

**CHINESE REGULATORS DISMANTLE MAJOR BARRIER FOR FOREIGN-SPONSORED RMB FUNDS**

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To Our Clients and Friends:

We have learned that Chinese regulators in the last few days have reached an agreement to permit general partners organized in Shanghai Pudong to convert foreign currency into Chinese currency (“RMB”) for investment in their own RMB-denominated Funds.

Until now, a key restriction preventing foreign general partners from establishing full-scale RMB Funds in China has been Circular 142, a rule promulgated by The State Administration of Foreign Exchange (“SAFE”). Circular 142 prevents, without case-specific approvals, foreign investors (including general partners) from converting foreign currencies into RMB for the purpose of investing in an RMB Fund. Since these approvals have not generally been forthcoming, and alternative routes are not generally available to most foreign general partners, foreign general partners have not been able to make a customary financial investment in their own RMB Funds, or otherwise participate directly in the economics of such RMB Funds.

We understand that the scope of this restriction is about to be dramatically narrowed. As noted, the Shanghai Pudong District Government has reached an agreement with SAFE that general partners organized in Pudong will receive an automatic waiver to convert foreign currency into RMB for investment in their own RMB Funds. This waiver will be for up to 1% of aggregate capital commitments of the RMB Fund as a whole. We have also confirmed this with the relevant department of Shanghai SAFE.

This is an important development, and when enacted will significantly change the RMB Fund landscape by finally providing foreign general partners with the opportunity to participate in more customary ways in the economics of their funds (although any attempt by limited partners to convert foreign currency into RMB for such purposes will continue to be subject to the Circular 142 restrictions). We understand that the Shanghai Pudong District Government has been encouraging a number of general partners to establish vehicles under this new approach.

If you would like further information regarding this breakthrough, please contact us.

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