

TURBULENT TIMES

Introduction

As the fallout from the global financial crisis continues, competition between leading international financial centres has been given a new dimension by threats of tougher regulation in established markets and intense pressure from emerging centres striving hard to push their way into the top league. **WRITER** *Silvia Pavoni*

THE PAST FEW YEARS HAVE BEEN anything but dull for the financial markets. The global financial crisis and worldwide economic troubles have shaken governments and financial institutions alike.

The wave of regulatory changes aimed at preventing similar crises from happening in the future has the potential to dramatically diminish the appeal of some international financial centres (IFCs) – with their equivalents in emerging markets being the beneficiaries.

Banks continue to warn of an exodus of talent if cities such as London implement tougher rules on bonuses and bankers' pay; rumours also continue of large institutions planning to relocate to more favourable IFCs if they perceive as too damaging the more stringent regulation currently being discussed on both sides of the Atlantic.

But these are conjectures, and *The Banker's* listing of international financial centres does not concern itself with opinions but focuses instead on hard data. As with last year's rankings, indicators examined include macroeconomic data, business-friendliness, cost factors, flows of foreign direct investment and financial market data, to mention but a few.

SURPRISE MOVERS

In its second edition, *The Banker's* ranking of IFCs and specialist financial centres presents a few surprises.

The two-pronged battle between London and New York to be crowned as the world's leading IFC has this year been won by the US city. London comes a very close second, and holds its lead in the financial markets table. New York scored better as far as its economic potential is concerned and its banks closed the past fiscal year with higher values of Tier 1 capital, a measure of its banking sector's strength.

Away from the traditional big two, growing attention must be paid to the rise of Asia's IFCs. Singapore remains the investor's top



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choice; it has improved its business friendliness and its business environment remains second only to London. However, it is Hong Kong that has progressed the most within the rankings, jumping from 16th position last year to sixth this year – a remarkable result that highlights the significance of Hong Kong as China's international market and its mounting ability to attract investment. Professor K C Chan, secretary for financial services and the treasury for the Hong Kong government, details the centre's opportunities for further growth on page 14.

Due to a poor performance within its financial market indicators and the deterioration of business-friendliness indicators, Frankfurt has plummeted from third position last year to 12th position this year. But, as the German financial centre points out in the following pages of this supplement (page 8), its regulatory solidity should maintain the city's attractiveness in years to come.

The second position in the western European tables has this year been taken by Paris, which also improved dramatically in the ranking of assets under management, coming second after New York. Also impressive in western Europe are the improvement in Copenhagen's cost factors and Luxembourg's impressive ability to attract foreign investment.

Further east, Moscow remains in the bottom half of the overall ranking but is determined to overcome the legislative and infrastructure challenges that are hindering its development, as explained by the Russian capital's first deputy mayor on page 10.

In North America, Toronto is climbing up the rankings and went from 10th position in 2009 to seventh. Canada has benefited from its many conservative rules and innovative tax policies to create an attractive market for foreign investors – and it seems to have paid off. Business-friendliness indicators reflect this as Toronto has moved up from 10th position last year to third.

SPECIALIST CENTRES

The Banker has also engaged in a detailed survey of specialist financial centres, which provided our researchers with information not always available in the public domain. The leader of specialist centres remains the Cayman Islands, while Bermuda has climbed from fourth to second place, leaving Jersey in third position.

No doubt the next few years will continue to bring change to the financial markets and international financial centres. As always, *The Banker* will follow their developments and report on their achievements. **IB**