

# Bringing a full span of services to the Gulf region

**For all their recent global market turmoil, the Gulf Cooperation Council markets are continuing to mature. Citi is engaged in building out its custody and clearing offering as part of a broader offering to issuers, investors and intermediaries alike**

**THE MIDDLE EAST** has long been an enigma to outsiders. In the past six months, the markets in the Gulf region have thrown up a host of contradictory signals. In February, credit default swaps on Dubai's sovereign debt were priced in line with those of Iceland. Yet, in the past three months, there has been a flurry of government bond issues on improving spreads and the local market has surged on the back of a strong bounce in the oil price. For all that, there are predictions of a mass exodus of foreign workers over the summer, and local investor sentiment remains fragile after two huge corrections to equity markets in the space of three years.

Does the growth story remain intact? Yes, it does. Most parts of the region are still predicted to achieve GDP growth for the year. While some big infrastructure projects have been put on hold, major modernization plans in Saudi Arabia, Abu Dhabi and Qatar are undisturbed. With more than 60% of the region's 160 million inhabitants under 30 years of age, there remains a crying need for further investment in housing, schools, hospitals and other public works—and the funding to achieve that.

Richard Street, Head of Citi's Securities and Fund Services business in the Middle East, says it is important to cut through the short-term noise and remain focused on the long-term drivers that are shaping the local financial markets. "There is mounting private wealth, an increasing equity culture and a fast-improving regulatory backdrop. The capital markets have broadened and deepened. All the exchanges are interest-

ed in modernizing. For all the tales of doom and gloom, many firms are still adding to local headcount."

One trend, he says, is for investment banks to locate not just sales people in the region but analysts too. "We're seeing an influx of analysts. Together with a team of people to cover local stocks there is often an energy or other industry specialist here to provide part of a firm's global industry coverage. The markets are maturing," he says.

Citi has been contributing to that influx of professionals. With a presence in the Middle East that goes back more than 50 years, Citi is now building out its issuer, investor and intermediary services in the region to provide a range of capabilities that equates with anything it can deliver in the more developed markets. "We are treating the Gulf region with the seriousness it deserves," says Street. "We are bringing the full span of our Global Transaction Services capabilities here so that we can deliver a full service from within the region—and at the same time help import best market practice in every area."

Citi now has a wealth of product expertise located in the Gulf. It identified the Gulf Cooperation Council (GCC) markets as a distinct region—one requiring a strong, on-the-ground presence to be effective. Says Street, "You have to be in the time zone and support the local working days to be able to service your clients. For example: The Saudi equity market settles on a T+0 basis. You need a treasury desk that is guaranteed to be open for business on the right days."

Satvinder Singh, Managing Director and Head of Direct Custody and Clearing, EMEA, Citi, says Citi wants to be a regional player in custody and clearing: "We recognize that clients buy services on a regional basis. That is why, when we opened our direct custody and clearing (DCC) operation in the UAE in January this year, we opted to provide a service covering all three local markets: the ADX, DFM and Nasdaq Dubai." Citi is actively advancing projects to launch DCC services in Kuwait, Bahrain and Qatar in the near future to extend our coverage and meet our clients' demands.

As it builds out its clearing and custody presence, Citi will not only provide a full-service offering but seek to transfer skills and technology developed in Europe and elsewhere to help instill best practice in the local markets. It is already collaborating with local market participants to help develop the highest standards for the future. "We will be looking to do what we did in Asia over the last few years," says Singh. "There we started as a local provider, servicing inflows. Gradually, through our contacts with regulators, we introduced best practice. As an example, we were the first to provide direct, on-exchange clearing for international broker-dealers in Australia, Hong Kong and Singapore. Then, as outbound flows grew, we serviced those."

Citi is also leveraging its experience and expertise in sub-custody across the world to further service the needs of the international broker community in the local markets. International brokers are rarely local market participants across the

MENA region and must currently use a local member of the exchange to execute trades on their behalf. In doing so, they face the problem of having to pass their clients along directly to a third party for trade execution while being unable to claim commissions for their advisory services in an organized fashion. To address this need, Citi is developing a virtual clearing solution. "In such a structure, Citi can act as a firewall between the end investor client identifying to their custodian an international broker as counterparty; and the local exchange participant whom the international broker is using to execute and clear on the market," says Street. This solution mitigates counterparty risk by having an investor client instruct to settle against a known international broker while allowing the international broker significantly more control over the settlement process and the collection of commissions.

Citi's commitment to the region spans every product and client group. There is a strong presence in both consumer and private banking, investment banking, corporate finance and capital raising, cash, trade, project finance and treasury management. Citi was the first international institution to set up a separately capitalized Islamic bank, Citi Islamic Investment Bank (CIIB), and has been the top arranger of Islamic loans, bonds and credit derivatives globally for the past decade.

It has played a pioneering role in the development of the sukuk market and with Dow Jones indexes created the Dow Jones Citigroup Sukuk Index. It continues to support sukuk issues, MTNs and other programmes, providing full issuer and paying agent services. In addition, Citi has provided depository bank services to a number of IPOs and global depository receipt issues. Since April last year, Citi has also been providing local security agent services in Dubai, Abu Dhabi, Kuwait and Bahrain and more recently added Qatar to the list. This allows it to support local M&A activity by taking in shares onshore under local law.

On the investor services side, Citi now offers a powerful combination of in-region and global fund administration and distribution servicing. Its Bahrain fund adminis-

tration service opened for business in July of 2008. Whether a firm chooses to launch a local fund or a UCITS for broader distribution, Citi can customize the combination of services it delivers to fit the needs of the manager and provide local or international distribution support.

As a custodian to end-investors providing global custody in 92 markets worldwide, Citi offers settlement, safe-keeping, cash management and foreign exchange as a single account set—all serviced in the local time zone. It is currently developing a Shari'a-compliant version of the same service that will draw on the Islamic cash management services already on offer in the UAE.

In the intermediary space, the opening of the Dubai custody service has given international broker-dealers a lot more choice in the selection of a local clearer and brought the number of Citi's direct custody and clearing (DCC) proprietary branches worldwide to 57. The development work on the other three planned DCC operations in the region is well advanced. For other global custodians seeking a local sub-custodian Citi's GCC services will deliver the same consistency of service, look and feel as elsewhere around the world.

Street stresses that Citi is positioning itself in the region to serve every kind of issuer, investor or intermediary requirement. "We are taking a holistic view. We aim to be able to service every type of flow—whether it is an inward flow into the local market or an infrastructure project, an intra-regional flow, or an outward flow from a high net worth individual or a sovereign wealth fund. And we aim to do that in a seamless manner, drawing on the support of our investment bank."

Singh says there is an expertise that Citi can bring in all these areas that sets it apart. "We are not just an emerging markets bank," he says. "On the DCC side, we have helped to shape the way leading markets in Europe operate. We are working to bring those same services into the GCC region, while at the same time providing local clients with a global window. No other provider offers the same span of services across the investment value chain."

## FOR MORE INFORMATION

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