

LE Paper 19 (Depository Services for Collective Investment Schemes)

Syllabus

Topic 1: Overview of the asset management industry

- 1 An overview of fund management and managed funds
 - Overview and definition
 - Types of managed funds
 - Onshore and offshore funds
 - Benefits and costs of managed funds
- 2 Overview of the fund management industry in Hong Kong
 - Background of the fund management industry
 - The size and sectors of the fund management industry
 - International perspective
- 3 Participants in the fund industry
 - Investors
 - Promoters
 - Fund managers
 - Trustees and custodians
 - Distributors
 - Other supporting participants

Topic 2: Major asset classes and fund types

- 1 The main asset classes
 - Equities
 - Fixed-income securities
 - Hybrid securities
 - Property
 - Derivatives
 - Foreign exchange
 - Alternative investments
 - Virtual assets

- 2 Major types of managed funds
 - Closed-ended and open-ended funds
 - Guaranteed funds
 - Equity funds
 - Fixed-income funds
 - Money market funds
 - Property funds
 - Multi-asset funds
 - Other types of funds
- 3 Investment strategy

Topic 3: Depositaries of SFC-authorized collective investment schemes

- 1 Role and functions of a depositary
 - Roles and responsibilities
 - Appointment of delegates and third-party service providers
 - Oversight of delegates and third-party service providers
- 2 Custody functions
 - Registration, custody, safekeeping and settlement of assets
 - Asset transfer
 - Cash reconciliation and cash flow monitoring
 - Distribution payment
- 3 Collective investment scheme operations
 - Scheme documents and fund documents
 - Valuation and pricing
 - Investment and borrowing restrictions/limits
 - Registration, issue and cancellation of units/shares
 - Subscription and redemption
- 4 Oversight and risks
 - Oversight of custody functions
 - Oversight of CIS operations
 - Insolvency risk of depositary and its delegates
 - Risk on depositary's failure on internal control

Expected Learning Outcomes (“ELOs”)

Topic 1: Overview of the asset management industry

The candidates should demonstrate a good understanding of the asset management industry in Hong Kong including the types, costs and benefits, and key industry participants.

The candidates are expected to:

- (a) define and describe collective investment schemes (“CISs”) under the public offering arrangements;
- (b) describe the costs and benefits of investing in CIS;
- (c) describe the factors and initiatives influencing the development Hong Kong’s asset management business;
- (d) describe various industry participants and how they contribute to the fund industry.

Topic 2: Major asset classes and fund types

The candidates should demonstrate a good understanding of major asset classes, types of managed funds and investment strategies.

The candidates are expected to:

- (a) identify and differentiate various asset classes available including equities, fixed income, cash, property, derivatives, foreign exchange, alternative investments and virtual assets;
- (b) identify and describe the differences between closed-ended and open-ended funds;
- (c) identify and differentiate the features and characteristic of different types of managed funds available to Hong Kong investors;
- (d) describe and differentiate between active and passive investment management.

Topic 3: Depositaries of SFC-authorized collective investment schemes

The candidates should demonstrate a good understanding of the role and key functions of a depositary, and how to effectively carry out their roles and functions when conducting Type 13 regulated activities.

The candidates are expected to:

- (a) describe the role and responsibilities of depositaries and the oversight obligations of their delegates and/or third-party service providers;
- (b) describe how custodised and non-custodised assets are registered, safe kept or controlled by the depositary;
- (c) identify, explain the impact and rectify the errors on the registration of cash/assets of CIS property, as well as the registration of unit holders/shareholders;
- (d) describe the factors that should be considered for approving asset transfer;
- (e) explain how to maintain bank accounts for CIS and deal with reconciliation discrepancies;
- (f) describe and differentiate the treatments of income (for income and accumulation shares/units) including unclaimed distributions;
- (g) describe relevant scheme documents and fund documents, as well as the importance of the CIS operation to comply with the provisions in the scheme documents;
- (h) explain how the depositary conducts the oversight of scheme changes;
- (i) explain the importance of fund accounting and the calculation of a fund's net asset value ("NAV");
- (j) explain how and when valuations are made, including the fund manager's application of fair valuation methods;
- (k) explain the factors constituting pricing errors, the resulting consequences and the actions depositaries should take to address them;
- (l) examine the investment and borrowing restrictions/limits, and the depositary's procedures for conducting post-trade verification of these restrictions/limits;

- (m) describe the process of subscription, redemption, issuance and cancellation of units/shares, as well as maintenance of holder register;
- (n) describe liquidity risks in funds and the measures taken for liquidity risk management;
- (o) examine the factors that should be considered and the measures that need to be taken when overseeing custody functions for CIS property;
- (p) examine the factors that should be considered and the measures that should be put in place for fulfilling a depositary's obligations in oversight of various CIS operations;
- (q) describe the risk associated with insolvency of the depositary, other delegates, banks or central securities depositories where the client assets are kept, identify and apply appropriate actions to mitigate the risks;
- (r) describe the risk associated with depositary failure in relation to internal control, operations and oversight of the task performed by relevant parties, identify and apply appropriate actions to mitigate the risks.