

CONSULTATION PAPER NO.133



THE FUTURE OF FINANCE: VENTURE CAPITAL

26 JULY 2020

PREFACE

Why are we issuing this Consultation Paper (CP)?

This Consultation Paper seeks public comment on the DFSA's proposals to make a number of amendments to our regime to address explicitly the needs of the Venture Capital sector. The DFSA has not previously had an explicit regime for this sector of the funds industry, but market developments mean that this is an appropriate time to propose changes.

Who should read this CP?

The proposals will be of interest to Fund Managers, persons considering establishing a Fund Manager or Funds in the DIFC, and advisers to any of these persons.

Terminology

Defined terms have the initial letter of the word capitalised, or of each word in a phrase. Definitions are set out in the [Glossary Module](#) (GLO). Unless the context otherwise requires, where capitalisation of the initial letter is not used, the expression has its natural meaning.

What are the next steps?

Please send any comments using the [online response form](#). You will need to identify the organisation you represent when providing your comments. The DFSA reserves the right to publish, including on its website, any comments you provide. However, if you wish your comments to remain confidential, you must expressly request so at the time of making comments, and give your reasons for so requesting. The deadline for providing comments on this consultation is **8 September 2020**.

Following the public consultation, we will proceed to make the relevant changes to the DFSA Rulebook as appropriate to reflect points raised in consultation. You should not act on the proposals until the relevant changes are made. We will issue a notice on our website when this happens.

Structure of this CP

Part I	Background;
Part II	Policy proposals to establish a Venture Capital Funds regime;
Part III	Operational changes for dealing with Venture Capital Funds;
Appendix 1	Draft amendments to the General (GEN) Module;
Appendix 2	Draft amendments to the Collective Investment Rules (CIR) Module;
Appendix 3	Draft amendment to the Glossary (GLO) Module;
Appendix 4	Draft amendments to the Prudential Investment, Insurance Intermediation and Banking (PIB) Module;
Appendix 5	Draft amendments to the Fees (FER) Module; and
Annex 1	Questions in this Consultation Paper.

Part I Background

Venture capital and its importance to economic growth

1. Venture capital is a significant source of financing available to start-ups and small businesses to invigorate and sustain economic growth. Such businesses often ride on the back of advancements in technology to pursue innovative ideas and ways to do business. The 'Future of Finance' strategy of the Dubai International Financial Centre (DIFC) encompasses venture capital funding as a key component of the overall ecosystem that drives economic growth in the Centre, and the wider economy in Dubai and the UAE.
2. Venture capital is a subset of 'pools' of money available for investment in businesses, known as 'private equity'.¹ Some key factors that differentiate venture capital financing from other forms of private equity financing are:
 - a. the nature of the investee companies – being generally start-ups and small to medium innovative, and often tech-focused, businesses;
 - b. the minority, instead of a majority stake that is typically taken by the venture capital provider in the investee companies;² and
 - c. the 'staged' nature of venture capital injection into investee companies, dependent on the various stages of development of the business of those investee companies.³
3. Many jurisdictions create various incentives to close the funding gap for innovative companies, so that new technologies can be transformed into commercially viable and sustainable businesses, fuelling economic growth. Typically, such incentives include tax concessions, provision of financial support and creating intellectual property rights over new technologies without unduly restraining further development of such technologies. Providing a regulatory regime that enables an efficient flow of relatively easy and inexpensive to access, patient funding (capital) for technology driven start-ups and small businesses is an integral part of these incentives. The proposals in this paper are designed to provide such a regulatory regime to encourage and facilitate technology driven start-ups and small businesses.

Benchmarking

4. In drawing up these proposals, we looked at regimes in place in a number of other jurisdictions, as is our normal practice. These jurisdictions were Singapore, the EU, the UK and the USA.
5. The main points that these regimes have in common, which we have reflected in our proposals, include:
 - a. not allowing retail participation in venture capital funding, as investment in start-ups and small businesses (i.e. venture capital investee companies) is generally a high risk/high return investment strategy, suited to professional, qualified and institutional investors who can fully appreciate those risks, commit patient capital

¹ Private equity participation in investee companies usually involves the issue of shares in investee companies, but sometimes investments can be in convertible notes or preference shares.

² Unlike private equity providers who usually carry out buy-ins and buy-outs for control of investee companies.

³ Providers of financing to venture capital businesses may provide other add-on services, such as mentoring and guidance to investee companies, and may often have board participation to provide business acumen and monitoring of the progress of the business.

- to such ventures and absorb losses;
- b. requiring appropriate disclosure to investors relating to such risks by managers of venture capital funds, so that prospective investors in venture capital funds, and their advisers, can properly exercise their judgement; and
 - c. tailored requirements for those managing venture capital funds (compared to managers of other types of funds, especially those open to retail investors) to reflect the overall level of risk posed by such firms and funds. Tailored requirements include lower capital requirements, fewer mandatory appointments (e.g. authorised individuals) and the nature of reporting to the regulator.

Part II: Proposals for Establishing a Venture Capital Funds regime

Defining a Venture Capital Fund

6. We propose to define a Venture Capital Fund as a specialist class of Fund, distinct from a Private Equity Fund - whilst recognising that there are some commonalities between normal Private Equity Funds and Venture Capital Funds dedicated to investing in innovative businesses. We propose to require a Venture Capital Fund to:
 - a. be an Exempt Fund or Qualified Investor Fund (QIF), which are only open to Professional Clients who can meet a minimum subscription test;⁴
 - b. invest at least 90% of committed capital in unlisted business ventures, which have been incorporated for not more than 5 years at the time of the initial investment – to capture the start-up and small scale nature of venture capital businesses; and
 - c. contribute venture capital funding by way of equity investment, i.e., shares or convertible debt.
7. We considered whether to refer to Venture Capital Funds as Funds investing exclusively in ‘start-ups and small innovative businesses’. Instead, we propose to use two proxies, namely investee companies being ‘unlisted companies’ and ‘being in existence for less than 5 years at the time of the initial investment’ to provide greater flexibility and to avoid difficulties that often arise in defining a ‘small business’, for example, using a size limit, or ‘innovative business’, due to its elusive nature.

See draft CIR Rule 3.1.13 at Appendix 2.

Questions:

1. Do you have any concerns relating to our proposed definition of a Venture Capital Fund? If so, what are they, and how should they be addressed?
2. Are there any other characteristics of Venture Capital Funds that need to be taken into account in the definition? If so, what are they and why should they be included?
3. Are there any other type of instruments that confer equity-like risks and rewards, without conferring equity-like rights, which need to be included as qualifying investments? If so, what are they, and how should they be addressed?

⁴ In the case of an Exempt Fund, a minimum subscription of USD 50,000, and in the case of a QIF, USD 500,000. Investments in both types of Fund must be by private placement, and not through public offer.

Types of Funds

8. We are proposing that a Venture Capital Fund be established only as an Investment Company or Investment Partnership, and not as an Investment Trust. The Investment Trust model requires two licensees, the Fund Manager and Trustee, where the latter is required to hold the legal title to Fund Property. It is less suited to Venture Capital Funds, especially as the Fund Manager is permitted to hold Fund Property, making the Trustee's role redundant (see the proposal in paragraph 10).

Closed-ended Funds

9. We propose that a Venture Capital Fund be a closed-ended legal structure. This is because investments in venture capital businesses need to remain committed for a number of years, usually without any returns during early years.⁵

See draft CIR Rule 13.10.1 at Appendix 2.

Questions:

4. **Do you agree with our proposal on permitted Fund structures? If not, why not?**
5. **Do you agree with our proposal to require a Venture Capital Fund to be closed-ended? If not, why not?**

Fund Manager's Duties

Eligible custodian

10. We propose that a Fund Manager of a Venture Capital Fund not be subject to the requirement to appoint an Eligible Custodian to hold Fund Property. Instead, we propose that the Fund Manager be allowed self-custody of Fund Property, provided there are adequate arrangements to ensure that such property is not available to the creditors of the Fund Manager or of any other Funds managed by the Fund Manager, in the event of insolvency of the Fund Manager (for example, by holding the Fund Property in the name of the Venture Capital Fund).
11. We recognise that Fund Property of a Venture Capital Fund may include not only shares or convertible debt issued by investee companies, but also other forms of instruments comprised of equity participation rights and rewards issued by such companies. In addition, Fund Property of a Venture Capital Fund would also include cash awaiting investment or disbursement, given the pattern of investment and exit typical of venture capital, and given that 10% of the Fund's assets need not be invested in start-ups and small to medium businesses. To address commingling and insolvency risks, our proposals require the Fund Manager of a Venture Capital Fund to hold all Fund Property, including cash, in a manner that:
 - a. clearly and easily identifies such assets as belonging to the Venture Capital Fund; and
 - b. properly segregates such assets from all other assets belonging to, or managed by, the Fund Manager.

⁵ While a Closed-ended Fund cannot offer redemptions and reissue of units to its investors, such a Fund may raise new capital by issuing new tranches of Units, subject to its Constitution and other applicable laws (e.g. if an Investment Company, the requirements in the DIFC Companies Law).

See draft CIR Rules 13.10.2 and 12A.3.1(2)(c), at Appendix 2.

Question 6:

Do you agree with our proposal to allow self-custody of Fund Property by the Fund Manager of a Venture Capital Fund? If not, why not?

Disapplication of specific requirements applicable to Private Equity Funds

12. There are a number of specific requirements applicable to a Fund Manager investing mainly in private equity (i.e. Private Equity Funds, see CIR section 13.3). We do not see the need to apply such requirements to Fund Managers of Venture Capital Funds, although there are similarities to private equity, as retail participation is not permitted in the proposed Venture Capital Funds, and to give them greater flexibility. The requirements that we do not propose to impose on Fund Managers of Venture Capital Funds relate to:
 - a. the mandatory appointment of an investment committee, as a pre-condition for allowing the Fund Manager to have self-custody of Fund Property (see paragraph 10);
 - b. a limit of 25% on the maximum investment in a single venture or undertaking;
 - c. undertaking due diligence on investee companies, including about their corporate governance standards; and
 - d. taking reasonable steps to ensure the management of conflicts of interests if the Fund Manager has representation on the board of any investee company.
13. Although we do not propose to impose the above requirements on Fund Managers of Venture Capital Funds, to provide them greater flexibility in investment selection and monitoring, they still need to comply with a number of general obligations that cover such issues. This is due to the overarching obligations imposed on every Fund Manager under the CI Law,⁶ and also the Core Principles in GEN 4.2, particularly Core Principle 7.
14. As a result, a Fund Manager is required to exercise due care and diligence in managing Funds, to act in the best interests of investors in the Fund, to give priority to the investors' interests if there is a conflict between its own interests and those of the investors, and to ensure its communications are clear, fair and not misleading. These obligations require a Fund Manager of a Venture Capital Fund:
 - a. to undertake appropriate due diligence on target businesses before investing in them and to track the on-going performance of such businesses through appropriate monitoring measures;
 - b. if appointing its representative to the boards of any investee company, to take appropriate measures to manage any conflicts of interests that arise in such situations; and
 - c. if using special advisers in selecting viable target businesses to invest in, especially those using innovative technologies, not to represent such service providers as a member of 'an investment committee', unless the requirements in that Rule are met. This is a specific type of arrangement, referred to in CIR 13.3.1(2), and unless the requirements are met any such references could be misleading to investors in the Venture Capital Fund.

⁶ See Article 22(2) of the Law.

See also the discussion in paragraphs 17 to 19.

15. We do not think a 25% single venture ceiling is needed for a Venture Capital Fund, as it is reasonably unlikely that large capital investments would be needed by start-ups and small scale businesses, particularly as those investments are not for control purposes, such as for buy-in and buy-out activities of a Private Equity Fund.

See Guidance no. 6 under draft CIR Rule 13.10.2 at Appendix 2.

Question 7:

Should we expressly apply any of the specific requirements in paragraph 12 to a Fund Manager of a Venture Capital Fund? If so, what are they, and why should they be applied?

Alignment of Fund Manager interests with those of the other investors

16. We note that generally a Fund Manager of a Venture Capital Fund would invest its own monies in the Fund, or have 'skin in the game', to promote confidence among other prospective investors in the Fund Manager's investment strategy. This alignment of economic interests of the Fund Manager with those of the other investors is a positive measure, particularly as investments in venture capital businesses are for the long term, and with returns usually not expected for several years. However, to promote more flexibility, we do not propose to require that a Fund Manager of a Venture Capital Fund must be a co-investor in the Fund.

Conflicts of interest

17. We note that the more detailed conflicts of interest provisions in CIR section 8.3, which include Related Party Transaction provisions, do not apply to Fund Managers of QIFs but would apply to Fund Managers of Exempt Funds. We consider it appropriate not to apply these provisions to a Fund Manager of a Venture Capital Fund, structured as an Exempt Fund. This reflects a consistent approach to regulation of Fund Managers of Venture Capital Funds across both types of Funds.
18. A Fund Manager of a Venture Capital Fund continues, however, to be subject to the overarching obligations in the CI Law to put the interests of investors in the Fund ahead of its own interests. They are also subject to Core Principle 7 in GEN Rule 4.2.7, which requires them to adopt procedures to address potential conflicts of interests effectively (see also paragraph 13). For example, such a conflict of interest would arise where a venture capital business is a business model developed, owned or controlled by a Related Party. These matters would need at least to be disclosed clearly to potential investors.
19. A Fund Manager of a Venture Capital Fund will also need to disclose in its Information Memorandum (the Prospectus) the disapplication of CIR section 8.3 as part of the information that prospective investors in the Fund need to know to make an informed judgement.

See draft CIR Rules 8.1.1(4) and 14.4.12 at Appendix 2.

Question 8:

Do you have any concerns about the proposed approach to address conflicts of interests of a Fund Manager of a Venture Capital Fund? If so, what are they, and how should they be addressed?

Valuation requirements

20. A Fund Manager of any QIF is exempt from the detailed valuation requirements in CIR section 8.4, except CIR Rule 8.4.1(1)(a), which requires such a Fund Manager to ensure that Fund Property of the QIF is valued at regular intervals as appropriate to the nature of the Fund. To promote a consistent regulatory approach, we propose to disapply all of CIR section 8.4, other than CIR Rule 8.4.1(1)(a), to a Fund Manager of a Venture Capital Fund that is an Exempt Fund.

See draft CIR Rule 8.1.1(4) at Appendix 2.

Question 9:

Do you have any concerns relating to our proposal to apply only CIR Rule 8.4.1(1)(a) to all Venture Capital Funds? If so, what are they, and why?

Disapplication of Mandatory Appointments

21. We propose to disapply to a Fund Manager whose only Financial Service is managing a Venture Capital Fund certain requirements that normally apply to Fund Managers. This is to reduce compliance costs of managing a Venture Capital Fund, without posing any undue operational or other risks, given the long-term and mainly illiquid nature of investments of a Venture Capital Fund, and the relatively simple systems and controls that are needed to manage such Funds. These are to remove the requirements to have:
- an internal audit function; and
 - a Finance Officer.
22. We also propose to be flexible during the pre-capital raising period of a Venture Capital Fund (until the first closing of the Fund), by considering the need for any appropriate modifications from the requirements, such as those relating to have financial statements of Funds under CIR chapter 9, and the appointment of a Compliance Officer.

See draft GEN Rules 5.3.13(3) and 7.5.1(3) at Appendix 1 and Guidance no. 3 and 4 under draft CIR Rule 13.10.2 at Appendix 2.

Questions:

10. **Do you agree with our proposals not to require the mandatory appointment of an internal audit function and a Finance Officer for Fund Managers who only manage a Venture Capital Fund? If not, why not?**
11. **Do you agree with our proposals to be more flexible during the pre-capital raising period of a Venture Capital Fund? If not, why not?**

Prospectus Disclosure

23. Given that only professional investors would be permitted to invest in a Venture Capital Fund, we do not think that any extra detailed disclosure requirements would be needed in the Information Memorandum (i.e. a Prospectus) of a Venture Capital Fund. Nevertheless, we consider that it is important to alert prospective investors in Venture Capital Funds, although they are professional or institutional investors, that start-up and small to medium venture capital businesses in which the Fund invests are:
- highly illiquid investments;
 - likely to need to be held for a considerable period of time before successful divestment of the investment can take place; and

- c. likely to suffer a high rate of failure as new businesses.

Therefore, it is important for prospective investors to understand fully the risk/reward profile of the investment strategy of the Venture Capital Fund.

24. We also propose that the Prospectus of a Venture Capital Fund include information about provisions that are not applicable to the Fund Manager in respect of such a fund – for example, the Fund Manager is not required to have an Internal Audit function or Finance Officer.

See draft CIR Rules 14.4.11 and 14.4.12 at Appendix 2.

Questions:

12. Do you agree with our proposal to include a warning as noted in paragraph 23? If not, why not?
13. Do you agree with our proposals to require clear disclosure of any disapplied requirements in the Prospectus? If not, why not?

Distribution of Foreign Funds

25. We do not propose to prohibit the distribution by appropriately licensed Authorised Firms of Units of a Venture Capital Fund which is established and operated outside the DIFC (i.e., a Foreign Fund),⁷ provided such funds meet the requirements on warnings and additional disclosure we propose for domestic Venture Capital Funds. The firms distributing such Units must do so subject to the requirements that apply to them. For example, the requirements that the investors meet the Professional Client criteria, the distribution is by private placement, and a minimum subscription of at least USD 50,000 is made (see Article 54(1)(c) of the CI Law).

See draft CIR Rules 15.1.3(2)(g) and 15.1.5(d) at Appendix 2.

Question 14:

Do you agree with our proposals on Foreign Funds? If not, why not?

Skills and experience needed to manage a Venture Capital Fund

26. We are aware of the reduced market and business conduct risks involved in the management of Venture Capital Funds. Generally these types of Funds do not invest in public markets; do not use leverage; and target a more sophisticated investor. We are also mindful of the diverse nature of the venture capital industry and its participants managing and advising on investments.
27. The DFSA will continue to require all Fund Managers of Venture Capital Funds to meet fit and proper criteria. Rather than set specific criteria or thresholds for a number of years' experience in venture capital and/or fund management business, we will look at each applicant on a case-by-case basis to assess whether they have appropriate skills and experience. Gaining comfort around track record, skill-set and experience will be achieved through a set of questions in our online licensing application form, which would

⁷ A Fund established outside the DIFC by a Fund Manager in the DIFC is an External Fund, but is still a Domestic Fund (see Article 13(2)(b)). Therefore, a Fund Manager establishing an External Fund will be subject to the requirements applicable to Domestic Fund. The DFSA is unlikely to give its prior consent to a Fund Manager to establish a Venture Capital Fund as an External Fund.

provide greater efficiencies for applicants in obtaining a licence.

28. We are looking to enable business right across the full spectrum, ranging from those fund managers who have a less established track record, to those who are well established investment houses. Among them, we expect to see a different range of industry and professional expertise, ranging from specialisation in a particular industry sector, to deep and broad experience across a number of industries and venture capital businesses, including those using innovative technology. From a regulatory perspective, we are also mindful that within this segment there will also be differing degrees of fund management expertise.
29. As is normally the case, we will adopt a proportionate risk-based approach to assessing an applicant firm and the suitability of the individuals associated with it. This will form a key part of our initiative to enable business and facilitate the growth of a venture capital industry across the UAE. We propose to provide further guidance on DFSA expectations as part of the information available for applicants.

Questions:

- 15. Do you agree with our proposed approach to assessing whether an applicant firm has individuals with appropriate skills and experience to manage Venture Capital Funds? If not, why not?**
- 16. Should we apply the same approach to a Fund Manager who already holds a licence, but wishes to manage a Venture Capital Fund?**
- 17. Are there any other matters that we should consider in assessing applications? If so, what are they, and how should they be addressed?**

Prudential requirements

30. We consider it important that a Fund Manager of a Venture Capital Fund be a DIFC incorporated company (Domestic Firm), instead of a Branch. This allows the DFSA to apply its full prudential regime to such a firm.⁸ Currently, we do not have any domestic Fund Managers that are branch operations. Therefore, this proposal should not pose any difficulty to an existing Fund Manager wishing to manage a Venture Capital Fund.⁹
31. As are all other Fund Managers, a Fund Manager of a Venture Capital Fund would fall into PIB prudential category 3C. The prudential requirements in PIB chapters 1, 2, 6 and 8 (which are common to all Authorised Firms), would continue to apply to a Fund Manager of a Venture Capital Fund. We propose to disapply some of the requirements in PIB chapter 3 to such a Fund Manager, if the only Financial Service it conducts is that of Managing a Venture Capital Fund.
32. Taking into account the differences in the nature, scale and complexity of a business in managing Venture Capital Funds, and also the long-term illiquid nature of investments of such Funds in start-ups and small to medium businesses, we propose that such firms not be required to hold the higher of:
- a Base Capital Requirement (see PIB Rule 3.5.2(a) and PIB section 3.6); or
 - an Expenditure Based Capital Minimum (see PIB Rules 3.5.2(b) and PIB section

⁸ In the case of a branch, we rely on the soundness of the regulation of the legal entity under its home jurisdiction for capital adequacy purposes, rather than impose the DFSA capital requirements on a branch.

⁹ Our proposal is also consistent with the approach adopted in Singapore.

3.7).

33. We propose to apply a simpler capital requirement than the one referred to above, which will require a Fund Manager of a Venture Capital Fund to have, and to maintain, sufficient liquid assets and access to financial resources that enable them to meet their obligations as they fall due, based upon the nature, size and complexity of their business. This is so that there is no significant risk that liabilities cannot be met as they fall due. It takes into account that, often, operational costs of Venture Capital Fund Managers are low, and do not warrant the imposition of a prescribed minimum capital requirement.
34. We also propose to disapply the reporting requirements in PIB App 2, Rule A2.4, applicable to all other Fund Managers, except for the audited financial statements under CIR chapter 9, and a new Fund Return noted in paragraph 35, on which we will be consulting separately.

See draft GEN Rule 7.2.2(6) at Appendix 1 and draft PIB Rules 2.3.7(3), 3.5.1(2) and 3.5.4 at Appendix 4.

Questions:

- 18. Do you agree with our proposal not to allow Branches to Manage Venture Capital Funds? If not, why?**
- 19. Do you have any concerns about the proposed prudential requirements for Fund Managers who carry on only the Financial Service of Managing Venture Capital Funds? If so, what are they?**

Fund Reporting

35. We are proposing to introduce a new Periodic Fund Return, which will apply not only to those firms managing Venture Capital Funds, but also to all other Fund Managers. We view this reporting requirement as an integral part of our effort to supervise the activities of Fund Managers who establish, manage and operate Domestic Funds, i.e. Public Funds, Exempt Funds and QIFs, including External Funds (which are, under Article 13(2)(b) of the CI Law, Domestic Funds).
36. Such a report will enable the DFSA to identify relevant trends and issues that might be emerging in the DIFC and become an integral component of our risk-based approach in supervising Domestic Funds and their Fund Managers.
37. This is a preliminary proposal at this stage but we would welcome any comments, which we can take into account in developing the new Fund Return. We aim to launch such a return, following public consultation, later in 2020.

Question 20:

Are there any matters that we should take into account in developing the proposed Fund Return? If so, what are they?

Islamic finance and Venture Capital

38. We do not see any practical difficulties that require any changes to the current IFR module. A Fund Manager of a Venture Capital Fund, if it is investing solely in investee companies that are Shari'a compliant, will be able to hold the Venture Capital Fund out as a Shari'a compliant Fund. However, if the Fund Manager invests in both Shari'a

compliant and other investee companies, it will not be able to do so using a single Fund and hold that Fund out as being Shari'a compliant.

Question 21:

Are there any specific areas that need to be addressed to facilitate Shari'a compliant Venture Capital Funds? If so, what are they, and how should they be addressed?

Fees

39. We propose to apply the following fee structure to a Fund Manager and Venture Capital Funds, which are significantly lower than the fees applicable to other Fund Managers and Funds:
- an application and supervision fee of USD 2000 each to an Authorised Firm if it is only managing Venture Capital Funds; and
 - a fee of USD 1000 per year for a Venture Capital Fund.

See draft FER Rules 2.1.1(2), 3.2.1(3), 3.9.1(3) and 3.10.1(2) at Appendix 5.

Question 22:

Do you agree with the proposed fees for Venture Capital Fund Managers and Venture Capital Funds? If not, what alternative would you suggest, and why?

Part III: Dealing with venture capital firms – our operations and processes**Applications for authorisation as a Venture Capital Fund Manager**

40. Our benchmarking showed that there is a wide range of maximum timelines for processing authorisation applications for equivalent venture capital fund managers across other jurisdictions.
41. As part of the implementation of the QIF regime in 2013, the DFSA introduced a streamlined application process for the authorisation of QIF Managers and registration of QIFs. The DFSA has the skill sets and resources in place to process Fund Manager and Fund applications efficiently, whilst carrying out a proportionate risk-based assessment. We aim to continue with this approach for the venture capital segment of the market.
42. During the last several years we have also continued to build our systems capability to assist us in our assessment of licensing applications. Indeed the Fund Manager licensing applications were one of the first suites of forms to be added to our online capability.
43. Currently we process QIF and Exempt Fund Manager licensing applications in 4 to 6 weeks. In relation to Venture Capital Fund Manager licensing applications, our intention is to be able to accept online applications and have a straight-through processing approach. From the point of submission of the relevant licensing application and accompanying authorised individuals' applications, we will provide an applicant an in-principle decision within one week of receipt of a complete application. The applicant will then be expected to address the in-principle conditions.
44. The application form will be a streamlined version of the current QIF/Exempt Fund

Manager licensing application form. It will focus only on venture capital business activities. An applicant will not have to provide a business plan but, rather, complete a number of questions, which will provide us with the type of information we would expect in a business plan. Self-certification will be a key part of the application process. Other than the online form, we will not require any other documentation for the proposed firm at this stage of the application process. In relation to the firm's control procedures and any third-party agreements, the applicant needs to certify that these are in place.

45. On the basis that the Venture Capital Fund Manager licensing process is streamlined, and it being a lower cost option, we will restrict the Authorised Firm's licence to reflect this. Currently we have decided to restrict some Fund Managers to managing Exempt Funds and/or QIFs only. We will continue with this approach but add to the restriction, i.e., restricted to managing QIFs or Exempt Funds which are Venture Capital Funds.

Applications for establishing a Venture Capital Fund

46. The DFSA will adapt its existing approach to processing Fund applications in relation to Venture Capital Funds. We will only accept a Fund application from a business seeking to establish a Venture Capital Fund if it has already been Authorised as a DFSA-licensed Fund Manager or provided with a 'no objection' status by the DFSA to becoming a Fund Manager or an External Fund Manager. Where a Fund Manager of a Venture Capital Fund is looking to establish either an Exempt Fund or a QIF in the form of a Venture Capital Fund, the DFSA will aim to complete the Notification process within two business days. The application will be accommodated via our existing Exempt Fund and QIF application forms, respectively.

Question 23:

Do you have any concerns relating to our plans for authorisations? If so, what are they, and how should they be addressed?

Annex 1: Questions in this Consultation Paper

Questions:

1. Do you have any concerns relating to our proposed definition of a Venture Capital Fund? If so, what are they, and how should they be addressed?
2. Are there any other characteristics of Venture Capital Funds that need to be taken into account in the definition? If so, what are they and why should they be included?
3. Are there any other type of instruments that confer equity-like risks and rewards, without conferring equity-like rights, which need to be included as qualifying investments? If so, what are they, and how should they be addressed?
4. Do you agree with our proposal on permitted Fund structures? If not, why not?
5. Do you agree with our proposal to require a Venture Capital Fund to be closed-ended? If not, why not?
6. Do you agree with our proposal to allow self-custody of Fund Property by the Fund Manager of a Venture Capital Fund? If not, why not?
7. Should we expressly apply any of the specific requirements in paragraph 12 to a Fund Manager of a Venture Capital Fund? If so, what are they, and why should they be applied?
8. Do you have any concerns about the proposed approach to address conflicts of interests of a Fund Manager of a Venture Capital fund? If so, what are they, and how should they be addressed?
9. Do you have any concerns relating to our proposal to apply only CIR Rule 8.4.1(1)(a) to all Venture Capital Funds? If so, what are they, and why?
10. Do you agree with our proposals not to require the mandatory appointment of an internal audit function and a Finance Officer for Fund Managers who only manage a Venture Capital Fund? If not, why not?
11. Do you agree with our proposals to be more flexible during the pre-capital raising period of a Venture Capital Fund? If not, why not?
12. Do you agree with our proposal to include a warning as noted in paragraph 23? If not, why not?
13. Do you agree with our proposals to require clear disclosure of any disappplied requirements in the Prospectus? If not, why not?
14. Do you agree with our proposals on Foreign Funds? If not, why not?
15. Do you agree with our proposed approach to assessing whether an applicant firm has individuals with appropriate skills and experience to manage Venture Capital Funds? If not, why not?

16. **Should we apply the same approach to a Fund Manager who already holds a licence, but wishes to manage a Venture Capital Fund?**
17. **Are there any other matters that we should consider in assessing applications? If so, what are they, and how should they be addressed?**
18. **Do you agree with our proposal not to allow Branches to Manage Venture Capital Funds? If not, why?**
19. **Do you have any concerns about the proposed prudential requirements for Fund Managers who carry on only the Financial Service of Managing Venture Capital Funds? If so, what are they?**
20. **Are there any matters that we should take into account in developing the proposed Fund Return? If so, what are they?**
21. **Are there any specific areas that need to be addressed to facilitate Shari'a compliant Venture Capital Funds? If so, what are they, and how should they be addressed?**
22. **Do you agree with the proposed fees for Venture Capital Fund Managers and Venture Capital Funds? If not, what alternative would you suggest, and why?**
23. **Do you have any concerns relating to our plans for authorisations? If so, what are they, and how should they be addressed?**