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Variable capital companies act – Singapore

Sub-delegation arrangements

Singapore-based FMC must:-

- remain fully responsible for the entire management of the fund
- is also held accountable to the investors for the fund's performance
- × Sub-manager is responsible for all (or part) of the management of the fund
- × Sub-Manager is accountable to the investors for the fund's performance

VARIABLE CAPITAL COMPANIES

BACKGROUND NOTE

This is a presentation on Singapore's Variable Capital Company("VCC") and is general in nature.

- Singapore's VCC is used as an "investment fund vehicle" for both, open ended and close ended fund structures.
- VCC is a corporate entity which is established in Singapore under the Variable Capital Companies Act 2018 ("VCC Act"). It is an *investment vehicle* or *investment entity* with corporate identity
- The approval for incorporating or registering a VCC is granted by the ACRA, upon the applicant meeting prescribed requirements under the VCC Act and regulations thereto.
- VCC being as asset and investment holding entity, is used for investment management and wealth management activities.
- VCC is required to appoint a Singapore based licenced/registered Fund Management Company as its Manager.
- It is established in Singapore by parties such as fund managers, private banks, wealth managers, ultra HNIs, Single Family Offices, Insurance Companies and Asset Allocators
- On 15th January 2020 there were 20 VCCs in Singapore, which came through the VCC pilot programme. The number of VCCs as of 15 July 2021 is 330

VARIABLE CAPITAL COMPANIES

WHAT IS A VCC?

1. As highlighted, “VCC” stands for Variable Capital Company.
2. VCC is a type of “company” to hold asset and investment for carrying out investment management and wealth management activities.
3. VCC has to be managed by a licenced or registered or a manager who is exempted or approved by Monetary Authority of Singapore (MAS) from the requirements of holding fund management licence.
4. Tax incentives are available in Singapore for VCCs (example: Sec 13R, Sec 13X, Sec 13H, 13(O), 13(U))
5. VCC regime is an effort of Singapore Government to enable domiciliation of investment and asset holding entity in Singapore, through a corporate entity having variable capital structure.
6. Standalone VCC versus Umbrella VCC - will define the structure being a single fund entity or a multiple fund entity.

VARIABLE CAPITAL COMPANIES

ACRA

Companies Act, Chapter 50

Variable Capital Companies Act, 2018

No	Parameters	Singapore Private Co	Singapore VCC
1	Established through	Companies Act, Chap 50 (Entity Regulator ACRA)	Variable Companies Act, 2018 (Entity Regulator ACRA)
2	Securities for issuance	Usually, Equity Shares with voting rights (fixed capital)	Shares, with voting rights and non-voting rights (variable capital)
3	Minimum Capital	One share	One share
4.	Valuation basis	Computed on fair value basis and reflected for diminution in value	Computed on fair value basis and paid-up capital equates its NAV
5	Continuity in law	Perpetual succession and wound up as per Companies Act	Perpetual succession and wound up as per VCC Act
6	Day to Day management	By the Board	By the Board (administratively)/Investment Management is handled by appointed Manager (Licensed or Registered)

VARIABLE CAPITAL COMPANIES

ADVANTAGES AND BENEFITS OF ESTABLISHING A VCC

1. VCC is specifically created for wealth management and investment management activities.
2. It provides flexibility to issue and redeem its shares, with operational ease.
3. VCC can pay dividends out of capital, which gives flexibility to Fund Managers to meet such obligations.
4. VCC's capital is flexible (unlike a private limited company having fixed capital)
 - Management Shares carrying voting rights (no dividend rights); and
 - Participating Shares carrying NO voting rights (redeemable, eligible for dividends, upon declaration and other economic benefits)
5. Provides continuity, since VCC is a corporate entity (unlike a non-corporate investment vehicle)
6. Tax/financial incentives are available, subject to meeting requirements (Sec 13R, Sec 13X, Sec 13H)
7. Confidentiality – VCC's Constitution document, Annual filings, Register of Shareholders of a VCC is not available to public or 3rd parties.
8. VCC can obtain Certificate of Residence (COR) from IRAS, in its own name, unlike a unit trust fund.
VCC, if structured well, it can be used as a legal entity for inter-generation wealth transfer

VARIABLE CAPITAL COMPANIES

PRIMARY CONDITIONS AND CRITERIA IN SETTING UP A VCC

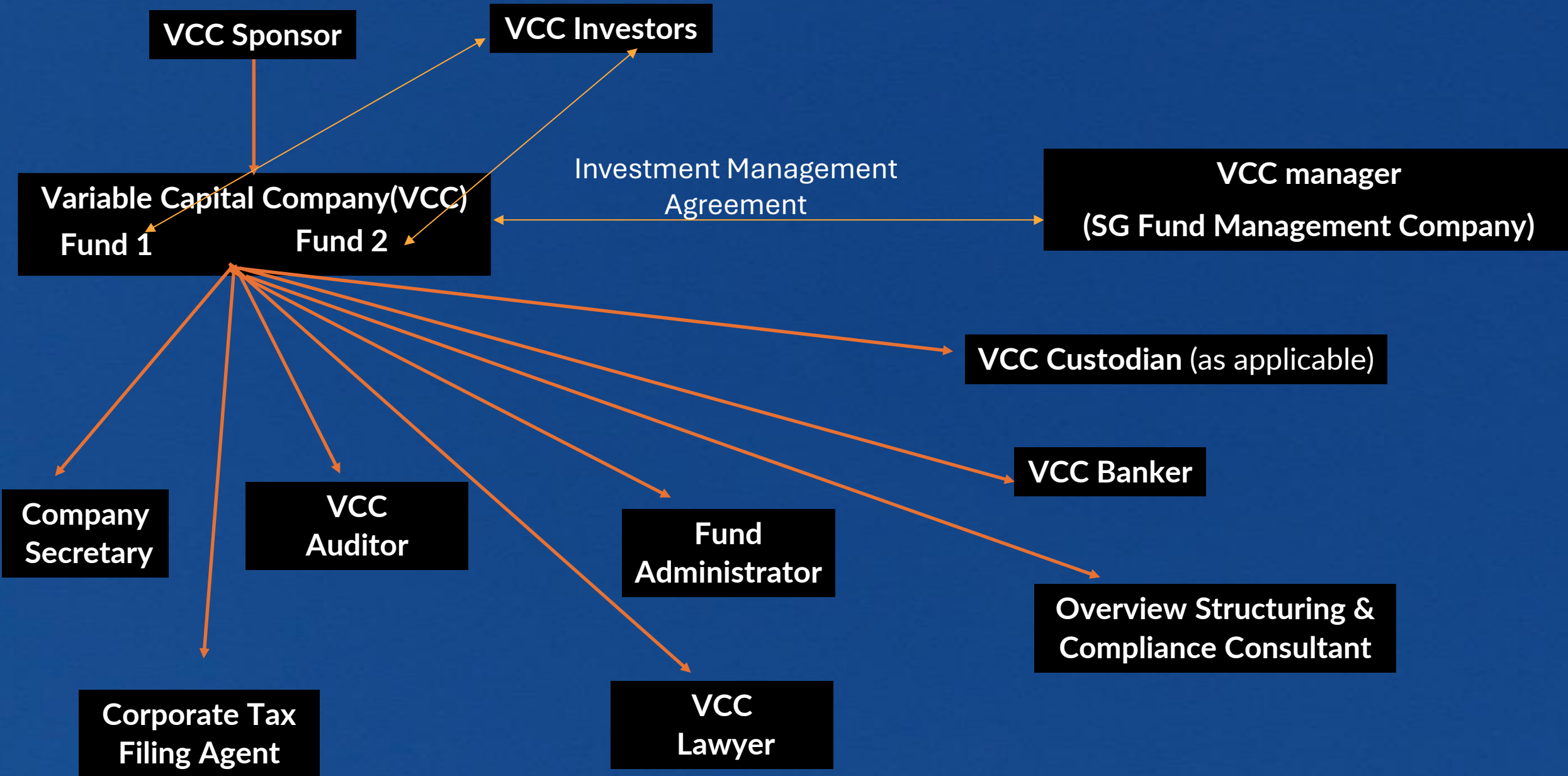
- 1) VCC has to be established in Singapore under the VCC Act and Regulations thereto.
- 2) Submission of prescribed application and requisite declarations are made to ACRA, for incorporation of the VCC
- 3) VCC's capital will be variable in nature, resulting in paid capital equals NAV, at a given point in time.
- 4) Assets and Liabilities of each sub fund has to be segregated, accounted for separately, ring fenced and accounted for at fair value.
- 5) Mandatory appointment of Director(s), VCC Manager, Company Secretary and Auditor.
- 6) Necessary to appoint a fund administrator to perform fund accounting, NAV computation and as appropriate to carry out registrar and transfer agency services.
- 7) Custodian appointment becomes essential when the VCC is investing in listed, traded or quoted securities.
- 8) AML and CFT guidelines of MAS are applicable to VCC.
- 9) Appropriate governance framework should be created for the day-to-day operations of the VCC.
(This is critical for both VCC Sponsor and VCC Manager)

VARIABLE CAPITAL COMPANIES

PARTIES ASSOCIATED WITH A VCC

No	Particulars	Remarks
1.	Sponsor/Management Shareholders	One who initiates the setting up of the VCC as an investment vehicle. This can be the Manager, Asset Allocator, Single Family Office, Private Bank, Ultra HNI or a business family
2.	Directors	Appointed by the VCC, to manage its day-to-day affairs. Investment Management functions to be handled by the named Manager or a delegated manager thereto.
3.	Manager (In Singapore)	Manager based in Singapore and named in its Constitution. The VCC may additionally appoint Investment Managers or Advisers, as may be required
4.	Company Secretary	Singapore Corporate Secretary appointed by VCC.
5.	Legal Counsel	Legal Counsel in Singapore (and elsewhere based on its functional requirements), for legal advice and drafting of legal agreements.
6.	Tax Adviser	Tax Adviser in Singapore (and elsewhere based on its functional requirements), Tax agent in Singapore
7.	Custodian	Custodian in Singapore (for listed, traded or quoted securities)
8.	Brokering House	For securities trading and settlement arrangements (based on business model)
9.	Fund Administrator	To carry out <ul style="list-style-type: none">- NAV computation and fund accounting; (Valuation done by external Approved Valuer)- Registrar & Transfer Agency services (as applicable)
10.	Auditor	Statutory auditor to carry out annual audits.
11.	Project Consultant	To scope the work of various professionals' parties, aggregate the advice, manage the documentation involved and achieve overall time and cost efficiency.

VARIABLE CAPITAL COMPANIES - PARTIES ASSOCIATED WITH A VCC



VARIABLE CAPITAL COMPANIES

GENERAL POINTS FOR DISCUSSION

1. How to structure a VCC?

It depends on several parameters and is a case specific matter. Accordingly cost parameters will vary.

2. Timeline for VCC set up:

Step 1: Name approval

Step 2: Incorporation of VCC

Step 3: Registration of one or more sub-fund(s) of the VCC

3. NS Global Consultants Pte Ltd, Singapore, *the consulting arm of Natarajan & Swaminathan Chartered Accountants of Singapore*, will function as the Project Manager in Singapore for setting up VCC in Singapore

Note: The contents of this presentation is meant for discussion purpose. The information provided in this presentation is general and conceptual in nature. This presentation material is not available to be used as advice on the matter of establishing or operating a variable capital company.

VARIABLE CAPITAL COMPANIES

Management Shares – means the management shares in the capital of the Company issued subject to and in accordance with the Act and this Constitution and having the rights and subject to the restrictions provided for in this Constitution;

NAV Per Share – in relation to a Share of a particular Class and/or Series means that proportion of the Net Asset Value of the Company or and Sub-Fund, as the case may be, represented by such Share, as determined in accordance with this Constitution and the Offering Documents.

Net Asset Value – means the total assets less the total liabilities of the Company (or any Sub-Fund, as the context may require), as determined in accordance with the Accounting Standards.

Offering Documents – means the offering document(s), if any, issued in connection with any issue of Shares in the Company, Shares in the Company in respect of a Sub-Fund or any Class or Series of Shares in the Company or the relevant Sub-Fund, as the case may be.

Participating Shares – means that participating shares in the capital of the Company or in respect of a particular Sub-Fund, as the case may be, issued subject to and in accordance with the Act and this Constitution and having the rights and subject to the restrictions provided for in the Constitution. For the avoidance of doubt, if the Company has constituted two or more Sub-Funds, the Participating Shares of each Sub-Fund participate only in the assets and liabilities of that particular Sub-Fund as a collective investment scheme segregated from other Sub-Fund or Sub-Funds.

VARIABLE CAPITAL COMPANIES

Redemption Price – means in relation to a Share (or in relation to a particular Class and/or Series of the same of such Shares), the price equal to the applicable NAV Per Share in the capital of the Company or in respect of a particular Sub-Fund, as the case may be, as adjusted (to the extent required) by adding to such price or subtracting from such price such fees and charges as may be determined by the Directors, as may be further described in the Offering Documents.

SHARES RIGHTS

Management Shares – The currency of the Management Shares shall be USD. Management Shares shall carry the following rights-

1. **Notice, attendance and voting rights:** the holder of a Management Share shall (in respect of such Share) have the right to receive notice of, attend at and vote as a Member at, any General Meeting of the Company (including the right to vote on a scheme of arrangement, merger, reconstruction or amalgamation)
2. **Right to financial statements:** the holder of a Management Share shall have the right, in accordance with the Act, to receive a copy of the financial statements (or consolidated financial statements and balance sheet, as the case may be) of the Company in its capacity as a person entitled to receive notice of General Meetings.

VARIABLE CAPITAL COMPANIES

SHARES RIGHTS

3. Redemption and repurchase rights: Management Shares are redeemable and re-purchasable at the option of the Company in accordance with this Constitution and are redeemable at the option of the holders of such Management Shares in accordance with this Constitution and as set out in the Offering Documents, save that no Management Shares may be redeemed or repurchased if there shall be less than one Management Share in issuance after such redemption and repurchase.
4. Economic participation – Management Shares shall not be entitled to any share of the profits of the Company or any proceeds of realization of the assets of the Company. A holder of Management Shares will only be entitled to the return of capital paid up on the Management Shares on the liquidation of the Company in accordance with the order of priority set out in regulation 10 and may not be redeemed or re-purchased for an amount greater than the capital paid up on the Management Shares
5. Such other rights in accordance with this Constitution and as set out in the Offering Documents. For the avoidance of doubt, where the Company comprises two or more Sub-Funds, the Management Shares carry the rights and restrictions described in sub paragraphs (1) to (4) above in respect of each of the Sub-Funds.

VARIABLE CAPITAL COMPANIES

Participating Shares – issued in respect of the Company or issued in respect of any Sub-Fund of the Company shall carry the following rights -

- 1. Voting Rights** – The holder of a Participating Share shall (in respect of such Share) not have the right to vote as a Member at any General Meeting of the Company (including any vote on a scheme of arrangement, merger, reconstruction or amalgamation), except on a variation of rights as set out in regulation 39
- 2. Notice and attendance rights** - The holder of a Participating Share shall (In respect of such Share) have the right to receive notice of, attend and speak at any General Meeting of the Company.
- 3. Right to Financial Statements** – Solely to the extent required under the Act, the holder of a Participating Share shall have the right, in accordance with the Act, to receive a copy of the financial statements (or consolidated financial statements and balance sheet, as the case may be, and only to the extent required under the Act) of the Company in its capacity as a person entitled to receive notice of General Meetings provided that, where so permitted by the Act, the holder of a Participating Share of a particular Sub-Fund shall only have the right to receive a copy of the financial statements of that particular Sub-Fund

VARIABLE CAPITAL COMPANIES

4. **Redemption and Re-purchase rights** - Participating Shares are redeemable and re-purchasable at the option of the Company in accordance with this Constitution and shall be redeemable at the option of the holders of such Participating Shares in accordance with this Constitution and set out in the Offering Documents.
5. **Economic Participation** – The Distributable proceeds, income and profits earned by the Company from holding or disposal of investments and any surplus assets available for distribution to the holders of Participating Shares in the event of liquidation shall be divided among the Members in accordance with the order of priority set out in regulation 10
6. Such other rights in accordance with this Constitution and as set out in the Offering Documents. For the avoidance of doubt, where the Company comprises two or more Sub-Funds, each Sub-Fund shall issue Participating Shares that participate in the Sub-Fund Asset and Sub-Fund Liability of such Sub-Fund only, and the Participating Shares carry the rights described in sub-paragraphs (1) to (3) above for the Sub-Fund only.

VARIABLE CAPITAL COMPANIES

FATCA COMPLIANCE

The Foreign Account Tax Compliance Act (FATCA) was enacted by the US to target non-compliance with the US tax laws by US persons using non-US accounts

FATCA is a US law which requires all Financial Institutions outside of US, also known as Foreign Financial Institutions (FFIs), to regularly submit information on financial accounts held by US persons to the US tax authorities. The US intent of FATCA is to deter and detect US tax evasion through the use of Foreign Financial Accounts. The reporting obligations under FATCA covers any non-US entities like banks and other financial institutions including individuals and Portfolio Management Companies.

If you run a Variable Capital Company or an Investment Holding Family Office, you are required to do FATCA and CRS registrations for compliance.

The Singapore Financial Institutions will need to perform due diligence checks to identify Financial Accounts held by US persons (as defined) and to report to IRAS Singapore, as the Singapore government has entered into an intergovernmental agreement to collect information for submission to US tax authorities. Initial registration of FATCA has to be done directly with US tax authorities and for Singapore tax resident companies, they can submit annual returns to the Singapore Tax Authorities for compliance. (Singapore has signed with US for Model 1 Intergovernmental Agreement for compliance) as mentioned earlier

VARIABLE CAPITAL COMPANIES

CRS COMPLIANCE

CRS is the internationally agreed standard endorsed by the Organization of Economic Cooperation and Development (OECD) for the exchange of financial account information. It is the new information-gathering and reporting requirement for Financial Institutions in participating countries/jurisdictions, to help fight against tax evasion and protect the integrity of tax systems. It has been designed to prevent offshore tax evasion. All foreign investments handled by a Financial Institution becomes a subject to a CRS report.

The CRS required financial Institutions in a jurisdiction to report to their tax administration the financial accounts held by non-resident individuals and entities or certain entities controlled by non-resident individuals.

If you are a tax resident in a country with which Singapore has signed a Competent Authority Agreement, we will have to disclose your account information to the Inland Authority of Singapore. A person is only reported under the CRS regulations when they are identified as being tax resident in a Reportable Country and hold Financial Assets of their country which includes the following-

- Depository Account
- Custodial Account
- Equity or Debt interest in Investment entities.
- Cash Value Insurance Contract
- Annuity Contract

VARIABLE CAPITAL COMPANIES

CRS COMPLIANCE

- **It covers accounts held by individuals and entities, including businesses, trusts and foundations.**
- **Not just banks, but broker-dealers, investment funds and insurance companies are also required to report.**

Financial Accounts that are subject to review and possible review are –

- **Bank accounts**
- **Holdings in mutual funds and similar investments**
- **Brokerage and custodial accounts**
- **Annuity contracts (including segregated fund contracts)**
- **Life Insurance Policies and cash value**

VARIABLE CAPITAL COMPANIES

DBS LAUNCHES MULTI-FAMILY OFFICE VCC FOR ULTRA-WEALTHY FAMILIES

- Fund administration and custody done by bank.
- Minimum wealth for service around S\$15 million
- DBS serves as banker to more than a third of the 700 single family offices established in Singapore.
- Clients also enjoy cost savings through shared resources and expenses across multiple sub-funds.
- VCC does away with the use of companies or trusts, which were the traditional vehicles used by wealthy families in wealth structuring.
- DBS MFO is also an attractive option for some families who are not looking to immediately locate to Singapore.

Thank
you