

CFL1

# Administration Of Offshore Centres

12 OCTOBER 1999

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions on 1 page
3. Number of questions to be answered : All five (5) questions
4. Begin each answer to a new question on a fresh page.
5. Answer **all** questions in **English**.

**ANSWER ALL FIVE (5) QUESTIONS**

1. (a) Define and explain the process of money laundering. [10]
- (b) How do offshore banks protect themselves from being a part of the money laundering process? [10]  
(Total:20 marks)
2. (a) Define the term “offshore”. [3]
- (b) List the advantages of setting up a business operation in an offshore centre. [7]
- (c) Name **two** offshore centres in each of the regions listed below:
- |                 |   |       |     |       |
|-----------------|---|-------|-----|-------|
| Europe          | : | _____ | and | _____ |
| British Islands | : | _____ | and | _____ |
| The Pacific     | : | _____ | and | _____ |
| The Caribbean   | : | _____ | and | _____ |
| Mediterranean   | : | _____ | and | _____ |
- [10]  
(Total:20 marks)
3. What does “LABOR” stand for? Briefly describe its significance, its contributors and how it is calculated. [10]  
(Total:20 marks)
4. Advise a resident who wishes to borrow foreign currency loans, the rules prescribed under ECM 10. [10]  
(Total:20 marks)
5. Write short notes on the following:
- (a) functions of Labuan Offshore Financial Services Authority (LOFSA) [10]
- (b) controlling interests [10]  
(Total:20 marks)

## OUTLINE ANSWERS

### Question 1

**An expected question and well-answered as candidates have definitely prepared themselves for it.**

Money laundering is a process of changing the identity of illegally obtained money from illegal sources such as fraud funds, drug trafficking, underground gambling operations, etc. into a legal source.

The process involves 3 stages:

- (a) placement
- (b) playering and
- (c) integration.

Offshore banks protect themselves from being a part of this process by adopting the 'know your customer policy'.

### Question 2

**Most candidates demonstrated good knowledge in the three sections examined on the Operations of Offshore Companies.**

- (a) The term "offshore" is defined as a jurisdiction that is free from the restrictions of domestic reserve requirements and monitoring controls with low tax rates for business. The jurisdiction may also be physically located away from the domestic base, though not necessary so.
- (b) The advantages are:
  - (i) Lower tax rates
  - (ii) Strict secrecy laws
  - (iii) No currency exchange controls for non-residents
  - (iv) Many professional advisers
  - (v) Less regulated environment
  - (vi) Good infrastructure
  - (vii) Capital availability
- (b) (i) Switzerland, Luxembourg
- (ii) Guernsey, Jersey
- (iii) Labuan, Hong Kong
- (iv) Cayman Island, Bermuda
- (v) Malta, Madeira

### Question 3

**Candidates displayed good understanding on "LABOR", and this question was well answered by all.**

"LABOR" stands for Labuan Interbank Offer Rate. This is an additional USD benchmark for pricing loan rates in Labuan IOFC. LABOR was launched on 12 August 1996 and is a step in the further development of Labuan as an international financial centre. The contributing banks are Maybank International (L), RHB Bank (L), Bank Of Commerce (L), BBMB International (L), AMMB International (L), Public Bank (L) and Bayerische Landesbank Labuan Branch. The rates are updated based on a simple average before 11.00 am on banking days.

## Question 4

**Most candidates were able to explain fully the regulatory guidelines of ECM 10.**

The rules prescribed under ECM 10 are:

- (i) For foreign currency loans up to RM1.0 million or its equivalent, automatic approval is granted by Bank Negara Malaysia (BNM).
- (ii) For an amount above RM1.0 million or its equivalent but not exceeding RM5.0 million or its equivalent, notification within 2 weeks from date of offer, to BNM.
- (iii) For an amount including aggregate borrowings exceeding RM5.0 million or its equivalent, prior approval of BNM is required.

## Question 5

**This question examined two major areas i.e. the functions of LOFSA and definition of controlling interests. Both areas were well-answered and candidates showed second knowledge of the facts.**

(a) The functions of LOFSA are:

- (i) To administer, enforce, carry out and give effect to the provision of various laws enacted by governing businesses in Labuan, e.g. The Offshore Banking Act 1990, The Offshore Insurance Act 1990, The Labuan Offshore Securities Industry Act 1998, etc.
- (ii) To ensure that the offshore financial transactions are conducted in accordance with the laws.
- (iii) To process applications for the conduct of business in Labuan.
- (iv) To carry out research.
- (v) To conduct promotional programmes to enhance the development and growth of Labuan.
- (vi) To advise the Government on matters relating to offshore financial services in Labuan.
- (vii) To co-operate with offshore financial institutions and industry associations in Labuan to promote and improve offshore financial services.
- (viii) To make recommendations for the creation and improvement of facilities to enhance the attraction of Labuan as a centre for offshore financial services.

(b) Controlling interests means an offshore company controlling a domestic company by way of either of the following:

- (i) Composition of the board of directors;
- (ii) More than half of the voting rights; or
- (iii) Holding more than half of the issued share capital.