

YOUR REFERENCE

IN REPLY PLEASE QUOTE

DATE

Office

12 December 2001

DIRECT DIAL

Investment Products Department
Securities and Futures Commission
12th Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Draft Code Provision on the Offering of Hedge Funds

Thank you for giving us the opportunity to comment on the Securities and Futures Commission ("SFC") proposed draft code on the offering of hedge funds, which in due course will be incorporated into the Code on Unit Trusts and Mutual Funds (the "Code"). This submission paper covers additional issues (which have been mentioned to us since our previous submission paper) we would like to raise as a supplement to our previous submission paper dated 29 November 2001.

Considering the draft provisions of the Code, adopting the numbering as it appears in the draft:

(f) & (g) We believe that funds adopting different strategies should be able to set different frequencies of dealing days, so long as there is clear disclosure in the offer document relating to the liquidity of the investments in the fund. Having standard monthly dealing days for all funds may restrict the ability of the fund to engage in certain types of investment strategies. Therefore, it might not be feasible for funds adopting these strategies to have monthly dealing days, and thus, these funds should be able to set dealing days that are less frequent than monthly. The liquidity issue in this instance could be addressed by offering investors alternative exit strategies; e.g. the manager could agree to match sellers and purchasers on a reasonable efforts basis.

Generally, it is also not clear as to how the rules in relation to guaranteed funds (Chapter 8.5 of the Code) will interrelate with the proposed draft code on the offering of hedge funds, when dealing with guaranteed hedge fund products. It is not clear whether Chapter 8.5 of the Code should be read in conjunction with the proposed draft code on the offering of hedge

Hkg-1/348609/01

PARTNERS

J.W. BAIRD
D.G. BROCK
A.Y.L. CHAN
C.S.K. CHAN
C.F.Y. CHOI
R.M. DENNY
I.P.D. HARDEE
J.E. JAMISON

H.R. JENKINS
P.F. KRUGER
W.W. LI
A. LINDSAY
A.S.H. LO
A.A. MACPHERSON
M.E. MATSON
P.S. O'CONNOR

S.J. ROITH
M.G. SHIPMAN
C.F.M. TANG
S.J. VALENTINE
J.A. WALKER
J.R. WALTER
S.K.K. WEBB
J.F. WREDE

FOREIGN LEGAL CONSULTANTS

E. CASDAGLI (ENGLAND AND WALES)
E.J. COHEN (USA)
GAO P.J. (PRC)
S.P. HARDER (USA)
J.R. LEWIS (USA)
J.M. MADDOX (USA)
N.C.H. STAMP (ENGLAND AND WALES)
J. ZONIS (USA)

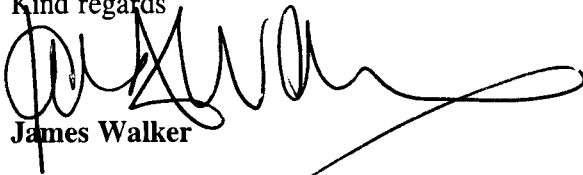
CONSULTANT

R.L. CALDWELL

funds; i.e. whether the rules applicable to hedge funds under the proposed draft code will also apply to guaranteed hedge funds. For example, will there be a minimum level of initial subscription for guaranteed hedge funds?; and will the requirements in assessing the suitability of the management company of a guaranteed hedge fund be similar to the requirements mentioned in the proposed draft code on the offering of hedge funds?

We hope these additional comments along with our previous comments are helpful to you. Please feel free to contact us if you have any questions or would like to discuss any of these comments further. Again we appreciate the opportunity to comment on these provisions.

Kind regards



James Walker