

LEGAL
ALERTSingapore
28 January 2020

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Variable Capital Companies: Singapore introduces an alternative vehicle for fund management

The Variable Capital Company Act (“VCC Act”) is an extensive legislation administered by the Accounting and Corporate Regulatory Authority (“ACRA”) and came into operation on 14 January 2020. The VCC Act introduces the Variable Capital Company (“VCC”) as a form of corporate vehicle for collective investment schemes (“CIS”).

The VCC structure is highly versatile and can be implemented for a wide array of uses. It provides fund managers with greater flexibility in share issuance and the payment of dividends. Cost efficiencies may also arise as fund managers are able to incorporate multiple sub-funds into a single VCC entity under the scheme.

Before the VCC Act, offshore investment funds (even if they operate in Singapore) are predominantly incorporated and domiciled in jurisdictions that allows for greater flexibility in capital, shares and taxation, such as the Cayman Islands. Being a product of Singapore’s legislation, the VCC structure allows for these similar benefits of greater flexibility and cost efficiency while also cutting down on the traditional cross border administrative and compliance hurdles that may encumber offshore funds operating in Singapore.

Key attractions of the VCC

The VCC offers numerous corporate and regulatory advantages over other forms of corporate vehicles. The most significant are listed below:

- a VCC can be set up as a standalone fund, or as an umbrella fund with two or more sub-funds;
- shares of a VCC are redeemable at the fund’s net asset value (“NAV”). VCCs can pay dividends from capital, which is not typically permissible in other forms of corporate vehicles. This allows a VCC to be flexible with its distributions and return of capital;
- a VCC is regarded as a single company, with a single identity for taxation purposes by the Inland Revenue Authority of Singapore, which takes away the need to file multiple tax returns for individual sub-funds;
- tax incentives applicable to funds under sections 13R (Onshore (Singapore Resident Company) Fund Tax Exemption Scheme) and 13X (Enhanced Tier Fund Tax Exemption Scheme) of the Income Tax Act are similarly extended to VCCs. Furthermore, if the applicable incentive conditions are met, VCC may also be able to enjoy GST remission for funds and the Financial Sector Incentive Scheme for fund management;
- VCC investors enjoys a greater degree of privacy as shareholders, registers of VCCs are not required to be publicly disclosed as opposed to the requirements imposed on traditional company fund structures; and
- a VCC structure can be used for both open-ended and closed-ended fund strategies.



Requirements of a VCC

A VCC has to fulfil some regulatory obligations with regards to its function and operations which includes the following:

- the VCC must appoint a fund management company (“FMC”) that is licensed or registered by the Monetary Authority of Singapore (“MAS”) or is an exempt financial institution in Singapore;
- the VCC must fulfil the minimum requirements in relation to Singapore, such as maintaining a Singapore registered office address and having at least one director who is ordinarily a resident in Singapore;
- at least one director of the VCC must be a director or a qualified representative of the VCC’s fund manager (who may or may not be a resident of Singapore);
- the VCC will have to comply with Anti-Money Laundering/Countering the Financing of Terrorism (“AML/CFT”) procedures, as required by MAS; and
- if a fund is offered to certain types of investors, for example, retail investors, a custodian of assets is additionally required.

Cellular segregation of assets and sub-funds

VCC utilises a cellular structure, where VCC is a single legal entity with its sub-funds operating as separate cells. While the individual sub-funds do not have an individual legal personality, it will be issued a unique sub-fund identification number when registered with ACRA.

This enables the consolidation of multiple asset classes while simultaneously providing for the segregation of risks and liabilities of the sub-funds so as to prevent cross-cell contagion. This is expressly provided for by the VCC Act as the assets of a sub-fund cannot be used to discharge any claims against or the liabilities of the VCC or any other sub-fund(s) under the umbrella VCC. Any liability incurred on behalf of the sub-fund must be discharged solely from the assets of that sub-fund. To mitigate against any cross-cell contagion, the VCC Act voids any provisions that is inconsistent with the segregation of assets and liabilities of sub-funds.


VCC offered to retail investors

Under the VCC Act, funds which are offered to retail investors must meet additional requirements, which includes the requirement to have an approved custodian to supervise the assets held by the VCC. In order to protect retail investors, MAS requires the FMC to be allowed to invest in assets located in jurisdictions that does not have a cellular company structure only if the risk of cross-cell contagion between the sub-fund has been reasonably mitigated.

The custodian has a duty to protect the interest of shareholders of the VCC. The custodian performs that duty through various means, including disclosing the risk of cross-cell contagion to shareholders of VCCs and notifying MAS of any breaches of the VCC or FMC.

Re-domiciling investment funds

Foreign corporate funds with comparable structures may be able to re-domicile to a VCC in Singapore if certain prescribed conditions are fulfilled. This can be done through a simple registration process similar to that for the registration of a company under the Companies Act.





Variable Capital Companies Grant Scheme

On 15 January 2020, MAS launched the Variable Capital Companies Grant Scheme with a view to encourage industry adoption of the VCC by helping fund managers defray the costs of incorporating or registering a VCC. Under the Variable Capital Companies Grant Scheme, MAS will co-fund up to 70% of eligible expenses paid to Singapore-based service providers, capped at S\$150,000 for each application, with a maximum of three VCCs per fund manager. The Variable Capital Companies Grant Scheme will last for a period of three years from the date of the announcement.

The flexible nature of the VCC structure is a significant development to Singapore's fund industry and it is hoped that the structure will be widely embraced by fund managers and professionals alike. ZICO Insights Law can provide services to advise and assist you through the process of incorporating a VCC in Singapore and assess the availability of grants that may be available for your unique circumstances under the VCC Act.

If you have any questions or require any additional information, please contact [Ryan Lin](#) or the partner at ZICO Insights Law LLC you usually deal with.

This alert is for general information only and is not a substitute for legal advice.