

**MEMO# 32370**

April 8, 2020

# **China Issues New Guidelines Allowing Public Fund Managers to Manage Private Segregated Account Portfolios**

[32370]

April 8, 2020 TO: ICI Global Members

ICI Global Pacific Chapter

ICI Global Regulated Funds Committee SUBJECTS: Compensation/Remuneration  
Compliance

Disclosure

Distribution

International/Global

Investment Advisers

Operations RE: China Issues New Guidelines Allowing Public Fund Managers to Manage  
Private Segregated Account Portfolios

On 3 April 2020, the Asset Management Association of China (AMAC) released the *Guidelines on Fund Managers Acting as Investment Managers of Privately Offered Asset Management Portfolios (Trial Implementation)*[\[1\]](#) (“Guidelines”). The Guidelines will allow public fund managers to manage both mutual fund portfolios and private segregated accounts at the same time. The Guidelines will be implemented on 1 May 2020.

Prior to the Guidelines, the China Securities and Regulatory Commission (CSRC) prohibited mutual fund managers from concurrently managing private segregated accounts. The CSRC takes the view that public and private funds are generally different in fund structure and investment objectives. Thus, these two types of funds should be treated and managed differently and governed by different sets of rules in order to prevent conflicts of interests. This will change as of 1 May 2020. Public fund managers who satisfy certain eligibility requirements will be permitted to manage both public and private funds provided that they follow the detailed internal control and information disclosure requirements stipulated in the Guidelines. This will open new opportunities to mutual fund managers and help the industry move one step closer toward convergence with international standards and practices.

This memo will highlight the key eligibility and compliance requirements.

## 1. Eligibility Requirements

To be eligible to manage both public mutual funds and private segregated accounts, an asset management company and its fund manager must meet certain eligibility requirements. These include the requirement that the company prudently evaluate the likelihood of conflicts of interest, strengthen its internal controls, maintain a clear staff accountability system and an appropriate incentive structure, implement effective internal controls and risk monitoring systems to ensure fair treatment among different funds managed by the same manager, identify unusual transactions, and provide timely and accurate disclosure of all relevant information.

The asset management company must be able to demonstrate the ability to continue to comply with risk management requirements, and that in the immediately preceding 12 months, it has not been the subject of any criminal or administrative sanctions nor has it been the subject of any administrative actions involving temporary suspension of registration or filing of any of its products.

The fund manager who manages both mutual fund portfolios and segregated accounts must have good professional and integrity records and have not been the subject of any criminal or administrative sanctions or other administrative or self-regulatory disciplinary measures in the immediately preceding three years. In addition, the fund manager must have more than five years of experience in managing public equity funds, privately offered asset management plans that invest in equities, or annuity social security portfolios.

When appointing a fund manager to oversee a segregated account, the asset management company is required to file with AMAC the change in fund manager, in accordance with the *Fund Manager Registration Rule*.<sup>[2]</sup> The Guidelines provide that the asset management company shall provide additional information together with the filing materials, including i) feasibility analysis on managing both mutual funds and segregated accounts, ii) compliance and integrity records of the asset management company and fund manager, and iii) measures that will prevent tunneling and unfair trading practices.

The filing will be processed within five working days upon receiving all materials. Every quarter, AMAC will send to the CSRC information on those fund managers who manage both public funds and segregated accounts.

## 2. Internal Control Requirements

To prevent a single fund manager from managing an excessive number of portfolios, the Guidelines stipulate that the maximum number of public funds/private accounts that a fund manager could manage concurrently shall not be more than 10 in total.

The Guidelines further stipulate that the asset management company shall enhance its oversight on order placement and trade practices to ensure that investors are treated fairly. When buying or selling the same security for multiple portfolios on the same day, the fund manager should make a best effort to place the orders simultaneously to ensure that the executed price will be the same across portfolios. Trade orders in opposite directions shall not be placed on the same day for different portfolios that are managed by the same fund manager. Furthermore, the asset management company shall strengthen the monitoring and control over the spread of same direction trades occurring on the same trading day across different portfolios under the same manager. In order to identify any unfair trading practices, the asset management company is required to analyze the spread of trades in the same and opposite directions over a window of longer than 10 trading days. The fund manager is required to provide explanations regarding unusual transactions. The

compliance officer shall report to the local offices of the CSRC within five working days any transactions that are deemed unusual after its independent assessment.

The asset management company should evaluate the performance of a fund manager who manages both types of portfolios over a horizon of more than five years. Deferred remuneration should be offered to these managers. In principle, the vesting period should not be less than three years and the deferred amount of remuneration should be no less than 40% of the total income. In order to align interests between fund managers and investors, the asset management company should encourage the fund manager to invest a certain percentage of his/her income in the public fund that he/she manages.

### **3. Information Disclosure Requirements**

Where a fund manager concurrently manages other funds, the asset management company shall disclose relevant details in the fund reports. The report shall include: i) details of funds managed by the same manager, *i.e.*, the number of funds managed, AUM, style, and management tenure; ii) remuneration mechanism of the fund manager, including incentive compensation, management fees, or performance-based incentives provided under private segregated accounts; iii) holdings of the fund manager and his/her close family members in the funds managed by the manager; and iv) the implementation of the fair trading rules and practices across portfolios managed by the fund manager.

Alexa Lam  
Chief Executive Officer, Asia Pacific  
ICI Global

Irene Leung  
Regional Lead, Member Relations and Research, Asia Pacific  
ICI Global

Lisa Cheng  
Research Analyst  
ICI Global

#### **endnotes**

[1] The Guidelines (available in Chinese) is available at:  
[http://www.amac.org.cn/aboutassociation/gyxh\\_xhdt/xhdt\\_xhyw/202004/t20200403\\_7774.html](http://www.amac.org.cn/aboutassociation/gyxh_xhdt/xhdt_xhyw/202004/t20200403_7774.html)

[2] The *Fund Manager Registration Rule* (available in Chinese) is available at:  
[http://www.amac.org.cn/governmentrules/czxgf/zlgz/zlgz\\_cyry/zlgz\\_cyry\\_zzgl/201912/t20191222\\_7702.html](http://www.amac.org.cn/governmentrules/czxgf/zlgz/zlgz_cyry/zlgz_cyry_zzgl/201912/t20191222_7702.html)