

# Frequently Asked Questions (FAQ's)

## Private Fund Sector

### A. Introduction to Private Funds

#### 1. What is a Private Fund?

A Private Fund is an arrangement to pool funds from one or more eligible investors for investment in a portfolio of securities or other financial assets for profit or income. The participants neither have day-to-day control over fund management nor the right to give management directions.

#### 2. Is there a regulatory framework governing the Private Fund?

Yes, a Private Fund is regulated under the Private Fund Regulations, 2015.

#### 3. What is the purpose of the Private Funds Regulations 2015?

The Private Funds Regulations 2015 aim to regulate and supervise private funds in Pakistan, protecting the interests of investors and promoting transparency and fairness in the industry while allowing flexibility in fund operation with limited supervision of the commission.

#### 4. What are the different types of Private Funds?

The regulations allow for the sub-categorization of Private Funds based on their investment focus. These sub-categories can include:

- Private Equity and Venture Capital Fund
- Venture Capital Fund
- Angel Fund
- Small and Medium Enterprise Fund
- Infrastructure Fund
- Impact Fund
- Hedge Fund

To be categorized under a specific sub-category, at least 70% of the fund's net assets must be invested within that sub-category. For example, if a fund is categorized as a Private Equity Fund, at least 70% of its net assets must be allocated to private equity investments. Similarly, if it is a Venture Capital Fund, 70% must be invested in venture capital opportunities.

#### 5. How Private Fund is different from Mutual Fund?

A private fund is different from the mutual fund in several aspects:

- Investment in private fund is allowed to eligible investors which includes institutional investors, high-net-worth individuals (HNIs), and qualified investors. Retail investment is not allowed. Whereas, in mutual funds investment is open to the public, including retail investors.
- Private fund is subject to few regulatory restrictions as they cater to sophisticated investors who can assess risks. Whereas, mutual fund is Highly regulated by the SECP, with strict compliance on disclosures, pricing, liquidity, and risk management.

- Private Fund typically has a long-term investment horizon with lock-in periods (e.g., 5–10 years). Whereas, mutual funds offer daily liquidity.

**6. Who can establish, launch or raise money for a private fund?**

A company licensed by SECP as a private fund management company or PFMC under the Private Funds Regulations 2015 can establish, launch and raise money for a private fund.

**7. What is the minimum equity requirement for a Private Fund Management Company?**

The minimum equity requirement for a Private Fund Management Company is Rs. 10 million.

**8. Is there a fit & proper requirement for sponsors, major shareholders and directors of a PFMC?**

Yes, the fit & proper requirement for sponsors, major shareholders and directors of a PFMC is provided in the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

**9. Can a Private Fund advertise publicly for subscriptions?**

No, Private Funds cannot issue documents or advertisements to invite public subscriptions. Only eligible investors can be approached via a Placement Memorandum.

**10. Who qualifies as an eligible investor for a Private Fund?**

As per Regulation 2(iii) of the Private Funds Regulations, 2015, an eligible investor must have net assets of at least Rs. 15 million (excluding the value of personal residence) and must submit a declaration to private fund management company that they understand the risks associated with Private Fund investments.

**11. What is the minimum investment required in a Private Fund?**

There is no minimum or maximum investment requirement in a private fund but the individual must be eligible investor.

**12. What is the maximum number of investors allowed in a Private Fund?**

The maximum number of individual investors allowed in a Private Fund is 50 or the number defined in the Private Placement of Securities Rules, 2017. However, no such limit is applicable on Institutional Investors.

## **B. Registration and establishment of a Private Fund //**

**13. What are the registration requirements for launching a Private Fund?**

The Private Fund must:

- Be established by a licensed Private Fund Management Company.
- Be registered with the SECP as a Notified Entity.
- Be offered only to eligible investors through a Private Placement Memorandum.

#### **14. What are the permitted structures for establishing Private Funds?**

A private fund can be structured in Trust, Limited Liability Partnership or Company structure.

#### **15. What documents are required to register a Private Fund?**

The documents referred generally as constitutive documents include:

- Draft Trust Deed, Memorandum of Association, or Limited Liability Partnership Agreement.
- Consent and details of the trustee or custodian.
- Placement Memorandum (document that provides details of the Private Fund, including its investment objective, strategy, and risks).
- Application Form I with the prescribed fee.

### **C. Private Fund Governance and Management**

#### **16. What is the role of the Trustee in a Private Fund?**

The Trustee is responsible for holding the assets of the Private Fund in trust for the Unit Holders and ensuring that the Private Fund Management Company acts in accordance with the Constitutive Documents.

#### **17. Who can be the Trustee in a Private Fund?**

A person who is registered with the Commission as a trustee for Collective Investment Schemes under the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

#### **18. What are the obligations of a Private Fund Management Company (PFMC)?**

A PFMC is responsible for:

- Managing the Private Fund's assets in the best interest of unit holders.
- Complying with all regulations, including risk management, investor communication, and fund performance monitoring. Also maintaining proper records.
- Ensuring investments align with the objectives outlined in the Placement Memorandum.

#### **19. How conflicts of interest are managed?**

PFMCs must implement policies to:

- Prevent misuse of sensitive information.
- Manage and disclose conflicts of interest.
- Ensure transparency in cross-trades between funds under management.

#### **20. Can a Private Fund Management Company delegate its functions to another person?**

Yes, a Private Fund Management Company can delegate its functions to another person, but it remains responsible for the acts and omissions of that person.

## D. Investment and Operational Guidelines

### 21. Can a PFMC invest in funds under its management?

Yes, a PFMC can invest its surplus equity (beyond minimum equity requirements) in a Private Funds it manages.

### 22. What restrictions are in place for investments by a Private Fund?

The PFMC must:

- Invest in securities or financial assets within Pakistan or as approved by the SECP.
- Adhere to the investment strategy in the Placement Memorandum.
- Avoid deviations unless approved by 75% of unit holders by value.

### 23. Can a Private Fund invest in foreign assets?

Yes, a Private Fund can make foreign investments subject to compliance with all regulatory requirements with respect to foreign investments.

### 24. Are there specific requirements for fund size or structure?

There are no specific requirements for fund size however, a Private Funds must:

- Consider PFMC capacity and investor needs in determining size.
- Have provisions for size increases detailed in the Placement Memorandum.
- Be categorized as closed-end structures (e.g., Private Equity, Venture Capital, or open- end structure (e.g. Alternative Funds).

### 25. What are the fundamental attributes of a private fund?

The fundamental attributes of a private fund include investment objectives, investment policy and structure of the private fund etc. defined in the placement memorandum of the Fund.

### 26. Is change in fundamental attribute allowed?

Yes, change in fundamental attributes is allowed subject to approval of seventy five percent (75%) or more unit holders of the fund.

## E. Financial Reporting and Compliance

### I. Private Fund

### 27. What filings are required to be made by a private fund and what is the frequency?

Private funds must prepare financial statements in accordance with the applicable International Financial Reporting Standards (IFRS) within four months of the close of their financial year. The financial statements must be shared with unit holders and submitted to the SECP. These documents include:

- a) the balance sheet stating details of investments depicting cost and realizable value of such investments;
- b) profit and loss statement;
- c) cash flow statement; and
- d) statement of movement in NAV per Unit of the private fund.

**28. What are the audit requirements for a Private Fund?**

A PFMC must appoint a Chartered Accountant with a satisfactory Quality Control Review (QCR) rating from ICAP. Audit must follow International Standards on Auditing (ISA) as applicable in Pakistan.

The auditor's report must confirm:

- o Compliance with relevant regulations.
- o True and fair financial statements.
- o Proper record-keeping and agreement with books.
- o Any limitations in accessing required information.

**29. What are the reporting obligations of a Private Fund?**

PFMCs must:

- Provide half-yearly performance reports to investors, including portfolio details, expenses, benefits, and fund performance.
- Submit annual audited financial statements to the SECP and unit holders.

**30. How long must a Private Fund maintain its records?**

A Private Fund shall maintain its records for at least 10 years.

**II. Private Fund Management Company****31. What filings are required to be made by a Private Fund Management Company and what is the frequency?**

Private Fund Management Company must prepare financial statements in accordance with the applicable International Financial Reporting Standards (IFRS) within four months of the close of their financial year. The financial statements must be submitted to the SECP. These documents include:

- a) the balance sheet stating details of investments depicting cost and realizable value of such investments;
- b) profit and loss statement; and
- c) cash flow statement;

**32. What are the audit requirements for a Private Fund Management Company?**

The Private Fund Management Company shall ensure that its statutory auditors are from the approved list of auditors circulated by the Commission.

**33. What are the reporting obligations of a Private Fund Management Company?**

The Private Fund Management Company shall furnish to the Commission its quarterly (where applicable) and annual financial statements in accordance with the requirements of the Companies Act, 2017.

**34. How long must a Private Fund Management Company maintain its records?**

A Private Fund Management Company shall maintain such books of accounts and other records, as prescribed under the Companies Act, 2017, to depict a true and fair view of its state of affairs for a period of not less than ten years.

## F. Valuation and Pricing

### 35. What are the requirements for Private Fund valuation and pricing?

The Regulations set out guidelines for the valuation and pricing of Private Funds:

- **Valuation Methodology:** The methodology for valuing the portfolio and pricing the units must be documented and disclosed in the Placement Memorandum.
- **Valuation Frequency:** The frequency of valuation must be clearly stated in the Placement Memorandum, with a minimum requirement of at least once per financial year.
- **Independent Valuation:** An independent valuer, appointed with the consent of the trustee, must conduct the fund valuation at least once every financial year. Venture Capital Funds, however, are subject to a less frequent valuation requirement, with independent valuation needed once every two years.

### 36. How often must a Private Fund be valued?

Private Funds shall be valued at least once in a financial year by an independent valuer. Whereas, a Venture Capital Funds shall be valued once in two years. The frequency of such valuations shall be clearly disclosed in the Placement Memorandum.

Valuation changes are communicated to investors on a half-yearly basis through a detailed report, which includes the composition of the portfolio, the value and description of each security, and cash balances as of the reporting date. Additionally, these changes are reported to the Commission within four months of the financial year close through the annual financial statements.

## G. Regulatory Fees and Equity Requirement

### 37. What fees are applicable for Private Fund operations?

The fees include:

- Registration fee: Rs. 500,000.
- Annual fee: Rs. 250,000 (charged to the Private Fund as an expense).

**Disclaimer:** This FAQ is intended for informational purposes only and does not constitute legal advice. For specific legal guidance, you should consult with a qualified professional.