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THE GLOBAL FINANCIAL CENTRES INDEX

6



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Background & Introduction

The Global Financial Centres Index (GFCI) was first produced by the Z/Yen Group for the City of London in March 2007. It rated and ranked each major financial centre in the world in terms of competitiveness. Since then, the increase in the number of respondents and additional data in successive editions has highlighted the changing priorities and concerns of financial services professionals.

This 6th edition of GFCI provides ratings and rankings for 75 financial centres, up from 62 in GFCI 5, calculated by a 'factor assessment model'. This combines instrumental factors (external indices) with assessments of financial centres from responses to an online questionnaire:

■ **Instrumental factors:** Previous research indicates that there are many factors that combine to make a financial centre competitive. These can be grouped into five overarching areas of competitiveness – People, Business Environment, Infrastructure, Market Access and General Competitiveness. Objective evidence of these areas of competitiveness is provided by a wide variety of comparable sources. For example, evidence about the infrastructure competitiveness of a financial centre is drawn from a survey of property and an index of occupancy costs. Evidence about a fair and just business environment is drawn from a corruption perception index and an opacity index. A review of the instrumental factors used in the GFCI model has been undertaken to ensure that the most up to date, comprehensive evidence is used from the most reliable sources. There are 64 instrumental factors used in the GFCI 6 model, up from 57 in GFCI 5 (see page 31). Of these factors, 24 have been updated since GFCI 5, 10 are direct replacements for factors used in GFCI 5 and 15 are completely new to the GFCI model. These new additions include an index of tax information exchange agreements, an index of global intellectual property and three new measures of transport infrastructure. Not all financial centres are represented in all the external sources, and the statistical model takes account of these gaps.

■ **Financial centre assessments:** Responses to an

ongoing online questionnaire completed by international financial services professionals (who assess financial centres with which they are familiar). The online questionnaire runs continuously to keep the GFCI up-to-date with people's changing assessments. Since GFCI 5, 566 additional respondents have filled in the online questionnaire and been included in the model, thereby providing 14,877 new assessments from financial services professionals across the world. A total of 36,497 financial centre assessments from 1,802 financial services professionals are used to compute GFCI 6. The assessments used in the GFCI model were collected over a two year period from July 2007 to June 2009. The assessments are discounted according to age so that the most recent carry more weighting. Where the most recent assessments are referred to, this means those collected in the 6- month period since GFCI 5 was computed – January to June 2009.

The instrumental factors and financial centre assessments are combined using statistical techniques to build a predictive model of financial centre competitiveness using support vector machine mathematics. The predictive model is used to answer questions such as:

"If an investment banker gives Singapore and Sydney certain assessments, then, based on the instrumental factors for Singapore, Sydney and Paris, how would that person assess Paris?"

Full details of the methodology behind the GFCI can be found at www.cityoflondon.gov.uk/GFCI. The full list of the 75 financial centres rated in GFCI 6 is shown on page 21.

The Main Themes of GFCI 6

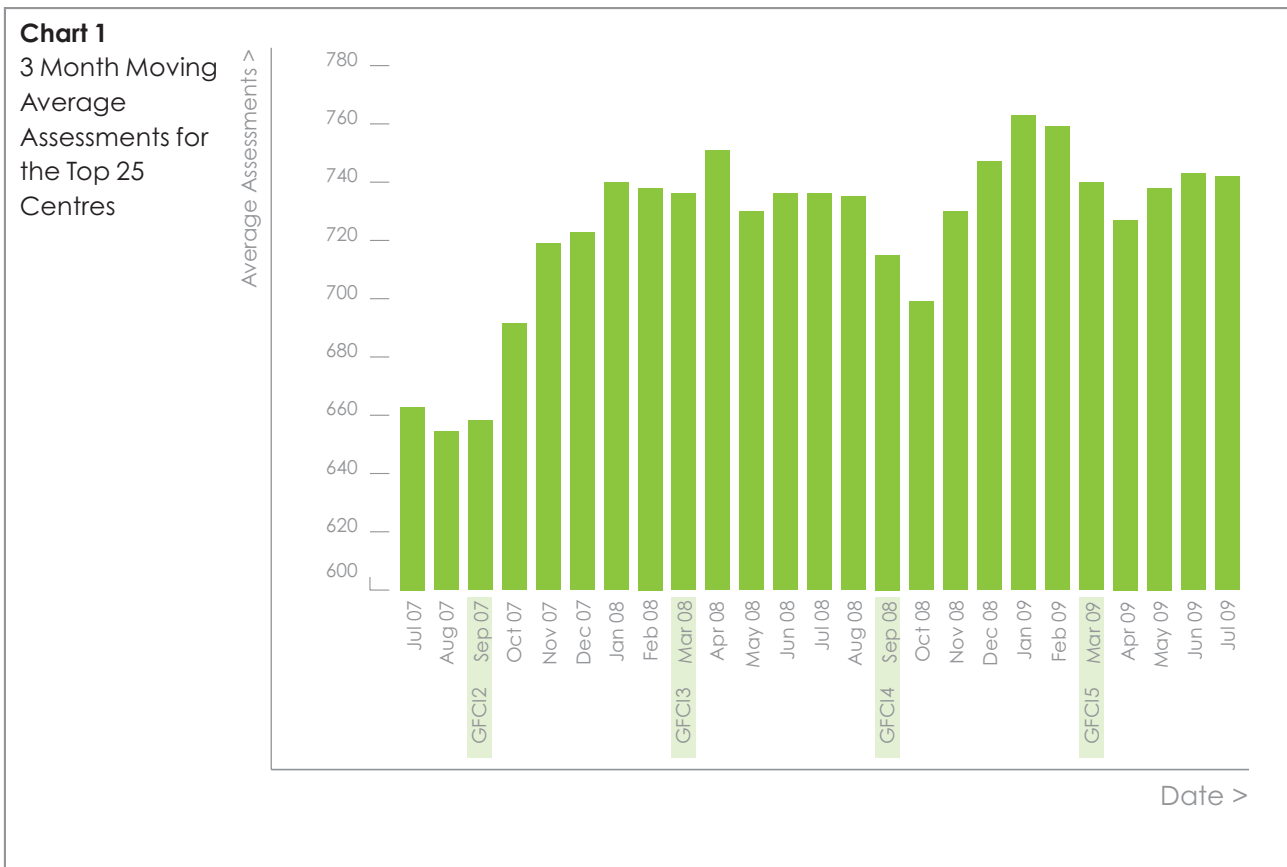
A Return of Confidence

This latest version of GFCI shows that of the 75 centres rated, 59 centres have received higher scores and only three have decreased. Thirteen new centres appear in the ratings for the first time. GFCI 5 demonstrated that the financial crisis had created uncertainty and a significant reduction in confidence, with an unprecedented fall in the ratings for every centre. The current rise in ratings demonstrates a return of confidence to GFCI 4 levels, with the top scores here being very similar, and the bottom scores showing a small improvement.

GFCI 5 demonstrated a 'flight to safety' with the top rated centres being less hard

hit by the fall in ratings than the bottom centres. The rise in ratings this time is variable, with the change in ratings varying from minus six points (Gibraltar) to plus 135 (Beijing) with an average movement of plus 43 points. The large rises in ratings were achieved mainly by the Asian centres with Shanghai, Beijing and Seoul all seeing rises in excess of 100 points, as did Sao Paulo, Wellington and Budapest further down the rankings.

To demonstrate the changing pattern of perceptions, Chart 1 shows the 3 month moving average assessments given by questionnaire respondents to the top 25 financial centres.



It seems clear that GFCI 5, based on assessments given during the second half of 2008, showed the low point in GFCI ratings with perceptions being affected by widespread recession and uncertainty about the future of financial services. The failure of Lehman Brothers affected people's confidence in autumn 2008, for

example, and this is reflected in the chart. The level of assessments has returned to the scores of last spring and summer reflecting increased optimism and indications that people feel the end of the crisis may be in sight.

Another noticeable aspect of the GFCI 5 ratings was the large variation in individual centre responses, showing a degree of uncertainty about the global economic situation and what might happen. It is noticeable in GFCI 6 that this degree of variability has been greatly reduced. Of the top 20 financial centres that were in GFCI 5, 15 have shown a reduction in the standard deviation of assessments, which indicates a greater degree of consensus and certainty than in 2008.

It is interesting to note that there has been a distinct shift in the location of respondents to the GFCI survey. Of the 566 new respondents, nearly 50% have come from Asia (previously just under 10%).

There is still the highest response rate from Europe (43%) from the total responses included in the model. The GFCI model again has an under-representation of respondents from North America. A breakdown of respondents is shown on page 27.

The increased interest from Asian respondents has resulted in higher numbers of people being familiar with, and rating, Asian centres. The financial centres that have risen most in GFCI 6 are Asian, with Beijing, Shanghai and Seoul all rising by over 100 points in the ratings. Shenzhen is a new entrant into the GFCI and is currently in 5th place overall.

Connectivity and Co-operation

The GFCI has previously highlighted the need for competitive financial centres to be connected and co-operative. Respondents to the GFCI questionnaire believe that the need for connectivity and co-operation is greater than ever if the industry is to deal with, and recover from, the current crisis. A representative comment:

"The only way we are going to rebuild a sustainable and stable finance industry is for policy

makers, especially those in New York and London, to work together. Going it alone is no longer an option."

London Based Investment
Bank Director

These issues will be covered in more depth within each separate section, by identifying which centres appear to be the most aware of and the most closely connected with other centres and geographical regions.

The Global Leaders

Hong Kong and Singapore have demonstrated stable long term competitiveness over the last two years and we consider that they have now joined London and New York as genuine global leaders; consequently these

centres are discussed here. London and New York still lead the field although the gap between the second and third placed centre has been cut from 81 points in GFCI 5 to 45 points here. The four global leaders are:

Table 1
The Global Leaders

Centre	GFCI 6 Rating	GFCI 6 Rank	Change in Rating since GFCI 5	Change in Rank since GFCI 5
London	790	1	9	0
New York	774	2	6	0
Hong Kong	729	3	45	+1
Singapore	719	4	32	-1

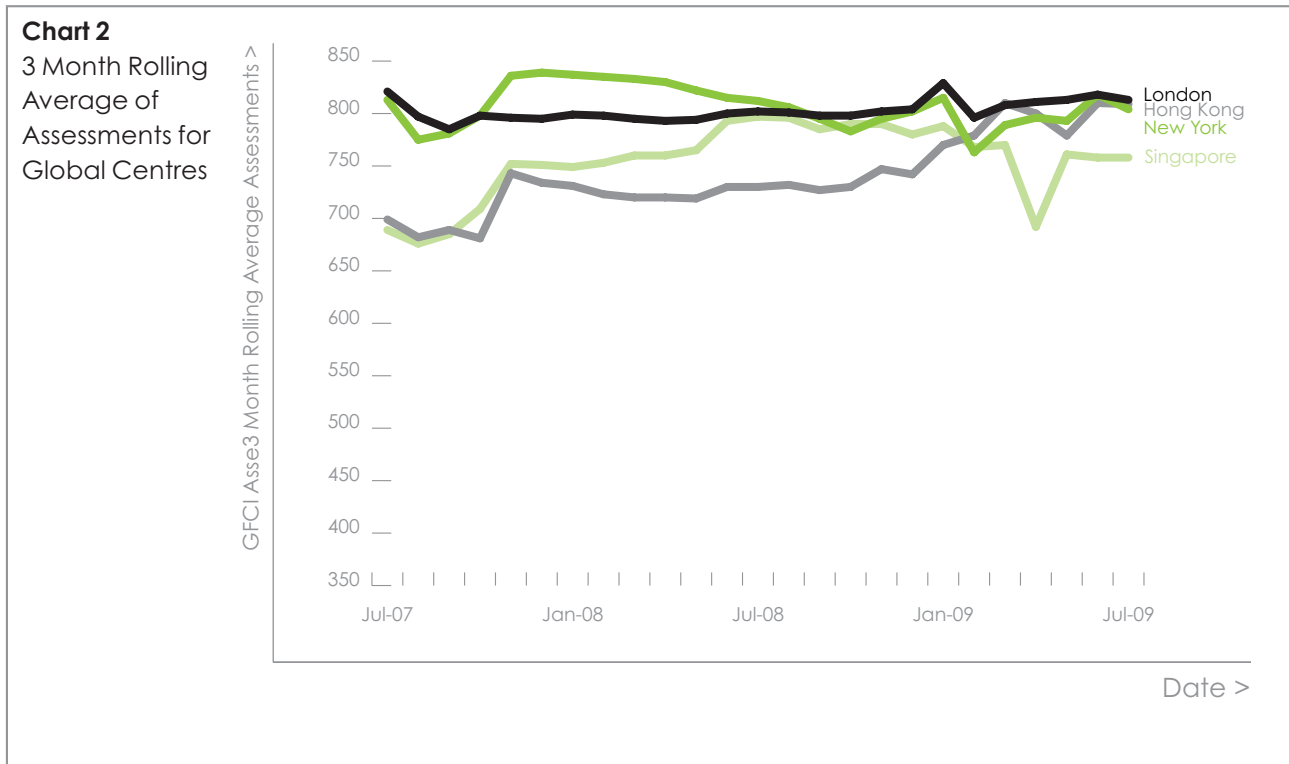
London remains in top place, 16 points ahead of New York (from 13 points in GFCI 5). The financial crisis has had a significant impact on both centres but they remain ahead of Hong Kong and Singapore. London remains in the top quartile of nearly all instrumental factors and leads all industry sector sub-indices (page 22) except the Banking sub-index, where it is 2nd to New York. London leads in all areas of competitiveness (page 23).

New York has gained 6 points since GFCI 5 and remains in the top quartile in over 80% of its instrumental factors. New York is 2nd in all sub-indices except the Banking industry sub-index where it is in 1st position. We have long argued that the relationship between London and New York is mutually supportive and a gain for one does not mean a loss for the other. Before the crisis, a level of competition between the two centres was very evident. Whilst many industry professionals still see a great deal of competition, policymakers appear to recognise that working together on certain elements of regulatory reform is likely to enhance the competitiveness of both centres.

Hong Kong continues to thrive and has risen by 45 points since GFCI 5. It has also regained 3rd place in GFCI from Singapore (which was ahead in GFCI 4 and 5). It is in 3rd place in all areas of competitiveness and 3rd in the banking, asset management and insurance industry sector sub-indices.

Singapore has been climbing steadily in the GFCI ratings and has risen by 32 points in GFCI 6. It is 4th place in all areas of competitiveness and 3rd in the professional services and Government & Regulatory industry sector sub-indices.

Shown in Chart 2 are three month rolling averages of all assessments given to the top four centres in the GFCI online questionnaire:



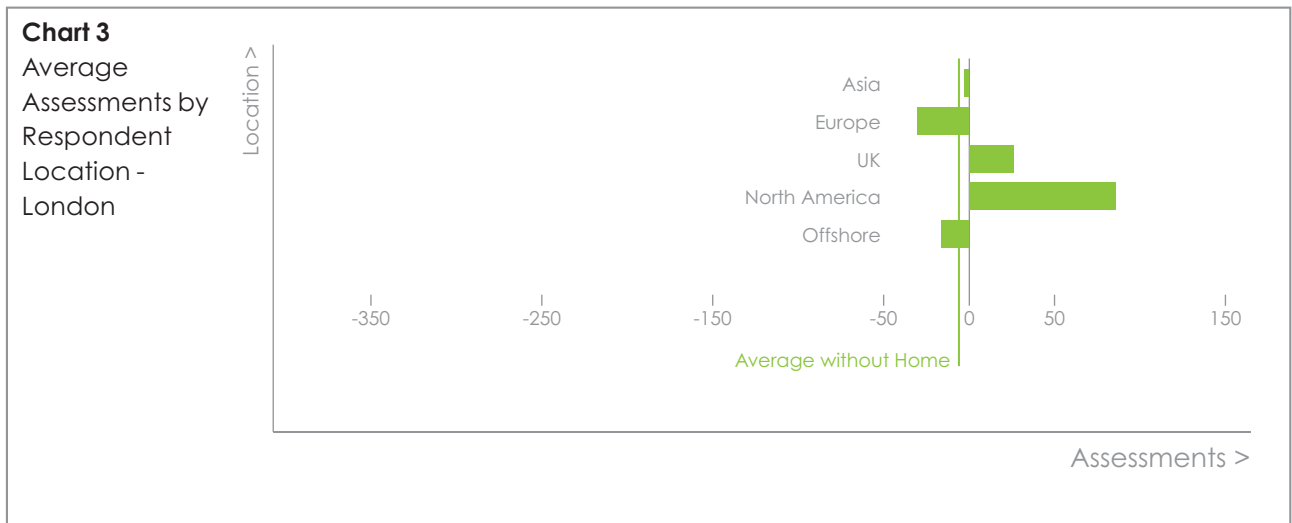
It is worth noting the gradual rise of Hong Kong and Singapore towards London and New York. In mid 2007, before the crisis began, London and New York formed a pair with very similar average assessments (just above 800) and Hong Kong and Singapore formed another pair with similar average assessments (approximately 700). The four centres are now much more closely grouped, with far more similar average assessments. It is evident that all four centres have consistently performed well in all areas of competitiveness with London, New York and Hong Kong being in the top five in most of the sub-indices since GFCI 1 and Singapore making a gradual rise over the past two years.

GFCI responses give an interesting insight into how connected different financial centres are – how well known and well-regarded individual centres are by

respondents in different locations. The following four charts show the average assessments given to the global leaders by respondents in different locations. The bars on each chart represent how many points assessments from each location are above or below the overall average assessment for that centre. Note that values from locations that provided very few assessments for a centre have been excluded as these were not statistically significant. The second vertical line on each chart indicates the average assessment value excluding home region assessments, as these are often more favourable than other responses, and this gives a clearer indication of how relatively well regarded a centre is further afield.

Respondents are asked to rate only those centres with which they are familiar. It follows that the number of assessments given to a centre by people not based there, indicates how well that centre is known by (and possibly visited by) non-residents. London receives assessments from over 80% of 'non-home' respondents (those respondents not

based in London). This is the highest percentage of any centre and indicates that London is well known in other financial centres. Chart 3 shows that London is rated particularly highly by New York based respondents – 86 points higher than the average. It is also rated well by people based in London.

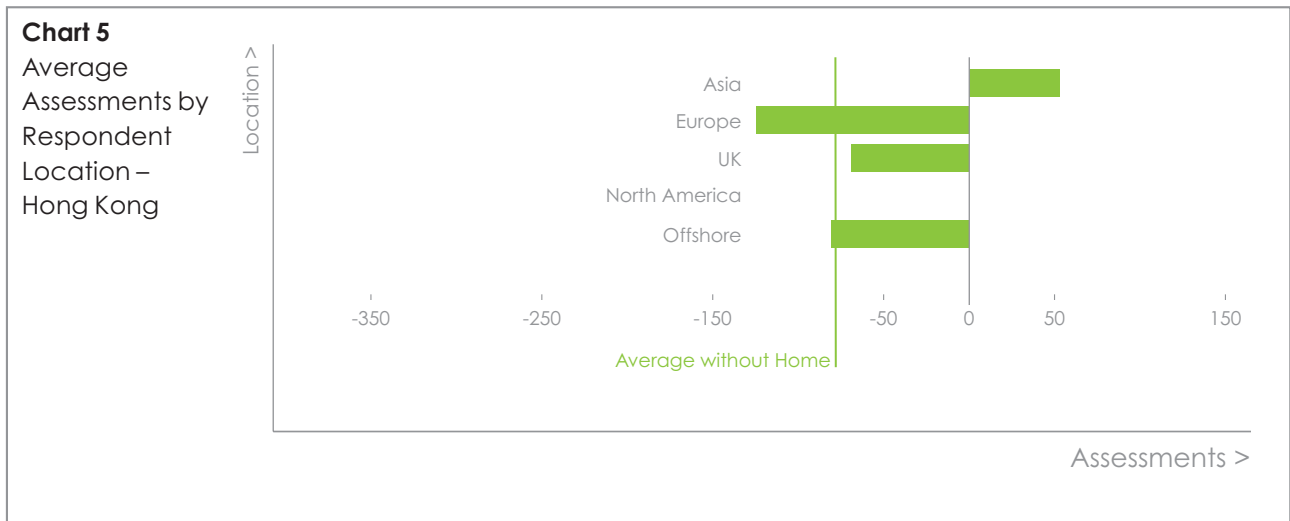


New York receives assessments from over two-thirds of 'non-home' respondents, the second highest percentage in the GFCI. New York is rated also 150 points higher than its overall average score by New York based respondents but below average by Londoners and those based in offshore centres.



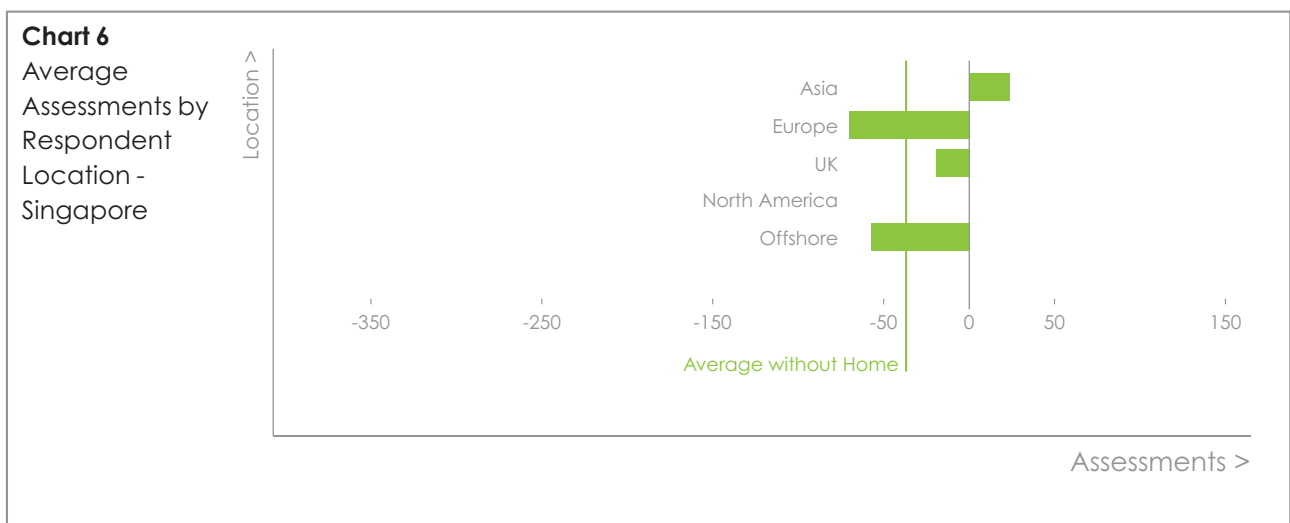
Hong Kong receives assessments from over nearly 60% of 'non-home' respondents – the third most 'connected' financial centre in GFCl. It is particularly well regarded by Asian respondents who assess it to be 50 points better than the worldwide average assessment.

With the Asia responses excluded, respondents from the UK viewed Hong Kong the most favourably.



Singapore receives assessments from under half 'non-home' respondents and is therefore less well connected than the other global leaders by this measure. This is perhaps due to its more recent rise to prominence. Singapore is rated well by Asia based respondents but less highly

by other regions, albeit UK respondents were more favourably inclined than other areas.



Rise of the Asian Centres

All Asian centres have shown a marked improvement in the GFCI ratings since GFCI 5. As well as being well supported by respondents from Asia itself, this may indicate that the Asian centres have been less badly affected by the recent crisis than many of the leading European

and North American Centres. This rise in the ratings of the Asian centres certainly ties in with the fact that many Asian economies are currently faring better than the main Western economies. The top rated Asian centres are shown in Table 2.

Table 2
Top Asian Centres in GFCI 6

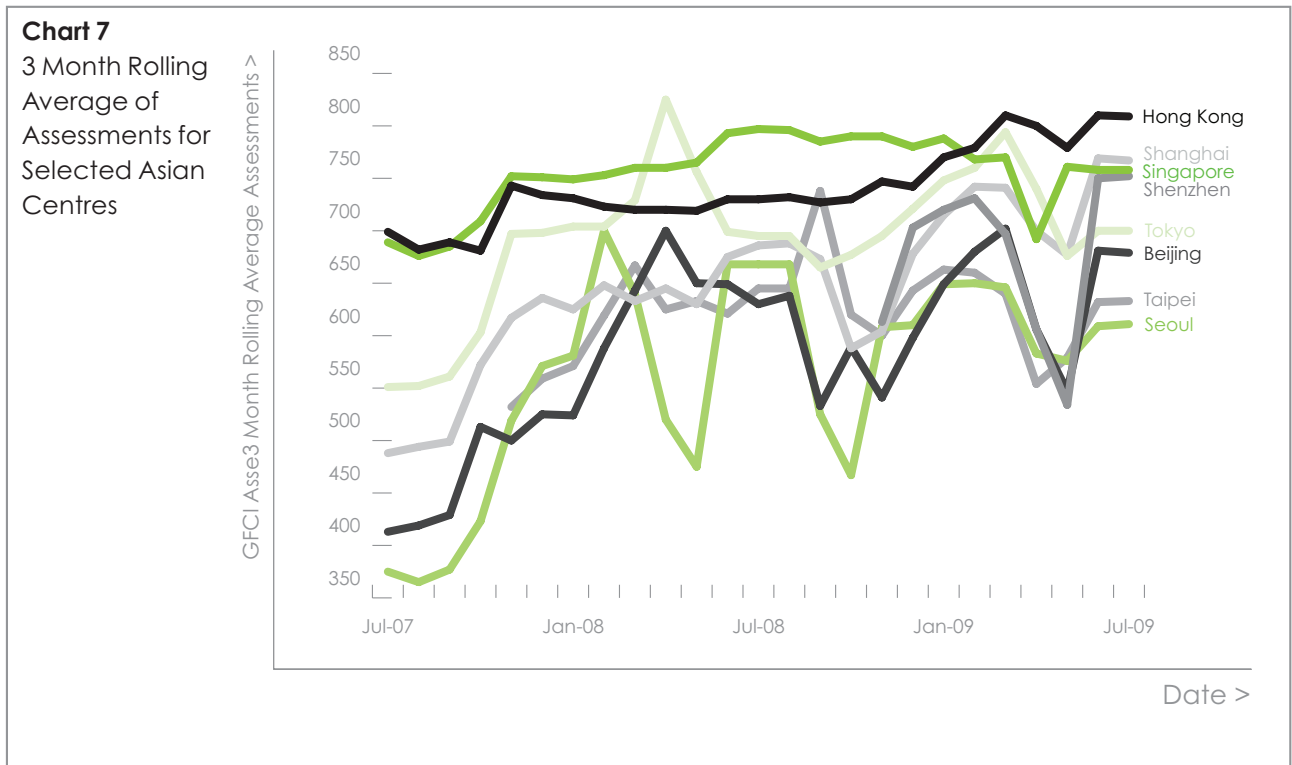
Centre	GFCI 6 Rating	GFCI 6 Rank	Change in Rating since GFCI 5	Change in Rank since GFCI 5
Hong Kong	729	3	45	+1
Singapore	719	4	32	-1
Shenzhen	695	5	-	-
Tokyo	674	7	63	+8
Shanghai	655	10	117	+25
Beijing	613	22	135	+29
Taipei	609	24	91	+17
Seoul	576	35	114	+18
Osaka	565	38	96	+14
Kuala Lumpur	557	45	47	0
Bangkok	532	60	52	-10

Shenzhen was flagged up in GFCI 5 as a centre that was being highly rated, albeit by too few respondents (25) to be included in the model. In GFCI 6, Shenzhen is included in the rankings for the first time, as the highest new entry, in 5th position.

Tokyo has risen back into the top ten with an increase of 63 points, having fallen to fifteenth place in GFCI 5. It was somewhat of a surprise that Tokyo was ranked outside the top ten in GFCI 5 – perhaps an over reaction to some of the trouble that Tokyo has suffered recently. A top ten position is probably a more accurate reflection. Whilst Japan does have significant economic difficulties, Tokyo is a leading financial centre that performs well in most areas - it is 5th in the Asset Management sub-index and 6th in the Banking sub-index. Tokyo is also 5th in two of the area of competitiveness sub-indices – the People sub-index and the Infrastructure sub-index.

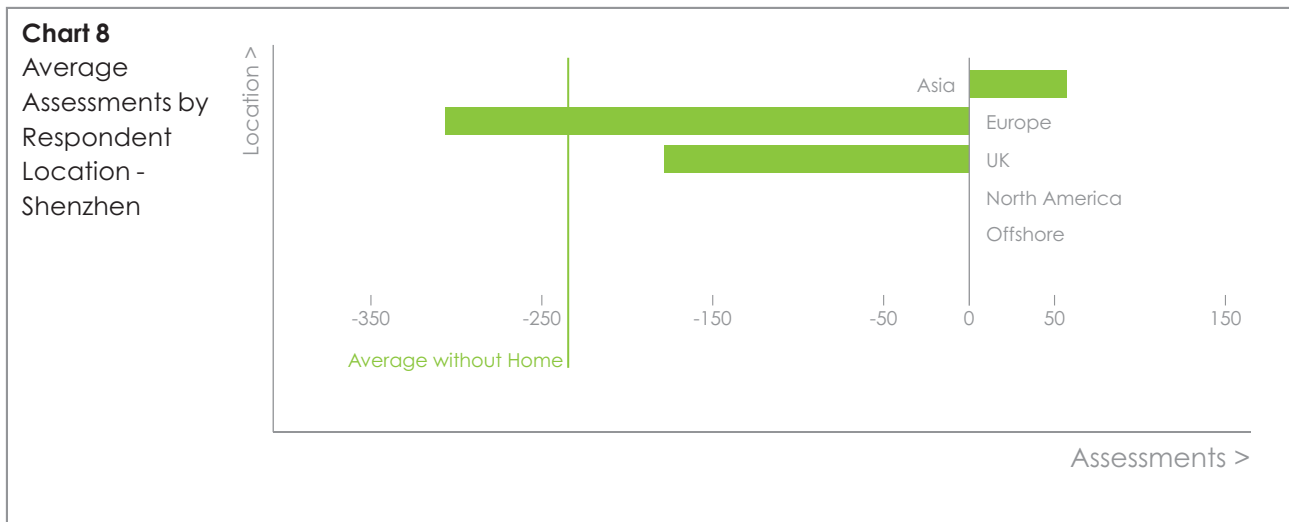
GFCI respondents have been predicting the rise to prominence of Shanghai for the past two years, with it consistently featuring as one of the centres most likely to become more significant in the next few years. Shanghai has now entered the GFCI top ten with a rise of 117 points and performs particularly well in the Banking sub-index (7th) and Insurance sub-index (6th).

Beijing, the other Chinese centre in GFCI, has risen by 135 points since GFCI 5 and is now in 22nd place. Seoul also showed a rise of over 100 points and is 35th in the rankings. The rise of these four centres since the start of GFCI is clearly seen in the chart of rolling average assessments:



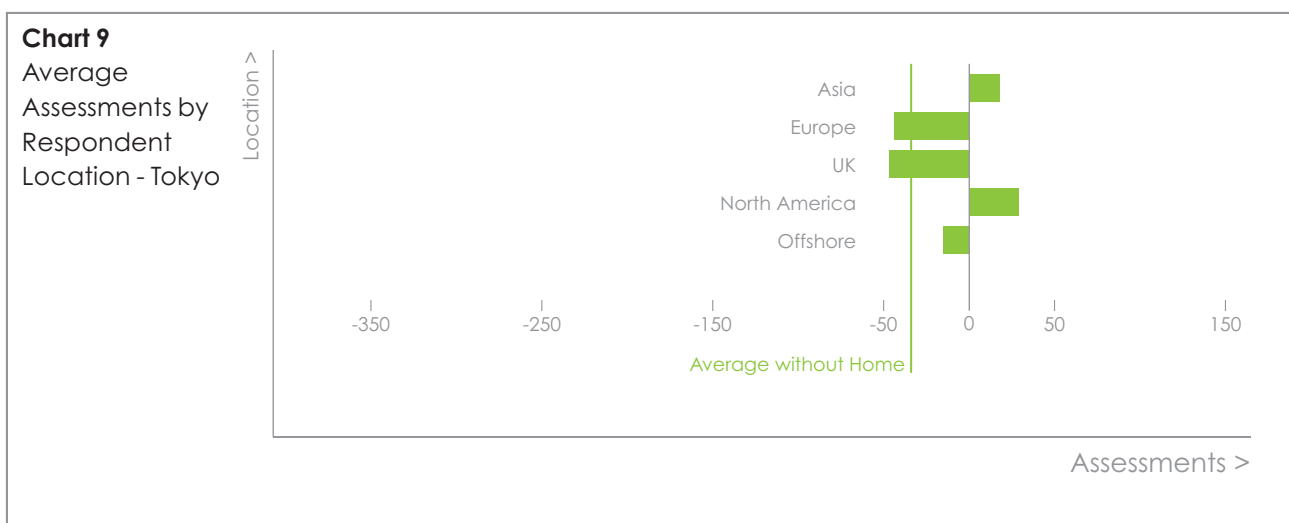
There appears to be considerable volatility during 2008 with several of the Asian centres but it is noticeable that the spread between the centres in 2007 was approximately 350 and it is currently approximately 200 – the average assessments are much more closely grouped and the average volatility of assessments is also significantly reduced.

The following charts show the average assessments given to selected Asian centres. The second line shows the average assessment with the Asia responses removed:

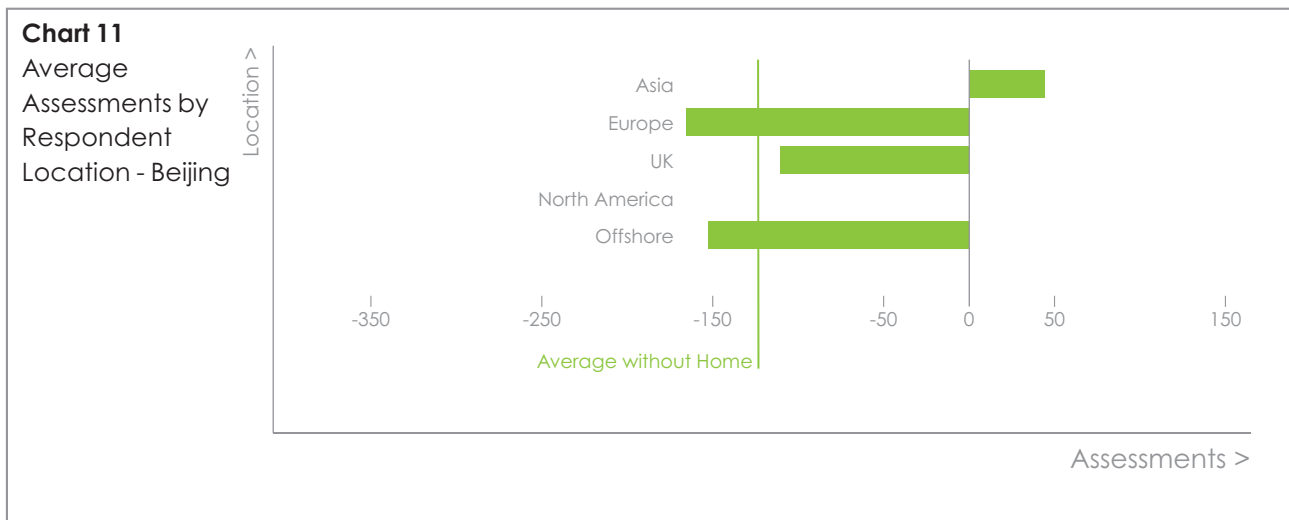
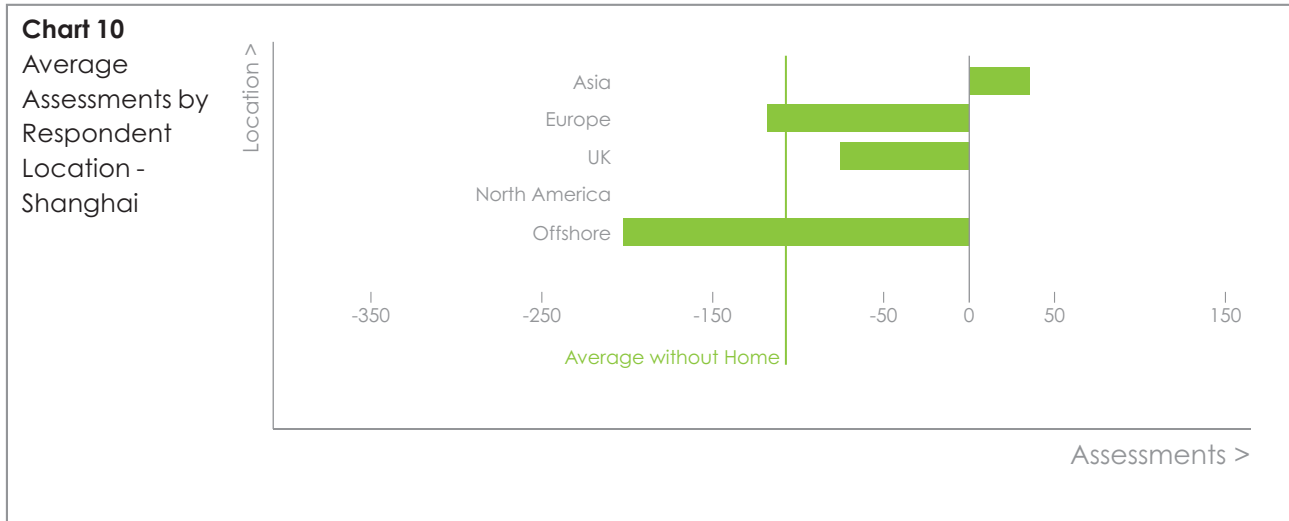


Shenzhen, in common with most of the Asian centres, is well supported by respondents based in Asia. It is rather less well known and supported by respondents elsewhere. Shenzhen was only assessed by 16% of 'non-home' respondents indicating that it is not very well connected outside Asia, and ratings

from outside Asia were generally considerably lower than from those based in Asia. Over 80% of respondents who assessed Shenzhen were based in Asia – many in Hong Kong. Shenzhen is just across the border from Hong Kong and many view the city as a natural mainland partner to Hong Kong.



Tokyo has a far more balanced respondent profile than many other Asian centres, with relatively similar ratings across the board.



Shanghai and Beijing present a similar profile, with support from Asia and rather lower ratings from elsewhere.

In general, Asian centres are well supported by Asian respondents with regard to both the number of assessments and the average assessment given. That is, the Asian centres are well known and highly regarded by Asian respondents. The very low number of assessments given to Asian centres by North American based respondents, and relatively low proportion of European respondents, shows that some Asian centres are far less well known outside of Asia. It should also be noted that many Asian centres received consistently lower ratings from outside the region than inside.

The GFCI questionnaire asks which centres are likely to become more significant in the next few years. As in previous years, Asia features very strongly and is where respondents expect the main increases to come from.

Financial Centre	Number of Mentions in 2009
Shanghai	91
Shenzhen	84
Hong Kong	27
Beijing	14
Singapore	14

Shanghai has consistently been one of the top three centres expected to become more significant but has seen a large increase in the number of mentions in GFCI 6. In past editions of the GFCI, Dubai has been repeatedly mentioned as a centre likely to become more significant. The troubles that have hit the economy of Dubai recently have

affected respondents' perceptions and Dubai is no longer mentioned as often, and hence does not feature in the top five. The GFCI questionnaire also asks in which centres the respondents' organisations are most likely to open offices over the next few years and again the Asian centres feature strongly

Financial Centre	Number of Mentions in 2009
Shenzhen	41
Shanghai	27
Beijing	19
Singapore	16
Dubai	12

North American Centres

The North American Centres have all performed reasonably well in GFCI 6 and all have increased their ratings:

Table 5
Top North American Centres in GFCI 6

Centre	GFCI 6 Rating	GFCI 6 Rank	Change in Rating since GFCI 5	Change in Rank since GFCI 5
New York	774	2	6	0
Chicago	661	8	23	-1
Toronto	647	13	32	-2
San Francisco	634	17	25	0
Boston	634	18	16	-9
Washington D.C.	630	20	34	+1
Vancouver	589	29	20	-4
Montreal	586	32	18	-6

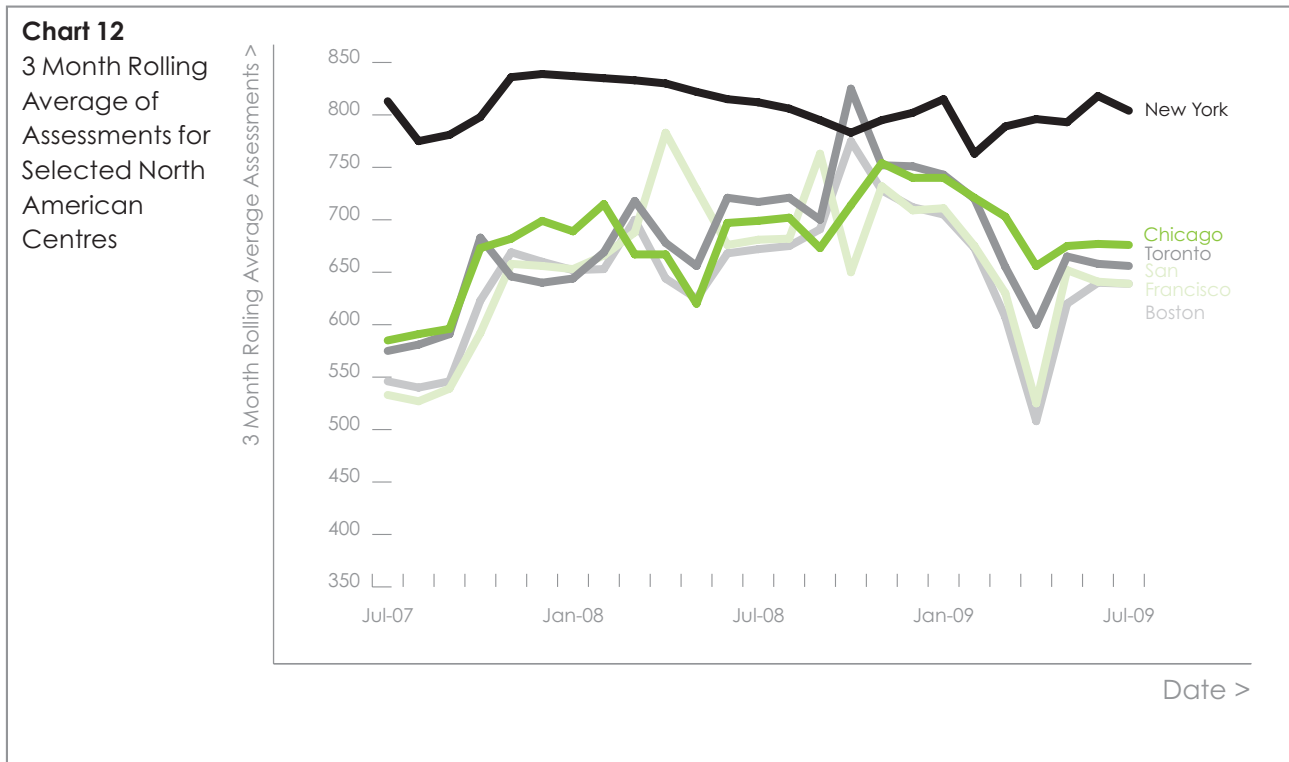
Chicago remains the number two North American financial centre behind New York and retains its position in the GFCI top ten. Chicago is not just very strong in derivatives trading, for which it is probably best known, but is a real 'all-rounder'. It is strong in all areas, and in the top ten in all industry and area of competitiveness sub-indices. Chicago is rated highly by respondents based in New York but (surprisingly) very few other respondents for North America assessed Chicago.

Chicago is rated by 38% of non-home respondents and is well regarded by many. A high response from Asian respondents is notable although the average assessment from Asia is lower than that from New York and London.

Toronto has risen 32 points in the GFCI ratings and is now the third North American financial centre having overtaken Boston since GFCI 5. It performs well in the People sub-index where it is in 10th place. Toronto is rated by a third of non-home respondents and surprisingly it is rated by very few respondents from North America. It is the only North American centre that enjoys support from the offshore centres and it is also well regarded by respondents based in London.

Shown in Chart 12 are the rolling average assessments for several prominent North American centres. There is a very high degree of similarity between the average assessments of these centres, with the exception of New York, which is

rather less volatile than the other centres. It may be that the sentiment of North Americans to North American centres moves with broader economic or political sentiment rather than with individual centres.



The dip in average assessments of most leading financial centres in spring 2009 is seen particularly well in this chart. It would appear that this was a low point in economic sentiment and the dip corresponds closely to the low points experienced on the major stock markets around the world.

European Centres

European financial centres have had mixed fortunes since GFCI 5. Several centres including Paris, Munich and Madrid have seen strong improvements in their ratings whilst Dublin and Glasgow have suffered a reduction in GFCI

ratings, which, whilst small, stands in direct contrast with the gains made by most other centres. Both centres have seen a significant slide in their rankings, Dublin falling from 10th to 23rd place and Glasgow from 31st to 49th.

Table 6
Top European Centres in GFCI 6

Centre	GFCI 6 Rating	GFCI 6 Rank	Change in Rating since GFCI 5	Change in Rank since GFCI 5
London	790	1	9	0
Zurich	676	6	17	-1
Geneva	660	9	22	-3
Frankfurt	649	12	16	-4
Paris	630	19	30	0
Dublin	613	23	-5	-13
Edinburgh	605	27	5	-7
Munich	588	30	30	-1
Amsterdam	586	31	11	-7
Stockholm	569	36	13	-6
Brussels	568	37	16	-5
Monaco	563	39	30	-2
Madrid	560	40	54	+7
Copenhagen	560	42	28	-4
Vienna	555	46	42	-4
Milan	554	47	33	-7
Glasgow	550	49	-4	-18
Oslo	538	56	15	-17

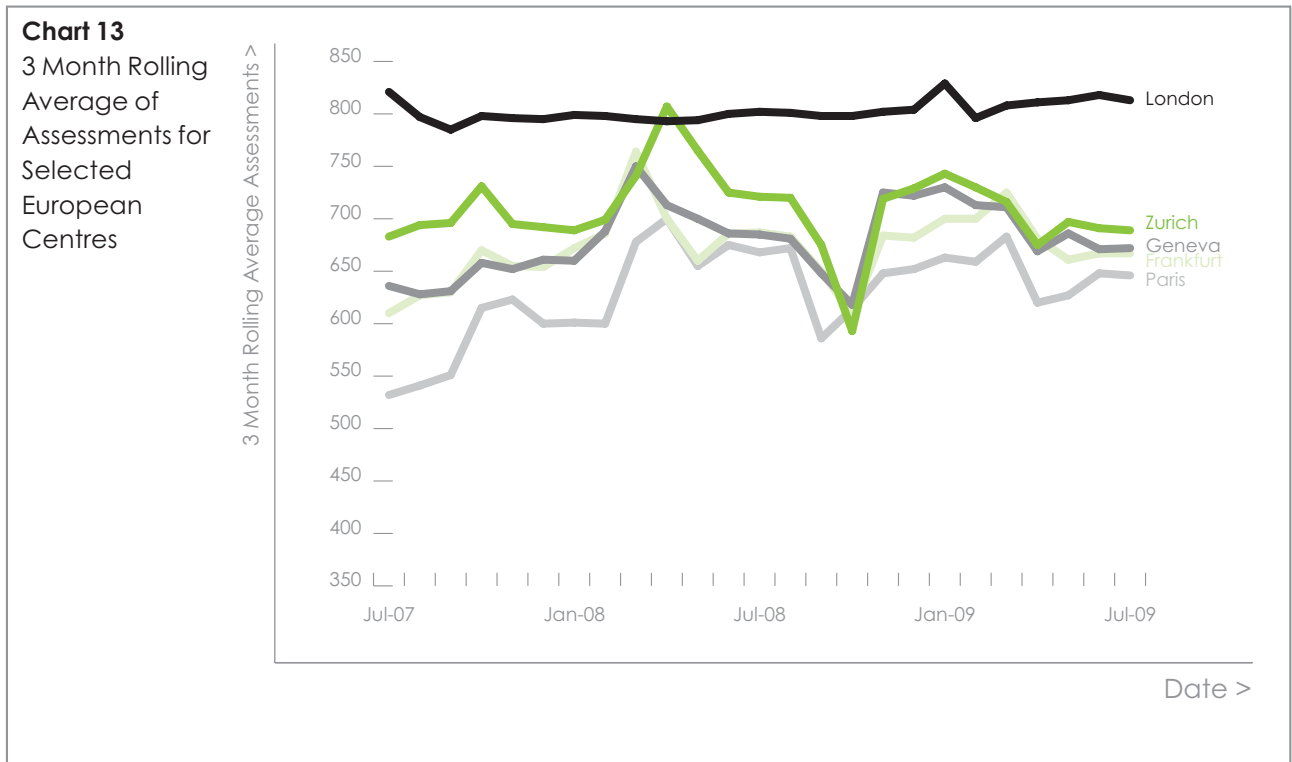
Zurich and Geneva both remain in the GFCI top ten although have fallen in the rankings, by one and three places respectively. Both centres remain strong in asset management and private banking.

Both the Swiss centres were rated by approximately half of the non-home respondents which demonstrates that they are well known and well connected. They received similar patterns of assessments with strong support from offshore centres and London and below average assessments from Asian respondents.

Switzerland has however suffered reputational damage caused to some extent by the continuing difficulties at the major Swiss banks and by the fact that Switzerland remains on the OECD 'grey list' of "Jurisdictions that have committed to the internationally agreed tax standard, but have not yet substantially implemented it".

Chart 13 below shows that in 2007 Paris was over 70 points below Frankfurt. The gap is now less than 30 points. The chart also indicates that the average assessments of the mainland European centres have become much closer. In mid

2007 the gap between top (Zurich) and bottom (Paris) was over 150 points. The gap is now less than 50. The decline in confidence in mid 2008 is very evident in this chart:



Offshore Centres

The offshore centres have come under a degree of scrutiny during the financial crisis. Many offshore centres are regarded as 'tax havens' and there has been significant pressure applied to these centres by many national regulators as well as international bodies such as the OECD. A reduction in secrecy required by the internationally

agreed tax standards has been a key demand of the regulators. The scores of the offshore centres have risen in GFCI 6, but not by as much as those of many other centres. The rankings of the offshore locations have generally declined, particularly those centres towards the lower end of the table.

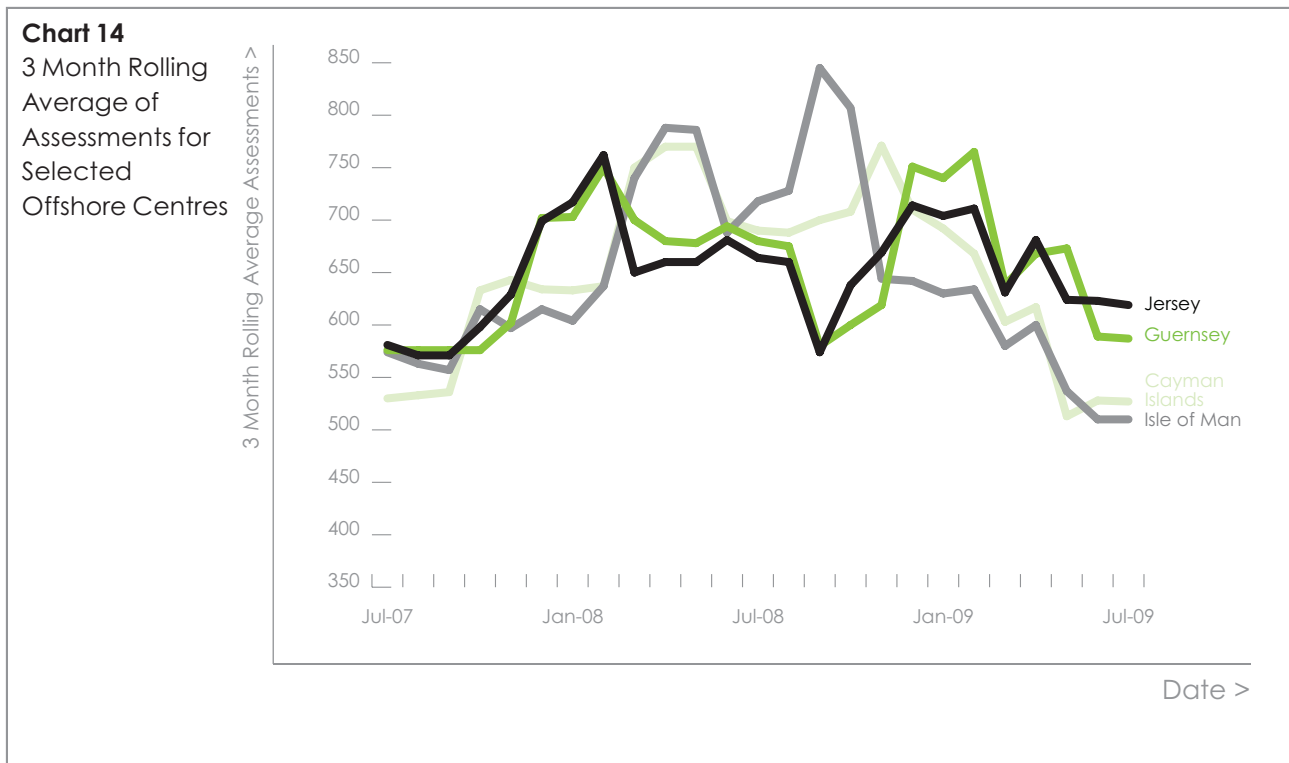
Table 7
Top Offshore Centres in GFCI 6

Centre	GFCI 6 Rating	GFCI 6 Rank	Change in Rating since GFCI 5	Change in Rank since GFCI 5
Jersey	640	14	27	-1
Guernsey	638	15	23	-3
Isle of Man	609	25	8	-7
Cayman Islands	608	26	17	-4
Bermuda	597	28	33	-1
British Virgin Islands	584	33	35	+1
Bahamas	551	48	14	-12
Gibraltar	543	51	-6	-18

Jersey regains its place just ahead of Guernsey (by two points on a scale of 1,000) having scored within four points of each other since GFCI 3. The British Virgin Islands are the only offshore centre to rise in the rankings, up one place to 33rd.

There has been significant pressure applied to the so called 'tax havens' and the OECD has regularly updated its lists of financial centres that are complying with their requests. There is a strong correlation between GFCI ratings and the OECD status. The offshore centres, such as the Channel Islands, which are on the OECD 'White List' have higher GFCI ratings whereas centres such as the Bahamas and Gibraltar on the OECD 'Grey List' are well below the White Listed centres.

Chart 14 indicates the current strength of Jersey and Guernsey, and their increased lead in average assessments over the Isle of Man and the Cayman Islands.



It appears that the offshore centres have greater volatility in the assessments given than other leading centres. This might be due to rapid changes in perceptions related to political statements made about offshore centres. The four offshore centres in Chart 14 seem to have similar degrees of connectivity. They all receive assessments from between 35% and 40% of non-home respondents.

All the top offshore centres achieve higher than average assessments from other offshore centres and from London but lower assessments from Europe and

Asia. Very few respondents from North America assessed the offshore centres (even those in the Caribbean). This is perhaps surprising bearing in mind the pressure being applied to the offshore centres by the US government and the wide coverage in the financial press that these centres have been generating.

Table 8
The GFCI World

Financial Centre	GFCI 6 Rating	GFCI 6 Rank	Change in Rating since GFCI 5	Change in Rank since GFCI 5	Financial Centre	GFCI 6 Rating	GFCI 6 Rank	Change in Rating since GFCI 5	Change in Rank since GFCI 5
London	790	1	9	► 0	Monaco	563	39	30	▼ -2
New York	774	2	6	► 0	Madrid	560	40	54	▲ +7
Hong Kong	729	3	45	▲ +1	Sao Paulo	560	41	120	▲ +13
Singapore	719	4	32	▼ -1	Copenhagen	560	42	28	▼ -4
Shenzhen	695	5	-	-	Qatar	558	43	51	▲ +3
Zurich	676	6	17	▼ -1	Bahrain	558	44	45	▼ -1
Tokyo	674	7	63	▲ +8	Kuala Lumpur	557	45	47	► 0
Chicago	661	8	23	▼ -1	Vienna	555	46	42	▼ -4
Geneva	660	9	22	▼ -3	Milan	554	47	33	▼ -7
Shanghai	655	10	117	▲ +25	Bahamas	551	48	14	▼ -12
Sydney	651	11	41	▲ +5	Glasgow	550	49	-4	▼ -18
Frankfurt	649	12	16	▼ -4	Johannesburg	550	50	47	▼ -2
Toronto	647	13	32	▼ -2	Gibraltar	543	51	-6	▼ -18
Jersey	640	14	27	▼ -1	Malta	543	52	-	-
Guernsey	638	15	23	▼ -3	Mumbai	542	53	57	▼ -4
Luxembourg	637	16	25	▼ -2	Wellington	541	54	109	▲ +2
San Francisco	634	17	25	► 0	Mexico City	541	55	-	-
Boston	634	18	16	▼ -9	Oslo	538	56	15	▼ -17
Paris	630	19	30	► 0	Rome	537	57	98	▼ -2
Washington D.C.	630	20	34	▲ +1	Mauritius	536	58	-	-
Dubai	617	21	37	▲ +2	Helsinki	533	59	21	▼ -15
Beijing	613	22	135	▲ +29	Bangkok	532	60	52	▼ -10
Dublin	613	23	-5	▼ -13	Rio de Janeiro	532	61	-	-
Taipei	609	24	91	▲ +17	Jakarta	511	62	-	-
Isle of Man	609	25	8	▼ -7	Buenos Aires	507	63	-	-
Cayman Islands	608	26	17	▼ -4	Manila	494	64	-	-
Edinburgh	605	27	5	▼ -7	Prague	492	65	96	▼ -7
Hamilton	597	28	33	▼ -1	Lisbon	477	66	68	▼ -9
Vancouver	589	29	20	▼ -4	Moscow	462	67	99	▼ -7
Munich	588	30	30	▼ -1	Riyadh	457	68	-	▲ -
Amsterdam	586	31	11	▼ -7	Warsaw	456	69	75	▼ -10
Montreal	586	32	18	▼ -6	St. Petersburg	453	70	-	-
British Virgin Islands	584	33	35	▲ +1	Tallinn	445	71	-	-
Melbourne	584	34	22	▼ -6	Istanbul	442	72	-	-
Seoul	576	35	114	▲ +18	Athens	433	73	98	▼ -12
Stockholm	569	36	13	▼ -6	Budapest	425	74	119	▼ -12
Brussels	568	37	16	▼ -5	Reykjavik	415	75	-	-
Osaka	565	38	96	▲ +14					

GFCI world map overleaf >

Table 8
The GFCI World





Industry Sectors

GFCI 6 provides industry sector sub-indices for the Banking, Asset Management, Insurance, Professional Services and Government & Regulatory sectors. These indices are created by building the GFCI statistical model using only the questionnaire responses from respondents working in the relevant industry sectors; each sub-index therefore reflects the view of respondents from one sector alone. As

might be expected of the two global financial centres, London and New York retain 1st and 2nd places in all sector-specific indices, with New York being ahead with the Banking sector respondents. Table 9 shows the top 10 ranked financial centres in the industry sector sub-indices. The figures in brackets show how each centre has moved in these sub-indices since GFCI 5.

Table 9
Industry Sector Sub-indices (changes against GFCI 5 in brackets)

Rank	Asset Management	Banking	Government & Regulatory	Insurance	Professional Services
1	London ▶ (-)	New York ▶ (-)	London ▶ (-)	London ▶ (-)	London ▶ (-)
2	New York ▶ (-)	London ▶ (-)	New York ▶ (-)	New York ▶ (-)	New York ▶ (-)
3	Hong Kong ▲ (+1)	Hong Kong ▲ (+1)	Singapore ▶ (-)	Hong Kong ▲ (+2)	Singapore ▲ (+1)
4	Singapore ▼ (-1)	Singapore ▼ (-1)	Hong Kong ▶ (-)	Singapore ▶ (-)	Hong Kong ▼ (-1)
5	Tokyo ▲ (+9)	Shenzhen ▲(New)	Tokyo ▲ (+1)	Shenzhen ▲(New)	Guernsey ▲ (+3)
6	Zurich ▼ (-1)	Tokyo ▲ (+9)	Frankfurt ▼ (-1)	Shanghai ▲(+39)	Jersey ▲ (+1)
7	Jersey ▼ (-1)	Shanghai ▲(+29)	Toronto ▲ (+3)	Zurich ▼ (-4)	Zurich ▼ (-2)
8	Chicago ▲ (+5)	Zurich ▼ (-2)	Chicago ▼ (-3)	Tokyo ▼ (-1)	Geneva ▼ (-2)
9	Guernsey ▼ (-1)	Chicago ▼ (-4)	Paris ▼ (-1)	Beijing ▲(+44)	Chicago ▲ (+1)
10	Geneva ▼ (-3)	Frankfurt ▼ (-2)	Sydney ▲ (+3)	Chicago ▲ (+3)	Toronto ▲(+12)

In the Asset Management sub-index, asset management specialist centres such as Jersey and Guernsey feature in the top ten. Edinburgh also does relatively well at 15th place (against 27th in the overall GFCI). There have been several significant improvements in the Banking and Insurance sub-indices for Asian centres – in the Insurance sub-index Shenzhen is a new entry at 5th, Shanghai is up 39 places to 6th and Beijing is up 44 places to 9th. In the Banking sub-index Shenzhen is again 5th and Shanghai is up 29 places to 7th. This is at least in part due to a large number of responses from these sectors from the Asian centres. Tokyo features in the top ten for four of the sub-indices, entering the Asset Management and the Banking sector top tens with a rise of nine places in each.

The Professional Services sub-index reflects the main GFCI index fairly closely although the Channel Islands are higher in the sub-index than in the main GFCI and Toronto enters the top ten.

The Five Key Areas of Competitiveness

The instrumental factors used in the GFCI model are grouped in five key areas of competitiveness (People, Business Environment, Market Access, Infrastructure and General Competitiveness). The GFCI factor assessment model is run with one set of instrumental factors at a time and the

results are compared to identify which factors influence which centres. Table 10 shows the top ten ranked centres in each sub-index (the figures in brackets show how the centre has moved in the sub-index rankings compared with GFCI 5):

Table 10
Sub-Indices by Areas of Competitiveness (Changes from GFCI 5 in brackets)

Rank	People	Business Environment	Market Access	Infrastructure	General Competitiveness
1	London ▶ (-)	London ▶ (-)	London ▶ (-)	London ▶ (-)	London ▶ (-)
2	New York ▶ (-)	New York ▶ (-)	New York ▶ (-)	New York ▶ (-)	New York ▶ (-)
3	Hong Kong ▲ (+1)	Hong Kong ▲ (+1)	Hong Kong ▶ (-)	Hong Kong ▶ (-)	Hong Kong ▶ (-)
4	Singapore ▼ (-1)	Singapore ▼ (-1)	Singapore ▶ (-)	Singapore ▶ (-)	Singapore ▶ (-)
5	Tokyo ▲ (+10)	Chicago ▲ (+1)	Chicago ▶ (-)	Tokyo ▲ (+7)	Chicago ▲ (+1)
6	Sydney ▲ (+10)	Zurich ▶ (-1)	Zurich ▶ (-)	Zurich ▲ (+3)	Zurich ▼ (-1)
7	Zurich ▼ (-2)	Geneva ▼ (-)	Tokyo ▲ (+13)	Chicago ▲ (+1)	Tokyo ▲ (+7)
8	Frankfurt ▼ (-2)	Sydney ▲ (+5)	Frankfurt ▼ (-1)	Paris ▼ (-1)	Geneva ▼ (-1)
9	Toronto ▲ (+3)	Tokyo ▲ (+17)	Paris ▲ (+10)	Frankfurt ▼ (-4)	Frankfurt ▼ (-)
10	Chicago ▼ (-3)	Frankfurt ▶ (-)	Geneva ▲ (+5)	Geneva ▲ (+3)	Paris ▲ (+17)

Most of the resulting sub-indices are fairly closely correlated to the main GFCI. Indeed in the top ten there are few surprises. This indicates that to be a leading financial centre, strength in all areas is necessary. London is top in all areas, New York is a very close 2nd, Hong Kong is 3rd and Singapore 4th.

Tokyo has risen in all five areas and Sydney has entered the top ten in both the People sub-index and Business Environment sub-index.

It is interesting to note the differences between average assessments given to a centre and its performance in the sub-indices. These differences are particularly noticeable in some of the Asian centres. Hong Kong and Singapore perform well across the board in the sub-indices, which reaffirms their status as global leaders. Shenzhen, however, which is 5th in the GFCI ratings with high average assessments, is 15th in the People

sub-index, 27th for Business Environment, 33rd for Market Access and 46th for Infrastructure. A similar pattern exists for Shanghai which is 10th overall but 17th in the People sub-index, 22nd for Business Environment, 26th for Market Access and 33rd for Infrastructure; Beijing also exhibits similar characteristics. These lower ratings in the sub-indices indicate that these centres are more volatile and that there is a greater mismatch in the way some people rate them relative to the instrumental factors.

This type of analysis can also be used in a slightly different way, to look at the difference between the average assessment given to a centre and the GFCI rating (the average assessment adjusted to reflect the instrumental factors). If a centre has a higher average assessment than the GFCI rating, this indicates that the respondents' perceptions about a centre are higher than the quantitative measures alone would suggest. For non-home

respondents in particular, this offers some insights into a centre's reputation, especially where a centre is perceived more positively than would be predicted from the data. Table 11 shows the 20 centres with the highest difference between average assessment and GFCI rating.

Table 11 Top 20 Centres Assessments & Ratings	City	Average Weighted* Assessment	GFCI 5 Rating	Difference
	Shanghai	720	655	65
	Singapore	765	719	46
	Hong Kong	770	729	41
	Shenzhen	736	695	41
	Sydney	691	651	40
	Toronto	682	647	35
	Beijing	648	613	35
	New York	808	774	34
	Tokyo	707	674	33
	Seoul	608	576	32
	Zurich	707	676	31
	Chicago	692	661	31
	Vancouver	618	589	29
	Frankfurt	676	649	27
	Geneva	683	660	23
	Taipei	632	609	23
	San Francisco	656	634	22
	Guernsey	660	638	22
	Boston	655	634	21
	Jersey	660	640	20

* weighted by how recently they were given to be directly comparable with the GFCI

It is notable that seven of the top ten centres by this measure are Asian, reflecting the strong performance of Asia in GFCI 6. Sydney and Toronto, both centres that actively promote their competitiveness for financial services, are also in the top ten. New York is in 8th place and London comes in 23rd place here.

In terms of perceptions, the GFCI questionnaire asks respondents which financial centres they believe are suffering most as a result of the current financial crisis. New York and London both received three times more mentions than any other centre.

Table 12 The Five Centres Believed to be Suffering Most from the Crisis	Financial Centre	Number of Mentions in 2009
	New York	129
	London	111
	Shanghai	36
	Dubai	35
	Hong Kong	25

This finding backs up the GFCI ratings. Although New York and London have both achieved higher ratings than in GFCI 5, they have risen less than the other leading centres (although it should also be noted that leading centres fell less than other centres in GFCI 5). Respondents generally feel that the two long-established global centres are where the greatest losses have occurred and where the greatest reputational damage has been suffered. Hong Kong received less than 20% of the mentions of New York; Singapore received fewer than 10 mentions.

The main concerns voiced about London's competitiveness were the fear of a regulatory backlash that limits the freedom

of financial institutions; the levels of corporate and personal taxation that may drive high earners abroad; and economic conditions preventing or delaying necessary investment in transport infrastructure. New regulatory arrangements were also a concern for New York and the loss of skilled personnel to the industry was a concern of respondents in all the leading centres.

The GFCI questionnaire asked another question about the financial crisis – which are the most significant risks to financial centre competitiveness posed by the current crisis. The most commonly identified risks are shown in Table 13.

Risk	Number of Mentions in 2009
Over Regulation / Regulatory Backlash	61
Credit Risk for Financial Institutions	31
Unemployment / Loss of Skills & Experience	28
Loss of Confidence / Trust in the Industry	22
Liquidity Risk	14
Increased Taxation	14
Wider Economic Problems - Recession / Inflation	14

The fear of regulatory overload was backed up by responses to a further question in the GFCI questionnaire which asked about the most important factors of competitiveness. The number of times that each area was mentioned is summarised in Table 14.

Evidently the business environment is

viewed as a key area by twice as many respondents as the second factor. It is actually mentioned in responses more often than People and Infrastructure combined. This is clearly a response to the current crisis but also reflects concerns over taxation. One of the themes that emerges from the respondents is the importance of predictability and stability of regulation.

Area of Competitiveness	Number of mentions by respondents	Main concerns raised
Business Environment	70	Regulation, taxation and rule of law
People	34	Quality and availability of staff
Infrastructure	18	Transport links and business infrastructure
General Competitiveness	16	General economic factors
Market Access	8	Cluster of professional advisors and access to international markets

Summary & Conclusions

GFCI 6 shows that of the 75 centres rated, 59 centres have received higher scores and only three have decreased. Thirteen new centres appear in the ratings for the first time. GFCI 5 demonstrated that the financial crisis had created uncertainty and a significant reduction in confidence, with an unprecedented fall in the ratings for every centre. The current rise in ratings demonstrates a return of confidence to GFCI 4 levels, with the top scores here being very similar, and the bottom scores showing a small improvement.

Accompanying the rise in ratings, there has also been a decline in volatility. Of the top 20 financial centres that were in GFCI 5, 15 have shown a reduction in the standard deviation of assessments, also indicating a greater degree of certainty and confidence than in 2008.

GFCI 6 now considers four centres to be leading global financial centres: London, New York, Hong Kong and Singapore. London remains in top place and has slightly extended its lead over New York to 16 points (from 13 points in GFCI 5). The financial crisis has had a significant impact on both centres but they remain ahead of Hong Kong and Singapore, although the gap between the second and third placed centre has been cut from 81 points to 45. Hong Kong and Singapore have demonstrated stable, long term competitiveness and have joined London and New York as genuinely global leaders.

Asian centres have shown a marked improvement in the GFCI ratings since GFCI 5, reflecting that the Asian centres have been less badly affected by the recent crisis than many of the leading European and North American Centres. It is also notable that respondents from Asia have shown a much higher degree of participation in the survey than previously – nearly half of the 566 new respondents have come from Asia (previously just under 10%). Shanghai and Beijing have seen two of the largest increases in scores in the survey; Shanghai has moved into the top

ten with a gain of 117 in the ratings and Beijing has jumped to 22nd place with a rise of 135 points. Shenzhen is also noteworthy as the highest new entry into the GFCI and has secured 5th place due to very strong support from Asian respondents. Tokyo has risen back into the top ten with an increase of 63 points, having fallen to fifteenth place in GFCI 5, although featuring in the top ten in all other previous GFCI editions.

GFCI 6 demonstrates a pattern that most of the leading centres are also the most 'connected' centres, that is, the most well known globally outside of their own home region. London is rated by (and thus familiar to) over 80% of non-home respondents, New York is rated by two thirds of non-home respondents and Hong Kong is rated by 57% of non-home respondents.

The main concerns voiced about the leading centres' competitiveness are the fear of a regulatory backlash that limits the freedom of financial institutions and the loss of skills and experience from the industry.

The GFCI has previously highlighted the need for competitive financial centres to be connected and co-operative. New respondents to the GFCI questionnaire believe that the need for connectivity and co-operation is greater than ever if the industry is to deal with, and recover from, the current crisis.

For further information about the GFCI please see the GFCI website at:
www.cityoflondon.gov.uk/GFCI

Other Information from GFCI 6

Table 15			
Respondents by Industry Sector	Sector	Number of Responses	
		Banking	493
Asset Management	307	17.0%	
Insurance	158	8.8%	
Professional Services	296	16.4%	
Regulatory & Government	93	5.2%	
Other	455	25.2%	
TOTAL	1,802	100.0%	

Table 16			
Respondents by Size of Organisation	Number of Employees Worldwide	Number of Responses	
		Fewer than 100	477
100 to 500	278	15.4%	
500 to 1,000	136	7.6%	
1,000 to 2,000	90	5.0%	
2,000 to 5,000	149	8.3%	
More than 5,000	563	31.2%	
Unspecified	109	6.0%	
TOTAL	1,802	100.0%	

Table 17					
Respondents by Location	Location	Total Responses		New Responses	
		Europe	769	42.7%	168
North America	161	8.9%	21	3.7%	
Asia	387	21.5%	276	48.8%	
Offshore	466	25.9%	100	17.7%	
Multiple or Other	19	1.1%	1	0.2%	
TOTAL	1,802	100.0%	566	100.0%	

Instrumental Factors

A key component of the areas of competitiveness sub-indices are the 64 instrumental factors that are incorporated into the GFCI model. These are selected to represent the factors that make a centre competitive in financial services. Table 18 shows how closely instrumental factor rankings correlate with the GFCI rankings:

Table 18 Top 20 Instrumental Factors by correlation with GFCI 6	Instrumental Factor	R2 with GFCI 6
	Lifestyle Assets	0.641
	Mastercard Centres of Commerce Index	0.549
	World Competitiveness Scoreboard	0.487
	Global Competitiveness Index	0.413
	Intellectual Capital	0.394
	City Brands Index	0.388
	Capital Access Index	0.352
	Quality of Roads	0.349
	Credit Ratings	0.343
	JLL Direct Real Estate Transaction Volumes	0.330
	Volume of Stock Futures Trading	0.321
	Banking Industry Country Risk Assessments	0.309
	Business Environment	0.304
	Capitalisation of Stock Exchanges	0.292
	Global Cities Index	0.284
	The Access Opportunities Index - Business	0.282
	Foreign Direct Investment Inflows	0.275
	The World's Most Innovative Countries	0.273
	Number of International Fairs and Exhibitions	0.270
	RPI (% change on year ago)	0.251

It is interesting to see that the broader measures of competitiveness seem to act as good indicators for financial centre competitiveness. The six most highly correlated instrumental factors are all broad measures of competitiveness rather than being specific to financial services.

This indicates that cities that are successful at most things are likely to be very competitive financial centres. A full list of instrumental factors is shown in Table 19 with ● meaning that the factor has been updated since GFCI 5 and * meaning that the factor has been added since GFCI 5.

Table 19
Instrumental Factors

● – This index has been updated since GFCI 5

* – This index has been added since GFCI 5

Instrumental Factor	Source	Website
People		
* Intellectual Capital	Price Waterhouse Coopers	http://www.pwc.com/extweb/pwcpublications.nsf
● Graduates in Social Science Business and Law	World Bank	www.worldbank.org/education
● Gross Tertiary Education Ratio	World Bank	www.worldbank.org/education
* Visa Restrictions Index	Henley & Partners	http://www.henleyglobal.com/citizenship/visa-restrictions/
● Human Development Index	UN Development Programme	http://hdr.undp.org
● Quality of Living Survey	Mercer HR	www.mercerhr.com
Personal Safety Index	Mercer HR	www.mercerhr.com
* International Crime Victims Survey	UN Office of Drugs and Crime	http://rechten.uvt.nl/icvs/news.htm#The_2009_ICVS
* Lifestyle Assets	Price Waterhouse Cooper	http://www.pwc.com/extweb/pwcpublications.nsf
World's Top Tourism Destinations	Euromonitor Archive	www.euromonitor.org
* Number of World Heritage Sites	World Economic Forum	http://www.weforum.org/en/initiatives/gcp/TravelandTourismReport
Average Days with Precipitation per Year	Sperling's BestPlaces	www.bestplaces.net
Business environment		
Business Environment	EIU	www.economist.com/markets/rankings
● Ease of Doing Business Index	The World Bank	www.doingbusiness.org/economyrankings
● Operational Risk Rating	EIU	
● Global Services Location Index	AT Kearney	www.atkearney.com
● Opacity Index	Milken Institute	www.milkeninstitute.org/publications
Corruption Perceptions Index	Transparency International	www.transparency.org/publications
Wage Comparison Index	UBS	www.ubs.com
Corporate Tax Rates	Price Waterhouse Coopers	n/a
● Employee Effective Tax Rates	Price Waterhouse Coopers	n/a
● Personal Tax Rates	OECD	www.oecd.org
Total Tax Receipts (as % of GDP)	OECD	http://oberon.sourceoecd.org
* Bilateral Tax Information Exchange Agreements	OECD	http://www.oecd.org
● Index of Economic Freedom	Heritage Foundation	www.heritage.org/index/countries.cfm
Economic Freedom of the World	Fraser Institute	www.freetheworld.com/release.html
* Banking Industry Country Risk Assessments	Standard & Poor	http://www2.standardandpoors.com
* Political Risk Index	Exclusive Analysis Ltd	http://www.exclusive-analysis.com/
Market access		
● Capital Access Index	Milken Institute	www.milkeninstitute.org/research
Master Card Centres of Commerce	Master Card	www.mastercard.com/us/company/en/wcoc/index.html
Access Opportunities Index	SRI International	www.sri.com/news/releases

● Securitisation	International Financial Services London	www.ifsl.org.uk
● Capitalisation of Stock Exchanges	World Federation of Stock Exchanges	www.world-exchanges.org
● Value of Share Trading	World Federation of Stock Exchanges	www.world-exchanges.org
● Volume of Share Trading	World Federation of Stock Exchanges	www.world-exchanges.org
* Broad Stock Index Levels	World Federation of Stock Exchanges	www.world-exchanges.org
● Value of Bond Trading	World Federation of Stock Exchanges	www.world-exchanges.org
* Volume of Stock Options Trading	World Federation of Stock Exchanges	www.world-exchanges.org
* Volume of Stock Futures Trading	World Federation of Stock Exchanges	www.world-exchanges.org
* Net External Position of Banks	Bank for International Settlements	http://www.bis.org/statistics/bankstats.htm
* External Position of Central Banks (as % GDP)	Bank for International Settlements	http://www.bis.org/statistics/bankstats.htm
* Global Credit Rankings	Institutional Investor Magazine	http://www.iimagazinerankings.com/rankingsRankCCMaGlobal09/globalRanking.asp

Infrastructure

* Office Occupancy Costs	CBRE	http://www.cbre.com/EN/Research/Global+Reports/
● Office Space Across the World	Cushman & Wakefield	www.cushwake.com/cwglobal
Direct Real Estate Volumes	Jones Lang LaSalle	www.joneslanglasalle.co.uk
Real Estate Transparency Index	Jones Lang LaSalle	www.joneslanglasalle.co.uk
● E-Readiness Ranking	EIU	www.economist.com/markets/rankings
* Transportation & Infrastructure Assets	Price Waterhouse Coopers	http://www.pwc.com/extweb/pwcpublishations.nsf
* City Infrastructure	Mercer HR	http://www.mercer.com/qualityofliving
● Airport Satisfaction	Skytraxx	www.airlinequality.com/AirportRanking/ranking-intro.htm
* Quality of Ground Transport Network	World Economic Forum	http://www.weforum.org/en/initiatives/gcp/TravelandTourismReport
* Quality of Roads	World Economic Forum	http://www.weforum.org/en/initiatives/gcp/TravelandTourismReport

General competitiveness

● World Competitiveness Scoreboard	IMD	www.imd.ch/research
Global Competitiveness Index	World Economic Forum	www.weforum.org
● Global Business Confidence	Grant Thornton	www.granthorntonibos.com
* Foreign Direct Investment Inflows	UNCTAD	http://www.unctad.org
* The World's Most Innovative Countries	EIU	http://www.economist.com/markets/rankings/displaystory.cfm?story_id=13562333
* Global Intellectual Property Index	Taylor Wessing	http://www.taylorwessing.com/ipindex/
● Retail Price Index	Economist	www.economist.com/markets/indicators
● Cost of Living Survey	Mercer HR	www.mercerhr.com
City Brands Index	Anholt	www.simonanholt.com
* Global Cities Index	AT Kearney	http://www.foreignpolicy.com/story/cms.php?story_id=4509
* Number of International Fairs & Exhibitions	World Economic Forum	http://www.weforum.org/en/initiatives/gcp/TravelandTourismReport
* City Population Density largest-cities-density-125.html	City Mayors Statistics	http://www.citymayors.com/statistics/