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Briefing note

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Evolving venture capital landscape in Singapore

On 10 November 2016, the Deputy Prime Minister (DPM) and Chairman of the Monetary Authority of Singapore (MAS), Tharman Shanmugaratnam, announced in his speech (at the launch of LATTICE80) that the MAS is working with the venture capital (VC) industry to grow the funding landscape for start-ups in Singapore and the region. The MAS proposed to achieve this through simplifying the regulatory regime for managers of VC funds (VC managers) and studying whether the existing tax incentives for funds and fund managers are sufficient to anchor VC funds and VC managers in Singapore.

Simplified regulatory regime

The MAS released a consultation paper on 15 February 2017 (Consultation Paper) detailing its plan to roll out a simplified regulatory regime for VC managers

Rationale for a simplified regulatory regime

In the Consultation Paper, the MAS observed that VC managers are currently subject to the same regulatory regime as other fund managers but some of the existing requirements imposed on fund managers are less relevant for VC managers because VC investors typically diligence VC managers very closely and negotiate stringent contractual safeguards to protect their interests.

The MAS further observed that VC managers are different from other fund managers as they manage funds that typically:

- invest only in unlisted business ventures that have been established or incorporated for no more than five years at the time of initial investment;
- are non-redeemable at the discretion of the investor, and are not continuously available for subscription; and
- are offered only to accredited and/or institutional investors.

As VC funds play an important role in supporting the growth of start-up businesses that help sustain innovation and growth in the economy, the MAS is keen to encourage the growth of the VC industry by introducing a simplified regulatory regime for VC managers that meet prescribed criteria.

Proposed VC manager regime

Under the proposed simplified regulatory regime, the MAS will focus primarily on a fitness and propriety assessment of VC managers.

Further, under the proposed VC manager regime:

- the directors and representatives of a VC manager will not need to have at least five years of relevant experience in fund management;
- there will be no base capital or risk-based capital requirements;
- it will not be mandatory for a VC manager to have an in-house compliance capability;
- it will not be mandatory for a VC manager to carry out independent valuations or internal audits; and
- it will not be mandatory for a VC manager to submit its annual audited financial statements or audit reports to the MAS.

The following ongoing regulatory requirements that are currently applicable to all fund managers would continue to apply to VC managers:

- notifying the MAS of changes to a VC manager's particulars (e.g., information on its substantial shareholders, CEO, directors and representatives);
- reporting annually to the MAS on a VC manager's funds under

management, investor profile, fund types and deals by geography and sector and confirming in writing to the MAS that it meets the proposed criteria under the VC manager regime;

- putting in place robust and effective controls to detect and deter the flow of illicit funds through Singapore's financial system; and
- adopt systems and controls to prevent money laundering and terrorism financing and to monitor and report any suspicious transaction.

Notwithstanding that VC managers will be subject to a simplified regulatory regime, the MAS will retain control and supervision over VC managers. For example, the MAS intends to retain its existing powers to inspect and investigate VC managers as well as to issue directions and impose conditions on them. The MAS will retain its powers to revoke the regulatory status of VC managers and issue prohibition orders against the CEOs, directors and representatives of VC managers.

The MAS has indicated that applicants can expect an expeditious authorisation process under the VC manager regime.

Implementation of the VC manager regime

An existing fund manager that manages VC funds can operate under the VC manager regime after notifying the MAS that it meets all the proposed criteria, and obtaining the MAS' acknowledgement of the notification.

Alternatively, existing fund managers can choose to maintain their current regulatory status and be subject to the full list of ongoing requirements, even if they meet all the proposed criteria to qualify for the VC manager regime.

The MAS will be accepting comments on the Consultation Paper until 15 March 2017.

DPM Tharman Shanmugaratnam announced in his speech on 10 November 2016 that the MAS targets to introduce changes to the VC manager regulatory regime by July 2017.

Tax incentives

The MAS has identified that tax incentives for VC funds and VC managers will be crucial to growing the VC funds landscape for start-ups in Singapore and is assessing whether the existing tax incentives for funds and fund managers are sufficient to anchor VC funds and VC managers in Singapore.

Currently, to qualify for the tax incentive schemes, a fund manager must be either a registered or licensed fund management company or be expressly exempted from the requirement to hold a capital markets services licence in respect of its fund management activities.

The three main tax exemption schemes are the (i) offshore fund tax exemption scheme; (ii) onshore (Singapore resident company) fund tax exemption scheme; and (iii) enhanced tier fund tax exemption scheme. To qualify for (ii), amongst other requirements, there needs to be at least S$200,000 business spending per year. In order to qualify for (iii), amongst other requirements, there is a minimum fund size requirement of S $50 million (committed capital concession available for real estate, infrastructure and private equity funds) and at least S$200,000 local business spending per year.

The MAS expressed its commitment to assessing the requirements for VC funds and VC managers to qualify for tax incentives given that VC funds and VC managers are typically smaller in size and headcount than traditional asset managers.

The MAS has not yet outlined its proposed tax incentives for VC funds and VC managers.

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