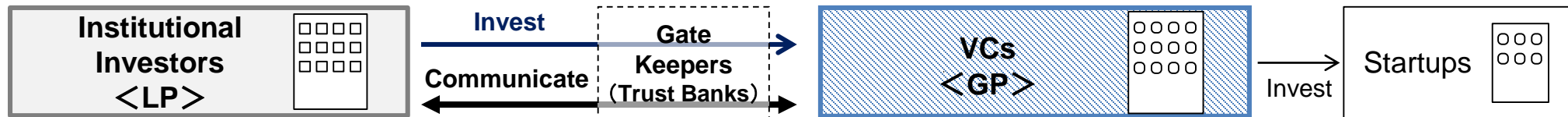


# Overview of “Venture Capitals: Recommendations and Hopes, VCRHs”

- FSA and METI jointly held the “Expert Panel on Venture Capital (VC) Funds” to smoothly provide VCs with funds from domestic and overseas institutional investors. The committee formulated “Recommendations and Hopes” for Limited Partners (LPs) and General Partners (GPs) regarding VCs that aim to raise funds from domestic and overseas institutional investors.

## Challenges

- The amount of investment by VCs has increased over the past decade and plays an important role in supplying funds to startups. On the other hand, the fund size of VCs in Japan is relatively small compared to the US and other countries, and it is pointed out that providing VCs with funds from domestic and overseas institutional investors is limited.
- It has been pointed out that for the development of the startup ecosystem, it is important for VCs with knowledge, experience, know-how and networks to support and nurture startups.



## Overview

### Role of “Recommendations and Hopes for Venture Capitals”

- Aim to **smoothly provide VCs with funds from domestic and overseas institutional investors**, strengthen the overall function of investing in startups, and **evolve the startup ecosystem** by improving the governance of VCs, etc.
- Prepared for **use by LPs and GPs** in accordance with the actual state of VCs that aim to raise funds from domestic and overseas institutional investors.
- This document summarizes the matters that this “Expert Panel” recommends or hopes for. **It is expected that LPs and GPs will communicate with each other** on how to take actions based on the “recommendations and hopes.”

### Target VCs

- **VCs that aim to raise funds from domestic and overseas institutional investors**
- ※ **CVCs, financial services company-affiliated / university-affiliated VCs, and early-stage VCs** are assumed to adopt management systems that take into account synergies with their core businesses and funding conditions, etc.  
On the other hand, it is also expected that the **“recommendations and hopes” will be referred to as necessary** based on the intention of LPs and the future vision of GP.

# Overview of “Venture Capitals: Recommendations and Hopes, VCRHs”

- This document consists of two parts: (1) **Recommendations to be provided** by VCs that aim to raise funds from a wide range of domestic and overseas institutional investors; and (2) **Hopes generally held by VCs as entities contributing to the development of the startup ecosystem and improving the medium - to long-term returns of LPs.**

		Recommendations	Hopes (※)
Contents	Fiduciary Responsibility and Governance	<ol style="list-style-type: none"> <li>1. The VC funds managers (GPs) are fully aware of their <u>fiduciary responsibilities</u> and fulfill their accountability to investors (LPs).</li> <li>2. <u>Establish a sustainable management system</u> that enables key persons to concentrate on fund management.</li> <li>3. Ensuring a compliance management system at VCs</li> <li>4. <u>Providing other LPs with information about an entitlement</u> to a specific LP that could have a material adverse effect on those LPs;</li> </ol>	<p>Improving the corporate value of investee companies</p> <ol style="list-style-type: none"> <li>9. VCs communicate sufficiently with investee startups to ensure that <u>the investment agreement contributes to the growth of the startups.</u></li> <li>10. VCs provide <u>management support</u> to investee startups, such as help with recruiting and provision of know-how.</li> <li>11. VCs continue to <u>provide capital policy support</u> even after Exit (ex. follow-on investment, fund term extension, consideration of optimal Exit method and Exit timing including M&amp;A)</li> <li>12. <u>Fully consider the timing and method of sale shares after the investee startup is listed</u> (also consider crossover investment).</li> </ol>
	Management of conflicts of interest, etc.	<ol style="list-style-type: none"> <li>5. <u>A conflict of interest management system shall be established at VCs</u>, and in the event of a conflict of interest between LPs and GP, <u>appropriate measures shall be taken, such as consulting with the LPs.</u></li> <li>6. <u>Make arrangements to align the interests of LPs and GP</u>, such as by making a commitment to invest in the VC.</li> </ol>	
	Disclosure	<ol style="list-style-type: none"> <li>7. Provide information to LPs after <u>assessing the fair value</u> of assets held by VCs.</li> <li>8. Provide LPs with <u>financial information for the VC fund on a quarterly basis</u></li> </ol>	<p>Other</p> <ol style="list-style-type: none"> <li>13. <u>Manage funds with ESG and diversity in mind.</u></li> </ol>

※ This document indicates the overall direction to be taken, and it should be noted that the strategies of individual VCs are diverse.