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FUND FINANCE FRIDAY

Introduction to Singapore VCCs

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The Variable Capital Companies Act (No. 44 of 2018) of Singapore (the VCC Act) was passed into law in 2018. The VCC Act introduced into Singapore the new legal entity of the Variable Capital Company (VCC).

The VCC is aimed at allowing Singapore to capture a greater share of the economic benefits from the full fund management value chain. The new VCC regime is designed to encourage fund managers to domicile their funds in Singapore, adding fund domiciliation activities to their fund management activities. This, in turn, will help further strengthen and build out the full-service fund management ecosystem in Singapore. To this end, a re-domiciliation facility will also be provided for existing overseas investment funds constituted as corporate structures similar to VCCs.

Singapore-based fund managers who domicile funds locally as VCCs are expected to benefit from potential cost savings and operational efficiencies, such as fewer cross-border administrative and compliance hurdles, through the use of local service providers and professional advisers operating out of just one jurisdiction. VCCs will also be able to avail themselves of Singapore’s competitive and conducive tax regime.

Notable Features of the VCC

The VCC may be set up as an open-ended or closed-end fund. This opens up the possibility of utilising the VCC for traditional and alternative fund strategies, including hedge funds, private equity funds, venture capital funds, real estate funds, infrastructure funds, mutual funds and exchange-traded funds.

The VCC can be established as an umbrella structure with multiple sub-funds or as a standalone vehicle. In an umbrella structure, each sub-fund will need to be registered with Accounting and Corporate Regulatory Authority (ACRA) but will not have separate legal personality. Sub-funds within an umbrella VCC will have their assets and liabilities segregated from other sub-funds, such that the assets of one sub-fund may not be used to satisfy the liabilities of another sub-fund. An umbrella sub-fund can share a board of directors and common service providers (*e.g.,* custodian, auditor).

Additional features include:

Variable capital structure: In the case of open-ended funds, this provides flexibility for the VCC to issue and redeem shares without having to seek shareholders' approval, enabling investors to exit their investments in the VCC when they wish to, in accordance with the terms of the fund and, more generally speaking, redeem shares and pay dividends using its capital.

Redomiciliation: Foreign corporate entities set up as collective investment schemes could potentially be re-domiciled as VCCs in Singapore. This could be a potential "game changer" as it is intended to encourage fund managers in Singapore with existing funds domiciled in offshore jurisdictions to co-locate their fund domiciliation with their fund management activities in Singapore. There are obvious cost benefits and other efficiencies to this.

Tax Treatment: A VCC set up as an umbrella structure will be treated as a single company for income tax purposes such that only one set of income tax returns needs to be filed. The tax exemption schemes under Section 13R and Section 13X of the Income Tax Act of Singapore will be extended to VCCs. The 10% concessionary tax rate under the Financial Services Incentive - Fund Management scheme will be extended to approved fund managers managing such incentivised VCCs. The existing goods-and-services tax remission for funds will also be extended to such incentivised VCCs. For VCCs set up as an umbrella structure, goods-and-services tax will apply at the sub-fund level.