



BVI Incubator and Approved Funds – Success for Start Ups

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Cementing its reputation as the offshore jurisdiction of choice for new managers and start-up funds, the British Virgin Islands' innovative Incubator and Approved Fund products continue to grow in popularity, as they allow managers to start building a track record and launch funds under less stringent regulatory conditions.

Introduced in 2015, as part of the *Securities and Investment Business (Incubator and Approved Funds) Regulations*, the low cost Incubator and Approved Fund vehicles provide the opportunity for managers to gain enough traction in the market, while keeping overheads to a minimum, so that enough capital can be attracted to become viable over the long term. Both vehicles are restricted to having no more than 20 investors and while the Incubator Fund caps net assets at US\$20 million, with a minimum subscription of US\$20,000, the Approved Fund, which has no minimum investment, can hold a maximum of US\$100 million in assets.

Unsurprisingly, both new products have proven highly attractive to new managers, looking to launch in a domicile with a strong international reputation, but on a more cost effective basis than had previously been possible. According to the BVI FSC, as of July 2018, there were 47 Incubator Funds and 75 Approved Funds on the register, taking advantage of the jurisdiction's unique set of regulatory concessions.

Reduced Regulatory Challenges

Of particular benefit to a new manager is that incubator or approved funds are not required to prepare an offering memorandum. Instead, investors just need to be provided with a written description of both the investment strategy and an outline of the risks involved, including the specific risk of investing in these types of fund.

Additionally, there is no need for either type of fund to appoint an auditor or custodian. With its higher limit on net assets, the Approved Fund has been a popular alternative for funds looking to raise capital from a limited number of investors, such as friends and family, although unlike the start-up friendly Incubator Fund, the Approved Fund is required to appoint an administrator.

It is also important to note that an Incubator Fund can only exist as such for a period of two years, which can be extended by one year, before which it must either convert to a Private, Professional or Approved Fund. Alternatively it can convert to a closed-end fund or be wound-up. There is no such term limit for Approved Funds, which can convert to a Private or Professional fund at any time (or not).

Moving Forward

Both approved and incubator funds may commence business within two business days of submitting a completed application. They must have two directors, one of which is an individual whose resume has been lodged with the FSC, in addition to having an authorised representative in the BVI.

Incubator funds are required to submit semi-annual returns to the FSC which confirm their continuing eligibility for the classification, as well as annual returns and annual financial statements, although auditing is not necessary.

Should either type of fund exceed either the prescribed threshold for net assets or number of investors for two consecutive months it is required to notify the FSC within seven days and begin the process of conversion to a Private or Professional Fund (or an Approved Fund for Incubator Funds) or commence liquidation.

The difficulties for new managers in launching in today's climate are well documented, facing ever more complex international regulatory requirements, securing reputable service providers and the need to reach a certain scale in order to attract institutional capital. By developing a framework designed to insulate managers from these challenges and grow their business, demonstrates the BVI's position as a leading domicile for hedge funds.

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