

## **HEDGE FUND STANDARDS BOARD LIMITED**

**("HFSB")**

### **EXPLANATORY MEMORANDUM FOR SIGNATORIES**

#### **Process for becoming a signatory**

Managers wishing to become signatories to the Standards may apply to HFSB for an application form. The application form, which should be completed and delivered to HFSB, contains five undertakings together with certain acknowledgements. The undertakings required from the hedge fund managers are

- to adopt the "comply or explain" approach described in the Standards,
- to provide funding towards the working capital of HFSB,
- from the date on which they adopt the "comply or explain" approach, to communicate as appropriate in their marketing materials and/or to display on their website that they are a signatory to the Standards,
- from the date on which they adopt the "comply or explain" approach, to do what they reasonably can to ensure that this is communicated to investors and prospective investors in hedge funds managed or advised by them through the prospectuses or offering memoranda for such funds (either when such documents are first published or, in the case of existing documents, next updated),
- to produce three statements in relation to its conformity with the comply or explain regime, as further described below.

HFSB will consider all valid applications to become a signatory and will notify those accepted in writing formally as soon as practicable following receipt of a duly completed application form. Acceptance will be at the discretion of the Board of Trustees of HFSB. HFSB may request further information regarding the applicant before making its decision.

#### **Disclosure Statement**

This is envisaged as a relatively brief document providing investors with overview details of those Standards, if any, with which the manager does not comply, either because they are unable to comply or choose not to do so. It may be that certain prospective investors will require a more detailed explanation of the degree to which the manager does not to comply. This requirement might be satisfied by a more detailed disclosure containing some or all of the information proposed to be included in the Explanatory Statement.

#### **Explanatory Statement**

The Explanatory Statement is envisaged to be a private document, updated from time to time as appropriate, in which the manager would on request explain to HFSB, or such other person as it may nominate (for example AIMA), in detail the reasons why the manager does not comply with certain of the Standards, either because they are unable to comply or choose not to do so.

## **Conformity Statement**

The final statement is a Conformity Statement which is intended to be a public declaration made as at the last day of the sixth month after the date on which the manager's application to become a signatory is accepted by HFSB and annually thereafter, provision of which to HFSB would entitle the manager to continue to display the HFSB logo on its website and/or marketing materials.

## **Signatory status**

As noted above a signatory undertakes to conform with the Standards and to provide funding for HFSB. The signatory's status is not that of a shareholder or member of HFSB, however. The members of HFSB will be its Board of Trustees but, as set out in the application form, all signatories will be invited to an annual meeting of signatories at which (a) the latest report and accounts of HFSB will be laid and (b) commencing with the meeting held in 2010, the signatories will consider and, if thought fit, indicate approval of the appointment or reappointment of Trustees who have been appointed as Trustees at the annual general meeting of HFSB in that year. In the event that a resolution of the signatories to indicate approval of any such appointment or reappointment is not passed by the signatories, this will not affect the appointment or reappointment of the relevant Trustee by the members of HFSB.

## **Eligibility to be a signatory**

HFSB retains absolute discretion as to which firms may become signatories. HFSB will accept applications only from fund managers engaged managing and/or advising investment vehicles employing hedge fund investment strategies. HFSB will welcome applications from such fund managers based in the UK and from any such fund manager based outside the UK who considers that becoming a signatory would be of value to them.

In the event that a signatory fails to comply with the undertakings given by it in its application form, the Board of Trustees may, at their sole discretion, revoke their acceptance of that fund manager as a signatory. In the event that a fund manager ceases to be a Signatory, it will not hold itself out in any way as a signatory and in particular will cease to communicate in its marketing materials and/or to display on its website that it is a signatory to the Standards.

## **Hedge Fund Standards Board Limited**

*1 July 2008*

**No responsibility, duty of care or liability whatsoever (whether in contract or tort or otherwise including, but not limited to, negligence) is or will be accepted by HFSB or the Board of Trustees of HFSB to signatories, investors or any other person in connection with the Standards or any Conformity Statement or Disclosure Statement made by any signatory.**

**Neither HFSB nor its Board of Trustees is a regulator of the hedge fund industry and their role does not extend beyond being a custodian of the Standards. Neither HFSB nor its Board of Trustees will seek to enforce compliance with the Standards by signatories. The fact that a manager is a signatory to the Standards is not and should not be taken as an endorsement of such manager by HFSB or the Board of Trustees or as a representation by HFSB or the Board of Trustees that such signatory operates in conformity with the Standards. In determining whether to accept a manager's application to become a signatory (or whether to**

revoke a manager's status as a signatory), the Board of Trustees will be entitled to rely on the information provided to it by such manager without further investigation or verification. Further, subject to any duties a Trustee may have under applicable law, it is not envisaged, or expected, that a Trustee will when participating in any such decision of the Board of Trustees take into consideration information which it may possess otherwise than in its capacity as a Trustee. For the avoidance of doubt, Trustees are acting as individuals.

HFSB and the Board of Trustees of HFSB do not accept any responsibility or liability for any loss or damage caused to any person who acts or refrains from acting as a result of anything contained in or omitted from the Standards or any Conformity Statement or Disclosure Statement made by any signatory or in reliance on the provisions of or material in the Standards or any Conformity Statement or Disclosure Statement made by any signatory, whether such loss or damage is caused by negligence or otherwise.