

LEGAL UPDATE: MAS CIRCULAR ON OBSERVATIONS AND SUPERVISORY EXPECTATIONS FOR VCCS AND VCC MANAGERS AND OTHER UPDATES

By: Ian Phung, Justin Hoo

I. Introduction

1. On 26 June 2025, the Monetary Authority of Singapore (“**MAS**”) issued a circular after conducting a thematic review of Variable Capital Companies (“**VCCs**”) and their managers (“**VCC Managers**”) in 2024 (“**Circular**”). The Circular highlights key observations from MAS’ review, sets out supervisory expectations and good practices that VCC Managers may consider adopting in relation to the governance and management of VCCs, and reiterates expectations in relation to anti-money laundering and countering the financing of terrorism (“**AML/CFT**”).
2. Relatedly, on 8 April 2025 MAS published the Consultation Paper on the Proposed Amendments to Anti-Money Laundering and Countering the Financing of Terrorism Notices for Financial Institutions and Variable Capital Companies (“**Consultation Paper**”) proposing changes to the AML/CFT Notices governing financial institutions (“**FIs**”) and VCCs. The response to feedback received on the Consultation Paper (“**Response Consultation Paper**”) was published on 8 May 2025. In furtherance of this, the MAS implemented changes to the AML/CFT Notices for FIs and VCCs on 30 June 2025, which take effect on 1 July 2025. In this client update, Director Ian Phung and Associate Justin Hoo summarises the key takeaways from the recent updates.

II. Observations and Supervisory Expectations for VCCs

3. The MAS noted that a majority of VCCs and VCC Managers met the key regulatory requirements imposed on them,¹ such as the VCC to be used solely as a collective investment scheme (“**CIS**”) and the VCC having a manager that is regulated by the MAS to manage its property or operate the CIS that comprise the VCC. However, the MAS noted several areas in which VCCs and VCC Managers may not be fully adhering to regulatory requirements:
 - (a) Custody Arrangements: the MAS observed that a small number of VCCs did not report having custody arrangements despite investing in certain types of assets (e.g. listed equities and fixed income instruments). The MAS reiterated the requirement that VCC Managers must ensure that assets under management are subject to independent

¹ The key requirements outlined by the MAS refer to: (1) a VCC is to be used as a CIS, (2) a VCC having a manager that is regulated by the MAS to manage its property or operate the CIS that comprise the VCC, (3) A VCC having at least one director who is either a director or a qualified representative of the VCC Manager, and (4) a VCC must engage an eligible financial institution (“**EFI**”) for the purposes of conducting the necessary checks and performing the measures in order for the VCC to comply with its AML/CFT requirements under MAS Notice VCC-N01.

custody² unless the assets are private equity or venture capital investments offered only to accredited investors and/or institutional investors.³

- (b) VCC Directors: where VCCs appoint directors that are not directors or representatives of the VCC Manager, the MAS such directors are to be appointed as licensed representatives of the VCC Manager where such directors engage in regulated activities, such as deal sourcing, investment research, portfolio management or trade execution for the VCC's investments as well as client facing activities.⁴
- (c) Substantive Fund Management Activity: the MAS observed that a small number of VCC Managers managed VCCs that did not hold any assets and/or did not have any investors, despite having been incorporated for more than a year. The MAS expects VCC Managers to periodically assess and wind down VCCs that hold no assets and/or have no investors. Further, the MAS also noted that there were a number of instances where VCC Managers did not carry out substantive fund management activity in relation to the VCCs. The MAS referred to cases where VCCs hold illiquid assets on behalf of a single investor or a few connected investors, where these assets were previously owned by the investors. The MAS regards the mere transferring of investor's existing investments or assets into the VCC without providing investment inputs as not carrying out substantive fund management activity. The MAS expects VCC Managers to have a substantive role in the management of the VCC and should be involved in all aspects of investment and risk management of the VCC, including portfolio construction, investment due diligence and analysis. In this regard, the MAS stated that VCC Managers should not:
 - (i) provide a conduit for customers to structure investments or assets in the form of fund units, without providing any substantive input or influence over the merits or suitability of the investment or assets, or assuming responsibility for their investment performance;
 - (ii) set up VCCs that merely serve as a conduit for the offer of funds managed by other fund managers; or
 - (iii) purely engage in marketing of the VCCs.
- (d) Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT): the MAS reminded VCC that they remain responsible for fulfilling their AML/CFT obligations,⁵ and to:

² Regulation 13B(1)(c) of Securities and Futures (Licensing of Business) Regulations.

³ Paragraph 3(1A) of the Sixth Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005.

⁴ Client facing activities include account servicing, business development or marketing.

⁵ Including those outlined in the MAS Notice VCC-N01 and Variable Capital Companies (Sanctions and Freezing of Assets of Persons) Regulations 2020.

- (i) ensure sufficient oversight exercised by its directors over the eligible financial institutions (“EFIs”) appointed by the VCCs;⁶
- (ii) identify and verify the identities of VCCs’ customers and their beneficial owners, maintaining an accurate and up-to-date register of beneficial owners of VCCs, performing screening, as well as conducting enhanced due diligence measures on higher risk customers;⁷
- (iii) continue to remain vigilant to money laundering (“ML”) and terrorism financing (“TF”) risk typologies in the sector and take note of the key observations noted in MAS’ thematic review of the sector in 2022;⁸ and
- (iv) ensure that EFIs and VCC directors are regularly and appropriately trained on ML/TF risk management.

III. **Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Updates for Financial Institutions and Variable Capital Companies (VCCs)**

- 4. Singapore continually monitors changing risks, trends and typologies in ML, TF as well as proliferation financing (“PF”). To this end, it had published a number of risk assessments and strategies on 30 October 2024, including the following: (i) Proliferation Financing National Risk Assessment and Counter-PF Strategy (“**PF NRA and CPF Strategy**”)⁹, (ii) Legal Persons Risk Assessment (“**LPRA**”), Legal Arrangements Risk Assessment (“**LARA**”), and Virtual Assets Risk Assessment (“**VARA**”)¹⁰, (iii) National Anti-Money Laundering Strategy (“**National AML Strategy**”)¹¹ and (iv) Law Enforcement Strategy to Combat ML.¹²
- 5. In connection with these broader efforts to combat ML, TF and PF, on 8 April 2025 MAS published the Consultation Paper, proposing changes to the AML/CFT Notices to FIs and VCCs. MAS then gathered industry feedback and published the Response Consultation Paper on 8 May 2025, indicating that it would proceed with amendments to the relevant AML/CFT Notices, incorporating feedback received where appropriate. The changes to the AML/CFT Notices took effect on 1 July 2025.

⁶ To ensure that AML/CFT frameworks and controls implemented by the VCCs’ EFIs are robust and effective for ML/TF risk mitigation.

⁷ VCCs should also be able to provide such beneficial ownership information to MAS and relevant law enforcement agencies in a timely manner upon request.

⁸ MAS Circular No. AMLD 06/2022-1 (September 2022).

⁹ The PF NRA and CPF Strategy updates and deepens Singapore’s PF risk understanding, taking into consideration observations by relevant Singapore authorities, international typologies and feedback from the private sector.

¹⁰ The LPRA, LARA, and VARA are thematic risk assessments that complement Singapore’s updated ML NRA and TF NRA published on 20 June 2024 and 1 July 2024 respectively. These thematic risk assessments provide a more targeted and in-depth understanding of Singapore’s key threats and vulnerabilities in these specific risk areas and are particularly relevant to sectors that have been referenced in the reports.

¹¹ The National AML Strategy sets out the strategic approach to address ML risks and will guide Singapore’s risk-targeted actions to combat ML amidst rapidly changing risks, trends and criminal typologies.

¹² The Law Enforcement Strategy to Combat ML supports the National AML Strategy, articulates the shared commitment by law enforcement agencies to combat ML and addresses the key ML threats identified in the 2024 ML NRA.

6. In relation to VCCs,¹³ the relevant AML/CFT Notices that have been amended include the MAS Notice VCC-N01 (“**MAS VCC Notice**”) and the Guidelines to MAS Notice VCC-N01 On Prevention of Money Laundering and Countering the Financing of Terrorism (“**Guidelines**”). Key changes include:
- (a) clarifications that money laundering includes proliferation financing; and
 - (b) information gathering and identification requirements, in particular where a VCC establishes business relations with a legal arrangement such as a trust. (i.e. a VCC should identify all related parties to a legal arrangement – see updated definition of “trust relevant parties”¹⁴ in MAS Notice TCA-N03).

IV. **Conclusion**

7. In relation to the Circular, MAS is conducting supervisory reviews of specific VCC Managers and engage these VCC Managers further to determine whether supervisory interventions or regulatory actions are warranted. VCC managers should review the management of their VCCs and address any gaps in compliance or to implement the good practices set out in the Circular. Further, FIs and VCCs should note their AML/CFT obligations include mitigating PF risks and note the expanded class of persons that FIs and VCCs will need to conduct due diligence on when dealing with legal arrangements such as trusts.
8. Please feel free to reach out if you have any queries on the abovementioned updates.

Mr Ian Phung

Director

Office: 6228 0327

Email: ianphung@chp.law

Mr Justin Hoo

Associate

Office: 6228 0313

Email: justinhoo@chp.law

Ms Yvonne Tan

Associate

Office: 6228 0314

Email: yvonnetan@chp.law

¹³ VCC Managers may also wish to note the amendments made to the MAS Notice SF04-N02 and the Guidelines to Notice SFA 04-N02 on Prevention of Money Laundering and Countering the Financing of Terrorism - Capital Markets Intermediaries.

¹⁴ “trust relevant party”, in relation to a legal arrangement, means any of the following: (a) the settlor; (b) the trustee; (c) the protector; (d) the beneficiary, class of beneficiaries or object of a power; (e) or any other persons with the power under the legal arrangement instrument or by law to do any of the following: (i) dispose of the property under the legal arrangement; (ii) invest the property under the legal arrangement other than as a trust manager of the legal arrangement; (iii) direct, make or approve distributions of the property under the legal arrangement; (iv) vary or terminate the legal arrangement; (v) add or remove a person as a beneficiary or object of a power under the legal arrangement; (vi) or add a person to, or remove a person from, a class of beneficiaries under the legal arrangement.