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Implementing successful IFCs

Moscow IFC Strategic Session

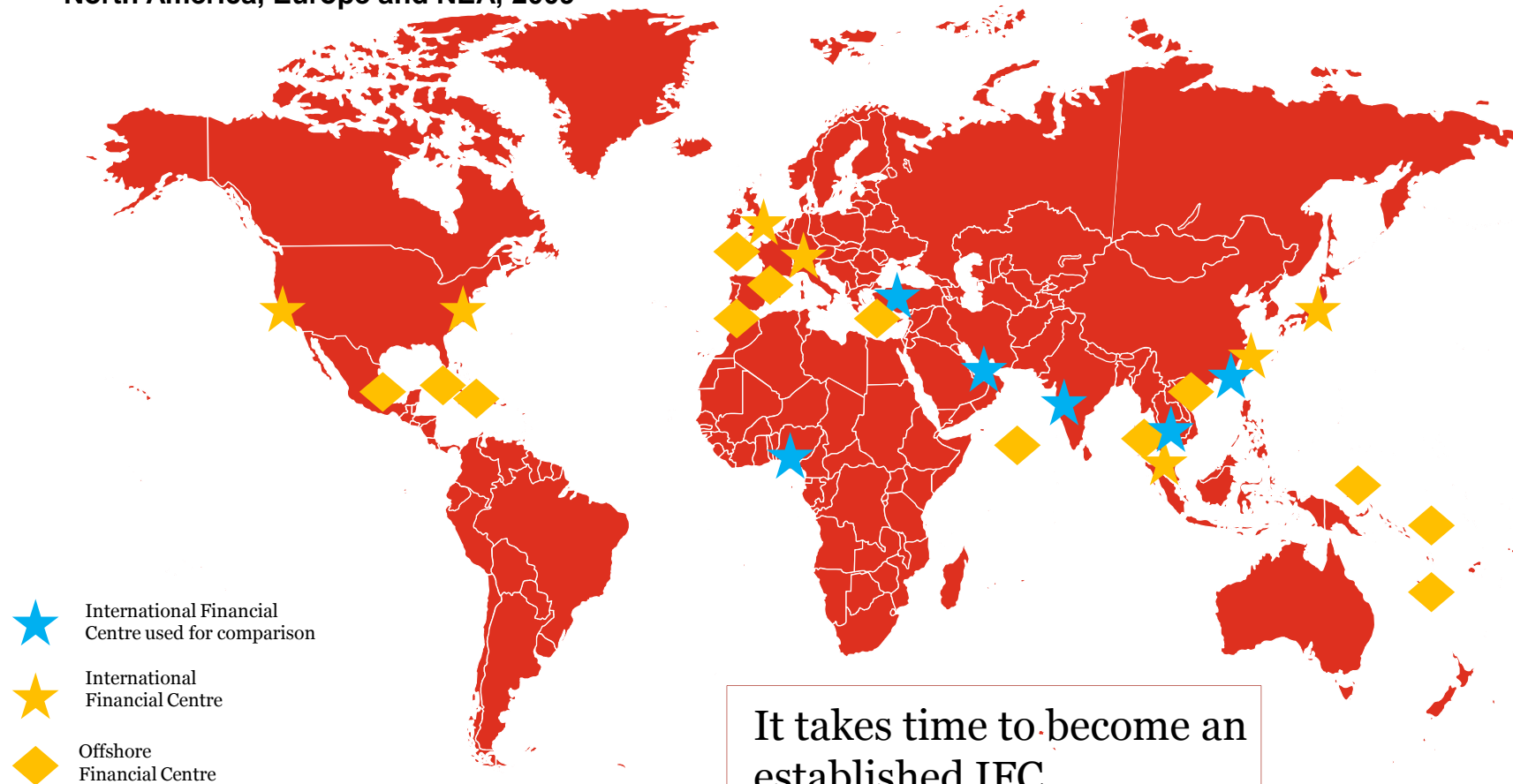
16 March 2012

This presentation will address the following questions

1. The pace of new IFC's emerging
 - What financial centres does the Moscow IFC compete with?
 - Which are the most rapidly growing and why?
 - Is the management model important or not?
2. Moscow as an IFC
 - What are the key strengths and weaknesses of Moscow as IFC?
 - What niches could be used by Moscow IFC?
3. Moscow IFC progress for last 3 years
 - Could it be faster and why?

***Every major region has IFC's and there are over 50 OFCs.
Singapore, Dubai, Hong Kong, Istanbul, Lagos, Mumbai all
offer lessons on implementation***

North America, Europe and NEA, 2009



On the question of Moscow's strengths and weaknesses as an IFC, it is best to look at implementation best practices elsewhere

Implementation lessons learned from successful IFCs

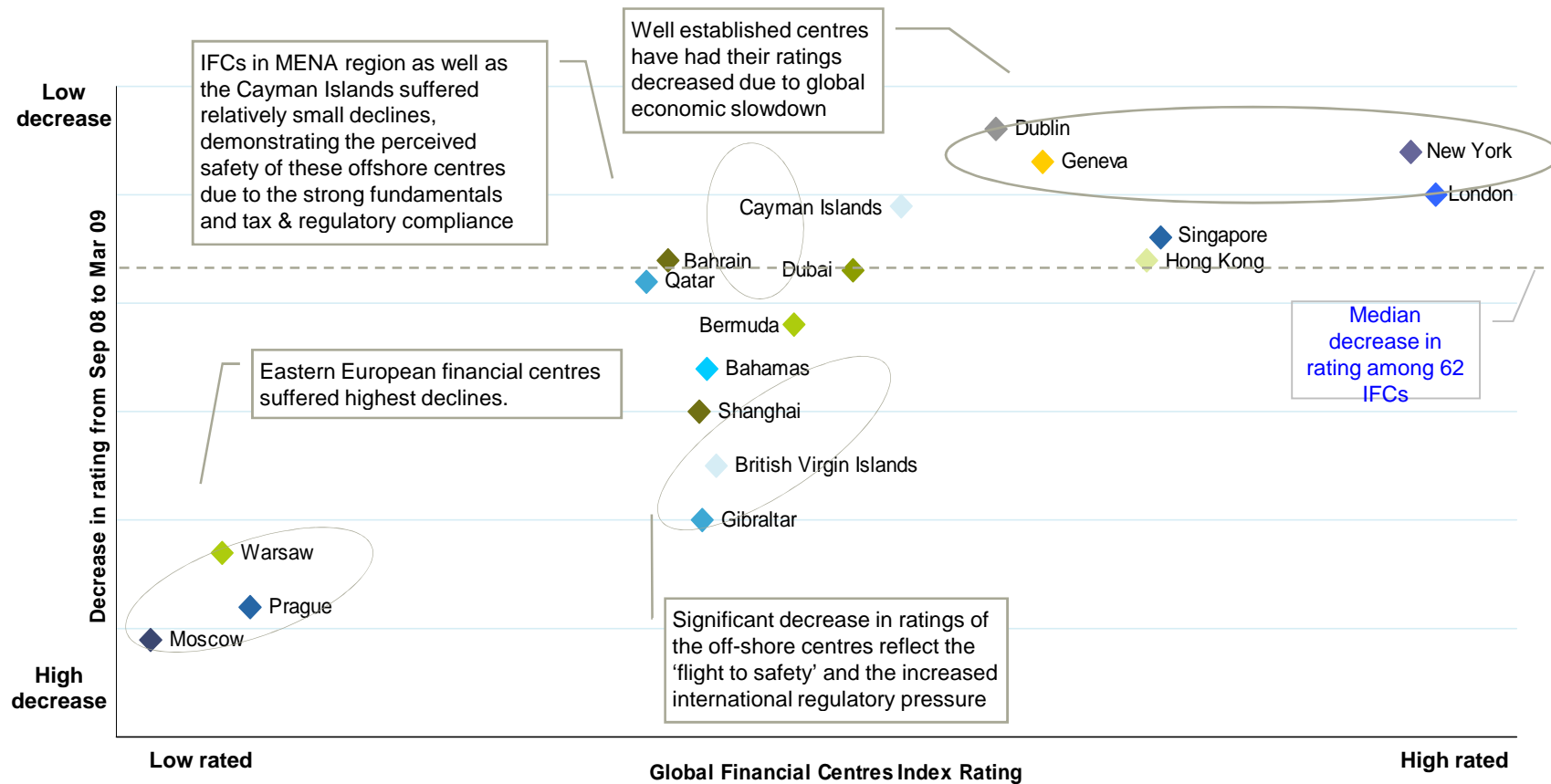
1. A single-minded focus on regulation, legal and tax reform
2. Driving reform through existing institutions using their legal powers
 - Domestic financial sector reform usually is a prerequisite to a successful IFC
 - Typically, central banks, backed by other institutions and law enforcement agencies have the power to enforce banking sector reform
3. A clear governance model for execution established at the outset
4. Ultimately the business opportunity, enabled by the IFC, creates successful IFCs
5. Speed and tangible results necessary to sustain momentum

Successful IFC's (Dubai, Singapore, Hong Kong) put an implementation priority on the basic requirements of success

<i>Regulation</i>	<i>Legal</i>	<i>Tax</i>
<ul style="list-style-type: none"> • Rules that implement the G-20 key initiatives on <ul style="list-style-type: none"> - Capital requirements and liquidity measures - Market infrastructure and transparency - Investor protection • Robust, independent regulators with <ul style="list-style-type: none"> - Clear, transparent rules and regulatory processes - Strong supervision - Reasonable reporting requirements - International co-operation agreements • An effective enforcement regime 	<ul style="list-style-type: none"> • A comprehensive legal framework designed to facilitate the types of business on which the IFC will focus and is compliant with international standards on anti-money laundering and anti-terrorism • Company law that offers a choice of legal entities, flexibility on product structures, few restrictions on invested capital and repatriation of profits and effective governance • Legal certainty that contracts will be enforceable • Efficient and reliable dispute resolution mechanisms 	<ul style="list-style-type: none"> • OECD's transparency and exchange of information requirements <ul style="list-style-type: none"> - Proper provisions in domestic tax systems to collect data and treaties to pass information on to interested countries • Attractive tax regime to overseas investors <ul style="list-style-type: none"> - Certainty in its operation - Rules operate in a benign way - No incremental taxes that disrupt the day-to-operations • Responsive to future tax trends

The market will punish IFC's that do not have this

Effect of the financial crisis on the perceptions of IFCs (GFCI index 2009)



Source: Zyen, Global Financial Centres Index, PwC Analysis

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Turkey is the most compelling example of a government reforming its financial system as a prerequisite to establishing an IFC

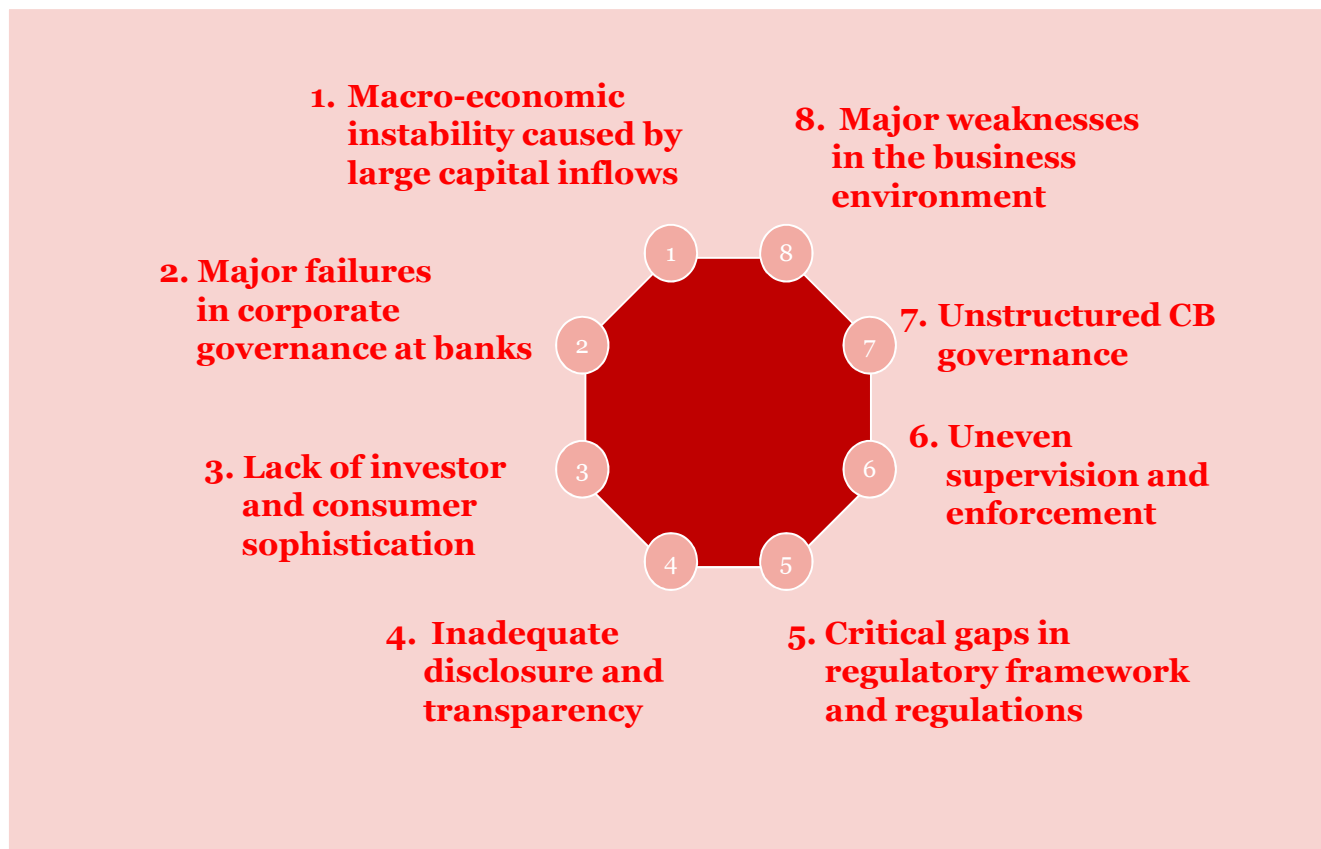
Case example: Turkey Domestic financial sector reform

- Several crises in recent years: in 1994, 1997 - 1998 and 2000 – 2002
- 2000 – 2002 crisis
 - Corruption and fraud in the banking sector
 - Banks collapsing with losses and liquidity problems
 - Crisis of confidence in the banking sector and arrests of bank executives.
 - Poor corporate governance and risk management policies were also contributory factors
- Wider economy suffered and interest rates reached 2000% and the IMF was called in
- Reforms and an austerity package agreed
- Privatisation of state owned companies, restructuring of the state owned banks, independence for the central bank and tougher banking regulation

This similarly is the case in Nigeria, where the government recently announced it was establishing Lagos as an IFC to serve West Africa

Causes of financial crises in emerging markets

ILLUSTRATIVE



Existing institutions may have the power to drive basic reforms necessary for establishing an IFC. For example, the Lagos IFC

Case Example: Nigeria

Nigerian Banking Reform Programme

4 Pillars

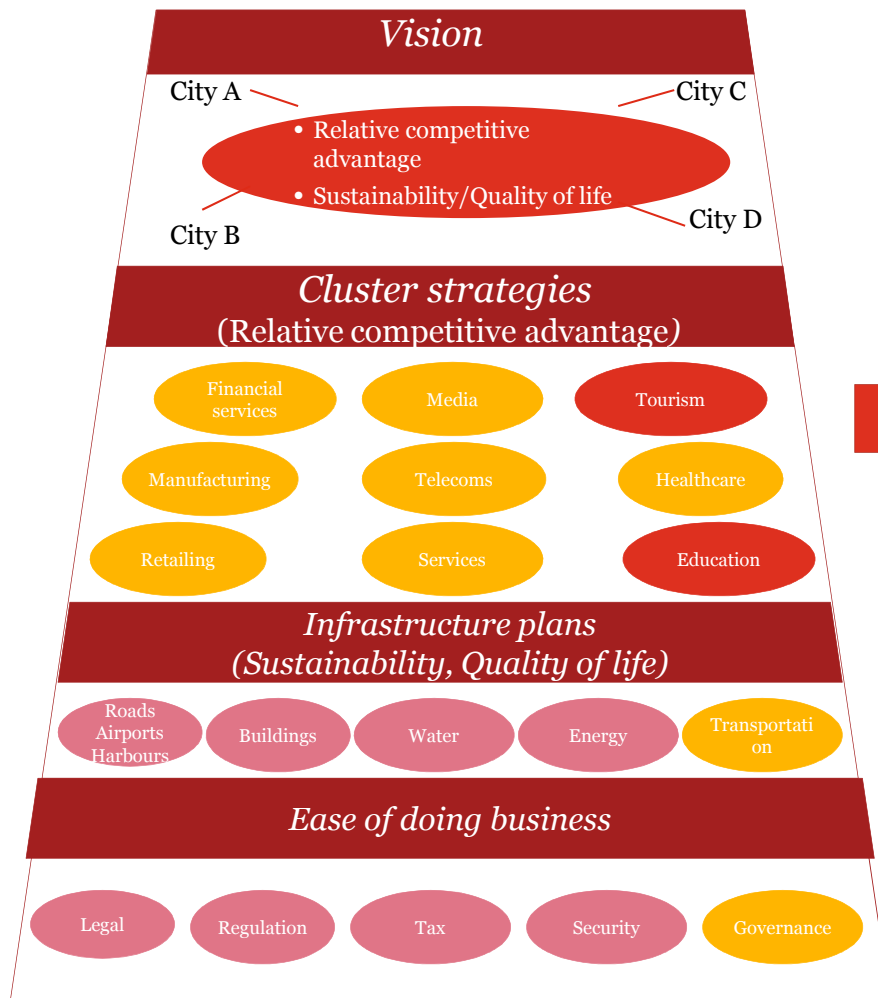
1. Enhance the quality of banks	2. Establish financial stability	3. Enable healthy financial sector evolution	4. Ensure the financial sector contributes to the real economy
<ul style="list-style-type: none"> • Fixing the problems <ul style="list-style-type: none"> – Data quality – Enforcement – Governance – Risk management – Financial crime • Regulation <ul style="list-style-type: none"> – Tighter regulation – Regulatory framework – IFRS/N-GAAP • Risk based supervision • Consumer protection • CBN reform <ul style="list-style-type: none"> – Corporate governance – Organisation structure – Management information – People and process development – CBN disclosure 	<ul style="list-style-type: none"> • CBN to lead <ul style="list-style-type: none"> – Financial stability committee – Hybrid monetary policy – Macro prudential rules – FX rates – ‘Hot money’ control • CBN to champion <ul style="list-style-type: none"> – Directional economic policy – Capital market development (as alternative to bank funding) – Counter cyclical fiscal policies 	<ul style="list-style-type: none"> • Competitive banking industry structure • Required infrastructure: credit bureaus and registrars • Improved cost structure of banks through cost control and business process outsourcing • Reliable and secure payment systems • Reduced informal sector and greater financial inclusion 	<ul style="list-style-type: none"> • Potential areas for further consideration <ul style="list-style-type: none"> – CBN Governor’s role as advisor to the President on economic matters – Measuring the relationship between the real economy and financial sector – Effectiveness of existing development finance institutions – Examination of critical issues for economic development (e.g. power, port, railways) – Venture capital and private public partnership initiatives for Nigeria – Pilot programme in directing the financial sector’s contribution to the State’s social economic development

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Legislation led reforms often lack coherence and priorities because of competing interests

City strategies



Complexity

Policy co-ordination

- Government ministries, regulating agencies, central bank
- Legislative priorities
- National, state, municipal governments

Funding

Public sector, PPP, private sector

Istanbul is a good example where the governance model for executing IFC plans is not clear

Case study: Istanbul

In spite of the potential of Istanbul to be a successful IFC, the government's plans and priorities are not aligned

- Legislation to address 23 priorities from clearer tax laws to quicker work permits, to specialised courts and arbitration arrangements has been drafted but not passed
- Parliament preoccupied with debates over constitutional reform
- Commercial code raising accounting standards introduced to parliament in December 2008 and still not passed
- Lack of co-ordination between regulators
- Poor domestic banking infrastructure
- Plans show little competitive advantage to potential competitors in the Middle East

Good governance embodies strong leadership and a clear vision

Clear...

‘Hong Kong owes its success to a number of factors

- Rule of law that provides certainty
- A robust regulatory framework that promotes orderly and efficient markets
- Efficient financial infrastructure
- Talent pools of professionals
- Enterprising business community
- Presence of market participants from around the world
- Corporate governance’
 - Eddy Fong, Chairman , Hong Kong IFC

Less clear...

Mumbai’s competitive advantage depends on 7 key factors:

1. An extensive national, regional and global network of corporate and government client connections possessed by financial firms
2. High level human capital
3. World class telecommunications infrastructure
4. State of the art IT systems
5. A well developed, sophisticated open financial system
6. A system of financial regime governance
7. A ‘hinterland’ advantage
 - Mumbai IFC Strategic Plan

The IFC governance model in Dubai places clear lines of authority for delivering the IFC plan

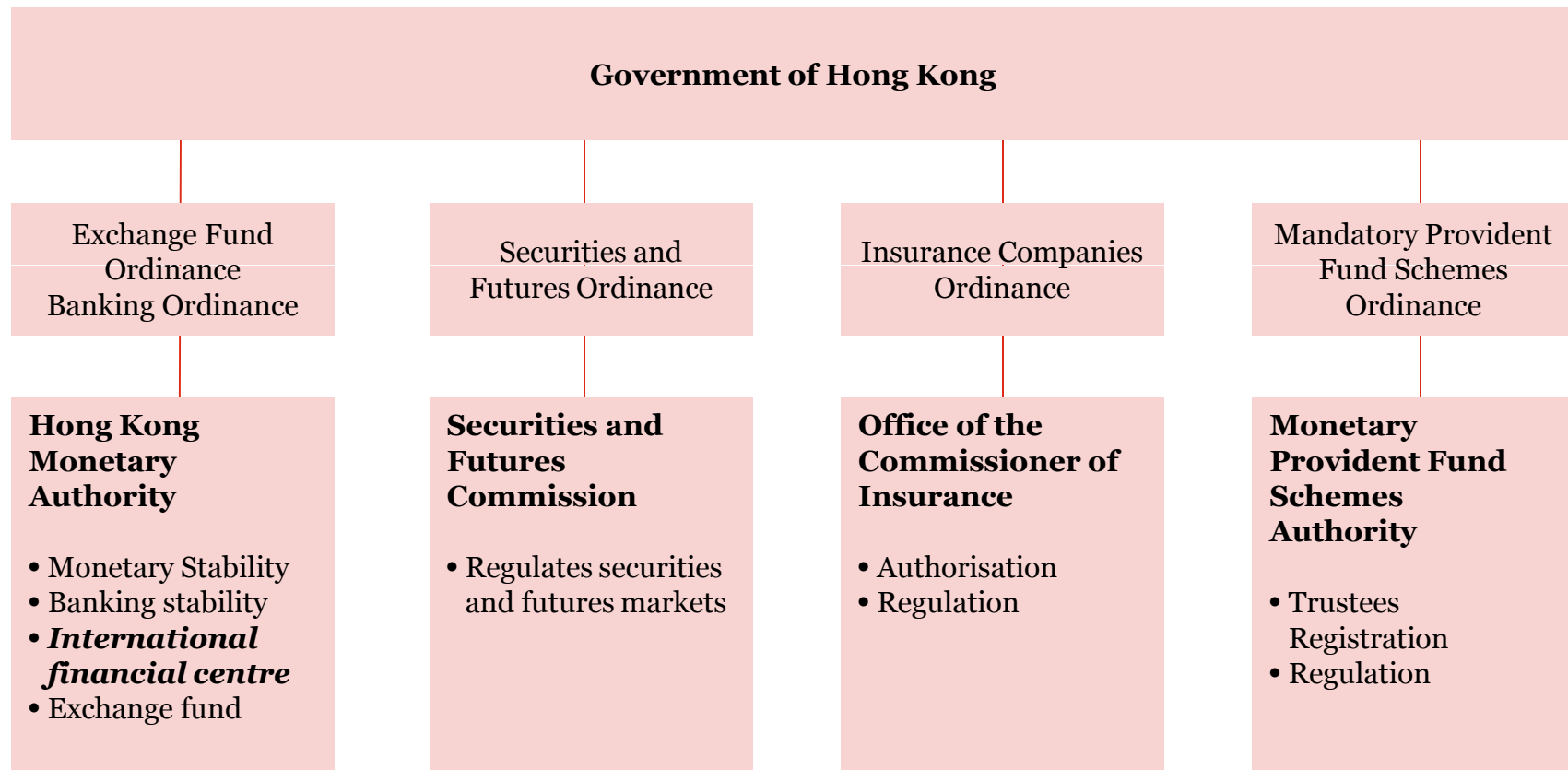
DIFC governance model

<ul style="list-style-type: none">• Deputy Ruler of Dubai• Chairman of DIFC Higher Board of Directors• President of DIFC		
DIFC Authority	DIFC Courts	DFSA

Roles	<ul style="list-style-type: none">• Strategic development• Operational management• Administration	<ul style="list-style-type: none">• Highest international judicial standards• Certainty, flexibility, efficiency	<ul style="list-style-type: none">• World class regulatory framework
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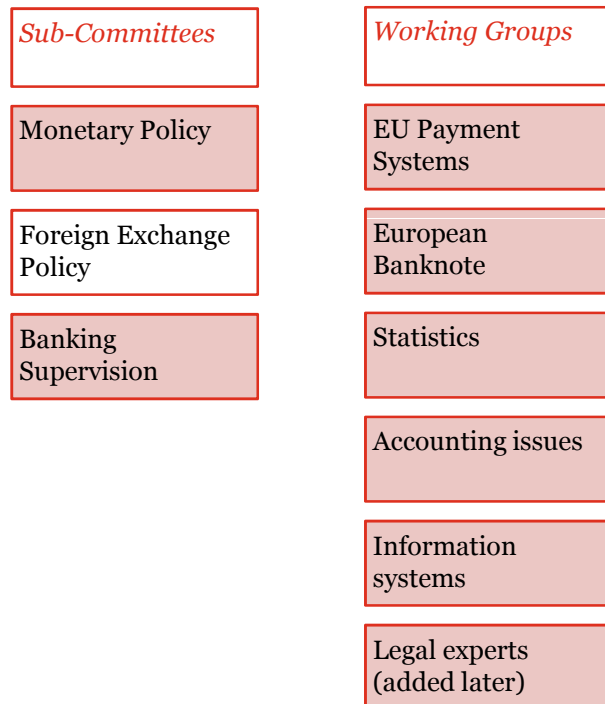
In mature IFC's, the management of the IFC is embedded in the overall regulatory framework

Governance structure: Hong Kong



The European Monetary Union is a good example where the governance structure of the decision-making body (ECB) was defined at the same time as the planning body (EMI) in 1992

**European Monetary Institute
1994 to 1998**



**European Central Bank
1998 to present**



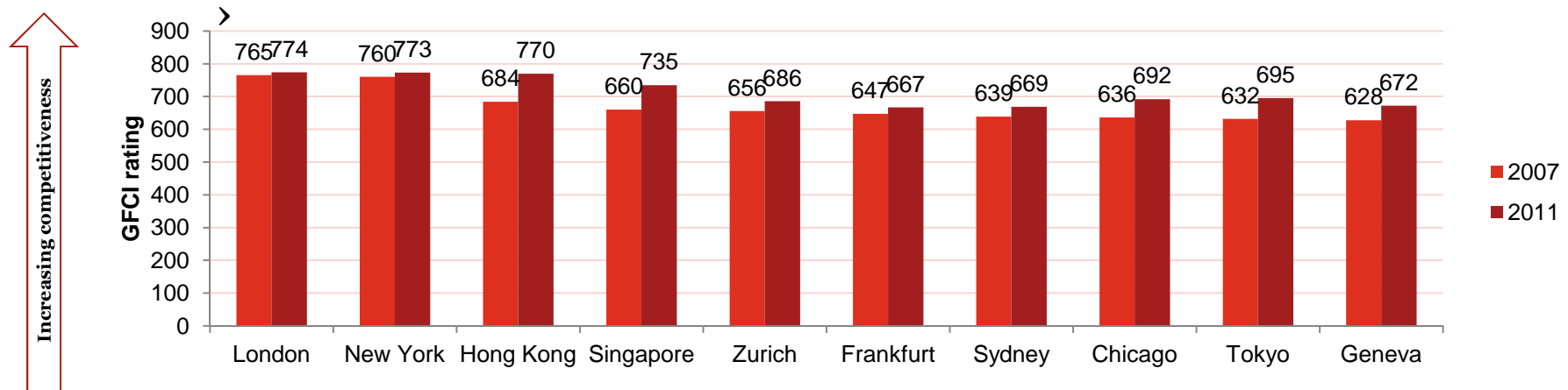
■ Transferred into the ECB structure in 1998

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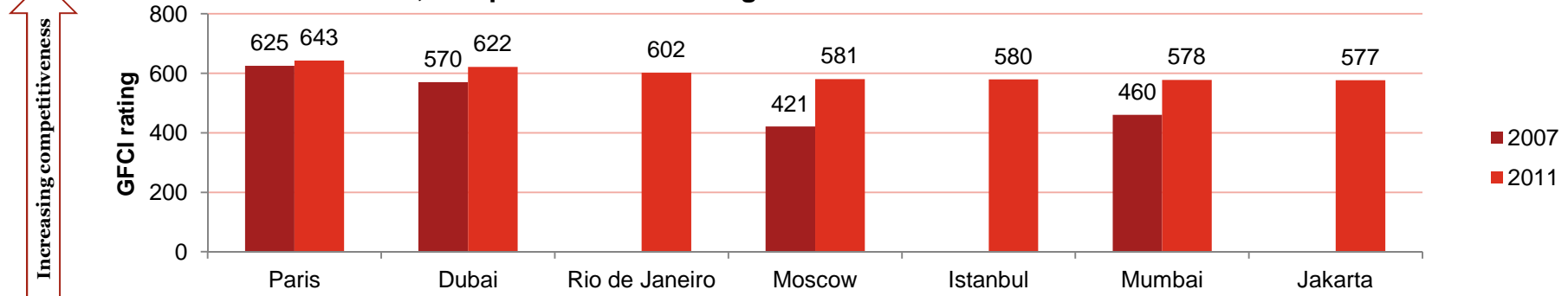
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We are in a multi-polar world where IFC competitiveness ratings are converging

Top ten global financial centres in 2007, competitiveness ranking in 2007 vs. 2011



Other financial centres, competitiveness ranking in 2007 vs. 2011



Source: Long Finance/ZYEN Financial Centre Futures Publications.

Notes: The ratings are calculated using a factor assessment model, combining instrumental factors and questionnaire assessments. Index includes People, Business Environment, Market Access, Infrastructure and General Competitiveness.

PwC

South East Asia is a good example where IFC's compete head to head. Singapore and Hong Kong have similar regulatory, legal and tax frameworks, so they compete where each has a relative competitive advantage

Singapore

- Fund management
- Forex related trading and derivatives
- IPOs
- Debt market
- Innovation
- 'Safety box' centre for capital in the region



Hong Kong

- Part of China
- Traditional free market culture

- Financial and regulatory infrastructure
- Open-market system
- Expertise
- Legal system based on the rule of law
- Connections to major financial centres
- Well-established business structure
- Use of English
- Open door policy to foreign and mainland talent
- Efficient free flow of information
- Competitiveness of the financial sector



Shanghai

- Stock market capitalisation
- Domestic bonds
- International reserves

Source: Maurice Tse, the University of Hong Kong

Dubai's IFC strategy is based on offering a very competitive regulatory, tax and legal regime

Dubai

‘Our vision: to be a global financial hub

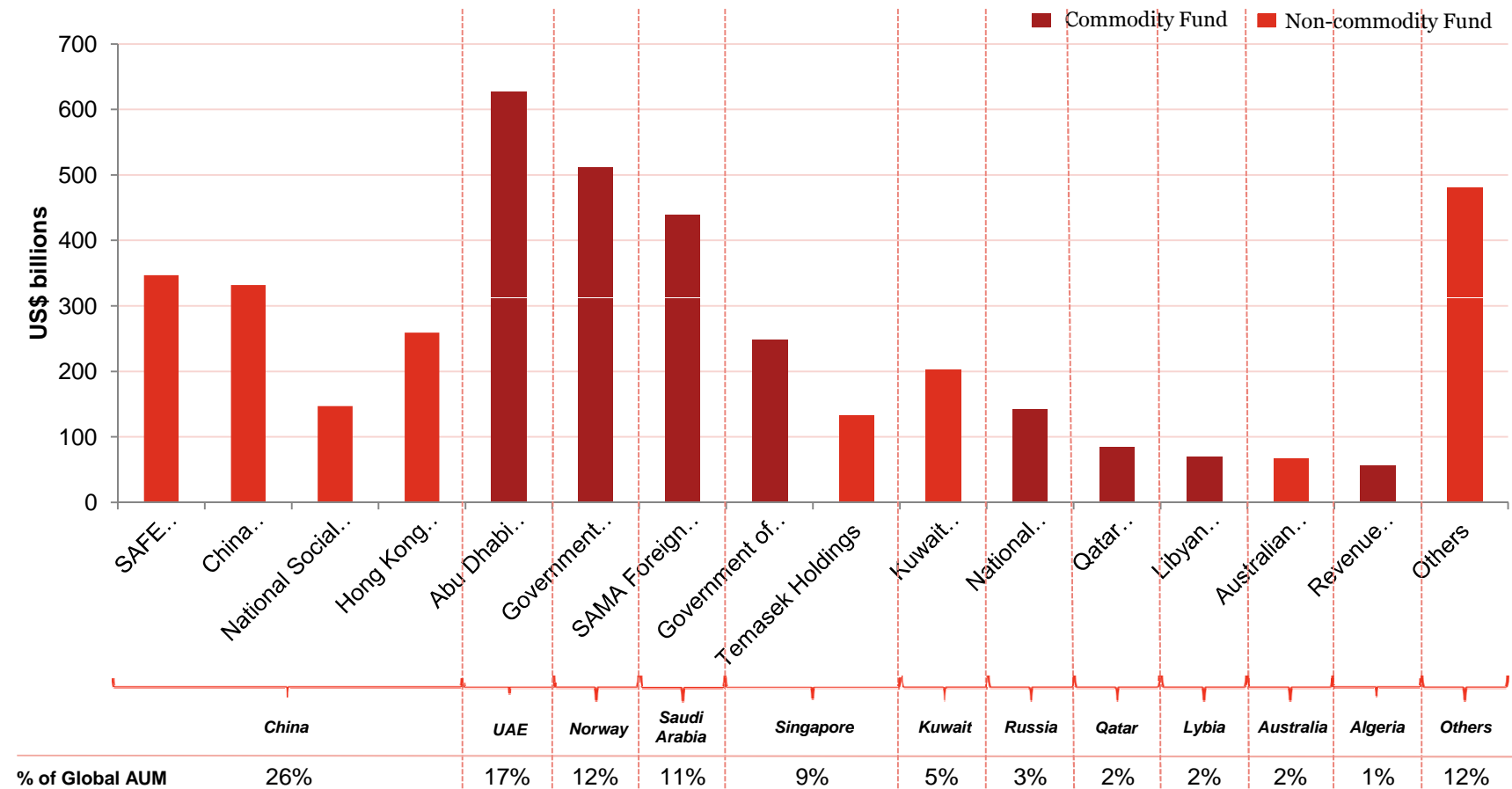
Our mission: to promote the growth and development of the UAE economy and to provide state of the art infrastructure and competitive services to our stakeholders’

Clients

- 16 of the world's top 20 banks
- 8 of the world's top 20 largest asset managers
- 4 of the world's 5 largest insurance companies
- 6 of the top 10 global law firms

But the reason there are over 450 banks in the DIFC is the business opportunity

Global SWF Assets Under Management, by fund and country, US\$ billions, 2010

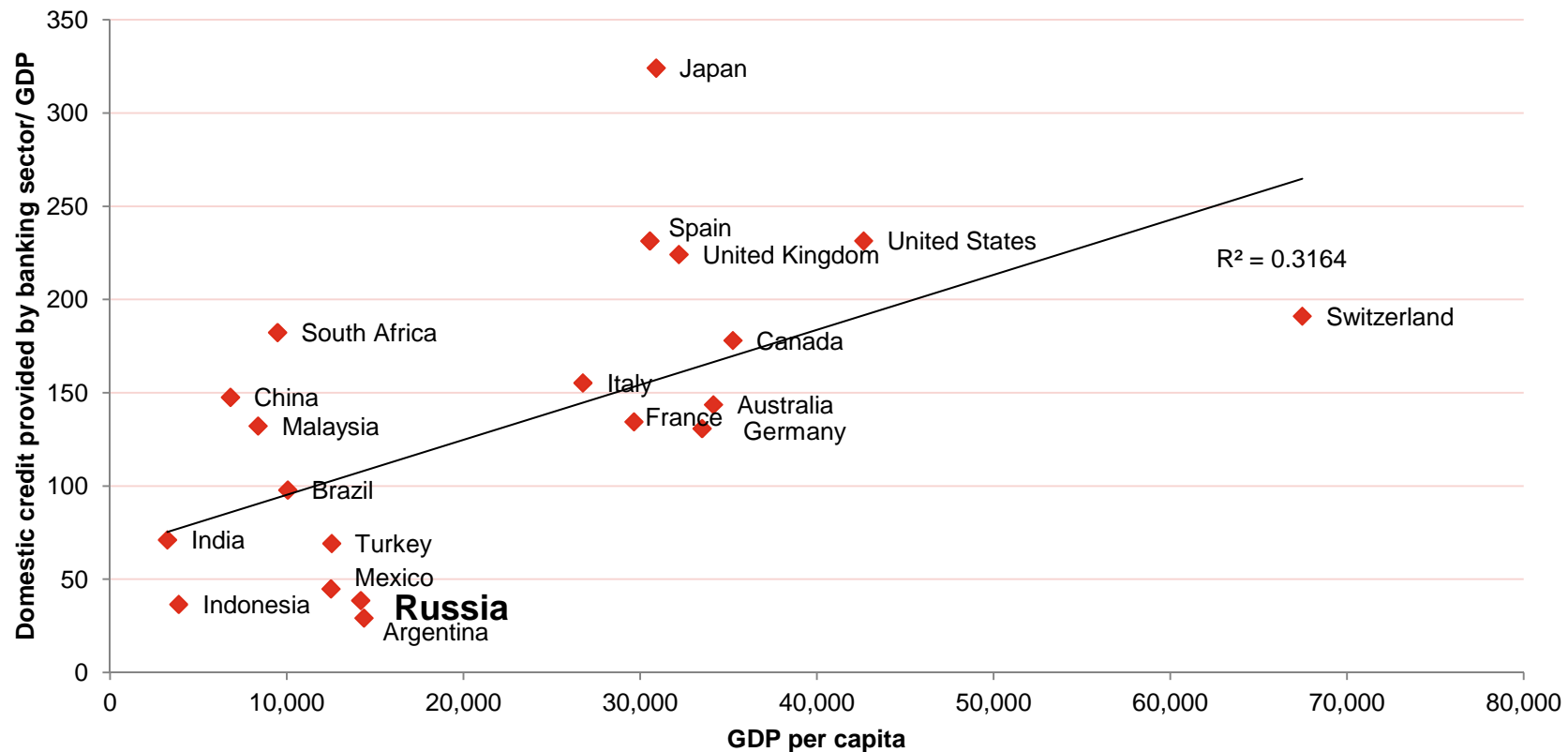


Source: Sovereign Wealth Funds, MyCityUK, April 2011

MIFC offers important business opportunities to foreign banks

Potential growth of the Russian financial services sector

Financialisation of selected economies, 2010

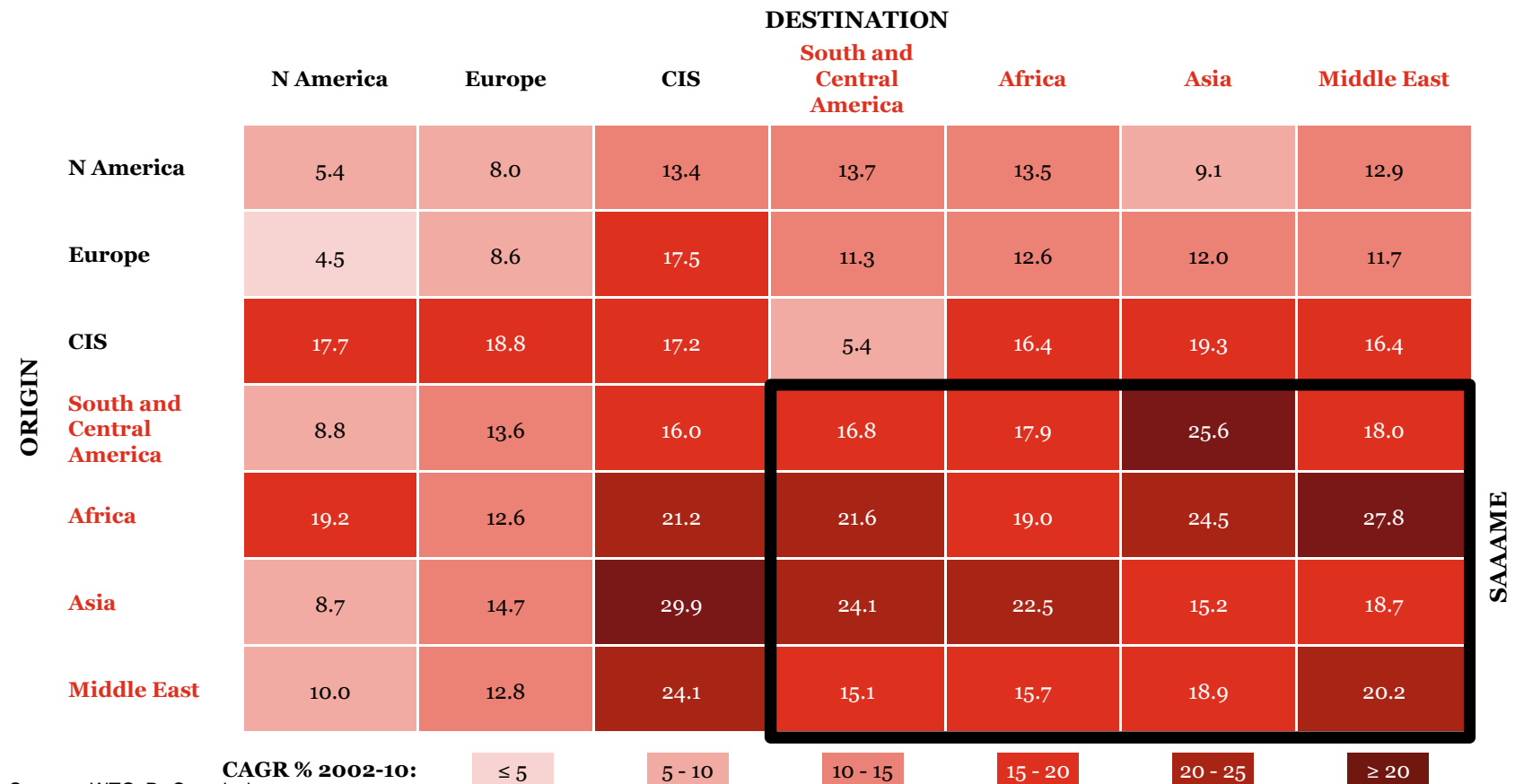


Source: World Bank, PwC analysis

Note: *Australia data if from 2009, Canada GDP and GDP per capita from 2010 but domestic credit from 2008. GDP and GDP per capita are both constant PPP, international \$

Growth in cross-border trade

Heat map showing growth in inter-regional trade flows, CAGR %, 2002-10



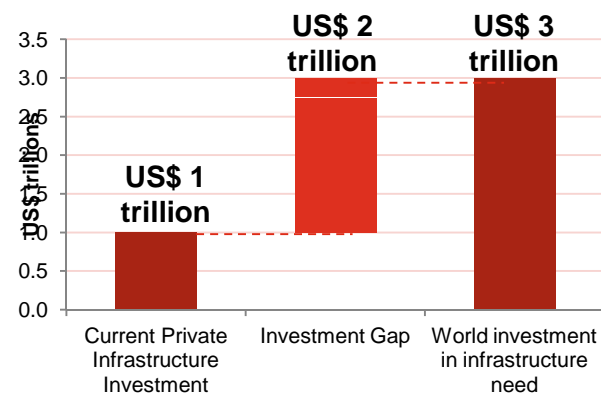
Sources: WTO; PwC analysis

Notes: North America includes Mexico, Asia includes Japan, Australia and New Zealand

Infrastructure financing

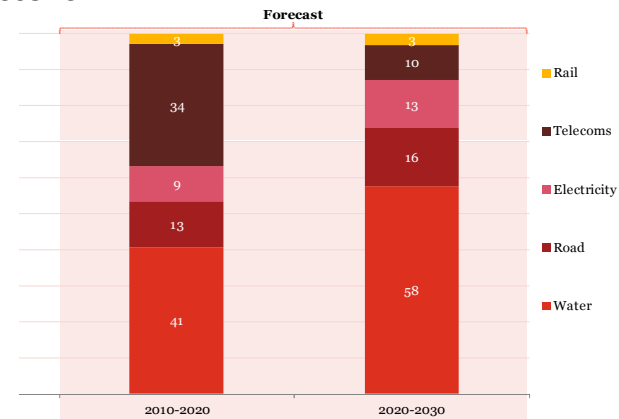
Global demand for infrastructure financing

Estimated gap worldwide



Source: World Economic Forum (2010)

Estimated average annual world infrastructure expenditure % of total investment across the selected sectors

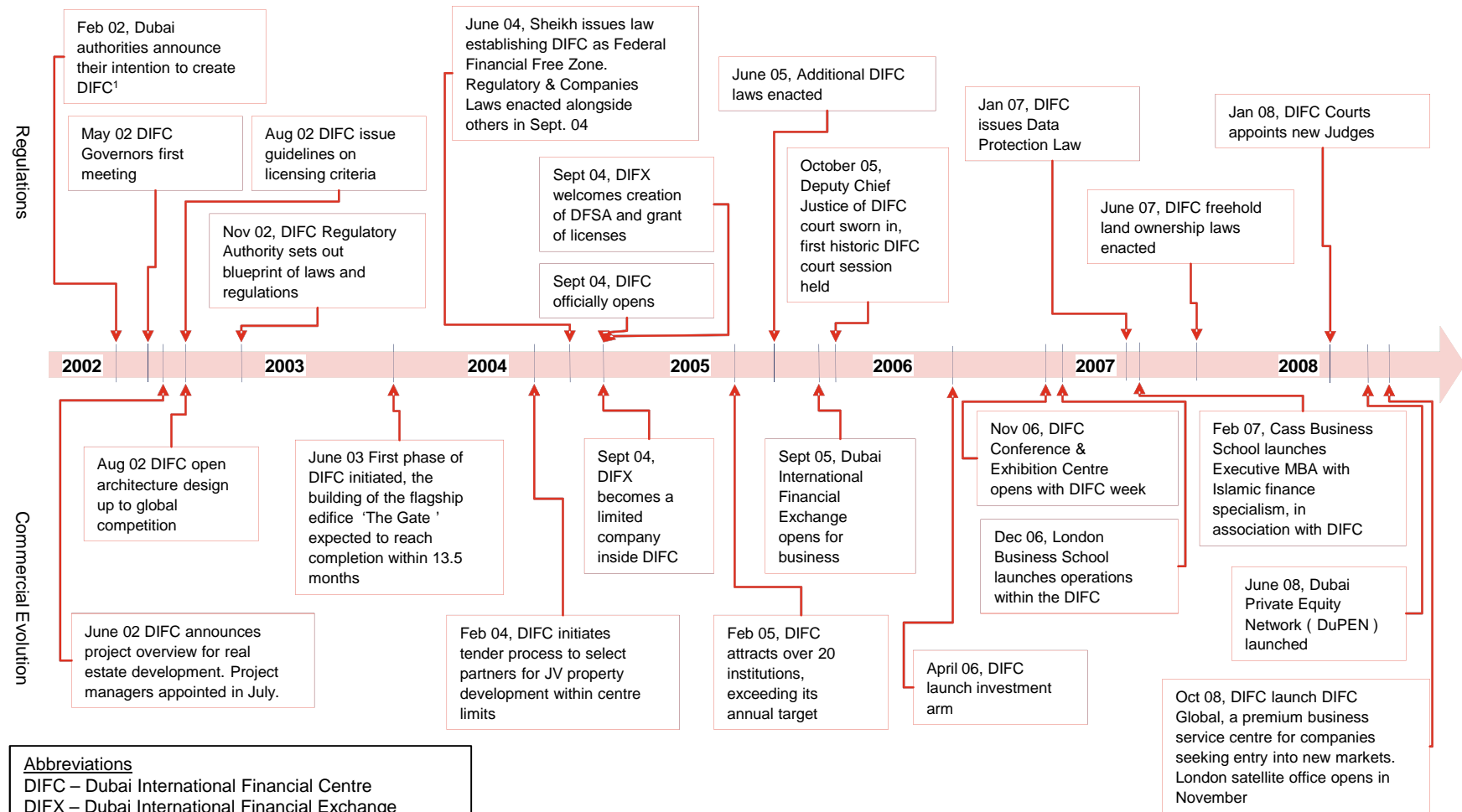


Source: World Economic Forum (2010)

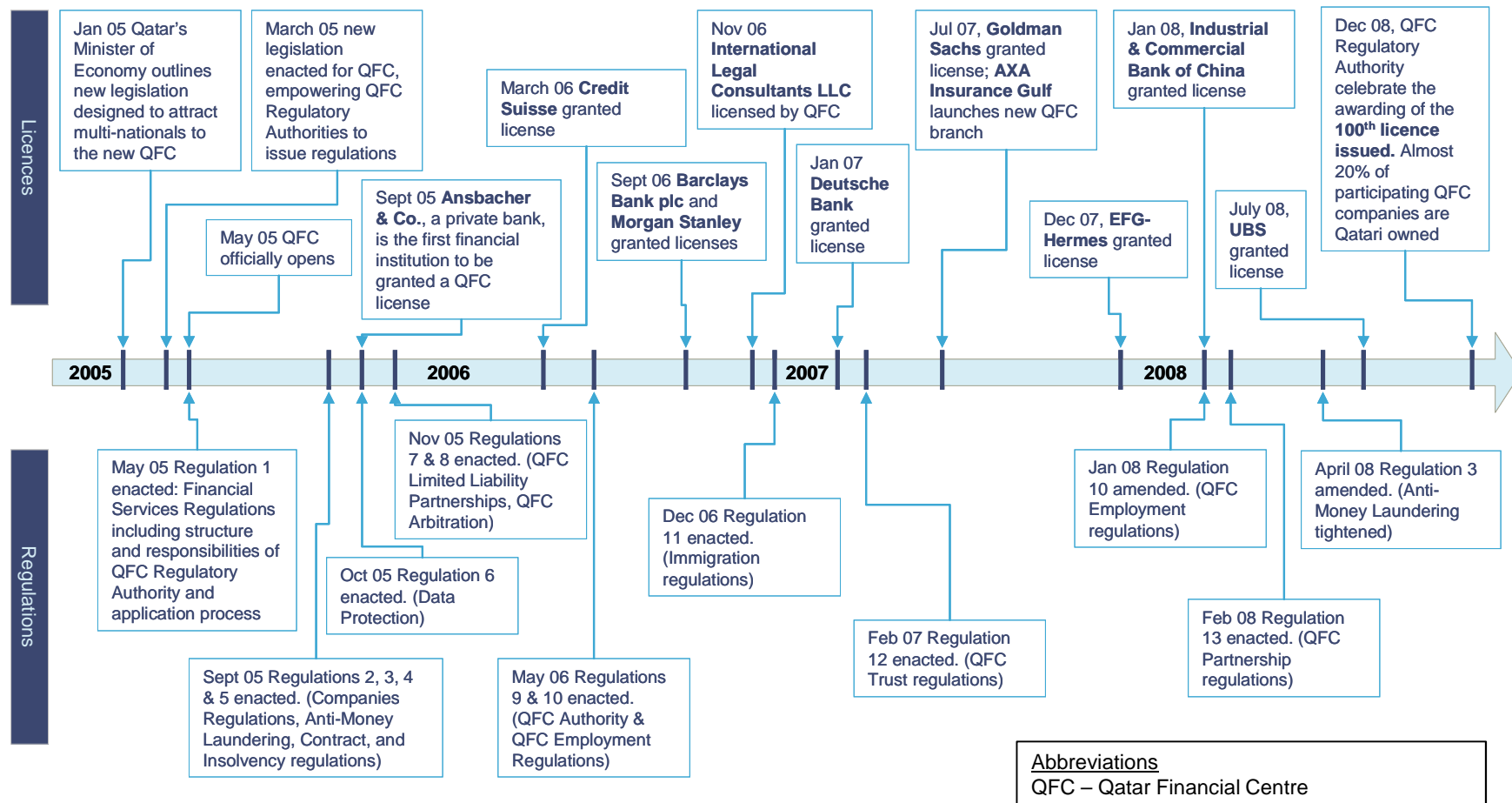
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5. **Speed and tangible results necessary to sustain momentum**

The DIFC established itself in 2 1/2 years and showed many tangible results from the outset



There was a similar urgency in establishing the Qatar Financial Centre (“QFC”)



In summary

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 - What financial centres does the Moscow IFC compete with?
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Thank you

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Andrew is a Partner in the UK Financial Services Practice. He has over 25 years experience advising financial institutions in Europe , North America , the Middle East and Africa on the full range of strategic, operational and organisational issues. As well, he serves central banks on financial stability issues and banking sector reform, and governments on the requirements for establishing international and offshore financial centres.

Andrew co-authored PwC's perspective on the major trends that are reshaping the global economy and the implications for financial institutions

Prior to joining PwC in 2005, Andrew was a partner at AT Kearney, the Mitchell Madison Group and McKinsey & Company

Selected experience includes:

- International financial centre strategies for an Asian country, two African countries and a Caribbean country which included developing the business strategy and developing the tax, legal and regulatory frameworks
- Development of the PwC perspective on the implications of the financial crises and other global trends for sovereign wealth funds and other long term investors.
- For the Central Bank of Nigeria, assessment of the causes of the financial crisis and development of the blueprint for banking sector reform and financial stability.
- For the Central Bank of Nigeria, assistance in the launch of AMCON
- For a large Nigerian bank, a 3 year strategy and transformation programme
- Co-authored *Assessing the Impact of the Financial Crisis on the Nigerian Economy*
- Business strategies for two GCC based Islamic banks including governance and business model design
- Multiple commercial due diligence projects for private equity firms
- Due diligence on an African bank operating in 6 African countries
- Market entry strategies for foreign banks entering the UK
- Numerous strategy projects in the UK, US and Canadian banking and insurance sectors

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