

MAS Notice 630

5 July 2010

Last revised on 29 June 2021*

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(1) of the Banking Act (Cap. 19) (the “Act”) and applies to all banks in Singapore that hold private equity and venture capital investments (“PE/VC investments”)¹.

[MAS Notice 630 (Amendment) 2021]

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

[MAS Notice 630 (Amendment) 2021]

2 Scope of Notice

Definitions

2.1 In this Notice—

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

[MAS Notice 630 (Amendment) 2021]

“indirect PE/VC investment” means any PE/VC investment other than a direct PE/VC investment;

[MAS Notice 630 (Amendment) 2021]

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

¹ The capital requirements for the PE/VC investments of a bank incorporated in Singapore are as set out in MAS Notice 637 (Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore).

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

- (a) an acquisition or holding of a major stake in any entity excluded from the operation of section 32 of the Act by virtue of regulation 7 of the Banking Regulations;
- (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 in Singapore’s directions, instructions or wishes, or where the bank in Singapore 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)²

(hereinafter referred to as “**Investment**”),

- (i) which the bank in Singapore has determined to have potential for high growth or value creation; and
- (ii) which is acquired in the manner set out in paragraph 2.2 below;

but does not include an Investment which is –

² To avoid doubt, 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.

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

[MAS Notice 630 (Amendment) 2021]

“net interbank lending”, in relation to the branches and offices located within Singapore of a bank incorporated outside Singapore, means the total lending by those branches and offices to —

(a) other branches and offices located outside Singapore of the bank incorporated outside Singapore; and

(b) other banks and merchant banks,

less the total borrowing by those branches and offices from —

(c) other branches and offices of the bank located outside Singapore; and

(d) other banks and merchant banks.

For the purpose of this definition, “banks” has the same meaning as given in paragraph 3 of Appendix A1 Annex 1 of MAS Notice 610 (Submission of Statistics and Returns) last revised on 18 August 2020.

[MAS Notice 630 (Amendment) 2021]

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

[MAS Notice 630 (Amendment) 2021]

Types of Investments

2.2 A bank in Singapore must 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 restructuring³;
- (d) such other method which the bank in Singapore has determined to be common in the industry for acquiring such Investments.

[MAS Notice 630 (Amendment) 2021]

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 are deemed to be related to each other.

[MAS Notice 630 (Amendment) 2021]

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 is deemed to 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 is deemed to 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.

[MAS Notice 630 (Amendment) 2021]

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 Act and in the Banking Regulations.

[MAS Notice 630 (Amendment) 2021]

3 Capital Treatment

[Deleted by MAS Notice 630 (Amendment) 2021]

³ Such as a reorganisation, merger, consolidation, recapitalisation, buy-out, buy-in, joint venture, spinoff, or equity carve-out.

4 Duration of PE/VC Investments

4.1 Subject to paragraphs 4.3 and 4.5, a bank in Singapore must not hold any direct PE/VC investment for a period exceeding 7 years from the date of its first investment in the investee.

[MAS Notice 630 (Amendment) 2021]

4.2 Subject to paragraphs 4.4 and 4.5, a bank in Singapore must not hold any indirect PE/VC investment—

- (a) where such investee is managed by the bank in Singapore 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 in Singapore 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 in Singapore or a related party, and
 - (i) the bank in Singapore'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.

[MAS Notice 630 (Amendment) 2021]

4.3 Subject to paragraph 4.5, a bank in Singapore must 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.

[MAS Notice 630 (Amendment) 2021]

4.4 Subject to paragraph 4.5, a bank in Singapore must 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 in Singapore 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 in Singapore or a related party, for a period exceeding 15 years from the date of its first investment in the investee.

[MAS Notice 630 (Amendment) 2021]

4.5 A bank incorporated in Singapore may hold a PE/VC investment beyond the relevant holding period as set out in paragraphs 4.1, 4.2, 4.3 or 4.4 (as the case may be) (“relevant holding period”), if the bank deducts the net book value of the PE/VC investment which is held beyond the relevant holding period from its capital funds in accordance with Notice 637 (Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore)⁴.

[MAS Notice 630 (Amendment) 2021]

5 Valuation of PE/VC Investments

5.1 Unless otherwise directed by the Authority, every bank in Singapore must ensure that 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 are 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 are valued prudently.

[MAS Notice 630 (Amendment) 2021]

6 Involvement in Management

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

[MAS Notice 630 (Amendment) 2021]

6.2 A bank in Singapore must ensure that none of the directors or employees of the bank in Singapore serves as an executive director of an investee.

[MAS Notice 630 (Amendment) 2021]

6.2A A bank in Singapore must ensure that none of the employees of the bank in Singapore is involved in any strategic issue or issues which are typically discussed at Board level of the investee, unless –

- (a) the employee is employed primarily by the bank to carry out the activities of the PE/VC business unit;
- (b) the employee is not involved in the day-to-day operations of the investee; and
- (c) the employee’s involvement does not give rise to conflicts of interests in any of the investee’s transactions with the bank.

[MAS Notice 630 (Amendment) 2021]

⁴ 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.

6.3 Subject to paragraph 6.4, a bank in Singapore may take part in the day-to-day management of an investee if –

- (a) there are circumstances which are, in the opinion of the bank, extenuating circumstances, such as the need for prompt action in the event of a stress situation, including the loss of the investee’s senior management or the impending insolvency or bankruptcy of the investee;
- (b) the bank’s participation does not exceed 6 months, or such longer period as the Authority may approve; and
- (c) within 3 months of taking part, the bank provides the Authority with relevant details as to the extent of, and the reasons for, doing so.

[MAS Notice 630 (Amendment) 2021]

6.4 The bank must cease to take part in the day-to-day management of an investee if the Authority informs the bank that in the opinion of the Authority, there are no extenuating circumstances.

[MAS Notice 630 (Amendment) 2021]

7 Risk Management Framework

7.1 A bank in Singapore must have in place a written policy on risk management for its PE/VC investments, which must include policies and procedures (where applicable) on types of PE/VC investments that the bank may invest in, 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, and exit strategies.

[MAS Notice 630 (Amendment) 2021]

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 in Singapore must employ professionals with relevant work experience and knowledge to manage its PE/VC investments.

[MAS Notice 630 (Amendment) 2021]

8.2 A bank in Singapore must have in place a written policy for assessing the qualifications of employees of the bank in Singapore entrusted to handle PE/VC investments, and managers in investees not managed by a related party.

[MAS Notice 630 (Amendment) 2021]

9 PE/VC Investment Approval

9.1 A bank in Singapore must have in place a stringent internal assessment and approval process for each PE/VC investment. A bank in Singapore must keep detailed records of all PE/VC investments assessed and approved in accordance with such processes. The bank in Singapore must ensure that such detailed records include, for each PE/VC investment, all of the following:

- (a) an investment assessment stating the objective of the PE/VC investment;
- (b) the performance benchmarks set, including the target internal rates of return and the expected holding period;
- (c) the exit strategy for the PE/VC investment.

[MAS Notice 630 (Amendment) 2021]

10 Record-keeping Requirements⁵

10.1 [Deleted by MAS Notice 630 (Amendment) 2021]

10.2 A bank in Singapore must ensure that each PE/VC investment is identifiable and that separate records for each PE/VC investment are kept for internal monitoring purposes.

[MAS Notice 630 (Amendment) 2021]

11 Reporting Requirements

11.1 [Deleted by MAS Notice 630 (Amendment) 2021]

11.2 A bank in Singapore which intends to acquire or hold a PE/VC investment must implement the relevant policies, including the policy on risk management referred to in paragraph 7.1 and the policy for assessing the qualifications of employees and managers referred to in paragraph 8.2, and submit copies of such policies to the Authority prior to the acquisition of any PE/VC investment. The bank in Singapore must notify the Authority in writing of any material changes in these policies as soon as practicable.

[MAS Notice 630 (Amendment) 2021]

11.3 Every bank in Singapore must 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 in Singapore must submit to the Authority information on its PE/VC investments held beyond the relevant

⁵ The Authority encourages banks in Singapore to carry out their PE/VC investment business through a separately incorporated subsidiary to separate the bank in Singapore's PE/VC investment business from its other financial businesses. It is recommended that PE/VC investment functions be retained within the bank in Singapore only if such PE/VC investment is an indirect PE/VC investment made solely in an investee that is not managed by the bank in Singapore or a related party.

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.

[MAS Notice 630 (Amendment) 2021]

12 Effective Date

This Notice shall take effect on 5 July 2010.

*** Notes on History of Amendments**

1. MAS Notice 630 (Amendment) 2021 with effect from 1 July 2021.

Instructions

Please complete the above table to facilitate MAS' monitoring of the bank in Singapore'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 in Singapore 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) - For banks incorporated in Singapore, this refers to the net book value of the PE/VC investment expressed as a percentage of the capital funds. For banks incorporated outside Singapore, this refers to the net book value of the PE/VC investment expressed as a percentage of relevant total assets, where "relevant total assets" is the value of total assets less net interbank lending.

Item (8) (b) - For banks incorporated in Singapore, this refers to the net book value of the PE/VC investment expressed as a percentage of the capital funds at the group level. For banks incorporated outside Singapore, this is not applicable.

Instructions

Please complete the above table to facilitate MAS' monitoring of the bank in Singapore'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 in Singapore 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.

[MAS Notice 630 (Amendment) 2021]