

Venture Capital fund managers may begin operations in record time in Singapore

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Although a venture capital fund may be prepared to invest in a new country, lengthy requirements to set up operations may risk the loss of valuable business opportunities. In Singapore, however, the criteria for operating a venture capital (VC) fund have been significantly simplified by the Monetary Authority of Singapore (the MAS), allowing VCs to set up more quickly.

The new regulatory regime, in place since 20 October 2017, is a response to the sustained surge in VC fundraising in Singapore, with venture-investments totalling US\$725.3 million in the second quarter of 2017 alone¹. This not only reflects the increasing interest in the region's start-ups and incubators, but also the MAS's vision of ensuring that Singapore remains an attractive base for VC fund managers.

Below we describe (A) the key changes to the qualifying criteria for VC fund managers, (B) qualifying criteria for VC funds, (C) risks and benefits associated with the new regime and (D) the next steps.

A. Key changes to the qualifying criteria for VC fund managers

The new regulatory regime shortens the authorisation process for VC fund managers while maintaining certain baseline thresholds. We note that the regime for other categories of fund managers remains unaffected. The key changes are as follow:

	Criteria for fund managers in general	New qualifying criteria for VC fund managers
Experience	Directors and representatives must have at least 5 years of relevant experience in fund management.	No minimum experience required.
Capital Requirements	Ranging from S\$250,000 to S\$1,000,000.	No minimum capital requirements.
Business Conduct	Onerous requirements in relation to custody, valuation, reporting, mitigating conflicts of interest, disclosure, etc.	No business conduct requirements.

Although they have reduced the traditional qualifying criteria, the MAS is nevertheless maintaining oversight of:

1. The existing fit and proper criteria with which to assess the individual's experience and qualifications; and
2. The existing anti-money laundering safeguards

both requirements of which are described in greater detail under the Securities and Futures Act of Singapore.

B. Qualifying criteria for funds

To qualify under this new regime, the VC fund manager must manage funds that meet the following characteristics:

1. Invest in business ventures that are not listed on a securities exchange;
2. Invest at least 80% of committed capital in securities which are directly issued by start-ups which are no more than 10 years old;
3. Interests in these funds are not available for new subscriptions after the close of fund-raising, and can only be redeemed at the end of the fund life (i.e. close-ended funds); and
4. Are offered only to accredited and/or institutional investors.

C. Benefits & risks

Some benefits of the new regime include:

1. **Cost-efficient incorporation process:** A VC fund manager who wishes to start a VC fund will no longer need to satisfy the experience, capital and business conduct requirements (as stated above). This will result in a more cost-efficient and streamlined process from the incorporation of the fund manager, the fund company and all the way to the actual deployment of funds into the start-up.
2. **Broader accessibility:** The Regime may also encourage more entrepreneurs and would-be fund managers to start VC funds since they will not be daunted by the need to appoint several service providers (i.e. custodians, valuation agents, etc.) prior to launching their fund.

The lower risks posed by VC fund managers, given their business model and sophisticated investors base, justifies reducing their regulatory obligations. To safeguard the standards of integrity in the industry, however, the MAS will still retain regulatory powers to oversee VC fund managers².

D. Next steps

VC fund managers will need to apply to the MAS to hold a capital markets services licence as a VC fund manager in order to qualify or transit to the simplified regime.

Our Investment Funds team is recognized for helping our clients set up VC funds quickly and efficiently in Singapore. If you have any questions about these new requirements and how they may apply to you, please call or e-mail us.

1. <https://www.bloomberg.com/news/articles/2017-10-22/singapore-venture-capital-surges-as-startups-seek-room-to-grow>

2. <http://www.mas.gov.sg/News-and-Publications/Media-Releases/2017/MAS-simplifies-rules-for-managers-of-venture-capital-funds.aspx>

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