



Asia's Premier International Financial Hub

A GUIDE TO LABUAN FUNDS

www.labuanibfc.com

Contents

01

About Labuan IBFC

02

Understanding Labuan
Funds

03-04

Setting Up a Labuan
Private Fund

05-06

Fund Vehicles and
Structures

07

Key Benefits to setting
up in Labuan IBFC

08

Summary of Labuan
IBFC Strategic Roadmap
2022-2026

09

Strategic Thrusts

About Labuan IBFC

Labuan IBFC is the preferred international business and financial centre in Asia. We offer global investors and businesses the benefits of being in a well-regulated and supervised jurisdiction, which adheres to international standards of compliance in tax transparency.

We also provide fiscal neutrality and certainty in a currency-neutral operating environment. Labuan IBFC, located in the centre of Asia, boasts a cost-efficient environment making it an ideal location for substance creation for global fund managers to both structure their funds and from which fund management activities may be carried out.

The Labuan IBFC fund regime is well-supported by a robust, internationally recognised yet business-friendly legal framework. Labuan IBFC operates within clear and comprehensive legal provisions and industry guidelines, enforced by its centralised regulator, Labuan Financial Services Authority (Labuan FSA), which in turn is a statutory body under the purview of the Ministry of Finance, Malaysia. Labuan FSA is a member of the International Organization of Securities Commissions (IOSCO) and the jurisdiction itself adheres to international standards and best practices.

“ Labuan IBFC is home to both regional and international capital market service providers such as fund managers, fund administrators, custodians and financial advisors. This provides a business conducive ecosystem for international investments and fund setups in the centre.”

The availability of various fund vehicles range from cost-efficient flexible private equity funds to sophisticated passportable international funds. Labuan funds can be managed by prominent fund managers globally, with investment and investment-related decisions made in Labuan.

Understanding Labuan Funds

Labuan funds are governed under Part III of the Labuan Financial Services and Securities (Amendment) Act 2022 or Part IV of the Labuan Islamic Financial Services and Securities (Amendment) Act 2022.

A fund is set up for a collective investment purpose, with the aim of spreading investment opportunities and risks. Pooled funds can be invested in assets such as bonds, stocks, and equities. A fund manager then oversees these funds and invests them to generate capital gains and income for the investors.

The structure and operation of the funds should reflect the original investment objectives and goals. Labuan funds can also be structured and operated in compliance with Shariah principles.

Labuan private funds are mutual funds whose securities are not offered to the general public and are owned or held by:

1

A maximum of 50 investors where the first-time investment by each investor is not less than MYR 250,000 equivalent in any foreign currency; or

2

Unlimited number of investors where the first-time investment by each investor is not less than MYR 500,000 equivalent in any foreign currency.

Setting Up a Labuan Private Fund

A written notification to Labuan FSA is required together with the lodgment of an information memorandum through either a Labuan trust company, a Labuan bank, a Labuan investment bank or a Labuan fund manager.

The information memorandum serves as a prospectus to facilitate the assessment by a potential investor in determining whether to purchase or subscribe to the private fund.

The information memorandum should provide full, true and plain disclosure of all facts that contain at least the following disclosures:

1. General information

- General description of the fund including date of issuance, mandate/objective, legal form and structure, tenure, target fund size and geographical focus. For a Labuan Islamic private fund, the description must state that the fund shall only participate in operations, administrations, investments and all other activities that are in compliance with Shariah principles.
- The profile of key officers and other relevant persons involved in the operations and management of the funds such as director, fund manager, custodian and Shariah advisor (whichever applicable).
- All fees and costs that will be borne by the investors.
- The capital and income distribution policy of the fund.

2. Investment strategy

- The investment strategy including the investment policies and objectives and type of securities in which the fund intends to invest as well as the names of all underwriters and amount proposed to be underwritten by each underwriter.
- Summary of the key features of the fund which can facilitate an investor in considering and comparing any similar investments on offer.
- The extent to which it intends to invest in derivatives and unlisted securities. If the fund intends to not invest in any such investments, the information memorandum must include an appropriate statement to that effect.
- The investment and borrowing limitations of the fund.

3. Financial results

- The financial projections of the fund including projected cash flows and profits.
- The proposed minimum subscription proceeds net of costs.
- The fund's policy on submission of financial reports including interim results and annual financial statements of the fund to its subscribers.

4. Redemption policy

Information on fund redemption policy.

5. Material changes

If there is any change which materially affects any of the matters required to be disclosed in the information memorandum, or the matters disclosed in the information memorandum, the fund shall within 30 days incorporate such changes to the information memorandum and provide a copy of supplementary/amended information memorandum to each investor and Labuan FSA.

Please refer to Guidelines on the Establishment of Labuan Mutual Funds including Islamic Mutual Funds for further details

Fund Vehicles and Structures

The Labuan IBFC fund regime is comprehensive and offers a wide range of options when choosing fund vehicles and structures. The Labuan fund can be structured as a company, partnership, protected cell company, foundation, unit trust or a corporation incorporated under the laws of any recognised country or jurisdiction, who is a member of IOSCO.



Open or Closed-Ended Investment Companies

Incorporation of a Labuan company for:

- Open-ended investment companies - for traditional funds with regular subscription and redemption possibilities.
- Closed-ended investment companies - to structure a listed fund vehicle.



Restricted Scope Companies

Incorporation of a Labuan company designated as a restricted scope company. This special purpose vehicle can benefit from the jurisdiction's cost-efficient substance creation and shorter time to market.



Investment Trust

A fund manager may appoint a trustee through a trust deed and establish an investment trust fund.



Foundation

Having professional service providers as part of the foundation's council provides better governance for investment. This bolsters investor confidence as funds are well managed.



Limited Partnerships

Labuan funds can be structured via limited partnerships.



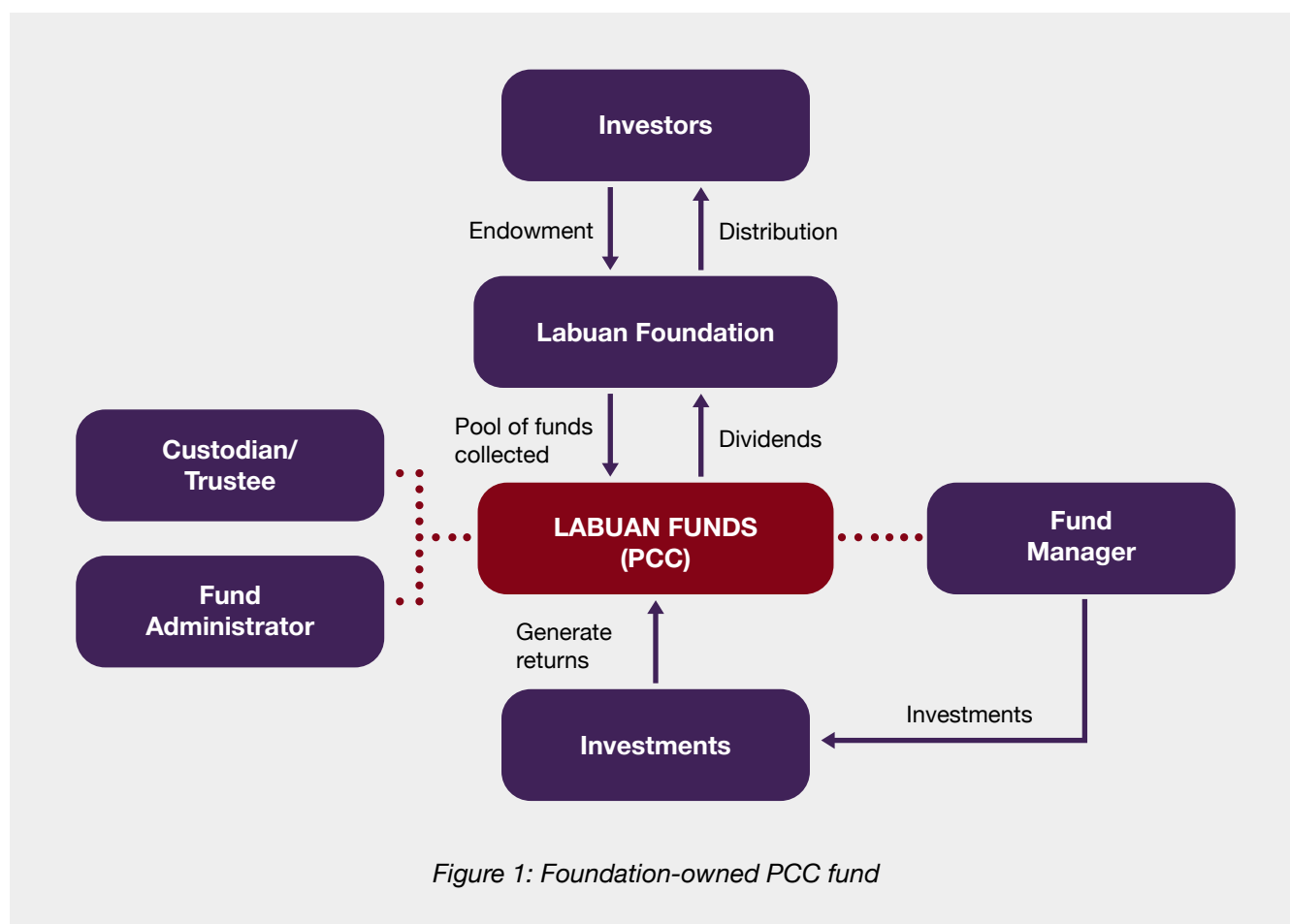
Protected Cell Companies (PCC)

A PCC allows fund managers to legally segregate assets and liabilities to each cell whilst operating under a common management of a fund manager. This is also suitable for umbrella funds. Each cell may have its own investment objectives and rules.

In view of the simple fund structures detailed above, increasingly sophisticated investment demands and market volatility, combined with the need to foster greater governance and optimising investment returns, Labuan IBFC also offers the possibility of structuring a fund in a more comprehensive manner.

For example, a Labuan foundation may structure a range of funds via a PCC. This structure reinforces investor confidence as both the funds and foundation are registered entities. The regulator and professional councils provide corporate governance and a natural check and balance which makes this an ideal, unique structure for when certain fund mandates need to be enshrined in a transparent manner for the benefit of the investors.

This bespoke investment structure comprising a Labuan foundation investing via a fund structure such as a PCC provides a flexible and agnostic solution.



A Labuan private fund may also use a traditional fund structure combined with the ability to tokenise the fund via blockchain technology. The transparency of a blockchain-based system thereby increases investor trust which can then be translated into a more sizeable fund size whilst adding recognition to the fund and its manager.

In addition, the rights of investors, legal responsibilities and limitations, and record of ownership as well as relevant Know Your Client requirements and Anti-Money Laundering procedures can also be embedded directly onto the tokenised funds. Investors would then subscribe for tokens representing an interest in the fund.

Key Benefits to setting up in Labuan IBFC

01

Regulated and supervised under a robust and internationally recognised legal framework.

02

A tax-neutral jurisdiction that is cost-efficient for substance creation; provides legal neutrality in dispute settlement; is currency neutral as businesses are able to deal in any currency.

03

A digital-friendly jurisdiction which provides for the digitalisation of the fund and its management.

04

Various options of corporate structures are available to suit different purposes e.g multi-currency investments, different risk profiles, etc.

05

A Labuan entity is deemed as a non-resident under Malaysian foreign exchange administration rules and therefore is subject to a more liberal exchange control environment.

06

Tax certainty and may access Malaysia's double taxation agreements with over 70 countries.

07

No withholding tax on income distributions.

08

No stamp duty on all instruments which are executed by a Labuan entity with Labuan business activities.

Summary of Labuan IBFC Strategic Roadmap 2022-2026



Strategic Thrusts



Spurring Market Innovations & Vibrancy

- Transforming into a Digital Financial Hub
- Intensifying Labuan's insurance market growth
- Promoting international Islamic finance
- Revitalising niche and prospective segments



Promoting Market Facilitation & Visibility

- Upscaling Labuan IBFC's ecosystem and infrastructure
- Enhancing Labuan IBFC's visibility and branding



Strengthening Labuan IBFC's Complementary Roles to Malaysia

- Complementary capacity to Malaysia's economy



Effecting Relevant & Proportionate Regulations

- Continued prudential regulatory and legal upscaling in accordance with international standards
- Developing risk-sensitive, fit-for-purpose regulations to cater for emerging concerns
- Securing good ratings for incoming international assessments on Labuan IBFC
- Fiscal planning to meet Organisation for Economic Co-operation and Development's (OECD) new requirements and BEPS 2.0



Effecting Pre-Emptive Supervision & Enforcement

- Intensifying and modernising supervisory approach and cross-border engagements

For more information, log on to **www.labuanibfc.com**

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Labuan IBFC Incorporated Sdn Bhd, the official promotion and marketing agency for Labuan International Business and Financial Centre, Malaysia.

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