USSFTA: ENHANCED MARKET ACCESS IN FINANCIAL SERVICES

It is a little known fact that Singapore is the largest services market for US in the Southeast Asia and the 6th largest in Asia. Services exports from US to Singapore amounted to US$4 billion in 2001. Although Singapore's services exports to the US is comparatively smaller at US$2 billion, Singapore has seen a steady growth of 13% every year since 1992. It was therefore no surprise that one of the key elements of the US-Singapore Free Trade Agreement ("FTA") was enhanced market access for various service sectors, including banking and financial services. In this article, we will look at the measures to be implemented under the FTA to liberalise Singapore's banking and financial services to US banks and financial institutions.

THE BACKGROUND

There are presently three categories of commercial bank licenses in Singapore. These are the full banking license, wholesale banking license and offshore banking license.

Full Bank

A commercial bank holding a full banking license is permitted to provide the full range of banking business approved under the Singapore Banking Act. These banking services include traditional banking services (eg. loans, deposits and current accounts) and investment banking services (eg. underwriting and distribution of equity and debt securities, corporate finance, fund management and unit trust management). Many commercial banks also have Asian Currency Units ("ACUs") to execute foreign currency transactions in the Asian Dollar Market and Domestic Banking Units for their Singapore Dollar transactions.

In 1999, the Monetary Authority of Singapore ("MAS") commenced a five-year programme to liberalise access by foreign banks to Singapore's domestic banking sector and enhance Singapore's position as an international financial centre. Under this programme, a new category of full banking license, known as a Qualifying Full Bank ("QFB") license, was created and made available to foreign banks.

Foreign banks with QFB licenses are permitted to:

- have 15 branches and/or off-premise automated teller machines ("ATMs")
- share an ATM network with other QFBs
- provide debit services through an Electronic Funds Transfer at Point of Sale ("EFTPOS") network

- offer Supplementary Retirement Scheme ("SRS") and Central Provident Fund ("CPF") Investment Scheme accounts

- accept fixed deposits under the CPF Investment Scheme and Minimum Sum Scheme

The SRS and the CPF are Singapore's retirement savings and investment schemes

There are presently six foreign banks in Singapore with QFB privileges.

Wholesale Bank
A wholesale bank is permitted to engage in the same range of banking services as a bank with a full banking licence, except that it may not:

- accept Singapore Dollar fixed deposits of less than S$250,000 per deposit from non-bank customers

- pay interest on Singapore Dollar current accounts operated by resident individuals

Offshore Bank
An offshore bank is subject to the same restrictions imposed on a wholesale bank. In addition, an offshore bank is not permitted to:

- accept interest bearing deposits from resident non-bank customers other than approved financial institutions

- extend total credit facilities in Singapore in excess of S$500 million to non-bank customers who are resident in Singapore

There are also restrictions imposed on the Singapore Dollar business of the Domestic Bank Unit of an offshore bank.

THE FTA MEASURES

The FTA will enhance US banks' market access to Singapore's retail banking sector through the implementation of the following measures:

Lifting of Quotas on Bank Licenses

Presently, the number of licenses with QFB privileges that may be issued to foreign banks is six. There is also a limit on the number of wholesale bank licenses that may be issued by the MAS (being 30 for the period from 30 June 2001 to 30 June 2003). Under the FTA, the limit on the number of licenses with QFB privileges for US banks will be lifted 18 months from the date of entry into force of the FTA. The limit on the number of wholesale bank licenses for US banks will be lifted three years from the date of the FTA.

Removal of Restrictions on Branches and Off-Premise ATMs
US banks with QFB privileges will be permitted to:

- establish up to 30 customer service locations with effect from the date of the FTA

- establish any number of customer service locations two years after the date of the FTA

Access to local ATM network
Foreign banks are presently not permitted to participate in any ATM network operated by local banks. Under the FTA, two years and six months after the date of the FTA, US banks with QFB privileges incorporated in Singapore will no longer be subject to this restriction and will be permitted to negotiate access to local banks' ATM networks on commercial terms. US banks with QFB privileges which are not incorporated in Singapore will be permitted similar access to the local banks' ATM network four years after the date of the FTA.

Asset Management and other Financial Services
Under the FTA, US financial institutions will be permitted to engage in the cross-border supply of financial information, financial data processing and related software services and corporate finance advisory services. The FTA further requires Singapore to accord to US financial institutions providing such cross-border supply services treatment that is no less favourable than that accorded to Singapore financial institutions.

In addition, in the area of corporate finance advisory services, US financial institutions will be permitted to supply such services through a related corporation in Singapore licensed to offer such services. This will give Singapore consumers better access to the global expertise of such US service providers, while at the same time, allowing these US entities to achieve economies of scale. The FTA also provides for the easing of the eligibility criteria for asset managers supplying approved products under the CPF Investment Scheme.

Further, the FTA obligates Singapore to accord most favoured nation ("MFN") status to US financial institutions in any award of asset management mandates by the Government of Singapore Investment Corporation for the private management of government funds.

CONCLUSION

The liberalization measures contemplated in the FTA are significant and will no doubt provide new market opportunities for US financial institutions.

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July 2003

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