qatar
FINANCIAL CENTRE
REGULATORY AUTHORITY

Qatar Financial Centre Regulatory Authority

Annual Report 2006

Contents

Introduction

This is the first full year's annual report of the Qatar Financial Centre Regulatory Authority (the QFCRA). It outlines the work undertaken by the QFCRA during the 12 months to 31 December 2006 (the reporting period).

The QFC was established in May 2005 to be a world class onshore financial market.

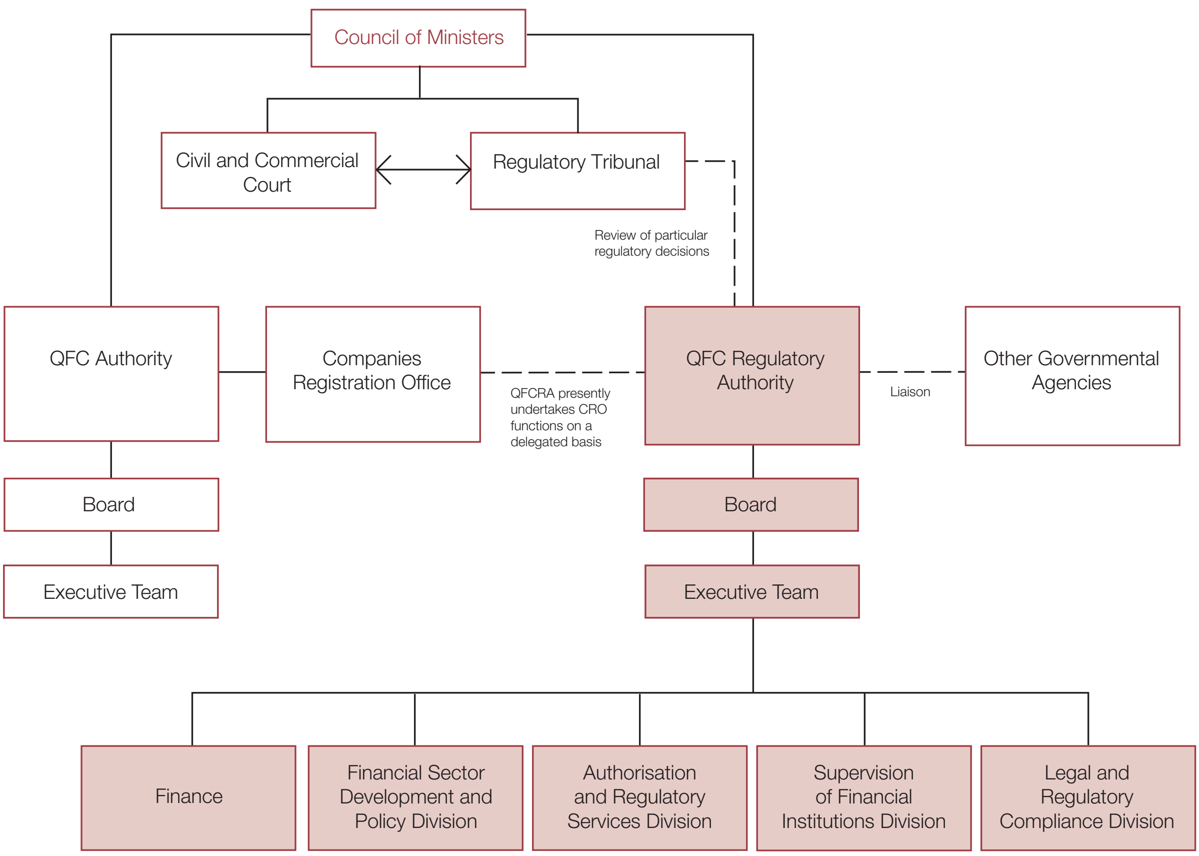
The QFCRA is the single regulator for firms carrying out financial services in or from the QFC and has a broad range of regulatory powers. These powers are set out in the QFC Law and in the Financial Services Regulations (the FSR).

The QFCRA is an independent body which reports to the Council of Ministers. Its structure is explained in "Structure of the QFCRA".

The QFC Law also provides for the establishment of an independent judiciary, which was duly inaugurated in February 2007. The Council of Ministers of Qatar formally appointed Lord Woolf as President of the QFC Civil and Commercial Court and William Blair QC as Chairman of the QFC Regulatory Tribunal. The Council of Ministers has also appointed six other judges to the Court and two Members of the Regulatory Tribunal. The role and structure of the judiciary is explained in "The QFC's Independent Judiciary".

The structure of the QFC and the QFCRA is set out below.

The QFC Structure
Diagram 01



Chairman's Statement

Phillip Thorpe, Chairman and CEO

"The starting point is Qatar's economy, which is growing at more than 25% per annum, with spending on projects over the next five years expected to exceed US$130 billion."

The QFC – Building a new financial centre in the Gulf

At the end of our first full year of operation, I am delighted to report that the QFCRA is now firmly established. We have built a regulatory environment within the QFC which offers the confidence and stability required of a dynamic, attractive international financial centre.

This is no time, however, to rest on our laurels and there is much still to do.

It is especially pleasing to observe that the QFC concept clearly appeals to so many financial services institutions, as evidenced by the healthy number of firms now authorised, and an equally healthy flow of new applicants.

These early signs of success have not arrived by accident and whilst the express growth in Qatar's economy presents obvious attractions to potential investors, the presence of a high quality legal and regulatory framework has undoubtedly contributed, in no small way, to making Qatar an attractive proposition.

Building confidence

Confidence is the lifeblood of financial services businesses and, as regulators, part of our duty is to create and sustain a culture of confidence.

Creating such a culture demands experience and credibility. In a relatively short time, through a strong recruitment policy and the implementation of internationally recognised standards, we have been able to attract world class regulators and implement gold standard regulatory practices.

I am determined that, as the QFC grows and Qatar's burgeoning economy continues to attract investors, we will maintain and develop that confidence and stability.

Since the launch of the QFC, we have observed that, in order to maintain the momentum and the healthy stream of applicants, it is essential to clearly articulate the 'offerings' of the financial centre.

In this, we will continue to support our colleagues at the QFCA and, for our part, ensure a transparent and robust legal and regulatory framework.

The QFC Proposition

To fully understand the QFC concept it is necessary to understand something of Qatar. The starting point is Qatar's economy, which is growing at more than 25% per annum, with spending on projects over the next five years expected to exceed US$130 billion. The Government is focusing on infrastructure and industrial development, allied to major nation building investment in healthcare and education.

This remarkable rate of growth calls for strong financial services but organic growth of the domestic financial sector could not be expected to meet the demands of an economy that doubles in size every four to five years.

In considering the structure for a new financial centre, the Council of Ministers realised that Qatar's long-term interests lay in the ability of the QFC to demonstrate high standards and to attract global recognition.

Qatar wishes to welcome both the global and regional players able to meet those high standards, contribute to the economy and augment the intellectual capital of the sector.

Corporate governance

Inherent in this thinking is the understanding that the region does not need another market with questionable corporate governance standards or doubtful transparency. Such flaws do nothing to attract long-term sustainable foreign investment or provide the required basis for growth. In short, such uncertainty would harm investor confidence in the whole region.

The Council of Ministers determined that in order to attract international financial services firms, it was essential to offer an English language, common law regulatory framework adhering to the highest standards. The QFC was conceived as the means to deliver such a framework, providing rapid access to new financial services and products and, at the same time, acting as a catalyst for change.

That the Government of Qatar decided to establish the Centre should come as no great surprise to those watching the economies in the region, and particularly the growth in Qatar itself. Many years of careful planning and investment in E&P and petrochemical industries are now yielding mighty dividends but this measured approach continues with a growing focus on diversification and developing further long-term investments.

These efforts have been rewarded with a strong performance and commendable growth, but also with market recognition of the quality of Qatar's economic management. International rating agencies have upgraded their assessments of Qatar, placing Qatar at the top of the Gulf ratings league table.

QFC – the legal and regulatory template

The QFC and its key entities were established by primary Qatari statute, to provide a clear and robust constitution for the centre. In contrast to the proposition pursued in other regional centres, QFC authorised entities can operate within the State of Qatar, and do business with Qatari corporations and individuals.

A full suite of civil and commercial laws has been implemented (including employment law and immigration law), with drafting based on the laws of leading common law jurisdictions. A separate and independent QFC Civil and Commercial Court has been established to adjudicate between parties relying on those laws.

The QFCRA was designed to be fully independent, with its own international Board drawn from leading regulatory bodies, and the Board in turn reports directly to Qatar's Council of Ministers.

Appointments to the Board are by the Council, and budgetary provision is from the Council. The QFCRA has been given powers in primary statute to cooperate fully with its international counterparts and enter into information sharing arrangements for the purposes of supervision and enforcement.

Chairman's Statement

(continued)

A principles-based regime

The QFCRA was established as an integrated regulator, providing supervision of all forms of financial services activity. The QFCRA operates a principles-based regime, and is risk-focused. Much of the operation of the QFCRA, and its rulebooks, is based on the approach of the UK's Financial Services Authority. Entry into the QFC regime is open to any institution able to demonstrate the ability to meet and maintain the standards for admission. While these standards are very familiar to firms operating in London, New York, or Hong Kong, they represent a step change for many regional and domestic institutions. The law establishing the QFC imposes no restrictions on the type of financial services business pursued by QFC authorised entities. Wholesale or retail, banking, insurance, asset management, securities – all can be undertaken, provided the QFCRA has put in place an appropriate regulatory regime.

QFC – the lessons so far

The last year of activity has confirmed the validity of the QFC concept and illustrated the potential for further growth in financial services in Qatar and the region. It has also been a period of valuable lessons for us: at the practical level we have had to grapple with the consequences of a fast-growing economy – recruiting staff, finding premises and housing, school places for a recruit's children and the many other day-to-day challenges are particularly testing in a country where demand frequently outstrips supply.

We have also learnt a few regulatory lessons: the success of the QFC has created a need for greater coordination with domestic regulatory institutions, and an extensive array of international Memoranda of Understanding. Success has also highlighted domestic differences.

In a relatively small jurisdiction it is inevitable that questions arise as to why there are now two parallel financial services regulatory regimes and while they can and do coexist without difficulty, we do expect the Government to return to this issue in due course.

We have also been pleased to find that our commitment to high standards is often identified as a key success factor. However it is clear that Qatar is judged as a whole in this regard. The political commitment in Qatar to reform, transparency, and good governance has been a major positive contributor to the favourable analysis we have had from financial institutions.

In a similar vein, there is a constant theme from applicant institutions that the rule of law is paramount. A financial centre operating in an otherwise unreliable legal environment will fail to generate confidence in the longer term. In Qatar we are very fortunate to have a highly respected body of international jurists committed to developing the laws and court for the new QFC legal environment.

Developments in the Gulf Region

Even with such an exemplary structure the task of creating confidence in a new legal and regulatory environment can be difficult. The Gulf and the wider MENA region have to cope with some unfortunate, and sometimes unfair, 'baggage'. Business practices are often suspect, corporate governance standards are seen as questionable, money laundering and terrorist financing are all too glibly connected to the region regardless of evidence. Changing these perceptions takes time and energy.

Today, regional and global investors are increasingly intolerant of questionable standards of governance, a lack of transparency, and unreasonable prohibitions or inhibitions on investment, or the repatriation of funds. It is very encouraging to see governments in many jurisdictions in the region responding to these pressures and we are starting to see some positive results as a consequence; corporate governance is increasingly an issue of discussion, market reforms are being undertaken, and there is a growing awareness of the rights and protections that should be afforded to investors.

"With the fast-growing economies of the region and increasing needs for efficient access to capital and investment opportunities, there is a real and pressing need for a strong, reliable capital market for the region."

Inevitably one question that arises is the impact of competition between these various reforming jurisdictions. The good news is that competition is not only a healthy development for the region, but that in the short term it is unlikely to be a game with winners and losers. With so many of the region's economies expanding, with high levels of liquidity, and with a growing demand for products and services from an increasingly sophisticated investing population, there is ample opportunity for existing and newly-established markets to see significant growth, and not at the expense of each other.

There is an underlying rationale for this optimism. While the economic outlook for Qatar is very positive, the position of other regional economies is also strong. This is most easily illustrated with some projected capital flows for the region. If proven oil reserves were to sell for US$50 a barrel, then US$13 trillion is likely to be attributable to Saudi Arabia, US$24 trillion to the GCC states, and in total, some US$38.5 trillion to OPEC Middle East countries.

The case for a strong, reliable capital market

While this economic 'good news' story may continue to inspire and fund new financial centre initiatives, the question remains whether all of the reforming jurisdictions can expect equal levels of success in the longer term. As a general rule of thumb business will eventually prefer the environment where certainty is greatest, prices are keenest and liquidity is evident. At this time none of the new or existing Gulf markets has an overwhelming advantage in these areas.

Particularly in respect of the securities markets – there are no debt markets to speak of – liquidity can vary hugely on a daily basis and transparency is not widely evident. The price discovery process is also often open to question, as information is distributed in partisan or inefficient ways. With the fast growing economies of the region and increasing needs for efficient access to capital and investment opportunities, there is a real and pressing need for a strong, reliable capital market for the region.

Qatar, with its commitment to high standards and the rule of law, and with its robust economic model and vigorous underlying industrial base, is well placed to provide the environment for such a capital market to be established and flourish. Through the QFC, Qatar is now actively looking to bring to the region the intellectual capital and experience, the institutions, and the capacity that can, in the longer run, support new equity and debt issues and the operation of reliable and transparent secondary markets in those products.

The year ahead promises to be a very interesting one for furthering these aspirations.

Phillip Thorpe
Chairman and CEO

Authorisation and Regulatory Services

Responsibilities

The principal responsibility of the Authorisation and Regulatory Services Division (Authorisation Division) is to act as the 'gatekeeper' to the QFC in respect of firms seeking authorisation to carry on regulated activities in or from the QFC.

The Authorisation Division also administers the application process on behalf of the QFC Authority in respect of the firms seeking a licence to carry on non-regulated activities in or from the QFC, as well as conducting approved auditor assessments on behalf of the Companies Registration Office (CRO).

During the application process the Division also acts as the interface between applicants and the CRO in respect of their registration or incorporation in the QFC.

Staff

The structure of the Division grew steadily from three Associate Directors and a case Officer in January, to a complement of 11 staff during the course of the year.

Licences granted to date

A total of 40 new Licence applications were received by the Division over the course of the year from institutions seeking to establish operations in the QFC. By the end of the year, licences had been issued to 33 firms. They range from global leaders to major regional firms and encompass a wide variety of financial services.

The Division has observed an accelerated pace of licence applications lodged during the year. As at 31 December 2006 it was working on a case load of 17 applications. On current trends the case load is likely to increase significantly over the course of 2007.

The Division has continued to evolve its systems and procedures in order to keep pace with the increased volume of applications enabling it to maintain standards while also reducing the average processing time for applications.

Applicant Firms

In processing and assessing applications from firms seeking authorisation, the Division is responsible for carrying out a risk assessment and making recommendations on the applications. During the year 15 firms were authorised to carry on regulated activities, bringing the total number of authorised firms in the QFC to 17 by year end.
See Appendix 1.

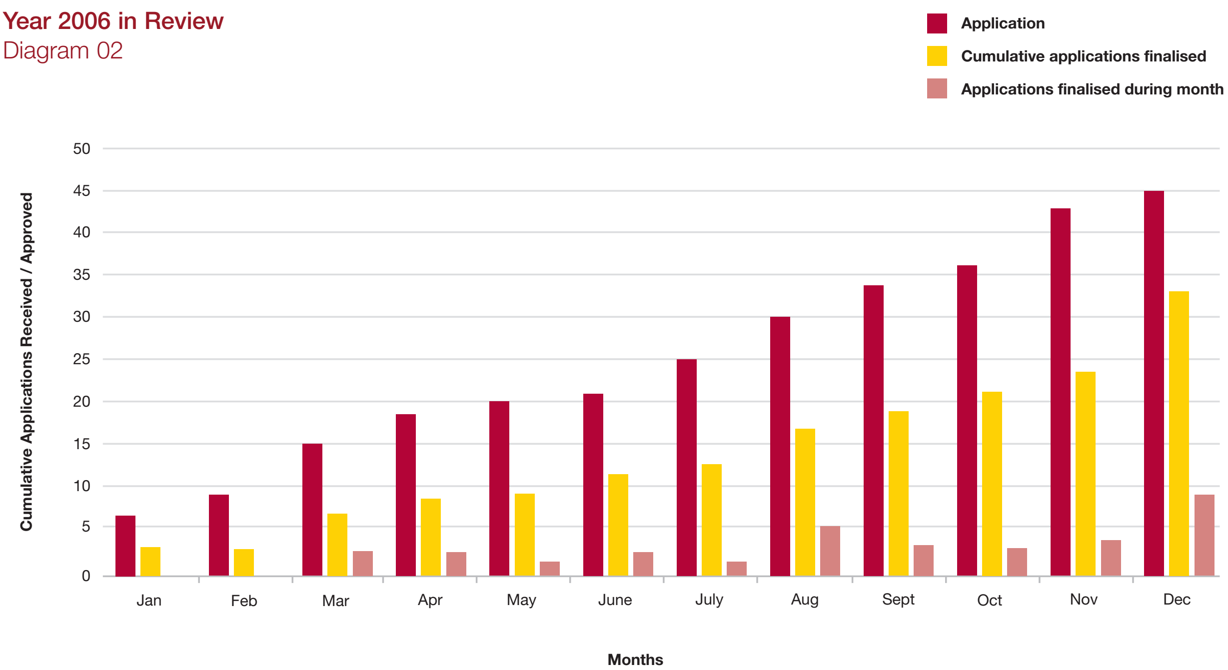
Individuals and controlled functions

This Division is also responsible for processing and assessing applications from individuals proposed to perform certain controlled functions on behalf of applicant firms and authorised firms. Such individuals are subject to scrutiny against a number of criteria to determine 'fitness and propriety'.

The Authorisation Division expects firms to be able to demonstrate that they have undertaken their own due diligence and assessment of individuals.

As the number of applicants and the number of firms

Year 2006 in Review
Diagram 02



Matters 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.

Box 01

authorised has grown, work in this area has grown exponentially. The Division approved applications in relation to 78 individuals in respect of the performance of 111 controlled functions during the year. This included both new staff appointed by applicant firms, and changes to the carrying out of controlled functions within authorised firms as their operations expanded. The total represents a fivefold year-on-year increase on the previous reporting period.

Approved Auditors

During 2006 five firms were approved and added to the Register of Approved Auditors.

They were:

- BDO Jawad Habib & Co
- Deloitte and Touche (M.E.)
- Ernst & Young
- KPMG
- PricewaterhouseCoopers

Enquiries

The Authorisation Division acts as the primary point of contact for application enquiries and for all aspects of the QFC regulatory regime, including the laws, regulations and rules. It acts as the regulatory liaison for the QFC Authority, in all of its initial consultations with prospective applicants seeking to establish in the QFC.

The Authorisation Division receives enquiries from many sources, not only potential applicants but also their professional advisers and other interested parties such as trade delegations. It seeks to promote a greater understanding of the rulebooks and the wider QFC regulations, and to highlight relevant requirements.

In aggregate the Division has dealt with over 450 enquiries since it was established. It continues to maintain an open dialogue with potential applicants and their professional advisers as the rulebooks and regulations expand to provide for an ever-increasing range of financial services.

Streamlined Application Process

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

Firms

The first formal step in the application process for an applicant firm is to submit an application form (Form Q02) which describes the nature of the services to be provided and products involved, together with key information about the firm itself.

Over the course of the year the Division has implemented an initiative to meet with applicants and discuss their proposals before an application is lodged, in order to provide guidance on any critical areas which will need to be addressed. Subject to a successful informal dialogue, applicants may be invited to lodge a draft application to allow the Division to offer informal constructive comment prior to the application being lodged in final form.

Authorisation and Regulatory Services

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Upon receipt of the final application, the Authorisation Division then tests whether the proposed implementation of a firm's business plan is likely to comply with the relevant aspects of its rules. In formulating this assessment, the Authorisation Division carefully considers the 'fitness and propriety' of the applicant based on a number of factors, set out below.

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 02

Additionally, the Authorisation Division considers the risks posed by an applicant and its intended activities against the QFCRA's 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 the regulatory framework and standards.

An applicant must also demonstrate to the satisfaction of the 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 under a delegated power to the Chairman and CEO of the QFCRA.

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. Nevertheless, applicants are required to demonstrate an ability to meet certain threshold conditions including providing evidence of professional standing and capacity to perform the proposed professional services, together with fitness and propriety. If considered appropriate, the Authorisation Division may need on occasion to conduct a more extensive review.

Speed of process

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

For well-prepared applicants who are familiar with all of QFCRA applicable rules and who have submitted comprehensive applications, QFCRA have a publicly stated goal to process such applications within three months. Upon receipt of a formal application we will agree on a project plan and delivery dates to manage more closely the application process from both perspectives. The division will continue to monitor performance against targets and in the year ahead it will be introducing further initiatives to ensure that we process applications as expeditiously as possible.

The Year Ahead

The Authorisation Division anticipates a continuing steady increase in the pace of receipt of licence applications over the coming year. Benefiting from a larger complement of staff and established processes, the Division has initiated a number of projects for the coming year to ensure that it continues to effectively address its primary objectives namely:

- Contributing to the work of the QFCRA and the QFCA in continually developing standards for the authorisation and licensing of entities;
- Promoting these standards with the applicants and generally within the marketplace;
- Delivering excellence in terms of the process for authorising firms and individuals in a smooth, efficient, expeditious and user-friendly manner.

The first of these initiatives, an application form redesign project, commenced at the end of 2006 to be ready for publication in early 2007. Factoring in the lessons learned over the first 18 months of operation, the new application pack will aim to provide applicant firms with detailed and structured guidance and should enable them to embark on the process fully informed at the outset.

The publication of the new application will be followed by a training initiative rolled out later in 2007 to enable professional advisers to familiarise themselves with the new form. This should enable them to assist their clients better by engendering immediate familiarity with the new form, its guidance and the QFCRA's requirements.

A review is also underway to determine where additional efficiency can be extracted from the application approval process, whilst continuing to ensure that all applicants are treated consistently and fairly and meeting the highest regulatory standards. Changes will be made to improve the process.

The project planning initiative which started in 2006 will be formalised and the Division will seek to manage performance more closely against agreed deliverables within the Division and on the part of the applicant. This should assist in ensuring that target timeframes are met or managed and that the available resources of the Division and within the firm are utilised to maximum advantage.

The Division expects to continue its expansion during 2007 in order to continue to meet its objectives whilst dealing with the anticipated increase in applications.

"The Authorisation Division anticipates a continuing steady increase in the pace of receipt of licence applications over the coming year."

Legal and Regulatory Compliance

The Legal and Regulatory Compliance Division (LRC) of the QFCRA performs three roles – enforcement, international relations and operational legal support.

The tangible achievements for the LRC Division during 2006 arose primarily from its international relations function, through the development of cooperative relationships with a number of foreign regulators. The Division has also focused on developing processes to ensure that enforcement activity undertaken by the QFCRA in the future is transparent and efficient.

As at 31 December 2006, this Division consisted of one Managing Director, four lawyers and one secretary.

International Relations

In its international relations role, the LRC Division, on behalf of the QFCRA, develops formal and informal relationships with other regulators and agencies where there is an identifiable need (such as to ensure the effective exchange of information and supervision of QFC firms). During the reporting period, the QFCRA has entered into written cooperative arrangements (by way of memoranda of understanding or exchange of letters) with a number of international regulators, including:

- Jersey Financial Services Commission;
- Central Bank of Bahrain (formerly Bahrain Monetary Agency); and
- Banking Control Commission of Lebanon.

Further, since 1 January 2007, the QFCRA has entered into written cooperative relationships with:

- Bank Negara Malaysia;
- State of Delaware Department of Insurance; and
- Office of the Comptroller of the Currency (USA).

We also continue to have discussions, on an ongoing basis, with a number of other international regulators with a view to establishing formal cooperative relations during 2007 and beyond.

The LRC Division has also overseen the development of a process to review the regulatory environment of foreign jurisdictions. These reviews examine the legal and institutional frameworks of a particular jurisdiction, as well as its general observance of international standards including the Basel Core Principles, IAIS Core Principles and IOSCO Core Principles. The purpose of conducting such reviews is to assist the QFCRA in understanding the regulatory environment in which parent companies of applicant firms are operating, or in which custodians may be located. It further assists in understanding jurisdictions with which the QFCRA is proposing to develop cooperative relations.

LRC developed, on behalf of the QFCRA, a cooperative relationship with the Qatar Financial Information Unit. Such a relationship is essential to ensure the effective operation of the QFC Anti Money Laundering framework.

The Division also coordinated the QFCRA's response to the International Monetary Fund's Anti Money Laundering Questionnaire in preparation for the forthcoming FSAP assessment of Qatar.

Enforcement

No formal investigations or enforcement activities were undertaken during the reporting period. However the LRC Division developed an effective enforcement process for the QFCRA, which was approved by the QFCRA Board. This included the establishment of an Enforcement Committee. The Enforcement Committee members are the Chief Executive Officer and Managing Directors of each Division. Its role is to review all enforcement matters and make recommendations to the Chief Executive Officer or Board as appropriate.

LRC is also in the process of drafting an Enforcement Rulebook for publication in 2007.

Operational Legal Support

The LRC Division organised and hosted the first QFC Financial Services Legal Forum, which provided an opportunity for financial services lawyers in Qatar to discuss developments in financial services law. Presentations were given by staff at the QFCRA which provided the basis for an exchange of views on relevant issues. It is intended to host such a forum on a regular basis.

LRC also contributed to the development of a legal opinions database which provides for a central reference point and the secure storage of QFCRA legal opinions.

Supervision

Staff

Supervision continued to recruit experienced staff. As of 31 December 2006, the Division consisted of one Managing Director, one Senior Director, seven Associate Directors, two Senior Managers and one Manager, compared with a headcount of six a year earlier.

The Division developed separate supervisory teams with specialist knowledge to cover different industry sectors including banking, asset management and insurance. A markets team was established early in 2007.

Supervision of firms

As of 31 December 2006, the Supervision Division was responsible for 17 authorised firms. It also had regulatory oversight in respect of financial crime for 10 non-regulated licensed professional firms. A year earlier, at 31 December 2005, there were only two authorised firms.

The Division has maintained a continuous cycle of risk management which has enabled it to undertake the risk assessment and classification of firms using a standardised methodology.

In supervising these firms, the Division monitors the potential risks each firm poses to the QFCRA regulatory objectives and applies a specific supervision approach tailored to each firm.

The Division takes a practical and proactive approach in liaising with and educating firms on the QFCRA's objectives and the international standards that have been implemented in the QFC.

The Division is committed to reducing financial crime and protecting the reputation of the QFC. It continues to monitor the latest international developments in combating financial crime and focuses its supervisory efforts in this area.

The Division completed three on-site full risk assessments during 2006 and the feedback letters and risk mitigation plans for the firms have been issued in line with QFC objectives.

Intensive supervision work has been carried out on several authorised firms subject to post-authorisation undertakings not to commence operations until approved by the QFCRA.

The Division has automated all the formulae in its financial returns to make it more efficient for authorised firms to complete them each quarter. A project has also been put in place to introduce automated reporting.

A post-licensing letter has been sent to all licensed professional firms explaining the specific application of the QFC Anti Money Laundering Regulations to their firm and setting out the firms' reporting obligation under the QFC AML Regulations.

Rulebooks, Guidance Notes, Projects and other Publications

The Division has created forms for use by authorised firms in reporting financial information and other key data to the QFCRA. These forms are available on the QFCRA website.

In conjunction with the Financial Sector Development and Policy Division, the Division completed the Prudential Insurance Rulebook, which outlines capital requirements and various rules for authorised firms effecting and carrying out contracts of insurance. The Rulebook is available on the QFCRA website.

A guidance document has been produced for insurance intermediaries, to help them to understand the various regulatory requirements.

The Division has continued to develop its regulatory information system which maintains current records of all key data and communications for authorised firms.

A financial crime guidance document has been drafted for publication to all authorised firms to help educate firms in the prevention of financial crime.

A strategy paper on a holistic and structured approach to the supervision of financial crime is to be drafted in 2007.

An initiative is also underway to develop a financial crime risk model to enable the allocation of an initial inherent financial crime risk rating to all incoming firms.

The Division is developing an anti-money laundering self-assessment tool for use by professional licensed firms and authorised firms.

A Financial Crime Guidance Note has been drafted for licensed professional firms.

Supervision

(continued)

Other areas

In late 2006 the QFCRA provided materials for the IMF/World Bank's Financial Sector Assessment Program review of Qatar.

The Year Ahead

Contact and cooperation with other relevant supervisors, especially the Qatar Central Bank, will continue to be an important aspect of the supervisory process.

Supervision Division staff will provide internal training sessions for the organisation throughout the year.

The Supervision and Authorisation Divisions are reviewing the QFCRA risk assessment model to determine what changes are needed in light of experience gained at the QFCRA thus far. The Supervision Division has prepared procedures for the close and continuous supervision of larger or higher-risk firms.

There is already a great deal of interest in establishing insurance firms and intermediaries within the QFC and this is expected to increase.

Other emerging areas of involvement are likely to include:

- Collective investment funds
- Trusts
- Islamic financial products
- Development of the International Mercantile Exchange (IMEX).

Financial Sector Development and Policy

The Financial Sector Development and Policy Division focuses primarily on the development of the legislative and regulatory regime applicable to the QFC's financial market and related policy programmes.

In this role it is engaged in:

- assessing new opportunities, initiatives and risks, as well as market and regulatory developments relevant to the QFCRA
- liaising with market participants and other bodies
- proposing legislation and policies.

Key activities

The key activities of the Division in 2006, in conjunction with QFCRA colleagues, included:

Legislation

Prudential Regime for Insurers

A new prudential regime governing insurers conducting activities in or from the QFC was approved by the Board and came into force on 1 October 2006.

The regime includes rules relating to:

- the establishment and ongoing review of a robust risk management policy, including a risk management strategy;
- minimum capital requirements;
- the measurement of assets and liabilities; and
- actuarial reporting requirements.

The regime also specifically provides for Takaful entities, recognising the growing importance of Takaful business in the region.

Retail Conduct and Retail Insurance Regime

The Division commenced work on the development of a regime for the regulation of retail financial services business conducted in or from the QFC, with particular reference to retail insurance. The work included assessing various policy matters relevant to regulation of the retail sector, and developing a consultation paper setting out the key aspects of the regime, together with draft rules. This consultation paper was later released in March 2007.

Collective Investment Funds Regime

Work also proceeded on the regulatory regime for collective investment funds. A consultation paper setting out the key aspects of the regime, together with draft rules, was released in December 2006.

The draft rules provide for the establishment and regulation of funds in the QFC for qualified investors – that is, non-retail customers. It is proposed that a regime for retail funds will be separately developed in conjunction with the positioning of the wider retail regime in the QFC. In addition, under the proposed regime, QFC authorised firms will be able to advise on, and market, units in foreign funds in accordance with the rules.

IMEX – International Mercantile Exchange

Work progressed on developing a market regulation regime for exchanges, clearing systems and other market entities. This is particularly in anticipation of the proposed energy derivatives exchange (IMEX), as announced on 20 March 2006.

Financial Sector Development and Policy

(continued)

QFC Civil and Commercial Court and QFC Regulatory Tribunal

The Division has provided input into the relevant legislation for the QFC Civil and Commercial Court and QFC Regulatory Tribunal and related amendments to the QFC Law.

Legislation Publication

Work progressed with the QFCA on electronic and hardcopy publication of the QFC laws, regulations and rules.

Policy Issues

General

The Division advised on a number of policy issues and provided input and advice on financial sector issues generally.

QFCRA Corporate Governance and Risk Management Frameworks

The Division acted on development of the corporate governance framework resolution which was approved by the Board on 5 September 2006.

Qatar National Bank Sukuk

The Division was closely involved with the development of the regulatory treatment of QREIC Sukuk LLC, a QFC Special Purpose Vehicle (SPV) which was the issue of the Sukuk Al Musharaka.

Waivers and Modifications

The Division acting as the secretariat for applications for waivers and modifications dealt with 33 applications for waivers and modifications to rules during 2006.

Relationships with other bodies

International

The Division was involved in discussions and meetings with the International Organisation of Securities Commissions (IOSCO) regarding areas of co-operation and membership.

The Division was involved in discussions with the International Association of Insurance Supervisors (IAIS) and various policy proposals of that body. The QFCRA was admitted to membership of IAIS.

The Division also participated in the OECD MENA Working Group on corporate governance.

Liaison with Qatari Agencies

The Division was involved in liaison with the Qatar Central Bank, Ministry of Economy and Commerce, Qatar Investment Authority, Qatar Financial Markets Authority and other agencies on various matters during 2006.

Operations

Premises

In order to accommodate its growth in staff numbers, the QFCRA expanded in 2006 on to a second floor of the Ministry of Economy and Commerce Building in West Bay, Doha.

At the same time, the QFCRA began working with design firms to plan its new office accommodation on three floors of the new QFC Tower at West Bay. The QFCRA expects to move into those new premises during the second quarter of 2007.

Information Technology

At the heart of every growing organisation is the need for an effective Information Technology system. The need is even more acute with a regulator, in light of the quantity and nature of information obtained and stored by it.

To that end, during 2006, the QFCRA continued to improve its core networks and systems to ensure that it has a secure, robust system that suits its particular requirements. Security is especially important in the regulatory environment, and several new security solutions were implemented to boost the already strong QFCRA software and network security.

In addition, a new IP telephone system was implemented within the QFCRA during 2006, providing ever-increasing flexibility for the staff.

The IT department has several solutions planned for 2007 which will continue to add capabilities throughout the QFCRA.

Human Resources

In order to meet the demands of a growing regulator, the QFCRA's global recruitment efforts continued in 2006 with the addition of 31 new employees. At the end of 2006, the QFCRA's headcount was 54 employees hailing from 16 different countries.

This growth also meant that the Human Resources infrastructure was further developed during the year, characterised by the release of a comprehensive Staff Handbook and the formalisation of internal processes.

Driving the QFCRA's 2007 growth will be the Human Resources Strategic Plan which outlines major projects and initiatives designed to develop current employees' expertise, continuously improve the workplace, and brand the QFCRA as an 'employer of choice', while continuing to attract and retain top regulators from across the globe to meet the demands created by the success of the QFC concept.

The Board

The Chairman and Chief Executive Officer, Phillip Thorpe, was appointed on 10 March 2005. The remaining Board members were appointed by the Council of Ministers on 8 March 2006.

Board Member Biographies:

Phillip Thorpe (A)

Phillip Thorpe is a New Zealander. He first practiced as a barrister and solicitor in Wellington. He moved in 1981 to Hong Kong, where he held various senior posts with the Hong Kong Securities Commission and was then appointed as CEO of the Hong Kong Futures Exchange.

Phillip Thorpe moved to the United Kingdom in 1989 as CEO of the Association of Futures Brokers and Dealers, later becoming an Executive Director of the Securities and Futures Authority. In 1991 he was seconded to the London Commodity Exchange ('London Fox') as CEO. He subsequently assisted the Securities and Investments Board in a review of the UK regulatory system. In 1993 he was appointed Chief Executive of IMRO, the organisation responsible for the regulation of the investment management industry in the United Kingdom. Following the 1997 General Election Phillip Thorpe was appointed as a Managing Director of the newly formed Financial Services Authority (FSA). The FSA is responsible for the regulation of all insurance, banking, securities and investment business in the United Kingdom.

In August 2001 Phillip Thorpe took up a new appointment as President of the Futures Industry Institute, based in Washington, D.C. The Institute is a not-for-profit organisation providing a wide range of data services, statements of best practice and training and examination services to the financial services industry.

In August 2002 Phillip Thorpe was recruited to establish a new regulatory body in Dubai, in the United Arab Emirates. In his role as Chief Executive Officer, Phillip Thorpe put together a team of regulators to take this work forward. He oversaw the construction of the legal framework and the regulatory processes leading to the launch of the Dubai Financial Services Authority.

In March 2005 Phillip Thorpe took up the post of Chairman and Chief Executive of the QFCRA. The authority's purpose is to develop an internationally recognised centre for financial services, evidencing global best practices and providing facilities for businesses, to participate in the rapidly growing Qatari economy.

Mr Jean-Francois Lepetit (B)

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 Marches a Terme, Chairman of the Conseil des Marches Financiers, President of the Commission des Operations de Bourse (COB), a member of the Comite de la Reglementation Bancaire et Financiere and a member of Comite des Etablissements de Credit et des Entreprises d'investissement (CECEI). He is now Chairman of the French Conseil National de la Comptabilite and in this capacity he is also a member of the College d'Autorite des Marches Financiers, Paris.

Mr Robert O'Sullivan (C)

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.

Mr Brian Quinn (D)

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 member of the Basel 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.

Mr Andrew Sheng (E)

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 is a former Chairman of the Technical Committee of IOSCO, and served on 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 Board

From left to right: Robert O'Sullivan (C), Jean-Francois Lepetit (B), Phillip Thorpe (A), Andrew Sheng (E) and Brian Quinn (D).

The Executive Team

From left to right: Richard Collins *Managing Director* Authorisation, Michael Lesser *Managing Director* Supervision, Michael Webb *Managing Director* Financial Sector Development and Policy, Phillip Thorpe Chairman and CEO, Jamie Orchard *Managing Director* Legal and Regulatory Compliance.

The QFC's Independent Judiciary

The appointment of a senior independent judiciary for the QFC was announced, by the Council of Ministers, in May 2006.

This was marked, in February 2007, by a formal ceremony acknowledging the appointment of Lord Woolf as President of the QFC Civil and Commercial Court and William Blair QC as Chairman of the QFC Regulatory Tribunal.

The Council of Ministers also appointed six other judges to the Court and two Members of the Regulatory Tribunal.

The Court and the Regulatory Tribunal have been structured to ensure the necessary world class legal framework to guarantee the highest standards of regulatory compliance and enforcement.

The Right Honourable Lord Woolf of Barnes, President of the new Court, is a judge of international standing having held the highest English judicial offices. In addition to sitting as a Lord of Appeal in Ordinary, he was also Master of the Rolls and Lord Chief Justice of England and Wales.

William Blair QC, Chairman of the Regulatory Tribunal, has had an outstanding career at the Bar. A leading QC in the fields of banking and finance, he is visiting Professor of Law at the London School of Economics and part-time Chairman of the UK's Financial Services and Markets Tribunal.

In addition, the Council of Ministers appointed six other international jurists to the Court and approved the appointment of two other distinguished lawyers to the Regulatory Tribunal.

The other judges appointed are:

Justice Aziz Ahmadi, who was the Chief Justice of India.

Lord Cullen of Whitekirk, who was Lord Justice General and Lord President of the Court of Session, the most senior judge, of Scotland.

Sir Peter Gibson and Sir Philip Otton, who were senior members of the Court of Appeal of England and Wales.

Barbara Dohmann QC, who is a distinguished member of the English Commercial Bar.

Justice Ronald Sackville, who is a judge of the Federal Court of Australia and is currently Chair of the Judicial Conference of Australia.

The other members of the Regulatory Tribunal are:

Michael Thomas QC, who has been Attorney General of Hong Kong and has been at the London Commercial Bar for 40 years.

Professor Francois Gianviti, who was General Counsel and Director of the Legal Department of the IMF.

Plans have been developed to provide the Court and Regulatory Tribunal with a specially designed court building with state-of-the-art facilities. In the interim, the Court and the Tribunal will be accommodated within the new QFC Tower.

The Qatar Financial Centre Civil and Commercial Court

In the event of disputes as to matters of law, the Court will be the final arbiter. It is modelled on the internationally respected Commercial Court in London. It will adhere to common law principles and will possess a flexible procedure designed to resolve disputes within the QFC in an effective and timely manner.

It will operate in a manner sympathetic to the needs of a sophisticated financial centre and is designed to foster trust and confidence in the new legal system operating within the QFC.

The QFC Regulatory Tribunal

The Regulatory Tribunal is a wholly independent body, hearing and deciding appeals from decisions of the QFCRA and other QFC agencies.

In dispensing its duties, the Regulatory Tribunal will conduct itself in a manner which augments the needs of those who operate within the QFC, thereby upholding the integrity of the financial centre. Institutions electing to conduct business within the QFC will be assured that their rights and interests will be protected in accordance with the requirements of law.

Objectives of the QFCRA and Principles of Good Regulation

Objectives

The QFCRA must have regard to its statutory objectives in performing its various functions. These statutory duties are contained in the Financial Services Regulations and are set out in Box 03.

During the reporting period significant progress has been made in meeting these objectives:

Efficiency, transparency and integrity

The QFCRA has developed its procedures in a manner designed to achieve optimum efficiency and transparency.

This has been achieved by introducing a structured working environment and establishing a risk-based framework of supervision and regulation.

The structured workflows of the QFCRA are designed to enable a clear and flexible regulatory framework based upon best practices and the laws of the world's leading financial jurisdictions. In drafting these regulations and rules, consideration has been given to these jurisdictions in an attempt to fashion a regulatory model most appropriate for implementation within the QFC.

The QFCRA has, in doing so, made efforts to align its regulatory regime to the models most familiar to the mainstream international financial community.

The QFCRA aims to meet the applicable standards of the leading international organisations including:

IOSCO	International Organisation 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

The QFCRA maintains membership of a wide variety of financial services and regulatory organisations in order to ensure current knowledge of ongoing international regulatory issues.

The QFCRA recognises the need for transparency and fairness in its decision making and, to this effect, decisions are published and certain ones are subject to appeal.

The QFCRA, in an effort to reinforce the integrity of the QFC, adopts a risk-based approach to regulatory activity. This begins at the authorisation stage. If an applicant firm poses any risks to the statutory objectives of the QFCRA, these risks must be addressed at an early stage.

Confidence in the QFC

This risk-based regulatory approach contributes heavily to the confidence invested in the QFC. We believe that this method, drawing on the experiences and procedures of leading international financial judiciaries and identifying risk early in the process, will ensure that we maintain the confidence and credibility of the QFC.

In addition, the QFCRA maintains a policy which seeks to authorise only those firms that meet, and are expected to maintain, internationally accepted standards as reflected in the QFCRA regulations and rulebooks.

In promoting and maintaining confidence in the QFC, it remains essential to maintain effective co-operative working relationships with the international regulatory community.

Financial stability of the QFC

The risk-based supervisory approach also facilitates the efforts to maintain financial stability within the QFC and reduce systemic risk.

This approach sees the QFCRA:

- 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 approach enables the structured use of regulatory tools and the targeting of resources to those areas which present the most risk to the QFCRA objectives. This method of supervision ensures that firms authorised by the QFCRA are compliant with all applicable rules and regulations.

Objectives of the QFCRA and Principles of Good Regulation

(continued)

The Reputation of the QFC

To ensure that the QFC remains in good standing, the risk-based regulatory approach is designed to enable the QFCRA to mitigate the risk of misconduct occurring and reduce those cases requiring remedial action.

In the event that misconduct does occur, there is a full suite of investigative and disciplinary measures available. These include the 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; and
- Brief the Qatari Public Prosecutor where criminal offences may have been committed.

Enforcement action will only be considered in cases where it is felt appropriate under the QFCRA statutory objectives.

These objectives include the responsibility to ensure that QFC firms are operating correctly within the regulatory framework in respect of transparency, effective reporting and integrity.

In the event that malpractice is detected, the QFCRA is committed to firm intervention to halt and minimise its impact and prevent repetition.

Again, the QFCRA is committed to fairness and transparency and will publish, where necessary, all its decisions and findings.

Protection for Firms and their customers

The QFCRA regard an effective regulatory regime as one that protects firms and their customers. As part of this regime, firms are required to demonstrate a minimum level of financial resources together with an assured system of internal controls which meet the required standards.

The QFCRA recognises that a flexible approach to protection and information may be warranted, given the differing levels of expertise, business experience and means and that variable levels of risk are involved in different kinds of investment or transaction.

This corresponds to the general principle that, ultimately, customers have to take responsibility for their own financial decisions.

Article 12(3) of the FSR sets out the QFCRA's objectives as follows:

- The promotion and maintenance of efficiency, transparency and 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 QFCRA 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;
- 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 03

Understanding the objectives of the QFC

During the reporting period, the QFCRA made a number of presentations and attended various seminars with the aim of communicating to both the domestic and international audiences, the opportunities presented by the QFCRA and the commitment, credibility and expertise within the QFCRA.

In addition, senior QFCRA personnel attended meetings with various individuals, firms, industry bodies, government agencies and international associations in which they sought to outline the key aims and objectives.

Operating in accordance with best practices

These measures, including membership of leading international organisations, are instrumental in enabling a full and ongoing appreciation of trends, innovations and issues within the international regulatory community.

Minimising Financial Crime

The QFCRA is committed to mitigating the risks of financial crime; this is a primary focus of the risk-based supervisory approach.

Many of the current regulatory requirements are designed to address this goal, including requiring authorised firms to demonstrate strong internal controls, ensure an effective compliance function and make appointments with the requisite skills and experience to offer an effective first line of defence against such malpractice.

The work in this area is supported by the expertise of the Financial Information Unit of Qatar with whom the QFCRA enjoy a strong working relationship.

Principles of good regulation

In dispensing its functions and powers, the QFCRA has regard to the Principles of Good Regulation which are contained in the FSR. These principles are set out in Box 04 (over the page).

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

Efficient and economic use of resources

The Executive Committee is committed to disperse resources in the most efficient and economic way possible. To this end, the QFCRA operates within self-imposed budgetary controls. Each Division allocates resources in line with these limits and reviews performance on a monthly basis. The QFCRA operated within budget during this reporting period.

Innovation and competitiveness

The stated aim of the QFCRA is to operate in accordance with international best practice in order to promote and uphold the credibility and competitiveness of the QFC. In doing so the QFCRA are open to relevant innovations within international regulatory practice and seek to adopt a robust and yet flexible approach to such innovations.

Competition among regulated entities

The QFCRA enables competition among regulated entities by applying an even-handed, unbiased regulatory regime. We strive to deploy our authorisation standards in a fashion that allows any entity able to meet those standards to be admitted to the QFC environment.

Objectives of the QFCRA and Principles of Good Regulation

(continued)

Fairness and transparency

The QFCRA is committed to acting with fairness and transparency in all its functions, publishing information and consulting as widely as possible.

The QFCRA is bound by a rigorous Code of Conduct, to which all staff are subject, through oversight by the Board of Directors and external review by the Appeals Body.

Balancing costs versus benefits

The QFCRA acknowledges the need to balance the burdens and responsibilities placed on firms with the benefit of effective regulation. When considering changes to the regulatory regime or new legislation, the QFCRA will undertake prior general and specific consideration of the costs and benefits to QFC firms, to ensure proportionality of impact.

Compliance with laws and regulations

The QFCRA aims to design and implement internal processes to satisfy the legislative requirements to which it is subject. During the reporting period, these processes continued to be put into place.

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 QFCRA;
- The principle that the QFCRA 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 04

QFCRA Corporate Governance

General

The QFCRA is established by Law No.7 of 2005 of the State of Qatar (the QFC Law). The QFC Law and the QFC Financial Services Regulations (FSR) provide for the Board of the QFCRA, its constitution, membership, duties and powers.

On 5 September 2006, the Board of the QFCRA adopted a Governance Resolution, which:

- sets out the policy of the Board on various governance matters, reflecting the Board's intention that the business of the QFCRA and the Board be conducted in accordance with the regulatory objectives, other applicable law, and principles of sound corporate governance;
- makes further provision for the regulatory and operational responsibilities of the QFCRA;
- sets out the respective roles of the Board and the Chairman and Chief Executive Officer (CEO);
- establishes an Audit and Risk Committee and a Nominations and Remuneration Committee;
- provides for certain delegations and decision-making within the QFCRA; and
- contains various other matters of general application regarding the governance of the QFCRA.

The following is a summary of key provisions of the Governance Resolution:

Role of the Board

- The role of the Board, subject to the QFC Law and other applicable legislation, is to lead the QFCRA.
- Schedule 4 of the QFC Law outlines the powers and duties of the Board. These can be accessed at http://www.complinet.com/file_store/pdf/rulebooks/QFCRA_2.pdf.

In addition, the Board is to:

- exercise such functions of the QFCRA which under the QFC Law or other applicable QFC legislation only the Board can exercise;
- make strategic decisions affecting the future operation of the QFCRA;
- oversee the discharge by the executive management of the day-to-day business of the QFCRA;
- set appropriate policies to manage risks to the QFCRA's operations and the achievement of its regulatory objectives and seek regular assurance that the system of internal control is effective in managing risks in the manner it has approved;
- maintain a sound system of financial control;
- cause minutes to be made in books provided for the purpose of:
  - all appointments of officers;
  - the names of persons present at each meeting of the Board and of each committee of the Board; and
  - all resolutions and procedures at all meetings of the Board and of each committee of the Board.
  - Take specific decisions which the Board or executive management consider to be of such significance as to require to be taken by the Board;
  - maintain high level relations with other appropriate organisations and authorities; and
  - provide an accountability mechanism for decisions of committees of the Board and executive management, including through periodic reporting to the Board.

QFCRA Corporate Governance

(continued)

Board Members

Each Board Member is to:

- act in accordance with the QFC Law and other QFC legislation and, to the extent not inconsistent with the QFC Law and other legislation, the terms of that Board Member's appointment by the Council of Ministers (CoM);
- in particular, act in accordance with, and further, the regulatory objectives set out in Article 12 of the FSR: http://www.qfcra.com/whatdo/Objectives1.php;
- act honestly, in good faith and in the best interests of the QFCRA;
- in relation to any particular matter, act in accordance with any applicable quasi-judicial or public or administrative law responsibilities applicable to that matter;
- comply with the QFC Law, regulations, rules and powers issued by themselves and with all resolutions from time to time made by the board including, without limitation, in relation to conflicts of interest, confidentiality and ethics; and
- not bring the name or reputation of the Qatar Financial Centre, the QFCRA, the QFC Authority or the Government of Qatar into disrepute by any act or omission of that Board Member, whether acting as a Board Member or in any other capacity, and irrespective of where the act or omission occurs.

Each Board member is:

- entitled to be supplied with relevant information, subject to any conflict of interest;
- have access to professional advice in particular instances.

The Chairman and Chief Executive Officer

- The QFC Law provides for the appointment of a Chairman and a CEO and further provides that the role of Chairman and CEO may be held by one individual for such period as the Council of Ministers may determine.
- The Council of Ministers has appointed one person to hold both the role of Chairman and CEO. The Resolution sets out whose responsibilities relate to the role of the Chairman and which relate to the role of CEO.

Audit and Risk Committee

- The resolution establishes a Board Audit and Risk Committee (ARC) comprising at least two independent Non-Executive Board Members, at least one of whom should have recent and relevant financial experience.
- The functions of the ARC are to assist the Board satisfying itself on specific matters including:
- the quality of the financial management of the QFCRA and the adequacy of its system of internal controls
- the identification and management of the significant risks to the QFCRA's objectives and outcomes
- the internal and external audit function
- the implication of any legal action being taken against the QFCRA, the adequacy of internal whistle-blowing arrangements, the operation of any code of conduct for Board Members or employees including in relation to dealings and conflicts of interest, and certain expense claims.

Nominations and Remuneration Committee

- The resolution establishes a Board Nominations and Remuneration Committee (NRC) comprising at least two independent Non-Executive Board Members.
- The function of the NRC is to consider and make recommendations regarding:
  - prospective Board appointees and Board succession planning
  - Board Members' remuneration and benefits and other terms of appointment, including those of the Chairman and CEO
  - broad policy on all aspects of executive remuneration.

Review of performance and governance arrangements

The resolution provides for the Board to undertake annually a review of:

- its performance and that of its committees and individual members
- the QFCRA's governance arrangements.
- The resolution provides for each of the ARC and NRC to annually review its effectiveness.

Reporting to Council of Ministers

- The resolution provides for the Board to report annually to the Council of Ministers on the discharge by the Board of the QFCRA's functions, the extent to which, in its opinion, the QFCRA's objectives have been met; and other matters required by law.

Ethics and Complaints Procedures

Staff ethics

The QFCRA is committed to maintaining the highest ethical standards. This commitment is clear throughout the 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

The QFCRA is robustly opposed to discrimination in any form. Accordingly, the Human Resources function is structured to ensure that all staff-related business decisions comply with the QFC Employment Regulations and are consistent with the overall ethical approach. Additionally, all employment related decisions may be subject to review by the independent QFC Employment Standards Office. This provides further transparency and corporate accountability for all employment-related decisions.

Transparency/Conflict of Interest

The QFCRA has developed an internal tool to uphold these principles and reinforce the importance of transparency. This internal tool is the QFCRA Code of Conduct.

The Code of Conduct was established to provide a framework within which concerns such as confidentiality and conflicts of interest can be identified, addressed and properly managed. All QFCRA staff are required to sign a disclosure document annually and reminded of their obligation to maintain the highest ethical standards every six months, at the time of their performance appraisal. The Code of Conduct is central to our culture and underpins our efforts to establish and maintain the highest standards of integrity at all times.

The QFCRA operates a website (www.qfcra.com) designed to provide insight into its regulations and staff. An organisational chart, with staff photos and biographies, can be found on the website as a resource for individuals seeking information on the QFCRA.

Confidentiality

The QFCRA expects that confidentiality will be maintained at all times in respect of sensitive and proprietary information and wherever necessary in the course of its work.

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

As a conscientious and progressive employer, the QFCRA is receptive to feedback from all staff. This principle is upheld by the open plan of the office and the well-structured communication-based culture. A grievance procedure is set out in a separate section of the Human Resources Policy and Procedures Manual and the Grievance Procedure has not been required during the reporting period.

Grievances can be an excellent source of feedback from staff and provide an opportunity to examine decisions, policy and procedures, thereby contributing to the overall goal of continuous improvement. The main priority in considering a grievance is to identify, verify and resolve any issues quickly, efficiently and equitably, while maintaining legal compliance. The Grievance Procedure allows for two-way communication, rapid resolution and a post-process internal review to improve future operations and staff experiences. QFCRA staff can be confident that the QFCRA strives to maintain an internationally acceptable standard of staff satisfaction with the provision of an independent Employment Standards Office of the QFC for impartial resolution.

External complaints

In the event that an external party wishes to file a complaint against the QFCRA or its staff, procedures are in place for prompt, efficient, and impartial investigation. Where it is not possible to resolve such complaints through our internal procedures, QFCRA will appoint an independent person to investigate and resolve the issue.

Appendix 1
Details of Licences granted as at 31 December 2006

QFC No.	Firm Name	Legal Status	Place of Incorporation	Permitted Activities
00001	Ansbacher & Co Limited	Branch	UK	Regulated Activities and Professional Services
00002	BDO Jawad Habib Consulting WLL	LLC	Bahrain	Professional Services (Consulting)
00003	Arab Jordan Investment Bank (Qatar) LLC	LLC	QFC	Regulated Activities
00004	Oryx Bank Holding Corporation LLC	LLC	QFC	Professional Services (Holding)
00005	Credit Suisse Financial Services (Qatar) LLC	LLC	QFC	Regulated Activities
00006	Arab Law Bureau LLP	LLP	QFC	Professional Services (Legal)
00007	United Gulf Financial Services Company LLC	LLC	QFC	Regulated Activities
00008	AXA Investment Managers LLC	LLC	QFC	Regulated Activities
00009	Kuwait Financial Centre S.A.K.	Branch	Kuwait	Regulated Activities
00010	Standard Chartered Bank	Branch	UK	Regulated Activities
00011	Global Investment House (Qatar) LLC	LLC	QFC	Regulated Activities
00012	QREIC Sukuk LLC	LLC	QFC	Regulated Activities
00013	PricewaterhouseCoopers – Qatar LLC	LLC	QFC	Professional Services (Assurance, Advisory, and Tax)
00014	Eversheds LLP	Branch	UK	Professional Services (Legal)
00015	Eversheds Legal Services (Qatar) LLC	LLC	QFC	Professional Services (Legal)
00016	Lalive in Qatar LLP	LLP	QFC	Professional Services (Legal)
00017	Bell Pottinger Communications Limited	Branch	UK	Professional Services (Public Relations)
00018	Barclays Bank PLC	Branch	UK	Regulated Activities
00019	Morgan Stanley & Co International Limited	Branch	UK	Regulated Activities
00020	Intersearch in the Gulf Limited	Branch	UAE	Professional Services (Executive Search)
00021	UBP (Qatar) LLC	LLC	QFC	Regulated Activities
00022	Apis Consulting Group LLC	LLC	QFC	Professional Services (Strategic Change and Project Management)
00023	International Legal Consultants LLC	LLC	QFC	Professional Services (Legal, Companies, and Trust Administration)
00024	AXA Insurance (Gulf) BSC	Branch	UAE	Regulated Activities

QFC No.	Firm Name	Legal Status	Place of Incorporation	Permitted Activities
00025	MXV Capital LLC	LLC	QFC	Providing Professional Services (Strategic Consultancy and Administrative Consultancy)
00026	National Bank of Dubai PJSC	Branch	UAE	Regulated Activities
00027	Bank Audi LLC	LLC	QFC	Regulated Activities
00028	Alpen Investment Bank LLC	LLC	QFC	Regulated Activities
00029	Clyde & Co	Branch	UK	Professional Services (Legal)
00030	International Mercantile Exchange Holdings LLC	LLC	QFC	Professional Services (Holding)
00031	Hugh Fraser International Legal Consultancy LLC	LLC	QFC	Professional Services (Legal)
00032	Deutsche Bank AG Doha (QFC) Branch	Branch	Germany	Regulated Activities
00033	Badri and Salim El Meouchi, LLP	LLP	QFC	Professional Services (Legal)

Appendix 2

Statistics of Approved Individuals and Controlled Functions as at 31 December 2006

Approved Individuals	2005	2006	As at 31 Dec 2006
Applications	16	86	102
Withdrawals (voluntary)	1	8	9
Withdrawals (mandatory)	0	0	0
Total number of Approved Individuals	**15**	**78**	**93**

Controlled Functions carried out by Approved Individuals	2005		2006		As at 31 Dec 2006	
Applications	Approved	Withdrawn	Approved	Withdrawn	Approved	Withdrawn
Senior Executive Function	3	0	15	1	18	1
Executive Governance Function	3	0	24	1	27	1
Non-Executive Governance Function	1	0	6	1	7	1
Compliance Oversight Function	3	0	16	3	19	3
Risk Management Function	0	0	2	0	2	0
Finance Function	2	0	14	0	16	0
Money Laundering Reporting Function	3	1	18	3	21	4
Senior Management Function	1	0	5	0	6	0
Customer Facing Function	4	0	20	0	24	0
Actuarial Function	0	0	0	0	0	0
Total number of Approved/Withdrawn	20	1	120	9	140	10
Total number of Controlled Functions carried out by Approved Individuals	**19**		**111**		**130**	

Appendix 3
QFC Legislation

The following tables contain a list of the Regulations, Rules and Rulebooks that have been enacted within the QFC since its launch in 2005.

Regulations	Description
Financial Services Regulations	These regulations set out the regime for the regulation of financial services in the QFC by the Regulatory Authority.
Companies Regulations	These regulations provide for the establishment and operation of limited liability companies and non-QFC company branches.
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.
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.
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.
Data Protection Regulations	These regulations set out the framework for the control and protection of personal data by persons operating in the QFC.
Limited Liability Partnership Regulations	These regulations set out the legal framework for the incorporation of legal entities in the QFC as limited liability partnerships.
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.
Employment Regulations	These regulations set out the framework governing the relationship between employer and employees of the QFC and QFC entities.
Immigration Regulations	These regulations set out the framework for entry into, and sponsorship within the State of Qatar, of employees and the entities of the QFC and their family members.

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 3
QFC Legislation

(continued)

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).
Prudential Insurance Rulebook	This rulebook sets out the QFCRA's prudential requirements for all insurers who conduct their business in the QFC.

Appendix 4
QFC Publications

Consultation papers

The QFCRA publishes any proposed legislation for public consultation. It also publishes consultation papers relating to making or implementing regulatory policy. During 2005, the QFCRA published the following consultation papers, each of which can be obtained on the website at www.qfcra.com under "Publications" and "Consultation Papers":

Consultation Paper No. 1 – 27 July 2005
QFCRA Rulebook on Islamic Finance

Consultation Paper No. 2 – 29 August 2005
QFCRA Principles Rulebook

Consultation Paper No. 3 – 29 August 2005
QFCRA Individuals Rulebook

Consultation Paper No. 4 – 29 August 2005
QFCRA Controls Rulebook

Consultation Paper No. 5 – 29 August 2005
QFCRA Anti Money Laundering Rulebook

Consultation Paper No. 6 – 29 August 2005
QFCRA Interim Prudential – Investment, Insurance Mediation and Banking Business Rulebook

Consultation Paper No. 7 – 26 September 2005
QFCRA General Rulebook

Consultation Paper No. 8 – 26 September 2005
QFCRA Assets Rulebook

Consultation Paper No. 9 – 26 September 2005
QFCRA Conduct of Business Rulebook

Consultation Paper No. 10 – 24 May 2006
QFCRA Prudential Regulation of Insurers Conducting Insurance Business in or from the Qatar Financial Centre.

Consultation Paper No. 11 – 18 December 2006
QFCRA Regulation of Collective Investment Funds Operating in or from the Qatar Financial Centre.

Guides

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

Introducing the QFCRA

This Guide sets out the objectives, functions and powers of the QFCRA 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 deals with incorporating a business within 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 QFCRA. The FSR are the primary regulations, which define the management, objectives, duties, functions, powers and constitution of the QFCRA. 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 the website at www.qfcra.com under "Publications" and "Policy Statements":

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

Pursuant to the 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 the QFCRA 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 "Quarterly Activity Summaries".

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

We have audited the accompanying financial statements of Qatar Financial Centre Regulatory Authority (the "QFCRA") which comprises the balance sheet as at 31 December 2006 and the statement of activities and cash flow statement for the period from 1 May 2005 to 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards of Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts of disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Qatar Financial Centre Regulatory Authority as of 31 December 2006 and the results of its activities and its cash flows for the period from 1 May 2005 to 31 December 2006 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: 3 April 2007
Doha

A Member of Ernst & Young Global

Financial Statements

Statement of Activities
Period ended 31 December 2006

	Notes	1 May 2005 to 31 December 2006 US$'000
INCOME		
Fee income		**1,083**
Other income	4	**326**
TOTAL INCOME		**1,409**
EXPENSES		
Staff costs		**(11,563)**
General and administration expenses	5	**(1,917)**
Board expenses		**(687)**
TOTAL EXPENSES		**(14,167)**
EXCESS OF EXPENSES OVER INCOME FOR THE PERIOD BEFORE APPROPRIATIONS		**(12,758)**
Appropriations from the Government	2	**23,052**
RETAINED SURPLUS FOR THE PERIOD	9	**10,294**

The attached notes 1 to 16 form part of these financial statements.

Balance Sheet
At 31 December 2006

	Notes	2006 US$'000
ASSETS		
Non-current assets		
Plant and equipment	6	**552**
Current assets		
Accounts receivable and prepayments	7	**1,530**
Bank balances and cash	8	**10,709**
		12,239
TOTAL ASSETS		**12,791**
EQUITY AND LIABILITIES		
Equity		
Retained surplus	2 & 9	**10,294**
Total equity		**10,294**
Current liabilities		
Accounts payable and accruals	10	**2,283**
Employees' annual gratuity	11	**214**
		2,497
TOTAL EQUITY AND LIABILITIES		**12,791**

Phillip Thorpe
Chairman & Chief Executive Officer

Jay Perumal
Chief Financial Officer

The attached notes 1 to 16 form part of these financial statements.

Statement of Cash Flows
Period ended 31 December 2006

	1 May 2005 to 31 December 2006 US$'000
OPERATING ACTIVITIES	
Excess of expenses over income	(12,758)
Appropriations from the Government	23,052
Adjustments for:	
Depreciation	262
Employees' annual gratuity	344
Operating profit before working capital changes:	10,900
Accounts and prepayments	(1,530)
Accounts and accruals	2,283
Cash generated from operating activities	11,653
Employees' annual gratuity paid	(130)
Net cash from operating activities	11,523
INVESTING ACTIVITIES	
Purchase of furniture and equipment	(814)
Net cash used in investing activities	(814)
INCREASE IN CASH AND CASH EQUIVALENTS	10,709
Cash and cash equivalents at the beginning of the period	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	10,709

The attached notes 1 to 16 form part of these financial statements.

Notes to the Financial Statements
At 31 December 2006

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 four authorities, the QFC Authority (QFCA), the QFC Regulatory Authority (QFCRA), QFC Civil and Commercial Court (Court) and QFC Regulatory Tribunal (Tribunal). The QFCA, QFCRA, the Court and Tribunal are independent of each other and from the Government of Qatar.

Qatar Financial Centre Regulatory Authority (the "QFCRA") 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 2006. 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 the 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 2006 were authorised for issue on 3 April 2007.

2. Economic Dependency

The QFCRA 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.

During the period, the Government provided the QFCRA with appropriations amounting to US$23,052,000. As the QFCRA 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).

Notes to the Financial Statements
At 31 December 2006

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 QFCRA:

– Amendments to IAS 1: Capital disclosures

– IFRS 7 Financial Instruments: Disclosures

– IFRIC Interpretation 8 Scope of IFRS 2

– IFRIC Interpretation 9 Reassessment of Embedded Derivatives

Amendments to IAS 1 – Capital Disclosures

Amendments to IAS 1 Presentation of Financial Statements were issued by the IASB as Capital Disclosures in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the QFCRA's objectives, policies and processes for managing capital.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the QFCRA's financial position and performance and information about exposure to risks arising from financial instruments.

IFRIC Interpretations

IFRIC Interpretation 9 Reassessment of Embedded Derivatives was issued in March 2006 and become effective for financial year beginning on or after 1 June 2006.

Management do not expect this interpretation to have a significant impact on the QFCRA's financial statements when implemented in 2007.

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 licence 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.

Furniture and equipment

Furniture and equipment is stated at cost less accumulated depreciation and any impairment in value. Capital expenditure of less than QR1,000 (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 furniture 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 furniture 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 furniture and equipment. All other expenditure is recognised in the statement of income and expenditure 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 uncollectability 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 income statement. Impairment is determined as follows:

For assets carried at cost, impairment is the difference between carrying value 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 QFCRA 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 QFCRA 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 QFCRA. The expected costs of these benefits are accrued over the period of entitlement.

Foreign currencies
The functional currency of the QFCRA 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 income and expenditure. 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 2006

4. Other income

	1 May 2005 to 31 December 2006 US$'000
Bank interest	326
	326

5. General and administration expenses

	1 May 2005 to 31 December 2006 US$'000
Consultancy and professional fees	470
Business travel	583
Depreciation	262
Other expenses	602
	1,917

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	131	494	72	27	90	814
At 31 December 2006	131	494	72	27	90	814
Depreciation:						
At 1 May 2005	–	–	–	–	–	–
Depreciation charge for the period	55	120	72	15	–	262
At 31 December 2006	55	120	72	15	–	262
Net carrying amount:						
At 31 December 2006	**76**	**374**	**–**	**12**	**90**	**552**

The capital work in progress consists of cost incurred for the set up of the office in the new QFC building.

7. Accounts receivable and prepayments

	2006 US$'000
Prepaid expenses	**864**
Other receivables	**655**
Fees receivables	**11**
	1,530

Notes to the Financial Statements
At 31 December 2006

8. Cash and bank balances

Included in cash and bank balances are bank deposits of QR33,024,000 and US$1,075,000 amounting to US$10,709,000 with a commercial bank in Qatar.

9. Retained surplus

In accordance with Article 14 of the Qatar Financial Centre Law No. 7 of 2006, 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 QFCRA.

The movements in the retained surplus are as follows:

	2006 US$'000
Balance at 1 May 2005	–
Surplus for the period	10,294
Balance at 31 December 2006	10,294

10. Accounts payable and accruals

	2006 US$'000
Trade payables	828
Accrued expenses	496
Due to related parties (Note 14)	882
Advances from customers	61
Other payables	16
	2,283

11. Employees' annual gratuity

The movements in the provision recognised in the balance sheet are as follows:

	2006 US$'000
Provision as at 1 May 2005	–
Provided during the period	344
End of service benefits paid	(130)
Provision as at 31 December 2006	214

12. Capital commitments

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

	2006 US$'000
Office equipment	525

13. Lease commitments

The future minimum lease rental payable under non-cancellable operating lease entered into on 15 February 2007 by the Authority are as follows:

	2006 US$'000
Within one year	975
After one year but not more than five years	2,341
More than five years	–
	3,316

14. Related party disclosures

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

Related party transactions

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

	1 May 2005 to 31 December 2006 US$'000
Appropriation from the Government (Note 2)	23,052
Services from QFCA	109
Services and expenses paid on behalf of related parties	362
Appropriation from Government received on behalf of related parties	1,135

Notes to the Financial Statements
At 31 December 2006

14. Related party disclosures (continued)

Assistance from Ministry of Economy and Commerce

During the period, the Ministry of Economy and Commerce has provided office premises to the QFCRA at free of cost. These office premises are used for the QFCRA's own activities.

Compensation of key management personnel

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

	2006 US$'000
Short-term benefits and employees' end of service benefits	**2,544**

Amounts due to related party balances

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

	2006 US$'000
Qatar Financial Centre Authority	**109**
Qatar Financial Centre Civil and Commercial Court	**415**
Qatar Financial Centre Regulatory Tribunal	**358**
	882

15. Financial risk management

Interest rate risk

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

Credit risk

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

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

Currency risk

The QFCRA 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.

16. 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.

Designed by Rare Corporate Design, London

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