



SINGAPORE VARIABLE CAPITAL COMPANY (SVCC)

Singapore has evolved as a prominent wealth management hub and is a leading jurisdiction in the asset management industry. It is recognized as a leading fund management center, and the government and regulatory bodies continue to develop the local fund management sector.

On 1 October 2018, Singapore introduced the Variable Capital Companies Act 2018 (“VCC Act 2018”), which came into force on 14 January 2020. Variable Capital Company (“VCC”) is a new corporate structure that can be used for a wide range of investment funds and provides fund managers greater operational flexibility and cost savings.

To further encourage industry adoption of the VCC framework in Singapore, the Monetary Authority of Singapore (MAS) had also launched a Variable Capital Companies Grant Scheme effective 15 January 2020 for a period of up to three (3) years. This scheme will assist in defraying costs involved in incorporating or registering a VCC by co-funding up to 70% of eligible expenses paid to Singapore-based service providers. The grant is capped at S\$150,000 for each application with a maximum of three (3) VCCs per fund manager.

Kensington Corporate Management (S) Pte. Ltd. would be pleased to assist you with incorporation and administration of SVCCs. Also, Kensington Trust Singapore Limited is licensed by the MAS to conduct trust business, offering specialised jurisdiction-specific fiduciary solutions.

Below is more information on SVCC. Please note that JTC Kensington does not provide legal and tax advice and you should obtain your own independent legal and/or tax advice as appropriate.

Background

Historically, most funds managed by Singapore based fund managers were either pooled or domiciled outside of the country. The VCC Act 2018 provides for the legal framework of the operation of the corporate vehicle. A Singapore Variable Capital Company (SVCC) is incorporated and administered by Accounting and Corporate Regulatory Authority (ACRA) and simultaneously regulated and supervised by MAS through the Securities and Futures Act (SFA).

The features of the new VCC regime include:

- greater ease of investment management privacy
- extensive double tax treaty
- network cost efficiency
- flexibility for funds and alternate investment funds

What is a VCC?

The VCC is a corporate vehicle tailored for use as a collective investment scheme (CIS). It is a multi-purpose tool that incorporates the best features from other leading fund domiciles to create an attractive proposition for investors and Singapore fund managers.

What are the uses of a VCC?

A VCC can operate as a stand-alone or an umbrella entity with multiple sub-funds that are gathered under a single corporate entity, yet remain separate. It is considered as an alternative to unit trusts, limited partnerships, limited liability partnerships and companies and can also be used for both open-ended and closed-ended funds.

- Private equity funds
- Hedge funds
- Real estate funds
- Venture capital
- Multi-family offices
- Pooling and investment vehicles
- Re-domiciling funds from non-treaty jurisdiction



What are the requirements of a VCC?

- > A SVCC must have “VCC” at the end of its name. It is mandatory to have its registered office in Singapore with a qualified Singapore based company secretary appointed from incorporation
- > The capital of a VCC will always be equal to its net assets, therefore providing flexibility in the distribution and reduction of capital. The shares must be issued, redeemed or repurchased at net asset value (NAV)
- > It will require a Singapore based licensed or regulated fund manager (unless exempted under the regulations)
- > Existing Securities and Futures Act (SFA) requirements for investment funds will apply to VCCs.
- > It must be subject to audit by a Singapore-based auditor and must present its financial statements as per International Financial Reporting Standards (IFRS), Singapore Financial Reporting Standards (FRS), or US Generally Accepted Accounting Principles (GAAP)
- > Each sub-fund is required to present a separate audited financial statement
- > Minimum assets under management (AUM) and spending is assessed at the VCC level allowing smaller sub-funds to claim tax exemption
- > Local bank account is required for each sub-fund
- > While the register of members will not be made public, it is mandatory to maintain this under the VCC Act
- > Constitution must be filed with ACRA but no requirement to disclose publicly

What are the benefits in the use of VCC?

Efficiency of the structure	> VCCs enable fund managers to create an umbrella structure. This provides cost savings through economies of scale, as the sub-funds can have a common board of directors and service providers – such as the same fund manager, custodian, auditor, and administrative agent > Administrative functions, such as holding of general meetings and preparation of prospectuses, can also be consolidated > A VCC offers full ease of subscription / redemption of funds. It can handle open-ended fund requirements and provides for the same flexibility like the Protected Cell Company (PCC) or Segregated Portfolio Company (SPC) in Mauritius and Cayman respectively
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Flexible investment strategies	> Sub-funds can adopt different investment strategies. The assets and liabilities of sub-funds within an umbrella VCC are segregated, and each of them may be wound up as if it were a separate legal person without affecting the other sub-funds. Company (SPC) in Mauritius and Cayman respectively
Member	> VCC may be incorporated with only one member. A fund structure with only a single member but may have many underlying sub-funds or assets > When the vehicle is set up as an umbrella fund with several sub-funds, members may hold shares that are referenced to a particular sub-fund held by the VCC > The shares could be regularly redeemed or bought back without seeking shareholder approval each time
Tax	> The framework allows fund managers to take advantage of Singapore's extensive double tax treaty network and tax incentives
Privacy	> Financial statements are not required to be made public
Hybrid structure	> The structure can be used for a number of investment strategies — namely traditional, hedge funds, private equity and real estate funds > It can be created as a pooling and investing vehicle and can thus help avoid multi-tiered fund structures > VCC can be used for wealth management purposes as well
Constitution	> The VCC constitution may be altered by an ordinary resolution of the members. In addition, the constitution may expressly authorise directors to alter it without members' consent in certain cases
AGM	> A VCC is not obliged to hold an annual general meeting in a financial year if certain conditions are met



What are the key features of VCC?

Legal status	> It is treated as a company and as a separate legal entity. It can own property in its own name. A VCC is a legal person > The rights and obligations are separate from those of its shareholders and directors > The only legitimate purpose for which the VCC vehicle may be used is one or more collective investment schemes (CIS)
Owner	> The VCC is owned by shareholders > The minimum is one shareholder > If a shareholder wants to exit his investment, they may sell his shares back to the VCC
Shareholder liability	> The liability of a shareholder to contribute to the liabilities of the VCC or a sub-fund of the VCC is limited to the amount, if any, unpaid on his or her share purchase > No liability extends to the shareholders beyond their invested capital in the VCC
Securities	> The VCC issues shares; each share in a VCC corresponds to a unit of a CIS, and the members in a VCC are analogous to unit holders of a CIS > The VCC shares give shareholders the right to receive profits from the VCC's property in the manner it is decided in the constitution. This may include the right to participate in or receive payments from the property of the VCC (or a sub-fund of an umbrella VCC) > Besides different share classes, a VCC can also issue debentures and bonds which could be listed on stock exchanges

Capital requirements	> The law imposes no capital maintenance requirements for VCC. The VCC must issue at least one share > The share price of a VCC will fluctuate with the value of its assets and share price will be equal to total net asset value divided by total number of shares outstanding > VCCs can make distributions to shareholders out of capital, and not only out of profits > Subscriptions and redemptions are not required to be filed with ACRA
Management	> The VCC has its board of directors > The fund must have at least one director. If the VCC comprises at least one authorised scheme (i.e., a scheme that has been authorised by the MAS so that units in the scheme may be offered to the public) then the minimum required is three directors, including one independent director > A VCC must also have a fund manager to manage its property or operate the CIS or schemes that comprise the VCC > The fund manager must hold a Capital Markets Services Licence for fund management > VCC should appoint Singapore based qualified company secretary
Dividend	> Dividends can be distributed from both profits and capital, offering flexibility in fund payouts
Confidentiality	> VCCs are exempt from public disclosure of shareholder registers and financial statements, preserving the privacy of investors and fund strategies
Re-domiciliation	> Foreign-domiciled funds can re-domicile in Singapore as VCCs, enabling them to leverage Singapore's regulatory framework and tax treaties



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