

## QATAR FINANCIAL CENTRE

# The Middle East's rising star

Doha's efforts to attract big-name foreign financial institutions are working, with more than 100 firms expected to be licensed by the end of the year

MELISSA HANCOCK

**Q**atar's economy is turning heads. The country's gross domestic product (GDP) per capita currently stands at about \$76,000, putting Qataris among the world's wealthiest people, statistically at least, and the pace of growth is set to increase. Qatar's GDP will reach about \$116bn by the end of 2009, up from \$80bn in 2007.

The inauguration of the Qatar Financial Centre (QFC), in May 2005, has arguably played the biggest role in attracting the attention of the world's largest financial institutions.

International and regional powerhouses, including State Street, Citigroup and Samba Financial Group, have opened in the QFC, as a means of tapping into both Qatari liquidity and the economic opportunities in the wider region. The current value of Qatar projects, both planned and under way, stands at \$208bn.

The rapidly growing number of firms registering at the QFC attests to its commercial success. There were three QFC-licensed firms at the end of 2005, 33 at the end of 2006, and 59 at the end of 2007. At the start of October 2008, there were 94.

"There are around 20 licences pending approval, so we will have more than 100 firms by the year's end," says Stuart Pearce, chief executive officer (CEO) of the QFC. "The uptake has been substantial. The firms licensed with us are all high quality. We are looking for quality, not quantity."

### Regional comparisons

In the aftermath of its launch, inevitable comparisons were being drawn between the QFC and the Dubai International Financial Centre (DIFC), which was launched eight months earlier in September 2004.

But time has proven that the two centres are very different, not only in their structure but also in what they contribute to the financial activities of their respective countries.

"It is quite understandable that statements were made to the effect of, 'You're just the same as the DIFC, aren't you?'" says Pearce. "But the answer is, we're nothing like Dubai."

### KEY FACT



Source: QFC

**The Qatar Financial Centre has licensed 94 firms to operate to date, and 20 licences are pending approval**

**"A number of firms are now choosing Qatar as their regional platform over Dubai"**

Stuart Pearce, CEO, QFC

DIFC firms are prohibited from taking deposits, making loans, carrying out retail or insurance-related business, or setting up a financial services institution from scratch.

"None of that applies here," says Pearce, who argues that the QFC offers a broader platform that is easier to understand and operate from. "We have just licensed Qatar First Investment Bank, which had an authorised capital of \$274.7m," he adds.

In the first two years of operating, significant secondary investment has come Doha's way from firms that were already doing business in Dubai. There is still an element of localism in the Middle East, with companies quietly required to show their commitment to doing business in a particular country by setting up shop there.

But while Pearce says this is no doubt still the case as investors continue to spread their investments across the Middle East, he points out that firms are increasingly paying attention to the underlying economics, and the fact that Qatar has the best agency ratings in the region. Indeed, 35 per cent of QFC-licensed firms are rated, of which 28 per cent are rated A- to AAA

and 7 per cent B- to BBB+. By comparison, only 9 per cent of DIFC-licensed firms are rated, with 8 per cent rated A- to AAA and 1 per cent rated B- to BBB+.

"Firms see the sustainability of the Qatar model and they like it," says Pearce. "A number of firms are now choosing Qatar as their regional platform over Dubai."

### Best practice

China's ICBC, the world's biggest bank by market capitalisation, has a full branch licence through the QFC but does not operate in Dubai. Indeed, of the 94 firms now registered at the QFC, only 30 also have operations in Dubai. The QFC can also boast that 56 per cent of QFC-licensed firms are regulated, compared with 31 per cent of DIFC firms.

Another crucial difference from the DIFC is the QFC legislation allowing buildings in Doha to be designated as QFC sites, which means licensed firms do not have to be in QFC premises – 31 sites around Doha are currently licensed for QFC-licensed firms to operate. A lack of space at the DIFC has been a headache for the banks and professional services firms moving in since the 2004 launch. And Qatar is a favourable financial destination over Dubai because of its lower operating costs.

However, Dubai still beats Qatar as a general business and lifestyle choice, meaning companies are often prepared to pay more to secure an office in the emirate. For executives, the greater choice of accommodation, schools and transport links gives Dubai the edge over Qatar.

But the announcement in July 2007 by Qatar's Finance Minister Yousef Hussein Kamal that the government had decided to create a single financial regulator, a move "aimed at creating a best practice legal and regulatory environment for Qatar's entire financial sector", has led many to believe that Doha has the potential to become the pre-eminent regional financial services hub.

According to Phillip Thorpe, chairman and CEO of the QFCRA, the driving force behind the plans is that multinationals prefer a single

## A UNIFIED REGULATOR

Since being set up in March 2005, the Qatar Financial Centre (QFC) has managed to attract 12 of the top 25 global banks, and seven of the world's leading investment banks. The philosophy behind the creation of the QFC is for the centre to serve as a platform that combines internationally recognised regulation, modern laws and a highly regarded and expert judiciary.

The Qatar Financial Centre Regulatory Authority (QFCRA), which regulates the QFC, can be credited with putting Qatar's financial industry onto the world stage. It draws its legal inspiration from the UK's Financial Services Authority (FSA) and has installed the former chief justice of England and Wales, Lord Woolf, to preside over the QFC civil and commercial court – a coup for Qatar in its battle with Dubai to become the region's financial centre.

In July last year, Qatari Finance Minister Yousef Hussein Kamal announced government plans to merge the three existing financial service regulators – the QFCRA, Qatar Central Bank and the Qatar Financial Markets Authority – into one regulator to bring about “a sea-change in the depth and sophistication of Qatar's financial sector in the near future”.

In unifying its financial regulatory system, Qatar hopes to broaden the international standards championed by the QFC, to reach the rest of the emirate's banking and finance sector, by creating a regulatory body for the entire financial services sector. “Qatar's objectives can only be achieved through the combined efforts of the entire regulatory community,” explains Phillip Thorpe, chairman and chief executive officer of the QFCRA, “It will be very much a collective effort to take this forward.”

### UK influence

Thorpe is one of the key figures at the helm of this reformation, and has the right credentials for the job, having played a part in forming the UK's single regulator, the FSA, which in 2001 merged 10 regulatory bodies and 2,500 employees. Thorpe concedes that the formation of Qatar's single regulator will be “heavily influenced by the FSA”, but is also keen to stress that it will not be replicating any one jurisdiction.

“In creating the QFCRA, we have drawn on the experiences of the US, Singapore, Hong Kong and the EU, among others, and I expect the new regulator will build on that,” he says.

The launch of the new regulator has got off to a slow start. An interim board was expected

to be appointed by the end of 2007 and a senior management team was set to be in place by early 2008, but more than a year later there is no sign of either. “As I have said on a number of occasions, these things do take time, and even in a small state with a relatively small financial services base, the complexities can be remarkable,” says Thorpe.

Currently, the regulatory bodies are addressing several issues involving infrastructure and logistics, in addition to amendments required to various existing legislative provisions. “The intention has always been that the process will be a phased one and the introduction of a single rulebook will mark the conclusion of the first major phase of work, which could be ready by next year or in 2010,” says Thorpe.

### Expected benefits

Thorpe is confident of the benefits that will flow from the move to a single regulator. First, a streamlined, integrated regulator will make Qatar a simpler, and therefore more attractive, place to do business, as well as encouraging clearer rights and responsibilities for the consumers of financial service products and the institutions providing them.

He also believes it will help foster the development of Qatar's markets. “I expect to see significant growth in the area of equities trading, and the introduction of new products – derivatives, debt, and so on,” he says.

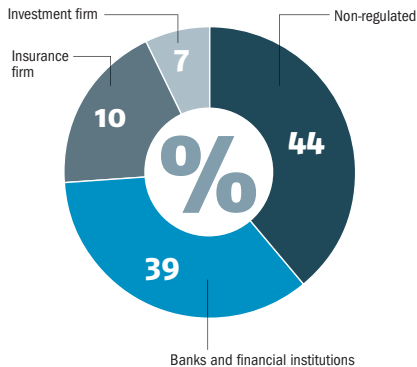
Yet Thorpe's recent remark that “it is difficult to convince central banks to give up the regulation of banking institutions” implies that there has been some predictable resistance to the plans from institutions that are going to have to take more of a back seat once the regulator comes into force, such as Qatar Central Bank (QCB).

Overall, the consensus is that the rewriting of current commercial and financial legislation, which has been outpaced by the speed of change in the state's banking and finance sector and remains a concern for foreign firms doing business in the GCC, will bring untold benefits to Qatar.

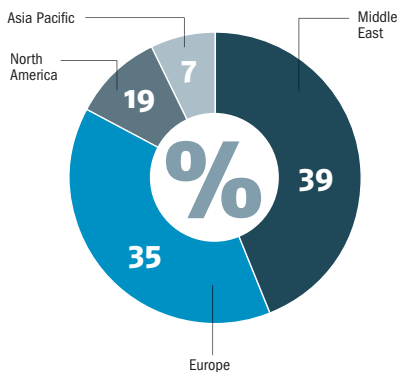
Given the turmoil that has afflicted financial institutions across the world in recent months, Qatar's call for regulatory change could not have come at a more pertinent time. By setting its sights on the creation of a world-class regulator, Qatar is sending out a clear signal to the global financial community of how it means to do business.

### QFC LICENSEES

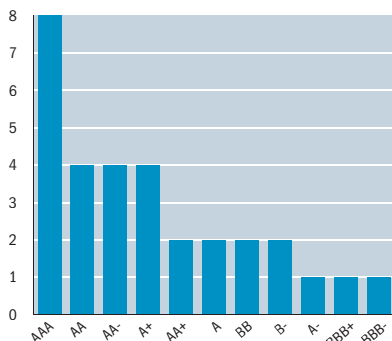
#### BY TYPE



#### BY REGION



### RATINGS OF QFC FIRMS



Source: QFC

regulator as it simplifies the regulatory system, making it easier to do business.

However, when this change will take place remains uncertain given that the single regulator plans are already missing their deadlines, a delay that Thorpe defends. "These things do take time," he says. "Even in a small state with a relatively small financial services base, the complexities can be remarkable. Clearly, we have a number of hurdles to overcome."

These hurdles include drafting and agreeing the legislation that will allow the creation of appropriate legal structures, and the introduction of a single rulebook, which Thorpe says is "likely to take two or three years".

Recent press reports have indicated that an interim board will now be established later this year and, despite past delays, many believe this target can be achieved.

"The positive pace of change to date in Qatar indicates that this goal is achievable," says Khawar Qureshi, head of law firm McNair Chambers Qatar, which advises and represents leading regulators and financial institutions in the Middle East.

"The UK has been a hub for financial services for decades, and only moved towards unified regulation in December 2001. The debate as to what form regulation should take in the UK lasted almost two decades, so Qatar has shown great dynamism in moving forward so quickly."

In devising its single regulator, Qureshi says Qatar can learn from the current financial turmoil that more rigorous controls are needed. "Some of the dangers might be addressed by

COMPANIES LICENSED BY THE QFC	
Type of firm	Number licensed
Top 25 global bank by total assets	12
Top 25 investment bank by total assets	7
Top 25 insurance company by gross premiums written	2

Note: Companies conducting business across sectors have been included in both categories. Source: Qatar Financial Centre

imposing stronger prudential norms, tougher licensing requirements, more onerous disclosure/due diligence requirements, enhanced accounting standards [to close loopholes such as 'off balance sheet'], greater scrutiny of exotic financial products and enforcement powers to tackle problems," he explains.

### Regulatory overhaul

Qatar is not the only state that is reforming its regulatory system in the region. The UAE's Emirates Securities & Commodities Authority is working to consolidate its rulebooks, the Central Bank of Bahrain is drawing up a set of rules for capital markets to be implemented by the end of the year, and Egypt plans to scrap its five regulators early next year and replace them with a single watchdog.

Qureshi says this wave of reformation has been prompted by governments' recognition that having too many regulators can lead to confusion, lack of co-ordination and turf wars, and that this has led to a desire to wipe the slate clean. Saudi Arabia's Capital Market Authority

moved in July to list the names of all shareholders with a stake of more than 5 per cent in companies listed on the Saudi stock market (Tadawul), in a bid for better transparency.

However, Qatar's single regulator plans make it the most radical programme of reform in the region. While Bahrain's central bank acts as a single regulator for its financial services, it derives its legal structure from an amalgam of different laws, whereas the QFC will use a single law, largely based on UK common law.

While Pearce says that "all the moving parts are in place" for Qatar to become the preferred financial centre in the region, he does not believe the end result of the current battle for financial supremacy will result in just one financial centre. "Just like in Europe, you have Paris, Frankfurt and London – there is no one centre that is going to dominate financial services in the Middle East," he says.

However, Pearce says GCC countries will find areas of specialism, and suggests it may be possible for Qatar to become a regional insurance hub, as a result of the Qatar Insurance Platform, which was announced in June. The insurance sector in Qatar is set to increase from \$127m in premiums collected in 2007, to \$1.09bn by 2013, according to the QFC.

The single regulator plans are a clear illustration of Doha's commitment to the development of a thriving financial services industry. Its shrewd moves in bringing in the top lawyers and regulators, to attract the big-name financial institutions, has so far paid off. The task now is to ensure that the plans are realised, to the same high standard laid out in the blueprint. 



## Excellence. At Carnegie Mellon.

- + Business Administration
- + Computer Science
- + Information Systems

Phone + 974 454 8400  
 Fax + 974 454 8410  
 Web www.qatar.cmu.edu

جامعة كارنيجي ميلور في قطر  
**Carnegie Mellon Qatar**  
