

CFL1

Administration of Offshore Centres

9 OCTOBER 2001

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions
3. Number of questions to be answered : All five (5) questions [20 marks each]
4. Begin each answer to a new question on a fresh page.
5. Answer **all** questions in **English**.

ANSWER ALL FIVE (5) QUESTIONS

1. Outline **five** reasons why companies may choose to relocate their operations to an offshore financial centre. (Total:20 marks)

2. (a) State the objectives and functions of the Labuan Offshore Financial Services Authority. [10]
(b) Outline the permissible activities of offshore investment banks in Labuan. [10]
(Total:20 marks)

3. (a) What are Standby Letters of Credit? [4]
(b) State the differences in the issue of Standby Letters of Credit as from Bank Guarantees. [16]
(Total:20 marks)

4. (a) What is a captive insurance? [4]
(b) Describe the features of a captive insurance. [16]
(Total:20 marks)

5. (a) What are illicit funds? [8]
(b) How do offshore banks protect themselves from money laundering? [12]
(Total:20 marks)

- END OF QUESTION PAPER -

OUTLINE ANSWERS

Question 1

All parts of the question were well answered.

1. Any 5 answers from the lists below:
 - tax planning considerations
 - political considerations
 - depositing surplus funds
 - geographical expansion
 - anonymity and secrecy
 - re-routing export sales
 - avoidance of currency restrictions

Question 2

All parts of the question were well answered.

2. (a) LOFSA acts as a one stop agency to streamline and rationalise the Government administrative machinery in supervising the activities and operations of the offshore financial services in Labuan, including processing applications to conduct business in Labuan.

The functions of LOFSA are:

- administer, enforce, carry out and give effect to the various acts governing offshore businesses and operations
- carry out research and commission studies on offshore services
- license or register persons carrying on offshore businesses
- regulate and supervise the conduct of offshore financial services in Labuan
- make recommendations for improvement of Labuan as an IOFC

- (b) Permissible activities are to provide:

- debt financing
- advisory services
- hedging and foreign exchange services in global and regional currencies
- market and credit research on regional markets

Question 3

Candidates did well in this question except in the part that required them to state the differences between Standby Letters of Credit and Bank Guarantees.

3. (a) Standby Letters of Credit [SBLC] are payment commitments issued by offshore banks for a financial obligation between an applicant and a beneficiary. Should the applicant be unable to repay the borrowing from the beneficiary, then the SBLC issuer is obligated to make good the outstanding due and owing.
- (b) The differences in issuing a SBLC and a Bank Guarantee are:
 - Bank Guarantees are usually issued on the bank's letterhead
 - SBLCs are issued via SWIFT or tested telex
 - Bank Guarantees are signed by authorised signatories and therefore their signatures must be verified by the recipient
 - SBLC verifications are by test keys.

Question 4

Poorly answered by all candidates. This is probably because candidates did not prepare enough for this topic although it is found in the study manual.

4. (a) A captive insurance company is an insurance company or reinsurance company, owned either by a non-insurance company wishing to insure or reinsure primarily the risks of the owners or their affiliates.
- (b) The features are:
- it is not a domestic insurance
 - it is transacted in foreign currency
 - strict secrecy on disclosure of policy holder
 - insured is a related or associate company of the offshore insurer

Question 5

All candidates answered this question very well.

5. (a) Illicit funds are those derived from illegal operations, which may be criminal in nature. These include smuggling, dope trafficking, underground gambling activities, triad operations, fraud funds and monies gained from tax evasion.
- (b) Answers should cover the 'know "your" customers policy', refusing to accept money that cannot be shown to be legal, and understanding the FATF framework on anti-money laundering efforts.