

Speeches

Published Date: 01 October 2018

"Variable Capital Companies Bill (2018)" - Second Reading Speech by Ms Indranee Rajah, Second Minister for Finance, on 1 October 2018

1. Mr Deputy Speaker, I beg to move, "That the Bill be now read a second time."

Introduction

2. The Variable Capital Companies Bill provides a legislative framework for the incorporation and operation of a corporate structure tailored specifically for investment funds. The introduction of this corporate structure, known as the variable capital company or "VCC", will be a game-changer for Singapore's fund management industry as it will allow us to capture value from the full fund management value chain. The VCC regime will strengthen our position as the Asian hub for fund domiciliation and management.

3. Singapore is already recognised as a leading Asian fund management hub. Assets under management, or AUM, have grown by an average of 15% per annum over the past five years, reaching S\$3.3 trillion at the end of 2017. Almost 7 in every 10 dollars under management are invested into the Asia-Pacific region, reflecting Singapore's role as a key node for global fund managers and investors to invest in the region's growth opportunities.

4. The Industry Transformation Map for financial services has set out Singapore's strategy to be an Asian hub for fund management and domiciliation. Besides the introduction of VCC to encourage fund domiciliation activities in Singapore, we are deepening fund management capabilities in specialty and alternative investments to complement our strengths in portfolio management, trading and research. We are also building a deeper and more diverse capital pool for investment into Asia from Singapore.

5. The VCC structure will complement and expand the existing suite of fund structures available in Singapore, such as the company, limited partnership and unit trust structures. Taken together, this will provide a comprehensive range of investment fund vehicles and structures to support investors' needs.

6. The Bill takes reference from similar corporate fund structures available in other global investment fund centres such as Ireland, Luxembourg and the United Kingdom. MAS has consulted on the VCC framework and the Bill, and has engaged extensively with the industry and the public over the past 18 months. There was broad industry support for the VCC framework and the Bill. MAS has considered all the feedback received, and taken it into account where appropriate.

7. Mr Deputy Speaker, let me elaborate first on the rationale for introducing the VCC framework, before taking members through the key areas of the Bill.

Rationale for VCC framework

8. Today, fund managers already conduct a good range of their fund management activities in Singapore – portfolio management, trading and research. The VCC framework will encourage fund managers to domicile their funds in Singapore, adding domiciliation activities to the fund management activities. This in turn will establish a full-service fund ecosystem in Singapore.

9. The fund management industry is an important component of Singapore's financial sector, contributing 12.4% of the overall financial sector's nominal value-add last year. Besides the direct value-add contribution, it has significant spillovers to other financial sector activities, such as the trading of foreign exchange, as well as to other service providers such as lawyers and accountants.

10. There is potential for Singapore to capture a greater share of the full value chain of fund management, particularly in the fund servicing space. A substantial proportion of investment funds that are managed by fund managers in Singapore are domiciled elsewhere, for example in Luxembourg and the Cayman Islands, owing to the flexible corporate structures that are available there. As a result, most of the economic benefits generated by service providers to these investment funds accrue outside Singapore.

11. Singapore-based fund managers who domicile funds locally as VCCs can look forward to significant cost economies and fewer cross-border administrative and compliance hurdles through the use of local service providers operating out of just one country. In contrast, funds domiciled overseas but sold in Singapore typically incur additional costs from having to use multiple service providers across different countries. VCCs would also be able to avail themselves of Singapore's competitive tax regime.

12. Beyond fund managers, the VCC framework will create new business opportunities for lawyers, accountants, tax advisors, fund administrators and custodians in Singapore. In practice, VCCs will operate from an office in Singapore and employ Singapore-based corporate secretaries, engage Singapore-based lawyers, fund administrators and so on to facilitate their operations. MAS has estimated that the VCC framework could create over 1,000 new jobs for service providers in the first two years of its introduction.

13. Singapore is not the only jurisdiction in this region that has introduced VCC equivalent structures. We need to keep pace with other international fund management centres if we are to capture the additional economic benefits of fund domiciliation.

14. Mr Deputy Speaker, let me now take the members through the key areas of the Bill.

(A) Corporate Structure Tailored for Investment Funds

15. The VCC is a body corporate incorporated under the VCC Bill. This can be likened to how companies are incorporated under the Companies Act (Cap. 50). The sole object of a VCC is to be a structure for investment funds. The shareholders in a VCC are the fund investors. The board of directors owe duties to act in the best interests of the VCC, and a fund manager must be appointed to manage the VCC.

16. I will now highlight several features of the Bill that will specifically address the needs of investment funds.

(I) Flexibility to redeem investments and pay dividends out of capital

17. The Bill caters to an investment fund's need for flexibility in the use of its capital. Unlike companies under the Companies Act (Cap. 50), VCCs are able to vary their share capital, without having to seek investors' approval. This is a common feature in investment funds, and allows investors the flexibility to exit their investments in the fund when they wish to do so.

18. To safeguard the interests of creditors, VCC shares must generally be issued and redeemed at their net asset value. This is so that liabilities will always be accounted for in the price of issuance and redemption.

19. In addition, VCCs will be able to pay dividends using capital. In contrast, companies under the Companies Act (Cap. 50) can only pay dividends out of profits. This feature is important, as it allows investment funds to meet their dividend payment schedules which may have been agreed upon with investors.

(II) Economies of scale through use of VCCs as umbrella funds

20. The Bill allows a VCC to be established as a standalone fund, or as an umbrella fund with multiple sub-funds. The umbrella with sub-funds structure creates economies of scale, as the sub-funds can share a common board of directors and use the same service providers, including the same fund manager, custodian, auditor and administrative agent. This would benefit fund managers, who may, for example, wish to group their funds, such as their Asian bond fund together with their European equities fund, under a single umbrella VCC.

21. Certain administrative functions can also be consolidated, such as the holding of general meetings and preparation of prospectuses.

22. A sub-fund will have separate assets and liabilities, distinct from other sub-funds. As a sub-fund will not have a separate legal personality, there is the possibility that the assets and liabilities of one sub-fund could be commingled with those of another sub-fund. As a safeguard for VCC shareholders and to enhance creditor protection, the Bill requires the assets and liabilities of each sub-fund to be segregated, such that the assets of one sub-fund cannot be used to discharge the liabilities of the umbrella fund, or of another sub-fund. Under the Bill, any agreement to use the assets of one sub-fund to discharge the liabilities of the umbrella fund, or another sub-fund, would be void.

23. The rule on the segregation of assets and liabilities of sub-funds will also apply during insolvency. To ensure ring-fencing of a sub-fund's assets and liabilities in the event of an insolvency, each sub-fund has to be wound up separately.

(III) VCCs may be used for a variety of strategies

24. Mr Deputy Speaker, Singapore is home to a vibrant and diversified group of over 700 global and local fund managers, spanning both the traditional and alternative space. Alternative funds, such as private equity and real estate funds, are typically structured as closed-end funds. This means that the fund has a fixed number of shares that cannot be redeemed at the election of shareholders, except in limited circumstances where permitted by the fund. In contrast, traditional funds are often structured as open-ended funds, where investors can exit their investments by redeeming their investment units or shares in the fund.

25. VCCs are flexible structures, in that they may be constituted as open-ended or closed-end funds, providing a suitable corporate structure for both traditional and alternative strategies. This caters to the diverse needs of the Singapore-based fund management community, which comprises both traditional and alternative managers.

26. Given the growth in the alternative space, it is also important that the VCC structure can be used by alternative managers. Alternative assets under management in Singapore grew by 20% per annum over the past five years, led by the venture capital and private equity sectors; in comparison, traditional assets under management grew by 13% per annum over the same period.

(B) Governance and Oversight

27. Mr Deputy Speaker, the Bill also incorporates features to ensure that VCCs are subject to appropriate governance and regulatory oversight.

(I) Fund manager regulated by MAS

28. Corporate structures can and have been used around the world for unlawful purposes. To mitigate against such risks for VCCs, VCCs must appoint a fund manager that is regulated by MAS to facilitate supervisory oversight on the use of the VCCs for investment funds.

(II) VCC Board

29. Like companies, VCCs will be required to set up Boards. As mentioned earlier, VCC directors will owe fiduciary duties to act in the best interests of the VCC, similar to those owed by a director of a company to the company.

30. VCCs offered to retail investors, or that have sub-funds offered to retail investors, will be subject to an additional requirement to have at least three directors on their boards, at least one of whom must be independent. The requirement for an independent director is an additional safeguard to help ensure good governance of retail VCCs.

(III) Preparation of financial statements

31. VCCs will have to prepare financial statements that must be audited. To cater to the needs of global investors, VCCs will be allowed to prepare their financial statements using not just Singapore accounting standards and principles but also the International Financial Reporting Standards and US Generally Accepted Accounting Principles or GAAP.

(IV) Register of shareholders

32. The register of VCC shareholders need not be made public, but must be disclosed to public authorities for regulatory, supervisory and law enforcement purposes upon request. This arrangement takes into account investors' need for privacy and is consistent with the practice in other major fund jurisdictions such as the UK and Ireland.

(V) Anti-money laundering and countering the financing of terrorism risks

33. VCCs will also be subject to, and supervised for, anti-money laundering and countering the financing of terrorism requirements, in line with international standards.

(C) Re-domiciliation and Restructuring

34. To facilitate fund domiciliation in Singapore, the Bill will provide a re-domiciliation mechanism for existing overseas investment funds constituted as corporate structures similar to VCCs. This means that the business opportunities and jobs created for the fund services industry will stem not only from the creation of new funds structured as VCCs, but also from existing overseas funds re-domiciling into Singapore as VCCs. In addition, existing funds domiciled in Singapore as companies, limited partnerships or unit trusts can also restructure to take advantage of the VCC structure.

(D) Insolvency and Tax-related Provisions

35. The Bill provisions relating to the insolvency of a VCC and its sub-funds are adapted from the Companies Act (Cap. 50). The VCC Bill will be amended in 2019 to align the VCC insolvency regime with those of other corporate structures under the Insolvency, Restructuring and Dissolution Bill which has just been debated. The tax framework for VCCs will be separately set out in legislative amendments to the relevant tax legislation.

Conclusion

36. The introduction of the VCC framework will enhance our fund ecosystem and the value proposition Singapore offers to fund managers. The benefits of the VCC are not solely confined to fund managers, but will also extend to local service providers. It will benefit the Singapore economy, strengthen Singapore's position as a full-service international fund management centre and create good jobs for Singaporeans.

37. Mr Deputy Speaker, I beg to move.

Resources

Note by Second Minister for Finance Indranee Rajah on the Variable Capital Companies Bill

 (4.68 MB)

Related News

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Published Date: 22 October 2025

“Signals, Sails, and Stewardship: Turning Headwinds into Tailwinds” - Speech by Mr Chee Hong Tat, Minister for National Development, and Deputy Chairman of the Monetary Authority of Singapore, at DBS Event: “Gearing Up for 2026: A Conversation with Minister Chee Hong Tat and DBS CEO Tan Su Shan” on 22 October 2025

Mr Chee Hong Tat, Minister for National Development, and Deputy Chairman of MAS, spoke about four strategic priorities to strengthen Singapore’s position as an international financial centre in Asia.

Speeches

Published Date: 17 September 2025

"Going Glocal: Strategy for Navigating Private Markets in a Fast-Changing World" – Keynote Address by Mr Alvin Tan, Minister of State, Ministry of National Development and Ministry of Trade and Industry, and Board Member of MAS, at the SuperReturn Asia Conference on 17 September 2025

At the SuperReturn Asia 2025, Mr Alvin Tan, Minister of State, Ministry of National Development and Ministry of Trade and Industry, and Board Member of MAS, gave a speech on how “Going Glocal” can help asset managers navigate private markets in this fast-changing world by deepening capacity locally and adapting for regional markets.

Media Releases

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