

RESPONSE TO FEEDBACK RECEIVED

20 October 2017

Response to Feedback Received - Proposed Regulatory Regime for Managers of Venture Capital Funds

MAS

Monetary Authority of Singapore

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Annex A: List of respondents to the consultation paper on proposed regulatory
regime for managers of venture capital funds

Annex B: Full submissions from respondents to the consultation paper on proposed
regulatory regime for managers of venture capital funds

1 Preface

1.1 On 15 February 2017, MAS issued a consultation paper to seek comments on the proposed regulatory regime for managers of venture capital funds (“VC managers”), and the consequential legislative amendments to the following Regulations and Notices:

- (a) Securities and Futures (Licensing and Conduct of Business) Regulations (“SF(LCB)R”);
- (b) Financial Advisor Regulations (“FAR”);
- (c) Notice on Minimum Entry and Examination Requirements for Representatives of Holders of Capital Markets Services Licence and Exempt Financial Institutions (Notice No. SFA04-N09); and
- (d) Notice on Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licences (Notice No. SFA04-N13).

1.2 The consultation ended on 15 March 2017, and MAS received responses from 28 parties. MAS would like to thank all respondents for their feedback. The list of respondents is at Annex 1, and their detailed submissions are at Annex 2.

1.3 MAS has carefully considered the feedback received. MAS’ responses are set out below.

2 Introduction of a simplified authorisation and regulatory regime for VC managers

2.1 Respondents were supportive of MAS’ proposal to introduce a separate regime for VC managers (“VC Manager Regime”). The general consensus was that the simplified regime would improve access to funds for local start-up businesses. The proposal would also foster growth and vibrancy of the VC eco-system in Singapore.

2.2 MAS had proposed a set of criteria for the VC Manager Regime. VC managers would be permitted to manage only funds that:

- (a) Directly invest in only unlisted business ventures incorporated for no more than five years;
- (b) Do not accept new subscription after the close of the fund, and allow redemption only at the end of the fund life; and

(c) Are offered only to accredited and/or institutional investors.

2.3 A number of respondents sought additional flexibility on the five year direct investment criterion to better meet the operating needs of VC managers. Apart from this, respondents were supportive of the other proposed criteria.

2.4 A number of respondents emphasised the need for MAS to be stringent on the quality of VC managers entering our eco-system. They suggested tightening admission requirements on VC managers.

3 Criteria for the VC Manager Regime

Be directly invested in unlisted business ventures that have been established or incorporated for no more than five years at the time of initial investment

3.1 A majority of the respondents felt that the proposed criterion of five years was too restrictive. Some respondents commented that the five year criterion would exclude late stage venture funds, which also play an important role in the ecosystem. Limiting the eligibility for portfolio companies under the regime to five years could worsen the dearth of Series A, B and late stage funding for start-ups. In addition, respondents highlighted that start-up businesses in some sectors such as biomedical and technology would require longer incubation period. Furthermore, technology start-ups could pivot away from their initial approach if they are unviable, hence lengthening the time needed by these start-ups to develop their product, and thereafter, market to investors.

3.2 Some respondents suggested that the five year limit should be extended to seven or ten years. Other respondents sought clarification on whether the five year criterion would apply to holding companies set up by a VC fund for its portfolio company investments. A few of them expressed concerns that a VC fund may circumvent the time limit by setting up new companies to buy over the assets of an existing VC manager.

3.3 A number of respondents proposed that VC managers be permitted to invest in start-ups through the secondary market by buying the stake off an angel investor or another VC fund. This additional exit option, apart from IPOs and trade sales of portfolio companies, would facilitate capital circulation by allowing angel investors and VC funds to recycle their capital and invest in a wider pool of portfolio companies.

3.4 A few other respondents suggested that MAS broaden the scope of the VC Manager Regime to include private equity fund managers (“PE managers”) that similarly invest in unlisted companies. Their view was that PE managers shared many of the

characteristics of VC managers that lowered the market and business conduct risks of PE managers. However, there were also respondents who wanted to exclude PE managers from the simplified regime. They suggested having an additional cap on the assets under management (AUM) of the manager in order to restrict the entry of PE managers into the regime. In addition, one respondent proposed that VC funds be limited to a maximum amount of S\$2 million per investment, or 15% of the fund's assets under management. This would limit the VC fund's exposure to a single portfolio company, and help to differentiate VC managers from PE managers. To facilitate effective oversight and monitoring of the VC fund, another respondent suggested that MAS require VC funds to be domiciled in Singapore.

MAS' Response

3.5 The VC Manager Regime seeks to facilitate the funding of early stage start-up businesses by increasing their access to equity funding, to help them grow. There is no generally accepted industry definition of a VC fund. Hence, to distinguish VC funds, MAS had proposed in the consultation paper that the funds be directly invested in unlisted business ventures that have been established or incorporated for no more than five years at the time of initial investment. However, having considered the feedback and operational needs of VC managers, MAS will broaden the criteria of the VC Manager Regime to allow VC funds to:

- (a) invest at least 80% of committed capital in securities that are directly issued by an unlisted business venture that has been incorporated for no more than ten years at the time of initial investment; and
- (b) be allowed to invest up to 20% of committed capital in other unlisted business ventures that do not meet sub-criterion (a), i.e. they have been incorporated for more than ten years at the time of the initial investment, and/or the investment is made through acquisitions from other investors (e.g. other VC funds and existing owners) in the secondary market.

3.6 The broadened criteria will provide greater flexibility to VC managers, while keeping within acceptable risk tolerance. In addition, the ten year criterion will apply to the operating portfolio company rather than an entity, trust or other vehicle that is set up to hold the investment. Managers should not circumvent this restriction by setting up new companies to buy over the assets of an existing portfolio company.

3.7 The VC Manager Regime is targeted at managers investing in early and growth stage businesses. However, PE managers are not precluded from operating under the

regime, as long as they are able to meet the specified criteria. In practice, MAS does not envisage that all PE managers will qualify for the VC Manager Regime, as PE managers may employ a wider range of strategies that will not meet the criteria for a simplified set of safeguards and requirements.

3.8 MAS is of the view that the aggregate fund size, size of individual investments and the domicile of VC funds are commercial decisions that would be influenced by market factors and fund strategy. Accredited or institutional investors would have the opportunity to engage prospective managers and exercise discretion when investing in specific VC funds. MAS will therefore not set a cap on the fund size, or prescribe a minimum investment amount or the domicile of VC funds. Investors should continue to negotiate safeguards that they require of the VC manager in their contractual agreements.

Not be continuously available for subscription

3.9 A number of respondents sought clarification on the criterion that VC funds “must not be continuously available for subscription”. They asked whether MAS intended to prescribe the fund raising period of VC funds and whether multiple rounds of subscriptions by investors during this period would be allowed.

MAS’ Response

3.10 MAS will not prescribe the fund raising period or the number of rounds of fund subscriptions that may take place during the fund raising period. MAS recognises that VC funds may raise funds over multiple rounds, to allow new investors to subscribe, or to conduct follow-on investment. In general, VC funds would not be continuously available for subscription after the final close of fund raising.

Offered only to accredited and/or institutional investors

3.11 Some respondents requested MAS to permit VC funds to be offered to employees of the VC manager, notwithstanding their non-accredited investor status. Their view is that allowing additional “skin-in-the-game” strengthens the alignment of interest between VC funds’ investors, and the employees of the VC manager.

MAS’ Response

3.12 MAS agrees that it is important for fund managers, and in particular VC managers, to have skin-in-the-game, in view of the simplified regime. However, MAS is against VC managers compelling their employees who are not accredited investors to invest in their VC funds. To safeguard their interests, MAS will not be relaxing the current

stance regarding employees who are not accredited investors. Employees of VC managers, who are not accredited investors, will not be permitted to invest in VC funds.

4 Use of leverage in VC funds

4.1 MAS had sought views on whether restrictions should be placed on the use of leverage in VC funds under the VC Manager Regime. Respondents' views were evenly divided. Some respondents were of the view that the use and extent of leverage should be a commercial decision to be made between VC managers and their investors in the investment agreement.

4.2 Other respondents supported either a total ban or a restriction on the use of leverage in VC funds, as they opined that uncontrolled leverage could lead to potential reputation damage to the local VC industry. Some VC managers were concerned that the absence of leverage restrictions could expose the VC Manager Regime to abuse by fund managers that were not genuine VC managers.

MAS' Response

4.3 MAS recognises that the use of leverage is not typical of the business model of a VC manager. MAS notes that most VC managers do not utilise leverage in their funds, even though some VC investment agreements allow for a limited amount of short term financing, for example to bridge the gap between the timing of capital calls and deployment of capital, or between divestment and redemption. To-date, MAS has not encountered any conduct issues associated with the use of financing or leverage by VC managers. Following careful consideration of the views put forth for and against leverage restriction, MAS has decided not to impose a restriction on leverage as a qualifying criterion for the VC Manager Regime at this stage. MAS will continue to monitor developments in the VC industry, and consider additional safeguards to preserve the integrity of the market where necessary.

5 Authorisation and Business Conduct Requirements under the VC Manager Regime

5.1 MAS had proposed not to impose competency, capital and ongoing business conduct requirements on VC managers under the VC Manager Regime. However, fitness and propriety screening would be performed on the VC manager and its CEO, directors and shareholders. While a number of respondents agreed with these proposals, others were of the view that MAS should continue to mandate a minimum number of directors, representatives and relevant professionals, and that current competency requirements

should be retained. MAS should also deter fly-by-night and inexperienced individuals from entering the industry by providing additional guidance on what would constitute relevant experience for the VC manager.

5.2 A number of respondents were of the view that VC investors would be selective and sophisticated enough to weed out VC managers without relevant credentials. VC managers would be better placed to determine the type and amount of expertise, experience and knowledge required of directors and key officers, and to negotiate the terms of the investment mandate to effectively serve the needs of its sophisticated investors. However, other respondents held the view that these requirements are necessary to protect the interest of investors and the reputation of the industry.

5.3 Some respondents felt that the base capital requirement should be retained for VC managers, to ensure that the VC manager remains committed to the business, and has the financial capability to run VC funds in the longer term. Some other respondents felt that business conduct requirements be retained in order to protect investors' interests and the reputation of the industry. Some respondents suggested that VC managers be required to disclose conflicts of interests to investors. Prior approval should be obtained from investors before VC funds invests in a related entity, or transacts with a related person. Valuation and customer reporting should continue to be required of the VC manager. The VC manager should also be subject to annual audits if funds exceed a certain size.

5.4 Some respondents felt that simplifying the regulatory regime could result in errant VC managers disregarding the need for governance, controls and processes, to the detriment of investors. This would be at the expense of investors who are unable to negotiate an investment agreement that would protect their interests.

5.5 Two respondents proposed that MAS limit the number of accredited investors allowed, similar to the current RFMC regime. A cap of 50 accredited investors would allow VC Managers flexibility to have more investors, but also provide protection to the industry.

MAS' Response

5.6 Respondents have provided differing views on the need for MAS to impose competency, capital and ongoing business conduct requirements on managers under the VC Managers Regime. Having considered both sets of arguments, MAS has decided not to prescribe competency, capital and ongoing business conduct requirements on VC managers under the VC Manager Regime at this point in time. Investors can negotiate

these requirements on the VC manager that they invest with. VC managers will be required to disclose to investors that they are not subject to all of the regulatory requirements imposed on other fund management companies. VC managers will also be separately listed on the financial institutions directory on the MAS website. VC managers under the VC Manager Regime will continue to be subjected to fitness and propriety screening of its CEO, directors, shareholders and representatives, and MAS would retain existing regulatory powers to deal with errant managers.

5.7 MAS recognises the possibility of non-compliant VC managers taking advantage of less astute investors. MAS will not hesitate to take regulatory actions against these managers. MAS will retain the powers to revoke the regulatory status of the manager, and issue prohibition orders against the CEOs, directors and representatives of the VC managers.

6 Implementation of the VC Manager Regime

6.1 A few respondents requested MAS to provide guidance on the VC Manager Regime and its implementation timeline, as well as the transitional arrangements. Other respondents sought clarification on the need for newly-licensed VC managers to inform MAS when it decides to reduce its base capital.

6.2 Some respondents sought guidance on the transitional arrangements for existing licensed/registered fund managers (“LFMCs/RFMCs”). They asked about the need for LFMCs/RFMCs to submit a new application to be approved as a VC manager under the VC Manager Regime.

MAS’ Response

6.3 Existing LFMCs or RFMCs which seek to transit to the VC Manager Regime need not undergo a new licensing process, or inform MAS of any capital reductions. They will only need to notify MAS of their intention to be a VC manager by indicating so in the “Application for a CMS licence to operate as a VCFM” Form (Form 1V)¹. Further guidance on the transition and application process is set out in the Guidelines on Licensing, Registration & Conduct of Business for FMCs, and the FAQs on the Licensing and Registration of Fund Management Companies.

¹ Unlike new entrants, existing LFMCs/RFMCs would not be required to re-submit supporting documents.

MONETARY AUTHORITY OF SINGAPORE

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Annex A

**LIST OF RESPONDENTS TO THE CONSULTATION PAPER ON PROPOSED
REGULATORY REGIME FOR MANAGERS OF VENTURE CAPITAL FUNDS**

1. Baker & McKenzie. Wong & Leow
2. Benoy Phillip
3. Chartered Financial Analyst Society
4. Capital Governance (S) Pte Ltd
5. Collyer Law LLC
6. Duff & Phelps Corporation
7. Fintonia Group
8. KPMG Singapore
9. Life.SREDA
10. Phillip Private Equity Pte Ltd
11. Primus Compliance Group Pte Ltd
12. Quest Ventures
13. RHTLaw Taylor Wessing LLP and RHT Compliance Solutions
14. Shook Lin & Bok LLP
15. Singapore Venture Capital & Private Equity Association & PwC Singapore
16. Vertex Holdings
17. WongPartnership LLP

Note: This list only includes the names of respondents who did not request that their identity be kept confidential.

Please refer to Annex B for the submissions.

Annex B

**FULL SUBMISSIONS FROM RESPONDENTS TO THE CONSULTATION
PAPER ON PROPOSED REGULATORY REGIME FOR MANAGERS
OF VENTURE CAPITAL FUNDS**

Note: The table below only includes submissions for which respondents did not request confidentiality.

S/N	Respondent	Full Response from Respondent
1	Baker & McKenzie. Wong & Leow	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>No comments.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>We agree with the proposed criteria for VC managers to serve accredited investors and institutional investors only. However, given that VC managers (including employees) typically invest their own monies in the fund and some employees may not qualify as accredited investors (even though they possess the relevant skills, knowledge and expertise to evaluate the investment and the investment process), MAS should consider prescribing an exemption to allow VC managers to serve non-accredited / institutional investors, to the extent that the investor is an employee of the VC manager of the group. The absence of this exemption would unnecessarily inhibit VC managers from offering their funds to certain employees. Investments of own monies facilitate the alignment of interest and third party investors' commitment and confidence towards investments in the VC funds.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>No comments.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>The relaxation of business conduct requirements are broadly welcomed particularly in relation to the requirement for having in house</p>

		<p>compliance capability, and requirement for independent valuation and reporting.</p> <p><u><i>Dis-applying business conduct requirements for other fund managers with respect to their VC funds</i></u></p> <p>MAS should consider expanding the exemptions from certain business conduct requirements to other fund managers, in respect of any VC funds managed by such fund managers. Certain business conduct rules, such as the requirement for independent valuation, mandatory disclosure of conflicts and according priority to customers' orders and transactions may be unduly onerous to comply with in the context of VC funds. It appears that if a fund manager manages both VC funds and non-VC funds, it will as an entity be subject to all the business conduct requirements. We propose that MAS allows such fund managers to dis-apply relevant business conduct requirements with respect to qualifying VC funds.</p> <p><u><i>AML/KYC</i></u></p> <p>The full suite of AML/KYC compliance requirements under the current MAS Notice and Guidelines for standard due diligence would be rather onerous particularly in the case the VC managers without in-house capability. VC managers who outsource the AML/KYC checks to service providers (eg. fund administrators) should be permitted to rely on standards adopted by the service providers, as long as the standards are consistent with FATF, rather than having to ensure that the standards are strictly consistent with all requirements under MAS Notice SFA04-N02.</p> <p>Alternatively, MAS should consider regulating fund administrators providing AML/KYC support to regulated financial institutions in Singapore (including the VC managers) to ensure that their AML processes and procedures are compliance with the Singapore standards under MAS Notice SFA04-N02 and other applicable AML regulations.</p> <p><u><i>Managing conflicts</i></u></p> <p>Having said the above, instead of removing entirely the business conduct rules relating to management of conflicts, MAS should consider relaxing the requirement such that VC managers are still required to ensure conflicts of interest are effectively managed, without prescribing specific rules (eg. mandatory disclosure and according priority to customers' orders and transactions). This would facilitate a regulatory base line in ensuring that VC managers continue to act in good faith without being overly prescriptive, considering the overall relaxation in other business conduct rules.</p>
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		<p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>No comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>We note that the requirements under Regulation 13, 13A and 13B of the Securities and Futures (Licensing and Conduct of Business) Regulations will not apply. While we generally agree with the relaxation of these rules being applied for the qualifying VC Managers (subject to our comments in Question 4 above), there should be a requirement for a CEO or director of the VC Manager to be ultimately responsible for any residual compliance obligations (including ensuring that the relevant annual declarations are filed with the MAS in a timely manner, to implement adequate policies and risk management processes in relation to AML (which will continue to apply) and be ultimately responsible for decisions in relation to account opening for PEPs, etc..</p> <p>The MAS should confirm that the MAS Guidelines on Outsourcing, Notice on Technology Risk Management and its attendant Guidelines and Business Continuity Management Guidelines will not apply to the qualifying VC managers.</p>
2	Benoy Phillip	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>Very progressive and bold move. Please consider implementing the proposed VC Manager Regime with additionally calibrated safe-guards and flexibility.</p> <p>Given the true spirit of the proposed VC Manager Regime by the MAS, the VC Fund(s) and the related SPV(s), should be constituted or established in Singapore. The Investee entities (into which the VC Fund invests) can be domiciled/located in any FATF compliant country across the globe, including Singapore. Due to the regulatory robustness in Singapore, the effectiveness of whistle blowing provisions will be MORE forthcoming if both, VC Fund Manager and the VC Funds are domiciled in Singapore.</p> <p>The VC Fund should be required to adopt investment guidelines, in terms of exposure to a single investee, a single industry and a single country or a regional geography, as may be relevant. The board of the VC Fund Manager can propose the investment guideline and the VC Fund Investors can approve the same PRIOR to the VC Fund making its first investment.</p>

	<p>Please consider a period of 10 years from the date of incorporation (instead of 5 years). This will be helpful several companies, especially the ones engaged in Biotech, Pharma, R&D and companies requiring industry specific licencing.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>The framework conceptualised by MAS for the VC Fund Manager Regime is fine. However as highlighted, some additional safe-guards may be considered without being overly rigid. Please refer to the responses under Question 4.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>Prior to the VC Fund making its first investment, the board of VC Fund Manager can propose a standard leverage limit up to 10% of the inception AUM and seek approval from all investors in the VC Fund. Any subsequent variation in the leverage limit of VC Fund will require the approval of all its VC Investors (not just majority).</p> <p>The VC Fund should make annual reporting/disclosure to its investors on the level of leverage, the utilisation and the related details thereto.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>The closed ended nature of the VC fund is important. A 5 year closed ended VC fund be allowed to re-open for subscription one time during the fund tenure of 5 years. A 10 year closed ended VC fund be allowed to re-open for subscription twice during the fund tenure of 10 years. A 15 year or more closed ended VC fund be allowed to re-open for subscription three times during the fund tenure of 15 years or more. These subsequent raising of AUM by the VC Fund may be at the prevailing NAV or at a premium band as may be decided by the VC Manager, with the consent of all VC Investors of the fund.</p> <p>Rights Issue by the VC Fund should NOT be treated as “Subscription”, provided VC Investors representing not less than 51% of the then prevailing AUM of the VC fund subscribe to the Rights Issue.</p> <p>Interested Person Transactions (“IPTs”) are a critical matter requiring careful consideration. No discretion should be allowed on IPT matters as it is prone to misuse, especially in a lesser oversight regime. Prior to the VC fund making any investment in an Interested Entity or matters having the nature of an interested person transaction, the VC Fund</p>
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	<p>Manager should be required to take prior approval from all VC investors of that fund. Annual reporting/disclosure should be made by the VC Fund Manager to the VC Fund Investors on all investments in Interested Entities and on all interested person transactions.</p> <p>Please consider permitting stake transfers between two VC Investors in the same fund or between a VC Investor and another eligible AI or II investor, which does not affect the closed-end nature of the VC Fund.</p> <p>If a VC Investor holds more than 50% of the AUM of the VC Fund, such a VC Investor should be treated as a substantial VC Investor and be brought under the definition of “Interested Person” or “Interested Entity”, as the case may be.</p> <p>To minimise paper work, it is desirable to authorise organisations like Credit Bureau of Singapore, DP Credit Bureau to issue Qualified Investor (“QI”) certification or a Singapore practising chartered accountant to certify the AI status of the VC investor. This will help an individual who are accredited investors to submit his or her financial details to the authorised certifying agency or authorised professional for the above purpose. QI certification should carry 2 year validity.</p> <p>In relation to each VC Fund, the VC Manager should be required to estimate the working capital requirements during the initial 2 years and secure the required funding upfront to ensure business continuity. The shareholders of the VC Manager should approve and secure funding required, prior to the first investment is made out of the VC fund.</p> <p>The estimated annual expense ratio for the first 3 years (or a range) of the VC Fund should be assessed by the VC Fund Manager and approved by all the VC Investors of the fund, prior to the first investment is made by the VC Fund. Any subsequent upward revision of the Total Expense Ratio of the VC Fund requires all the VC Investors of the fund to agree.</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>Existing RFMCs may be permitted to shift to the simplified regime of VC Manager Regime. In any case in order to avail the liberalised regime, the VC Fund and the related SPVs should be re-domiciled in Singapore, if such Manager or VC Funds are not already established in Singapore. This is important in my view to protect the interest of Singapore investors, given the level of simplification in the proposed regime.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>Recommended amendments in RED</p>
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		<p>53A. –(1) A Venture Capital Fund Manager is a corporation which carries on business in fund management in Singapore, on behalf of qualified investors, by managing an arrangement referred to in paragraph (a) of the definition of “collective investment scheme” in section 2(1) of the Act which has all of the following characteristics:</p> <p>(a) all or most of the units or securities that are issued under the arrangement cannot be redeemable at the election of the holders of the units or securities and cannot be continuously available for subscription or redemption, or</p> <p>(a.1) a limited partnership structure used as a closed ended fund under the arrangement cannot permit limited partners to withdraw from the partnership at own discretion and the partnership cannot continuously admit or remove or withdraw limited partners;</p> <p>(b) the arrangement only invests in securities that are –</p> <p>(i) not listed on any securities exchange or overseas securities exchange;</p> <p>(ii) issued by an entity or a trust which, at the date of the arrangement’s first acquisition of securities, had been formed, constituted, incorporated, or existing, as the case may be under the laws of Singapore or a foreign jurisdiction for not more than 10 years; and</p>
3	Chartered Financial Analyst Society (CFAS)	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>CFAS supports simplifying the authorisation and regulatory regime for venture capital fund managers (VC managers). This will make it easier for VC managers – which tend to be smaller than private equity fund managers (PE managers) – to set up and be based in Singapore. Such an approach will encourage greater vibrancy in Singapore’s VC fund management industry and improve access to funds for local start-ups. Yet the simplified process proposed in the Consultation also has safeguards to ensure that the quality of Singapore as a regulatory jurisdiction (for VC managers) remains high – this is important and we hope the MAS continues to maintain such standards.</p> <p>We feel that the proposed approach is sensible, appropriate and reflective of the nature of VC investing and VC managers. It is also broadly consistent with developments in other markets such as the UK and the EU, where the respective regulators, too, have recognised the need to cater to the specific nature of the VC fund industry, separate from general rules governing the broader funds sector. Some markets such as Hong Kong take an even more relaxed approach in some aspects, exempting VC and PE managers from licensing if they confine themselves to investments in private companies.</p>

	<p>We note that the European Commission (EC) in particular is focusing reforms on the marketing of VC funds, reducing costs and simplifying the registration processes of such funds, as part of its overall efforts to stimulate VC investments into the EU. It proposed in July 2016 a series of changes including revising certain thresholds, expanding eligible investment assets and creating a fund of funds framework to enable more pooling, all aimed at “[boosting] investment into venture capital and social projects and [making] it easier for investors to invest in small and medium-sized innovative companies.”</p> <p>We believe the MAS has certain similar objectives (in terms of boosting the VC fund industry) and the changes proposed in this Consultation are in keeping with what the Singapore government is trying to do to boost the start-up ecosystem.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>Overall, CFAS believes the rationale adopted for differentiating VC managers from other fund managers is reflective of the nature of the VC asset class.</p> <p>We agree wholly with sub-clauses 3.4 (ii) and (iii), i.e. VC managers must invest only in funds that are closed-end and be offered only to end investors who are accredited investors (AI) or institutional investors (II).</p> <p>However, we have concerns around sub-clause 3.4 (i). We note this particular sub-clause has three segments: (a) that the business venture into which the VC invests is unlisted at the time of initial investment; (b) that the investment is “direct”; and (c) that the business venture has been established or incorporated for no more than five years at the time of investment.</p> <p>For segment (a), since VC funds almost always invest in unlisted entities, this should not cause any difficulties. We have no issue with this requirement.</p> <p>For segment (b), the definition of “directly invested” is provided in the footnotes as “The underlying investment must be directly acquired from the corporation, as opposed to being acquired from the secondary market”. The term “secondary market” is not defined, so the extent of this restriction is not entirely clear – we hope MAS can offer more clarity.</p> <p>We believe VC funds should not be restricted from purchasing shares from current shareholders, who could be the founders or investors in earlier rounds. It is common for founders and early round investors to</p>
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		<p>partially or fully exit to other VC funds. This is an important exit route for investors. The underlying intent of this restriction is not clear from the consultation paper. It is likely that such restrictions, if limited partners require, can be better fleshed out in the limited partnership agreement (LPA) rather than be imposed as a regulation. We believe such a restriction is not common in current LPAs for VC funds. Imposing such a regulation could be a significant deterrent to VC managers.</p> <p>For segment (c), there could be a number of unintended consequences which we have highlighted below, and which we hope the MAS can consider more closely:</p> <ul style="list-style-type: none"> • This restriction may force VC managers to invest in riskier companies. While it is typically the case that VC managers invest in young companies, this is not necessarily always so. There are companies which have been incorporated for many years, but are still in an early stage of growth, as they have spent time growing prudently and progressively. Such companies may have bootstrapped to a certain stage before seeking VC funding, and would therefore pose lower investment risks to VC managers. • For such companies which have been incorporated for more than five years, they would be denied access to VC managers regulated under the proposed regime. Companies that have accepted funds from certain VC managers in earlier rounds then become captive to these earlier investors. Their bargaining power is diminished and they may have to accept unfavourable terms from the early investors. If the early investors cannot provide follow-on investment, these companies may be starved of new rounds of funding. • This restriction could encourage unintended effects such as regulatory circumvention by corporate structuring. For example, if VC funds wanted to invest in businesses that have been incorporated for more than five years, the business could establish a new entity and novate all contracts and asset ownership to the new entity, and the VC would invest in the “new” entity. There could be other creative ways to circumvent regulations, including establishing subsidiaries and creating contracts between related parties. • The underlying regulatory reason for this restriction is not obvious, besides the need to differentiate VC managers from other types of fund managers. Such distinction is already provided by the requirements to invest only in unlisted business ventures, being closed-end and managing less than S\$250 million. Rather than impose a blanket restriction here, we note the potential for self-regulation. For instance, VC
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		<p>managers regulated under a regime known as the “VC Manager Regime” would need to declare this to potential investors. These investors would then expect the VC managers to include required restrictions into the LPA to invest only in early stage companies. Allowing market-forces to determine the precise definition of a VC would be a more effective regulatory approach, as there is no common market standard definition and the definition is constantly in flux.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>We agree that the use of leverage in VC funds should not be restricted, as bridging loans are a feature of VC fund management to bridge between capital calls, the arrival of cash and the deployment timeframes.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>LPAs of funds invariably have restrictions on leverage and a number of other stipulations mentioned in sub-clause 3.10(ii). The proposal to relax this area reflects practices in developed markets such as the US and UK.</p> <p>We do, however, note the importance of retaining safeguards to protect the overall integrity and quality of the VC industry and regulatory regime. We support the proposal to apply ongoing regulatory requirements outlined in sub-clause 3.11.</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>We have no significant comments for this question.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>We have no significant comments for this question.</p>
4	Capital Governance (S) Pte Ltd	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>Under the current MAS Fit & Proper Guidelines, it is often understood by industry that directors, representatives, relevant professionals of fund management companies (FMCs) have the requisite competence under the Competence and Capability section.</p>

	<p>Presumably, some level of competency and capability will need to be adjudged to be minimum standards to be admitted as a VC manager. This could be highly subjective. For example, does an applicant who have had no successful entrepreneurship record, but has worked as an employee (eg. chief marketing officer) in a start-up which is still loss-making for 3 years, be a person of sufficient competency?</p> <p>MAS will need to clarify if there is to be another version of Fit & Proper guidelines for VC Managers, under the new regime.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>It is often a positive for the regulator to expand the spectrum of players in the fast-moving financial sector.</p> <p>In order to differentiate the VC manager group, regulations must be clear and distinct. This will help investors understand the risks associated with each type of manager.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>In order to seriously open up the VC industry, Singapore should apply similar regulatory frameworks as applied in the more successful VC centres on leverage. It would make sense to impose restrictions on leverage, to preserve the characteristics of venture capitalism. This restriction could be based on short-tenures (3-6 months), or capital ratios (20% of equity), with special upside flexibility given on a case-by-case basis for larger funds (eg. S\$50M and above).</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>MAS should consider retaining the annual audit certification for VC managers, as the minimum level of assurance, commensurate and consistent with the status of all regulated financial sector entities in Singapore.</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>The faster the new regulations go live, the better, because in the interim, regulatory uncertainty due to impending changes may have the effect of slowing down decisions across all stakeholders.</p>
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		<p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>No Comment.</p>
5	Collyer Law LLC	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>MAS' introduction of a simplified authorisation and regulatory regime, with the unique characteristics of VC funds and VC managers in mind, will certainly aid in the development of Singapore's early-stage and growth-stage venture ecosystem, and is a step in the right direction – reflective of the Singapore Government's progressive attitude towards innovation, and evolving market dynamics.</p> <p>Reducing the admission and ongoing requirements applicable to VC managers, but retaining safeguards such as the MAS fit-and-proper criteria, is a welcome step, and will greatly aid in shortening the application process and reducing unnecessary operating costs, for VC managers.</p> <p>At the same time, retaining MAS' ability to have powers to inspect and investigate VC managers and impose restrictions or revoke the regulatory status of errant VC managers is important. However, we believe it would be helpful if the mechanism for penalising errant VC managers, and the nature of the penalties were specified in more detail. For instance, a rectification period for less severe breaches could be provided for. This would provide a more facilitative regime, and a more effective form of deterrence.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>Based on the MAS' synopsis of the characteristics / attributes that a typical VC fund would possess, we have the following further comments:</p> <p>The VC fund will be:</p> <ul style="list-style-type: none"> (i) Directly invested in unlisted business ventures that have been established or incorporated for no more than five years at the time of initial investment <p>The MAS has proposed that for a portfolio company to be accurately deemed as a "start-up" the VC investment should occur within 5 years of its incorporation.</p> <p>We suggest that it may be more accurate for the 5 year limit to run from the commencement of the portfolio company's operations, instead of the date of incorporation of the portfolio company. In limited</p>

	<p>circumstances, the company may not have operations for up to a year, as it focuses on building the team and developing the technology back-end, which may be conducted through a subsidiary in a lower-cost jurisdiction.</p> <p>Further, in paragraph 1.2 (Preface) of the MAS Consultation Paper, the MAS acknowledges that the “fund life typically ranges between five and seven years or longer” [emphasis added]. We suggest that the 5 year limit could be extended to 7 years.</p> <p>(ii) Closed-end</p> <p>To ensure negligible liquidity risk, the MAS has proposed that the VC fund must:</p> <p>(a) not be redeemable at the discretion of the investor; and (b) not be continuously available for subscription. This is to ensure negligible liquidity risk.</p> <p>Paragraph (a) is acceptable.</p> <p>However, with respect to paragraph (b), we believe the MAS needs to define what “continuously available for subscription” entails, to provide greater clarity and certainty. The restriction on continuous subscription seems to be unnecessarily open-ended, and unclear. Would subscription anytime or multiple times during a relatively long investment period of 2 years constitute continuous subscription?</p> <p>(iii) Be offered only to end-investors who are either AI or II</p> <p>This is acceptable, and sets adequate safeguards.</p> <p>Another characteristic typical of VC funds that distinguish them from PE firms would be their AUM. VC funds tend to have much lower AUMs than that of PE firms, in line with the business model of VC funding (i.e. relatively small investments of perhaps S\$1million each in multiple portfolio companies).</p> <p>With that in mind, we suggest introducing an AUM cap for VC funds which qualify for the VC Manager Regime, to make it more restrictive, and not inadvertently allow PE funds, which have a different methodology for investment, to qualify for the VC Manager Regime. For instance, the aggregate AUM cannot exceed S\$250 million.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p>
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	<p>The SEC Regulations (as defined in our response to Question 6 below) state, inter alia, that a VC fund may not borrow or incur leverage in excess of 15% of a fund's capital.</p> <p>In the US, in the lead up to the implementation of the SEC Regulations under the Dodd-Frank Act (referenced in our response to Question 6 below), the SEC was asked by commenters on the proposed rule to increase the 15 percent leverage threshold or exclude certain other types of borrowings from the limitation. The SEC rejected the request, noting its understanding that a traditional venture capital fund would not typically incur borrowing in excess of 10 percent to 15 percent of its total capital contributions and uncalled commitment capital. The SEC did exclude from the rule's 120-day limitation any guarantee by a venture capital fund of qualifying portfolio company obligations up to the value of the fund's investment in the qualifying portfolio company. The SEC took this action in seeking to allow a venture capital fund to incur a limited amount of leverage in a manner consistent with the SEC's desire to exclude from the definition of such a fund other types of private funds that engage in trading strategies contemplating financial leverage likely to contribute to systemic risk.</p> <p>In light of the above, the MAS may consider placing restrictions on the use of leverage in VC funds, perhaps mirroring the restriction in the US of 15%.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>The VC Manager Regime does not necessarily cater for a foreign national / non-resident VC fund manager, who is a foreigner (who would require an EP or LOC), holding multiple directorships in Singapore companies, which is a typical arrangement.</p> <p>VC fund managers are usually involved in the management of its portfolio companies, and often sit on the boards of these companies as directors.</p> <p>Current MOM regulations provide that if the secondary directorship position is in an unrelated company, e.g. fund entities, the MOM may still grant the LOC if it is relevant to the EP holder's primary occupation. The MOM therefore retains the discretion to refuse the secondary directorship of an EP holder in an unrelated company. The request usually takes 5 weeks to be processed.</p> <p>To enable a more facilitative regime, we propose that an exemption be provided to VC fund managers falling under the VC Manager Regime who hold EPs, requiring the MOM to allow them to hold directorships in multiple portfolio companies, as part of a "fast-tracked" application process.</p>
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	<p><u>Paragraph 3.11(i) (Notification to MAS):</u> VC managers should notify the MAS of any subsequent changes to the description of its proposed VC fund(s) and activities to be carried out in Singapore, which it provided in its VC Manager Regime application.</p> <p><u>Paragraph 3.11(iii) (AML/CFT):</u> to ensure that VC managers keep abreast with evolving AML/CFT announcements/amendments, we propose that the MAS should consider requiring VC managers to attend a mandatory seminar on AML/CFT every year, whether in person or online, via the Internet.</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>We have no comments on this.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p><u>Annex C – Draft Amendments to the Securities and Futures (Licensing and Conduct of Business) Regulations</u></p> <p>We would suggest that references in the proposed amendments to the term “qualified investor” could be amended to “accredited investor” and “institutional investor” as defined in Sections 4A(1)(a) and (c) of the Securities and Futures Act (Cap. 289).</p> <p>With respect to the proposed insertion of Section 53A(1)(a), the requirement that the VC Fund have “all or most of the units” which are non-redeemable and cannot be continuously be available for subscription is, in our opinion, vague. We believe that requirement should either be absolute (and in that case, read as “all of the units”), or that the threshold should be specified. To that end, the definition should be narrowed, albeit not restrictive.</p> <p>For instance, under current SEC Regulations a “venture capital fund must have no more than 20% of the fund’s total assets (including committed but not yet invested capital) that can be invested in assets that are not qualifying investments or short term holdings.”</p> <p>To provide some context, in the US, the SEC adopted Rule 203(l)-11 under the Investment Advisers Act of 1940 defining the term “venture capital fund” for purposes of implementing the “venture capital exemption” from registration under the Advisers Act created by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) (the “SEC Regulations”).</p>
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		<p><i>Section 53A(1)(b)(ii)</i>: please refer to our response to Question 2 above.</p> <p><u>Annex D – Draft Amendments to the Financial Advisers Regulations</u></p> <p>It is unclear why the exemption provided under Section 32D(2)(a) is broader than that of Section 32D(2)(b).</p> <p><i>In Section 32D(2)(a)</i>:</p> <p>“A representative of a Venture Capital Fund Manager shall be exempt from section23B(1) of the Act in so far as the type and scope of the financial advisory service provided by the representative are <u>within or the same</u> as the type and scope of financial advisory service provided by the Venture Capital Fund Manager in its capacity as exempt financial adviser “within or the same” [emphasis added]</p> <p><i>In Section 32D(2)(b)</i>:</p> <p>“A representative of a Venture Capital Fund Manager shall be exempt from section23B(1) of the Act in so far as the manner in which the representative provides that type of financial advisory <u>service is the same</u> as the manner in which the Venture Capital Fund Manager provides the type of financial advisory service in its capacity as exempt financial adviser.” [emphasis added]</p> <p>It is suggested that the abovementioned sections should both read “the same”, or both read “within or the same”.</p> <p><u>Annex E – Draft MAS Notice on Minimum Entry and Examination Requirements for Representatives of Holders of CMS Licence and Exempt Financial Institutions</u></p> <p>This is acceptable and we have no comments.</p> <p><u>Annex F – Draft MAS Notice on Risk Based Capital Adequacy Requirements for Holders of CMS Licences</u></p> <p>This is acceptable and we have no comments.</p>
6	Duff & Phelps Corporation	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>We suggest that for alignment of interest with investors, any simplified authorisation and regulatory regime should retain requirements for:</p> <ol style="list-style-type: none"> 1. VC managers to report the fair value of underlying investments with the same rigor of valuation analysis, at each and every reporting date even if the MAS removes the independent valuation and internal audit requirements. This is because fair

		<p>value information is necessary at each reporting date for investor protection, transparency and decision-making. In addition, fair value information is often necessary for investors themselves to meet reporting requirements regarding investment performance, and to support decisions about asset allocations and manager selection. Further, whether or not it is required by the MAS, the fund agreement may contain provisions on the valuation of investments, the valuation procedures and pricing methods to be used, and the form and content of reports to the investors. It should not be implied that easing of the MAS' requirements, if any, could be interpreted as erasing the needs of investors and the obligations under the fund agreement.</p> <p>Furthermore, the fund itself needs and can utilize fair value information for monitoring its investments and for strategic planning purposes. Not formally exempting VC managers from the obligation to periodically calculate fair value (at each reporting date to investors) would serve as an additional incentive to improve a fund's valuation process, apply it in systematic manner and supporting valuation estimates with adequate documentation, contributing to greater efficiency over time. [cross reference to para 3.10(ii)(c) of the consultation paper]</p> <p>2. Disclosure to investors at initial application stage and on an ongoing basis of all potential conflict of interests. This disclosure does not however have to be in the PPM to save costs of redrafting the PPM. [cross reference to para 3.10(ii)(d) of the consultation paper]</p> <p>With reference to Annex B of the consultation paper we suggest that the annual fees payable by VC managers eligible for a simplified authorisation and regulatory regime should be reduced to be on par with registered FMCs at S\$1000, especially in view of the fact that it is envisioned that there will be less MAS regulatory oversight over VC managers.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>Investment into VC funds does present a different business model and risk profile from other types of funds. The VC business model generally involves making periodic investments into early stage companies, as they develop from pre-revenue, pre-earnings, proof of concept entities to more established businesses. This can be contrasted with hedge funds which generally invest in more established debt and equity interests often traded on regional exchanges, or private equity funds that invest in later stage, generally profitable, businesses.</p>
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	<p>The business operations of a VC are quite similar to that of a private equity fund manager. In addition, VC Funds, PE Funds and Hedge Funds may actually invest in the same types of underlying businesses or securities. Therefore, to differentiate which investment managers should benefit from reduced regulation, it may be necessary to clarify paragraph 3.4 of the consultation paper to focus on the size of a manager based on assets under management, rather than a specific strategy of the manager.</p> <p>Section 3.4 (i) of the consultation paper proposes to limit eligible investments to portfolio companies that have been founded no more than 5 years prior or less. This time frame may be deemed arbitrary and may be difficult to apply consistently. Often new holding companies are formed to purchase the assets or operations of other companies. Would such entities qualify under the 5-year limit? Further, market and industry conditions may cause the development of early state companies to exceed 5 years. As such, a VC manager may be a new investor in a company that is still considered early stage, without earnings or sustained revenue, achieved within the 5-year time limit.</p> <p>There may be justification for removing smaller fund managers from some regulatory burden given the cost of compliance. Once fund managers obtain a certain size based on assets under management (which to avoid conflict would need to be robustly valued at fair value), they would have sufficient scale to afford more sound regulatory systems and controls. Once the size of the assets under management increases beyond a baseline, investor protection would favour a more robust regulatory regime. Without a monetary AUM cap, it would be hard to justify why a PE fund or a hedge fund with assets under a specific value would not also deserve and benefit from streamlined regulation similar to those proposed for VC managers.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>No comment.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>We think the removal of capital requirements will help the returns of VC managers and better reflects the lack of ongoing risk that capital requirements seek to mitigate.</p> <p>However, under the simplified regime VC managers will still have a significant compliance burden due to the retention of 2 document-and labour-intensive tasks namely, the need to:</p>
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		<ol style="list-style-type: none"> 1. File change of particulars of representatives and directors within 14 days. In this regard, we note that VC managers generally employ quite a number of representatives, often based in regional locations; and 2. Perform customer due diligence requirements for purposes of satisfying the Notice on Anti-Money Laundering and Counter Financing of Terrorism (SFAN02-04). <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>No comment.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>We note that the proposed regulation 53A(1)(b)(ii) of the Securities and Futures (Licensing and Conduct of Business) Regulations envisions that VC managers eligible for the simplified regime may invest in securities issued by a trust formed within 5 years of the VC manager’s investment. Such drafting may lead to an outcome where it is possible for potential sellers of assets to VC managers to set up new trusts to hold assets and the sale of such newly set up trusts to VC managers would still meet the definition in regulation 53A(1)(b)(ii).</p> <p>Further, information about trusts and assets of a trust are extremely difficult to obtain and hence it may not be easy to verify if the assets owned by the trust meet the eligibility criteria.</p> <p>For these 2 reasons we suggest that the words “or a trust” be deleted. As mentioned in response to Q2 of the consultation paper, we also suggest that additionally, only VC managers managing a total deployed AUM of less than a baseline amount (i.e. committed capital amount could be much higher) be eligible for the simplified regime.</p>
7	Fintonia Group	<p>General comments:</p> <p>A simplified regime that includes lower compliance costs commensurate with the specific factors applicable to VC managers is a great initiative to encourage the growth of the VC industry in Singapore. This will accelerate the creation of large and commercially sustainable companies in Singapore that will benefit employment and the economy.</p>

		<p>Our comments below are mainly around ensuring there are still minimum standards maintained to ensure commitment and professionalism within the industry, which will benefit all parties.</p> <p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p><u>Number of authorised representatives/Directors.</u> Currently there is a requirement for a minimum of two authorised representatives and Directors in the RFMC regime. However there are very qualified “angels” and “super angel” investors in the market with great experience and ability to help invest and advise early stage companies. They often supplement with analysts and graduates who would not meet the required experience and track record. Our proposal to address this would be to reduce the minimum requirement to one authorised representative and Director, which in combination with the proposal below to ensure there is some level of relevant experience and track record, would allow these experienced investors to become VC Managers.</p> <p><u>Experience and track record.</u> In addition to fit and proper, there should be some demonstrated track record of relevant experience in the field of specialisation that the VC Manager intends to focus on. This is to ensure the reputation of the industry and regulatory regime and is not an onerous hurdle for committed and professional people wishing to enter the industry.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>Our comments are below.</p> <p>“Directly invested”: there are circumstances where a purchase of secondary shares is the starting point for an investment in an early stage start-up. This is sometimes done to allow an early stage shareholder (eg. early founder/employee) to exit and allows the VC the opportunity to exercise rights to participate in future rounds of new capital for the company. We would consider whether this restriction is necessary.</p> <p>“Five years”: this should cover most circumstances for early stage companies however we have seen companies which have been incorporated for longer. We think that seven years would cover all early stage companies’ situations that we have come across.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p>
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8	KPMG Services Pte Ltd	<p>General comments:</p> <p>We are generally supportive of MAS' proposed introduction of a simplified authorisation and regulatory regime for VC managers to promote the growth of the VC ecosystem.</p> <p>To promote innovation and growth in start-ups will require a holistic approach that:</p>

	<ul style="list-style-type: none">• develops entrepreneurial talent;• fosters a culture of innovation and risk-taking; and• avails funding sources and tax incentives for start-ups. <p>Hence, simplifying the authorisation process will encourage VC managers to establish a base in Singapore and attract investments into the start-up businesses. Furthermore, easing the regulatory requirements will make it easier for VC managers to manage their compliance requirements and will lower the costs of doing business in Singapore. This should allow VC managers to focus their time and energy on identifying and mentoring start-ups with potential and to develop the breadth and depth of the start-up scene in Singapore and the region.</p> <p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>We have no comments.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>We generally agree with the proposed criteria to differentiate VC managers from other types of managers.</p> <p>We also agree that currently, VC managers generally serve sophisticated A/I investors, who will typically impose contractual safeguards and perform stringent due diligence on the VC managers. This combination of mitigating factors will only be effective if the investors are responsible, and actively engage and monitor the VC managers.</p> <p>However, going forward when MAS simplifies the admission criteria for VC managers, the number of VC managers seeking investors may increase. Hence, these VC managers may start to adopt more aggressive sales approach (e.g. use of distributors) or target less sophisticated A/I investors, as they compete for funding.</p> <p>Therefore, to limit the risk of selling to less sophisticated A/I investors, MAS may consider:</p> <ul style="list-style-type: none">(a) a cap on the number of investors; or(b) a minimum investment size to limit the number of investors with adequate financial resources. <p>We posit that limiting the number of investors will encourage a direct relationship with the VC manager. Hence, investors will more likely</p>
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		<p>negotiate contractual safeguards and monitor the VC manager. In addition, limiting the number of investors will also limit the impact to the VC ecosystem due to an errant VC manager.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>We note that one of the unique characteristics of VC managers which lowers their market risk is they generally do not use leverage. This also differentiates them from other fund managers, such as private equity firms.</p> <p>Hence, we are of the view that a leverage limit will serve two purposes:</p> <ol style="list-style-type: none">1) prevent the aggressive use of leverage, which may result in unacceptably high risks; and2) further differentiate between VC managers and non-VC managers, to prevent non-VC managers from operating under the VC Manager Regime. <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p><u>Minimum competency requirements</u></p> <p>We note that venture capitalists should have a diverse range of expertise and deep understanding of the sectors they invest in. Hence, we support MAS' position to not impose the criteria of a minimum five years of relevant experience in fund management on the VC managers' directors and representatives.</p> <p>However, we would like to clarify whether MAS will continue to impose the minimum number of directors and representatives. We are of the view that MAS should at least maintain the criteria that a VC manager have at least two individuals acting as representatives, to ensure it meets the basic four eyes principle.</p> <p><u>Disclosure to investors</u></p> <p>As an additional safeguard to protect investors, we propose that VC managers under the VC Manager Regime be required to disclose to potential investors that they are not subject to all the regulatory requirements imposed on other fund management companies under the current regulatory framework. This would give investors useful information in deciding whether the risks associated with such VC managers are acceptable.</p>
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		<p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>We have no comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p><u>Annex C</u></p> <p>In relation to the proposed new Regulation 53A(1)(b), we seek clarification as to whether this would prevent VC managers under the VC Manager Regime from investing in money market instruments for efficient cash flow management or entering into hedging arrangements for risk management purposes. We suggest that preventing VC managers from doing so may be overly restrictive and lessen the allure of the VC Manager Regime.</p> <p><u>Annexes D, E and F</u></p> <p>We have no comments on these Annexes.</p>
9	Life.SREDA	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>Simplified registration is certainly necessary for venture capital, and like in most of developed economies should be governed by a separate set of regulations. The idea as a whole is strongly supported by the Life.SREDA team. With such an initiative, the MAS will certainly have ample opportunity to be acquainted with each VC, and consequently, enable more transparent communication with each other to bring a more open dialogue.</p> <p>However, the important issue to understand clearly is that with such an initiative, Singapore should expect a rapid capital inflow and funds migration. To that end, MAS must be very accurate and definite when establishing a unified approach and set of requirements for the evaluation of each VC manager submitting an application under the VC Manager Regime. The MAS should make sure the capital is “smart” enough to provide not only commercial aid but a larger scale. Moreover, taking into account the fact that MAS has removed the capital base requirement, MAS should be even more stringent while doing internal evaluations of VC Manager Regime applicants. The main concern from our side is to avoid distortion caused by low quality, or less sophisticated funds on the market.</p>

		<p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>Differentiation of VC managers from other fund managers is different almost everywhere in the world and regulated in different forms. However, in Europe and in the US, VC managers are not governed by any specific set of guidelines, but instead, like all other investment companies under the relevant provisions of the Securities Act and the Investment Company Act.</p> <p>Additionally, looking at the wider Asia region, there is currently no differentiated legal framework for venture capital in Vietnam, but first steps have been taken. In Taiwan, there is also a lack of a separate legal framework and relevant incentives for VC managers, with regulation under the same umbrella of private funds and foreign investments. Malaysia’s differentiation framework for VC managers is also at a very nascent stage – it just revealed the Securities Commission’s regulatory framework to develop VC landscape. In Korea, its VC management framework has developed a lot. It revealed its framework for VC managers in early 2000s, followed by a PE and Hedge funds framework.</p> <p>With regard to the VC Manager Regime proposed by MAS, fundraising opportunities are limited to only AI or II investors. This poses certain restrictions, carving out a big portion of private individuals and HNWI’s who have a share in the top 5 main resources for VCs globally. We believe that this is unnecessarily restrictive, and justification is needed for this carve out.</p> <p>Additionally, we think it is important to point out the main forms of investment for VC managers should take (for example equity, debt, or combination) as well as to outline the general investment objectives (for example, what should be an average life of a fund, forms of exits, etc.).</p> <p>Lastly, with a rise of cryptocurrencies and digital currencies, many new instruments have started to appear. This includes new investment vehicles like blockchain indexes, coin traded and managed funds, digital assets hedge funds and bitcoin trusts – all these are getting increasingly popular, such as in the US, and the government tries to create a comprehensive structure, which should let fund managers to participate in trading and participating in such instruments. To this end, we think it is important to keep this question open and flexible for upcoming changes.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p>
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	<p>Leverage is generally considered to be a primary value creation lever for global PE funds, but for VC this raises concerns. We think that due to the short history, a majority of GPs on a market probably lack a concrete track record and reference cases, which may limit their ability to raise anything more than fairly small project funds. Additionally, the Singaporean and APAC market is still quite small, as there are only a limited number of domestic buyers with enough capital to purchase portfolio companies through trade sale (especially for larger deals).</p> <p>Moreover, all the companies in the VC focus are very risky and have no clear traction. In order to raise leverage for acquisition, every company has to be the best opportunity, and the VC manager has to coach them along the way to a successful liquidity event - the risky and unclear event.</p> <p>However, there are many other tools that can provide a better impact on development of an industry. For instance, there are direct measures and indirect measures. With the exception of indirect measures which are already used, such as tax transparency structure and provisions, IP protection patents, capital markets exit mechanisms, stock options and bankruptcy laws, there are other measures that make a real difference. These include mostly direct measures such as bridge finance (which could be extremely useful), direct supply of capital which includes government equity investments or low interest loans, financial incentives like tax credits to those investing in SMEs or VC funds, loan guarantees, equity guarantees, and investor regulations, such as granting permission to pension funds or private individuals to invest in VCs.</p> <p>In the Appendix to our response to the MAS Consultation Paper (set out below), we have provided examples of direct measures, which are mainly measures of direct supply of capital, and their consequent results on economy.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>With regard to the proposed requirements, MAS has obviously tried to liberalise certain requirements to accord greater flexibility and to accommodate VC activities in the country, but it is very important to ensure VC funds are well-managed and have adequate knowledge, business sustainability and personnel of sufficient experience (especially considering the proposed removal of the base capital threshold).</p> <p>Further, MAS aims to bring more VC managers into the market and spur entrepreneurship, which is great, but once again, it should use more tangible triggers and direct measures, like establishing a dedicated</p>
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		<p>government funding organisation. The most successful examples are expressed in the Appendix.</p> <p>Moreover, we are not sure if this has been included in MAS' internal evaluation of each individual VC manager, but we believe it is important for Singapore to have socially reliable managers, providing valuable social impact, sharing knowledge and being active part of VC / FinTech ecosystem.</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>This is acceptable, and we have no comments.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>This is acceptable, and we have no comments.</p>
10	Phillip Private Equity Pte Ltd	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>NIL</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>Proposed criteria:</p> <p>"Be directly invested in unlisted business ventures that have been established or incorporated for no more than five years at the time of initial investment".</p> <p>We are VC investors. From past experience, it is normal for companies in certain sectors (e.g. bio-technology, drug discovery, and med-tech companies) to have a long period during which they are still targets of VC investment. In such situation, your 5-year period will be considered impractical. A better criteria will be to use the stage of commercialisation of the company, such having meaningful level of revenue. Profitability is not a good criterion as some companies remain unprofitable even after IPO.</p> <p>A suggestion would be a combination of criteria, (i) of 5 years from incorporation or (ii) meaningful level (not zero) of revenue, whichever is longer.</p>

		<p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>NIL</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>NIL</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>NIL</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>NIL</p>
11	Primus Compliance Group Pte Ltd	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>We are of the view that a simplified authorisation and regulatory regime is reasonable conceptually and good for enhancing Singapore’s position as a global financial centre and VC hub. However, we would like to draw the Authority’s attention to the following points for consideration when developing a more lightly regulated regulatory regime for VC managers.</p> <p>1. Types of investors</p> <p>We agree with the consultation paper that investing in VC funds has significant inherent risks, and should only be made available to investors who are typically highly sophisticated. However, from our experience not all accredited investors (“AI”) who invest in funds are sophisticated or have the resources or expertise to protect their own interests. Often, accredited investors in funds, including VC funds, are “family and friends” of the operators of the fund management companies (“FMCs”) and not necessarily savvy and experienced investors or institutional “big boys”. We acknowledge that with the introduction of the AI opt-in regime, this risk should be mitigated but how effectively the VC manager executes the AI opt-in regime will be dependent on the culture and the operations of the VC manager which we will elaborate in point 2 below.</p>

	<p data-bbox="618 247 813 275">2. VC Managers</p> <p data-bbox="570 317 1364 877">Based on our experience, VC managers range from well-managed FMCs to those that are not as well managed, who are not as sensitive to regulatory issues, protection of investors' interests, conflicts of interest matters and overall governance and controls. While the majority of the FMCs have made significant efforts to comply with their existing regulatory obligations, simplifying the regulatory regime could possibly result in a handful of VC managers who have historically placed less focus on regulatory requirements and internal controls to completely disregard controls, conflicts of interests, processes and governance at the expense of investors who may not be that sophisticated to negotiate a robust limited partnership agreement to protect their interests. We have also seen funds that do not use a limited partnership agreement but rely only a private placement memorandum and subscription agreement. In such cases, the private placement memorandum may have a generic disclosure of the risks and conflicts of interest that investors face but there are no specific provisions that protect their interests.</p> <p data-bbox="570 919 1364 1014">The two points noted above taken in totality could potentially adversely affect the industry and affect Singapore's reputation as a global financial centre and its reputation of having a highly effective regulator.</p> <p data-bbox="570 1056 1364 1115">Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p data-bbox="570 1157 1364 1251">We are of the view that the criteria proposed in the Consultation Paper are appropriate and necessary. In addition, the MAS may wish to consider the following:</p> <p data-bbox="594 1283 1364 1545">(i) Requiring the senior management and directors of the fund to invest a significant personal stake in the fund that the VC manager is managing. This personal stake should be sufficiently meaningful in terms of their personal net worth or absolute dollar amount, or could be set to a minimum percentage of the fund size. This aligns the interests of the senior management and directors with those of the investors in the fund that they are managing.</p> <p data-bbox="659 1587 1364 1808">In addition, the MAS may also wish to consider requiring the senior management to have personal experience in investing in venture capital companies, and/or relevant work experience in the industry or sector that the fund invests in. This will help to ensure that the senior management have the requisite expertise, knowledge and experience to identify investment opportunities that have a higher chance of success.</p>
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	<p>(ii) VC fund investments into each target company should be limited to a maximum amount (eg. lower of SGD2 million per investment or 15% of the fund's assets under management) to limit the VC fund's risk exposure to a single target company. Such a limit will also reduce the risk and impact to investors arising from a VC manager paying an excessive sum for a target company that the VC manager or a related party has a vested interest in or is trying to exit. In addition, it will differentiate VC funds from private equity funds, and preclude the argument that the simplified regulatory regime should also be extended to private equity fund managers.</p> <p>These points are elaborated in more detail at question 4.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>Given that the proposed VC Manager Regime will lower the barriers to entry which may lead to a lowering of the quality of the VC managers from a regulatory and control perspective, allowing such firms to use leverage without any restrictions may result in unintended systemic effects. As such, we suggest that some restrictions should be imposed. For example, a limit based on a multiple of the net asset value of the fund or on certain financial or operating ratios of the fund.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>We are of the view that the MAS may wish to consider certain additional requirements under the proposed VC Manager Regime in addition to those being proposed in the Consultation Paper:</p> <p><u>Simplified Authorisation</u></p> <p>As mentioned in our comments to Question 2, requiring the senior management to have personal experience in investing in venture capital companies, and/or relevant work experience in the industry or sector that the fund invests in will help to ensure that the senior management have the requisite expertise, knowledge and experience to identify investment opportunities that have a higher chance of success.</p> <p><u>Ongoing Requirements</u></p> <p>We note that paragraph 3.10 (ii) of the consultation paper states that the MAS will not make it mandatory for managers under the VC Manager Regime to satisfy MAS that they have: (a) an in-house</p>
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		<p>compliance capability; (b) internal audits of their business activities; (c) independent valuation of the funds managed and independent reporting to investors; (d) disclosed and will be able to effectively manage and mitigate conflicts of interests; and (e) accord priority to customers' orders and transactions. However, in the same paragraph the consultation paper also states that VC managers will still have to comply with applicable regulations and reporting to MAS and ensure that there are adequate controls.</p> <p>Could the Authority please clarify if the VC manager is still subject to the relevant sections under Securities and Futures Act and Securities and Futures Regulations under the VC Manager Regime as it relates to business conduct requirements? In addition, Annex B mentions that risk management will not be applicable under the proposed VC Manager Regime. Does this mean that the risk management requirements such as MAS Guidelines on Outsourcing will no longer apply under the VC Manager Regime? For example, if it is not mandatory for VC managers under the VC Manager Regime to have in-house compliance capabilities or compliance function, then would appointing a service provider to assist with its regulatory functions and compliance with regulatory obligations (such as notification of changes to particulars, annual declaration) be deemed as outsourcing of its compliance function and subject to the requirements under the MAS Outsourcing Guidelines as a material outsourcing service provider?</p> <p>Our comments on the specific ongoing requirements under the proposed VC Manager Regime are set out below.</p> <ul style="list-style-type: none"> (i) While we agree that VC managers typically invest their own monies in the fund alongside third party investors, we are of the view that the senior management and directors of the VC manager should be required to invest personal stakes that are sufficiently meaningful in terms of their personal net worth or absolute dollar amount, or invest a minimum percentage of the fund size. This aligns the interests of the senior management and directors with those of the investors in the fund that they are managing. (ii) With regard to the removal of all regulatory capital requirements (ie. base capital and risk-based capital requirements), we are of the view that some form of capital requirements should still be imposed on VC managers. This is because if a VC manager is unable to continue its operations and management of the fund (for example, if it becomes insolvent or faces financial difficulties), investors are likely to lose a significant amount of their investment if the fund has to be wound down and its assets sold before they are ready to be divested. One suggestion is that the MAS could consider imposing a minimum requirement on
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		<p>shareholders funds or operating cashflow such that there is sufficient cash to cover the VC manager's operating expenses for a 12 or 18 month period, which is similar to the requirements for exempt corporate finance advisers and exempt financial advisers. In addition, without a minimum regulatory capital requirement the barriers to entry into the VC manager industry and commitment to the VC funds could be lower, thereby increasing the probability of VC managers failing.</p> <p>(iii) The Consultation Paper proposes to remove the requirement for VC managers to have internal and external audits, and to submit annual audited financial statements and auditor reports to the MAS. This means that there is no assessment of the VC manager's financial soundness, status of its operations, controls and compliance with regulatory requirements (including those relating to anti-money laundering and countering the financing of terrorism). Typically client onboarding, including those relating to AML/CFT and know-your-client requirements, is outsourced to a service provider (such as the fund administrator). In our experience, we have come across a number of fund administrators who do not have adequate expertise or experience to provide such support and the FMCs fully rely on the service provider to conduct the client due diligence process, including investors' AI and institutional investor qualification. Having internal and external audits help to identify such situations and facilitate the rectification of deficiencies in the processes. In addition, if the Outsourcing Guidelines no longer apply to VC managers, initial and ongoing due diligence on the service provider may not be performed adequately.</p> <p>(iv) We are of the view that some form of oversight on the financial soundness of the VC manager is required. The MAS may wish to consider requiring unaudited financial statements instead of audited financial statements. This also ties in with our earlier suggestion to impose alternative regulatory capital requirements on VC managers.</p> <p>(v) The fund managed by the VC manager is the vehicle through which the assets are held and determines the value of the fund. We are of the view that there should be a requirement for the fund to be audited. This helps to ensure that the assets that the VC manager claims are being held by the fund actually exist and are owned by the fund. We recognise that the cost of auditing a fund may be quite high so the Authority could consider requiring audits of funds that exceed a certain size (eg. the fund's assets</p>
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		<p>under management is SGD10 million or more) to help VC managers manage their costs.</p> <p>(vi) As noted above, the value of the fund is derived from the value of the assets that it owns. The fees that are paid to the fund manager are based on the value of the fund. Typically in situations where it is difficult to value the assets, as with VC companies, the fees are based on the invested capital (ie. at cost of investment in the asset less impairment, if any) rather than the actual value of the assets in the fund at the time of computation of the management fees. There is therefore an inherent conflict of interest for the fund manager in terms of valuing the assets in the fund. The fund manager has an incentive to assign a higher value to the assets in order to receive higher management fees. We are of the view that auditors or an independent party should verify the value of the assets owned by the fund. At a minimum, such a party should audit the valuation process to ensure that it is fair and robust.</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>We do not have any comments on the proposed implementation approach.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>As the legislative amendments will be driven by the actual details of the regime, we do not have any comments on them at this time.</p>
12	Quest Ventures	<p>General comments:</p> <p>Silicon Valley’s startup ecosystem grew rapidly and significantly due to the sheer number of Venture Capital firms available that provided funding and entrepreneurial advice to startups in the region. Similarly, Singapore experienced a fivefold rise in the number of startups, especially in the technology sector, when the amount of VC funding increased from SGD 233.85 million to 1 billion from 2012 to 2013. With the rising middle class and key regulations that favour the VC landscape, Singapore has become one of the fastest growing region in the world for technology and development.</p> <p>The Consultation Paper - Proposed Regulatory Regime for Managers of Venture Capital Funds is a welcomed action. It encourages the</p>

	<p>continuous growth of our VC and startup landscape, driving Singapore ahead of our neighbours in Southeast Asia. According to TechInAsia, out of 365 deals made in Southeast Asia in 2016, Singapore had close to 205 deals, contributing 55% of all deals in the region. This exemplifies Singapore’s attractiveness to investors, as well as our amazing growth since 2012 as an innovation and entrepreneurial hub.</p> <p>Quest Ventures is a venture capital fund founded in 2011 that invests in companies that have scalability and replicability in large internet communities. We are proud to say that we are usually one of the earliest or first investor in many of our portfolio companies, such as Carousell, 99.co and Oddle. We work closely with government organisations including the NRF iJAM co-investment scheme that has supported many of our portfolio companies. Our team is based in Asia, comprising of many Singaporeans. We are a Southeast Asian team with a strong focus in developing the Southeast Asian market, and has a deep knowledge and understanding of the Southeast Asian market.</p> <p>We are pleased to have the opportunity to present this commentary and commend MAS on the work to continue to grow and support Singapore’s VC ecosystem.</p> <p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>This is a good initiative to enable Singapore to build a stronger presence to establish ourselves as a central hub for venture capital investments in Southeast Asia. Singapore is currently a preferred city to register companies in Southeast Asia, comparable to that of Delaware in the United States. We expect the new regulatory regime to welcome more venture capital firms. This will increase the vibrancy of the ecosystem, drawing more press coverage and attract startups from across the region to Singapore. New corporate venture funds such as CapitaLand Limited, Challenge Ventures, DeClout Limited and Garena Ventures are further evidence that Singapore’s VC scene is becoming more vibrant.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>VC fund managers invest in fast growth startups in the private space. As VCs provide support and advice to startups, VC fund managers should have some form of operational, entrepreneurial or startup related knowledge and experience. A strictly finance trained fund manager is less useful in an early stage VC, as he would not have the operational experience critical to scaling a business.</p> <p>VC fund managers should be differentiated due to the line of work. There are less hedging and investment strategies being used.</p>
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		<p>Therefore, the risk is minimized and it is unnecessary to subject VC fund managers to the same regulations as other fund managers.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>There should be no restriction on leverage in VC funds.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>We appreciate MAS’s effort to lessen the load of VC firms by relaxing business conduct and auditing regulations. It will save VC firms significant annual costs of compliance, especially when early stage funds tend to be small and these expenses are a significant percentage of their fund operations.</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>NIL</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>NIL</p>
13	RHTLaw Taylor Wessing LLP and RHT Compliance Solutions	<p>General comments:</p> <p>We held a Roundtable discussion on the proposed venture capital fund manager (“VC manager”) regime outlined in the Consultation Paper on Proposed Regulatory Regime for Managers of Venture Capital Funds (“CP”). Participants comprised several representatives from the venture capital (“VC”) industry and other financial institutions.</p> <p>While we are broadly supportive of the proposals, we urge MAS to further consider the implications of some suggestions raised in the CP. Our comments on the questions posed in the CP are set out below and incorporate, where appropriate, inputs received from the roundtable participants. Questions to which we have no comments are omitted.</p> <p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>Most participants at the Roundtable welcome the proposed introduction of a simplified authorisation process and ongoing regulatory regime for VC managers. This move is likely to encourage the</p>

	<p>growth of the VC manager industry in Singapore, a step forward given Singapore’s increased focus on becoming a hub for emerging technology and financial technology. A more facilitative environment for VC managers may enable greater access to early-stage capital for the small and medium-sized enterprises involved in developing such technologies. Furthermore, as noted by MAS, the nature of VC funds means that they pose lower market and business conduct risks. Accordingly, a simplified authorisation process and ongoing regulatory regime is justifiable.</p> <p>In respect of the authorisation process, we request that MAS clarify whether this simplified process means a shorter timeframe to obtain approval to commence operations. Presently, approximately 4 months is estimated to process and approve a registration or licensing application for a fund manager. The authorisation process for VC manager status, being a simplified process, should be more straightforward for MAS attend to than a registration or licensing application. We therefore seek clarification on MAS’s estimated processing time of applications for authorisation as a VC manager.</p> <p>To expedite the licensing process, participants suggest that MAS introduce a template form detailing the information it will require to process each authorisation. MAS could, for instance, streamline further the information it currently requires for licence applications or implement a process even simpler than the present process for registration as a Registered Fund Management Company. One of the essential documents for a registration or licensing application is a business plan. MAS could set more specific prescriptions on the information it requires in the business plan—the current guidance seems too generic. Alternatively, given that the proposed criteria for VC managers in paragraph 3.4 of the CP set the boundaries for the types of entities that may be considered as managing ‘venture capital’ funds (including the type of investments the VC managers can make), it would make sense to eliminate the requirement of a business plan and for MAS to standardise the information required in a template form.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>As VC managers have different areas of focus and objectives from other fund management companies, we understand and agree with MAS’s desire to distinguish between them. However, we wish to point out that it is likely there are many private equity (“PE”) fund managers would also satisfy the proposed criteria. Restricting the scope of the proposed regime to VC managers only would mean that the investee companies intended to benefit from the proposed regime would not have access to an additional source of capital—those that are marketed as PE funds. Accordingly, we suggest renaming the regime more broadly. For instance, it could be named the “Entrepreneurial Fund Manager</p>
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	<p>Regime” and qualifying fund managers could market themselves as managers of PE or VC funds, and manage either or both types of funds, as appropriate.</p> <p>We also wish to point out that the five-year requirement may be unduly restrictive if applied as a blanket rule. Certain industries or products are more research-intensive than others. The investee companies in these industries or developing such products may, therefore, require a longer time to generate revenue. Another example would be an investee company introducing a disruptive solution or innovative product five years after incorporation. The five-year requirement could well discourage VC managers from investing in these opportunities. To preempt this, we propose allowing limited exemptions to the requirement. For instance, the fund manager’s investments in companies that do not meet the five-year requirement could be capped at ten per cent of the total value of its assets under management (“AUM”) or the fund.</p> <p>Finally, we would appreciate clarification on whether further operational restrictions will be imposed. As the current regime for registered fund management companies restricts the total value of the AUM to S\$250 million and number of investors to 30, we hope that MAS will confirm whether caps will likewise be imposed on the total value of the AUM or number of funds (or end-investors therein) managed by the VC managers. We also hope that MAS will confirm whether a VC manager authorised under the proposed regime will need to apply for a capital markets services licence should its AUM exceed S\$250 million.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>NIL</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>We seek clarification on whether the tax regime currently in place for fund management companies (including tax exemptions and incentive schemes such as the Financial Sector Incentive for fund managers) will apply to VC fund managers. As fund managers already have the resources to ensure compliance with the current tax regime, its retention will mean that VC managers may focus on other aspects of managing their funds and need not expend additional resources on ensuring that their tax matters are adequately managed. The general consensus from the roundtable participants is that applying the current tax regime to the proposed VC manager regime would be preferable to creating a separate tax regime insofar as such retention would be more straightforward for VC managers to navigate than an entirely new regime.</p>
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		<p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>We seek clarification on whether VC managers will, once authorised, be required to disclose to their clients which (if any) of the non-mandatory business conduct requirements listed in paragraph 3.10(ii) of the CP they will continue to maintain. While the participants accept that clients may impose a contractual duty upon VC managers to observe various non-mandatory business conduct requirements, many desire the MAS to confirm whether it is incumbent upon VC managers to disclose to clients from the outset that they may contractually require the VC manager to observe any or all of these requirements.</p> <p>We also seek clarification on the transition process applicable to VC managers that become unable to meet the proposed criteria after being granted such status (for instance, where investee companies wish to exit via an initial public offering). While we note that VC managers are encouraged to engage MAS early on in relation to determining the regulatory status most appropriate to themselves, MAS may wish to give some indication of the factors it will consider when assessing the transition of such fund management companies from one regulatory regime to another. This would assist VC managers in anticipating when it would need to make such a transition and taking the appropriate measures for such transitions, including contacting the MAS in a timely manner.</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>NIL</p>
14	Shook Lin & Bok LLP	<p>General comments:</p> <p>The proposed changes is most welcome and is what the current market requires.</p> <p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>b. The authorisation/approval process needs to be very short (eg. 2 weeks) to make the new regime attractive and viable. This is especially pertinent since many of the normal CMS licence for fund management / RFMC application requirements are waived, and there is substantially less documents and information for the MAS to review and approve. The proposed changes should be implemented with urgency given that it is</p>

		<p>very important for Singapore to capture this wave of growth and address the needs in the local VC and start-up scene, and also given that many start-ups are facing very challenging circumstances in the current climate.</p> <p>c. We note that the MAS is proposing to license VC managers, even though the proposed authorisation and regulatory regime appears to be lighter than those applicable to the RFMC. This might create a perception, especially to investors who are not familiar with the authorisation, licensing and regulatory regime for various fund managers in Singapore, that the VC managers are more regulated and are subject to higher standard of authorisation/approval requirements and ongoing regulatory and compliance requirements (as opposed to a RFMC). It would also appear that the simplified authorisation for VC managers will lead to a shorter processing time (as opposed to even a RFMC approval process). To this end, MAS might want to consider treating the VC managers as Registered VC Managers.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p>(a) Closed-end fund is currently defined in the Securities & Futures Act. When making the changes, please be reminded to ensure consistency.</p> <p>(b) Separately, it is highly possible that VC funds might raise additional capital from the same group of investors or from new investors to allow the VC funds to make further investment into the same investees (eg. later stage investments or separate series investments in the investees). As such, the proposed criterion where the VC fund must not be continuously available for subscription will be unduly restrictive. In addition, even normal closed-end fund would be redeemable at the option of the fund investors, although not frequently (eg. quarterly or less frequent). For various reasons, investors may choose to pull out of the VC fund and should be allowed to do so provided it is not regular (eg. redemption annually or half-yearly).</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>It is highly possible that VC funds need to use leverage to scale up and also improve the investment returns. Leverage should be permissible for VC funds and VF managers. VC funds are a type of alternative or hedge fund and since there is currently no restrictions on leverage or a limit on leverage in relation to funds managed by holders of CMS</p>
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		<p>licence for fund management or RFMCs, there is no reason to prohibit use of leverage in VC funds or impose a limit on leverage for VC funds.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>Even though Professional Indemnity Insurance (PII) is not mentioned in the consultation paper, we note that PII is a requirement when applicants apply for the CMS licence for fund management or RFMC. PII is also important for the investors. As such, PII should also be a requirement for VC manager.</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>NIL</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>NIL</p>
15	Singapore Venture Capital & Private Equity Association and PwC Singapore	<p>General comments:</p> <ol style="list-style-type: none"> 1. It was noted that there are a number of accelerators, incubators, family offices and investment holding companies in Singapore which invest and manage a portfolio of start-ups. Is it the intention of the MAS to regulate these companies under the VC manager regime? 2. We would like to clarify whether the regulations would allow for VC managers to market their funds and participate in fundraising discussions, prior to the VC manager obtaining authorisation from the MAS to manage funds under the proposed VC manager regime. 3. We seek the MAS' clarification if VC managers will be granted a CMS licence or equivalent, or be able to carry out fund management under an express exemption. We would suggest that VC managers be granted a CMS licence or equivalent as these VC managers will still have to go through an authorisation process with the MAS (albeit a simplified process) and be subject to ongoing regulatory and compliance obligations. Licensed status for VC managers would also be helpful for VC managers raising capital globally, in particular in the European Economic Area ("EEA").

	<p>4. We seek the MAS' confirmation that the following business conduct requirements (which currently apply to licensed fund management companies) will not apply to VC managers:</p> <ul style="list-style-type: none">(a) compliance with the outsourcing guidelines;(b) compliance with personal account dealing requirements;(c) client money rules and requirements;(d) requirement for monthly account statement;(e) custodian requirements; and(f) business continuity requirements <p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>The participants of the roundtable discussion and SVCA welcome the introduction of a simplified authorisation and regulatory regime for VC managers in Singapore.</p> <p>The participants' and SVCA's comments on the proposed VC manager regime are as follows:</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Section 3.4(i)</p> <p><i>"VC managers may only manage funds that directly invest in unlisted business ventures that have been established or incorporated for no more than 5 years at the time of initial investment".</i></p> <p><u>Comments:</u></p> <p><i>Five-year requirement</i></p> <p>We request that the MAS reconsider the proposed five year test for qualification under the VC manager regime. Whilst many VC funds invest in early-stage companies that have been established for less than five years, we would highlight that there are many prominent early-stage companies in Singapore that have been established for more than 5 years (e.g., Grab, Zimplistic, Redmart and Chope incorporated in 2012, 2009, and the latter two in 2011 respectively). Imposing a five year criterion would disqualify VC funds from investing in such companies potentially placing Singapore VC managers at a disadvantage compared to their peers based elsewhere and potentially making it difficult for such companies to continue to raise capital.</p> <p>In certain industries, such as biotech, start-ups typically have long gestation periods, and may still be considered early-stage companies notwithstanding the fact that they have been incorporated for significantly longer than five years. The proposed five year criterion</p>
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	<p>would limit the pool of investee companies available to VC funds and preclude companies in certain sectors such as biotech from receiving VC capital.</p> <p>We suggest that the current definition of an early stage company be refined to take into consideration whether the company is still in its developmental phase (i.e. either still developing its products/technology or still developing its markets) as opposed to the age of the company. If the MAS prefers to retain a bright-line test, we would suggest that the MAS consider either (i) a longer period (e.g. 10 years), or (ii) a five year requirement with respect to 80% of the aggregate capital commitments of a VC fund with flexibility for the VC fund to invest the remaining 20% in companies that may be older than five years.</p> <p><i>"Unlisted business ventures" requirement</i></p> <p>According to data from the National Venture Capital Association ("NVCA"), the average time to exit for US venture-backed businesses through IPO or M&A has more than doubled since 2001, reaching 6.8 years in 2014. This figure is likely to be even higher for start-ups in this region.</p> <p>We suggest carve-outs to the requirement for VC funds to invest directly in unlisted business ventures similar to the carve-outs that are typically included in many standard VC fund Limited Partnership Agreements ("LPAs") (e.g., if a VC fund invests in an unlisted company which subsequently seeks a listing, the VC fund should not be forced to divest its stake in such company upon its listing).</p> <p>We would like the MAS to consider imposing an overall cap (based on a percentage of total capital commitments at the time of an investment) on "non-qualifying investments", which could include investments in listed securities. This would ensure that VC funds predominantly invest in unlisted business ventures, but retain the flexibility needed by VC managers.</p> <p><i>Other comments</i></p> <p>In order to position Singapore as a preferred hub for both Private Equity ("PE") and Venture Capital ("VC") fundraising and investing, we would encourage the MAS to consider extending the proposed VC manager regime to include PE managers. Some VC and PE managers who are SVCA members have stated that they find it difficult to understand a distinction in regulatory treatment between PE managers and VC managers purely on the basis of investment strategy. Both types of managers typically manage funds that (a) are only offered to Accredited Investors ("AI") and Institutional Investors ("II"), and (b) predominantly</p>
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	<p>invest in private companies. They are thus of the view that both VC and PE fund managers should be afforded the same regulatory treatment.</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Section 3.10(i)</p> <p><i>“MAS will remove the base capital requirements for managers under the VC Manager Regime. Risk-based capital requirements which apply to licensed managers would not apply under the VC Manager Regime”.</i></p> <p><u>Comments:</u></p> <p>The participants and SVCA support the MAS' proposal not to impose risk-based capital requirements under the proposed VC manager regime.</p> <p>Alternatively, if a base capital requirement is still imposed, this should be significantly lower than the current Registered Fund Management Company (“RFMC”) requirement. The participants and SVCA suggest that a S\$100,000 base capital requirement for a VC manager would suffice. To strengthen the base capital, the MAS could also consider placing certain restrictions on the VC manager (e.g., not lending money or issuing guarantees) in order to ensure that a VC manager does not unnecessarily erode its base capital.</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Section 2.1</p> <p><i>“... VC managers that raise monies from and manage funds of third parties are conducting the regulated activity of fund management under the Securities and Futures Act (“SFA”). They are required to be registered with MAS as an RFMC, or hold a CMS licence if their aggregate assets under management exceed S\$250 million or if they serve more than 30 qualified investors”.</i></p> <p><u>Comments:</u></p> <p>The participants and SVCA request MAS' confirmation that there will be no minimum or maximum Asset under Management (“AUM”) criteria for a VC manager.</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Section 3.4(ii)</p>
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	<p><i>“Be closed-end. The VC fund must be non-redeemable at the discretion of the investor, and must not be continuously available for subscription”.</i></p> <p><u>Comments:</u></p> <p>In general, VC funds often raise funds through multiple closings. In order to provide certainty with regard to the requirement that a VC fund "must not be continuously available for subscription", we seek clarity on this definition. LPAs and Private Placement Memorandums (“PPM”) can permit investors to subscribe for additional capital subject to circumstances.</p> <p>We suggest that it should be left to parties to commercially decide how long a VC fund may accept subscriptions, as is commonly the case with VC funds and reflected in their LPAs. The amount of time required to raise capital for a VC fund is also influenced by the general capital raising environment and the health of the broader economy. Prescribing a fixed period for accepting new subscriptions would not provide the necessary flexibility for a VC manager.</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Section 3.4(iii)</p> <p><i>“Be offered only to end-investors who are either AI or II. AI and II have the resources and expertise to protect their own interests”.</i></p> <p><u>Comments:</u></p> <p>There has been broad agreement with the requirement of investors to be either AIs or IIs. We propose that measurements be put in place to ensure that VC managers continue to monitor their investors meet the criteria of an AI and II.</p> <p>We request that the MAS considers permitting VC funds to be offered to employees of the VC manager and its affiliates that may not otherwise qualify as AI investors themselves (i.e., including a "knowledgeable employee" exemption from the AI requirement). Allowing additional "skin-in-the-game" strengthens the alignment of interest between a VC fund's investors and the employees of the VC manager. This is a critical tool for investors to align interests and protect their investments.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p><u>Reference:</u></p>
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	<p>Proposed Regulatory Regime, Section 3.5</p> <p><i>“MAS has also considered whether restrictions should be placed on the use of leverage in VC funds under the proposed regime”.</i></p> <p><u>Comments:</u></p> <p>There should be no restriction on the use of leverage in VC funds, as this is a commercial decision to be agreed between VC managers and investors. The extent of leverage allowed by a VC fund is typically agreed with investors and reflected in its LPA or PPM. The use of leverage by VC funds at the fund-level would typically include subscription line financing, bridging loans and providing debt obligations or guarantees for portfolio companies.</p> <p>We would also suggest that the MAS does not impose any restriction on the use of leverage at the investee company level as the capital structures of early-stage companies typically include significant debt or convertible debt. There should be no restriction on the ability of VC funds to make debt investments or lend money to their portfolio companies.</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>Please refer to Question 1 for comments on Base Capital Requirements.</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Section 3.10(ii)(d)</p> <p><i>“MAS will not make it mandatory for managers under the VC Manager Regime to satisfy MAS that they have:</i></p> <p style="padding-left: 40px;"><i>(d) Disclosed and will be able to effectively manage and mitigate conflicts of interest”.</i></p> <p><u>Comments:</u></p> <p>The SVCA supports the MAS’ proposal not to make it mandatory for VC managers to satisfy the MAS that they have disclosed and will be able to effectively manage and mitigate conflicts of interest because (a) a typical VC fund’s LPA already includes measures to deal with conflicts of interests, such as requiring an Advisory Committee (with participation from certain investor representatives) to review transactions where there are conflicts of interest; and (b) potential conflicts of interests are also typically disclosed to investors in the offering document (i.e., PPM) of a VC fund.</p>
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	<p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Section 3.11(iii)</p> <p><i>“MAS will apply all other ongoing regulatory requirements that are applicable to fund managers to VC managers, including:</i></p> <p><i>(iii) Anti-money laundering and countering the financing of terrorism (“AML/CFT”) requirements”.</i></p> <p><u>Comments:</u></p> <p>The SVCA supports the MAS’ proposal to impose AML/CFT requirements on VC managers. VC managers should be subject to the same AML requirements and obligations as RFMCs and Licensed Fund Management Companies (“LFMCs”) in order for the MAS to detect and deter the flow of illicit funds through Singapore's financial system.</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Section 3.2</p> <p><i>“... MAS intends to simplify the authorisation process for VC managers by removing the existing admission criteria on minimum base capital, track record and experience of directors and representatives, and the need to submit information on compliance and audit arrangements as part of the application process”.</i></p> <p><u>Comments:</u></p> <p>The participants and SVCA believe that it would be preferable for MAS to impose a minimum track record and experience requirement (e.g., 2 years of experience) for the directors and representatives of the VC manager. However, relevant experience should not be limited to fund management experience, but should also extend to entrepreneurial or financial services experience generally.</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Annex B Section (7)</p> <p><i>“Annual Fees Payable in the Proposed Regulatory Regime S\$4000 versus S\$1000 and S\$4000 for RFMC and LFMC respectively in the current regime for fund management companies”.</i></p> <p><u>Comments:</u></p> <p>We are of the view that the proposed \$4000 annual fee is too high given that the annual fee for RFMCs is only \$1000. The annual fee under the</p>
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		<p>new regime for VC managers should be equal to the annual fee applicable to RFMCs.</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p><u>Comments:</u></p> <p>5. We seek confirmation from the MAS that VC managers regulated under the current regime and who qualify for the VC manager regime following the legislative amendments, will be able to migrate to the proposed VC manager regime via a written application to the MAS. In this regard, we suggest that existing RFMCs and LFMCs provide notice via a Form 24A/Form 7 of cessation of business as an RFMC or LFMC (as the case may be) and concurrently notify the MAS of their intention to operate as VC managers. Given that the MAS has already registered/licensed such fund management companies, we seek the MAS' confirmation that existing RFMCs and LFMCs which are migrating to the VC manager regime will not need to commence a new licensing application process to be approved under the VC manager regime. We also seek the MAS' confirmation that once an RFMC or LFMC has notified MAS of its intention to migrate to the VC manager regime, it may at its discretion reduce its base capital to the amount which applies to a VC manager.</p> <p>6. We seek the MAS' clarification on how the VC manager regime will apply to a fund manager that manages both VC and PE funds. In particular:</p> <p>(a) Will the MAS allow an RFMC or LFMC to remain as an RFMC or LFMC even if it manages VC funds or will the MAS require the RFMC/LFMC to segregate the management of its VC funds from its other funds (e.g. through the establishment of a new fund management company)?</p> <p>(b) Assuming that a new entity is incorporated to manage VC funds, will existing representatives of the RFMC/LFMC be allowed to work for both the RFMC/LFMC and the VC Manager? Further, will the existing middle office and back office staff be allowed to work for both entities?</p> <p>(c) Further to the above will a fund manager be able to ring-fence their VC activities within their existing RFMC/LFMC entity, with a separate team, thereby adopting the reduced requirements under the new VC regime for the</p>
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		<p>VC segment of their business, whilst maintaining the RFMC/LFMC for their non VC business activities?</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Annex C Section 53A(1)(a)</p> <p><i>“... which has the following characteristics:</i></p> <p style="padding-left: 40px;"><i>(a) All or most of the units that are issued under the arrangement cannot be redeemable at the election of the holder of the units and cannot be continuously available for subscription or redemption”.</i></p> <p><u>Comment:</u></p> <p>We seek clarification on the requirement that a VC fund "cannot be continuously available for subscription". In this regard, we reiterate our comments on Question 2 as set out in page 7 above.</p> <p>We would be grateful if the MAS could clarify the meaning of “all or most of the units” (e.g. is there a percentage threshold).</p> <p><u>Reference:</u></p> <p>Proposed Regulatory Regime, Annex C Section 53A(1)(b)(ii)</p> <p><i>“... which has the following characteristics:</i></p> <p style="padding-left: 40px;"><i>(b) The arrangement only invests in securities that are</i></p> <p style="padding-left: 80px;"><i>(ii) Issued by an entity or a trust which, at the date of the arrangement’s first acquisition of securities, had been formed, constituted, incorporated, or existing, as the case may be under the laws of Singapore or a foreign jurisdiction for not more than 5 years”.</i></p> <p><u>Comment:</u></p> <p>The 5 year criteria should be removed to allow and attract VC funds that focus on investments at Series B, C, D or later fund-raising stages and not only pre-Series A or Series A rounds. It is further noted that Singapore currently has a shortage of funds/investors at the Series B stage and beyond.</p>
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16	Vertex Holdings	<p>General comments:</p> <p>VC industry in the USA continues to flourish. MAS may wish to consider referencing the SEC’s definition of Venture Capital which is being used by USA VC funds domiciled in the USA, which has worked well for USA VC industry.</p> <p>Under the SEC definition,</p> <p>To qualify as a “venture capital fund” the fund must be a private fund that: (i) holds no more than 20 percent of the fund’s capital commitments in non-qualifying investments (other than short-term holdings) (“qualifying investments” generally consist of equity securities of “qualifying portfolio companies” that are directly acquired by the fund, which we discuss below); (ii) does not borrow or otherwise incur leverage, other than limited short-term borrowing (excluding certain guarantees of qualifying portfolio company obligations by the fund); (iii) does not offer its investors redemption or other similar liquidity rights except in extraordinary circumstances; (iv) represents itself as pursuing a venture capital strategy to its investors and prospective investors; and (v) is not registered under the Investment Company Act and has not elected to be treated as a business development company (BDC).</p> <p>A “qualifying investment” generally means an equity security issued by a qualifying portfolio company that has been acquired directly by the private fund from the qualifying portfolio company and certain equity securities exchanged for the directly acquired securities.</p> <p>A “qualifying portfolio company” means any company that: (i) is not a reporting or foreign traded company and does not have a control relationship with a reporting or foreign traded company; (ii) does not incur leverage in connection with the investment by the private fund and distribute the proceeds of any such borrowing to the private fund in exchange for the private fund investment; and (iii) is not itself a fund (i.e., is an operating company).</p> <p>Limit on leverage. An eligible venture capital fund does not borrow funds, issue debt obligations, provide guarantees or otherwise incur leverage, in excess of 15 percent of the fund’s capital contributions and uncalled capital commitments. Also, any permitted fund-level leverage must be for a non-renewable term of no longer than 120 calendar days.</p> <p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>NIL</p>
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17	WongPartnership LLP	<p>Question 1: MAS seeks comments on the introduction of a simplified authorisation and regulatory regime for VC managers.</p> <p>NIL</p> <p>Question 2. MAS seeks views and suggestions on the proposed criteria to differentiate VC managers from other types of fund managers.</p> <ol style="list-style-type: none"> 1. Paragraph 3.1 states the following reasons to justify why VC managers should be given a lighter regulatory touch because they possess “following unique combination of characteristics which lowers their market and business conduct risks”: <ul style="list-style-type: none"> (i) VC managers do not trade on public markets (ii) VC managers typically do not use or are contractually restricted from using leverage (iii) VC managers serve accredited investors (“AI”) and/or institutional (“II”) investors and are bound by limited partnership agreements (“LPA”) signed with these investors 2. Private equity managers that do not undertake buy-out transactions and real estate and infrastructure managers would assert that they have the same characteristics and may wonder if the same light touch regulation should be extended to them. In our opinion, the Authority should openly acknowledge that the <i>raison d'être</i> of this lighter touch regime is to foster the growth of start-ups in Singapore and enhance their access to equity funding, and not because the VC managers possess unique characteristics and consequently, do not present systemic risks to our financial eco-system. We believe that it is worthwhile articulating that for other categories of alternative asset fund managers, the prudential requirements described in paragraph 2.2 of the Consultation Paper are desirable for the

		<p>development of Singapore as a leading financial centre with high quality players.</p> <p>Proposed Criteria for VC funds</p> <ol style="list-style-type: none"><li data-bbox="613 415 1364 877">3. VC funds are a recognised asset class in their own right although there is no cut-and-dry definition for a VC fund. The Consultation Paper is effectively proposing to define a VC fund as one that invests in companies that have been incorporated for less than 5 years. We find the parameters too broad and overly encompassing if the objective is to ensure VC managers invest mainly in start-ups and early-stage companies that need equity funding. For instance, a company may be newly incorporated to invest in or develop real estate or infrastructure assets. The criterion is also easy to circumvent (for a VC manager to invest in non-VC deals) by simply incorporating a new holding company to acquire existing mature companies as subsidiaries or their business undertakings.<li data-bbox="613 919 1364 1549">4. We would propose that other than investing in companies which are incorporated for less than 5 years, a VC fund must only invest in companies that have presented a business plan approved by the VC manager, and the funds provided by the VC fund must be deployed to (1) meet capital and operating expenditure described in the business plan, (2) acquire, develop and/or license from third parties intellectual property rights; and (3) meet other expenses incurred in the ordinary course of business. To create a level playing field between Registered Fund Management Companies and licensed fund managers, and VC managers, a VC fund should be expressly prohibited from investing in companies that undertake real estate and infrastructure investment or development, and the main business undertaking of the companies whose securities are held by the VC fund should not be the acquisition of other legal entities or business undertakings, if the VC manager would not be permitted on behalf of the VC fund to acquire such legal entities or business undertakings without possessing a Capital Markets Services licence.<li data-bbox="613 1591 1364 1881">5. We note that one criterion proposed for a VC fund is to acquire securities directly from the investee company instead of an existing holder (as vendor) of the securities. Firstly, we believe that VC funds should be given some leeway to acquire secondary shares, perhaps up to 25% of each tranche of securities invested. A co-founder or angel investor in the investee company may depart for commercial reasons and a VC manager may need to take over his shares. Secondly, this criterion is easy to circumvent. After a VC fund injects capital
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	<p>into the investee company, a capital redemption exercise may be undertaken by the investee company to redeem the securities held by other shareholders. To ensure the funds provided by a VC fund is really fresh venture capital, our proposal in paragraph 4 above relating to business plan and use of funds provided by the VC fund would be more effective.</p> <p>Question 3. MAS seeks views on whether restrictions should be placed on the use of leverage in VC funds and if so, the extent to which leverage should be allowed.</p> <p>NIL</p> <p>Question 4. MAS seeks views on the requirements under the proposed VC Manager Regime.</p> <p>NIL</p> <p>Question 5. MAS seeks comments on the proposed implementation approach for existing licensed fund managers or RFMCs that manage VC funds and meet the proposed criteria.</p> <p>NIL</p> <p>Question 6. MAS seeks views on the proposed legislative amendments at Annexes C to F.</p> <p>We note that the Authority would disapply Notice SFA04-N09 entirely to VC managers. We believe that it is salutary to require a VC manager to have at least two representatives who are undertaking fund management on behalf of the VC manager on a full time basis, albeit the track record and experience requirement would not apply. This would augur with a policy to encourage more VC managers to set up shop in Singapore and actively pursue VC fund management, and discourage those who are undertaking fund management on a trial mode or “moon-lighting” basis.</p>
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