

Pertinent Developments Affecting Leasing in Labuan IBFC

22 March 2018

Key presentation areas

- Preamble
- Drivers affecting the leasing industry
- The way forward

Global leasing developments... *facts and figures*

1 NORTH AMERICA

Annual vol: \$417bill

- 37.9% of global market share in equipment leasing
- US: World largest market
- Canada: Fleet market - strongest growing segment.

2 EUROPE

Annual vol: \$346bill

UK & Germany: 3rd & 4th largest market

- ⇒ Represent 42% of European market.
- ⇒ UK: 9% growth in equipment leasing despite economic conditions due to Brexit.
- ⇒ Germany: vehicles leasing - 74% of European market

5 SOUTH AMERICA

Annual vol.: \$12.9bill

6 AFRICA

Annual vol.: \$5.4bill

**Malaysia
Ranked
40th**

3

Annual vol: \$290bill

- Asia's business vol.: ↑ 30%
- China: 2nd largest market
 - ⇒ new business increased by 62%
 - ⇒ Focus on automobile leasing
- The 2nd & 3rd largest market - Japan & Korea, ranked 5th & 13th globally

4

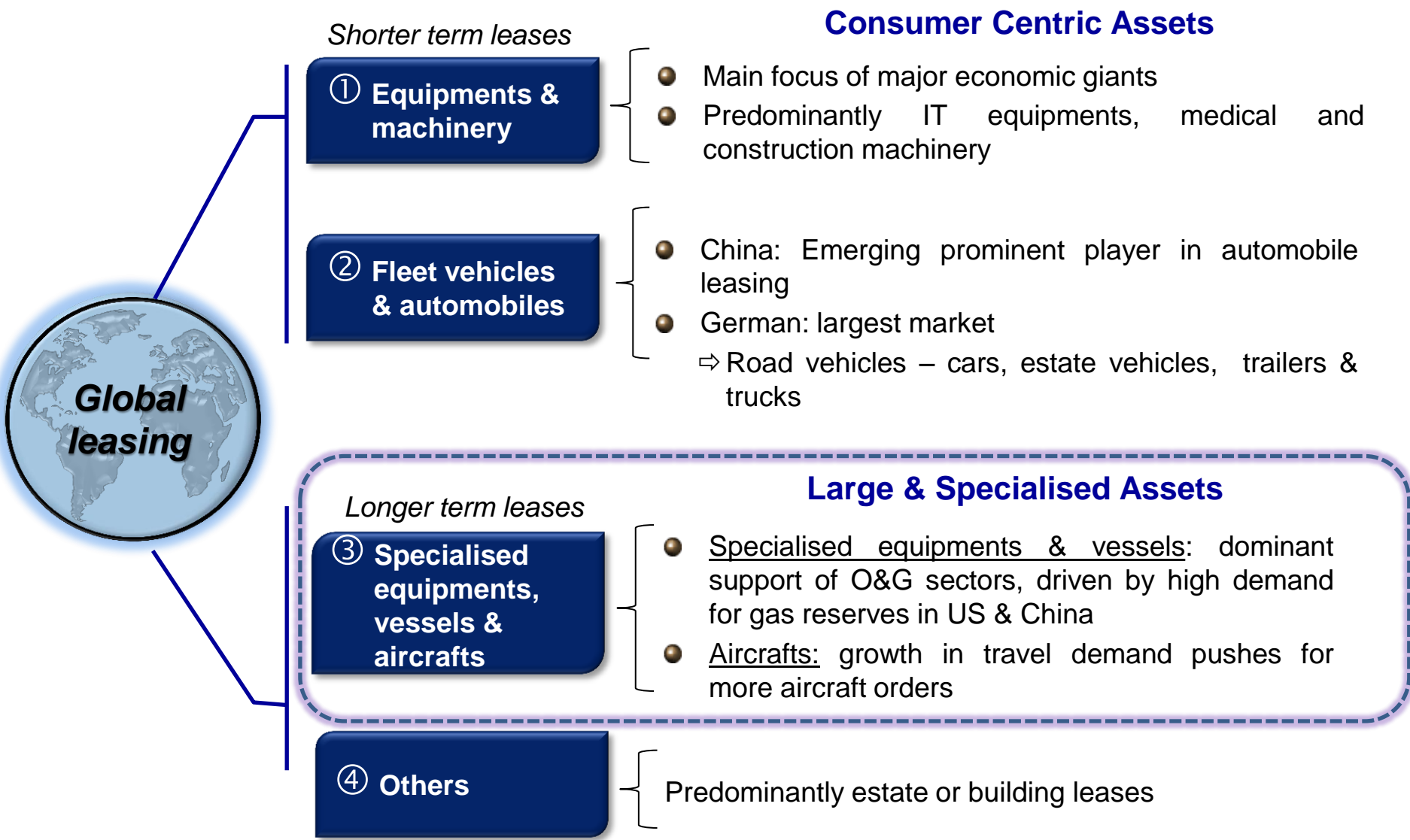
Annual vol.: \$28.4bill



Source: White Clarke Group Global Leasing Report 2018

Promising prospect for Asian leasing sector...

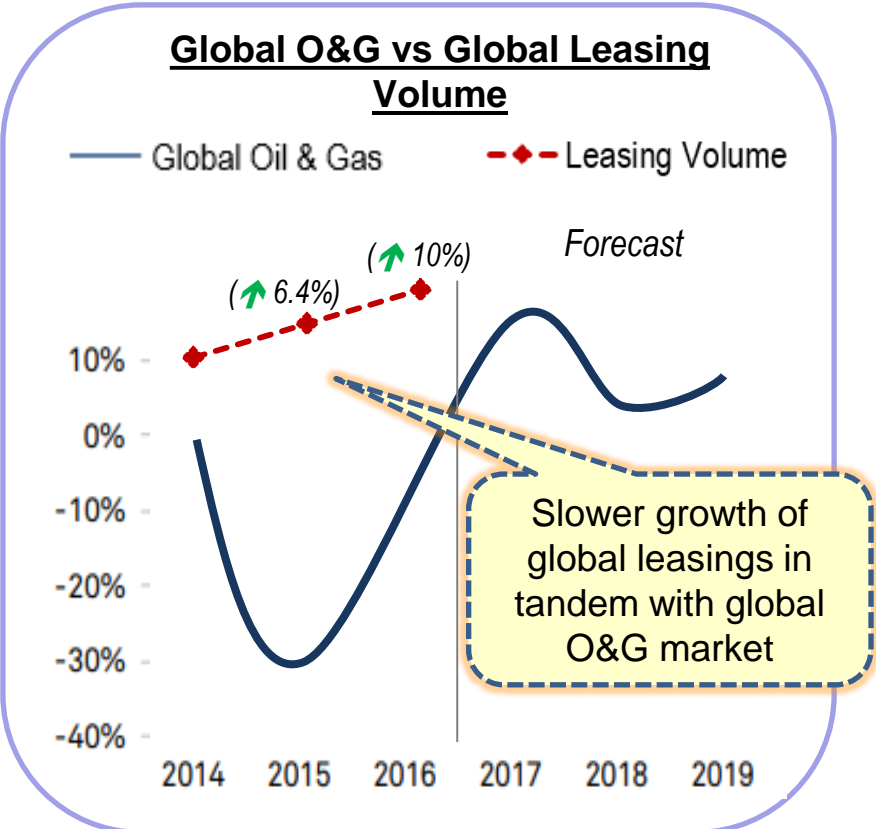
Underlying markets... *derivative demands for leasing*



The Tale of 2 Markets... *leasing growth correlated to O&G*

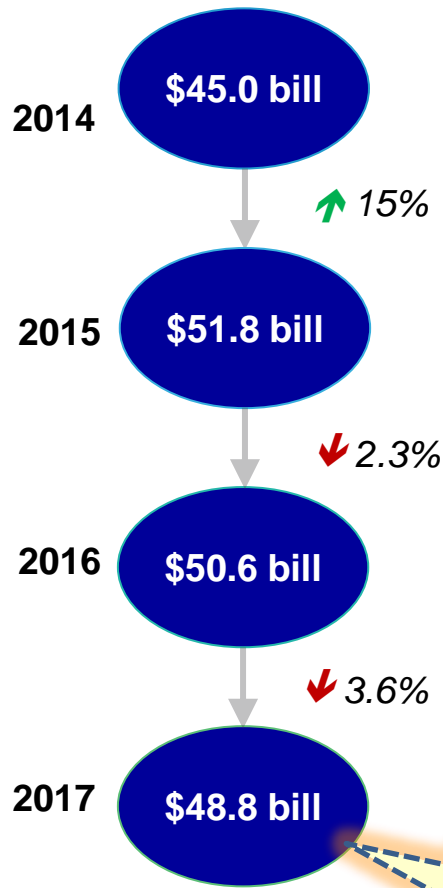
Growth in tandem with global O&G trend...

... Also prevalent in Labuan leasing trend



Source: S&P Global Ratings

Labuan Total Leased Assets (USD)



- Slowed down due to sluggish O&G market
- O&G leasing's expected improvements with the O&G rebound.

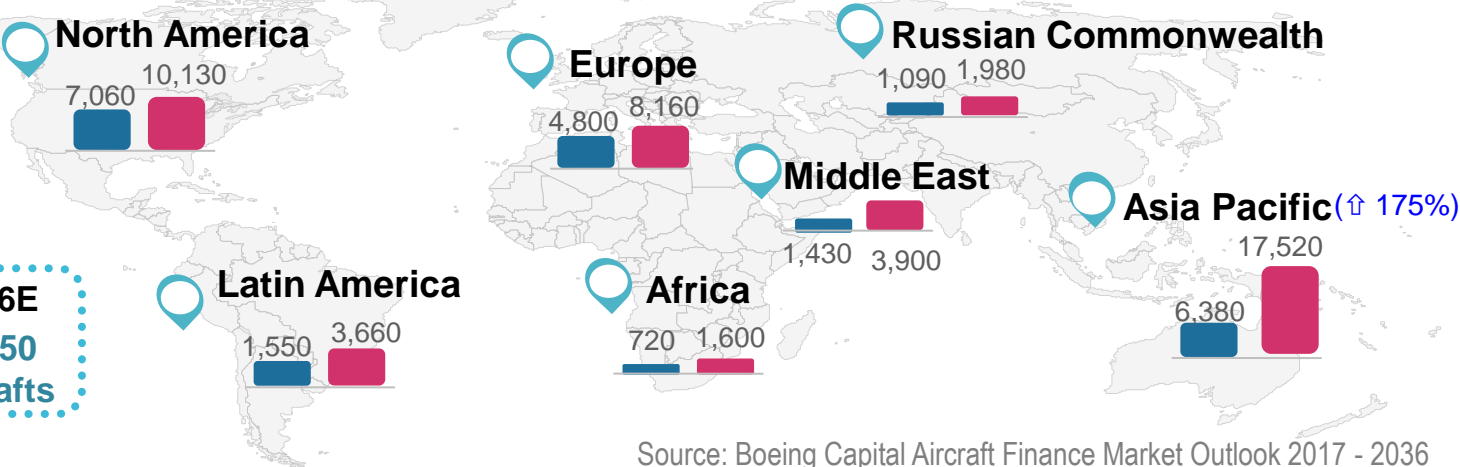
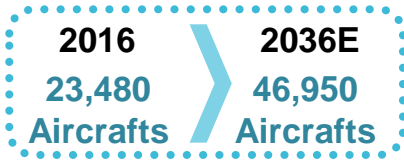
57% contributed by O&G



O&G remains as the key driver...

Leasing developments... ① *rapid expansion of aviation sector*

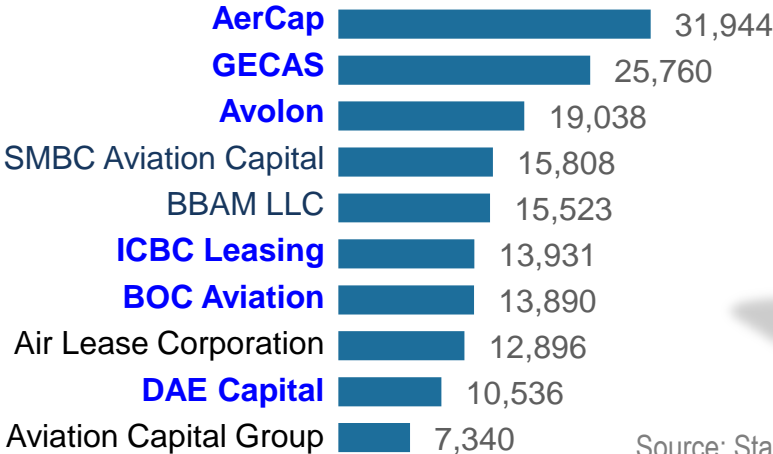
Global aircraft fleet expected to double in 20 years (2016-36)...



Source: Boeing Capital Aircraft Finance Market Outlook 2017 - 2036

Global Leasing:

Top 10 Aviation Leasing Firms (2017) (USD Million)



Source: Statista

Labuan Leasing: Aviation (2017)

- 108 licensed aviation leasing cos in 2017:
- a) Leased fleets size of USD14.7 bil (30% of total industry).
 - b) Of the top aviation leasing cos, 6 are Labuan licensees.



Aviation...emerging growth driver for leasing

Leasing developments... ② *intensified international fiscal standards...*

The OECD's BEPS initiatives to realign fiscal rules globally...

- BEPS 15 action plans introduced in 2013
- Action 5: Forum on Harmful Tax Practices (FHTP)
 - ⇒ address harmful tax practices to ensure tax regime across countries committed to the inclusive framework for BEPS implementation are equitable, transparent and substantive

FHTP Key Assessment Factors on Jurisdictions' Regime

1
The regime is ringfenced

2
Absence of substantial activities

3
Lack of transparency

Leasing developments... ② *intensified international fiscal standards*

Key determining factors



Labuan Regime	Ringfencing	Substantial activities	Transparency
Leasing	✘	✘	✔
GIFT	✘	✔	✔



Ringfencing factor

- Not permitted to transact in Ringgit Malaysia
- No approvals required for transactions with non-residents



Substantial activities factor

- No substantial activities requirements

Leasing developments... ③ *national economic aspiration*



Leasing developments... ④ *Labuan economic developmental pursuit*

Promote vibrancy and livability in Labuan island

1 Substance Policy

- *Labuan entities to **establish substantive commercial presence** in Labuan island to warrant for Labuan's tax incentive.*
- *Beyond key FIs, substantial business requirements are **being expanded to other Labuan entities.***

2 Focus on real economic activities

- *Labuan IBFC supports for **real economic activities** within the Island.*
- *Spur **economic spinoff** to fuel the Island's future development.*

Key substance requirements in Labuan

1. Physical operational office
2. Substantial business activities
3. Employment
4. Annual business spending

Intended outcome

1. Critical mass within the island
2. Increased local talent to support the expanding Labuan IBFC
3. Enhanced livability and infra-support in the Island
4. Labuan island connectivity



In a nutshell ...



Global and Labuan's leasing reliance on O&G sector

- Opportunities for diversification
- Increasing aviation business space



Substance requirement is becoming a global norm rather than an exception



Incentives are finite and developmental driver for specific markets



Labuan leasing remains as fast growing sector to be incentivised

- ⇒ Evolving beyond “paper structures” for international tax conformity to international tax requirements
- ⇒ Supporting the Labuan island's economic agenda

THANK YOU

www.labuanfsa.gov.my

Disclaimer

The information contained herein is of a general nature and should not be regarded as offering a complete explanation of the business of Labuan IBFC or Labuan FSA.