

A portrait of Phillip Thorpe, a middle-aged man with light-colored hair, wearing a dark suit, white shirt, and patterned tie. He is looking slightly to the right of the camera with a neutral expression. His hands are clasped in front of him.

# RETHINK AND REGULATE

In his official statement made in July, the chairman and CEO of Qatar Financial Centre Regulatory Authority (QFCRA), Phillip Thorpe said, while Qatar had been fortunate to be somewhat insulated against the full-blown turmoil created by the global economic meltdown, it had nevertheless felt the impact with measurable effect.

The series of economic events that took place in the latter part of 2008 caused significant damage to the financial services markets, which has resulted in the call for governments across the globe to rethink their approach to financial regulation.

For the QFCRA, Thorpe said the economic slowdown resulted in a steady decline of business for the remainder of 2008, as well the easing in new applications being lodged from firms looking to establish themselves in the Qatar Financial Centre.

However, Thorpe said that while the rate of applications received for the year had tapered-off in the last half of 2008, the final number of applications ended slightly up on 2007's results, with 59 authorised firms on the register, 42 licensed firms and 451 registered individuals. Thorpe described these numbers as being "all healthy increases over the comparable numbers in 2007".

While Thorpe said the business picture remained "broadly positive" for Qatar due to its "relative level of insulation", he admitted that the regulatory story had been "demanding time and attention".

"The QFCRA had expected 2008 to be a year of significant change for the regulatory structure in Qatar, given the Qatari government's plans to move to a single regulatory body," Thorpe stated.

"Not surprisingly the events that took place in the global market, combined with major questions over the effectiveness of different regulatory models, have caused the government to be preoccupied with more pressing economic issues and to recognise that previous assumptions may need re-examination."

One of the key issues that Thorpe highlighted as in need of further consideration was the relationship between the critical components in any financial oversight system; which in the context of Qatar involves the financial regulator, the Central Bank and the Ministry of Finance.

Thorpe added that the experience learnt by the United Kingdom and the United States clearly identified the problems that can arise in structuring such relationships, which also highlighted the need for adequate

powers for the respective bodies, transparency in the relationships between them and appropriate accountability in the exercise of the powers that are vested in them.

"The international debate on these relationships is likely to continue throughout 2009, and we will review with interest the suggestions for achieving an appropriate balance between the objectives of the regulatory body and the objectives of those responsible for financial stability and the public purse," said Thorpe.

Another key point Thorpe raised was the vast experience there was to be gained from a the global economic crisis, especially in the way in which regulation should be executed.

He said there was already evidence about the damage that can occur when there is the opportunity for regulatory arbitrage and where there are a number of bodies discharging similar regulatory functions in a jurisdiction.

There is no more proof required to demonstrate the potential for misuse in a system where there are gaps that exist between the jurisdictions of different regulatory bodies.

"This has particular resonance in Qatar, where the three existing regulators (our own QFCRA, the Central Bank in respect of domestic banking institutions and the recently formed Markets Authority overseeing the stock market) provide imperfect coverage of financial services in the state," Thorpe claimed.

A particular area of concern, according to Thorpe, is the insurance sector, which he identified as being in urgent need of an overhaul.

**"It's clear Qatar will need to find a way to fill these gaps, and we remain convinced that the option of a single regulator, in a state the size of Qatar and with the resources available to us, continues to be the best option for the country," he said.**

"There are some interesting (but sadly, not new) lessons emerging about the ability of the financial services industry to be self-policing. Those who convinced themselves that the market would be the most efficient regulator of professional financial services have been forced into reconsidering the

merit of that proposition.

"My view is that the matter was never in doubt – while there is a good case for recognising that business conducted between professional counterparties may be regulated in a different, even less invasive way than business directed at retail customers, it would be a mistake to assume that this should be read as doing away with the need for regulation completely."

In particular, Thorpe said the crisis brought home the importance of any regulatory system being able to deliver real disincentives for bad or destructive behaviour, which impact the markets. Events have shown how important it is that regulators and the criminal authorities maintain the powers and resources to investigate and prosecute wrongdoings when these arise.

In the aftermath of the financial crisis, Thorpe said the QFCRA was looking more closely at the investment strategies of the firms it regulates, taking a more critical look at the nature of the capital held by these firms, and questioning previous assumptions regarding reliance on parent company or offshore funding for businesses operating within the state of Qatar.

**"We fully understand the reviews being undertaken internationally and domestically also carry a real potential for regulatory overreaction, which may cause further deleveraging, raise the costs of regulatory capital, and generally inhibit the ability of firms to transact business and assume otherwise reasonable levels of risk," he said.**

"Again there are many debates on the appropriate level of regulation for the post-crisis world now being conducted among international regulatory bodies, and we expect to follow these with interest through the course of 2009. We will be careful to ensure that any consequent regulatory reforms proposed by the QFCRA are proportionate, and balance the need for caution, while recognising that a primary function of financial services is the assessment, trading, and management of risk – the financial services business cannot, by its nature, be risk free." ■