



Highlights:
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Singapore: the next hub for global transaction services?

With Asia now a major market, Western and Asian multinationals are looking for a place to set up their financial operations in the region

TODAY, the great financial hubs of the world are located in the West. London is the centre for global transaction services (GTS), with New York just after it. But what happens now that we are seeing the rise of the Asian economies?

Historically speaking, London and New York are hubs because of the massive share of global trade held by Western multinationals, most of which operate out of these two cities.

However, the percentage of global trade held by Asian businesses has gone up significantly over the last decade. Asia has become a major market, and now both Western and Asian multinationals are looking for a place to set up their financial operations – a GTS hub in Asia.

According to Gourang Shah, head of treasury advisory at Citi's Treasury and Trade Solutions for the Asia Pacific, and professor Joseph Cherian of the NUS Business School, GTS has become the new frontier of banking following the financial crisis.

The emergence of a new global GTS hub is inevitable, and will happen based on five crucial factors.

"The first is a good regulatory and tax environment," says Prof Cherian. "The second is transaction flows. You need a lot of transaction flows to make a hub, and that means you need good banking infrastructure. The third is short-term asset management, which is liquidity management; the fourth one is the presence of talent; and the final one is the time zone."

Corporates are especially discriminating about the first three factors, according to Mr Shah, and will even structure their operations to take advantage of the environment in different jurisdictions.

"In Europe, for example, the Netherlands, Ireland and Belgium provide an excellent regulatory and tax environment. It's even better than in the UK. So, many companies set up their legal entities – their treasury hub – in these places. However, the transaction hub and the banking infrastructure are far superior in London. And as for asset management, Luxembourg and Ireland are traditionally the best places."

The result, says Mr Shah, is a fairly complicated system involving three different jurisdictions: Investments in Luxembourg and Ireland may be made by a company incorporated in the Netherlands or Belgium, and managed out of an account opened in London. This is made possible because all three locations are in the same time zone.

But if a single country or city could combine these three features and thus allow companies to consolidate their financial operations, it would have an advantage over any of these locations.

Asia's current leading financial centres are Hong Kong, Singapore and to a lesser extent, Shanghai. Inevitably, based on their ability to provide the five factors listed above, one or more of these locations will emerge as the next major hub for transactions.

Regulatory environment

Singapore's tax structure lends itself well to the establishment of treasury hubs, according to Ajit Prabhu, head of tax for Deloitte Southeast Asia and Singapore.

"Singapore's favourable tax environment, such as its relatively simple and transparent tax regime, low corporate tax rates, absence of capital gains tax and dividend withholding tax, foreign-sourced income tax exemptions, attractive tax incentives regime, etc, all contribute to its attractiveness as a GTS hub," he says.

For example, finance and treasury centres and regional headquarters can enjoy attractive concessionary tax rates and even tax exemptions for income derived from qualifying transactions, and many corporations have already taken advantage of these tax features to base themselves here.

More importantly, he points out, corporations can benefit from Singapore's comprehensive tax treaty network.

"Singapore has tax treaties with more than 65 countries which enable payments such as interest, royalties and dividends to often be made with lower incidence of taxation in the payer countries; and to a certain extent also allow treaty protection from creating a taxable presence for the recipient in the payer countries."

Among these are double tax treaties, which are particularly advantageous to multinationals that may otherwise be affected by double taxation on cross-border transactions. The best locations, says Prof Cherian, offer the greatest coverage in terms of double tax treaties: The UK, for instance, has double taxation treaties with over 110 countries, and the Netherlands has treaties with 80. Singapore, on the other hand, has 62 – and Hong Kong, Singapore's closest competitor, has only five.

"As a sovereign country, Singapore had a head start on Hong Kong," Mr Shah points out. "Singapore has equalised with traditional European centres as a result. Now, Singapore needs to increase the number of double tax treaties we have so as to catch up with them."

Transactional infrastructure

Technology is key to the transactional infrastructure, which covers the full suite of services including FX and cash management, and Singapore is considered one of the most technologically developed cities in Asia. In that alone, it has an edge, says Mr Shah.

"Any transaction hub needs a good telecommunications infrastructure, because information flows in global transactions are crucial and hence, very technology oriented. As intermediaries to facilitate global transactions, what banks need to do is make their infrastructure robust."

The best way to do this, he adds, is by collaborating closely with clients to develop the systems and technologies they need. For example, Citi's recently launched Innovation Lab aims to bridge the gap between the solutions provided by

the bank, and the impact those solutions may have on clients' financial arrangements. In high priority areas such as liquidity risk and management, the Lab's technological tools can map a solution onto a company's actual business model and immediately customise it to fit the company's needs.

Liquidity management facilities

"Singapore is ahead in terms of regulatory environment and banking infrastructure," says Mr Shah. "It's clearly the best in Asia, along with Hong Kong, but it doesn't have the short term asset management houses which it requires to create a one-stop shop. In other words, companies will still have to go back to Luxembourg and Ireland for that service. The money might come here for management, but it will flow right back out again for investment. That's costly and inefficient."

Plenty of asset management facilities are available here, but not of the sort that corporates need: At the moment, asset management in Singapore revolves around equities, hedge funds and other medium- to long-term assets. For GTS to take hold here, however, liquidity management is required – money market funds, for example.

"We have a unique opportunity to add this piece of the puzzle and make Singapore into a one-stop shop," says Prof Cherian. "That would be very attractive to a corporate operating out of Asia."

The most effective way to develop liquidity management in Singapore is to attract the large, reputable fixed income shops to establish themselves here, he explains. Companies such as Pimco, BlackRock and Western Asset Management already have a presence, but the volumes they handle are probably longer duration and small.

"We need to make it attractive for those big fixed income shops to manage short-term money out of Singapore, instead of sending it back to Europe," he says. "It's a critical component of developing a GTS hub."

The issue with attracting such companies, however, is that the institutional liquidity management business is a low-fee one. Volume is hence needed to make it profitable – billions of dollars worth of volume, without which fixed income managers will probably not consider Singapore as a location.

"Most fixed income managers won't set up here for less than US\$10 billion of institutional money fund assets," observes Prof Cherian. "They may need convincing – incentives from the government could be one way of bringing them in. But if you look at New York and London, trillions of dollars in money market funds are being managed. If we can just incentivise our way to a small part of that pie, it'll be a very good start."

Attracting and producing talent

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The training of talent to assume GTS-related positions – treasurers, portfolio managers, liquidity providers and so on – is assuming more and more importance, with banks starting to take a direct hand. Citi, for example, is collaborating with the NUS Business School to create joint modules for teaching transaction banking. Within these modules, Citi provides the expertise in the form of practical examples and hands-on learning for students, allowing them to experience how transaction services are carried out in real life.

This collaboration is in line with a broader trend of universities shifting towards experience-based learning. "Previously, our education was textbook-based and at a very theoretical level. But now, we also have centres which give students hands-on training in skills such as portfolio management, transaction services, FX hedging and so on," says Prof Cherian, who is the director of the NUS Centre for Asset Management Research and Investments (Camri).

"We hope that with the academic knowledge and the hands-on experience, they are better equipped to enter the industry."

For Singapore, this is something of a catch-up game: London and New York, the leading GTS centres, have been training human capital for decades and institutions there have much more established and rigorous programmes. However, partnerships such as that between Citi and NUS are helping to narrow the gap.

Time zone

"The way we do business has become very globalised, and a global hub naturally needs to operate around the clock. You need to be able to support the transactions coming in from different time zones," says Prof Cherian.

In contrast to London, Singapore is disadvantaged by its distance from the European and American time zone, which makes multi-jurisdictional operations less viable. However, this is offset by the preference of Asian multinationals for a location in Asia, near their home markets. Furthermore, companies here can take advantage of the presence of universal banks with a global footprint, such as Citi, which provides round-the-clock banking services and transactional capabilities across the world.

Essentially, Singapore has all the necessary ingredients to become a GTS hub, and is in fact well on the way there.

"Singapore is an attractive hub for global transaction services due to the scale, maturity and sophistication of the banking

sector and also the presence of a large number of corporate treasury hubs and regional headquarters, creating a reason for transactions to have a nexus in Singapore," says Mr Prabhu.

"With these treasury hubs and headquarters concentrated here, the transaction volumes in Singapore have increased significantly."

The numbers speak for themselves, says Mr Shah: "At the moment, roughly 60 per cent of corporates have their treasury hub in Singapore, 30 per cent have it in Hong Kong and 10 per cent have it in China. Clearly, Singapore has been doing better in attracting the Asian businesses of Western multinationals. So for Singapore to become a global GTS hub is a natural next step."

The only issue remaining to be solved is that of attracting fixed income facilities here. And if this can be overcome, there will potentially be major long-term benefits to Singapore's economy.

"Typically when a location becomes a transaction hub, management activities will move to reside there as well," says Prof Cherian. "Regional and even global headquarters will be sited there, with the full complement of senior executives and decision makers. And that tends to raise the profile of the location. You'll get positive network externalities from the ancillary economic activity, for example, employment, consumption, transport, which are very beneficial to the economy."

How likely, then, is Singapore to develop into a hub? Very much so, according to the specialists.

"Business in Asia has increased, and Singapore's business friendly and world-class infrastructure makes it an excellent candidate as a regional or global hub. This is precisely why we chose to locate the Citi Innovation Lab in Singapore."

"Factors supporting our decision include the established regulatory bodies available here, Singapore's tax friendly structure and concentrated pool of local and foreign talent supporting MNCs expansion into Asia, as well as the developed transportation infrastructure in air, sea and land within and beyond Singapore. Singapore has many of the advantages required to become a global GTS hub," Mr Shah sums it up.

This is the first of a four-part series on global transaction services brought to you by

