

## Hedge Fund Start Up Checklist

(for information only and not intended to constitute legal advice, information as at Dec 2009)

This note is to guide you through the process of starting up a hedge fund in Hong Kong with some points to note as below:

### 1. General Preparation

- Draft a comprehensive business plan
  - Set out the goal, scope, investment focus and investment strategy
  - Determine the organizational structure of the Company
  - Select CIO, COO and other key staff
  - Make cash flow projections
  - Risk Management
  - Formulate marketing arrangements and employment practices
- Setting up the Company
  - Secure an office space
  - Furniture, stationary and office equipments
  - Establish telecommunication and technology infrastructure including computers, telephones, servers, routers and necessary software
  - Design information security system, data management system, business continuity management plan
  - Acquire trading and portfolio management and monitoring software
  - Set up bank accounts
  - Obtain insurance for employees (e.g. MPF, medical, office insurance)

### 2. Licensing

- Consult with compliance consultants on licensing and regulatory matters
- Fill out the prescribed SFC forms and apply for a licence under the SFO
  - Advising on securities (Type 4 license)
  - Asset management activities (Type 9 license)
  - Complete the business plan and compliance manual supplemented by the SFC forms with a focus on internal controls, risk, compliance arrangement and framework to be in place
- Appoint at least two responsible officers who are able to satisfy competency requirements given by the SFC Guidelines on Competence
- Prepare legal documents to establish the fund and the managers as legal entities

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- Key employment agreements, shareholders agreement
- Finalize legal documents and offering documents
  - Subscription and operating agreements
  - Private Placement Memorandum (PPM)
  - Prime Brokerage Agreement
  - Fund Administration Agreement
  - Appoint independent directors to the fund board
  - Review other key services providers agreements

## 3. Compliance

- Identify relevant compliance obligations and risks
- Implement compliance policies and procedures
- Design a compliance manual and monitoring plan and framework
- Design compliance training for fund managers and staff
- Breaches and Errors reporting mechanism
- Consult with compliance consultants
- Secure on-going compliance support to satisfy compliance and regulatory requirements on a retainer/on-going basis

## 4. Prime Brokerage

- Prime Brokerage selection, pricing and services comparison (capital introduction services and other value added services)

Examples of services provided by a prime broker:

- Execution and clearing services for trades
- Segregated custody account for cash
- Portfolio maintenance and reporting
- Performance analysis and research
- Reconciliation (trade/settlement)
- Provide margin and lending of securities

## 5. Fund Administration

- Appoint Fund Administrator, administration activities may include:
  - Calculation of NAV and valuation of securities
  - Maintenance of the fund's books and records
  - Reconciliation and settlement
  - Portfolio accounting
  - Services for shareholders
  - Record of cash flows
  - Proxy voting
  - Middle and Back office support

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## 6. Accounting, Audit and Tax

- Appoint accounting services providers and auditors for the Company and for the fund

These may include:

- Company secretary
- Company incorporation and filings to companies registry
- Prepare the fund's annual audit and report
- Prepare tax forms and satisfy other reporting requirements for managers and investors
- Capital transactions
- Allocation of profits and losses
- Tax allocation and tax exposure management

## 7. Risk Management

- Establish a risk management function for the fund
- Identify, measure, monitor and manage risks
  - Market risk
  - Credit Risk
  - Liquidity risk
  - Operational risk
  - Regulatory risk
  - Key Man risk
  
- Stress testing, sensitivity analysis, exposure report, risk and correlation analysis, setting maximum exposure limits, VaR limits, obtaining VaR report

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