



DIFC | Dubai International Financial Centre

DIFC & Regional Payment Infrastructures: RAPID USD and Euro Offshore RTGS initiative

Presentation to International Payments Summit 2008

23rd April 2008

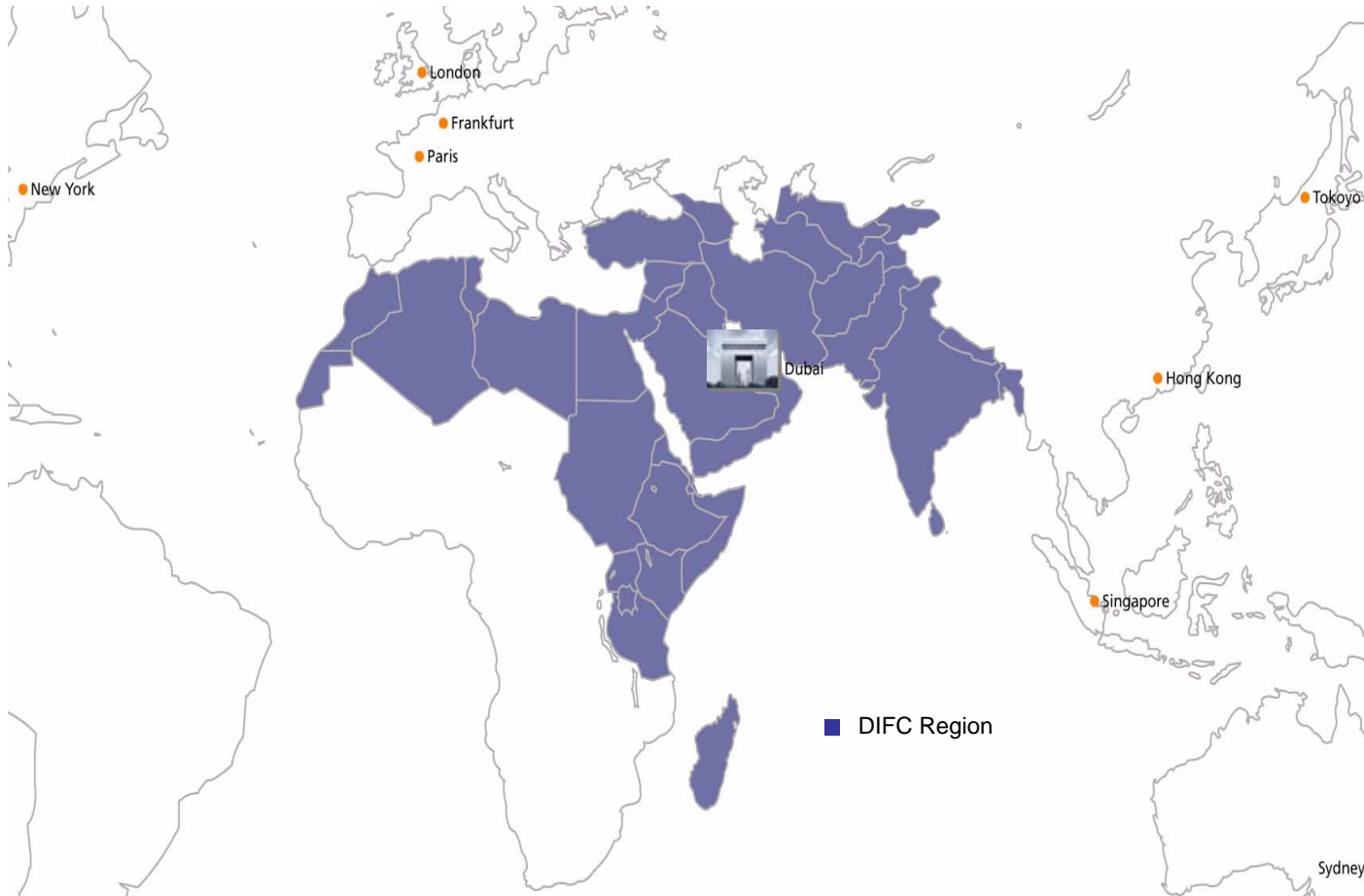
Dr. Nasser Saidi

Chief Economist, DIFC Authority

- **Economic background: GCC and especially UAE experiencing an economic renaissance; from oil to asset-based economies**
- **Capital Markets Development Imperative**
- **Need for robust, modern, integrated financial infrastructures to support growth of economies and capital markets**
- **Role of Dubai International Financial Centre (DIFC)**
- **DIFC's plans to develop payment infrastructures in the region**
- **First stage: launch offshore USD and EUR RTGS solution from DIFC to be accessible in MENA and beyond**
- **Plans for commercial payments, DVP, PVP, additional currencies**

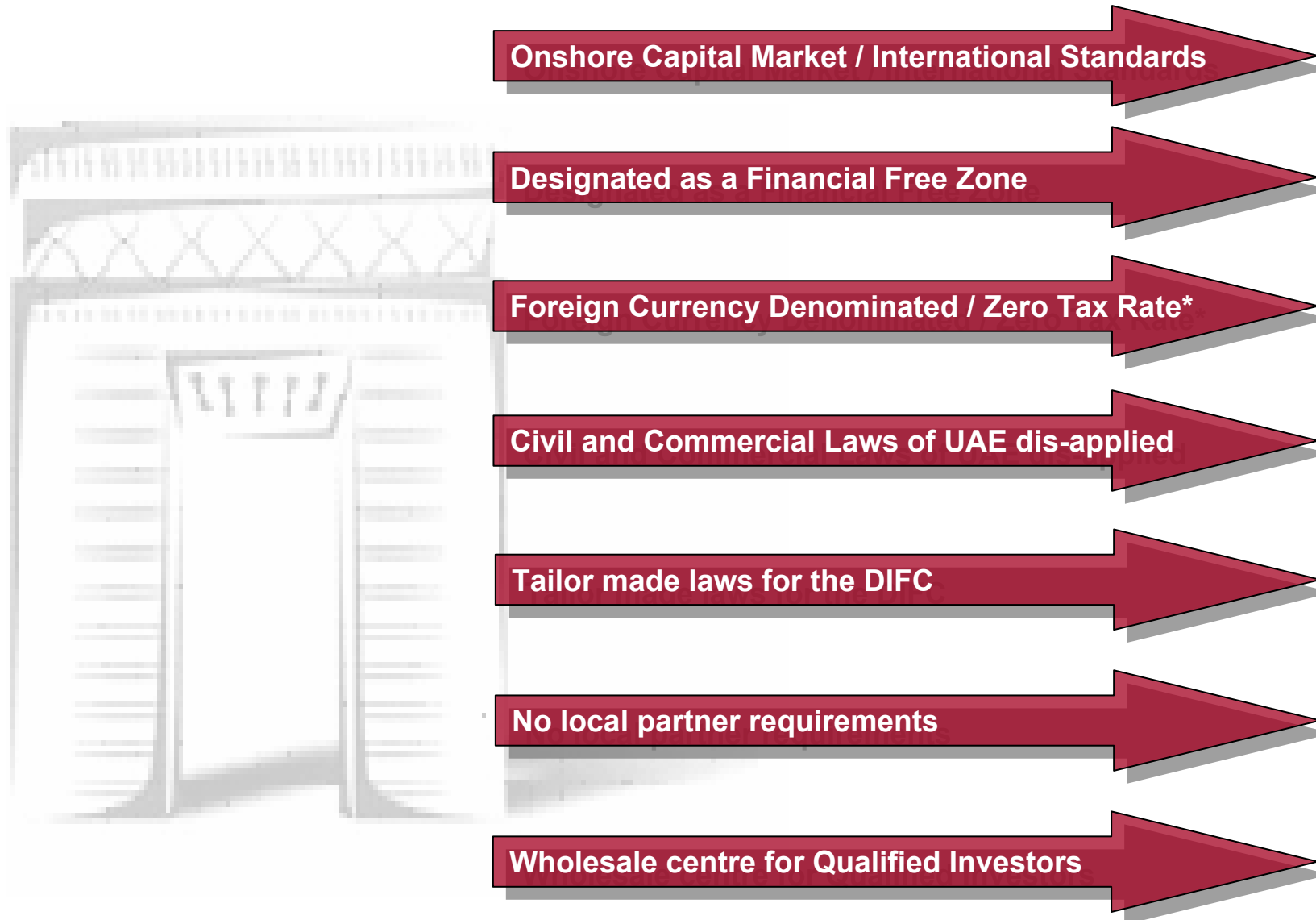
- **MENA has achieved above trend economic growth rates:**
 - **Average real GDP growth 6.2% over 2004-2007 vs. 3.7% in 1998-2002**
 - **Strong fundamentals and macroeconomic conditions characterized by large twin current account & fiscal surpluses and declining levels of public debt.**
 - **Oil export receipts reached \$381 bn in 2007, up 8% from 2006**
 - **GCC international reserves have quadrupled from \$90.5 (2003) to \$365 (2007) and forecast at \$ \$455 billion by 2008**
 - **Growth resurgence has been investment led with increased infrastructure investment leading to ↑ in absorptive capacity**
 - **Infrastructure investments with an estimated value in excess of USD 1.7 trillion are currently under development or planned**
 - **Sustained by strong global growth led by Emerging Markets**
- **Economic reforms, diversification and state divestment & privatisation: non-oil growing faster than oil sector**

- **Massive Wealth Creation**
 - Value of oil wealth of Middle East oil exporters increased by more than \$30 trillion between 1995 and 2007
 - Given global energy demand growth projections, using conservative estimates for oil prices at \$65/bbl, the projected cumulative oil and natural gas revenues for the GCC in the 2005-2030 period totals \$8.1 trillion.
- **GCC have become ‘asset-based economies’ with income from foreign assets more important than oil & gas revenue**
- **Invest, Manage and Control region’s liquid financial wealth of \$2.4 trillion and growing as a result of high energy prices**
- **Financing Infrastructure & Regional Economic Integration**
- **Enable & support economic and financial reforms:**
 - Enable separation of oil revenue management from fiscal policy & investment
 - Privatisation and private sector participation in infrastructure
- **Change in Global Economic Geography requires accompanying change in Global Financial Geography**



- Internationally-accepted common legal framework
- Regulated financial centre with full transparency
- Mechanism to centralise regional wealth for further economic growth & development
- Deployment channel for the new wealth that's being created
- Link to regional & international markets

*The **vision** of the Dubai International Financial Centre (DIFC) is to shape tomorrow's financial map as a global gateway for capital and investment.*



DIFC- Core Divisions



**DIFC
Authority**

*DIFC
Authority*

Responsible for
the strategic
development of
the Centre.

DIFX

*Dubai
International
Financial
Exchange*

Integrated
world class
trading platform

DFSA

*Dubai Financial
Services
Authority*

Rule-Making
and Policy
Development
Licensing and
registration of
DIFC
Participants
Supervision of
DIFC
Participants
Enforcement of
legislation

DJA

*DIFC Judicial
Authority*

An independent
court with
exclusive civil
and commercial
jurisdiction.

ROC

*Registrar of
Companies*

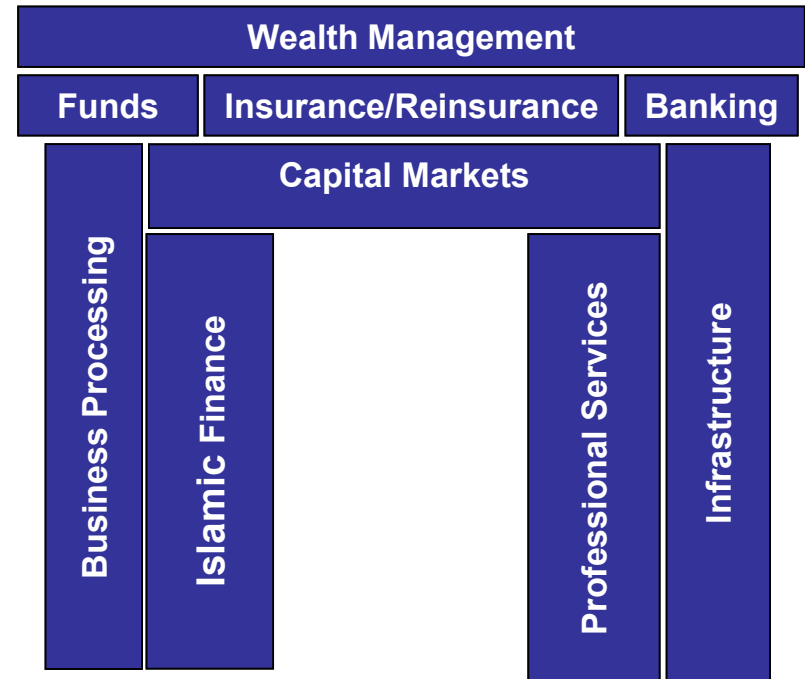
Responsible for
incorporating
and registering
all the
companies that
operate within
the DIFC, and
for
administering
the Companies
Law and
Regulations.

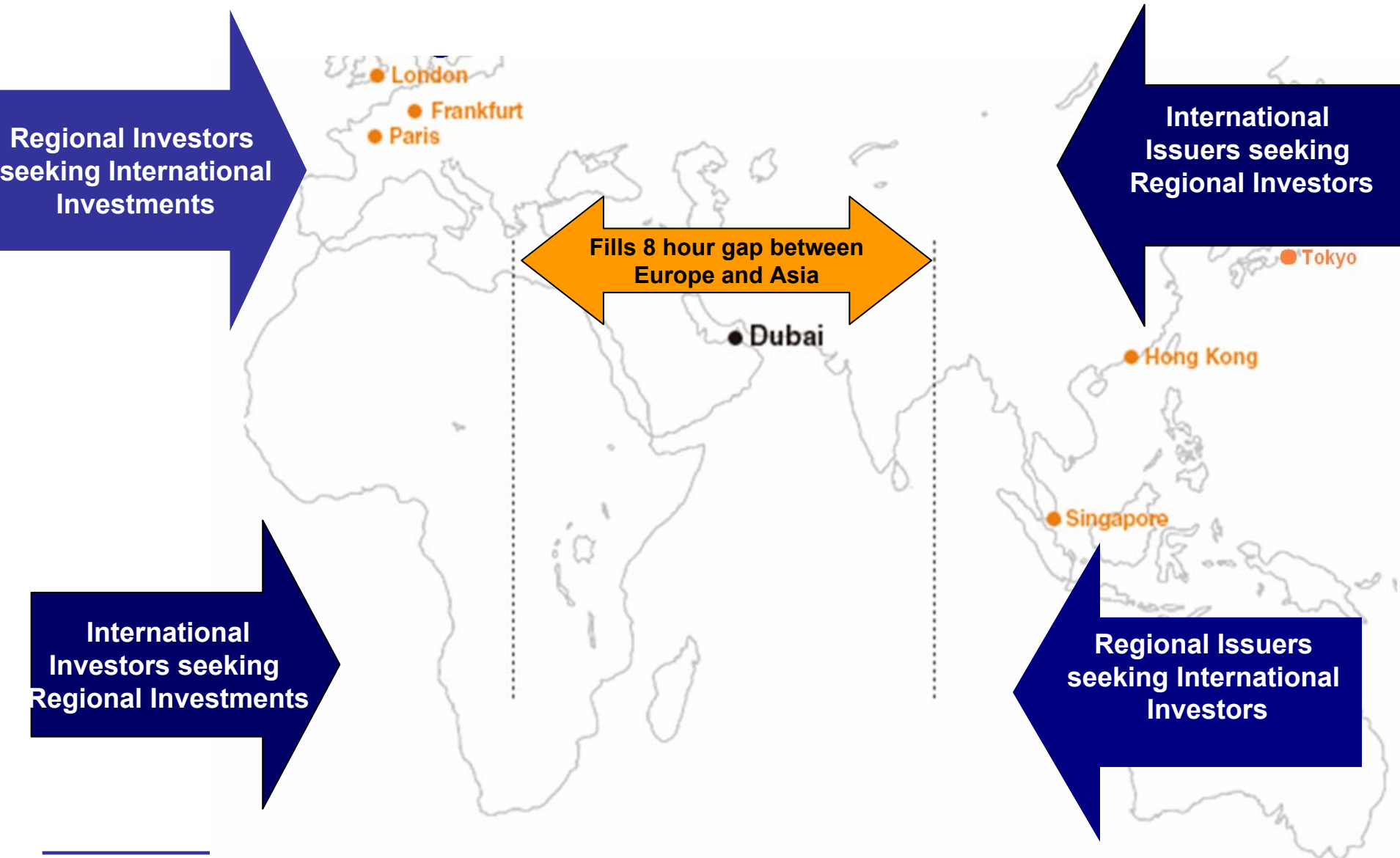
DIFCI

*DIFC
Investments*

Responsible for
all non public
admin activities
such as the
operation and
management of
any current and
future
subsidiaries.

- **Banking & Brokerage Services**
 - (Investment Banking, Corporate Banking & Private Banking)
- **Capital Markets**
 - (Equity, Debt Instruments, Derivatives and Commodity Trading)
- **Wealth Management**
 - (Family Office, Trust Services)
- **Islamic Finance**
- **Fund Registration & Domiciliation**
- **Insurance & Reinsurance**
 - (Takaful/Retakaful, Captives)
- **Business Processing Operations**
- **Professional Services**

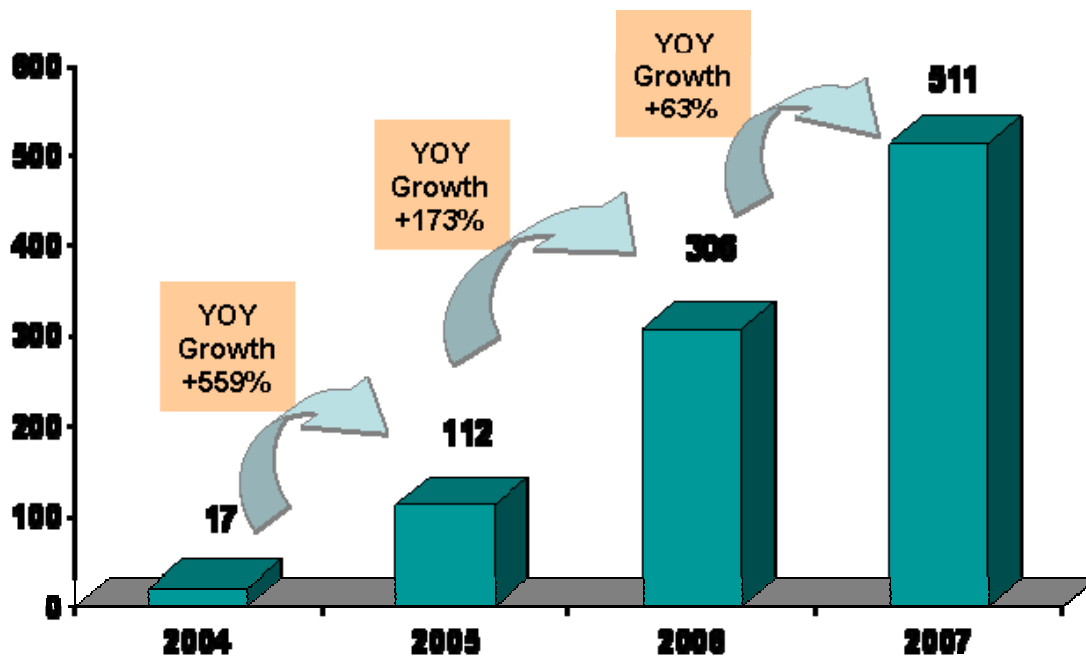




Contribution of the financial services sector to Dubai's GDP will more than quadruple from USD 3.4 billion to USD15 billion by 2015.

DIFC is the main driver of that growth

Growth In the Number of Registered Companies

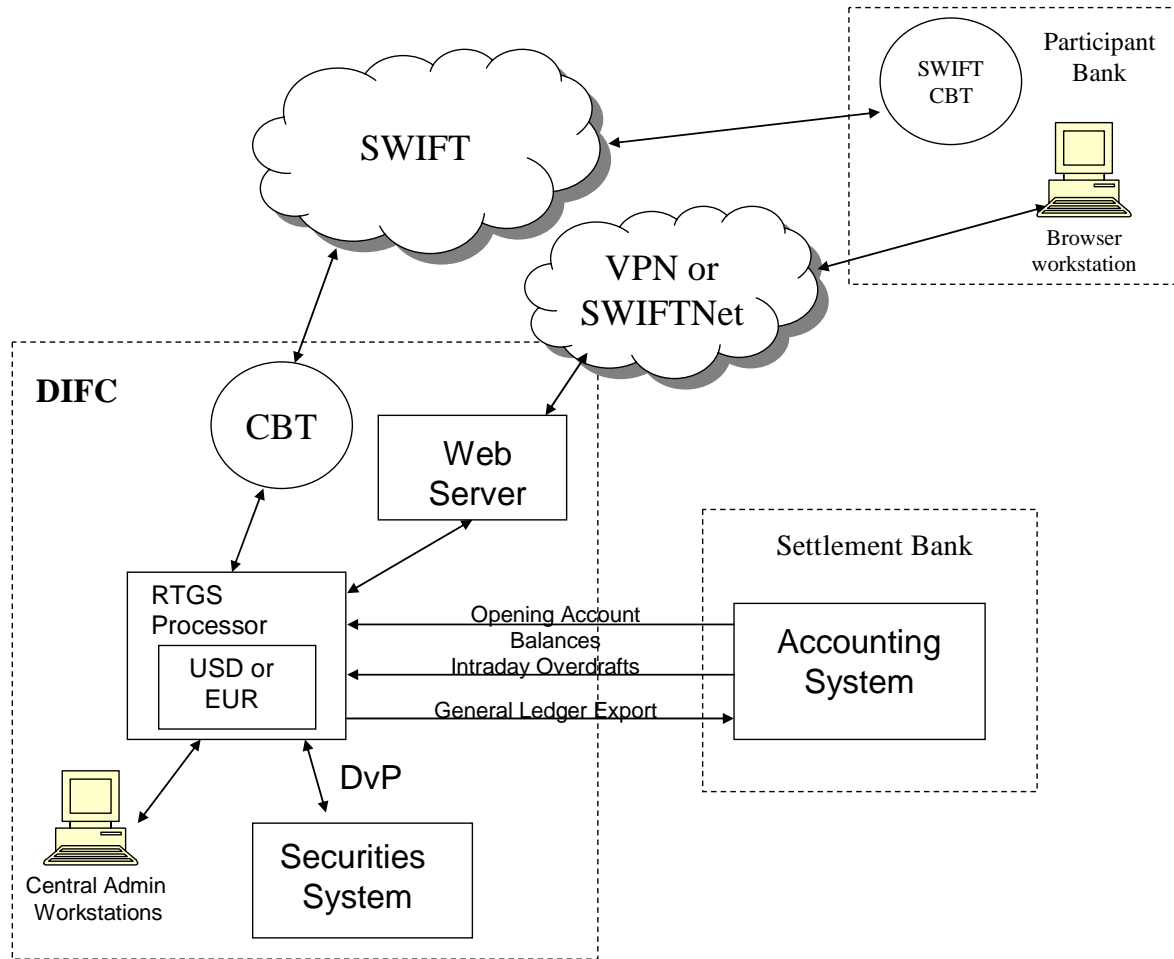


Momentum

- Number of employees working at the Centre: Over 9,000 employees (as of December end 2007)
- Number of nationalities: 111
- Expected number of jobs created by DIFC: Over 50,000 jobs by 2012

- MENA National & Regional payment systems underdeveloped
- Drivers:
 - Sustain Economic Growth
 - Support Capital Markets development
 - Reduce systemic risks
 - GCC Common Market 2008
 - GCC Common Currency 2010
- Payments, Bond markets, Securities Settlement Systems (SSSs)
- Development of TARGET-style systems in GCC
- Need for national payments system complying with CPSIPS
- RAPID (Real-time Automated Payments In DIFC)
- First stage offshore USD and Euro RTGS

Real-time Automated Payments In DIFC (RAPID)



- HK runs RTGSs in HKD, USD, EUR and CNY
- DVP with its own CSD system
- PVP with other payment systems as well as its own, via “earmarking” for MYR (Malaysian Ringgit)
- In a similar way, DIFC has the objective of facilitating the building of tailored interfaces relevant to GCC
- Processing, liquidity etc centred on GCC time zone
- Providing services to CAMENA region
- Capability to interoperate with Hong Kong solutions and GCC / China regions

-
- Commercial bank rather than central bank money per CPSIPS
 - Advantage that facilitates interoperation with Hong Kong
 - Cooperate re cross-selling of memberships
 - “Central bank of issue” (CBI) policy view that a central bank should not settle another countries currency except in special circumstances (e.g. new entrants to EMU)

- Only DPs and Customers – no Indirect Participants
- DP criteria:
 - Banks only
 - Regulation
 - Legal enforceability
 - Rating at least investment grade
 - High value payments track record
- Non-bank end users:
 - Customers of above
 - Commercial entities wanting to pay and receive funds with finality in their working day
 - More efficient than cheques

- Logica Central Accounting System (CAS) package
 - Cost efficient
 - Up to date architecture
- SWIFT Y-copy:
 - Market standard
 - Avoids systemic risk
- Planning installation, testing and training now
- Involve as many SIs and PSG DPs as possible in subsequent trials so cut over to live easily

Payment Systems Group

- Inject business inputs
- Help get early adoption
- International and regional banks, payments experts, regulators
- Separate forums
 - Funding Working Group
 - Marketing/Commercialisation
 - IT & Systems
 - Legal Working Group
- 6 major international banks signed letters of interest
- Regional banks also getting involved

- Like Hong Kong, plan not to be 100% collateralized
- based on commercial considerations of SIs
- Ability to inject liquidity using payments via SI
'liquidity bridge' from domestic RTGSs day 1
- Subsequently equivalent linkages with HK etc
- Collateralised lending: Not day 1 but being explored
- Market practices (early submission of payments and provision of liquidity)
- Could be leveraged in GCC region with move to common currency

- DIFCA instructed external legal counsel
- Legal actions to implement regulatory regime
- DIFC law to make clear “finality” – like CSSO in HK
- Document Rules of Operation
- Evidence CPSIPS compliance notably no.1: “well-founded legal basis in all relevant jurisdictions”

- Various interested parties:
 - UAE CB as “lead regulator” of RAPID
 - “Central Banks of Issue” (CBIs: ECB, FRB)
 - DFSA, w.r.t. regulation of DIFC-based banks
- RAPID will also act as ‘front line regulator’ undertaking day to day supervision
 - Interacting with CBIs
 - Legal entity established within DIFC reporting to CBUAE

- RAPID wants to build new products required by DPs and their customers
- Trade finance / commercial payments
- DVP – Repo etc
- PVP with other non-CLS currencies in the region
- DVP etc could offer a wider service to region when single currency is adopted
- Hong Kong
 - Liquidity bridge
 - Cross participation – encourage by pricing structure
- IT vendors – working with to encourage user products
- DIFCA Forums and Workshops
 - Payment Systems & RTGS
 - GCC Common Currency
 - Various workshops on development of debt markets in GCC

- GCC economic renaissance & structural change
- Capital Markets Development Imperative to sustain economic growth
- Financial Infrastructure: Payments, Securities Markets and Settlement Systems
- GCC Common Market promises to be the kernel of deeper regional integration
- GCC common currency can become a global currency, alongside USD, EUR, JPY and emerging CNY
- DIFC plans to develop capital markets & payments for the region
- First stage to launch offshore USD and EUR RTGS solution from DIFC to be accessible in MENA and beyond
- Inviting banks to indicate interest to use and participate in working groups to help shape future
- Plans for commercial payments, DVP, PVP, additional currencies
- Number of RAPID staff here prepared to discuss in more detail







• THANK YOU AND CONTACT DETAILS

- **Dr. Nasser Saidi**
 - Chief Economist
 - +9714 362 2550
 - nasser.saidi@difc.ae
- **Peter Davey**
 - Project Director, Regional Transactions Processing
 - +971 50 275 8573
 - +971 4 362 2468
 - Peter.davey@difc.ae
- **Chirag Shah**
 - Director of Strategy & Business Development
 - +971 4 362 2412
 - chirag.shah@difc.ae