The Asian Currency Unit

Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland and Germany),
Solicitor (England & Wales and Hong Kong)
Of Counsel, KGP Legal LLC
alexander.ressos@kgplegal.com.sg
www.ressos.com.sg

The first licence of October 1968

The practical arrangements were worked out during 1968. Proposals were made in the spring of that year for a separate department that could accept foreign currency deposits from non-residents and lend them to non-resident borrowers. The Singapore branch of Bank of America obtained a licence to establish such a unit and began operations in October 1968.[1] A seminar paper presented in Singapore in 1977 by James Chia gives the same month for the inception of the market.[2] Ngiam Kee Jin later stressed that Singapore had a head start over other Asian centres because it was the first to allow a foreign bank to operate an offshore banking unit.[3]

The licence was granted by the government, since the Monetary Authority of Singapore did not yet exist. Later accounts nonetheless describe the Asian Currency Unit as an MAS creation, including the 2021 anniversary speech, which presents the ACU as a booking account introduced after MAS was established.[4] The gap probably reflects the fact that MAS administered and extended the ACU framework after 1971, when the supervision of banks, exchange control and the supervision of offshore banking passed to it.[5] Chapter C.V traces that transfer of functions. The market itself, its first unit and its first tax incentive date from 1968.

© 2026 Dr Alexander Ressos. General information only, not legal, tax or investment advice. No client relationship is created. All Singapore law advice is provided by a duly licensed and regulated firm of Singapore advocates and solicitors only on the basis of an express written letter of engagement. More information at SingaporeIQ.com and ressos.com.sg.

A bank within a bank

The ACU was an accounting device with legal consequences. A bank that wished to deal in the Asian Dollar Market had to obtain approval and to record its offshore transactions in a separate unit, distinct from its ordinary business. Head offices had to commit themselves to cover any liquidity shortfall of their ACUs.[6] An ACU was thus a bank within a bank: it shared the legal personality and the capital of its parent, but its books, its permitted counterparties and its tax treatment followed their own rules.

The design served two purposes. It allowed Singapore to grant tax and regulatory privileges to offshore business without extending them to the domestic banking system. It also protected the domestic economy against the inflows and outflows of a market whose size might soon exceed the national money supply. Each ACU received individual management guidelines that governed the sources and uses of its funds.[7] The ordinary banking business, later known as the Domestic Banking Unit, continued to be subject to reserve requirements, liquidity rules and exchange control.

Ring-fencing the domestic economy

The separation of offshore and domestic business was secured by several instruments. ACUs could deal freely with non-residents but were restricted in their dealings with residents. Their loans to residents were taxed at the full corporate rate of 40 per cent and, according to Bernauer, were generally restricted by MAS to a total of 30 million Singapore dollars. Resident non-bank depositors remained subject to the 40 per cent withholding tax on interest from foreign currency deposits, so that they had no tax reason to move their savings from Singapore dollars into the offshore market.

The barrier was never watertight. Singapore dollar deposits carried a six per cent cash reserve requirement and liquid asset ratios, whereas ACU deposits did not. Banks therefore had an incentive to offer residents a slightly better yield on a foreign currency deposit and to hedge the currency risk through a swap. The

© 2026 Dr Alexander Ressos. General information only, not legal, tax or investment advice. No client relationship is created. All Singapore law advice is provided by a duly licensed and regulated firm of Singapore advocates and solicitors only on the basis of an express written letter of engagement. More information at SingaporeIQ.com and ressos.com.sg.

authorities considered several responses, from paying interest on reserves to extending reserve requirements to ACU deposits, and came to rely on moral suasion.[8] Moral suasion presupposed a small banking community and a regulator whose displeasure carried weight. Both conditions existed in Singapore. Together they shaped the supervisory culture described in Chapter E.I.

The liberalisation of exchange control loosened the barrier in stages. From July 1973 individuals resident in Singapore could hold up to 100,000 Singapore dollars in specified currencies with ACUs, companies up to 3 million and approved unit trusts up to 5 million Singapore dollars. In February 1976 the limits for companies and individuals were raised to 5 million and 250,000 Singapore dollars respectively. From January 1977 individuals could hold up to 500,000 Singapore dollars. When exchange control was abolished altogether in June 1978, residents were allowed to borrow and lend in all currencies.[9] The ACU framework survived this change because its tax and prudential functions remained useful.

The first followers

Bank of America's monopoly lasted a year. In October 1969 the Singapore branch of the Chartered Bank opened an ACU, followed by the First National City Bank of New York, the Bank of Tokyo and the Hongkong and Shanghai Banking Corporation. The list is revealing. It combined an American pioneer, the two British exchange banks whose history Chapter B.II describes, a leading American money-centre bank and the principal Japanese foreign-exchange bank. The Asian Dollar Market was from its beginning a market of international banks that used Singapore as a booking and dealing location. Local banks joined later and played a secondary role in its early years.

In the formative years about 90 per cent of the deposits were in US dollars, most of them with maturities of one to three months.[10] Rates had no legal ceilings and followed the Eurodollar rates in London and continental Europe, since arbitrage kept the two markets in line. The new market was thus integrated from the start into the global dollar system. Its distinctive features lay in its location, its hours and its legal wrapper.

© 2026 Dr Alexander Ressos. General information only, not legal, tax or investment advice. No client relationship is created. All Singapore law advice is provided by a duly licensed and regulated firm of Singapore advocates and solicitors only on the basis of an express written letter of engagement. More information at SingaporeIQ.com and ressos.com.sg.

Common misconception

The name suggests that the Asian Dollar Market dealt in an Asian currency. In fact the "Asian dollar" was simply a US dollar, or another convertible foreign currency, deposited with an ACU in Singapore, just as a Eurodollar is a dollar deposited outside the United States. About 90 per cent of the funds were in US dollars, with the remainder mainly in Deutsche marks, Swiss francs, French francs, yen and sterling. The Singapore dollar itself was excluded from the market, since the authorities long resisted its use offshore.[11]

Notes

1. Suresh Ramanathan, "Asian dollar market – the early days", *The Star* (Malaysia), 17 October 2015: proposals in the spring of 1968 for a separate department to accept non-resident foreign currency deposits and lend them to non-resident borrowers; Bank of America's Singapore branch licensed to establish an ACU, with operations beginning in October 1968. The article speaks of a licence from the government without naming the ministry. ↩
2. James Chia, "Tax Implications and the Asian Dollar Market", (1978) 20 *Malaya Law Review* 16, at p. 16: "Since its inception in October 1968, the Asian dollar market has made a major impact on the financial scene in Asia and in particular Singapore." ↩
3. Ngiam Kee Jin, "Singapore as a Financial Center: New Developments, Challenges, and Prospects", in Takatoshi Ito and Anne O. Krueger (eds), *Financial Deregulation and Integration in East Asia*, Chicago, University of Chicago Press, 1996, pp. 359–386, at p. 359: Singapore "was the first to allow a foreign bank to operate an offshore banking unit, as far back as 1968"; footnote 1: "The unit was operated by the Bank of America." ↩
4. Lee Hsien Loong, speech of 7 October 2021: after MAS was created, it set up the ACU, "a novel booking account, to allow banks to accept deposits and lend in non-Singapore dollars", to prevent the flow of funds into the Asian Dollar Market "from disrupting domestic monetary management". ↩

© 2026 Dr Alexander Ressos. General information only, not legal, tax or investment advice. No client relationship is created. All Singapore law advice is provided by a duly licensed and regulated firm of Singapore advocates and solicitors only on the basis of an express written letter of engagement. More information at SingaporeIQ.com and ressos.com.sg.

5. Bernauer, "The Asian Dollar Market", p. 58: the functions of MAS include "the supervision and regulation of banking and financial institutions, exchange control, and the supervision of the business of offshore banks"; banks "must seek a license from the MAS" before embarking on Asian dollar business. ↩
6. Ramanathan, "Asian dollar market – the early days", *The Star*, 17 October 2015, on the separate recording of ACU transactions and the commitment of head offices to cover any liquidity shortfall. ↩
7. Bernauer, "The Asian Dollar Market", p. 58: licensed banks "must set up their own separate accounting departments – the Asian Currency Units. Each ACU receives individual management guidelines that govern even the sources and uses of its funds." ↩
8. Bernauer, "The Asian Dollar Market", pp. 48 and 59: loans to domestic residents taxed at 40 per cent against 10 per cent for loans to non-residents, ACU lending to local residents restricted "to a total of 30 million Singapore dollars" (Bernauer adds "about 1.4 million U.S. dollars per lending institution", which does not match the exchange rate of the time, and on p. 59 refers the same limit to lending to non-residents, apparently in error), and the 40 per cent withholding tax maintained on "domestic non-bank residents' interest from foreign currency deposits in ACU's". Bernauer, "The Asian Dollar Market", p. 59, on the six per cent non-interest-bearing cash reserve and the liquid asset requirements for Singapore dollar deposits, the incentive for banks to shift residents into ACU deposits and the options considered by the authorities: "Of these options, Singapore authorities have come to rely on moral suasion.". ↩
9. Chia, "Tax Implications and the Asian Dollar Market", (1978) 20 *Mal LR* 16, at pp. 17–18: limits from July 1973 of S$100,000 for individuals, S$3 million for companies and S$5 million or 15 per cent of funds for approved unit trusts; increases in February 1976 to S$5 million for companies and S$250,000 for individuals; S$500,000 for individuals from January 1977. Bernauer, "The Asian Dollar Market", p. 50: "In June 1978, exchange controls were completely

© 2026 Dr Alexander Ressos. General information only, not legal, tax or investment advice. No client relationship is created. All Singapore law advice is provided by a duly licensed and regulated firm of Singapore advocates and solicitors only on the basis of an express written letter of engagement. More information at SingaporeIQ.com and ressos.com.sg.

lifted. Residents were permitted to borrow and lend in all currencies and to deal in foreign exchange.". ↩

10. Ramanathan, "Asian dollar market – the early days", *The Star*, 17 October 2015: the Chartered Bank's Singapore branch opened an ACU account in October 1969, followed by "First National City Bank of New York, Bank of Tokyo and the Hong Kong and Shanghai Banking Corporation". Ramanathan, "Asian dollar market – the early days", *The Star*, 17 October 2015: in the formative years about 90 per cent of foreign currency deposits were in US dollars, with most maturities of one to three months. ↩

11. Chia, "Tax Implications and the Asian Dollar Market", (1978) 20 *Mal LR* 16, at p. 17: "About 90 per cent of the funds in the market are US dollars, the remainder being mainly Deutsche marks, Swiss francs, French francs, Japanese yen and sterling." Likewise Bernauer, "The Asian Dollar Market", p. 61, note 1: the dollar accounted for "90 percent of transactions in the Asian dollar markets". ↩

Disclaimer

This article is provided for general information only. It is based on publicly available sources as at its date of publication. These sources have not been independently verified against licences, regulatory registers or the records of the entities concerned. It is not legal, tax, financial or investment advice. Nor is it a recommendation to invest in, transact with or use the services of any entity mentioned. Law and regulation change frequently, so the content may be incomplete or outdated. To the fullest extent permitted by law, Dr Alexander Ressos and the publisher of SingaporeIQ exclude all liability for loss or damage arising from the use of or reliance on this article. Readers should obtain advice on their specific circumstances before acting or refraining from action.

Names and trademarks of the entities discussed belong to their owners and are used for identification only. Their mention implies no endorsement, affiliation or allegation of wrongdoing. All Singapore law advice is provided by a duly licensed and regulated firm of Singapore advocates and solicitors only on the basis of an express written letter of engagement. Corrections and updates: contact@ressos.com.

© 2026 Dr Alexander Ressos. General information only, not legal, tax or investment advice. No client relationship is created. All Singapore law advice is provided by a duly licensed and regulated firm of Singapore advocates and solicitors only on the basis of an express written letter of engagement. More information at SingaporeIQ.com and ressos.com.sg.

© 2026 Dr Alexander Ressos. This article may be quoted with attribution to SingaporeIQ (SingaporeIQ.com). Reproduction in full and any commercial use require prior written consent. The Legal Terms at https://singaporeiq.com/legal-terms apply.

Author contact: Dr Alexander Ressos, TEP · contact@ressos.com

© 2026 Dr Alexander Ressos. General information only, not legal, tax or investment advice. No client relationship is created. All Singapore law advice is provided by a duly licensed and regulated firm of Singapore advocates and solicitors only on the basis of an express written letter of engagement. More information at SingaporeIQ.com and ressos.com.sg.