

CFL1

Administration of Offshore Centres

7 MAY 2002

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. List and briefly describe the advantages an offshore financial centre is expected to offer.
(Total:20 marks)

2. Briefly describe the operating structure of the Labuan Offshore Financial Services Authority (LOFSA). Illustrate your answer with an organisation chart.
(Total:20 marks)

3. Write short notes on trust companies in Labuan, including the types of services a trust company can offer.
(Total:20 marks)

4. (a) What is Bank Negara Malaysia's criteria for approval of credit facilities in foreign currencies which exceed the equivalent of RM5million? [5]
(b) What details must an applicant furnish to Bank Negara Malaysia in his application for credit facilities in foreign currencies? [15]
(Total:20 marks)

5. (a) Define "money laundering".
(b) Describe the process of how money laundering transacts through the banking system.
(c) How should banks protect themselves from being used for money laundering transactions?
(Total:20 marks)

- END OF QUESTION PAPER -

OUTLINE ANSWERS

Question 1

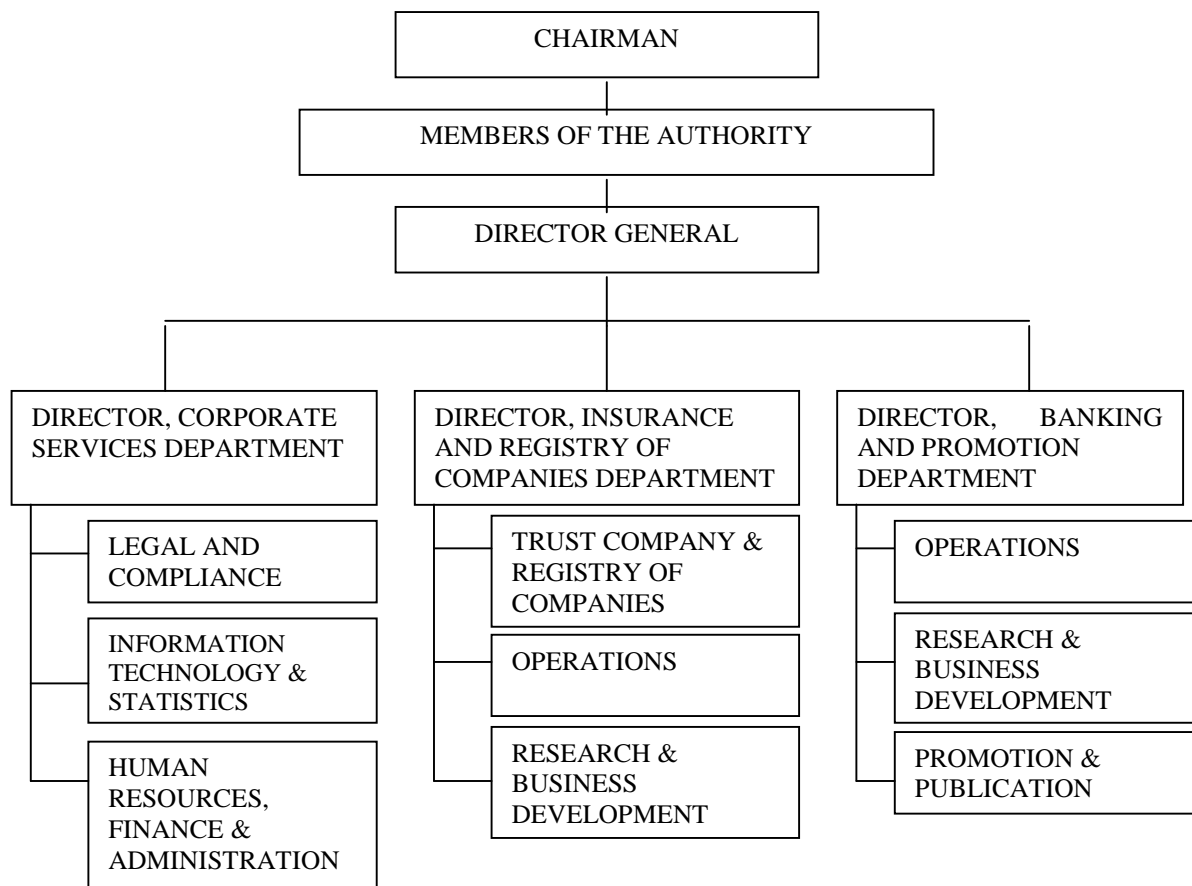
Only some candidates answered this question well, although it was direct and just required recall of knowledge.

1. Principally, an Offshore Financial Centre offer the following advantages:
 - relatively lower tax rates than other countries
 - may impose no income tax on expatriates working in the offshore centre
 - strict banking secrecy laws
 - no currency exchange controls for non-residents
 - presence of many financial advisers
 - less regulated jurisdictions
 - efficient transport facilities
 - good communications and network

Question 2

Candidates provided irrelevant or very brief explanations on the operating structure of the LOFSA. Some candidates could not draw the organisational chart while others were unable to answer the question at all.

2. The operating structure comprises the Director General who is responsible for three other Directors in the core departments namely, corporate services, insurance and Registry of Companies (ROC), and banking and promotion. Corporate Services is responsible for legal and compliance, IT and statistics, HR, Finance, and Administration. Insurance and ROC are responsible for trust companies, operations and research & business development. The Banking and Promotion department is responsible for supervision of operations, research and business development, promotions and publications.



Question 3

As this topic is rarely tested, candidates gave sketchy answers, which also lacked preparation and depth.

3. Trust companies are the front liners for the offshore industry as they are the first to be in contact with potential investors. They must be able to provide up-to-date and accurate information to investors. The core activities of trust companies are the incorporation and registration of offshore companies.

Trust companies provide:

- trust services, drafting and execution and administration of trusts
- property and portfolio investment management
- custody services
- advisory and administrative services

Question 4

Part (a) on Bank Negara Malaysia's criteria for approval of credit facilities in foreign currencies was poorly answered. Many candidates could not appreciate the importance of foreign exchange earnings and outflow.

Part (b) on the application for approval of credit facilities in foreign currencies was well answered by most candidates.

4. (a) The criteria for approval is based on:
- productive purposes which generate foreign exchange earnings for Malaysia
 - productive purposes which save foreign exchange outflow through the production of import substitution goods
 - large infrastructure projects
- (b) The application must include details as to:
- type of facilities and amount required
 - type of currency
 - interest rates
 - fees payable
 - tenor of loan
 - repayment schedule
 - security for the facility

Question 5

Questions on money laundering have always been well answered, and this time it was no different.

5. (a) An activity intended to change the identity of illegally obtained money into funds, which appears to be from a legitimate source.
- (b) Students should describe the **three** stages of money laundering i.e. placement, layering, and integration.
- (c) Banks may protect themselves by refusing to accept money that cannot be shown to be legal or obtained under suspicious circumstances. They should adopt the minimum safeguard – “know your customer policy”, the standard principle of the Basle Committee on Banking Regulations and Supervisory Practices.