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# Regulation and Malta as an International Financial Services Centre: Part II

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Obviously, in order to make the presentation more interesting and approachable, I have mixed and matched material from the papers with other works. As such, nothing from this presentation should be used as sole support or citation for the academic research underpinning the arguments made here.

Despite repeated references to Hong Kong, I do not represent Hong Kong in any way, nor do I mean to suggest broad-based support for all or any of the ideas contained within. Challenging references to standard practices should not be construed as denigration or criticism.

I hope you have enjoyed the presentation, and encourage you to consider the balanced and measured advice of the professionals from your jurisdiction (or elsewhere) before adopting reform of any kind.

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# What is in this presentation?

- Malta in the IFC ecosystem
- The “fund, study, do” model of IFC self-help
- Compliance as sector and competency
- Discussion of three strategic professional services
  - law firms
  - banks/broker-dealers
  - compliance merchants
- Academic results repackaged – as implied advice

# Where are we as an IFC?

- IFC economics works on Power Scale
  - Top 2 IFCs attract more AUMs than most of other IFCs combined
  - HK and SG would need to climb orders of magnitude
  - Malta ranks 71<sup>st</sup> place
- “Better” regulation needed –
  - But firms should be the ones making regulation....
  - regulation as commercial opportunity



Rank	Change	Centre	Country	Rating	Change	Rank	Change	Centre	Country	Rating	Change
1	—	New York	United States	785	▲ 7	42	▲ 9	Casablanca	Morocco	645	▲ 10
2	—	London	United Kingdom	784	▲ 7	43	▼ 9	São Paulo	Brazil	644	▼ 22
3	—	Hong Kong (SAR)	China	768	▲ 2	44	▼ 2	Istanbul	Turkey	643	▼ 12
4	—	Singapore		754	▲ 8	45	▲ 8	Gibraltar (BOT)		642	▲ 9
5	▲ 1	Tokyo	Japan	722	▲ 4	46	▲ 6	Bahrain		641	▲ 7
6	▲ 1	Zurich	Switzerland	719	▲ 2	47	▼ 2	Rio de Janeiro	Brazil	638	▼ 12
7	▲ 1	Seoul	South Korea	718	▲ 3	48	▲ 1	Panama City	Panama	637	—
8	▼ 3	San Francisco	United States	708	▼ 11	49	▼ 6	Almaty	Kazakhstan	634	▼ 19
9	▲ 3	Chicago	United States	707	▲ 5	50	▼ 4	Bangkok	Thailand	633	▼ 13
10	▼ 1	Boston	United States	706	▲ 1	51	NR	Dalian	China	632	NR
11	—	Toronto	Canada	704	▲ 1	52	▲ 18	Dublin	Ireland	627	▲ 20
12	▼ 2	Washington, D.C.	United States	703	▼ 1	53	▲ 8	Mumbai	India	626	▲ 1
13	—	Geneva	Switzerland	702	▲ 1	54	▲ 8	Jersey (CD)		625	▲ 1
14	▲ 7	Riyadh	Saudi Arabia	698	▲ 13	55	▲ 12	Guernsey (CD)		624	▲ 5
15	▼ 1	Vancouver	Canada	696	▼ 4	56	▼ 12	Mexico City	Mexico	623	▼ 29
16	▲ 4	Shanghai	China	695	▲ 5	57	▲ 9	Jakarta	Indonesia	618	▼ 2
						58	▲ 6	Isle of Man (CD)		617	▼ 5
						59	▼ 30	Monaco		616	▼ 58

Figure 1c: Distance from Major Financial Centres' Banking Regulation (regulatorily far the major markets)

<b>Belarus</b>	<b>0.10</b>
<b>Malta</b>	<b>0.07</b>
<b>Taiwan</b>	<b>0.07</b>
<b>Bulgaria</b>	<b>0.00</b>

*How can firms make the regulation and compete in ecosystem?*

# IFC Success Model: Fund it, study it, do it

- 1. “tax” financial services firms (including professions)
  - ❑ Membership fees
  - ❑ Charitable donations
  - ❑ Etc.
- 2. write studies
  - ❑ Tender
  - ❑ Specific line-by-line changes
  - ❑ Cost-benefit analysis
- 3. legislate it
  - ❑ Lobbying
  - ❑ Feedback
- 4. Do it



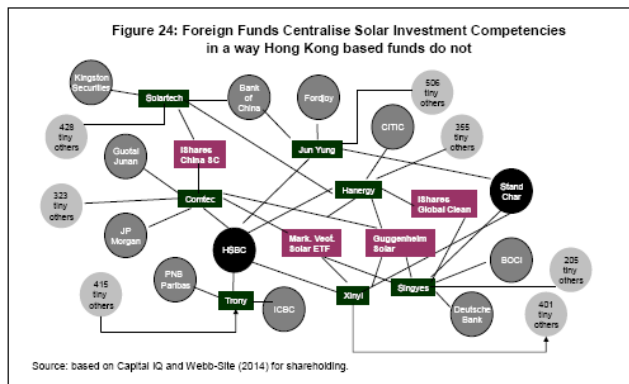
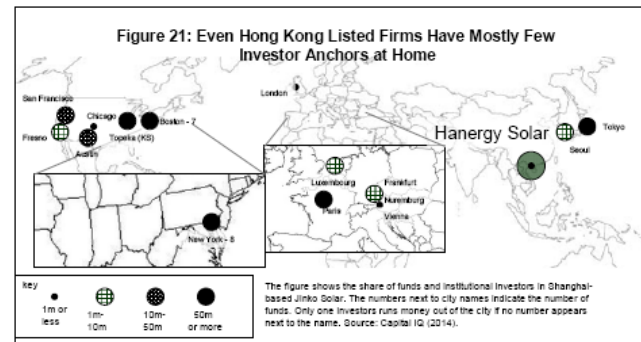
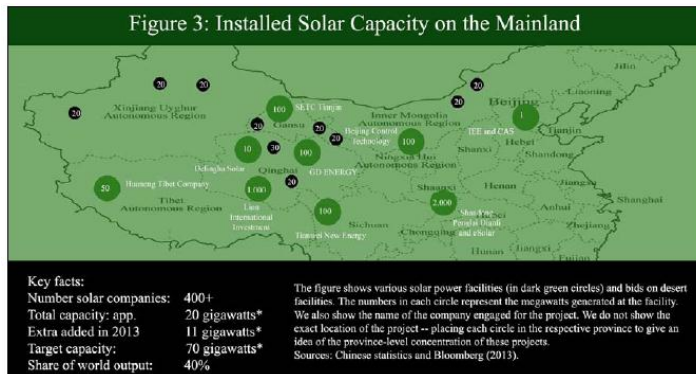
fastest way to get something bad is  
to have government write it

*Professional service firms – not regulators – involved in this process*

# Example 1: Chinese Solar in Chicago?

**Securitisation brings over \$200 billion AUM online**

**Chicago is actually Leading solar hub**



**De-intermediating funding “supply chain” from leadership**

**2-3 “Gorillas” negotiate range of deals to make Chicago a solar hub**

Leadership often needs to come from a Council with specific ToRs – but NOT Investment Promotion Agency

# Action Points for Professional/Financial Services Firms

- What project have I funded to concentrate finance in a future industry in Malta?
- Who has pledged resources for the project
- Who have I paid for the study?
- What service will I offer in that area?

Figure 25: A Bauhinia Solar Fund Could Help Allocate Fragmented Investments in Hong Kong's Solar Companies More Efficiently

Share*	Companies
6%+	Chief Securities, Shanghai Commercial Bank, Bank of East Asia, Wing Lung Securities, Masterlink Securities, Fordjoy Securities and Futures, Chiyu Banking Corporation
5%-6%	RHB OSK Securities, Guoyuan Securities Brokerage
4%-5%	Enlighten Securities
3%-4%	Industrial Securities
2%-3%	SG Securities
1%-2%	Boom Com, Quam Securities, China Everbright Securities, Merrill Lynch Far East, Ubs Securities, Ping An Of China Securities, Wing Hang Bank, Hsbc, Standard Chartered, Kgi Securities, First Shanghai Securities, Deutsche Bank, Huatai Financial Holdings.
0.5%-1%	Morgan Stanley, Credit Suisse Securities, Citic Securities Brokerage, Tiger Securities Asset Management, Hang Seng Securities, HSBC Broking Securities, Grand Investment (Securities), China Merchants Securities, BOCI Securities, Bank of Communications Trustee, Haitong International Securities, Citibank, CCB International Securities.
0.2%-0.5%	Hantec Securities, Bank Of China, Cinda International Securities, DBS Bank, Fu Yip Securities and Investment, Shun Heng Securities, South China Securities, FB Securities, ABCI Securities, CSC Securities, Emperor Securities, China Galaxy International Securities, Hang Seng Bank, Fulbright Securities Ltd, Guosen Securities Brokerage, Skyway Securities Investment, Celestial Securities, Tung Tak Securities.
0.1% and less	all other 288 brokers and intermediaries

The figure shows the proportional holdings of various Hong Kong broker-dealers in a hypothetical mutual fund which would merge all existing investments in Hong Kong-listed Mainland solar companies. We first add the value of all Hong Kong broker-dealer holdings in Hong Kong-listed Mainland solar companies. We report each broker-dealers' proportional holdings of that aggregate value, given the value and distribution of each broker-dealers' current holdings.

Figure 50: Hypothetical Displayed Information about Solar Asset-Backed Security If Hong Kong Adopted US and IOSCO Style Disclosure Provisions

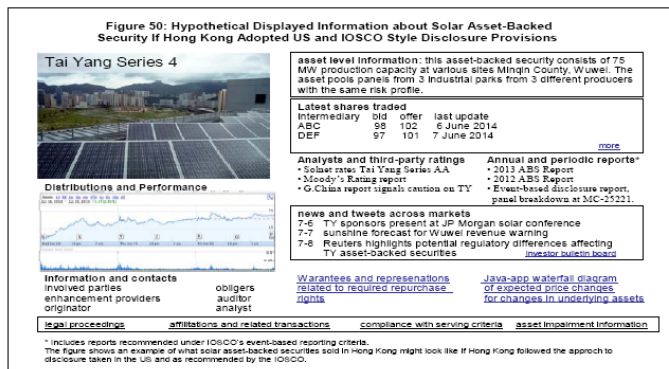
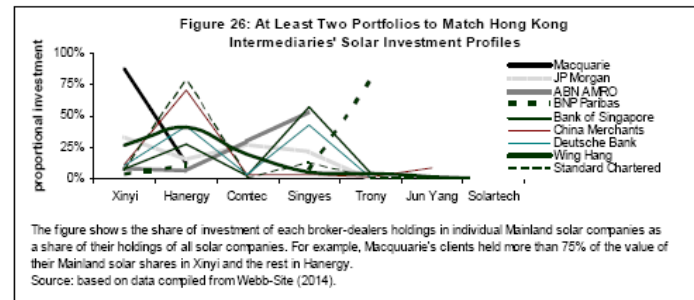
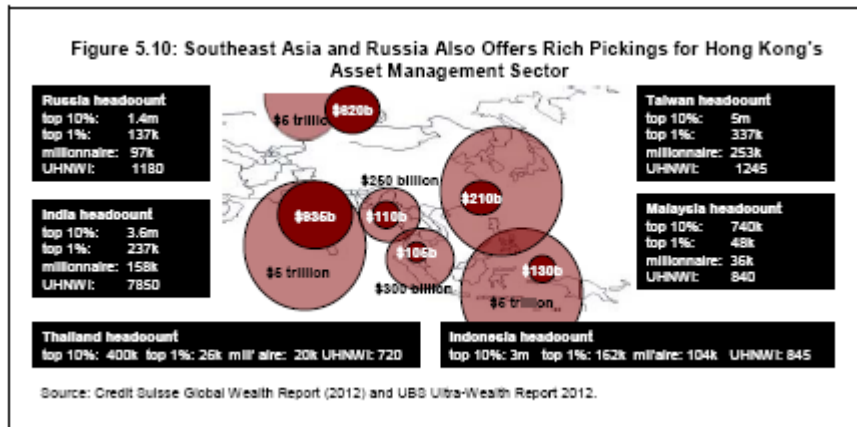


Figure 26: At Least Two Portfolios to Match Hong Kong Intermediaries' Solar Investment Profiles



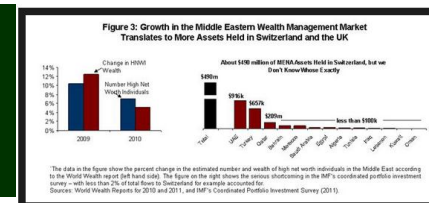


## Case Study 2: Offering Foreign Services better than the locals



- with internet, top IFCs are becoming Vichy-finance centres for distorted neighbours
- hire from that country, offer services “there,”

# wealth management dance





# Case 3: Grabbing Chinese “Going Out” business

- IFC ranking determines Chinese M&A advisor choice
- Advisors can direct investments to IFCs
  - legal advisors
  - financial advisors

Figure 1b: Financial and Legal Advisors to China's Going Out Companies Hail from Places Completely Divorced from the Sources and Targets of Overseas Investments



The figure shows the total deal sizes handled by financial and legal advisors based in the locations shown on the map. New York advisors handled roughly €152 billion in deal values from 2000 to 2014. The circle in the middle of Europe centres on Zurich. Source: Zephyr (2015).

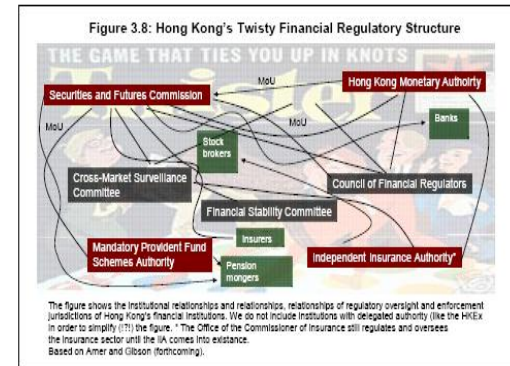
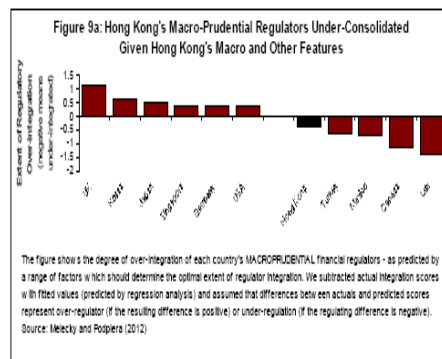
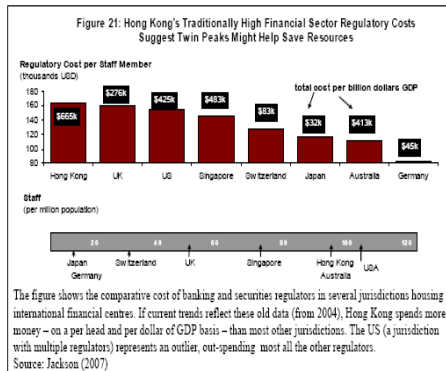


- **Law school rank determines competitiveness**
  - lawyers as practitioners
  - policymakers, and reviewers
- **Need law school rules which allow**
  - law firm payments for activities
  - govt finance law scholar work on policies
  - school ties in MBA/econ etc.

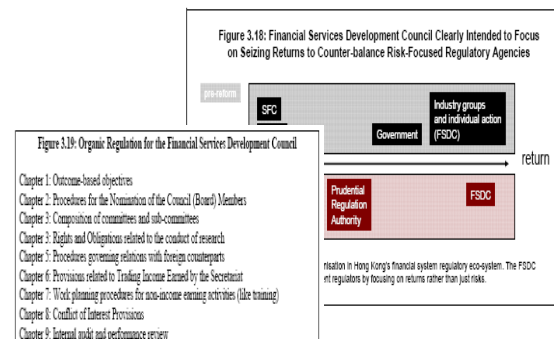
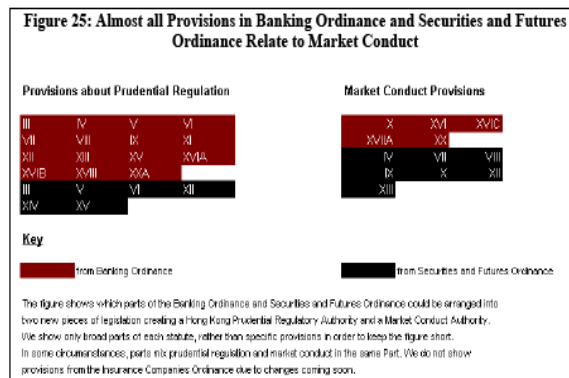
If law school regulations against change, militate for change

# What can business do about the regulator?

## “Compliance Cost Problem” in the regulator as much as outside



## Fund research about Twin Peaks Regulator and Financial Services Dev. Council

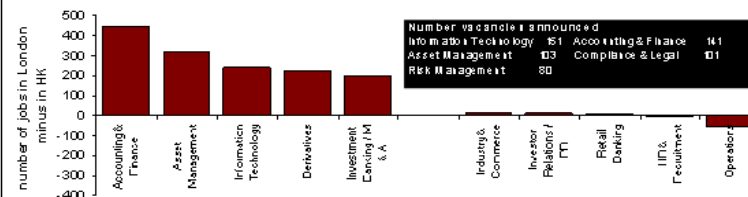


Industry, not government, usual solves these issues

# Making Compliance Hub

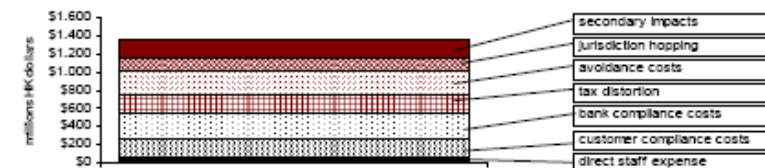
- Over \$200 billion opportunity for compliance sector in next 5-10 years
- Jobs unproductive (thus ripe for outsourcing)
- Outsourced consultants determine productivity of entire compliance sector

Figure 5.4: Comparative Hiring Patterns With London Show Hong Kong Too Focused on Regulatory-Driven Unproductive Jobs



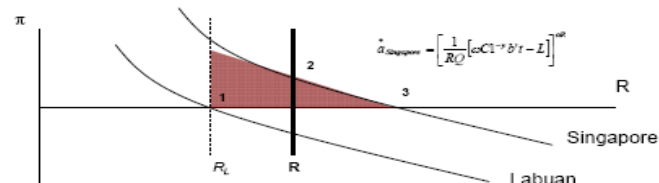
The data in the figure show the number of jobs announced on eFinancialCareers.com in each sub-specialty in London minus those in Hong Kong. Negative means more jobs announced on 14 November 2013 in Hong Kong than in London. Source: eFinancialCareers.com(2013).

Figure 5.6: The Regulatory Impact of the Three Major Compliance Burden for Hong Kong Probably Cost Its Licensed Banks over HK\$1 trillion in 2012



The data in the figure show the way that various costs associated with compliance with Hong Kong's anti-money laundering ordinance and rulemaking related to the FATCA and FCPA/UKBA. We took the overall impact on Hong Kong's licensed banks from the literature (about 1% of after-tax profits). The weight of each effect we show in the figure comes from the literature we cite in the body of the paper. We do not show effects on restricted license banks and foreign banks, due to their small profits relative to licensed banks. Source: WRD6 (for bank profitability) and range of literature for impacts (see text).

Figure 9: A Larger Compliance Sector Actually Makes Financial Services Firms More Profitable



The figure shows the way that larger compliance employment in Singapore affects the trade-off between regulation and profits. Past profits went to hire more compliance staff, whose absolutely level encourages faster compliance productivity growth. Such faster growth – under certain circumstances – leads to more profits FOR EACH LEVEL OF REGULATION. As a result, for regulation and Labuan's level ( $R_L$ ), Singaporean companies can earn total profits denoted by the purple triangle. For an average regional level of regulation  $R$ , Singaporean banks earn profits while Labuan banks lose profits. The figure thus shows how regulation can affect each jurisdiction's competitiveness.

$$\frac{d\pi}{dR} = \left[ \frac{\lambda_L}{\gamma} L' - RQa \right] = \left[ \frac{\lambda_L a(C^{*+} b')}{Q} \left[ \frac{\partial b' t}{\partial R} - \frac{\lambda_L}{\gamma} L' \right] \right]^{a^{b-1}} C^{b-1}$$

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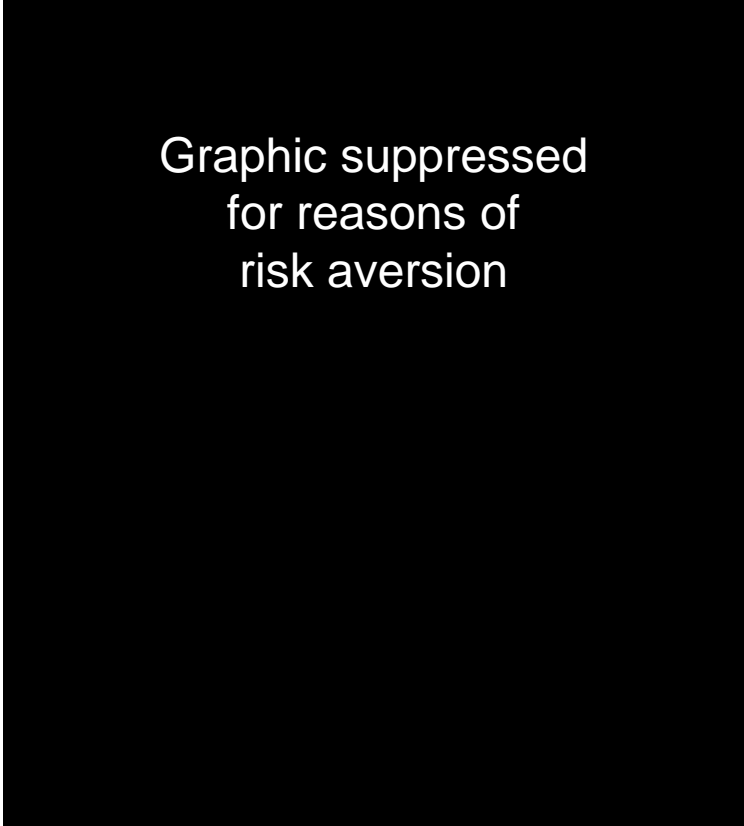
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# Compliance in digital age

- Learn and apply at home, quickly
- Every compliance “chore” is a separate potential company in the making
- Get big quick, quickly
- “Throws off” all kinds of information useful in the Google age



Graphic suppressed  
for reasons of  
risk aversion

# Law firm management

## ■ Why should foreigners use Maltese law firms?

- ❑ Map out other law firms' products, sales and client types
- ❑ Look for gaps in the market

## ■ Can Malta create the new *verein* structure?

- ❑ Swiss competitive advantage from offer market-demanded legal structure

## ■ Law firms as “shadow regulator”

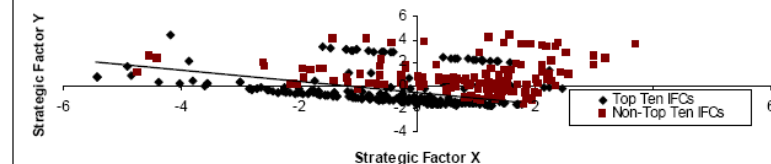
- ❑ Setting financial law standards
- ❑ writing for law school

Figure 28: Examples of Blue Ocean Advisors to Going Out Companies

Advisor name	Type	Scaling	Advisor name	Type	Scaling
YES Bank Ltd	FA	5.77	Shin & Kim	LA	2.49
Lefosse Advogados	LA	5.30	Four Partners Advisory SIM SpA	LA	2.42
Mattos Filho Veiga Filho Marrey Jr e Quiroga Advogados SC	LA	5.29	Bonelli Erede Pappalardo	LA	2.39
Ping An Securities Co., Ltd	FA	4.63	Negri Clementi Studio Legale Associaton	LA	2.31
Standard Bank Group Ltd	FA	4.63	Bonelli Erede Pappalardo	LA	2.31
Qinisele Resources (Pty) Ltd	FA	4.59	NCTM Studio Legale Associato	LA	2.31
Guosen Securities Co., Ltd	FA	4.57	King & Wood	LA	2.31



Figure 29: Non Top 10 International Financial Centres' Advisors Engage in Strategic Differentiation Needed to Secure Going Out Mandates



The figure shows the results of principal components analysis used to detect differences in the behaviour of financial and legal advisors advisors to China's Going Out firms. The dots show the position of each city along two dimensions suggested by the statistical analysis of variation in variables like the deal sizes, number of advisors and other decisions taken by advisors in those cities. Blue Ocean strategy starts roughly at Y=-0.6 - .24X. Source: authors (2015).

*Law as bundle of goods, can be disintermediated and thrown over borders*

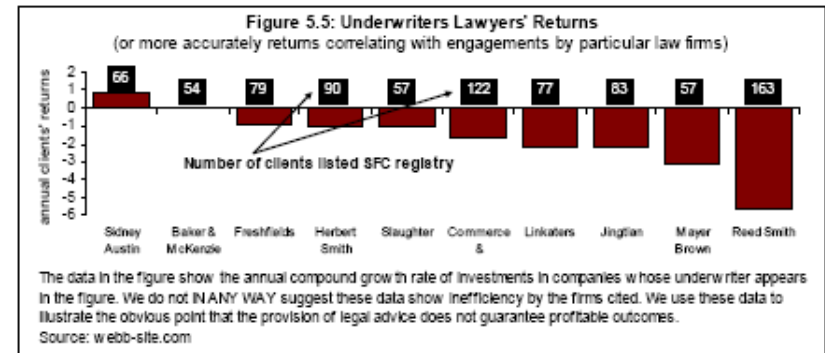
# New Approaches to Law firm management

## ■ New metrics for law firm performance

- ❑ competition with internal counsel
- ❑ internal audit now better at quantifying impacts
- ❑ why not lead way?
- ❑ ROI objectives for some branches of “quasi-law”

## ■ New Law Law (not a typo)

- ❑ law firm listing on Maltese Stock Exchange?
- ❑ practice of foreign law (and teaching that law)





# Next Steps

- 1. Levy “taxes” to pay for “anti-regulator”, associated studies and law school development
- 2. Get critical studies out to bring stakeholders onboard
- 3. Start in key areas
  - using finance to develop solar and other competencies
  - law school(s) up
  - Maltese firms as purveyors of local law as much as service
  - Malta as law as much as place → quick pass immigration important key in that.

## Pitcairn Problem



Imagine if you had your own island? How to develop it?

**Solution:** Don't think of it as an island. Imagine it as “nexus of contracts” – with passporting power. Banks in Mexico having Pitcairn nationality/on Pitcairn soil. Now work away from that imaginary “optimum”

- Firms need to get involved in regulation, because regulation is going to drive core competency development in “productive” areas —



Tmjem

# Appendix: Which Publication is for You?

## Your Goal

## The publication you want

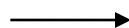
Making my wealth management and private banking firms globally competitive



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What can our regulators do to offset risks from a much larger neighbour?



Assessing Hong Kong as an International Financial Centre

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