RESPONSE TO FEEDBACK RECEIVED - CONSULTATION PAPER ON GUIDELINES FOR BANKS' PRIVATE EQUITY / VENTURE CAPITAL INVESTMENTS

On 20 Mar 2001, MAS issued a consultation paper on the regulation of Private Equity / Venture Capital (PE/VC) investing. We received a number of useful comments and feedback from banks and other interested persons. After careful consideration and follow-up discussions with the respondents, we have made the following changes to our proposed guidelines to give banks greater operational flexibility without compromising prudence:

a. Investment in Listed Companies

Feedback
Give banks greater flexibility to make PE/VC investments in listed companies by removing the case-by-case approval requirement proposed in the consultation paper.

Response
While PE/VC investments generally refer to investments in unlisted companies, banks will be allowed to make PE/VC investments in listed companies without first seeking approval from MAS.

b. SME Financing

Feedback
Some loans to SMEs are convertible to equity or have attached warrants or options. The equity obtainable typically is modest compared to PE/VC investing (usually less than 5% of the investee's share capital). As these SME loans bear some similarity to PE/VC investing, it should be made clearer that such SME loans are excluded from the PE/VC guidelines.

Response
The PE/VC investing rules are not intended to apply to credit facilities granted to SMEs. A bank should in the first instance determine through its own assessment, whether it is extending a loan to an SME or making a PE/VC investment. To provide clarity, MAS will exclude from the scope of the PE/VC guidelines convertible debt or loans with warrants where, following exercise or conversion, the aggregate value of shares held by the bank does not exceed 10% of the investee company's share capital.

c. Capital Treatment

Feedback
Lower the capital charge imposed on PE/VC investments in view of the regulatory requirements for risk management and diversification, and the aggregate investment limit. The level of capital required could be aligned to the bank's internal estimates.

Response
The higher risk of PE/VC investing calls for a prudent level of capital adequacy. However, recognising that risks to the bank increase with the aggregate amount of investment, MAS will impose a lower capital charge of 18% on the first tier of the bank's PE/VC investments up to 2% of the bank's capital funds. The next tier of investments, from 2% to 5% of capital funds, shall be subject to a capital charge of 50% and PE/VC investments above 5% shall be subject to a capital charge of 100%.

d. Holding Period

Feedback
Increase the permitted holding period for investments in PE/VC funds managed by third party managers to greater than 10 years.

Response
Investments in independent PE/VC funds (as defined in the Notice) may be held for a maximum of fifteen years.

However, direct investments in PE/VC investee companies would continue to be subject to a ten-year limit. Banks may seek MAS' approval for a longer holding period beyond these limits on a case-by-case basis.

e. Bank's Involvement in Investee Company

Feedback
Permit banks to temporarily manage an investee company under extenuating circumstances without first seeking MAS' approval as banks need to be able to protect their interests and those of their co-investors.

Response
Under extenuating circumstances, banks will be allowed to temporarily manage an investment for a period not exceeding three months, with further extension subject to MAS approval. Banks shall within three months notify MAS of their actions.

2 In addition to the above, we have decided after careful consideration not to accept two other suggestions in view of the need to ensure the prudent management of PE/VC investments. Firstly, we did not accept the suggestion to exclude debt securities and credit facilities to investee companies as banks face moral hazard when lending to their investee companies. Secondly, we did not accept the suggestion that banks that were only passive investors in independent funds be exempted from the guidelines. Passive investments, like other PE/VC investments, are still exposed to higher risks.

3 The prudential requirements for banks' private equity and venture capital investments are set out in a new notice MAS 630 with takes effect from 18 July 2001.

MONETARY AUTHORITY OF SINGAPORE
18 JULY 2001

Last modified on 30/3/2007