

Qatar's financial centre A dynamic start with a quest for quality



The latest financial centre to emerge in the Gulf region has moved cautiously to lay solid foundations for its operations in a highly competitive marketplace, say **Phillip Thorpe**, Chairman and CEO of the Qatar Financial Centre Regulatory Authority and **Stuart Pearce**, CEO and Director General of the QFC Authority in an interview with *Arab Banker*

Will the QFC's legal code be updated to cover capital market innovations; and at what stage is the staffing of the QFC Tribunal?

Phillip Thorpe When the Centre was launched in May 2005 we had in place a basic set of laws to enable institutions to function. We have continued to develop new laws in a diverse range of areas, including employment and immigration, as well as specific laws for trusts and the registration of securities. These have come onto the agenda to meet the demands of incoming firms. We have not had to amend the existing laws, but at the end of 2006 we will be reviewing laws and rules passed in 2005 to ensure that they remain current and examples of best practice.

As for the Tribunal, the financial services industry recognises the importance of having access to a reputable and reliable court, should the need arise. One of the attractions of the QFC is that our court system will allow the determination of disputes on a common law basis, with laws in English and with procedures that are easy to follow. The Council of Ministers made the first appointment to the Tribunal earlier in 2006, very notably with Lord Woolf, previously the Lord Chief Justice of England and Wales, as the senior judge of the Tribunal. We are expecting that there will be further appointments to the Tribunal towards the end of the year. A Registrar for the Tribunal has also been appointed, and he is now seeking to establish processes and premises. We do not expect the Tribunal to be overrun

with business any time soon, but it is important to have the facilities in place as and when they are needed.

To which regulatory regime is it the closest?

Phillip Thorpe We looked for precedents that were closest to the structure we are putting in place. As an integrated regulator, we cover all forms of financial activity, and the most modern and extensive example of this lies in the United Kingdom with the Financial Services Authority, so we borrowed quite heavily from that model.

Will the members of the Tribunal spend a lot of time in Doha, and will the laws be translated into Arabic?

Phillip Thorpe The members of the Tribunal are expected to come to Qatar as needed, though we don't anticipate much business for the Tribunal in the first year or two, and it will only meet according to demand. We do not plan to translate laws into Arabic at this stage, though we do not rule it out. The English versions of the QFC regulations are the official versions and the Tribunal will operate in English.

Regarding compliance, how often do you plan to examine these institutions?

Phillip Thorpe We explain our approach to supervision on our website www.qfcra.com.qa, and anyone familiar with the FSA approach will see similarities. At the heart of our approach is a risk assessment process: the frequency and type of examination will be a function of the risk that we perceive from the firm involved.

If we consider that a firm is well run and unlikely to generate risks, we won't be visiting them very often. At the other end of the spectrum an institution involved in high risk operations (eg with a lot of consumer exposure or volatile products) might expect to be visited more frequently. It is fair to say at this stage that every firm that we license will be visited at least once a year, or probably more frequently.

We will also investigate a particular issue for the industry — such as money laundering — and visit firms to focus on that issue. We will also undertake surprise visits to test the information we are being given, or where we have a particular concern that needs addressing. All of this is in addition to desk-based assessments. What we have found at this early stage in the QFC's existence is that quite a lot of supervisory visit time is needed, particularly for those licensed firms not familiar with an FSA-type regime.

In what ways do the QFC and Dubai's International Financial Centre's regulatory systems differ and in what ways are they similar?

Phillip Thorpe There are in fact quite a lot of similarities. Both centres started with a similar premise — to put in place high quality regulations meeting international best practice. However, there are differences that stem from the respective objectives of the centres. The QFC is not a property development, or an offshore centre or a free zone. We were set up to enable firms to do business in Qatar, and as a result our legislation is very straightforward. Neither are we a



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state within a federal system as Dubai is, and we are therefore identifiable as a part of the overall legal structure of Qatar.

Incidentally this also means we don't suffer the limitations that apply to the DIFC, for instance on retail business, deposit taking, insurance or undertaking business in the local currency. It makes our role easier to understand and gives us much greater constitutional certainty, and independence. However it also means we have a much wider range of institutions and activities to regulate – which creates challenges in itself.

You make a statement in your promotional material that you will help firms develop new revenue streams. What did you have in mind in implementing this?

Stuart Pearce Once firms have set up in the QFC we do not leave them high and dry. We will work with them to develop new income streams through the introduction of new products, and we will help them seek out new business opportunities by opening doors with various government and other key institutions. We aim to be a facilitator, whom the firms can talk to when they see opportunities in the market or when we can perhaps lobby on their behalf to help the market develop.

For instance, it is generally recognised that Qatar's financial sector needs a more developed capital market to service the needs of Qatar rather than sourcing those needs offshore, perhaps through the establishment of a more active bond market. As Phillip Thorpe has said, supporting legislation for new business lines can be developed and passed here very quickly.

One of the prime objectives of the QFC is to attract the best international financial services institutions and corporates. To what extent have you achieved this goal and what is your future strategy in this regard?

Stuart Pearce The first point to make is that we are looking for quality, not volume. We are not a property play, and we do not have to push licenses down the pipeline in order to create rental income, so in that sense we have a different offering to other centres. The very high requirements set by the Regulatory Authority ensure that only world class institutions will be licensed. We have been extremely pleased at the response we have received, given that we only started seriously promoting the QFC about a year ago.

The QFC Authority's website, www.qfc.com.qa, shows that we have so far 22 licences issued, which demonstrates the progress we have made. None of these firms would be new to the readers of *Arab Banker*, and include such names as Credit Suisse, AXA, Morgan Stanley, Standard Chartered and Barclays. Other firms such as HSBC, Goldman Sachs, AXA Insurance, and CitiGroup have confirmed publicly that they have decided to apply for a license. Such firms help build capacity and capability in the market.

At the end of the year we will be occupying a new building. The building has space (which includes the Regulatory Authority, the Authority and common facilities floors) for some 35 firms. We only have three spaces left. This is not to say they will all be there on day one, but we have commitment either in terms of licenses in the pipeline or now being applied for that the building will be full by



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Source: QFC

next March, so we have had to seek out additional premises.

You say in your presentations that you have a very well defined approach to the partners you are seeking. Could you explain what this means? And how does the intention to charge a corporate income tax feature in to your contact with firms?

Stuart Pearce We have looked at the international markets from which firms will most likely come and who meet the best international standards. We have also looked at the countries with which Qatar has the strongest trading ties, and on this basis we have sought to target firms that would benefit from having an office at both ends of the pipeline. We have ruled out firms that would not bring any real balance sheet capability or product experience, or those whose home nations do not have a particularly strong regulatory regime. Thus we have been very focused about the countries we are visiting.

Tax has been not been a major concern for most firms. Arguably the economic multiplier is more beneficial than the tax base. We have now appointed a Head of Tax who will be working with various government departments to devise arrangements supporting our tax regime. We are tax free until end April 2008, after which the rate will be set at a maximum of 10% on net profits.

Underlying the objective of attracting financial institutions is the need to ensure that the huge financing requirements for expanding Qatar's energy sector will be met. In view of the increased energy prices, is the attraction of additional financial institutions now considered less important?

Stuart Pearce The concept of the QFC was never driven by the price of oil or gas. There is a huge amount of financing required to meet the government's investment commitments, but that financing generates a lot of opportunities for firms further down the track. The more we talk to firms and the more they examine the market, the more they see opportunities other than, say, project finance. The government wants to create an industrialised economy and that means downstream industries needing finance and investment in some way, through public debt, bank debt, equity, and so on.

Asset acquisition will also become part of the equation in the longer term, as the budget surpluses grow. It's a bit like a balance sheet - you have firms providing liability services, but also helping to develop the country's asset balance. This includes support services such as lawyers and accountants. We tell firms that they should not limit their horizons to Qatar, but should look beyond Qatar to the Gulf, and the MENA region, to grow their businesses. That's the beauty of establishing their business onshore, in an asset-backed economy. They win both ways.

Is there a minimum capital requirement to be licensed as a regulated firm in the QFC?

Stuart Pearce Not really, though we are looking for the crème de la crème. If an applicant institution does not really add capacity in some way, then it is unlikely that this is the kind of firm we are really looking for.

We want to bring in quality, and because we are not a property play and we don't need volume we can afford to pick and choose.