The Success of DIFC as an International Financial Centre

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The past decade has seen a major shift in the balance of global economic power and a clear move to a multi-polar global economy, a move accelerated by the current global economic crisis. Emerging economies are playing an increasingly bigger role in shaping global economic growth. As developed markets deal with the fallout of the crisis, there is a historic opportunity for emerging markets to gain in importance over the next decade. This is particularly true of the fast-growing economies in the vast region stretching from North Africa to India and the Caspian to East Africa.

One of the institutions at the forefront of catalysing this region’s economic renaissance is the Dubai International Financial Centre (DIFC), an onshore financial centre that has developed into a bridge between the financial markets of the East and West and a gateway for capital and investment to and from this region.

DIFC was conceived and developed in line with the vision of the Ruler of Dubai HH Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE, to build a world-class financial centre that would establish Dubai as a crucial node in global finance. In its fifth year since its inception, DIFC has progressed significantly in realising its founding vision.

Strategic Objectives

Since inception, DIFC’s strategy has focused on five key areas:

- developing the legal and regulatory infrastructures that are foundations for an international world-class financial centre
- attracting a critical mass of global banks and financial institutions to operate out of DIFC
- financing economic growth and sustainable development
- enhancing labour productivity and sector development
- creating education centres and stimulating knowledge transfer

A Complete Financial Industry Ecosystem

One of DIFC’s greatest challenges and eventually one of its biggest achievements
was the creation of the fundamental building blocks necessary for the region’s financial industry to grow and integrate closely with the global economy. DIFC invested significantly in building an independent regulatory framework and judicial system, a financial exchange and a physical infrastructure that met and even exceeded global benchmarks to support financial services companies in minimising the costs of doing business. Building on this infrastructure, DIFC also developed an array of institutions that addressed key industry drivers like corporate governance, directorship, professional education, technology and lifestyle.

Regulatory and Legal Framework

Building blocks are critical for an international financial centre that is starting from a *tabula rasa*, a clean slate. In a region characterised by civil law and Shari’a, DIFC introduced a common-law framework designed to offer the optimal environment for business growth. Since its inception, DIFC has seen the enactment of 26 laws and 17 regulations designed to support the development of financial institutions ([http://www.difc.ae/laws_regulations/index.html](http://www.difc.ae/laws_regulations/index.html)). DIFC has also issued a Data Protection Law compliant with EU and international best practices and standards, the first jurisdiction in the region to have such a law.

At the heart of the DIFC model is an independent risk-based regulator, the Dubai Financial Services Authority (DFSA), which grants licenses and regulates the activities of all banking and financial institutions in DIFC. The regulatory body was created using principle-based primary legislation modelled closely on that used in London and New York. The DFSA has played a major role in providing financial companies the confidence that they have a sound, stable, secure and growth-oriented platform for their business. The regulator has signed over 40 Memorandums of Understanding (MoUs) with other local and international regulators such as IOSCO, the Financial Services Authority in the UK, Commodity Futures Trading Commission (CFTC) and The Federal Reserve in the United States, and the Central Bank of the UAE (CBUAE), among many others.
Over the years, the DFSA has promulgated innovative new regulations and introduced regulatory amendments that cater to market trends and industry needs. Today, the DFSA is playing a key part in DIFC’s efforts to continuously adapt to the evolving global financial architecture, and the changing needs of companies and professionals in the financial services industry. The DFSA already has a track record of innovation, having created the world’s first Hedge Funds Code of Practice (http://www.dfsa.ae).

**DIFC Courts and Arbitration Centre**

DIFC also has an independent judicial system, the DIFC Courts, designed to ensure the highest international standards of legal procedure. Created following extensive consultation and review of international best practices, the DIFC Courts gives financial services companies the confidence that justice will be dispensed fairly, effectively and speedily in all civil and commercial disputes.

Another initiative, the DIFC LCIA Arbitration Centre, provides world-class alternative dispute resolution services. The DIFC LCIA Arbitration Centre is founded on a strategic partnership between two institutions whose individual and complementary sets of strengths add great value to their association. The mission of this partnership is to promote more effective resolution of international business disputes through arbitration and mediation worldwide.

The DIFC LCIA Arbitration Centre's Arbitration and Mediation rules are a close adaptation of the London Court of International Arbitration (LCIA) Rules, with minor changes to align them with the DIFC LCIA Arbitration Centre's needs. The rules are universally applicable and compatible with both civil and common law systems, offering the international business community, international lawyers and arbitrators a comprehensive and modern set of rules and procedures.

**NASDAQ Dubai: Openness and Innovation**

The Dubai International Financial Exchange (DIFX) was launched in September 2005 within the DIFC financial district to provide a more open and liquid securities market than what existed elsewhere in the region. The exchange made innovative technological contributions to the region’s capital markets infrastructure.

In February 2008, NASDAQ OMX Group, the world’s largest exchange company, acquired a one-third stake in the Dubai International Financial Exchange Ltd (DIFX), the international financial exchange launched by DIFC in September 2005. Later, the DIFX was rebranded as NASDAQ Dubai, in line with its expanding global profile. NASDAQ OMX also announced the listing of its shares on NASDAQ Dubai.

In 2008, NASDAQ Dubai launched the UAE’s first equity derivatives market. The first substantial platform of its kind in the GCC, the initiative gave investors a valuable new tool for hedging risk. NASDAQ Dubai became the GCC’s second largest market for IPOs by value in 2008, after the Tadawul in Saudi Arabia. A total of $689 million was raised by two Dubai-based companies: Depa ($418 million) in
April and Damas ($271 million) in July. The exchange also welcomed five secondary equity listings.

Over 2008, nine Sukuk with a total value of $6.33 billion were listed, cementing NASDAQ Dubai’s position as the largest exchange in the world for Sukuk listings by value. This took the total number of Sukuk on NASDAQ Dubai at the end of 2008 to 19. The total value of these Sukuk was $16.45 billion.

**A Critical Mass of Financial Institutions**

Since its inception, DIFC has grown steadily to become one of the largest clusters of financial services companies in the world. Despite the global financial crisis, DIFC recorded the largest absolute annual increase in its business community in 2008 with a total of 256 companies being registered. The total number of regulated firms increased by 95 to reach 316, a 43 per cent rise from the previous year.

DIFC’s business community has steadily grown in richness and diversity over the years. In addition to companies in developed markets, financial institutions from several new emerging markets are increasingly joining DIFC, many of them well-entrenched companies committed to the region.

DIFC’s financial services community is home to companies representing a wide cross section of the financial services industry, with diverse geographical origins. At the end of June 2009, 852 companies were registered in DIFC. There were 245 active Authorised Firms (AFs), 55 active Ancillary Service Providers (ASPs) and two active Authorised Market Institutions (AMIs). In addition, there were 479 active non-regulated firms offering critical business infrastructure and services necessary for the growth and development of regulated firms. Companies in DIFC carry out a variety of activities including banking services (investment banking, corporate banking and private banking); brokerage services; asset management and fund registration; re-insurance; Islamic finance and professional services.

**Global Diversity**

![Breakdown of Regulated Firms by Home Base](image)

Institutions based in DIFC include many of the world’s top banks and credit providers, several of which chose the financial district as the base for their regional headquarters. As many as 20 of the world’s top 25 banks and six of the world’s 10 largest asset managers have a presence in DIFC.

DIFC’s global stature is further evidenced by the geographical diversity of firms based there: 34% of regulated firms are from the Middle East; 24% from Europe; 18% from the UK; 14% from the US; and 8% from Asia.
By virtue of its strong building blocks, its adaptability and flexibility and its responsiveness to the needs of the industry, combined with the advantages it derives from being situated in Dubai, DIFC has developed a significant comparative advantage over both regional financial centres and other emerging financial centres across the world. The quality of its tailor-made common-law framework remains unmatched in the region. The strength of DIFC’s legal and regulatory platform has constantly been enhanced through the implementation of new innovative legislation and regulatory amendments that cater to specific industry needs and growth requirements. In addition to this, the presence of an independent judicial system, the DIFC Courts, enhances the security and legal certainty enjoyed by firms in the financial district.

Financial institutions establishing themselves in DIFC have helped widen the specialised financial talent pool in the region. This infusion of talent supports DIFC’s efforts to develop a critical mass of highly-skilled professionals needed to catalyse the region’s financial services growth. At the end of 2008, the number of employees working within the financial district increased to around 14,000. These comprise highly-skilled professionals from 123 different countries.
DIFC’s industry cluster, which has been growing steadily in size as well as the breadth and depth of financial activity is another source of comparative advantage. Apart from the fact that most of the leading global financial institutions in each major financial services sector have a presence in DIFC, the industry cluster has seen increasing sophistication in the nature of financial activity being conducted out of. Pathbreaking legislation has enabled companies in promising niche sectors like fund management, Islamic finance, captive insurance and family offices to establish the structures necessary for them to operate efficiently and cost-effectively out of DIFC.

In addition, DIFC provides a range of cost advantages and operational support. These include 100 per cent foreign ownership; zero percent tax rate on income and profits; benefits from the UAE’s extensive network of double taxation treaties; no restriction on foreign exchange; freedom to repatriate capital and profits; ultra-modern offices; and support services that significantly raise the ability of companies to operate profitable and productive businesses.

DIFC’s location in Dubai also gives it a whole host of advantages. Dubai’s urban, logistics, business and lifestyle infrastructure meets and often exceeds the standards set by the world’s leading cities. Dubai is a strategically located international trading hub with some of the world’s best airports and sea ports serving over 200 destinations. Dubai’s location in the centre of an economic region that has vast reserves of liquidity also makes DIFC a strategic base for financial services companies seeking to tap opportunities in a post-crisis world. The city also provides access to a large pool of highly-skilled talent, a critical need for financial services companies seeking to remain competitive in a constantly evolving economic environment.

**Growing Global Profile**

DIFC has been a powerful catalyst for economic development and diversification not only in Dubai and the UAE but also the region. Its contributions to local, national and regional economic development have been recognised by several global studies.

DIFC’s growth earned Dubai the top ranking among financial centres in the region between Europe and Singapore/Hong Kong in the *Global Financial Centres Index (GFCI)* issued by the City of London in March 2009. The *GFCI* also ranked Dubai No. 1, for the fourth time in a row, in the list of financial centres that might become more significant. Furthermore, Dubai was ranked second in the list of financial centres where organisations may open new operations in the next two to three years. Other studies conducted by international research organisations have noted Dubai’s role in boosting the emergence of the Gulf Cooperation Council (GCC) region as a prominent centre of activity in the global financial industry.

DIFC’s independent regulator, the DFSA, received a highly positive assessment in a study conducted by the IMF and World Bank in 2007 as part of its Financial
Sector Assessment Program (FSAP). The programme assessed the DFSA’s observance of the objectives and principles of securities regulation developed by the International Organization of Securities Commissions (IOSCO). The DFSA was fully assessed on its conformity to 29 separate IOSCO principles. In 27 cases the DFSA was rated “fully implemented,” which is the top possible rating. The remaining two cases were rated “broadly implemented” (the second highest rating).

The report commented: “The DFSA has established a very impressive set of laws, regulations and rules and policies and procedures for regulation. Its staff are well qualified and work to international best practice standards. It has demonstrated a willingness and capacity to vigorously enforce its authority and carry out its regulatory mandate.”

The report further said: “The establishment of DIFC contributes to competition in UAE’s financial markets. With the concept of best-practices integral to its business model, the Centre is likely to have positive spill-over effects on the rest of the UAE financial sector.”

An Advocate for Industry Standards

DIFC has been a powerful advocate for enhancing the industry standards and values necessary for a sustainable high-growth industry in the region. The Hawkamah Institute for Corporate Governance, based in DIFC, is playing a significant role in shaping the corporate governance landscape in the Middle East and North Africa (MENA). Hawkamah is working to promote institution building, corporate sector reform, good governance, market development and increased investment and growth across the region. It has assisted the private sector and many governments in the region in developing and implementing sustainable ‘home grown’ corporate governance strategies that are adapted to national requirements and well-integrated with international norms and practices.

Another of DIFC’s subsidiaries, Mudara Institute of Directors (Mudara IOD) is actively working to raise benchmarks for board leadership in the MENA region. A regional professional membership organisation launched in February 2008, the Mudara IOD is promoting board excellence through a range of services and governance resources to members.

Technology Initiatives

As part of DIFC’s efforts to identify and fill gaps in the financial-technology infrastructure in the region, it developed the Real-time Automated Payments in DIFC (RAPID), an initiative that provides payments and other ancillary transactions processing services to banks and their customers both in DIFC and in the wider Middle East and North Africa (MENA) region. RAPID, which offers an offshore
Euro and US-dollar real-time gross settlement (RTGS) solution for companies, has boosted the infrastructure for large-value high-volume payment systems and networks in the region.

DIFC also acquired SmartStream, a company providing enterprise-wide, real-time Transaction Lifecycle Management (TLM) solutions to more than 75 of the world's top 100 banks. SmartStream's solutions enable clients to tackle the barriers to Straight Through Processing (STP) and create more efficient, customer focused, cost-effective, compliant operations. Founded in 2000, SmartStream has expanded and evolved from a dedicated focus on reconciliations to become a leading provider of software solutions that bring automation and control to the middle and back office. RAPID and SmartStream are making strategic contributions to the development of world-class technology infrastructure in the region.

Professional Education Hub

Human capital investment lies at the core of financial services and innovations. DIFC has created one of the region’s biggest hubs for globally-ranked executive education and training. DIFC’s subsidiary, the DIFC Centre of Excellence (CoE), has partnered with top ranking business schools, professional development providers, corporate universities, as well as certification, accreditation and rating organisations to provide a wide range of education and training opportunities in the region. Programmes offered at the Centre of Excellence cover core business areas like banking, finance, law, strategy, human resources, marketing and entrepreneurship, as well as specialised fields relevant to the region such as Islamic finance and energy.

Since its launch, the DIFC Centre of Excellence has partnered with a number of the world's leading educational institutions and prestigious business schools including London Business School, Cass Business School, Duke University, Queen’s School of Business, and the Schulich Executive Education Centre.

A City Within a City

One of the most distinctive features of DIFC is that it is a ‘city within a city’ that provides a complete range of business and lifestyle facilities for professionals who seek to work, live and enjoy their leisure time in one location. The DIFC Lifestyle Group, a division of DIFC Investments, has developed a high-end lifestyle offering within the financial district by providing a rich choice of luxury retail, fashion, premium restaurants and fine art. DIFC supports a strong role for art in the community based on a belief that art and culture complement and can stimulate new ideas and perspectives in business. As part of its vision for strengthening art’s role in society, DIFC also seeks to support the development of Dubai into a regional and international centre for art and culture.

The Road Ahead
DIFC’s global profile has grown rapidly since its inception. On the strength of DIFC’s growth, Dubai has been ranked by global surveys as one of the challengers to the established global leaders in the financial industry like London, New York and Hong Kong. Over the coming years, DIFC will implement new strategic initiatives to strengthen its global position and realise our long-term goal of becoming one of the world’s five most important financial centres.

The global economic crisis has not had a notable impact on DIFC. The financial district’s value proposition continues to attract banks and financial institutions from the region and internationally. In the first half of 2009, DIFC attracted over 75 new companies. Over the past year, we have seen a particular surge in interest from Islamic finance firms and multinational companies in the field of captive insurance.

In fact, although the crisis has brought challenges, it has also opened up an array of growth opportunities for DIFC. With major Western companies and economies set for a prolonged recovery, as they seek to rectify imbalances in their own markets, emerging markets are expected to play a significantly more prominent role in the global economy. The ‘DIFC region’ has some of the fastest-growing emerging markets in the world. It is an opportune time for DIFC to strengthen linkages with this region. Already, over the past year, the number of Asian financial institutions joining DIFC has increased steadily. DIFC seeks to strengthen linkages with this dynamic region through a series of outreach programmes. These programmes are aimed at both facilitating growth opportunities for companies in DIFC and contribute to the region’s economic and financial services market development.

We will be working very closely with the DFSA to adapt quickly to the ‘emerging new global financial architecture’ and the changing needs of companies and professionals in the financial services industry. Transparent markets, stringent regulations and strong corporate governance are key requirements to build market confidence in the years ahead. We will further expand the active role we are playing in promoting corporate governance values in MENA markets.

Family businesses, which will play a major role in putting the region back on its high-growth track, constitute a strong focus of DIFC. We have implemented specific regulations to enable family businesses, from anywhere in the world, to establish Single Family Offices (SFOs) for managing their assets effectively. These regulations are designed to help family businesses take advantage of opportunities and negotiate challenges in today’s economic environment. We are also actively supporting family businesses to put in place strong governance frameworks to attract capital and deal with the challenges of generational transition.

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4 The ‘DIFC Region’ extends from northern Africa in the west to the Indian subcontinent in the east and the Caspian region in north to eastern Africa in the south
We are strongly focused not just on competition but also on cooperation with other market players. In order to capitalise on new opportunities, DIFC is seeking to partner with select emerging and established financial centres. Cooperation will cover government policy; development of financial sectors; and industry growth drivers such as regulations and talent.

Over the course of the year, DIFC is also seeking to nurture innovation across its sectors of focus, particularly in the areas of Islamic finance, family offices, captives and private equity. We will continue to support global educational institutions in developing innovative executive education programmes tailored to the region. The world’s first Executive MBA in Islamic finance and energy developed by Cass Business School for the region and delivered at the DIFC Centre of Excellence is the first product of such cooperation.

We expect to sustain our growth in 2009 even as there is heightened caution in global financial markets. Adjusting to the new global realities will enable DIFC to seize new opportunities created by the changing economic environment and financial industry.

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Global Recognition and Awards

- 2005- DIFC wins Global “Industry Initiative of the Year Award” in London
- 2006- The DFSA receives ‘Best Government Initiative of the Year’ by the Society of Trust & Estate Practitioners (STEP).
- 2007- DIFC wins International Award for Best Government Initiatives at the Society of Trust and Estate Practitioners (Step) Awards
- 2007- The DFSA receives the 'Best Regulator for Islamic Funds' award during the 5th Annual Islamic Funds World Conference
- 2008- DIFC Authority achieves ISO 9001: 2000 Certification
- 2008- HE Dr Oman Bin Sulaiman, Governor of DIFC receives international recognition for “Outstanding Contribution to the Development of Islamic Capital markets” at the London Sukuk Summit Awards 2008