



## **Client Alert – AMAC Publishes Detailed Implementing Rules for the Practice Integrity of Fund Institutions and Their Staff Members (March 2020)**

On 12 March 2020, the Asset Management Association of China (“AMAC”) promulgated the ‘Detailed Implementing Rules for the Practice Integrity of Fund Institutions and Their Staff Members (“Rules”)’ which became effective on the same day. The Rules are the self-disciplinary rules related to the CSRC’s ‘Provisions on Practice Integrity of Securities and Futures Institutions and Their Staff Members’ issued in June 2018.

The Rules have incorporated public opinions and comprise of 5 chapters with 28 articles. Fund management companies in the People’s Republic of China and their onshore subsidiaries engaged in fund management, mutual fund managers, private fund managers and their employees (“fund managers”) must comply with the Rules.

### **Responsibility for Internal Control**

The Rules specify that the Board of Directors of fund managers are responsible for the effectiveness of the integrity of the company and employees while supervisory boards or supervisors shall supervise the performance of directors and senior managers in managing integrity.

Senior management of the fund manager is responsible for the operational integrity and must provide sufficient resources for the purpose of establishing, implementing, maintaining and continuously improving the fund manager’s internal control system and to ensure proper segregation of duties by having independence amongst personnel.

Fund managers must also conduct annual training and education on integrity, ethics and internal controls for all employees to ensure that they are familiar with the relevant requirements.

### **Internal Controls to Prevent Misbehaviour**

Fund managers and their employees must not obtain improper benefits nor provide improper benefits interests to public officials, customers, potential customers under negotiation or other stakeholders.

Fund managers and their employees must not obtain nor provide improper benefits when they are undertaking fundraising activities, investment trading, fund custody or other fund services.

### **Improper Fundraising Activities:**

- Assisting clients to sell products to or provide services for clients who fail to meet the suitability requirements or requirements for qualified investors by the means of providing false personal information, falsifying information or holding shares for others;
- Arranging for the sale to specific clients of structured, high-yield, capital-guaranteed financial products that deviate significantly from fair price;
- Selling unauthorised financial products in the name of the fund manager or its employees. institution staff;



- Stealing or leaking internal information about the fund manager, its counterparties or clients or other undisclosed information.

#### **Investment trading:**

- Using insider information, undisclosed information, trade secrets and client information to conduct trading activities or explicitly or inexplicitly instruct others to conduct trading activities;
- Appropriating or embezzling entrusted assets;
- Treating investment portfolios unfairly and transferring investments between accounts;
- Trading at a price that deviates significantly from the market price;
- Abusing the process for allocating trading commission and transferring investments or benefits to securities or futures companies or other parties that provide execution and clearing services;
- Transferring investments directly or indirectly through third-party institutions or individuals.

#### **Fund custody:**

- Appropriating or embezzling assets under custody;
- Issuing false supporting documents;
- Directly or indirectly facilitating the irregularities of fund managers or permitting fund managers to violate laws, regulations or contractual terms such as irregular transfer of funds, irregular payment or assisting clients in investment beyond assigned limits.

#### **Other fund services:**

- Assisting fund managers to make fake or misleading ratings, evaluations and awards;
- Providing information technology system services in which behave in a way that is contrary to the principle of fairness among different investors and products;
- Issuing false records, misleading statements or allowing material omissions in legal opinions, auditing reports or internal control evaluation reports.

#### **Enhancing or Reducing Punishments**

AMAC may take disciplinary action including verbal reminders and written warnings, requests for rectification within specified time limits, notification of the failure to other AMAC members, blacklisting, public reprimand, prohibiting the firm from taking on new business, a suspension from AMAC membership or membership disqualification.

Fund managers and their employees who fail to provide relevant documents or materials or falsify, conceal, tamper with or destroy evidence, or evade refuse to or obstruct the performance of AMAC



staff will receive heavier penalties. Fund managers and their employees who discover any acts that violate the Rules and self-report to AMAC will receive lighter or mitigated penalties.

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