

# Interview: Phillip Thorpe

*Justin Keay speaks with the head of the Qatar Financial Centre Regulatory Authority about Qatar's move to a single regulatory authority and the plans to roll western-style regulation across the whole country*

Qatar has been a big winner from the unproccented rise in global energy prices. The biggest exporter of liquefied natural gas and home to the largest proven reserves of natural gas after Russia and Iran (910 trillion cubic feet), GDP growth and living standards are accelerating dramatically. A recent CIA estimate suggested this tiny state of fewer than 1.2 m people (of whom only 180,000 are indigenous) now has a per capita income of just over \$80,000, a figure expected to rise to \$90,000 by 2011. It plans to be the Gulf's second largest economy after Saudi Arabia within the next seven years, overtaking the United Arab Emirates.

Like other forward-looking Gulf states, Qatar has been seeking to put its energy earnings to good use through major infrastructure developments and economic diversification, one major by-product of which was the creation of the Qatar Financial Centre (QFC) in 2005. Launched to compete with rival financial centres in Dubai (the Dubai International Financial Centre, or DIFC) and Bahrain (the Bahrain Financial Harbour, or BFH), the QFC has been buoyed by the government's recognition that it could only flourish if close and proper attention was paid to the regulatory set up. Thorpe spoke exclusively to Justin Keay of *The Financial Regulator* about the growth of the QFC, the planned introduction of a unified regulator in the Gulf state in January 2009

and the NYSE-Euronext investment of \$250m in the QFC in June 2008.

*Next year sees the establishment of a single regulator in Qatar, along the lines of the FSA in Britain, with QFCRA standards rolled out across the whole of Qatar. Does this reflect Qatar's desire to make Doha the Gulf's leading financial centre?*

It is important to bear in mind that the QFC was established as a parallel financial entity in the state of Qatar, the intention being to create a high standard environment without demolishing the existing system. We wanted to ensure domestic businesses had



**Phillip Thorpe**, managing director of Britain's Financial Services Authority (FSA) until 2001, became chief executive of the Dubai Financial Services Authority (DFSA) until he and another executive, Ian Hay Davidson, left in 2004. In March he was appointed chairman and chief executive of the Qatar Financial Centre Regulatory Authority (QFCRA).

time to adjust. But it only took 12–18 months for the government to realise that if high standards were good for the QFC then they must be good too for Qatar as a whole. I'm surprised at the speed but remember this is a small market – only 25 entities are regulated by the central bank, there are 40 listed companies and six brokerages. Compared, say, to what the UK's FSA regulates, these are not very big numbers.

It's also significant that Qatar is physically small and that the balance sheets of financial institutions here – particularly Qatar-based ones – are very strong. It's not rocket science, but if you are going to make regulatory changes you should do it when things are going well. This is a country going through a major overhaul as a result of its growing wealth, so the financial sector should be seen in this context. If you want your economy to grow at 15–20% a year, you need the infrastructure of a strong financial services sector and now we are getting to that point.

Against this background, the move to a single regulator is not all that dramatic. Also, our insurance market is not regulated; if it wants to grow and develop cross-border business it needs a proper certificate of approval.

Everyone is aware of the importance of capital market growth here and the investment of NYSE-Euronext must be seen in that context. This is why they were so keen – they know that in Qatar, they will get a high quality regulatory environment

underpinned by strong official support. The deal wouldn't have taken place otherwise.

*Could you say something about the process of setting up the single regulator?*

We are expecting the formal legislation to establish the board that will bring together the three existing bodies to be similar to the UK's Financial Services Act. After that the physical location will be set up and the staff brought together to act as one team; there will be around 180 staff.

***"We thought the UK's tripartite agreement had most things covered. But things go wrong and it's important to learn from mistakes."***

For firms, we anticipate a transition of two to three years to get accustomed to working with a single regulator. Entities currently regulated by the QFCRA won't see much change, whilst insurance firms will see the most. But this is the advantage of being a small country – we are talking about only 100–120 institutions, so we can work with each to ensure a smooth transition. It will be a bonanza for audit firms, but this is a manageable process out of which will emerge robust institutions able to take advantage of opportunities in the region.

*Given the flaws that have been exposed within the UK's regulatory model over the past year, are there any things you plan to do differently, from, say, a year ago?*

We will want to stress the importance of a good, strong relationship between the central bank and the regulator. We do have things to learn from the Northern Rock experience; we thought the UK's tripartite agreement had most things covered. But things go wrong in regulation, and it's important to learn from mistakes. We really want to ensure that we have the proper structure in place.

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*To what extent are the Gulf's up-and-coming financial centres using regulation as a competitive advantage?*

Any centre that doesn't admit to this – in part at least – is counting itself out of the game. But it is the economy that really attracts business to a place, and institutions stay when they see an environment they can trust. Here it is the underlying legal environment that counts: businesses need to know they can operate with confidence, that there is a proper and impartial court structure if things go wrong.

*How would you compare the Gulf's three main international financial centres, Bahrain, Dubai and Doha (Saudi Arabia and Kuwait cater mainly to the domestic market)? How likely is it that one will emerge as regional leader?*

I feel each is very different: Bahrain is a long-term player that had ambitions to take Lebanon's traditional financial role as far back as the 1970s, and has built business up on the back of this over the years. Dubai demonstrates what you can do with a free zone (the laws of the DIFC apply within its domain and not elsewhere: in Dubai or the UAE). Qatar meanwhile is building its own future. I feel each of these centres can grow without taking business from the others: there will be rationalisation, but I feel that lies some time off. In the meantime there are challenges: for example, will the UAE take the Qatar route and extend DIFC rules beyond its immediate domain? This could be difficult: the QFC has always been a parallel organisation, not a free zone. Extending its role is made easier as Qatar is a single – and small – state rather than a federation, like the UAE.

*How will the recent NYSE-Euronext investment in the QFC impact on Qatar?*

The Doha government recognised that achieving the sort of change it wanted for its financial sector would require a foreign

partner – and if you are taking this route, you should go for a quality partner who projects the sort of image you want. This meant our wish-list boiled down to three or four out of the ten or so global players available. We wanted a long-term partner with a good name, but we were also interested in technology. This deal provides us with access to new technology, to managerial expertise and gives us access to derivatives and other instruments. It is very exciting and enables us to build up a strong and competitive market, enabling us to diversify into derivatives and hedging instruments, but with strong, supportive infrastructure.

*What are the main regulatory challenges that lie ahead?*

We have a number of institutional issues to contend with, including merging existing bodies into one, moving all our staff to a bilingual environment (Arabic and English) and transferring QFC laws across the whole of Qatar, a major but far-sighted undertaking. Within the QFC, most individuals and entities have been thoroughly vetted but it will be a major challenge bringing non-QFC companies into line with western standards. We also face a big public education challenge – many people in Qatar are not accustomed to a regulator and there are concerns that expectations could be raised too high. We

have the dual task of bringing people up to speed with what we do but also making people understand their own responsibility: with regards to investing and making other financial decisions.

*To what extent is Qatar undertaking this reform – creating a single regulator and instituting western-style regulatory standard across the country – with an eye on bolstering its role within the Gulf region?*

The government's first concern is about what is necessary for Qatar although it must also be said it is not unaware about the benefits that can accrue from elsewhere in the region. It's important to remember that the Gulf Cooperation Council (GCC) is not the EU – the regional differences here are even wider than in Europe. This is a small, stable country in a volatile region that is trying to do the right thing – as confirmed by its recent efforts to help promote a ceasefire in Lebanon. If we can promote financial stability through tougher regulation, so much the better. Competition for higher standards is a good thing.

I also think the move to a single regulator will be a fast track to resolving many concerns about the market. It will prove that the Qataris take corporate governance seriously. After all, this is a country which has tried, convicted and imprisoned people for insider trading. That's more than many European legal jurisdictions can claim. □