Ministry of SMEs and Startups

# Press Release

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## MSS announced its plan to boost investment in venture capital

Three key elements to create an environment for bold venture capital investment were suggested: Encouraging adventurous investments, market-friendly management, and an advanced supervision system

***Sejong, October 16***- The Ministry of SMEs and Startups (Minister LEE Young, hereinafter referred to as MSS) held a meeting with the venture capitalists on Thursday, October 5. The MSS announced its plan to increase venture capital investment to promote a private sector-led investment ecosystem. During the meeting, the MSS also sought the opinions of venture capitalists on the proposed plan. The meeting was attended by Chairman Yoon Gun Soo of the Korean Venture Capital Association and representatives from twelve current venture capital firms.

**[Background]**

In 2023, the venture capital market is expected to continue its long-term growth trend, with a shift in investment focus away from sectors such as non-face-to-face and bio. Due to high-interest rates, the venture capital industry struggles to recruit new investors, which may slow investment sentiment recovery.

In response, the MSS has taken steps to create an environment conducive to bold venture capital investment and restructure a private sector-led investment ecosystem.

**[Key Contents of the Plan]**

The plan's first measure is to incentivize bold venture investments.

In general, a minimum of 10% of the total amount for a fund of funds will be invested in the Rookie League. This investment program is designed to provide support for small startups

entering the market. The program aims to encourage aggressive investments in new fields.

MSS updated the requirements for eligibility of VC firms in Rookie League to 5 years of experience from three years and assets under KRW 100 billion from previously KRW 50 billion.

In addition to the "Investment Promotion Incentive" applied to newly formed funds in 2023, funds formed in 2021 and 2022 will be given priority in selecting investment projects in 2024 if they make early investments in 2023. Additionally, both the investment ratio and management fee rate will be increased by 10% and 0.2%, respectively.

The standards for remunerating general partners (GPs) will be rationally revised, including upholding management fees even in case of temporary financial deterioration of the investee company.

Management fees will not be reduced in the event of recognized capital impairment due to a change in accounting standards during the listing process or when a significant follow-on investment was made after capital impairment.

Second, the management of a fund of funds will be restructured to be more market-oriented.

The Investment Strategy Committee of a Fund of Funds, centered by private experts, will be established to deliberate on the investment direction of the fund. The public and private sectors will discuss together to identify key investment areas and allocate financial resources. The investment direction will be disclosed before the announcement to enhance market predictability.

Sanctions for violations of major obligations of funds, such as non-compliance with investment obligations, will also be determined through deliberations by the Fund of Funds Post-Management Committee, where private experts participate.

Korea Venture Investment Corporation is committed to responsible management and performance as a public institution. To ensure this, it will introduce a Responsibilities Map[1], a first among finance-related public institutions, and revise its compensation system.

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[1] The allocation of responsibilities for internal control (compliance, risk management, supervision of

subordinates, etc.) is clearly defined in advance for each executive to encourage a sense of accountability.

Finally, the management and supervision of venture capital will be improved.

The Venture Investment Promotion Act will establish specific standards for sanctions on VCs to ensure consistent handling of future offenses.

Standards for sanctions imposed on VCs that violate the Venture Investment Promotion Act will be established to ensure that future offenses are handled consistently.

MSS will encourage venture capitalists to establish internal guidelines to ensure they fulfill their social responsibilities. By adhering to these guidelines, venture capital firms can enjoy benefits such as preferential selection for a fund of funds investment projects and reduced sanctions under the Venture Investment Promotion Act.

When dealing with a feeder fund of a fund of funds, it is advisable to establish a non-disclosure agreement (NDA) beforehand. Additionally, a comprehensive NDA that commits to keeping confidential any trade secrets uncovered during the investment review process will be mandatory.

In addition, the Investment Administration and Supervision Division of the MSS will establish a team dedicated to venture investment supervision and expand the pool of legal and accounting experts related to venture investment.

**[Key Discussions at the Meeting]**

Minister LEE Young of SMEs and Startup stated, "We reviewed the suggestions from the August MSS meeting with venture capital firms and included key points in this plan."

She added, "During the formation of the venture investment market, the government played a crucial role in its development. However, with the private sector now investing in venture funds several times more than policy finance, it is imperative for the government to reassess its role."

She emphasized that the private sector-led venture investment ecosystem is the foundation of "Startup Korea." This ecosystem plays a crucial role in driving economic growth by creating new businesses and ventures. To support this market, the MSS will maintain close communication with the industry and provide policy support as needed.

During the meeting, YOON Gun Soo, the Chairman of the Korean Venture Capital Association, expressed his gratitude to the MSS for accelerating institutional reforms in response to

industry demands. He also agreed with the vision of establishing a private sector-driven investment ecosystem. Additionally, the representatives of venture capital firms who attended the meeting affirmed their commitment to fulfilling their legal and social responsibilities as crucial players in the venture investment ecosystem.

The MSS will thoroughly review the feedback received on the plan to boost investment in venture capital and other industry opinions to determine the necessary actions to be taken. These actions may include amendments to regulations related to a fund of funds management and venture capital sanctions.