qatar
FINANCIAL CENTRE
REGULATORY AUTHORITY

Annual Report 2005

H. H. The Emir Sheikh Hamad Bin Khalifa Al Thani

H. H. The Heir Apparent Sheikh Tameem Bin Hamad Al Thani

H. H. The Prime Minister Sheikh Abdullah Bin Khalifa Al Thani

On 1 May 2005, the Government of Qatar established the Qatar Financial Centre (QFC) and the QFC Regulatory Authority pursuant to Law Number 7 of 2005 (the QFC Law), which was made under decree by H. H. The Emir Sheikh Hamad Bin Khalifa Al Thani on 9 March 2005.

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Chairman's Statement

Phillip Thorpe, Chairman and CEO

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While the QFC Law does not require us to publish our first Annual Report until after the 2006 year end, we have determined to issue this report covering our first eight months of activity in 2005.

We want to do this for two primary purposes: firstly because we are committed to transparency in respect of our activities and we would like any information we do publish to be timely; and secondly because so much has happened in our first, partial year of operation, that we believe it would be useful to firms already in, or contemplating establishing in, the QFC to know of the activities we have undertaken and our plans for the year ahead.

That there has been so much happening during 2005 is probably no surprise to anyone watching the economies of the Gulf states. Qatar in particular has provided an excellent example of robust growth, aided of course by high prices for oil and gas. Qatar's GDP growth in 2005 is estimated at over 20%, and is predicted to grow at similar rates in 2006 and beyond; economic diversification continues to be an important element of the government's policies, and overall economic growth, as recorded by the rise in exports, the diversity of those exports and the increasing diversity of the domestic economy, reinforce that positive picture.

The Government of Qatar's desire to see development in the financial services sector should be seen in that general economic context. The Government recognised that its plans for growth and diversification needed to be underpinned by a commensurate increase in capacity in the Qatar financial services sector. This relates not only to a 'balance sheet' capacity, but also to the intellectual capital that financial services firms can bring to the market place. The QFC was established to assist that process – providing a venue for financial services firms to establish in Qatar and undertake activities that previously were only available to Qatari companies and individuals through overseas markets.

The QFC formula as promoted by the Government is a relatively straightforward one and is consistent with the approach that Qatar has taken in other areas of its development. The formula is to set high standards that clearly evidence international best practices, to provide a positive environment in which business can be done, and to offer access to opportunities, so that entrants can participate in the growth and development of the Qatar economy, and that of the region. It is already clear that the formula is working in respect of financial services, with high levels of interest from firms keen to establish in the QFC. The interest has come from institutions that can bring both capacity and skills to Qatar, and the types and quality of business being proposed should also create excellent opportunities for Qatari businesses. We feel confident that the QFC will enhance the already strong reputation of Qatar as a good place to do business.

While having one of the world's best performing economies certainly is a very useful backdrop, getting new businesses to establish in Qatar also requires those excellent business opportunities to be reinforced with a legal and regulatory environment that makes doing business in Qatar a safe and rewarding experience. The role of the Regulatory Authority in establishing that legal and regulatory environment has been the primary focus of our efforts in these opening months.

We have used a straightforward approach to achieve this objective. We have looked at the needs of the financial services institutions and business generally, examined the laws, regulations, practices and procedures that would best meet these needs, and crafted our own legal and regulatory provisions to match those

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requirements. In doing so we have endeavoured to avoid reinventing the wheel – we recognise that for institutions operating internationally it would be a major advantage if QFC laws and regulations are aligned with those with which they are already familiar. To that end, we have sought to adopt and adapt the best examples that we have been able to find globally. In doing so, we have also tried to reflect the fact that we are an integrated regulator – meaning that we provide regulatory coverage for a very broad range of financial services activities including banking, insurance, asset management, investment advisory services, Islamic finance, and a range of related businesses. We have therefore looked to those jurisdictions operating similar systems and drawn inspiration from the approach of other integrated regulators.

Our internal operating processes also reflect the approach of such integrated regulators: we are a “principles” based regulator – it is not our intention to produce volumes of detailed regulation where it would be preferable to offer instead broad principles to guide firms in the way in which they address their compliance requirements. We see the responsibility for good compliance as being primarily on the firm itself and, in particular, on its management. We do not wish to detract from that responsibility, but at the same time we will balance our preference for principles with the use of more detailed rules where it would be helpful. We will also provide written guidance on the same basis.

We also seek to be a risk-based regulator. Later in this Annual Report you will find more detail about how we assess risk and use that information in terms of applying our resources. I would note here two important elements of this approach. Firstly that ‘risk’ for us relates to risk to our statutory objectives, and these too are detailed later in the Annual Report. Every task we undertake should be identifiable as related to delivering those objectives and, equally, any use of our resources should be attributable to promoting those objectives. Secondly, the risk-based approach has a very practical output that will be evident in the way we conduct our supervisory activities, as our risk assessments are designed to allow us to use our supervisory resources most effectively.

In plain language, that means that we will spend more time and energy looking at firms that are more likely to generate risks to our objectives, and conversely less time on those firms that minimise those risks. We hope there will be a real incentive for firms to work to mitigate risk and thus receive less attention from us.

For many firms the most tangible evidence of our efforts to date can be found in the Regulations and Rules of the QFC. The Regulatory Authority has had a major role in the development of many of the Regulations (the ‘laws’ for the QFC) particularly where those relate to the activities of financial services institutions. We now have a comprehensive set of laws addressing everything from companies, to contracts, to insolvency through to data protection and are now moving to look at a second phase of law making in areas that are proving to be of interest to the firms established in the QFC. In the year ahead we expect to see laws develop in respect of the registration of securities, trust law and potentially a general law for insurance. Laws will continue to be developed as the need arises.

In the area of rulemaking we have made major progress to put in place the majority of the regulatory regime. Those regulated by the Regulatory Authority and those looking to establish in the QFC can find on our website rules covering the majority of financial services activities. As with QFC Regulations, we continue to develop our Rulebooks as demand requires. In some areas we have waited to see whether demand exists before committing the resources to drafting the detailed rules that might be required.

For instance, in respect of mutual funds or other collective investments we recognised that any regulatory regime could involve a substantial body of rules, and we wished to see whether this would be an area which firms would be interested in seeing us develop. The message has been very clear, with many firms having now identified the potential for introducing such products to Qatar and the region. Accordingly, we have been working to put a Collective Investment Scheme Rulebook in place, with the expectation that it will be available for market comment by the middle of 2006.

As with the Regulations, the intention in any rulemaking is to ensure that it meets the needs of the industry and fulfills the Regulatory Authority’s objectives. We wish to ensure that the rules we produce benefit from the comments of those they may well affect and, accordingly, all our rulemaking involves publishing the proposed rules in draft form for a period of consultation, after which we will review any comments and amend the rules as needed. We do this not only to ensure that the end result meets the needs of all concerned, but to ensure transparency in the way in which we develop the regime.

As I have noted, the response to the launch of the QFC has been extremely positive – both because of the economic opportunities in Qatar and because of the environment being offered by the QFC. In this regard, I should make mention of the progress we have made in developing the Regulatory Authority as an organisation – on 1 May 2005, we had two employees, and we have seen that number grow to 23 by the end of the reporting period.

Chairman's Statement

(Cont)

At the time of writing this report, we are around 30, and expect to see that number double during the course of 2006. Our recruiting is business driven – we seek more staff only as more business arises and as the numbers clearly suggest, business is increasing at a significant rate. We are now having to search for staff with relevant expertise in a broad range of financial disciplines. Investment banking was expected to be a popular area of interest and has proven to be so. More broadly based commercial banking and private banking have also emerged as areas where businesses are keen to operate, and accordingly we are increasing our staff numbers in all areas of banking supervision. In a similar vein, insurance has proven to be an area that has captured the interest of many. The QFC provides an ideal environment for insurers and we have had firms looking to establish and to undertake a wide variety of insurance activities, ranging from retail life and non-life business to more wholesale activities, including captive and reinsurance business. Again that has produced a need for us to seek out more staff resources with experience in insurance regulation.

However, while the recruiting continues apace it is already evident that we have been fortunate in bringing together a group of highly experienced regulators from a wide range of leading jurisdictions. We expect this pattern to continue, and look forward to creating a regulatory resource with the depth and breadth of experience to match the demands of an increasing and diverse QFC financial community.

Finally I should note one critical post-reporting event that will have a material bearing on the activities in the years ahead, namely the appointment of the Regulatory Authority Board. We commenced a search for board members in late 2005, looking to identify regulatory professionals from major international markets with exemplary track records and the experience to underpin the Regulatory Authority's objectives and expectations for growth. In March 2006, the Council of Ministers confirmed the appointment of four outstanding individuals with a collective experience that would be difficult to match anywhere. We are very privileged to have Jean-Francois Lepetit, Robert O'Sullivan, Brian Quinn and Andrew Sheng join the Regulatory Authority and look forward to enjoying the benefits of their guidance and advice.

Phillip Thorpe
Chairman and CEO

"The QFC provides an ideal environment for insurers and we have had firms looking to establish and to undertake a wide variety of insurance activities, ranging from retail life and non-life business to more wholesale activities, including captive and reinsurance business."

Introduction

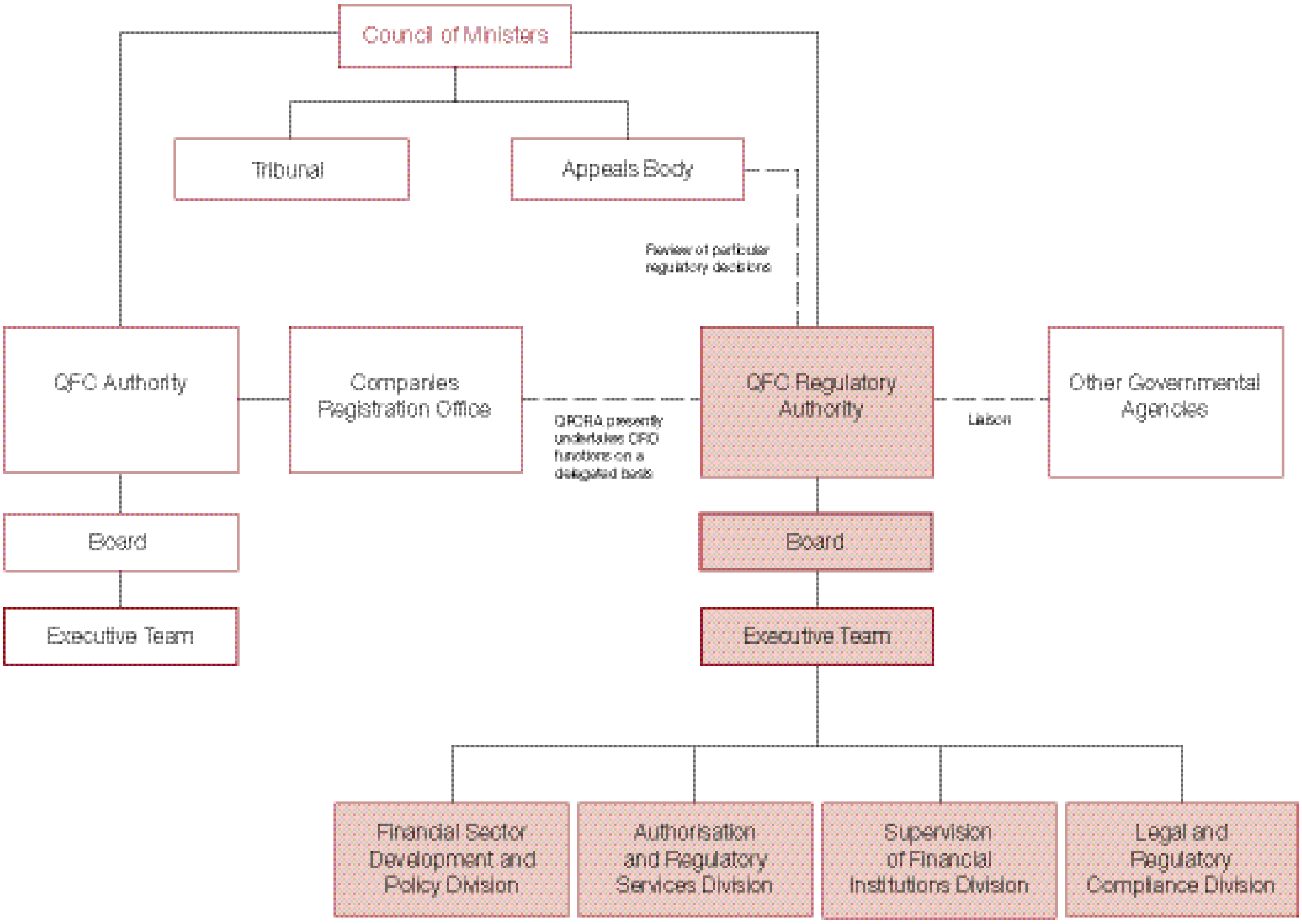
This, the first Annual Report of the Qatar Financial Centre Regulatory Authority (the Regulatory Authority), details the work undertaken by the Regulatory Authority during the eight month period from 1 May 2005 to 31 December 2005 (the reporting period).

The QFC was established in Doha as a financial and business centre. It is operated by the QFC Authority which is responsible for the commercial strategy and business development for the centre, and provides its administrative functions. The Regulatory Authority is the single regulator for firms conducting financial services in or from the QFC and has a broad range of regulatory powers. These powers are set out in the QFC Law and in the Financial Services Regulations (the FSR). Although forming part of the QFC, it is an independent body which reports to the Council of Ministers. The structure of the Regulatory Authority is more fully set out in “Structure of the QFC Regulatory Authority”.

The QFC Law also provides for the establishment of an Appeals Body and a Tribunal, both of which are in the process of being established. The Appeals Body will have jurisdiction to hear appeals against certain decisions of the Regulatory Authority. The Tribunal’s jurisdiction will include general jurisdiction over the QFC Authority and other QFC entities, and jurisdiction to hear and determine civil or commercial proceedings which can be brought before it.

The structure of the QFC is set out in Diagram 01.

The QFC Structure
Diagram 01



Objectives of the Regulatory Authority and Principles of Good Regulation

Objectives

We must have regard to the statutory objectives of the Regulatory Authority in exercising our functions and powers. These statutory objectives are contained in the FSR and are set out in Box 01 below.

During the reporting period, we have made progress in meeting our objectives as follows:

Efficiency, transparency and integrity

We have set the groundwork which will assist us in achieving our objective of establishing and maintaining an environment that perpetuates efficiency, transparency and integrity. We have done this by enacting regulations and rules, and by introducing a risk-based framework of supervision and regulation.

In enacting regulations and rules, we have set ourselves the standard of building a clear and flexible regulatory framework based on the best practices and laws of the world's leading financial jurisdictions. In drafting these regulations and rules, we have looked to these jurisdictions to determine which model is most suitable for implementation in our regime. By doing so, we are able to align our regulations and rules with models which are already familiar to the international financial community. A full list of the legislation that has been enacted in the QFC during the reporting period is set out in Appendix 4.

We also aim to meet the applicable standards of leading international organisations such as:

IOSCO	International Organization of Securities Commissions
IASB	International Accounting Standards Board
FATF	Financial Action Task Force
OECD	Organisation for Economic Co-operation and Development
BIS	Bank for International Settlements
IAIS	International Association of Insurance Supervisors
AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
IFSB	Islamic Financial Services Board

In addition and in order to assist us in staying abreast of current regulatory issues, we have joined or are currently seeking membership of international organisations that complement our role as an independent financial services regulator.

We also believe that it is important that we operate in a fair and transparent way. To assist us in doing so, we have adopted procedures that require us to act fairly in making important decisions that may affect a firm or individual whom we regulate. We will also publish our decisions and certain of them will be subject to appeal. Further details of this are provided below.

To assist us in maintaining the integrity of the QFC, we have implemented a risk-based approach to regulation. This begins at the authorisation stage when we try to identify any risks to our statutory objectives that an applicant firm may present and require the firm to address them. Our risk-based regulatory approach is key not only to the objective of maintaining the integrity of the QFC but to other of our statutory objectives as discussed further below.

Confidence in the QFC

Our risk-based regulatory approach also assists us in achieving our objective of fostering and maintaining confidence in the QFC. We have sought to foster confidence in the QFC by establishing a framework which is aligned with international standards and which is designed to actively seek to identify risks to our objectives. We believe that confidence in the QFC will be maintained if these standards continue to be met.

As part of this approach, we have implemented an authorisation process which is designed to try to ensure that we only authorise those firms that meet, and are expected to continue to meet,

Article 12(3) of the FSR sets out our objectives as follows:

- the promotion and maintenance of efficiency, transparency and the integrity of the QFC;
- the promotion and maintenance of confidence in the QFC of users and prospective users of the QFC;
- the maintenance of the financial stability of the QFC, including the reduction of systemic risk relating to the QFC;
- the prevention, detection and restraint of conduct which causes or may cause damage to the reputation of the QFC, through appropriate means including the imposition of fines and other sanctions;
- the provision of appropriate protection to those licensed to carry on business at the QFC and their clients or customers;
- the promotion of understanding of the objectives of the QFC amongst users and prospective users of the QFC and other interested Persons;
- ensuring the Regulatory Authority is run with a view to:
    - it operating at all times in accordance with best international standards for financial and business centres;
    - establishing and maintaining the QFC as a leading financial and business centre in the Middle East; and
- minimising the extent to which the business carried on by a Person carrying on Regulated Activities can be used for the purpose of or in connection with Financial Crime.

Box 01

internationally accepted standards as reflected in our regulations and rulebooks.

In promoting and maintaining confidence in the QFC, we also recognise the importance of establishing co-operative relationships with our fellow regulators around the world. As at 31 December 2005, we had entered into such arrangements with the Central Bank of Jordan and the Swiss Federal Banking Commission. We are in the process of putting in place further such arrangements.

Financial stability of the QFC

Our risk-based supervisory approach also assists us in trying to maintain the financial stability of the QFC and to reduce systemic risk.

As part of this approach, we

- maintain close relationships with each firm and its senior management;
- co-operate with other regulators to try to ensure that firms which are branches or part of a group are effectively supervised but not overly burdened with regulatory requirements that duplicate those imposed by their home state regulator;
- maintain a continuous cycle of risk management to enable us to regularly undertake the risk assessment and classification of firms using a standardised methodology; and
- focus on achieving our objectives by making effective use of the supervisory tools available to us.

This risk-based approach also enables us to use our regulatory tools in a structured way and to focus our resources on those areas which we believe present the greatest risk to our objectives. Relying upon this approach to supervision assists us in trying to ensure that firms authorised by us are complying with all applicable regulations and rules.

The reputation of the QFC

To assist us in achieving our objective of maintaining the reputation of the QFC, our risk-based regulatory approach enables us to seek to mitigate the risk of misconduct occurring and therefore reduce the number of instances requiring remedial action.

In the event that misconduct does occur, we also have a full range of investigative and disciplinary powers at our disposal. These include powers to:

- publicly censure, impose financial penalties, appoint external administrators to authorised firms/individuals, accept enforceable undertakings, issue directions to such firms and individuals (such as to remove directors, senior managers, auditors and actuaries);
- impose conditions, withdraw authorisations;
- obtain injunctive and restitution orders from the Tribunal; and
- brief the Qatari Public Prosecutor where criminal offences may have been committed.

We intend to take enforcement action only when we believe it is appropriate in terms of our statutory objectives, including to try to ensure that the QFC is operating efficiently and transparently, and that its participants are operating fairly and in a way that promotes the confidence of the financial services community and its customers. When we detect conduct that may threaten any of these objectives, we intend to act firmly to stop the conduct, minimise the effects and try to prevent similar conduct recurring.

As discussed above, in taking any such action, we will act fairly and will publish our decisions. These decisions (except injunctive and restitution orders) may also be subject to appeal to the Appeals Body.

Protection for firms and their customers

We consider the most important factor in assisting us in achieving our objective of providing appropriate protection for firms and their customers is to have an effective regulatory regime. As discussed above, we believe we are well advanced in implementing the framework for such a regime. As part of this regime, we require firms to have a minimum level of financial resources together with a system of internal controls which meets our standards. This is designed to try to ensure compliance with all relevant regulatory requirements.

However, we also recognise that differing degrees of protection and information may be appropriate for customers as a result of their experience, expertise, business and means, and that differing degrees of risk are involved in different kinds of investment or transaction. This is in line with the general principle that, ultimately, customers have to take responsibility for their own financial decisions.

> “Every task we undertake should be identifiable as related to delivering those objectives and, equally, any use of our resources should be attributable to promoting those objectives.”

Objectives of the Regulatory Authority and Principles of Good Regulation

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Understanding the objectives of the QFC

During the reporting period we have carried out a number of presentations, seminars and information sessions on the role of the QFC both within Qatar and internationally to create an understanding of our objectives.

In addition, we have had numerous meetings with individuals, firms, industry bodies, government agencies and international associations where we have sought to explain the outcomes we are seeking to achieve.

Operating in accordance with best practices

As discussed above, the measures which we have implemented so far, including our membership of leading international organisations, are instrumental in enabling us to stay abreast of the best international standards for financial and business centres, and to reflect these in our own regulatory framework.

These measures should also assist us in achieving our objective of establishing and maintaining the QFC as a leading financial and business centre in the Middle East.

Minimising financial crime

The mitigation of the risks of financial crime is a particular focus of our risk-based supervisory approach. Many of our regulatory requirements target this outcome, including requiring authorised firms to have strong internal controls, an effective compliance function and key officers and management with the requisite skills and experience to ensure firms offer an effective first line of defence against such activities. To assist us in achieving our objective of minimising financial crime, we have established a relationship with the Financial Information Unit of Qatar and expect to work closely with that and other bodies in reducing the threat of financial crime.

> “The formula is to set high standards that clearly evidence international best practices, to provide a positive environment in which business can be done, and to offer access to opportunities, so that entrants can participate in the growth and development of the Qatar economy, and that of the region.”

Principles Of Good Regulation

In exercising our functions and powers, we must also have regard to the Principles of Good Regulation which are contained in the FSR. These principles are set out in Box 02.

During the reporting period, we have had regard to the Principles of Good Regulation in the following manner:

Article 13 of the FSR sets out the following Principles of Good Regulation which we should have regard to in exercising our functions and powers:

- the need to use its resources in the most efficient and economic way;
- the desirability of facilitating innovation and fostering the international competitiveness of the QFC;
- the desirability of fostering competition between those who are subject to regulation by the Regulatory Authority;
- the principle that the Regulatory Authority should exercise its powers and functions in a fair and transparent manner;
- the need to comply with such generally accepted principles of good governance as it is reasonable to regard as applicable to it;
- the need to balance the burdens and restrictions on firms with the benefit of regulation; and
- the need to act in accordance with all laws and Regulations to which it is subject.

Box 02

Efficient and economic use of resources

In recognising the need to use our resources in the most efficient and economic way, we operate within self imposed budgetary controls, allocate resources to our various departments in accordance with those controls and review performance on a monthly basis. We have operated within our budget during the reporting period.

Innovation and competitiveness

Our aim is to create a regulatory regime which operates in accordance with international best practice and is therefore competitive on the international stage. As discussed above, we have designed and implemented a regulatory framework which allows us to reflect international best practices as well as to adapt to innovation.

Competition among regulated entities

We aim to bring about competition among regulated entities through applying our regulatory regime in an even and unbiased manner. In particular, we seek to apply our authorisation standards in a manner which allows any entity which can meet those standards to be admitted to the QFC environment.

Fairness and transparency

We recognise the need for the Regulatory Authority to exercise its powers and functions in a fair and transparent manner. To this end, we seek to operate in an open manner, publishing information on our activities to the maximum extent possible. A full list of our publications during the reporting period is set out in Appendix 5.

Our aim is to act fairly in our dealings with all firms and individuals authorised by us before we make important decisions that may affect that firm or individual. This is ensured through reliance upon our Code of Conduct (to which all of our staff are subject), through oversight by our Board of Directors and by being subject to external review by the Appeals Body. Further details of our Code of Conduct and other internal procedures for managing risk and ensuring fairness and transparency are set out in Appendix 3.

Good governance

Our Board was appointed by the Council of Ministers after the reporting period. Further details of the Board, including applicable policies on corporate governance, are set out in "Structure of the QFC Regulatory Authority".

Balancing costs versus benefits

In recognising the need to balance the burdens and restrictions on firms with the benefit of regulation, we specifically consider the impact on firms compared to the overall benefit we are seeking to achieve through our regulatory actions during the course of the development of any new legislation or regulatory approach. We also undertake general and specific consideration of costs and benefits before the introduction of any new legislation to ensure that it is not unduly burdensome.

Compliance with laws and regulations

Our aim is to design and implement internal processes which will assist us in complying with all legislative requirements to which we are subject. During the reporting period, we have started to put those processes in place and will continue to do so during 2006.

Structure of the QFC Regulatory Authority

The Regulatory Authority was established by Article 8 of the QFC Law as a body corporate owned by the State of Qatar to operate as the single regulator of the QFC. Although forming part of the QFC, the Regulatory Authority is an independent body with an independent budget and reports directly to Qatar's Council of Ministers.

The powers, duties and functions of the Regulatory Authority are set out in the QFC Law and in the FSR.

The Regulatory Authority has a Board which has a maximum of 6 members, including the Chairman and Chief Executive Officer (CEO). Board members are appointed by the Council of Ministers and may only be removed by the Council in circumstances of ill-health, bankruptcy or criminal or other serious misconduct.

During the reporting period, Mr. Phillip Thorpe was appointed as Chairman and CEO of the Regulatory Authority.

Since the reporting period, on 8 March 2006, the Council of Ministers made the following appointments to the Board:

Jean-Francois Lepetit

As a banker, Mr Lepetit was Chief Executive Officer of Bank Indosuez and then Chairman of BNP Group's Market Risk Committee. In a regulatory capacity, he has served as Chairman of the Conseil des Marchés à Terme, Chairman of the Conseil des Marchés Financiers, President of Commission des Opérations de Bourse (COB), a member of the Comité de la Réglementation Bancaire et Financière and a member of Comité des Etablissements de Crédit et des Entreprises d'investissement (CECEI).

Robert O'Sullivan

Mr O'Sullivan was a senior vice president in the Bank Supervision Group of the Federal Reserve Bank of New York. He has had supervisory responsibility for financial examinations covering foreign banking organisations with operations in New York, and for overseeing various technical assistance programmes to benefit foreign-based bank supervisory authorities.

Brian Quinn

Mr Quinn is a former Executive Director, Supervision & Surveillance, and Acting Deputy Governor of the Bank of England. As well as holding previous positions in the Bank of England and the IMF, he was a member of the Basle Supervisors Committee and Chairman of the Supervisory Committee of EC Governors. He has acted as a consultant to the World Bank, IMF, BIS and a number of central banks and supervisory agencies.

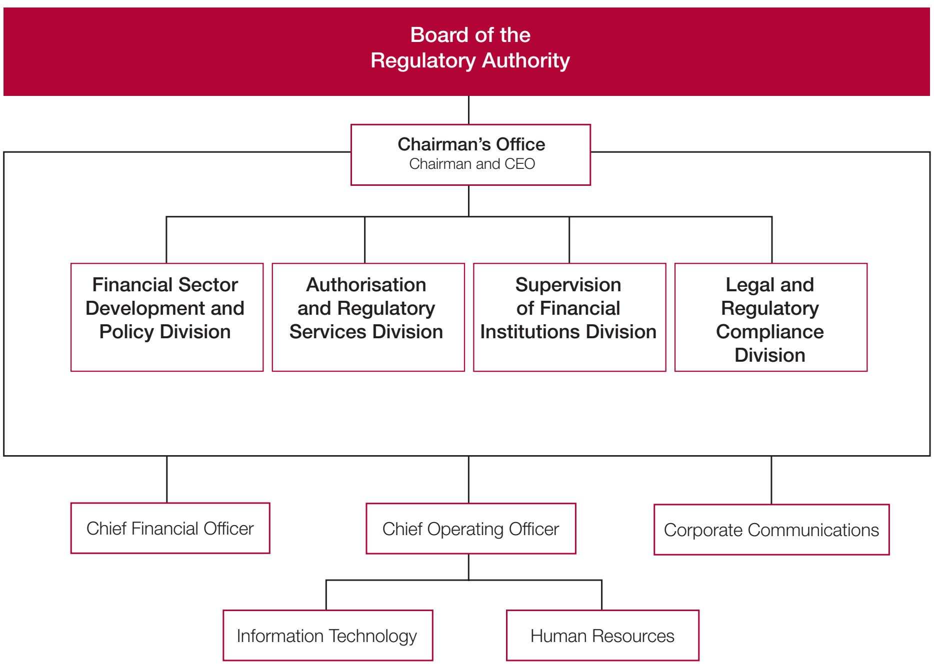
Andrew Sheng

As a banker, Mr Sheng has held senior positions with Bank Negara Malaysia and was seconded to the World Bank in the Financial Sector Development Department. He served as Chairman for seven years of the Hong Kong Securities & Futures Commission. He has chaired the Technical Committee of IOSCO, various committees of the Financial Stability Forum and the Group of 22 Finance Ministers and Central Bank Governors, and advises the China Banking Regulatory Commission.

The first meeting of the full Board is scheduled to take place on 31 May 2006. Corporate governance arrangements to reflect the appointment of the full Board are being put in place.

Our executive staff comprises professionally qualified and experienced regulators. They are responsible to the CEO and are structured in accordance with Diagram 02.

The QFCRA Structure
Diagram 02



Authorisation and Regulatory Services Division

Responsibilities

We have established an Authorisation and Regulatory Services Division (Authorisation Division) which acts as the 'gatekeeper' to the QFC in respect of firms seeking to carry on regulated activities in or from the QFC. As at 31 December 2005, this Division consisted of three Associate Directors.

Applicant Firms

This Division is responsible for processing and assessing applications from firms seeking authorisation to carry on regulated activities in or from the QFC. In doing so, it is responsible for carrying out a risk assessment with respect to our objectives in accordance with our supervisory risk assessment framework, and making recommendations to the Board on an application's proposed determination.

Individuals and controlled functions

This Division is also responsible for processing and assessing applications from individuals proposed to perform certain key functions (known as controlled functions) on behalf of an applicant. Such individuals are subject to scrutiny against a number of criteria which make up the 'fitness and propriety' test which is discussed further below.

Licences and the CRO

The Authorisation Division also administers the application process in respect of firms seeking a licence to carry on non-regulated activities in or from the QFC. This is done on behalf of the QFC Authority. Additionally, it acts as the interface between applicants and the QFC Companies Registration Office (CRO) in respect of their registration or incorporation in the QFC.

Enquiries

The Authorisation Division acts as the primary point of contact on application-related enquiries on all aspects of the QFC regulatory regime, including the laws, regulations and rules. It also acts as the regulatory liaison for the QFC Authority and works closely with it in all of its initial consultations with prospective applicants seeking to establish in the QFC. The Authorisation Division can receive enquiries from many sources, including potential applicants, their professional advisers and other interested parties such as trade delegations and representatives of similar initiatives. Whatever the source, it seeks to promote a greater understanding of the rulebooks and the wider QFC regulations, and to highlight the relevant requirements that are likely to impact enquirers.

Streamlined Process

Following on from initial joint consultations with the QFC Authority and prospective applicants, the Authorisation Division then becomes the single point of contact for applicants once they have lodged an application and throughout the remainder of the application process. In this respect, all licensing, authorisation and registration or incorporation matters are dealt with through a principal point of contact in this Division.

Application Process

Firms

The first step in the application process is that an applicant firm must submit an application form (Form Q02) which describes the nature of the services to be provided and the products involved, together with key information about the firm itself. As part of the process, the Authorisation Division then tests whether the proposed implementation of a firm's business plan is likely to be in compliance with the relevant aspects of our rules. In formulating this assessment, the Authorisation Division carefully considers the 'fitness and propriety' of the applicant based on a number of factors (details of which are set out in Box 03).

This Division additionally considers the risks posed by an applicant and its intended activities against our statutory objectives. In doing this, the Authorisation Division assesses the application on its merits to determine the extent to which the applicant demonstrates that it is ready, willing and able to comply with the requirements of our regulatory framework and standards.

An applicant must also demonstrate to the satisfaction of our Authorisation Division that it understands its obligations as outlined in the relevant rulebooks. This is particularly important as, once an applicant becomes an authorised firm, any rule breaches will become a supervisory matter and potentially subject to enforcement or disciplinary action.

At the conclusion of the assessment process, the Authorisation Division formulates a recommendation as to whether a firm should be authorised, authorised with conditions or restrictions, or rejected. This decision is ultimately made by the Board.

Matters considered in determining the 'fitness and propriety' of firms include:

- the applicant's controllers;
- any close links and connections which the applicant has with any person or entity;
- the regulated activities proposed;
- the extent to which the applicant's affairs will be conducted in a sound and prudent manner;
- the legal form of the applicant;
- the background and history of the applicant;
- the applicant's regulatory track record;
- the availability of resources, systems and controls; and
- the collective suitability of the individuals proposed to perform controlled functions.

Box 03

Authorisation and Regulatory Services Division
(Cont)

Individuals

Similarly, individuals proposed to perform controlled functions are subject to a 'fitness and propriety test' which consists of applying due consideration to a number of critical factors.

The factors considered in determining the 'fitness and propriety' of individuals include:

- their honesty, integrity and reputation;
- their financial soundness; and
- their competence and capability, taking into account such matters as their prior experience and qualifications, relative to the role they will be undertaking as employees of the firm, as well as the nature, scale and complexity of the underlying activities proposed by the firm.

The Authorisation Division additionally expects firms to be able to demonstrate that they have undertaken their own due diligence on individuals, and have implemented means with which to deploy third-party checks, independent of the firm and its proposed approved individuals.

Licences for non-regulated activities

The application process for firms seeking a licence to conduct non-regulated activities in or from the QFC is a simplified one, principally because the licence does not permit the carrying on of regulated activities. The application process is designed to be simple and expeditious. However, applicants are still required to demonstrate an ability to meet certain threshold conditions including providing evidence of professional standing, fitness and propriety. In addition, if considered appropriate, the Authorisation Division may need on occasion to conduct a more extensive review.

Timing

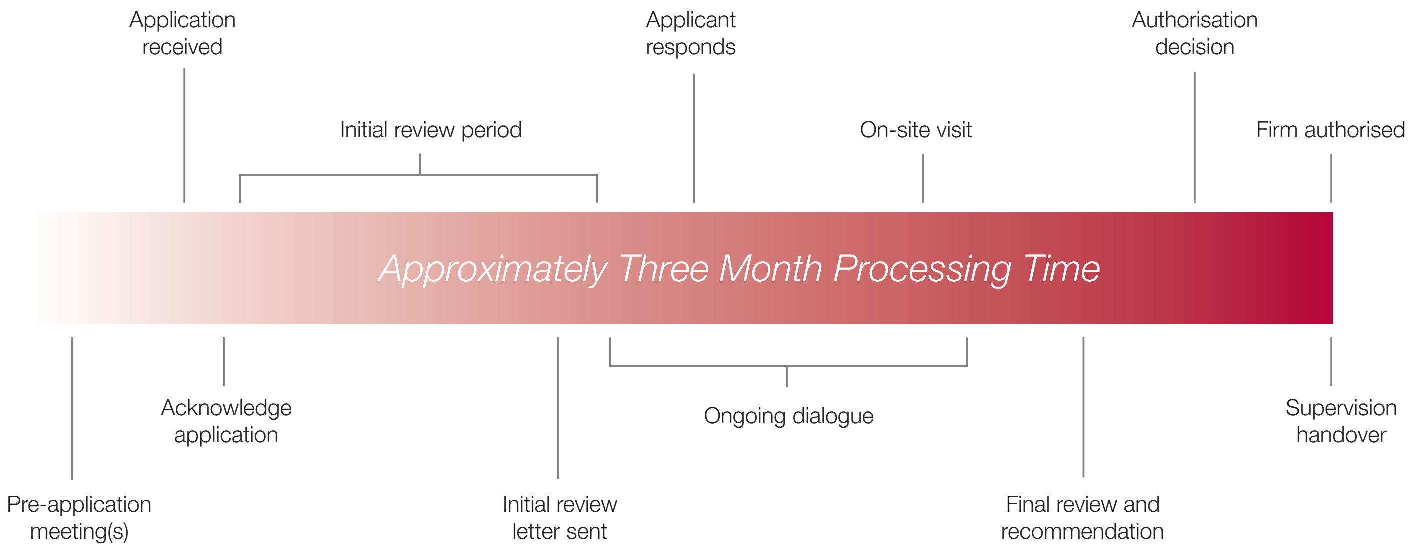
The Authorisation Division seeks to process complete applications as quickly as possible. Where an application is materially incomplete (for example, where specific regulated activities have not been set forth, an application fee has not been paid, or a business plan has not been submitted), it will notify the firm of the key missing components and will give priority to other, complete applications. For well-prepared applicants who are familiar with all of our applicable rules and who have submitted comprehensive applications, we have a publicly stated goal to process such applications within three months. We will monitor our performance against this target on an ongoing basis, taking into account firms' response times. An outline of our indicative timeline is set out in Diagram 03.

The actual timeframe for completing applications will depend on the scale and complexity of a business, as well as the timely submission of information by applicants and any responses to requests for further clarification.

Handover to Supervision Division

Once a firm is authorised, responsibility for overseeing its compliance with all applicable QFC laws, regulations and rules passes to our Supervision Division. During the authorisation process, the Authorisation Division staff will seek to ensure that the Supervision Case Officers are introduced to the firm's senior management, and that the Supervision Division is made aware of all relevant matters, in order to facilitate the

Indicative Processing Timeline
Diagram 03



smooth handover of responsibility from the Authorisation Division to the Supervision Division.

Progress towards Regulatory Objectives

As mentioned previously, the Regulatory Authority and the QFC officially opened for business on 1 May 2005, with the Authorisation Division commencing its operations shortly thereafter.

During the reporting period, this Division implemented internal processes which try to ensure that all applicants are treated consistently and fairly, while meeting the highest regulatory standards that conform to international best practices.

This is designed to try to ensure that all authorised firms are what we consider to be ‘fit and proper’ at the point of authorisation, and appear likely to remain so.

Following the enactment of the QFC Companies Regulations on 14 September 2005, we were ready to start authorising firms and the first firm was granted authorisation on 29 September 2005. As at 31 December 2005, we had granted authorisation to two firms to carry on regulated activities in the QFC. The Authorisation Division additionally administered the processing of an application on behalf of the QFC Authority in respect of an applicant seeking to conduct the non-regulated activity of providing consultancy services in the QFC. This applicant was subsequently licensed. Details of these firms are set out in Appendix 1.

In assessing these applications, the Authorisation Division also processed sixteen applications for individuals to perform controlled functions in relation to authorised firms. Details of these applications are set out in Appendix 2.

Details regarding the name and number of applications in process remain a matter which is strictly confidential. However, once a firm is authorised or licensed, the details are published on our website and on the website of the QFC Authority as a matter of public record. The public register is available to view on our website (www.qfcra.com) and the QFC Authority website (www.qfc.com.qa).

At year end, the Authorisation Division had doubled in headcount and was working on a wide range of applications. During 2006, we expect to expand the Division’s size significantly in order to continue to meet our objectives in dealing effectively and efficiently with the increased volume of applications in process and anticipated.

> “...the response to the launch of the QFC has been extremely positive – both because of the economic opportunities in Qatar and because of the environment being offered by the QFC.”

Supervision of Financial Institutions Division

We have established a Supervision of Financial Institutions Division (Supervision Division) which handles the day-to-day supervision of firms. As at 31 December 2005, it consisted of one Senior Director, four Associate Directors and one Case Officer.

Risk-based supervision

Since inception, and in line with our risk-based regulatory framework, the Supervision Division has developed and implemented a risk-based supervisory approach which it uses in its supervision of firms.

In applying this risk-based approach, the Supervision Division:

- maintains close relationships with each firm and its senior management;
- co-operates with other regulators to try to ensure that firms which are branches or part of a group are effectively supervised but not overly burdened with regulatory requirements that duplicate those imposed by their home state regulator;
- maintains a continuous cycle of risk management which enables it to regularly undertake the risk assessment and classification of firms using a standardised methodology; and
- focuses on achieving our objectives by making effective use of the supervisory tools available to it.

Relationships

This Division is the mechanism through which we monitor and communicate with firms. It is the main point of contact between us and authorised firms. It is expected that as the number of firms within the QFC increases, we will develop separate supervisory teams with specialist knowledge to cover different industry sectors. The Supervision Division gathers information about firms and aims to maintain regular contact with the senior management of firms.

Co-operation with other regulators

We aim to maintain close working relationships with relevant regulators both within and outside the State of Qatar. We signed a Memorandum of Understanding on 23 August 2005 with the Central Bank of Jordan which established a formal framework for supervisory co-operation and sharing supervisory information. We also developed a co-operative relationship with the Swiss Federal Banking Commission. We are continuing to develop such relationships with other regulators.

Continuous cycle of risk management

Our risk-based supervisory approach is premised upon a continuous cycle of risk management which enables us to identify, assess and try to mitigate those risks arising within a firm which in our view present a risk to our objectives.

Under this approach, the risk assessment is first carried out during the initial authorisation process when the risk profile of each firm is assessed using a standardised methodology. Shortly after authorisation, the Supervision Division will meet with senior management of the firm to discuss their business and strategy plans, and the general implementation of their procedures, systems and controls. This meeting, together with the initial risk assessment carried out as part of the authorisation process, will determine when the Supervision Division will conduct its first on-site risk review of the firm. The risk assessment process is then on-going and firms can expect to be the subject of a risk assessment at least annually (although we may update and change a firm's risk classification at any time as a result of information we obtain).

Following the first detailed on-site risk review (and all subsequent risk assessment reviews), the Supervision Division will ask the firm to formulate a risk mitigation programme to address any issues which have been identified during the risk review. This programme is subject to our review and agreement. This approach enables the Supervision Division to focus on those areas that it believes pose the greatest risk to our regulatory objectives. In addition, it enables this Division to be more proactive in taking actions to pre-empt any serious threat to the stability of the financial system as a result of any current or emerging potential risks.

Given the evolving financial and economic environment, there will be an on-going need for our Supervision Division to continually update and review its risk-based supervisory framework for maintaining the stability of the financial system. While financial institutions are subject to many different risks, this Division will focus its attention on the types of risks detailed in our publication 'A Guide to Our Approach to Regulation' in assessing the risk profile of each firm.

The full implementation of the risk-based supervisory framework and risk rating processes is intended to enable the Supervision Division to effectively allocate its supervisory resources to try to ensure that it meets our regulatory objectives. This should enable it to reduce the frequency of on-site reviews of authorised firms that are less risky, and to devote its resources to more intensive reviews of firms which it perceives to have a higher level of risk.

Supervisory Tools

The Supervision Division has a range of supervisory tools available to it to fulfil its supervisory role of firms, including the following:

On-site visits

On-site visits allow us to view first hand the personnel, procedures, systems and controls within firms, to complete the risk assessment of the firm and to review the operation of its risk mitigation programme.

Desk-based reviews

We review the regular reports which firms are required to submit to us as well as the information required to be provided to us by firms before or shortly after certain trigger events.

This assists us in trying to ensure compliance with regulations and rules and to detect emerging problems or concerns.

Personal meetings

Meetings with directors, senior management or specific individuals allow us to understand a firm's culture, its strategy, the focus of its management and to discuss specific issues of business.

Production of information

We have the power to require firms to produce documents and other information (which allows us access to information regarding firms' businesses) in order to determine compliance with regulations and rules and to enquire into a particular matter.

Reports

We have the power to require a firm to provide a report by a person whom we have approved. This enables us to obtain independent audit reports on specific areas of concern within a firm.

Prevention of financial crime

In accordance with our regulatory objectives, we are committed to the prevention of financial crime and protecting the reputation of the QFC. We will continue to monitor the latest international developments in combating financial crime, including, but not limited to, money laundering and terrorist financing, and to further improve our supervisory efforts in this area in line with international standards.

> "… the risk-based approach has a very practical output that will be evident in the way we conduct our supervisory activities, as our risk assessments are designed to allow us to use our supervisory resources more effectively."

Legal and Regulatory Compliance Division

We have established a Legal and Regulatory Compliance Division (LRC Division) which has the following three main roles:

- enforcement;
- international relations; and
- operational legal support.

As at 31 December 2005, this Division consisted of one Managing Director and one Associate Director.

Enforcement

We are not primarily a law enforcement agency. Rather, our focus is on ensuring that the firms we authorise and the individuals we approve operate in accordance with QFC laws. To that end, the LRC Division has adopted a flexible approach in keeping with our risk-based approach to regulation, focusing on reducing the risk of non-compliance wherever possible. This risk-based approach means that it will be more inclined to take pre-emptive action when it considers it necessary.

However, whenever the LRC Division detects conduct that it believes may threaten our regulatory objectives, it will act firmly to stop the conduct, minimise the effects and prevent similar conduct recurring. In so doing, it will act fairly and its decisions will be published.

Our key enforcement and disciplinary powers are the ability to conduct an investigation, to direct corrective action, impose fines, issue public censures, accept undertakings, seek injunctive relief and to remove individuals from positions of responsibility in QFC regulated entities.

The LRC Division initiates formal investigations under Articles 50 or 51 of the FSR in relation to authorised firms for such matters as suspected contraventions of a statutory obligation. Investigations conducted by our investigators are fact-finding and evidence-gathering exercises that involve demands for information from the entity concerned, interviews of relevant persons and analysis of the circumstances that are revealed. The findings of an investigation, with supporting evidence, form the basis upon which the decision in relation to disciplinary action is taken. It is the Board which has authority to make this decision. However, it may delegate that power in relation to routine matters or minor contraventions.

Since the commencement of its operations and through the reporting period, the LRC Division has undertaken no enforcement activity. Instead, it has been actively involved in developing policies and procedures that will equip it for future enforcement. This includes meeting with various Qatari government bodies with a view to developing long-term relationships, especially the Qatar Financial Information Unit and the Qatari Public Prosecutors Office.

Although we have not taken any enforcement action, we have given consideration to how we will report in future and generally expect to report on the actions for each area of regulated activity (including banking, insurance, asset management and other activities) which are set out in Box 04.

International Relations

In performing its international relations role, the LRC Division will, on our behalf, develop formal and informal relationships with regulators, agencies and other bodies around the world to ensure the effective exchange of information and adherence to the highest common standards.

The globalisation of financial activity has seen the spread of internationally active financial services firms around the world and with that the potential of the risk of financial disturbances being transmitted across national boundaries. This phenomenon has made it essential for regulators such as us to strengthen the international financial architecture and to improve information sharing with our peers on developments in risk analysis and management.

With that in mind, we have taken the view that the LRC Division will only seek to develop arrangements with overseas regulators where there is an identifiable need (such as cross border regulation) and where both regulators have a common interest to work together in supervision.

As noted previously, during the reporting period we signed a memorandum of understanding with the Central Bank of Jordan and have developed a co-operative relationship with the Swiss Federal Banking Commission. Since 1 January 2006, we are continuing discussions with a number of other regulators with a view to entering into formal co-operation arrangements.

- Show Cause Letter
- Investigative Action
- Decision Notice
- Public Censure
- Financial Penalty
- Appointment of Manager
- Undertakings
- Prohibitions & Restrictions
- Injunctions
- Restitution Orders
- Referral to Prosecutors
- Referral to Overseas Agency
- Referral from Overseas Agency

Box 04

We expect a significant increase in the number of overseas regulated entities applying to be authorised in the QFC. As a result, we also expect to see a similar significant increase in the LRC Division's work in this area.

The LRC Division is also actively involved in discussions with a number of international associations. In 2005, we became a member of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and, in April 2006, we became an associate member of the Islamic Financial Services Board (IFSB). In early 2006, we were admitted as a member of the International Association of Insurance Supervisors (IAIS). Formal approval of our membership is expected to take place in October 2006. This latter organisation is mainly concerned with establishing an international framework for insurance supervision, including core principles, standards and guidance papers.

Operational Support

The LRC Division works closely with our other Divisions in ensuring that we achieve the Regulatory Authority's objectives. It provides a support function on a 'needs' basis to various Divisions, including the Authorisation Division and the Supervision Division. This support role includes the provision of legal and technical advice from an operational perspective.

The LRC Division is developing an interactive referral model that will assist operational staff to be in possession of the most up to date legal or technical advice. This should, in turn, enable operational staff to be more effective.

"We see the responsibility for good compliance as being primarily on the firm itself and, in particular, on its management. We do not wish to detract from that responsibility, but at the same time we will balance our preference for principles with the use of more detailed rules where it would be helpful."

Financial Sector Development and Policy Division

We have established a Financial Sector Development and Policy Division (FSDP Division) the role of which is to:

- assess new opportunities, initiatives and risks, and market and regulatory developments relevant to the QFC and our regulatory function;
- liaise with market participants and other bodies; and
- propose legislation and policies in relation to the QFC financial market and its participants.

As at 31 December 2005, the FSDP Division consisted of one Managing Director and one Associate Director. Additional appointments have been made since 1 January 2006 and further appointments will be made throughout 2006.

This Division's work programme comprises the following three categories:

- Legislation Development and Review;
- Market Liaison and Communications; and
- Information Systems.

A key component of successfully carrying out its role and work programme is that the FSDP Division interacts with and develops a close working relationship with our other Divisions.

During the reporting period, priority has been the development of the QFC's legislative and regulatory regime. This work will continue during 2006 and beyond. Work also commenced on the development of relationships with institutions in the financial markets, government entities and certain international bodies.

Legislation Development and Review

The QFC legislative framework generally

Under the QFC Law, both the Regulatory Authority and the QFC Authority have functions and powers in relation to the recommending of legislation to the Minister of Economy and Commerce for the development of the QFC legal and regulatory regime, and making rules under those regulations.

Our focus is on regulations and rules relating to the QFC financial environment and market participants. The focus of the QFC Authority is on regulations and rules relating to the QFC generally as well as non-regulated activities.

In addition, the Appeals Body (which is the body with appellate and review jurisdiction over the Regulatory Authority) has power to itself submit regulations to the Minister for enactment, with the consent of the Council of Ministers, defining the management, objectives, duties, functions, powers and constitution of the Appeals Body. Separate regulations will be passed by the Minister to establish the Tribunal. The Tribunal's jurisdiction will include general jurisdiction over the QFC Authority and other QFC entities, and jurisdiction to hear and determine civil or commercial proceedings which can be brought before it.

Legislation enacted in the period to 31 December 2005

During the reporting period and following the coming into force of the QFC Law, a considerable body of regulations and rules were enacted by the Minster of Economy and Commerce (and, in the case of the FSR, with the consent of the Council of Ministers) on the recommendation of the QFC Authority or the Regulatory Authority, as appropriate. A full list of this legislation is set out in Appendix 4.

Key legislative projects for 2006

Significant projects involving the FSDP Division for 2006 in this category of our work include:

- the development of the regulatory regime and detailed rules for the prudential regulation of insurers and collective investment funds;
- the development of a regulatory framework for the proposed energy trading exchange announced in March 2006 and to be regulated by the Regulatory Authority;
- the development of the regulatory regime for retail financial services; and
- the development and enactment of insurance contract law, trust law and securities interests law applicable to authorised entities and their customers and counterparties.

Market Liaison and Communications

An important priority for the FSDP Division during 2005 was to develop our role of liaising with other QFC market participants, governmental agencies and international bodies. To date, these have been on an 'as required' basis and work is progressing on developing a more formalised programme of liaison.

Linked to this is the importance of communicating with the market. During the reporting period we issued a number of consultation papers on our proposed rules as well as a number of Guides and a Policy Statement. Full details of each of these are set out in Appendix 5.

The FSDP Division is also working in conjunction with the LRC Division on our membership of various international bodies.

A high priority for 2006 is to continue to develop these relations and to expand the FSDP Division's strategic role in assisting development of the QFC as a world class financial centre. The FSDP Division aims to achieve this by using various mechanisms, including:

- the regular release of consultation papers;
- participation in various domestic, regional and international forums; and
- wherever necessary, the creation of specific forums for the exchange of views on QFC proposals or areas of mutual interest.

Key market liaison and communications projects for 2006

During 2006, we expect to formalise our programme of market liaison and communication and to issue further formal communications to the market.

Information Systems

To enable the Regulatory Authority generally and the FSDP Division specifically to effectively carry out their functions, good information systems are essential. We need to be able to obtain, collate and assess information on market and regulatory developments locally, in the region more generally, in leading foreign jurisdictions and globally (especially as international regulatory standards continue to be developed in banking, insurance and securities markets).

As part of this work, the FSDP Division is seeking to develop strong and constructive relations with industry, individual institutions, international bodies and relevant authorities in Qatar and beyond through an approach that includes dialogue and the open exchange of views and information. In addition, during the reporting period we carried out preliminary work on establishing information systems for the collation and internal dissemination of this information.

Key information systems projects for 2006

It is envisaged that this role will further develop into a wider educational role regarding the role of the QFC and financial services more generally.

Generally, 2006 is expected to be another developmental year with a strong emphasis on the QFC legislative and regulatory framework, scoping strategic opportunities and expanding the FSDP Division's market interface.

> "As with the Regulations, the intention in any rulemaking is to ensure that it meets the needs of the industry and fulfils the Regulatory Authority's objectives."

The Organisation

In addition to establishing the various Divisions of the Regulatory Authority, we have also been building the internal structure of our organisation by developing our essential support services. These include:

Human Resources

When the Regulatory Authority was established on 1 May 2005 we had two employees. As at 31 December 2005, our staff numbers had increased to 23 and we expect this number to increase significantly during 2006. We have developed a recruitment process to deal with the large increases and we continue to actively recruit to meet the demands of our growing business.

We have also implemented systems for the accurate recording of staff entitlements (including salary and annual leave) and will continue to refine these systems in 2006 as we move forward and expand our staff.

In addition, we have started to develop our internal policies and procedures for staff, including the outline of our Staff Policy and Procedures Manual. Detailed work will continue on this during 2006. We have also developed and implemented our Code of Conduct. Details of these policies and procedures are contained in Appendix 3.

Information Technology

Effective technology systems are critical to our work and we have started to develop and implement key information technology projects. We have developed and implemented our new website (www.qfcra.com) and have arranged for the external hosting of all QFC legislation in an interactive format which is accessible via the website.

We have also implemented an IP telephony system and have created the necessary infrastructure for an independent information technology system to be implemented within the Regulatory Authority. This system involved the migration from the previous host (kindly provided by the Ministry of Economy and Commerce) during the early months of 2006.

We will continue to develop additional information technology capability to support our growing business needs. We plan to develop regulatory activity management systems, information management systems, an intranet and, in due course, a system for the electronic lodgment of forms and filing of information.

Finance

Rigorous financial control is central to our operations. We have put in place key financial accounting policies and procedures during the reporting period and our financial accounting and reporting is in accordance with International Financial Reporting Standards.

We have implemented Microsoft Dynamics GP as an integrated business solution for managing all financial activities of the Regulatory Authority and have developed comprehensive accounting policies and procedures for managing the utilisation of funds, recording of accounting information and management reporting. We have also developed and implemented a comprehensive budgeting and expenditure monitoring process and have implemented fair trading and value for money procurement policies which have resulted in savings in the cost of goods and services acquired by or supplied to the Regulatory Authority.

Much of the initial organisational framework has been put in place during the reporting period and we will continue to develop it throughout 2006 and beyond.

> “Our recruiting is business driven – we seek more staff only as more business arises and as the numbers clearly suggest, business is increasing at a significant rate.”

Recent Developments

Between 31 December 2005 and the preparation of this Annual Report, our work programmes have continued to develop and a number of significant new tasks and post-reporting period events are worthy of note.

Appointments to our Board

As noted above, the following additional members of our Board were appointed by the Council of Ministers on 8 March 2006:

- Jean-Francois Lepetit;
- Robert O'Sullivan;
- Brian Quinn; and
- Andrew Sheng.

Further details of these appointments, together with biographies of each new member, are set out in "Structure of the QFC Regulatory Authority".

International Mercantile Exchange (IMEX)

On 20 March 2006, we entered into a Memorandum of Understanding with Gulf Energy in relation to the development of a Middle East energy trading platform, to be known as the International Mercantile Exchange (or IMEX). We will develop a suitable regulatory environment for IMEX, drawing on international best practises, and tailoring the regime to suit the trading platform, clearing settlement arrangements and products adopted by IMEX.

Licensing

Since year end 2005, we have authorised or co-ordinated the licensing of the following firms to conduct activities in or from the QFC:

- Arab Law Bureau LLP;
- AXA Investment Managers LLC;
- Credit Suisse Financial Services (Qatar) LLC;
- Kuwait Financial Centre SAK;
- Oryx Bank Holding Corporation LLC; and
- United Gulf Financial Services Company LLC.

"In March 2006, the Council of Ministers confirmed the appointment of four outstanding individuals with a collective experience that would be difficult to match anywhere."

The Year Ahead

The year ahead will be another year of rapid development. The following are a selection of some of the major initiatives being pursued.

Authorisation of firms

In light of the demand we have experienced from firms seeking to commence operations in the QFC, we took the initiative to develop a more efficient authorisation process for firms. That process, which has now been implemented, ensures that we still receive and assess the same information so as to try to ensure that the firm meets and is likely to continue to meet the regulatory standards. However, we take the information and undertake the assessment in a stage by stage process, allowing the application to proceed as the applicant develops its plans and collates the information needed by the Regulatory Authority.

This initiative will be reviewed during 2006. However, initial indications from applicant firms and from within our organisation itself are that this new process has improved the efficiency of the overall time taken in the assessment of applications and has reduced the time taken for firms to commence operations in the QFC.

International Mercantile Exchange (IMEX)

As mentioned above, we entered into a Memorandum of Understanding with Gulf Energy in relation to the development of the International Mercantile Exchange (or IMEX). As also noted above, we will develop and subsequently oversee the regulatory scheme for this new exchange which will trade energy derivatives.

This is a bold new initiative and we will devote significant regulatory resources to ensuring that the regulatory environment created for the new exchange is of the highest standard and that effective supervisory mechanisms are in place and functioning.

Funds Regime

Many firms which have expressed interest in establishing a presence in the QFC have also indicated a desire to establish or manage funds. Such a demand creates the need for a specially designed regulatory regime and we will develop and implement such a regime this year.

Insurance

Many firms have also expressed interest in establishing and undertaking a wide range of insurance activities in the QFC. Again, such a demand creates the need for a specially designed regulatory regime and we are in the process of developing a regulatory regime and detailed rules for the prudential regulation of insurers. We also expect to develop and implement this regime this year.

“We feel confident that the QFC will enhance the already strong reputation of Qatar as a good place to do business.”

Measures of Success

The first Principle of Good Regulation requires us to use our resources in the most efficient and economic way. We strive to comply with this principle in all of our activities by acting as efficiently and effectively as possible.

Conscious of this need, reliable and timely measures of effectiveness are required. However, we recognise that there is no single measure of the effectiveness of a regulator and that quantitative measures alone do not give the whole picture. Therefore, in addition to measuring our performance by the use of numerical indicators, we also need to actually evaluate that performance. Accordingly, in the future, we expect to rely upon a basket of indicators which includes both quantitative and qualitative measures.

Qualitative measures generally do not lend themselves to easy numerical assessment but are important in analysing the quantitative indicators and in assessing overall performance. Such measures are likely to include us receiving feedback (based on interviews and surveys) from firms, customers and regulatory agencies as to how we have performed. This could include, for example, an evaluation of how efficiently we have conducted the assessment and authorisation of firms, the level of complaints received by firms and the resolution of them, and the variety and source of financial products in Qatar.

Measuring our success in respect of qualitative measures (such as the number of firms authorised) and quantitative measures (such as feedback from the firms as to how efficiently we conducted the assessment and authorisation of such firms) should assist us in obtaining a more meaningful overall assessment of our performance.

The basket of indicators will not necessarily be constant and we will review and revise them each year. However, the core indicators should remain the same for data matching purposes. The basket is likely to include the measures set out in Box 05.

Performance measurement is also one aspect of our drive for continuous improvement – once we have accurate measures, we can identify areas for improvement and develop and implement strategies to address them.

Quantitative measures

These measures will include information on the:

- Number of firms authorised;
- Number of individuals approved;
- Number of supervisory visits undertaken;
- Number and nature of allegations of misconduct received;
- Number of disciplinary actions;
- Time taken to finalise each disciplinary matter;
- Fees charged; and
- Staff turnover.

Qualitative measures

These measures are not as easily capable of numerical measurement and will include, based on interviews and surveys, feedback received from:

- QFC firms;
- Customers; and
- Other regulatory agencies.

Box 05

Appendix 1
Details of Authorised Firms as at 31 December 2005

Firm Name	Type of Activity	Legal Status	Place of Incorporation	Activities
Arab Jordan Investment Bank (Qatar) LLC	Regulated	LLC	QFC	Deposit Taking, Dealing in Investments, Arranging Deals in Investments, Providing Credit Facilities, Arranging Credit Facilities, Providing Custody Services, Arranging the Provision of Custody Services, Managing Investments, Advising on Investments, and Operating a Collective Investment Fund
Ansbacher & Co Limited	Regulated & Non- Regulated	Branch	UK	Arranging Deals in Investments, Arranging Credit Facilities, Arranging the Provision of Custody Services, Advising on Investments and Providing the Professional Services of Consulting
BDO JawadHabib Consulting WLL	Non-Regulated	Branch	Bahrain	Providing the Professional Services of Consulting

Appendix 2
Statistics of Approved Individuals and Controlled Functions as at 31 December 2005

Approved Individuals	As at 31 December 2005
Applications	16
Withdrawals (voluntary)	1
Withdrawals (mandatory)	0
Total number of Approved Individuals	15

Controlled Functions carried out by Approved Individuals	As at 31 December 2005
Senior Executive Function	3
Executive Governance Function	3
Non-Executive Governance Function	1
Compliance Oversight Function	3
Risk Management Function	0
Finance Function	2
Money Laundering Reporting Function	2
Senior Management Function	1
Customer Facing Function	4
Total number of Controlled Functions carried out by Approved Individuals	19

Appendix 3
Ethics and Complaints Procedures

Staff Ethics

We have committed ourselves to maintaining the highest ethical standards. This commitment is pervasive throughout our organisation and is evident in our Policy and Procedures Manual. Fundamental to this is an expectation of personal responsibility and individual integrity on behalf of each member of our staff.

To this end, we have established:

- a recruiting system that seeks to identify candidates with a track record of success;
- a performance management system that rewards integrity and productivity; and
- other systems that monitor and reinforce these desired standards.

Non Discrimination

We believe that discrimination in employment is unacceptable. Accordingly, our Human Resources function has been designed to ensure that all staff-related business decisions comply with the QFC Employment Regulations and are consistent with our overall ethical approach. Additionally, all employment related decisions taken by us may be subject to review by the independent QFC Employment Standards Office that is expected to be established in 2006. This provides further transparency and corporate accountability for all employment-related decisions.

Transparency/Conflict of Interest

We have devised an internal tool to reinforce these beliefs and stress the importance of transparency. This is known as our Code of Conduct. We established this Code to provide a mechanism and framework within which concerns such as confidentiality and conflicts of interest can be identified, addressed and properly managed. All of our staff are required to sign a disclosure document annually and are reminded of their obligation to maintain the highest ethical standards every six months at the time of their performance appraisal. The Code stands at the heart of our transparent culture and evidences our efforts to establish and maintain a world class level of integrity and transparency.

Building upon the need for transparency, we operate a website (www.qfcra.com) designed to provide insight into the Regulatory Authority, our regulations and staff. An organisation chart with staff photos and biographies can be found on the website as a resource for individuals seeking information on us.

Confidentiality

We expect that confidentiality will be maintained at all times when dealing with sensitive or proprietary information. This standard applies to all staff and associated individuals with whom we do business. The importance of confidentiality among staff is systematically reinforced in the Employment Agreement and Code of Conduct and to the fullest extent permissible by the QFC Employment Regulations.

Staff Grievances

Being a conscientious and progressive employer, we are receptive to feedback from all staff. This is evident in the open plan of the office and the communication-based culture that has been established. We have implemented a grievance procedure which is set out in a separate section of the Human Resources Policy and Procedures Manual. There have been no circumstances that have required the use of this procedure during the reporting period.

Grievances can be an excellent source of feedback from staff and provide an opportunity for us to closely examine our decisions, policy and procedures, thereby contributing to the overall goal of continuous improvement. Our main priority in considering a grievance is to identify, verify and resolve any issues quickly, efficiently and equitably, while always maintaining legal compliance. The systems that have been implemented allow for two way communication, rapid resolution and a post-process internal review to improve future operations and staff experiences. Ultimately, staff can be comforted in the knowledge that we strive to maintain an internationally acceptable standard of staff satisfaction and should there be any doubt, matters may be referred to the independent Employment Standards Office of the QFC for impartial resolution.

External Complaints Against Us or Our Staff

Within any organisation there is always the potential for circumstances to arise where an external party wishes to file a complaint against the organisation or its staff. Recognising this possibility, and continuing with the overall objectives of transparency and continuous improvement, we have made arrangements for the prompt, efficient, impartial and independent investigation of complaints made against us, or our staff, as outlined in the FSR.

Should a complaint be filed against us, or our staff, and that complaint is not resolved by us through our internal procedures, we will appoint an independent person to investigate and resolve the issue. We hope that these measures will ensure a satisfactory resolution of all complaints in an efficient and transparent manner.

Appendix 4
QFC Legislation

The following tables contain a list of the Regulations, Rules and Rulebooks that were enacted within the QFC in 2005.

Regulations	Description
No.1 – Financial Services Regulations	These regulations set out the regime for the regulation of financial services in the QFC by the Regulatory Authority.
No. 2 – Companies Regulations	These regulations provide for the establishment and operation of limited liability companies and non-QFC company branches.
No. 3 – Anti Money Laundering Regulations	These regulations set out the requirements for authorised firms and other entities operating in the QFC in respect of liability for, and procedures to prevent, money laundering.
No. 4 – Contract Regulations	These regulations set out a codified contract law and contain provisions dealing with the nature and formation of contracts, contractual validity, interpretation and content, agency, performance, non-performance, remedies, termination, transfer of rights and obligations and rights of third parties.
No. 5 – Insolvency Regulations	These regulations provide for the insolvency regime which is applicable to companies and limited liability partnerships operating in the QFC but not to individuals or partnerships.
No. 6 – Data Protection Regulations	These regulations set out the framework for the control and protection of personal data by persons operating in the QFC.
No. 7 – Limited Liability Partnership Regulations	These regulations set out the legal framework for the incorporation of legal entities in the QFC as limited liability partnerships.
No. 8 – Arbitration Regulations	These regulations provide for a framework for the resolution of civil and commercial disputes by arbitration within the QFC and permit the enforcement of domestic and foreign arbitral awards.

Rules	Description
Companies Rules (COMP)	These rules provide further detail in respect of the operation of the Companies Regulations and should be read in conjunction with them.
Data Protection Rules (DATA)	These rules provide further detail in respect of the Data Protection Regulations and should be read in conjunction with them.

Appendix 4
QFC Legislation
(Cont)

Rulebook	Description
General Rulebook (GENE)	This contains provisions of a general nature applying to all authorised firms.
Principles Rulebook (PRIN)	This is a general statement of the standards expected of firms authorised in the QFC in accordance with Part 5 of the FSR (authorised firms). They apply to the conduct of business, operations and financial standing of authorised firms.
Controls Rulebook (CTRL)	This contains provisions to ensure that all authorised firms have in place effective internal controls and appropriate arrangements for senior management.
Individuals Rulebook (INDI)	This contains provisions that further clarify the statements and requirements set out in the FSR relating to the performance of controlled functions (those critical roles identified in INDI) by individuals authorised to perform these roles under Article 41 of the FSR.
Anti Money Laundering Rulebook (AMLR)	This contains provisions extending and clarifying the provisions in the Anti Money Laundering Regulations.
Conduct of Business (COND)	This contains provisions relating to the conduct of business by authorised firms, including, but not limited to, financial communications, conflicts and material interests, client classification, advising and selling, and insurance and insurance mediation business.
Assets Rulebook (ASET)	This contains provisions relating to the proper safeguarding of money and other assets belonging to clients by authorised firms.
Islamic Finance Rulebook (ISFI)	This contains provisions relating to the proper regulation of Islamic Financial Business.
Interim Prudential – Investment, Insurance Mediation and Banking Business Rulebook (PIIB)	This contains provisions relating to the detailed financial resources and prudential standards that apply to authorised firms (other than insurers). This rulebook will be subject to review in light of ongoing international developments, including the Basel II accord.
Interpretation and Application Rulebook (INAP)	This contains provisions to assist in the interpretation and application of the rules comprised in other rulebooks (including a glossary of defined terms).

Appendix 5
QFC Publications

Consultation Papers

We publish for public consultation any legislation which we propose to enact. We also publish consultation papers relating to making or implementing regulatory policy. During 2005, we published the following consultation papers, each of which can be obtained on our website at www.qfcra.com under "Publications" and "Consultation Papers":

Consultation Paper No. 1
27 July 2005

QFC Regulatory Authority Rulebook on Islamic Finance

Consultation Paper No. 2
29 August 2005

QFC Regulatory Authority Principles Rulebook

Consultation Paper No. 3
29 August 2005

QFC Regulatory Authority Individuals Rulebook

Consultation Paper No. 4
29 August 2005

QFC Regulatory Authority Controls Rulebook

Consultation Paper No. 5
29 August 2005

QFC Regulatory Authority Anti Money Laundering Rulebook

Consultation Paper No. 6
29 August 2005

QFC Regulatory Authority Interim Prudential - Investment, Insurance Mediation and Banking Business Rulebook

Consultation Paper No. 7
26 September 2005

QFC Regulatory Authority General Rulebook

Consultation Paper No. 8
26 September 2005

QFC Regulatory Authority Assets Rulebook

Consultation Paper No. 9
26 September 2005

QFC Regulatory Authority Conduct of Business Rulebook

Guides

During 2005, we published the following Guides, each of which can be found on our website at www.qfcra.com under "Publications" and "Guides":

Introducing the Qatar Financial Centre Regulatory Authority

This Guide sets out the objectives, functions and powers of the QFC Regulatory Authority to give potential applicant firms a clear picture of the regulatory environment in which they will operate as authorised firms.

Guide to the Application Process

This is a Guide to application forms for licences and authorisation. It covers the process of application in respect of both regulated and non-regulated activities, and also deals with incorporating a business in the QFC.

Guide to the Financial Services Regulations

The QFC Law provides a framework for regulating, authorising and supervising banking, financial and insurance-related businesses carried on in or from the QFC by the Regulatory Authority. The FSR are the primary regulations which define the management, objectives, duties, functions, powers and constitution of the Regulatory Authority. The FSR are issued with the consent of the Council of Ministers and may only be varied or revoked with the consent of the Council of Ministers. The Guide to the Financial Services Regulations is an outline of the content of the FSR.

Guide to our Approach to Regulation

This Guide provides information about two important regulatory processes adopted by us – the risk-based approach to the supervision of authorised firms and the enforcement process for the investigation of contraventions of QFC Law, regulations and rules, and the disciplining of those responsible.

Policy Statements

During 2005, we published the following Policy Statement, full details of which can be found on our website at www.qfcra.com under "Publications" and "Policy Statements":

Policy Statement No. 1
QFC Firms doing business in the State

Pursuant to our authority in Schedule 1, Paragraph 17.2 of the QFC Law, we issued Policy Statement No. 1 on the meaning and effect of Article 18(3) of that Law. Policy Statement No. 1 clarifies the business that firms licensed by the QFC Authority or authorised by us can conduct in the State of Qatar but outside the QFC, and the manner in which such business must be conducted in order to ensure that any State laws, rules or regulations that would otherwise apply to them do not.

Quarterly Activity Summaries

Pursuant to Article 18(2) of the FSR, we publish a quarterly summary of QFC activities, which includes regulations issued under the QFC Law and rules issued both in draft form and final form during the preceding quarter. Full details of our Quarterly Activity Summaries can be found on our website at www.qfcra.com under "Publications" and "Quartely Activity Summaries".

Auditors' Report to the Board of Directors of Qatar Financial Centre Regulatory Authority

We have audited the accompanying balance sheet of Qatar Financial Centre Regulatory Authority (the "Authority") as of 31 December 2005, and the related statement of activities and cash flows for the period from 1 May 2005 to 31 December 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as of 31 December 2005 and the results of its activities and its cash flows for the period from 1 May 2005 to 31 December 2005 in accordance with International Financial Reporting Standards and the Articles 14 and 15 of Qatar Financial Centre Law No. 7 of 2005.

Ernst & Young

Date: 18 April 2006

Doha

Statement of Activities
Period ended 31 December 2005

	Notes	1 May 2005 to 31 December 2005 US$'000
INCOME		
Fee income		220
Other income	4	12
TOTAL INCOME		232
EXPENSES		
Staff costs		(3,158)
General and administration expenses	5	(392)
Board expenses		(279)
TOTAL EXPENSES		(3,829)
EXCESS OF EXPENSES OVER INCOME FOR THE PERIOD BEFORE APPROPRIATIONS		(3,597)
Appropriations from the Government	2	5,890
RETAINED SURPLUS FOR THE PERIOD	9	2,293

The attached notes 1 to 15 form part of these financial statements.

Balance Sheet
At 31 December 2005

	Notes	2005 US$'000
ASSETS		
Non-current assets		
Plant and equipment	6	500
Current assets		
Accounts receivable and prepayments	7	989
Bank balances and cash	8	1,667
		2,656
TOTAL ASSETS		3,156
EQUITY AND LIABILITIES		
Equity		
Retained surplus	2 & 9	2,293
Total equity		2,293
Current liabilities		
Accounts payable and accruals	10	733
Employees' annual gratuity	11	130
		863
TOTAL EQUITY AND LIABILITIES		3,156

Phillip Thorpe

Chairman & Chief Executive Officer

Jay Perumal

Chief Financial Officer

The attached notes 1 to 15 form part of these financial statements.

Statement of Cash Flows
Period ended 31 December 2005

	1 May 2005 to 31 December 2005 US$'000
OPERATING ACTIVITIES	
Excess of expenses over income	(3,597)
Appropriations from the Government	5,890
Adjustments for:	
Depreciation	40
Employees' annual gratuity	130
Operating profit before working capital changes:	2,463
Receivables and prepayments	(989)
Payables and accruals	733
Net cash from operating activities	2,207
INVESTING ACTIVITIES	
Purchase of plant and equipment	(540)
Net cash used in investing activities	(540)
INCREASE IN CASH AND CASH EQUIVALENTS	1,667
Cash and cash equivalents at the beginning of the period	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,667

The attached notes 1 to 15 form part of these financial statements.

Notes to the Financial Statements
At 31 December 2005

1. Corporate information and principal activities

The Qatar Financial Centre (QFC) was established by the State of Qatar pursuant to the Law No. 7 of 2005 to attract international financial institutions and multinational corporations to establish business in international banking, financial services, insurance, corporate head office functions and related activities within Qatar.

The Qatar Financial Centre is organised into two authorities, a commercial authority and a regulator – the QFC Authority and the QFC Regulatory Authority respectively. Both the bodies are independent of each other and from the Government of Qatar.

Qatar Financial Centre Regulatory Authority (the "QFCRA" or the "Authority") regulates, licenses and supervises financial services and other firms that conduct activities in, or from, the Qatar Financial Centre.

The financial statements report transactions incurred in the period 1 May 2005 to 31 December 2005. Pre incorporation expenses incurred in the period up to 1 May 2005 have been recorded as general and administration expenses. These financial statements only relate to the activities, assets and liabilities of QFCRA and do not extend to include any other bodies of QFC.

The financial statements of Qatar Financial Centre Regulatory Authority for the period ended 31 December 2005 were authorised for issue on 18 April 2006.

2. Economic dependency

The Authority is owned by the Government of the State of Qatar and is dependent on appropriations from the Government to fund its operating and capital expenditure.

The Government in 2005 provided the Authority with appropriations amounting to US$ 5,890,000. As the Authority has the right to retain any excess appropriations provided by the Government, these appropriations have been treated as part of retained surplus.

3. Basis of preparation and summary of significant accounting policies

3.1 Basis of preparation

The financial statements are prepared under the historical cost convention. The financial statements are presented in US Dollars and all values are rounded to the nearest thousand (US$'000) except where otherwise indicated.

The financial statements have been prepared in accordance with International Financial Reporting Standards issued, or adopted by the International Accounting Standards Board (IASB).

3.2 IASB Standards and Interpretations issued but not adopted

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Authority:

- IFRIC 4, Determining Whether an Arrangement Contains a Lease
- IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Authority expects that the adoption of the pronouncements listed above will have no impact on the Authority's financial statements in the period of initial application.

3.3 Summary of significant accounting policies

Revenue recognition

Fee income

Fee income arising on application processing is non-refundable and accordingly is recognised as income when received.

Annual license fees are recognised as income on a straight line basis over the period to which they relate.

Interest income

Interest income is recognised on an accrual basis.

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Capital expenditure of less than QR 1,000 (US$ 275) in value is expensed as incurred.

Depreciation is calculated on a straight line basis over the estimated useful lives of assets as follows:

Furniture and fixtures	3 years
Office equipment	3 years
Leasehold improvements	Lesser of 3 years or lease period
Motor vehicles	3 years

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount

Expenditure incurred to replace a component of an item of plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of plant and equipment. All other expenditure is recognised in the statement of activities as the expense is incurred.

Expenditure incurred on assets under construction or installation is treated as capital work in progress and will be transferred to tangible and intangible asset categories when they are ready for their intended use.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of activities. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value;

(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Fees receivable

Fees receivable are stated net of provisions for amounts estimated to be non-collectable. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Authority has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Employees' annual gratuity

The Authority provides annual gratuity payments to its employees. The entitlement to these benefits is based upon the employees' salary subject to the completion of a minimum service period and is payable on completion of each year of employment. Payment of the annual gratuity on resignation or termination of an employee is at the sole discretion of the Authority. The expected costs of these benefits are accrued over the period of entitlement.

Foreign currencies

The functional currency of the Authority is Qatari Riyals. However, these financial statements have been presented in United States Dollars in accordance with industry practice. The balances in Qatari Riyals have been translated into US Dollars at the exchange rate of 3.645.

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of activities. Non-monetary items measured in terms of historical costs in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Notes to the Financial Statements
At 31 December 2005

(Cont)

4. Other income

	1 May 2005 to 31 December 2005 US$'000
Bank interest	11
Foreign exchange gains	1
	12

5. General and administration expenses

	1 May 2005 to 31 December 2005 US$'000
Consultancy and professional fees	165
Business travel	80
Depreciation	40
Other expenses	107
	392

6. Plant and Equipment

	Furniture and fixtures US$'000	Office Equipment US$'000	Leasehold improvements US$'000	Motor Vehicles US$'000	Capital work in progress US$'000	Total US$'000
Cost:						
At 1 May 2005	-	-	-	-	-	-
Additions	120	84	72	27	237	540
At 31 December 2005	120	84	72	27	237	540
Depreciation:						
At 1 May 2005	-	-	-	-	-	-
Depreciation charge for the period	12	10	12	6	-	40
At 31 December 2005	12	10	12	6	-	40
Net carrying amount:						
At 31 December 2005	108	74	60	21	237	500

The capital work in progress consists of cost incurred for the web site development and computer systems which are under installation.

7. Accounts receivable and prepayments

	2005 US$'000
Amounts due from Qatar Financial Centre Authority	582
Prepaid expenses	387
Other receivables	19
Fees receivables	1
	989

Notes to the Financial Statements
At 31 December 2005
(Cont)

8. Bank balances and cash
Included in bank balances and cash is a bank deposit of QR 3,000,000 (US$ 824,176) with a commercial bank in Qatar. It is denominated in Qatari Riyals, short term in nature and carries an effective interest rate of 4.5%.

9. Retained surplus
In accordance with the Article 14 of the Qatar Financial Centre Law No. 7 of 2005, the Board of Directors have resolved to retain the excess of appropriations from the Government over the excess of expenditure over income for the period. This surplus can be used for any activities of the Authority.

The movements in the retained surplus are as follows:

	2005 US$'000
Balance at 1 May 2005	–
Surplus for the period	2,293
Balance at 31 December 2005	2,293

10. Accounts payable and accruals

	2005 US$'000
Trade payables	482
Accrued expenses	205
Advances from customers	44
Other payables	2
	733

11. Employees' annual gratuity
The movements in the provision recognised in the balance sheet are as follows:

	2005 US$'000
Provision as at 1 May 2005	–
Provided during the period	130
End of service benefits paid	–
Provision as at 31 December 2005	130

12. Capital Commitments

Estimated capital expenditure contracted for at the balance sheet date but not provided for:

	2005 US$'000
Office equipment	40

13. Related party disclosures

Related parties represent QFC bodies, associated government department and ministries, directors and key management personnel of the Authority, and bodies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Authority's management.

Related party transactions

Transactions with related parties included in the statement of activities are as follows:

	1 May 2005 to 31 December 2005 US$'000
Appropriation from the Government (Note 2)	5,890

Assistance from Qatar Financial Centre Authority

During 2004, the Qatar Financial Centre Authority has provided office premises to the Authority at free of cost.

These office premises are used for Authority's own activities.

Compensation of key management personnel

The remuneration of key management personnel during the period were as follows:

	2005 US$'000
Short-term benefits and employees' end of service benefits	1,605

Related party balances

Balances with related parties included in the balance sheet are as follows:

	2005 US$'000
Amounts due from Qatar Financial Centre Authority	582

Notes to the Financial Statements
At 31 December 2005

(Cont)

14. Financial risk management

Interest rate risk

The Authority is exposed to interest rate risk on its interest bearing assets (bank deposits).

Credit risk

The Authority limits its credit risk by monitoring and collecting its fees in advance of providing services.

The Authority provides its services to banks and other institutions in the Qatar Financial Centre.

Cash is placed with local banks with good credit ratings. With the exception of certain non-interest bearing bank balances, all other bank balances carry interest at the prevailing market rates.

Liquidity risk

The Authority limits its liquidity risk by securing appropriations from the Government to finance its operating and capital expenditure. The Authority's terms of services require amounts to be paid within 30 days of the date of service.

Currency risk

The Authority is not exposed to significant currency risk. As the Qatar Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

15. Fair values of financial instruments

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances and receivables. Financial liabilities consist of payables, and accrued expenses.

The fair values of financial instruments are not materially different from their carrying values.

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Regulatory Authority

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