Brunei Darussalam: Asia’s next leading location for Regional Treasury Centres?

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2008

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Acknowledgements

I would like to first and foremost express my deepest gratitude towards my supervisor Dr. Petr Polak. His guidance and timeless support, I acknowledge and greatly appreciate. Thank you Petr.

To Associate Professor Irene Tempone, I thank you for your invaluable assistance throughout making this dissertation what it is now.

Thank you to Dr. Sharon Grant for constantly pushing me during the earlier part of the development of this dissertation. Your constant enquiries kept me going until the end.

Special thanks to my family and friends. To my father, although thousands of miles away, his tireless and continuous support is a huge part of the completion of this thesis. Finally, Julia, I could not have finished this dissertation without your emotional support, thank you.
Declaration

This dissertation is originally conducted by myself and does not contain any materials that have been accepted previously for a degree, diploma or similar award in any University or institution to that of the author's knowledge and this dissertation does not contain published materials written by another person that has not been acknowledged.

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November, 2008
Abstract

This study investigates the location criteria (LC) considered when establishing regional treasury centres (RTCs) across three countries Brunei, Singapore and Hong Kong. LC are the important factors that are compulsory for Multinational Companies (MNCs) to examine before setting up RTCs in another region other than where their headquarters are. Comparing Brunei to Asia’s leading international financial centres and locations for RTCs i.e. Singapore and Hong Kong, would assist in identifying whether Brunei is able to host RTCs. The study contributes to the understanding of LC assessment before establishing a RTC in any location. A similar investigation method was conducted, previously applied to European countries, is duplicated and applied to the three Asian countries. The results found that in comparison to Singapore and Hong Kong, Brunei is lacking in terms of the examined LC. Brunei needs to improve these LC to reach the same level of success in Treasury activities as Singapore and Hong Kong.
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Brief Overview

The introduction chapter begins with the underlying purpose for the research, namely to determine whether Brunei has the capabilities (i.e. Location Criteria) to host Regional Treasury Centres (RTCs) compared with the two leading financial centres and locations for RTCs. Recent background information on Brunei Darussalam’s current financial and banking sector situation provides the context for the development of the research topic and support for a comparative analysis of Brunei’s current situation with two other countries selected to assist the progression towards answering the research question. The two other countries are Asia’s leading international financial centres and location for RTCs. The introduction to Treasury Centres (TCs) and the practical implications of the research is followed by a review of relevant literature mostly foreign investment and treasury management development. International TCs (ITCs) and RTCs are used interchangeably in this study.

Chapter 1: Introduction

1.1 Real World Problem and Topic development

1.1.1 Reducing Dependence on Oil and Gas Production: The Need for Diversification

Brunei Darussalam is well-known either because of the renowned present Sultan; Sir Haji Hassanal Bolkiah, or due to the country being a major exporter of oil and gas. Pumping 220,000 barrels of oil a day, exporting 90% and accounting for in excess of 95% of the government’s revenue, Brunei is known is known as the “Kuwait of the East” (Oxford Business Group 2007, p13). Brunei oil and gas export partners are Japan (30.5%), Indonesia (19.9%), South Korea (14.9%), Australia (11.5%) and United States (7.7%) (Central Intelligence Agency 2008). Reserves predicted to last for another 20 years (Horton 2004) have been the reason for the nation’s diversification planning, especially intensely upgrading its financial and banking sector. Brunei Darussalam is marketing itself as an Islamic financial hub as well as an offshore financial centre to realize this diversification approach (Oxford Business Group 2007, p15).
Brunei Economic Development Board (BEDB) was set up in 2001 to stimulate growth of foreign investment into Brunei (BruDirect 2004). Through this vision, Brunei Darussalam is confident that it can uphold its position without depending on its oil and gas industry. “Brunei is a cohesive society that makes changes easily and fluidly and it is ideally placed to develop financial services” comments Alderman John Stuttard, the Lord Mayor of the City of London on the development of commercial relations between the UK and Brunei (Oxford Business Group 2007, p21). Brunei has the capabilities of enforcing domestic financial changes to complement needs of foreign corporations.

The 1959 Investment Incentive Act was enacted to provide incentives for foreign companies to set up business in Brunei (Oxford Business Group 2007). Within this Act, start up businesses in Brunei will benefit from tax exemptions and ongoing incentives throughout growth and expansion (BruDirect 2004). This study aims to provide recommendations that will support this foreign investment concept by analysing and comparing Brunei’s current financial situation with two leading international financial centres i.e. it will examine whether Brunei has the resources to host Regional Treasury Centres (RTCs).

1.1.2 International environment and TC developments

Post the 1997-1998 Asian financial crisis, where treasurers were faced with high risk due to sharp devaluation of Asian currencies and high interest rates, “Asian economies have rebounded and had received foreign exchange reserves in excess of USD2.5 trillion and is becoming an engine growth in its own right” (Wong 2007, p43). Wong (2007) explains that more and more multinational corporations (MNCs) such as CLP, CP Group, Esprit, Li & Fung, Hutchison and Samsung are either setting up new or strengthening their existing Asia-Pacific treasury operations at both regional and local levels. Treasury management is a fairly new phenomenon due to changes in financial markets i.e. floating exchange rates, increased volatility in inflation and interest rates, increased globalisation and others (Mulligan 2001). MNCs with large international cash flows and many activities in other countries will benefit from the services of an ITC (Zink et al. 1995). Zink et al. (1995, p1) defines ITC as a “vehicle increasingly considered by MNCs to assist in offsetting financial costs and risks of multiple currency/location international businesses”. It is also a typical form of regional headquarters (RHQs), a subsidiary of a MNC, which handles the functions of treasury. This form of regional organisation is set up commonly by MNCs to be closer to
customers and competitors in gaining competitive edge by having fast access to information and customers and from a better understanding of local conditions especially to take advantage of its tax favourable locations (Mulligan 2001; “RHQs revisited” 1999).

This is a window of opportunity for Brunei Darussalam to take advantage of in order to achieve positive outcomes from the implementation of a form of strategy i.e. inviting foreign company operations into the country. Having a strong educational base with university and technical colleges and English as an official second language, Brunei Darussalam offers a good foundation for a modern business environment (Alleart 1995). With the English language being the predominant language of Finance (Murphy 2000b), Brunei’s education system is bilingual and putting more emphasis on English (Martin 2008), although the first language is Bahasa Melayu. Martin (2008) explains that this maybe due to the government’s anticipation of sending students overseas to countries where the medium of instruction is English. Having these important criteria Brunei Darussalam has great potential of hosting RTCs.

Important factors, that Brunei already has such as a highly educated population and benign tax regime may need to be refined and finetuned to reach the same level as other leading international financial centres and hosts of RTCs especially in Asia.

1.1.3 Important changes to improve

Following entry into World Trade Organisation (WTO) private spending and public investment and Sino-foreign joint ventures in China, there were large amounts of foreign direct investments (FDIs) flowing into the country (Leung 2003). China made the changes mentioned previously to further stimulate FDIs and suggested that China is soon becoming the world’s manufacturing base receiving FDIs at a total of $30.5 billion at the end of April 2003 and China is not slowing down (Leung 2003).

In 2006, China opened its banking industry entirely for foreign banks to trade in local currencies following Shanghai’s pro-activeness of constantly reviewing infrastructure and legislation to allow more foreign companies to set up business and regional headquarters (Leung 2003). Shanghai has been the prominent city to attract FDIs compared to the other Chinese cities, again due to its frequent monitoring of necessary regulation reforms. Watanabe (1998) investigated the potential to develop
Taiwan into a regional finance and operations Centre by examining Taiwan’s taxation aspects. Watanabe (1998) discussed that compared to Taiwan’s close rivals, Hong Kong and Singapore, its taxation regime is outdated and inadequate to compete at the same level as these two countries. In 2006, Singapore has widened its Global Trader Programme (GTP) to strengthen its position as a logistics hub attracting global traders into Singapore (Leow 2005). Hence, Brunei must make necessary changes in order to improve and compete amongst other successful Asian countries in terms of attracting foreign investment.
Chapter 2: Literature

2.1 Review and synthesis of relevant literature

Giegerich et al. (2002) and European Cash Management - a practical guide (2007) defines TC as a “centralized treasury management function which is legally structured as a separated group or as a branch and is normally located in a tax efficient environment”. “Tax efficient” basically means a location that offers beneficial tax regimes (e.g. low percentage tax incurred to MNCs) compared to another location. Blair (1999) reaffirms the importance of the tax system; when Nokia, faced the apparent need to be closer to its international operation in Singapore, considered setting up a RTC in Singapore, Hong Kong, Malaysia and Australia (Giumarra 2001). Due to unattractive tax systems offered by Hong Kong, Malaysia and Australia, Singapore was chosen. Furthermore, Murphy (2000a) points out that RTCs or International TCs are primarily tax driven where tax on profits generated is at a favourable rate. The world’s largest package and document delivery company UPS considered Singapore and The Philippines to locate their RTC as these two countries offered some of the lowest tax rates in Asia. UPS decided on Singapore (Chang n.d.). Zink et al. (1995) states that TCs are primarily driven by tax savings and also other factors such as reduced interest expense, elimination of idle cash and lower bank and foreign exchange transaction costs.

2.1.1 Functions of Treasury Centres

The functions of TC, as defined by Potty et al. (2004) are three fold: asset and liability management, sales and trading of currency, credit and derivatives products in capital markets, and financial risk management. Fundamentally, TCs provide financial management and transaction services for the other group entities (Geigerich et al. 2002), that is the group of subsidiaries located at a different region to the headquarters. Mulligan (2001) explains four elements of treasury management which comprise the main categories of the functions of TCs: currency risk management (market and credit risk management), funds management, cash management and banking relationships. These are some main functions of treasury centres.
2.1.2 Treasury Centre Organisation: Structures and Models

The organization of TCs depends on the extent of treasury functions and management the treasurer may choose. The Treasurer may choose to manage practical treasury functions such as liquidity support only or simply direct the full range of functions to make treasury the main body of organizational process and hence, take on the full range of treasury services discussed Potty et al. (2004). Geigerich et al. (2002) developed two base models to describe treasury management organisation. The first model, TC, represents and operates all transactions for the group companies and in the other model, it acts as the group’s central in-house clearing bank. Mulligan (2001) describes treasury management organisation as two extremes; centralised and decentralised. The performance of centralised and decentralised treasury managements has a statistically significant difference raising the efficiency of regional treasury centres (RTCs) (Mulligan 2001).

Murphy (2000a) simplifies TC organization structure as one American headquarters with one or more RTCs under its control. RTCs provide services under the group policy to the group entities located in their region (Murphy 2000a). TC organisation is structured according to the requirements of underlying business operations. Basically, the extent of functions and services of a TC depends on the business operations.

As more and more companies expand operations across international borders, international financial market unpredictable behaviour requires the standardization of international payments to simplify fund movements thus extending challenges for corporate treasury (Giegerich et al. 2002). Corporate treasury is required to be more aware of the volatility of the international financial market and conversant with current payment standards practised by other corporate treasuries in order to keep up with international trends. These challenges are key influencers of corporate treasury to the extent of provision of functions and practicality of management organization.

Corporate treasuries face organisational problems with undertaking treasury functions and the degree of management i.e. degree of centralisation and decentralisation. The complexities of TC organisations are of crucial importance for understanding different structures and models developed by other studies based on common practise by MNCs. Potty et al. (2004) suggested four models relating to the range of functions and degree of centralisation and decentralisation of management. The four models are as follows.
1. Full Service Global – Treasury undertakes all functions and has a most centralised management serving as the only treasury for all global markets or combining all local and regional treasuries.

2. Full Service Local – Serves mainly local operations and has central management.

3. Limited Service Global – Service provided by this model is limited due to less attention requirements by treasury of certain services and could be managed by business operation.

4. Limited Service Local – this model has very decentralised treasury management and offers little or zero treasury functions beyond required local cash and liquidity management.

These are some of the models and structures developed to further understand treasury organisations and the degree of functions implicated in the real international business environment, where multinational companies are required to extensively study their requirements to efficiently operate their treasury department.

2.1.3 Criteria influencing location of RTCs: Location Criteria (LC)

As mentioned previously, perhaps the most important factor or criterion when considering the location of RTCs is the tax system or regime of the location being considered. Ross (1990) cited in Mulligan (2001) describes that from a multinational corporation perspective, tax considerations and treasury issues are closely related. Simkova (2005 cited in Polak et al. 2007)\(^1\) establishes the criteria i.e. the requirements/conditions mentioned previously that need to be considered in setting up an international treasury center (ITC) for a holding company in Czech Republic. The criteria are bank transaction fees (minimum), prices for foreign incoming and outgoing payments (minimum), withholding and corporate tax (minimum), withholding tax for intra-group yield (minimum), reporting requirements (minimum), rating (as good as possible), currency environment and existence of other TCs in the region.

\(^1\) The article of Simkova (2005) is in Czech language. Part of the article is cited in Polak et al 2007 and translated to English. The original full article in Czech language is available.
Simkova (2005 cited in Polak et al. 2007) found that Switzerland met the mentioned criteria as number one when tested with other countries such as Austria, Finland, France, Germany, Ireland, Italy, Slovakia and UK.

Levieux (2007) compared Singapore and Hong Kong in the attempt to determine which country would provide better financial facilities for MNCs looking to set up RTCs in Asia. The outcome was in favour for both countries because when two different structured TC organizations were presented, one would operate better in Hong Kong, the other more efficiently in Singapore (Levieux 2007). The counterparty model TC presented in Levieux (2007) operates better for MNCs in Singapore than in Hong Kong because of Hong Kong’s restriction on deductibility of interest expense. The interest payable to an entity that is not subject to Hong Kong’s income tax is not deductible for tax purposes; hence it is impractical to consider a Hong Kong incorporated vehicle. Although, Levieux (2007) argues that if a TC operates mainly as an agent for the underlying operating entities, Singapore’s advantage over Hong Kong would reduce significantly. Different financial regulations provided by different locations will suit differently structured TCs.

MNCs embarking on setting up RTCs in Asia tend to have Singapore and Hong Kong on the top of their lists of locations (Levieux 2007). Levieux (2007 p50) reasons that the popularity of these two countries is due to “their roles as International financial centre, solid telecommunications and transport infrastructures, easy availability of qualified staff, loose foreign exchange controls and their benign tax environments”. The debate to locate regional headquarters (RHQs) in Asia is frequently between Singapore and Hong Kong (“RHQs revisited” 1999). A survey conducted on choice of location for RHQs by MNCs shows 35 percent of respondents choosing Hong Kong followed by 30 percent to Singapore then Tokyo nine percent, and Sydney five percent (“The RHQ question” 2000). MNCs favours either Singapore or Hong Kong when setting up any type of regional organisation.

Murphy (2000b) examined the non-tax criteria involved when making decisions to locate RTCs. The non-tax criteria are cost (people, premises, IT and telecoms); outsourced option availability; location of other operations; centres of expertise (high quality treasury expertise); control (whether Directors, CEOs and CFOs are taking direct interest in control of treasury activities); currency control of the Euro; Banking system and regulation (availability of modern banking and strong regulation); language (English – prominent financial language) and name recognition (region well known for setting up TCs). Mulligan (2001) suggested very similar criteria in locating a
centralised treasury department especially the tax related criteria mentioned in Simkova (2005) as well as non-tax related criteria examined by Murphy (2000b).

Criteria described by Simkova (2005) provide the primary list of criteria investigated in this study. Do these criteria exist or do they need to be improved competitively compared to other locations in the effort to encourage MNCs to set up RTCs or ITCs in Brunei? Simkova (2005) provided a specific list of criteria commonly assessed when considering certain locations for the set up of RTC. These criteria will be referred to from now on as Location Criteria (LC)^2.

Casalino (2001) mentions other LC such as restrictions for finance companies, licence involved in setting up companies in foreign land, concentration of cash, notional pooling and, fees and restrictions for resident/non-resident MNCs. Good access to regional and international affiliates and appropriate time zone relative to the region of RTCs are also LC to consider suggests Anwar (1999). Giegerich et al. (2002) points out that level of access to major stock exchange, a liberalized capital market, political stability, thin capitalisation rules and double tax treaty networks are also LC to be examined when considering location of RTC.

Mr. Lee Chuan Teck the Executive Director, Financial Markets Strategy of Monetary Authority of Singapore said that “we monitor these trends (MNCs setting up operations in Singapore) closely; constantly reviewing our policies and refining our tax regime, to maintain our status as the location of choice for regional corporate treasuries” (Monetary Authority of Singapore 2007a). Yuthamanop (2004) supports the changes needed when new rules were introduced in Thailand so that MNCs could set up RTCs there as requested by many MNCs. Necessary changes to financial and banking regulation is vital to first draw corporate RTCs into the country, regular monitoring for updates by the right authorities to maintain beneficial operation of these RTCs is also compulsory for the long term compared to other locations.

^2 In case one criterion, it will be referred to as LCn i.e. Location Criterion for singular.
2.2 Formulation of Research Problem/Study Objectives

2.2.1 Necessary Changes

Leow (2005) argued that small changes rather than big changes have monumental effect on multinationals in Singapore. The tax concession under the Global Trade Programme mentioned previously was widened in 2006 to include trades dominated in Singapore dollar transactions. The requirement for a transferee company to be a Singapore tax resident in order to obtain stamp duty relief on the transfer of assets between associated companies had been removed as of February 2005 and lifting 80 percent export percentage requirement for the Bonded Warehouse Scheme to facilitate greater flexibility in storing and moving goods between pre-approved warehouses. These are the changes Singapore has made to induce growth of multinationals in the country. Brunei has the potential to do the same. One of the changes already made is establishing Brunei International Financial Centre (BIFC) to stimulate growth of making Brunei an off-shore financial centre (Oxford Business Group 2007).

2.2.2 Current leading International Financial Centres and Hosts for RTCs

Examining other countries, especially the leading international financial centre and hosts of RTCs, and how they have been developing their financial and banking sector will assist in determining whether a location compared is capable of hosting Treasury Centres. Through comparative analysis, the study will identify differences and similarities (if available) in the current situation affecting multinationals, especially RTCs and treasury activities, in the three countries involved in study. Thus the differences will form recommendations for Brunei to consider improving upon in achieving desirable treasury performances. This is the objective of the present study.

Blair (1999), Levieux (2007) and Monetary Authority of Singapore (2005) have made it clear that Singapore is Asia’s International Financial centre. Next to Singapore is Hong Kong, being Singapore’s main rival, as these two countries are MNC’s preferred countries to base their Asian operations (Blair 1999; Levieux 2007; Monetary Authority of Singapore 2005; “RHQs revisited” 1999). The success of Singapore’s financial and
banking sector attracting 3600 companies to set up their operations there is phenomenal (Monetary Authority of Singapore 2007a) after the small changes suggested in Leow (2005). Not only are MNCs basing their Asian operations in Singapore, RTCs are establishing themselves there privately if not on behalf of these MNCs. This brought in treasury activities worth US$204 billion into Singapore's treasury market in 2004 (Monetary Authority of Singapore 2007a). Singapore and Hong Kong therefore would be suitable for the comparative analysis.

2.2.3 Treasury Performance and Similar Comparative Studies

Having a currency exchange on par with Singapore, roughly BND$1.26 to AUD$1 and BND$1.352 to USD$1, and having a fairly high standard of living, the Brunei dollar is quite strong. TCs deal extensively in transferring of funds (Potty et al. 2004) and the lack of foreign currency control in Brunei makes it a good location for RTCs in the sense that Brunei already posses an important LCn. However Brunei is not attracting RTCs, therefore it must be lacking certain other important LC necessary for RTCs to operate better than in other locations.

Watanabe (1998) has a similar comparative study (to two successful rivals) to this present study but instead of focusing on tax, this study focuses on treasury related factors, inclusive of tax related issues. Comparing Taiwan with Singapore and Hong Kong, Taiwan’s Tax system was outdated and inadequate (Watanabe 1998). Watanabe explains how Organisation for Economic Corporation and Development (OECD) member countries made tax reform programs since the late 1980s with the objective of making their taxation systems more equitable and competitive. OECD is an organisation that assists member countries in sustaining economic growth, raising living standards, maintaining financial stability among other objectives and some of the members are Australia, United States and most European countries (Organisation for Economic Co-operation and Development n.d.).

Much of the work done on locating RTCs in Asia has always pointed to Singapore, Hong Kong followed by Malaysia and Australia (Blair 1999). Brunei Darussalam already has the important tax LCn (benign tax system) at hand of hosting RTCs but this potential has been ignored. Therefore investigation of this issue is the major part of the present study. Below are the related tax exemption incentives in Brunei (Alleart 1995).
- tax exemptions corporate income tax,
- taxes on imported capital goods,
- taxes on imported raw materials,
- no levy on exports,
- no personal income tax,
- No tax on salaries, royalties, loans and interests.
- Tax holiday between 2 and 4 years is granted as well depending on the amount invested and can be extended to an additional 5 years
- Sole proprietorship and partnerships are not subject to taxes

De Zilva (2004) studied Australia’s regional operating headquarter taxation incentives by comparing them to Singapore, Malaysia and Thailand. De Zilva (2004) and Watanabe (1998) have similar study methods i.e. tax related comparative study. De Zilva found that Australia’s tax rates are the highest among the four countries investigated, “The Australian tax laws made Australia comparatively unattractive country to hold foreign investment” De Zilva (2004, p56). De Zilva’s focus was on the comparative study of regional operating headquarters and its tax concessions offered by the four countries; Australia, Singapore, Thailand and Malaysia, the present study will focus on a comparative study of RTCs and the LC offered by Brunei, Singapore and Hong Kong.

Treasury performance in this present study refers to the number of RTCs or ITCs that have been set up in certain locations and also the amount of money this type of activity has brought to the location or country. LC and treasury performance are linked in the present study by the necessity of RTCs to operate favourably for underlying business with regards to one location to another with different conditions of LC for example percentage difference of tax in Brunei and Singapore. Treasury performances are commonly related to the degree of centralisation or decentralisation of management as pointed out by Sy & Ho (1993). Sy & Ho (1993) discussed the reasons for treasury performance measurement which is to align employee’s goal with company’s and employee motivation. In this study treasury performance will be linked with the LC not
degree of centralisation or decentralisation of management in terms of whether having the best LC will result in a better treasury performance.

2.2.4 Study Aim

Recommendations regarding changes that need to be implemented in Brunei following the success of other countries (Singapore and Hong Kong) in attracting MNCs to set up RTCs in their region will be made. These changes will be in the form of financial and banking (prices for banking services) reforms as set up by Simkova (2005) and possibly others. Already having political and economic stability, comprehensive and up-to-date legislation, strong regulatory and supervisory frameworks, low costs for business operation, presence of liquidity, time zone convergence, advanced physical infrastructures, diverse domestic support service, excellent international education and health facilities, and well-educated labour force (Oxford Business Group 2007), further refining the financial and banking regulations competitively to international financial centres such as Singapore and Hong Kong could make Brunei the next leading location for Regional Treasury Centres.
Chapter 3: Methods

This chapter focuses on the methods of data collection (6.0) and the methods for comparative analysis utilized in this present study. The type of data collected is based on the criteria by Simkova (2005). Each LCn is explained (4.1 to 4.11) according to Simkova (2005) description.

3.1 LC for Holding Company – Česká Gumárenska Společnost (ČGS) (Simkova 2005)

The criteria Simkova (2005 cited in Polak et al 2007) assessed for a holding company (CGS) in Czech Republic is based on cash pooling on a national basis in three currencies, three banks and three structures (Polak et al. 2007). Lenka Simkova set a target of locating the ITC for CGS in a country that enables the best conditions for cash flow controlling and administration, and also tax advantageous. The LC will serve as a set framework for data collection for the three countries; Brunei Darussalam, Singapore and Hong Kong in this present study and will be compared to identify differences and similarities (if available).

3.1.1 Monthly banking fees – LCn 1

Banks provide services for personal and commercial/enterprise/business/corporate purposes. In the present study, the prices for the services provided for commercial purposes are the focus. The monthly banking fees are the charges for maintaining business accounts as set up by the banks. For example, OCBC from Singapore offers a few separate business accounts with an average minimum fee of SGD15 for maintaining the account if the amount falls under a specific amount set up by them (OCBC 2008). Each bank has their competitive set of prices for this service. The prices or charges from the top three banks from Singapore and Hong Kong (except for Brunei i.e. any available pricing guide from any of the eight banks will be analysed) will be added and averaged. The target locations for RTCs are to incur lowest monthly banking fees as possible.

3 The word commercial, enterprise, business, corporate will be used interchangeably to describe the business category of banking service provided by banks.
3.1.2 Bank transaction fees - LCn 2

Bank transaction fees refer to the prices per transaction of the top three banks set up for businesses, corporations or enterprises. The charges or prices are for moving funds from the business accounts to other banks or business entities, for example; Business Entrepreneur Account waives any charges for cheques within the first two years and then SGD0.50 per cheque from 31st cheque onwards (per calendar month) (OCBC 2008). The lower the prices or fees are, the better it is for companies in terms of minimizing banking costs.

3.1.3 Price of foreign incoming payment – LCn 3

LCn 3 the price of foreign incoming payment, includes the prices set up by banks for providing services to move funds across international borders. This LCn in particular are charges for payments made from overseas to a domestic party. For example Hang Seng Bank (Hong Kong) charges HK$10 for inward interbank transfer service via express transfer (Hang Seng Bank Limited 2008). Inward remittances fees are also included for LCn 3. Inward remittances services such as Telegraphic Transfer (TT) and demand draft charges handling fees and these fees accounts for LCn 3.

3.1.4 Price of foreign outgoing payment – LCn 4

This LCn the price of foreign outgoing payment, has a similar character as LCn 3 but instead of incoming payments it is outgoing. Payments made by banks towards international based parties incur charges; for example Hang Seng (Hong Kong) charges HK$30 for outward HKD Interbank Transfer Services via express transfer and HK$170 via other channels (Hang Seng Bank Limited 2008). Similar to LC 3 the lower the charge for this LC the more favourable LC 4 is making a more attractive location for RTCs.
3.1.5 Price of foreign urgent payments – LCn 5

LCn 5 the price of foreign urgent payments, deals with making swift payments including converting one currency into another and transferring (to make payments) into another account in another bank domestically or internationally. This type of payment is normally charged more expensively than a usual outgoing payment. It is in the form of an outward remittance service provided by banks. Foreign urgent payments have a value date of T+1 in Europe. Value date (T) is the banking day on which banks transfer the fund for the making the payment to its correspondent bank (Swedbank n.d.). The lower the prices for these services set up by the banks the more favourable the location is for RTCs.

3.1.6 Withholding tax – LCn 6

Withholding tax is the percentage of payment (e.g. interests, dividends, royalties) payers make to resident or non-resident persons that will be withheld under the domestic law for the local tax authority (The Association of Corporate Treasurers 2008, p. 167 & p. 201). The Inland Revenue Authority of Singapore (IRAS) is Singapore’s tax authority while Hong Kong is the Inland Revenue Department of Hong Kong while the Ministry of Finance monitors tax related activities in Brunei (The Association of Corporate Treasurers 2008, p. 167 & p. 201). The lower the percentage withholding tax, the better it is for businesses or companies thus the more favourable the location for RTCs.

3.1.7 Corporate tax – LCn 7

Corporate tax is that imposed on earnings made by companies by local authority. The Inland Revenue Authority of Singapore (IRAS) is Singapore’s tax authority while Hong Kong is the Inland Revenue Department of Hong Kong and the Ministry of Finance monitors tax related activities in Brunei (GovHK 2007; The Association of Corporate Treasurers 2008, p. 167 & p. 201). The lower the percentage corporate tax, the better it is for businesses or companies thus the more favourable the location for RTCs.
3.1.8 Important/Existing Treasury Centres – LCn 8

This LCn important/ existing treasury centres, involves identifying the approximate number of important RTCs set up by MNCs already located in the three nominated locations for this present study i.e. Brunei, Singapore and Hong Kong. The higher the number identified shows the more appealing the location is to MNCs when considering establishing a RTC. Having existing RTCs indicates that the location is able to accommodate the complexities of treasury functions and this provides less assessment for the location considered compared to a location which has zero RTC.

3.1.9 Reporting requirements – LCn 9

Simkova (2005) describe this criterion reporting requirements, as certain large amounts of funds transferred by RTCs or MNCs domestically or internationally that need to be reported to the central bank or monetary authority of the country. The less stringent the reporting requirements to the central bank or monetary authority, the more favourable the location will be.

3.1.10 Currency Environment - LCn 10

The possibilities of transactions in different foreign currency domestically also makes a location favourable for RTCs. Possibilities of transaction in important currencies such as US dollars, Pound, Euro and others makes it possible for MNCs from these regions to not only operate there but also make cash pooling possible. These transactions (foreign to domestic) must be converted to local currency first before the transaction is executed therefore incurring some charges although these charges will not be a major part of this LCn. The major part is the range of foreign currency transaction possibilities. The bigger the range of foreign currency transaction possibilities (especially the important ones such as USD, GBP and EURO) the more favourable the location will be. The availability of foreign currency accounts and services provided by the banks will be investigated as well as the charges involve.
3.1.11 Ratings – LCn 11

LCn 11 deals with the risk associated with investing in a country assessing the overall liquidity and solvency (Coface n.d.). Basically it is measuring the business climate of a country by setting rates compared to other countries to reflect the financial situation of the country. Rating company Coface (Cofacerating.com) offers a worldwide country rating system. The ratings fall on a scale with seven levels (A1, A2, A3, A4, B, C and D) in increasing order of risks where A1 represents the least risks (Coface n.d.). For example, New Zealand is given a rating of A1 (Country @rating 2007). Coface interpreted that “New Zealand has a very good political and economic situation. This country has quality business environment with positive influence on corporate behaviour and corporate default probability is very low on average” (Country @rating 2007). Simkova (2005) cited in Polak et al (2007) describes LC 11 having to be as good as possible when considering a location for RTCs. The better the rating of a country is the more favourable the location is for RTCs.

3.2 Weighting of Criteria - Simkova (2005)

According to Simkova (2005), each criterion was given points to determine its importance compared to other criterion. A group of treasury managers associated at the Czech Association of Corporate Treasurers were interviewed and asked to discuss the important criteria to consider when determining the location for a RTC. As individual criteria have different importance for a decision to select a location for the RTC, Simkova determined the usefulness by a method of paired comparisons. Such a method consists of consecutive comparison of two criteria with the weight of each criterion was determined by a number of its preferences.
Table 3.1. Paired comparisons.

<table>
<thead>
<tr>
<th>No.</th>
<th>Criterion</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly bank fee</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fee</td>
<td></td>
<td>3</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Price for foreign incoming payment</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Price for foreign outgoing payment</td>
<td></td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Price of URGENT foreign payments</td>
<td></td>
<td></td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>8</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Corporate tax</td>
<td></td>
<td></td>
<td></td>
<td>5</td>
<td>4</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Reporting requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6</td>
<td>8</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Withholding tax for intra-group yield</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8</td>
<td>9</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Important treasury centre</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Currency environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Simkova (2005 p44)

Table 3.1 shows the number of times each of the 10 criterion was mentioned (appearance column) in the interviews held by Lenka Simkova and Dr. Petr Polak. They ranked according to the number of times each criterion was mentioned and given specific weights for level of importance. Weight 10 - the most important criterion, in Simkova (2005), withholding tax on interest from intra-company loans. Less important criterion is the currency environment which has a weight of 1.
Table 3.2. *Criterion with the assigned weights according to ranking.*

<table>
<thead>
<tr>
<th>no.</th>
<th>Criterion</th>
<th>Appearance</th>
<th>Ranking</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly banking fees</td>
<td>6x</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fees</td>
<td>5x</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>Price of foreign incoming payment</td>
<td>8x</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>Price of foreign outgoing payment</td>
<td>7x</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments price</td>
<td>4x</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Corporate tax</td>
<td>3x</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>7</td>
<td>Reporting requirements</td>
<td>1x</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>8</td>
<td>Withholding tax</td>
<td>9x</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>9</td>
<td>Important treasury centres</td>
<td>2x</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>10</td>
<td>Currency environment</td>
<td>0x</td>
<td>10</td>
<td>1</td>
</tr>
</tbody>
</table>

*Source: Simkova (2005 p44).*

### 3.2.1 Matrix of utility

Simkova compared each criterion with the other countries evaluated and gave them artificial maximal variant (M1) to later assist in determining the relative utility (the greater the better the location for RTCs). From the data, a model of a problem decision in a form of a matrix was created (table 3.3). Table 3.3 i.e. the matrix of utility shows the best solution for a criterion has a value of 100. The other variants are determined as a quotient of the best variant of each criterion. If the best solution for any criterion is equal to zero (for example, a real transaction applied by banks in one of the evaluated countries is zero dollars), then it is impossible mathematically to solve the quotient mentioned above and that is the reason for the use of the formula as follows:

\[
\text{Simple usefulness} = 100 - \left(\frac{\text{real value}}{\text{max} - \text{min}}\right) \times 100
\]

*Real value = real value, e.g. 0, if there is no transaction fee, if it equal to zero, then simple utility is mathematically equal to 100 (the best variant)*

*Max = maximal value of e.g. transaction fee found in one country*

*Min = minimal value of e.g. transaction fee found in one country*
Table 3.3. Matrix of utility.

<table>
<thead>
<tr>
<th>no</th>
<th>Criteria</th>
<th>Variants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>A</td>
</tr>
<tr>
<td>1</td>
<td>Fee per month</td>
<td>22.3</td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fee</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Price for incoming foreign payment</td>
<td>33.9</td>
</tr>
<tr>
<td>4</td>
<td>Price for outgoing foreign payment</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments</td>
<td>24.1</td>
</tr>
<tr>
<td>6</td>
<td>Corporate tax</td>
<td>41.7</td>
</tr>
<tr>
<td>7</td>
<td>Reporting</td>
<td>100</td>
</tr>
<tr>
<td>8</td>
<td>Country rating</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>Withholding tax</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>Important TCs</td>
<td>60</td>
</tr>
</tbody>
</table>

*Source: Simkova (2005 p45).*

Table 3 shows the data collected for all the evaluated countries (A-I) and the artificially created maximal (or optimal) variant (M1). Relative usefulness of each variant was calculated as a proportion of each variant at M1.

### 3.2.2 Matrix of weighted utility

The given weights from table 1 were incorporated into table 2 by Lenka Simkova to calculate the total utility for each country by adding the entire criterion. The relative utility was found by calculating the percentage of total utility of each country to total utility of the created maximal variant (5500).
Table 3.4. Matrix of weighted utility.

<table>
<thead>
<tr>
<th>no.</th>
<th>Criteria</th>
<th>Weight</th>
<th>Variants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>A</td>
</tr>
<tr>
<td>1</td>
<td>Fee per month</td>
<td>7</td>
<td>156.1</td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fee</td>
<td>6</td>
<td>600</td>
</tr>
<tr>
<td>3</td>
<td>Price for incoming foreign payment</td>
<td>9</td>
<td>305.1</td>
</tr>
<tr>
<td>4</td>
<td>Price for outgoing foreign payment</td>
<td>8</td>
<td>800</td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments</td>
<td>5</td>
<td>120.5</td>
</tr>
<tr>
<td>6</td>
<td>Corporate tax</td>
<td>4</td>
<td>166.8</td>
</tr>
<tr>
<td>7</td>
<td>Reporting</td>
<td>2</td>
<td>200</td>
</tr>
<tr>
<td>8</td>
<td>Country rating</td>
<td>10</td>
<td>1000</td>
</tr>
<tr>
<td>9</td>
<td>Withholding tax</td>
<td>3</td>
<td>180</td>
</tr>
<tr>
<td>10</td>
<td>Important TCs</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Total utility</td>
<td></td>
<td>3629</td>
</tr>
<tr>
<td>U</td>
<td>Relative utility</td>
<td></td>
<td>66%</td>
</tr>
</tbody>
</table>

Source: Simkova (2005 p46).

Relative utility for country H (Switzerland) shows the highest percentage of 79%, the worst results were variants D and F (Italy and Austria). Simkova (2005) revealed that this country has the criteria to host the holding company’s RTC. This is further proven in the following section.

3.2.3 Determination if unfavourable results

Credit risk was considered in Simkova (2005). This is basically the default of a counterparty of company XY\(^4\), which would result in unfulfilled cash flows that company XY planned. Country rating company Coface (http://www.trading-safely.com) is a benchmark of an average credit risk that companies in any of the evaluated countries will not be able to fulfill their short-term financial obligations. Rating A1 is the best.

\(^4\) Company XY is a hypothetical company.
Country ratings of each country were follows:

A. A1  
B. A1  
C. A1  
D. A2  
E. A2  
F. A1  
G. A3  
H. A1  
I. A1

As per Table 3.5, rating A1 was assigned probability of unfavourable result (which means a probability of default) of 5% etc. A2 – 15%, A3 – 25%.

**Table 3.5. Assigned probability of unfavourable result.**

<table>
<thead>
<tr>
<th>No.</th>
<th>Unfavourable result</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Probability of non-fulfilment of short-term financial obligations</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>15%</td>
<td>15%</td>
<td>5%</td>
<td>25%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Source: Simkova (2005 p47).*

Weight of risk for each country was assigned by a treasury department of company XY according to the credit rating of company Coface.

**Table 3.6. Final effects.**

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>U</td>
<td>Relative utility</td>
<td>66</td>
<td>55</td>
<td>62</td>
<td>44</td>
<td>48</td>
<td>44</td>
<td>53</td>
<td>79</td>
</tr>
<tr>
<td>R</td>
<td>Relative risk</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>15</td>
<td>15</td>
<td>5</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td>E</td>
<td>Final effect (U - R)</td>
<td>61</td>
<td>50</td>
<td>57</td>
<td>29</td>
<td>33</td>
<td>39</td>
<td>28</td>
<td>74</td>
</tr>
<tr>
<td>E</td>
<td>Final effect (U/R)</td>
<td>13.2</td>
<td>11</td>
<td>12.4</td>
<td>2.93</td>
<td>3.2</td>
<td>8.8</td>
<td>2.12</td>
<td>15.8</td>
</tr>
</tbody>
</table>

*Source: Simkova (2005 p51).*

Simkova used the ratings given the countries she evaluated by rating company Coface. The higher the relative risk (credit risk, R) the worse it is for the country. Country H which is Switzerland has the combination of best level for criteria and credit rating of A1 (the best rating) and highest final effects of (final effect, U-R) 74 and (final effect, U/R) 15.8.
Methodology

3.3 Overview

The research methodology is based on a comparison of 11 location criteria (LC) across three countries: Brunei, Hong Kong, and Singapore. The 11 criteria are as follows: (LCn 1) Monthly banking fees, (LCn 2) Bank transaction fees, (LCn 3) Price of incoming foreign payment, (LCn 4) Price of outgoing foreign payment, (LCn 5) Price of foreign urgent payments, (LCn 6) Withholding tax, (LCn 7) Corporate tax, (LCn 8) Important treasury centres, (LCn 9) reporting requirements, (LCn 10) Currency environment and (LCn 11) Ratings. A summary description of each location criterion (LCn) is provided in Table 3.7.

The data collection process involved gathering information on each of the 11 criteria from secondary data sources, with data collection and analysis methods varying, depending on the criterion (see below) but conducted simultaneously. Much of the data; mostly pricing for services provided by banks for Business/Corporations/Enterprises was sourced from the top three leading banks in each country which were measured by asset size: Hong Kong (HSBC, Bank of China and Hang Seng Bank), Singapore (DBS Bank, United Overseas Bank and OCBC Bank) except for Brunei as the data from this country is not as readily available. The three banks utilized from Brunei for this study is according to the latest ranking of the Asian banks (Asianbanks.net 2004) from FinanceAsia magazine referred at asianbanks.net. According to this ranking, out of the eight banks in Brunei, HSBC has the largest asset size followed by United Overseas Bank and then Malayan Bank (Maybank). The bank’s websites will be the source for the pricing of services utilised in this study. Other sources of data include academic database and treasury websites for recent articles, central bank websites and Asia’s Treasurer Handbook 2008 for tax related criterion.

Data for seven of the LC (LC 1, 2, 3, 4, 5, 6, and 7) is quantitative as these criteria are based on tax percentages, minimum average of fees and prices for bank services. Data for the remaining four LC (criterion 8, 9, 10 and 11) is qualitative (non-numerical), namely textual information gathered predominantly from online resources.
The data collection procedure for each criterion in each country is described in more detail below. A comparative analysis of the 11 LC across the three countries, identifying similarities and differences, is presented in the Results section.

### 3.3.1 Study Approach

The study employed a deductive approach moving from theory to data collection, as suggested by Saunders et al. (2007). According to the Simkova (2005) cited in Polak et al. 2007, there are 11 criteria that needs to be examined (the 11 LC) to assess the condition of a location to determine its suitability to host RTCs. Therefore, the objective of the current study was to compare these 11 LC across three countries: Brunei, with zero RTC versus Hong Kong and Singapore, the two well known locations for establishing RTCs in Asia.
Table 3.7. Description of the 11 Location Criteria.

<table>
<thead>
<tr>
<th>Location Criterion (LCn)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Monthly banking fees</td>
<td>Business account minimum monthly maintenance fees charged by banks.</td>
</tr>
<tr>
<td>2. Bank transaction fees</td>
<td>Minimum fee per transaction charged by banks for business accounts.</td>
</tr>
<tr>
<td>3. Price of incoming foreign payment</td>
<td>Inward remittance fees – minimum charge for fund transferred (buying foreign currency) by foreigners to their country of residence.</td>
</tr>
<tr>
<td>4. Price of outgoing foreign payment</td>
<td>Outward remittance fees – minimum charge for fund transferred (selling foreign currency) by foreigners to their country of residence.</td>
</tr>
<tr>
<td>5. Price of outgoing urgent payment</td>
<td>This service fee is similar for making outgoing payments but more expensive (minimum charge).</td>
</tr>
<tr>
<td>6. Withholding tax</td>
<td>Percentage of payment payers made to resident or non-residents that are withheld for the local tax authority.</td>
</tr>
<tr>
<td>7. Corporate tax</td>
<td>Tax imposed on profits made by companies by local authority.</td>
</tr>
<tr>
<td>8. Important treasury centres</td>
<td>The existence of RTCs in Brunei, Singapore or Hong Kong.</td>
</tr>
<tr>
<td>9. Reporting requirements</td>
<td>Amount of transactions that require to be reported to the central bank or monetary authority.</td>
</tr>
<tr>
<td>11. Ratings</td>
<td>Credit ratings by rating company Coface given to Brunei, Singapore and Hong Kong. Rating A1 (&quot;best&quot;) to rating D (&quot;worst&quot;) (Coface launches a new “business climate” rating)</td>
</tr>
</tbody>
</table>


3.4 Data Collection Procedure

LCn 1 – Monthly banking fees

This criterion was measured in terms of the average dollar cost for each country. Different fees charged by the top three banks from each country were collected from the individual banks’ websites. The minimum fees charged for different business account services provided by a given bank were first averaged. After calculating the
average for one of the banks within a country, this procedure was repeated for the other two banks. Finally, the averages for the top three banks in a country were averaged to produce one standard monthly banking fee for each country. This process was repeated for all three countries. Collection of data for this LC were predominantly from the top ranking bank’s (by asset size) website under the “Pricing guide” of services for business/corporations/enterprises for Singapore and Hong Kong. The three top banks from Singapore are DBS bank, United Overseas bank and OCBC bank while for Hong Kong; HSBC, Bank of China and Hang Seng Bank (Asianbanks.net 2004). With the exception of Brunei as the information was not provided online by the top ranking banks except for HSBC, the rest of the data from United Overseas Bank (UOB) and Maybank (Asianbanks.net 2004) were collected by telephone on the 22nd of October 2008, through customer service of these two banks in Brunei to obtain the data for this LCn.

LCn 2 – Bank Transaction Fees

This criterion was measured in terms of the average dollar for each country. Information about minimum bank transaction fees was collected from the top three banks in Singapore and Hong Kong via the individual banks’ websites. The data collection method for UOB and Maybank (excluding HSBC) in Brunei varies as the data needed were not readily available online for these two as HSBC or the banks in Singapore and Hong Kong. Therefore the two other banks in Brunei were individually contacted via the telephone to obtain the data for this criterion. Customer service of UOB and Maybank in Brunei was contacted via telephone on the 22nd of October 2008 to obtain the data for this LCn.

Each bank offers different types of business accounts and the fees charged for transactions differ. Accordingly, the minimum transaction fees for all business accounts provided by a given bank were first averaged. After calculating the average for one of the banks within a country, this procedure was repeated for the other two banks. Finally, the minimum averages for the top three banks in a country were again averaged to compute an overall average of the bank transaction fees for that country. This process was repeated for all three countries.
LCn 3 – Price for foreign incoming payment

This criterion was measured in terms of the dollar cost for each country. This fee or price involves the minimum charges for transferring funds for payments made by businesses from their home country (where the MNCs parent headquarters are) into the foreign country. These services may be telegraphic transfer or bank overdraft applied in a foreign country to move funds to Brunei, Singapore or Hong Kong. The minimum price or fee charged for this type of service was collected from the bank online fees and charges section of the websites of the three leading banks in each country. For Brunei, other than HSBC, data was collected via telephone on the 22nd of October 2008, to the other two of the top three banks (United Overseas Bank and Maybank) as the data needed for these two banks was not available online as HSBC or the banks in Singapore and Hong Kong. The price was averaged for the top three banks in each country.

LCn 4 – Price for foreign outgoing payment

This criterion was measured in terms of the dollar cost for each country. This criterion is similar to the previous one but it is outgoing instead of incoming and is based on the charges for transfer of funds or payments by banks in Brunei, Hong Kong or Singapore to foreign countries made by its customers i.e. businesses or corporations. The minimum service fee or prices for this service are provided at each bank’s website, under service fees and charges. Information gathered for Brunei from the UOB and Maybank was collected via telephone on the 22nd of October 2008 as these banks does not have the prices for their services on their website. This although does not apply to HSBC Brunei as they have provided the information on HSBC Brunei website. The data (prices) collected from the banks were averaged for all the top three banks in each country.

LCn 5 – Price for urgent foreign outgoing payment

This criterion was measured in terms of the dollar cost for each country. This price is for urgent outgoing payments made by a business which is typically higher (more
expensive) than the price for foreign outgoing payment and it is not normally listed under the fees and charges for business accounts and services provided by the banks at their websites. Therefore all the banks from each country Singapore and Hong Kong were contacted via electronic mail or telephone for this specific LCn. For Brunei, HSBC was emailed while United Overseas Bank and Maybank were contacted via telephone on the 22nd of October 2008. The minimum price was averaged for the top three banks in each country.

**LCn 6 – Withholding tax**

This criterion was measured as the percentage of tax imposed on by a country on interest or dividends paid to a person residing outside that country. These data were obtained by examining regulation acts provided in the Brunei Economic Development Board database (for Brunei), the Inland Revenue Authority of Singapore (IRAS) database (for Singapore), and the Inland Revenue Department (for Hong Kong). For Hong Kong and Singapore, data were also sourced from The Asia Treasurer’s Handbook 2008 (The Association of Corporate Treasurers 2008).

**LCn 7 – Corporate Tax**

This criterion was measured in terms of the percentage of tax imposed on company profits within each country. Corporate tax data for Hong Kong and Singapore were obtained from the Asia’s Treasurers Handbook 2008 (The Association of Corporate Treasurers 2008), which provides up-to-date treasury information for Asian countries. Brunei is not included in this handbook; therefore corporate tax datum for Brunei was sourced from the Brunei Economic Development Board (BEDB) online database (BEDB n.d.).
LCn 8 – Important/Existing Treasury Centres

This criterion was measured in terms of the number of important treasury centres already located in each country especially for Singapore and Hong Kong. These two countries are already well known locations for RTCs compared to Brunei as they are Asia’s leading international financial centre and location for RTC. Data for this criterion were collected by examining textual materials obtained from academic databases and treasury websites. Published articles relating to treasury development especially the setting up of RTCs by MNCs in Asia particularly Brunei, Singapore and Hong Kong were collected and examined to identify which MNCs had set up or were planning to set up RTCs in the countries included in this study. The Ministry of Finance (Brunei) was contacted as well to indentify the current number of existing RTC in Brunei.

LCn 9 – Reporting requirements

This criterion was measured in terms of the certain large amount of money transferred by businesses through their banks that needs to be reported to the central bank in each country. For Hong Kong and Singapore, their central bank also known as the Monetary Authorities of the country supervises all financial and banking-related activities. For Brunei, this authority is the Financial Institution Division under the Ministry of Finance (Ministry of Finance 2005). The reporting requirements were obtained from the websites of these governing bodies and also by contact via e-mail. As these requirements involve reporting by banks, the websites of the three leading banks in each country were also examined.

LC 10 – Currency Environment

This criterion was measured in terms of the range of different units of foreign currency that can be used for financial transactions within each country and the associated fees and charges. Data for this criterion were collected from the three leading banks in each country. Foreign currency business accounts provided by the top three banks from each country allowing transactions in other foreign currency especially Euros, US dollars and British pounds will account for this criterion. The data were collected from
the top three ranking banks website for Singapore and Hong Kong and compared. Similar information for Brunei was collected from the top ranking banks via website for HSBC and telephone on the 22nd of October 2008 for UOB and Maybank.

**LC 11 – Ratings**

Data for this criterion were collected from [www.trading-safely.com](http://www.trading-safely.com). The credit ratings, rating company Coface provided online will be the source for this criterion. These credit ratings represent credit risks for the business climate for each country.

A summary of the data sources used for each criterion across the three countries is provided in Table 3.8.
Table 3.8. Summary of Data Source.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Data source (Brunei)</th>
<th>Data source (Hong Kong)</th>
<th>Data source (Singapore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank transaction fees</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
</tr>
<tr>
<td>Currency environment</td>
<td>Banks (HSBC, UOB &amp; Maybank)</td>
<td>Banks (HSBC, Bank of China &amp; Hang Seng Bank)</td>
<td>Banks (DBS, United Overseas &amp; OCBC)</td>
</tr>
<tr>
<td>Important treasury centres</td>
<td>Search of recent articles from academic databases and world wide web</td>
<td>Search of recent articles from academic databases and world wide web</td>
<td>Search of recent articles from academic databases and world wide web</td>
</tr>
<tr>
<td>Monthly bank fees</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
</tr>
<tr>
<td>Price for foreign incoming payments</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
</tr>
<tr>
<td>Price for foreign outgoing payments</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
</tr>
<tr>
<td>Price for urgent outgoing foreign payments</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
<td>Calculating the average minimum charge of top 3 banks (by asset size)</td>
</tr>
<tr>
<td>Reporting requirements</td>
<td>From Monetary Authority/Central bank website – Ministry of Finance</td>
<td>From Monetary Authority/Central bank website – Monetary Authority of Singapore</td>
<td>From Monetary Authority/Central bank website – Hong Kong Monetary Authority</td>
</tr>
</tbody>
</table>

3.5 Comparative Analysis

Data collected were simplified into appropriate tables for clear comparisons for the three different countries nominated in the study Brunei, Hong Kong and Singapore. Each LCn was analysed separately in its own section to clearly spot differences or similarities across the three countries. LC with quantitative data (LCn 1 to LCn 7) relating to prices and tax percentages will be grouped together and measured in terms of which has the highest and lowest figure. The target is to recognize which of the three countries has the lowest figures as this indicates that that country has the most favourable LC compared to others. The country with higher figures for each LCn will offer more expensive condition for RTC to operate in. LCn 8 to LCn 11. LC with qualitative data will be compared across the three countries as well.

3.5.1 Converting to AUD

All averaged minimum prices for services provided by banks from each country were converted to Australian Dollars (AUD) according to Westpac September 2008 monthly average exchange rates (Westpac 2008) to simplify the procedure of comparing the costs of services the banks provide, originally in different currencies i.e. Brunei Dollars (BND), Singapore Dollars (SGD) and Hong Kong Dollars (HKD) from each different country provided. This is shown in 4.3 (Comparative Analysis & Results).
Chapter 4: Results

Overview

This chapter presents the results of the proposition; whether Brunei has the resources to host RTCs compared with the two leading financial centres and location for RTCs. Types of data collected are shown clearly by separated sections (by country i.e. Brunei Darussalam, Singapore and Hong Kong). This is followed by description of each datum collected for LCn of each country.

Comparative analysis section 4.3 is to identify the distinctions of each LCn from each country to see which country is in a better position in terms of attracting RTCs. This is followed by discussion of the results (Chapter 5).

4.1 Introduction

The results are derived from the collection of available datum for every LCn from each country following data collection procedure mentioned in 3.4 (Data collection procedure) and comparative analysis of the found data. The results for establishing whether Brunei has the facilities to accommodate RTCs as do Singapore and Hong Kong, comes from comparing Singapore’s and Hong Kong's current state of condition (LC) to Brunei’s, and through this method, finding out if Brunei can compete with the Asia’s leading international financial centre and location for RTCs in Asia in terms of hosting RTCs and its functions.

4.2 Data found

In this section the data are presented raw (in the country's currency) first of all and then explained to establish their significance according to the set LC separately by country. The data for Brunei Darussalam presented in Brunei dollars, data for Singapore in Singapore dollars and data for Hong Kong in Hong Kong dollars and this is only for the LC that has a cost character (LCn 1, LCn 2, LCn 3, LCn 4 and LCn 5). Data for LCn 1 to LCn 5 are then converted to Australian dollars (AUD) for comparative analysis in section 4.3 (Comparative Analysis and Results) as these data are prices of banking services offered in each country (different currencies). LCn 1 to LCn 7 represents the quantitative data which are the percentages and prices of
banking facilities while LCn 8 to 11, the qualitative data consisting of non-numerical data.

4.2.1 Brunei Darussalam

Table 4.1. LC data for Brunei Darussalam.

<table>
<thead>
<tr>
<th>No.</th>
<th>Location Criterion (LCn)</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly bank fees</td>
<td>$20.67</td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fees</td>
<td>$8.33</td>
</tr>
<tr>
<td>3</td>
<td>Price for foreign incoming payment</td>
<td>$15.03</td>
</tr>
<tr>
<td>4</td>
<td>Price for foreign outgoing payment</td>
<td>$25.00</td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments price</td>
<td>$25.03</td>
</tr>
<tr>
<td>6</td>
<td>Withholding tax</td>
<td>20%</td>
</tr>
<tr>
<td>7</td>
<td>Corporate tax</td>
<td>30%</td>
</tr>
<tr>
<td>8</td>
<td>Important treasury centres</td>
<td>none</td>
</tr>
<tr>
<td>9</td>
<td>Reporting requirements</td>
<td>Only certain threshold.</td>
</tr>
<tr>
<td>10</td>
<td>Currency environment</td>
<td>USD, EUR, GBP, AUD, JPY etc</td>
</tr>
<tr>
<td>11</td>
<td>Ratings</td>
<td>N/A</td>
</tr>
</tbody>
</table>


Description for table 4.1.

LCn 1 – Monthly banking fees.

This is the charges or fees set up by HSBC, United Overseas Bank and Malayan Bank (Malayan bank) in Brunei for maintaining a business current account with them. The minimum average charge is BND20.67 a month if the current balance falls below a certain balance (HSBC 2008b; Malayan bank 2008; United Overseas Bank 2008c).

LCn 2 – Bank transaction fees.

Transaction fee is the minimum service charge for making one transaction with the business accounts offered by the three banks in Brunei (HSBC 2008b; Malayan bank 2008; United Overseas Bank 2008c). The average transaction fee charged by these three banks is BND8.33.
LCn 3 – Price of foreign incoming payment.

This LC deals with incoming payment facility charges set by the three banks from Brunei. Commonly banks offer two types of facilities under this service that is telegraphic transfer (TT) and demand draft but TT is most popular therefore chosen to represent this LCn. The minimum average fee charge for this LC is BND15.03 (HSBC 2008b; Malayan bank 2008; United Overseas Bank 2008c).

LCn 4 – Price of foreign outgoing payment.

The average minimum charge for making foreign outgoing payments gathered from the three banks in Brunei is BND25 (HSBC 2008b; Malayan bank 2008; United Overseas Bank 2008c). This service is similar to LCn 3 but instead of incoming payments (from overseas to Brunei), it is outgoing (payments from Brunei to overseas).

LCn 5 – Price of foreign urgent outgoing payment.

For this type of service, the three banks in Brunei commonly have a similar charge as LCn 4 but with a difference in time for making payments (explained in Methodology). The average for the price for making foreign urgent payments of the three banks is BND25.03 (HSBC 2008b; Malayan bank 2008; United Overseas Bank 2008c).

LCn 6 – Withholding tax

Brunei’s withholding tax on interest or dividends paid to overseas resident is set up at 20% namely 20% of the payment amount sent overseas is withheld and paid to the local tax authority (Brunei Darussalam Ministry of Finance, MOF).

LCn 7 – Corporate tax

30% of profits made by companies or corporations are subjected to tax by Brunei Ministry of Finance.
LCn 8 – Important treasury centres.

This LCn is identifying the existing RTCs in the country. There are none (zero) in Brunei Darussalam currently as commented by a Brunei Darussalam Ministry of Finance officer.

LCn 9 – Reporting requirements.

Large transactions exceeding certain threshold\(^5\) inter-bank or between banks and customers are required to be reported to the Ministry of Finance (Ismail, S 2008, pers. email., 30 September)

LCn 10 – Currency Environment.

HSBC offers accounts and services in many important foreign currencies the main ones being American Dollars (USD), Great Britain Pounds (GBP), Euroland (Euro), Japanese Yen (JPY), Hong Kong Dollars (HKD), New Zealand Dollars (NZD), Canadian Dollars (CAD) and a few more (HSBC 2008b). Transactions in foreign currencies can be done but must be converted to BND first. Both UOB and May Bank do not have a foreign currency account facility (Malayan Bank 2008; United Overseas Bank 2008c).

LCn 11 – Ratings.

Brunei Darussalam is not included in the ratings list of rating company Coface (www.trading-safely.com). Currently, there are no ratings given to business climate and credit conditions for Brunei Darussalam.

\(^5\) The threshold is not publicly disclosed information.
4.2.2 Singapore

Table 4.2. LC data for Singapore.

<table>
<thead>
<tr>
<th>No.</th>
<th>Location Criterion (LCn)</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly bank fees</td>
<td>SGD15.00</td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fees</td>
<td>SGD0.33</td>
</tr>
<tr>
<td>3</td>
<td>Price for foreign incoming payment</td>
<td>SGD10.00</td>
</tr>
<tr>
<td>4</td>
<td>Price for foreign outgoing payment</td>
<td>SGD15.00</td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments price</td>
<td>SGD15.00</td>
</tr>
<tr>
<td>6</td>
<td>Withholding tax</td>
<td>15%</td>
</tr>
<tr>
<td>7</td>
<td>Corporate tax</td>
<td>18%</td>
</tr>
<tr>
<td>8</td>
<td>Important treasury centres</td>
<td>Nokia, Nissan, Sony, UPS, Caltex etc</td>
</tr>
<tr>
<td>9</td>
<td>Reporting requirements</td>
<td>No capital controls</td>
</tr>
<tr>
<td>10</td>
<td>Currency environment</td>
<td>USD, EURO, AUD, GBP, JPY etc</td>
</tr>
<tr>
<td>11</td>
<td>Ratings</td>
<td>A1</td>
</tr>
</tbody>
</table>


Description for table 4.2.

LCn 1 – Monthly banking fees

The average minimum charge for maintaining a business account at the top three ranking banks DBS United Overseas and OCBC in Singapore (by asset size) is SGD15. DBS bank charges a minimum of SGD15 for maintaining a SGD current account (DBS 2007a), while United Overseas bank charges SGD15 (UOB 2008a) and OCBC charges SGD15 as well (OCBC 2008).

LCn 2 – Bank transaction fees.

The minimum fee accounts for this LCn which is the minimum cost for making one transaction at the three banks (DBS 2007a; OCBC 2008; UOB 2008a). The minimum transaction cost is taken from the three banks of each country and averaged. The fees of services such as GIRO (payer gives cheque to his bank then transfers funds to payee’s bank account – Wikipedia 2008), making payments by cheque is taken into account for this LCn. The averaged minimum charge is SGD0.33.
**LCn 3 – Price of foreign incoming payment.**

The average minimum charge for an incoming foreign payment charge by the top three banks of Singapore is SGD10 (DBS 2007b; OCBC 2008; UOB 2008a). The minimum charge for a telegraphic transfer of an inward remittance service accounts for this LCn. The charges from the three banks are added and averaged to achieve SGD10.

**LCn 4 – Price of foreign outgoing payment.**

Telegraphic transfer facility for making outward payments set up by the three banks provides for this LCn. The three minimum charges from the banks are averaged achieving SGD15 for this LCn (DBS 2007b; OCBC 2008; UOB 2008a).

**LCn 5 – Price of foreign urgent outgoing payment.**

The three banks similarly offer the same prices for making urgent payments as their making of normal outgoing payments (DBS 2007b; OCBC 2008; UOB 2008a). The average therefore is SGD15 as well.

**LCn 6 – Withholding tax.**

Singapore’s local tax authority (Inland Revenue Authority of Singapore) imposes a withholding tax of 15%. Therefore 15% of payment to overseas (in the form of interests) is withheld for tax paid to the local authority.

**LCn 7 – Corporate tax.**

18% of profits made by companies in Singapore are subjected to corporate tax.

**LCn 8 – Important treasury centres.**

Companies that have set up RTCs in Singapore are Nissan (Marriot 2005), Nokia (Blair 1999), Philips Electronics (GTnews.com: the treasury & finance network 1999), UPS (Chang n.d.), Sony (Graham 2005), Citi (Winn 2007), JP Morgan (Peck 2006),
Caltex (Monetary Authority of Singapore 1999), Ericsson (Monetary Authority of Singapore 1999), Intel (Monetary Authority of Singapore 1999), NCR (Monetary Authority of Singapore 1999) and many more. The mentioned ones are the major companies.

*LCn 9 – Reporting requirements.*

The Monetary Authority of Singapore (MAS) is also the central bank of Singapore. As commented by the MAS personal there are no capital controls under the Exchange Control Act (Chapter 245) (Monetary Authority of Singapore 2007b).

*LCn 10 – Currency Environment.*

The top three banks in Singapore offer accounts and services for most of the important foreign currencies (DBS 2007b; OCBC 2008; UOB 2008b). Such currencies are USD, EURO, AUD, GBP, JPY, HKD, NZD, THB and many more.

*LCn 11 – Ratings.*

Singapore is given business climate rating of A1 and has credit rating of A1 by trading-safely.com, a rating company called Coface.
### 4.2.3 Hong Kong

**Table 4.3. LC data for Hong Kong.**

<table>
<thead>
<tr>
<th>No.</th>
<th>Location Criterion (LCn)</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly bank fees</td>
<td>$36.67</td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fees</td>
<td>$56.67</td>
</tr>
<tr>
<td>3</td>
<td>Price for foreign incoming payment</td>
<td>$41.67</td>
</tr>
<tr>
<td>4</td>
<td>Price for foreign outgoing payment</td>
<td>$116.67</td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments price</td>
<td>$156.67</td>
</tr>
<tr>
<td>6</td>
<td>Withholding tax</td>
<td>N/A</td>
</tr>
<tr>
<td>7</td>
<td>Corporate tax</td>
<td>17.5%</td>
</tr>
<tr>
<td>8</td>
<td>Important treasury centres</td>
<td>JP Morgan, P&amp;O Nedlloyd's</td>
</tr>
<tr>
<td>9</td>
<td>Reporting requirements</td>
<td>Some control</td>
</tr>
<tr>
<td>10</td>
<td>Currency environment</td>
<td>USD, EURO, AUD, GBP, JPY etc</td>
</tr>
<tr>
<td>11</td>
<td>Ratings</td>
<td>A1</td>
</tr>
</tbody>
</table>


Description for table 4.3.

**LCn 1 – Monthly banking fees.**

The top three banks in Hong Kong; HSBC, Bank of China and Hang Seng bank offer business account maintenance charge of HKD40 (HSBC 2008a), HKD60 (Bank of China 2008) and HKD10 (Hang Seng Bank Limited 2008) respectively. The three charges are added and averaged resulting in LC datum of HKD36.67.

**LCn 2 – Bank transaction fees.**

The minimum charge per transaction offered by the top three banks of Hong Kong is averaged giving the figure of HKD56.67 (Bank of China 2008; Hang Seng Bank Limited 2008; HSBC 2008a).

**LCn 3 – Price of foreign incoming payment.**

Facilities provided for making foreign incoming payments from the top three banks averaged at HKD41.67 (Bank of China 2008; Hang Seng Bank Limited 2008; HSBC 2008a).
Telegraphic transfer facility for making inward payments set up these banks accounts for this LCn.

**LCn 4 – Price of foreign outgoing payment.**

Price for making outgoing payment via TT charged by the three banks of Hong Kong has an average of HKD116.67. HSBC charges a minimum of HK80 (HSBC 2008a) Bank of China charges HK170 (Bank of China 2008) while Hang Seng Bank charges HK100 (Hang Seng Bank Limited 2008).

**LCn 5 – Price of urgent foreign payment.**

HSBC facilitates a special clearing arrangement of direct delivering of cheque with the charge of HK200 (HSBC 2008a). While Hang Seng and Bank of China charges the same price as making a normal foreign outgoing payment HK100 and HK170 respectively (Bank of China 2008; Hang Seng Bank Limited 2008). The average of these charges is HKD156.67.

**LCn 6 – Withholding tax.**

The Inland Revenue Department of Hong Kong (IRDHK) is the tax authority of Hong Kong. There is no withholding tax in Hong Kong, although when a Hong Kong company pays royalties for the use of intellectual property to its own offshore licensing affiliate, then tax is due of 10% of 17.5%. Therefore, 1.75% must be withheld by the Hong Kong paying company (Lowtax.net 2008).

**LCn 7 – Corporate tax.**

IRDHK imposes corporate tax of 17.5% on company’s profits.

**LCn 8 – Important treasury centres.**

Two major companies found that have set up regional centres in Hong Kong with treasury and finance functions: JP Morgan has set up an International Image Deposits
Centres (IDCs) (Peck 2006) while P & O Nedlloyd’s has set up a Centre of Excellence with the above mentioned functions (Raymont 2003).

LCn 9 – Reporting requirements.

According to the MA(BS) 11 – Hong Kong Dollars Interbank transactions of the Bank Ordinance which is the legal framework for banking supervision in Hong Kong, the gross amounts of lending and borrowing should be reported to the Hong Kong Monetary Authority (Hong Kong Monetary Authority n.d.).

LCn 10 – Currency environment.

HSBC, United Overseas Bank and Hang Seng bank provide multi foreign currency accounts and services (Bank of China 2008; Hang Seng Bank Limited 2008; HSBC 2008a). Such foreign currency account and service are made for USD, GBP, EUR, AUD, NZD, RMB (China), CAD (Canadian Dollars), JPY and many more.

LCn 11 – Ratings.

Hong Kong is given a business climate of A1 and country credit rating of A1 by rating company Coface – trading-safely.com.
4.3 Comparative Analysis & Results

4.3.1 LCn 1

Table 4.4. Monthly bank fees.

<table>
<thead>
<tr>
<th>Location Criterion (1)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly bank fees</td>
<td>BND20.67</td>
<td>SGD15</td>
<td>HKD36.67</td>
</tr>
<tr>
<td>Exchange rate (AUD1)</td>
<td>1.1697</td>
<td>1.1697</td>
<td>6.3725</td>
</tr>
<tr>
<td>Monthly bank fees (AUD)</td>
<td>17.67</td>
<td>12.82</td>
<td>5.75</td>
</tr>
</tbody>
</table>


Table 4.4 shows LCn 1 i.e. Monthly banking fees compared across the three countries Brunei, Singapore and Hong Kong. After converting the three different currencies to AUD according to the currency exchange rate by Westpac bank (Westpac 2008), Hong Kong offers the lowest average fees for maintaining a business account which is AUD5.75. Brunei offers the highest average monthly fees.

4.3.2 LCn 2

Table 4.5. Bank transaction fees.

<table>
<thead>
<tr>
<th>Location Criterion (2)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank transaction fees</td>
<td>BND8.33</td>
<td>SGD0.33</td>
<td>HKD56.67</td>
</tr>
<tr>
<td>Exchange rate (AUD1)</td>
<td>1.1697</td>
<td>1.1697</td>
<td>6.3725</td>
</tr>
<tr>
<td>Bank transaction fees (AUD)</td>
<td>7.12</td>
<td>0.28</td>
<td>8.90</td>
</tr>
</tbody>
</table>


Table 4.5 presents the average banking transaction fees (cost per transaction) compared across the three countries. Singapore offers the lowest average banking transaction fee of AUD0.28 compared to Brunei of AUD7.12 and Hong Kong AUD8.90.
4.3.3 LCn 3

**Table 4.6. Price of foreign incoming payment.**

<table>
<thead>
<tr>
<th>Location Criterion (3)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price for foreign incoming payment</td>
<td>BND15.03</td>
<td>SGD10</td>
<td>HKD41.67</td>
</tr>
<tr>
<td>Exchange rate (AUD1)</td>
<td>1.1697</td>
<td>1.1697</td>
<td>6.3725</td>
</tr>
<tr>
<td>Price for foreign incoming payment (AUD)</td>
<td>12.85</td>
<td>8.55</td>
<td>6.54</td>
</tr>
</tbody>
</table>

*Source: Roslan (2008).*

Hong Kong offers the lowest average price for banking service for making foreign incoming payment of AUD6.54 as shown in table 4.6 compared to the average foreign incoming prices calculated for Brunei (AUD12.85 - highest) and Singapore (AUD8.55).

4.3.4 LCn 4

**Table 4.7. Price for foreign outgoing payment.**

<table>
<thead>
<tr>
<th>Location Criterion (4)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price for foreign outgoing payment</td>
<td>BND25</td>
<td>SGD15</td>
<td>HKD116.67</td>
</tr>
<tr>
<td>Exchange rate (AUD1)</td>
<td>1.1697</td>
<td>1.1697</td>
<td>6.3725</td>
</tr>
<tr>
<td>Price for foreign outgoing payment (AUD)</td>
<td>21.37</td>
<td>12.82</td>
<td>18.31</td>
</tr>
</tbody>
</table>

*Source: Roslan (2008).*

Table 4.7 shows the LCn 4 i.e. the average price of banking service for making foreign outgoing payment via TT compared across the three countries. Brunei offers the highest average fee for this LCn of AUD21.37 while Singapore offers the lowest averaged fee for making foreign outgoing payment of AUD12.82.
4.3.5 LCn 5

Table 4.8. Price of urgent foreign payments.

<table>
<thead>
<tr>
<th>Location Criterion (5)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urgent foreign payments price</td>
<td>BND25.03</td>
<td>SGD15</td>
<td>HKD156.67</td>
</tr>
<tr>
<td>Exchange rate (AUD1)</td>
<td>1.1697</td>
<td>1.1697</td>
<td>6.3725</td>
</tr>
<tr>
<td>Urgent foreign payments price (AUD)</td>
<td>21.40</td>
<td>12.82</td>
<td>24.59</td>
</tr>
</tbody>
</table>


Table 4.8 shows LCn 5 i.e. the price for making urgent foreign outgoing payment. The average price compared across the three countries shows Brunei offers the most expensive of the average prices of AUD21.40 while Singapore offers the lowest average urgent foreign payment average price of AUD12.82.

4.3.6 LCn 6

Table 4.9. Withholding tax.

<table>
<thead>
<tr>
<th>Location Criterion (6)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withholding tax</td>
<td>20%</td>
<td>15%</td>
<td>N/A</td>
</tr>
</tbody>
</table>


Table 4.9 represents LCn 6, withholding tax. The withholding tax of all three countries were collected and compared. Singapore offers the lowest (20%) between itself and Brunei (15%). Hong Kong does not impose withholding tax but for a certain circumstance, 1.75% of royalties is subjected to tax explained in 4.2.3 (LCn 6).
### 4.3.7 LCn 7

**Table 4.10. Corporate tax.**

<table>
<thead>
<tr>
<th>Location Criterion (7)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate tax</td>
<td>30%</td>
<td>18%</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

*Source: Roslan (2008).*

Table 4.10 shows corporate tax (LCn 7) compared across the three countries. Brunei has corporate tax of 30%, Singapore has 18% and Hong Kong 17.5%. Therefore, Hong Kong offers the lowest percentage of corporate tax of 17.5%.

### 4.3.8 LCn 8

**Table 4.11. Important treasury centres.**

<table>
<thead>
<tr>
<th>Location Criterion (8)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Important treasury centres</td>
<td>none</td>
<td>Nokia, Nissan, Sony, UPS, Caltex etc</td>
<td>JP Morgan, P&amp;O Nedlloyd’s</td>
</tr>
</tbody>
</table>

*Source: Roslan (2008).*

For table 4.11, it shows LCn 8 i.e. the existing important (multi-national company’s RTC) treasury centres that have located in each of the three countries. There is zero RTC in Brunei while there are quite a few in Singapore including Nokia, Sony, UPS, Caltex, Ericsson and etc. There are a few in Hong Kong as well including JP Morgan and P & O Nedlloyd’s.
4.3.9 LCn 9

Table 4.12. Reporting requirements.

<table>
<thead>
<tr>
<th>Location Criterion (9)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting requirements</td>
<td>Only certain threshold.</td>
<td>No capital controls</td>
<td>Some control</td>
</tr>
</tbody>
</table>


Table 4.12 shows LCn 9 of the reporting requirements to central banks/Monetary Authority of the country for banking transactions. Brunei and Singapore offers very minimum reporting requirements to the Monetary Authority while Hong Kong requires gross amount of lending and borrowing reporting (Hong Kong Monetary Authority 2005).

4.3.10 LCn 10

Table 4.13. Currency Environment.

<table>
<thead>
<tr>
<th>Location Criterion (10)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency environment</td>
<td>USD, EUR, GBP, AUD, JPY etc</td>
<td>USD, EURO, AUD, GBP, JPY etc</td>
<td>USD, EURO, AUD, GBP, JPY etc</td>
</tr>
</tbody>
</table>


Table 4.13 presents LCn 10 for the currency environment of each country in terms of the ability of MNCs making transactions in important foreign currency such as USD, EUR, GBP, AUD and etc. Most of the banks in the three countries offer banking facilities in the mentioned foreign currencies.

4.3.11 LCn 11

Table 4.14. Ratings.

<table>
<thead>
<tr>
<th>Location Criterion (11)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratings</td>
<td>N/A</td>
<td>A1</td>
<td>A1</td>
</tr>
</tbody>
</table>


Table 4.14 shows the ratings given to countries. Both Singapore and Hong Kong were given A1 business climate and country credit ratings.
Table 4.15. Summary of results (in AUD).

<table>
<thead>
<tr>
<th>No.</th>
<th>Location Criterion (LCn)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly bank fees</td>
<td>$17.67</td>
<td>$12.82</td>
<td>$5.75</td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fees</td>
<td>$7.12</td>
<td>$0.28</td>
<td>$8.90</td>
</tr>
<tr>
<td>3</td>
<td>Price for foreign incoming payment</td>
<td>$12.85</td>
<td>$8.55</td>
<td>$6.54</td>
</tr>
<tr>
<td>4</td>
<td>Price for foreign outgoing payment</td>
<td>$21.37</td>
<td>$12.82</td>
<td>$18.31</td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments price</td>
<td>$21.40</td>
<td>$12.82</td>
<td>$24.59</td>
</tr>
<tr>
<td>6</td>
<td>Withholding tax</td>
<td>20%</td>
<td>15%</td>
<td>n/a</td>
</tr>
<tr>
<td>7</td>
<td>Corporate tax</td>
<td>30%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>8</td>
<td>Important treasury centres</td>
<td>Zero</td>
<td>Many</td>
<td>Some</td>
</tr>
<tr>
<td>9</td>
<td>Reporting requirements</td>
<td>Minimal</td>
<td>Minimal</td>
<td>Minimal</td>
</tr>
<tr>
<td>10</td>
<td>Currency environment</td>
<td>USD, EURO, GBP, AUD, JPY etc</td>
<td>USD, EURO, AUD, GBP, JPY etc</td>
<td>USD, EURO, AUD, GBP, JPY etc</td>
</tr>
<tr>
<td>11</td>
<td>Ratings</td>
<td>N/A</td>
<td>A1</td>
<td>A1</td>
</tr>
</tbody>
</table>

Chapter 5: Discussion

5.1 Discussion of qualitative and quantitative LC with results

“Does Brunei Darussalam have the ability or resource to become the next leading location for Regional Treasury Centres in Asia?” This is the proposition of this present study. Using a similar method of finding suitable location for RTC (Simkova 2005), this present study produces similar results when applied to Asian countries instead of European countries as Simkova (2005) did. The main functions of treasury management i.e. cash management (Mulligan 2001) especially making foreign payments is the focus of Simkova (2005) as was this study.

Discussion of each result of LC found is focused on whether Brunei can compete with the other two countries who are the leading location for RTCs. Results of LC with quantitative data (LCn 1 – LCn 7) are discussed first followed by LCn 8 to LCn 11 individually discussed comparing the three countries.

Table 5.1. Results.

<table>
<thead>
<tr>
<th>No.</th>
<th>Location Criterion (LCn)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly bank fees</td>
<td>Highest</td>
<td>Middle</td>
<td>Lowest</td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fees</td>
<td>Middle</td>
<td>Lowest</td>
<td>Highest</td>
</tr>
<tr>
<td>3</td>
<td>Price for foreign incoming payment</td>
<td>Highest</td>
<td>Middle</td>
<td>Lowest</td>
</tr>
<tr>
<td>4</td>
<td>Price for foreign outgoing payment</td>
<td>Highest</td>
<td>Lowest</td>
<td>Middle</td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments price</td>
<td>Middle</td>
<td>Lowest</td>
<td>Highest</td>
</tr>
<tr>
<td>6</td>
<td>Withholding tax</td>
<td>Highest</td>
<td>Middle</td>
<td>Lowest</td>
</tr>
<tr>
<td>7</td>
<td>Corporate tax</td>
<td>Highest</td>
<td>Middle</td>
<td>Lowest</td>
</tr>
<tr>
<td>8</td>
<td>Important treasury centres</td>
<td>Zero</td>
<td>One</td>
<td>One</td>
</tr>
<tr>
<td>9</td>
<td>Reporting requirements</td>
<td>Minimal</td>
<td>Minimal</td>
<td>Minimal</td>
</tr>
<tr>
<td>10</td>
<td>Currency environment</td>
<td>1 bank</td>
<td>3 banks</td>
<td>3 banks</td>
</tr>
<tr>
<td>11</td>
<td>Ratings</td>
<td>N/A</td>
<td>Best</td>
<td>Best</td>
</tr>
</tbody>
</table>


Highest – LCn with the highest figure.

Middle – LCn with not the highest or the lowest figure.

Lowest – LCn with the lowest figure.

Zero – None

One – There are existing RTCs.
5.1.1 Discussion of results from quantitative data (LCn 1 – LCn 7)

Table 5.2. Represents LC for which country with the highest figures.

<table>
<thead>
<tr>
<th>No.</th>
<th>LocationCriterion (LC)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly bank fees</td>
<td>Highest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fees</td>
<td></td>
<td>Highest</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Price for foreign incoming payment</td>
<td>Highest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Price for foreign outgoing payment</td>
<td>Highest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments price</td>
<td>Highest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Withholding tax</td>
<td>Highest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Corporate tax</td>
<td>Highest</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


For LCn 1 – LCn 7, the target is to minimize a high figure for each country as per table 5.1 to indentify competitiveness of Brunei’s current condition for hosting RTC. From table 5.2, Brunei holds 71.4% of the highest figure from the list of LC that must have a low figure in order to be a suitable location for RTC. Hong Kong with 28.6% of the LC with a high figure while Singapore with 0% of the LC with a high figure meaning it either has the lowest figure or middle figure but definitely not the highest.

It is clear from these results that Brunei offers the most expensive banking service relating to functions of RTC and higher percentage tax for MNCs to operate compared to the banks in Singapore and Hong Kong.

Table 5.3. Represents LC for which country with the lowest figures.

<table>
<thead>
<tr>
<th>No.</th>
<th>LocationCriterion (LC)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monthly bank fees</td>
<td></td>
<td>Lowest</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Bank transaction fees</td>
<td></td>
<td>Lowest</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Price for foreign incoming payment</td>
<td></td>
<td>Lowest</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Price for foreign outgoing payment</td>
<td></td>
<td>Lowest</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Urgent foreign payments price</td>
<td></td>
<td>Lowest</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Withholding tax</td>
<td></td>
<td>Lowest</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Corporate tax</td>
<td></td>
<td>Lowest</td>
<td></td>
</tr>
</tbody>
</table>


Hong Kong and Singapore have 57.1% and 48.9% respectively the lowest figure from the list of quantitative LC while 0% for Brunei. This simply means that Singapore and Hong Kong has most of the lowest average fees for banking service and low percentage tax. 0% for Brunei confirms that Brunei either offers the highest or middle figure for banking service and percentage tax which is not suitable for RTC when
comparing Brunei as a location to Singapore and Hong Kong further proving Singapore and Hong Kong offer a more desirable location for RTC.

### 5.1.2 Discussion of results from qualitative data (LCn 8 – LCn 11)

Table 5.4. LC with qualitative data.

<table>
<thead>
<tr>
<th>No.</th>
<th>Location Criterion (LCn)</th>
<th>Brunei</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Important treasury centres</td>
<td>Zero</td>
<td>One</td>
<td>One</td>
</tr>
<tr>
<td>9</td>
<td>Reporting requirements</td>
<td>Minimal</td>
<td>Minimal</td>
<td>Minimal</td>
</tr>
<tr>
<td>10</td>
<td>Currency environment</td>
<td>1 bank</td>
<td>3 banks</td>
<td>3 banks</td>
</tr>
<tr>
<td>11</td>
<td>Ratings</td>
<td>Zero</td>
<td>Best</td>
<td>Best</td>
</tr>
</tbody>
</table>


**LCn 8 - Important treasury centres.**

Table 5.4 shows the LC with qualitative data collected. For LCn 8, Brunei currently has no RTC meaning there are zero RTC in Brunei compared to the few (represented by “One”) that have set up in Singapore and Hong Kong. There are currently about 150 RTC operations with varying degrees in Singapore according to a study by PricewaterhouseCoopers (Giumarra 2001). Singapore has the largest number of RTCs in Asia Pacific (Kini 2007). With already existing RTCs, Singapore and Hong Kong both are already in a good position for future RTCs to be located there by prospective MNCs. The availability of other RTCs in the region would show that the region already has the treasury function support needed by this entity.

**LCn 9 - Reporting requirements.**

Out of the three countries assessed for this LC, Hong Kong and Brunei share a fair reporting requirement to the central bank/Monetary Authority. In Hong Kong, banks are required to report gross lending and borrowing, while in Brunei, any amount of fund transfer reaching a certain threshold would need to be reported to the Ministry of Finance i.e. Brunei Monetary Authority. According to the data collected, Singapore has the least reporting requirements making it a more favourable region for RTCs.
LCn 10 - Currency Environment.

Out of the three banks assessed in Brunei, only one offers foreign currency account and services including important currencies such as the USD, EURO, GBP, AUD, CAD, JPY and many more. The other two international banks do not have services with these currencies, while all three banks from both Singapore and Hong Kong not only provides services in the previously mentioned foreign currencies but many more of other currencies. The ability to conduct transactions in foreign currencies in a region is a crucial part of a RTC function. As it deals with cash management especially cross-border transfers the ability of the region to provide instant conversion of currencies without many problems serves the region well in making a location suitable to accommodate an RTC.

LCn 11 - Ratings.

Ratings offered by Coface consider a country’s overall liquidity and solvency (Coface launches a new “business climate” rating). Singapore and Hong Kong are both given the best rating of A1 for their business climate and country rating by this rating company whereas it is difficult to find online ratings given to Brunei’s business climate.
5.2 Discussion and Recommendation

5.2.1 Discussion

From the results shown, Brunei Darussalam clearly has more expensive banking service fees and charges and higher percentage tax imposed on company profits by the local authority compared to Singapore and Hong Kong. This may be the first obvious sign indicating Brunei’s lower level of competitiveness not only in terms of attracting RTCs but also attracting MNCs from all around the world compared to Singapore and Hong Kong. Major companies deal with major movements of funds, millions and even billions. If Brunei’s local conditions or LC fall short in competing with other regions then those regions would be the preferred location for regional headquarters or finance offices to be set up by these major companies (“The RHQ question” 2000). Competing closely to Singapore and Hong Kong, as these two countries are Asia’s International Financial Centres (Levieux 2007), is important if Brunei are to follow in their footsteps to become an international financial centre and leading hosts for RTCs.

The averaged prices for making overseas payments provided by the banks in Brunei are more expensive than those offered in Singapore and Hong Kong. MNCs originating from other countries will not benefit from cost savings when having regional operations in Brunei compared to having regional operations in Singapore or Hong Kong. Profits will not be taxed as much in Hong Kong or Singapore compared to Brunei because Brunei has the highest corporate tax imposed on profits. Having the highest percentage of withholding tax also reduces Brunei’s competitiveness in attracting RTCs as these entities are primarily tax driven (Anwar 1999; Casalino 2001, Chang n.d.; Giegerich et al. 2002; Murphy 2000a; Simkova 2005, Zink et al. 1995). A benign tax system is the crucial aspect to attracting RTCs (Mulligan 2001).

In terms of existing RTCs in the region, Brunei currently has none. The closest RTC is in Labuan which is an island that lies eight kilometers off the coast of Borneo where Brunei Darussalam is located (Wikipedia Labuan 2008). The RTC is the regional finance office with treasury functions for Shell Malaysia (Leong 2000). Due to this, considering Brunei as a prospective location for an RTC may not be viable. It is entirely different for Singapore who is the fourth largest trader in derivatives and the ninth largest offshore lender making it an easy target for hosting RTCs with already approximately 150 existing RTCs (Giumarra 2001). Hong Kong is the next favourite
location for regional headquarters of MNCs and also RTCs in Asia ("The RHQ question" 2000; Levieux 2007). Although the actual number of RTCs that have established themselves in Hong Kong is not available, Hong Kong is appears to be Singapore's rival when competing for MNCs regional headquarters or RTCs in Asia.

Flexible regulation is also a factor to consider when considering a location for RTC (Anwar 1999; Geigerich et al. 2002; Zink et al. 1995,). Although Brunei currently does not strictly regulate transfer of funds between financial institutions, neither do Singapore and Hong Kong. The facility for foreign currency transaction is already available at most banks in Brunei although it is not as developed compared to Singapore and Hong Kong. Banks in Brunei offers accounts and services in most important foreign currencies i.e. USD, EURO, GBP, AUD, JPY, SGD and a few more. This shows that Brunei has some potential to start off the improvements needed to put itself in a better position to attract RTCs or even regional headquarters of MNCs.

The ratings given to Singapore and Hong Kong are the best ratings that rating company Coface can give to a country and its business climate (Coface n.d.). Other than having a good business environment, Singapore and Hong Kong are considered by this rating company to have “available and reliable corporate financial information together with very good institutional quality” (Coface launches a new "business climate" rating). This type of assessment can benefit Brunei when it is considered to be a location for regional headquarters or RTC for MNCs. Information regarding its location or region should be easily available to potential overseas investors to expose Brunei and its capability to assist these MNCs to expand in Asia.

5.2.2 Recommendation

To compete with Singapore and Hong Kong in becoming a region of MNC’s regional headquarters or RTCs it is important for Brunei to constantly be vigilant in terms of regulations put forward for potential overseas investors. This means changes have to be made in order to improve the current situation. According to the present study, reassessing banking facility charges for business or corporations especially international businesses or corporations is a fair start. A good and modern banking facility is one of the key factors to attracting RTCs (Anwar 1999; Geigerich et al. 2002; Murphy 2000b).
Next would be examining Brunei’s current taxation regulations imposed on any types of companies both local and international. Singapore and Hong Kong are in a better position in terms of attracting RTCs or regional headquarters of MNCs as their percentage tax is lower compared to Brunei. Nokia chose Singapore over Hong Kong, Malaysia and Australia due to unattractive tax regimes offered by the other three countries (Blair 1999). Tax reforms will certainly attract foreign investors into Brunei. Singapore approved over 3600 regional headquarters in 2003 from 49 in 1993 through improved tax concession (De Zilva, 2004). As local tax regulation is the primary factor when considering location for RTC (Anwar 1999; Casalino 2001; Geigerich et al. 2002; Simkova 2005; Zink et al. 1995), it is most important to regulate tax system as competitively or closely to those with huge success in attracting RTCs such as Singapore and Hong Kong.

Increasing the number of students majoring in finance at tertiary level education could benefit Brunei in the long run when attempting to improve its appeal towards attracting MNCs and their RTCs. RTC requires trained specialists in the finance area and would be ideal to locate at regions with treasury related experts (Casalino 2001; Geigerich et al. 2002; Murphy 2000a, 2000b).

5.3 Conclusion

There are many more factors to consider when considering a location for RTCs. Simkova (2005) cited in Polak et al. (2007) offers a full description of the specific needs of a holding company in Czech Republic therefore coming up with the LC (utilized in this present study) to investigate the conditions of a list of countries in Europe to locate this holding company’s RTC. By means of the methods in this study, the study concludes that Brunei does not have the required resources or abilities to efficiently host an RTC when compared to Singapore and Hong Kong. But this conclusion is incomplete because although the LC utilized in this study is significant for assessment it is merely a one means of examining a location. It is one of the methods to assess a location, despite there being additional possible variables – other than those mentioned and investigated in this present study – that need to be considered and are difficult to be measured. These include the language barrier, availability of expertise, availability of outsourcing options, access to key financial markets and banking centres, stability of communication networks, time zone, notional pooling,
cash concentration and many more (Anwar 1999; Casalino 2001; Giegerich et al. 2002; Murphy 2000a, 2000b; Simkova 2005; Zink et al. 1995).

All other potential LCs mentioned in the first paragraph need to be investigated as well to completely indicate if a location i.e. Brunei Darussalam, can successfully host a regional treasury centre. This is the limitation to the study due to the major investigation requirement to a short span of period provided to conduct this present study. Another limitation would be establishing the fact (proven statistically or mathematically) that more favourable LCs (for example that of Singapore and Hong Kong to Brunei evidenced in this study) result in a better performance of treasury activities for the country, i.e. attracts RTCs and improves regional treasury centre operations in terms cost efficiencies (minimal banking costs and low tax), minimal restrictions for fund transfers between the entities involved (banks, RTCs and companies). These limitations are opportunities for future exploration or investigation to further extend this research.

Postscript:

The current financial crisis which is regarded as “unparallel to any since the 1930s great depression when 9000 banks failed” (Elliot 2008) may also have an effect on investigating locations for RTCs. All the key indices fell today (28th October 2008), Dow Jones fell 3.58 percent, London’s key index lost 7.85 percent (biggest since 1987), Japan’s Nikkei fell to its lowest since 2004, Hong Kong’s Hang Seng closed at 12.7 percent low while Singapore’s Straits Times was down more than 7 percent (BBC news2008; CNN.com/World Business 2008). The price of oil was also affected as U.S. crude fell to its lowest since September 11, 2007 to USD77.00 for one barrel (Brunei News.Net 2008). While Singapore and Hong Kong heavily depend on functional financial markets and the stock exchange, falling of its key indices may have an effect on Singapore’s and Hong Kong’s current position and even exchange rate. Brunei is not heavily involved in the Stock exchange market, because its main resource is oil. The LC investigated in the study focused on banking transaction charges therefore the exchange rate plays an important role in determining if a location if suitable to host RTCs. Taking into account how much the current financial crisis has affected each country, reassessing all the LCs plus the ones that were not included in the present study, the outcome may lean in favour towards Brunei.
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