The Founding of the Monetary Authority of Singapore

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On 1 January 1971 a new statutory body opened its doors in Singapore. The Monetary Authority of Singapore took over functions that had until then been scattered across several government departments: the regulation of banks and finance companies, exchange control, the management of the external reserves, the sale of Treasury bills and the operation of the clearing house. It did not take over the issue of currency, which remained with a separate currency board for another thirty-one years. To outsiders the arrangement looked untidy, yet it was a deliberate design, chosen by a small group of ministers and officials who wanted the instruments of a central bank without the temptations that came with them.

This chapter traces the creation of that institution and the principles on which it was built. It begins with the dispersed monetary functions of the late 1960s and with the decision of 1967 to keep a currency board when Singapore issued its own dollar. It then examines the Monetary Authority of Singapore Act 1970, the Board of Commissioners of Currency and the long debate that ended with the merger of the two bodies in 2002. Two further sections follow the policy choices that gave the Authority its character. The first is a monetary policy centred on the exchange rate, adopted in 1981. The second is a supervisory philosophy built on strict admission,

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high prudential standards and a jealous regard for reputation, which has survived every later reform of method. The chapter ends with practical consequences for those who deal with the Authority today and with a comparison with Geneva and Hong Kong.

The Geneva volume describes the path of a country that reached the same destination in another order. Switzerland founded its national bank in 1905 and opened it in 1907, gave it the note monopoly and left banking supervision to a separate federal commission created in 1934, whose successor FINMA has combined the supervision of banks, insurers and other intermediaries only since 2009.[1] Singapore reached integration by the opposite route, since it began with an integrated monetary authority and regulator in 1971 and added the note issue last. The contrast says much about the two financial centres and about the role of the state in each.

Essentials

Before 1971 the functions of a central bank in Singapore were spread across a currency board, two commissioners for banks and finance companies, an exchange control department, a department of overseas investment and the Accountant-General. After Parliament passed the Monetary Authority of Singapore Act in 1970, the Authority began operations on 1 January 1971 with every central banking function except the note issue, which remained with the Board of Commissioners of Currency established in 1967. The Authority took over the supervision of insurance in 1977 and of the securities industry in 1984, which made it one of the first integrated financial regulators in the world. From 1981 it conducted monetary policy through the management of the trade-weighted exchange rate of the Singapore dollar, an approach that still defines the framework today. Its supervision began with strict admission, high prudential requirements and rigorous enforcement before shifting after 1997 towards risk-focused supervision and disclosure, while the reputation of the financial centre has always counted as a regulatory asset. The currency board merged into the Authority on 1 October 2002, when the Monetary Authority of Singapore became a central bank in the full sense.

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Notes

1. Ressos, *Genève, place financière internationale*, partie D, chap. II et IV, with the sources cited there: federal law on the Swiss National Bank of 6 October 1905; opening of the SNB on 20 June 1907; Commission fédérale des banques created by the banking law of 1934; FINMA operational from 1 January 2009, merging the Federal Banking Commission, the Federal Office of Private Insurance and the Anti-Money Laundering Control Authority. ↩

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