The Competitive Position of London as a Global Financial Centre

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CORPORATION OF LONDON

November 2005

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Foreword

Michael Snyder
Chairman, Policy and Resources Committee
Corporation of London

It has been almost two and half years since the Corporation of London published its landmark research report *Sizing Up the City – London's Ranking as a Financial Centre*. That report attracted a significant amount of attention not only because it asked senior decision makers in the international financial services industry about the key components of competitive advantage, but also because it asked them how the world's major financial centres ranked against these criteria.

The City of London ranked very highly in the original study. However, given the rapid pace of change in the financial services industry since that report was published, we recently decided to commission a fresh exercise. This new report, produced by Z/Yen Limited, seeks both to measure how perceptions of the City's competitive position have changed since 2003, and to expand the scope of the exercise to embrace a wider range of factors and a greater number of centres.

I believe the key findings of this report are clear: London and New York have moved further ahead of Frankfurt and Paris as international financial centres. Indeed, those interviewed during the course of the research believe that there are only two genuinely *global* financial centres - London and New York. Although Paris and Frankfurt are extremely important regional financial centres, and a number of other cities have been very successful in individual sub-sectors of the industry, the pre-eminence of the City and Wall Street is if anything even more pronounced than before.

As was the case with the 2003 report, today's respondents believe that the availability of skilled personnel and the nature of the regulatory environment are the two most important competitive factors affecting international financial centres. Despite a host of pressures, particularly on the regulatory front, London has once again scored highly in both instances. There is, however, no room for complacency. It is clear that UK policy makers must continue to monitor the regulatory balance carefully and respond where necessary with proportionate action if London's relative competitiveness is to be maintained.

Looking ahead, respondents were divided as to whether there was scope for the emergence of a third global financial services centre. They were, however, strongly of the view that if such a centre did arise it would be in China. The Corporation of London is acutely aware that China's role as an economic power has grown dramatically, and a vast market is being created for financial products and services. We therefore plan to engage closely with the People's Republic and to respond to these challenges and opportunities for the City being created.

Michael Snyder
London
November 2005

1. Executive Summary

- This study analyses the key factors that make a financial centre competitive. It examines perceptions of four leading financial centres, London, New York, Frankfurt and Paris. The study also assesses how things have changed since a similar Corporation of London study in June 2003.[1]

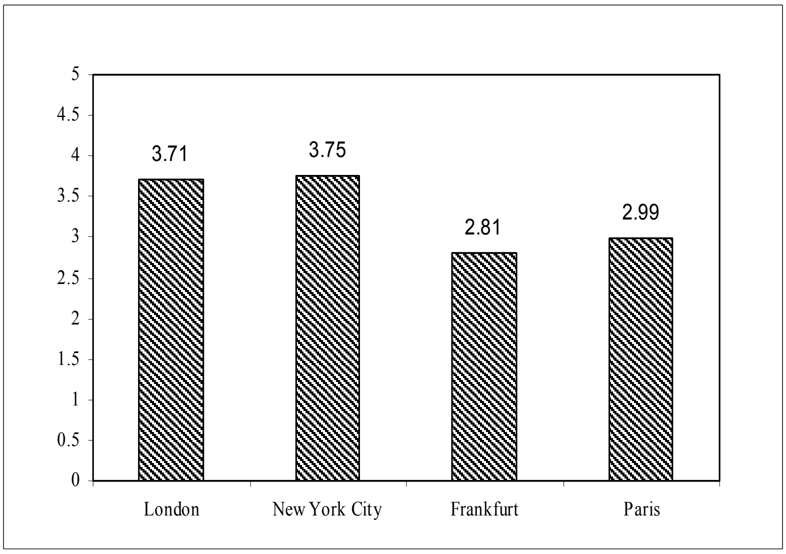
- The final rankings of the four financial centres shown in Chart 1 show that London and New York score well above Paris and Frankfurt as financial centres:

Chart 1 – Average Scores of the Financial Centres in 2005

Please note these scores exclude the ranking for Operational Costs as these were derived from a separate source (please see section 4.9 below)

- The difference between London and New York is not statistically significant. What is clear, however, is that these two financial centres have extended their lead over Frankfurt and Paris since 2003:

Chart 2 – Comparative Positions of the Financial Centres in 2003



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[1] Centre for the Study of Financial Innovation, *Sizing up the City – London's Ranking as a Financial Centre*, Corporation of London (June 2003).

- London and New York are the only two genuinely global financial centres at present (we define a global financial centre as one where a business is conducted between organisations from all over world using financial instruments from all over the world).

- Respondents believe that other financial centres such as Frankfurt, Paris and most of the Asian centres will remain as national financial centres and will not challenge London and New York as global financial centres in the future.

- The most important competitive factors for financial centres in descending order are listed below:

Table 1 – Competitive Factors Ranked

Factor of Competitiveness	Rank	Average Score
Availability of Skilled Personnel	1	5.37
Regulatory Environment	2	5.16
Access to International Financial Markets	3	5.08
Availability of Business Infrastructure	4	5.01
Access to Customers	5	4.90
A Fair and Just Business Environment	6	4.67
Government Responsiveness	7	4.61
Corporate Tax Regime	8	4.47
Operational Costs	9	4.38
Access to Suppliers of Professional Services	10	4.33
Quality of Life	11	4.30
Cultural & Language	12	4.28
Quality / Availability of Commercial Property	13	4.04
Personal Tax Regime	14	3.89

- The availability of skilled personnel is clearly judged as the most important factor with over 90% of respondents judging it to be either Very Important or Critically Important.

- The regulatory environment is also seen as a crucial component of competitiveness. These two factors also ranked first and second in the 2003 study. London and New York scored highly for both these factors.

- Looking ahead, respondents believe that government responsiveness, corporate tax regime and personal tax regime is likely to be of greater concern to them over the next three years.

- Nobody we spoke to believes that London and New York will lose their positions as global financial centres within the next ten years.

- Part of the continuing appeal of London to foreign companies is its cosmopolitan status. Frankfurt and Tokyo, for example, are primarily market places for domestic participants to which foreign players are granted access. London, and to a lesser extent, New York are characterised by foreigners trading with each other. In an increasingly international economy, London seems to have a solid future as a global financial centre.

- An argument has been made that financial centres will be weakened by technology, outsourcing and off-shoring. Our research indicates that financial centres may lose certain types of commoditised activities to low cost cities but the important parts of the industry, companies' headquarters and their most skilled employees will continue to cluster in financial centres. It would appear that the 'value-added' activities will remain in the business clusters that financial centres offer. These value added activities include senior 'strategic' management and front office, product innovation, client facing and deal-making activities.

- We examined perceptions about whether the two global centres of London and New York were all that the world economy needs or whether there is scope for a new, third, global financial centre. Views on a third global financial centre are split. Most people however, agree that if a third global financial centre develops it is most likely to be in China and probably in Shanghai. It is unlikely that Hong Kong, Singapore or Tokyo will ever become more than regional financial centres.

2. Background

In June 2003 the Corporation of London published *Sizing up the City – London's Ranking as a Financial Centre*,[2] a report written by the Centre for the Study of Financial Innovation based on a survey of City opinion of London's competitive position as an international financial services centre.

The 2003 report compared directly London, New York, Paris and Frankfurt. In order to draw direct comparisons, this report also examines those centres but then expands the scope of the study to cover other financial centres.

The 2003 report considered six main competitive factors (skilled labour, regulatory competence, tax regime, government responsiveness, regulatory "touch" and living environment). This study expands this to 14 competitive factors, with just one question on the issue of regulation instead of the two contained in the 2003 report.

The financial services industry is a major segment of the UK economy and accounts for almost 5.5% of GDP and employs in excess of one million people.[3] The UK has the largest trade surplus in financial services in the world ($25.3bn in 2003, followed by Switzerland $11.0bn). The vast majority of the UK financial services industry is in London. London has long been an important financial centre for a number of good reasons. A trading culture has been maintained since the UK was the dominant trading country in the world in the 18th and 19th centuries. London has a history of openness and a tradition of welcoming foreign traders. The prevalence of the English language has played its part as has the geographical position between the USA and Asian time zones.

However, a successful history is no guarantee of future success – as the UK textile industry demonstrates. New technology and improved communications infrastructure have reduced the need to be close to financial markets and companies are becoming more skilled at managing operations remotely. London is a relatively expensive city to operate from, the transport infrastructure is regularly criticised and terrorism is still seen as a threat.

Can London remain a leading financial centre? How sustainable is the competitive edge that London has enjoyed? Are there likely to be challenges to London's position as a leading global financial centre? If there are challenges, where will these come from?

This study seeks to examine how competitive London is today and how competitive it might be in the future. We have approached this task by asking individuals engaged in the industry what factors they feel makes a financial centre competitive and how important each of these factors is in the competitive mix. We have then assessed these responses to determine how the main financial centres are rated in terms of each of these factors.

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[2] CSFI *ibid.,*
[3] International Financial Services, London – *International Financial Markets in the UK* - May 2005.

3. What Makes a Financial Centre

This study analyses the opinions of nearly 400 financial services businesspeople on financial centres, but what is a financial centre and why do financial centres matter? The answers to both questions are not straightforward.

It is easy to remark that financial centres have existed throughout history from ancient, nearly legendary, entrepôts such as Babylon, Samarkand, Constantinople, Marrakech or Timbuktu through to London, New York, Paris, Tokyo or Shanghai. It is difficult to work out what is the appropriate 'unit of analysis' for financial centres. Should we be examining these financial centres at the level of the culture (Anglo-Saxon, Han Chinese, Continental European or Arab), or of the nation-state (USA, UK, Germany or Japan), or at a regional level (Far East, Near East, Europe, North America)? One of the more interesting observations has been that cities, rather than nations, are the drivers of economies.[4] Cities are where people go to trade, and live to trade. A city is a unique combination of residential, industrial, business and administrative activity. A city is distinguished from other human habitations by a combination of population density, extent, social importance or legal status.

In this study, we took the 'unit of analysis' for a financial centre to be the 'city'. Of course, defining a city is also not straightforward. We wanted to focus on 'global' cities, but Bangkok, Beijing, Brussels, Chicago, Hong Kong, Johannesburg, London, Moscow, Mumbai, New York, Los Angeles, Paris, São Paulo, Seoul, Shanghai, Singapore, Sydney, Tokyo and Toronto are commonly referred to as global cities. We could have used ranking systems of cities, for instance the Globalization and World Cities Study Group and Network at Loughborough University published an interesting research bulletin[5] giving one attempt at ranking cities by importance:

Alpha World Cities
12 points: London, New York, Paris, Tokyo
10 points: Chicago, Frankfurt, Hong Kong, Los Angeles, Milan, Singapore

Beta World Cities
9 points: San Francisco, Sydney, Toronto, Zurich
8 points: Brussels, Madrid, Mexico City, Sao Paulo
7 points: Moscow, Seoul

Gamma World Cities
6 points: Amsterdam, Boston, Caracas, Dallas, Dusseldorf, Geneva, Houston, Jakarta, Johannesburg, Melbourne, Osaka, Prague, Santiago, Taipei, Washington DC
5 points: Bangkok, Beijing, Montréal, Rome, Stockholm, Warsaw
4 points: Atlanta, Barcelona, Berlin, Buenos Aires, Budapest, Copenhagen, Hamburg, Istanbul, Kuala Lumpur, Manila, Miami, Minneapolis, Munich, Shanghai

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[4] Jacobs, J. *Cities and the Wealth of Nations: Principles of Economic Life*, Random House (1984).
[5] Beaverstock *et al.,* 'A Roster of World Cities' *Cities*, 16 (6), 1999, pp. 445-458.

This study's context was bounded by the previous comparison in June 2003 of London, New York, Frankfurt and Paris with which we wanted comparability. There was great difficulty in seeing how to include other financial centres without unduly influencing the results. If we asked for key opinions on financial centres much beyond London, New York, Paris and Frankfurt, the survey became too complicated. If we asked for opinions on too few centres, we excluded respondents' thoughts on the truly emerging centres. For example, a similar study in 1990 might have missed the rapid rise of Dublin in back-office services. In the end, we kept our comparison of the four centres and asked for respondents' wider thoughts, which we got on 54 financial centres.

3.1 What Is a Global Financial Centre?

The results of this study lead us to conclude that analysis of these four centres against each will alter in the future for two reasons. First, there is an overwhelming consensus that London and New York are the two 'global financial centres'. Second, there are numerous regional or national financial centres. Perhaps more appropriate questions for further similar research are – will there be a third global financial centre? If so, which city? Might we consolidate on one global financial centre? If so, London or New York or somewhere else? How do regional financial centres relate to global financial centres? What is the ambit of influence for regional financial centres?

A global financial centre is an intense concentration of a wide variety of international financial businesses and transactions in one location. The city of Hamilton in Bermuda may be an international financial centre for reinsurance, but it is not a global financial centre. Sydney may be Australia's international financial centre, but it is not a global financial centre. If anything, this study re-confirms a trend noticed several years ago, the primacy of London and New York, and a confusing mix of specialist or local centres below them:

> Globalization usually implies decentralization. But while the international network of financial centers is indeed expanding, a leaner system dominated by a handful of strategic cities is evolving. As financial operations disperse around the world, only a few cities will have the resources to be dominant. First among them are London and New York, with their enormous concentrations of resources and talent. These two will conduct the most critical and complex financial operations of the future. A secondary network of smaller economic capitals will be headed by Frankfurt, boosted by Europe's economic and monetary union. The ultimate status of battered Hong Kong and Tokyo remains murky as markets wait to see what will be left in the wake of the Asian crisis. Although Singapore and Sydney are strengthening their positions, it is difficult to imagine them replacing Tokyo's resources and Hong Kong's expertise.[6]

This study found that, after acknowledging the primacy of London and New York as the two global financial centres, participants could dwell on the characteristics of any of 52 other locations. International activity involves, at its simplest, at least two locations in different jurisdictions. Much international activity involves several locations and several jurisdictions. For instance, a foreign exchange deal between a mortgage bank in Sydney and a Singaporean retail bank is international. This deal

[6] Sassen, S. 'Global Financial Centres', *Foreign Affairs*, 78 (1), (Jan/Feb 1999).

may not require the involvement of the two global financial centres. Due to critical mass and liquidity in the global financial centres, the mortgage bank in Sydney may be more likely to go directly to London or New York for a good price when looking outside Australia, rather than initiate a discussion with the Singaporean bank. On the other hand, existing relationships may make direct contact with the Singaporean bank simpler, but only if an accident of history had led to earlier contacts. Slightly more complicated deals with more participants increase the likelihood that a financial centre is needed where all parties understand the rules of engagement, probably have existing support relationships and have the infrastructure to conclude the transactions. The global financial centre functions as a hub where the regional participants are the spokes.

This hub-and-spoke arrangement out from global financial centres, i.e. London or New York directly to *regional participants*, is not necessarily one where the *regional financial centres* are operating as sub-hubs. The Sydney mortgage bank may well be working on regional financial deals and be located in Sydney for that centre's own cluster advantages, but the bank's international dealings could be direct with counter-parties in London or New York. On the other hand, the Sydney mortgage bank may not have an international network and could go directly to a counter-party in Sydney who would arrange the transaction, say a large investment bank. This investment bank is most likely to transact the international component of the work in London or New York. In neither case is the local hub in Sydney involved with these international transactions.

The difficulty of compartmentalising financial services distribution neatly into a typical commercial model – central warehouse, regional distribution centre, local store – is conveyed by this attempt to define an offshore financial centre:

> At its broadest, an OFC [offshore financial center] can be defined as any financial center where offshore activity takes place. This definition would include all the major financial centers in the world. In such centers, there may be little distinction between on- and offshore business, that is a loan to a non-resident may be funded in the center's own market, where the suppliers of funds can be resident or non-resident. Similarly, a fund manager may well not distinguish between funds of resident customers and those of non-residents. Such centers, e.g., London, New York, and Tokyo could more usefully be described as "International Financial Centers" (IFCs). In some cases, e.g., New York and Tokyo, some of this activity, but by no means all, is carried on in institutions which are favorably treated for tax and other purposes, e.g., the U.S. International Banking Facilities and the Japanese Offshore Market.[7]

Future research may be well-directed at categorising and analysing the successes and failures of regional financial centres. As London and New York are unique, perhaps there is more to learn from comparison among the regional financial centres. The IMF continued:

[7] International Monetary Fund, *Offshore Financial Centers*, Monetary and Exchange Affairs Department (June 2000).

> International Financial Centers (IFCs)—such as London, New York, and Tokyo—are large international full-service centers with advanced settlement and payments systems, supporting large domestic economies, with deep and liquid markets where both the sources and uses of funds are diverse, and where legal and regulatory frameworks are adequate to safeguard the integrity of principal-agent relationships and supervisory functions. IFCs generally borrow short-term from non-residents and lend long-term to non-residents. In terms of assets, London is the largest and most established such center, followed by New York, the difference being that the proportion of international to domestic business is much greater in the former.
>
> Regional Financial Centers (RFCs) differ from the first category, in that they have developed financial markets and infrastructure and intermediate funds in and out of their region, but have relatively small domestic economies. Regional centers include Hong Kong, Singapore (where most offshore business is handled through separate Asian Currency Units), and Luxembourg.[8]

Perhaps a global financial centre is one where the criterion "supporting large domestic economies" is less and less relevant.

3.2 How Do Participants Choose To Place Business In a Financial Centre?

While not wishing to be complacent about London's or New York's positions, it does seem that certain types of transactions need a global financial centre and other transactions do not. However, how much will go to London and how much to New York? This study shows that things are 'neck and neck'. Both global financial centres are comparable. In this study, London just pips New York for first place. In 2003, New York just pipped London. More importantly, while there may be little distinction in importance between London and New York, both have pulled markedly away in comparison with Frankfurt, Paris, Tokyo or any other regional centre. Ignoring the possibility that physical effects might vanish, e.g., the ability to deal from anywhere electronically eliminates the need for a physical location, if certain types of transaction need a global financial centre, then London or New York might be assumed to 'get their share' for the foreseeable future.

Participants seem to choose to place their transactions and their business based on a number of criteria. Any taxonomic approach has difficulties. It is a combination of factors that makes a financial centre successful, not just a single factor. Jared Diamond derives an Anna Karenina Principle from the opening line of Tolstoy's novel: "Happy families are all alike; every unhappy family is unhappy in its own way." Jared believes the principle describes situations where a number of activities must be done correctly in order to achieve success, while failure can come from a single, poorly performed activity.[9]

Further, a criterion which helped to cause success may not be particularly strong today, but it's too late. For instance, low taxation might draw participants in, but not persist. Likewise, a criterion which is strong and important today, for instance, the availability of skilled personnel, may be an effect rather than a cause. In this study

[8] IMF *ibid.,*
[9] Diamond, J. *Guns, Germs and Steel*, Random House (1997).

we examined 14 criteria. Before looking at some of the criteria, consider this quotation which may seem as fresh as it did two decades ago:

> Using data from an establishment-level survey of foreign banks, a good deal of similarity is shown to exist between London and New York with respect to the rationale for location choice (at the international and metropolitan scale), the patterns of client distribution, the use of intermediate services and impacts on local labour markets. While client location is international, agglomeration economies strongly influence foreign bank location choices and are strongly reflected in the spatial attributes of intermediate service purchasing.[10]

Or is it so fresh? What Daniels' quote doesn't seem to reflect is the self-reinforcing importance of staff. The 'availability of skilled personnel' was the most important competitive factor in this study. As an international financial centre grows, staff gain skills and move jobs, the availability of skilled staff grows, thus enabling further growth of the international financial centre. Soon, aspiring financial services job-seekers begin their careers by moving to the international financial centre, further reinforcing its reputation as a place to go to find suitably qualified staff. International financial staff are hard to find, hard to keep and, arguably, hard to manage. If we take salaries at face value, good staff are valuable. Other studies (e.g. Z/Yen's benchmarking work amongst global investment banks[11]) have shown that experienced international financial staff significantly outperform regional financial staff trying to do international work. For this reason, productivity in the two global financial centres may be above productivity in regional financial centres, despite significantly higher salaries in London and New York. In fact, it may be virtually impossible to establish a business which needs a pool of personnel skilled in international financial services anywhere except London and New York.

Daniels' quote also doesn't seem to emphasise the importance of the second most important competitive factor in this study, the 'regulatory environment'. Again, there is a self-reinforcing loop here. Business is transacted where regulators permit, but also where people trust the regulators. Over time, regulators either gain the skills to regulate international financial transactions and institutions, or lose credibility by being too intransigent or too lax. Sooner or later, certain regulatory regimes pull away from the pack. In fact, it may be difficult for regional regulatory regimes to gain the necessary experience of international financial transactions to get back in the game. On the other hand, the risk of over-regulation remains high. The Centre for the Study of Financial Innovation's annual study of risks to the financial services industry or "banana skins" concludes:

> The remorseless rise in regulation dominates this year's *Banana Skins* survey… This is the first time this risk [regulation] has topped the poll in the ten years that the survey has been conducted, though its steady rise has been charted over the last three years.[12]

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[10] Daniels, P. W. 'Foreign Banks and Metropolitan Development: A Comparison of London and New York' *Tijdschrift-voor-Economische-en-Sociale-Geografie*, 77(4), pp.269-287 (1986).
[11] Z/Yen Limited, *Strategy Canvas Survey* (for Global Investment Bank), (February 2004).
[12] Centre for the Study of Financial Innovation, *Banana Skins 2005 – The CSFI's Annual Survey of the Risks Facing Banks* (February 2005).

3.3 Are There Contradictions?

There were a few paradoxes in responses. First, while the availability of skilled personnel was the most important competitive factor, the personal tax regime was the least important. One of the differences in criteria between this study and the 2003 study was distinguishing between the corporate tax regime and the personal tax regime. Even taking corporate and personal tax together, taxation was not a big issue, and tax moved significantly down in importance from the 2003 study. Cultural & language factors and quality of life were also not highly rated (12th and 11th respectively), again despite the importance of skilled personnel. The decreasing importance of taxation can be explained away by noting that sophisticated multi-nationals tend to be able to manage their tax affairs such that it is a minor criterion for them, while effective tax rates among high earners are comparable in many financial centres. One could go further and assert that you might 'get what you pay for', in that high taxes might be associated with good quality public services while low taxes correlate with low quality of life, thus taxation should be considered in conjunction with quality of life. There were anecdotes of people moving back to London from Frankfurt to avoid tax, and anecdotes of people moving back to Frankfurt from London because a little less after-tax-income was more than compensated for by a higher quality of life.

Second, while operational cost is an important criterion in most location decisions, 'operational costs' were 9th out of 14. Perhaps financial services costs are so concentrated on staff that the 'availability of skilled personnel' and their productivity overwhelms the cost factor. Perhaps operational costs are subordinate to things such as business infrastructure. A smooth, functioning infrastructure justifies the costs. If all this is true, then why are financial services businesses so fixated on outsourcing and off-shoring in order to reduce costs?[13] Why are participants largely unconcerned with high occupancy costs? London is consistently ranked high in occupancy cost/m^2, yet participants did not consider this an important factor. If anything, participants were more satisfied in this study with London's availability of commercial property.

Third, there seemed little overt interest in links between the domestic market and the global financial centre. In the academic literature of financial centres, concentration is considered important, and domestic market concentration contributes to agglomeration:

> Despite 9/11, global financial markets appear to continue to depend on concentrated financial centers. New York and London rank highest according to stock market capitalization and the quantity of specialized corporate services. Tokyo, Frankfurt and Paris rank highest in corporate headquarters and large commercial banks, but New York ranks far above the rest when it comes to assets of the world's top 25 securities firms. The corporate services sector in each of these cities varies considerably, with New York and London the largest exporters of legal and accounting services, either directly or through affiliates in other cities. On the other hand, Tokyo and Paris account for 33 percent and 12 percent of assets, respectively, of the top 50 largest commercial banks; London and Frankfurt each account for 10 percent; and New York accounts for 9 percent. The reasons that financial concentration and agglomeration remain key features of the global financial system, and the network of global financial

[13] Gordon, I. R. *et al., Off-shoring and the City of London*, Corporation of London, (March 2005).

> centers remains crucial for the global operations of markets and firms, are social connectivity, the role of financial centers in cross-border mergers, and the presence of de-nationalized elites.[14]

Perhaps London, or New York, is best analysed as both a global financial centre and a domestic financial centre, with little cross-influences among them. This may, at first, appear naïve, but is simply an extension of the earlier argument that business and transactions change markedly once a number of international parties are involved.

Fourth, what about all the stuff that is taken for granted? For example, electricity and water supplies may seem to prevent development of financial services clusters abroad or be an important consideration when looking at outsourcing or off-shoring to developing world locations, yet do not feature in criteria for this study. In the major financial centres, many things are assumed, for instance, an absence of natural threats such as hurricanes or flooding. Yet London used to have significant flood risk, and may again as the Thames Barrier comes to the end of its projected usefulness. Geologic issues such as earthquake-prone faults or health issues such as malaria do not seem to feature. Nor does terrorism risk seem strong in participants' perceptions of what matters. There are also numerous personal issues that do not feature – work permits, opening bank accounts, arranging for utilities, personal safety. This study, as have many others, found it difficult to find deeper features that explain the rise of a financial centre. Somewhat naturally, participants tend to care about those things of which they are conscious. Any of a number of issues could have us looking back several years from and grimly nodding about how financial centres ceased function when "people wanted to avoid concentrating terrorism risk" or "homeworking became the norm and people didn't need to meet so much" or "infectious diseases just became too dangerous to have people so highly concentrated".

3.4 Plus Ca Change? Well Maybe, and Remember We Told You So

In 1990, a consensus on the global financial centres would have been London, New York and Tokyo. Today it's London and New York. But might things change?[15] The big question is - one global financial centre or three or status quo? As we seem to have gone in 15 years from three to two financial centres, we could make a strong case that soon there will be only one. We could argue that London has the advantage of the "Wimbledon Effect", i.e. being seen as a place of fair dealing and regulation for locals and overseas participants. Perhaps there is a role for one independent-of-domestic-markets, global financial centre:

> Euromarkets are those where assets are deposited outside the currency of origin. The Eurodollar market first came into being in the 1950s when the Soviet Union's oil revenue - all in US dollars - was being deposited outside the US in fear of being frozen by US regulators. That gave rise to a vast offshore pool of dollars outside the control of US authorities. The US government imposed laws to restrict dollar lending to foreigners. Euro markets were particularly attractive because they had far fewer regulations and offered higher yields. From the late 1980s onwards, US companies began to borrow offshore, finding Euro markets an advantageous place for

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[14] Sassen, S. 'Global Financial Centres After 9/11' *Wharton Real Estate Review*, Working Paper 474 (Spring 2004).

[15] See: Slater, E. 'The Flickering Global City' *Journal of World-Systems Research*, X (3), pp.591-608 (Fall 2004).

> holding excess liquidity, providing short-term loans and financing imports and exports … London was and remains the principal offshore market. In the 1980s, it became the key center in the Eurodollar market when British banks began lending dollars as an alternative to pounds in order to maintain their leading position in global finance. London's convenient geographical location (operating during Asian and American markets) is also instrumental in preserving its dominance in the Euro market.[16]

We could also argue that New York's proximity to the largest and most liquid domestic economy ensures it will ultimately prevail. The size of North America's onshore market guarantees New York's success. On the other hand, we could argue that Europe is London's domestic market as North America is New York's. Both cases beg the question, where is the equivalent Chinese financial centre? Participants seemed to believe that Shanghai was most likely to take that position, but not without a struggle.

But the rise of a Chinese global financial centre is not inevitable. Perhaps, similar to the development of the Euromarkets, there will be a need for an offshore Chinese market. Is that Hong Kong (perhaps not offshore enough), Singapore, Taipei, Sydney, Tokyo or Dubai? Or is offshore already defined by London or New York.

Back in 1999 Sir Willie Purves (former Chairman of HSBC) questioned whether "the UK is to Europe more as Manhattan is to the USA, or more as Hong Kong is to China?" Today we could raise an analogous question, "will China develop an onshore Manhattan or need an offshore London?"

Overall, locating a business in financial centre seems to be similar to other business location decisions – staff, access to customers, access to suppliers, costs, tax, government, culture and quality of life are all a rich mix. Yet they appeal to more than just financial services. London is clearly rated as the best city in Europe in which to locate a business, whether financial or otherwise.[17] Of the top 10 in Europe, London has a significant lead over Paris, which in turn has a significant lead over Frankfurt followed by Brussels, Barcelona, Amsterdam, Madrid, Berlin, Munich and Zurich. Only regulation seems different.

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[16] Easy Forex website: http://www.easy-forex.com/en/Forex.Market.History.aspx (2005).
[17] Cushman & Wakefield Healy & Baker, *European Cities Monitor*, (October 2005).

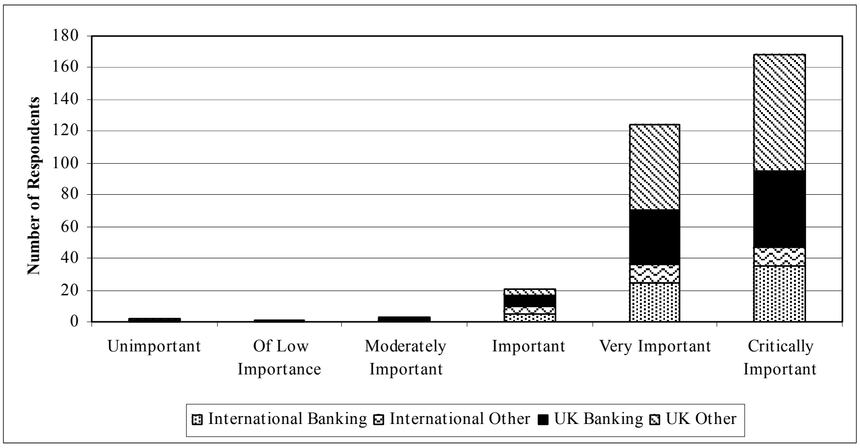
4. Results

This study considers 14 different factors that help to determine the competitiveness of financial centres. In the sections below we examine how important the factors are considered to be and how well each financial centre performs in terms of the factors. The competitive factors are presented in descending order of perceived importance.

4.1 Availability of Skilled Personnel (Ranked 1 of 14)

The availability of skilled personnel was ranked as the single most important factor in the competitiveness of an international financial centre. It was also ranked as the most important factor in the 2003 survey.

Chart 3 – The Importance of the Availability of Skilled Personnel

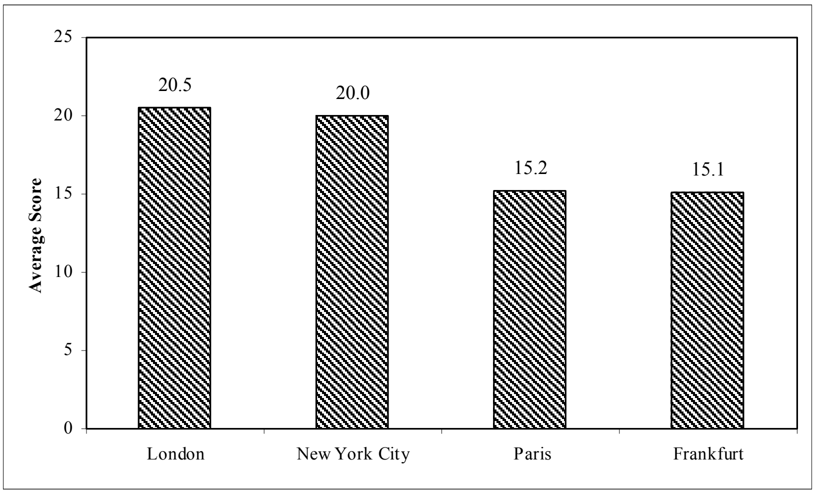


More than 90% of respondents viewed availability of skilled personnel as Very or Critically Important. London and New York both scored highly on the availability of skilled of staff, with 98% of respondents giving a rating of Good or Excellent. London appears to have a marginal advantage with an Excellent rating of 75%, compared with 66% in New York.

In Paris and Frankfurt, the availability of skilled staff is rated as Good by the majority – both centres received a Good rating around 60%. However, in both centres 30% of respondents viewed the availability of skilled staff as Poor.

It is difficult to avoid the conclusion that London and New York score so highly as global financial centres because of the quality of the workforce. Whether the quality of the workforce is a cause of these cities becoming leading centres or whether skilled workers are attracted to London and New York because of the size of the financial sector within the cities is the subject of some conjecture. The availability of high quality personnel is, however, a key factor in maintaining the superiority of London and New York over other centres.

Chart 4 – How the Centres Rank on the Availability of Skilled Personnel



The average score is derived from respondents' views of how each financial centre ranks on the Availability of Skilled Personnel multiplied by their views on the perceived importance of the Availability of Skilled Personnel as a competitive factor – please see Appendix A on Methodology.

A number of European banks have decided to centralise their European operations in London. A variety of reasons were given, but most were based on the availability of skilled personnel and particularly the flexibility of the labour markets in the UK.

The flexibility of staffing was a common thread amongst a number of our interviewees. This is important because banking is highly cyclical and it is seen as necessary to increase and reduce staff numbers regularly.

> *We recognise that banking is a cyclical business and in the good times we need to increase headcount and in the bad times we need to reduce numbers. We have consolidated our European operations in London because we can always get hold of really good experienced people when we need them and it is easier to 'downsize' - in Paris and Frankfurt this is an expensive, time consuming and stressful experience.* - Director of Global Equity Operations – Major European Investment Bank.

We recently conducted a series of 27 interviews of senior personnel in global investment banking[18] and they were categorical about their belief that London was the only place in Europe to centralise their operations because of the flexibility of the labour market. One of our respondents talked of London having a "just-in-time" workforce – well trained and available when required, but easily reduced when necessary. This contrasts with Paris where reducing staff numbers requires trade union consent which can add months and significant cost to a downsizing project.

Two of our interviewees believed that the ease of hiring - because of the pool of available labour, and firing - because of more flexible employment practices, appears to have further benefit in terms of a good work ethic. People are willing to work hard and for long hours, because of the 'culture' of flexibility. Several of our interviewees thought that London was unique in that people really wanted to work in financial services whereas in other locations it was 'just another job'.

[18] Z/Yen Limited, *op cit.,* (Feb. 2004).

Several respondents made the point that London is the 'English speaking centre' for nationalities, such as Australians, New Zealanders and South Africans. Many of these people are highly qualified and have worked in banking in their home countries. These people want to visit and work in Europe and see London as their first port of call. One interviewee did express caution about staffing in London - the quality of staff is excellent, but he felt that there is a shortage of skills in derivatives operations.

London is seen as having high employment costs although some of the add-ons costs are significantly less than other European centres. One of our interviewees said that he felt the high cost was offset by the quality of staff:

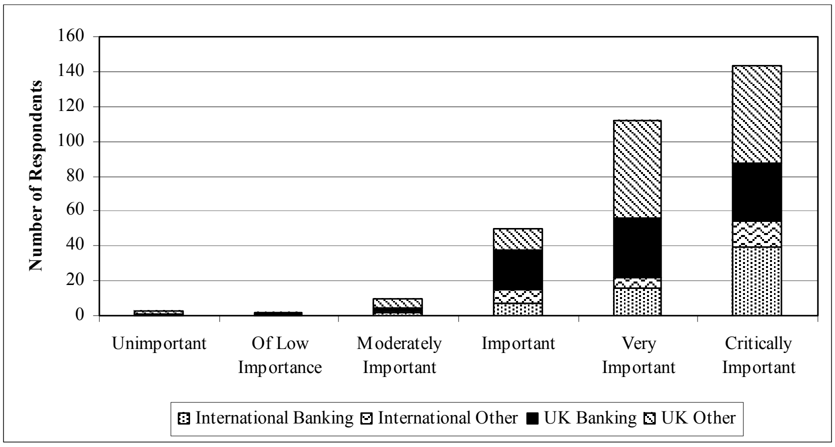
> *It is expensive to employ people in London - we don't mind the cost because we use the quality of our people as a competitive advantage – most of my operations team have degrees and foreign languages.* - Operations Director - Global Investment Bank.

In the 2003 survey, growing EU labour regulation was seen as a key threat to London's position. This threat remains with the UK's adoption of the EU's Social Chapter and the steady flow of labour market regulation making themselves felt. This is, however, unlikely to drive jobs away from London towards other European centres whilst these centres remain even less attractive. Because the labour regulations are European, there is a threat that financial centres outside Europe could become comparatively more attractive. This might, for example, lead banks from USA to relocate more operations back in the United States. The current feeling in London is that the Government is acting responsibly in the adoption of EU labour legislation and that London's competitiveness is unlikely to be badly damaged.

4.2 Regulatory Environment (2 of 14)

The regulatory environment ranked as the second most important factor in the competitiveness of an international financial centre. In the 2003 study, "the importance of a competent regulator" also ranked second.

Chart 5 – The Importance of the Regulatory Environment



Overall, more than 80% of respondents saw the regulatory environment as Very or Critically Important. Respondents from outside the UK placed greater emphasis on the regulatory environment, with 57% considering it Critically Important. This figure compares with 39% in the UK. Just over 60% of international bankers saw the regulatory environment as Critically Important, compared with 35% of UK bankers.

The regulatory environment is considered much better in London and New York than it is in Paris and Frankfurt. Over 90% of respondents rate the regulatory environment in London and New York as Good or Excellent. Other research has reported fears about over regulation. One recent study indicates that the banking community in London sees excessive regulation as the most significant risk to financial services at the moment.[19]

There is also wider concern about the scale of regulation in all industries. Financial Director Magazine[20] reported two surveys of CEO's that found that the issue that business leaders are most worried about is over-regulation and the costs of compliance in their industries.

The regulatory environment in New York was thought to be slightly poorer than that of London. There are generally two comparisons made about the regulatory environment in London and New York. The first concerns the number of regulatory bodies and the second relates to the philosophy of the regulations themselves.

Some people felt that there are too many regulatory bodies in USA and that there is a lack of consistency between them.

> *The trouble with regulation in New York is that it's not joined up – there are too many people asking you to do too many things and half the time they contradict each other. It would be great to have just one regulator.* – Director - Major USA Retail Bank.

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[19] CSFI, *op cit.,* (Feb. 2005).
[20] *Financial Director Magazine*, March 2005.

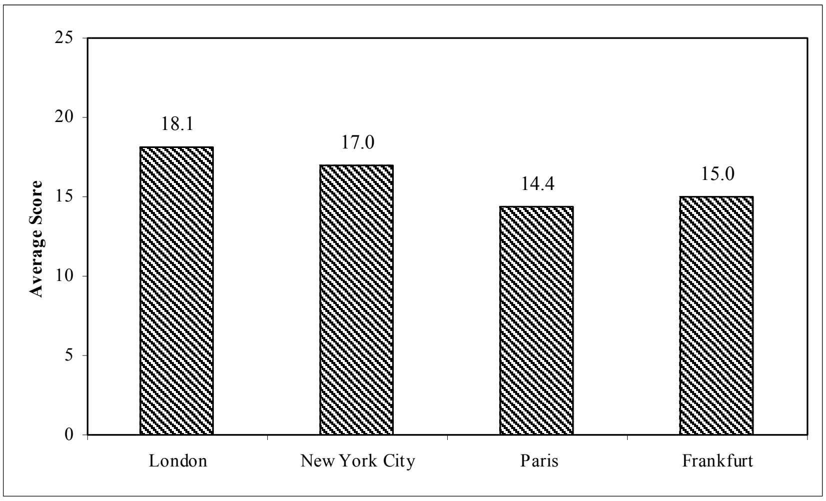
Generally the Financial Services Authority (FSA) is well regarded and people see benefit it there only being one main regulator that oversees the financial services industry in London. The only criticism we heard of the FSA was that it was overstretched and had some poor quality staff at the more junior levels.

The second comparison about the regulatory environment in London and New York concerns the philosophy of regulation. The FSA favours an environment where principles of regulation are published and there is a degree of discretion as to how these principles are applied. The FSA also favour a risk-based approach to regulation where financial institutions concentrate their compliance efforts in areas where there is the highest risk. In the USA the regulatory philosophy is based around more clearly defined rules and is described as more 'prescriptive'. In general it would appear that the regulatory environment in USA is acceptable, but the approach adopted by the FSA is seen as more flexible and is welcomed by respondents.

> *The FSA listens to and understands our concern. In the USA regulators develop rules and expect you to stick to them.* **–** Head of Equity Operations – Major USA Investment Bank.

As can be seen from the chart below, London still ranks ahead of the other centres in terms of regulatory environment. Whilst there is a fear that increasing regulation appears to be making London less attractive, most people accept that this increase is right across Europe and is not a problem for London alone.

Chart 6 – How the Centres Rank in Terms of Their Regulatory Environment

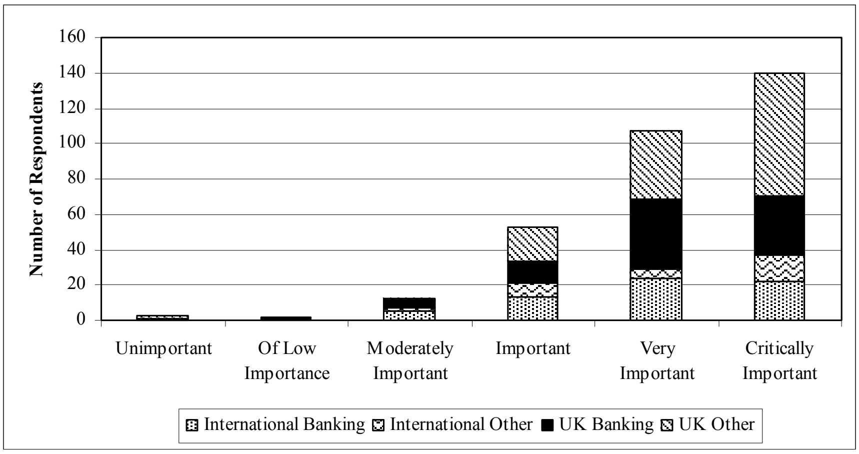


We asked people to suggest other financial centres that had a good regulatory environment and the two cities that were mentioned far more frequently than anywhere else were Hong Kong and Singapore. It was felt that Tokyo had lost a great deal of its competitiveness because of its failure to reform its complex rules and poor governance structures.

4.3 Access to International Financial Markets (3 of 14)

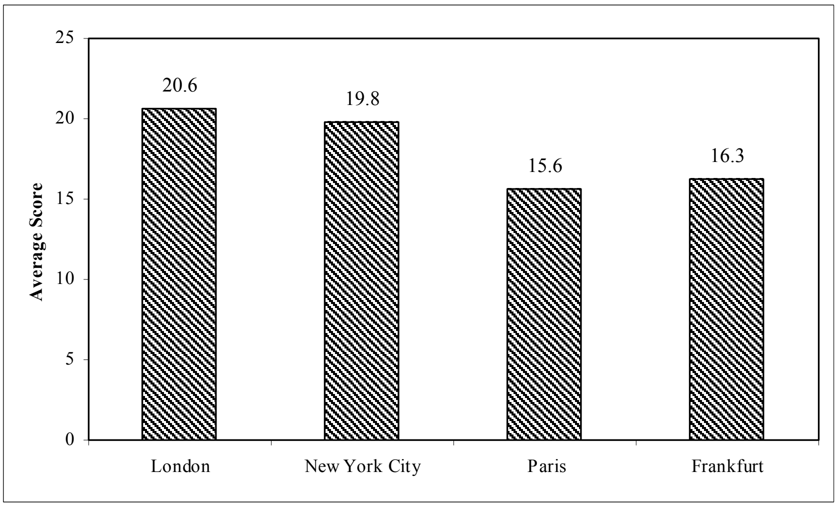
Access to international financial markets ranked as the third most important factor overall.

Chart 7 – The Importance of Access to International Financial Markets



44% of respondents felt that access to financial markets was Critically Important and a further 34% felt it was Very Important. There was quite a wide variation in the views expressed by bankers and non bankers, with more bankers rating access as Very Important but not Critically Important.

Chart 8 – How the Centres Rank for Access to International Financial Markets



There is little difference in perception between London and New York in terms of access to financial markets. Both of these financial centres are well ahead of Frankfurt and Paris.

The views of our interviewees contrasted with the survey respondents somewhat. The initial reaction was of course access to the markets is critically important but on further reflection most people redefined the question:

> *Access to the markets is obviously critical if you are trading. However access does not have to mean close geographical proximity – these days you can access most international financial markets from a mountain top with the right kit.* Bond Trader – Large German Investment Bank.

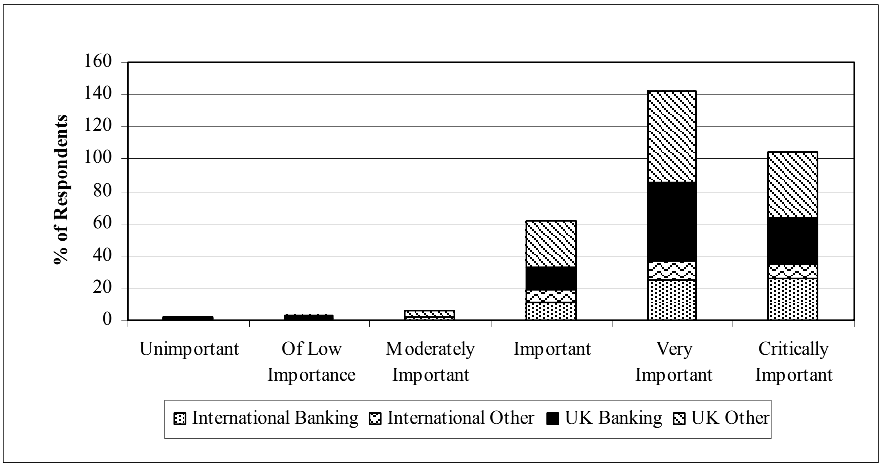
If you do not need to be physically close to the financial markets in order to have access to them, then physical access to the financial markets is not perceived as a *competitive* factor between financial centres because there is access to the markets from everywhere.

There is an apparent paradox here in that although you do not have to be close to the markets to access them, financial institutions still locate near to the markets. This is partially explained by the fact that there are clearly still some markets that you need to be physically close to. However, there are clearly other reasons why banks and other institutions locate close to the markets. The main factors would appear to be geographical proximity to customers and suppliers and the business cluster this creates.

4.4 Availability of Business Infrastructure (4 of 14)

The availability of business infrastructure ranked as the fourth most important competitive factor for international financial centres. The business infrastructure of a city is composed of several components including telecommunications and IT infrastructure as well as transport links.

Chart 9 – The Importance of the Availability of Business Infrastructure



78% of respondents saw the availability of business infrastructure as Very Important or Critically Important with a further 19% viewing it as Important. Although people feel that this is an important factor, many take it for granted.

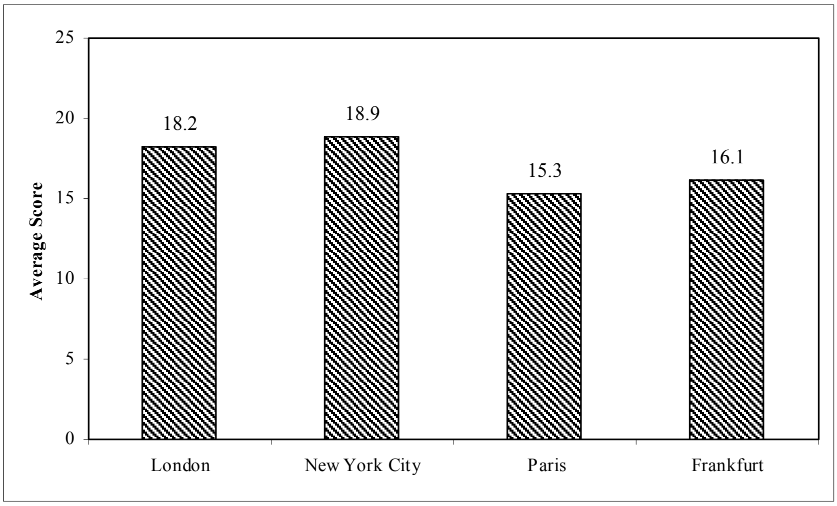
> *I guess it's the sort of thing you worry about when it's not there, but all the major centres are pretty good these days. It's probably more of a factor in less developed places like India.* – Managing Director – Asset Management Company in London.

This theme was developed by another respondent:

> *Most developed cities have good infrastructure and even places in India are getting much better – the main difference is when something goes wrong – in the West we get it fixed fast but in Mumbai there is no urgency at all to resolve the problem.* – Head of Global Operations – European Investment Bank - based in London.

Although more than 90% of respondents saw business infrastructure as Good or Excellent in all centres surveyed, London and New York show a clear lead in the Excellent category – around 70% - compared with Paris and Frankfurt with 20%.

Chart 10 – How the Centres Rank on the Availability of Business Infrastructure



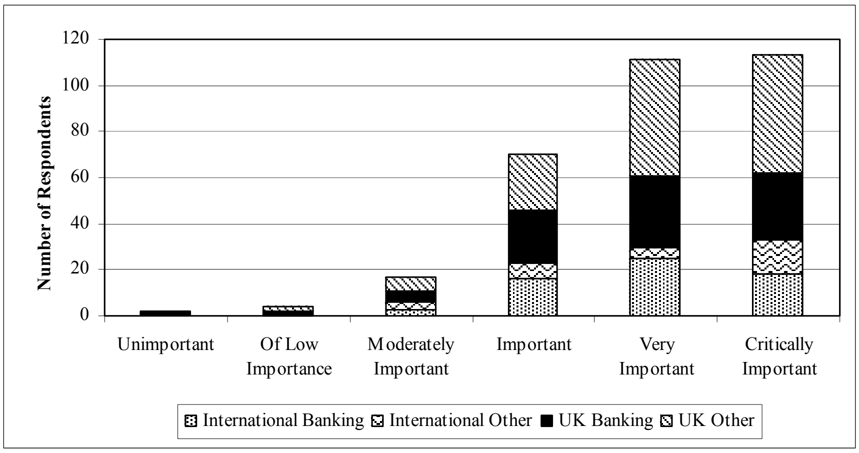
Although no direct comparison can be made with 2003, some respondents did note that London has got significantly better in terms of business infrastructure in recent years. This puzzled us as there have been no specific improvements in telecommunications or IT infrastructure (although the availability of broadband internet access has increased and costs of telecommunications have generally decreased). There have been only very limited improvements in the underground system. Two of our interviewees cited congestion charging and the increase in bus services as positive factors.

No other centres were thought to be particularly strong in this area and overall respondents feel that whilst business infrastructure is an important factor, these days the main financial centres have a good infrastructure and it is therefore probably not a strong *competitive* factor. There are several competitive factors which have become 'taken for granted' in the main financial centres (in developed countries). These include business infrastructure and commercial property. The fact that they are accepted as being the norm, does not mean that they are unimportant, it simply means that most people do not think of them as important variants in competitive position.

4.5 Access to Customers (5 of 14)

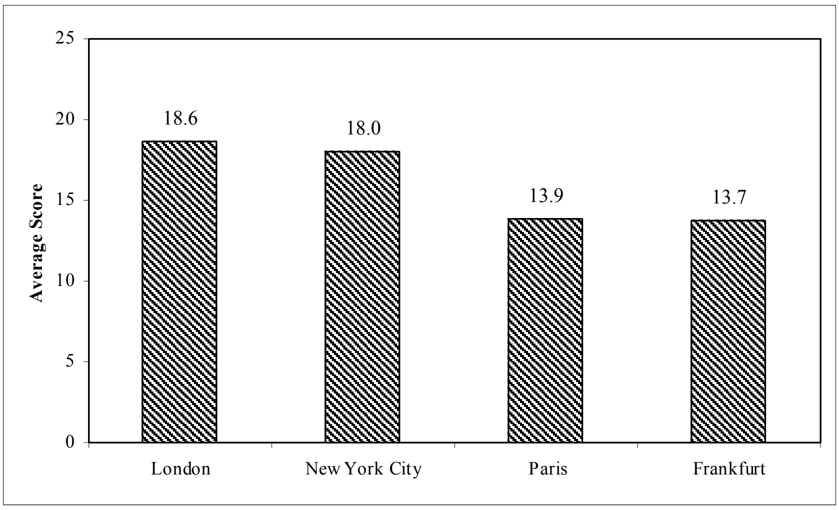
The survey results show that access to customers ranked as the fifth most important factor overall. However, as mentioned in section 4.3, Access to Financial Markets, a number of our interviewees have views that contradict the survey results. They feel that access to customers is actually more important than access to the markets. This is probably because access to markets is 'taken for granted'.

Chart 11 – The Importance of Access to Customers



Although 92% of respondents thought access to customers was Important, Very Important or Critically Important, this factor came below regulatory environment, skilled personnel, access to markets and availability of infrastructure

Chart 12 – How the Centres Rank on Access to Customers



Respondents agree that all the centres surveyed have Good or Excellent access to customers, but as Chart 12 demonstrates, London and New York have a clear advantage over Paris and Frankfurt in this area.

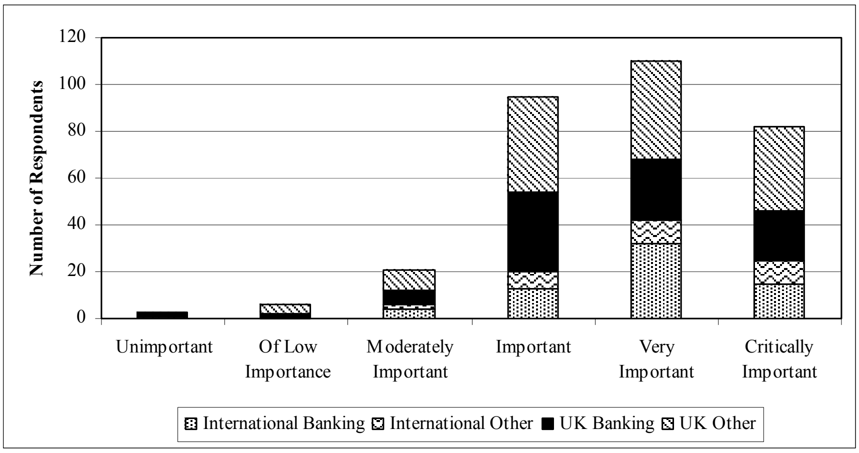
Nothing beats face-to-face contact with clients – in centres where we don't have a presence we do less business. We pulled out of many European cities within the past five years when we centralised our operations in London but we still have small client teams in places like Milan and Madrid. – Head of Client Services – USA-based Investment Bank.

We have offices in cities where our clients are – simple as that. – Partner – London-based Accountancy Firm.

4.6 A Fair and Just Business Environment (6 of 14)

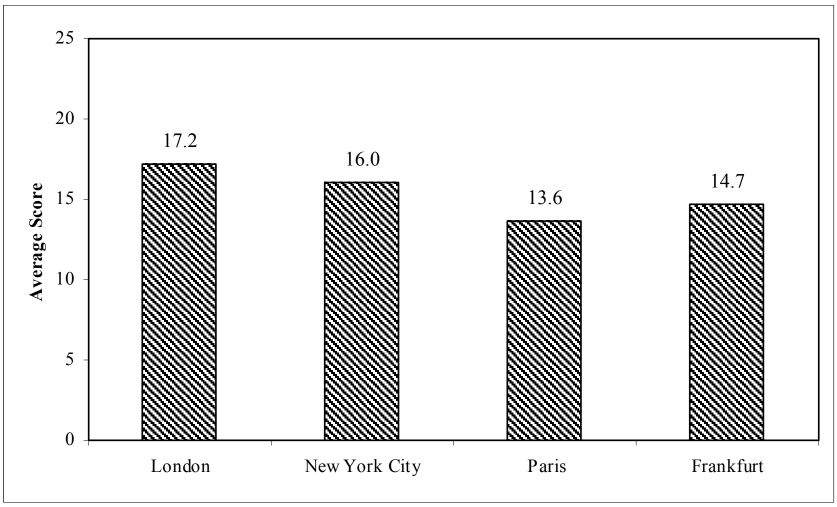
For a financial centre, having a fair and just business environment was seen as the sixth most important competitive factor. This surprised us as we thought it would be one of the most important. It might be argued that this factor did not rank higher in importance, because the surveyed centres, London, New York, Paris and Frankfurt are all mature financial centres. If we had asked respondents to compare centres in less developed jurisdictions, there might have been different answers about the factor's importance. It would appear that this is one of those features that is, to a greater or lesser extent, taken for granted in the four centres we investigated. Since it is taken for granted, people seem to downplay its importance.

Chart 13 – The Importance of a Fair and Just Business Environment



International respondents thought that a fair and just business environment was more important than those from the UK. We asked several of our interviewees about this and they believe that a fair and just business environment is taken for granted in the UK and is therefore thought of as less important by UK respondents.

Chart 14 – How the Centres Rank for Being a Fair and Just Business Environment



96% of respondents thought that London was Good or Excellent in terms of being a fair and just environment. 92% of respondents felt that New York was Good or

Excellent whilst the figures for Frankfurt and Paris were 82% and 69% respectively. Whilst these figures show that London and New York are perceived as better than Paris and Frankfurt, it is noticeable that the difference in the rankings of the four centres is much smaller than for many other factors. The other financial centre that respondents most frequently mentioned as having a fair and just business environment was Singapore.

There are at least three different components of a fair and just environment. One is the legal system itself, one concerns personal trustworthiness and one is about temptations to break the rules. The first two of these factors were neatly summed up by one of our respondents:

> *A grown up legal system is critical. London certainly has this and it is coupled with an ethos of my word is my bond – this makes London a great place to do business.* - Head of Operations – London-based Global Investment Bank.

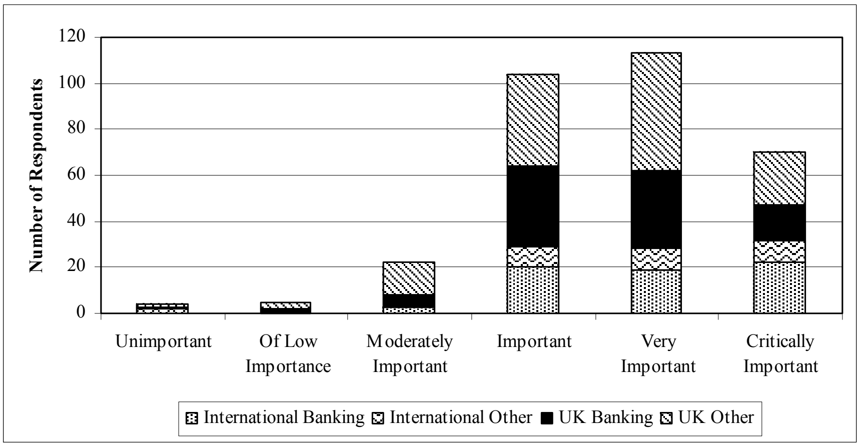
One respondent did sound a note of caution, referring to market excesses in the 1990s and thought that younger people entering financial services were often being financially motivated in the wrong way:

> *I think that there is a danger that young people coming into this industry are often motivated by large financial gains whatever the price – this is bound to lead to cases of unethical behaviour which will reflect badly on the firm.* – Chief Executive – London-based International Bank.

4.7 Government Responsiveness (7 of 14)

The level of support for financial services and Government responsiveness to the concerns of the industry was ranked half way down the list in terms of importance as a factor in an international financial centre's competitiveness. In the 2003 study, government responsiveness was also halfway down the list.

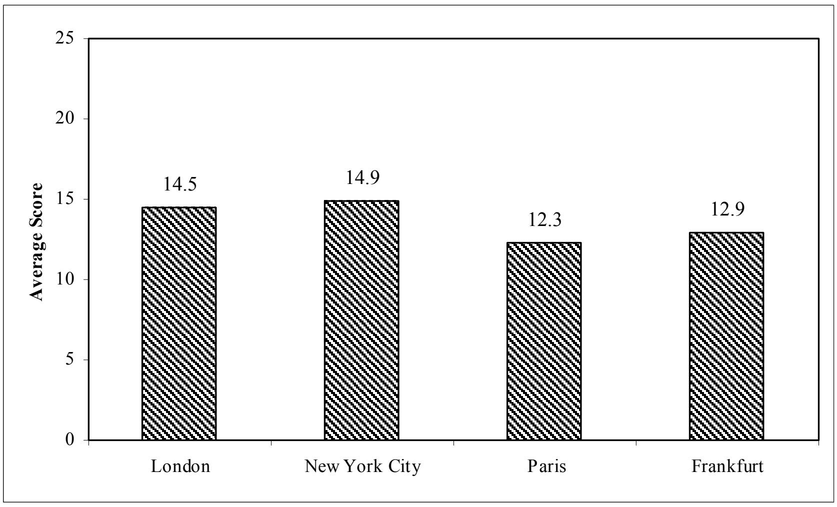
Chart 15 – The Importance of Government Responsiveness



69% of respondents saw government responsiveness as Important or Very Important but only 22% thought it was a critical factor. 34% of international respondents ranked government responsiveness as critically important whilst only 16% of UK respondents ranked it as critical.

London and New York were seen as having governments which were more responsive than Paris and Frankfurt (84% and 87% respectively gave scores of Good or Excellent compared with 65% for Frankfurt and 54% for Paris). Singapore was also thought to have a responsive government. On the other hand, three of the interviewees felt that the financial services industry in Tokyo was badly let down by its government and that Tokyo's standing as a financial centre had suffered as a result.

Chart 16 – How the Centres Rank in Terms of Government Responsiveness



The 2003 study reported a widespread dissatisfaction with the government over financial services matters and a feeling that promoting the financial sector was not sufficiently high on the political agenda and that other governments were more adept at advancing their financial sector's interests. Whilst a number of our interviewees considered that there was room for improvement in the government's attitude, the strength of feeling reported in 2003 did not seem to be present. Indeed several people said that they found the attitude of European Governments "too interfering", and preferred the more laissez-faire attitude in the UK.

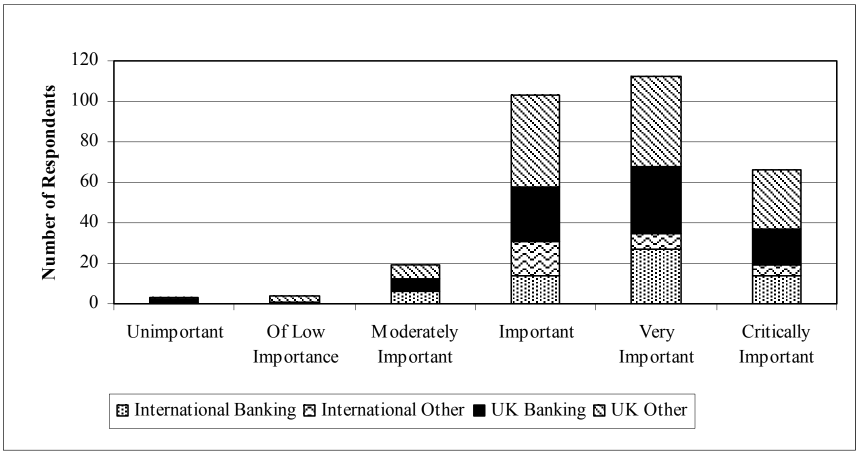
> *The best sort of government for financial services is one that does not interfere with what we're doing.* – Senior Trader – Global Investment Bank based in Frankfurt.

One theme that emerged from speaking to people based in London was the feeling that too many people involved in government did not fully understand the concerns of the industry. However, the government was certainly not going to undermine intentionally such an important part of the UK economy and that generally the Treasury was reasonably supportive of the industry.

4.8 Corporate Tax Regime (8 of 14)

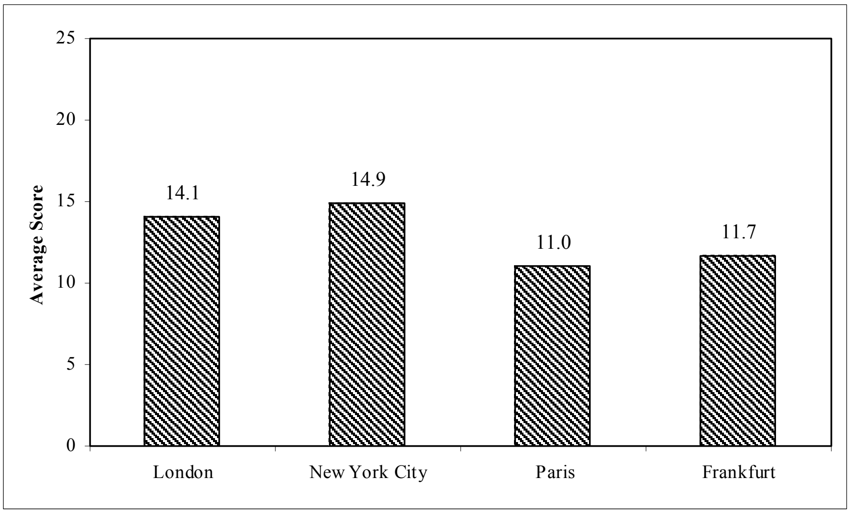
Respondents ranked the Corporate Tax regime eighth in importance as a factor of competitiveness. A similar question in 2003 combined Corporate and Personal Tax as a factor when it ranked third out of six factors. If we combine the questions on Corporate Tax and Personal Tax in this survey, the combined factor would rank 12th out of 13.

Chart 17 – The Importance of the Corporate Tax Regime



91% of respondents thought the Corporate Tax regime was Important, Very Important or Critically Important. However, the number of respondents who rank the corporate tax regime as Critically Important is lower than for the preceding competitive factors.

Chart 18 – How the Centres Rank for Their Corporate Tax Regime



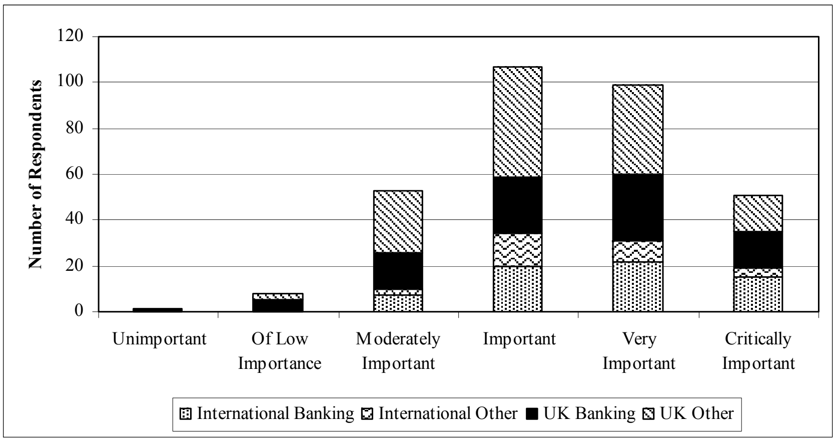
Perhaps unsurprisingly, few respondents scored any financial centre as Excellent. 74% of respondents rated London as Good and 64% rated New York similarly. Both Paris and Frankfurt were rated as Poor or Very Poor by over 50% of respondents. Generally people felt that corporate tax was less of an issue than it used to be:

“These days the big banks are all multinational and are clever enough at declaring profits sensibly – this means that corporation tax is less of a competitive issue than it once was.” – Director – Major European Investment Bank.

4.9 Operational Costs (9 of 14)

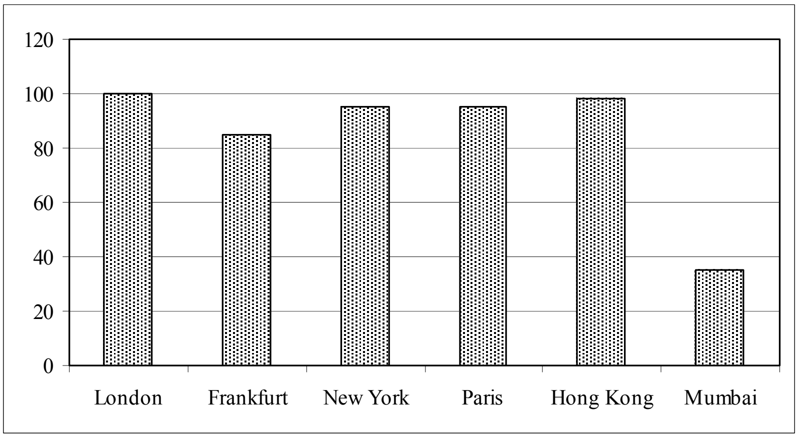
Over 90% of survey respondents rated operational costs as Important, Very Important or Critically Important, although the bias is towards being viewed as Important rather than Very Important. Nearly 50% of respondents from UK financial services organisations rate Operational costs as Very Important or Critically Important. This ranking is well down the list of competitive factors and this is clearly seen in Chart 19 compared with earlier charts. However, operational costs is a subject about which interviewees talked at length. A number of interviewees feel that it is of greater importance than the survey reveals. This was not a question that was asked in 2003, so no direct comparison is possible.

Chart 19 – The Importance of Operational Costs



Interviewees generally feel that London is the most expensive of the four financial centres featured in the survey. We did not ask survey respondents to rate the four financial centres on operational costs as we have access to a significant amount of recent research into the area of operational costs.[21] An estimate of relative "headline" costs (based on fully loaded cost per head) is illustrated in Chart 20:

Chart 20 – An Index of Fully Loaded Costs Per Head (London = 100)



The figures in Chart 20 might appear to put London at a very slight competitive disadvantage over Hong Kong, New York, Paris and Frankfurt. However, this type of headline cost per head figure is misleading and it is necessary to examine other

[21] Z/Yen Limited, *2005 Cost per Trade Survey* (July 2005).

factors. Indeed if one looks at underlying factors, it is impossible to conclude that London is significantly disadvantaged. These factors include the work ethic and culture in London, the flexibility of the labour markets in the UK, the availability of skilled workers, and the type of work carried out in London.

There is a strong work ethic and culture in the financial services industry in London and this is partially responsible for a higher level of productivity than in certain other centres. This is demonstrated in Table 2 which shows figures from the Z/Yen 2005 Cost per Trade Survey.

Table 2 – Person Cost per Trade

	Cost per Person	Trades processed per Person	Estimated Person Cost per Trade
100% Primary Location	$128,312	41,226	$3.11
50% Primary / 50% Secondary	$77,851	23,267	$3.35
10% Primary / 45% Secondary / 45% Tertiary	$58,607	18,394	$3.19

Banks were divided into 3 categories, those that had their operations in a primary cost location (i.e. London), those that split their operations between a primary cost location and a secondary cost location (i.e. outside London but within the UK) and those that split their operations between primary, secondary and tertiary locations (such as India). What is clearly noticeable is that costs per person are much higher in primary locations but efficiency, measured by the number of trades executed per person, is also much higher. This results in fairly similar 'person cost per trade' figures.'

Working within the financial services industry in London is highly regarded and many people, especially graduates want to work in the city. This leads to a competitive labour market. Several interviewees believe that the competitiveness of the labour market has led to a lower staff turnover than in other centres where working in financial services might be seen as "just another job".

As was highlighted in Section 4.1 – Availability of Skilled Personnel, there is much greater flexibility in labour markets than London than in some other centres – especially Paris and Frankfurt. This is not reflected in the "headline" costs above but can certainly affect the overall cost of employment.

Whilst the headline cost figure in London is high, a direct comparison to other low cost centres such as Mumbai, ignores hidden costs of moving sections of your workforce to remote locations. These costs include travel time, travel expenses and time wastage of senior executives.

Put simply there are three broad types of job in investment banking operations:

- Core transaction processing (routine and repetitive tasks);
- Client service related functions (liaison with clients regarding problems and service levels);
- Business facing functions (liaison with front office and business heads).

The factors affecting where each of these three functions take place differ. Whilst London has an apparent competitive disadvantage, banks have different business models and this makes any cost disadvantage impossible to quantify. For example, the ability to relocate or offshore means that the core transaction processing functions do not have to be located in high cost locations such as London.

There is a direct parallel with the asset management industry which is highlighted below:

> There are three key parts of the asset management's value chain: core asset management, middle and back office, and marketing and distribution. The factors affecting the location of the three parts of the business differ appreciably, and the performance of the UK in relation to these also vary:
>
> The location of the core asset management function is primarily driven by supply-side factors, including availability of qualified labour, the performance and liquidity of capital markets, and the quality of the financial infrastructure. The UK performs well on these. The location of middle and back-office functions is mainly influenced by cost considerations — in particular, the cost and availability of labour and property. This put the UK and in particular London at a disadvantage. The location of marketing and distribution functions is primarily driven by demand-side considerations. Proximity to clients is important, and the large pool of domestic savings means that the UK performs well in this respect.[22]

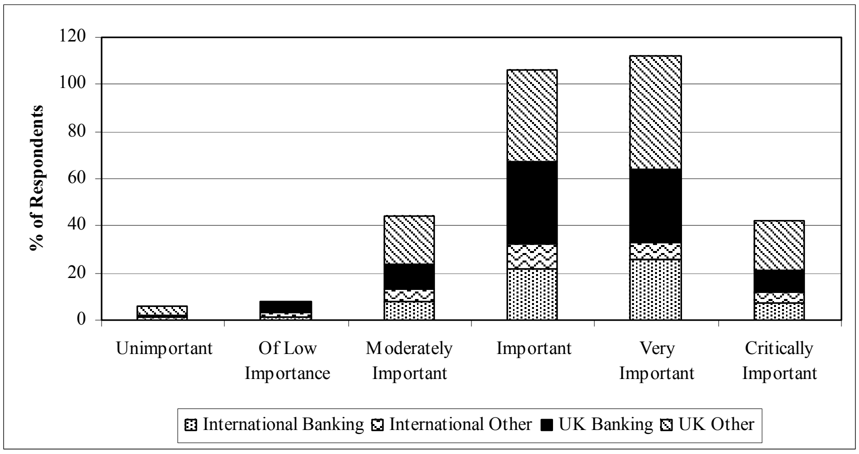
The fact that relocation or off-shoring of the more routine tasks – which typically account for a high percentage of an organisation's headcount – is now a realistic option has reduced the importance of operational costs in a particular centre. This probably means that operational costs may not be as important a *competitive* factor as it used to be.

[22] Oxera Consulting, *The Future of UK Asset Management: Competitive Position and Location Choice*, Corporation of London, (May 2005).

4.10 Access to Suppliers of Professional Services (10 of 14)

Access to suppliers of professional services ranked tenth in importance overall. From the point of view of large financial services firms, banks asset managers and insurance companies, having your accountants and lawyers on the doorstep is the norm and they now take it for granted that professional service companies will be around.

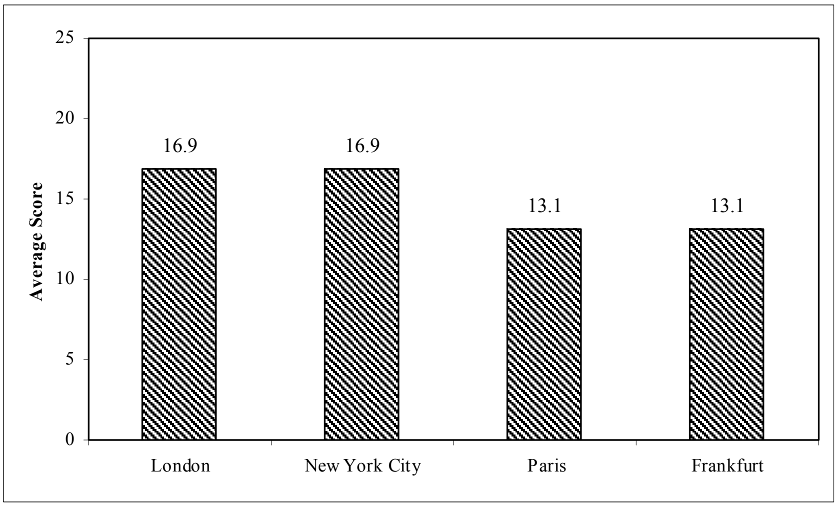
Chart 21 – The Importance of Access to Suppliers of Professional Services



The majority of respondents, from both within the banking community and outside thought that access to professional service suppliers was Important or Very Important. Only 5% thought it was of Low Importance or Unimportant. Most respondents thought that the factor was not Critically Important.

The most likely explanation is that the providers of professional services to the financial institutions will tend to cluster around those institutions. Demand for services tends to drive the supply, rather than supply being a constraining factor. Anecdotal evidence seems to suggest that if a bank has the requirement for legal advice in a particular location, the bank's lawyers will tend to open an office in that location. Lawyers follow banks as do other professional services sectors.

Chart 22 – How the Centres Rank for Access to Suppliers of Professional Services



New York and London are clearly the places to be if you want to be close to your accountants, lawyers and consultants. Frankfurt and Paris are well behind New York and London. The other city that respondents mentioned most frequently as comparing favourably in terms of the access to suppliers of professional services was Hong Kong.

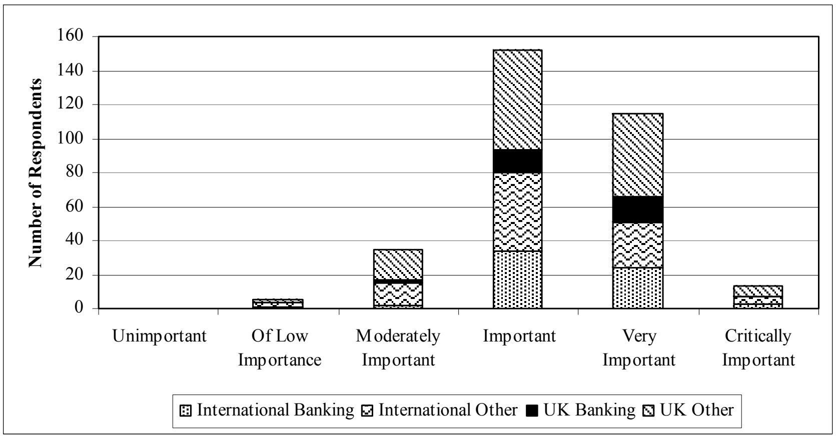
> *I only consider two cites as the* ***real*** *international centres – New York and London – they have all the infrastructure, all the services and frankly all the action*. – Director - New York-based Global Investment Bank.

> *We have to be close to our clients. The key factor that makes a financial centre competitive is its critical mass and its business cluster - everything else only drives where that critical mass and cluster is.* – Partner – London-based Law Firm.

4.11 Quality of Life Factors (11 of 14)

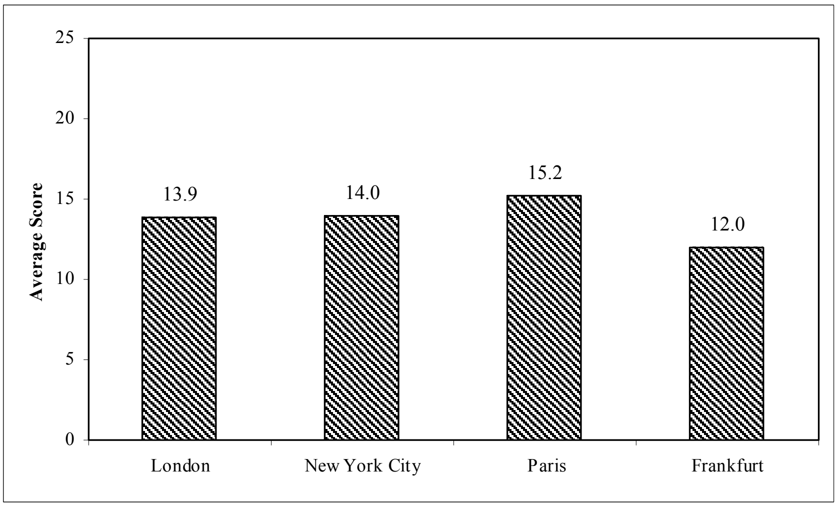
Quality of life was ranked eleventh in importance by respondents. A similar question asked in 2003 – "an Attractive Living and Working Environment" – ranked last.

Chart 23 – The Importance of the Quality of Life



88% of respondents agreed that quality of life was Important, Very Important or Critically Important. Out of the four centres, Paris received an Excellent rating from more than half of respondents. Frankfurt was judged by 35% of respondents to have a Poor or Very Poor quality of life. Quality of life is the only competitive factor where Paris received the highest ranking in this survey. One interviewee remarked on the importance of a good work/life balance and felt that Paris and London were better than many other centres.

Chart 24 – How the Centres Rank on the Quality of Life



An alternative way of thinking about "quality of life" is to consider the opportunities on offer to non-nationals. There certainly appears to be no shortage of people wanting to live and work in London, especially among Europe's younger generation:

> Anne Flatres, operations manager, is French and one of a new generation of Europeans taking advantage of the right to work across the union conferred by the EU. She says she jumped for joy when London won the 2012 Olympic Games. "London is a positive and dynamic city," she says. "I feel more of a foreigner in France

now than I do here." Enka Matulova, a Czech, had intended to spend six months in London but now wants to stay permanently. "It took me two days to find a job," she says.[23]

We asked respondents to rank various factors which contributed to the quality of life:

Chart 25 – The Importance of Leisure Facilities and Culture

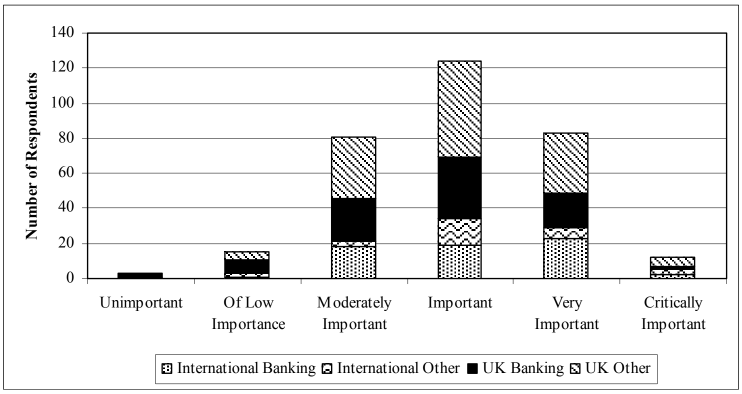


Chart 26 – The Importance of Healthcare Facilities

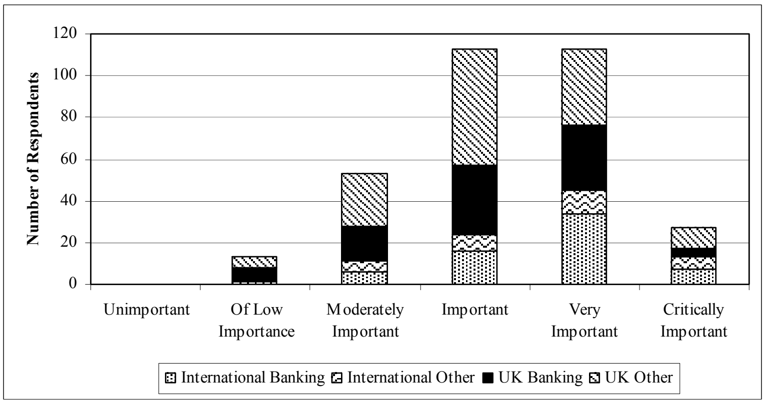
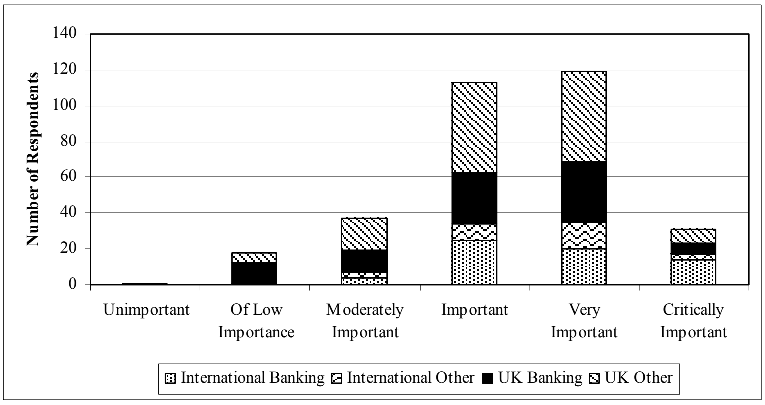


Chart 27 – The Importance of School & Colleges



[23] Blitz, R., Cittanova, M., Parker, G., Reid, K., 'London's allure: European arrivals find hope and glory in a global metropolis' *Financial Times*, 27 October 2005.

Chart 28 - The Importance of the Transport System

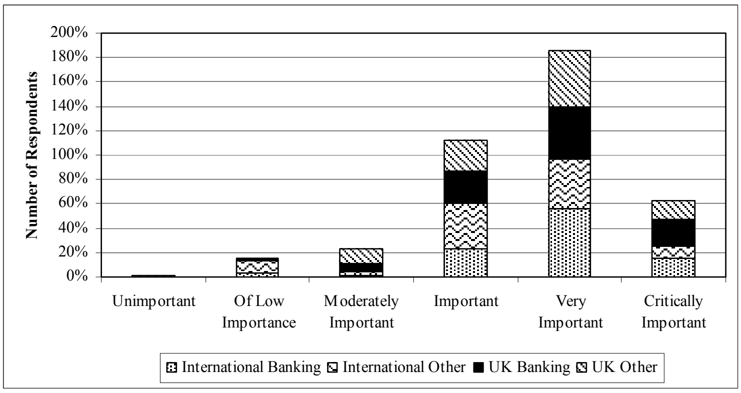
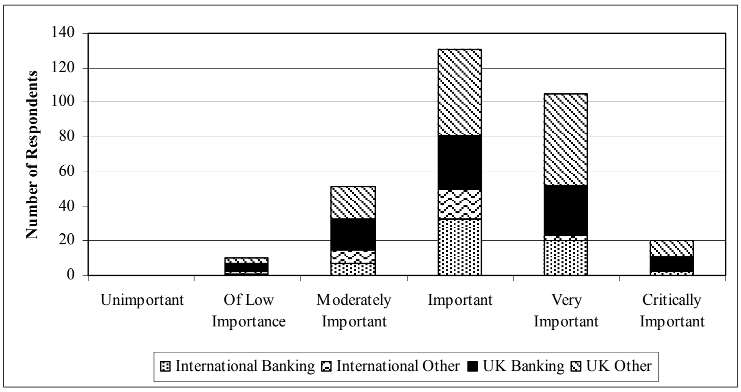


Chart 29 – The Importance of Residential Property



Of the factors, only transportation was ranked as Critically Important by more than 10% of people. In the Very Important category, the transport system was also rated highly (47%), followed by schools and colleges (37%), healthcare (35%), residential property (33%) and leisure facilities and culture (26%). Leisure facilities and culture was the only factor to receive a rating of Moderately Important or less from more than 30% of respondents.

The work-life balance was mentioned as important by several people. They felt that although Londoners worked long hours, they were actually successful at achieving a good balance.

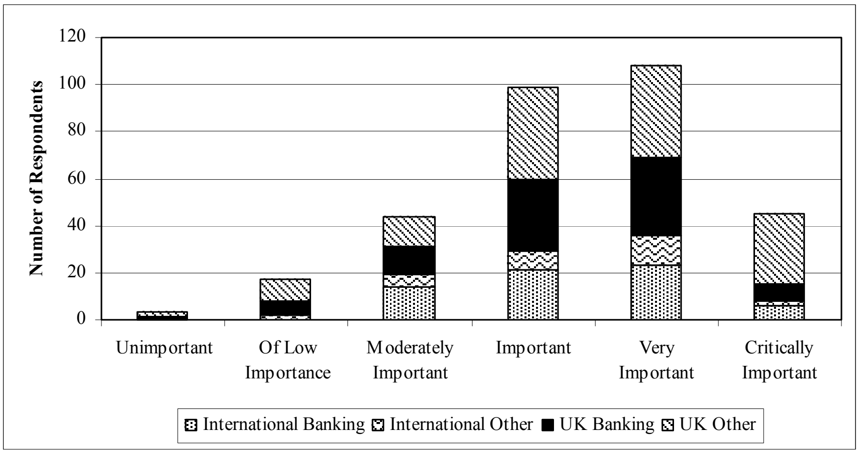
The transport system in London was inevitably the source of a number of grumbles. We expected that, as July 2005 bomb attacks in London occurred during our survey, we would get a number of negative comments regarding this. In fact the bulk of the comments we received were typified by this:

> *London is probably no more likely to get more bombs in the future than any other financial centre – indeed it's probably less likely than New York. Londoners seem pretty robust and seem to take terrorist attacks in their stride. As a foreigner I was amazed at how quickly London recovered.* – New York Banker - Based in London.

4.12 Culture and Language (12 of 14)

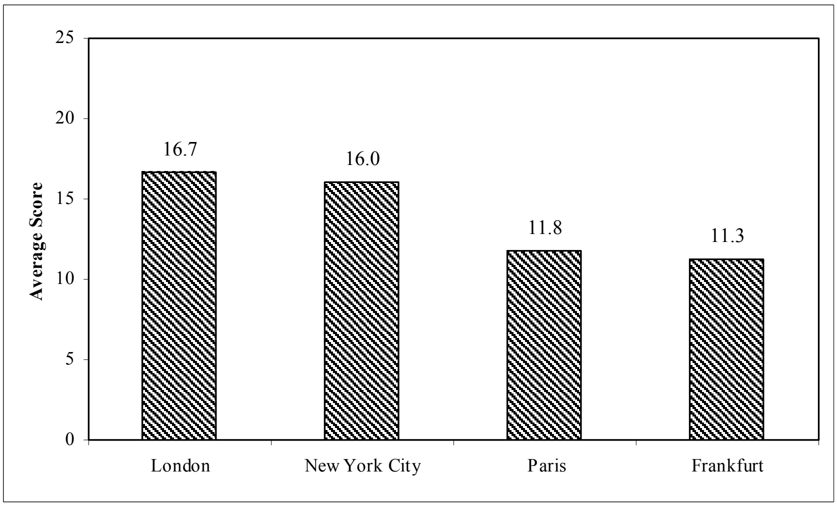
Our findings on this factor are a little paradoxical. Survey respondents ranked Cultural and Language as comparatively low in importance as a competitive factor – 12th out of 14 factors. Our interviewees often cited culture and especially language as a particularly important factor in making London a global financial centre.

Chart 30 – The Importance of Culture and Language



88% of respondents did rate culture and language as Important, Very Important or Critically Important but we were slightly surprised that only 14% rated it as Critically Important. This is possibly because this factor is so much a part of the environment that it is taken for granted and therefore people tend to under-rate its importance.

Chart 31 – How the Centres Rank on Culture and Language



London and New York were rated as Excellent by 79% and 64% of respondents respectively. These ratings compare with 14% for Paris and 7% for Frankfurt.

Several respondents also mentioned the importance of time-zone and history in this context. Europe being situated between the USA time-zones and those of the large Asian markets is an advantage and having at least one global financial centre in Europe is important to bridge the time-zones. If several financial centres exist in one time-zone, as they do in Europe, business is likely to flow to the one where English is the dominant language and where are other languages are also freely available.

Language is clearly an important factor and the fact that London is so cosmopolitan and accepting of people from other countries is also important.

> *English is the global language of finance and this gives London a huge advantage in Europe. Another advantage is that so many foreign languages are spoken there too – I've heard it is easier to get experienced back office staff who speak French in London than in Paris.* – Head of Operations – New York-based Investment Bank.

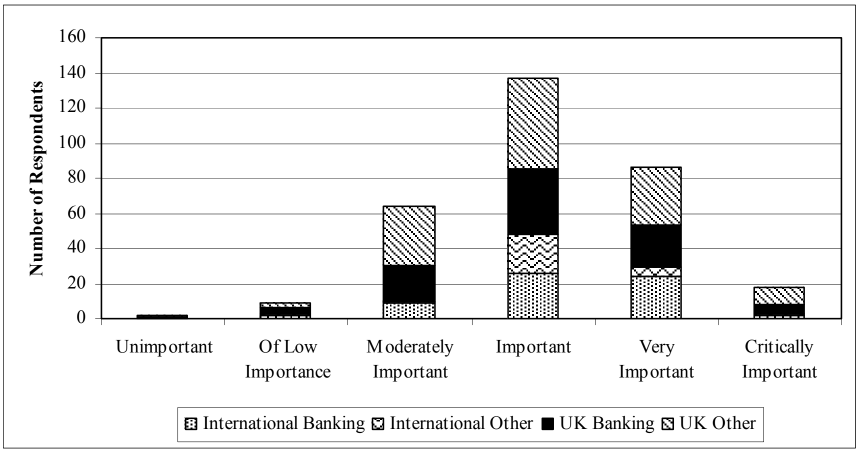
London is universally given credit for having a culture of innovation. A number of people think that this might have been the case in the past but that London is no better at innovation in financial markets than other centres today.

> *I think it is hard to argue that London is the most innovative financial centre today – it certainly used to be.* Director – London-based Asset Manager.

4.13 Quality and Quantity of Commercial Property (13 of 14)

Commercial property ranked next to last in importance out of the fourteen factors overall. This ranking is interesting because commercial property is clearly important if you are looking to move into a city. We believe that the quality and quantity of commercial property is probably taken for granted in most major financial centres.

Chart 32 – The Importance of the Quality and Availability of Commercial Property



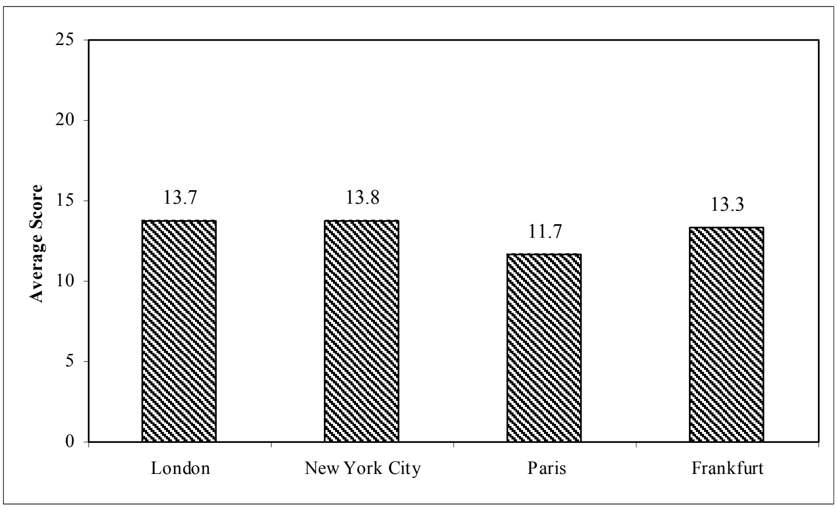
Although there is some slight difference in distribution between different types of respondent, almost everyone thinks that the availability of enough good commercial property is Important or Very Important, but not a critical factor.

The survey responses do not really indicate the way people think about commercial property. Most business people who have to make decisions about their office accommodation think it is critically important under two conditions:

- There is no suitable accommodation available in a city where they need to be;
- They are in the process of deciding to relocate.

If you are about to look for new premises then availability of commercial property is clearly important to you. As soon as you have bought or leased a property and moved in, the availability of suitable property is of less direct interest.

Chart 33 – How the Centres Rank on the Quality & Availability of Commercial Property



With the exception of Paris, where some 20% of respondents rated the quality of buildings as Poor, some 90% of respondents thought that the availability of adequate commercial property was Good or Excellent in the centres surveyed. Some interviewees noted that London seemed to have a problem some 10 years ago but that this had been solved by better quality buildings in the City of London, the building of Canary Wharf and the increasing use of the 'West End' by hedge funds, asset managers and investment managers.

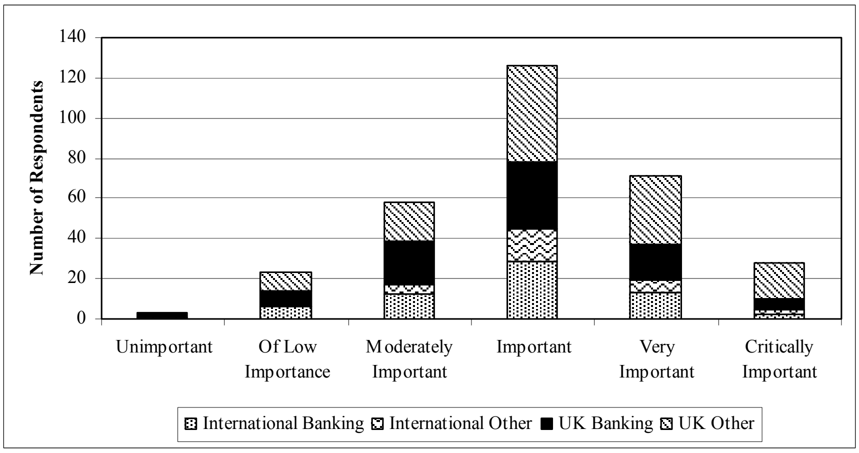
There would certainly appear to be plenty of good quality property suitable for offices in the main financial centres. All the main financial centres have acted on any shortfall in the availability of suitable commercial property and this factor is now taken for granted and as such is not really a factor where one financial centre can gain a competitive advantage.

> *There is plenty of space in London and you only have to look around to see lots of good office space.* – Director – London-based Insurance Company.

4.14 Personal Tax Regime (14 of 14)

Respondents ranked Personal Tax as lowest in importance as a competitive factor for financial centres.

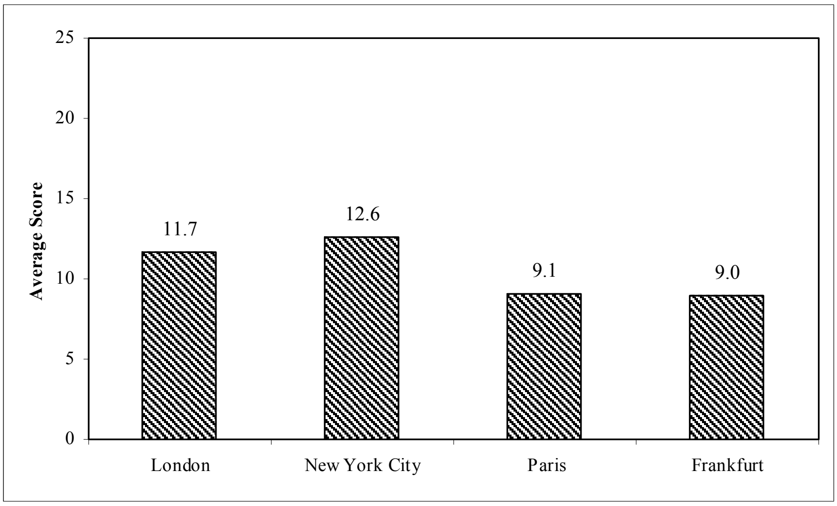
Chart 34 – The Importance of the Personal Tax Regime



The largest number of respondents, 41% - thought personal tax was Important, with just under 27% rating it lower than that and 32% rating it as Very Important or Critically Important. There was a slight difference in distribution of responses between international and UK respondents, with 50% of international respondents seeing personal tax an important factor. The higher international concern may reflect the higher tax rates in continental Europe.

One interviewee suggested that the reason this factor was ranked lowest in importance is that it is not an important factor for companies – only for individuals. It is interesting that the most important factor of competitiveness is the availability of skilled personnel and yet the personal tax regime, a factor which ought to affect the availability of a skilled workforce, is rated as the least important factor. As we discussed in section 3.3, sophisticated multi-nationals tend to be able to manage their tax affairs to minimise the impact. Perhaps workers are less prepared to move to more advantageous tax jurisdictions because salary levels, the cost of living or a number of other factors such as quality of life act as mitigating factors to the tax regime.

Chart 35 – How the Centres Rank for Their Personal Tax Regime



The profile of responses about Personal Tax between the different centres was remarkably similar to Corporate Tax. London and New York received a Good rating from 60% of respondents, compared with just over 20% for Paris and Frankfurt.

Frankfurt is rated particularly poorly in relation to personal tax and anecdotal evidence makes it easy to understand why. A typical example of several stories we heard:

> *Because of family commitments I'd love to set up as an independent consultant in Frankfurt. Unfortunately the tax situation makes this totally impossible. I have to stay registered in London and just visit Frankfurt on business.* – London-based Consultant.

Several of our interviewees pointed out that high-flying 'deal-makers' are 'international', mobile people and are in great demand. They can choose to live wherever they like and the level of personal income tax. Is only one of many factors that might influence that choice.

4.15 Final Rankings

The final order of the factors of competitiveness are shown below:

Table 3 – The 2005 Factors of Competitiveness Ranked

Factor of Competitiveness	Rank	Average Score
Availability of Skilled Personnel	1	5.37
Regulatory Environment	2	5.16
Access to International Financial Markets	3	5.08
Availability of Business Infrastructure	4	5.01
Access to Customers	5	4.90
A Fair and Just Business Environment	6	4.67
Government Responsiveness	7	4.61
Corporate Tax Regime	8	4.47
Operational Costs	9	4.38
Access to Suppliers of Professional Services	10	4.33
Quality of Life	11	4.30
Cultural & Language	12	4.28
Quality / Availability of Commercial Property	13	4.04
Personal Tax Regime	14	3.89

In the 2003 survey, there were six factors and they ranked as follows:

Table 4 – The 2003 Factors of Competitiveness Ranked

Factor of Competitiveness	Rank	Average Score
A Pool of Skilled Labour	1	4.29
A Competent Regulator	2	4.01
A Favourable Tax Regime	3	3.88
Government Responsiveness	4	3.84
A Light Regulatory Touch	5	3.54
An Attractive Living Environment	6	3.45

Please note that the scores in tables 3 and 4 are not directly comparable – in 2003 respondents were asked to score each factor from 1 to 5 and in 2005 respondents were asked to score each factor from 1 to 6.

It is clear that the regulatory environment and the availability of skilled personnel were the leading two factors in 2003 and remain so now.

The final rankings of the four cities are shown opposite. Overall the rankings have changed little since 2003. What is clear is that London and New York are virtually level as global financial centres and have increased their lead over Paris and Frankfurt.

Table 5 – The 2005 Competitiveness of the Financial Centres

Factor of Competitiveness	Average Score
Availability of Skilled Personnel	
London	20.5
New York	20.0
Paris	15.2
Frankfurt	15.1
Regulatory Environment	
London	18.1
New York	17.0
Paris	14.3
Frankfurt	15.0
Access to International Markets	
London	20.6
New York	19.8
Paris	15.6
Frankfurt	16.3
Availability of Business Infrastructure	
London	18.2
New York	18.9
Paris	15.3
Frankfurt	16.1
Access to Customers	
London	18.6
New York	18.0
Paris	13.9
Frankfurt	13.7
Fair & Just Business Environment	
London	17.2
New York	16.0
Paris	13.6
Frankfurt	14.7
Government Responsiveness	
London	14.5
New York	14.9
Paris	12.3
Frankfurt	12.9

Factor of Competitiveness	Average Score
Corporate Tax Regime	
London	14.1
New York	14.9
Paris	11.0
Frankfurt	11.7
Access to Suppliers of Professional Services	
London	16.9
New York	16.9
Paris	13.1
Frankfurt	13.1
Quality of Life	
London	13.9
New York	14.0
Paris	15.2
Frankfurt	12.0
Culture & Language	
London	16.7
New York	16.0
Paris	11.8
Frankfurt	11.3
Quality / Availability of Commercial Property	
London	13.7
New York	13.8
Paris	11.7
Frankfurt	13.3
Personal Tax Regime	
London	11.7
New York	12.6
Paris	9.1
Frankfurt	9.0
TOTAL	
London	**214.7**
New York	**212.9**
Paris	**172.0**
Frankfurt	**174.3**

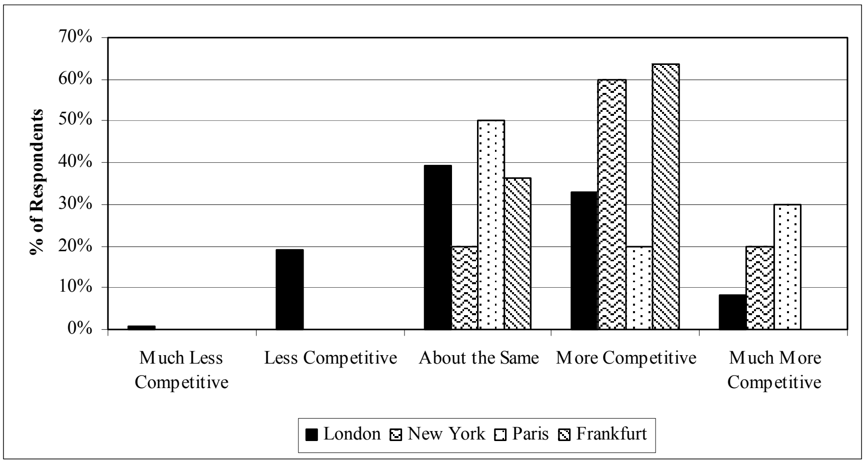
Please note that this table excludes a ranking of operational costs as we use actual cost data available to us from the *Z/Yen Cost per Trade Study 2005*.

5. Key Trends

5.1 Changes since 2003

We asked people assess how much the competitive position of the city in which they worked had changed over the past three years.

Chart 36 – Changes in Competitiveness Over the Past Three Years

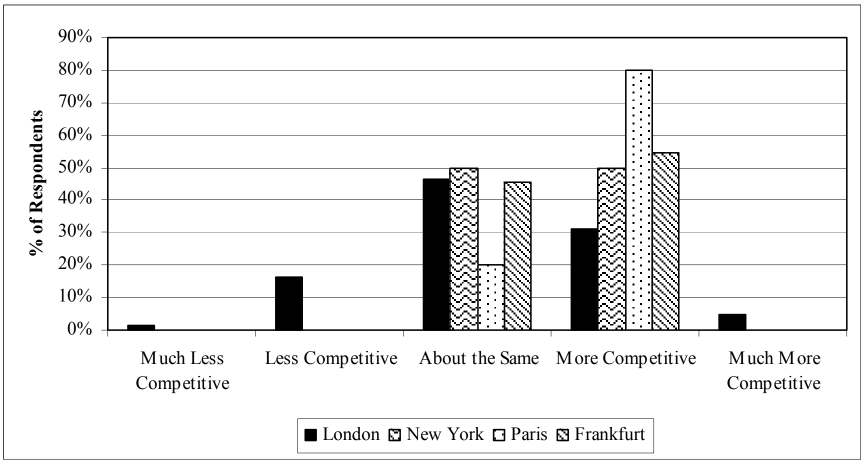


39% of people working in London think that London remained About the Same, a further 33% think it has become More Competitive and 19% think it has become less competitive. It is interesting to note that the people who thought that London had become more competitive and the people who thought it had become less competitive cited the same primary reason for the change that they perceived - the regulatory environment.

5.2 Future Changes

We also asked people to assess how much the competitive position of the city in which they worked was likely to change over the next three years.

Chart 37 – Changes in Competitiveness Over the Next Three Years



45% of people who work in London feel that its competitiveness will remain about the same over the next three years. The three main factors that will affect the competitiveness of London over the next three years are, perhaps predictably, the regulatory environment, operational costs and the availability of skilled personnel. It is noticeable from Chart 36 that 80% of people who work in Paris and over 50% of those who work in Frankfurt think that their 'home' city will become more competitive over the next three years. This compares with 31% of those who work in London. We find this hard to explain but it is perhaps an indication that people who work in London feel that their 'home' city is in such a strong competitive position that it is unlikely to move further ahead.

An indication of how the most important factors in the competitiveness of financial centres will change over the next three years is given below:

Table 6– Change in the Relative Importance of Competitive Factors

Change in Importance of Factors	Change*
Government Responsiveness	**31**
Corporate Tax Regime	**27**
Personal Tax Regime	**23**
Availability of Skilled Personnel	**4**
Quality of Life	**2**
Access to Customers	**-3**
Operational Costs	**-3**
Cultural & Language	**-7**
Access to Suppliers	**-8**
Regulatory Environment	**-12**
Commercial Property	**-12**
Fair and Just Business Environment	**-14**
Business Infrastructure	**-17**
Access to International Markets	**-17**

* - Change is the comparison between the most important competitive factors in past changes of competitiveness and future changes in competitiveness.

This table indicates that people believe that government responsiveness, corporate tax regime and personal tax regime is likely to be of greater concern to them over the next three years. Business infrastructure and access to financial markets will be of less concern. Our interviewees back this finding up – the general feeling is that business infrastructure and access to financial markets will become less important as competitive factors as the major financial centres all have adequate infrastructure and technology that allows access to the markets from all financial centres.

5.3 Comparisons with the 2003 Survey

There is a high degree of consistency with the 2003 survey about which factors are important in making a centre competitive. This is despite changes to the structure and wording of the questions in the survey and an increase in the range of possible factors. The top two influences are still availability of skilled personnel and regulatory environment. The only significant change from the 2003 rankings is that government responsiveness and quality of life are now ranked as more important than corporate and personal taxation.

It is interesting to look back at some of the predictions made in the 2003 survey and see what has changed. In 2003 people felt "over the next five years, London is more likely to lose its global position than its leading place in Europe". This was based on possible interference from Brussels, higher taxation and more regulations. So far this has not happened but further EU regulation and higher taxation are still seen as threats for the future.

The 2003 report predicted that "reducing labour flexibility will be damaging to London." Today London is still seen as more flexible despite the EU Social Chapter. It is probably fair to say that the full potential impact of reduced labour flexibility has not yet been seen.

The 2003 report concluded that innovation is key to London maintaining its competitive position. Innovation was only mentioned by a few respondents in 2005.

The 2003 report noted claims that London was losing the banking back office to cheaper venues but it is gaining more front office:

- There is some evidence that the loss of back office has continued. A number of interviewees noted that they were moving their back offices to cheaper places in the world, particularly Asia, whilst retaining their business people and senior management in the global centres of London & New York. The trend of outsourcing operations to India has been encouraged by an SEC requirement that each major USA financial institution needs to have dual processing centres, in locations which are remote from each other. It is almost inevitable that the secondary, remote location should be a low cost area, which, for the majority of companies, currently means India.
- In terms of gaining front office, recent figures show that the volume of equity transactions on London Stock Exchange has risen by 34% between 2001 and 2004.[24] The comparable increase for the New York Stock Exchange is 19% and for Deutsche Borse is 27%. The 347 foreign companies listed on the London Stock Exchange at the end of 2004 was second only to New York. In 2004, London remained the top location for cross border trading in foreign equities with a 44% share of the total.
- If London is losing the back office functions to less expensive locations, it is not affecting trading activity. It is not just equities where London leads – London has the world's largest metals market (95% of worldwide trade), Eurobond trade (70%), over-the-counter derivatives (36%), insurance (22%) and tanker charter business (50%).[25] London also has the most foreign banks (486) compared with Frankfurt (267), Paris (266) and New York (253).

The 2003 survey reported mixed feelings about the UK Government and its support of the UK financial services industry. There was a significant degree of criticism of the Government in general and the Treasury in particular. It would appear that the mood has certainly softened and few respondents made direct criticisms.

The 2003 survey concluded that the regulatory environment in London is "a big plus" for London's competitiveness. This still appears to be the case but there is growing nervousness about the increasing amount of regulation which is viewed as disproportionate to the risks by many respondents.

[24] International Financial Services London, *International Financial Markets in the UK* (May 2005).
[25] Department of Trade and Industry (http://www.dti.gov.uk).

5.4 Two Global Centres

When compared to the 2003 survey, London and New York appear to have pulled further away from Paris and Frankfurt as international financial centres. In 2003, Frankfurt had appeared to be a potential rival to London as the main global financial in Europe – this has not happened and respondents clearly find it hard to envisage Frankfurt catching up with London.

A recent study by Cushman & Wakefield Healy & Baker (CWHB) confirms our findings and names London as the best European city in which to locate a business for the 16th year in succession.[26] According to this study, the top five cities in order are:

- London
- Paris
- Frankfurt
- Brussels
- Barcelona

London has increased its lead over Paris and Frankfurt and is now top in five of the 12 categories that the CWHB study uses:

- Access to markets
- Customers or clients
- External transport links
- Quality of telecommunications
- Number of languages spoken

A key finding from our own survey is that there are now only two genuinely global financial centres – London and New York. We define a global financial centre as one where business is conducted between organisations from all over world using financial instruments from all over the world. The other financial centres in Europe are, at best, regional centres but realistically cater for national business. If there is to be a third global financial centre it is likely to come from one of four or five potential candidates in Asia, not from Europe. As one interviewee put it:

> *If you are in global financial services you need to have a presence in London and you need to have a presence in New York – you might have operations in other places because of your history, your ownership or the focus of your business but you are not a global player if you're not in London and New York.* – Managing Director – Global Bank.

London's position has been strengthened because a significant number of European banks are consolidating their wholesale operations in London. One reason for this is that London is a genuinely global centre. Another is the flexible employment practices in UK compared with France and Germany.

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[26] CWHB, *op cit.,* (2005).

There was a mixed feeling towards the Euro. One respondent commented that London is better off being outside the Eurozone. Certainly the advent of the Euro has not had a detrimental effect on London as some feared. In the 2003 study there was considerable strength of feeling about the UK's position on both sides of the 'should the UK adopt the Euro' argument. The pro-membership camp argued that only through full membership of EU institutions could the City secure its dominant position in Europe in the long term. The anti-membership view emphasised the risk of greater interference from Brussels, loss of independence in setting monetary policy and the lion's share of new euro-denominated business - eurobonds, foreign exchange and corporate deals – are handled in London, suggesting that staying out was no loss. It would seem that there is less pressure to join the Euro now than there was two years ago.

There is a growing gap between global and other centres, with global centres attracting more liquidity. It would appear that there are only two levels of financial centre. Apart from the global centres, other centres are primarily national or regional centres and vary in size according to the size of the domestic market.

5.5 Other Financial Centres

In Asia, there are a number of regional financial centres which aspire to be global centres. These include Singapore, Tokyo, Hong Kong, Shanghai and Beijing. There is no consensus on which is the dominant centre for the region or on whether a new global centre will emerge in the region. It may well be that there will continue to be a number of national centres with no one centre emerging as a new global power.

Apart from the four centres referred to in the survey, London, New York, Paris and Frankfurt, the centres that respondents mentioned as being important now and in the future are nearly all in Asia. The current "top three" are Singapore, Hong Kong, and Tokyo. Respondents are expecting Shanghai & Beijing to replace Singapore and Tokyo in importance within the next few years. Respondents seem to expect Hong Kong to become relatively less important as more Chinese business is done directly in Shanghai or Beijing. The question remains as to whether there is a need for a Chinese "offshore centre" in Hong Kong or (possibly) Singapore.

Tokyo is seen as unlikely to be become more important because of poor regulation, and too much bureaucracy. Several interviewees with experience of Asian markets believe that the future in Asia lies within China and that Shanghai will emerge as a new global financial centre within the next ten to fifteen years. They argue that ultimately the sheer volume of capital that will pass through China will ensure this. A major determinant of what happens in Asia is the political will of the Chinese government and what it allows to happen within China.

This somewhat 'China-centric' view of Asia does not take account of India. We felt this curious and spoke at length with several interviewees about this. The overall consensus seems to be that India will remain an inexpensive back office and IT centre and will develop its own national financial centre but this will not challenge the existing global financial centres.

6. Conclusions

In summary the main findings are:

- London and New York are the only two genuinely global financial centres.

- Other centres such as Frankfurt, Paris and most of the Asian centres will remain as national financial centres and will not challenge London and New York as global financial centres.

- Nobody believes that London or New York will lose their positions as global financial centres within the next ten years. If London & New York fall in popularity it will be due to a fundamental, unforeseen, alteration in the factors that make financial centres attractive.

- Part of the continuing appeal of London to foreign companies reflects the cosmopolitan status. Frankfurt and Tokyo, for example, seem to be market places for domestic participants to which foreign players are granted access. London, and to a lesser extent, New York are characterised by foreigners trading with each other. In an increasingly international economy, London seems to have a solid future as a global financial centre.

- An argument has been made that financial centres will be weakened by technology, outsourcing and off-shoring. We believe that financial centres may lose certain types of commoditised activities to low cost cities but the important parts of the industry, companies' headquarters and their most skilled employees will continue to cluster in financial centres.

- Views on a third global financial centre are split. Most people however, agree that if a third global financial centre develops it is most likely to be in China and probably in Shanghai. It is unlikely that Hong Kong, Singapore or Tokyo will ever become more than national financial centres.

- The two most important competitive factors for financial centres are the availability of skilled people and the regulatory environment. These are followed by access to international financial markets, availability of business infrastructure and access to customers.

- Looking ahead, respondents believe that government responsiveness, corporate tax regime and personal tax regime is likely to be of greater concern to them over the next three years.

- The main competitive factors that keep London and New York so strong are the availability of skilled people and the regulatory environment. However, the reason they became powerful in the first place has something to do with history. The underlying argument for the power of the present centres is that:

> *Financial centres are where market liquidity is and market liquidity is very hard to move. Nobody can move liquidity unilaterally and so once a global centre such as London or New York has been established it is virtually impossible to move. It will take a number of significant factors, acting over a number of years to alter the status quo now that it has been established.* Head of Trading – London-based Investment Bank.

- This theme has been phrased in several different ways by respondents to our survey. One says that critical mass is all important, another that only financial centres with sufficient scale can be truly competitive and a third that the power of the 'cluster effect' is often understated.

- London and New York have 'the liquidity', 'the critical mass', 'the sufficient scale' and the 'cluster effect' – as such they are likely to remain leading global financial centres for a long time to come.

7. Appendices

Appendix A - Methodology

This study was carried out between June and October 2005. The first stage of the work was to conduct desk research in order to gain an understanding of the leading financial centres and the competitive factors that might affect the standing of a financial centre. We designed a draft questionnaire based on our research and then conducted five personal interviews with senior financial services professionals in June 2005. The purpose of these initial interviews was to ‘test’ the questionnaire, to ensure that it was sufficiently comprehensive and yet concise.

We had to take account of diverse opinions in arriving at the final set of questions. The final questionnaire covered all the main factors people raised. In designing a questionnaire such as this, there are often a number of questions that would provide additional insight but for which there is no room if respondents are not to be overwhelmed – these questions we covered during the personal interviews. An example of this is operational costs. We would have liked to ask people to rank the four cities on operational costs but as we had access to recent empirical data on actual costs, we decided that this would add questions that were not strictly necessary.

The questionnaire design was prepared prior to 7 July. One factor we did not include was the threat of terrorism – we raised this during our personal interviews in August and September.

We emailed a link to the online questionnaire to several thousand people involved with financial services in over 20 countries. These people included for example, senior managers in investment, wholesale, retail and private banks, partners in accountancy firms, and people involved in international regulation.

Responses

We received 365 responses to our survey although not all respondents answered all the questions. The responses were as shown below:

Location	Banking & Asset Management	Other*	Total	Percentage
London	97	135	**232**	**63.6%**
Rest of UK	7	14	**21**	**5.7%**
Total UK	**104**	**149**	**253**	**69.3%**
New York	14	3	**17**	**4.7%**
Rest of USA	11	5	**16**	**4.4%**
Frankfurt	13	2	**15**	**4.1%**
Paris	12	2	**14**	**3.8%**
Rest of Europe	21	15	**36**	**9.9%**
Asia	8	3	**11**	**3.0%**
Other	2	1	**3**	**0.8%**
Total International	**81**	**31**	**112**	**30.7%**
TOTAL	**185**	**180**	**365**	**100%**

* This includes accountants, lawyers, regulators and financial consultants and non-financial companies.

In total, 18 countries were represented – Australia, Austria, Belgium, Channel Islands, Eire, France, Germany, Hong Kong, Italy, Monaco, Netherlands, Russia, Singapore, South Africa, Sweden, Switzerland United Kingdom, USA. 54 different towns or cities were mentioned.

In addition to the survey responses, we conducted 32 interviews to get a better understanding of what people felt about the key issues. The organisations represented in these interviews are listed in Appendix B.

Methodological Issues

One of our objectives was to compare our results with the 2003 study. In research of this kind, there is a tendency to calculate averages for questions which ask respondents to select an answer from 6 choices. Responses to this type of question are generally better shown as a distribution in graphical format which we have done.

However, in order to provide a direct comparison to the previous study we have also shown averages of the results using a straight 1 to 6 scale. However we tested the validity of this approach using weighted scales. Here we show our findings in the straight line form (with Unimportant scoring 1 through to Critically Important scoring 6). Similarly the scale used for the responses of how well a financial centre rates on a particular factor is 1 for Very Poor through to 4 for Excellent.

To arrive at the results in section 4.15 we weighted the value that each respondent gave to a particular financial centre for a competitiveness factor by how important that respondent felt that factor was. For example, if a respondent rated the importance of Regulatory Environment as 5 (Very Important), and rated London as 3 (Good) in terms of its Regulatory Environment, the result allocated would be multiplied by 3 = 15. This process allowed us to compare respondents who tend to give ‘mid–range’ or ‘average’ scores with those respondents who have more extreme views. To arrive at our final city rankings, we averaged the individually weighted values.

Appendix B – Survey Questions

Below are the survey questions. Please note that not all respondents answered all questions – although we received a total of 365 responses, not all respondents answered all questions. 365 responses is a rate of over 7% which is very high for a survey of this length and complexity. It gives a good degree of confidence over the statistical significance of the results.

1. In which industry sector(s) does your organisation operate?

- Banking
- Insurance
- Asset Management
- Law
- Accountancy
- Regulator
- Consultancy
- Other (Please Specify)

2. How many employees does your organisation have? (Worldwide & in London)

- Less than 100
- 100 to 499
- 500 to 999
- 1,000 to 1,999
- 2,000 to 5,000
- More than 5,000

3. In which City do you work?

4. Where is your organisation's headquarters?

5. Where else does your organisation have significant other operations?

6. Please rate the following factors based on their importance in making a financial centre competitive:

Ratings:
1 Unimportant
2 Of Low Importance
3 Moderately Important
4 Important
5 Very Important
6 Critically Important
7 Don't Know

- Regulatory Environment
- Government Responsiveness to Financial Services Industry Concerns
- Availability of Skilled Personnel
- Availability of Business Infrastructure
- Access to International Financial Markets
- Access to Customers
- Access to Suppliers of Professional Services
- Quality and Availability of Commercial Property
- Operational Costs
- A Fair and Just Business Environment
- Corporate Tax Regime
- Personal Tax Regime
- Cultural & Language Factors

7. Please rate the following quality of life factors based on their importance in making a financial centre attractive:

Ratings:
1 Unimportant
2 Of Low Importance
3 Moderately Important
4 Important
5 Very Important
6 Critically Important
7 Don't Know

- Leisure Facilities & Culture
- Healthcare Facilities
- Schools and Colleges
- Transport System
- Residential Property

8. Do you have any other comments about the factors that make a financial centre competitive?

9. Apart from London, New York, Paris & Frankfurt, which city do you consider to be the most important international financial centre at the moment?

10. Apart from London, New York, Paris & Frankfurt, which city do you consider will be the most important international financial centre in three years time?

11 to 36. In each of the following questions, please rate the four financial centres (London., New York, Paris & Frankfurt) in terms of the factors identified in question 6 above (excluding Operational Costs as this is covered by empirical data from Z/Yen’s Cost per Trade Studies):

Ratings:
1 Very Poor
2 Fairly Poor
3 Good
4 Excellent
5 Don't Know

37. How has the competitiveness of the financial centre where you work changed over the past three years?

Ratings:
1 Much Less Competitive
2 Less Competitive
3 About the Same
4 More Competitive
5 Much More Competitive

38. Which of the following factors have affected the competitiveness of the financial centre where you work over the past three years? (List of factors from question 6).

39. How do you think the competitiveness of the financial centre in which you currently work will change over the next three years?

Ratings:
1 Much Less Competitive
2 Less Competitive
3 About the Same
4 More Competitive
5 Much More Competitive

40. Which of the following factors will affect the competitiveness of the financial centre where you work over the next three years? (List of factors identified in question 6 above).

41. Do you have any other comments on the competitiveness or otherwise of London or any other major financial centre?

42. Your Name.

43. Your Job Title.

44. Your Organisation.

45. Your email Address.

Appendix C – Interviewees

We interviewed representatives of the following organisations:

Organisation
A & W
ABN AMRO
Alpheus Consulting
Arab Bank
Brown Shipley
Coutts
CSFB
Deutsche Bank (both London & Frankfurt)
Duet Asset Management
GlobeOp
Goldman Sachs
HSBC Asset Management
HSBC Retail
IMA
Invesco
Lehman Brothers (both London and New York)
London Clearing House
Merrill Lynch
Nomura
Place Brands
Risk Advisors
Sun Microsystems
UBS

Additionally we interviewed people from seven organisations who preferred to remain anonymous:

Type of Organisation / Function
Leading Financial Services Recruitment Company
Continental Mergers & Acquisitions Expert
Small Company Listings Agent
London Insurance Markets Expert
Small Company Listings Expert
Director of Global 500 Company
Director of FTSE 100 Company

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Older than Parliament itself, the Corporation has centuries of proven success in protecting the City's interests, whether it be policing and cleaning its streets or in identifying international opportunities for economic growth. It is also able to promote the City in a unique and powerful way through the Lord Mayor of London, a respected ambassador for financial services who takes the City's credentials to a remarkably wide and influential audience.

Alongside its promotion of the business community, the Corporation has a host of responsibilities which extend far beyond the City boundaries. It runs the internationally renowned Barbican Arts Centre; it is the port health authority for the whole of the Thames estuary; it manages a portfolio of property throughout the capital, and it owns and protects 10,000 acres of open space in and around it.

The Corporation, however, never loses sight of its primary role – the sustained and expert promotion of the 'City', a byword for strength and stability, innovation and flexibility – and it seeks to perpetuate the City's position as a global business leader into the new century.

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