SINGAPORE BRIEFING

February 2019

Singapore Variable Capital Companies (VCC)

It is intended that the introduction of the Variable Capital Company (VCC) structure will position Singapore to be a key fund domiciliation hub and will strengthen Singapore's position as a full-service international fund management centre. It is seen to be a "game-changer" for Singapore's fund management industry since it will allow Singapore to capture value from the full fund management value chain.

The Monetary Authority of Singapore finalised the features of the new corporate structure which followed public consultation in September 2018. Mr Ng Yao Loong, Assistant Managing Director (Development and International), MAS, said, "The new VCC framework will encourage the consolidation of fund domiciliation and fund management activities locally, creating a full-service fund ecosystem in Singapore. The growth of fund domiciliation activities will create opportunities for a wide range of service providers such as lawyers, accountants, fund administrators, and fund custodians."

Key features:

- An umbrella structure allows the fund to benefit from segregation of assets and liabilities while the structure continues to be seen as one entity in many respects.
- The variable capital concept means the share capital aligns with net asset value, this is the price at which the VCC can redeem shares. The restrictions of a traditional company do not apply here.
- Tax incentives are plentiful. VCCs will benefit from fund tax incentives while having access to Singapore's double taxation treaties, subject to meeting the necessary criteria.

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The new legislative framework is to:

Provide increased flexibility

- it can be used for open-ended and closed-end investment funds;
- it can be used for traditional and alternative strategies;
- it can be used to issue and redeem shares without having to follow strict company procedures enabling fluid entry and exit to an investment fund for investors;
- generally, VCC shares will be issued and redeemed at their net asset value;
- dividends can be paid using capital in contrast to a traditional company under the Companies Act who can only pay dividends out of profits.

Achieve cost efficiencies

- it can be established as a standalone or umbrella structure with multiple sub-funds with difference strategies, objectives, investors, assets, liabilities etc;
- Efficiencies to be gained around administrative functions.

Cater to the needs of global investment funds

- financial statements can be prepared under Singapore or other recognised international accounting including International Financial Reporting standards or US Generally Accepted Accounting Principles;
- inward re-domiciliation is permitted to Singapore.

Safeguards & Regulation

- where there are multiple funds in the structure, the framework requires segregation to protect creditors;
- there is a requirement for the fund manager to be regulated by the Monetary Authority of Singapore;
- a VCC will be subject to anti-money laundering and counter terrorism requirements, it will be required to set up Boards (some of whom must be resident in Singapore), prepare financial statements, audited in Singapore, a register of shareholders (disclosure required although it need not be pubic), registered office in Singapore.

Tax Treatment

- treated as a company and single entity for tax purposes resulting in reduced compliance and the conditions for incentives are applied to the VCC and sub funds collectively and not to individual sub-funds (see example below);
- fund tax incentives will be available under section 13X and 13R of the Income Tax Act resulting in tax exemptions for specified income from designated investments where qualifying conditions are met;
- the Financial Sector Incentive – Fund Management Scheme will be available to fund managers of VCCs resulting in a 10% corporation tax rate for the fund manager where the fund manager has substantive business operations in Singapore on income from managing and advising qualifying funds;
- the beneficial GST remission available for funds will be available for VCCs;
- the VCC will be able to take advantage of the double taxation treaties Singapore has in place with other jurisdictions (beneficial for withholding tax).

The availability of the above are subject to the funds meeting certain specific conditions, more detail around the conditions for 13R and 13X are available in our publication “Tax incentives for funds in Singapore”. A key announcement in respect of the VCC is that for umbrella VCCs, the conditions apply to the VCC and not the individual sub-funds. For example;

- to benefit from the Enhanced Tier Fund (13X), certain conditions must be met including;
    - the applicant fund must have a minimum fund size of SGD50 million*
    - the annual local business spend must be at least SGD 200,000*

  A VCC with two sub-funds does not need a fund size of SGD100million and SGD400,000 of spend, rather, the limits set out above continue to apply.
- similarly, for the Singapore Resident Fund (13R) ownership tests will apply at VCC level, not on each sub fund.

* *sunset clause until 31 March 2019*

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