SPECIAL REPORT

Labuan IBFC on an upward trajectory after slow start


SHAHRIN YAHYA/THE EDGE

STORIES BY **ADELINE PAUL RAJ**

In recent years, offshore or international financial centres have increasingly been cast in a negative light, tainted by high-profile scandals such as those of 1Malaysia Development Bhd (1MDB) and the Pandora Papers.

In the case of 1MDB, billions of dollars misappropriated from the fund were found to have been moved through offshore centres such as the British Virgin Islands and the Seychelles before being used to buy real estate and luxury items in the US. As for the Pandora Papers exposé in 2021, it remains etched in the minds of many as the largest-ever collection of leaked data exposing tax haven secrecy.

In Singapore, police are currently investigating what is said to be one of the biggest money laundering cases in the history of the city state. They are waiting for documents from at least nine financial institutions to aid in their probe, it was reported.

It is against this challenging global backdrop of recent years that Malaysia's Labuan International Business and Financial Centre (Labuan IBFC) is seeking to make a stronger mark for itself. It plans to develop a niche in the areas of Islamic finance/sustainability, captive insurance and digital financial services, while strengthening its regulations and compliance with international standards to move away from the stigma associated with offshore centres. These are encapsulated in its five-year strategic roadmap that runs from 2022 to 2026 (see "Five-year game plan enough to give Labuan an edge?" on Page 58).

In an exclusive interview with *The Edge* in Kuala Lumpur — his first since taking the helm in May 2021 — Labuan Financial Services Authority (Labuan FSA) director-general Nik Mohamed Din Nik Musa, better known as Nik Din in the industry, says Labuan has come a long way since it was set up as an international offshore financial centre (IOFC) almost 33 years ago in 1990.

According to him, Labuan today ranks among the top three international financial centres in Asia in banking, insurance and captive insurance in terms of volume of international business. Notably, on a global basis, Labuan is ranked among the top 10 in terms of growth of new captive formations.

Last year, Labuan IBFC's tax contribution to the federal government breached the RM1 billion mark for the first time, coming in at RM1.2 billion.

"Where we are today is something that we can be proud of. I would say Labuan can hold its own against other offshore centres. In Malay, we say *boleh tahan* [not bad]. If you look at Asia, there are only about 10. I would say that, of the international financial centres in Asia, Labuan is in the top three in terms of banking, insurance/reinsurance and captive insurance," says Nik Din.

"Of course, the big boys are Singapore and Hong Kong. The other [centres around us] are small — Samoa, Vanuatu, Marshall Islands, Cook Islands, even the Maldives — and some, like Brunei, have closed. So, as far as we are concerned, in this part of the world, after 30-odd years, we are competitive, we have modern regulation and we are thriving. We have a lot of support from the government and there is room to grow, of course."

Stronger growth after slow start

Be that as it may, critics say Labuan has been slow to develop. The brainchild of former prime minister Tun Dr Mahathir Mohamad, Labuan started its journey as an IOFC in October 1990. At the time, the ambition was to make it a successful international offshore centre and a renowned commercial and trading centre in Asia-Pacific. Decades on, however, not many consider Labuan to be particularly dynamic.

Nik Din takes the criticism in stride. "I'm not surprised [by some of these negative perceptions people have] because it may be based on how Labuan was, maybe two or three decades ago. I must say that when we started, we were quite cautious, quite slow, and there's a reason for that. People still have that memory, that mindset, and I don't blame them. It's partly because of [a lack] of awareness programmes also," he says.

"Because we are international, sometimes we are known to outsiders more than by our own people, which is not right. We need to make our people aware of Labuan also, which we are doing now."

Labuan's cautious pace of growth in the first decade stemmed from the fact that it wanted to attract only good-quality companies, says Nik Din. "In the first 10 years, we only wanted to attract licensees [that is, regulated institutions such as banks, insurers and other financial institutions]. In addition, we hadn't found a niche for ourselves yet, so we were just promoting everything — universal products, like we were a supermarket. Connectivity was also a factor for international investors. To get to Labuan, they had to fly to KL then Sabah, or KL then Labuan. That's still an issue."

A challenge at the time also was that companies that wanted to set up there would end up having to deal with multiple agencies. This issue was solved, however, with the establishment of the Labuan Offshore Financial Services Authority (LOFSA) as a one-stop agency in February 1996. It was renamed Labuan FSA in January 2008.

"Now, everything comes under Labuan FSA — we supervise, regulate, make policies, develop, enforce and so on. The only mandate we do not have is tax, which remains under the purview of LHDN (Inland Revenue Board)," he says.

These efforts have paid off slowly but surely. "In the first year [1990], we had only eight licensees. At the end of 2000, there were 190. So, we were growing at 19 licensees a year on average in the first decade. But if you look at

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How Labuan IBFC is rated by key external organisations

	PRUDENTIAL REGULATIONS	ANTI-MONEY LAUNDERING	TAX TRANSPARENCY & EXCHANGE OF INFORMATION	HARMFUL TAX PRACTICES
Assessments	International Monetary Fund	APG Asia/Pacific Group on Money Laundering; FATF	OECD	OECD
Outcome	STRONG LEGAL & REGULATORY FRAMEWORK	LOW-RISK JURISDICTION	LARGELY COMPLIANT	NOT HARMFUL

Labuan IBFC versus the domestic market

	Labuan IBFC	Malaysia
Legislation	Independent legal and tax framework	Domestic law
Clientele	Mainly non-residents	Mainly residents
Currency denomination	Predominantly non-ringgit	Ringgit
Business scope	Mainly wholesale	Mainly retail
Exchange control	No exchange control	BNM's foreign exchange administration
Regulatory authority	Labuan FSA	Domestic authorities – BNM, SC, SSM

LABUAN FSA

SPECIAL REPORT

'Labuan not a port of entry for money laundering'

Aware of the widely held perception that offshore financial centres are potential breeding grounds for financial crime, Labuan Financial Services Authority (Labuan FSA) director-general Nik Mohamed Din Nik Musa is keen to set the record straight on Labuan.

"One thing I can say for sure is that Labuan is not a port of entry for money laundering," he tells *The Edge* in an interview.

According to him, Labuan International Business and Financial Centre (Labuan IBFC) has a strong onboarding policy for companies, as well as robust laws and Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) guidelines that comply with international standards.

Nik Din (as he is better known) took on the DG role in May 2021 as a secondee from Bank Negara Malaysia, replacing Datuk Daniel Mah Abdullah, who resigned in April that year before the end of his second term at Labuan FSA. Previously the director of money services business regulation at Bank Negara since 2016, Nik Din had been responsible for the regulation, supervision, policymaking and development of cross-border remittance, currency exchange and currency wholesale business in Malaysia.

Below are excerpts from the interview.

***The Edge*: Increasingly, offshore financial centres are seen to be breeding grounds for financial crime...**

Nik Din: That's the perception of many. That's why, when Labuan IBFC was set up, it was always at the back of the mind of those in government that Labuan has to be clean and well regulated. For that purpose, Labuan IBFC has a strong onboarding policy so that we only admit the good ones. And, we have all the laws as well as AML/CFT guidelines that comply with international standards.

The FATF (Financial Action Task Force) came up with more than 40 recommendations that we have to comply with in order for us to be in their good books. And, I am glad to say, when APG (Asia/Pacific Group on Money Laundering) — a body associated with FATF — did the assessment on us in 2007, and again in 2015, they deemed us a 'low-risk jurisdiction' because we have the controls, the enforcement and so on.

You've mentioned that so far, you've only attracted good-quality companies, no shady ones. But how do you assess that they are of good quality?

We have a stringent entry requirement. For example, with banks, the applicant must already be a bank elsewhere, and it must be regulated and supervised by a competent home authority and comply with other entry criteria to qualify for conduct of banking business in Labuan IBFC. It must have the skills and expertise when seeking a banking licence. It must provide us the name of the principal officer and [have] directors with the relevant number of years of experience. We will then conduct thorough due diligence, such as through World-Check, security and financial vetting [as to] whether they have any negative or adverse report. We will also briefly check with the home authorities for adverse news and financial health.

Does it matter to you whether the company is loss-making?

It's not that we'll totally reject it, we will have to see why it is making a loss. Has it been loss-making for the longest time? Or, in just a particular year? So, we'll be very reasonable in that sense.

That said, have there been any incidents of money laundering or suspicious activity in Labuan that you have come across?

One thing I can say for sure is that Labuan is not a [port] of entry for money laundering. Money laundering will not begin from Labuan, and why I said that is: one, we don't accept cash deposits; and two, we have a very strict know-your-customer [process]. But, in terms of flow-through, there could have been, because many centres are involved in this flow-through.

To date, while Labuan FSA has detected a few wrongdoings by Labuan entities related to money-laundering offences, no case has been prosecuted in court thus far. Nonetheless, stern action has been taken against these entities, which includes forfeiture of criminal proceeds to the government of Malaysia, imposition of monetary compounds and directives for the entities to cease and desist activity in Labuan IBFC.

Why do we need an offshore centre? Apart from the tax contribution, how does having one benefit Malaysia? Many countries don't have it.

Apart from tax revenue, it is a launching pad for local companies to go abroad. Take Petronas and other big conglomerates, for example. They will need to use international centres. If they don't have Labuan, they will use Singapore, Bermuda or Jersey for their international operations. They need funding for their international operations. And, also, for them to set up investment holding companies, they must set up in a foreign jurisdiction. So, where is best for them to go? Labuan.

Some of the structures are not available in Malaysia — and Labuan provides such structures to complement Malaysia and as much as possible to retain outflows of funds.

For new companies, we also encourage them to use Labuan for you to branch out. If you want to go to Thailand, use Labuan as your regional holding company. That's more for our own benefit. And, they can also borrow from Labuan banks.

Carriers like Malaysia Airlines and AirAsia will always look at IFCs (international financial centres) to set up SPVs (special purpose vehicles) to do their leasing. Sometimes, they don't want to own their aircraft [because] if it is in their books, accounting-wise, it is not beneficial. So they park the assets — in this case, in Labuan — and they will lease back the aircraft as part of their funding option. Malaysia Airlines has done it, so has AirAsia. They benefit by setting up a lease SPV in Labuan.

We also have local companies setting up captives in Labuan in order for them to benefit from doing self-insurance.

How does Labuan FSA make money?

We are self-funded. Our income is mainly from licence fees. It's a big chunk. For banks, no matter what size, they pay US$30,000 (RM140,000) a year. Insurance, slightly lower, and there are a few categories of insurance.

The second-biggest [source] of our income is from annual fees. Each company will have to pay certain fees, [such as] registration fees — one-off — and every year, they pay an annual fee. The third [source] is from other fees such as licence processing. E

Making a mark in captive insurance

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2011 to mid-2023, the number has grown on a yearly basis to 37 on average. So, you can see the jump when we had a clearer vision for Labuan."

Since 1996, the number of licensees or financial institutions in Labuan has grown more than 10 times to 930 as at mid-2023, while the overall number of Labuan companies has grown more than five times to 4,858, off a peak of 5,802 in 2020 as some companies closed down following the pandemic.

In terms of the number of international banks, as at end-2021, Labuan has 70 compared with Singapore's 99 and Hong Kong's 61. As for insurers and reinsurers, Labuan leads with 230 compared with Singapore's 180 and Hong Kong's 163.

"We have the numbers, but we have to work on building the volume of business. We're still not there yet compared with the bigger centres," Nik Din acknowledges.

In terms of captive insurance, though, Labuan has had a chance to make a mark. A "captive" is an insurance or reinsurance company set up by a non-insurance parent company — usually a multinational corporation — to insure the risks of its parent or related/associated companies. For example, national oil giant Petroliam Nasional Bhd (Petronas) has a captive unit, Energas Insurance, in Labuan.

Labuan currently has 71 captive companies compared with Singapore's 83, making it the second-largest market in Asia.

From offshore to midshore

In 2013, Labuan took a noteworthy turn, rebranding itself as a "midshore" rather than offshore jurisdiction.

Nik Din says: "We did some soul-searching and decided to rebrand ourselves, seeing as how offshore centres have been tarnished by money laundering, shady activity, high secrecy, tax evasion and all that. We wanted to move away from this stigma ... and we rebranded ourselves as midshore. In 2008, we had already removed the word 'offshore' from our name (LOFSA) and became known as Labuan FSA. And then, as an IOFC, we became an IBFC.

"Academically, we fall under midshore. As a midshore, you have to have a strong regulatory framework and comply with international standards, but [companies operating in midshore jurisdictions] still enjoy the benefits of lower tax. It's like having the best of both worlds."

Singapore, Hong Kong, Malta, Ireland and Cyprus are among the jurisdictions considered midshore.

While there is no formal definition for it, a "midshore" jurisdiction has certain characteristics, says Istee Cheah, a lawyer with Wong & Partners.

"Being midshore is not just about moving away from the word 'offshore', because midshore jurisdictions typically have more stringent or heightened legal and compliance requirements and they do maintain some level of taxes, together with possibly

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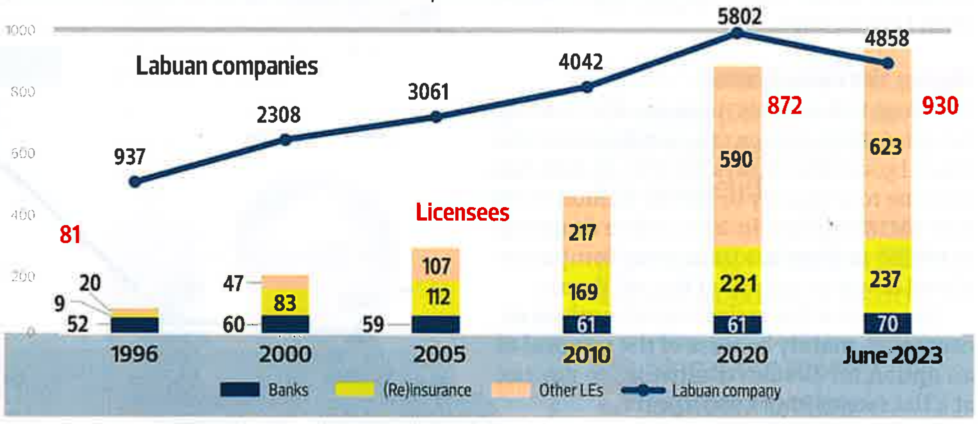
Since 1996, the number of companies has risen more than five times to 4,858



How Labuan stacks up against other international financial centres (IFCs)

	Asia-Pacific			Other IFCs		
	Labuan	Singapore	HK	Mauritius	Cayman	Guernsey
No of licensed entities	930	3,556	2,225	1,987	1,626	2,363
No of banks	70	99	61	21	101	20
Assets (US$)	48.5 bil	2.5 tril	3.4 tril	1.1 bil	662.6 bil	131.3 bil
(Re)insurers	230	180	163	289	661	594
Premium (US$)	1.7 bil	11.2 bil	75.6 bil	271.6 mil	23.1 bil	5.58 bil

Data as at end-2021 LABUAN FSA

SPECIAL REPORT

Crucial to be a well-regulated jurisdiction to attract companies of value

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some opportunities for tax planning," Cheah, a partner in the tax, trade and wealth management practice, tells *The Edge*.

To attract good companies, it is key for Labuan IBFC to be, and be seen as, a well-regulated jurisdiction — something Nik Din says it has placed importance on since Day One.

"We don't want to be a tax haven or a centre that is poorly regulated," he says. "We pride ourselves on being a well-regulated centre and having a good supervisory framework in place. And we are constantly assessed by international multilateral agencies."

These agencies include the International Monetary Fund (IMF), which rated Labuan IBFC as having a "strong legal and regulatory framework" in 2002 and 2014. The Financial Action Task Force (FATF) — the global standard-setting body for anti-money laundering and combating financing of terrorism — and its associate member, Asia/Pacific Group on Money Laundering (APG), deemed Labuan a "low-risk jurisdiction" in 2007 and, again, in 2015.

FATF/APG are expected to do their next round of assessment in 2024, says Nik Din.

"One thing I can say for sure is that Labuan is not a port of entry for money laundering. Money laundering will not begin from Labuan, and why I say that is: one, we don't accept cash deposits; and, two, we have a very strict know-your-customer [process]. But in terms of flow-through, there could have been, because many centres are involved in this flow-through."

While Labuan FSA has detected a few wrongdoings by Labuan entities related to money-laundering offences, no case has been prosecuted in court thus far, he says. Nonetheless, stern actions have been taken against these entities, which include forfeiture of the proceeds of crimes to the government of Malaysia, imposition of monetary compound and directives to the entities to cease and desist from Labuan IBFC.

Higher tax contribution

This year, Labuan IBFC is on track to beating last year's RM1.2 billion tax contribution to the federal government, says Nik Din. In 2020, tax revenue rose sharply to RM921 million from just RM182 million in 2019, before dropping to RM855 million in 2021 as some companies closed down as a result of the pandemic.

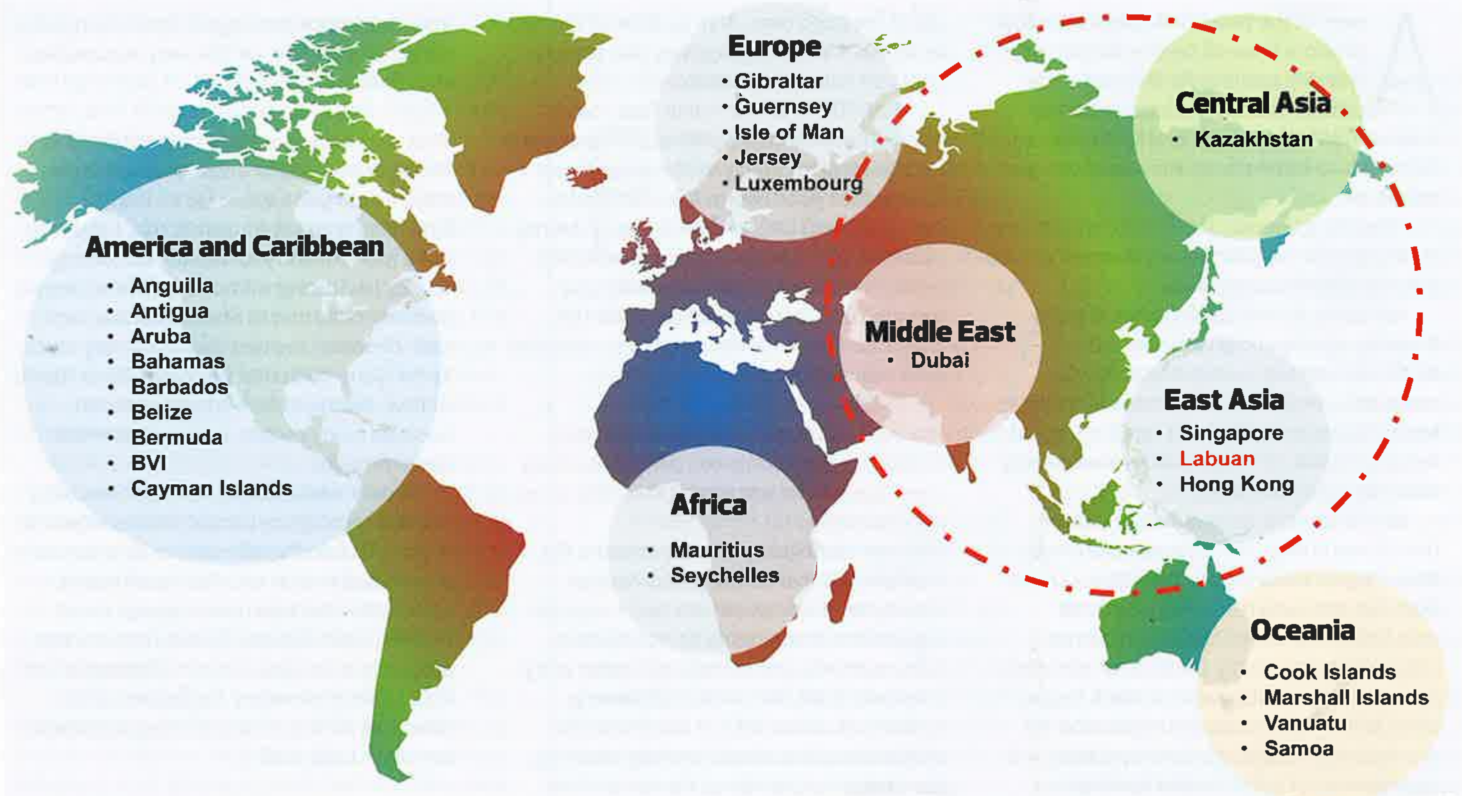
Tax revenue has spiked significantly in recent years, mainly because of the removal of an option for Labuan companies to pay tax at a flat rate of RM20,000 a year.

"We removed that tax option at the end of 2019. Previously, we allowed companies to opt for either 3% tax of audited annual profit or RM20,000 flat. So, some of our licensees preferred to pay RM20,000, as it was lower. But we changed it because the OECD (Organisation for Economic Co-operation and Development) was of the view that the more profit you make, the more you should pay in tax," says Nik Din.

The higher tax revenue helped boost Labuan IBFC's proportion of contribution to the island's gross domestic product to more than 50% in 2020, for the first time. Last year, it was 52%.

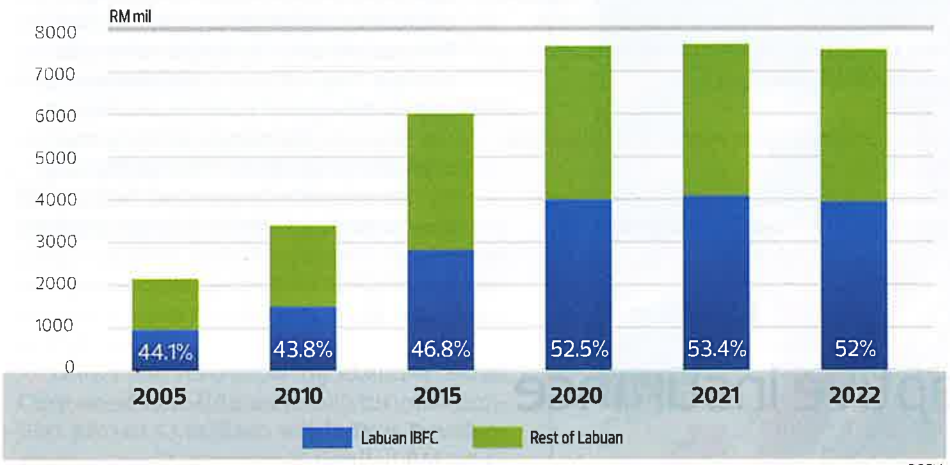
Also helping the economy was the OECD's "substance requirement" under its BEPS 1.0 (base erosion and profit shifting) regime.

Labuan is among the top three in Asia in terms of banking, insurance and captive insurance



LABUAN FSA

After more than 30 years, Labuan IBFC now contributes more than 50% to the island's GDP



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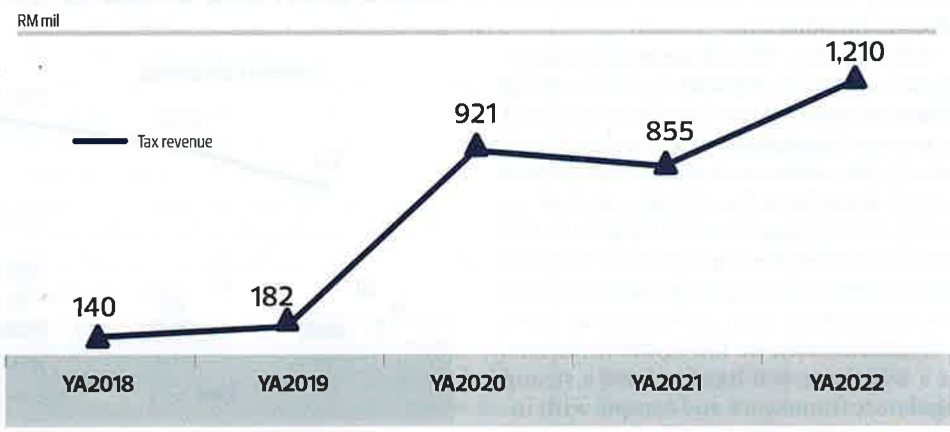
Labuan IBFC's tax contribution to the federal government



YA = Year of assessment

LABUAN FSA

In a nutshell, it led to Labuan FSA putting out guidelines at end-2019 that required companies to have a certain number of full-time employees and spend a certain amount in Labuan to show that they had economic substance.

"For example, a bank would have to have a minimum of three people and spend a minimum annual operating expenditure of RM200,000. For a fund manager, it would be two and RM100,000 respectively," says Nik Din.

Labuan IBFC is the island's largest white-collar employer. "We have close to 10,000 staff, many of whom are based in Labuan itself. Some are based in Kuala Lumpur because we allow marketing offices and co-location," he explains.

BEPS 2.0 challenges

One of the biggest challenges ahead for Labuan IBFC is gearing up for new tax rules under BEPS 2.0. Specifically, Pillar Two introduces a global minimum effective tax rate of 15% for multinational groups with consolidated revenue of more than €750 million.

This is a matter that will affect all jurisdictions, even offshore centres, says Nik Din. Malaysia estimates implementing it in 2024, it was reported late last year.

"In Labuan, we have only a handful — 10 out of almost 5,000 companies — with global group revenue in excess of €750 million. Therefore, they will be partly affected. If they pay 3% [tax] in Labuan, they have to pay the remaining 12% outside Labuan. So, that will be our challenge. We have a strategy for that but I can't share it with you yet. Once we firm that up, we'll make it known on how we want to deal with that matter," he says.

Nik Din notes that if OECD decides to lower the €750 million threshold in the future, then even more Labuan companies will be affected.

"So, we cannot be competing [with other centres] only on tax, because we know that one day, that importance will go down in rank. So, our challenge is, how do we want to attract talent and new business to Labuan? We have to compete based on quality of service, product, regulation and lifestyle, for example. So, that is a challenge for us. It may not be soon, but in these two, three years' time ... we have to look at other attributes to attract investors and players, to retain players," he says.

Increasingly, companies affected by Pillar Two tax rules will be looking towards non-tax factors when making investment decisions and decisions on where to locate manufacturing or service hubs or entities, says Anil Kumar Puri, EY Malaysia's international tax and transaction services partner and international corporate tax advisory leader.

"Factors such as the availability of talent and skilled labour — including an efficient immigration system — infrastructure, cost, connectivity, a strong financial system, robust legal framework, tax and regulatory consistency and certainty, and ease of doing business are going to become increasingly important. If a group of companies is going to have to pay 15% tax almost anywhere they set up operations, they would look to a country that offers all these non-tax benefits and conveniences ... as opposed to a country that is more difficult or expensive to operate in. So, those are some of the areas that all countries, including Malaysia/Labuan will need to continue to focus on," he says.

In Anil's view, Labuan and Malaysia as a whole are already pretty efficient in terms of companies being able to set up their operations within a short timeframe and operate effectively. "That said, we need to continue to see where we can improve in order to remain an investment destination of choice," he says. E

SPECIAL REPORT

Five-year game plan enough to give Labuan an edge?

In its five-year (2022-26) strategic roadmap launched last year, Labuan International Business and Financial Centre (Labuan IBFC) clearly defined — for the first time in its over 30-year history — the areas in which it is actively seeking to build a niche for itself amid growing competition from new and existing jurisdictions. In a nutshell, it aims to create a niche in the areas of Islamic finance/sustainability, captive insurance and digital financial services.

"We have wide-ranging licences and products and services that we offer to our global clients, but [now] we need to have certain niches and competitive edges, strengths that can [take] Labuan to the next level. We already have a base [in the niches we've identified], and now we need to be more focused," Labuan Financial Services Authority (Labuan FSA) director-general Nik Mohamed Din Nik Musa, better known as Nik Din, tells *The Edge* in an interview.

Labuan FSA is the statutory body responsible for the development and administration of Labuan IBFC.

According to Nik Din, there are four core areas of focus under its roadmap: (i) for Labuan to become Asia's digital hub; (ii) to be its Islamic digital asset centre (IDAC); (iii) to become a leading centre for captive insurance; and (iv) to strive for regulatory excellence.

On the digital hub plan, he says Labuan wants to build an ecosystem of fintech players under the first phase, which runs for two or three years.

"In phase one, we plan to get all sorts of fintech players to register in Labuan. We already have three securities exchanges, payment system companies, as well as digital asset trading platforms. In phase two, we will invite more sophisticated players, such as insuretechs, digital banks and online asset managers, to support our ecosystem."

This could be challenging, considering that rivals such as Singapore also aim to be a digital hub. However, Nik Din says: "For ours, we want our niche in Islamic/ESG (environment, social and governance)."

As for IDAC, which was launched in October last year, Nik Din says it is envisioned to be a fundraising and investment hub with a niche in shariah-compliant and ESG activities.

"There will be opportunities for companies — for us, the focus is on SMEs (small and medium enterprises) — to digitally securitise or tokenise their assets or commodities such as gold, property real estate or even carbon credit, via a securities token offering (STO) on a shariah-compliant digital exchange, to raise funds. What makes IDAC different [from others] is the fact that there must be an asset that is latched onto the STO, and that the focus is on SMEs," he explains. "We are expecting to see the first product, the first token, launched soon, before the end of the year. Once we have a product, then we can create more awareness around this."

Another interesting initiative under IDAC is a plan to create what is known as "ummah-linked companies" (ULCs) that aim to help Muslim expatriates and foreign workers manage their savings or zakat.

"These ULCs will emulate the established businesses of Lembaga Tabung Haji or the Employees Provident Fund, and offer these services through IDAC in Labuan. This plan is still in the pipeline. Our team is looking at several parties to emulate the activities [of LTH or EPF] ... it can be a fintech or a fintech in partnership with other companies," says Nik Din.

As for the captive insurance business, Labuan IBFC is giving itself a three-year time frame to become the biggest market in Asia. Today, it is already the second largest by number of captive companies — it has 71 versus Singapore's 83 — but it beats Singapore in terms of the rate of establishment of new companies.

"We want to get more companies to set up captives in Labuan ... and we also want to set ourselves apart by becoming a takaful captive centre, which will be another niche," says Nik Din.

In its bid to achieve regulatory excellence, one of its many plans include coming up with even more digital guidelines, including those to govern tokens.

What experts say

Industry observers note that Singapore and Hong Kong, in particular, are Labuan's biggest competitors in Asia. Be that as it may, Labuan is fairly competitive, notes Jennifer Chang, PwC Malaysia's financial services tax leader.

"You have to remember, Labuan is a fairly new player. A lot of the international financial centres have been around for many more years, so they've had a head start in establishing themselves," she tells *The Edge*.

The jurisdictions are pretty similar in that they all offer lower taxes and allow for the setting up of companies relatively easier and faster.

"So, I think what you see in most centres, you would also see in Labuan. Some centres have been able to attract certain industries. For example, Bermuda has been quite popular for captive insurance and reinsurance, while Ireland has a lot of leasing companies. Labuan has been popular for Islamic finance, including bonds and sukuk issuances, and there have also beens funds and holding companies established in Labuan," Chang notes.

Asked about the fact that Labuan IBFC has only recently identified its niche, EY Malaysia's Anil Kumar Puri, international tax and transaction services partner and international corporate tax advisory leader, says: "If you look at offshore and midshore jurisdictions, not all have established niches. Some jurisdictions may be known for [a particular type of business] and they just go with the flow, whereas Labuan is continuing to identify value-enhancing areas and seeking to elevate its positioning in those areas.

"I would say, we're picking the areas which we feel are important and relevant, and which will allow us to maximise the potential of Labuan's unique value proposition, and seeking to focus on those areas. At the same time, Labuan is proactively keeping an eye on what other jurisdictions are focusing on, to see whether it makes sense for it to play in these spaces too."

Labuan's choice of niches make sense, he notes.

"In terms of international Islamic finance, Malaysia is a world leader in this area and has contributed and will continue to contribute to this. The Islamic financing and Islamic digital slant is certainly something we probably should have a head start on compared to other countries. Labuan also has a well-developed and robust insurance industry," Anil points out.

"As for ESG, digital finance and digital offerings in general, many countries are looking at offerings in these areas and Labuan's focus in these will help us stay relevant and ahead of the curve."

Meanwhile, the global tax landscape is changing very quickly with the introduction of Pillar Two rules under the Organisation for Economic Co-operation and Development's BEPS 2.0 (base erosion and profit shifting) regime. Pillar Two introduces a global minimum effective tax rate of 15% for multinational groups with consolidated revenue of over €750 million (RM3.79 billion).

"Hence, countries are having to adapt their tax laws quickly to comply with these international tax standards. Malaysia and, consequently Labuan, is not immune to this change. It really remains to be seen how Labuan's preferential tax regime can be amended. Much thought needs to be given to how Labuan can subsequently be repositioned to remain competitive and relevant," Istee Cheah, a lawyer with Wong & Partners, tells *The Edge*.

"Of course, it's also important to keep in mind that the Pillar Two rules are intended to affect the large multinational corporations that meet the prescribed threshold; so, the effects of the Pillar Two regime will not be as pronounced for those entities that fall outside the scope."

Cheah, a partner in the tax, trade and wealth management practice, notes, however, that there are other aspects that Labuan has which continue to make it a choice jurisdiction for investors and those seeking to set up succession-planning structures.

"I think, to ensure that Labuan continues to remain competitive, it's also key that the jurisdiction is backed by a strong administration that is consistent and clear in its policies and implementation. So, in my view, continuous engagement with industry players is important to ensure that Labuan is able to maintain its position as a key international business and financial centre," she says.

According to Nik Din, there are currently only 10 out of almost 5,000 companies in Labuan with a global group revenue in excess of €750 million. E

Labuan wants to build an ecosystem of fintech players

LABUAN FSA