

Key Takeaways of the New Guidelines for Private Securities Funds

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I. Background

In 2023, significant progress was made in the legislative development of the private fund industry, with the release of the first administrative regulation, the "Private Investment Fund Supervision and Management Regulations" (the "**Private Fund Regulations**"). To fully implement the Private Fund Regulations, the Asset Management Association of China ("**AMAC**") drafted the "Guidelines for the Operation of Private Securities Investment Funds" and solicited public opinions on April 28, 2023 (the "**Draft for Comment**"). On April 30, 2024, the AMAC officially released the "Guidelines for the Operation of Private Securities Investment Funds" (the "**Operation Guidelines**"), which will come into effect on August 1, 2024.

During the public comment period, the AMAC received over 600 opinions, mainly focusing on issues such as fundraising and minimum fund size, subscription and redemption frequency and lock-up periods, portfolio investment, over-the-counter derivatives trading, and transitional arrangements. After comprehensive evaluation, the AMAC moderately relaxed relevant requirements in the officially released Operation Guidelines, including: reducing the minimum fund size from RMB 10 million to RMB 5 million and setting a transition period; relaxing subscription and redemption frequency from once a month to once a week, shortening the lock-up period from six months to three months, and allowing private securities funds to replace mandatory lock-up periods with short-term redemption fees; optimizing portfolio investment requirements; clarifying risk management requirements for over-the-counter derivatives trading; and extending the transition period for non-compliant existing funds to 24 months.

In addition to the above, compared to existing regulations, the Operation Guidelines mainly modified and added key points, including but not limited to: specifying the RMB 5 million minimum fund size requirement; specifying subscription and redemption frequency and lock-up period requirements; proposing a "dual 25%" portfolio investment requirement; clarifying that participating in DMA business should not use leverage exceeding 2 times; and specifying that the

nominal principal for participating in snowball structure derivatives contracts should not exceed 25% of the fund's net assets.

Overall, the Operation Guidelines align with regulatory requirements and practical standards for private asset management products of securities and futures institutions, such as the "Guiding Opinions on Regulating Financial Institutions' Asset Management Business" (the "**New Asset Management Rules**"), the "Measures for Managing Private Asset Management Business of Securities and Futures Institutions (2023)" (the "**Measures for Private Asset Management Business**"), and the "Provisions for Managing Private Asset Management Products of Securities and Futures Institutions (2023)" (the "**Provisions for Private Asset Management Products**"), aiming to reduce regulatory arbitrage space, and in light of recent market practices in the private securities fund industry, enhance the operational requirements of private securities funds. The goal is to further regulate the operations of these funds and protect the legitimate rights and interests of investors. Private securities fund managers are advised to promptly update their fund documents and related policies, manage the transition period effectively, and adjust their operational practices in a timely manner to better comply with new regulatory requirements.

II. Applicability

The Operation Guidelines apply to privately raised securities investment funds launched in accordance with the law within the territory of China, as well as their fundraising, investment, operation, and other business activities. However, the Operation Guidelines do not apply to private asset management products managed by securities and futures institutions; subsidiaries of financial institutions engaged in private asset management business will continue to follow existing regulations. Private fund managers engaging in securities investment advisory services shall refer to the Operation Guidelines for implementation.

III. Key Content Breakdown

1. Threshold for Fundraising (RMB 10 million) and Minimum Fund Size (RMB 5 million)

Threshold for Fundraising: According to Article 4 of the Operation Guidelines, the initial actual paid-in fundraising amount for a private securities investment fund shall not be less than RMB 10 million, and it is not allowed to circumvent this actual scale requirement by means of short-term

redemption of fund units by investors, which is consistent with the provisions of the "Private Investment Fund Registration and Filing Measures".

Minimum Fund Size: After thorough evaluation, the AMAC has decided to lower the minimum fund size from RMB 10 million proposed in the Draft for Comment to RMB 5 million and set transition period (i.e., for funds that have been filed before the implementation of the Operation Guidelines, the calculation of daily average scale of the previous year and 60 consecutive trading days starting from January 1, 2025).

Specifically, according to the Operation Guidelines: (1) If the daily average net asset value of the fund in the previous year is less than RMB 10 million, the private fund manager shall disclose potential impacts and relevant arrangements to investors within 5 working days; (2) If the daily average net asset value of the fund in the previous year is less than RMB 5 million, or if the net asset value of the fund is less than RMB 5 million for 60 consecutive trading days, the fund manager shall suspend accepting new subscriptions and disclose this to investors within 5 working days; (3) If, after suspending new subscriptions, the net asset value of the fund remains below RMB 5 million for 120 consecutive trading days, the fund shall enter liquidation proceedings; (4) Private fund custodians should cooperate in implementing and supervising private fund managers to promptly handle fund clearing and other matters as required.

2. Prohibition on Investors Purchasing Products Beyond Their Risk Tolerance Level

According to Article 5 of the Operation Guidelines, the risk rating of private securities investment funds must align with their risk-return characteristics. Additionally, the risk tolerance capability rating of investors should not be lower than the risk level of the fund they intend to subscribe to.

Compared to Article 19 of the "Measures for the Suitability Management of Securities and Futures Investors" (2022 Revision), which allows non-lowest risk tolerance category investors to purchase products with higher risk than their risk tolerance level if they insist, the requirements in the Operation Guidelines are more stringent. The aforementioned measures are likely to be revised in the future. It is advisable for private securities fund managers to promptly update their current investor suitability documents and related policies.

3. Enhance the Requirements for Fund Information Disclosure and Performance Display

The Article 6 of the Operation Guidelines imposes more stringent requirements on the

information disclosure and performance display of private securities funds, mainly including the following key points:

(1) Except for private fund managers and fund sales institutions, no institutions or individuals are allowed to display or transmit information related to fund performance, such as net asset value. This strictly limits entities without fund sales qualifications from accessing, displaying, and transmitting fund performance information and participating in fund sales. This requirement helps to reduce illegal fund sales activities and prevent risks caused by non-compliant sales. However, it is important to note that the Operation Guidelines only prohibit entities without fund sales qualifications from obtaining and disclosing fund performance related information, but do not completely forbid them from accessing other fund information. This may imply that intermediary services providing only partial information are somewhat permitted, which warrants further attention and monitoring of regulatory practices.

(2) It is emphasized that performance display should be objective, true, accurate, and complete, prohibiting selective display of performance and specifically prohibiting the display of fund performance data unverified by private fund custodians. By strengthening the supervisory responsibilities of fund custodians, fund managers or fund sales institutions are prevented from tampering with or embellishing performance records. In addition to existing investment oversight responsibilities, this regulation enhances the custodian's review duties and raises the standards for their scrutiny and due diligence.

(3) If a private fund's investors only consist of the fund manager, shareholders, partners, actual controllers, or employees, the private fund manager and fund sales institutions should disclose this information when promoting, selling, or ranking the fund. This regulation indicates that regulatory authorities will pay more attention to funds primarily invested by proprietary or related-party capital, improve transparency, and restrict the establishment of so-called "shell" funds created solely to retain the fund manager license. This will help ensure fairness and transparency in the market, prevent potential conflicts of interest, and prompt investors to focus on the manager's assets under management and management capabilities.

4. Subscription and Redemption Frequency and Lock-up Period (No mandatory rectification for funds filed before the issuance of the Operation Guidelines)

To guide investors towards rational investment and long-term holding, the Operation Guidelines

specify the subscription and redemption frequency and lock-up period requirements for private securities funds. Specifically:

(1) requiring that open-end private securities funds can now open for subscription and redemption no more than once a week, and each opening period must not exceed 2 days. If the fund invests more than 20% of its net assets in AA-rated or lower credit bonds (excluding convertible bonds) or assets with limited liquidity, it can only open for subscription and redemption once per quarter, with each opening period not exceeding 5 days;

(2) requiring that if open-end private securities funds set temporary opening days, they must comply with the regulations of the China Securities Regulatory Commission (the "CSRC") and the relevant requirements of AMAC. Temporary opening days are triggered only by law, administrative regulation, policy adjustments, contract modifications, or terminations, and on these days, only redemptions can be processed, not subscriptions. Investors must be notified two trading days before a temporary opening day;

(3) requiring that the fund contracts must include a minimum lock-up period of three months, or alternatively, arrangements for short-term redemption fees, which are to be considered part of the fund's assets. The Operation Guidelines do not explicitly specify the rate standards for short-term redemption fees. We believe that if the redemption fee rate is significantly lower than the market average, it may be questioned by the AMAC during the fund filing process and be considered as a disguised attempt to circumvent lock-up period restrictions.

(4) requiring that for investment by private fund managers and their employees, the lock-up period must be no less than six months, and exemptions from this period through short-term redemption fees are not permitted. This aligns with the Provisions for Private Asset Management Products which specify that the minimum holding period for securities and futures institutions using proprietary funds to participate in collective asset management products under their management must not be less than six months.

However, the AMAC has specifically clarified that there are no mandatory rectification requirements for the subscription and redemption frequency and lock-up period arrangements of private securities funds that were filed with AMAC before the issuance of the Operational Guidelines. Similar to other transitional arrangements, these requirements may lead to a concentrated filing of funds before the Operation Guidelines take effect on August 1 this year.

5. Type of Funds

The Article 9 of the Operation Guidelines stipulates that private securities investment funds must have a clear and legal investment direction, possess a transparent investment strategy and risk-return characteristics, and identify their product type. These are categorized into equity, futures and derivatives, mixed, and fixed income private securities investment funds, as well as fund of funds.

According to the Operation Guidelines, equity, futures and derivatives, and fixed income private securities investment funds are those that invest at least 80% of their "invested assets" in equity assets, futures and derivatives, and debt assets, respectively. This "80%" standard is consistent with that applicable to the private asset management products of securities and futures institutions. However, for private asset management products managed by securities and futures institutions, the Provisions for Private Asset Management Products further specify that, during the lifespan of the asset management product, to avoid specific risks and with the agreement of all investors, the investment proportion in the corresponding asset category can fall below 80% of the total assets of the products, but must not remain below this threshold for more than six months, while the Operation Guidelines do not contain similar provisions on tolerance for deviations. Furthermore, the Operation Guidelines explicitly mandate that no less than 80% of "invested assets" be maintained, whereas the Provisions for Private Asset Management Products stipulate 80% of "total assets". The terminology used in the Operation Guidelines is notably more precise.

6. Dual 25% Portfolio Investment Requirement (24-month Transition Period for Filed Funds)

To guide private fund managers in enhancing their professional investment capabilities and diversifying investment risks, the AMAC has specified the dual 25% portfolio investment requirement ("Dual 25%") in the Operation Guidelines, with reference to Article 15 of the Provisions for Private Asset Management Products. This requirement states that a single private securities fund shall not invest more than 25% of its net assets in the same asset, and the total investment in the same asset by all private securities funds managed by the same private fund manager shall not exceed 25% of that asset.

Exemptions from the Dual 25% requirement include:

(1) Bank demand deposits, government bonds, general collateral repo, central bank bills, policy

financial bonds, local government bonds, publicly offered funds, and other investment products recognized by the CSRC and the AMAC are excluded.

(2) Private securities funds that meet the first 25% criterion and invest in a single private fund may be exempt from the second 25% requirement. (No similar exemption for private asset management products of securities and futures institutions)

(3) Closed-end private securities funds that invest exclusively in publicly listed company stocks through strategic allotments, private placements, block trades, or negotiated transfers, where all investors are professional investors and each invests no less than RMB 3 million. (No similar exemption for private asset management products managed by securities and futures institutions)

(4) Private securities funds where the fund contract stipulates that over 90% of the fund's assets are invested in single private funds that meet the Dual 25% portfolio investment requirements. (No similar exemption for private asset management products managed by securities and futures institutions)

(5) Closed-end private securities funds where all investors are professional investors and each invests no less than RMB 10 million. (This is consistent with the exemption specified in Article 15 of the Provisions for Private Asset Management Products)

(6) Other specific cases as stipulated by the CSRC and AMAC.

We understand that the aforementioned exemptions reflect, to some extent, an encouragement for investments of fund of funds. We would like to caution that, if multiple funds are established to invest in the same asset in order to circumvent the second 25% limit (i.e., meeting the first 25% requirement), such behavior may be questioned by the AMAC during the filing process as not substantially complying with the Dual 25% requirement.

7. Stipulate Overall Leverage Requirements, the Leverage Ratio for Funds With Low Liquidity is 120% (24-month Transition Period for Filed Funds)

To enhance the leverage risk management of private funds, the Article 15 of the Operation Guidelines specifies detailed regulations on the leverage ratio of private securities funds. Specifically:

(1) General conditions: The total assets of a private securities fund must not exceed 200% of the

fund's net assets. The use of over-the-counter derivatives or other tools to circumvent leverage restrictions is prohibited, as is participation in over-the-counter financing.

(2) Special conditions: For funds investing in AA-rated or lower credit bonds (excluding convertible bonds) or assets with limited liquidity that together exceed 20% of the fund's net assets, the total assets must not exceed 120% of the fund's net assets. However, this does not apply to closed-end private securities funds where all investors are professional investors and each invests no less than RMB 10 million.

It is important to note that the 200% leverage limit in the Operation Guidelines does not differentiate between tiered and non-tiered structured funds. However, under the "Private Investment Funds Filing Guidance No.1", tiered structured private securities funds are specifically regulated to have total assets not exceeding 140% of the fund's net assets. Thus, for tiered structured private securities funds, the leverage ratio has not increased and must still adhere to the 140% limit.

8. New Requirement for Concentration of Investments in Listed Company Shares (24-month Transition Period for Filed Funds)

The Article 16 of the Operation Guidelines has specific requirements for investments in listed companies shares, stipulating that the total holdings of a single listed company's shares by private securities fund managers controlled by the same actual controller, including proprietary funds, all private securities funds under their management, and asset management products for which they serve as investment advisors, shall not exceed 30% of the listed company's outstanding shares.

The above provisions of the Operation Guidelines are stricter than those of the Provisions for Private Asset Management Products, which only require that the total holdings of all asset management products and public funds managed by the same securities and futures institution do not exceed 30% of the outstanding shares of a single listed company, and that asset management products, public funds, and other investment portfolios that fully follow the constituent ratio of relevant indices and are recognized by the CSRC are exempt. However, it is worth noting that the Operation Guidelines only require consolidated calculation of private securities funds and asset management products under the same control, without requiring consolidated calculation of private equity funds under the same control, which is a relaxation compared to the requirements of the Provisions for Private Asset Management Products.

The Operation Guidelines require consolidating the shareholding ratio of private securities fund managers controlled by the same actual controller, increasing the complexity of compliance management in cases where a group has two or more private securities fund managers. To prevent excessive shareholding, different private securities fund managers within the group must maintain necessary information exchange and sharing, dynamically monitoring the overall shareholding situation. However, excessive information sharing may also bring risks such as insider trading and interest transfer. Therefore, striking a balance between compliance requirements and risk prevention while ensuring necessary information exchange and preventing sensitive information from being misused becomes a significant challenge for groups controlling two or more private securities fund managers.

9. Strengthen Over-the-counter Derivatives Trading Regulations

Pursuant to Article 17 of the Operation Guidelines, private securities investment funds engaging in over-the-counter derivatives trading should aim to manage risks and allocate assets, with counterparties being institutions recognized by regulators, and meet the requirements listed below:

Derivative Categories	Net Asset Value Requirements	Investment Ratio and Leverage Requirement
Over-the-counter options contract	≥RMB 50 million (excluding commodity-type over-the-counter options trading)	$\frac{\text{Margin and premium paid to all counterparties}}{\text{Fund's net asset}} \leq 25\%$
Return swap contract	≥RMB 10 million	$\frac{\text{Margin paid to counterparties}}{\text{Notional principal of the contract}} \geq 50\%$ (Equity-linked swaps on stocks, stock indices, and similar assets)
Over-the-counter options or yield certificates with knock-in and knock-out structures, such as snowball structured derivatives.	/	$\frac{\text{Notional principal of the contract}}{\text{Fund's net asset}} \leq 25\%$ (Excluding closed-end funds where all investors are professional investors, and each invests no less than RMB 10 million)

(1) Article 17 of the Operation Guidelines does not provide a transition period. After August 1, 2024, existing funds that do not comply with the aforementioned requirements for over-the-counter derivative transactions will not be allowed to add new investors or extend the duration. They will not be permitted to increase the size of capital raised except for additional margin requirements, but they may continue to operate until the contracts expire and are subsequently liquidated.

(2) The Operation Guidelines stipulates that the proportion of over-the-counter equity options investment shall not exceed 25% of the net assets of the fund, and the fund's net assets shall not be less than RMB 50 million when opening and renewing positions. This has a significant impact on small-size fund managers who focus on trading derivatives such as over-the-counter options.

(3) With the implementation of the tightened Long-Short Return Swaps (DMA) policy, it is specified that the DMA leverage shall not exceed 2 times, and the net assets of the fund should not be less than RMB 10 million when opening and renewing positions.

(4) Previously, when private securities funds that invested in snowball products filed with AMAC, the AMAC had feedback requesting restrictions on relevant investment proportions. The Operation Guidelines explicitly clarify the restrictions on private fund investments in snowball structure products, stating that the nominal principal amount cannot exceed 25% of the fund's net assets. However, closed-end funds with all professional investors and each investing at least RMB 10 million (after penetrating identification) can be exempt from this restriction. This regulation is consistent with the previous window guidance of regulators for securities firms' asset management products and subsidiaries managing private funds, aiming to prevent regulatory arbitrage through private funds and avoid circumventing the investment proportion limits for securities firms by using private funds as a cover. The limitation refers to the "nominal principal amount", which means that when calculating the actual investment amount limit, it is necessary to divide by the leverage ratio (if any).

(5) It is explicitly stated that funds invest in over-the-counter derivatives are prohibited from adopting tiered structures. Similarly, tiered structured products are not allowed to invest in funds with underlying assets containing over-the-counter derivatives. This measure aims to prevent regulatory arbitrage through tiered arrangements and aligns with the provisions in the "Administrative Measures for Securities Companies' Return Swap Business", which prohibit structured products from participating in return swaps.

(6) The Operation Guidelines stipulate that over-the-counter derivatives transactions should not be transformed into leveraged financing tools for exchange-traded assets such as stocks and bonds. This implies that the primary role of over-the-counter derivatives should be risk management and asset allocation, rather than means to increase investment leverage. It is not yet entirely clear whether regulators will further require over-the-counter derivatives to be used for hedging risks of other assets in investment portfolios. At the same time, the Operation Guidelines reiterate that private funds must not serve as channels for selling over-the-counter derivatives to individuals or as channels to circumvent other over-the-counter derivatives trading requirements. In the second batch of record-filing cases publicly announced by the AMAC in 2022, a securities company attempted to sell snowball structured products to individuals through a private fund

because it could not achieve 100% investment in snowball structured products through asset management products, and individual investors could not directly purchase over-the-counter derivatives. The private fund manager only symbolically charged a few management fee and did not engage in active investment management, showing clear characteristics of channel business. As a result, the fund failed to complete filing with AMAC.

10. Strengthen Bond Investment Regulations

Articles 18 and 19 of the Operation Guidelines stipulate the investment proportion, risk control, and compliance requirements for private fund managers to invest in bonds. Private fund managers engaging in bond investment transactions must prudently set risk control indicators and strengthen dynamic assessments and risk management of bond transactions. Private fund managers and their managed private securities investment funds, shareholders, partners, actual controllers, and employees are prohibited from participating in structured bond issuances, bond holding on behalf of others, and receiving rebates. This aligns with the regulations issued in January 2024 by the Shanghai, Shenzhen, and Beijing stock exchanges, which prohibit investors from providing channels for issuers to subscribe to their own bond issuances.

The investment limits for private securities investment funds in bond investments are as follows:

- (1) Dual 10% Restriction: A single fund's investment in the same bond must not exceed 10% of the fund's net assets. Additionally, all funds managed by the same private fund manager investing in the same bond must not exceed 10% of the total outstanding amount of that bond.
- (2) Dual 25% Restriction: A single fund's total investment in bonds issued by the same issuer and its affiliates must not exceed 25% of the fund's net assets. Also, funds controlled by the same actual controller investing in bonds issued by the same issuer and its affiliates must not exceed 25% of the total outstanding amount of those bonds.
- (3) When private securities investment funds engage in bond pledged repurchase agreement business, the concentration of pledging or accepting pledges of a single bond must comply with the aforementioned "dual 10%" and "dual 25%" restriction, and the amount of repurchase transactions conducted with a single counterparty must not exceed 10% of the fund's net assets. Private fund managers should provide the custodian of the private fund with the transaction documents, counterparty, and pledged subject information related to the bond repurchase agreement business before the next valuation day of the fund.

(4) Government bonds, central bank notes, policy bank bonds, municipal bonds, convertible bonds, and exchangeable bonds, which are considered lower-risk, are not subject to the aforementioned investment ratio restrictions.

11. Cross-Border Investment Funds Must Comply with Current Regulations

According to Article 20 of the Operation Guidelines, private securities funds investing in overseas assets must adhere to the relevant laws, regulations, and business rules concerning cross-border investments. For instance, if the investments of a QDLP fund fall under the scope of the National Development and Reform Commission's "Measures for the Administration of Overseas Investments by Enterprises" and the Ministry of Commerce's "Measures for the Administration of Overseas Investments", the ODI procedures with the Development and Reform Commission and the Ministry of Commerce are still required.

12. Program Trading Requirements

Article 21 of the Operation Guidelines stipulates requirements for private securities funds primarily engaged in program trading, refining and connecting the content of the regulations on program trading management issued by various exchanges and the "Administrative Regulations on Program Trading in the Securities Market (Trial) (Draft for Comment)" by the CSRC:

(1) Business processes and risk control systems: Private fund managers should establish specialized management and compliance risk control systems for program trading, perfecting the review and monitoring of trading instructions; and effectively implement the development, testing, verification, compliance review, and launch of program trading strategies. These requirements are consistent with those in the "Administrative Regulations on Program Trading in the Securities Market (Trial) (Draft for Comment)" by the CSRC.

(2) Stable systems: The technical systems used for program trading should possess the basic functionalities stipulated by securities and futures trading venues, undergo adequate testing as required, and ensure continuous stable operation. If the CSRC's "Administrative Regulations on Program Trading in the Securities Market (Trial) (Draft for Comment)" are officially implemented, private fund managers must also report testing records to the exchanges.

(3) Record retention: Historical trading records and textual descriptions of algorithms or strategies, among other investment decision and trading-related documents, should be preserved

for no less than 20 years. It is important to note that not only textual descriptions but all relevant documents should be retained as per regulations.

(4) Reporting obligations: Private fund managers must comply with the reporting systems of securities and futures trading venues for program trading and must not split private securities investment funds to evade these reporting requirements.

(5) Emergency mechanisms: In the event of force majeure, accidents, significant technical failures, or major human errors that could cause significant abnormal fluctuations or affect the normal proceedings of securities and futures trading, managers must immediately take measures such as suspending trading or withdrawing orders, and promptly report to the securities or futures companies they have commissioned.

13. No Warning Lines or Stop-loss Lines for Open-end Funds

Article 24 of the Operation Guidelines specify that open-end private securities funds, as a principle, shall not have warning lines or stop-loss lines. The design of warning and stop-loss lines is intended to protect investors from significant loss. However, their widespread implementation can lead to substantial forced sell-offs and redemptions during market volatility, potentially triggering further sell-off or redemption waves. Setting these lines during periods of sharp market fluctuations can be detrimental to the long-term value realization of the funds. Therefore, not setting warning and stop-loss lines promotes long-term investment and reduces the impact of "passive forced sell-offs" on the A-share market, contributing to the stability of market funds.

14. No Expansion or Extension for Funds not under Custody as Required

Article 26 of the Operation Guidelines stipulates that private securities investment funds shall be held in custody in accordance with relevant laws, administrative regulations, and the CSRC requirements. Funds that are not not under custody as required shall not add new investors, increase their scale, or extend their term, and their annual financial report shall be audited. We understand that the aforementioned provisions continue to follow the current regulatory requirements regarding whether the fund should be under custody, that is, except for funds that have established, as stipulated in the fund contract, a daily institution of the general meeting of fund shareholders or by such other means that can effectively fulfill the responsibilities of safekeeping the fund's assets, funds are generally required to be under custody. However, for

funds that are not under custody, and do not meet the aforementioned requirements, their increase of scale or extension of term will be restricted after August 1, 2024.

15. Controls on Same-day Reverse Transactions

Article 32 of the Operation Guidelines impose strict controls on same-day reverse transactions by private fund managers. These transactions are strictly prohibited if they could result in unfair trading or the transfer of benefits. If such transactions are necessary due to investment strategies or liquidity needs, private fund managers must require the relevant investment managers to provide a rationale for the decisions and retain records for future review. This requirement also applies to transactions between the investment accounts of private fund managers and their employees, and the private securities investment funds they manage or the asset management products for which they serve as investment advisors.

This requirement aligns with the current requirements for securities firms' asset management business, aiming to prevent unfair trading and benefit transfers among different funds managed by private fund managers, as well as insider trading by the managers and their fund practitioners. In cases where reverse transactions are necessary on the same day due to specific investment strategies or liquidity needs, private fund managers are required to provide a basis for the transactions and maintain relevant records. For private fund managers employing hedging strategies, this means they may need to provide detailed explanations and records of their same-day reverse transaction strategies to ensure compliance and facilitate future regulatory inspections.

16. Specific Requirements for Private Securities Fund Managers with a Certain Asset Management Scale

According to Articles 35 and 37 of the Operation Guidelines, private securities fund managers with a certain asset management scale are required to conduct at least one stress test per quarter and submit the results. They are also required to set aside risk reserves as stipulated. The Draft for Comment had set the asset management scale threshold at a total fund management scale of RMB 2 billion or more at the end of the most recent year for private securities fund managers controlled by the same actual controller. However, this specific standard was removed in the final version of Operation Guidelines. The threshold for "a certain asset management scale" and the proportion and management of risk reserve extraction are still pending further clarification by

the AMAC. For the extraction of the risk reserve funds, it is possible that the provisions of the Measures for Private Asset Management Business may be referenced, which state that the extraction ratio for the risk reserve funds must not be less than 10% of the management fee revenue. The extraction of the risk reserve funds can cease once the balance of the risk reserve funds reaches 1% of the net asset value of the asset management product at the end of the previous quarter.

17. Transition Period

The Operation Guidelines will be implemented starting August 1, 2024. To ensure a smooth transition, the AMAC has specified differentiated transition period arrangements for various provisions of the Operation Guidelines, as summarized below.

"5 Million" minimum fund size (Article 4)	For funds that have been filed before August 1, 2024, the calculation of daily average scale of the previous year and 60 consecutive trading days start from January 1, 2025.
Over-the-counter derivatives trading regulations (Article 17) XXI.	Funds that have been filed before August 1, 2024, and do not comply with the requirements for over-the-counter derivative transactions will not be allowed to add new investors or extend the duration. They will not be permitted to increase the size of capital raised except for additional margin requirements, but they may continue to operate normally until the contracts expire and are subsequently liquidated.
"Dual 25%" (Article 12), "Dual 25%" exemptions (Article 13), overall leverage requirements (Article 15), concentration of investments in listed company shares (Article 16), and bond investment requirements (Article 19)	Funds filed as of August 1, 2024, will have a 24-month transition period. After this period, funds that do not meet the requirements will not be allowed to increase their fundraising size, add new investors, or extend their duration. These funds must be liquidated upon expiration.
Change of fund contract	➤ If the changes to the fund contract terms involve the requirements of the Operation Guidelines, the revised terms must comply with the requirements of the Operation Guidelines. ➤ During the transition period, if the duration of the fund contract changes, the contract should be amended to ensure compliance with the requirements within 24 months after implementing the Operation Guidelines. ➤ Private securities investment funds with no fixed duration should amend their fund

	contracts within 24 months of the implementation of the Operation Guidelines, in accordance with the requirements of the guidelines and the regulations of the AMAC. If they fail to make the necessary amendments by the deadline, they will not be allowed to increase their fundraising size or add new investors.
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IV. Conclusion

In conclusion, the Operation Guidelines represent a significant milestone in the development of the private securities fund industry, marking a refinement in regulatory standards. While adhering to the new asset management regulations, these guidelines incorporate practical industry experiences to impose more detailed and stringent requirements on various critical aspects of fund operations. The aim is to enhance the professionalism of the private fund industry, strengthen risk management, and protect the legitimate rights and interests of investors. Although some provisions introduce new compliance pressures, in the long run, they are beneficial for the sustainable and healthy development of the industry, enhancing overall risk control capabilities, and creating greater growth opportunities for private securities investment funds.

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