



qatar

FINANCIAL CENTRE
REGULATORY AUTHORITY

Building a new financial regime in the Gulf

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The primary challenges

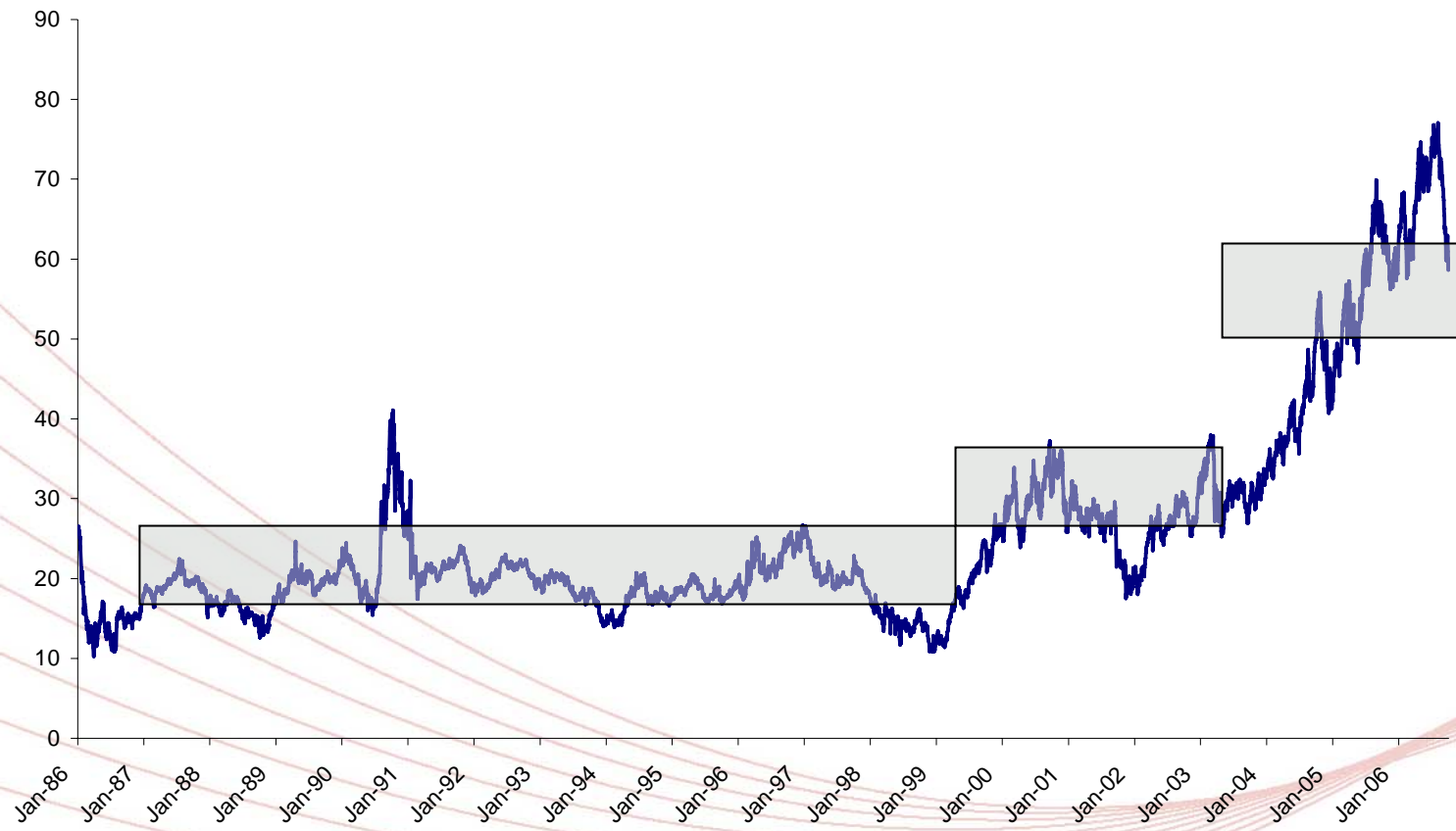
- *“It’s the economy, stupid”*. An excellent legal and regulatory environment is important, but that alone will not generate success. There must be a robust and sustainable economic case for financial firms to move into a new jurisdiction.
- The financial centre ‘offering’ must be clear and convincing. Is it easy to explain? Are the constitutional arrangements transparent? Can businesses establish without difficulty?
- Financial services business is a ‘confidence-intensive’ industry. New jurisdictions can always promise everything, but creating confidence takes time and a good track record.
- The Gulf, and the wider MENA region, carries some unfortunate, and sometimes unfair, ‘baggage’. Business practices are often suspect, corporate governance standards are seen as questionable, money laundering and terrorist financing are too frequently connected to the region. Changing perceptions takes time and energy.
- The practicalities cannot be ignored. Are costs competitive? Can skilled staff be found? Is it possible to find premises, housing, schooling etc?

Initiatives to establish new centres

- The Gulf contains several diverse examples of financial centre initiatives:
 - Bahrain – the traditional offshore centre for the region, with substantial experience, a skilled workforce, and a solid reputation.
 - Dubai (DIFC) – a free zone environment with the aim of developing property, attracting new businesses to the emirate, creating high value jobs, and building on its regional lead as a trading centre.
 - Saudi Arabia – as the largest economy in the GCC, it has a desire to expand its financial services sector, and create employment opportunities.
 - Qatar (QFC) – an onshore financial services environment created to service the fastest growing economy in the region, and to provide a regional base for businesses seeking to operate in the GCC.
 - Others – Abu Dhabi, Oman, Kuwait – no one wants to be left out!

An underlying rationale for new centres

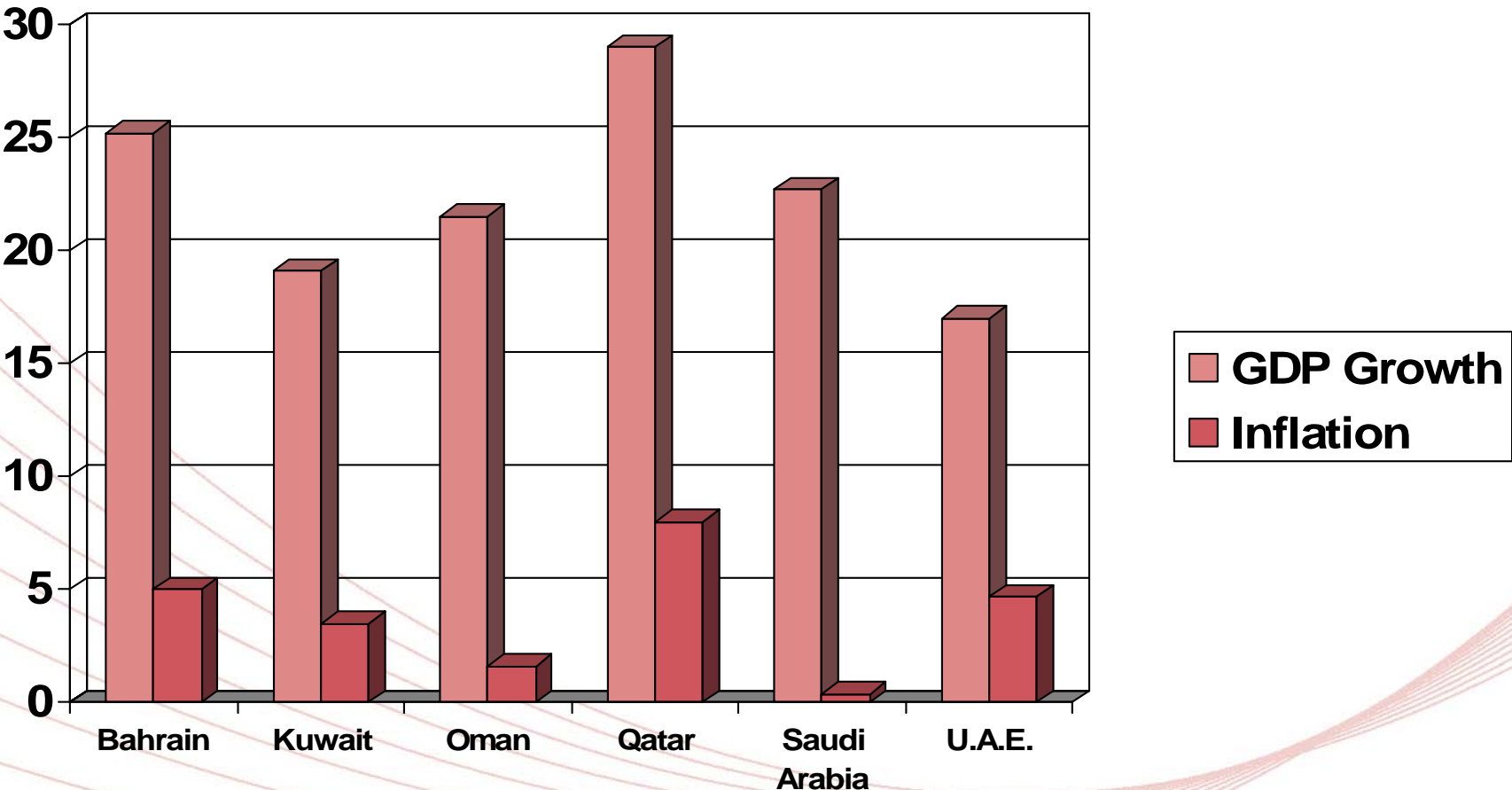
Oil Prices, 1986-2006



An underlying rationale – capital flows

- If remaining proven oil reserves sell for \$50 a barrel, then
 - \$13 trillion goes to Saudi Arabia
 - \$24 trillion goes to the GCC
 - In total, some \$38.5 trillion goes to OPEC Middle East countries
- and this ignores gas reserves, which we don't do in Qatar.
- By 2012 Qatar's LNG production will reach approximately 77 million tonnes per annum, making Qatar the world's largest producer of LNG by a significant margin. Qatar's oil and gas production will then be at a level equivalent to more than 5 million barrels a day.

GCC nominal GDP growth and inflation (2005)



An illustration – the QFC proposition

- An economy growing at more than 25% p.a. and with a projected spend of in excess of US\$130 billion on infrastructure, industrial development, healthcare, schooling etc needs a financial services sector able to support that growth.
- The domestic financial services sector did not have the balance sheet or the human capital to meet Qatar's needs. Organic growth of the sector could not meet the demands of an economy that doubles in size every 4 to 5 years.
- Financial services were being provided by major Wall Street and City of London firms, but courtesy of Qatar Airways.
- The Government examined how it could attract international financial services firms to establish in Qatar, and recognised that if it wished to be successful, it was essential to offer a high quality, English language, common law, well regulated environment.
- The QFC was conceived as the way in which to construct such an environment. It would provide rapid access to new financial services and products and act as a catalyst for change within Qatar.

QFC – the legal and regulatory template

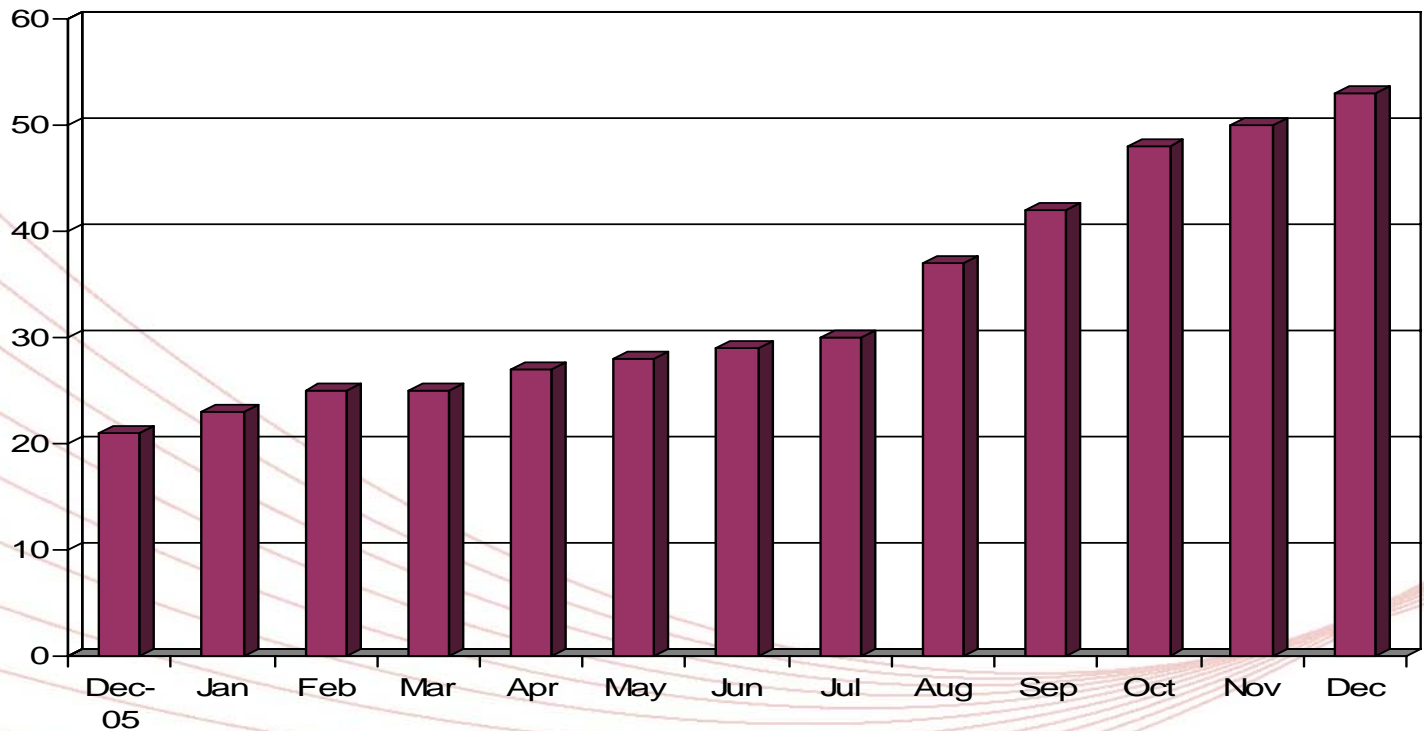
- **Clear Constitutional Arrangements:** The QFC and its key entities were established by primary Qatari statute, to provide a constitutionally simple and robust status for the centre. QFC authorised entities can operate in the State of Qatar, and do business with Qatari corporations and individuals.
- **Modern Laws:** A full suite of civil and commercial laws have been implemented (including employment law and immigration law), with drafting based on the laws of leading common law jurisdictions. A separate and independent QFC Civil and Commercial Court has been established to adjudicate between parties relying on those laws.
- **Regulatory Independence:** The Regulatory Authority was designed to be fully independent, with its own international Board drawn from leading regulatory bodies, and the Board in turn reports directly to Qatar's Council of Minister's. Appointments to the Board are by the Council, and budgetary provision is from the Council.
- **International Cooperation:** The Authority has been given powers in primary statute to cooperate fully with its international counterparts and enter into information sharing arrangements for the purposes of supervision and enforcement.

QFC – the legal and regulatory template

- **An Integrated Regulator:** The QFC Regulatory Authority was established as an integrated regulator, providing supervision of all forms of financial services activity. The Authority operates a principles-based regime, and is risk-focused. Much of the operation of the Authority, and its rulebooks, is based on the approach of the UK's Financial Services Authority.
- **Full access to markets:** The law establishing the QFC imposes no restrictions on the type of financial services business that can be done by QFC authorised entities – wholesale or retail, banking, insurance, asset management, securities – all can be undertaken provided the Regulatory Authority has put in place an appropriate regulatory regime.
- **Adopting International Standards:** Entry into the QFC regime is open to any institution that can demonstrate that it can meet the standards for admission and will be able to maintain those standards. While those standards are very familiar to firms operating in London, New York, or Hong Kong, they represent a step change for many regional and domestic institutions.

QFC – construction in practice

- The QFC concept was first discussed in early 2004, and primary legislation passed in March 2005. The QFC came into legal effect on 1 May 2005.
- At 1 May 2005, the QFC Regulatory Authority had 3 staff. Since then the Authority has grown significantly.
- Headcount growth in 2006 was as follows:



QFC – construction in practice

- In the year and a half of Regulatory Authority operation, an extensive set of laws (QFC Regulations) has been enacted and a fully operating Rulebook put in place. Work continues on both Regulations and Rules, as the industry demands. Currently work is well advanced in respect of:
 - Trust Regulations
 - Security Regulations
 - Limited Partnership Regulations
 - Collective Investment Scheme Rules
 - A Retail Regime for Insurance
 - An Authorisation regime for Exchanges and Clearing Houses
 - A Market Abuse regime
- Membership has been sought from or granted by a range of international regulatory groupings, including IAIS, AOOFI, ISFB, and IOSCO.
- Memoranda of Understanding or Letters of Intent have been agreed with or under negotiation with 12+ jurisdictions and counterpart regulators.

Regulatory challenges for new centres

- Recruitment is a constant task. Obtaining adequate numbers and quality of resource means seeking qualified staff from major markets.
- Regional and domestic firms require significantly more supervisory resources at the early stages, and the introduction of risk-based supervision requires careful judgements.
- Firms typically start small, meaning human resources on the ground may be limited. Care needs to be taken with outsourcing arrangements and business growth needs close monitoring to ensure staff are recruited and on the ground as risks increase.
- The Authority's rigorous AML requirements need close monitoring. Turning theory into practice involves education and close monitoring, and arguments about traditional or cultural habits need to be countered and overcome.

Lessons – so far

- The success of the QFC has created a need for greater coordination with domestic regulatory institutions, and an extensive array of international MoU's. Creating awareness of the QFC regime, and being good members of the international community, are vitally important.
- Success has also highlighted differences. In a small jurisdiction it is inevitable that questions arise as to why there are now two parallel financial services regulatory regimes.
- The commitment to high standards is a key success factor, but it is clear that Qatar is judged as a whole in this regard. The political commitment to reform, transparency, and good governance has been a major positive contributor.
- The rule of law is paramount. A centre operating in an otherwise unreliable legal environment will not produce user confidence in the longer term. Having a highly respected body of jurists committed to developing the new legal environment is a major selling point.
- The best result is new entrants to the centre bringing new products and services to the market, and those firms being profitable. Not only does that create fewer regulatory stress points, but it justifies the entire exercise!