

Narrative Report on Singapore

Singapore is ranked at fifth position on the 2013 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services.

Singapore has been assessed with 70 secrecy points out of a potential 100, placing it towards the high end of the secrecy scale (see *chart 1* below), though improvements now being pushed through could substantially improve its secrecy score in future.

Singapore accounts for approximately 4.3 per cent of the global market for offshore financial services, making it a moderate sized player. A rapid rise in the number of foreign asset managers and assets managed in Singapore, largely created by economic growth in Asia and by displacement of assets from elsewhere, suggests that Singapore's global share of offshore financial services – and its scale weighting in our index - could increase substantially too.

Part 1: Telling the story¹

The Singapore financial centre: history and background

Overview

Singapore is arguably the world's fastest-growing centre for private wealth management. A [WealthInsight report](#) in April 2013 expects it to overtake Switzerland by 2020 as the world's largest offshore wealth centre.

Singapore's financial centre has thrived for several reasons. First a long history of light-touch trade regulations and the welcoming of smuggling activity in colonial times naturally evolved into an ask-no-questions offshore financial model - as has been the case in many small offshore financial centres around the world today. Second, it has benefited from its location as a hub for south-east Asia, with its booming economies and close ideological and cultural affinities to many Asian states. Third, it has a reputation for respecting the rule of law more than other jurisdictions in the region – though in classic offshore style this has often meant respecting only the domestic rule of law, while turning a blind eye to foreign law-breaking.² Fourth, financial capital is attracted to Singapore's political independence combined with the fact that its big regional rival, Hong Kong, is significantly under China's shadow, deterring

Chart 1 - How Secretive?

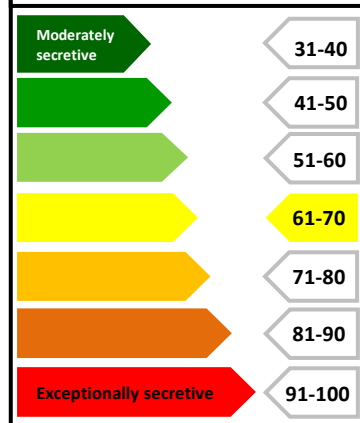


Chart 2 - How Big?



many potential capital owners there. Fifth, a high degree of ‘state capture’ by the financial services industry, as explained below, ring-fences the sector against potential domestic political opposition.

Singapore is not only a secrecy jurisdiction, offering a variety of secrecy facilities, but also a tax haven, providing numerous tax-avoidance and evasion opportunities,³ and a financial regulatory haven too, as explained below.

By the end of 2010 Singapore had over 600 local and foreign financial institutions, including 38 offshore banks; financial institutions had assets under management of US\$1.33 trillion. Of this, \$550 billion was in the wealth management sector in 2010, according to [one estimate](#), eclipsing Hong Kong’s approximately \$250 billion. However, much of the new business does not involve assets themselves flowing to Singapore, but instead involves the business of handling assets that are located elsewhere, but held via Singapore offshore trusts and other secrecy facilities.

In the spirit of broader international changes underway, Singapore has recently shown increased willingness to improve transparency. These include its adoption in October 2009 [of a bill](#) that would allow information exchange under (very weak) OECD standards; an increase in the number of treaties signed under OECD standards; a decision in May 2013 to sign an Intergovernmental Agreement with the United States over its FATCA information-sharing project and to sign the OECD’s Multilateral Convention on Mutual Administrative Assistance in Tax Matters; a move in July 2013 to make tax offences a predicate crime for money-laundering purposes (though there is uncertainty about the technical complexities of this), and [promises](#) in May 2013 of further improvements to come. Despite these real and promised improvements, Singapore’s secrecy score has only improved modestly from 2011; this is essentially because our 2013 index corrects some information provided by Singapore’s Ministry of Finance for our 2011 index, which on closer inspection was revealed to be misleading in respect of two of our 15 indicators⁴.

Singapore: history as a financial centre

Founded as a British trading colony in 1819, Singapore is one of Asia’s two big city-states with a deep-water port which made a living during the colonial era from a ‘light touch’ trade regime and plenty of smuggling. The other is Hong Kong. Joe Studwell, founder of the China Economic Quarterly, summarises what is perhaps the core reason for their success:

“As relatively easily managed city states, Hong Kong and Singapore perform a simple economic trick: they arbitrage the relative economic inefficiency of their hinterlands . . . Since colonial inception they have offered tariff-free trade (with few or no questions asked about where the money came from) . . . the regional offshore roles of Hong Kong and Singapore have been absolute constants since their founding, and show no sign of change.”⁵

Singapore took its first steps as a modern offshore and international financial centre soon after independence from the Federation of Malaysia in 1965, and began to diversify its reach beyond its traditional economic hinterlands of Indonesia and Malaysia.

The first big step was a strategic decision to develop the [Asian Dollar Market](#) -- emulating the London-based '[Eurodollar](#)' markets, which are very much an 'offshore' phenomenon⁶.

According to the then Prime Minister Lee Kuan Yew ([p89](#)), Singapore's financial centre strategy first emerged in 1968 when Dr. Albert Winsemius, a Dutch economic adviser to Lee, contacted an official at the Bank of America in London for advice on setting up a financial centre. Singapore was then inside the British Sterling Area, which required controls on cross-border speculative transactions outside the zone. Although the Bank of England declined to support Lee's desire to set up a 'Eurodollar' market in Asia, he went ahead anyway, giving commercial banks special regulatory and tax treatment to set up separate Asian Currency Units (ACUs) in their banking organisations. The Bank of England eventually acquiesced.

The Asian Dollar business mushroomed, focusing mainly on South Asia and initially buoyed by large U.S. dollar spending in the region amid the Vietnam War. The establishment of the Monetary Authority of Singapore (MAS) followed shortly in 1971 as the country's central bank and finance regulator boosted Singapore's regulation.

The overall approach was 'offshore' from the outset: an absence of liquidity and reserve requirements was complemented by various other lures such as the abolition of withholding taxes on interest income earned by non-residents, the provision of strong secrecy facilities, and freedom from exchange controls.

During this period, the financial services industry has grown both in terms of size and scope. The 1970s and 1980s saw the establishment of new financial markets in equities, derivatives and commodities, while fund management, corporate financing and insurance sectors become more prominent from the 1990s onwards. Over the years, the GDP contribution of financial services has risen from 6% in the 1970s to 11% in 2012.

The Singapore model

From the outset, Singapore had to adopt special tactics to compete with Hong Kong. According to Lee, Singapore could not match Hong Kong's links to the City of London or the explicit backing of the Bank of England, so it based its early success on a two-prong approach: first, by reassuring investors that Singapore was a safe place to do business, and second, by attracting Asian business outside of Hong Kong's sphere of influence. "In the early years from 1968 to 1985," Lee notes, "we had the field all to ourselves in the region." To start with, as part of a policy to establish a reputation for solidity, Singapore took a more cautious approach to financial regulation than Hong Kong did:

“In Hong Kong what is not expressly forbidden is permitted; in Singapore, what is not expressly permitted is forbidden,” Lee wrote.

Studwell makes a further striking comparison between the two competing centres:

Under Mr. Lee – who never much liked private businessmen – Singapore followed a statist model, with the government taking public control of most significant companies. Hong Kong pursued an apparently opposite free market model (though in fact its services were always heavily cartelised)

...

At the end of the 20th Century, the result of ostensibly diametrically opposite approaches to economic management was GDP per capita in the two cities that varied by less than \$1,000. The lesson? That a city state with a strategic deep water port in a region that has relatively higher levels of mismanagement, corruption and political uncertainty will prosper, with little reference to official economic philosophy.⁷

What is more, we have noted in offshore secrecy jurisdiction after jurisdiction the phenomenon of ‘state capture’ by the offshore financial services sector, where offshore law-making is carefully ring-fenced against any potential interference in domestic politics. A journalistic account in 2012 describes the Singapore variant of this:

Singapore’s success is a family affair, from all points of view. It is impossible to find opinions opposed to the omnipresence of finance on the island. “The banks form part of our DNA,” says Pratam Singh, one of five opposition deputies among 99 parliamentarians. Former ministers or civil servants make up the boards of the banks. Parliament approves and votes on the executive’s decisions, without haggling. “The notion of conflicts of interest does not exist, because everyone is in some form a shareholder of Singapore Inc.,” a diplomat says. The rule of law, vaunted by the authorities, is both inflexible and obedient. “The inspections and reprimands from the Monetary Authority of Singapore are everything,” a European banking veteran said. “Not respecting the rules risks huge fines, and even prison.”⁸

This bedrock of stability, obedience and financial state capture has attracted money from around the world.

Since the 1990s, regulatory attention in Singapore shifted to liberalising financial markets and banking sectors to attract more international institutions, and growing new market segments such as fund management, treasury operations, insurance, equity market, debt issuance, corporate financing and so on⁹. This internationalisation was a strategic decision to diversify following the 1985 economic recession and 1997 Asian financial crisis. Special committee reports were commissioned aimed at assessing the state of the economy and highlighting future growth sectors, and the financial services industry featured prominently and consistently in all recommendations.

With further advice from Gerald Corrigan, a former president of the Federal Reserve Bank of New York, and Brian Quinn of the Bank of England, Singapore began to adopt a more 'light touch' regulatory regime and a far more liberalised financial market from 1998. These moves were combined with a reinforcement of secrecy in 2001. That year Finance Minister Lee Hsien Loong [amended](#) the Banking Act to revise secrecy provisions to allow "only very few exceptions" relating to customer deposits and investment funds; stressing that "tight banking secrecy is important to maintaining the confidence of customers in our banking system", and that "a person who receives customer information will be required by law to keep the information confidential." Infringing banking secrecy [was made](#) punishable by up to three years in jail. In 2004, trust laws were changed that proved useful to Europeans in avoiding and evading inheritance taxes.

Other boosts

Alongside these home-grown offshore facilities, Singapore's global position as a financial centre has been very much driven by economic growth in the wider Asia region. While much of the Asia growth story has centred on China and northeast Asia, India has become increasingly important in economic terms, embarking on infrastructural projects and transnational business operations. New opportunities are also present in neighbouring Southeast Asia with the emerging economies of Vietnam and Cambodia, and the more recent opening up of Burma to foreign investment. The [increasing affluence](#) of the domestic population in Singapore and [growing wealth in the region](#) (e.g. in Indonesia, Thailand, China and India) presents attractive markets for financial services providers, particularly amidst the uncertain economic outlook in European and US economies.

All this has been fuelled by ([modest](#)) secrecy crackdowns elsewhere, particularly in Europe and North America, that have displaced tax-evading and other funds away from European, Caribbean and North American financial centres and towards Singapore and Hong Kong.

Singapore's financial sector growth has recently been spectacular. The latest [MAS Asset Management Industry Survey](#) reported that assets under management grew from US\$1.03 trillion to US\$1.33 trillion between 2011 and 2012 alone, representing a 5-year average growth rate of 9% per annum. The [2007 Survey](#) was the last report to indicate sources of funds, with 44% from the Asia-Pacific region, and 25% from Europe. The Asia-Pacific share is likely to have risen since then.¹⁰

Dirty money

Over the years, Singapore has had its share of scandals – from its implication in the Slater Walker scandal in the 1970s, to the Nick Leeson trading scandal in 1995, facilitated by what the New York Times [called](#) the "see-no-evil regulators of Simex, Singapore's swinging stock exchange." (However, Singapore did resist several earlier attempts by the highly corrupt [Bank of Credit and Commerce International \(BCCI\)](#) to open offices there, including one approach that came with a letter of support from British Prime Minister Harold Wilson.)

In 2006 Morgan Stanley chief Asia Economist Andy Xie, in an internal email that subsequently became public, questioned why Singapore had been chosen to host the annual IMF and World Bank meetings. As he put it, delegates

“were competing with each other to praise Singapore as the success story of globalization . . . actually, Singapore's success came mostly from being the money laundering center for corrupt Indonesian businessmen and government officials . . . to sustain its economy, Singapore is building casinos to attract corruption money from China.”

Though a somewhat exaggerated account, it does capture an important truth about the Singapore financial centre, as various other testimonies show. Indonesia’s Deputy Attorney General in 2010 [described](#) Singapore as ‘the most strategic country for corruptors to run away to. . . the policy of the Singaporean government enables corruptors to live there,’ with Singapore declining to help Indonesia extradite those it believes to have siphoned off large-scale state funds during the Asian crisis of the late 1990s. According to the Singapore Democratic Party [in 2008](#), corrupt Burmese ruling generals, among many others from the Asia Pacific region, were also suspected of using Singapore as a destination for their laundered money. The U.S. International Narcotics Control Strategy Report (INSCR) in 2011 [added that](#):

“Stringent bank secrecy laws and the lack of routine currency reporting requirements make Singapore a potentially attractive destination for drug traffickers, transnational criminals, foreign corrupt officials, terrorist organizations and their supporters seeking to launder money or fund terrorist activities.”

In April 2013, the Washington-based International Consortium of Investigative Journalists (ICIJ) acquired [secret records](#) containing more than 120,000 offshore companies and trusts, and the offshore holdings of people and companies in more than 170 countries and territories. Central to this data leak was information on Singapore-based Portcullis TrustNet, which set up offshore companies and trusts and hard-to-trace bank accounts in Singapore and other offshore financial centres around the world. According to [ICIJ’s investigation](#), Deutsche Bank’s Singapore branch, for instance, is found to have helped create or manage 309 offshore companies and trusts in the British Virgin Islands and other tax havens by registering them with Portcullis TrustNet. Public records do not show any business activities for most of these offshore entities. Portcullis TrustNet is also implicated in various offshore accounts scandals of public officials and wealthy individuals and families based in [Indonesia](#), [Thailand](#) and the [Philippines](#).

Separately, an undercover [investigation](#) by Global Witness into corruption in Malaysia’s Sarawak state, published in 2013, provides a rare inside view of the operation of the financial centre, with a [tax lawyer noting](#) that:

Singapore has a “Chinese wall,” that it’s impossible for the Malaysian authorities to get any information out of Singapore, and that Singapore is for “people like us.”

Singapore’s practitioners have long stressed - albeit quietly – that information-sharing agreements with other countries come hedged with special Singaporean ‘safeguards,’ which are backed by a courts system favourable to the financial sector, which can make it hard for other jurisdictions to extract necessary information.

A popular Singaporean secrecy facility is the Private Trust Company (PTC), which acts as a trustee for secretive trusts. A PTC, as one practitioner [describes it](#), allows the wealthy individual a “higher level of control and discretion” than with standard trusts managed by a professional trustee. (A ‘higher level of control’ and ‘discretion’ can mean the trust can be more easily controlled by the person who contributed the assets – and is therefore more of a sham.)

Singapore offers many tax exemptions too. There is full tax exemption for foreign-sourced income received in Singapore by any individual not resident in Singapore; there is an absence of capital gains, gift or estate taxes; and Singapore also boasts a quasi-territorial tax system that exempts from individual income tax all foreign-sourced income not remitted to Singapore. Various other tax incentives and loopholes exist for corporations too.

In addition, Singapore has quite a wide array of tax treaties with other countries, and, partly as a result of this, it has become a [major turntable](#) for so-called ‘round-tripping’ into and out of India and other countries, in competition with other centres like Mauritius. Round tripping occurs when an investor from, say, India, sends capital to Singapore, where it is dressed up in legal secrecy, and then returned to India via a Singaporean shell company, disguised illegally as foreign investment, in order to obtain tax and other benefits from the tax treaty that would not otherwise have been available to the Indian investor.

The main constraints on Singapore’s growth at the moment seem to be a lack of qualified staff: top salaries for client relationship managers in Singapore are almost double the level of Switzerland, according to [PricewaterhouseCoopers](#). Further rapid growth is clearly anticipated by the many international banks who are moving into or aggressively [expanding](#) their wealth management and advisory business to Singapore (and Hong Kong).

Further reading:

[The Impact of EU Savings Tax Directive Amendments on various entities and legal arrangements in Singapore](#), by Mark Morris of Mark Morris Consulting.

[Global Forum on Transparency and Exchange of Information for Tax Purposes Peer Reviews: Singapore 2011: Phase 1: Legal and Regulatory Framework](#), Global Forum on Transparency and Exchange of Information for Tax Purposes, OECD Publishing, 2011

[Global Forum on Transparency and Exchange of Information for Tax Purposes Peer Reviews: Singapore 2013: Phase 2: Implementation of the Standard in Practice](#), Global Forum on Transparency and Exchange of Information for Tax Purposes, OECD Publishing, 2013

Singapore's future as a financial centre: [Part I](#), [Part II](#) and [Part III](#), Singapore Democratic Party, November and December 2008

[The growth of the private wealth management industry in Singapore and Hong Kong](#), by Jek Aun Long and Danny Tan, Capital Markets Law Journal, August 2010

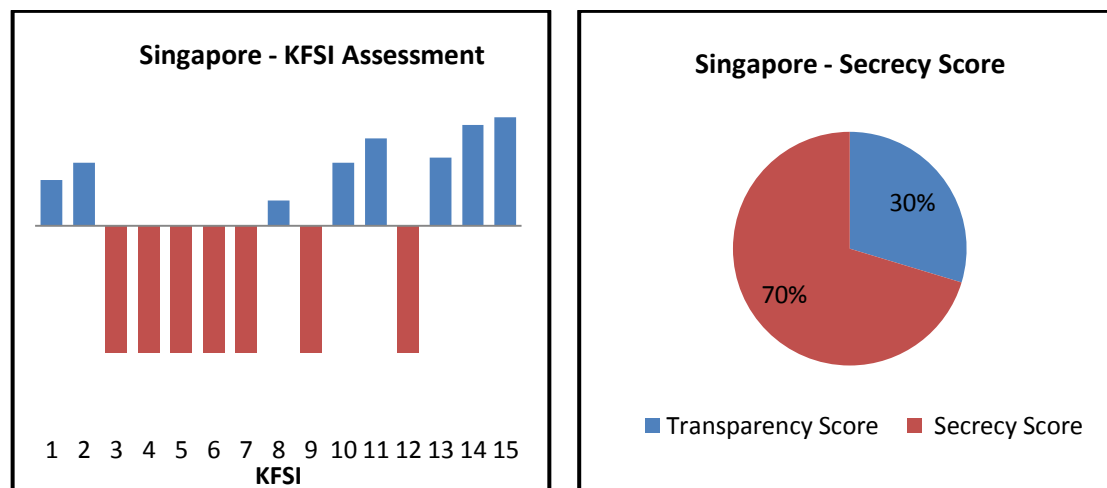
[OECD Peer Review Report of Singapore](#), OECD Global Forum, 2010

Next steps for Singapore

Singapore's 70 per cent secrecy score shows that it must still make major progress in offering satisfactory financial transparency. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices and criminal activities, it should take action on the points noted where it falls short of acceptable international standards. See part 2 below for details of Singapore's shortcomings on transparency. See this link <http://www.financialsecrecyindex.com/kfsi> for an overview of how each of these shortcomings can be fixed.

Part 2: Secrecy Scores

The secrecy score of 70 per cent for Singapore has been computed by assessing the jurisdiction's performance on the 15 Key Financial Secrecy Indicators, listed below.



The numbers on the horizontal axis of the bar chart on the left refer to the Key Financial Secrecy Indicators (KFSI). The presence of a **blue** bar indicates a positive answer, as does

blue text in the KFSI list below. The presence of a red bar indicates a negative answer as does red text in the KFSI list. Where the jurisdiction's performance partly, but not fully complies with a Key Financial Secrecy Indicator, the text is coloured violet in the list below (combination of red and blue).

This paper draws on key data collected on Singapore. Our data sources include regulatory reports, legislation, regulation and news available at 31.12.2012¹¹. The full data set is available [here](#)¹². Our assessment is based on the 15 Key Financial Secrecy Indicators (KFSIs, below), reflecting the legal and financial arrangements of Singapore. Details of these indicators are noted in the following table and all background data can be found on the [Financial Secrecy Index website](#)¹³.

The Key Financial Secrecy Indicators and the performance of Singapore are:

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Singapore	
1.	Banking Secrecy: Does the jurisdiction have banking secrecy? Singapore does not adequately curtail banking secrecy
2.	Trust and Foundations Register: Is there a public register of trusts/foundations, or are trusts/foundations prevented? Singapore partly discloses or prevents trusts and private foundations
3.	Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies? Singapore does not maintain company ownership details in official records
KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Singapore	
4.	Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for less than US\$10/€10? Singapore does not require that company ownership details are publicly available online
5.	Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for a fee of less than US\$10/€10? Singapore does not require that company accounts be available on public record

6.	Country-by-Country Reporting: Are all companies required to comply with country-by-country financial reporting? Singapore does not require country-by-country financial reporting by all companies
EFFICIENCY OF TAX AND FINANCIAL REGULATION – Singapore	
7.	Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents? Singapore does not require resident paying agents to tell the domestic tax authorities about payments to non-residents
8.	Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit? Singapore partly uses appropriate tools for efficiently analysing tax related information
9.	Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments? Singapore does not avoid promoting tax evasion via a tax credit system
10.	Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses? Singapore partly allows harmful legal vehicles
INTERNATIONAL STANDARDS AND COOPERATION – Singapore	
11.	Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations? Singapore partly complies with international anti-money laundering standards
12.	Automatic Information Exchange: Does the jurisdiction participate fully in Automatic Information Exchange such as the European Savings Tax Directive? Singapore does not participate fully in Automatic Information Exchange
13.	Bilateral Treaties: Does the jurisdiction have at least 46 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention? As of 31 May, 2012, Singapore had less than 46 tax information sharing agreements complying with basic OECD requirements

14.	<p>International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?</p> <p>Singapore has partly ratified relevant international treaties relating to financial transparency</p>
15.	<p>International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues?</p> <p>Singapore partly cooperates with other states on money laundering and other criminal issues</p>

¹ This narrative report is based on information up to date at 1 September 2013, however all references to FSI scores or ratings reflect the 2013 results.

² This touches on the classic offshore model that tells investors ‘we won’t steal your money – though we might turn a blind eye if you steal other people’s.’

³ For a good appraisal of its tax offerings, see [Singapore: Home for Billionaires and Superstars](#), tax Analysts, Aug 6, 2012

⁴ We decided not to include in our indicators the question of whether or not countries make tax crimes a predicate offence for money laundering purposes. This is because it is extremely complex, slippery and uncertain to define the nature of a tax crime and to make useful international comparisons between different classifications of tax offences. In addition, our [Indicator 12](#) on information exchange explains why the signing of a FATCA agreement has not affected our scores.

⁵ Joe Studwell, *Asian Godfathers: money and power in Hong Kong and South East Asia*, Atlantic Monthly Press, 2007, pp33-34

⁶ Singapore’s first-mover advantage in establishing the ADM sparked off an on-going rivalry with Hong Kong to become the premier financial centre in Asia. See Wong, K.A. (1977) ‘[Structure and growth of the Asian Dollar Market in Singapore](#)’, *Academic Annual 新亚书院学术年册*, pp. 225-239. For more on Eurodollars, see the Eurodollar chapter in Nicholas Shaxson’s *Treasure Islands*; or for a shorter summary, Ronen Palan’s 2012 article “[Britain’s Second Empire](#),” or the [UK narrative report](#) for the Financial Secrecy Index.

⁷ Studwell, p36

⁸ [À Singapour, au coeur du coffre-fort asiatique](#), Le Temps, Jun 18, 2013. This translation has been slightly condensed from the original. Studwell also notes that for many years the local banking sector was dominated by the Lee family, which directly or indirectly determined the four big local banks that determined most access to capital.

⁹ See Monetary Authority of Singapore (2012) *Sustaining stability: serving Singapore*, Singapore: Straits Times Press.

¹⁰ While Asia Pacific sources have likely become more important since then, European sources probably remain significant due to the EU Savings Tax Directive, which from 2005 effectively covered a rather large number of offshore jurisdictions, including the British Crown Dependencies (such as Jersey) and Overseas Territories (such as the Cayman Islands and British Virgin Islands). While

Singapore is not party to the European Savings Tax Directive, it does potentially affect certain entities in Singapore. See: <http://www.the-best-of-both-worlds.com/singapore.html> . The Directive is currently full of loopholes, but powerful Amendments waiting in the wings, currently blocked for political reasons, would undoubtedly displace a significant amount of activity to jurisdictions such as Singapore which lie outside its direct scope.

¹¹ With the exception of KFSI 13 for which the cut-off date is 31.05.2013. For more details, look at the endnote number 2 in the corresponding KFSI-paper here:

<http://www.financialsecrecyindex.com/PDF/13-Bilateral-Treaties.pdf>.

¹² That data is available here: <http://www.financialsecrecyindex.com/database/menu.xml>.

¹³ <http://www.financialsecrecyindex.com>.