



MAS 630

5 July 2010

NOTICE TO BANKS
BANKING ACT, CAP 19

Private Equity and Venture Capital Investments

1 Overview

1.1 This Notice is issued pursuant to section 55 of the Banking Act (cap. 19) and shall apply to all banks in Singapore which hold private equity and venture capital investments (“PE/VC investments”).

1.2 In the case of a bank incorporated outside Singapore, the treatment of PE/VC investments for capital adequacy purposes would be a matter for its parent supervisory authority. However, a branch in Singapore of a bank incorporated outside Singapore shall comply with all requirements on PE/VC investments as set out in this Notice.

2 Scope of Notice

Definitions

2.1 In this Notice—

“direct PE/VC investment” in relation to a bank, means any PE/VC investment which is acquired directly by the bank or not held by the bank through a fund or a trust structure;

“indirect PE/VC investment” in relation to a bank, means any PE/VC investment other than a direct PE/VC investment;

“investee” means any company or trust in which a bank has made a PE/VC investment;

“PE/VC investments” in relation to a bank, means —

- (a) an acquisition or holding of a major stake in any company excluded from the operation of section 32 by virtue of regulation 7 of the Banking Regulations 2001;
- (b) an acquisition or holding of any beneficial interest exceeding 10% of units or other equivalent measures in a trust;
- (c) control over more than 10% of the voting power in a trust;
- (d) any interest in a trust, where the trustee of the trust is accustomed or under an obligation, whether formal or informal, to act in accordance with the bank's directions, instructions or wishes, or where the bank is in a position to determine the policy of the trust;
- (e) an acquisition or holding of any partnership capital or other similar interest exceeding 10% in an entity (other than a company or trust);
- (f) an acquisition or holding of convertible debentures issued by an entity, where if such debentures are converted to shares, the aggregate value of shares held exceeds 10% of the entity's share capital;
- (g) an acquisition or holding of warrants or options on shares issued or granted by an entity, where if such warrants or options are exercised, the aggregate value of shares held exceeds 10% of the entity's share capital; or
- (h) an acquisition or holding of debentures or credit facilities, where these are held concurrently with any acquisition, holding or interest specified in the preceding sub-paragraphs (a), (b), (c), (d), (e), (f) or (g)¹,

(hereinafter referred to as "**Investment**"),

- (i) which the bank has determined to have potential for high growth or value creation; and

¹ The requirements in this Notice do not apply where the investment is initially by way of debentures and credit facilities alone. However, if subsequent investments within paragraphs (a), (b), (c), (d), (e), (f) or (g) are acquired, then the requirements of this Notice will apply to both the subsequent investments as well as the debentures and credit facilities.

- (ii) which is acquired in the manner set out in paragraph 2.2 below;

but does not include an Investment which is –

- (A) not carrying on any substantial business or is not in operation;
- (B) carrying on the business of engaging in property related activities (as defined in the Banking Regulations 2001); or
- (C) carrying on the business of factoring, leasing equipment or otherwise purchasing debt obligations from others.

“related party”, in relation to a bank, includes its head office, any of its branches, or any of its related companies.

Types of Investments

2.2 A bank shall acquire an Investment using one or more of the following methods:

- (a) the financing of the Investment’s growth or expansion, funding research and development activities, operational improvements, or engaging new management;
- (b) delisting the Investment from a securities exchange;
- (c) corporate restructuring such as a reorganisation, merger, consolidation, recapitalisation, buy-out, buy-in, joint venture, spin-off, or equity carve-out; or
- (d) such other method which the bank has determined to be common in the industry for acquiring such Investments.

Related Companies

2.3 Where a company –

- (a) is the holding company of another company;
- (b) is a subsidiary of another company; or
- (c) is a subsidiary of the holding company of another company,

that first-mentioned company and that other company shall be deemed to be related to each other.

2.4 In the case of a company which has a board of directors and a share capital, the definition of “subsidiary” and “holding company” shall be as set out at section 5 of the Companies Act (Cap 50) where all references to “corporation” shall be replaced with “company”.

2.5 In the case of any other company, a company shall be a “subsidiary” of another company if the latter company is in a position to determine or govern the financial and operating policies of the first-mentioned company; and a company shall be a “holding company” of another company if the first-mentioned company is in a position to determine or govern the financial and operating policies of the latter company.

2.6 The expressions used in this Notice, shall, except where defined in this Notice or where the context otherwise requires, have the same meanings as in the Banking Act (the “Act”) and in the Banking Regulations.

3 Capital Treatment

The capital requirements for the PE/VC investments of a bank incorporated in Singapore are as set out in MAS Notice 637.

4 Duration of PEVC Investments

4.1 Subject to paragraph 4.3, a bank shall not hold any direct PE/VC investment for a period exceeding 7 years from the date of its first investment in the investee.

4.2 Subject to paragraph 4.4, a bank shall not hold any indirect PE/VC investment—

- (a) where such investee is managed by the bank or a related party, for a period exceeding 7 years from the date of its first investment in the investee;
- (b) where such investee is not managed by the bank or a related party, for a period exceeding 12 years from the date of its first investment in the investee;
- (c) where such investee is managed by the bank or a related party, and
 - (i) the bank’s investment in the investee is less than 50% of the total size of the investee after five years from the date of its first investment in the investee; or

(ii) each underlying PE/VC investment invested through the investee is held for a period not exceeding 7 years,

for a period exceeding 12 years from the date of its first investment in the investee.

4.3 A bank shall not hold any direct PE/VC investment, where the date of first investment in the investee was made prior to 5 July 2010, for a period exceeding 10 years from the date of its first investment in the investee.

4.4 A bank shall not hold any indirect PE/VC investment, where the date of first investment in the investee was made prior to 5 July 2010, and —

(a) where such investee is managed by the bank or a related party, for a period exceeding 10 years from the date of its first investment in the investee; or

(b) where such investee is not managed by the bank or a related party, for a period exceeding 15 years from the date of its first investment in the investee.

4.5 A bank shall deduct the net book value of any PE/VC investment which is held beyond the relevant holding period as set out in paragraphs 4.1, 4.2, 4.3, and 4.4 from the bank's capital funds².

5 Valuation of PEVC Investments

Unless otherwise directed by the Authority, every bank in Singapore shall undertake regular reviews of all its directly held PE/VC investments to ascertain their net book values after provisioning for permanent diminution in the values of the PE/VC investments. Such reviews shall be conducted by a person who is independent of the officers involved in the process of making the PE/VC investment, and the PE/VC investments shall be valued prudently.

6 Involvement in Management

6.1 Subject to paragraph 6.3, a bank may not take part in the day-to-day management of an investee.

6.2 A director or an employee of the bank may only serve as a non-executive director of an investee. Only an employee of the bank who is employed primarily

² A bank incorporated in Singapore shall deduct the book value of any PE/VC investment which is held beyond the relevant holding period from the bank's capital funds in accordance with MAS Notice 637. The Authority is prepared to consider exempting PE/VC investments held beyond the relevant holding periods from being deducted from the bank's capital funds only under exceptional circumstances.

to carry out the activities of the PE/VC business unit may be involved in strategic issues or issues which are typically discussed at Board-level. Such involvement shall not pertain to the day-to-day operations of the investee, or pertain to areas where involvement may give rise to conflicts of interests in the investee's transactions with the bank.

6.3 A bank may only advise and take part in the day-to-day management of an investee under circumstances which are in the opinion of the Authority, extenuating circumstances, such as the need for prompt action in the event of a stress situation, for example, the loss of the investee's senior management or the impending bankruptcy of the investee, but such participation in management shall not exceed 6 months, except with the prior written approval of the Authority. A bank shall provide the Authority with relevant details as to the extent of and the reasons for the involvement in management of the investee within 3 months thereof of such involvement.

7 Risk Management Framework

A bank in Singapore shall have in place documentation setting out its risk management policy for its PE/VC investments. This policy shall include the bank's policies on types of investments, risk identification and mitigation, pre-specified investment limits (including single investment limits, industry investment limits, geographical limits and limits based on the stage of investment), due diligence, investment approval, post-investment monitoring, accounting and valuation, exit strategies and other relevant procedures and processes.

8 Qualification of Persons Engaged in PE/VC Investment Activities

8.1 As investing in a PE/VC investment requires skill, experience and judgment on the part of an individual, a bank shall employ professionals with relevant work experience and knowledge to manage its PE/VC investments.

8.2 A bank shall have in place a written policy for assessing the qualifications of employees entrusted to handle PE/VC investments and managers in investees not managed by a related party into which they have invested.

9 PEVC Investment Approval

9.1 A bank shall have in place a stringent internal assessment and approval process for each PE/VC investment. A bank shall keep detailed records of all PE/VC investments assessed and approved. These shall include for each PEVC investment, the following:

- (a) an investment assessment stating the objective of the PEVC investment;

- (b) the performance benchmarks set, including the target internal rates of return and the expected holding period; and
- (c) the exit strategy for the PEVC investment.

10 Subsidiarisation

10.1 The Authority encourages banks to carry out their PE/VC investment business through a separately incorporated subsidiary to separate the bank's PE/VC investment business from its other financial businesses. It is recommended that PE/VC investment functions be retained within the bank only if such PEVC investment is an indirect PE/VC investment made solely in an investee that is not managed by the bank or a related party.

10.2 In any case, every bank shall ensure that each PE/VC investment is identifiable and that separate records for each PE/VC investment are kept for internal monitoring purposes.

11 Reporting Requirements

11.1 Every bank in Singapore shall submit to the Authority a copy of its risk management policy and a copy of its policy for assessing the qualifications of PE/VC managers (as set out in paragraphs 7 and 8) within 90 days of the effective date of this Notice, in respect of existing PE/VC investments (where such policies have not been previously submitted to the Authority).

11.2 A bank in Singapore which intends to acquire or hold a PE/VC investment after this Notice comes into effect shall establish the relevant policies and submit copies of such policies to the Authority prior to the acquisition of PE/VC investments. In all cases, the bank shall notify the Authority in writing of any material changes in these policies as and when they occur.

11.3 Every bank in Singapore shall submit to the Authority information on its PE/VC investments, as at 30th June and 31st December of each year, in accordance with the format specified in Annex A, no later than the 30th of the following month. A bank shall submit to MAS information on its PE/VC investments held beyond the relevant holding periods, where the net book value has been deducted from capital, as at 31st December of each year, in accordance with the format specified in Annex B, no later than the 30th of the following month.

12 Effective Date

This Notice shall take effect on 5 July 2010.

BANKS' SCHEDULE FOR PRIVATE EQUITY / VENTURE CAPITAL INVESTMENTS

Name of Financial Institution: _____

As at dd/mm/yy

(1) Investing company or firm	(2) Investee company or firm	(3) Type of business	(4) Date of First Investment	(5) Value of shareholding over investee 's capital (%)	(6) Value of debt instruments and credit facilities (\$'000)	(7) Net book value of investment (\$'000)	(8) Net book value as percentage of capital funds	
							(a) Bank (%)	(b) Group (%)
Total								

Instructions

Please complete the above table to facilitate MAS' monitoring of the bank's private equity and venture capital investments. Please indicate if the figures given are audited.

Item (1) - This refers to the name of the bank or its subsidiary.

Item (2) - This refers the name of the investee company or firm.

Item (3) - This refers to the industry, in which the investee company is conducting its business e.g. Consumer products/services, Communications, Electronics, Energy, Manufacturing, Medical/biotechnology, Information Technology.

Item (4) - This refers to the date of the initial PE/VC investment.

Item (5) - This refers to the value of the PE/VC investment as a percentage of the capital of the investee company or firm.

Item (6) - This refers to the value of the debt instruments and the credit facilities extended to the investee company or firm.

Item (7) - This refers to the net book value of the PE/VC investment.

Item (8) (a) - This refers to the net book value of the PE/VC investment expressed as a percentage of the capital funds at the solo level.

Item (8) (b) - This refers to the net book value of the PE/VC investment expressed as a percentage of the capital funds at the group level.

BANKS' SCHEDULE OF PE/VC INVESTMENTS HELD PAST PERMITTED HOLDING PERIODS

Name of Financial Institution: _____

As at _____ (dd/mm/yyyy)

(1) Investing company or firm	(2) Investee company or firm	(3) Type of business	(4) Date of first investment	(5) Date of end of permitted holding period	(6) Expected date of full divestment	(7) Value of shareholding over investee's capital (%)	(8) Value of debt instruments and credit facilities (\$'000)	(9) Net book value of investment (\$'000)	(10) Remarks
Total									

Instructions

Please complete the above table to facilitate MAS' monitoring of the bank's private equity and venture capital investments that are held past permitted holding periods. Please indicate if the figures given are audited.

Item (1) - This refers to the name of the bank or its subsidiary.

Item (2) - This refers the name of the investee company or firm.

Item (3) - This refers to the industry, in which the investee company is conducting its business e.g. Consumer products/services, Communications, Electronics, Energy, Manufacturing, Medical/biotechnology, Information Technology.

Item (4) - This refers to the date of the initial PE/VC investment.

Item (5) - This refers to the date of the end of the permitted holding period for the PE/VC investment.

Item (6) - This refers to the date when the PE/VC investment is expected to be fully divested.

Item (7) - This refers to the value of the PE/VC investment as a percentage of the capital of the investee company or firm.

Item (8) - This refers to the value of the debt instruments and the credit facilities extended to the investee company or firm.

Item (9) - This refers to the net book value of the PE/VC investment.