

Content

Title :	Financial-Supervisory-Securities-SITC-1120385875 <b>Ch</b>
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Content :	<p>Order of the Financial Supervisory Commission (FSC)</p> <p>Issue date: 29 December 2023 Issue no.: Financial-Supervisory-Securities-SITC-1120385875</p> <p>1. Pursuant to Article 3, paragraph 1 of the Securities Investment Trust and Consulting Act and Article 54 of the Regulations Governing Securities Investment Trust Funds, a privately placed securities investment trust fund (hereinafter, "privately placed fund") may invest in private equity funds and in offshore funds that have not been approved by or effectively registered with the FSC. Such funds furthermore shall comply with the following provisions:</p> <p>(1) Investment in mainland China securities shall not exceed the percentage set by the FSC under Article 23, paragraph 1, subparagraph 3 of the Regulations Governing Offshore Funds.</p> <p>(2) The management entity shall have been established for at least one year, and shall not have had any sanction, of which there is a record, imposed on it by its local competent authorities within the past two years.</p> <p>(3) A fund shall have regular reasonable prices sufficiently available for evaluation.</p> <p>(4) If there is to be investment in any private equity fund, the invested fund shall have the following characteristics:</p> <p>i. It shall comply with the relevant legal and regulatory requirements applicable to that invested fund.</p> <p>ii. Independent annual audits of the fund are conducted in accordance with generally accepted accounting principles or international auditing standards.</p> <p>iii. The fund performs asset valuation, accounting, and investment functions independently of each other.</p> <p>2. If a privately placed fund invests in any fund under the preceding point, it shall comply with the following provisions:</p> <p>(1) The securities investment trust agreement shall specify that "This fund may invest in private equity funds or in offshore funds that have not been approved by or effectively registered with the Financial Supervisory Commission (including hedge funds).</p> <p>(2) The private placement memorandum shall specify the following:</p> <p>i. The criteria for selecting private equity funds or offshore funds that have not been approved by or effectively registered with the Financial Supervisory Commission: the criteria shall include fund characteristics, investment strategies, risk profile, fund track record, valuation methodology, fund management entity, and the experience and qualifications of the fund managers of such funds.</p> <p>ii. If there will be investment in any private equity fund, it shall additionally disclose the following:</p> <p>a. The risks entailed to the privately placed fund and the subscription and redemption procedures, the impact of liquidity management clauses adopted including interpretation clauses and relevant illustrative examples, and the risk diversification and risk monitoring and management measures adopted.</p> <p>b. If the privately placed fund will invest in any private equity fund managed or operated by a member of the business group to which the securities investment trust enterprise belongs, it shall specify the standards governing the maximum fees charged for fund transactions of that</p>

kind and the extent to which the relevant fees will be returned to the privately placed fund.

(3) The cover page of the private placement memorandum shall specify the following:

i. The sub-funds in which the Fund will invest include private equity funds or offshore funds that have not been approved by or effectively registered with the Financial Supervisory Commission (including hedge funds). These are subject to lower levels of supervision and management and use alternative investment strategies, so the risks they take on are generally different from those of traditional funds.

ii. The special risks of private equity funds or of offshore funds that have not been approved by or effectively registered with the Financial Supervisory Commission (including hedge funds) may result in the beneficiary losing most or all of the amount invested. Therefore, the Fund is not suitable for investors who cannot bear the relevant risks.

iii. Investors should consider their own financial situation to decide whether it is appropriate to invest in the Fund.

iv. Investors should read the private placement memorandum carefully before making any investment.

3. When a securities investment trust enterprise uses a privately placed fund to invest in private equity funds, in addition to complying with the provisions of the preceding two points, its investment ratio in such funds, calculated in aggregate with its investment ratio in spot commodities such as gold, minerals, and other commodities pursuant to FSC Order No. Financial-Supervisory-Securities-SITC-1030021505 of 14 July 2014, may not exceed 40 percent of the net asset value of the fund.

4. When a securities investment trust enterprise will use a privately placed fund to invest in any private equity fund or any offshore fund that has not been approved by or effectively registered with the FSC, it shall formulate in its internal control system the standards and risk monitoring and management measures for selecting such funds. With respect to investment in private equity funds, it shall additionally formulate valuation policies and operational mechanisms, and in its internal control system shall set out operational procedures for handling exceptional circumstances in which it is difficult to implement the valuation policies. The relevant internal controls shall be submitted for approval by the board of directors.

5. This Order is effective from this day forward.

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