

Research on private equity fund information disclosure from the perspective of investor protection

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Abstract: *In recent years, private fund has developed rapidly in China, and it also occupies an important share in the capital market. As one of the main forces of capital market, private fund plays an important role in securities market, money market and venture capital. However, with the rapid development of private equity, the existing problems have gradually emerged, especially in information disclosure. Generally speaking, private fund investors have certain information acquisition ability and investment experience, and can make accurate and effective judgments on investment decisions, so it is generally considered that there is no need to provide too much protection for private fund investors. Under this wrong cognition, the rights and interests of investors cannot be effectively protected, especially the right to know of investors, which is more vulnerable to infringement. Therefore, with the continuous development of private fund in China, how to regulate the disclosure system of private fund information is very important to protect the legal rights and interests of investors. This paper analyzes the problems of private fund information disclosure and puts forward some suggestions for improvement based on the development situation of private fund in China.*

Keywords: *Investor protection; Private equity funds; Information disclosure*

1. Introduction

At present, private equity fund has become an important way of financing most enterprises and an important source of capital, which provides some impetus for the diversification and multi-level development of Chinese capital market. As of October 2022, 24,304 private fund managers had been registered and 135,836 private funds had been put on record, with 20.39 trillion yuan of funds under management, according to data released by the Asset Management Association of China. During the private equity market, there are some discordant notes, some private equity managers for private interest, damage the legal rights and interests of investors, this will affect the private equity investors' enthusiasm to a great extent. If we want to maintain the order of the capital market and ensure its healthy, stable and sustainable development, we must guarantee the basic rights and interests of investors and enhance their investment confidence. However, there are many problems in the disclosure of private funds in China, which can not satisfy the requirement of investor protection. In this paper, from the perspective of investor protection, the existing problems of private fund information disclosure will be analyzed in detail, and corresponding improvement measures will be put forward based on practice, in order to provide valuable reference for further regulating private fund information disclosure and improving the protection of investors' rights and interests.

2. Problems in Information Disclosure of Private Funds in China

2.1. The information needs of different investors are not differentiated

The target of private fund information disclosure is mainly its fund investors, and the ability of investors to obtain information and the degree of demand for information should be considered first in the process of disclosure. If investors have access to relevant information by themselves, they will have a lower need for such information. On the contrary, if investors have limited access to relevant information, they need to make up for this deficiency through disclosure. Under normal circumstances, fund managers disclose information only to meet the regulatory requirements of relevant authorities, and do not consider the different needs of different investors for fund information. In addition, the existing system of information disclosure in China demand that fund managers on the same fund information disclosed to the investors of the fund's all undertake unity, this request too structured, not to different

investors to distinguish their own ability to access information, so that on the one hand, can lead to fund managers undertake the duty of disclosure is overweight, so as to reduce the will of its active disclosure; On the other hand, it will increase the difficulty for investors to analyze and use information.

At present, the reason why the information disclosure of private fund does not distinguish between different investors' information needs lies in the failure to distinguish qualified investors. From the aspect of market, the qualified investor system solves the difficult problem between the issuance convenience of private funds and investor protection; From the social aspect, the establishment of the qualified investor system can maintain the stability of the financial system and improve the efficiency of financial operation. ^[1]To the requirement of qualified investors in our country is have a certain sense of risk identification and risk bearing ability, but in the concrete practice, to determine whether the qualified investors is the main basis of the assets of the investors, ignored the information acquisition ability of investors and risk bearing ability, which can lead to the disclosure of information, not to distinguish of information disclosure as the object of investors, Furthermore, unified information disclosure standards are adopted for all investors without distinguishing the information needs of different investors.^[2]

2.2. The information needs of investors of different sizes and types of funds have not been fully considered

Through the disclosure of private fund related information, investors can have a full understanding and cognition of fund operation and investment decisions, and provide effective reference for the next step of investment. Therefore, most investors pay great attention to the content of information disclosure, which is exactly the obligation and responsibility that fund managers must fulfill, and also the most urgent demand of investors in private fund investment. At present, China's private equity funds have made clear requirements in relevant regulations: disclosure must be made once a quarter, a single size of more than 50 million must be disclosed once a month, in addition to the annual report of fund operation and other information. However, it is worth noting that funds of different sizes have different degrees of impact on the financial market, and only require the disclosure of monthly fund reports of more than 50 million yuan, which is not conducive to the timely access of fund-related information for investors with small fund sizes. In addition, different types of private equity funds have different investment limits and ranges, and unified information disclosure standards cannot meet the needs of some specific private equity investors.

2.3. The protection of investors' right to know in the resale and exit stages is not enough

Investor protection is an important principle and goal of private equity industry supervision, and the right to know is the most basic right of investors. The information disclosure system of private fund is an information sharing mechanism established for the interests of investors, and its fundamental purpose is to protect the legitimate rights and interests of investors. ^[3]In the fund market, information asymmetry is the main reason that causes the interests of investors to be damaged. Due to the information asymmetry between investors and fund managers, investors can not fully and timely obtain the fund related information and can only passively accept the fund operation results transmitted by the managers. For investors, information disclosure has a certain degree of publicity and reliability. Investors can master the operation and development of the fund through the disclosed information, so as to make corresponding investment decisions. Meanwhile, information disclosure is also an important link to prevent fraud. However, at present, the disclosure scope of the existing private fund information disclosure system only includes the information during the fundraising and operation, and does not involve the resale and exit stage of information disclosure.

The existing private fund information disclosure system in China is relatively limited in terms of the reseller's information disclosure obligation. In the resale of fund shares, the information disclosure obligor has no disclosure obligation in the resale stage of the fund because the product trading market of the corresponding business has not been established. Whether the reseller of the private fund needs to undertake the obligation of information disclosure should be decided according to whether the issuer of the private fund needs to undertake the obligation of information disclosure when the private fund is raised. The existing information disclosure system requires that in the fund raising stage, the issuer should disclose the fund related information to all qualified investors. Therefore, in the resale stage of private fund, the reseller should also bear the corresponding information disclosure obligation.

The withdrawal of private funds is the last part of the fund operation, is the premise of maintaining the liquidity of investment funds and the way to achieve investment income, and is also an important

measure for investors to avoid investment risks. In the exit stage of the fund, investors need to know the realization degree of its income according to the results of the fund operation, so as to make decisions on whether to renew the fund and further investment. At present, the information disclosure of private fund withdrawal stage is not involved in our existing system.

2.4. The protection of investors' right to know in the resale and exit stages is not enough

With the continuous development and improvement of our capital market, the relevant laws and regulations of the industry are gradually updating. However, at present, there is still a lack of relevant systems specifically for private funds. Although investors in private funds have a certain scale of assets, most of them have low level of financial knowledge and lack of risk awareness and self-protection awareness, which makes their own interests cannot be guaranteed.

3. Some suggestions on perfecting private fund information disclosure under the perspective of investor protection

3.1. Implement differentiated information disclosure for different investors

In the process of information disclosure, the ability of investors to obtain information is a factor that must be considered. Institutional investors who do have access to information should not be protected too much; But for the natural person investor with relatively weak information acquisition ability, it is very necessary to protect the information disclosure. Therefore, qualified institutional investors and qualified natural person investors can implement differentiated information disclosure.^[4]

3.1.1. Information disclosure of qualified institutional investors

Among the many investors of private funds, institutional investors are the most experienced and economically powerful subjects, and they have relatively strong ability to obtain information. Therefore, compared with natural investors, institutional investors have a more complete and timely grasp of fund-related information. In general, institutional investors, fund issuers and fund managers are in the same position and have the ability to negotiate with relevant subjects on the price, requirements, conditions and other contents of the fund. When making investment decisions, institutional investors are able to grasp and make use of the relevant information needed for decision-making by virtue of their high professionalism. Therefore, institutional investors need a low degree of protection. Fund managers do not have to bear the obligation of compulsory disclosure to them. They only need to ensure the truth, accuracy, completeness and timeliness of the disclosed information when voluntarily disclosing information.

3.1.2. Information disclosure of qualified natural person investors

The criterion of distinguishing qualified investors is mainly based on the scale of investors' assets and neglects the real recognition consciousness and risk bearing ability of investors' qualifications. As a result, in practice, some natural person investors formally meet the requirements of qualified investors, but in essence, they do not have enough investment judgment ability, so they need to be given special protection. The fund manager shall bear the dual obligation of compulsory disclosure and voluntary disclosure to the natural person investor, and guarantee the truthfulness, accuracy, completeness and timeliness of the disclosed information. In addition, in order to ensure the fairness of information disclosure, the fund manager shall also disclose the material information disclosed to the institutional investors to the natural person investors. Dot should be included after the number of subsection headings.

3.2. Further refine the standardization of information disclosure

Investors have a very strong demand for private fund information disclosure, and the recognition of disclosure information will protect the legitimate rights and interests of investors to a greater extent. This requires the regulatory authorities of private funds to design minimum disclosure standards according to the actual needs of investors, so as to not only better protect investors, but also make more targeted requirements to fund managers.

3.2.1. Develop graded disclosures according to fund size

Due to different size of foundation on the financial markets have different degrees of impact, so the supervision department of the requirements related to the size of the single fund for accurate judgment,

and combined with the whole situation of fund managers, such as work out the corresponding information disclosure norms and requirements, which may be effective to predict the future risk degree of the impact of events, plan well in advance to prevent.

3.2.2. Establish disclosure of specific information

Because different types of private funds have different restrictions and ranges in investment, unified information disclosure standards cannot meet the needs of some specific fund investors and make them unable to accurately understand the operation of the fund. Therefore, the regulatory authorities should add relevant provisions for special information disclosure, such as update and forecast of market risk pressure, risk control and stop-loss clauses of fund products, and whether the asset allocation of each sub-strategy during the reporting period conforms to the contract. By establishing the disclosure of these information, investors can have a more sufficient and comprehensive understanding of fund management and fund products. On the other hand, the information disclosure system to make clear provisions, but also fully reflects the relevant regulatory departments for private funds strict requirements.

3.3. Increased protection of investors' right to know at the resale and exit stages

In view of the deficiency of the scope of information disclosure of private funds at present, the information disclosure of resale and exit stages should be increased.

3.3.1. Information disclosure at resale stage

Due to the non-public nature of private funds, there is usually no relevant information about private funds in the public market. Therefore, information disclosure is particularly important for potential investors in the resale stage of funds. However, the obligor of information disclosure in the resale stage of the fund is the reseller of the fund, not the fund manager, so the fund reseller should disclose to the fund transferee the relevant information it has and disclosed by the fund manager.^[5]In the resale of private securities, when the number of resold securities reaches a certain standard, the fund reseller needs to perform the corresponding information disclosure obligation.

3.3.2. Information disclosure at exit stage

The exit stage of private equity fund is the liquidation of the fund, including natural maturity and early liquidation of two situations. At this stage, investors are most concerned about the liquidation report of the fund and the distribution of investment income. Therefore, the key to the information disclosure of the withdrawal stage of the fund is the summary of the overall operation of the fund and the income distribution.

3.4. Scientifically and effectively educate and train investors

Since the self-protection ability of private fund investors is uneven, their own interests can not be guaranteed. If investors can have a strong risk identification awareness and tolerance, they can identify the possible risks in the process of fund operation and interpret the possible benefits. Therefore, scientific, effective and compliant information disclosure can create a harmonious development atmosphere for the private fund industry and increase the confidence and enthusiasm of investors to participate in private fund investment. Relevant regulators should, therefore, be scientific and effective for investors to carry on the education and training, make its have a certain financial and investment related knowledge and professionalism, as private equity investors in the aspect of theoretical knowledge gradually perfect and mature, will make China's private equity industry entering a virtuous circle of development.

3.5. Keep pace with The Times and constantly innovate the ways and means of information disclosure

With the rapid development of information technology, the media of information dissemination is constantly innovating, and the ways and means of private fund information disclosure are also becoming diverse. The fund manager may disclose information to investors through the official website, email, fax, third party service institutions, etc. In addition to these traditional channels, fund managers should also make full use of the convenience and advantages brought by "we media" to the whole industry and constantly innovate the ways and means of private fund information disclosure, such as: Through short videos and other forms of wechat official account, the company will show the basic information and investment concept of the company to investors and reveal the risks in the investment process, so as to better protect investors and establish a good image for the company.

4. Conclusions

To sum up, from the perspective of protecting private fund investors, this paper analyzes the existing problems of information disclosure and investor protection in the private fund industry. Finally, from the point of view of investor protection, this paper puts forward some suggestions on how to distinguish the information needs of investors and protect the legitimate rights and interests of investors. It will provide valuable reference for further perfecting the system of private fund information disclosure and protecting investors' interests.

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