



Comparative Regulatory Environments

A Comparison of Financial Services Regulation in Eight Jurisdictions



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TFSA |

The Toronto Financial Services Alliance (TFSA) is a unique, public–private partnership dedicated to growing Toronto region’s financial services cluster and building it as a “top ten” global financial services centre. Established in 2001, TFSA is a collaboration involving three levels of government, the financial services industry and academia.

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SECTION I

Executive Summary

This report, commissioned by the Toronto Financial Services Alliance (TFSA), provides a high level comparison of the regulatory environment that impacts the financial services industry in some of the main jurisdictions.

The jurisdictions examined in this research are Canada, Dubai, European Union (EU), Hong Kong, Singapore, Switzerland, the United Kingdom (UK) and the United States of America (USA).

There are obviously differences in the regulatory environment within jurisdictions (e.g. the USA has both federal and state legislation and the EU is still a considerable way from achieving the aim of a common regulatory platform across all member states).

The data used in this research came from three main sources:

- Seven of the instrumental factors used in the Global Financial Centres Index (GFCI)* that measure the quality of different aspects of regulation.

- An online questionnaire to which we received responses from over 200 financial services professionals between October and December 2014.

- Desk research into the regulatory environment in the different jurisdictions.

The first set of data is based on seven instrumental factors used in the construction of the GFCI. The results of the eight jurisdictions are shown below.

The second set of data is based on the results of an online questionnaire. A summary of the relative positions of the eight jurisdictions is shown overleaf.

Table 1 | Comparative Instrumental Factor Ranks

Jurisdiction	Ease of Doing Business	Regulatory Environment	Op. Risk	Economic Freedom	Institutional Effectiveness	Regulatory Enforcement	Business Environment	Simple Mean of Ranks
Singapore	1st	1st	1st	2nd	2nd	1st	1st	1.3
Hong Kong	2nd	2nd	4th	1st	5th	4th	2nd	2.9
Canada	5th	1st	3rd	3rd	3rd	2nd	5th	3.1
USA	3rd	3rd	2nd	5th	4th	6th	5th	4.0
UK	4th	3rd	2nd	7th	6th	3rd	3rd	4.0
Switzerland	6th	2nd	7th	4th	1st	8th	4th	4.6
Dubai	7th	4th	6th	6th	7th	7th	5th	6.0
EU	8th	3rd	5th	8th	8th	5th	8th	6.4

*www.longfinance.net/gfci

Table 2 | Comparative Questionnaire Response Ranks

Jurisdiction	Stability	Confidence	Crime	Protection	Cost	Predictability	Service	Openness	Mean
Canada	2nd	3rd	1st	1st	4th	1st	3rd	6th	2.63
Switzerland	1st	2nd	3rd	4th	5th	3rd	1st	3rd	2.75
UK	4th	4th	2nd	2nd	6th	2nd	2nd	1st	2.88
Singapore	3rd	4th	6th	6th	3rd	4th	4th	2nd	4.00
USA	5th	5th	5th	5th	7th	5th	5th	7th	5.50
Hong Kong	6th	6th	7th	7th	2nd	7th	7th	4th	5.75
EU	7th	7th	4th	3rd	8th	6th	6th	8th	6.13
Dubai	8th	8th	8th	8th	1st	8th	8th	5th	6.75

Taking all the data together, the eight jurisdictions can be placed into three tiers based on the quality of their regulatory environments:

Table 3 | Jurisdictions by Tier

Tier 1 – Jurisdictions		
Jurisdiction	Top 50 GFCI Centres	Notes
Canada	Toronto Vancouver Montreal Calgary	Canada was placed in the top three places in five of the instrumental factors. For the questionnaire, Canada was first in three of the eight factors and second or third in three other factors. Respondents assess Canada less well for openness to foreign firms and the cost of compliance.
Singapore	Singapore	Placed in first or second in all seven instrumental factors and well rated by respondents for openness, stability and cost. Singapore is less well rated for crime prevention and consumer protection.
Tier 2 – Jurisdictions		
Switzerland	Zurich Geneva	Well rated for institutional effectiveness and the regulatory environment. Questionnaire respondents also assess Switzerland highly for the stability of their regulations.
Hong Kong	Hong Kong	Generally well placed in the instrumental factors but survey respondents assess Hong Kong fairly poorly except for the cost of compliance where it is rated second in the group of eight.
UK	London Edinburgh Glasgow	The UK is placed between second place (operational risk) and seventh place (economic freedom) in the instrumental factors. Respondents to the online questionnaire rate the UK higher – it is in first or second place in five of the eight areas.
USA	New York San Francisco Boston Washington DC Chicago	The USA is placed between second place (operational risk) and sixth place (regulatory enforcement) in the factors. Respondents to the online questionnaire rate the USA fifth in six of the eight areas. The USA is rated seventh in the remaining two areas – cost of compliance and openness to foreign businesses.
Tier 3 – Jurisdictions		
EU	Luxembourg Frankfurt Vienna Paris Stockholm Munich Amsterdam Milan	The EU is lower than the other seven jurisdictions studied in terms of the instrumental factors rankings and comes eighth in four of the seven factors. It should be noted that many of the jurisdictions have individual ratings but a mean has been used. The largest economies of Germany, France and Spain tend to do a little better than the smaller economies. In six of the eight categories of the online questionnaire, the EU comes in sixth place or lower.
Dubai	Dubai	Dubai is just above the EU in the instrumental factor ranks but is sixth or below in five of the seven factors. The regulatory environment has a lower reputation than the other jurisdictions according to responses to the online questionnaire.

The first tier has just two jurisdictions – Canada and Singapore. The research shows that these two jurisdictions have the best rated regulatory environments for financial services. These are followed by the tier two jurisdictions of Hong Kong, Switzerland, the UK and the USA. Tier three includes the EU and Dubai which most respondents do not believe have as strong a regulatory environment as the leading centres.

Whilst there are some jurisdictions that perform better than others, the overall picture that comes from the industry regarding the regulatory environment is not encouraging. Financial professionals seem jaded by the whole focus on regulations in the industry. Most believe that the regulations will become more onerous, less easy to comply with, more costly, but, at the same time, less effective. Most also believe that regulations will become a greater barrier to entry in the future.



SECTION 2

Background

“Regulation continues to pose a major challenge for the financial services industry and its regulators. We are facing a period of unprecedented regulatory change, in terms of the number of new initiatives, their complexity and the interplay between different regulations. Senior management can no longer afford to treat regulation primarily as a matter of compliance: some regulatory developments raise fundamental questions about the economics of the business that go to the heart of the organisation’s strategy.”

EMEA Centre for Regulatory Strategy

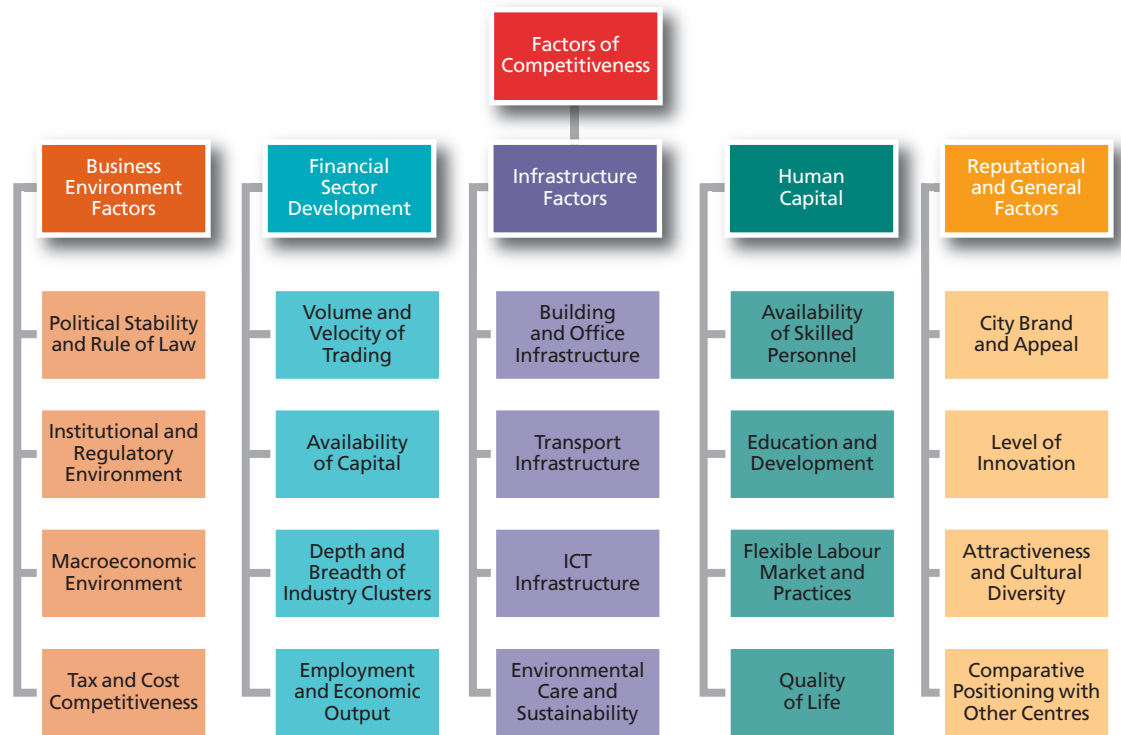
This report seeks to provide a high level comparison of the regulatory environment that impacts the financial services industry and how various aspects of regulations are perceived by industry professionals. The report was commissioned by the Toronto Financial Services Alliance (TFSA).

Z/Yen has significant experience in researching and measuring the competitiveness of financial centres around the world. The Global Financial Centres Index (GFCI) developed by Z/Yen and first published by the City of London in January 2007 has recently issued its 16th edition, sponsored by the Qatar Financial Centre Authority. The GFCI has become an increasingly important yardstick that various professional bodies, research institutions and city authorities use to benchmark the competitiveness of cities with regard to the financial services industry.

The GFCI provides ratings for financial centres calculated by a ‘factor assessment model’ that uses two distinct sets of input:

- Instrumental factors (external indices that contribute to competitiveness): objective evidence of competitiveness was sought from a wide variety of comparable sources. For example, evidence about the telecommunications infrastructure competitiveness of a financial centre is drawn from a global digital economy ranking (supplied by the Economist Intelligence Unit), a telecommunication infrastructure index (by the United Nations) and an IT industry competitiveness survey (by the World Economic Forum). A total of 105 instrumental factors were used in GFCI 16. Not all financial centres are represented in all the external sources, and the statistical model takes account of these gaps.
- Financial centre assessments: by means of an online questionnaire, running continuously since 2007, we use 29,226 financial centre assessments drawn from 3,663 respondents.

The 105 instrumental factors were selected because the features they measure contribute in various ways to the five areas of competitiveness identified in previous research. These are shown overleaf:



Whilst the regulatory environment is only one of twenty areas of competitiveness for a financial centre, it is currently the area that most concerns financial professionals in nearly all countries.



SECTION 3

Methodology

The jurisdictions examined in this research are:

- Canada
- Dubai
- European Union (EU)
- Hong Kong
- Singapore
- Switzerland
- United Kingdom (UK)
- United States of America (USA)

There are obviously differences in the regulatory environment within jurisdictions (e.g. the USA has both federal and state legislation and the EU is still a considerable way from achieving the aim of a common regulatory platform across all member states). Where possible these differences are explored with research.

The data used in this research comes from three main sources:

- Seven of the instrumental factors used in the GFCI that measure the quality of different aspects of regulation in the jurisdictions and part of this research involved examining these factors in detail.
- An online questionnaire was distributed to the list of approximately 2,800 GFCI respondents. We received responses from over 200 financial services professionals between October and December 2014. Details of this questionnaire are given in Appendix A of this report. Readers of this report are invited to contribute their opinions and we will update the findings at some stage in the future.
- Desk research into the regulatory environment in the different jurisdictions was conducted.



SECTION 4

Instrumental Factor Analysis

Of the 105 instrumental factors used in the GFCI, some are fairly direct measures of some aspect of the regulatory environment in a country. Seven of the instrumental factors were examined during this research. These are:

- The Ease of Doing Business Index (The World Bank);
- Banking Industry Country Risk Assessments – Regulatory Enforcement (Standard & Poors);
- Operational Risk Rating (The Economist Intelligence Unit);
- Economic Freedom of the World Index (Fraser Institute);
- Institutional Effectiveness (The Economist Intelligence Unit);
- Regulatory Enforcement (World Justice Project);
- The Global Enabling Trade Report – Business Environment (World Economic Forum).

Summary of the Instrumental Factor Research

Detailed results of the analysis of instrumental factors are given in Appendix 1. In summary the relative ranks of the eight jurisdictions are shown in table four below.

We can observe that Singapore is the clear leader (in first place in five of the seven factors). Singapore is followed by Hong Kong (in first or second place in four of the factors) and Canada (in the top three places in five of the factors). The USA, Dubai and the EU are well below the other jurisdictions.

Whilst it is acknowledged that using simple ranks is problematic, it gives an indication of the relative merits of the eight jurisdictions. The next section of this report examines the results of the online questionnaire to establish if these results back up the findings from the instrumental factors.

Table 4 | Comparative Instrumental Factor Ranks

Jurisdiction	Ease of Doing Business	Regulatory Environment	Op. Risk	Economic Freedom	Institutional Effectiveness	Regulatory Enforcement	Business Environment	Simple Mean of Ranks
Singapore	1st	1st	1st	2nd	2nd	1st	1st	1.3
Hong Kong	2nd	2nd	4th	1st	5th	4th	2nd	2.9
Canada	5th	1st	3rd	3rd	3rd	2nd	5th	3.1
USA	3rd	3rd	2nd	5th	4th	6th	5th	4.0
UK	4th	3rd	2nd	7th	6th	3rd	3rd	4.0
Switzerland	6th	2nd	7th	4th	1st	8th	4th	4.6
Dubai	7th	4th	6th	6th	7th	7th	5th	6.0
EU	8th	3rd	5th	8th	8th	5th	8th	6.4

SECTION 5

Online Questionnaire

An online questionnaire (detailed in Appendix 2) was distributed to the list of GFCI respondents and we received responses from 209 financial services professionals:

Table 5 | Breakdown of Respondents by Region

Regional split	Number
Europe	99
North America	39
Asia	36
Offshore	22
Middle East & Africa	13
Total	209

Table 6 | Breakdown of Respondents by Organisation Size

Organisation size (by employees)	Number
Fewer than 100	93
100 to 500	28
500 to 1,000	10
1,000 to 2,000	24
2,000 to 5,000	16
More than 5,000	38
Total	209

Table 7 | Breakdown of Respondents by Position/Title

Position/Title	Number
CEO / Main Board Director	51
Manager / Department Head	48
Chairman / President	25
Analyst / Advisor	24
Compliance Officer	18
Partner	11
Other	32
Total	209

Table 8 | Breakdown of Respondents by Industry Sector

Industry Sector	Number
Banking	62
Investment	18
Finance	21
Trading	11
Professional Services	37
Insurance	16
Government & Regulatory	11
Trade Association	6
Other	27
Total	209

5.1 The Factors of Competitiveness

When asked how important some selected factors of competitiveness were on a scale of 1 to 10 (with 10 being the most important) the results were:

Table 9 | Relative Importance of Factors of Competitiveness

Sector	Average Score
Rule of law	9.1
Political stability	9.0
Regulatory environment	8.9
Availability of skilled workers	8.3
Infrastructure	8.0
Tax rates	7.8
Flexibility of the labour market	7.6
Quality of life	7.5

It is clear that the rule of law, political stability (which has a strong effect on the rule of law) and the regulatory environment are seen as the most important factors by a significant margin. These results are very consistent with the findings from recent GFCI questionnaires.

5.2 Comparisons between the Jurisdictions

Respondents were asked to assess the regulations in each jurisdiction on a number of criteria:

- maintaining financial stability;
- maintaining market confidence;
- reducing financial crime;
- protecting the consumer;
- the cost of regulatory compliance;
- the predictability of future regulatory changes;
- encouraging excellence in customer service;
- openness to foreign businesses.

The mean scores (out of 10) are shown below (where 1 is very poor and 10 is excellent):

5.2.1 How do you assess regulations in the following jurisdictions in terms of maintaining financial stability:

Table 10 | Mean Score for Maintaining Financial Stability

Jurisdiction	Mean Score
Switzerland	7.79
Canada	7.74
Singapore	7.64
UK	7.63
USA	6.94
Hong Kong	6.85
EU	6.74
Dubai	6.21

Maintaining stability in the financial markets is desirable to administrators, governments, market participants, clients and consumers. The top four centres in this regard have significantly higher perceptions than the bottom four. The gap between the mean scores of the UK and the USA (4th and 5th) is the largest in this set of assessments.

5.2.2 How do you assess regulations in the following jurisdictions in terms of maintaining market confidence:

Table 11 | Mean Score for Maintaining Market Confidence

Jurisdiction	Mean Score
Switzerland	7.62
Canada	7.61
Singapore	7.55
UK	7.54
USA	7.06
Hong Kong	6.90
EU	6.58
Dubai	6.42

When respondents assess the eight jurisdictions in terms of maintaining market confidence, the jurisdictions have a very similar pattern of mean scores. The jurisdictions are in the same order as for the strength of maintaining stability. The top four are Switzerland, Canada, Singapore and the UK and they have significantly higher mean scores than the bottom four.

5.2.3 How do you assess regulations in the following jurisdictions in terms of reducing financial crime:

Table 12 | Mean Score for Reducing Financial Crime

Jurisdiction	Mean Score
Canada	7.48
UK	7.43
Switzerland	7.36
EU	6.99
USA	6.82
Singapore	6.76
Hong Kong	6.24
Dubai	5.80

In terms of respondents' perceptions about the effectiveness of fighting financial crime, Canada leads the way just ahead of the UK and Switzerland. Hong Kong and Dubai are well below the other six jurisdictions.

5.2.4 How do you assess regulations in the following jurisdictions in terms of protecting the consumer:

Table 13 | Mean Score for Protecting the Consumer

Jurisdiction	Mean Score
Canada	7.43
UK	7.42
EU	7.34
Switzerland	7.20
USA	6.81
Singapore	6.62
Hong Kong	6.04
Dubai	5.61

In terms of protecting the consumer Canada and the UK are again top. The EU is in third place in respondents' perceptions. Again, Hong Kong and Dubai are well below the other six jurisdictions.

5.2.5 How do you assess the following jurisdictions in terms of the cost of regulatory compliance:

Table 14 | Mean Score for Cost of Compliance

Jurisdiction	Mean Score
Dubai	6.12
Hong Kong	6.59
Singapore	6.82
Canada	7.38
Switzerland	7.46
UK	7.89
USA	8.03
EU	8.14

Respondents rate Dubai and Hong Kong as the least costly. The UK, the USA and the EU are significantly more expensive than the other jurisdictions.

5.2.6 How do you assess the following jurisdictions in terms of the predictability of future regulatory changes:

Table 15 | Mean Score for the Predictability of Future Changes

Jurisdiction	Mean Score
Canada	6.93
UK	6.85
Switzerland	6.85
Singapore	6.30
USA	5.96
EU	5.93
Hong Kong	5.84
Dubai	5.58

The predictability of future regulatory change is one of the factors that generates the most feedback from respondents to the GFCI questionnaire. Uncertainty and sudden, unannounced changes in the regulatory environment are one of the primary reasons that a jurisdiction gets a bad reputation with people in the financial services industry. Canada, the UK and Switzerland are the three jurisdictions that lead in this measure.

5.2.7 How do you assess regulations in the following jurisdictions in terms of encouraging excellence in customer service:

Table 16 | Mean Score for Encouraging Excellent Customer Service

Jurisdiction	Mean Score
Switzerland	7.41
UK	7.04
Canada	7.04
Singapore	6.86
USA	6.73
EU	6.56
Hong Kong	6.47
Dubai	5.96

Switzerland has a clear reputational advantage in terms of regulations that encourage excellent customer service with the UK and Canada in second and third places respectively.

5.2.8 How do you assess regulations in the following jurisdictions in terms of openness to foreign businesses:

Table 17 | Mean Score for Openness to Foreign Business

Jurisdiction	Mean Score
UK	8.07
Singapore	8.01
Switzerland	7.62
Hong Kong	7.45
Dubai	7.35
Canada	7.10
USA	6.65
EU	6.52

Some jurisdictions have a reputation for being receptive to international competition whilst others have a regulatory environment that seems to make it harder for international firms to compete. The UK and Singapore both seem 'open for business' whilst Canada, which ranks very highly in most other areas, is well below the leaders in this respect.

It can be seen from the summary below that Canada, Switzerland and the UK lead the peer group of jurisdictions by this analysis. Canada is first in three of the eight survey factors and second or third in three other factors. Switzerland is also within the top three in six of the eight factors:

Table 18 | Comparative Questionnaire Response Ranks

Jurisdiction	Stability	Confidence	Crime	Protection	Cost	Predictability	Service	Openness	Mean
Canada	2nd	3rd	1st	1st	4th	1st	3rd	6th	2.63
Switzerland	1st	2nd	3rd	4th	5th	3rd	1st	3rd	2.75
UK	4th	4th	2nd	2nd	6th	2nd	2nd	1st	2.88
Singapore	3rd	4th	6th	6th	3rd	4th	4th	2nd	4.00
USA	5th	5th	5th	5th	7th	5th	5th	7th	5.50
Hong Kong	6th	6th	7th	7th	2nd	7th	7th	4th	5.75
EU	7th	7th	4th	3rd	8th	6th	6th	8th	6.13
Dubai	8th	8th	8th	8th	1st	8th	8th	5th	6.75

5.3 Other Aspects of Regulation

Respondents to the questionnaire were asked a number of questions and a summary of their responses is given below. It is important to recognise that the comments are made by individuals and are contradictory in some cases. We have tried to include only those themes that are repeated by a number of respondents:

Are there any business sectors (Capital Markets, Derivatives, Insurance, Commodities, Foreign exchange) that are particularly well regulated or poorly regulated: All markets need better and more effective regulation. International regulation is becoming more important and co-ordination between jurisdictions is vital. Generally banking and the capital markets are seen as fairly well regulated (now but not in 2008). Derivatives and commodities trading are less well regulated in the eye of the respondents. There is a mixed message about foreign exchange trading with some thinking it is well regulated and some thinking not. In general UK based respondents are more favourable to foreign exchange regulation. Insurance is seen as well regulated.

Are there any particularly good regulations or poor regulations that you encounter in your international dealings: FATCA is seen to be overstepping the mark with its international reach. Basel III capital requirements are thought

to be too damaging to bank profitability. Current regulations do not give sufficient consumer protection in most jurisdictions.

Are there any specific regulations or regulatory environments that affect your own company's ability to expand or relocate to a new jurisdiction: There are a number of national regulations that make it hard for foreign entities to set up business. Examples of India and China are given but the USA and Canada are also cited as countries that seem to protect their domestic operators.

Do you have any further comments on the regulation of financial services: There have been so many changes over the past few years and some are perhaps overreactions to the crisis. Some jurisdictions are tightening their regulatory scope in a way that restricts business. The industry needs a few years to see how the new regulations work in practice. There needs to be a balance between cost and effectiveness.

Do you have any comments regarding what makes a financial centre competitive: The business environment is currently the number one concern to many respondents. Talent is also very important and retaining the best people is vital. Infrastructure and reputation are also very important. Innovation and the rule of law are mentioned by many respondents. A cluster of institutions and support services (lawyers, accountants and consultants) in a centre is important – people still like to deal face-to-face.

Do you have any comments regarding openness to foreign businesses: Regulation is making international expansion more difficult. The UK needs to resolve its position regarding the EU as there is far too much uncertainty for institutions to make location decisions. The USA is thought to be driving some international business away. There is an overall perception that international protectionism is increasing.

Do you have any comments regarding excellence in customer service: Too much focus on regulation means that it is harder to concentrate on improving customer service at the same time. There is a general belief that regulation cannot assist in helping improve customer service. Furthermore, respondents

think that regulation can only increase the amount of 'hassle' for consumers without adding any real security.

Do you have any comments regarding the predictability of future regulatory changes: The overwhelming feeling is simply that people in the industry hate regulatory 'surprises'. If the regulators conduct consultation in advance about regulatory change then the industry can be prepared.

Do you have any comments regarding the cost and ease of regulatory compliance: Costs and complexity have increased substantially. It is unclear if this will help create a safer industry or help the 'real' economy. Regulation and financial institutions themselves should be simplified, which would bring down the cost of regulation and compliance.

Do you have any comments regarding regulation and reducing financial crime: Regulations are all well and good and would make financial crime much harder if they were implemented. Reducing financial crime is all about enforcement of the existing regulations. There is also a cultural element to stopping financial crime. In some countries tax avoidance (and even tax evasion) is considered far less of a problem than in others.

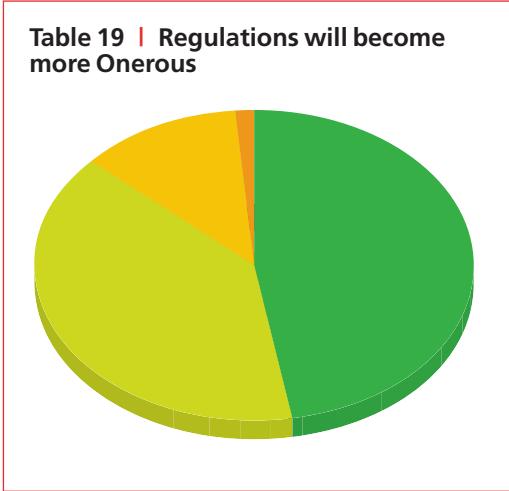
Do you have any comments regarding regulation and maintaining financial stability: Regulations can have unintended consequences and it is possible that regulations can reduce stability or increase volatility. There should be greater co-operation between regulators in different jurisdictions. Having different rules in different places can cause regulatory arbitrage and this in itself can cause instability.

5.4 Opinions about the Future

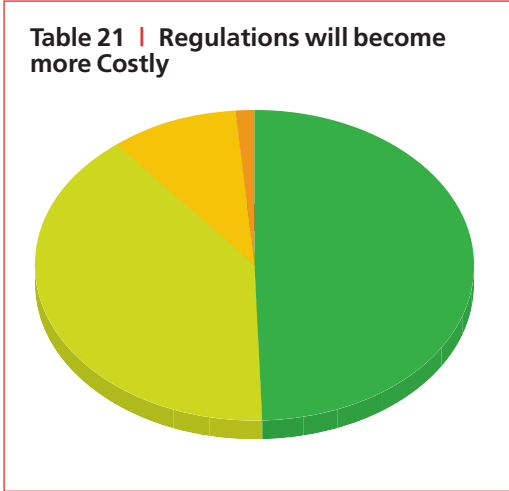
Respondents were asked how strongly they agreed with certain statements and the results are shown below:

'Regulations will become more Onerous'
(87% of respondents agreed somewhat or completely):

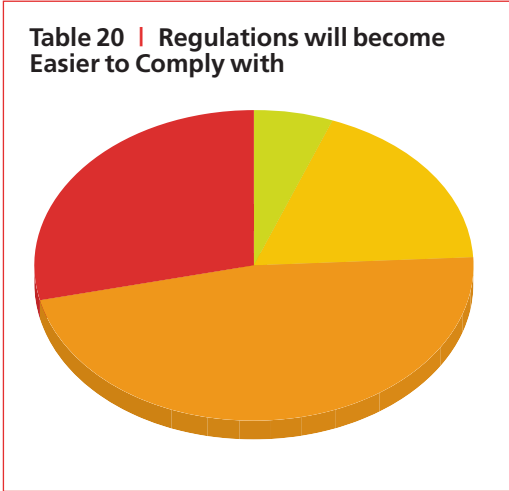
- Completely disagree
- Disagree somewhat
- Neither agree or disagree
- Agree somewhat
- Completely agree



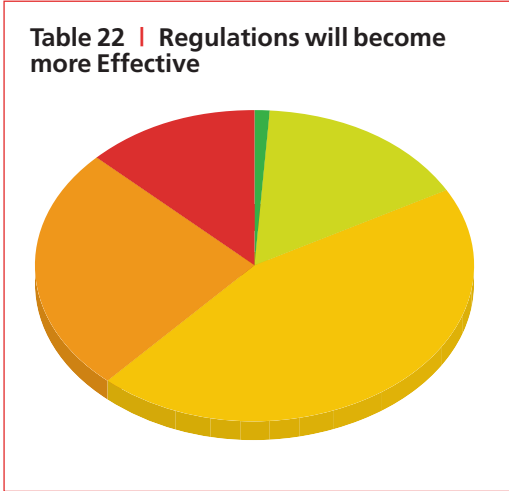
'Regulations will become more Costly'
(90% of respondents agreed somewhat or completely):



'Regulations will become Easier to Comply with'
(75% of respondents disagreed somewhat or completely):

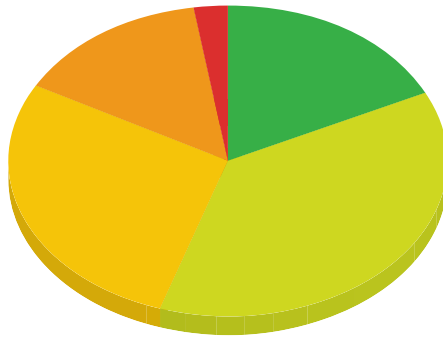


'Regulations will become more Effective'
(only 17% of respondents agreed somewhat or completely):



'Regulations will become a Greater Source of Competitive Advantage' (55% of respondents agreed somewhat or completely):

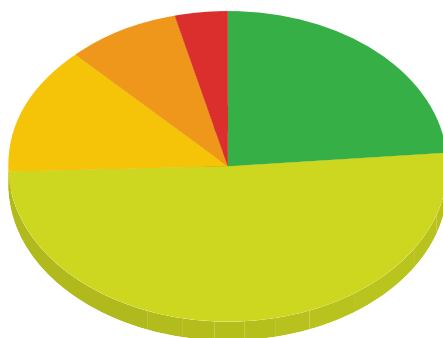
Table 23 | Regulations will become a Greater Source of Competitive Advantage



The overall picture is therefore not encouraging and financial professionals seem jaded by the whole focus on regulations in the industry. Most believe that the regulations will become more onerous, less easy to comply with, more costly, but less effective. Most also believe that regulations will become a greater barrier to entry in the future.

'Regulations will become a Greater Barrier to Entry' (73% of respondents agreed somewhat or completely):

Table 24 | Regulations will become a Greater Barrier to Entry



SECTION 7 APPENDICES

Appendix 1 – Instrumental Factor Analysis

The most pertinent factors within each index are highlighted in bold.

Ease of Doing Business Index (The World Bank)

Website: <http://www.doingbusiness.org>

The ease of doing business index is designed as a measure of regulations that directly affect running a business rather than more general conditions like infrastructure, macroeconomic conditions or a country's closeness to large markets. The index ranks economies on the simple average of country percentile rankings on each of the following ten topics:

- Starting a business
- Dealing with licences
- Employing workers
- Registering property
- Getting credit
- Protecting investors
- Paying taxes
- Trading across borders
- **Enforcing contracts**
- Closing a business

Table 25 | Ease of Doing Business Index

Jurisdiction	Ranking
Singapore	1
Hong Kong	3
USA	7
UK	8
Canada	16
Switzerland	20
Dubai	22
EU*	23

* mean of leading EU economies

Banking Industry Country Risk Assessments (Standard & Poor's)

Website:

<http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245336109698>

Standard & Poor's ranks the risk in 89 countries' banking systems in accordance to their respective economic, regulatory and legal environment as well as the credit positions of the financial institutions that operate in this environment.

The strengths and weaknesses of an economy and banking industry are critical factors that underpin the creditworthiness of a country's financial institutions. This analysis is distilled into a single Banking Industry Country Risk Assessment (BICRA) designed to evaluate and compare global banking systems. A BICRA is scored on a scale from '1' to '10', ranging from the lowest-risk banking systems (group '1') to the highest-risk (group '10'). The BICRA methodology has two main analytical components: "economic risk" and "industry risk." The grouping is done according to a country's financial systems, the structure and performance of the country's economy, legal and **regulatory infrastructure**, and the **quality and the effectiveness of bank regulation**.

Table 26 | Banking Industry Country Risk Assessments

Group 1 <i>lowest risk</i>	Group 2	Group 3	Group 4	Group 5
Canada	–	UK	–	Dubai
Switzerland		USA		
Hong Kong		EU*		
Singapore				

* Individual countries within the EU are given groupings. Several of the larger economies in the EU (including France, Germany and the

Netherlands) are in Group 2 although Italy, Spain and Denmark and others are in lower groups.

These ratings are reflected in the specific sub-group concerning the regulatory environment:

Table 27 | Regulatory Environment Risk Rating

Jurisdiction	Risk Rating
Canada	Very Low
Singapore	Very Low
Switzerland	Low
Hong Kong	Low
UK	Intermediate
USA	Intermediate
EU*	Intermediate
Dubai	High

Operational Risk Rating (The Economist Intelligence Unit)

Web Site:

<http://www.viewswire.com/index.asp?layout=homePubTypeRK>

The Economist Intelligence Unit has developed an indicator of operational risk that monitors 180 countries. Its aim is to measure the risk to business profitability and it is comprised of ten different indicators with different weightings that reflect their importance from a business point of view. The underlying categories are:

- macroeconomic;
- foreign trade and payments;
- financial;
- tax policy;
- **legal and regulatory;**
- security;
- political stability;
- government effectiveness;
- labour market;
- infrastructure

The ratings in the **legal and regulatory category** are as follows:

Table 28 | Operational Risk Rating

Jurisdiction	Risk Rating
Singapore	8
USA	10
UK	10
Canada	12
Hong Kong	18
EU*	22
Dubai	52
Switzerland	55

* mean of leading EU economies

Economic Freedom of the World Index (Fraser Institute)

Website: <http://www.freetheworld.com/>

The Economic Freedom of the World Index, which ranks 130 countries, is a joint venture involving seventy-one research institutes around the world. It measures the extent to which countries' institutions and principles support economic freedom.

The index is comprised of 42 different elements which are combined into 5 components:

- Size of government (Expenditure, Taxes and Enterprises)
- Legal structure and security of property rights
- Access to sound money
- Freedom to trade internationally
- **Regulation of credit, business and labour**

Table 29 | Regulatory Environment Risk Rating

Jurisdiction	Rating
Hong Kong	9.02
Singapore	8.52
Canada	8.32
Switzerland	8.26
USA	8.23
Dubai	8.06
UK	7.62
EU*	7.54

* mean of leading EU economies

Institutional Effectiveness (The Economist Intelligence Unit)

Website:

<http://www.managementthinking.eiu.com/hot-spots.html>

Institutional Effectiveness is one of eight thematic categories used in the Global Cities Competitiveness Index and contributes a weighting of 15% to the overall ranking, making it the joint second largest indicator with Human Capital. Institutional Effectiveness covers five areas of effectiveness:

- electoral process and pluralism (14.3%);
- local government fiscal autonomy (28.6%);
- taxation (14.3%);
- **rule of law** (14.3%);
- **government effectiveness** (28.6%).

The indicators promote cities which have **stability of regulations**, predictability and fairness of political processes and effectiveness of the system.

Table 30 | Stability of Regulations

Jurisdiction	Rating
Switzerland	96.0
Singapore	87.8
Canada	87.1
USA	85.8
Hong Kong	85.3
UK	83.8
Dubai	82.7
EU*	73.0

* mean of leading EU economies

Regulatory Enforcement (World Justice Project)

Website:

http://worldjusticeproject.org/sites/default/files/files/wjp_rule_of_law_index_2014_report.pdf

The Rule of Law Index is a comprehensive analysis designed to assess the extent to which countries adhere to the rule of law, not just in theory but in practice. It examines practical situations and uses a set of over 400 variables drawn from a general poll (with more than 97,000 participants) and a qualified

questionnaire (with more than 2,500 legal experts) evenly distributed among the 97 countries surveyed.

The Rule of Law is a system based on four universal principles:

- the government and its officials and agents are accountable under the law;
- laws are clear, publicized, stable and fair, and protect fundamental rights including the security of persons and property;
- the process by which **laws are enacted, administered and enforced is accessible, efficient and fair**;
- justice is delivered by competent, ethical and independent representatives and neutrals that are of sufficient number, have adequate resources and reflect the makeup of the communities they serve.

There are nine different factors that are used in the Rule of Law Index:

- limited government powers
- absence of corruption
- order and security
- fundamental rights
- open government
- **regulatory enforcement**
- civil justice
- criminal justice
- informal justice

Regulatory Enforcement measures the extent to which government regulations are effectively applied and enforced without improper influence, due process is respected in administrative proceedings and they are conducted without unreasonable delay.

Table 31 | Regulatory Enforcement Rating

Jurisdiction	Rating
Singapore	0.79
Canada	0.79
UK	0.78
Hong Kong	0.74
EU*	0.74
USA	0.67
Dubai	0.66
Switzerland	–

* mean of leading EU economies

Global Enabling Trade Report (World Economic Forum)

Website:

<http://www.weforum.org/issues/international-trade>

The Global Enabling Trade Index (ETI) was developed within the context of the World Economic Forum's Supply Chain and Transportation Industry Partnership program and was first published in The Global Enabling Trade Report 2008. The index ranks 132 individual economies and measures the extent to which they have developed the institutions, policies, and services that facilitate free flow of goods over borders and to destination. The structure of this index reflects the main enablers of trade, breaking them into four sub-indices and nine composite measures (pillars). The pillars combine a range of individual variables including both hard data and survey data from the World Economic Forum's Executive Opinion Survey:

- The market access sub-index measures the extent to which the policy framework of a country welcomes foreign goods and enables access to foreign markets for its exporters. It includes one pillar: Domestic and foreign market access
- The border administration sub-index gauges the extent to which the administration at the border facilitates the entry and exit of goods. It encompasses 3 pillars: Efficiency of customs administration; Efficiency of import-export procedures; and Transparency of border administration

- The transport and communications infrastructure sub-index assesses the country's transport and communications infrastructure that facilitates the movement of goods within the country and across the border. It includes 3 pillars: Availability and quality of transport infrastructure; Availability and quality of transport services; and Availability and use of ICT.
- The **business environment sub-index** looks at the quality of governance and the overarching regulatory and security environment impacting the business of importers and exporters. It includes the final 2 pillars: **regulatory environment**; and physical security.

Table 32 | Business Environment Rating

Jurisdiction	Rating
Singapore	5.9
Hong Kong	5.5
UK	5.2
Switzerland	5.2
Canada	5.0
USA	5.0
Dubai	5.0
EU*	4.9

* mean of leading EU economies

SECTION 7 APPENDICES

Appendix 2 – The Online Questionnaire

The financial services industry is currently being faced with a significantly more onerous regulatory landscape than it has faced in the past. Z/Yen's research for the Global Financial Centres Index indicated that the regulatory environment is the area of most concern to financial professionals in 2014.

As part of our continuing research into the competitiveness of financial centres, we are currently seeking views on the regulatory environment for financial services in the leading jurisdictions for the industry. We would very much value your opinions via this short questionnaire which should take no longer than 10 minutes to complete. This research is being conducted under the Marketing Research Society 2014 Code of Conduct and all responses will be kept confidential. Please spare a few minutes to help with this valuable piece of research.

1. Your name
2. What is your job title / main area of responsibility?
3. The name of your organisation
4. In which industry sector is your organisation? (If your organisation operates in more than one sector, please indicate the one in which you personally are primarily involved).
Banking / Investment / Finance / Trading / Professional Services / Insurance / Government & Regulatory / Trade Association / Other – Please specify
5. Approximately how many employees does your organisation have worldwide?
Fewer than 100 / 100 to 500 / 500 to 1,000 / 1,000 to 2,000 / 2,000 to 5,000 / More than 5,000

6. Please select the financial centre in which you are based. If you are based in more than one, please select (from a dropdown list of over 90 financial centres) the centre in which you spend most of your time. If you have selected "Other", please specify.

7. How important is each of the following factors in the competitiveness of a financial centre (where 1 is unimportant and 10 is extremely important):
The regulatory environment / Political stability / The rule of law / Tax rates / Availability of skilled workers / Flexibility of the labour market / Quality of life / Infrastructure
Do you have any comments regarding what makes a financial centre competitive?

For the following questions, we have grouped various jurisdictions into regions. We understand that regulations may vary within each region (e.g. The USA has both federal and state based regulations). We will account for these variations, where possible, by using instrumental factor analysis and other research. If you feel that you have insufficient knowledge of a particular jurisdiction to answer the question, please leave it blank.

8. How do you assess regulations in the following jurisdictions in terms of maintaining financial stability (where 1 is very poor and 10 is excellent):
UK / EU / Switzerland / USA / Canada / Dubai / Hong Kong / Singapore
Do you have any comments regarding regulation and maintaining financial stability?
9. How do you assess regulations in the following jurisdictions in terms of maintaining market confidence (where 1 is very poor and 10 is excellent):
UK / EU / Switzerland / USA / Canada / Dubai / Hong Kong / Singapore
Do you have any comments regarding what makes a financial centre competitive?

10. How do you assess regulations in the following jurisdictions in terms of reducing financial crime (where 1 is very poor and 10 is excellent):

UK / EU / Switzerland / USA / Canada / Dubai / Hong Kong / Singapore

Do you have any comments regarding regulation and reducing financial crime?

11. How do you assess regulations in the following jurisdictions in terms of protecting the consumer (where 1 is very poor and 10 is excellent):

UK / EU / Switzerland / USA / Canada / Dubai / Hong Kong / Singapore

Do you have any comments regarding regulation and protecting the consumer?

12. How do you assess the following jurisdictions in terms of the cost of regulatory compliance (where 1 is low cost and 10 is high cost):

UK / EU / Switzerland / USA / Canada / Dubai / Hong Kong / Singapore

Do you have any comments regarding the cost and ease of regulatory compliance?

13. How do you assess the following jurisdictions in terms of the predictability of future regulatory changes (where 1 is very poor and 10 is excellent):

UK / EU / Switzerland / USA / Canada / Dubai / Hong Kong / Singapore

Do you have any comments regarding the predictability of future regulatory changes?

14. How do you assess regulations in the following jurisdictions in terms of encouraging excellence in customer service (where 1 is very poor and 10 is excellent):

UK / EU / Switzerland / USA / Canada / Dubai / Hong Kong / Singapore

Do you have any comments regarding regulations and customer service?

15. How do you assess regulations in the following jurisdictions in terms of openness to foreign businesses (where 1 is very poor and 10 is excellent):

UK / EU / Switzerland / USA / Canada / Dubai / Hong Kong / Singapore

Do you have any comments regarding openness to foreign businesses?

16. How much do you agree with the following statements regarding financial services regulation over the next five years (where 1 means completely disagree and 5 means completely agree):

Regulations will become more onerous/

Regulations will become easier to comply with/

Regulations will become more costly/

Regulations will become more effective/

Regulations will become a greater source of competitive advantage/

Regulations will become a greater barrier to entry

17. Are there any business sectors (Capital markets, Derivatives, Insurance, Commodities, Foreign exchange) that are particularly well regulated or poorly regulated?

18. Are there any particularly good regulations or poor regulations that you encounter in your international dealings?

19. Are there any specific regulations or regulatory environments that affect your own company's ability to expand or re-locate to a new jurisdiction?

20. Do you have any further comments on the regulation of financial services?

Very many thanks for your contribution to this research.



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