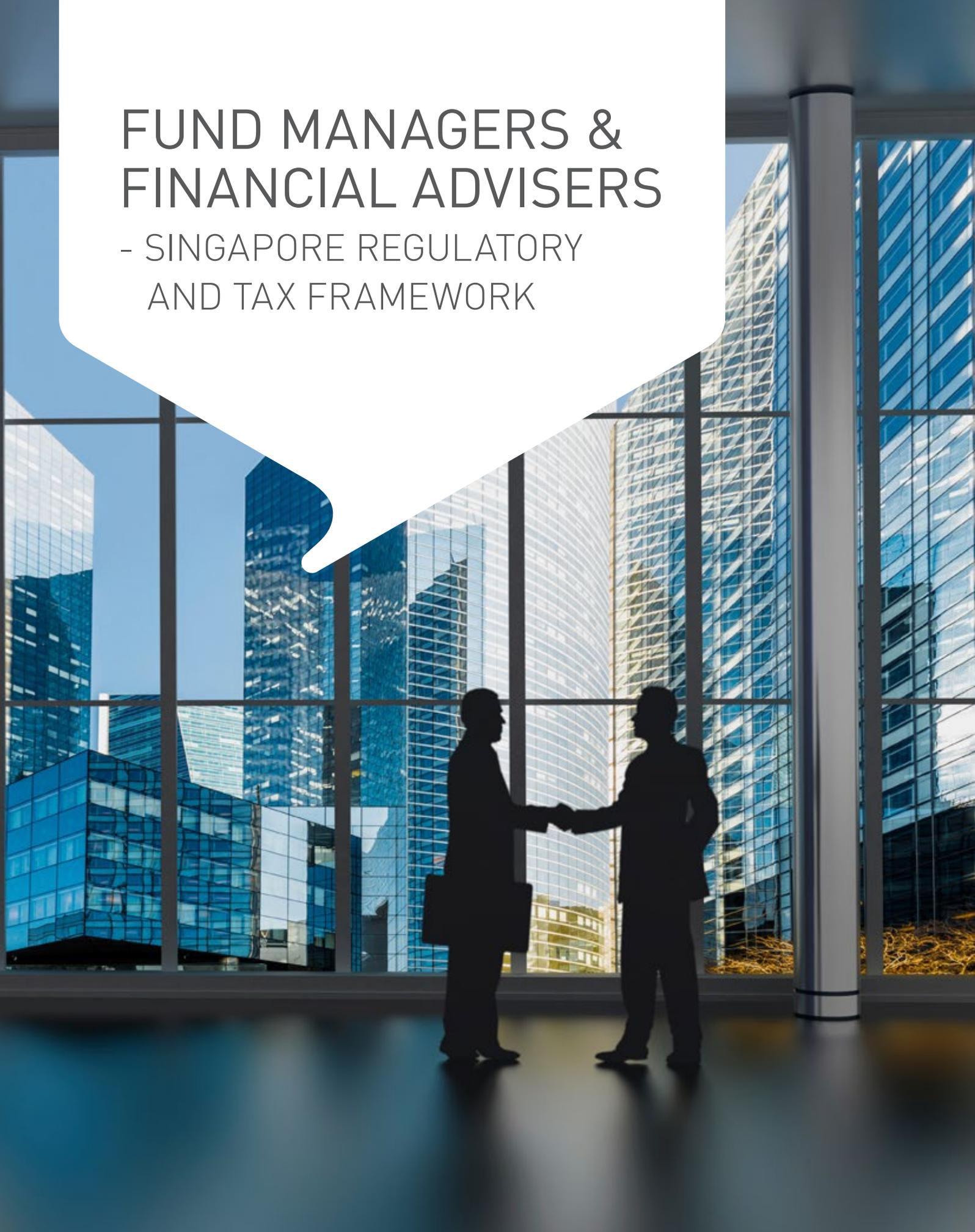


FUND MANAGERS & FINANCIAL ADVISERS

- SINGAPORE REGULATORY
AND TAX FRAMEWORK



1. Regulatory Framework For Fund Managers

Companies wishing to conduct fund management activities in Singapore are required by the Securities and Futures Act to either be a Licensed Fund Management Company (LFMC), or to be a Registered Fund Management Company (RFMC). In addition to traditional fund management activities, this also includes discretionary portfolio management (such as where a company holds a Limited Power of Attorney over a client's portfolio).

The following table summarises the principal requirements:

| | RFMC | LFMC – A/I | LFMC – Retail |
|---|---|---|--|
| Type of Investors | Qualified Investors ¹ | Qualified investors ¹ | All investors |
| Restrictions on number of investors served | Up to 30 investors (of which up to 15 can be funds) Total assets managed must not exceed S\$250m | None | None |
| Minimum Base Capital requirements | S\$250,000 | S\$250,000 | Either S\$500,000 or S\$1m |
| Risk-based capital requirement | None | Yes, financial resources at least 120% of operational risk requirement | Yes, financial resources at least 120% of operational risk requirement |
| Number of Directors | At least 2 with more than 5 years' relevant experience At least 1 of these must be Executive and full time resident in Singapore | At least 2 with more than 5 years' relevant experience At least 1 of these must be Executive and full time resident in Singapore | At least 2 with more than 5 years' relevant experience At least 1 of these must be Executive and full time resident in Singapore (> 10 years' experience) |
| Number of relevant professionals in Singapore (incl resident director) | At least 2 with greater than 5 years' relevant experience | At least 2 with greater than 5 years' relevant experience | At least 3 with greater than 5 years' relevant experience Representatives must meet exam & entry requirements |
| Compliance arrangements | Suitable for scale of business (the function can be outsourced) | If > \$1bn AUM, must have full time function. Otherwise, the function can be outsourced | Must have full-time, independent compliance function |
| Risk Management Framework | Formal framework must be in place | Formal framework must be in place | Formal framework must be in place |
| Professional Indemnity Insurance ("PII") | Strongly encouraged to have PII in place | Strongly encouraged to have PII in place | Must have PII in place (coverage depends on AUM) |
| Internal audit arrangements | Must be in place | Must be in place | Must be in place |
| Reporting Requirements | Annual reporting | Quarterly & Annual reporting | Quarterly & Annual reporting |

¹ Qualified Investors include Accredited Investors, Collective Investment Schemes offered in Singapore only to Accredited Investors and Closed-end funds whose holders are Accredited Investors only.

Accredited investors are defined as:

- individuals whose net personal assets exceed S\$2 million, or whose income in the preceding 12 months is not less than S\$300,000; and
- corporations whose net assets exceed S\$10 million

2. Tax Incentives For Funds & Managers

Singapore has put in place a number of schemes to encourage the development of the fund management industry. With the exception of the Offshore Fund Scheme (13CA) and the GST scheme, meeting the conditions for these schemes does not automatically entitle a fund or fund manager to the exemptions; MAS approval is required. When deciding whether to grant approval, MAS looks at projected growth of the company as well as the substance being brought by the company to Singapore.

| | Resident Fund Scheme (13R) | Enhanced Tier Fund Scheme (13X) | Offshore Fund Scheme (13CA) |
|-------------------------------|---|--|---|
| Purpose of Scheme | Aimed at Singapore resident funds (incorporated as a company) managed by a Singapore fund manager | Aimed at all funds over S\$50 million managed by a Singapore fund manager | Aimed at non-Singapore funds managed by a Singapore fund manager |
| Benefit of Scheme | Specified Income ³ from Designated Investments ³ is exempted from tax (This exempts trading gains and remittances, which are usually taxable by Singapore tax resident companies) | | |
| Legal Form | Singapore company (tax resident in Singapore) | Company, trust or Limited Partnership | Non-Singapore company, trust or Limited Partnership |
| Fund Manager | Approved Singapore fund management company | Approved Singapore fund management company Must employ at least 3 investment professionals (earning at least S\$3,500 per month and engaged in qualifying activities) | Approved Singapore fund management company |
| Investors | Cannot be 100% owned by Singapore investors For all Specified Income to be exempt, each investor must be a Qualifying Investor ⁴ Any non-Qualifying Investors will have to pay an amount equivalent to the tax on their share of the fund's income | No restrictions | Cannot be 100% owned by Singapore investors For all Specified Income to be exempt, each investor must be a Qualifying Investor ⁴ Any non-Qualifying Investors will have to pay an amount equivalent to the tax on their share of the fund's income |
| Fund Size | No restrictions | At least S\$50 million (committed capital) at point of application (aggregated across master and feeder funds) | No restrictions |
| Fund Administrator | Singapore based fund administrator | Singapore based fund administrator where fund is incorporated in Singapore | No restrictions |
| Fund Expenditure | Must incur at least S\$200,000 in business spending (including management fees, remuneration & other operating costs) | Must incur at least S\$200,000 in business spending (including management fees, remuneration & other operating costs) | No restrictions |
| Reporting Requirements | Annual tax returns to Inland Revenue Authority of Singapore (IRAS), annual statements to each of its investors, declaration to IRAS for any non-qualifying investors | Annual tax returns to Inland Revenue Authority of Singapore (IRAS) and annual declarations to MAS | Annual statements to each of its investors, declaration to IRAS for any non-qualifying investors |

- ³ Specified Income and Designated Investments are defined on page 3
- ⁴ A qualifying investor is either an individual investor, a bona fide non-resident corporate investor, or a Singapore resident corporate investor owning no more than 30% of the fund (or no more than 50% if greater than 10 investors)

Specified Income from Designated Investments

Under schemes 13R, 13X and 13CA, Specified Income from Designated Investments is exempted from tax.

Specified Income

Specified income includes any income and gains derived from Designated Investments, other than those specifically excluded. The list of exclusions covers, but is not limited to:

- Interest (other than interest derived from deposits with and certificates of deposit issued by any approved bank, from Asian Dollar bonds and from qualifying debt securities)
- Distributions made by real estate investment trusts

In particular, Specified Income includes most trading gains and remittances of income into Singapore.

Designated Investments:

This covers an extensive list of investments, including but not limited to:

- Stocks and shares of any company
- Debt securities
- Real estate investment trusts, exchange traded funds or any other securities which are:
 - o Denominated in foreign currency issued by foreign governments
 - o Listed on any exchange
 - o Issued by supranational bodies; or
 - o Issued by any company
- Futures contracts
- Immovable property situated outside Singapore
- Deposits in Singapore with any approved bank
- Foreign currency deposits with financial institutions outside Singapore
- Foreign exchange transactions
- Financial derivatives that relate to any designated investment or financial index, subject to certain conditions and counterparty restrictions
- Unit trusts investing in designated investments

However, it does not include securities issued by an unlisted company that is in the business of trading or holding of Singapore immovable properties (other than the business of property development).





GST Remission Scheme for Funds

Generally, funds cannot claim input GST as they cannot register for GST due to not making taxable supplies. The GST remission scheme provides relief to Singapore based funds if they are unable to claim GST incurred on goods or services under the normal GST rules.

For the purpose of qualification, a fund must satisfy the conditions (and been granted approval) for income-tax concessions (such as under Section 13R or Section 13X, amongst others), as at the last day of its preceding financial year. In addition, the fund must have a prescribed fund manager in Singapore (either one who is licensed, registered or otherwise exempted).

Input GST on nearly all expenses borne by the fund in relation to Fund's investment activities will be eligible for this scheme. The rate of the recovery will be fixed and will be decided by the Inland Revenue Authority of Singapore (IRAS) annually. For the calendar year 2014, the IRAS has prescribed a recovery rate of 90%.

No approval is required to use this scheme.

Financial Sector Initiative - Fund Management Award (FSI - FM)

Fund managers in Singapore are taxed at a concessionary rate of 10% instead of the corporate tax rate of 17% on income derived from the management and provision of investment advisory services to funds under one of the above schemes, subject to certain conditions and MAS approval. At a minimum, these conditions are broadly:

- Manager must be licensed, registered or exempted from having a capital markets services licence in respect of its fund management or investment advisory activities
- Manager must employ at least 3 experienced fund management professionals (earning > S\$3,500 per month).
- The MAS may also take into consideration factors like growth targets in terms of assets under management, business spending and the number of professionals when assessing the eligibility of the applicants for the FSI-FM award.
- Managers must manage assets of at least S\$250 million

3. Further Considerations For Singapore Fund Industry

Legal Form of Funds

Funds in Singapore can either be set up as companies, unit trusts or limited partnerships.

Companies

Each structure has its advantages and disadvantages, but as Singapore's tax treaties only apply to companies, funds (particularly private equity funds) investing into Asia often elect to form as a private limited company

However, establishing a fund as a private limited company means that the fund has to be compliant with the Singapore Companies Act. In practice, this means that:

- The fund has to make annual filings to both the registrar (ACRA) and the tax authorities (IRAS)
- Any subscriptions or redemptions from the fund need to follow the requirements of company law
- Certain information about the fund is publicly available

Investors invest into funds structured as companies usually via redeemable preference shares, with the promoters of the fund holding the ordinary shares.

- Upon issuance or redemption of preference shares, companies must prepare the relevant resolutions and update the details with ACRA

Limited Partnerships

Limited Partnerships are a popular vehicle for funds worldwide. In Singapore these are governed by the Limited Partnership Act. Limited Partnerships offer fewer annual compliance requirements and less public disclosure than companies. However, Singapore's tax treaties do not apply to limited partnerships.

Unit Trusts

Mutual Funds often elect to form as a Unit Trust, which offers the advantage of not being governed by the Singapore Companies Act. However, there is the need to appoint a Licensed Collective Investment Scheme (CIS) Trustee, which can increase the cost of running the structure.

Benefits of establishing in Singapore

Generally, funds cannot claim input GST as they Singapore's strong infrastructure and attractive tax system has developed it into a leading fund management centre, where institutions can create fund operations with presence and substance in Singapore.

- Competitive and transparent tax system
 - o Extensive tax treaty network worldwide (currently over 70 treaties)
 - o Territorial tax system
 - o No capital gains tax
 - o Tax exemptions specifically for the fund industry
 - o Numerous other tax incentives available to all Singapore companies
 - o OECD whitelist
- Strong regulatory environment and investor protection
- Significant ease in doing business (Ranked #1 in the World Bank survey for doing business and for cross-border trading)
- Efficient legal system
- Well-educated local workforce
- Business language is English
- Plentiful number of banks and service providers



4. Regulatory Framework For Financial Advisers

Financial Advisers

The Financial Advisers Act (FAA) covers the following activities:

- Advising on investment products (excluding corporate finance)
- Issuance of analysis or reports on any investment product
- Marketing of any collective investment scheme
- Arrangement of life insurance contracts

Institutions wishing to conduct financial adviser activities in Singapore are required to either be a Licensed Financial Adviser (LFA), or to be an Exempt Financial Adviser (EFA). The following table summarises the principal requirements:

| | EFA | LFA |
|--|--|--|
| Type Of Clients | Accredited Investors | All investors |
| Restrictions On Number Of Clients Served | Up to 30 investors | None |
| Minimum Paid-Up Capital Requirements | Expected to maintain capital to cover set-up costs and at least 6 months' operational costs | S\$150,000 (S\$300,000 if advising on contracts for futures or foreign exchange trading) |
| Continuing Financial Requirements | Maintain positive net assets at all times | Maintain a net asset value of at least the higher of: <ul style="list-style-type: none"> ■ ¼ of the relevant annual expenditure of prior year ■ ¾ of initial minimum paid up capital |
| Staff Strength | Strongly encouraged to have at least 2 full-time persons with greater than 5 relevant years' experience. Should have at least 1 resident CEO or executive director. | Should have at least 2 full-time representatives Should have at least 2 directors, one of whom (the CEO) must be resident in Singapore. Executive directors should have at least 5 years' relevant experience |
| Requirements For Representatives | Representatives must meet exam & entry requirements | Representatives must meet exam & entry requirements |
| Compliance Arrangements | Expected to have suitable arrangements in place (the function can be outsourced) | Expected to have suitable arrangements in place (the function can be outsourced) |
| Professional Indemnity Insurance | Encouraged to have this in place | Expected to have cover of at least S\$500,000 |
| Reporting Requirements (Excluding Notifications) | Annual reporting (additional reporting if arranging life insurance contracts) | Annual reporting (including audit report) |

The information contained in this document is for general reference only. While all reasonable care has been taken on the preparation of this document, Iyer Practice or its affiliated entities cannot accept any liability for any action taken as a result of reading its contents without consulting us with regard to relevant factors.

October 2014

Our Services

ASSISTANCE WITH OBTAINING REGULATORY (MAS) LICENSES

REGULATORY COMPLIANCE SERVICES

- Provision of Compliance Officer
- Performance of periodic compliance reviews
- Drafting of compliance manual
- Drafting of risk management policy
- Regulatory compliance advisory

APPLICATION FOR TAX EXEMPTIONS & SCHEMES RELEVANT TO THE FUND INDUSTRY

INCORPORATION OF FUND, FUND MANAGER AND FINANCIAL ADVISER ENTITIES

CORPORATE SECRETARIAL & FIDUCIARY SERVICES

ACCOUNTING SERVICES

TAX COMPLIANCE AND ADVISORY SERVICES

PAYROLL SERVICES

GOODS & SERVICES TAX (GST) REGISTRATION AND COMPLIANCE

IMMIGRATION SERVICES (INCLUDING APPLICATION FOR EMPLOYMENT AND RESIDENCE PASSES)

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Our Corporate Profile

Iyer Practice is a firm of professional advisers who offer a full range of taxation, fiduciary, regulatory compliance, human resources and accounting services.

The firm was established in Singapore in 1993 by Mr. Shanker Iyer, whose extensive international experience as a professional adviser spans almost four decades. He qualified as a Chartered Accountant in the United Kingdom, where he was a Partner of a leading accounting firm for over 10 years. He has been a practising accountant in Singapore since 1984. The firm also has an office in Hong Kong.

Iyer Practice has a strong base of local and international clients. A significant portion of the firm's clientele comprises multi-national companies and high net-worth individuals doing business in Singapore and throughout the Asia Pacific Region. The firm is therefore able to offer a good blend of knowledge and experience based on its local and international professional capabilities.

Iyer Practice employs over 70 well qualified staff and its senior personnel were formerly from major international accounting firms.

The firm has a trust company, Singtrust, licensed by the Monetary Authority of Singapore to conduct trust business. It also has an interest in Asiatruster, which is licensed to conduct trust business in Labuan. One of the firm's entities, Shanker Iyer Consultants Pte Ltd, is licensed by the Singapore Ministry of Manpower (MOM) as an Employment Agency.