THE MAS'S NEW REGULATORY REGIME FOR VENTURE CAPITAL FUND MANAGERS COMES INTO FORCE

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As part of the Singapore government's drive to attract more venture capital fund managers ("**VCFM**") and venture capital ("**VC**") funding into Singapore to boost the growth of startups and growth-stage enterprises, following a public consultation launched by the Monetary Authority of Singapore ("**MAS**") in February 2017, the MAS formally announced a simplified regulatory regime for VCFMs on 20 October 2017 ("**VCFM Regime**").

1. BACKGROUND OF THE REGULATION FRAMEWORK

The MAS acknowledges that there is some diversity in the profile of VCFMs in the VC market. For example, some VC funds are established and managed by conglomerates or founded by family offices that are internally funded. The managers of these proprietary VC funds do not need to be licensed by or registered with the MAS. On the other hand, VCFMs that raised monies from and managed funds of third parties are considered as conducting fund management activities, which qualify as a regulated activity under the Securities and Futures Act. Prior to the VCFM Regime, these VCFMs were required to register with the MAS as Registered Fund Management Companies and hold a Capital Markets Services license if their aggregate assets under management ("**AUM**") exceeded S$250 million or if they served more than 30 qualified investors.

2. WHAT'S NEW UNDER THE VCFM REGIME?

Previously, VCFMs were subject to the same regulatory and compliance framework as other fund managers in Singapore. Under the VCFM Regime, certain rules are specifically relaxed for VCFMs. The table below shows a key comparison of the existing regime that applies to licensed and registered fund management companies ("**Existing Regime**") and the VCFM Regime that applies to qualified VCFMs.

Requirements / obligations	VCFM Regime	Existing Regime
1. Authorization by the MAS prior to commencement of fund management	Applicable	Applicable
2. "Fit and proper" criteria	Applicable	Applicable

3. Physical presence in Singapore	Applicable	Applicable
4. Relevant experience of directors and representatives in fund management	Not Applicable	Minimum 5 years
5. Capital requirements	Not Applicable	• Minimum base capital of S$250,000, if it serves only accredited and/or institutional investors • Risk-based capital requirements apply, if licensed
6. Business conduct requirements (e.g. independent valuation, compliance capability, internal audit, and risk management)	Not applicable, but investors may still require such safeguards as part of their contractual arrangement	Applicable
7. Anti-money laundering and counter-terrorism financing	Applicable	Applicable
8. Submission of annual regulatory returns (e.g. changes to key appointments) to the MAS	Applicable	Applicable

3. WHO QUALIFIES AS A "QUALIFIED VCFM"?

To qualify under the VCFM Regime, funds managed by the VCFM must satisfy the following criteria:

- the funds only invest in unlisted business ventures;
- the funds invest at least 80% of committed capital in securities that are directly issued by start-ups that have been incorporated for no more than 10 years at the time of initial investment;
- units of the funds are not available for new subscription after the final close of fund-raising and can only be redeemed at the end of that fund's life; and
- the funds are offered only to accredited and/or institutional investors.

Separately, the MAS has not set a cap on the fund size, prescribed minimum investment amount, domicile of VC fund requirement or restriction on leverage.

4. THE IMPACT OF THE VCFM REGIME

Utility of licensing under the VCFM Regime
The three key areas that have been relaxed under the VCFM Regime as against the Existing Regime are:

- capital requirements – no longer required
- minimum experience of directors and senior personnel – none
- ongoing conduct requirements such as valuations, compliance capability, internal audit, and risk management – no longer required

VCFMs who are already in Singapore would already be licensed under the Existing Regime in any event and the fact that they are no longer required to have directors and senior personnel with a minimum number of years of experience would likely be irrelevant at this juncture. However, the removal of capital requirements (which has been one of the major burdens for venture capital fund start-ups) and ongoing conduct requirements would certainly assist in the cashflow and operational costs of VCFMs and the VC funds they manage. For Singapore-based investment professionals currently considering setting up their own VC funds, these changes are welcome as they enable the establishment of VC funds with a much lower (at least, initially) capital outlay. For non-Singapore VCFMs who are considering establishing a base in Asia generally and not specifically in Singapore alone, it appears that there may be little utility in the VCFM Regime as a whole. There is no requirement that one must be licensed under the VCFM Regime purely to invest in Singapore local VC enterprises and there are other Singapore regimes in existence that allow access to Singapore accredited and institutional investors without requiring the Singapore physical presence that a licence under the VCFM Regime does. As such, while the new VCFM Regime may be useful for fund managers intending to establish a VC fund management business based solely in Singapore and targeting solely Singapore investors through marketing solely in Singapore, a non-Singapore but Asia-focused fund that is not already in Singapore should consider its target investor base as a whole first and, thereafter, determine the appropriate jurisdiction in Asia where it may be more versatile for it to target such investors as well as Singapore investors. Overview of Asian VC Market Development
According to recent studies, more than US$8 billion in VC and private equity investments was recorded in Southeast Asia between Q1 and Q3 of 2017, which exceeds gross investments in the region for the entire 2016 (approximately US$7.1 billion). With respect to Singapore's VC market, the AUM held by Singapore-based VCFMs has increased from approximately US$1.8 billion in 2014 to US$3.6 billion in 2016. It is expected that Singapore will continue to be a gateway for funds invested in Southeast Asia in the coming future. On the other hand, in 2016, the total amount of VC funding in Asia was approximately US$39 billion, of which China accounted for US$31 billion, almost 80% of the entire Asia VC market. In comparison, the market share of Singapore is significantly less. Further, of the largest Asian VC fundraising in Q2 of 2017, China-based companies accounted for 8 out of the 10 largest transactions (such as Didi Chuxing and Toutiao), which amounted to an aggregate of US$8,484 million. In contrast, only 1 Singapore-based company made the list.

Given Singapore's comparatively low level of venture capital activity, while the VCFM Regime is certainly designed to accelerate and facilitate start-up funding from VCFMs, it is uncertain how much of an effect it will have as a whole on funds based outside of Southeast Asia who are not already present in Singapore or have a specific interest in a Singapore local start-up business. However, in the bigger picture, this development is a significant indication of the government's stance towards promoting venture capital in Singapore.

