

NARRATIVE REPORT ON SINGAPORE



PART 1: NARRATIVE REPORT

Background

Singapore is ranked in fifth position on the 2018 Financial Secrecy Index. It has a fairly high secrecy score of 67 and accounts for a large and growing share – over four percent – of the global market for offshore financial services.

This former British colony vies with Hong Kong to be Asia’s leading offshore financial centre: Singapore predominantly serves Southeast Asia while Hong Kong predominantly serves China and North Asia. However, many Chinese and North Asian financial investors are deterred by China’s part-control over Hong Kong and prefer to park assets in more independent-minded Singapore. Despite the heavily Asian focus, however, a significant share of banking deposits come from the U.S. and U.K. As with so many secrecy jurisdictions, Britain’s influence has been important in the construction of the offshore financial centre.

According to the [Boston Consulting Group](#) in 2015, Singapore held around one eighth of the global stock of total offshore wealth¹, and [an IMF report](#) in 2014 estimated that over 95 percent of all commercial banks in Singapore are affiliates of foreign banks: a testament to its extreme dependence on foreign – and offshore – money.

The Singapore financial centre has many offerings: it is also the region’s largest centre for commodity trading, and in 2014 it overtook Tokyo to become Asia’s largest foreign exchange trading centre, and the world’s third largest after London and New York. It hosts substantial activity in insurance, in debt and equity capital markets, in derivatives, and in offshore companies and trusts. It is a major wealth management centre, with [\\$1.8 trillion](#) in assets under management in 2015, 80% of which are sourced from [outside Singapore](#).

Singapore has recently made some progress in curbing some of the worst excesses in money-laundering terms, and industry players say that it has been somewhat more diligent than Hong Kong in terms of enforcement and compliance. In June 2017 Singapore signed the [multi-lateral agreement](#) for the OECD’s Common Reporting Standard. However, Singapore continues to offer a range of secrecy facilities that provide tax avoidance and evasion opportunities, coupled with tax and regulatory incentives, as will be explained below.

Singapore’s rise as an offshore financial centre stems from its historical role as a trading hub or gateway for Southeast Asia. In the modern age, Singapore’s global position as a financial centre has of course been very much driven by economic growth in the wider Asia region.

But the more interesting story is about how Prime Minister Lee Kuan Yew brought the modern global offshore financial centre into being. Lee created three essential conditions to attract the world’s hot money. The first was to reassure foreign money with political stability, which he created through authoritarian rule, a heavily statist development model, and strong application of the rule of law. Second, while the overall economic development model was heavily statist he made an exception for

Rank: 5

Chart 1 - How Secretive?

67
Secrecy Score

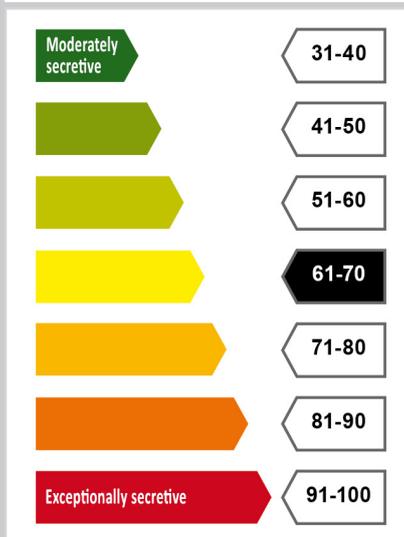
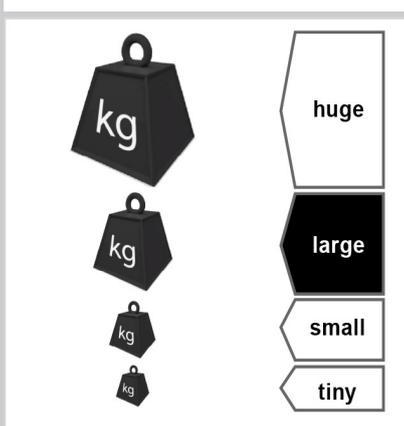


Chart 2 - How Big?



Singapore accounts for more than 1 per cent of the global market for offshore financial services, making it a large player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data on Singapore is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financial-secrecyindex.com>.

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the financial sector, with an extremely permissive approach in certain areas, particularly from the late 1990s. These two ingredients combine in classic offshore style: the model involves fostering strong respect for the domestic rule of law, while tolerating foreign law-breaking and illicit money that flows from it, and a business model that says “we won’t steal your money – but we will turn a blind eye if you want to steal someone else’s money.”

A third ingredient emerged from his authoritarianism, which meant that messy democracy and associated press freedom were not going to be allowed to rock the financial boat. This created the conditions for a financially ‘captured’ state, where finance is ring-fenced from political or other turbulence affecting the rest of the economy, and has helped with the carve-out from the otherwise statist economic model.

History of Singapore as a financial centre

Early origins

Founded as a British trading colony in 1819, Singapore is one of Asia’s two big city-states (alongside Hong Kong) with a major deep-water port. This geographical advantage boosted its role as a regional trading entrepôt, and the colonial authorities bolstered this with a ‘light touch’ trade regime that tolerated smuggling and illicit trade.

But it was only in the 1960s when Singapore took its first steps as a modern offshore and international financial centre, soon after independence from the Federation of Malaysia in 1965, and it 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’ phenomenon.²

According to the then-Prime Minister Lee Kuan Yew, Singapore’s financial centre strategy first emerged from the work of Dr. Albert Winsemius, a Dutch economic adviser to Lee who had originally come to Singapore with the UNDP in 1960, and was appointed chief economic adviser the following year. Winsemius advised Lee to crush the communists, and contacted an official at the Bank of America in London for advice on setting up a financial centre. As Lee tells it:

“Dr Winsemius recalls his telephone call to his friend, the vice president of the Bank of Ameri-

ca branch in Singapore, who was then in London. ‘Look here, Mr. van Oenen, we (Singapore) want, within ten years, to be the financial centre in Southeast Asia.’ Van Oenen replied, ‘All right, you come to London. In five years you can develop it.’ Winsemius immediately went to London.”³

Singapore was then inside the British Sterling Area, which required exchange controls on cross-border speculative transactions outside the zone. Van Oenen [advised](#) Winsemius that Singapore’s key offering was its strategic location in a time zone between San Francisco and Zurich: van Oenen wrote a paper on the subject for Lee, recommending that foreign exchange controls were lifted on all currency transactions between Singapore and territories outside the Sterling area. Though the Bank of England declined to support Lee’s desire to set up a ‘Euro-dollar’ 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.

Singapore began to establish its reputation for light-touch regulation and 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, boosting Singapore’s regulatory capacity. When the U.S. de-linked the dollar from gold in the same year, Singapore quickly seized the opportunity to set up new foreign exchange trading operations.

The 1970s and 1980s saw the establishment of new financial markets in equities, derivatives and commodities, while fund management, corporate financing and insurance sectors became more prominent from the 1990s onwards. Over the years, the GDP contribution of financial services has risen from 6% in the 1970s to [13% in 2016](#).

In the early days Singapore had a relatively small share of scandals by international standards: it was implicated in the Slater Walker scandal of the 1970s, but resisted 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. Yet even in the early days a culture of noncompliance with certain rules existed, as Canadian professor Tom Naylor notes in his book *Hot Money*:

“Singapore bank-loan officers were notorious for their greasy palms, and Singapore banks equally notorious for evading restrictions imposed by the regulatory authorities.”

In recent years, Singapore-based financial institutions have been implicated in two investigations led by the International Consortium of Investigative Journalists (ICIJ): [‘Offshore Leaks’ \(2013\)](#) and [‘Panama Papers’ \(2016\)](#). In addition, Singapore has been heavily implicated in the 1MDB scandal, Malaysia’s embattled sovereign wealth fund (1Malaysia Development Berhad).

The 1MDB case in particular has resulted in some [international pressure](#) being brought to bear on Singapore. In 2016, the Financial Action Task Force highlighted the country’s weakness in pursuing cases of large scale complex financial crime, citing the 1MDB case.

This has sparked regulatory action from the Singaporean Authorities. After conducting a two-year long review of financial institutions involved in the 1MDB scandal, the MAS shut down two Swiss merchant banks – BSI Bank and Falcon Bank - for control lapses and for breaching anti-money laundering (AML) requirements. Eight banks, including the two above, were [fined](#) a total of \$21 million for breaching AML requirements, and local and foreign bankers implicated in the scandal were sentenced to jail.

Two models: Singapore versus Hong Kong

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-pronged approach: first, by reassuring investors that Singapore was a safe place to do business, and second, by attracting Asian business outside 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 begin 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.

Yet this was far from the end of the story. As mentioned, Singapore combines a hybrid of a highly sta-

tist approach with a laissez-faire attitude in certain areas. The Cambridge economist Ha-Joon Chang summarises:

“If you only read things like The Economist or the Wall St. Journal, you would only hear about Singapore’s free trade policy and its welcoming attitudes to foreign investment. This may make you conclude that Singapore’s economic success proves that free trade and the free market are the best for economic development – until you also learn that almost all the land in Singapore is owned by the government, 85 percent of housing is supplied by the government-owned housing agency, and 22 percent of national output is produced by state-owned enterprises (the international average is around 10 percent. There is no single type of economic theory – Neoclassical, Marxist, Keynesian, you name it – that can explain the success of this combination of free market and socialism.”⁴

Joe Studwell, founder of the China Economic Quarterly, summarises what is perhaps the core reason for the two leading Asian city-states’ 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

Studwell makes a striking observation about the two competing financial 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.⁶”

Light touch regulation . . .

Following the 1985 economic recession and 1997 Asian financial crisis, a strategic decision was taken to diversify the financial sector. From 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 on⁷. 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 financial secrecy in 2001. That year then-Finance Minister (and now Prime 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 amended to make them more useful to Europeans in avoiding and evading inheritance taxes.

. . . is followed by more scandals and dirty money

As the deregulation gathered pace the first scandals began to emerge: most notoriously the Nick Leeson Barings Bank scandal in 1995, facilitated by what the New York Times at the time [called](#) the “*see-no-evil regulators of Simex, Singapore’s swinging stock exchange.*”

In 2006 Morgan Stanley’s 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 essential truth about the Singapore financial centre: its deliberate role as a dirty-money centre. 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 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, was 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](#). However, Portcullis TrustNet has since [rebranded](#) itself as ‘Portcullis Group’ and does not appear to have suffered long-term adverse consequences from the 2013 leak.

Separately, an entertaining and important 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 impos-

sible for the Malaysian authorities to get any information out of Singapore, and that Singapore is for 'people like us'."

Singapore's practitioners have often 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.

Singapore's offshore financial centre today

Singapore has, in line with evolving international standards on transparency, made some significant moves to reform for the better. In addition, Singapore currently chairs the Peer Review Group in the [OECD Global Forum](#) on Transparency and Exchange of Information for Tax Purposes. The most notable regulatory changes include:

- Committing to the OECDs "on request" standard for information exchange; this was followed by the passing of a bill in November 2011 allowing Singapore to exchange information under its Tax Information Exchange Agreements (TIEAs).
- The passage in October 2009 of the Income Tax (Amendment) (Exchange of Information Bill to allow for the exchange of some bank and trust information
- Including [tax offences as predicate offenses](#) for money laundering, from July 2013
- [Criminalising asset managers and bankers](#) who willfully conceal, possess or use proceeds of foreign tax offences "if they had reasonable grounds to believe that they were assisting the tax offender in retention or control of the proceeds of the foreign tax evasion", effective 1 September 2014
- Signing the multilateral agreement implementing the Common Reporting Standard on automatic exchange of information in June 2017

However, Singapore continues to offer a range of secrecy offerings, including the popular 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 is more directly controlled by the person who contributed the assets – and is therefore more of a 'sham'.) Another symbol of Singapore's secrecy offerings is [Le Freeport](#), run by a Swiss art dealer, where high net worth individuals

can store art, wine, gold and other valuables – [all exempt from duties and taxes](#), and required customs declarations can be [relatively vague](#).

Singapore offers other 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, competing against other centres like Mauritius. Round tripping occurs when an investor from, say, India, sends capital to Singapore, where it is hidden behind legal secrecy and subsequently 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. Singapore also offers plenty of opportunities for [other kinds](#) of tax arbitrage.

In addition to this 'conventional' dirty money, Singapore has sought to provide a regulatory haven to help financial sector players escape financial regulations elsewhere. In common with London and many other offshore financial centres Singapore's attitude has acquired a rather predatory character, as this account in The Economist attests:

"A widely repeated story in Singapore is that the only people who have read all of America's gargantuan Dodd-Frank financial-regulation act are American academics, who find it a mess, and the Singapore Monetary Authority, which is mulling the opportunities it might create."

Those "opportunities" will likely at some point involve U.S. taxpayers forking out for new bank bailouts, while Singapore gets to keep its winnings from hosting the riskier activities of U.S. banks.

The captured state

In one offshore secrecy jurisdiction after another we have noted 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:

“It is impossible to find opinions opposed to the omnipresence of finance on the island. The banks form part of our DNA,” says Pritam 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 ‘capture’ is partly rooted in the links between the financial sector and the ruling People’s Action Party, which has been in power since 1959, six years before Singapore’s independence in 1965. This combination of political stability, official tolerance for a certain degree of foreign dirty money, and financial state capture will continue to attract money from around the world. On the other hand, Singapore’s regulators, cognisant of the [reputational risks](#) to its financial centre that would result from such practices, are likely to continue treading a thin line between maintaining a competitive tax and regulatory regime, in line with the practices of other comparable financial centres, while cracking down on the most egregious regulatory breaches by financial institutions in the city-state.

Further reading:

[Why Complementarity Matters for Stability—Hong Kong SAR and Singapore as Asian Financial Centers](#), IMF, July 2014

[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

[Singapore, a Rising Home for Quiet Money, Comes Under Pressure](#), New York Times, May 12, 2017

¹ For a good appraisal of its tax offerings, see Singapore: Home for Billionaires and Superstars, tax Analysts, Aug 6, 2012

² 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 New Asia Yearbook, 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.

³ Lee Quan Yew, *From Third World to First, the Singapore Story*, Harper, p.89

⁴ Ha-Joon Chang, *A Pelican Introduction to Economics: A User’s Guide*, Pelican, p49

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

⁶ Studwell, p36

⁷ See Monetary Authority of Singapore (2012) *Sustaining stability: serving Singapore*, Singapore: Straits Times Press.

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.

PART 2: SINGAPORE'S SECRECY SCORE

OWNERSHIP REGISTRATION

- 40% 1. Banking Secrecy
- 50% 2. Trust and Foundations Register
- 100% 3. Recorded Company Ownership
- 95% 4. Other Wealth Ownership
- 95% 5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

- 100% 6. Public Company Ownership
- 100% 7. Public Company Accounts
- 100% 8. Country-by-Country Reporting
- 100% 9. Corporate Tax Disclosure
- 100% 10. Legal Entity Identifier

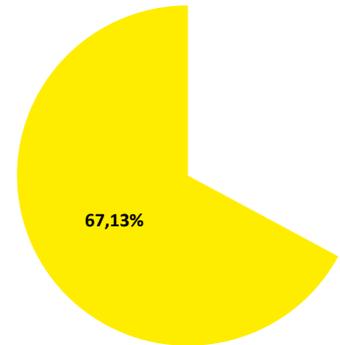
INTEGRITY OF TAX AND FINANCIAL REGULATION

- 63% 11. Tax Administration Capacity
- 38% 12. Consistent Personal Income Tax
- 100% 13. Avoids Promoting Tax Evasion
- 75% 14. Tax Court Secrecy
- 50% 15. Harmful Structures
- 30% 16. Public Statistics

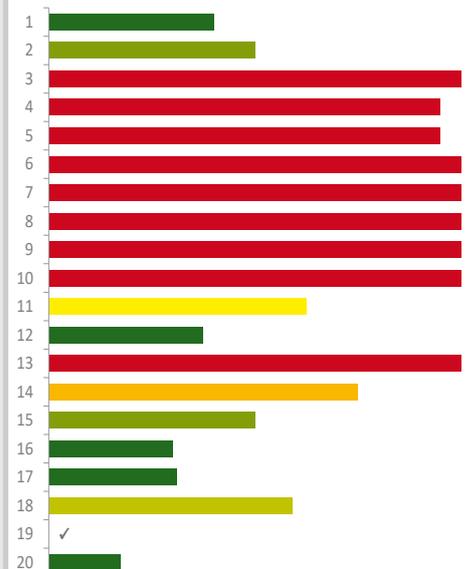
INTERNATIONAL STANDARDS AND COOPERATION

- 31% 17. Anti-Money Laundering
- 59% 18. Automatic Information Exchange
- 0% 19. Bilateral Treaties
- 18% 20. International Legal Cooperation

Singapore - Secrecy Score



Singapore KFSI-Assessment Secrecy Scores



Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 67 per cent has been computed as the average score of 20 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail by clicking on the name of the indicator.

A grey tick indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 30.09.2017.

Full data on Singapore is available here: <http://www.financialsecrecyindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.