INVESTMENT COMPANY INSTITUTE

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May 16, 2019

Monetary Authority of Singapore (MAS) Issues Further Consultation on the Variable Capital Companies (VCC) Regime

[31761]

May 16, 2019 TO: ICI Global Members
ICI Global Pacific Chapter
ICI Global Regulated Funds Committee SUBJECTS: International/Global
Operations RE: Monetary Authority of Singapore (MAS) Issues Further Consultation on the Variable Capital Companies (VCC) Regime

On April 30, 2019, the Monetary Authority of Singapore (MAS) issued a consultation paper[1] on the proposed new regulations for the Variable Capital Companies (VCC) framework and other proposed amendments to the existing rules and regulations to facilitate the implementation of the VCC regime. The VCC regime was introduced in Singapore on 1 October 2018[2] following a public consultation in March 2017. The current consultation paper covers the operational aspects of the VCC framework, including the incorporation of a VCC, the registration of sub-funds and the re-domiciliation process to Singapore of foreign corporate entities as VCCs.

Separately, the MAS issued another consultation paper on the proposed notice on prevention of money laundering and countering the financing of terrorism (AML/CFT) for VCCs.[3] The proposed notice sets out the AML/CFT requirements for VCCs and draws from international best practices and the standards set by the Financial Action Task Force.

The MAS will accept written comments to both consultations until 30 May 2019. ICI Global is not inclined to comment on the consultations. If you have particular concerns, please contact Jennifer Choi at jennifer.choi@ici.org or Alexa Lam at Alexa.Lam@iciglobal.org.

This memo will highlight the key features of the VCC regime and the potential benefits of the framework for domestic and foreign fund managers.

Background

The VCC regime is a Singapore domiciled investment company that can operate as an open-ended or closed-ended fund entity, with the option to be set up as a stand-alone fund or an umbrella fund with separate sub-funds. The VCC regime is similar to the open-ended investment company (OEIC) structure in the UK and the Open-ended Fund Company (OFC) regime in Hong Kong. The VCC entity structure will give funds an alternative to the existing structures available in Singapore, namely unit trusts, limited partnerships and investment companies. The Singapore government aims to use the VCC regime to position Singapore as a key fund domicile and strengthen Singapore's position as a full-service international fund management center.

Overview of the VCC regime

The VCC is a corporate entity in which shareholders may hold shares, enabling shareholders to exit their investments in the investment fund when they wish. The VCC may issue and redeem shares without shareholders' approval (enabling investors to redeem) and pay dividends using its capital. In contrast, companies under the Companies Act are subject to restrictions on capital reduction (equivalent to fund redemptions) and can only pay dividends out of profits.

The VCC framework can be used for traditional and alternative fund strategies (for both open-ended and close-ended funds). A VCC can be established as a standalone or as an umbrella entity with multiple sub-funds that may have different investment objectives and investors as well as assets and liabilities. The umbrella structure allows sub-funds to share a board of directors and have common service providers, such as the same fund manager, custodian, auditor and administrative agent. Foreign corporate fund structures that are similar to VCCs may be re-domiciled as VCCs in Singapore.

Potential Benefits of the VCC regime

The main benefits of the VCC are the potential flexibility and cost efficiencies that may arise from the ability to issue and redeem shares of an investment company without shareholders' approval. A VCC that is established as a standalone structure or an umbrella structure with multiple sub-funds may lead to cost efficiencies as sub-funds can share the same board of directors and common service providers and consolidate some administrative functions.

The VCC structure may also cater to the needs of global investment funds. A VCC will be permitted to use Singapore and international accounting standards (such as the International Financial Reporting Standards and US Generally Accepted Accounting Principles) in preparing financial statements so that it can serve the needs of global investors. Fund managers with foreign-domiciled investment funds may take advantage of the statutory regime for inward re-domiciliation under the VCC framework to transfer the domicile of their foreign investment funds to Singapore.

The VCC framework provides safeguards against the commingling of assets and liabilities between sub-funds, by requiring assets and liabilities of each sub-fund to be segregated. As such, the assets of one sub-fund may not be used to discharge the liabilities of another sub-fund, or of the umbrella fund, including in the event of insolvency.

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endnotes

[1] The consultation paper on the Proposed Framework for Variable Capital Companies Part 2, issued on 30
April 2019, is available at:
http://www.mas.gov.sg/~/media/resource/publications/consult_papers/2019/Consultation%20Paper%20on%20the%20Proposed%20Framework%20for%20Variable%20Capital%20Companies%20Part%202.pdf

[2] The VCC is regulated under its own legislation, the Variable Capital Companies Act, which was passed by Parliament on 1 October 2018. The VCC Act is available at: https://sso.agc.gov.sg/Acts-Supp/44-2018/Published/20181112?DocDate=20181112#legis

[3] The consultation paper on the Proposed Notice on Prevention of Money Laundering and Countering the Financing of Terrorism for Variable Capital Companies, issued on 30 April, 2019, is available at:
http://www.mas.gov.sg/~/media/resource/publications/consult_papers/2019/Consultation%20paper%20on%20the%20Proposed%20VCC%20AMLCFT%20Notice.pdf

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