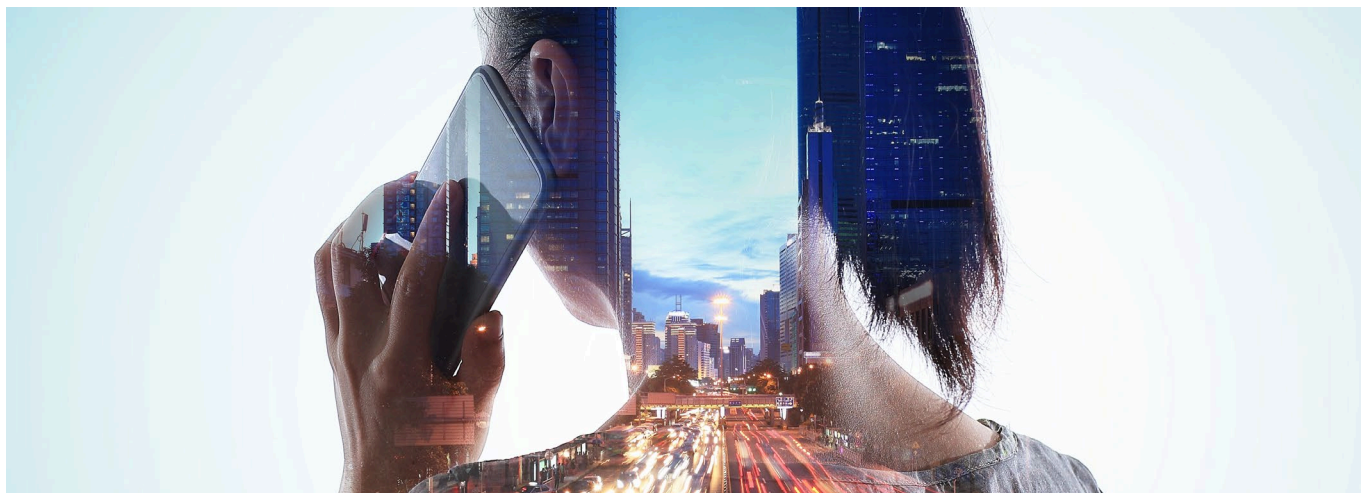


Revised FMCC Independent Valuation Review

Guiding you through change - August 2019



I. WHAT'S AT STAKE WITH THE FUND PORTFOLIO VALUATION?

Following the issuance of the revised Fund Manager Code of Conduct ("FMCC"), which came into effect on 17 November 2018, Fund Manager's valuation policies, procedures and processes ("PPP") should be periodically reviewed by a functionally independent third party. This review should be carried out at least annually.

The independent valuation of fund assets serves as a mechanism to mitigate a Fund Manager's conflicts of interest as a fund's management fees are typically charged based on the fund's valued asset size.

The independence of the process adopted for valuation may be achieved by the appointment of a function segregated from the investment management function such as internal audit, or by a qualified independent third party.

II. ENSURING YOUR COMPLIANCE WITH THE REVISED FMCC

At Mazars, we have extensive experience working within the diversity of Financial Services players, including Asset and Wealth Managers. We assist Central Banks, National Regulators, major Financial Institutions and Small and Mid-size Entities in dealing with their operations and risk management functions.

The revised FMCC set guidelines on the Fund Portfolio Valuation, but allow for flexibility in terms of their execution. With depth of experience working with the financial services industry, our team designed a technical approach focusing on four core areas to help you comply with the revised requirements. This proposed approach, though, may need to be adjusted depending on your individual facts and circumstances.

III.HOW CAN MAZARS HELP?

GOVERNANCE AROUND THE PORTFOLIO VALUATION FRAMEWORK

1. Review whether the entity set robust policies, procedures and processes so that a proper and independent valuation of the funds assets can be performed, in line with the Fund Portfolio Valuation section in the revised FMCC (§5.3.1 to §5.3.7).
2. Review whether a periodic review of the PPP has been performed to ensure its appropriateness to the fund assets on a continuous basis; our review would also cover the governance (Review by who? Reporting to? Action taken?)

DESIGN OF THE FUND PORTFOLIO VALUATION POLICIES, PROCESSES AND PROCEDURES

1. Review the compliance of the PPP with the general principles on valuation as per HKFRS 13 and best industry standards and practices, as outlined in §5.3.6
2. Review the process for handling valuation exceptions; ie where a price override or deviation is applied as the value of an asset determined in accordance with methodologies of the Fund Manager's valuation policies and procedures may not be appropriate.
3. Review whether the frequency of performance of valuations is adequate with the dealing frequency of the Fund as disclosed in the Fund's offering document.
4. Review whether management has disclosed the frequency of valuation and dealing, and basis of valuation, to fund investors.
5. Ensure whether the Fund Manager has established disaster recovery and business continuity policies and procedures that are capable of ensuring that the valuation process can be carried out in the event of an emergency or other service disruption.

SELECTION AND MONITORING OF THIRD PARTY VALUATION SERVICE PROVIDERS

1. Where a Fund Manager appoints a third party to perform valuation services, review the assessment processes followed for the appointment and afterwards, including its compliance with the Fund Manager's Valuation Policies.

EFFECTIVENESS OF THE FUND PORTFOLIO VALUATION FRAMEWORK

1. Test whether the valuation procedures to investors have been consistently applied to the valuation of similar types of fund assets.

CONTACT

Pierre Latrobe
Director – Financial Services, Hong Kong
pierre.latrobe@mazars.hk
+852 5917 8812

Joseph Huang
Executive Director – Financial Services, Taiwan
joseph.huang@mazars.tw
+886 920 256 199

Sean Choo
Partner – Financial Services, Singapore
sean.choo@mazars.com.sg
+65 9339 6389

Justin Tan
Partner – Financial Services, Singapore
justin.tan@mazars.com.sg
+65 9799 1343

More information on
www.mazars.hk

