

The Future of Financial Centres: White Paper

A collective response by financial centres on addressing the big questions facing society today and sharing a vision for 2030.



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"At DIFC, we are looking forward to fulfilling our vision to drive the future of finance and be a collective force for good."

Foreword from Dubai International Financial Centre (DIFC)



The UAE is currently celebrating its Golden Jubilee. In a mere 50 years, the UAE and especially Dubai has earned an eminent place on the world map. Dubai has diversified away from hydrocarbons through progressive policies, proving that building a foundation that supports innovation can lead an economy to surpass geographical, time and age constraints.

Our nation is still relatively young but the significant efforts in our short history have already led to world class developments in major sectors including aviation, tourism, trade, financial services, manufacturing, alternative energy and sectors of the future such as AI and Space.

Over the last 18 years, we have built a financial centre with innovation at its core. DIFC is the largest international financial centre in the Middle East, Africa and South Asia region with over 3,700 clients. Dubai is the only city to consistently appear within the top 20 rankings of Global Financial Centres Index (GFCI),

alongside other pivotal financial hubs like New York, London, Hong Kong and Singapore.

Consistent with other leading cities around the world, financial services and technology are among the sectors with most potential to support future economic growth. Since 2017, DIFC has attracted over 500 FinTech and Innovation Firms, reinforcing our vision to drive the future of finance. With this milestone achievement and vision in mind, we decided it was an opportune moment to commission this independent report that looks at the future role of international financial centres to address global challenges. The insights were gathered from CEO-level representatives from the World Alliance of International Financial Centers (WAIFC) during a visit to Dubai for their AGM, when we met to solve common themes which will allow us to contribute more to our economies.

Echoing the findings covered in the report and to establish ourselves as a top global hub for innovation, DIFC is focused on driving the future of finance through nurturing innovation in areas such as FinTech, innovation, sustainable finance and developing digital economies.

DIFC and other members of WAIFC understand that the future of business growth and our economies are attached to environmental, social and governance (ESG) principles.

As an illustration, DIFC is committed to providing the most enabling platform for sustainable finance across the region to accelerate responsible investment strategies of companies and governments. In 2019, DIFC and Dubai Financial Market (DFM) established the Dubai Sustainable Finance Working Group. Representatives of leading banks, financial institutions, and the world-class Hawkamah Institute of Corporate Governance use the Group to help embed ESG principles into the financial services sector and transform Dubai into the region's most sustainable financial city.

ESG principles are fully integrated and considered in DIFC's laws, regulations, and operating model. Currently 80% of DIFC clients consider ESG in their decision making.

Having the knowledge outlined in this report comes with great responsibility. We must now collaborate to turn these observations into deliverables. Our joint activities will be instrumental in supporting the economic recovery from the Covid-19 pandemic, making the transition towards a sustainable financial industry, driving innovation and supporting financial inclusion.

At DIFC, we are looking forward to fulfilling our vision to drive the future of finance and be a collective force for good.

ARIF AMIRI
Chief Executive Officer
Dubai International Financial
Centre (DIFC) Authority



"It was inspiring to be asked to contribute to "The Future of Financial Centres Whitepaper", to make the case for finance serving society."



Foreword from the Z/Yen Group

This report is a joint effort to state how society can use financial centres to overcome today's challenges. Dubai International Financial Centre (DIFC) identified the need for a report that sets out the central role of financial centres in addressing global challenges. That need was rapidly recognised by many other centres and the professionals working in them, who quickly lent their support. It was inspiring to be asked to contribute to "The Future of Financial Centres", to make the case for finance serving society.

At Z/Yen, we created indices tracking the role of global financial centres and smart centres back in 2005. We were motivated by the enormous positive changes that could be wrought in terms of jobs and economies, through enlightened policy and regulation.

We wanted to provide guidance on clusters of innovation, drivers of positive change, and policies that are effective. Since the financial crisis in 2008, the world has increasingly sought clarity on the social usefulness of finance and on what finance does for the 'real economy'. In 2017, 'green' issues had become significant enough for us to begin explicitly tracking global green finance in our indices.

This report highlights the role that trade has played in making the world a better place. Global trade as a percentage of global GDP more than doubled from 27% in 1970 to 60% in 2019. Along with technological innovation, trade has improved the lives of billions of people. And trade needs financial centres - every international trade 'deal' has at least two international parties. International deals involve co-opetition, i.e., competing at times, cooperating to bring two or more parties together in deals, and collaborating by working together to help society get best value from trade and finance for social purposes. Carbon emissions controls and trading might be such an

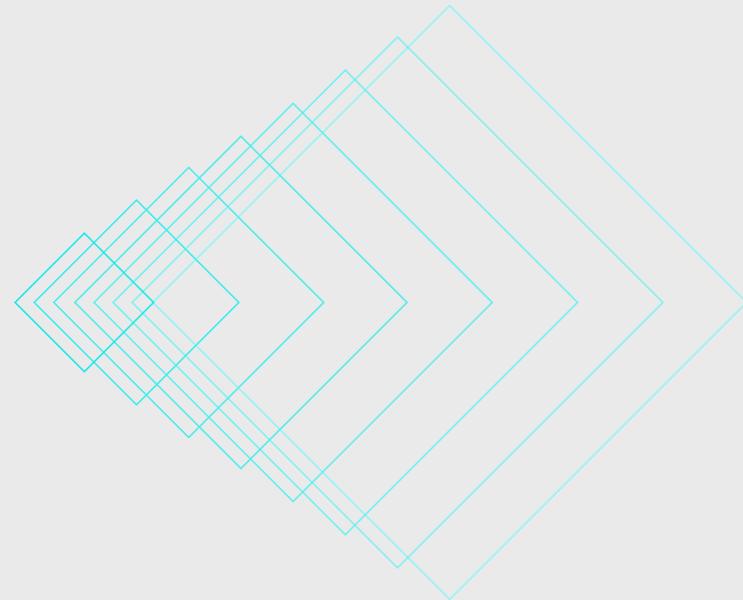
example since Kyoto's COP3 in 1997. Hopefully, there is more to come.

The world has some big challenges ahead, attaining the Sustainable Development Goals (SDG), handling enormous demographic changes, and benefitting from the 4th Industrial Revolution. Truly global financial centres look 'local' to everyone. Many people would see the centres that contributed to this report as extensions of their own domestic financial system. That is to the good. It means that these centres are bringing the world together to solve problems.

While financial centres exist in a competitive system that encourages high performance, that system equally exhibits strong elements of cooperation and collaboration that encourage constant improvement and renewed targeting of society's deeper needs. It has been a privilege to contribute to setting out a vision for the social and ethical future of financial centres.

Professor
MICHAEL MAINELLI

Chairman
Z/Yen Group



"International financial centres in their roles as global finance industry hubs have started to respond to these challenges. They are moderating and shaping the dialogue between societies, companies, and financial service providers on addressing and implementing large scale change."



JENNIFER REYNOLDS

Chair

World Alliance of International Financial Centers (WAIFC)

Introduction from the Chair of the World Alliance of International Financial Centers

The global financial industry is amid a dramatic wave of change. It began with the financial crisis in 2008 and has accelerated further with rapid changes in technology, the demand for growth in sustainable finance, and the challenges and opportunities presented by the pandemic. Topics such as Sustainable Finance, Financial Inclusion, Digital Transformation/FinTech, Artificial Intelligence & Big Data and the new world of work, have moved to the centre of global discussions and developments in the industry.

International financial centres in their role as the hubs of the global finance industry have started to respond to these challenges. They are

moderating and shaping the dialogue between societies, companies, and financial service providers on addressing and implementing large scale change. They are networking through organisations like the World Alliance of International Financial Centers (WAIFC), to exchange best practices and learn from peers around the globe (as we all face these common challenges and opportunities).

WAIFC members - leading international financial centres - met in Dubai for WAIFC's Annual General Meeting last October to consider how financial centres might look in 2030. There was broad consensus that financial centres in 2030 will be green, smart, innovative, customer-

focused, digital, and inclusive. Furthermore, the quality of life in those financial centres will play a critical role in attracting and retaining the best talent.

This white paper, summarising the results of the October meeting, strengthens our spirit of collaboration and provides opportunities to discuss our shared objectives and the future of financial centres.

I am looking forward to working together in the year ahead to continue to build and grow our important network and its contributions to our financial centres and economies.

Executive Summary

This report, sponsored by the Dubai International Financial Centre (DIFC) and produced by the World Alliance of International Financial Centers (WAIFC) and the Z/Yen Group, addresses how financial centres worldwide are co-ordinating responses to some of the world's most pressing macroeconomic challenges.

Financial and professional service businesses play critical roles in supporting global economic growth, providing investment for businesses, individuals and infrastructure, and enabling trade. Financial institutions are at the forefront of investing in solutions to key global socio-economic, technological, demographic and developmental challenges.

Meanwhile, financial centres and the organisations that represent them are spearheading efforts to strengthen their jurisdictions' financial markets, business environments, and innovation ecosystems to enable sustainable global growth.

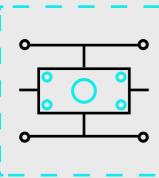
Financial centre associations operate both through collaboration and competition. Individual financial centres aim to offer an internationally competitive business environment while benefitting from partnerships with other financial centres focussed on facilitating trade and knowledge transfer.

With this collaboration in mind, several financial centre associations gathered in Dubai in October 2021 for the Annual General Meeting of the World Alliance of International Financial Centers (WAIFC). They shared insights about how they were designing policy and regulatory interventions to enable sustainable growth, the 4th Industrial Revolution, and human capital development.

**The Annual General Meeting of the World Alliance of International Financial Centers (WAIFC),
Dubai, October 2021.**

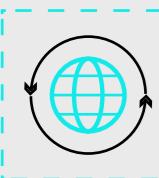


The key findings include:



The digital revolution

Financial centres have encouraged regulatory change to enable digital finance, provided FinTech labs to help start-ups operate at low cost, supported the development of digital ID and Know Your Customer systems, and backed initiatives to widen access to financial services through mobile platforms. They are collaborating with stakeholders to ensure that regulations both incentivise innovation and ensure consumer protection.



Sustainability

Financial centres are encouraging growth in sustainable finance by:

- ◆ Leading multi-stakeholder groups to develop sustainability strategies.
- ◆ Developing, publishing and socialising regulatory roadmaps.
- ◆ Raising awareness of green transition dynamics domestically and internationally.
- ◆ Supporting the development of new financial instruments, including performance-related green bonds or green Islamic Financial Certificates (Sukuk).
- ◆ Contributing to national policy development.
- ◆ Supporting international co-operation around green taxonomies and green finance disclosure standards.



Regulation

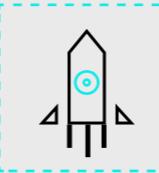
Financial centres are fostering links between regulators and market participants to ensure that regulatory changes are understood, urging the development of international regulatory standards, providing regulators with commercial insights, and encouraging competition.



Human Capital development

Financial centre associations are working to:

- ◆ Attract and develop talent through outreach to schools and universities, attractive visa and residency regimes, and partnerships between businesses and universities.
- ◆ Upskill talent through updating degree programmes, establishing tailored training to target skills shortages, upgrading digital education, and facilitating knowledge transfer through international partnerships.
- ◆ Retain talent by developing networks that support local workforces and providing attractive working environments.
- ◆ Reskill talent through continuing professional development and developing partnerships with international professional institutes and Continuing Professional Development (CPD) providers.



A vision for the future

Through the ambitious initiatives set out above, international financial centres are doing their utmost to support a more sustainable global future by being:

- ◆ **Green.** Provide incentives that prioritise the sustainable economy, reduce carbon emissions and promote green solutions.
- ◆ **Smart.** Able to understand and manage increasingly complex technological approaches to finance, opening up new markets and offer improved services.
- ◆ **Innovative and client/customer centric.** Provide a regulatory and legal environment that allows for sustained innovation, balancing regulatory cost and protection.
- ◆ **Digital.** Provide most services for residents via special platforms, apps.
- ◆ **Inclusive.** Ensure the business services and regulatory environment is fair and open to all-comers, with support for those wishing to start businesses in the marketplace.
- ◆ **Quality of life.** Centres offer an excellent quality of life, which helps attracts high-performing people.

By enabling green growth and innovation, financial centres are shaping a more sustainable global future. To ensure that the financial and professional services industry's ambitions for a better future are fully realised, financial centres should continue to collaborate and share best practices on how to support growth in all sectors. Financial centre associations and leaders should continue to play a key role in orchestrating talent, bridging gaps and sharing ideas. Just as the clustering of financial and professional services in financial centres encourage innovation, collaboration between financial centres will lead to better sustainable development outcomes.

Background & Context

Background to this Paper

1. This paper examines the contribution that financial centres can make over the next decade in addressing the great challenges and opportunities that face society today. The challenges are demography, sustainability and the 4th Industrial Revolution. In this study, we focus on financial centres, both as the places where financial business is concentrated and the various entities that have been established in many cities around the world to build financial services through dialogue, promotion and development. Today financial centres function as central hubs in international financial networks and connecting centres of the global economy.
2. Financial centres host a range of financial and professional services functions (e.g. law, accountancy, audit, consulting, financial and corporate PR, etc.), often clustered in a specific geographical location. The constituent underpinnings or foundations of a financial centre are:
 - ◆ Human Capital.
 - ◆ Business environment – including regulatory framework, the rule of law, competition policy, and trade and investment policy.
 - ◆ Finance, including the breadth of services offered and the depth and liquidity of capital pools.
 - ◆ Digital and physical infrastructure.
 - ◆ Reputation.
3. Financial centres are a driving force in the creation of change, bringing together the private and public sectors to support innovation for socio-economic improvement.

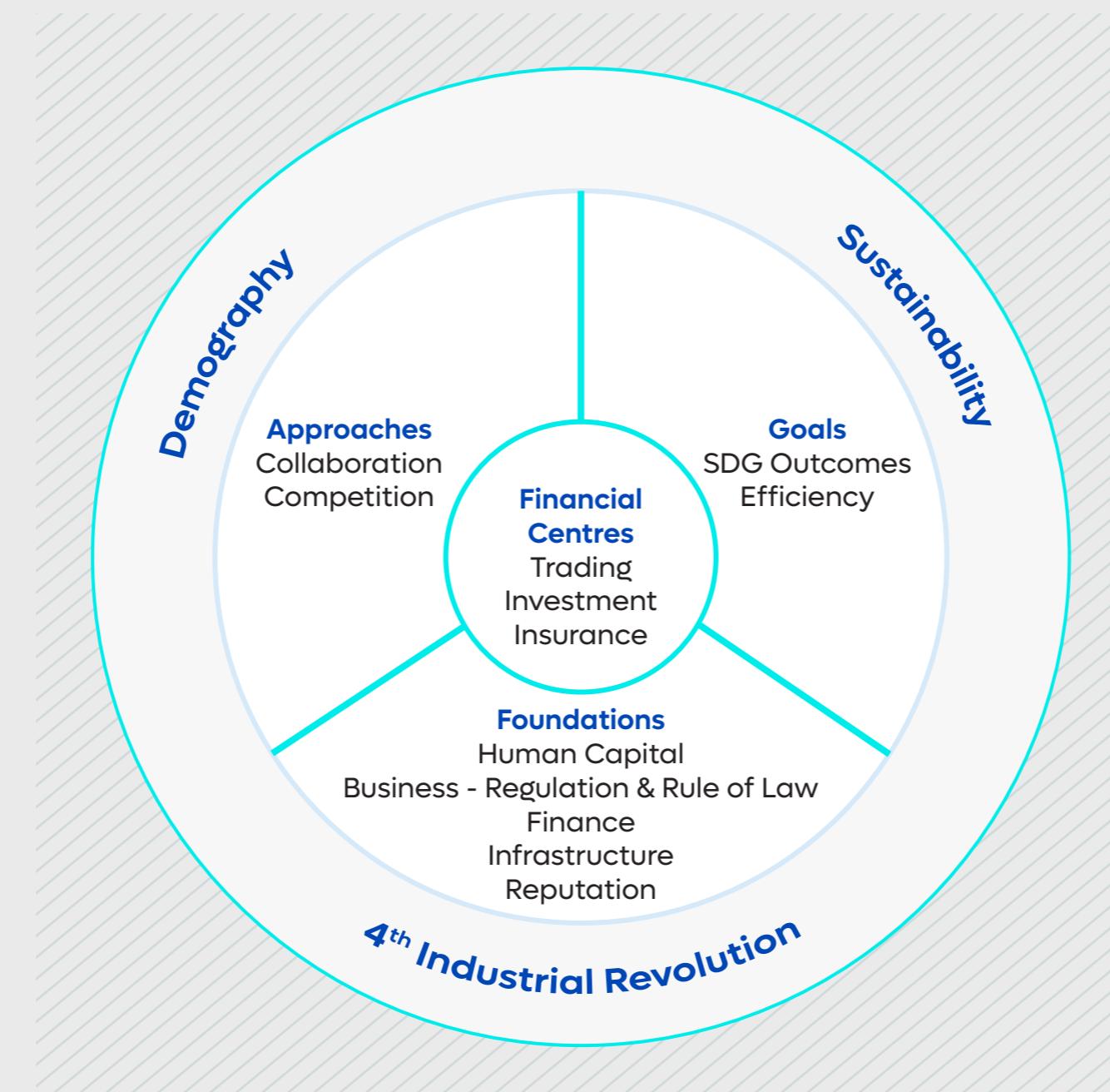
The development of the foundations listed allow financial centres to act through both collaboration and competition, to enable the financial system to address

the challenges that we all face. These are encapsulated in the UN Sustainable Development Goals (SDGs) as well as the efficiency of the financial system.

The Context: Challenges Facing Financial Centres and the Financial Community

4. The challenges facing financial services are those which face the world. First, the challenge of demographicsⁱ, which is four-fold:
 - ◆ The growth of young populations, particularly in sub-Saharan Africa, where the total population is projected to double by 2050 and where the population of working-age people (from 25 to 64 years) is growing faster than in any other age group.
 - ◆ The ageing population, already presenting challenges in East Asia and Europe. For example, the old-age dependency ratio in Ireland – the number of retirees as a fraction of the number of workers – set to nearly double over the next 30 years, from 24% at present to 47% by the middle of this century (53% by 2070).
 - ◆ Migration, including economic migration, with almost 3.5% of the global population living outside their country of origin; and the movement of forcibly displaced people, of whom there were over 70 million in 2018, including close to 26 million refugees.
 - ◆ Urbanisation, with continued growth in urban populations, particularly in Asia and Africa and with the level of urbanisation projected to rise from around 55% of the world's population to almost 70% by 2050.

Figure 1: The Financial Centre Challenge



ⁱ <https://www.un.org/en/un75/shifting-demographics>

Figure 2: UN Sustainable Development Goals



5. Sustainability is a further challenge and can be defined as trying to provide “*development which meets the needs of the present without jeopardising the ability of future generations to meet their own needs*”ⁱ. Sustainability includes the risk posed by climate change and the need to transition to renewable energy. It also considers risks to biodiversity, eliminating pollution and minimising human impact on the planet in general terms.
6. These challenges are the context for the development of the UN Sustainable Development Goals (SDGs)ⁱⁱ, which identify 17 goals related to issues faced by the world. Agreed in 2015, the goals set an agenda for sustainable development. Many of the

systemic risks faced today across many different regions are encompassed in the SDGs, whether this is managing the impact of climate change, issues of water and food supply or risks to health. Achieving the SDGs will require large-scale investment and the development of new technologies. Some of this investment will come from international action, such as the new financial pledges made to the UN Adaptation Fund and Least Developed Countries Fund (LDCF) at COP 26. The fund is designed to help vulnerable people bolster resilience to the worsening impacts of climate change.

7. However, most of the funding required to address the SDGs must and will come from private finance. Total global financial assets exhibited strong growth in 2020, increasing

to \$468.7 trillionⁱⁱⁱ. Despite recent increases, the sustainable fund sector remains small (\$3.6 trillion in assets under management at the end of 2020, of which only \$130 billion is in climate funds)^{iv}. The financing gap to meet the SDGs is estimated at around \$2.5 trillion annually. However, as an OECD report notes, shifting 1.1% of the total financial assets held by banks, institutional investors or asset managers (\$4.2 trillion) would be enough to fill the growing financing gap for sustainable development^v.

8. Financial centres are key to enabling sustainable economic growth, as they provide the framework for channelling savings that drive infrastructure investment and entrepreneurial endeavour. One core contribution will be to meet growing global funding needs, which are expected to be historically high for the next 10 to 20 years. Another core contribution will be the organisation of financial markets, both public and private, that help to allocate costs and resources. Billions of daily decisions will be better guided as the world advances towards the SDGs. Financial centres will contribute as bodies and centres of excellence that set standards and function as mediators between governments, the public interest, financial institutions and businesses.

ⁱ UNEP 987 Our Common Future <https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>

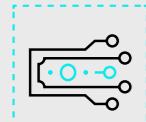
ⁱⁱ <https://sdgs.un.org/goals>

ⁱⁱⁱ <https://www.fsb.org/2021/12/global-monitoring-report-on-non-bank-financial-intermediation-2021/#:~:text=Total%20global%20financial%20assets%20exhibited,7.9%25%2C%20reaching%20%24226.6%20trillion>

^{iv} <https://www.imf.org/en/Publications/GFSR/Issues/2021/10/12/global-financial-stability-report-october-2021>

^v [Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet](https://www.oecd-ilibrary.org/development/global-outlook-on-financing-for-sustainable-development-2021_a_new_way_to_invest_for_people_and_planet_9789264320002-en.html)

9. The third challenge is the **4th Industrial Revolution**, with technological innovation and digital services changing all aspects of life and business. It brings with it the challenge to nurture and manage innovative technologies that benefit businesses and consumers. Technology and innovation are key to achieving the SDGs. At the same time, they are a lens through which we can look at the future of financial centre activity.
10. Places that are successful in building a strong digital ecosystem will have a major economic lead. Developing digital infrastructure with platform-based solutions and digitalisation of all services for residents, means global business becomes even more important for financial centres. Financial centres are trying to function as digital platforms to attract capital, technology and talent.
11. The development of digital technology enables new ways of conducting financial services. The technologies which are driving these changes are varied, as mentioned in the diagram below.
12. These technologies bring potential benefits to providers and consumers of financial services and help to reach new consumers of financial services to promote financial inclusion, but also present a challenge to regulatory systems based on traditional service provision.



Digital Assets and Decentralised Finance (DeFi)

Enabled by distributed ledgers, and allowing the holding and transfer of digital products which have an asset value, and the provision of financial services governed by smart contracts without the need for a centralised intermediary.



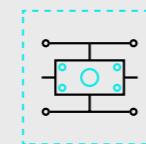
Artificial Intelligence (AI)

Systems such as machine learning systems that allow the assessment of risk through the analysis of data. The AI embedded in financial systems needs to be open to scrutiny and explicable for the purposes of regulatory oversight.



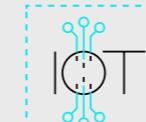
Automation

Improving efficiency and accuracy by automating business processes, including regulatory processes.



FinTech

An umbrella term for several financial services applications that provide a wide variety of utility functions, e.g., payment, investment, portfolio allocation, to the wider public, through smart phones and personal computers.



The Internet of Things (IoT) and Machine-to-Machine (M2M).

Technology which can enable micro transactions based only on the exchange of data between internet-enabled applications.



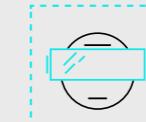
Open Finance Systems

Using Cloud Computing and Application Programming Interfaces (APIs) to give customers and businesses access to data and services in real time.



Big Data

Enabling a better understanding of customer requirements and behaviour.



The Metaverse

Creating virtual-reality spaces in which users can interact with a computer-generated environment and other users.



Blockchain and Distributed Ledger Technology

Allowing transactions and contracts to be securely managed without a third party, central administrator.

How to Read this Paper

13. The paper is structured in two parts:

Part 1

The first considers the development of financial centres over time, their different organisational models, their performance, role and impact.

Part 2

The second part of the paper focuses on financial centres today and in the future. This section concludes with a vision for 2030, assessing the role financial centres play in addressing the great challenges facing society and the financial sector today.

This work is sponsored by the Dubai International Finance Centre Authority, and jointly produced by the WAIFC and the Z/Yen Group, which publishes the Global Financial Centres Index (GFCI)ⁱ, Smart Centres Index (SCI), and Global Green Finance Index (GGFI).





Part 1:

The Development, Role, and Impact of Financial Centres

Financial Centre Development

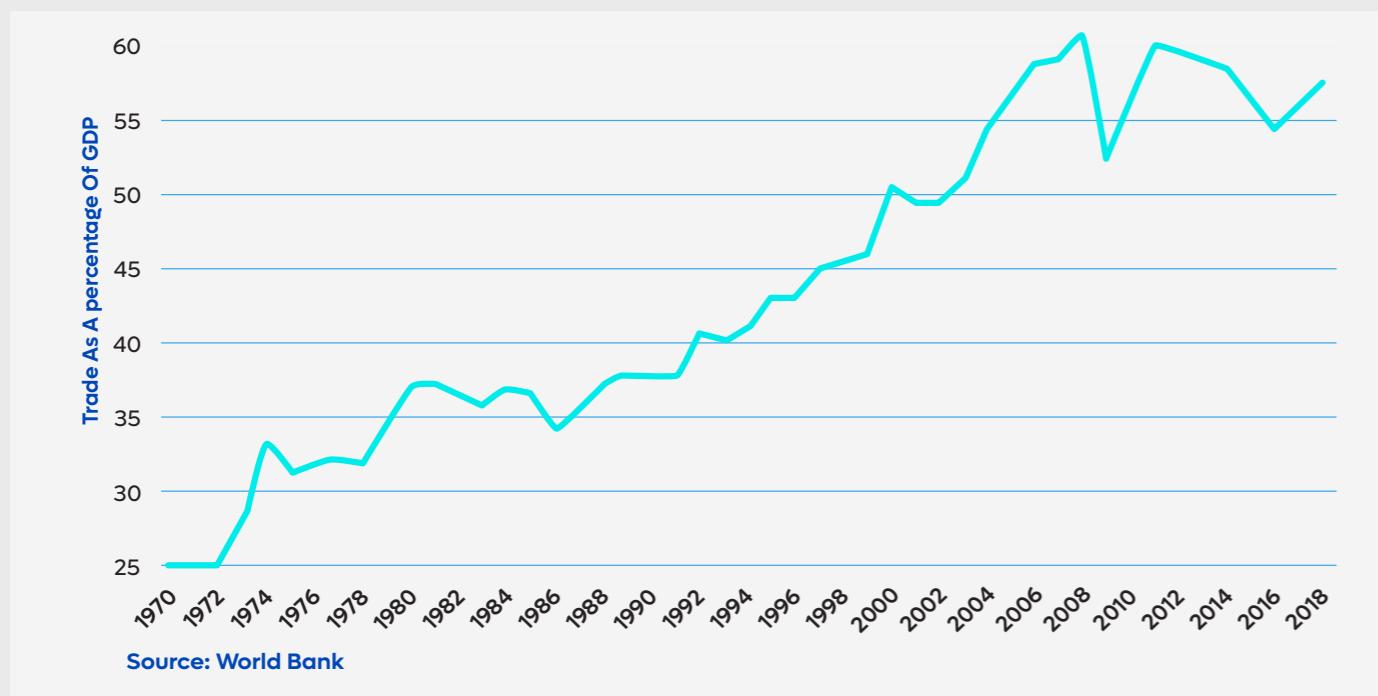
14. There is no standard definition of a financial centre, although a summary of thinking on this question and a brief history of financial centre development and organisation is included in appendix 1. That material notes the development of financial centres is under-researched. However, it appears the main growth driver of financial centres over the last 50 years and the development of those centres that facilitate cross-border contracts and services, has been the increase in world-wide trade. This has been enabled by the evolution of transport and telecommunications technologies, governmental, institutional and consumer decisions, and the signing of global trade agreements to reduce tariffs and other barriers. Trade as a percentage of GDP, thus taking population growth into account, rose from 27% in 1970 to 60% in 2019, an increase of 33 percentage

points over the past half centuryⁱ. This has driven the demand for cross-border transactions, investment, and insurance, and the facilities to manage these services.

15. The last quarter of the 20th century marked the most active period for international financial centres (IFCs) being formed. The first financial centres focused on trade operations, whereas modern IFCs are based on financial operations, made possible by capital internationalisation, processes of financial sector deregulation and Information, and communication technology development. Globalisation of the world economy, characterised by a significant intensification of global financial flows in the form of Foreign Direct Investment, marked the last decade of the 20th century in terms of modern financial centre development.

ⁱ <https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?end=2019&start=1970&view=chart>

Figure 3: Trade in Goods and Services as a Percentage of GDP



World Bank experts believe financial globalisation is the process of integration of a country's local financial system with global marketsⁱⁱ. This process leads to an increase in cross-country capital movement, an active participation of national borrowers and lenders in the global financial market, and the use of international financial intermediaries. These include international banks, consulting and legal companies, in conducting operations in international markets. Traditionally, all these financial intermediaries are provided by financial centres. The centres connect foreign investors with the national financial market agents through their established financial infrastructure and provide access to foreign capital sources for the country.

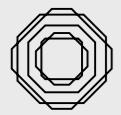
16. The future development of financial centres will continue to be influenced by trade and access to foreign capital sources. It will also be affected by the need to develop sustainably, reinforced by government level commitments to address the SDGs, and by technology, which will continue to change the nature of trade and business.



ⁱⁱ Schmukler Sergio. Benefits and Risks of Financial Globalisation: Challenges for Developing Countries / Schmukler Sergio // Development Research Group. - World Bank, June 2004.

The Role and Impact of Financial Centres

17. Successful financial centres can and do fulfil more than one role:



Global financial centres that are truly global – where business is transacted with places all over the world, and often, involving multiple jurisdictions.



International financial centres (IFCs) that conduct a significant volume of cross-border transactions. Niche financial centres that are worldwide leaders in one sector.



National financial centres, often within federal countries, that function as the main financial centre for financial services and related expertise within one country.



Regional financial centres that conduct a large proportion of regional business within one country.



Niche financial centres that are worldwide leaders in one sector.

18. Financial centres as marketplaces are places with an intense concentration of financial activity involving an interlocking set of financial sectors and transactions. Cities and countries which have invested in the development of a financial centre, whether through:

- ◆ Government action, e.g., a government mandate to create a centre of finance or business cluster to support the development of a financial centre, or

◆ through the activity of the private sector, aim to improve economic output and growth, through providing support to the local economy and to international trade and commerce.

19. Financial systems bring together three groups of people or entities, along with their advisors – consultants, lawyers, accountants, etc.:



Investors, who commit funds to activities or products (e.g., projects, company shares, loans and equity portfolios) with the expectation of financial returns. These include corporate and individual investors, assets managers, and bankers lending capital.



Guarantors, defined as entities insuring or re-insuring projects or companies' operations and risks.



Traders and other risk bearers, those buying, selling, and making markets in securities (stocks, bonds, commodities, and financial instruments, etc.), and those issuing securities, and receiving loans.

20. These groups share common concerns regarding reputational and compliance risks, and how these might impact on performance or value, each from its own perspective. Each must assess the risk profile of the financial products under consideration. Their potential data and other information needs are product and activity specific and will arise from the combination of their respective due diligence, risk assessments, and management procedures. Each will

have its own viewpoint and is likely to make detailed but variable demands on data providers.

21. There has long been evidence across business sectors that clusters of activity in a similar field leads to advantages in productivity, innovation and the creation of new businesses, as brought together in Michael Porter's 1998 article in the Harvard Business Reviewⁱ. Whether in Silicon Valley, Wall Street, or DIFC, this approach argues that the clustering of businesses allows and encourages specific network benefits. These, include better access to employees and suppliers, access to specialised information, complementarities, with businesses learning from each other and benefiting from each other's marketing, access to information and public goods, and better motivation and measurement.

22. The clustering and concentration of financial expertise and activity in financial centres enables access to the skills and data that support the needs of investors, guarantors, traders, and those issuing securities and receiving loans.

23. Financial centres influence the city and state economy, both directly and indirectly. The direct effect is higher GDP growth, increased investment and tax revenues, as well as new jobs in the financial and related professional sectors. Collateral (indirect) benefits from the financial centre's activities are financial market development, a higher quality of business environment, better institutions, macroeconomic stability and urban development.



ⁱ Michael E Porter 1998 Clusters and the New Economics of Competition <https://hbr.org/1998/11/clusters-and-the-new-economics-of-competition>

Financial Centre Performance

24. In 2007, the Z/Yen Group published the first edition of the Global Financial Centres Index (GFCI). Since then, it has tracked the performance of financial centres every six months. The first edition of the GFCI featured 46 financial centres. By the 30th edition in September 2021, this had grown to 116 centres.

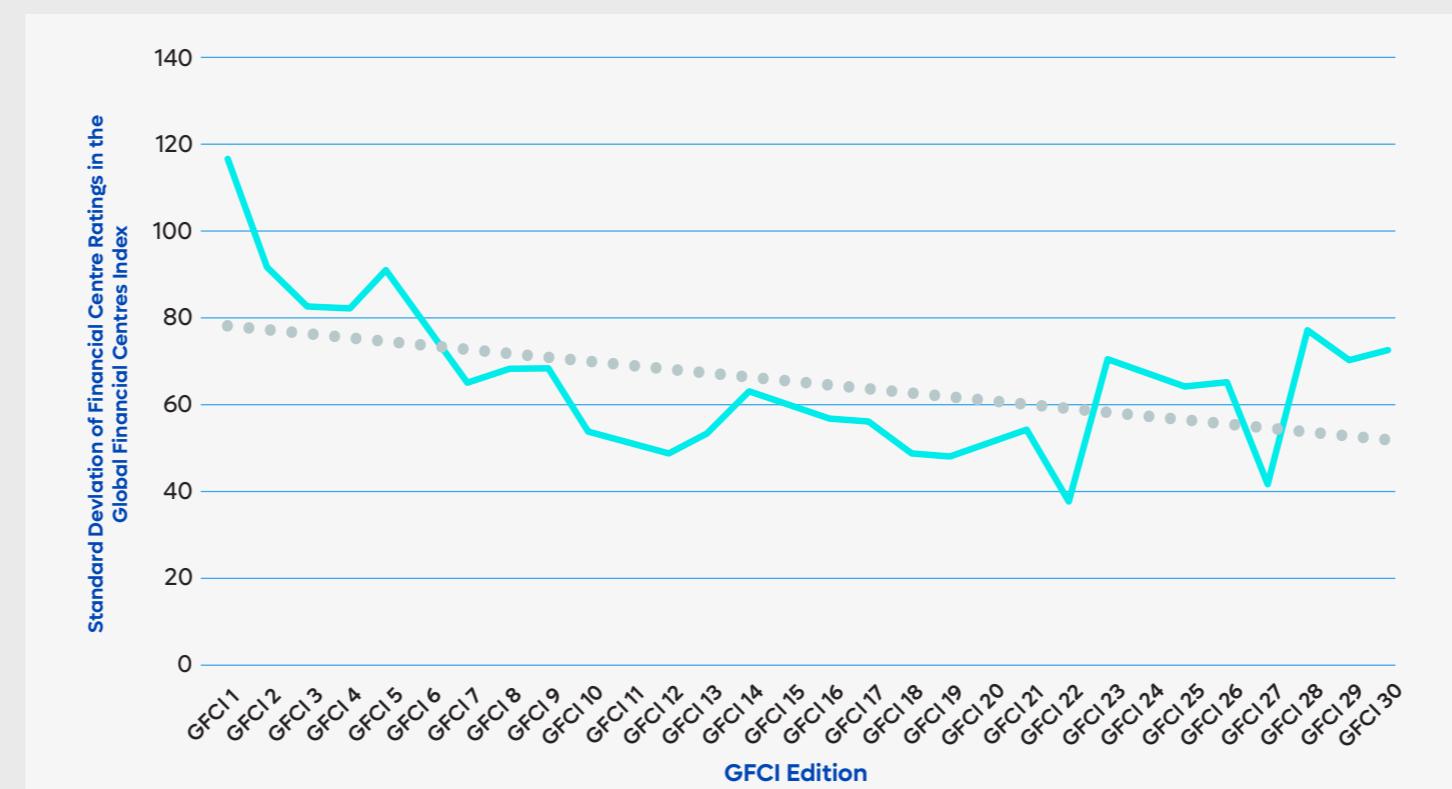
25. This growth in the number of financial centres doing international business is relatively consistent between regions, with most showing a significant increase in the number of centres hosted in the region. This corresponds with the growth in trade referenced above.

26. The other trend that we can see is that the performance of financial centres as measured in the GFCI is less differentiated in recent editions of the index than previously. This can be seen in the downwards trend over time in the standard deviation of ratings of financial centres in the GFCI.

Table 1: Number of Financial Centres Listed in the GFCI

Region	Number of Financial Centres Listed in the GFCI	
	GFCI 1	GFCI 30
Asia-Pacific	11	29
Eastern Europe & Central Asia	5	16
Latin America & the Caribbean	2	13
Middle East & Africa	1	15
North America	8	11
Western Europe	19	32

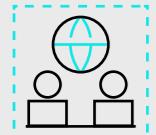
Figure 4: Standard Deviation of Ratings in the GFCI Over Time



Financial Centres Today: Co-Opition and Community

Co-opition: Collaboration, Cooperation or Competition?

27. Financial centres are communities and financial centres themselves form communities. It is difficult to define a community. In one sense, communities define themselves, e.g. "I am an accountant", "I am an academic", "I work with banks", "We belong to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network", "I have to make our reports to X regulator". However, this illustrates the complexity. People belong to multiple communities, some voluntary, some imposed, some of which they are proud, some of which they would not consider communities. If we can set out six characteristics of communities, we can see that it is possible to be a member of multiple communities, e.g., banking, insurance, repo-trading, or inter-bank loans, while still belonging to a more broadly defined, nebulous community of wholesale banking:

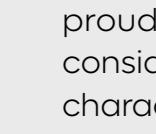


Common history and purpose: the fundamental reason or passion for joining is clear, such as making money for the various forms of power and cultural influence it brings. There is also a great sense of time, e.g., banks tracing their origins back centuries, such as Monte dei Paschi di Siena (1472) or British and German merchant banks from the late Renaissance, and many others.

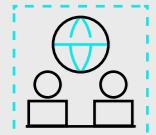


Shared knowledge and culture: there is a common cultural context, principally risk and reward determine "how we decide to do things around here". "Risk transfer" and "who gets

the rewards" are common ways of viewing problems. There are strong, informal cultures in each entity, as described in books such as Liar's Poker, by Michael Lewis (Hodder & Stoughton, 1989), with its tales of surprisingly juvenile antics, or strong, formal cultures such as those established for trade associations or professional bodies for accountants, actuaries, stockbrokers, etc.



Common practices: there are well-established and widely accepted procedures and benchmarks for operations and conduct. In finance, most of the products are well-known, commoditised contracts arranged in new combinations. Even shared jargon indicates that common practices proliferate.



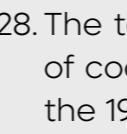
Co-location in space and time: there are shared physical and virtual space with known periods of interaction. The movement online notwithstanding, historically and in today's practices, financial communities have congregated at a limited number of locations. Why else does every trading room need to show the time at key locations around the world? Even in virtual space, online exchanges find that they need to schedule times for certain markets to ensure liquidity.



Common action: in addition to lobbying for their own enterprises, different sectors have banded together to promote their own interests. There is intense lobbying of regulators, national governments, and trans-national official bodies, to ensure the proper functioning of markets within the regulatory frameworks. Further, financial communities create common utilities to further shared interests, e.g., SWIFTⁱ or CLSⁱⁱ.



Co-created future: financial communities have many shared visions of the future - smarter, cheaper, faster, integrated, e.g., an all-electronic world of straight-through-processing, real-time settlement, and online anomaly detection combined with graphic imaging to visualise what is happening in daily business. Financial communities cooperate in building towards these goals.



28. The term "co-opition" is a portmanteau of cooperation and competition coined in the 1980s by Novell's founder, Ray Noorda. Noorda was trying to point out that firms both compete and cooperate with each other, as do financial centres, whether through representative organisations or organic development. Financial centres certainly compete on having better foundations of human capital and other

essential business resources – including regulation and the rule of law, IT providers, data, and accounting experts, and above all reputation. They use better, more solid foundations to compete for business. The attraction for policy makers is that strong foundations and competition lead to economic activity, jobs, and social wealth. "A new headquarters in my financial centre is your loss," would be a narrow way to look at the question. Rather, providing enabling environments for multiple jurisdictions for headquarters help trade and services grow. Thus growing the value to the economy in which companies have footprint.

29. The very fact that all financial arrangements are at the very least two-sided means that the most successful financial centres are open to all comers. Trade, investment, and insurance require centres to support cooperation within their community. Furthermore, centres can work together to stimulate joint trade and investment that grow both centres. They need to cooperate. Today's challenges, like rapid digitalisation and adaptation finance, accelerate the cooperation between financial centres because of the need for joint decisions, benchmarks, and successful case exchanges.

30. However, there is a further, often overlooked stage of collaboration within the financial centre community itself. Society has many ways of solving resource allocation issues from direct command-and-control through to regulation or taxation. Markets and finance are only one choice. Financial

i <https://www.swift.com/>

ii <https://www.cls-group.com/>

communities and financial centres have an implicit deal with society that the use of markets and finance benefits society, principally by solving certain societal problems, whether the supply of food or price competition.

31. Henderson and Ramanna conclude in a Harvard Business Review Paper, "Managers and Market Capitalism"ⁱ, that "in those cases in which the provision of an institution is a scarcely attended political process or a public good that cannot be easily realised by managers, managers may have a duty to mitigate this market incompleteness, even if it is not immediately profit maximising to do so," [Henderson and Ramanna, page 27].

32. There is also an ethical dimension because society can choose other methods than open competitive markets to achieve many of its goals. Those who benefit when society chooses to use market solutions have an obligation to make sure society gets its money's worth. In short, there is a moral obligation for those managing businesses to promote the market economy as it may be essential to increase competition. Michael Blanding restates Henderson and Ramanna – "managers have another interest, not just to serve as agents for their shareholders, but also to serve as agents for the system as a whole."ⁱⁱ So there is a need to make good market incompleteness for the efficiency of the markets and a moral imperative to ensure markets are working.

33. To serve in this way as agents for the

ⁱ Rebecca Henderson and Karthik Ramanna 2013 Managers and Market Capitalism https://www.hbs.edu/ris/Publication%20Files/13-075_dbffa436-0786-4187-ac8d-2c97c0e47aa4.pdf

ⁱⁱ <http://hbswk.hbs.edu/item/7285.html>

system as a whole means finding weak spots in the system and fixing them and where necessary building consensus among competing interests as to the need for action. Some aspects are problematic, for starters, what is a good working definition for a market? Allowing foreign players into a domestic market can provide more competition if the new entrants come from competitive market environments or can further add to the strength of a global cartel. These analyses and decisions are not easy. We want markets to help make choices on things that matter – and determining where those choices are most important is political. Financial centre representatives and financial businesses need to be clear where markets cannot solve problems if they were applied, rather than assert they can always do so in the interest of short-term gains.

34. We conclude that financial centre leaders and financial services firms should be both collaborative and competitive, an uneasy tension that is never fully resolved. They must prove to society that markets and financial services are the right, and most efficient way, to solve many problems, including advancing towards attaining many of the SDGs. Financial leaders should also be clear on those areas where markets and finance are not the right answer, and where their business offer can only solve sub-sets of a larger problem. And, when society does allocate a problem to its financial system, financial centre leaders have an obligation to police those markets and to report back on how well they are doing at solving things.

35. A good current example of a problem for

markets and finance to solve is the goal to reduce and then eliminate greenhouse gas emissions, using a pricing mechanism. Based on the success in the early and mid-1990s with the use of cap-and-trade emission permit markets to reduce sulphur dioxide emissions, the 1997 COP3 in Tokyo decided to use cap-and-trade emission permit markets to solve all greenhouse gas emissions, principally carbon dioxide. It has been a bumpy road, often because financial businesses have not put their full weight behind open competitive markets as they pursued short-term gains, have been hit by fraudulent practices by some participants, or have failed to help society face up to the real and significant cost of greenhouse gas emissions. Financial centres need to collaborate to help build this enormous market globally, but they simultaneously need to recognise that they incur an obligation to society to make it work to achieve the goal, viz. SDG 13 "Take urgent action to combat climate change and its impacts". This obligation means reporting on how the market is working to achieve SDG 13, rather than simply letting the market run. For example, the price of carbon does not yet reflect the full costs of climate change and adaptation, and the factors that cause this apparent market failure require attention and potentially action by policy makers.

36. To summarise, financial centre associations are communities, particularly when they share a common purpose, and when they build a co-created future. Financial centres have an obligation to society to promote the development of markets that help society achieve its goals, and to

tell society when a market should not be created. Having agreed a market could be worthwhile, society gives financial centres and the businesses within them a social licence to operate. Financial centres should be reporting back to society on how things are going, both individually and ideally as a collective voice where the sector has similar experiences across jurisdictions.

Building Collaboration

37. A common feature of many financial centre organisations is that they have the aim of providing a forum where the interests of the public and private sectors can come together to address the developments and changes needed to improve the business environment, drive innovation, and contribute to the economic development of the centre or country.
38. The diverse forms of financial centre organisation can complicate attempts at collaboration but this is certainly not insurmountable. There are numerous examples of multi-centre projects that have led to successful central counterparty structures, standards, or regulatory frameworks. Examples of this joint working include the UN Financial Centers for Sustainability (FC4S) Network; and the EU Roundtable of Financial Centers and Federations; and various joint recognition arrangements between regulators. In addition, individual financial centre organisations have bilateral arrangements in place, with WAIFC members signing more than 20 Memorandum of Understanding and bilateral agreements since 2010.



Part 2:

Financial Centre Responses to the Challenges and a Vision for 2030

Current Challenges for Financial Centres

39. As noted in the introduction to this paper, the context in which financial centres and their leaders are operating include the challenges of demographics, the Sustainable Development Goals and the 4th Industrial Revolution.

Responding to the Challenges

40. Several financial centre leaders met in Dubai during the World Alliance of International Financial Centers (WAIFC)'s Annual General Meeting in October 2021 to discuss many of the major issues facing them, recognising that regional and national financial systems are well placed to take a leading role in helping society meet its challenges. Four broad subject areas were discussed where financial centres are taking action to push progress. Two of these roundtables focused on responding to the challenges of **sustainability** and the **fourth Industrial Revolution**, and the two others focused on ways in which financial centre associations are strengthening the foundations of **human capital** and **regulation**.

41. Several members of WAIFC have provided thoughts on their response to future challenges, which are set out throughout this section.

"Achieving meaningful outcomes for citizens and being able to make a real impact on the challenges facing societies will require greater levels of collaboration between financial centres in the future."

Michael J. McGrath

Assistant Secretary, Department of Finance,
Ireland

Sustainability

42. Financial centre associations and partnerships are key to sustainable economic growth, as they provide the framework for businesses to create investment markets that drive infrastructure investment and entrepreneurial endeavour. The prime purpose is to meet growing global funding needs, which are expected to be particularly high for the next ten to twenty years, as highlighted in a recent report from the WAIFC, **The Role of Sustainable Finance**.ⁱ

43. Financial centre associations recognise the role of finance in addressing ESG challenges and this continues to provide a focus for development in terms of regulation and markets. There is unfulfilled demand from clients and consumers for green products, requiring capacity building within financial intermediaries to implement and monitor financing instruments targeted towards financing ESG projects. There is work to be taken forward to establish measurement systems and to ensure businesses cannot

"greenwash" their activities, claiming environmental benefits that are unrealistic.

44. However, energy demand has not changed and is increasing. A key aim is to use market principles, within a framework of policy changes, to direct investment away from the dirtiest kind of energy sources, such as coal. Globally, financial centres are seeing the beginning of a serious effort to create markets designed to stimulate sustainable finance, ESG financing and ESG reporting. Collaboration is particularly important in this area as sustainability is a global issue, even though different economies start from different places. In some markets, moving away from fossil fuels will have an effect on major businesses and the pace of change will vary.

45. In discussion of the themes addressed in this paper, representatives of financial centres gave the following perspectives on work currently being undertaken by WAIFC members.

"The transition to a low-carbon, sustainable, and more resilient economy is well underway. The role of the financial industry is to help companies finance their transformation, speeding up the shift towards sustainable finance even further in the years ahead. As a leading EU financial centre, Luxembourg is committed to help drive forward sustainable finance in Europe and beyond. This will involve staff training, but also overseeing regulatory compliance to ensure taxonomy is respected and therefore secure investor confidence."

Nicolas Mackel

CEO, Luxembourg for Finance, and
WAIFC Board Member

ⁱ <https://downloads.waifc.finance/publications/WAIFC%20Sustainable%20Finance%20Report%20December%202020.pdf>

Table 2
Financial Centre Perspectives: Sustainability

Abu Dhabi UAE <ul style="list-style-type: none"> ◆ ADGM has been involved in several initiatives with colleagues from the Central Bank, Securities Commission, DIFC and the UAE exchanges. A UAE regulators road mapⁱ was announced pre-COP26 for meeting the net-zero carbon objectives, with a focus on disclosure, corporate governance, and taxonomy. 	Luxembourg <ul style="list-style-type: none"> ◆ The Luxembourg Government published a roadmap in 2018ⁱⁱ with the Luxembourg Sustainable Finance initiative, a public-private platform, as the core element. NGOs and civil society are involved. NGOs are helpful critics, reminding us that the clock is ticking and there is still much to do.
Casablanca Morocco <ul style="list-style-type: none"> ◆ Casablanca Finance City Authority (CFC) is building up a sustainable finance ecosystem and attracting key players in the fields of green & sustainable finance (investment funds, professional services providers, rating agencies). ◆ We believe international cooperation and the exchange of best practices is key as we engage in the work of multilateral networks (co-chairing FC4S, WAIFC workstreams). CFC was part of the dialogue amongst the financial industry stakeholders in Morocco to establish the national Sustainable Finance Roadmap (M Finance, regulatory authorities, banking & insurance federations, stock exchange). ◆ CFC also engages in raising awareness & advocacy at national & international levels. 	Nur-Sultan Kazakhstan <ul style="list-style-type: none"> ◆ In Kazakhstan, the Astana International Finance Centre recognised that the transformation challenge is a complex change programme for society, and measuring the transformation is itself a major challenge. Support is required for social change alongside financial system change. ◆ Transitioning from fossil fuel to renewable energy is a major shift in socioeconomic organisation. Many oil and gas-producing countries will need support from supranational organisations to help with financing. ◆ In Kazakhstan, which remains a major producer, a new Ecology Codeⁱⁱⁱ was implemented in July 2021.
Dubai UAE <ul style="list-style-type: none"> ◆ DIFC has been involved in several initiatives with colleagues from the Central Bank, Securities Commission, DIFC and the UAE exchanges. ◆ DIFC co-owns The Dubai Sustainable Finance Working Group – a non-regulatory working group aimed at making Dubai the region's leading sustainable financial city. ◆ Green Sukuk issuance is developing. ◆ 80% of DIFC clients are active in ESG/Sustainable finance with ESG being a "natural" asset class for DIFC, like Islamic finance. ◆ Private sector work in financial services is supported by sovereign-level initiatives, including the UAE Green Agenda, Net Zero initiative, UAE Energy Strategy 2050, and the UAE National Innovation Strategy. 	Stuttgart Germany <ul style="list-style-type: none"> ◆ Stuttgart Financial has created a space for exchange with the public [state, economic, environment, and finance ministry and corporates (23 organisations in total)]. ◆ A Sustainable Finance Strategy^{iv} was jointly written and published in April 2021. The strategy results in 5 action areas based on the FC4S recommendation for financial centres, which Stuttgart Financial monitors. ◆ Many projects are now jointly driven by a handful of institutions [Internal Footprint roundtable for ESG best practice sharing, education offers such as workshops and seminars, joint events, and the development of employee understanding by gamification approaches (Sustainable tracking apps, etc)]. ◆ Measurement of progress is hard (due to different sizes of organisations and economies and differing states of mind). The current approach is working with a standardised survey which each institution completes. The results will be published in a report and further developed in a published overview detailing joint measures in the financial centre.
Frankfurt Germany <ul style="list-style-type: none"> ◆ Frankfurt Main Finance considers that further progress is needed on taxonomies classifying environmentally sustainable economic activity, making data available, standardising data, and making things measurable. There is a risk that the public might consider ESG developments as "greenwashing" if too much progress is claimed too early. ◆ Reporting standards are key for the successful transformation. "What you measure is what you get" is an age-old management mantra. Hence, financial centres should play a role in educating market participants in those standards. ◆ During the COP26 conference, the IFRS announced the formation of the International Sustainability Standards Board (ISSB), a new organisation which will develop future standards for global sustainability disclosures for financial markets. Frankfurt has been chosen as the seat of the Board and host the office of the chair, which underlines Germany and Frankfurt's determination in sustainable finance. 	Toronto Canada <ul style="list-style-type: none"> ◆ In Canada, there is a recognition that the transition will take a long time, despite many recent positive announcements on net-zero goals and initiatives from both the public and the private sector. The danger is that the public will expect progress and results quickly, which is not realistic. Transparency and data will take time to develop. ◆ The dialogue in Canada certainly includes a focus on transition. While we should be ambitious, there is a need for a realistic view on what is possible.

ⁱⁱ <https://gouvernement.lu/dam-assets/documents/actualites/2018/10-octobre/04-sustainable-finance/Luxembourg-Sustainable-Finance-Roadmap-WEB.pdf>

ⁱⁱⁱ https://wecoop.eu/wp-content/uploads/2021/04/2021-KZ-ENV-Code_full-text_en.pdf

^{iv} https://www.stuttgart-financial.de/fileadmin/user_upload/2021-04-20_Strategiepapier.pdf

4th Industrial / Digital Revolution

46. Technology continues to transform the provision of financial services and financial centre organisations are addressing a range of developments in 2022. The context for change in many parts of the world is the growth of mobile services, meaning customers can carry a ‘bank in their pockets’. This has enabled different relationships with customers. It has opened financial services to those who were previously unbanked, allowing the distribution of financial services products to widen to more parts of society. FinTech is no longer fundamentally new. As with previous technological advances, it uses new technologies to drive moves to optimise customer experience.

47. WAIFC members are alert to the opportunities of new technologies to assist in addressing the SDGs. For example, the activities of Casablanca Finance City and Rwanda Finance in strengthening FinTech in Africa, or the work of Labuan International Business and Finance Centre in exploring the role of digitisation in facilitating financial inclusion, which will address the SDGs around poverty and reducing inequalitiesⁱ.

“Technology is a game-changer when it comes to financial inclusion and financial literacy. Technology is empowering communities by lowering the barriers to entry for the unbanked/underbanked (rural populations, bottom of the pyramid, SMEs in the informal sector).”

Manal Bernoussi

Strategy, Partnerships & Communications Director,
Casablanca Finance City, and WAIFC Board Member

48. As important financial globalisation hubs, at the current stage of their development, financial centres should facilitate cooperation between national financial systems in developing and implementing standards concerning digital and cryptocurrencies, increasing financial sector inclusiveness, and financing SDGs. Cooperation between financial centres in the financial and business infrastructure development is complicated by their competition for global business, looking constantly for locations with the most favorable tax and regulatory conditions.

49. Most representatives of financial centres that met in Dubai in October 2021 felt that a central bank digital currency ('CBDC') would be available in their country by 2030. Along with other digital applications to finance, it seemed likely that a critical enabler of future commerce will be atomic transactions for exchanging money (CBDCs or stablecoins), that is, automatic, instantaneous, and irrevocable transactions against assets or services.

50. In response to the development of digital finance, financial centres are acting to ensure that regulatory systems are appropriate in terms of evolution that serves the common good and maintains systemic stability. Changes in regulation may open, or close, various approaches to business that are in place or are planned, and communication between regulators and the financial sector is key, helped by supportive financial centre structures.

51. Different regulatory systems have taken different approaches to the regulation of FinTech, as makes sense given the varied nature of each centre's business. In many jurisdictions, the “sandbox model” has been implemented, which offers new businesses bespoke regulatory approval for a period while the business and its regulatory needs are tested. This restricted approach is common in developed markets. In emerging markets, regulatory sandboxes may be broader in scope as the aim is to develop a broader ecosystem of business.

52. While sandboxes are a recent development, the World Bank published a studyⁱⁱ on their impact, noting that such arrangements can:

- ◆ Serve as an evidence base for regulation and be useful in countries where regulatory requirements are unclear, or missing, or where they create barriers to entry that are disproportionate to risks.
- ◆ Facilitate firms' market entry, although this may be due to sandboxes providing firms with a better understanding of regulatory hurdles. According to some

analysisⁱⁱⁱ, it has also been suggested that more FinTechs have been supported by innovation hubs than sandboxes and accelerators combined.

- ◆ Foster partnerships between FinTechs and existing financial services firms, for example, allowing the sharing of customer data in a compliant environment monitored by a regulatory authority.
- ◆ Strengthen competition, although there are some mixed results in this area.
- ◆ Enable financial inclusion, although there is little evidence that those sandboxes set up with the key objective of financial inclusion have achieved more to that end than sandboxes set up with just an innovation mandate.
- ◆ Enable FinTech market development when the sandbox operates within a broader set of initiatives that includes open dialogue between regulators and the industry.
- ◆ Build capacity within regulatory institutions, helping build regulator knowledge on FinTech trends and innovations while providing a structured process to strengthen dialogue and interaction with the industry.

i <https://www.longfinance.net/publications/long-finance-reports/international-financial-centres-facilitating-financial-inclusion-digitalisation/>

ii World Bank 2020, Global Experiences from Regulatory Sandboxes
<https://documents.worldbank.org/en/publication/documents-reports/documentdetail/912001605241080935/global-experiences-from-regulatory-sandboxes>

iii Buckley et al., Building Fintech Ecosystems

53. In other jurisdictions, for example in Germany, France, Ireland, Labuan and the USA federal government, they have provided regulatory sandboxes for FinTech development, with the intention of ensuring new business models are compliant with existing regulatory standards, providing equality in regulation for financial activities. Being licenced in Germany from the beginning has made it easier for such firms to expand into overseas markets.

54. The role of regulators in providing support for innovation appears to be a factor affecting the ability of centres to thrive and compete. Regulation and support systems need to consider the effects of various aspects of regulation. Economic regulation through price and competition, market entry, mergers and acquisitions, monopolies, and anti-trust rules can provide

or reduce incentives for innovation. Similarly, social regulation, including environmental, health and safety and consumer protection arrangements will have an impact. Further, institutional regulation, whether covering employment protection, bankruptcy, or intellectual property, has a role to play. As with all innovation, the challenge is to balance regulatory action to incentivise innovation, while also ensuring consumer protection and minimising regulatory costs – as shown in the Inverse U Curve of Innovation (see figure 5). This is a dynamic process, and the challenge is to ensure regulation both addresses society's appetite for innovation and risk and is fast-moving enough to address new technologies and business.

Figure 5: The Inverse U Curve of Innovation

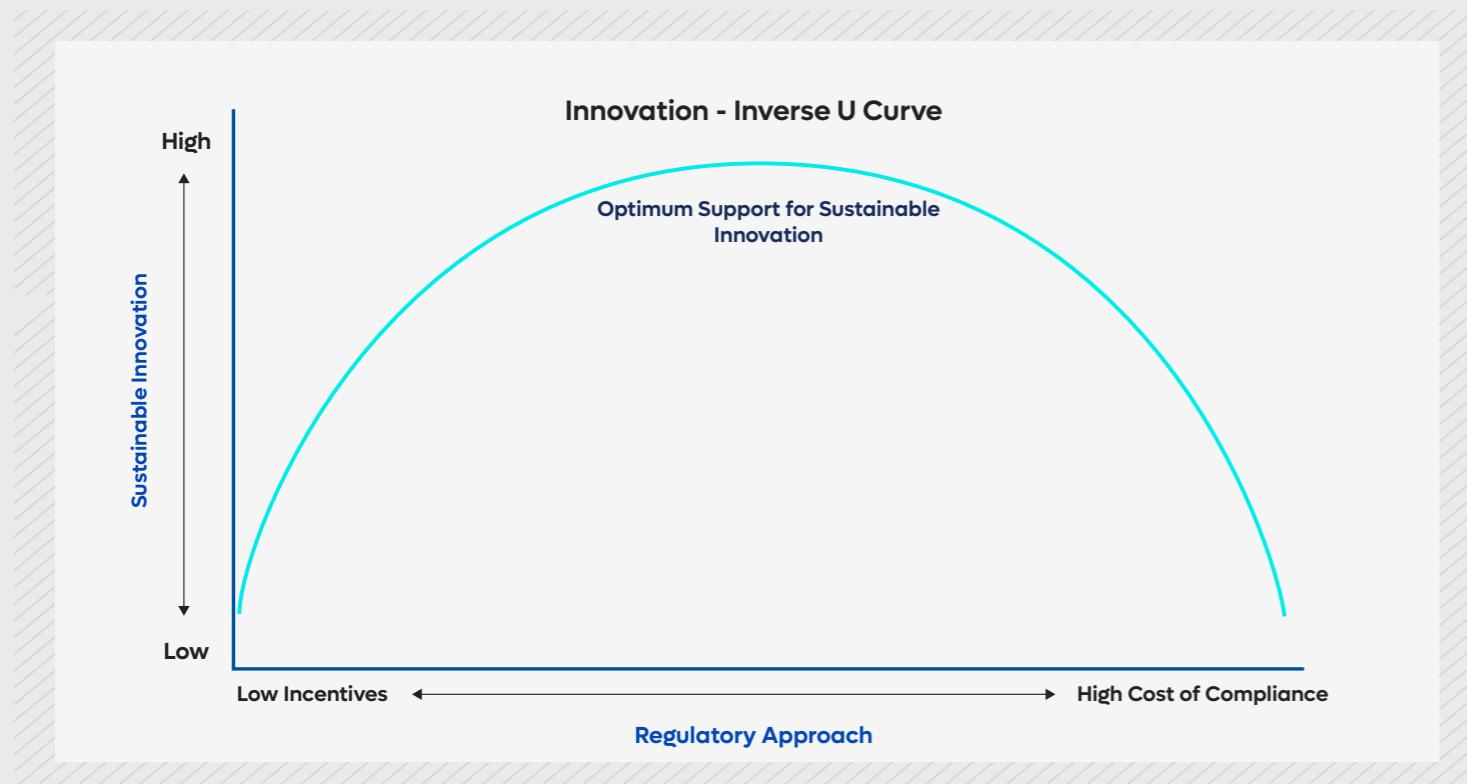


Table 3
Financial Centre Perspectives: Human Capital

Abu Dhabi UAE <ul style="list-style-type: none"> ◆ The FSRA has actively championed FinTech and innovation, with the objective of promoting more choices for consumers, greater efficiencies, and better risk management outcomes for the financial sector. It introduced the first FinTech regulatory sandbox (the RegLab) in the MENA region in 2016 and digitalised it (the Digital Lab), in April 2021. ◆ Equipped with APIs, digital toolkits, and synthetic data sets, the Digital Lab provides an online platform where FinTechs, and financial institutions, can co-create and test solutions to address challenges in the financial sector. 	Mauritius <ul style="list-style-type: none"> ◆ Raising capital is moving to peer-to-peer platforms, e.g., lending. ◆ Distribution of financial services products is moving digital, for example, Know Your Customer regimes. We must create the necessary enablers, e.g., repositories for information. ◆ Rolling out of the Digital Rupee on a pilot basis by the Bank of Mauritius.
Brussels Belgium <ul style="list-style-type: none"> ◆ In Belgium, the financial sector has developed a very efficient application itsme®, a digital ID allowing secure login, the sharing of ID data, or digitally signing using a smartphone. The system is so efficient and broadly accepted that many government departments use it to communicate with citizens. ◆ In Brussels, FinTech is rapidly developing with the support of a very dynamic FinTech Belgium association. ◆ In its quest for up-to-date information on the evolution of digital finance, the BFC plans to centre its next activities on NFT, cryptocurrencies, the metaverse, and similar new concepts. In a fruitful cooperation with Frankfurt Main Finance, a webinar on CBDC has been organised with a specialist from the European Central Bank. 	Nur-Sultan Kazakhstan <ul style="list-style-type: none"> ◆ Artificial Intelligence can help to solve risk management issues in the future. ◆ Public ledgers will allow faster and cheaper transactions. However, we still need regulation and proper risk management, requiring central institutions. ◆ Artificial Intelligence will be a crucial enabler for financial inclusion in Kazakhstan and other emerging markets. ◆ Many traditional financial institutions, like large banks are too rigid and too slow - due to policy, regulatory burden, and many lines of defence.
Casablanca Morocco <ul style="list-style-type: none"> ◆ Technology is a game-changer when it comes to financial inclusion and financial literacy. Technology is empowering communities by lowering the barriers to entry for the unbanked/underbanked (rural populations, bottom of the pyramid, SMEs in the informal sector). 	Paris France <ul style="list-style-type: none"> ◆ There are some fears in France, as in some other countries, related to financial stability when it comes to introducing a digital currency soon. Some players in the banking industry are wondering whether to support innovation towards CBDCs, as this may prevent them from having the same profit margins, for example, interest margins, fees, and commissions could be affected. ◆ It is vital for financial centres to communicate well as to the benefits of shifts stemming from innovation as they affect consumers and corporates. This represents a shift in scale over the coming years.
Dubai UAE <ul style="list-style-type: none"> ◆ DIFC has become the region's preferred and largest centre for FinTech and innovation companies by providing the most comprehensive end-to-end framework. ◆ The DIFC Innovation Hub is the region's leading innovation ecosystem in the region with more than 500 innovation and tech firms, ranging from start-ups to unicorns. It is also an integral part of the roadmap of HH Sheikh Mohammed bin Rashid Al Maktoum's vision for innovation driven growth in Dubai, which is shaping the future of finance and the future economies in the UAE. Financial services will move in the direction of decentralisation, but never become completely decentralised. ◆ There will be greater disintermediation. That said, it is hard to foresee a future, e.g., in 15 years, where there is absolutely no intermediation anymore. ◆ The political and regulatory contexts are moving in a different direction, requiring more oversight, e.g., to prevent money-laundering or terrorist financing. ◆ What we call FinTech generically is not fundamentally new, or extraordinary. This dynamic is embedded, and it drives optimisation of processes and improves the customer experience. What is new and exciting is: how far do we conceptually get with crypto and digital assets? It fundamentally changes the relationship between an asset and its owner, and what the owner can do with the asset. 	Stuttgart Germany <ul style="list-style-type: none"> ◆ Technology has already changed how we see and expect finance to be decentralised, fast, and always accessible in our pockets. ◆ The main drivers are FinTechs as due to their role, we actively try to set more incentives for FinTechs to be based in Stuttgart, the capital of the state of Baden-Württemberg. ◆ A big step toward this goal was taken by the FinTech initiative "Fintogether," which hosts its own acceleration program for seed money and financing of early stage FinTechs. The first batch funded included six new companies, and the second round started in Q1 of 2022.

Human Capital

55. Human Capital is one of the most important factors of competitiveness among financial centres. Its role is rising because of digitalisation and demand for tech talent. Three main areas of development were cited by financial centres in response to the issue of sustaining a highly talented workforce, alongside a recognition that the future workforce in financial services would include software engineers or data scientists alongside more traditional finance skills. The areas cited were:

- ◆ Attracting and developing talent.
- ◆ Upskilling and reskilling the workforce.
- ◆ Retention of existing talent.

"In Kigali, we build our own domestic skills alongside having an open visa regime to attract international talent. We are building partnerships with other financial centres to learn from them."

Nick Barigye

Chief Executive Officer, Rwanda Finance,
and WAIFC Board Member

56. Many financial centres are experiencing shortages in expertise, for example in ESG or digital transformation, and in some societies, changing demographics may exacerbate this problem. Greater complexity in financial services has led to greater specialisation, with management needing a wider range of knowledge to harness these specialisms and ensure good risk management. This complexity also means supporting professionals in law, accountancy, business

services, utilities, and IT, which all need to continue to develop and enhance their expertise.

"Busan has been developing and retaining a local talented workforce in financial services and technology via higher education institutions including the Graduate School of Maritime Finance at Korea Maritime and Ocean University, and Graduate School of Finance at Pusan National University."

S B Shin

Director, International Finance Division,
Busan Finance Center



Table 4
Financial Centre Perspectives: Human Capital

Abu Dhabi UAE	<ul style="list-style-type: none"> ◆ ADGM relies on expats, with the previous 3-year contract offered now extended to 10 year contracts under the golden visa arrangements. In the past, regulators and practitioners were needed. Now, the focus is on digital transformation, data-driven skills, IT, FinTech, and virtual assets. ◆ To attract and retain expats, ADGM offers incentives and an attractive ecosystem. To develop domestic talent in the U.A.E., ADGM works with schools and universities. 	Kigali Rwanda	<ul style="list-style-type: none"> ◆ We build our own domestic skills besides having an open visa regime to attract international talents. We seek partnerships with other financial centres to learn from them.
Brussels Belgium	<ul style="list-style-type: none"> ◆ One of the objectives of the BFC is to develop not only education on financial topics but also networking between its members. ◆ Many banks and insurance companies are faced with the difficulty of attracting young talent. The BFC is teaming up with Febelfin, the association of banks, and Assuralia, the association of insurance companies, to organise an important conference on "The youth and the finance of tomorrow." 	Mauritius	<ul style="list-style-type: none"> ◆ The 3-year working permits for expats has been extended to 10 years, focusing on knowledge transfer, i.e., local talent should learn from the expats. The focus is on financial technology. There are no minimum requirements on investment or staff for coming from abroad and starting a FinTech in Mauritius. ◆ Furthermore, we have the African Leadership University in Mauritius for training across the whole financial services spectrum. ◆ The Government in the Budget 2015/16 announced the setting of the Financial Services Institute (FSI) to provide specialised training courses that are focused on the needs of the financial services sector industry. In addition, Mauritius Finance, founded in 2020, is the leading voice for the financial services industry in Mauritius and comprises a training arm and provides specialised training in the financial services sphere.
Busan South Korea	<ul style="list-style-type: none"> ◆ There are specialised graduate schools for the financial industry in Busan. We are in competition with Seoul for retaining local graduates in Busan, as some young people still prefer to live in Seoul. To this end, Busan has been developing and retaining local talented workforce in financial services and technology via higher education institutions including the Graduate School of Maritime Finance at Korea Maritime and Ocean University, and Graduate School of Finance at Pusan National University. 	Nur-Sultan Kazakhstan	<ul style="list-style-type: none"> ◆ We train 2,000 professionals every year. The focus is on risk managers, accountants, financial leaders, investor relations, etc. We work with universities in Kazakhstan and have launched our own IT school.
Casablanca Morocco	<ul style="list-style-type: none"> ◆ CFC conducted a study on human resources and talent acquisition.ⁱ ◆ CFC put in place the CFC Academy to develop the skills of local talent pool (hard, technical & soft skills) by establishing an MBA degree with a top US university as well as several partnerships with leading international training and certification institutes (CFA, CISI, CII). ◆ To strengthen further capacity building within the financial centre, CFC organises training programs & seminars on specific verticals such as FinTech and green & sustainable finance. ◆ CFC members have successfully focused on hiring "Repats," i.e., Moroccans who studied or were trained abroad. 	Oman	<ul style="list-style-type: none"> ◆ Two initiatives: <ul style="list-style-type: none"> • Training employees with insurance specialisations, • Upskilling capital market employees. ◆ Based on many MoUs, knowledge transfer from international regulatory authorities.
Dubai UAE	<ul style="list-style-type: none"> ◆ Eligible members of the workforce able to apply for a 10-year golden visa. ◆ Established in 2006, DIFC Academy aims to develop talent in financial services by offering top international universities and institutions top ranked programs from DIFC. ◆ DIFC is home to an internationally recognised, independent regulator and a proven judicial system with an English common law framework. ◆ Being the region's largest financial ecosystem of almost 30,000 professionals, working across 3,600+ active registered companies, making DIFC the largest and most diverse pool of industry talent in the region. ◆ Expanding the DIFC Employee Workplace Savings (DEWS) plan across Dubai government entities supporting the emirate's vision to be a leading hub for talent. This comprehensive savings plan is utilised for retirement planning and aligns with global best practices and is the first of its kind within the region. 	Stuttgart Germany	<ul style="list-style-type: none"> ◆ Financial education was an issue in Stuttgart. Therefore, efforts have been initiated to convince the university students from finance. ◆ Programmes in partnership with universities: <ul style="list-style-type: none"> • Joint lectures. • Employees from the financial industry joining classes for practical insights (early network into the institutions effect). • Own master's program for finance. • Innovative and different workshops for existing workforce. ◆ We regularly lose some local talent to Frankfurt, but have developed new initiatives to include: <ul style="list-style-type: none"> • Young professional program: Trainee program with a 6-month rotation through different companies (banking, insurance, asset management, stock exchange, FinTech etc.) in the financial sector. ◆ In touch with alumni clubs from universities to start early connections into the financial industry.
		Toronto Canada	<ul style="list-style-type: none"> ◆ The focus in Toronto is on "Attracting, Retaining, Reskilling." We are looking for a wider range of educational backgrounds, e.g., Technology and STEM fields, and diversity in the form of gender, ethnicity, cultural, which we believe drives greater innovation in the sector. We run campaigns at universities to attract different pools of talent to the industry.

ⁱ <https://casablancafincity.com/wp-content/uploads/2019/08/Rapport-CFC-Mercer.pdf>

Regulation

57. Financial centres recognise the need to balance the costs of regulation with the promotion of innovation, and that both companies and consumers will need protection, recognising that there can never be a failsafe system. While risk is often the focus for regulators and traditional financial businesses, regulators need also to promote a focus on competition, alongside the relevant competition authorities. Regulation must be seen as a support function to enable economic growth while avoiding costly market instability and business failures, rather than an end.
58. One of the important roles of financial centre associations, working with regulators, is to ensure that robust systems are in place to counter financial fraud and corruption. This includes strong Anti-Money Laundering (AML) and Know Your Customer (KYC) systems, designed to monitor financial transactions for suspicious activity and to protect from fraud, bribery, human rights violations and other forms of corruption and financial crime.
59. The role of financial centre associations is often to act as a bridge between industry and the regulator/central bank to ensure that changes in investment processes, industry development and markets is understood. Financial centre associations are best placed to serve as a meeting place for all concerned as well as to promote best practice on specific topics between one national financial system and another. We can observe this in the topic of sustainable finance, for instance, where financial centres in the WAIFC have established green financial centre initiatives to foster that dialogue, e.g., the [Hong Kong Green Finance Association](#) or [Finance for Tomorrow in Paris](#).
60. Regulators themselves needed more expertise, particularly in digital services and sustainability, to understand new market opportunities and ensure that they had the data required to regulate successfully.

"As financial centers, we need to make clear that innovation is the best consumer protection."

Hubertus Väth

Managing Director Frankfurt Main Finance,
and WAIFC Board Member



Table 5
Financial Centre Perspectives: Regulation

Abu Dhabi UAE	<ul style="list-style-type: none"> ◆ As a progressive financial centre, we have found that best-in-class institutions, investors and innovators seek the high standards provided by a robust, credible and comprehensive regulatory framework as well as a regulator proactively engaging with the market. ◆ In-line with this, since its launch in 2015, the FSRA looks to benchmark its framework against international standards and global best practices. ◆ In addition, we have found that admitting only those firms that meet these standards provides market confidence in the system and is a basis from which further investment and innovation can occur. 	Mauritius <ul style="list-style-type: none"> ◆ In Mauritius, The Virtual Asset and Initial Token Offering Services Act 2021ⁱ was passed in December 2021, providing an enabling framework for the regulation of these providers and their initial token offerings.
Brussels Belgium	<ul style="list-style-type: none"> ◆ As a member of the EU, Belgium is ruled by European directives and has little freedom to adapt its regulation. However, a strict application of the legislation induces several issues: the compliance department is often seen as the "sales prevention team". A number of banks are forcing the closure of accounts of those who trade with some countries. Even non-profit organisations find it difficult to open a bank account. The right balance between doing business and avoiding fraud is sometimes difficult to find. 	Nur-Sultan Kazakhstan <ul style="list-style-type: none"> ◆ Data is key, in the hands of the regulatory authorities. It makes supervision easier for them. ◆ We need regulation to embrace technology. We should not oppose technology. ◆ Our mission is to support domestic and regional economic growth by providing innovative products. The proper regulatory framework allows the retail investors to be included from the beginning.
Busan South Korea	<ul style="list-style-type: none"> ◆ Busan is the national Blockchain hub and a free zone in terms of regulation. Designated as the regulatory sandbox, Busan is conducting pilot projects which leverage blockchain technology. After the initial two years of demonstration, pilot projects will continue as regular business once they are proven to have no issue with consumer protection. 	Oman <ul style="list-style-type: none"> ◆ Investor protection comes first for us. These are the arguments: "How can we licence a financial business if we do not know the impact of that business on consumers?" and "As a regulator, how can we regulate something if we do not know how it works?" ◆ There is a lot of dialogue and challenging debate to find common ground on whether regulation or technology should come first. ◆ Regulation is needed to protect consumers and prevent instability. Due to all the disruption caused by FinTech and other technologies, regulation will become more and more critical.
Dubai UAE	<ul style="list-style-type: none"> ◆ DIFC has the most proven regulatory and legal framework in the region based on English common law which provides the Centre with global credibility. ◆ The Dubai Financial Services Authority (DFSA) is the independent regulator of financial services conducted in or from the DIFC. The DFSA is an independent risk-based regulatory body for financial activities and a pioneer in regulating emerging financial technologies (payments, digital assets, crypto, etc.) ◆ Serious financial businesses, including FinTechs, seek regulation. They want to be integrated into the financial system; they want to be regulated to provide official recognition. ◆ Regulation has the specific role of creating industries that do not exist yet. Finding the right amount of reporting requirements and supervision is a separate question that is addressed with the new sector. ◆ In the case of emerging financial centres, our goal is not regulation. Our goal is development and economic growth. We have regulatory authorities, of course, but DIFC's mandate is broader. 	Paris France <ul style="list-style-type: none"> ◆ We need to make sure that the different pieces of regulation work in the same way. In France, we have regulations from the European Union as well as some domestic regulations in place. Furthermore, we need open-minded regulators who are open to business everywhere.
Frankfurt Germany	<ul style="list-style-type: none"> ◆ One of the most frequently applied models in that context is the regulatory sandbox. Germany has, consciously, not offered a regulatory sandbox, because the same financial activities in each segment should be regulated equally. ◆ The new German Fund Location Act (Fondsstandortgesetz) came into force on July 1, 2021. It grants domestic special funds permission to invest up to 20% of the funds they manage in crypto assets such as bitcoin. With this new policy, Germany attempts to encourage the development of new technologies that could have a significant effect on financial services. 	Stuttgart Germany <ul style="list-style-type: none"> ◆ This is and always will be a very hot topic. There is no acceptance and development for innovation without having the necessary protection for consumers. ◆ Therefore, regulation is necessary, but without crossing the line of creative space such that it becomes an obstacle to continued innovative thinking and ideas.
		Toronto Canada <ul style="list-style-type: none"> ◆ In Canada, we have a highly regulated, stable banking system, which is excellent. However, the banks' boards often get bogged down in discussions about risk management, to the detriment of a focus on innovation.

ⁱ <https://mauritiusassembly.govmu.org/Documents/Acts/2021/oct2121.pdf>

A Vision for the Future

Future Trends for Financial Centres

61. Financial centres – both in terms of the financial businesses operating in centres and organisations promoting the development of the centre - have a key role to play in enabling the development of the diverse, evolving financial business sector to address many of the world's biggest challenges. As trade rebounds after the first phases of the Covid-19 pandemic, and as the 4th Industrial Revolution drives new and more forms of commerce and trade, financial centre associations will continue to have a central role in building expertise and expanding opportunities to support businesses in their jurisdiction to develop.

62. Asia-Pacific financial centres have made particular progress over the last several decades, driven by economic and trade developments. We expect African marketplaces and their financial centres to develop significantly over the next decade as trade develops both as a result of the implementation of the African Continental Free Trade Area (AfCFTA), which is projected through the sole removal of tariffs on goods, to increase the value of intra-African trade by between 15 per cent (or \$50 billion) and 25 per cent (or \$70 billion)ⁱ, and with the continuing increase in trade between Africa and Asia.

63. Regional perspectives play a significant role in creating new centres and adjusting the strategies of existing centres. Most leading

financial centres have been established for some time and are not likely to face serious competition from new or emerging international financial centres in the shorter term. Some world regions do not host a leading financial centre. This is likely to mean that competition between financial centres will be particularly strong between regional centres looking to take a leading position.

64. Financial centres associations are often tasked with helping to create conditions that will grow local economies and the GDP of the host country. There is scope for financial centres to work together to quantify the benefits that arise from a successful financial centre to the broader economy, perhaps through commissioning further research in this area.

65. In structural terms, it remains to be seen whether the traditional idea of a geographic cluster of activity in a single location remains the most likely model of the future. There are many financial firms that are based across multiple jurisdictions, with work either undertaken by a subsidiary or outsourced to regional or overseas hubs. The ways in which financial centres and regulators interact and stimulate one another will be as important as a model of activity in a single place.

66. One of the impacts of the Covid-19 pandemic has been an acceleration in the possibilities of remote working, enabling new

possibilities that rely less on physical proximity. For those places with extensive commuter belts, and where remote working or a combination of remote and office-based work has started to become more normalised, it may be that a hybrid model develops permanently, where a financial business has its registered location in a particular financial centre, but where the workforce is widely dispersed. This may pose new issues for regulators and to the reputation of financial centres, where it becomes less simple to define business activity as belonging to one place rather than to a distributed network, even though contracts determine the place in which business is delivered. It may also affect the innovation advantage of clusters, unless the benefits of proximity, including the accidental but fruitful products of in-person discussion, can be replicated in an online forum. Physical proximity as a driver may be replaced by cultural proximity or shared language.

67. Increased workforce dispersion and working from home may complicate the tasks of policymakers in financial centres. If the workers are not travelling to the financial centre, e.g., not commuting to the Toronto business district, but staying for the most part at home in nearby communities, to what extent are they really part of the Toronto financial cluster? If an organisation has home workers throughout the world, does it matter where its headquarters is other than for regulatory and contractual

purposes? If a financial centre works to compete successfully and creates firms which need complex arrangements to ensure the allocation of tax revenues, and jobs that go to suburbs and rural areas, then what is the incentive to develop, and how can you measure development? Against this point, regulatory authorisation and legal reputation matter greatly in competition across marketplaces.

ⁱ <https://www.brookings.edu/research/intra-african-trade-a-path-to-economic-diversification-and-inclusion/>

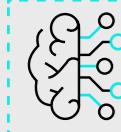
A Vision for the Future

68. Given the challenges ahead, we can start to define the characteristics of the successful financial centres of the future. We believe that by 2030 successful financial centres will have made good progress to being:



Green.

Provide incentives that prioritise the sustainable economy, reduce carbon emissions and promote green solutions.



Smart.

Able to understand and manage increasingly complex technological approaches to finance, opening new markets and offer improved services.



Innovative and client/customer centric.

Provide a regulatory and legal environment that allows for sustained innovation, balancing regulatory cost and protection.



Digital.

Provide most services for residents via special platforms, apps etc.



Inclusive.

Ensure the business services and regulatory environment is fair and open to all-comers, with support for those wishing to start businesses in the marketplace.



Quality of life.

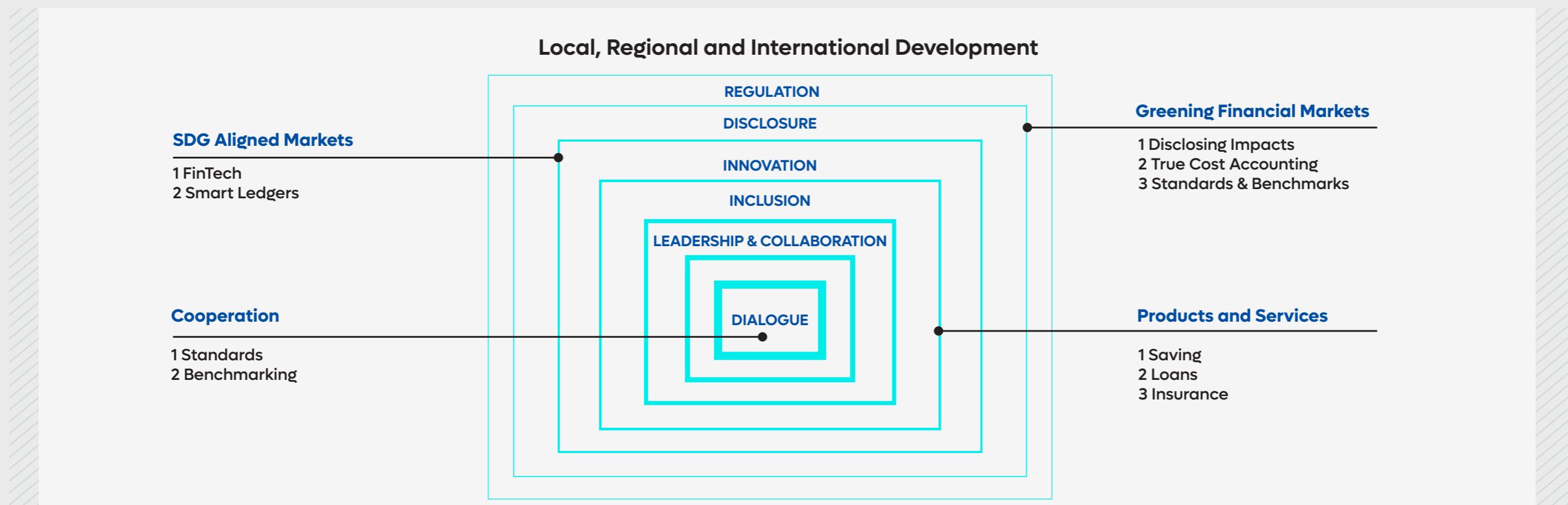
Centres offer an excellent quality of life, which help attract high performing people.

69. Financial centres will be active in addressing the goal of achieving the SDGs, through:

◆ **Leadership and collaboration.** Dialogue to assist the development of standards and benchmarks which improve the delivery of sustainable financial services between:

- ◆ Financial centres.
- ◆ Regulators and innovators.
- ◆ Financial service providers.
- ◆ The public sector, private sector and civil society.

Figure 6:
Financial Centre Contribution to the achievement of the SDGs



Conclusion

- 70. The proximity of financial services firms and people in a cluster encourages innovation and productivity, as it does in other aspects of commerce. This contributes to economic growth and institutional development in the countries where financial centres are established, and often aligned with trade and commerce.
- 71. Much of finance is international business. While there will always be a need for finance to support the development of the domestic economy, successful financial centres are those which host firms which international players trust to provide a bridge between jurisdictions. The systems of regulation, law, arbitration and the openness of the business environment in an international centre provide the environment in which this trust can develop and thrive. Reputation is key and unites other areas of competitiveness of financial centres.
- 72. One of the keys to the achievement of this vision is continuing dialogue and collaboration between financial centres to learn from best practice and share intelligence on ways to address the challenges of the future. The needs of the world's economy to meet very large challenges will require the growth of public and private sector financing. Financial centre associations and leaders will have a key role in orchestrating talent, bridging gaps, and sharing ideas with one another to enable the development of finance to address the needs of society. Just as the clustering of financial services encourages innovation, so collaboration between financial centres will lead to improvements in the development of the world economy and its focus on sustainable outcomes.





Appendix 1:

The Development of Financial Centres

What is a Financial Centre?*

In 1974, Charles Kindleberger marked that in the research agenda, the formation of financial centres "falls between two stools"ⁱ. Financial centre development falls between the disciplines of finance, urbanism, sociology, and law. Academic literature originally regarded an international financial centre as a financial function of its host city. In 1918, the German historian O. Spengler introduced the term "global city" to describe a sizeable form of settlement formed in the process of several smaller agglomerations through consolidationⁱⁱ. The American sociologist R. McKenzie stated in 1927 that the world is based on a system of large cities, actively developing and serving as a platform attracting wealth and enterprising people from around the worldⁱⁱⁱ.

Urbanist P. Hall considered world cities as world centres with well-developed trade, finance, education, culture, and information and communications technology. For the first time, the attention of scientists is paid to cities' economic function. In the late twentieth century, further to P. Hall's studies, J. Friedman and S. Sassen found out that the world cities, previously considered by P. Hall, have similar "international" characteristics and control the world economy. J. Friedman believed that these cities function as intermediaries, providing counterparties from a particular country with access to global markets^{iv}. In a more recent paper, J. Beaverstock and P. Taylor pointed out that global cities not only provide access

* Contributions from Dr Alena Dolgova, MGIMO-University

ⁱ Kindleberger Charles P. The formation of financial centres: A study in comparative economic history. - Princeton University: Princeton Studies in International Finance. - No.36, 1974. - 85 p.

ⁱⁱ Spengler O. The Decline of the West / Spengler Oswald. - New York: A. A. Knopf, 1928.

ⁱⁱⁱ McKenzie R. The Concept of Dominance and World-Organisation / R. McKenzie // American Journal of Sociology, 33. - 1927, pp. 28-42.

^{iv} Friedman J. The World City Hypothesis / J. Friedman. - Development and Change, 4. - 1986. - pp. 12-50.

to global markets but also positively impact their residents' quality of life^v. S. Sassen gave the most universally accepted definition of a "global city", which is a post-industrial centre heavily involved in the global economy^{vi}. Sassen underlines the function of global cities' interconnectedness facilitating capital flows, which constitute an important function of an IFC.

These approaches to the definition of international financial centres focused on their location prevail in urban studies and sociology. However, the definition of a city is problematic, as anyone who has tried to compare city populations knows. Whether Paris is bigger than London depends on whether you intend to measure the core city (perhaps defined by the medieval city walls), the city as defined by political boundaries, or the greater metropolitan area. In certain cases, such as offshore centres like the Cayman Islands, the financial centre is just the jurisdiction. Likewise, the definition of finance is problematic. All cities have financial transactions. Is a shipping transaction finance? Or paying for fuel? When does a shipping transaction become just finance? Are we talking about transactions that are wholly financial? Funding a vessel, or insuring it?

In economic studies, financial centres are usually regarded through the prism of their role in the global financial system, uncoupled from their host cities. For economists, financial centres are mainly centres of concentration of banks and specialized financial institutions that function as financial intermediaries. The presence of multinationals and international banking groups, share markets, audit, consulting

^v Beaverstock J.V., Taylor P.G., Smith R.G. A Roster of World Cities / J.V. Beaverstock, P.G. Taylor, R.G. Smith. - Cities, 16 (6). - 1999, pp. 445-458.

^{vi} Sassen Saskia. The Global City: New York, London, Tokyo / Sassen Saskia. - Princeton University Press, 1991 - 480 pp.

and legal companies and state regulator is important for financial centres' activity. The important characteristic of such centres that all its residents are connected to each other.

Economic historian, Y. Cassis. defines an international financial centre as "a key unifying element of the global financial architecture, which is a set of financial institutions, markets, organisations and professional communities"^{vii}. He focuses on financial services, which are at the heart of a financial centre's activity. Financial intermediaries use a financial centre to provide such services, negotiate and arrange the most profitable deals. Thus, financial centres become "platforms where various financial transactions may be carried out simultaneously by investors from all over the world"^{viii}.

The review of existing approaches to the definition of international financial centres, typical for urban studies, geography, and economics shows that there is no common approach to defining the object of research, which makes it difficult to assess financial centres' development and influence on the national and global economy. That is why we should stick to an interdisciplinary vision. So, an international financial centre may be defined as a place, which, along with administrative, commercial and cultural functions, performs the priority one of financial intermediation providing a wide range of financial services and ensuring that savings are transformed into investments. This approach combines the financial intermediation function and the centre's location.

^{vii} Cassis Youssef. Capitals of Capital: The Rise and Fall of International Financial Centres 1780-2009 / Youssef Cassis. - Cambridge University Press, 2010. - 393 pp.

^{viii} Tschoegl Adrian E. International Banking Centre, Geography, and Foreign Banks / Adrian E. Tschoegl // Financial Markets, Institutions and Instruments, 2000, 9(1). - pp. 1-32, p.2.

Interestingly, the OECD doesn't define financial centres, yet it defines offshore financial centres starting with, "Countries or jurisdictions with financial centres that contain financial institutions...". While the omission of "normal" financial centres from the OECD glossary may be an oversight, this might get to the heart of the issue: a definition might be "financial centres are places with dense concentrations of financial professionals and their supporting firms," i.e., physical clusters. It's the mixing of these professionals that matter.

At their best, financial centres funnel investment toward innovation and growth. Vibrant, competitive financial centres give cities economic advantages in information, knowledge, and access to capital. A strong financial centre, whether domestic, niche, regional, international or global, connects the wider economy to the global financial community. Cities that are part of the global financial network gain from global trade and growth. Inward and outward investment opportunities increase the wealth of cities that have financial centres, and so the wealth of their citizens. 'Traffic' between the domestic economy and the global financial community is critical to national economic performance. The key function of the domestic financial community is not its ability to service the domestic economy's needs domestically, but its ability to service the domestic economy's needs wherever and however they are best provided. After attaining a certain threshold, a well-functioning financial centre attracts global financial transactions to its home market, based on the attractiveness of its offer.

The History of Financial Centres

The oldest extant financial centres as we know them today were city-based, such as northern Italian city-states, Amsterdam, and London. They arose in response to the development of commerce and trade, which required capital, insurance, and the movement of money across borders. As nation-states developed, financial centres flourished in their capitals, such as Paris or Madrid, supporting the economic needs of the country in which they were based. As the British Empire spread, London became the pre-eminent international financial centre of the 19th and 20th centuries. As the US economy grew, New York developed as a major financial centre; and in the 20th and early 21st century, London and New York have been pre-eminent among financial centres, often described as the two true Global Financial Centresⁱ.

In the 1970s, thinking about the development of financial centres was dominated by the assumption that a large national economy created a large national financial centre that extended itself internationally to foster national competitiveness. In the 1980s this thinking led to the assumption that Tokyo, then growing rapidly on a booming Japanese economy, might well become the dominant international financial centre.

Events since 1990 have displaced any simple theory of financial centre development. First, smaller centres in small nation-states or city-states, have often done well, e.g., Zurich, Geneva, Singapore, or Luxembourg, in terms of what they provide to meet local capital needs. Second, large nation-states, such as Brazil or Indonesia, often have fledgling financial

ⁱ Capitals of Capital: A History of International Financial Centres, Cassis, CUP, <https://www.cambridge.org/core/journals/business-history-review/article/abs/capitals-of-capital-a-history-of-international-financial-centres-17802005-by-cassis-youssef-translated-by-collier-jacqueline-cambridge-cambridge-university-press-2006-xiv-385-pp-figures-tables-bibliography-notes-index-cloth-4000-isbn-9780521845359/B0597800DD4DC11FD937F54E6B97EA5F>

centres that provide some level of international finance. The number of internationally recognised financial centres has burgeoned, from 46 nominated and then tracked by the Global Financial Centres Index community in 2007 to some 116 in 2021.

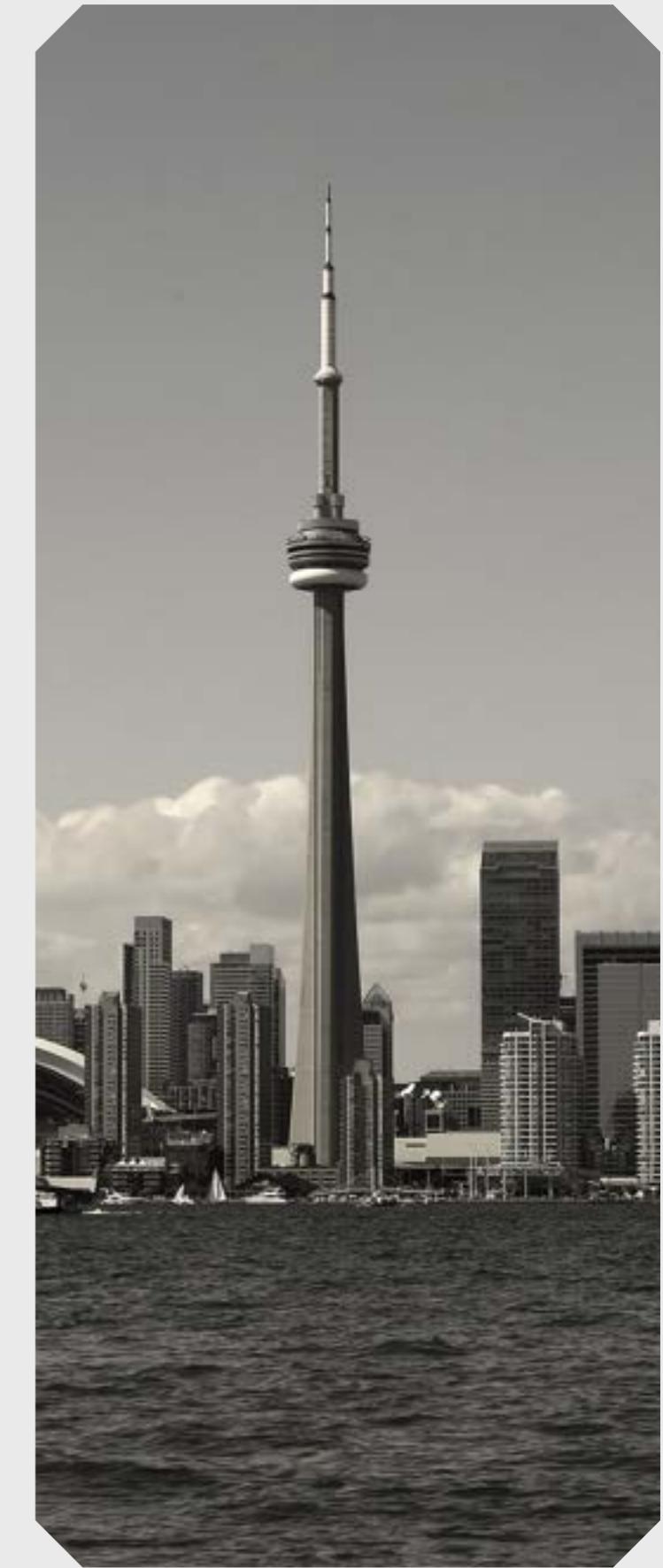
Older financial centres developed organically, with financial services firms growing in specific geographical areas of cities, for example, the City of London, or Wall Street. Thanks to physical proximity, the intensity of financial business in one area was helpful to enabling business, as information could flow easily between different players in the market. The concentration of financial services encouraged and enabled the development of larger financial institutions with sufficient liquidity to finance projects at scale. Alongside financial institutions, professional services firms with a specialism in financial services developed; and the larger financial centres developed ecosystems which would allow complex structured products to be developed relying on well-established platforms of law and accounting. Older financial centres consistently flourish because of social infrastructure and reputation formed in a particular city area.

Later new international financial centres emerged, both in Asia, with Tokyo displacing Osaka in Japan in the 1980s, and developing its international business, and Hong Kong, Singapore, and Shanghai serving the needs of the region, and then beyond, and through the development of offshore centres, both in the Caribbean and Europe as well as Mauritius in Africa. From the second half of the twentieth century, various jurisdictions began the creation of Special Economic Zones as a part of national investment policy. These areas, contained within a country's borders, provided alternative

economic, legal, and regulatory environments designed to attract foreign direct investment. Some of these were designed specifically to attract financial business, either to launch it in the jurisdiction or to assure its further growth.

Examples of financial centres established as Special Economic Zones (SEZs) include Dubai International Financial Centre (DIFC) and the Astana International Financial Centre. There are often incentives provided in SEZs to attract foreign firms, whether these relate to tax, rental arrangements, subsidies for staff recruitment and training, or arrangements to allow residency for employees. In financial centres based in SEZs, separate and very distinct legal provisions may apply, often based on reformulations of British Common Law; and regulatory systems have been designed for what are effectively separate jurisdictions, to make it easier for overseas firms to set up and operate in the centre.

Since the turn of the millennium, a 'third wave' of financial centres has emerged, focused on ecommerce and FinTech. Hangzhou and Berlin are examples of centres that have thrived because of their commitment to, and expertise in, digital commerce and finance. And existing financial centres have increased focused on FinTech, with many providing dedicated office accommodation in FinTech hubs or labs, to attract start-ups and support their development and growth.



Financial Centre Organisation

There are a variety of models of organisation among financial centres. Some, like London and New York, have no single central authority or set of representative organisations. Instead, several public and private sector organisations, including regulators, central banks, trade bodies, and local government have an interest in the financial centre and work together to shape the development of the financial sector and represent its interests, pooling their expertise and corporate interests.

In other centres, a central body has been established to oversee and promote the financial centre. These organisations are given their remit by local or national government and are generally based on public/private partnership arrangement. Examples are Luxembourg for Finance, the Busan Financial Center, or the Hong Kong Financial Services Development Council.

Elsewhere, for example Chinese cities or Seoul, local government takes the lead, with the municipal government representing the financial centre as part of its responsibility for economic development. In some financial centres, the financial regulator is the central authority for both regulation and financial centre development. This is the model in Singapore where the Monetary Authority of Singapore, which is also the central bank, takes the lead, setting the frameworks in which the private sector operates.

In many countries, the function of financial centres are performed by national investment agencies, which are responsible for national investment policy implementation and interaction with investors. This organisational model is specific for Eurasian and Latin American states.





Appendix 2:

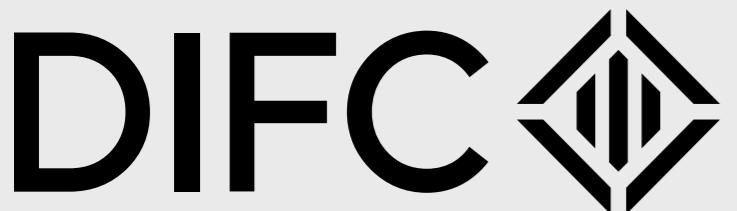
**WAIFC Worldwide
and Member
Profiles**

Figure 7:

WAIFC worldwide

WAIFC facilitates cooperation between its members, exchanging best practices and communication with the general public. WAIFC members are governments agencies, associations, and similar institutions developing and promoting their financial centres





Dubai International Financial Centre
www.difc.ae

Dubai International Financial Centre (DIFC) is the leading global financial centre in the Middle East, Africa and South Asia (MEASA), which comprises 72 countries with an approximate population of 3 billion and an estimated GDP of USD 7.7 trillion. With an 18-year track record of facilitating trade and investment flows across the MEASA region, the Centre connects these fast-growing markets with the economies of Asia, Europe and the Americas through Dubai.

DIFC is home to an internationally recognised,

independent regulator and a proven judicial system with an English common law framework, as well as the region's largest financial ecosystem of close to 30,000 professionals working across over 3,600 active registered companies – making up the largest and most diverse pool of industry talent in the region.

The Centre's vision is to drive the future of finance through cutting edge technology, innovation, and partnerships. Today, it is the global future of finance and innovation hub offering the region's most comprehensive FinTech and venture capital environments, including cost-effective licensing solutions, fit-

for-purpose regulation, innovative accelerator programmes, and funding for growth-stage start-ups.

This work is sponsored by the Dubai International Finance Centre Authority, and jointly produced by the WAIFC and the Z/Yen Group. The DIFC commissioned this paper seeking to understand how IFCs can collaborate to address the common challenges facing society today and exploring what are the key considerations IFCs would need to navigate to be relevant in the future.

Abu Dhabi Global Market
www.adgm.com

Abu Dhabi Global Market (ADGM) is an award-winning international financial centre strategically located in the capital of the United Arab Emirates.

Established by Federal Decree, ADGM's jurisdiction extends across the 114 hectares of Al Maryah Island. ADGM's three independent authorities - the Registration Authority (RA), the Financial Services Regulatory Authority (FSRA) and ADGM Courts - together ensure that its business-friendly environment operates in line

with international best practices, recognised by major financial centres worldwide.

Since opening for business in late October 2015, ADGM quickly gained global recognition for its robust, progressive, and responsive ecosystem. Through collaboration and understanding business needs, ADGM introduced many 'firsts' both regionally and globally. As a catalyst of growth, ADGM delivers value to its clients and its peers and contributes to Abu Dhabi's ambitious growth plan and strategy.

The Emirate of Abu Dhabi has a robust and successful finance heritage - with a well-

diversified portfolio across asset classes, geographies, and sectors that all share the same deliberate and long-term view of investment. The discovery of oil and gas in the late 1960s provided the opportunity to build and diversify a strong economy with now more than US\$1 trillion of investable assets under management.

It is within this context that Abu Dhabi's ambition for an International Financial Centre and the development of ADGM was a natural next step for the Emirate and the UAE.





The Astana International Financial Centre (AIFC)
www.aifc.kz

The Astana International Financial Centre (AIFC) is a relatively new financial hub serving Kazakhstan and acting as a gateway for Central Asia, the Caucasus, the Eurasian Economic Union (EAEU), the Middle East, West China, Mongolia and Europe. In 2015, the First President of the Republic of Kazakhstan announced the establishment of the International Financial Centre, with the AIFC officially opening in July 2018. AIFC is now a fully operational financial eco-system, based in Nur-Sultan, the capital of Kazakhstan.

AIFC supports Kazakhstan's policy of modernization and growth; making the business environment more friendly, attracting capital to accelerate development and providing companies with the most advanced, secure and effective investment instruments. The AIFC operates within a special legal regime based on Common Law.

As a regional investments and financial hub, the Astana International Financial Centre has created an innovative ecosystem for international investors who are interested in Kazakhstan and Central Asia. The new focus

is on green and sustainable finance, with AIFC hosting the Green Finance Centre. By the end of 2021, AIFC has attracted above 1,000 residents in the three years since its launch, including international investment companies, international fund and fund managers, and major banks.

AIFC is actively engaged in developing projects in the framework of the Belt and Road Initiative and aligning it with the Eurasian Economic Union. Our partners include the China Development Bank and the Silk Road Fund. The AIFC has a technologically advanced stock exchange, the Astana International Exchange (AIX), that operates on the NASDAQ platform. AIFC operates under its own jurisdiction based on English common law and an independent Court and International Arbitration Centre. Finally, investors are attracted by our favourable conditions for participation — exemption from main taxes for 50 years and a simplified regulatory regime under the AIFC Regulator.

Despite challenging times, AIFC continues to attract investment into the country and the region, creating a developed financial services and capital market. In addition, we are involved in developing new technologies and FinTech, necessary for the country's transition to the 4th Industrial Revolution and creating favourable

conditions for doing business in Kazakhstan.

AIFC is proud to be a founding member of the World Alliance of International Financial Centers. Together with other international financial centres, we are working on a range of joint projects and research initiatives, such as support for small and medium-sized businesses, financial inclusion and the role of IFCs in supporting economic recovery.

Our anti-crisis measures during the pandemic include support for industry and small business. The AIFC has introduced a simplified listing for mining companies, which has already attracted significant interest from international investors. A crowd-funding platform to attract liquidity for small and medium-sized business is already operational and even before the pandemic, we implemented a system of electronic justice, entitled 'eJustice', enabling remote filing of court cases from anywhere in the world. All of which has proved quite timely during recent periods of enforced isolation and quarantine across the globe. Overall, AIFC continues to bring together the interests of the business and the state, by creating a comfortable and innovative ecosystem for national, regional and global investments into Eurasia.

Busan Finance Center

Busan Finance Center <https://www.kbfc.or.kr/eng/>

Since it was established in July 2020, Busan Finance Center (BFC) has been setting and implementing strategies to develop Busan into an international financial city by fostering Busan as the financial hub and promoting the local financial industry.

We contributed in:

- ◆ Raising global awareness of Busan as a financial hub in Asia.
 - We have been shoring up our international stance as a finance centre by steadily raising the ranks in the Global Finance Centres Index (GFCI).

◆ Coordinating joint projects with member institutions .

- Through monthly meetings with six to eight member institutions, we are actively seeking ways to collaborate and produce synergies .

We aim to:

- ◆ Attract foreign investment in the upcoming infrastructure projects
 - Busan holds numerous potentials as an investment destination, with national and municipal projects in developing infrastructure not only in Busan, but also throughout the adjacent provinces including Ulsan and Gyeongsangnam-do province. Furthermore, the on-going development projects in Busan New Port and Gedeon New Airport will allow

Busan to fully prepare for a successful hosting of 2030 EXPO.

- Spot prospective FinTech startups and help them incubate.
- To meet such goal, Busan is ready to actively reach out to domestic and foreign investors and financial institutions to foster live communication, cooperation, and ultimately investment. To this end, we will seek various channels to liaise between these stakeholders.
- Promote more frequent collaboration with member institutions.

Luxembourg For Finance www.luxembourgforfinance.com

Luxembourg is a founding member of the EU and passionate promoter of European integration. Its financial services industry has always had a strong focus on cross-border business, making it the epitome of a European financial centre. From building Europe's number one international fund distribution platform to the listing of the world's first Green Bond, Luxembourg has been a pioneer in financial services for many decades. Luxembourg for Finance (LFF), the financial centre development agency, was founded in 2008 with the goal of further developing Luxembourg financial centre, building on its key strengths: openness to international trade, stability, talent, sustainability, technological innovation, and complementarity with other EU financial centres. The future development of Luxembourg financial industry revolves around these fundamental components that

are already today a core part of Luxembourg's value proposition. Indeed, they are fundamental traits of Luxembourg's role as a centre of excellence in cross-border finance, in the EU and beyond.

The soundness which characterises Luxembourg's financial industry draws on the country's well-established reputation for political, economic and social stability, as well as from the diversified make-up of the industry. This long-term stability has attracted international investors for decades. Luxembourg has been consistently rewarded for the prudent and responsible management of its public finances with a triple-A credit rating with stable outlook from all the major rating agencies. Luxembourg's government has made its commitment to this stability clear and is committed to doing what it takes to maintain its AAA rating to reassure global investors which is of the utmost importance, especially in times of global crisis.

Luxembourg will continue to leverage its international business environment and its highly skilled and multilingual workforce to serve international financial institutions operating cross-border. Luxembourg's aims to further expand its role as a cross-border EU financial centre contributing to job creation and sustainable growth in Europe. Luxembourg is committed to playing a key role in the development of competitive EU regulatory frameworks to ensure financial stability, resilience and innovation with new products and services to meet the goals of the Capital Markets Union (CMU). To meet this objective, Luxembourg will leverage new and forthcoming pan-European regulations for digital or emerging financial products, as well as strive to establish itself as a key domicile for pan-European pension plan products given its role as Europe's leading fund domicile.



THE FINANCIAL CENTRE DEVELOPMENT AGENCY



Mauritius International Financial Centre
www.mauritiusifc.mu/

In a business forum, in the margins of the Mauritius Finance and Investment Week in December 2021 in Dubai, Mr. K. Poonoosamy, the Chief Executive Officer of the Economic Development Board of Mauritius highlighted that "Doing business and partnering with Mauritius is doing business and partnering with a nation with remarkable credentials on development achievements. The track record of the Mauritius jurisdiction includes the realisation of a high-income vision in 2019, taking the country from a USD 200 per capita income in the early seventies to more than USD 12,000 by 2019."

Mauritius holds the world record for the longest stretch without an economic recession from 1981 to 2019. From a monocrop sugar economy, Mauritius has built an economy supported by more than twelve industries.

The financial services sector is today one of the most vibrant and performing sectors of the Mauritius economy. Anchored in the "The Golden Triangle" linking Middle East, Asia and Africa, Mauritius has forged a strong reputation as a financial centre of choice, and the sector has witnessed a growth rate exceeding 5% until 2020. Despite the effects of the Covid-19 pandemic, the financial services sector has proven to be resilient with a growth rate and GDP contribution estimated at 1.1% and 13%

respectively for the year 2020.

Built on a robust ecosystem, coupled with an unparalleled well-regulated and transparent platform, the Mauritius IFC has become a node for the international investing community for conducting their global and cross border business.

The Mauritius IFC is particularly poised to play a strategic role in attracting investments and promoting prosperity for and across Africa. As a highly stable and democratic country in Africa, Mauritius offers a suite of sophisticated products and services to serve the international investing community for their Africa-focused investments.

Oman
www.cma.gov.om

Oman's Capital Market Authority at the heart of Oman Economic Transformation

Looking ahead towards actively realising the Oman Vision 2040 (the Vision), Oman's Capital Market Authority (CMA) has developed a 5-year executive strategic plan that seeks to improve capital market liquidity, expand debt markets, increase insurance penetration, further protect policy holders and investors, and enhance financial inclusion.

The Vision, while identifying national priorities, focuses on, among others, reshaping the roles of and relationship between public, private, and civil sectors to ensure effective economic management; and achieve a developed, diversified and sustainable national economy.

Oman 2040 also aims to modernize the education ecosystem, support scientific research and innovation, develop healthcare regulations, and, through sustainable urban centres and decentralisation, lay the foundation for social well-being of all segments of the society.

As planned by the Vision, Oman's economy will be less rentier and more production-based, with a private-sector-anchored economic transformation that seeks to achieve an expanded economic base delivering a better life for citizens through a 5% average annual growth rate of real GDP.

This planned economic transformation is dependent on two, *inter alia*, key enablers. The first is easy and affordable access to flexible finance, attracting foreign as well as local investors. For example, FDI is expected to grow

from a mere 2% of the GDP in 2018 to about 10% in 2040. Most of the planned growth in FDI to GDP ratio is in the non-hydrocarbon sectors, with emphasis on knowledge creation and commercialisation. In addition, alternative and innovative financing instruments of financing have been identified as key to future economic growth in Oman.

With fiscal sustainability being a key principle of the Vision, the above required that government projects to be designed using commercial models. The objective is to attract private investors and make such projects more productive economically and at the same time minimises burden on the public debt. Over the past 18 months, government units went through a steep learning curve, shifting their planning from a public sector paradigm to a private sector mind-set. This has been the biggest hurdle, but now it is over.





Paris

www.paris-europlace.com

Paris EUROPLACE, the Paris financial services-led body, has been established at the core of Europe for decades.

Looking forward, the 2030 Global Strategy of the Paris financial centre is focused on three main pillars: improving its attractiveness; consolidating its sectors of excellence (such as investment banking, insurance, asset management, corporate financing) to accelerate industrial initiatives in three areas

(FinTechs and financial innovation, Sustainable and environmental finance, Infrastructure financing); strengthening the contribution of the Paris financial centre at the European and the international levels.

Its future is therefore based on the missions given to an ecosystem formed by several complementary entities, in charge of sustainable finance (Finance for Tomorrow), FinTechs (Finance Innovation), financial research (Institut Louis Bachelier), regulatory dialogue (within the Association Europe Finances Regulations) and new innovative asset management companies (Emergence).

We see a condition of a successful development for the years to come to be how to gather a large number of companies, well beyond the financial sector. This is precisely why from the beginning, Paris EUROPLACE has been bringing together all financial services industry stakeholders and is the voice for its hundreds of members, corporate issuers, investors, banks and financial intermediaries, professional associations, attorneys and accountants, consulting firms, as well as the financial market authorities.

Stuttgart Financial

www.stuttgart-financial.de

Traditional corporations, world market-leading SMEs and innovative start-ups meet over 500 banks, insurance companies, building societies and financial service providers.

The region around Stuttgart is nationally and internationally primarily known for its industrial companies, SME sector and numerous world market leaders. Therefore, Stuttgart Financial forms a very important pillar for economic prosperity in Baden-Württemberg, for example by providing an efficient supply of capital for both companies and private individuals.

For many years, the Stuttgart financial centre has been of very great importance for the whole of Baden-Württemberg. With its

internationally significant players, the Stuttgart financial centre is also gaining in importance within the Federal Republic of Germany and has charisma throughout Europe.

To support the financial centre, increase its visibility, promote the financial centre on behalf of the financial institutions and to connect the financial centre by maintaining a rising network, Stuttgart Financial was founded in 2007. The founding fathers are the Stock Exchange Stuttgart, the Ministry of Economics of the State of Baden-Württemberg and the foundation of credit management for the University of Hohenheim.

With the foundation of Stuttgart Financial the financial centre has a very active financial centre initiative, which, among other things, compiles and publishes extensive figures and

statistics. In addition, Stuttgart Financial is committed to an innovative transformation of the sector, young talent acquisition and offers (further) education measures and industry events for all financial centre players and interested parties.

The current strategical areas in which Stuttgart Financial provides support, connects and promotes the financial centre are:

- ◆ Start-up and FinTech
- ◆ Innovation
- ◆ Human Resources and Financial Literacy
- ◆ Sustainable Finance



Kigali International Financial Centre

www.rfl.rw

Located in the heart of Africa, The Kigali International Financial Centre (KIFC) has been established in Rwanda for the past two years and is now featured on the Global Financial Centres Index among the top 5 IFCs in Africa. Kigali International Financial Centre is characterized by its Pan-African Connectivity and is the ideal jurisdiction connecting investors with opportunities across Africa and Beyond.

Economic Contributions Of KIFC/Impact on Society and Nation

Rwanda is at a pivotal point in its economic development as it transitions from Vision 2020 to Vision 2050 where it has set ambitious goals for itself and developed national strategies to achieve high-income status by 2050. Among them is the "Financial Sector Development Strategic Plan. It is against this backdrop that the Kigali International Financial Centre (KIFC) was established, to attract foreign businesses and investments and to accelerate cross-border trade within Sub-Saharan Africa, ultimately leading to job creation, upskilling of Rwandan professionals and greater access to capital for the local economy. capital for the local economy.

Current Focus Areas

Includes Investment Funds and Legal structures as well as FinTech.

Future views

KIFC looks towards sustainability on the following themes Green Financing and Impact Investing.

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