SINGAPORE BRIEFING

Singapore Variable Capital Company

February 2020

With the implementation of the Variable Capital Company (VCC) Act and the VCC framework, VCCs have been described to be a “game changer” for Singapore’s wealth management landscape, putting Singapore on par with global asset management hubs, providing an “onshore” solution for structuring investment funds. VCCs will enhance the current suite of fund structure options in Singapore and encourage domiciliation of foreign funds to Singapore.

What are VCCs?

The VCC is a new legal entity form for all types of investment funds in Singapore, including open-ended and closed-ended funds. It can be formed as a single standalone fund, or as an umbrella fund with two or more sub-funds, each holding its own portfolio of segregated assets and liabilities. For tax purposes, it will be treated as a company and single entity.

VCCs are administered by the Accounting and Corporate Regulatory Authority (ACRA). While financial statements have to be audited and filed with the ACRA, these do not have to be made publicly available, which protects the privacy of investors. Each VCC must have a registered office in Singapore, a Singapore-based company secretary and at least one Singapore resident director. The existing Securities and Futures Act (SFA) requirements for investment funds will also cover VCCs. In addition, it is mandatory for VCCs to have a Singapore-based fund manager licensed or regulated by the Monetary Authority of Singapore (MAS) or exempted from such requirements.

Key benefits of VCCs

The capital of a VCC will always be equal to its net assets. This provides flexibility in the issuance and redemption of its shares and payment of dividends out of capital, thereby allowing investors to enter and exit easily and the fund manager to provide a return to investors.

VCCs can be used for a variety of investment strategies (e.g. hedge fund, private equity, venture capital, real estate, etc). Under an umbrella VCC, each sub-fund may be established with its own segregated assets and liabilities, pool of investors and investment strategy.

Fund managers using umbrella VCCs may enjoy cost efficiencies across the umbrella and its sub-funds, common directors, fund manager service providers can be engaged, increasing operational and tax efficiency. Costs of establishing VCCs are, however, likely to be higher than a traditional corporate structure. MAS has made grants available of up to 70% of certain costs, capped at S$150,000 to help defray some of the high initial compliance costs.

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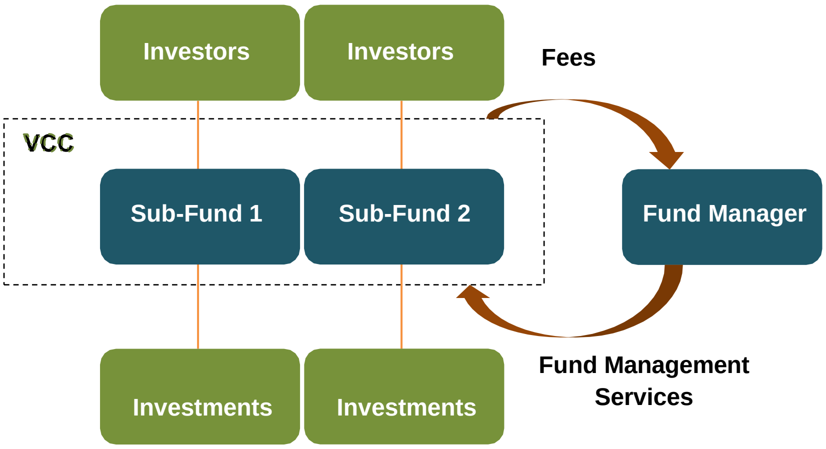
The current fund tax incentives (i.e. S13R and S13X) and GST remission will be extended to VCCs.

One main draw of utilising a VCC structure for a S13X incentive is that only one set of economic conditions has to be met. This is so even in an umbrella structure. Prior to the launch of VCCs, the economic conditions had to be met on a multiple-fold basis, depending on the number of trading vehicles in the structure. For example, under the S13X scheme, the minimum fund size will be S$150m for a master-feeder fund structure comprising a master fund and two feeder funds, whereas a VCC with two sub-funds will only require S$50m (as illustrated below).

VCC umbrella



Other features

It is likely a VCC will be considered Singapore tax resident due to the requirements around the presence of the structure in Singapore. In this case, it can gain access to the wide network of double taxation treaties Singapore has concluded with more than 80 countries.

Regardless of the number of sub-funds in an umbrella VCC, only one corporate tax return is required. Although sub-funds are considered separately in calculating tax payable, GST and stamp duty exposure.

The investment objective condition must be met at the VCC level, and not on each sub-fund level. No approval is needed for addition of new sub-funds, so long as the investment objective remains the same.

Conclusion

Singapore's fund management industry is well-regulated and well-served by the ecosystem of skilled professionals. The fund tax incentive regime has exuded its appeal to investors since introduction. It is without doubt that the VCCs will bring about new business opportunities for fund service providers, fund managers and investors and propel the growth of the industry. As VCCs are gradually being adopted, we can expect to see modifications in the future as the authorities regularly review performance and ensure Singapore stays relevant and competitive at the international level.

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