

# Variable Capital Company

Singapore's gateway to investment funds  
Fund Launch Guide



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# Introduction

Welcome Reader,

The Krypton Fund Services team are proud to present our Variable Capital Company Guide. This guide is prepared with the help of some of our expert industry partners which include Duff & Phelps, HFC Hedge Fund Club, BTP Law, Credence Consulting, Edelweiss Investment Advisors, Raffles Family Office, Solas Fiduciary Services, EisnerAmper, Waystone and others. Eugene Ling of Sunny Side Up in providing us with the finished product.

We hope our clients and potential clients find this Guide useful and that it answers any questions you might have about the Singapore VCC for your fund structure.

**Krypton Fund Services** is an independent fund services company that strives to provide clients with a high touch service model that stands out from the market. We focus on putting relationships and responsibility first to service our clients within a global framework. We are not a “status quo” service provider and we pride ourselves on a client-centric, holistic approach to administration. We recognize that, by extension, we are a direct reflection of our clients and thus endeavor to operate with them as a true business partner.

Our platform provides regulatory reporting, fund administration, registrar and transfer agency, corporate secretarial, project management and setup. We offer this service to a wide range of family offices, investment funds, private and special purpose vehicles operating predominantly in the alternative investment arena.

Being an early adopter, with our clients, of the VCC structure, we have worked with several excellent industry providers to create this guide. It is not meant to be a replacement for professional advice, but as a resource to help prospective VCC users understand the market, the structure, and its components.

If you have any questions about the material set out over the following pages, please get in touch with

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Warmest Regards,

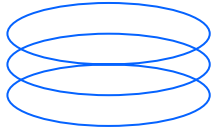


Rod White and Allen Wu

Launched January 15, 2020 as a new corporate structure in Singapore to accommodate and overcome previous limitations of other structural options available, welcome to the guide on Singapore's VCC.

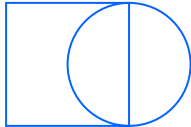
# 300+

Approximate Number of Variable Capital Companies Set Up Since 15 January 2020 to date.



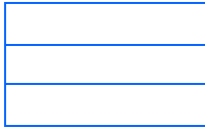
### Capital

Capital of a VCC will always be equal to its net assets, thereby providing flexibility in distribution and reduction of capital.



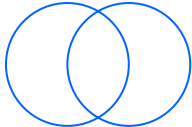
### Re-domicile

Foreign corporate fund structures can be inward re-domiciled to Singapore as a VCC.



### Structure

A VCC is a legal entity specifically for investment funds that can be used for traditional and alt strategy, both on an open ended and closed ended basis.



### Options

A VCC can be set up as a standalone entity, or as an umbrella entity with multiple sub-funds.

# History and Why the VCC is Game Changing

## New Option

One of the key reasons Singapore Fund Managers previously decided to domicile their investment funds in foreign locations was the lack of a proper investment fund structure in Singapore.

Singapore Variable Capital Company (VCC) was legislated on 15 January 2020 representing the latest in fund innovation in the Asian market. Coupled with other developments in Asia including the Asia Region's Funds Passport which is a multilateral framework intended to support the development of an Asia region funds management industry through improved market access and regulatory harmonization - Singapore is on the verge of creating a Gateway to Asia.

Singapore currently offers a variety of investment fund forms, such as, limited partnerships, unit trusts, business trusts, and real estate investment trusts. Corporations are also used as investment subsidiaries for "fund" investments. The addition of VCC in this suite of legal entities, which can be used as a vehicle for investment funds, is key to elevating Singapore's value proposition as a competitive asset management hub in the region. Corporate form funds are not a novelty in Singapore, as most private equity and real estate funds today are already using some form of Singapore corporate entity as investment subsidiaries within their fund structures. Further, over 70% of investment alternative funds sold in Singapore are corporate form funds that are domiciled in foreign locations.

Previously, one of the key reasons Singapore Fund Managers chose to domicile their investment funds in foreign locations was the lack of a proper investment fund structure in Singapore. Prior to the launch of the VCC, Singapore had the Unit Trust, Private Company and Limited Partnership structures which can be used for collective investment schemes. However, there are certain limitations for each of the aforementioned structures:

The VCC eliminates these limitations, making Singapore and the VCC a very attractive and efficient structure of investment funds. Additionally, with Singapore being a full FATF member and reputable financial hub, the advantages of the VCC are attracting foreign fund managers into setting up shop in Singapore, which in turn also boost the talent pool and job opportunities locally.

### Unit Trusts

A popular choice for mutual Funds and has an additional advantage of not being governed by the Companies Act. However, Singapore Unit Trusts must appoint a Licensed Collective Investment Scheme Trustee that increases the overall compliance costs.

### Private Limited Co

A popular choice for private equity Funds as it allows the Funds to take advantage of the vast array of tax treaties that Singapore has in place. However, disadvantages include subscriptions and redemptions being subjected to the Company Act, which requires the Fund to update its register with ACRA and have relevant resolutions prepared. The Private Limited Company also does not allow for dividends to be paid out of capital, only allowing it to be paid out of profits.

### Limited Partnership

A popular choice globally and suitable for Singapore. However, the Limited Partnership structure cannot access the benefits from the vast array of tax treaties that Singapore has in place.

# VCC's Regulatory Framework

## ACRA

The Accounting and Corporate Regulatory Authority (ACRA) is the regulator of business registration, financial reporting, public accountants and corporate service providers; it also facilitates enterprise. We provide a trusted and vibrant environment for businesses to thrive and flourish, and contribute towards making Singapore the best place for business.

## MAS

The Monetary Authority of Singapore (MAS) is Singapore's central bank and integrated financial regulator. MAS also works with the financial industry to develop Singapore as a dynamic international financial centre.

A VCC would be incorporated by the Accounting and Corporate Regulatory Authority (ACRA) and supervised by the Monetary Authority of Singapore (MAS) directly through the Securities and Futures Act (SFA) as pertaining to funds, and indirectly through the regulatory oversight over the fund managers. The VCC legislation is a legal entity legislation that does not replace or change Singapore's existing regulations for investment funds. The current SFA regime will have an overlay on VCCs, just as with existing unit trusts, limited partnerships and other legal entity forms. The enactment of the VCC legislation enhance Singapore's competitiveness as a domicile for investment funds by introducing a number of special features:

- The VCC will be regulated by its own standalone legislation, the Variable Capital Company Act ("VCC Act"), which came into force on 15th January 2020. The VCC Act will be administered by the Accounting and Corporate Regulatory Authority ("ACRA").
- Anti-money laundering and countering the financing of terrorism ("AML/CTF") obligations of VCCs will come under the purview of the Monetary Authority of Singapore ("MAS") directly through the Securities and Futures Act (SFA) as pertaining to funds, and indirectly through the regulatory oversight over the fund managers.
- The current regime allows for VCCs to be set up an Authorised (for retail investors), Restricted (for accredited investors) and Exempted (for small offerings, private placement, and institutional investors) schemes. Similar to the existing collective investment schemes that caters for the various type of investors, an Authorised scheme would require an Approved Trustee to be appointed to safeguard the assets of the fund.

- A VCC would also require a Permissible Fund Manager to be appointed to have overall supervision of the fund management activity within the VCC. As of the date of writing, only holders of Capital Market Services Licensees (Fund Management & Venture Capital Fund Management), Registered Fund Management Company or certain classes of persons exempt from the requirement to hold a licence but still subject to MAS-oversight, such as a licensed bank (an exempt fund manager), are allowed to set up a VCC. The VCC's Permissible Fund Manager can appoint and delegate fund management and other operational duties to other parties, such as a sub-manager or investment advisor that are regulated for fund management activities in other jurisdictions, so long that the Permissible Fund Manager retains overall responsibility of the duties.
- The VCC also look to ensure corporate governance within the structure itself. At all times, at least one director of the VCC must be a director or qualified representative of the Permissible Fund Manager. Independent fund directors are not currently mandatory, except for Authorised Scheme in which at least one independent fund director must be appointed. Further, at least one of the fund directors must be a resident in Singapore.
- A VCC is subject to AML/CFT regulations issued by the MAS, and these requirements are set out in Notice VCC-N01 and Guidelines to Notice VCC-N01, issued by the MAS. As a VCC is not expected to have employees of its own, a VCC must appoint eligible financial institution ("EFI") to perform the necessary AML/CFT checks applicable to VCCs. Sin Yee and Naomi from D&P touches more on this in the section, AML Requirements of a VCC.

# Parties Involved

By Allen Wu of  KRYPTON  
FUND SERVICES

A VCC is required to appoint Singapore based service providers as part of the VCC Act, and all of them play a crucial role in the success of any fund. For this reason, it is vital to appoint such service providers which are accountable, focused and knowledge on the various stages of a fund's life cycle.

The various service providers involved in a VCC are set out below:

### Fund Manager

A VCC, must always, be managed by a MAS regulated Fund Manager for Fund Management Activities. At the point of writing, a VCC's Fund Manager must be a holder of one of the following licenses:

- (i) Capital Market Services License for fund management under the SFA (Including Venture Capital Fund Management)
  - (ii) Registered Fund Management.
  - (iii) Certain classes of persons exempt from the requirement to hold a licence but still subject to MAS-oversight, such as a licensed bank (an exempt fund manager)
- The Fund Manager is responsible for the implementation and management of the investment strategy of the VCC.

### Legal Counsel

The Legal Counsel is responsible for drafting the fund documents for the VCC and in many instances, would advise the Fund Manager on the structure of the VCC to ensure it complies with the legal regulations of Singapore.

The key documents required for a VCC is covered by Brandon Tee, managing director of BTPLaw LLC in the section KEY DOCUMENTS ASSOCIATED WITH VCC STRUCTURE

### Fund Auditor

The Fund Auditor works with the Fund Manager and Fund Administrator to review and audit the financial statements of the VCC. It is a requirement as part of the VCC Act to have the financial statements of a VCC audited by a Singapore based auditor and presented in accordance with IFRS, SFRS or US GAAP.

Grady Poon, Head of Financial Services of EisnerAmper, shares more on the audit requirement of a VCC in the section AUDIT CONSIDERATIONS.

### Fund Administrator



The Fund Administrator is responsible for the independent valuation of the fund, which includes the calculation of the Net Asset Value (NAV), Subscription and Redemption price as well as remuneration to the Fund Manager (i.e., Management and Performance Fees). Additionally, the Fund Administrator usually takes on the role of transfer agent, processing the subscriptions and redemptions of the fund. While a VCC is not required to appoint a Singapore-based Fund Administrator, it is required under the Tax Incentives qualifying criteria to appoint a Singapore-based Fund Administrator.

### Custodian

A VCC is required to appoint an Approved Custodian for authorised schemes and a Custodian for restricted schemes. The main role of a custodian is safekeeping of the assets of the VCC.

A VCC (or Sub-Fund) can choose not to appoint a custodian if the fund structure is set up as a close-end fund.

Mohit Batra, from Edelweiss, shares more on the custodian requirement for restricted scheme in the section CUSTODIAN REQUIREMENT.

### Corporate Secretary



A VCC is required to appoint a Singapore-based Corporate Secretary to ensure the records and minutes of the Board of Director's action reflects the proper exercise of such fiduciary duties. Krypton Fund Services can provide this service.

### Board of Directors

A VCC is required to appoint a Board of Directors to ensure fund governance of the structure. At least one of the directors of the VCC has to be a Director or Qualified representative of the Fund Manager. At the point of writing, independent directors are only required for authorised schemes although it is good fund governance to appoint an independent director. Martin O'Regan, Chairman of the Singapore Fund Directors Association and Connie Wong & Samantha Fu from Waystone, shares more on the fund governance of a VCC in section FUND GOVERNANCE REQUIREMENTS.

### Investment Advisor

Investment Advisors can be appointed to a VCC to implement the investment strategies of the VCC provided that the Investment Advisors is regulated for fund management activities in another jurisdiction. The Fund Manager of the VCC, however, has to maintain overall responsibility of the VCC.

### Eligible Financial Institution for AML/CFT Obligations

A VCC has to engage an Eligible Financial Institution ("EFI") to take on the AML/CFT duties of the VCC. A list of EFIs is set out in Appendix II of MAS's notice VCC-N01.

Koh Sin Yee and Naomi Cher from Duff and Phelps shares more on the AML requirements of a VCC in section AML REQUIREMENTS.



# Investment Manager Requirement

By Eddie Lim and Ng Jian Wei of 



INVESTMENT MANAGER REQUIREMENT

## Fund Management Company in Singapore

Singapore’s success as a as an international financial hub is premised on its strong superior framework and pro-business surroundings. Accompanied by an especially enticing tax surroundings for budding businesses, Singapore’s mature infrastructure and government support for the wealth management sector still entices fund managers who intends on establishing a presence in Singapore. These factors have attracted leading monetary establishments and international investors to work confidently in Singapore. Fund Management continues to be one among the most Regulated Activities in Singapore, with about 1,100 Singapore Fund Management firms to date.

## Regulatory Framework for Fund Managers

Fund Management Companies in Singapore are regulated by under the Securities and Futures Act (Cap. 289). To conduct regulated activities of fund management, a Fund Management Company is required to apply for a license

Fund Management Company (“RFMC”), Capital Market Services License (“CMSL”) which is split into Licensed Fund Management Company (“LFMC”) or Venture Capital Fund Manager (“VCFM”). LFMCs are considered a full license and have stricter preconditions and stringent compliance from the Monetary Authority of Singapore.

## Upgrade from a RFMC to a CMS License

A RFMC can decide to upgrade its license to a full fledge CMSL when the Company would like to increase its number of qualified investors and manage a total value of assets more than S\$250 million.

# Types of License

Type of Licence	RFMC (Registered)	LFMC – A/I (Licensed)	LFMC – Retail (Licensed)
Target Clientele	Qualified Investors	Qualified Investors	No restrictions
Number of Investors	No more than 30 qualified investors (of which no more than 15 may be funds or limited partnership fund structures)	No restrictions	No restrictions
AUM	Not more than S\$250 million	No restrictions	No restrictions
Base Capital Requirement	Min. S\$250,000	Min. S\$250,000	Min. S\$500,000
Risk-based Capital Requirement	N/A	No restrictions	No restrictions
Professional Indemnity Insurance (PII)	Recommended	Recommended	Mandatory
Periodic Returns Reporting	Annually	Quarterly & Annually	Quarterly & Annually
Compliance Arrangement	Can be outsourced as per complexity and scale of business	For AUM < S\$1 billion, this function can be outsourced	Full time, independent compliance function
Internal Audit	Should be commensurate with the scale, nature and complexity of its operations May be conducted by the internal audit function within the FMC, an internal audit team from the head office of the FMC, or outsourced to a third-party service provider		
External Audit	Mandatory annual audit requirements		

INVESTMENT MANAGER REQUIREMENT

## Criteria for Licensing or Registration:

1. Have in place compliance arrangements that are commensurate with the nature, scale and complexity of its business.
2. Should be incorporated in Singapore and have a permanent physical office in Singapore that is dedicated, secure and accessible only to the FMC's directors and staff.
3. LFMCs and RFMCs are required to appoint a minimum of 2 directors having relevant industry experience. One of the directors employed must be a full-time executive director and should be resident in Singapore.
4. FMCs must have at least 2 Relevant Professionals and at least 3 in the case of Retail LFMC. Relevant Professionals would include the directors, CEO and representatives of the FMC.

5. Put in place a risk management framework to identify, address and monitor the risks associated with customer assets that it manages.
6. Notifications and submission of info/regulatory returns to MAS
7. Shareholders, directors, representatives and employees, as well as the FMC itself, to be approved by MAS, subject to fit and proper requirements.
8. Audit requirement

## Ongoing Requirements:

- Anti-Money Laundering and Countering the Financing of Terrorism Requirements
- Custody
- Valuation & Reporting
- Mitigating Conflicts of Interest

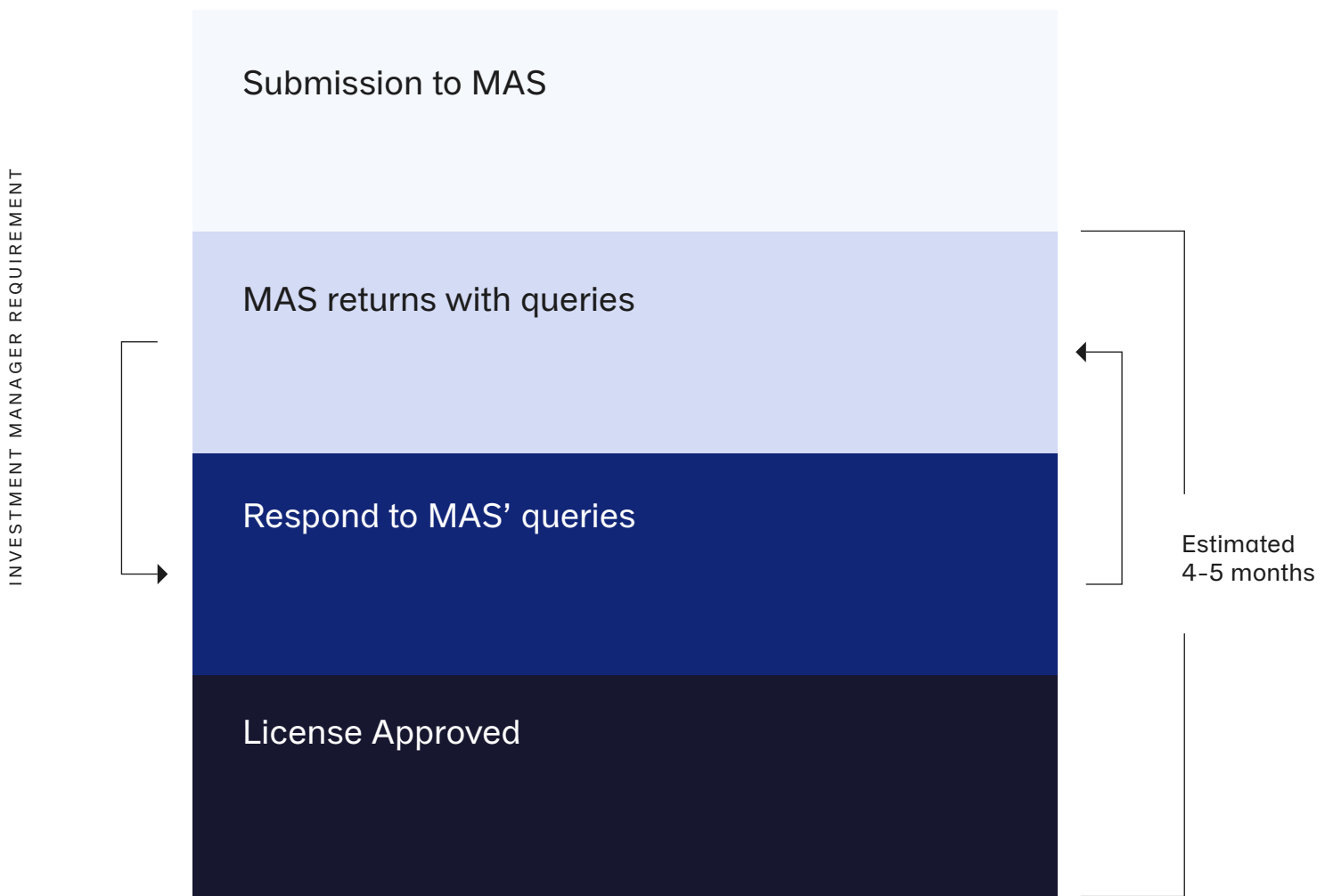
- Business Conduct
- Disclosures and Communications
- Termination of Fund
- Annual Audit Requirements

## Tax Incentives for Management of Funds:

- Non-Resident Fund Exemption – Section 13CA
- Resident Corporate Fund Exemption – Section 13R
- Enhanced Tier Fund Incentive Schemes – Section 13X
- Concessionary Rate of Tax for Financial Sector Incentive Company – Section 43Q

**Application Timeline**

The standard timeline until license approval would be estimated to be around 4-5 months upon submission depending on the complexity of the Company’s structure and scope of which the Fund Management Company operates. General queries from MAS would include experiences of the team, conflicts of interest, detailed operationalisation of the Company, etc. For every response that was reverted to MAS, kindly expect a duration of at least 21 days for MAS to revert with further queries.



# AML Requirements

By Koh Sin Yee and Naomi Cher of **DUFF&PHELPS**  
A **KROLL** BUSINESS

To prevent the abuse of a VCC for unlawful purposes, a VCC is subject to anti-money laundering and counter-financing of terrorism (“AML/CFT”) regulations issued by the Monetary Authority of Singapore (“MAS”). The AML/CFT requirements of VCCs are contained in the following:

- Notice VCC-N01 on Prevention of Money Laundering and Countering the Financing of Terrorism – Variable Capital Companies (the “Notice”); and
- Guidelines to Notice VCC-N01 on Prevention of Money Laundering and Countering the Financing of Terrorism – Variable Capital Companies (the “Guidelines”).

The requirements in the Notice and Guidelines adopt most of the AML/CFT framework applicable to financial institutions regulated by the MAS, including fund managers. Broadly, this encompasses:

- Having proper AML/CFT policies, procedures and controls including a framework for governance, firmwide training, employee screening, record-keeping, compliance management and independent audits to attest to the effectiveness and adequacy of the VCC’s internal policies, procedures and controls on AML/CFT;
- Conducting an enterprise-wide self-assessment of potential money laundering and terrorism financing (“ML/TF”) risk in the firm’s business and updating this risk assessment periodically;
- Proper performance of customer due diligence (“CDD”) including screening against ML/TF information sources and updating the CDD information and documents at the appropriate times; and
- Ongoing transaction monitoring and suspicious transaction reporting.

However, the sole object of a VCC is to be a vehicle for collective investment schemes and a VCC is not required to have dedicated or a minimum number of employees. In these respects, the VCC differs from financial institutions regulated by the MAS. Given these differences, the AML/CFT framework applicable to VCCs departs from the AML/CFT framework applicable to financial institutions regulated by the MAS in the following specific ways:

- A VCC must appoint an eligible financial institution (“EFI”) to perform the necessary AML/CFT checks applicable to VCCs;
- The customers of a VCC, for purposes of determining the scope of persons on which a VCC must perform CDD, is defined in the Notice as essentially the VCC’s members whether at the fund or sub-fund level. In line with the general MAS AML/CFT framework, CDD requires obtaining information and documents beyond the customer to also obtaining information and documents relating to the beneficial owners and connected parties of customers and natural persons appointed to act on behalf of customers, if the customer is a legal person or legal arrangement. In practice, the VCC would engage the EFI to perform CDD; and
- A VCC must maintain a register of its beneficial owners and nominee directors, similar to obligations which are currently imposed upon companies under the Companies Act. MAS will not require these registers to be made public, but the registers must be made available to ACRA, MAS and other law enforcement authorities for regulatory, supervisory and law enforcement purposes as may be required under applicable laws. A VCC will be required to obtain the information which has to be maintained in the registers, except for certain categories of VCCs where such information would already be available to the authorities.



The Notice defines eligible EFIs as many types of financial institutions regulated and supervised by the MAS for AML/CFT compliance. However, we expect that VCCs would likely appoint the manager of the VCC as its EFI, since a VCC is required to have at all times a manager that is regulated by the MAS. A VCC is expected to have its own controls to manage the specific AML/CFT risks of its business. The MAS has stated that it anticipates that a VCC would largely adopt the policies and procedures of the EFI that it has appointed, where it has assessed the policies and procedures to be adequate. Also, the VCC would tap on the compliance resources and internal audit of the EFI.

[Even if the VCC appoints an EFI to comply with its AML/CFT obligations, a VCC remains responsible for fulfilling all its AML/CFT compliance obligations.](#)

The Notice only allows each VCC to only appoint a single EFI. If an EFI manages multiple VCCs, the VCC should ensure that the EFI has adequate resources to carry out the necessary checks and measures to enable the VCC to comply with its AML/CFT requirements. The VCC-appointed EFI may in turn outsource the AML/CFT functions of the VCC to other firms on behalf of the VCC. The VCC's board of directors is required to have oversight of its EFI's outsourcing arrangements of the VCC's functions.

There is a lot of detailed prescription in MAS' AML/CFT framework and more importantly, many differences from the AML/CFT framework in other jurisdictions. Breaches of AML/CFT controls are an enforcement and supervisory priority for the MAS. Persons wishing to understand specifics of the AML/CFT framework for VCCs should consult advisors that are experienced in AML/CFT compliance.

# Rebates Associated With VCC Structuring

By Allen Wu of  KRYPTON  
FUND SERVICES

Adding on to the attractive of a VCC, the MAS announced the launch of the VCC Grant Scheme under the Financial Sector Development Fund to co-fund qualifying expenses that are incurred and paid to Singapore based service providers for their work relating to the incorporation and/or registration of the VCC.

The VCC Grant Scheme aims to expedite Singapore's fund domiciliation capabilities and encourage early adoptions of VCCs, putting the VCC alongside other traditional offshore fund structures on equal grounds when fund managers consider the jurisdiction to incorporate their investment fund. Additionally, the VCC Grant Scheme is also launched to help attract fund managers to redomicile their offshore investment funds to Singapore as VCCs.

The VCC Grant Scheme was launched on 15th January 2020, the same day as the VCC. The VCC Grant Scheme will be available for a period of three (3) years initially. The VCC Grant Scheme will help Qualifying Fund Managers to defray cost associated with incorporation and/or registration of the VCC, as well as redomiciliation by co-funding 70% of such qualifying expenses up to a cap of S\$150,000.00 per application. Each Qualifying Fund Manager is also allowed to apply for the co-funding for up to three (3) VCCs. The VCC Grant Scheme works on a reimbursement basis, so Qualifying Fund Managers will have to fork out the qualifying expenses first prior to applying for the reimbursement.

This makes the VCC very appealing for fund managers to adopt the VCC and even more so for emerging managers. There are, however, some criteria set out by the MAS to qualify for the co-funding.

Only Qualifying Fund Managers who have successfully incorporated a VCC and/or redomiciled a foreign corporate entity to Singapore as a VCC may apply for the VCC Grant Scheme, subject to the following conditions:

- The setup of the VCC cannot be simultaneously funded by other government grant/incentives with respect to the same set of qualifying cost and expenses.
- Each applicant can only apply for the VCC Grant Scheme for up to three (3) VCCs that has been successfully incorporated and/or redomiciled.
- Qualifying cost and expenses covered by the VCC Grant Scheme must only be paid to Singapore based service providers in relation to the work done for the incorporation and registration of the VCCs and its sub-funds.
- Applicants may not claim the co-funding solely for the registrations of the sub-funds, meaning to say each application must be done in conjunction with application for the co-funding with the incorporation and/or redomiciliation of a VCC or transfer of registration. Applicants may, however, apply for co-funding for the costs involved for the registration of the sub-funds as part of the set up for an Umbrella VCC.
- Applicants will have to formally submit their application within three (3) months from the date on the notice of incorporation or notice of transfer of registration from ACRA.

## The qualifying costs and expenses are set out below:

### Legal Services

- Fee charged by Singapore based law firms for work done in relation to the incorporation or registration of a VCC, including but not limited to the drafting and review of the VCC's legal documents.
- For work done in relation to the authorization or registration of the VCC with MAS.

### Tax Services

- Fees charged by Singapore based tax advisors, fund administrators, corporate secretaries, law firms and other services providers for tax advice related to the incorporation and/or registration of a VCC, but not limited to tax opinions on the incorporation or registration of a VCC as well relating to any tax incentive applications.
- It may also cover tax advice relating to tax compliance matters such as goods and service tax remissions and Singapore's' double tax treaties with other jurisdictions.

### Fund administration and/or regulatory compliance services

- Fee charged by Singapore based Fund Administrators for services such as incorporation or registration services in relation to the setup of a VCC, appointment of directors, and all required filings.
- Fees charged for work done by regulatory consultants in relation to the authorisation or registration of the VCC with MAS or setting up a compliance framework or any services listed above are also included.

The above-mentioned Qualifying Cost and Expenses will be co-funded under the VCC Grant Scheme at a percentile of 70%, capped at S\$150,000 per VCC.

VCCs which have successfully been awarded a grant under the VCC Grant Scheme are required to remain operational for at least one year from the date of incorporation. If the VCC is wound up within the first year, the Qualifying Fund Manager is to inform MAS promptly, and no later than the end of one week from the date of the application for the winding up or passing of resolution for a voluntary winding up. MAS reserves the right to claw back the

grant awarded if the VCC is wound up within the first year from the registration date and/or if the recipient fails to inform MAS of the winding up of the VCC within one week from the date of the winding up.

# Variable Capital Company Grant Scheme<sup>1</sup>

Rebates Associated with VCC Structuring	Details
Variable Capital Company Grant Scheme (“VCCGS”) <sup>1</sup>	Qualifying Fund Managers that have incorporated a VCC or have successfully re-domiciled a foreign corporate entity to Singapore as a VCC, and have obtained a notice of incorporation or transfer of registration from ACRA.
Project Eligibility	<p>This grant is open to Qualifying Fund Managers that have incorporated VCCs or re-domiciled a foreign corporate entity to Singapore as a VCC. The following conditions apply:</p> <ul style="list-style-type: none"> <li>• The setup of the VCC cannot be simultaneously funded by other government grants/incentives with respect to the same set of qualifying costs and commitments.</li> <li>• Each applicant may only apply for the VCCGS for work done in relation to a maximum of three (3) VCCs that have been successfully incorporated or re-domiciled.</li> <li>• Qualifying expenses must be paid to Singapore-based service providers for work done in Singapore in relation to the incorporation and registration of VCCs and their sub funds.</li> <li>• A Qualifying Fund Manager may not claim co-funding under the grant scheme solely for registration of sub-funds (without the accompanying incorporation or transfer of registration of a VCC). However, a Qualifying Fund Manager may claim qualifying set up costs incurred for the registration of sub-funds as part of the setup of an umbrella VCC and</li> <li>• Applicants should formally submit their applications within three (3) months from the date on the notice of incorporation or notice of transfer of registration issued by ACRA (for a newly incorporated VCC) or within three (3) months from the date of ACRA’s approval of the VCC’s evidence of de-registration (for a foreign corporate entity re-domiciled to Singapore as a VCC).</li> </ul>
Funding	<p>70% co-funding of qualifying expenses listed below, capped at \$150,000 per VCC.</p> <ul style="list-style-type: none"> <li>• Legal services</li> <li>• Tax services</li> <li>• Administration or regulatory compliance services</li> </ul>
Minimum Operational Period	<p>A VCC which has been awarded a grant under the VCCGS is required to remain operational for at least one year from the Registration Date. This means that the VCC cannot be wound up within the first year from the Registration Date. In the event that the VCC is wound up within the first year from the Registration Date, the Qualifying Fund Manager is to inform MAS promptly and no later by the end of one week from the date of the application for the winding up or passing of resolution for a voluntary winding up. MAS reserves the right to claw back the grant awarded if the VCC is wound up within the first year from the Registration Date and/or if the recipient fails to inform MAS of the winding up of the VCC within one week from the date of the winding up.</p>
<p><sup>1</sup> Source - <a href="https://www.mas.gov.sg/">https://www.mas.gov.sg/</a></p>	



# Audit Considerations

By Grady Poon from **EISNERAMPER**  
SINGAPORE

Audit requirements and considerations

## Uses of the VCC

VCCs can be used for an open-end or closed-end fund as a vehicle for collective investment schemes (CIS). It may also be used as a single fund structure or as an umbrella fund with sub-funds. Even with multiple sub-funds, an umbrella VCC can have a common set of service providers to service the umbrella VCC and all its sub-funds. Please note that VCCs must comply with all required Anti-Money Laundering / Countering of Financing of Terrorism (“AML/CFT”) regulations and procedures.

## VCC Documentation

Generally, the Information Memorandum (IM) / Private Placement Memorandum (PPM) is integral to the VCC. The IM / PPM is a legal document that contains the objectives, risks, summary of the terms of investment and includes the rules for the company’s management and the requirements for financial statements, taxation, information of the management and detailed explanation of how the operations of the VCC is to be conducted. This is needed to allow investors adequate information from the offering and to protect investors.

## Auditor

To be appointed as auditors of a VCC, the auditors must be registered in Singapore with ACRA (Accounting and Corporate Regulatory Authority). A VCC must appoint

a registered auditor in Singapore with Accounting and Corporate Regulatory Authority (ACRA) within 3 months from the date of incorporation. VCC shall inform ACRA within 14 days after they have appointed the auditor.

## Acceptable accounting frameworks for VCCs

VCC may adopt International Financial Reporting Standards (IFRS), Financial Reporting Standards in Singapore (SFRS) or US General Accepted Accounting Principles (GAAP). If the VCC is an umbrella VCC, each sub-fund must adopt the same accounting framework consistently. A standalone VCC or umbrella VCC might adopt Recommended Accounting Practice 7 (RAP 7) if it is registered as an authorised or Restricted scheme targeting to retail investors.

A VCC is able to use any of the above acceptable accounting frameworks for the preparation of the VCC financial statements. For a standalone VCC, it is prepared as a single fund. An umbrella VCC has to maintain separate records and financial statements for each sub-fund and therefore, must have a clear segregation of assets and liabilities of each sub-fund. In the case of insolvency, each sub-fund would be wound up separately. Assets and liabilities of each sub-fund are clearly distinct and separate in order to help safeguard investors.



#### Accounting treatment for consolidated financial statements

An umbrella VCC must maintain separate records and financial statements for each sub-fund, with all sub-funds observing the same accounting period. All VCCs must file their annual returns within seven months after the closing of their financial year. A single Annual Return will be necessary as each sub-fund must provide its own accounts.

Each VCC must have an audited financial statement for each financial period that portrays a true and fair view of the financial performance of the standalone VCC or in the case of an umbrella VCC, for each sub-fund.

For a VCC that is a parent company, the VCC must have its consolidated financial statements of the group audited for each financial period/year. For umbrella VCCs that are a parent company, with the sub-funds being its subsidiaries, the investments in the sub-fund are to be measured at FVTPL. The umbrella fund generally does not need to present consolidated financial statements.


#### Accounting Treatment on Set-up cost

With regards to the accounting treatment of the set-up costs, these FRS requires cost to be written off at the start. However, on the management accounts, these costs will be amortized over a period of time, based on the PPM. Hence, there will be temporary differences between the management accounts and the financial statements.

#### Fair value accounting applied in the case of valuation / PE funds

Fair value accounting measures assets and liabilities at current fair value. Financial Reporting Standards in Singapore 109 or International Financial Reporting Standards 9 Financial Instruments, establishes the principles for financial reporting of financial assets and financial liabilities that the VCCs must comply with when measuring fair value. This can be done through valuation methods such as discounted cash flow models, ratios, past analysis or comparable companies with the help of platforms such as Capital IQ. In particular, we would highlight that level 3 investments like holdings in private companies should be fair-valued yearly.

# Fund Governance Requirements

By Martin O'Regan of 

## Corporate Governance

The directors of a VCC are its controlling mind. They are empowered to make decisions on the VCC's behalf and may be compensated for their contributions. Directors are also charged with certain duties in order to protect the interests of shareholders, which act as guiding principles helping directors chart the course of the VCC.

There is no formal definition of a director in the law. Directorship is also a formal position in the VCC. Alternate or substitute directors are also considered directors for the purposes of the VCC Act.

For the composition of the board, restricted schemes must have at least one director who is ordinarily resident in Singapore and one director of the VCC must also be a director or qualified representative of the VCC's fund manager (who may be the same person as the Singapore resident director). Authorised schemes must have a minimum of three directors, including one independent director.

Independent directors can be resident or non-resident, but one needs to be careful to ensure that the majority of directors are resident for tax substance requirements. In either scenario, the individual must pass a fit and proper person's test. Currently there are no competency standards for directors under the law.

Generally speaking, the board of directors is the body which manages the business of the VCC and is vested with the ability to exercise the VCC's powers on its behalf. A director is a member of that board who is also individually empowered to perform certain actions within the VCC or on the VCC's behalf and is subject to certain duties. Directors' duties are clearly laid out in the law, being both fiduciary and operational, as follows:

### Fiduciary duties are as:

- Duty to act in the best interests of the VCC
- Duty to avoid conflicts of interest.
- Duty to act honestly
- Duty to act for proper purposes.
- Duty to exercise due care, skill and diligence.

### Operational duties:

- Duty not to make false statements or report
- Duty to assist anti money laundering and combatting the financing of terrorism (AML/CFT) authorities
- Duty to assist in inspections
- Duty to prepare financial statements
- Duty to ensure VCC keeps records
- Duty to appoint auditors
- Duty to appoint secretary

### The additional duties on authorised directors are:

- Duty to conduct transactions at arm's length
- Duty to manage conflicts of interest
- Duty to mitigate cross cell contagion risk

# Fund Governance Requirements

By Connie Wong of  waystone

Since the Madoff debacle a decade ago, to the recent swift fall of Archegos, the industry has undoubtedly been looking more closely at the operational and governance structures that funds have put in place

VCCs that are offered to retail investors must have at least three directors, at least one of whom must be independent. For non-retail VCCs, there must be a minimum of one director who is either a Qualified Representative or Director of the fund manager.

Although an independent director is not a regulatory requirement for non-retail VCCs, we have seen the industry increasingly adopting this best-in-class governance practice.

Since the Madoff debacle a decade ago, to the recent swift fall of Archegos, the industry has undoubtedly been looking more closely at the operational and governance structures that funds have put in place. Regulators in general are also considering new measures aimed at further enhancing governance standards in areas of director independence, diversity, and in environmental, social and governance disclosures and standards.

Since interests of the fund and its shareholders differ from the interests of its fund managers or advisors, it is not surprising to see today's institutional investors proactively reviewing the board composition as to whether the board is majority held by employees of fund managers or independent directors, as well as any potential conflicts of interest fund managers might have with regards to the funds.

Independent directors have valuable reputational capital that is maintained through vigilant oversight of the funds for the best interests of the funds and its investors and comes as a result of their years of experience in the oversight of global investment funds, working closely with stakeholders through various boom and bust cycles.

Fund governance goes beyond simply having a single director to a fund and is built on the belief that fund governance is a continuum – a system of checks and balances.

# Global Investors

By Stefan Nilsson of  hfc

Singapore grows stronger as a financial hub of choice for global investors

By Stefan Nilsson

One thing certain in the investment world is that everything changes and yet everything is the same. The basics of investing never changes but in an investment world that is increasingly cross-border in nature and impacted by new products and evolving technology, investors now pay more attention to where their money is invested and how it is kept safe.

All fund jurisdictions have pros and cons and all investors have different situations, wants and needs. However, one of the things that makes Singapore an attractive jurisdiction for many investors is its stability. Most investors dislike sudden and unexpected changes in regulations and taxation. They don't want surprises. Investors are aware of and accept market risk when it comes to investments. After all, if there were no market risk, then there would be no returns. Investing is not about avoiding risk. It is about managing risk. But investors want to focus the risk taking on the markets and eliminate or minimise other risks such as operational, regulatory and taxation risks. This is why Singapore has been very successful in developing a world-class international financial hub. Singapore is very stable. It is not only pro-business but very welcoming and accommodating to foreign investors. It also has a well-educated workforce that can serve global investors. The human element should never be underestimated in times when everyone talks about technology and automation.

In 2020, suddenly and unexpectedly things changed for most us, including investors across the world. A global pandemic on a scale not seen for a century suddenly invited itself into our lives. The lesson? Be prepared for the unknown. Have a portfolio and infrastructure that is flexible and can be repositioned quickly. In order for an investor to be ready for whatever comes at them, they need to have a quality set-up with service providers and counterparties who can get things done on time. They also need an appropriate legal structure in a stable jurisdiction which won't cause you more headaches. Political stability and rule of law are key for investors.

The arrival of the new VCC structure – with its operational flexibility and the opportunity to seamlessly redomicile funds – shows the world that Singapore is a safe and easy place to do business. Many investors are active globally and can in theory base themselves, their assets and business activities anywhere in the world. Thus, investors look for a jurisdiction that is tax efficient, politically stable and with a pro-business culture with few surprises. New global products in areas such as ESG and digital assets require partly new thinking and different solutions to fit into diverse portfolios. Singapore is increasingly the place to do this.

# Key Documents Associated with VCC Structure

By Brandon Tee of 

The key documents in the formation of a VCC typically include, but are not limited to, the following:

1. Constitution of the VCC
2. Information memorandum
3. Supplemental memorandum (in the case of an umbrella VCC)
4. Fund management agreement
5. Subscription agreement/Capital commitment agreement
6. Redemption application form (in the case of an open-ended VCC or sub-fund)
7. Board resolution
8. Fund administration agreement
9. Custodian agreement (where a custodian is appointed)

The constitution is the basic constitutional document of a VCC which sets out the VCC's structure and object, and contains provisions that regulates the relationship between the VCC and its members and among the members inter se. The VCC Act prescribes certain matters which are required to be set out in the Constitution. The constitution of a VCC is typically kept fairly general, with the particulars of the VCC and each sub-fund set out in the offering documents. While not perfect, the model constitutions promulgated by the Singapore Academy of Law are typically the starting point for drafting the constitutions of most open-ended and closed-end VCCs, as well as with the constitutions of hybrid VCCs, although these require slightly more customisation.

The information memorandum is the offering document issued by the VCC and contains the terms and conditions pertaining to, inter alia, the offer of shares and/or debentures of the VCC. In the case of an umbrella VCC, the information memorandum would typically be kept fairly general, with the particulars of each

sub-fund set out in its own customised supplemental memorandum. Structuring the offering documents this way enables scalability by reducing the time to market and the incremental establishment cost for each subsequent sub-fund. Depending on the type of offering, the information memorandum (and, where applicable, supplemental memorandum) may have to comply with certain regulatory prescriptions and/or be filed with the Monetary Authority of Singapore.

The fund management agreement is entered into between the fund manager and the VCC in respect of itself and acting for the purpose of each sub-fund. This document sets out the terms of engagement of the fund manager and would contain the scope of services provided by the fund manager to the VCC and the sub-funds as well as the fees payable to the fund manager in relation thereto.

The subscription agreement/capital call agreement is the document entered into by each investor to subscribe or, as the case may be, commit to subscribe for participating shares in the VCC or the VCC for the account of a sub-fund. These would typically also annex, inter alia, the accredited investor opt-in forms (in the case of non-retail funds), a tax questionnaire (where the VCC has or will be applying for one or the available tax incentives under the Income Tax Act, Chapter 134 of Singapore) as well as the self-certification forms for the purposes of the Common Reporting Standards.

Other than the foregoing, there may be other documents that are required depending on the circumstances of the particular case. The legal counsel should discuss and plan these upfront with the fund manager/fund by understanding and taking into account the commercial requirements of the fund manager/fund.

# VCC Setup Timeline

By Allen Wu of 

The process of setting up a VCC, requires coordination between various parties (see the section PARTIES INVOLVED) to ensure the process is an efficient one and each key milestone is achieved without any unnecessary delay.

As the saying goes, too many cooks spoil the broth, so it is essential that a project timeline is set out at the very beginning so that each party is aware of the timeline and can dedicate resources in advance to prepare and/or review their scope during this process.

There are several key milestones in the set-up process, with each milestone having different requirements and requiring different parties' input. We have listed the various key milestones, along with parties involved as well as a description in the below section for your reference.

## Pre-Incorporation

1. Obtaining a license for Fund Management Activity with the MAS (i.e. RFMC/CMS for Fund Management)
  - a. Parties involved: Fund Manager, Compliance Firm (Optional)
  - b. A prerequisite to incorporate a VCC is the appointment of a Permissible Fund Manager. i.e., you will not be able to incorporate a VCC prior to obtaining your RFMC/CMS/VCFM.
  - c. It typically takes 4-6 months for MAS to review and approve the application.

## Incorporation

2. Registering of a VCC's name
  - a. Parties involved: Fund Manager, Corporate Services Provider ("CSP") (Optional)
  - b. Prior to the incorporation process, the name of a VCC will have to be reserved and reviewed by ACRA if it is identical to an existing business, undesirable and/or prohibited.
  - c. The approval process might take longer if the intended VCC's name must be reviewed by the Referral Authorities.
  - d. After the name application is approved, the name will be reserved for 120 days. After the 120 days has lapsed, a fresh application must be submitted.

3. Drafting and finalising the VCC's Constitution
  - a. Parties involved: Fund Manager, Legal Counsel
  - b. A VCC will require a signed constitution prior to incorporation. This is usually drafted by the VCC's legal counsel and would cover the fundamental principles and framework of the legal entity.
  - c. Information that will be included in the Constitution includes:
    - i. Name of the VCC
    - ii. Indication if the VCC will be open or close ended
    - iii. Management Shareholder
    - iv. Name of the Permissible Fund Manager
    - v. Power and Duties of the Directors
4. Incorporation of VCC
  - a. Parties involved: Fund Manager & CSP
  - b. With completion of the 3 milestones above, the VCC can now begin its incorporation process with ACRA. The incorporation must be done by the subscriber to the constitution of the VCC or through the engagement of a CSP.
  - c. Information that will be required during the application includes:
    - i. Transaction number of the approved name application of the VCC
    - ii. Details of Permissible Fund Manager
    - iii. Details of proposed Director(s)
    - iv. Details of subscriber
    - v. Copy of the Constitution
    - vi. Type of VCC (Umbrella or Standalone)
  - d. The incorporation will take between 14 to 60 days to process, and this processing time range is inclusive of any referral to other governmental agencies for review and approval.
5. Drafting and review of VCC's offering documents
  - a. Parties involved: Fund Manager, Legal Counsel, Fund Administrator, Auditor, Tax Advisor
  - b. The VCC's offering documents will contain the terms of offering of the VCC and Sub-Funds, along with other important information such as the investment strategy and objective, fees and expenses and subscription and redemption procedures.
  - c. It takes about 4-12 weeks to finalize the offering documents depending on the complexity on the fund.
  - d. It is highly encouraged to have your Fund Administrator be involved in the drafting and review process at an early stage to ensure that the offering document is both legally and operationally feasible.
  - e. It is also encouraged for your tax advisors to provide their input and/or review on the taxation section on the offering documents.



6. Registration of Sub-Fund (only applicable to Umbrella VCCs)
  - a. Parties involved: Fund Manager, CSP (Optional)
  - b. Upon incorporation of the VCC, the officer of the VCC, or the CSP engaged by the VCC can proceed to register the Sub-Fund with ACRA.
  - c. Information required includes:
    - i. Name of the Sub-Fund
    - ii. Date of formation of the Sub-Fund
  - d. The processing time for the registration of the Sub-Fund takes about two weeks.
  
7. Opening of Bank Account, Custodian and/or Prime Broker Account
  - a. Parties involved: Fund Manager and Fund Administrator (Bank Accounts)
  - b. Once the VCC (or Sub-Fund) is registered, the account opening process can be initiated.
  - c. The Fund Administrator would be able to assist on the Bank Account opening.
  - d. It will take about 2-3 weeks from receipt of the account opening forms and relevant supporting documents to have the accounts set up and operational.
  
8. Application for Tax Incentives
  
9. Notification to CISnet on intention to offer the Fund as a Collective Investment Scheme to Accredited Investors
  - a. Parties involved: Fund Manager, CSP
  - b. If the fund is intended to offer units to more than 50 accredited investors in Singapore within a 12-month period, the fund will be required to be registered as a restricted scheme on CISnet.
  - c. The process will take about 3-5 business days and upon approval, an email notification will be sent, notifying that the fund can commence offering its units.

Piecing the various key milestones together, the time required to set up a VCC till the launch date can vary from 6 weeks till 16 weeks. While there are factors that would not be within your control, with detailed project timeline and communication with the your service providers, the waiting time at each key milestone can be used efficiently to work on other parts of the setup process concurrently.



# Custodian Requirement

By Mohit Batra and Shailendra Sharma of  Edelweiss  
Ideal create, values protect

## Part (a): Custodian Requirements for a VCC

Traditionally, any matured fund industry thrives and survives with the support of its intermediary service providers like, the brokers, bankers, prime brokers, fund administrator and of course a much necessary form of service provider, the Custodian. In order to make the fund industry successful it becomes imperative for a seasoned fund jurisdiction to ensure that the function of the Custodian is entrusted with an independently regulated service provider predominantly engaged in safeguarding the interest of the participants and the investors.

Like any other countries financial service ecosystem, the Singapore Variable Capital Company (VCC) regime requires an appointment of a specified Custodian to safeguard its assets unless expressly exempted. Consequentially, for Authorised VCCs or sub-funds, the specified Custodian must be an approved Collective Investment Schemes (CIS) trustee under the Securities and Futures Act (SFA). The Custodians in effect are obliged to comply with the CIS Code under operational guidelines of the Authorised Scheme.

Importantly, the Monetary Authority of Singapore (MAS) primarily agreed that limiting the Custodian role for Restricted Schemes within a VCC to an Approved Trustee may have practical difficulties considering the present industry practice regarding asset custody. Accordingly, MAS requires these schemes to maintain their assets in trust or custody accounts with specified Custodians like a licensed bank, merchant bank, a finance company or a depositary agent under the terms of SFA, a person licensed to provide custodian services and a foreign person licensed, registered or authorised to act as a Custodian in the place where the account is maintained.

In respect of VCCs that are restricted or exempt schemes, the Custodian must be specified under the VCC Act or a Custodian outside Singapore authorised to act as a custodian in such jurisdiction. Interestingly, VCCs dealing in private equity, real estate or venture capital funds may be exempt from appointing a Custodian provided the VCC has:

- disclosed this fact to their investors; and
- obtained investors' acknowledgement of this arrangement.

Appointment of third party independent intermediary like the Custodian is a key testament to MAS' reputation of being a pragmatic and innovative regulator to introduce a versatile and fungible legal entity form that can be used to facilitate and monitor the investment business for the investor group.

Source:

<https://sso.agc.gov.sg/Acts-Supp/44-2018/Published/20181112?DocDate=20181112>

# Custodian Requirement

## Part (b): Registering an VCC for Investments into India

India in fact fits in very well, as an investment strategy for a VCC. Singapore has always been amongst the top-3 Investor countries from an FPI investments into India perspective. As of Dec 2020, India Depository website NSDL shows that Total Foreign Portfolio Investor AUC (Assets Under Custody) in India from Singapore based funds are approx. USD 52 Billion. This makes it the 3rd highest globally accounting for 9% of the total FPI AUC in India. , investment funds organized as VCCs seeking to invest in Indian capital markets may note that foreign investors wishing to make portfolio investments in Indian capital markets must obtain a foreign portfolio investor (“FPI”) license. The license is granted by a local custodian on behalf of the capital market regulator, the Securities and Exchange Board of India (“SEBI”). As an FPI, a foreign investor is subject to rules and regulations prescribed by the SEBI with respect to eligibility criteria, categories of registration, key investment conditions and restrictions, etc.

On September 23, 2019, the SEBI issued revised Foreign Portfolio Investor Regulations, designed to simplify the FPI regime. Under the SEBI (FPI) Regulations, 2014, designated depository participants (“DDP”) were required to ensure that FPIs did not have an “opaque structure” or segregated cell structure. This prohibition on opaque structure was removed in the revised regulations, based upon the recommendations of SEBI’s Working Group on FPI Regulations’ report on May 24, 2019.

Singapore as renowned financial center and FATF, IOSCO-member country will be an attractive jurisdiction for asset managers of VCCs seeking to register sub-funds as Category I FPIs.

From an FDI (Foreign Direct Investment) perspective, data on DIPP India website shows that Singapore has been the highest contributor globally, from April 2020 to Sept 2020 bringing in USD 8.3 Billion as FDI flows. Venture capital funds organized as VCCs should not face additional challenges for investments under the Foreign Direct Investment regime of India.


Key specifics advantages of domiciling as a Singapore VCC for Investments into India:

- a. Singapore is a FATCA compliant jurisdiction: Thus qualifying the VCC fund to be eligible for Category-1 FPI license
- b. Existing Tax treaties with India: Making it tax efficient especially for hedge funds
- c. VCC sub-cell structure within the same VCC umbrella, can avail multiple and segregate FPI licenses enabling segregation of assets and liabilities and India strategies from non-India strategies in the same umbrella
- d. Abundant availability of India specific sector specialists as analysts, traders and Portfolio managers
- e. A fledgling USD-INR NDF (non-deliverable forward) market for hedging out any INR currency risks

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# Family Office VCC Guide

By Jaydee Lin and Sean Tan of 

Family offices are independent, private institutions aimed at providing a suite of services for ultra-high net worth families and clients. As an integrated platform that encompasses independence and advisory expertise, they aim to deliver bespoke asset management solutions, legacy planning and operational governance structures for families. Family offices were among the early adopters of the Variable Capital Companies (VCC) after its launch in January 2020. The VCC provides greater flexibility for licensed fund managers and greatly reduces the limitation of existing corporate fund structures previously used in Singapore. It allows family offices to more efficiently address the increasingly dynamic wealth and legacy requirements of their clients. The family office solution will focus on enabling its UHNW clients to recognize the importance of legacy planning, proper structuring through the consolidation of assets using appropriate vehicles such as the VCC.

Singapore has long been an ideal choice amongst Asian UHNWIs given its stability, transparency and advanced infrastructure. The VCC complements Singapore's existing foothold as a world-renowned fund management hub. Much of Asia's new wealth has only risen in recent years and given its booming investment landscape, Singapore is in prime position to benefit. The family office, through the use of the VCC framework provides investors with more strategic and flexible wealth management solutions while connecting them with other opportunities in the Greater Asia region.

The VCC regime provides strong governance and flexible operational frameworks for Single Family Offices (SFOs). For these SFOs, we act as the licensed fund manager, essentially acting and managing the funds on behalf of our clients. Single family offices can use the VCC umbrella structure to allocate each sub-fund under the umbrella VCC structure to different family members. Alternatively, these SFOs can allocate sub-funds under

the umbrella utilizing different investment mandates for different family members. The allocation can be due to differing risk appetites or based on the legacy planning directions of the patriarch or matriarch.

We also utilized the VCC to help our clients diversify outside of the traditional asset classes, investing into alternative investments such as: Private Equity, Venture Capital, Real Estate, etc. The segregation of assets and liabilities between sub-funds in an umbrella VCC allows for different asset classes to be housed under the same fund without fear of risk contagion. In addition to its friendly tax environment, Singapore also has over 90 Double Taxation Treaties which can be enjoyed by VCC entities. Overall, the VCC enables family office clients to adopt a flexible, efficient and risk-managed platform to achieve their wealth management and legacy planning objectives.

# Taxation

By Grady Poon of **EISNERAMPER**  
SINGAPORE

## Tax Exemptions

For income tax purposes, a VCC incorporated under the VCC Act is treated a company and recognised as a single entity. Hence, a VCC is liable to corporate income tax in Singapore at 17%. However, Singapore's tax legislation provides for tax exemptions of VCCs under Section 13R (also known as the Singapore Resident Fund Scheme "SRF") and Section 13X (also known as the Enhanced-Tier Fund Scheme "ETF") of the Income Tax Act.

	13R Singapore Resident Fund Scheme "SRF"	13X Enhanced-Tier Fund Scheme "ETF"
Fund Size Requirement	No minimum fund size requirement	Minimum fund size of SGD \$50million
Business Spending Requirement	At least \$200,000 each financial year	At least \$200,000 locally each financial year
Investors	Non-qualifying investors (i.e. Singapore non-individual investing above a certain percentage in the fund) would need to pay a financial penalty to the Singapore tax authority	No restrictions
Tax Exemption	Covers all incomes and gains in respect of designated investments, unless it falls under an exclusion list*	Covers all incomes and gains in respect of designated investments, unless it falls under an exclusion list*
Fund administrator	Singapore-based	Singapore-based
Reporting requirements	Annual Statement to investors	

\*SG immovable properties fall under the exclusion list and do not qualify for tax incentives

### VCCs may be set up as

- a stand-alone VCC, also known as a single fund structure, or
- an umbrella fund with sub-funds, also known as an 'Umbrella VCC'

### Stand-alone VCC

A stand-alone VCC will be taxed in the same way as that of a Singapore company. The tax exemptions mentioned above will apply to stand-alone VCCs the same way as that of a Singapore company.

### Umbrella VCC

Similarly, an umbrella VCC will also be taxed in the same way as that of a Singapore company. However, with regards to Section 13R and Section 13X requirements, these qualifying conditions will apply to the umbrella VCC as a whole, and not to each sub-fund.

#### Goods & Services Tax (GST) treatment for transactions within sub-funds

With regards to GST, non-umbrella VCCs and each sub-fund of an umbrella VCC is regarded as separate tax persons who makes independent sales and purchases. Hence, liable based on the taxable supplies made and accountable for output tax on any taxable supplies and reverse charge on imported services. Each sub-fund can claim GST on expenses incurred, subject to existing tax rules and such claims must be supported by tax invoices and are required to file their own GST remissions.

#### Stamp Duties imposed on VCCs

Similarly, for stamp duty purposes, sub-funds will be treated as separate persons and stamp duties will be imposed at the sub-fund level and will only be imposed on the VCC level if said VCC has no sub-funds. Any transaction between two of the sub-funds, even if of the same VCC, or between sub-fund and VCC will be subject to the same duty as such a transaction between two companies. In addition, an umbrella VCC acting for its sub-fund must state the significant details of said sub-fund in the instrument.

#### S45 of ITA (Withholding Tax)

With regards to Withholding Tax, Section 45 of the ITA states that a person (the payer), who makes payments of a specified nature to a non-resident company or individual (the payee) is required to withhold a percentage of the payment and pay the amount withheld to IRAS. The current withholding tax exemption available to funds approved under the Enhanced-Tier Fund (ETF) and Singapore Resident Fund (SRF) scheme will be available to approved VCCs.

#### Special Investor Class – Performance / Carried Fees

Carried interest is considered as income according to the ITA and hence, in order to optimise tax treatment, many fund managers structure the carried interest offshore. However, with more stringent VCC framework and rules, it is difficult for fund managers to justify such structure if all other activities are held in Singapore except for this component. In Hong Kong, we note that the proposed Carried Interest Regime whereby the Financial Services and the Treasury Bureau of the Government of Hong Kong issued a proposal to provide tax concession for carried interest distributed by eligible private equity funds operating in Hong Kong in order to bolster the attractiveness of the funds industry in Hong Kong.

#### Common Questions – qualifying investors & tax filing

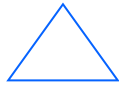
Furthermore, VCCs are more flexible with regards to the non-qualifying investor test as it will be applied at the VCC level and not the sub-fund level, therefore increasing the chances of a Singapore non-individual to qualify as a qualifying investor and not being required to pay the financial penalty.

For tax filing purposes, the umbrella VCCs are expected to file two income tax forms every year of assessment, regardless of the number of sub-funds. Firstly, the Estimated Chargeable Income (ECI), unless the waiver is applicable, must be filed within the first three months of the end of the financial year. Secondly, Form C/S, which comprises of a completed set of income tax returns, financial statements, tax computations and supporting schedules.

# Krypton Fund Services



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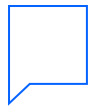
## Trusted Partner

We keep our commitments and are dedicated to operating with transparency and credibility



## Customer Focused

We provide quality products and services that go beyond our customers' objectives. Implementing bespoke solutions accelerates and establishes long term enterprise value



## Accountability

Open and honest communication is the foundation of our firm. We work to keep our clients updated and informed at all levels of the business



## Integrity

We are an advocate for excellence and act with integrity in all we do. These principles will position Krypton as the best independent service provider in the alternative space

KRYPTON FUND SERVICES

# 300+

Approximate number of VCC set up since 15 January 2020

Singapore's value proposition as a full-service international fund management and domiciliation hub has been dramatically enhanced with the introduction of the Variable Capital Company.

The market has quickly adopted and recognized the VCC and in return we have seen strong industry adoption, with over 300 VCCs set up since January 2020.

There has been a diverse range of traditional and alternative investment strategies adopted in the structure and family offices have embraced this in planning and structuring.

We are thankful for all the support we received in preparing this guide for the market as without the expertise we would not have been able to provide such a comprehensive overview for parties looking to establish a VCC.

Please contact Krypton on any questions you have surrounding the VCC and we will leverage our network of experts and their experiences in your launch.

# Industry Participants Guide

A special thank you to all the Industry Participants that helped make this guide a reality.



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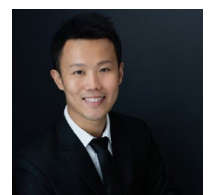
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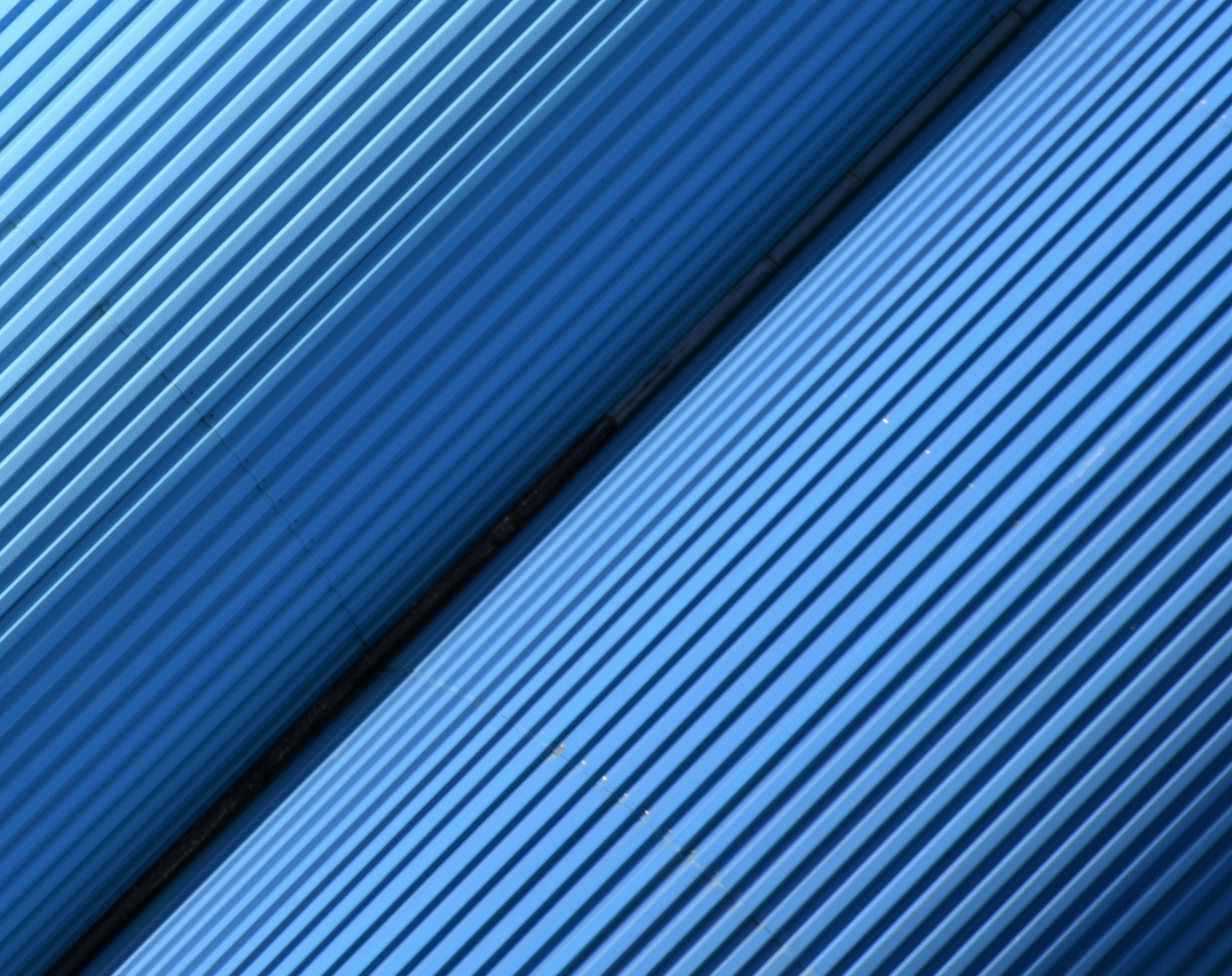


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