# Singapore's Variable Capital Companies

More Power to You

# Variable Capital Company

Launched January 2020

## What is it?

Legal entity designed for Funds

## How is it used?

Single fund

or

With multiple underlying sub funds

## Processing Time*

| | |
|---|---|
| Preparation of ACRA application forms | 1 week |
| Review and sign off (application forms) | 1–2 weeks |
| ACRA submission & processing time | up to 2 weeks |

*This assumes fund managers have seemed for relevant legal and tax advice on suitable structures and fund offering documents have been finalised.

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## Introduction

Singapore is a favoured destination for investors, both in terms of setting up businesses for growth and for fund managers looking to make the most of the opportunities in South East Asia.

Its global standing, stable political landscape and businessfriendly outlook makes Singapore one of the most attractive cities in the world for foreign investment looking to make the most of:

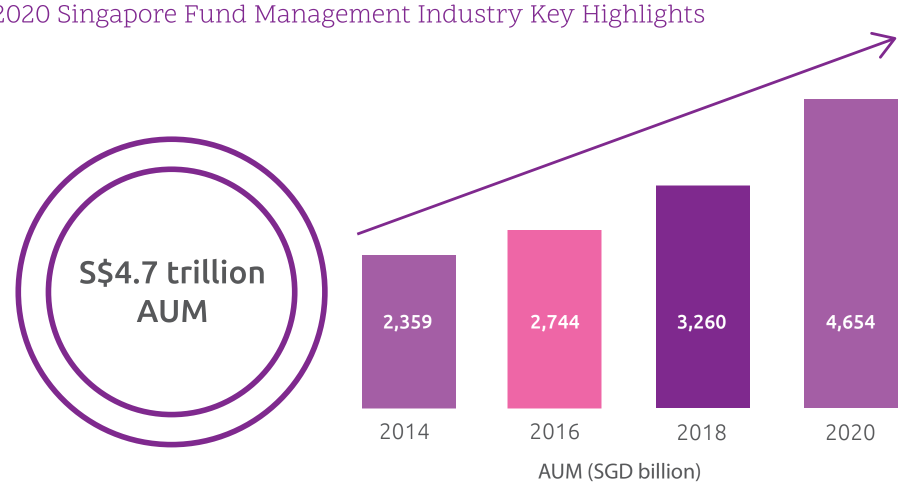
- The low corporate tax rate
- No capital gains tax
- No withholding tax on dividends
- More than 80 double tax agreement (DTA) treaties in force
- Tax exemptions for foreign-sourced income
- No minimum share capital requirements
- No foreign exchange controls

## Singapore's fund landscape

As a leading asset management hub with SGD 4.7 trillion asset under management (AUM), Singapore has long served as the investment gateway to Asia. 78% of AUM was from outside of Singapore, and 68% of AUM was invested in Asia Pacific in 2020.

Funds invested into the Asia Pacific region saw a growth of 16% in 2020, following a 24% growth in 2019. The Southeast Asian Nations (ASEAN) countries remained key investment destinations, making up 33% of investments into Asia Pacific.[1]

2020 Singapore Fund Management Industry Key Highlights




Singapores AUM grew by 17% in 2020 to reach **SGD 4.7 trillion[2]**

## Historical investment challenges

However, it's not all been smooth sailing for those looking to set up an investment fund in Singapore, with the available structures to date each coming with their own disadvantages.

Investment funds have long been structured either as a corporate vehicle (Private Limited Company) or a partnership (Limited Partnership) scheme under the Companies Act in Singapore. Though these structures are direct and easy to administer, each type of vehicle poses inflexibilities or constraints to running an asset management business in the long run.

With a typical corporate vehicle, subscription and redemption of shares becomes a cumbersome effort as changes to the capital structure require a majority shareholders' approval, which can be detrimental to the fund taking on a larger number of investors to grow.

On the other hand, establishing a fund as a limited partnership means it does not have a separate legal entity from its partners, and so is unable to sue or be sued or to own property in its own name. It is also unable to make use of the various tax treaties Singapore has in place with other countries.

The Monetary Authority of Singapore (MAS) recognised this challenge and sought a solution. It landed upon the Variable Capital Company (VCC) framework.

[1]MAS Singapore Asset Management Survey 2020
[2]MAS Singapore Asset Management Survey 2020

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# The Variable Capital Company (VCC) framework:

## a new kind of structure for Singapore funds

## The Variable Capital Company (VCC) framework

The VCC was launched as a new corporate structure that aims to overcome these constraints by allowing greater operational flexibility. This can bring cost savings to both investors and fund managers in the long run.

The idea of a comprehensive and robust investment funds framework was first floated in 2016[3]. Public consultations were led by MAS, and implementation of the VCC framework was soon underway. It officially launched on 15 January 2020.

The VCC's aim is to position Singapore as a leading fund domiciliation hub. It also helps Singapore to catch up with market leaders, following the launch of the Asia Region Funds Passport scheme as well as the European Union's successful funds passporting scheme, known as the Undertakings for Collective Investments in Transferable Securities (UCITS).

## What's the VCC all about?

Catering to a wide range of investment strategies (traditional and alternative) and structures, the VCC can be used for either open- or close-ended funds. It also allows a variable capital shareholding structure.

It can be set up as a standalone investment fund or structured as an umbrella fund with underlying sub-funds, thus holding segregated and protected portfolios.

As of January 2022, 494 investment funds have been launched using the VCC structure.

## 5 benefits of the VCC structure

- It allows segmented investment portfolios through sub-funds, which means assets and liabilities can be clearly separated and ringfenced
- Investors have the flexibility to enter and exit the fund as they wish, as the calculation of their investment value is straightforward – the capital of the VCC is equal to its net assets
- Achieve cost efficiencies by having a single administrator, fund manager, custodian, auditor and compliance officer managing the main and sub-funds – no more juggling multiple funds
- Leverage Singapore's tax treaties for better cross-border investments
- Unlike with a traditional corporate vehicle, where dividends can only be distributed from profits, the dividends of a VCC can be distributed from the structure's capital

[3]IMAS - PwC SVACC Briefing Paper

## Umbrella VCC's

Unlike traditional structures, the VCC structure enables multiple sub-funds to operate under a single structure umbrella. Several collective investment schemes, whether open-ended or closed-ended, can be gathered under the umbrella of a single corporate entity while still remaining ring-fenced.

Using the umbrella VCCs structure could help to address much of the challenges faced by fund managers dealing with multiple complex structures with a lean team. Scaling down and winding up fund structures at the end of the fund's lifecycle can prove to be a challenge – cleaning up balance sheets, solvency declarations, official filings and tax clearance can easily chalk up costs. If the process stalls, it expends resources unnecessarily. The consideration of a VCC umbrella structure may provide the preventative measures to such backend loads.

In this way, the VCC provides a unique proposition for investors: it helps to protect other funds and investments from being tainted by a bad investment, while also helping to protect individual investors from the actions of others under the umbrella.

## VCC at a glance

- A legal entity designed for funds, both open-ended and close-ended
- Can be used as a single fund, or as an umbrella structure for multiple underlying sub-funds
- Suits any funds investment strategy
- Requires a Singapore-based licensed or regulated fund manager
- Income from a VCC can be exempt from tax, if certain conditions are met
- Able to launch new strategies as sub-funds quickly
- Umbrella VCCs provide quick exit strategies without affecting the main fund
- Centralised administration and governance brings cost and management efficiencies
- Requires at least one resident Director and one Company Secretary
- Must apply to the Accounting and Corporate Regulation Authority (ACRA) to set up a VCC

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# Benefits for fund managers

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# Benefits for fund managers

The Variable Capital Company (VCC) has much to offer fund managers when compared to traditional fund structures in Singapore, including:

New managers need to persuade investors of the benefits of a first-time fund and conduct the necessary due diligence, meaning that first-time funds typically spend longer in market before reaching a first close.

## Scalability

Fund managers often underestimate the speed of growth from the first fund to subsequent launches. For those using an umbrella VCC – and who have a good eye for picking up undervalued assets, discovering uncovered gems or being right on trend - fundraising activities for the second, third and fourth fund could start as soon as six months after the launch of the first.

Replicating the initial fund structure with a whole new set up may be the traditional way of launching a follow-on series or a modified strategy, but it's probably not the simplest way. The VCC takes away the admin hassle of launching - given the umbrella structure means the professional advisory and regulatory approval have been taken care of – meaning the fund has the ability to scale quickly thanks to the option of creating sub-funds (with the same investor group). This allows fund managers to focus on capturing marketing opportunities that may slip away should the launch process get extended.

## Cost and management efficiencies

Middle and back office support such as administrative, accounting and compliance functions are shared across the parent and all sub funds, as opposed to maintaining multiple fund structures or launches for different strategies.

By sharing the same board of directors and common service providers, economies of scale can be achieved through centralised management and oversight. Without the need to create entirely new structures for different strategies, fund managers can remain adept to swiftly capture new opportunities in the market by creating sub-funds to facilitate the investments.

## Transparency on managers capabilities and fees

The Accounting and Corporate Regulatory Authority (ACRA) in Singapore stipulates each sub-fund must maintain its own financial records.

For a fund management company looking to house talented portfolio managers for different investment strategies, the VCC structure allows the board and management to have clear information on the skills of each manager based on the performance of each sub fund.

Compensation structures can also be crafted to identify contributions by managers who are involved in different sub-fund strategies, which is especially common with Multi Family Offices or External Asset Managers (EAM).

## Ease of distribution and reduction of capital

In a traditional corporate vehicle, funds with a large number of investors face issues such as:

- Calculating a fair Net Asset Value (NAV) upon redemptions and subsequent new investors subscribing
- Making solvency declarations
- Obtaining majority shareholders approval for redemptions
- Utilising unused capital for distribution

The VCC offers a capital structure that removes such impediments. It allows the fund manager to have flexible options in maintaining an efficient fund structure and cash flow through the following:

- The shares of a VCC must be issued, redeemed or repurchased at a price equal to the proportion of the VCC's NAV represented by the share (after adjusting for fees and charges in accordance with the constitution); this facilitates a clear entry and exit price for investors at various stages of fundraising
- A VCC is permitted to freely redeem or purchase fully-paid shares out of both capital and/or profits
- A VCC is also permitted to freely pay distributions out of both capital and/or profits

## Quick exit strategies

Typically, when considering tax planning and future ease of sale, single assets such as real estate, aircrafts, ships and intellectual properties are held by a single investment holding company. With its option of easily creating and winding down sub-funds, the VCC can be applied to these assets while keeping a cost-efficient structure and a centralised management team.

Investment in individual sub-funds could swiftly be exited at opportune moments without the need to restructure the whole fund, as the NAV of the VCC could still be easily calculated. This applies to economic downturns for a single commingled fund, where investor redemptions trigger a vicious cycle of AUM outflows, asset disposal, and sharp drop in NAV.

With multiple sub-funds for different assets, fund managers can pre-set different redemption terms in accordance with the investor profile and asset valuation sensitivity to market cycles. Real asset values can also be locked in with a subfund structure, allowing fund managers to present valuations separately to investors and helping to preserve the longevity of the investment holding period.

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# The investors' point of view

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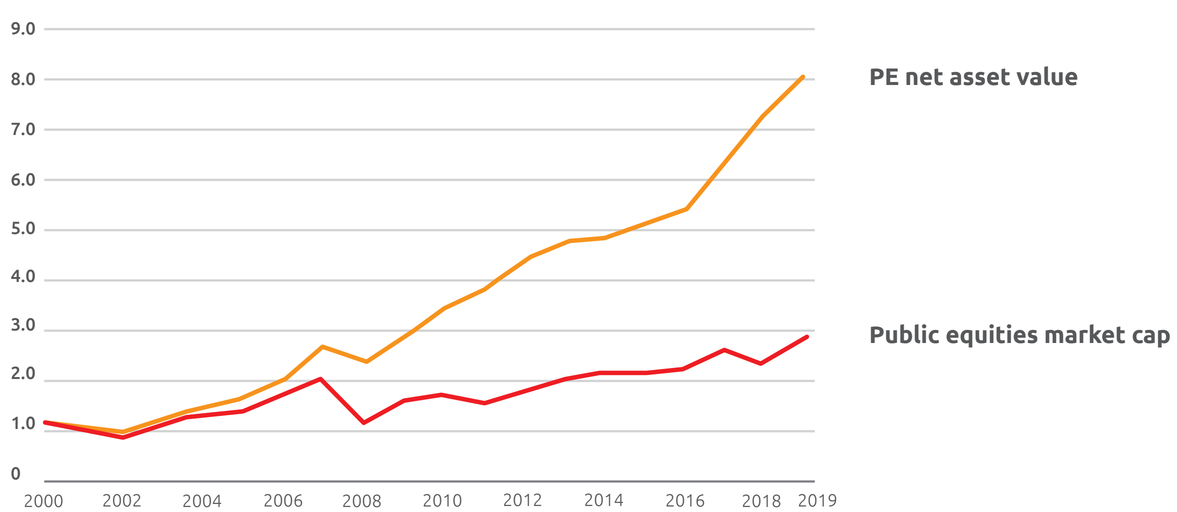
# The investors' point of view

Global private equity's NAV has multiplied eight times since 2000[5], almost three times as fast as the public markets. That increase was 170% in the past decade, representing a staggering USD 4 trillion of money flowing into various strategies ranging from real estate, leveraged buyouts, venture capital, distress, infrastructure and other alternative asset classes.




**Global private equity net asset value[4] and public equities market capitalization, indexed to 2000**

> The value of PE companies has grown more than eightfold since 2000, outpacing public market equities.

Many emerging countries with new-found riches emerged into a 21st century investment space overflowing with alternative asset classes. According to the SWF Institute, there are now more than 89 sovereign wealth funds with assets totalling nearly USD 8.5 trillion. Alternative investment strategies, such as private equity, is now finding an insatiable demand coming from developing nations. From sovereign wealth funds, to private banks, to private equity and hedge funds, investors today have more options than ever and an increased appetite for new original investment ideas.

With governments and market technicians proliferating strategies and structures to snap up this funding, investors today can easily be overwhelmed by the options presented to them. Some may have established teams to review fund managers' capabilities, performance and even tax structures, yet most don't have the required experience or resources for such comprehensive reviews.

Singapore, which has long been established as a key financial centre of the east, has constantly strived to lead the investment industry globally by providing a stable hub for talented managers to grow and thrive. The launch of the VCC fund structure is the latest domiciliation option in the world of investments, placing Singapore at the forefront of investment innovation.

[4]Net asset value is defined as AUM less dry powder.
Data source: Word Bank; Preqin

[5]Mckinsey's Private Markets Annual Review

# How the VCC structure can benefit investors

This innovative new investment structure, whether used as a single fund or an umbrella fund housing multiple sub-funds, provides a range of benefits that investors will find compelling.

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## How the VCC structure can benefit investors

### Protection: A limited liabaility structure for investors

The VCC umbrella structure with sub-funds provides safeguards to investors by ringfencing assets. This allows not only assets to be segregated but also the liabilities – the VCC Act prohibits the assets of a sub-fund from being used to discharge those of another sub-fund or the parent VCC fund. The same limitation applies to claims against the VCC or any of its sub-funds.

**All liabilities arising from the segregated sub-fund need to be discharged solely out of the assets of that sub-fund.**

Individual sub-funds must also be wound-up separately as if they were separate legal entities to ensure that the ring-fencing of each sub fund's assets and liabilities applies during insolvency.

### Flexibility: The variable capital structure facilitates ease of entry and exit

In a traditional corporate vehicle, investors and fund managers often face issues such as determining fair NAVs at different entry and exit periods. How should an investor be 'penalised' for subscribing at a later stage or redeeming early?

The VCC Act capital structure addresses this issue by having the shares issued, redeemed or repurchased at a price equal to the proportion of the VCC's NAV (net of fees and charges).

**At all times, the paid-up capital of the VCCs hould be equal to its NAV.**

### Enhanced privacy

Financial statements and shareholders lists are not shared publicly hence investors can be assured of their privacy.

**The VCC structure provides a level of investor privacy not seen in traditional structures.**

### US "check the box" election

The VCC Act allows the fund structure to make an election under the US "check the box" rules, such that it's treated as a "pass-through" entity for US tax purposes. This presents an attractive option for US investors to explore opportunities through the VCC fund structure.

**Pass-through entities don't pay income taxes at the corporate level. Instead, corporate income is allocated among the owners, and income taxes are only levied at the individual owners' level.**


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# Tax and compliance

## Tax and compliance

The funds market is shifting towards onshoring structures to meet economic substance requirements, and the VCC is set to make Singapore increasingly attractive for domiciliation of funds and their management companies.

Leveraging Singapore's existing robust tax framework and incentive schemes for the fund management industry, the VCC seeks to complement the current schemes with simplified reporting requirements. Following are some of the ways in which the VCC can support better tax and compliance processes and opportunities.

## Tax incentive schemes

VCCs can make the most of Singapore's Enhanced Tier Fund (ETF) and Singapore Resident Fund (SRF) Tax incentive schemes under the Income Tax Act to gain tax exemptions for income from designated investments, such as holding on to securities and derivatives.

| | ETF (13U) | SRF (13O) |
|---|---|---|
| **Tax residency** | Fund can be constituted in Singapore or overseas | Must be tax resident of Singapore |
| **Fund manager** | Must be Singapore-based and hold a CMS licence<br>Singapore fund manager that employs at least three investment professionals | Must be Singapore-based and hold a CMS licence |
| **Regulatory approval** | Requires MAS approval | |
| **AUM** | Minimum fund size of SGD 50 million | No restrictions |
| **Expenditure condition** | At least SGD 200,000 in local business spending in a year | At least SGD 200,000 in expenses in a financial year |
| **Fund reporting requirement** | None needed | Annual Statements to investors.<br>Tax filing to IRAS for non-qualifying investors |
| **Other reporting requirements** | Annual MAS declaration<br>Annual tax returns to IRAS | |
| **Fund administration requirement** | Requires a Singapore fund administrator | |

# Annual compliance duties

Regulatory changes have become the new normal in response to calls to track and end money laundering and terrorism funding activities, and the pace of change has been increasing at a speed where most fund managers and investors find it challenging to keep up.

For this reason, many fund managers can easily overlook some of the finer details of regulation – things like personal accountability, creating internal compliance processes and enforcement frameworks, and the impact of technology.

Such liabilities are made even more complicated when both investors (funding) and investments cross multiple borders, resulting in heightened risk with limited awareness.

Working with a VCC framework helps to ease some of this regulatory and administrative burden by simplifying requirements.

### The minimum annual compliance requirements for a VCC in singapore

Similar to an incorporated company, a VCC is required to hold its Annual General Meeting (AGM) within six months from its financial year end. However, this can be dispensed if:

- Its directors give at least 60 days' written notice to the members before the last date on which the AGM must be held, or
- The VCC has sent the following documents to all persons entitled to receive notice of general meetings: a copy of the financial statements or copies of the consolidated financial statements and balance sheet relating to the relevant financial year, and accompanied by the auditor's report on them, no later than five months after the end of the financial year.

If one or more members with 10% or more of the total voting rights notify the VCC requesting that the AGM should be held, the directors will need to comply.

### In addition to these, the VCC must conduct the following

- Annual returns must be filed after the AGM and within seven months after the end of its financial year
- Annual audit is required
- At least one resident Director and one Company Secretary

### AML/CFT obligations

All VCCs should comply with the MAS's Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT) requirements, and put in place robust controls to detect and deter the flow of illicit funds through Singapore's financial system.

VCCs need to identify and know their customers (including ultimate beneficial owners), conduct regular account reviews, and monitor and report any suspicious transactions promptly.

Each VCC is also required to appoint an eligible financial institution (EFI) to conduct the necessary checks and perform the measures to enable the VCC to comply with its AML/CFT requirements under Singaporean law.

### Directors should ensure internal policies and implementation of controls are in place relating to the following

- Conducting risk assessment and risk mitigation
- Customer due diligence, including maintaining a register of beneficial owners
- Reliance on third parties by an eligible financial institution
- Record keeping
- Suspicious transaction reporting

## Corporate income tax requirements for a VCC

To ease the compliance burden, an umbrella VCC will only need to file a single Corporate Income Tax (CIT) return with the Inland Revenue Authority of Singapore (IRAS), regardless of the number of sub-funds the umbrella VCC has.

**The current CIT rate is 17%.**

Each new VCC is eligible for the following tax exemptions:

- 75% exemption on the first SGD 100,000 of normal chargeable income*
- A further 50% exemption on the next SGD 100,000 of normal chargeable income*

*Normal chargeable income refers to income to be taxed at the prevailing corporate tax rate

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# Intertrust Group and the VCC

# Intertrust Group and the VCC

In Singapore, Intertrust Group provides a wide range of services to private and corporate clients who wish to roll out corporate and fund structures in this sought-after island nation.

Singapore enjoys a pro-business environment with political and economic stability, an extensive network of trade agreements, high levels of transparency, and a sound legal system, all of which provide significant opportunities for individuals and companies worldwide.

At Intertrust Group our 4,000 employees are dedicated to providing world-leading, specialised administration services to clients in over 30 jurisdictions. This is amplified by the support we offer across our approved partner network which covers a further 120+ jurisdictions. Our focus on bespoke corporate, fund, capital market and private wealth services enables our clients to invest, grow and thrive anywhere in the world. Sitting at the heart of international business, our local, expert knowledge and innovative, proprietary technology combine to deliver a compelling proposition – all of which keeps our clients one step ahead.

By striving to be the best at what we do, we empower businesses of all sizes, wherever they are in the world, to navigate the complexity of ever-changing rules and regulations. We support them to grow and accelerate the possible. We partner with them to transform and unleash the potential of their operating model by driving the efficiency, technology and insight needed to achieve a competitive edge. We deliver the power they need to succeed. Our team of specialists can help you with any questions regarding the requirements to set up a VCC structure.

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To find out more about how Intertrust Group can help you access the VCC visit our website.