

POLICY PAPERS

POLICY PAPER FI/PD/01: REGULATORY PROVISIONS FOR THE UNDERTAKING OF LENDING ACTIVITIES BY INSTITUTIONS AUTHORISED UNDER THE FINANCIAL INSTITUTIONS ACT 1994 (FACTORING AND FORFAITING)

The policy document is being issued:

- to convey the views of the Competent Authority as to what it considers as being the general principles of good lending and what is considered as methodical approaches towards appraising lending propositions;
- to create awareness by financial institutions of specialised types of lending activities and their specific characteristics; and
- to inform financial institutions on the specific risks associated with such specialised lending activities in general.

Within the above context and after listing best practice procedures for good lending together with the requisites for evaluating lending propositions, the policy document defines and evaluates in detail factoring and forfaiting.

In the conclusion to the policy document, financial institutions are advised that, before entering into lending and specialised aspects of this activity they:

- are conversant with all the technical and legal implications;
- implement sound internal control and monitoring systems;
- are conversant with all the Banking Directives that are relevant to lending activities since they would be applicable; and
- ensure that the level of own funds that would ensure regulatory compliance in the undertaking of lending activities.

POLICY PAPER FI/PD/02: REGULATORY PROVISIONS FOR THE UNDERTAKING OF FINANCIAL LEASING ACTIVITIES BY INSTITUTIONS AUTHORISED UNDER THE FINANCIAL INSTITUTIONS ACT 1994

This policy document is being issued:

- To distinguish financial leasing from other activities;
- To facilitate awareness by financial institutions of such distinctions;
- To create awareness of the financing options; and
- To enable financial institutions to ensure compliance with the conditions of their licence.

The Policy Document defines financial leasing activities and their characteristics and components.

It further gives a brief description of other similar arrangements that are however estopped from being undertaken by financial institutions. These are:

- Hire Purchase or Lease Purchase Agreements;
- Operating Lease; and
- Sale and Leaseback Transactions.

When accounting for financial leasing, banks are required to adhere strictly to the International Accounting Standards and to seek professional advice as necessary.

POLICY PAPER FI/PD/03: THE REGULATORY PROVISIONS FOR THE UNDERTAKING OF VENTURE OR RISK CAPITAL ACTIVITIES BY INSTITUTIONS AUTHORISED UNDER THE FINANCIAL INSTITUTIONS ACT, 1994.

Venture or risk capital is considered as being risk finance of a temporary nature provided to companies that, for a variety of reasons, are unable to raise such finance.

The purpose of this document is:

- To enhance an understanding between financial institutions and the Competent Authority as regards what constitutes venture or risk capital activities;
- To create awareness among financial institutions undertaking venture or risk capital activities;
- To facilitate the monitoring by the Competent Authority of venture or risk capital activities;
- To assist financial institutions in assessing whether particular business transactions qualify as venture or risk capital; and
- To assist financial institutions to comply with the conditions of their licence.

The Notice gives a brief description of the following different types of venture capital:

- Seed Capital;
- Start Up Capital;
- Early Stage Development;
- Later Stage Development; and
- Management Buy-Outs.

The Notice states that Venture or Risk Capital Transactions should be of a temporary, short to medium term nature not representing control in the investee company and should be legally enforceable.

