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Easier for venture capital funds in Singapore

Singapore is making it easier for VCs and start-ups in a recent move. Managers of venture capital funds (VC managers) are subject to the same regulatory and compliance framework as other fund managers. In February 2017, the Monetary Authority of Singapore (MAS) published a consultation paper proposing a simplified regulatory regime for VC managers.

The paper reflects the MAS' assessment of the lower market and business conduct risks of VC managers, compared to other fund managers. The MAS considered the fact that VC managers typically do not trade on public markets or use leverage, and typically serve only accredited and/or institutional investors. The proposed changes under the VC manager regime expedite the application process and lowering ongoing compliance burden for VC managers.

QUALIFYING UNDER THE REGIME

To be eligible, VC managers must only manage funds fulfilling the following criteria:

(1) The funds invest in unlisted business ventures that have been established or incorporated for no more than five years at the time of the initial investment;
(2) The funds must be closed-end (i.e., the fund must not be continuously available for subscription and must be non-redeemable at the discretion of the investor); and
(3) Investors of such funds must be accredited investors or institutional investors.

Under the proposal, VC managers will no longer be required to have directors and representatives with at least five years of relevant experience in fund management. Additionally, representatives will no longer be required to satisfy stipulated academic and examination requirements.

Instead, the MAS now focuses primarily on whether the VC managers and their shareholders, directors, representatives and employees fulfil the proper criteria requirements. The MAS has said that the applicants may expect a more expeditious authorisation process under the VC manager regime.

EXEMPTED ONGOING REQUIREMENTS

Under the proposed VC manager regime, VC managers will no longer be required to comply with the following:

(1) Capital requirements. VC managers will no longer be required to maintain a minimum base capital or comply with the existing risk-based capital requirements;
(2) Business conduct requirements. It will no longer be mandatory for VC managers to meet certain business conduct requirements. But investors may still require such safeguards as part of their contractual arrangement with the VC manager; and
(3) Independent annual audit of VC managers. VC managers will no longer be required to submit annual audited financial statements and auditor reports to the MAS.

REQUIREMENTS STILL APPLICABLE

The other existing ongoing requirements that are applicable to fund managers still continue to apply to VC managers:

(1) Notification requirements. VC managers will still be required to notify the MAS if they intend to cease their fund management activities, or in the event of any changes in their particulars;
(2) Annual declaration requirements. VC managers will still be required to provide annual declarations to the MAS in relation to their funds under management, number and types of investors, fund types and deals, and provide written confirmation to the MAS that they still meet the applicable criteria to qualify under the VC manager regime;
(3) AML/CFT requirements. VC managers will still be required to adhere with the applicable requirements for anti-money laundering and countering the financing of terrorism (AML/CFT), which may be updated from time to time;
(4) MAS powers to inspect and issue directions. The MAS will retain existing powers to inspect and investigate VC managers, and issue directors, or impose conditions on them.

EXISTING FUND MANAGERS' REGIME

Existing fund managers that qualify for the VC manager regime may: (1) operate under the VC manager regime by notifying and obtaining the MAS' acknowledgement of the notification; or (2) maintain their current regulatory status and be subject to the full set of ongoing requirements.

The proposed regulatory regime may be subject to further amendments and fine-tuning after the consultation phase, prior to its implementation.

The proposed regulatory changes reflect the MAS' recognition of the essential role of the venture capital industry for the growth of the start-up funding landscape in Singapore, and in the region. The proposed VC manager regime is among a string of recent regulatory changes and/or proposals which evinces the MAS' progressive regulatory stance to create a conducive environment for the growth of the start-up ecosystem, and this augurs well for prospective investors or start-ups that intend to establish a presence in Singapore.

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