

Variable Capital Company ('VCC')

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In news

Expert committee on Variable Capital Company has submitted its report on the feasibility of Variable Capital Companies in IFSC to IFSCA

Key updates

Dr. K.P. Krishnan headed expert committee on Variable Capital Company has submitted its report on the feasibility of Variable Capital Companies in the International Financial Services Centres to the Chairperson of the International Financial Services Centres Authority (IFSCA)

More about the expert committee

- IFSCA constituted a Committee of Experts ('the Committee') to examine the feasibility of the Variable Capital Company ('VCC') in India to examine the suitability of the Variable Capital Company as a vehicle for fund management in the IFSC in India.
- This committee has been set up to explore the potential for allowing another legal structure – popularly known as a variable capital company (VCC) – as an additional option through which asset managers could pool the investors' funds.
- The VCC structure dispenses with some of the key limitations of companies and LLPs and provides for higher regulatory standards than those applicable to trusts.

Key recommendations

- In line with the mandate given to the Committee, it

examined the relevance and adaptability of the VCC for the IFSC in India or alternative structures to attract fund business in the IFSC.

- The Committee assessed the features of a VCC or its equivalent, in other jurisdictions such as the UK, Singapore, Ireland and Luxembourg.
- The Committee **recommended** the adoption of a **VCC-like legal structure for the purpose of conducting fund management activity in IFSCs**
- It also recognized that the legal framework governing entities that undertake fund management should provide for
 - certainty and clarity to investors
 - effective segregation and ring fencing of different pools of asset
 - the ability to issue different classes of shares
 - alterations to the funds' capital structure without regulatory approvals and the freedom to choose the appropriate accounting standards applicable to funds with different characteristics
 - the ability to wind up quickly.

Pooling of funds in India

Conventionally, pooling of funds in India is undertaken through three types of entities, namely,

1. Limited liability companies governed under the Companies Act, 2013
2. Limited liability partnerships under the Limited Liability Partnership Act; and
3. Trusts governed under the Indian Trusts Act, 1882.

What is VCC?

- Variable Capital Company ("VCC") is a corporate structure that is tailored for collective investment schemes

- VCC is a new corporate entity structure under which several collective investment schemes (whether open-end or closed-end) may be gathered under the umbrella of a single corporate entity and yet remain ring-fenced from each other.
- The new corporate entity structure gives funds an alternative to unit trusts, limited partnerships, limited liability partnerships and companies.
- A key characteristic of the VCC is its umbrella structure is that it allows the sub-funds to share a board of directors and have common service providers, such as the same fund manager, custodian, auditor and administrative agent.
- Certain administrative functions, for instance, the holding of general meetings and preparation of prospectuses, can also be consolidated.
- Where a VCC is set up as an umbrella fund with several sub-funds, members may hold shares that are referenced to a particular sub-fund held by the VCC.