

# Proposed Changes To The Regulatory Regime For Managers Of Venture Capital Funds

On 15 February 2017, the Monetary Authority of Singapore ("**MAS**") published the Consultation Paper on the Proposed Regulatory Regime for Managers of Venture Capital Funds (the "**Consultation Paper**"). The Consultation Paper proposed simplified rules for managers of venture capital funds ("**VC managers**"). As the current regulatory regime for fund managers does not make a distinction between managers of venture capital ("**VC**") funds and managers handling other asset classes, VC managers are subject to the same regulatory framework and compliance regime as other fund managers. The proposed changes aim to expedite application process and ease compliance burden on the VC managers.

## A more simplified authorisation process

In the Consultation Paper, MAS recognised the "unique characteristics" of VC funds and the important role of VC managers in "channelling capital to support the growth of start-up businesses which help to sustain innovation and growth in the economy". Moreover, MAS notes that VC investors are typically highly sophisticated and highly selective of the VC managers that they chose to invest with. Among other things, the Consultation Paper noted that the "stringent due diligence and closer scrutiny that VC investors impose on VC managers" make "some of the existing requirements on fund managers less relevant" to VC managers.

Therefore, in view of engendering a more attractive environment to foster the growth of the VC industry, MAS proposed to introduce a simplified regulatory regime and faster authorisation process for VC managers. Under the proposed regime, VC managers will no longer be required to have directors and representatives with at least five years of relevant experience in fund management. Instead, MAS will focus on ensuring the VC managers are 'fit and proper' in terms of financial soundness, honesty, integrity and reputation. Hence, a faster authorisation process will be expected under the proposed simplified regime.

MAS also proposed certain criteria required for VC managers to be eligible under the proposed regime. In particular, VC managers must manage only funds that fulfil the following characteristics:

- the funds invest in unlisted business ventures operating for no more than five years;
- the funds are closed-end, meaning the funds must not accept new subscriptions and redemption is only available at the end of the fund life; and
- only accredited investors and/or institutional investors are allowed to be investors in the funds.

The Consultation Paper MAS is not proposing to put any restrictions on the use of leverage for VC funds since it has not had any regulatory or supervisory concerns on the VC industry regarding leverage. This position might change subject to the public response to the Consultation Paper.

### Lower ongoing requirements

To reduce compliance burden on the VC managers, MAS is proposing to remove certain ongoing requirements. Under the proposed framework, the VC managers are no longer required to maintain the minimum capital and risk-based capital at all times. It is also not mandatory for VC managers to:

- have an in-house compliance capability;
- carry out independent valuation of the funds, internal audits of their business activities and independent reporting to investors;
- disclose and effectively manage and mitigate conflicts of interests; and
- accord priority to customer's orders and transactions.

In addition, the VC managers are no longer required to submit audited financial statements to MAS.

Nevertheless, other existing ongoing requirements would remain in place to "ensure a clean and safe financial ecosystem". In particular, VC managers must notify MAS of any changes to its particulars, its substantial shareholders, CEO, directors and representative within 14 days of the change. However, MAS' prior approval would not be required in this regard.

Further, the VC managers have to report to MAS annually the details of their funds, number and types of investors, fund types and deals by geography and sector. VC managers are also required to write to MAS annually confirming that the criteria under the proposed regime are satisfied.

More importantly, the VC managers remain subject to anti-money laundering and countering the financing of terrorism requirements. Therefore, the VC managers must have systems in place to identify, assess and implement appropriate measures to prevent money laundering and terrorism financing, and to monitor and report any suspicious transaction.

MAS also retains the power to inspect and investigate VC managers as well as the power to revoke the regulatory status of the VC managers and issue prohibition orders against the CEOs, directors and representative of VC managers.

However, the proposed regulatory regime will be subject to further calibration and fine tuning before it is implemented and takes effect.

If you would like more information on this or any other area of law, you may wish to contact the partners at WongPartnership LLP that you normally deal with or any of the following partners:

**Low Kah Keong**

Head – Asset Management & Funds  
Practice

DID: +65 6416 8209

Email: kahkeong.low

@wongpartnership.com

Click [here](#) to see Kah Keong's CV

**Felicia Marie Ng**

Partner - Asset Management & Funds  
Practice

DID: +65 6416 8203

Email: felicia.ng

@wongpartnership.com

Click [here](#) to see Felicia's CV

## WONGPARTNERSHIP OFFICES

### SINGAPORE

WongPartnership LLP  
12 Marina Boulevard Level 28  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: +65 6416 8000  
Fax: +65 6532 5711/5722

### CHINA

WongPartnership LLP  
Beijing Representative Office  
Unit 3111 China World Office 2  
1 Jianguomenwai Avenue, Chaoyang District  
Beijing 100004, PRC  
Tel: +86 10 6505 6900  
Fax: +86 10 6505 2562

WongPartnership LLP  
Shanghai Representative Office  
Unit 1015 Corporate Avenue 1  
222 Hubin Road  
Shanghai 200021, PRC  
Tel: +86 21 6340 3131  
Fax: +86 21 6340 3315

### INDONESIA

Makes & Partners Law Firm  
(an associate firm)  
Menara Batavia, 7th Floor  
Jl. KH. Mas Mansyur Kav. 126  
Jakarta 10220, Indonesia  
Tel: +62 21 574 7181  
Fax: +62 21 574 7180  
Website: makeslaw.com

### MALAYSIA

Foong & Partners  
Advocates & Solicitors  
(an associate firm)  
13-1, Menara 1MK, Kompleks 1 Mont' Kiara  
No 1 Jalan Kiara, Mont' Kiara  
50480 Kuala Lumpur, Malaysia  
Tel: +60 3 6419 0822  
Fax: +60 3 6419 0823  
Website: foongpartners.com

### MIDDLE EAST

Al Aidarous International Legal Practice  
(an associate firm)  
Abdullah Al Mulla Building, Mezzanine Suite 02  
39 Hameem Street (side street of Al Murroor Street)  
Al Nahyan Camp Area  
P.O. Box No. 71284  
Abu Dhabi, UAE  
Tel: +971 2 6439 222  
Fax: +971 2 6349 229  
Website: aidarous.com

Al Aidarous International Legal Practice  
(an associate firm)  
Zalfa Building, Suite 101 - 102  
Sh. Rashid Road  
Garhoud  
P.O. Box No. 33299  
Dubai, UAE  
Tel: +971 4 2828 000  
Fax: +971 4 2828 011

### MYANMAR

WongPartnership Myanmar Ltd.  
No. 1, Kaba Aye Pagoda Road  
Business Suite #03-02, Yankin Township  
Yangon, Myanmar  
Tel: +95 1 544 061

[contactus@wongpartnership.com](mailto:contactus@wongpartnership.com)

[wongpartnership.com](http://wongpartnership.com)