Financial Services Commission
www.fsc.go.kr

Financial Supervisory Service
www.fss.or.kr

Press Release

December 6, 2011

BEST PRACTICE GUIDELINES FOR HEDGE FUNDS AND PRIME BROKERS

KEY CONTENTS

I. Hedge Funds

1. Guidelines for internal control and risk management

Hedge fund management firms are required to set guidelines for internal control over hedge fund management, which include work manuals for executives and employees, and designate persons in charge of internal control matters.

In order to manage risks involved in hedge fund investment, hedge fund management firms are required to create a risk management division within the company.

2. Seeding principles for hedge fund firms

For hedge fund management firms who want to invest their own capital into hedge funds under their management, the best practice guidelines set the following principles:

(1) A hedge fund management firm is prohibited from investing more than 10% of its own capital into the same hedge fund.
(2) A hedge fund management firm is prohibited from investing more than 50% of its own capital into hedge funds under its management
(3) A hedge fund management firm is prohibited from investing its own capital into collective securities that exceed 30% of total securities issued by the same hedge fund.*

* This principle will not be applied until one year after the inception date of a hedge fund.

(4) In the cases above mentioned, the hedge fund management firm can recoup its investment only upon the remaining investors' consent.

Hedge fund managers are restricted from directly investing in hedge funds under their management.

3. Conflict of interest prevention

There should be a "Chinese wall" between a hedge fund management division and other business parts of a company. Executives and employees in the hedge fund division are restricted from concurrently working in other divisions.

Hedge fund management firms are required to create an internal committee, composed of compliance officers, in charge of preventing conflict of interest.

4. Investor protection

Hedge fund management firms are required to provide their clients with sufficient information about risks involved in hedge fund investment when they recommend the investment.

* Hedge fund management firms should give hedge fund investors a prior notice when levels of risks involved in their investment change.

Investment in a fund of hedge funds should be restricted only to investors with risk-absorbing capacity,* and stricter due diligence is required for these hedge funds.

* Professional investors or individual investors with a minimum investment of KRW 100 million.

For a fund of hedge funds which includes individual investors, it is required to diversify its investment into more than five hedge funds and guarantee investors resale opportunities more than once each quarter.

II. Prime Brokers

1. Internal control and risk management

Prime brokers are required to establish and operate compliance monitoring system in regard with brokerage services. For more efficient internal control, they are asked to automate work procedures.

In order to effectively manage risks involved in brokerage services, they are also required to establish an internal committee for risk management.

2. Guidelines for credit lending

(Total credit loans) A prime broker may extend a total of twice its own equity capital in credit loans.
(General credit loans) In accordance with *Regulations on Financial Investment Business*, the amount of general credit loans extended by a prime broker should not exceed its equity capital.

(Collateral-based loans) When a prime broker extends credit loans based on collaterals offered by hedge funds, the amount of lending should not exceed its equity capital.

3. Prime Brokerage Agreement (PBA)

A sample form of prime brokerage agreement (PBA) will be provided, which includes rights and responsibilities of contract parties such as ranges of utilizing collaterals, details of orders and contracts, ranges of settlement obligations, and work procedures.

For further inquiries:

Lee, J. Ernst
Spokesperson / Foreign Media
Foreign Press Relations
Financial Services Commission

Tel: +82-2-2156-9582
Fax: +82-2-2156-9589
E-mail: happyhero@korea.kr

Soomi Kim
Foreign Press Spokesperson
Public Affairs Office
Financial Supervisory Service

Tel: +82-2-3145-5803
Fax: +82-2-3145-5808
E-mail: soomi.kim@fss.or.kr