

March 2007



THE GLOBAL FINANCIAL CENTRES INDEX 1

Executive Summary

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Foreword

Michael Snyder

Chairman, Policy and Resources Committee, City of London

In a globalised and interdependent world economy the dynamics of international competitiveness have become increasingly important for domestic policy makers. Cities that are financial centres face greater competitive forces than most, for the financial services industry is at the heart of the global economy, acting as the facilitator of world trade and investment. Those of us charged with the delivery of effective public policy need to understand the complex ingredients of success to ensure that our financial centres remain globally competitive. Moreover, we need to know how the world's financial centres rank relative to each other on an ongoing basis.

This research, by Z/Yen Ltd, is the first to report on a new biannual index of competitiveness for 46 world financial centres. The first Global Financial Centres Index (GFCI) presented here ranks London and New York as the leading centres, followed by Hong Kong, Singapore and Zurich. London has a narrow lead over New York, but the two together are significantly ahead of the rest of the field to be the only true global financial centres. Overtime the GFCI will become a more powerful tool as we expand the number of centres and we further develop the Index to allow increasing sophistication in analysing changes in the relative strengths of financial centres.

I welcome the GFCI findings, which clearly identify London's global strengths relative to its major competitors. London's prime position is a reflection of the unrivalled talent pool clustered here; our firm but fair principles-based

regulation supported by good market access; and an excellent business environment.

There is no doubt, however, that the real merit of the GFCI is the identification of changing priorities and concerns. When we published our report *The Competitive Position of London as a Global Financial Centre* back in November 2005, the availability of skilled personnel was regarded as the most important factor of competitiveness. Almost 18 months on, it is regulatory and tax issues that have come to be seen as the biggest contributors to overall competitiveness. The latter is a particular concern for London, as anxieties about the corporate tax regime relative to our major competitors are widespread among respondents.

The GFCI will prove to be an invaluable tool for tracking changing fortunes and perceptions of financial centres, and I encourage industry professionals to participate in our ongoing survey.

*Michael Snyder
London
March 2007*

Chart 1
The GFCI World





1. Executive Summary

The City of London Corporation's Global Financial Centres Index (GFCI) evaluates the competitiveness of 46 financial centres worldwide. It is updated regularly to identify changes in financial centre competitiveness.

The GFCI currently shows that London and New York are the two leading financial centres globally, with London ahead of New York by 5 rating points. London and New York are well ahead of the two strongest Asian centres of Hong Kong and Singapore which occupy 3rd and 4th places respectively. It is interesting to observe that Zurich, a financial centre strongly focused on the two niche sectors of private banking and asset management, is in 5th place just ahead of Frankfurt in 6th place.

It is worthwhile noting that London leads New York in all five areas of competitiveness, i.e. people, business environment, market access, infrastructure and general competitiveness. It is also notable that in the most recent of the two online surveys, London is further ahead of New York than it was in the previous study. In November 2005 the gap between the two cities was very small. Taking the city assessments from the most recent study in isolation, London is ahead of New York by 37 points.

In the 2005 study, there was no clear leader amongst the Asian centres. It is now clear that Hong Kong (3rd in the GFCI) leads the way from Singapore (4th). These two financial centres are well ahead of Tokyo (9th), and the two Chinese centres of Shanghai (24th) and Beijing (36th).

Paris is now just outside the top ten in 11th place, only three points behind Geneva. Toronto is in 12th position, perhaps higher than one might expect. Toronto, however, is the national financial centre of Canada and acts as a major international centre. Toronto is rated within the top ten on people and business environment factors and Canada is very highly placed on the general competitiveness instrumental factors used in the GFCI model. Two US cities follow Toronto: San Francisco and Boston are in 13th and 14th place respectively and are strong regional centres which benefit from the sheer size of the US economy.

The research involved in producing the GFCI has revealed a change in emphasis of the areas of competitiveness. In 2005, people and skills issues were rated as the most important factors of competitiveness followed by regulatory issues. In this research, people factors have been replaced as the most important factor by the regulatory and tax environments. Concerns about the level and quality of regulation in the USA and about the increasing levels of corporate taxation in the UK are widespread amongst our respondents. GFCI ratings will change as instrumental factors and financial centre assessments change. We intend to publish results twice a year.

Table 1
The Top 10
Financial Centres
Compared

London	1	765	Most key success areas are excellent – London is in the top quartile in over 80% of its instrumental factors. Especially strong on people, market access and regulation. The main negative comments concern corporate tax rates, transport infrastructure and operational costs.
New York	2	760	Most areas are very strong – New York is also in the top quartile in over 80% of its instrumental factors. People and market access are particular strengths. Our respondents cited regulation (particularly Sarbanes-Oxley) as the main negative factor.
Hong Kong	3	684	Hong Kong is a thriving regional centre. It performs well in all of the key competitiveness areas, especially in regulation. Headline costs are high but this does not detract from overall competitiveness. Hong Kong is a real contender to become a genuinely global financial centre.
Singapore	4	660	Most areas are very good and banking regulation is often cited as being excellent. It performs well in four of the key competitiveness areas but falls to 9th place on general competitiveness factors alone. Definitely the second Asian centre just behind Hong Kong.
Zurich	5	656	A very strong niche centre. Private banking and asset management provide a focus. Zurich performs well in three of the key competitiveness areas but loses out slightly in people factors and in general competitiveness.
Frankfurt	6	647	Despite a strong banking focus, suffers from inflexible labour laws and skilled staff shortages. Market access, infrastructure and business environment are strong but Frankfurt falls outside the top ten GFCI rankings for people and general competitiveness.
Sydney	7	639	A strong national centre with good regulation, offering a particularly good quality of life. Sydney is strong in four of the key competitiveness areas but falls outside the top ten for people – many financial professionals leave for larger English-speaking centres.
Chicago	8	636	Number two centre in the US. Hampered by the same regulatory regime as New York. It scores highly for people but is let down by its infrastructure and market access rankings. Unlikely to overtake New York, it remains a powerful regional and specialist centre.
Tokyo	9	632	Does not fare well in terms of regulation and business environment, but the size of the Japanese economy means Tokyo has good liquidity. It fares poorly on people but has good infrastructure and market access.
Geneva	10	628	A strong niche centre similar to Zurich. Private banking and asset management continue to thrive. Geneva is strong in business environment and general competitiveness but let down by infrastructure.

The theoretical maximum GFCI rating is 1,000

Please participate in the GFCI by rating the financial centres you are familiar with at: www.cityoflondon.gov.uk/GFCI

The City of London Corporation

The City of London is exceptional in many ways, not least in that it has a dedicated local authority committed to enhancing its status on the world stage. The smooth running of the City's business relies on the web of high quality services that the City of London Corporation provides.

Older than Parliament itself, the City of London 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 City of London 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 City of London 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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