MINISTRY OF LAW
SINGAPORE

Legal Services
Regulatory Authority

GUIDELINES ON FINANCIAL ARRANGEMENTS BETWEEN SINGAPORE LAW PRACTICES AND FOREIGN LAW PRACTICES IN COLLABORATIONS

A INTRODUCTION

This circular sets out guidelines on financial arrangements, in particular loan agreements and service agreements, between Singapore law practices ("SLPs") and foreign law practice entities in collaborative arrangements.

2 The framework regarding Formal Law Alliances, Joint Law Ventures or other foreign-local collaborations (collectively, "Foreign-Local Collaborations") is premised on the principle of a collaboration between two independent law practices. A further principle underpinning our regulatory regime is the requirement for SLPs to remain independent and under the majority control of Singapore solicitors.

3 Generally, under the Legal Profession Act, read with rule 3 of the Legal Profession (Law Practice Entities) Rules 2015, a Singapore law practice cannot pay more than one-third of its total profits to foreign law practices and foreign lawyers. Law practices are expected to adhere not just to the letter but to the spirit of this requirement, and should not seek to circumvent it through financial or other side arrangements.

B LOAN AGREEMENTS AND LOANS

4 Loan agreements between law practices put the borrower under obligation to the lender, thereby potentially compromising the independence of the borrower. Similar obligations may also arise in arrangements whereby one law practice acts as the guarantor for the borrowings of the other.

5 The LSRA will not approve applications for Foreign-Local Collaborations which contemplate the existence of a loan, or a guarantor/borrower relationship in a loan arrangement, between the law practices. Law practices in Foreign-Local Collaborations with existing loan agreements and loans will be required to retire or replace these agreements and/or loans within a reasonable timeframe.

C SERVICE AGREEMENTS AND CHARGES

6 Service agreements and service charges between law practices in Foreign-Local Collaborations for services such as IT, administrative and other support are permitted. However, such agreements and charges must not be used as a means to extract more profits from the SLP than is permissible under the applicable regulations. Service charges must be on reasonable terms and should be no worse than fair market rates. Payments that are based on a percentage of the revenue earned by the SLP will not be permitted.

7 In determining whether service charges are reasonable, regard will be had to payments by other offices in the provider's network for similar services.

D OTHER FINANCIAL ARRANGEMENTS

8 Other financial arrangements between law practices in Foreign-Local Collaborations, such as "technical support fees", "consultancy fees" and "subscription fees", may be permitted, subject to similar considerations as stated under "Service Agreements and Charges" above.

E CONCLUSION

9 Law practices thinking of entering into a Foreign-Local Collaboration should consider carefully whether it would be a genuine collaboration of equal partners, or whether more time is needed for one of the law practices to grow and establish itself independently. Checks may conducted from time to time to ensure that Foreign-Local Collaborations are in compliance with the relevant rules and requirements.

10 Please refer to the Annex for a list of Frequently-Asked Questions regarding these guidelines.

11 For any queries regarding these guidelines, please Contact Us @ OneMinLaw.

LEGAL SERVICES REGULATORY AUTHORITY
MINISTRY OF LAW
MARCH 2018

UPDATED IN DECEMBER 2019

(This circular is also available on the Ministry of Law's website at https://www.mlaw.gov.sg/law-practice-entities-and-lawyers/resources-for-law-practice-entities/relevant-legislation-and-communications/)

ANNEX

FINANCIAL ARRANGEMENTS BETWEEN SINGAPORE LAW PRACTICES AND FOREIGN LAW PRACTICES

FREQUENTLY-ASKED QUESTIONS

No.	Frequently-Asked Question	Answer
1.	**What arrangements do "Foreign-Local Collaborations" refer to?**	For the purposes of these guidelines, "Foreign-Local Collaborations" include: (a) Formal Law Alliances ("FLAs"); (b) Joint Law Ventures ("JLVs"); and (c) Collaborations between a Singapore law practice ("SLP") and a foreign law practice entity ("FLP") where the FLP has interests in the SLP, e.g.: • Where the FLP has approval under section 176(9) of the Legal Profession Act to be a shareholder in, or to share in the profits of, the SLP; • Where a foreign lawyer has approval under section 176(1) of the Legal Profession Act to be a director, partner or shareholder in, or to share in the profits of, the SLP as a nominee of the FLP; • Where the SLP has taken on the name and branding of the FLP.
Loan Agreements and Loans		
2.	**Why is the LSRA disallowing such loans when they are not expressly prohibited under the legislation?**	The framework regarding Foreign-Local Collaborations is premised on the principle of a collaboration between two independent law practices. A further principle underpinning our regulatory regime is the requirement for SLPs to remain independent and under the majority control of Singapore solicitors. In the context of a Foreign-Local Collaboration, loans put the borrower under obligation to the lender, thereby potentially compromising the independence of the borrower. Similar obligations may also arise in arrangements whereby one law practice acts as the guarantor for the borrowings of the other. For this reason, the LSRA will not approve applications for a Foreign-Local Collaboration which contemplate the existence of a loan, or a guarantor/borrower relationship in a loan arrangement, between the law practices.
3.	**What if our FLA or JLV has existing loan agreements and/or loans?**	FLAs or JLVs with existing loan agreements and/or loans will be required to provide a copy of the agreements and details of the loans in their next annual report to the LSRA, together with their plans for retiring or replacing these agreements and/or loans within a reasonable timeframe.

No.	Frequently-Asked Question	Answer
4.	**What is a "reasonable timeframe"?**	This will be decided case by case. FLAs or JLVs with existing loan agreements and/or loans can approach the LSRA if further clarification is required.
5.	**What if our law practices wish to apply for a Foreign-Local Collaboration but have existing loan agreements and/or loans?**	The applicant law practices will be required to retire or replace their existing loan agreements and/or loans before submitting their application to the LSRA for a Foreign-Local Collaboration.
Service Agreements and Other Financial Arrangements		
6.	**What if we wish to apply for a Foreign-Local Collaboration but have, or would like to have, a service agreement and/or other financial arrangement?**	Applicant law practices with existing or proposed service agreements and/or other financial arrangements will be required to provide a copy of the agreements, and details of the services to be provided and fees charged, as part of their application. Charges under such agreements must be on reasonable terms and should be no worse than fair market rates. Payments that are based on a percentage of the revenue earned by the SLP will not be permitted.
7.	**What do you mean by "reasonable terms"?**	The terms of and charges under the service agreement and/or other financial arrangement should be no worse than what could reasonably be obtained from an independent third-party provider for similar services. Regard will also be had to payments by other offices in the provider's network for similar services.
Others		
8.	**Who can I approach if I have further queries?**	If you have further queries regarding these guidelines, please Contact Us @ OneMinLaw.