MAS 822

16 November 1984

(updated on 21 Nov 05)

NOTICE TO FINANCE COMPANIES
FINANCE COMPANIES ACT, CAP 191

Power of the Authority to Secure Compliance with Sections 23, 26, 27 and 31

Pursuant to Section 29 of the Finance Companies Act, the Authority may require a finance company to aggregate its assets, liabilities or profits with the assets, liabilities or profits of its related companies, for purpose of securing compliance with Sections 23, 26, 27 and 31 of the Act.

For the time being, the Authority does not require any finance company to carry out any aggregation for the purpose of securing compliance with the above mentioned sections except for the following:-

a) Section 23(1)(d) - Credit facilities to a single borrower or group.
b) Section 23(1)(e) - 50% limit on total substantial credit facilities.
c) Section 26 - 25% limit on a finance company's investments.
d) Section 27 - 25% limit on a finance company's holding of immovable properties.

The procedure for aggregating the credit facilities, investments and immovable properties of the finance company and its subsidiaries (as defined under Sections 5 and 6 of the Companies Act) shall be based on the percentage shareholding of the parent finance company in its subsidiary (or subsidiaries). This percentage shareholding is then used to pro-rate the amount to be added to the parent finance company's credit facilities, investments or immovable properties respectively. For compliance, the capital funds referred to in these sections shall be the parent finance company's capital funds.

As an example, a parent finance company has lent $40 million, equivalent to 20% of its capital funds of $200 million, to a single borrower A and its 75%-owned subsidiary, say a credit or finance company, has lent $10 million to a borrower B who is connected with borrower A. If under MAS Notice 820, the loans have to be combined as a single credit, then only $7.5 million from the subsidiary finance company need to be aggregated, and the parent finance company would be deemed to have given credit facilities amounting to $47.5 million or 23.75% of its capital funds to the borrower A.

The same procedure is used for aggregating the credit facilities granted by second-level subsidiaries. When the total credit facilities given are aggregated and they exceed 25% of the parent finance company's capital funds, the finance company would be considered to have violated Section 23(1)(d).

The procedure for aggregating investments and immovable properties for the purpose of complying with Sections 26 and 27 shall follow the same principle.

A two-year grace period shall be given to finance companies which have exceeded the limits imposed by these sections. In such cases, the finance company is required to submit a list of such items to the MAS to enable it to monitor their progress.

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