

ASK@FD: CLN Q&A



Convertible Loan Notes



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What is a convertible loan note (CLN)?



There are 2 main features of a CLN:

1. As a loan (ie. debt instrument), the principal amount typically needs to be repaid, at times with interests.
2. Parties are given the option to convert the loan into shares (ie. equity) at a later date.

Our clients also ask

What is a "drawdown date"?

The drawdown date refers to the date that the Lender wires the funds to the Company bank account.

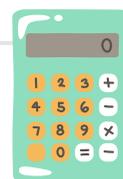


What is a "maturity date"?

The maturity date refers to the date when the loan is due and must be repaid (or converted) to the Lender.

What is a "qualified equity financing round"?

Depending on the drafting, it typically refers to an event where the Company issues shares to Investor(s) at a priced round (eg. Series A round), and/or where the amount raised exceeds a certain threshold.



How are conversion prices and shares calculated?

There are 3 main options:

- Option 1 - based on a fixed price per conversion share which sets the no. of shares to be issued at signing;
- Option 2 - based on a valuation cap which fixes the % of shares to be issued at signing; and
- Option 3 - based on a discount to the next priced round.

What happens if more shares are issued before conversion?

It depends on which option the Parties choose. If Option 1 or 3 is chosen, the Lender will likely be diluted if more shares are issued before conversion. If Option 2 is chosen, the Lender will most likely not be diluted.

Is there a penalty for late payment?

It depends. Parties can choose to impose a late payment interest rate. That said, do note that penalty clauses (ie. an unreasonable punishment) are generally not enforceable. So, do ensure that such provisions are a fair estimate of the loss.

Is there a standard CLN?

No, there isn't a standard CLN and we see a wide range of CLN terms. For example, in respect of the interests component, the CLN could be drafted based on a simple interest, compound interest or 0% interest.

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