SINGAPORE

– PICKS UP THE PACE IN COMBATING ECONOMIC CRIME

Like the other three Asian Tigers — Hong Kong, Taiwan, South Korea — Singapore has developed into one of the most advanced and high-income economies in Asia. Singapore has become one of the world-leading international financial centers. Although reports state that Singapore reportedly benefits from the regulatory attack on established financial centers, like London, New York and Zurich, it also appears that Singapore largely benefits from growth within the Asian region as a whole. Some media reports claim that the city-state of Singapore is likely to become the world's second-most important offshore center, after Switzerland, by 2017.

Singapore's exposure and its reaction to acts of economic crime

According to the 2013 U.S. State Department Money Laundering Report, Singapore is a major international financial and investment center as well as a major offshore financial center. The report stated that secrecy protections, a lack of routine large currency reporting requirements, and the size and growth of Singapore's private banking and asset management sectors pose significant risks and make the jurisdiction a potentially attractive money laundering and terrorist financing destination for drug traffickers, transnational criminals, foreign corrupt officials, terrorist organizations and their supporters. As reported by the *Spiegel Online*, in November 2013 Singapore strives to retain its attractive financial center while preserving its reputation as a corruption-free zone and remaining a level above pure tax shelters. It has therefore been keen to meet international regulatory standards in the area of anti-money laundering (AML) and other economic crimes like tax evasion.[1]

[1] http://www.spiegel.de/international/world/the-singapore-banking-sector-is-a-tax-haven-that-now-faces-reform-a-930998.html

Singapore has been involved in a number of scandals surrounding allegations of cross border tax evasion and money laundering, involving individuals, corporations and politically exposed persons (PEPs). The cases published by non-governmental organizations (NGOs), media sources and investigative journalists are summarized below. Between 2010 and 2013 the Singapore Monetary Authority (SMA) made 108 inspections related to AML and terror financing controls on financial firms. According to an article published in the *South China Morning Post*, Singapore's central bank fined 22 financial institutions and restricted operations at seven for failing to comply with rules to prevent money laundering and terrorism financing for the same period.[2]

- *India* — In May 2012, the Indian ministry of finance described Singapore as a "tax haven" in its white paper on Black Money. The report accused Singapore as acting as conduits for foreign direct investment (FDI) into India and alleged that Singapore was assisting individuals and corporations in avoiding taxes and concealing the identities from the revenue authorities of the ultimate investors, many of whom could actually be Indian residents, who have invested in their own companies, through a process known as round tripping. As reported in the *Singapore Independent*, Singapore's Prime Minister Lee Hsien Loong, stated that Singapore did not have any interest in being a money laundering center and added that he did not think that any shady money would want to come to the city-state. He was quoted as stating: "I think shady money would rather go somewhere else rather than risk being scrutinized by our regulators."[3]
- *Myanmar* — Allegations that Myanmar's former military junta has stashed billions of dollars in Singapore surfaced again in October 2013. Like with former allegations, they were dismissed each time both by the Myanmar and Singapore governments. The financial institutions mentioned in these unconfirmed rumors were the Overseas Chinese Banking Corporation and DBS Group.
- *China* — In January 2014, *The Independent* reported that relatives of senior Chinese officials including President Xi Jinping and former premier Wen Jiabao are allegedly using offshore tax havens to hide their wealth. Two offshore companies identified as a result of the investigation undertaken by *The International Consortium of Investigative Journalists* identified, one based in Singapore, Portcullis TrustNest, and Commonwealth Trust Limited in the British Virgin Islands (BVI) allegedly helped well-connected Chinese clients set up offshore companies, trusts and bank accounts.[4]
- *Thailand* — *The International Consortium of Investigative Journalists* has published a number of reports on tax havens and offshore centers. According to a report titled: "Secret Files Expose Offshore's Global Impact," a Thai government official with links to an unnamed African dictator used Singapore-based TrustNet to set up a secret company for herself in the BVI.[5]
- *Malaysia* — In March 2013, London-based campaign group Global Witness presented a "sting" video in which a person posing as a foreign businessman is seen negotiating with purported relatives and associates of state chief Taib Mahmud who has headed the resource-rich Sarawak on Borneo island as chief minister since 1981. In one part of the clip a man introduced as a Taib family lawyer called Singapore "the new Switzerland" with a "China Wall" protecting the identities of Malaysian depositors. Mahmud has reportedly over a period of many years denied allegations of large-scale corruption and nepotism. The 16-minute video alleged that Mahmud's relatives and associates get massive tracts of land at bargain prices from the state, sell companies owning the land titles to foreigners, and then take payment in Singapore to evade taxes.

Singapore's efforts to combat tax evasion

In 2009, Singapore endorsed the OECD tax standard on the automatic exchange of information and integrated it into all double taxation treaties. Since July 1, 2013, tax evasion and tax fraud have been designated predicate offenses for money laundering. Singapore is due to conclude an inter-governmental agreement that will facilitate Singapore financial institutions' compliance with the American Federal Account Tax Compliance Act (FATCA) law. But the new, stricter laws only apply to taxes the city-state collects. Singapore has neither inheritance nor capital gains taxes.

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Singapore-based financial institutions are currently required to conduct customer due diligence to deter and detect proceeds from serious foreign tax offenses, even if they are not offenses in Singapore. In May 2013, Singapore signed the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters, in order to enhance the international cooperation on the exchange of tax related information.

The government has also proposed to amend the Income Tax Act so as to allow the Inland Revenue Authority of Singapore (IRAS) to obtain bank and trust information from financial institutions without having to seek a court order. Also in 2013, Singapore and the U.S. concluded an inter-governmental agreement that will facilitate financial institutions in Singapore to comply with FATCA, a U.S. law which requires all financial institutions outside of the U.S. to pass information about financial accounts held by U.S. persons to the U.S. Inland Revenue Service on a regular basis.

[2] http://www.scmp.com/business/companies/article/1281461/singapore-fines-22-firms-money-laundering-over-past-three-years
[3] http://theindependent.sg/singapore-tax-haven-or-not/
[4] http://www.icij.org/offshore/china-who-uses-offshore-tax-havens
[5] http://www.icij.org/offshore/secret-files-expose-offshores-global-impact

Singapore's efforts to combat money laundering and tax evasion

In January 2014, Singapore issued its inaugural national risk assessment (NRA) report on money laundering and terrorist financing risks in the country.[6] The assessment covered 14 financial sectors such as full banks and money changers, and eight non-financial sectors such as casinos and money lenders. The report, which presented the results of the NRA noted that many sectors have in place a robust regime to combat money laundering and terrorist financing and underlined that Singapore's AML and counter-terrorist financing (CTF) regime is grounded in tough regulations, rigorous supervision and effective enforcement. The report also highlighted several sectors potentially vulnerable to money laundering and terrorist financing. According to the assessment, internationally-oriented and cash-intensive sectors are particularly exposed to the risks, the report found. Although full banks face higher inherent risks, owing to their large customer volumes and the international nature of their transactions, the report underlined that controls in banks are the most developed. Singapore is Asia's largest private banking center with offshore assets of reportedly about $800 billion leaving this area of banking also exposed to increased risks. The report also noted that there is room for improvement in the areas of trade finance and correspondent banking. Also, according to the study accountants and other corporate service providers can be exposed to money laundering and terrorist financing activities if higher-risk customers hire them to set up complex structures that conceal ownership and reduce the transparency of transactions.

In the non-financial sectors, corporate service providers like law and accounting firms are also a sector with a higher level of money laundering and terrorist financing risks. In response, the Accounting and Corporate Regulatory Authority has proposed new legislation that will come into effect in 2014. In the same year, the Insolvency and Public Trustee's Office aims to introduce a new regime for the sector in 2014 to strengthen the fast growing pawnbrokers sector. According to the report, emerging issue areas for further study included virtual currencies, which currently lack a set of global regulatory standards, and the Singapore Freeport, a storage vault for valuables launched in 2010.

Conclusion

Although Singapore has been criticized as being the new tax haven, recent regulatory measures and legislation coming into force has shown that Singapore is intent on maintaining its standing as a reputable and stable financial services center. The government has set the tone for high standards and it does not appear to be slowing down the momentum of fulfilling international best practice standards in combating economic crime. Singapore's score on international rankings for corruption, currently number five on the list of least corrupt countries in the world, clearly provides a solid basis on which to build an effective AML regime.[7] Nonetheless, given Singapore's offshore status, undertaking risk-based customer due diligence — in particular for foreign PEPs and intransparent corporate vehicles, time is of the essence for financial institutions and corporations in order to mitigate the risks of money laundering effectively.

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[6] The full report can be viewed under the following link — http://www.mha.gov.sg/news_details.aspx?nid=MzA3Nw==-dlIky22HZAc=
[7] http://cpi.transparency.org/cpi2013/results/