

Note: In the case of self-custody, the Fund Manager should comply with, where applicable, all relevant requirements under the SFO, including the Securities and Futures (Client Money) Rules and the Securities and Futures (Client Securities) Rules.

Selection and Appointment of Custodian

4.2.1 A Fund Manager should exercise due skill, care and diligence in the selection, arranging for the appointment of and ongoing monitoring of the custodian and take all reasonable steps to ensure that the custodian is properly qualified for the performance of its functions. On an ongoing basis, a Fund Manager should satisfy itself as to the continued suitability and financial standing of any appointed custodian.

Note: In the case of funds adopting a unit trust structure, a Fund Manager should exercise due skill, care and diligence in the selection and appointment (where applicable) of the trustee and ongoing monitoring of the trustee's performance of its custodial functions and references to custodian in this paragraph 4.2.1 should be read as references to the trustee (in the performance of its custodial functions). In addition, references to "sub-custodian" should be read as references to "custodian".

In considering whether a custodian is properly qualified for the performance of its functions, the Fund Manager should consider the following as part of the selection process for custodians:

(a) whether the custodian has appropriate segregation arrangements in place such that the fund assets are segregated from

(i) the assets of the custodian / sub-custodian throughout the custody chain; and

(ii) the assets of other funds and other clients of the custodian throughout the custody chain (unless the fund assets are held in an omnibus client account, in which case the principles set out in the note to paragraph 4.1.1 should apply);

(b) the custodian's legal and regulatory status (i.e. authorization to undertake custody business);

(c) the custodian's financial resources (i.e. the custodian's financial capacity to safekeep the fund assets and the custodian's credit worthiness);

(d) the custodian's management of potential conflicts of interest;

(e) the custodian's organisational capabilities; and

(f) *where appointment of sub-custodians is allowed, the custodian would use due skill, care and diligence in the selection and monitoring of its sub-custodians.*

4.2.2 In selecting and arranging for the appointment of a custodian, a Fund Manager should ensure that the custodian should be any of the following:

(a) a registered trust company;

(b) an authorized financial institution (including a licensed bank, deposit-taking company or restricted-license bank) or the subsidiary of a licensed bank;

(c) a banking institution or trust company outside Hong Kong that is subject to prudential supervision; or

(d) any other appropriately qualified institution.

Custody Agreement

4.3.1 The Fund Manager should ensure that a formal custody agreement is entered into with the custodian that is to be entrusted with a fund's assets.

Note: In the case of funds adopting a unit trust structure, a Fund Manager should ensure that a formal trust deed is entered into with the trustee that is to be entrusted with a fund's assets.

4.3.2 The Fund Manager should formulate custody arrangements with due skill, care and diligence and clarify the duties and responsibilities of the various parties to the custodial arrangements. In particular, the Fund Manager should ensure that the custody agreement contains provisions to specify the scope of the responsibility and liability of the custodian.

Note: In the case of funds adopting a unit trust structure, a Fund Manager should ensure that the trust deed contains provisions to specify the scope of the responsibility and liability of the trustee in relation to the custody of fund assets.

4.3.3 The Fund Manager should monitor custody arrangements and the custodian's compliance with the terms of the custody agreement on an ongoing basis.

Note: In the case of funds adopting a unit trust structure, a Fund Manager should monitor custody arrangements and the trustee's compliance with the terms relevant to the custody arrangements in the trust deed on an ongoing basis.

Disclosure of Custody Arrangements

4.4.1 A Fund Manager should ensure that the custody arrangements in respect of assets of the fund and any material risks associated with the arrangements are properly disclosed to the fund investors and that fund investors are updated about any significant changes.

4.4.2 Where the Fund Manager retains custody of fund assets, the Fund Manager should also specifically disclose the existence of such an arrangement and the additional safeguards that have been put in place to mitigate any potential conflicts of interest.

5. Operations

Record Keeping

5.1 A Fund Manager should keep its accounts and records properly and in line with all applicable statutory requirements. Proper record keeping includes:

(a) maintaining an audit trail of all transactions effected by the Fund Manager, all information relating to client accounts produced by third parties and all relevant internal reports, by keeping all transaction records such as contract notes from third-party brokers, client registers, accounting/securities ledgers, registers of securities, and records of investment processes adopted;

(b) maintaining appropriate procedures for the safekeeping, retrieval and storage of documents and records; and

(c) complying with provisions of the Securities and Futures (Keeping of Records) Rules.

Auditors and Audited Accounts

5.2.1 A Fund Manager should appoint an independent auditor to perform an audit of the financial statements of the Fund Manager. The audited accounts of the Fund Manager should be filed in accordance with the applicable statutory requirements and be made available to the fund upon request.

5.2.2 Where a Fund Manager is responsible for the overall operation of a fund, the Fund Manager should ensure that an independent auditor is appointed to perform an audit of the financial statements of the fund (whether by appointing the independent auditor or procuring the relevant fund to appoint the independent auditor) in order to make available, at a minimum, an annual report for each of the funds it manages. The annual report for each of the funds should also be made available to fund investors of the relevant funds upon request.

5.2.3 The accounting information given in the annual report for each of the funds should be prepared in accordance with generally accepted accounting principles and with the accounting rules set out in the constitutive documents of the fund.

Fund Portfolio Valuation

Paragraphs 5.3.1 to 5.3.7 (inclusive) of this sub-section are only applicable to a Fund Manager that is responsible for the overall operation of a fund or has been delegated responsibility for fund valuation.

5.3.1 A Fund Manager should ensure that, in respect of the fund it manages, appropriate policies and procedures are established so that a proper and independent valuation of the fund assets can be performed and valuation methodologies are consistently applied to the valuation of similar types of fund assets.

5.3.2 The valuation policies and procedures should also describe the process for handling situations where the value of an asset determined in accordance with methodologies of the Fund Manager's valuation policies and procedures may not be appropriate.

Note: The valuation policies and procedures should include, and describe clearly, the process for handling exceptions, including:

(a) requiring the Fund Manager to document the reason for any price override or deviation;

(b) ensuring an appropriate review of the price override or deviation by a functionally independent party; and

(c) describing the method for determining the appropriate price.

5.3.3 A Fund Manager should review the valuation policies and procedures on a periodic basis to ensure their continued appropriateness and effective implementation.

5.3.4 Where a Fund Manager arranges the appointment of a third party to perform valuation services, the Fund Manager should exercise due skill, care and diligence in the selection of the third party and should ensure that the third party's activities are periodically reviewed.

Note: For the avoidance of doubt, the Fund Manager remains responsible for the valuation of a fund's assets notwithstanding the appointment of a third party to perform valuation services.

5.3.5 All fund assets managed by a Fund Manager should be valued on a regular basis. The frequency of such valuations should be appropriate to the fund assets and the dealing frequency of the fund. Where a Fund Manager is responsible for the overall operation of a fund, it should also disclose the frequency of valuation and dealing and basis of valuation to fund investors.

5.3.6 Unless otherwise specified in a fund's constitutive documents, a Fund Manager should have regard to applicable generally accepted accounting principles as well as best industry standards and practices in valuing fund assets and valuation should be made in accordance with the following general principles:

(a) securities which are listed or actively traded on a market should be consistently valued at a price representative of either the closing price or last known market price for that security at the stock exchange or market on which that security is listed or traded as indicated by an automatic price feed or other independent pricing source;

(b) the value of unlisted or unquoted securities that are not actively traded should be based on their fair value by reference to:

(i) comparable recent third-party transactions in similar investments, exercising professional judgement and prudence in selecting appropriate comparable transactions and in assessing the reasonableness of the resulting valuation;

(ii) any appraisals of the relevant investments or issuer of the investments undertaken by suitably qualified persons such as qualified appraisers. Where necessary, the Fund Manager should seek independent confirmation of the valuation from another suitably qualified person; and/or

(iii) any information generally about the relevant investments or issuer of the investments that is or becomes known to the Fund Manager from independent sources;

(c) units or shares in collective investment schemes should be consistently valued by reference to the latest quoted price;

(d) any listed securities which are not actively traded or have been suspended from trading (including securities which are listed or traded on a market where the market price is unrepresentative or not available) should be identified and the price at which that security is valued should be monitored. In this case, a Fund Manager should maintain procedures to:

(i) demonstrate that it will actively seek independent confirmation of the appropriate price for the security from suitable brokers or market makers;

(ii) identify when such a security will be written down or written off in the valuation of a fund account; or

(iii) ascertain whether it will in appropriate situations transfer the security to its own account and, if so, at what price the fund account will be compensated for the transfer; and

(e) the value of other relevant fund assets managed by the Fund Manager should be based on their fair value by reference to the factors set out under (b) above.

5.3.7 The valuation policies, procedures and process should be periodically reviewed (at least annually) by a competent and functionally-independent party such as a qualified independent third party or a person performing an independent audit function. The review by such party should include testing the valuation procedures by which fund assets are valued. In selecting a competent and functionally-independent party, the Fund Manager should exercise due skill, care and diligence.

Side Pockets

5.4.1 Before any side pocket is introduced in a fund (i.e. where certain illiquid or hard-to-value investments of a fund as determined by the Fund Manager are segregated from other fund assets), a Fund Manager that is responsible for the overall operation of a fund should disclose to the fund investors:

(a) the limit to total assets to be put in the side pocket;

(b) the overall fee structure and charging mechanism (in respect of, among others, any management and performance fees);

(c) that the redemption lock-up period for a side pocket would be different from that of the ordinary units/shares of the fund;

(d) how the Fund Manager defines and categorises investment products which are to be put into the side pocket and the policies and rationale for transferring investments in and out of side pockets; and

(e) where the assets in side pockets are allowed to be transferred to another investment vehicle, the circumstances under which transfers are allowed and the pricing mechanism for such transfers.

Such Fund Manager should also disclose to the fund investors the actual amount of fees charged in relation to side-pocketed assets from time to time.

5.4.2. In setting up and managing side pockets in respect of fund assets managed by the Fund Manager, a Fund Manager should ensure that:

(a) it has the risk management competency in managing side pockets;

(b) it has a valuation policy covering side-pocketed assets which complies with the requirements in paragraphs 5.3.1 to 5.3.7 above; and

(c) it has operational checks and controls for transferring investments in and out of side pockets.

5.4.3 Where a Fund Manager decides to side pocket any fund asset, it should arrange clear disclosure to fund investors of:

(a) the creation of the side pocket;

(b) the asset which has been side-pocketed; and

(c) how the asset has been valued at the time of side pocketing and the ongoing valuation of the asset.

Net Asset Value Calculation and Pricing

Paragraphs 5.5.1 to 5.5.2 (inclusive) of this sub-section are only applicable to a Fund Manager that is responsible for the overall operation of a fund or has been delegated responsibility for fund valuation.

5.5.1 A Fund Manager should ensure that the net asset value calculation of different unit/share classes is carried out in accordance with the terms set out in the constitutive documents of the fund and the valuation policies and procedures established by the Fund Manager.

5.5.2 A Fund Manager should ensure the valuation policies and procedures in respect of each fund it manages should seek to detect, prevent and correct pricing errors and to compensate fund investors in respect of any material error. Action should also be taken to avoid further error.

Reconciliations

5.6 A Fund Manager should arrange to carry out reconciliations of the Fund Manager's internal records against those issued by third parties, e.g. clearing houses, banks, custodians, counterparties and executing brokers, to identify and rectify any errors, omissions or misplacement of assets. Reconciliations should be performed regularly (and, in any event, at least monthly) having regard to the nature of the fund assets.

Disclosure of Interests

5.7 A Fund Manager should disclose all interests in securities as required by all applicable statutory requirements and have procedures in place to ensure that staff are aware of such requirements.

III. Dealing with the Fund and Fund Investors

6. Dealing with the Fund and Fund Investors

Provision of Information

6.1 A Fund Manager should:

(a) provide the fund (and, where the Fund Manager is responsible for the overall operation of a fund, fund investors) with adequate information about the Fund Manager, including its business address, relevant conditions or restrictions under which its business is conducted, and the identity and status of persons acting on its behalf with whom the fund (or, where the Fund Manager is responsible for the overall operation of a fund, fund investors) may have contact; and

(b) disclose the financial condition of its business to a fund upon request.

6.2 Where a Fund Manager is responsible for the overall operation of a fund, it should make adequate disclosure of information (as well as any material changes to the information) on the fund which is necessary for fund investors to be able to make an informed judgment about their investment into the fund.

Confidentiality

6.3 A Fund Manager should maintain proper procedures to ensure confidentiality of information kept by it in respect of the fund or fund investors.

Complaints

6.4 A Fund Manager should maintain:

(a) procedures to ensure that:

(i) complaints from a fund or fund investors relating to the management of any fund managed by it are handled in a timely and appropriate manner;

(ii) steps are taken to investigate and respond promptly to a complaint by a person designated by senior management other than an individual directly concerned with the subject of the complaint or by the compliance officer; and

(iii) if a complaint is not remedied promptly, the fund or fund investor is advised of any further steps which may be available to the fund or fund investor under the regulatory system; and

(b) a register of complaints to give effect to (a) above. This should be reviewed by senior management on a regular basis.

7. Marketing Activities

Representations by the Fund Manager or its Representatives

7.1 A Fund Manager should ensure that any representations made or information supplied by it to a fund or any fund investor is accurate and or not misleading.

Issue of Marketing Materials

7.2 A Fund Manager should ensure that all advertisements and marketing materials are authorized as required by the SFC before issue and, in any event, ensure that the marketing materials:

(a) are not false, biased, misleading or deceptive;

(b) are clear, fair and present a balanced picture of the fund with adequate risk disclosures;

(c) contain information that is timely and consistent with the fund's offering document; and

(d) only contain performance claims that can be verified.

Offers of Investments

7.3 A Fund Manager should comply with all applicable statutory requirements regarding the offer of investments.

8. Fees and Expenses

Disclosure of Charges

8.1 A Fund Manager should disclose to a fund (and where the Fund Manager is responsible for the overall operation of a fund, fund investors) the basis and amount of its fees and charges.

Fair and Reasonable Charges

8.2 All charges, fees and mark-ups affecting a fund and fund investors should be fair and reasonable in the circumstances, and be characterised by good faith. In connection with mark-ups levied on transactions on behalf of a fund, where the Fund Manager is:

(a) acting as agent, such mark-ups are prohibited; and

(b) acting as principal, the circumstances should be disclosed to the fund (and where the Fund Manager is responsible for the overall operation of a fund, fund investors) and transactions be reported in periodic statements or transaction advice.

Rebates and Soft Commission

8.3 In connection with an authorized collective investment scheme, a Fund Manager should comply with the relevant requirements of the Code on Unit Trusts and Mutual Funds in force from time to time, and, in connection with other funds, comply with the relevant requirements of the Code of Conduct in force from time to time.

IV. Reporting

9. Reporting Obligations to the SFC

9.1.1 Fund Managers should provide appropriate information to the SFC on an ongoing basis upon request.

Note: For example, such information may include:

(a) leverage;

(b) assets and, where available, liability information (including illiquid assets); and

(c) information on each fund's securities lending, repo and reverse repo transactions.

Where necessary, for the effective monitoring of systemic risk, a Fund Manager may be required to provide other information on a periodic as well as on an ad hoc basis as the SFC may require from time to time.

9.1.2 A Fund Manager should respond to requests and enquiries from the SFC promptly in an open and co-operative manner.

9.1.3 A Fund Manager should ensure that all information it provides and provided on its behalf to the SFC is in all material respects complete and not misleading. If it becomes aware that the information provided does not meet this requirement, the Fund Manager should inform the SFC promptly.

Appendix 1

Requirements for licensed or registered persons conducting discretionary accounts management

Introduction

Where applicable, those licensed or registered persons that are involved in the management of discretionary accounts which are operated in the following manner should observe the requirements of this Code as well as any additional requirements set out in this Appendix:

(a) where a licensed or registered person provides discretionary management services to a client, in the form of an investment mandate or a pre-defined model investment portfolio; and

Note: The investment mandate may set out, among others, the types, risks and allocation of investments after taking into account the client's investment objectives and strategies. In the case of a pre-defined model portfolio, it may specify the proportion of the asset classes and markets and the risk profile of the selected portfolio.

(b) the licensed or registered person receives management fee and/or performance fee as remuneration for managing the discretionary accounts for its clients.

For the avoidance of doubt, this Appendix applies to all licensed or registered persons acting as managers of discretionary accounts, including, as appropriate, their representatives. Where a person is involved in the management of both collective investment schemes and discretionary accounts, this Appendix only applies to the extent that that person is involved in the management of discretionary accounts.

Note: In relation to certain principles and requirements (as specifically set out in this Code) that are only applicable to a Fund Manager that is responsible for the overall operation of a fund, discretionary account managers should also observe these principles and requirements and to the extent relevant to the functions and powers of the discretionary account manager.

Interpretation

Where requirements of this Code are applicable to discretionary accounts, terminologies that are specific to collective investments schemes/funds in the Code should be read as modified below:

- any reference to “fund” or “client” in this Code refers to “Discretionary Account”;
- any reference to “fund investors” in this Code refers to “Discretionary Account Clients”;
- any reference to “Fund Manager” in this Code refers to “Discretionary Account Manager”;

- any reference to “constitutive documents”, “offering documents” in this Code refers to “Investment Management Agreement” or “Discretionary Client Agreement”; and
- any reference to “redemption” in this Code refers to “capital withdrawal”.

Particular requirements in the Code which are not applicable to Discretionary Account Managers

The following requirements do not apply to a Discretionary Account Manager:

(a) Liquidity management

The requirements in relation to the use of specific tools or exceptional measures which could affect redemption rights and corresponding explanation in the offering documents are not applicable to a Discretionary Account Manager. (Paragraphs 3.14.1(f) and 3.14.2 of this Code)

Note: The extent of application of other liquidity management principles will depend on the capital withdrawal policy set out in the Discretionary Client Agreement.

(b) Termination

The requirements in relation to the termination process is not applicable to a Discretionary Account Manager. (Paragraphs 3.16.1 and 3.16.2 of this Code)

Note: A Discretionary Account Manager should observe the relevant termination provisions set out in the Discretionary Client Agreement.

(c) Side pockets

The requirements in relation to side pocket arrangements are not applicable to a Discretionary Account Manager. (Paragraphs 5.4.1 to 5.4.3)

(d) Auditors and audited accounts

The requirement in relation to the audit of the financial statements of the funds and the accounting information in the annual report for each of the funds are not applicable to a Discretionary Account Manager. (Paragraphs 5.2.2 and 5.2.3 of this Code)

(e) Valuation frequency

The requirements in relation to the valuation frequency to be appropriate for the dealing frequency of the fund and related disclosure are not applicable to a Discretionary Account Manager. (Paragraph 5.3.5)

Note: Where applicable, a Discretionary Account should observe the relevant requirements set out in paragraphs 5.3.1 to 5.3.7 (save for the appropriateness to the dealing frequency and related disclosure set out in paragraph 5.3.5) and the relevant valuation provisions set out in the Discretionary Client Agreement.

(f) Net Asset Value Calculation and Pricing

The requirements in relation to net asset value calculation of different unit/share classes are not applicable to a Discretionary Account Manager. (Paragraphs 5.5.1 and 5.5.2 of this Code)

Note: Where applicable, a Discretionary Account Manager should observe the requirements in relation to overall net asset value calculation of the Discretionary Account.

(g) Offer of Investments

The requirement in relation to compliance with all applicable statutory requirements regarding the offer of investments is not applicable to a Discretionary Account Manager. (Paragraph 7.3 of this Code)

Additional requirements applicable to Discretionary Account Managers

In addition to the requirements set out in this Appendix, the requirements set out in the following paragraphs are also generally applicable to a Discretionary Account Manager:

Client Agreements

1. A Discretionary Account Manager should ensure that a written agreement (Discretionary Client Agreement) is entered into with a client before any services are provided to or transactions made on behalf of that client. A Discretionary Client Agreement should set out the precise terms and conditions under which discretion will be exercised and contain at least such information set out in the section "Minimum Content of Discretionary Client Agreement" and be provided in a language understood by the client. These minimum requirements do not apply to Institutional Professional Investors or Corporate Professional Investors as defined in paragraph 15.2 of the Code of Conduct and in the case of Corporate Professional Investors, the Discretionary Account Manager has also complied with paragraphs 15.3A and 15.3B of the Code of Conduct.

Performance Review and Valuation Reports

2. Except as agreed otherwise in writing by the client, a Discretionary Account Manager should:

   (a) review the performance of each Discretionary Account against any previously agreed benchmark, either in writing to the client or by way of meeting, at least twice a year; and

   (b) provide valuation reports to the client on a monthly basis or at such shorter intervals as provided in the Discretionary Client Agreement. The report should, as a minimum, include the following:

      (i) the date on which the report is made;

      (ii) the cash and investment holdings and value of the Discretionary Account on that date including all income received and charges levied against that account;

(iii) movements in the value of the Discretionary Account; and

(iv) any open positions in relation to derivative transactions.

Minimum Content of Discretionary Client Agreement

In addition to the minimum content of client agreement set out in paragraph 6.2 of the Code of Conduct, a Discretionary Client Agreement should contain at least provisions to the following effect:

(a) appointment of the licensed or registered person as the Discretionary Account Manager;

(b) statement of the client's investment policy and objectives, including asset classes, geographical spread, risk profile of the target portfolio, any limitations or prohibitions on asset classes, markets or instruments (e.g. use of derivatives) and performance benchmark (if any).

In the case where the client has selected a pre-defined model portfolio, the Discretionary Client Agreement should also specify the proportion of the asset classes, markets, and corresponding risk profile of the selected pre-defined model portfolios;

(c) the amount of all fees to be paid by the client, whether to the Discretionary Account Manager or to a connected person with respect to the account, and a description of fees to be paid by the client to third parties, where applicable;

(d) any consent from the client where the Discretionary Account Manager intends to receive soft commission or retain cash rebates;

(e) details of custody arrangements if the Discretionary Account Manager provides custody arrangement by itself or through its associated entity; and

(f) details of periodic reporting to be made to client.

Appendix 2

Suggested risk-management control techniques and procedures for funds

A. Risk management

1. A Fund Manager should establish and maintain effective risk management policies and reporting methodologies.

2. The fund's risk policies and measurements and reporting methodologies should be subject to regular review, particularly when there are significant changes to the fund or relevant market conditions, legislation, rules or regulations that might impact the fund's risk exposure.

3. The risk management policy for each fund should provide, for each fund, a system of limits concerning the measures used to monitor and to control the relevant risks.

B. Market risk

1. A Fund Manager should establish and maintain effective risk management measures to quantify the impact on the fund (especially if the fund deals in derivative financial products) and, if applicable, the impact from changing market conditions. These measures should cover all risk elements associated with the fund. Matters to be covered in such risk measures may include:

   (a) unspecified adverse market movements - using an appropriate value-at-risk or other methodology to estimate potential losses;

   (b) individual market factors - measuring the sensitivity of the fund's risk exposure to specific market risk factors e.g. shifts in the interest rate yield curve and changes in market volatility; and

   (c) stress testing - determining the effect of abnormal and significant changes in market conditions on the fund using various quantitative and qualitative variable assumptions.

C. Liquidity risk

1. A Fund Manager should set and enforce concentration limits with respect to the funds' investments, collateral, markets and business counterparties, taking into account the respective liquidity profile and the fund's approved liquidity risk policies.

2. A Fund Manager should establish and regularly monitor measures of liquidity mismatches between the funds' underlying investments and their redemption obligations using quantitative metrics or qualitative factors.

3. A Fund Manager should establish appropriate arrears and default procedures to alert staff member(s) responsible for liquidity management to potential problems and to provide them with adequate time to take appropriate action to minimise the impact of fund counterparty liquidity problems.

4. In assessing the liquidity of the assets of a fund, a Fund Manager should consider the following, where applicable:

   (a) obligations to creditors, counterparties and third parties;

   (b) the time to liquidate assets;

   (c) the price at which liquidation could be effected;

   (d) financial settlement lag time; and

   (e) the dependence of these considerations on other market risks and factors.

D. Issuer and counterparty credit risk

1. A Fund Manager should establish and maintain an effective credit assessment system to evaluate the creditworthiness of the funds' counterparties and the credit risk of the fund's investments (or, if applicable, the relevant issuers).

E. Operational risk

1. In designing the policies, procedures, and internal controls to reduce operational risk, a Fund Manager should consider, amongst other considerations, physical and functional segregation of incompatible duties, maintenance and timely production of proper and adequate accounting and other records, the security and reliability of accounting and other information, staffing adequacy and prompt reconciliation of trading information.

2. A Fund Manager should establish, implement and maintain a business continuity and transition plan. The plan should include policies and procedures that ensure, in the case of a business disruption or an interruption to the Fund Manager's operations, the following matters are addressed:

   (a) the preservation of essential data and functions, and the maintenance of services and activities, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of its services and activities;

   (b) continuity of effective communications with clients, employees, service providers and regulators;

   (c) identification, assessment and maintenance of third-party services critical to the operation of the Fund Manager; and

(d) appropriate transitioning arrangements that account for the possible winding down of the Fund Manager’s business or the transition of the Fund Manager’s business to others in the event the Fund Manager is unable to continue providing its services.

Note:

Business disruptions, whether temporary or permanent, include, without limitation, natural disasters, cyber-attacks, technology failures, key personnel departures and other similar events.

3. The business continuity and transition plan, including the adequacy of the plan and the effectiveness of its implementation, should be reviewed at least annually. Records of such reviews should be maintained.