Disruptor and enabler

The Singapore Variable Capital Company is meant to house and anchor investment funds to the city state

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TODAY, Singapore is viewed globally by industry players and regulators as a pre-eminent asset and wealth management centre. Also known as a gateway into Asia-Pacific, Singapore has a robust regulatory framework and a business-minded government. In a fast-changing landscape, there is increasing pressure for Singapore to continually innovate, which is inevitably disrupting the status quo. At present, Singapore has yet to reach its growth potential in the asset and wealth management industry largely due to the lack of a suitable corporate legal entity structure. The use of Singapore corporations for wealth planning is known to be clunky and does not offer privacy of investors' information, as financial statements and shareholders' register are required to be available for public inspection at the company registrar.

Most wealth managers have been using private trust structures as investment vehicles and as part of estate planning primarily due to the need for privacy protection. Trust structures have been the best available option in the marketplace so far, even though they are not satisfactory as investment vehicle structures.

Investors and product developers at asset and wealth management firms increasingly look for solutions in the form of investment vehicles and in domiciles which prove to be the most advantageous to them. This would encompass considerations in terms of flexibility of structures, pragmatic regulations, availability of quality resources and strength of infrastructure, marketability and tax optimisation. Singapore of course ticks the boxes on all these. Lately, regulators around the world are also demanding that asset managers demonstrate substance around their structures and provide investors with sufficient transparency and protection by using established international investment fund centres. Amid increasing global competition for investment, Singapore has managed to innovate in the form of a new legal entity structure – the Singapore Variable Capital Company (S-VACC) – meant to house and anchor investment funds to the city state.

There is evidence today of an increasing trend towards setting up Singapore-domiciled investment vehicles.

This is primarily driven by the fact that Singapore offers a place where substantive fund management activities and investment vehicles can co-exist. In addition to tax treaty benefits, Singapore is quite unparalleled as a location where asset managers, investment banks and capital introducers can mingle in a business-friendly environment overseen by a highly respected and pragmatic regulator.

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In his recent Singapore Budget 2018 speech, Finance Minister Heng Swee Keat introduced a tax framework for Singapore Variable Capital Companies (S-VACC). This is a game changer for the industry in Singapore as the S-VACC is a disruption that has the potential to help Singapore leverage opportunities just as the industry in Asia-Pacific is at the cusp of accelerated growth.

Simply put, the S-VACC is a corporate form vehicle that would not only be tax efficient for asset and wealth management but would also substantiate the legal entity's residency along with separation from the asset owners as it is a legal entity with distinct legal personality. The S-VACC will specifically prohibit public access of S-VACCs financial statements and shareholders' register, which will give much needed privacy to investors.

Also the "variable" capital structure of this new corporate vehicle further enhances the structure for wealth management, as this feature allows redemptions and distributions without the need for solvency tests and corporate resolutions, and makes movement of capital in-and-out seamless. Another useful feature of S-VACC is the ability to compartmentalise the assets and liabilities thereby allowing different cells/sub-funds to be used to manage different strategies and/or achieve different purposes. This umbrella feature makes such S-VACC vehicles economically feasible when used by a family office and thereby dispenses the use of multiple structures and vehicles. All these features are best-in-class for asset and wealth management.

However, one has to keep in mind that the S-VACC would only be used by fund managers licensed and regulated by the Monetary Authority of Singapore. This means that they would be required to be located in Singapore. This feature invariably helps to create substance in Singapore, thereby enhancing the tax efficiency of the S-VACC. Such license/registration requirement would be disadvantageous only to single family offices that are not regulated/licensed. However, such family offices are not precluded from obtaining regulated status. Wealth managers, such as independent asset managers, financial advisors, private banks – the usual actors advising in the private wealth industry – are currently regulated, and thus would be eligible to utilise S-VACCs.

The S-VACC bill was open for public consultation by the MAS last year, the responses to which are likely to be announced shortly. The bill will be introduced in Parliament later this year and we are likely to see S-VACCs in action by as early as next year. Being a new form of legal entity, it has been a herculean undertaking by various ministries spearheaded by the MAS. What is encouraging is that the recent Singapore budget has conferred tax clarity to the S-VACC, granting a similar tax incentives and treatment as current investment funds that are domiciled in Singapore.

Does the introduction of S-VACC mean a total disruption to private trusts structures as a wealth management tax planning vehicle? Maybe not right away, but there is certainly the potential for the S-VACC to be the disruptor to status quo in mainstream asset management. It is a truly tax and cost-efficient vehicle, a combination that currently does not exist in one legal entity form. Wealth managers need to constantly watch this space to see if S-VACC will be a new and alternative offering to house assets for their clients. W