Singapore’s Variable Capital Company

A presentation to Asia Fund Standardization Forum

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There are no separate regime and corporate structures specifically for investment funds in Singapore today.

### Legislation and Regulations
- Securities and Futures Act allows funds to be:
  1. Authorised (Retail Investors)
  2. Restricted (Accredited Investors)
  3. Exempted (E.g. Small offers, private placements)
- Code on Collective Investment Schemes (CIS Code)

### Common Fund Structures
- Private limited companies (‘Pte Ltd’) under Companies Act
- Unit trusts
- Limited partnership (LP)
Why VCC?

VCC complements existing fund structures while addressing some of their key limitations.

For example, in comparison with private limited companies, unit trusts and limited partnerships:

- Dividends distributed out of profits only
- Shareholders’ information disclosed to public
- Fixed capital restrict redemption
- Solvency tests required prior to repayment of capital
- No access to tax treaties
Development of VCC

Between 2017 – 2019, there were 5 consultations and various industry discussions.

- 23 March 2017: MAS – Part 1 consultation on VCC framework
- 1st Oct 2018: VCC Bill passed in Parliament
- Feb-March 2019: MOF consultation on proposed amendments to tax policy
- April 2019: MAS - Part 2 consultation on VCC framework and AML /CFT notice
- August 2019: MAS consultation on insolvency and winding up of VCC

- End 2019: VCC Act not in force yet, expected to be live soon

* Investor Protection
  - Retail funds: 1 independent director and Custodian (CIS Approved trustee)
  - Reasonable mitigation of cross-cell contagion risk

* AML/CFT Requirements
  - Delegation of AML/CFT duties to service providers

* Tax Consideration
  - Granting of domestic tax incentives by umbrella level

* The above mentioned were proposed by MAS and Ministry of Finance in the consultation papers and have yet to be finalised.
VCC – Open Items

Conversion

- No conversion regime for existing fund structures to become VCC

Scope

- Excludes insurance, family offices etc.
Key Features of VCC

• New corporate body governed under the Variable Capital Company Act, separate from Companies Act

• Administered by ACRA (Accounting and Corporate Regulatory Authority)

• Regulated by MAS

• Capital = Net assets

• Can issue both shares and debentures
VCC can be used for all types of investment funds

<table>
<thead>
<tr>
<th></th>
<th>Authorised (Retail investors)</th>
<th>Restricted (Accredited investors)</th>
<th>Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Funds</td>
<td>Unit Trust VCC</td>
<td>Unit Trust VCC</td>
<td>Unit Trust VCC</td>
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<tr>
<td>Hedge Funds</td>
<td>N.A.</td>
<td>Unit Trust LP Pte Ltd VCC</td>
<td>Unit Trust LP Pte Ltd VCC</td>
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<tr>
<td>Private Equity &amp; Real Estate Funds</td>
<td>N.A.</td>
<td>LP Pte Ltd VCC</td>
<td>LP Pte Ltd VCC</td>
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* Source: PWC, The Singapore Variable Capital Companies (VCC) At a glance
VCC can be a stand-alone or umbrella fund

- Tax residence recognized at umbrella level
- Sub-funds share the same director and service providers
- Segregation of assets and liabilities of sub-funds

* Source: MAS - Note by Second Minister for Finance and Education, Indranee Rajah S.C. on the Variable Capital Companies Bill, Oct 2018
Sub-fund Attributes

Sub-funds…

• Required to register with ACRA

• Do not have legal capacity to enter into agreements

• Can be open-ended or close-ended funds in an umbrella fund

• Wound up as if it were a separate legal person
## Comparison of VCC With Existing Fund Structures

<table>
<thead>
<tr>
<th>Feature</th>
<th>VCC</th>
<th>Private Limited Company</th>
<th>Unit Trust</th>
<th>Limited Partnership</th>
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</thead>
<tbody>
<tr>
<td>Flexible capital</td>
<td>✔</td>
<td>✗</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>Access to Tax Treaties</td>
<td>✔</td>
<td>✔</td>
<td>✗</td>
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<tr>
<td>Statutory provision to segregate sub funds assets and liabilities</td>
<td>✔</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
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<tr>
<td>Investor privacy (not disclosed to public)</td>
<td>✔</td>
<td>✗</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>Ability to share service providers</td>
<td>✔</td>
<td>✗</td>
<td>✔</td>
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</tbody>
</table>
The Next Steps

• Market interest in VCC

• Potential convergence with ARFP

• Local fund administrator requirement for domestic tax incentives enhances Singapore as a fund hub
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