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IAFEI News

Letter of the Editor

May 13 , 2010

Dear Financial Executive,

You receive the **Tenth IAFEI Quarterly**, the electronic professional journal of IAFEI, the International Association of Financial Executives Institutes. This journal, other than the IAFEI Website, is the internal information tool of our association, destined to reach the desk of each financial executive, or reach him, her otherwise, at the discretion of the national IAFEI member institutes.

The effects of the worldwide financial crisis continue to be felt, in many areas of the business activities, by the financial executives. The impacts range from financing activities, accounting activities, to business and economic progress and forecasts for this year and into the future.

There is the impression, that efforts for necessary financial reforms on a national, regional and world level are progressing ever slower than hoped for by many. While there is much evidence for a slower pace of reform, there is also plenty of evidence, that the thrust for reform continues to move forward and to get us closer to results.

The G 20 continues to be a leading body for reform on a world scale. We include its *Communiqué, Meeting of Finance Ministers and Central Bank Governors, 23 April, 2010.* And we quote from it: " We recommitted to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012. Implementation of these new rules should be complemented by strong supervision."

And further on: " We ... stressed the importance of achieving a single set of high quality, global accounting standards; implementing international standards with regard to compensation practices, and welcomed the FSB's (Financial Stability Board) report; completing the development of standards for central clearing and trading on exchanges or electronic platforms of all standardized over-the-counter derivative contracts, where appropriate, and reporting to trade repositories of all over-the-counter derivative contracts; and consistent and coordinated oversight of hedge funds and credit rating agencies." - As to the pace of reform we may like to find consolation in the words of Goethe: " What takes a long time, finally turns out to be good. " Let us maintain this optimism.

Let us also hope, and keep the fingers crossed, that the crisis of Greece, and of to a certain degree similar situations elsewhere, can be contained and settled, and that the spectre of inflation remains contained as well globally.

With best personal regards

Helmut Schnabel

Helmut Schnabel

Institutional Sponsor of IAFEI, the International Association of Financial Executives Institutes:

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Austria, Interview: „ CDS Are an Irrational Market „

Talk to: Martha Oberndorfer, managing director, Austrian Federal Financing Agency

The managing director of the Federal Financing Agency of Austria finds it absurd, to allow to a bank with a low rating to sell insurance of a country with first class standing. And she regards the spreads for Austrian bonds as too high.

Missis Oberndorfer, Austria has issued in January a federal republic bond and, because of high demand, has increased the volume from €3 to €4 billion. Obviously, speculations have not become true, that Austria would be a candidate for bankruptcy due to its links to Eastern Europe ?

Definitely. Austria has never been a candidate for bankruptcy. The market has been worried, when the American Nobel prize winner Paul Krugman has made statements, that Austria might be the next case of a state bankruptcy. In addition, the International Monetary Fund has made wrong evaluations about the Eastern European risk of Austria. Guilty for this have been double countings and wrong inputs. In the case of the Czech Republic, for instance, this exposure was corrected from 236% down to 89%. Added to this was, that one did not believe anymore the Austrian banks, which are active in Eastern Europe, to the degree that an information vacuum was created.

In spite of this, the risk spreads against German Federal Government bonds are still significant. Still, though, they have decreased from their peak of 140 basis points in March 2009 to meanwhile less than 50. Why is this so ?

Indeed, 40 basis points compared to Germany are too much. In normal times the difference is from -5 to +15. The fundamental data of Austria are comparable to Germany, in any case not worse. Therefore, the credit premium should be zero, and the difference in interest rates should exclusively be a liquidity premium. 40 basis points as liquidity premium are significantly too high.

Also, the spread at credit default swaps, CDS, of bonds has increased.

CDS are an irrational market. There exists a conceptual mistake. It is absurd, to allow to a bank with an A rating to sell insurance of a country with a AAA rating. In the crisis, we have seen, that states are rescuing banks, and not vice versa.

If Austria has such a good standing, then the interest of investors should correlate to this ?

This is so, indeed. Investors, in the crisis, first of all are interested in states with the best standing. Austria is one of a half dozen countries in the euro area, and 13 in the entire world, with a first class standing. In spite of this, presently it pays the highest spreads of all AAA countries in the Euro-Area. Therefore it is presently the most interesting country for bond investors in the Euro-Area.

How much will Austria issue this year ?

€25-€28 billion. This is by 1/5 less than 2009. This is about 1/10 of the German issuance volume.

How much have the reputation damage by the rating agencies and the wrong evaluations of the IMF, which then apologized for it, cost Austria in terms of higher interest expenses ?

It is difficult, to quantify this. Although the spreads have been significant, this has not burdened us on a sustained basis. The Republic of Austria is financing itself across the entire interest rate curve - from three-months-money up to thirty-years-money, and not only in the 10 year area, where spreads have been the highest. But the headlines have created a reputational damage, which is bothering us.

It stands out, that the average interest burden of the state indebtedness in past years with 4.3% (2007), 4.2% (2008), and 4.1% (2009) has been lower than in the Euro-Area. Why ?

Responsible for this, on the one hand, is the very good standing. On the other hand, we are pursuing a conservative refinancing strategy with a low portion of money market and a higher portion of bonds with fixed interest rates. The average maturity of the portfolio of the Republic of Austria is roundabout nine years. With this, I regard the refinancing risk as low.

Has the debt management changed in the times of crisis ?

In former times, an AAA sovereign state has not made investors relations. Today, this is necessary. We have had, in the framework of presentations, more than 550 individual contacts with investors. The competition between states has become harder, what one also sees in the high number of state bond issues, which take place at the same time.

To what extent is Austria damaged by the crisis of Greece ?

Greece is a burden on Austria on the one hand, because Austria is part of the Euro-Area. On the other hand, Austria is increasingly moving into the observation by investors, who are looking for a first class standing. In the past week, at the auction of two federal bonds with maturity 2020 and 2026, we had two to three fold excess demand. On the long-term average this ratio stands at short of two.

The Federal Financing Agency, as an institution similar to the German Federal Financing Agency, is responsible for the debt management of the Republic. Until the breakout of the financial crisis in summer 2007, it has strongly invested in papers, which at the end turned out to be highly risky, and it has thereby attracted on itself much critique. The reality is, that it has invested in structured investment vehicles, SIV's. At the height, with almost 5 billion Euro it was invested in almost 2% of all available such paper in the world market. How much loss is threatening from this ?

This was before my time as managing director of the Federal Financing Agency. The threatening loss was said to be roundabout €380 million as per December 31, 2008, by the Austrian Federal Audit Agency. Against this stand realized profits of 3 billion Euro in the period 2002 to 2007. The positions have not yet been balanced off, because, in view of the market recovery, this would not have been in the interest of taxpayers. We are about to check on requests for damage compensation. The papers where short-term money market papers with the best possible rating.

How is it possible, that an institution, which is responsible for the debt management of the Republic, gets into being talked about to be a hazard player ?

There was no speculation, but there was investment, in line with the guidelines, exclusively in best rated papers. We must invest liquidity, on the interim, in the money market, and there are certain risks, that can never be excluded. The respective positions have been issued by such issuers, who were related to the American real estate market, and who, by the crisis, suddenly become illiquid. Overnight they were downgraded from the best rating to CCC, without the possibility for us to react before hand.

Which lessons has the Federal Financing Agency learned from this case ?

Immediately after the arising of these cases we have reacted with measures. We excluded investments in special purpose vehicles and in securitizations. We do not rely anymore on the rating agencies. We do not invest any more in special purpose vehicles and in securitizations. In addition to that, we have checked on our guidelines, and have made them tighter, and have made sure, that the risk management does meet the highest standards. In the end, however, we are active in the capital market, where risk exists, which cannot completely be avoided.

The talk was done by Michaela Seiser.

Article: Systemic Risk or Not?

Author: Prof. Dr. André E. Thibeault , Professor of finance and risk management, Vlerick Leuven Gent School of Management

The recent crisis has been considered as the result of a systemic risk in the financial markets. The European Central Bank (ECB) has been targeted by the de Larosière Report[1] to set up a special entity to track this type of risk and this focus on systemic risk is not unique. Regulatory authorities in USA and Canada are also asking themselves who should track this systemic risk. But what is systemic risk? Look at the most well known textbook in finance and more specifically those about the management of financial institutions and you will find risks like: Liquidity risk, interest rate risk, market risk, credit risk, off-balance sheet risk, solvency risk, technological risk, operational risk, exchange risk, country risk and so on, but no systemic risk.[2]

[1] De Larosière Report (2009).
[2] Préfontaine and Thibeault (1993), Saunders and Cornett (2008) and Sinkey (2002).

Some might say: "Yes, but what about systematic risk?" Systematic risk is not systemic risk. The systematic risk refers to the risk that a firm cannot diversify away by using portfolio techniques. One can find a full development of the concept of the systematic risk when studying the Capital Asset Pricing Model (CAPM).

Steven L. Schwarcz defines the systemic risk the following way: "A common factor in the various definitions of systemic risk is that a trigger event, such as an economic shock or institutional failure, causes a chain of bad economic consequences-sometimes referred to as a domino effect. These consequences could include (a chain of) financial institution and/or market failures. Less dramatically, these consequences might include (a chain of) significant losses to financial institutions or substantial financial-market price volatility. In either case, the consequences impact financial institutions, markets, or both." [3]

Thus, in itself the systemic risk does not exist. We should talk about the systemic nature of some of the risks already fully described in most textbooks dealing with the management of financial institutions.

A credit risk, the risk that a counterparty default on its obligation, can become systemic if the default of this counterparty will result into the default of the owner of this risk resulting into the default of other economic entities linked in some ways to this entity. Thus, a domino effect, a contagion, is the major characteristic of a risk taking a systemic dimension. The A (H1N1) virus is certainly the best example of a systemic risk.

For a risk to transform itself from an isolated event into a chain reaction, two conditions need to be met: The materialization of the risk must be severe enough to jeopardize the survival of the institution and this institution needs to be in a situation where it can export these bad outcomes to other participants to the financial system.

In such a context, the oil crisis of 1973 and 1979 cannot be called systemic because the impact on the economy was not the result of chain effect but of a single event affecting all components of the economy at the same time. The crisis was very severe but it does not spread through a domino effect.

Without the contagion effect, the financial consequences of a failure remain limited to a small number of entities. Take for example the recent failure of the Northern Rock Bank in UK or the failures of two Canadian banks in the 1980s, the Canadian Commercial Bank and the Northland Bank, the consequences of these failures have been limited to their regional markets. No domino effect.

The quasi-bankruptcy of the LTCM hedge-fund in 1998 gives a good example of a solvency risk and of a liquidity risk that reach a systemic status. Because of its size and of the number of its counterparties, some of which major banks on the international scene, a default on the part of LTCM would have resulted into a chain of default from these big players. Here, we find the two components of the systemic nature of some risks, the importance of the negative consequences for the market participants and the contagion effect.

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[3] Steven L. Schwarcz (2008).

The financial crisis that spread around the world was derived from a credit risk associated with the mortgage market in USA that transformed itself into a systemic liquidity risk. The failure of Lehman Brothers shows how a credit risk might impact on the solvency of an institution resulting intro a confidence crisis that dries up your access to liquidity. Here also we find the two components of the systemization of some risks: important losses and the domino effect.

Since we can conclude that the systemic risk does not exist by itself but that some risks can become systemic, lets try to identify among the risks presented earlier those that are more prone to a systemic effect. That should lead to the identification of the institutions that are also the most subject to a systemization of some of their risks.

The market risk, the interest rate risk, the exchange risk, the country risk, the credit risk and the off-balance sheet risk are risks that can impact on the cash flows of an institution. The end result is an important effect on the solvency of the institution which might lead to a bankruptcy. However, the capacity for these losses to spread in the financial system depends on the link between the participants of this financial system. These links are mainly found in their financing and re-financing operations and in some joint operations or technological transfers.

In the banking world, these operations of financing and re-financing are found mainly on the inter-bank market. As we can see in the following tables, during the height of the crisis, Rabobank, a triple A bank, has reduced substantially its reliance on this inter-bank market.

Because of its AAA, Rabobank got access to other sources of funds which were not accessible to other banks. Thus, to maintain the access to funds for some major banks, the governments needed to intervene by guaranteeing inter-bank transactions to insure the flow of funds in the economy.

7 Due from other banks

In millions of euros	2008	2007
Deposits with other banks	22,585	9,537
Assets transferred under repurchase transactions	4,621	29,738
Loans	3,914	3,960
Other	76	18
Less: value adjustments	(118)	(35)
	31,078	43,218
Reclassified assets	2,698	-
Total due from other banks	33,776	43,218

Table 1: Rabobank lending to other banks.
Source : Rabobank Annual Report 2008.

19 Due to other banks

In millions of euros	2008	2007
Other loans	4,091	9,898
Money market deposits	105	87
Time deposits	11,882	21,164
Other deposits	6,101	7,767
Repurchase agreements	1,712	7,416
Total due to other banks	23,891	46,332

Table 2: Rabobank borrowing from other banks.
Source: Rabobank Annual Report 2008.

This need for re-financing is well illustrated in the following table from the TD Group.

TABLE 44 CONTRACTUAL OBLIGATIONS BY REMAINING MATURITY

(millions of Canadian dollars)					2008	2007
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total
Deposits[1]	$299,803	$44,441	$13,845	$17,605	$375,694	$276,393
Subordinated notes and debentures	4	219	227	11,986	12,436	9,449
Operating lease commitments	449	791	602	1,482	3,324	1,874
Capital lease commitments	15	40	3	–	58	76
Capital trust securities	–	894	–	–	894	899
Network service agreements	169	153	–	–	322	492
Automated banking machines	70	124	–	–	194	235
Contact centre technology	30	85	–	–	115	144
Software licensing and equipment maintenance	82	75	–	–	157	168
Total	$300,622	$46,822	$14,677	$31,073	$393,194	$289,730

Table 3: TD Group need to re-finance.
Source: TD Group Annual Report 2008.

With a total balance sheet of 563,214 millions Canadian dollars, the re-financing need exceeds 50% of the total balance sheet. However, one might consider that their deposit basis is very stable. The TD Group, as Rabobank, has the highest credit rating, AAA.

Thus, the level by which an institution relies on other institutions for its financing or its re-financing might create a liquidity risk. In the case of a crisis of confidence due to high solvency risk, this liquidity risk can acquire a systemic nature and can spread to the system as a whole.

The case of AIG is one where we see this link between solvency risk and liquidity risk. Following some transactions on the credit derivatives market without the required provisioning, the firm got into a solvency crisis that blocked its access to funds resulting into a liquidity issue jeopardizing the survival of a large number of counterparties.

The following figure illustrates how numerous risks end up into an issue of solvency and liquidity. These two risks are those that might turn systemic.

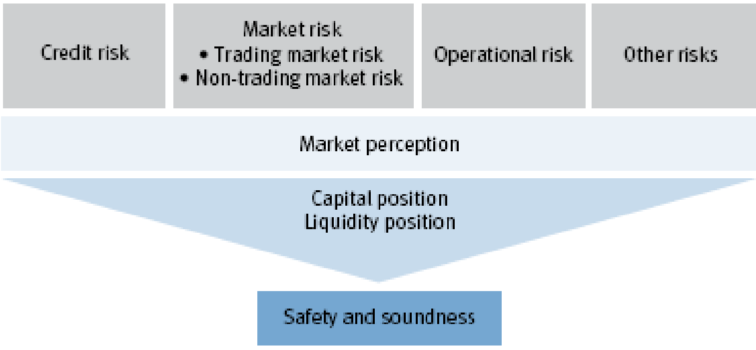

Table 4: Royal Bank of Canada risks Structure.
Source: Royal Bank of Canada, Annual Report 2008.

Thus, to conclude we can ask ourselves which institutions are prone to the systemization of their solvency and liquidity risks. The answer to this question brings us back to the Schwarcz's definition of systemic risk: a risk that has substantial impact in term of potential losses and a risk that can spread within the financial system. Thus, big banks and investment banks are those to watch with regards to the potential systemization of their solvency and liquidity risk.

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Article: More Stability for Global Financial Markets – Banks´ Perspective

Author: **Dr. Josef Ackermann, Chairman of the Management Board and of the Group Executive Committee of Deutsche Bank AG**, Speech made at the Center of Financial Studies, CFS Colloquium, at the Goethe University of Frankfurt am Main, Germany, March 17, 2010. This is a translation of the original speech.

Hello, Ladies and Gentlemen!

First of all, I would like to express my thanks for the invitation to speak at this colloquium, which I last attended two years ago. At that time, the world appeared in a somewhat different light. We were focusing on the immediate demands of crisis management. Today, we are discussing the lessons from the crisis and a new framework order that is intended to make our financial system more robust.

There is a surprising dichotomy in the debate surrounding a new regulatory regime for the international financial markets:

- On the one hand, intensive discussions are taking place about specific regulatory projects, such as the structuring of derivatives markets. These are discussions with a level of detail that makes it difficult, even for the experts themselves, to maintain an overview of the various regulatory dossiers.
- On the other hand, there is a much more fundamental debate among the general public and, in some political circles, that revolves around the basic question of what role financial products and financial service providers are actually expected to play in a modern economy.

Between these two sides there is a broad gap of speechlessness and a lack of shared understanding. This gap explains why there have been a number of misunderstandings in the public debate concerning the restructuring of the financial markets. It also explains why many people in society and politicians have the impression that an overall concept has been lacking for the restructuring of the financial markets. It also explains why warnings from the financial industry about the negative consequences of certain regulations are not interpreted as a desirable and necessary form of opinion-making, but rather as an attempt to prevent or undermine a stricter regulatory regime. And it also explains why the trend towards politically radical solutions is growing – whether it's a ban on credit default swaps (CDS) or Paul Volcker's proposal to prohibit certain business activities; or whether it's the call to keep banks small or even to break them up, if necessary.

We must therefore bring the two discussions together – namely in both directions: the discussion about the technical details of individual regulatory measures must be aligned to overriding guidelines – and, conversely, the guidelines must be set out through an informed debate as to how markets function in detail and what effects specific regulatory steps have on these functions.
In other words, we have to address the **following questions**:

1) What role do financial markets have in a modern economy?

2) What forms of financial markets do we want to have, and which financial products? And ultimately, building on this:

3) What is the appropriate and necessary regulatory regime for the desired forms of the financial markets so that they can deliver their benefits for the general public without causing any unintended instability?

What role do financial markets have?

Let's take a look at the first question, the role of the financial markets in a modern economy. Financial markets and institutions primarily perform their financing function in an economy. Besides the basic transformation of maturities and denominations, they also specialize in evaluating, monitoring, as well as assuming and distributing risks. In this role, financial markets have a function to serve: they support the activities in the real economy. Precisely for this reason, we consider ourselves, as banks, to be service providers. Precisely for this reason, we do not remain indifferent when it is claimed that the financial economy has detached itself from the real economy. And precisely for this reason, the shock is so deep that the financial system failed as fundamentally as it did in the most recent crisis in its very own task – of correctly evaluating and appropriately managing risks.

Does this mean, conversely, that the financial sector sees its existence and the justification for its existence **solely** from supplying the real economy with financial services? That would be a false conclusion. The financial sector also creates value autonomously. When financial institutions trade securities with each other, for example, this generates liquidity that benefits companies and investors in the form of lower margins and undistorted prices.

These price signals are an important, often underestimated contribution to the financial markets. Not only do they form the basis for decisions about investments, savings and consumption, but they are also important indications of the quality of the work of a company's management in identifying the right opportunity/risk profile for the company. And they also provide important signals for economic policy with regard to the tax burden, competitiveness and inflation.

No one will claim that financial markets are infallible in their judgment. In particular, the crisis has again clearly shown us the boundaries of the financial markets. But underlying the current debate on regulation, it appears to me that there is also the fundamental question as to how far we as societies are prepared to accept the results of market processes and to what extent we are prepared to accept market prices – including those on financial markets – as a valid argument in political discussions. Of course not in the form of blind loyalty, but rather in recognition of the fact that these market prices – for all of their inherent weaknesses – also reflect the autonomous consensus building of a large number of individual actors. In a society that sees the social market economy as a central part of its identity, these signals should be appropriately taken into account.

This, of course, also entails the willingness to accept market processes and the market process results, such as prices, as the outcome of a search conducted by numerous people. Inherently, market economy processes are not definitive, and do not present us with final and permanent truths. Rather, they are the expression of the more or less stable order of the preferences of market actors and reflect the attempt of these actors to achieve an increase in prosperity through innovation and change. This dynamic character of the markets applies in particular to financial markets in which every contract, without exception – even that of a simple loan – is basically a wager on an uncertain future.

Therefore, we have an obligation as a society to establish mechanisms that increase the market participants' ability to make the most precise forecasts as possible, and thus the fewest possible errors! For this reason we support, for example, a steady, independent monetary policy; for this reason we have legally established systems of financial accounting and auditing; for this reason there are disclosure duties for products and financial institutions. These and other mechanisms are neither an end to themselves nor are they arbitrarily chosen; they draw the justification of their existence from society's aim to use the market mechanism to the benefit of all and to create a framework in which the market can develop further through innovation.

Which forms of financial markets do we need?

The willingness to accept that financial markets have these specific functions is one thing; what form our financial markets should in fact have is an entirely different question. With some concern, I have seen that two problematic schools of thought are currently becoming established:

- On the one hand, there has increasingly been talk of a retreat to allegedly secure and controllable national financial markets. The national regulatory authorities' rights of intervention are thus being strengthened de jure or de facto. Internationally operating financial institutions are advised to maintain local reserves of capital and liquidity instead of managing these at the corporate group level. And foreign investors are seen with a fundamental degree of scepticism.
- On the other hand, one idea that has been gaining popularity – not the least initiated by Paul Volcker's proposals and with the support of some of the actors in Germany – is that you could, or actually you should, establish a simple, transparent and, as some would say, "respectable" banking system: a system that is restricted to the processing of payments and the traditional deposit and lending business, one that can build on a governmental promise of support in the event of a crisis. A distinction is made between this and an allegedly highly speculative casino banking system with derivatives, securitizations, hedge funds, private equity and proprietary trading. It is said that this should be either prohibited altogether, but would at least have to be excluded from every form of government assistance.

As said, I consider both of these approaches and developments to be very problematic. Relinquishing internationally integrated financial markets would be a severe break with fundamental economic and socio-political decisions, from which Germany in particular has profited enormously, and not just in economic terms. This would lead above all to massive declines in prosperity. The possibility of being able to use opportunities in foreign markets, together with the pressure to remain competitive against the foreign competition, are fundamental for the long-term economic success of German companies and financial institutions.

In like manner, modern economies are not conceivable without modern financial products, or they would only be conceivable with significant declines in prosperity and growth. Without hedging instruments against volatile exchange rates and commodity prices, there would be no global economy. Without hedging of long-term risks, there would be no company pension plans. Without emissions trading certificates and weather derivatives, the costs of mastering the challenges of climate change would be even higher. Without securitizations, lending volumes would shrink significantly – as we are painfully experiencing at the moment. It is true that there was life before the introduction of this or that financial product innovation – although, by the way, it should be said that derivatives contracts in the form of commodity futures were already used in Mesopotamia! But in the political debate, we should not ignore the overall cost to the economy of doing without these instruments, and we should not let the impression continue that they serve only for the enrichment of a few so-called “speculators”.

I believe that the current discussion surrounding the CDS markets is illustrative of the problem. Assigning fault to so-called speculators in connection with the problems of Greece is illustrative of the basic misunderstandings about the functioning, the boundaries and the possibilities of modern financial instruments. Without wanting to make any lengthy statements about this specific case, I would like to briefly touch upon a few fundamental matters using this as an example:

- The reactions of some politicians appear to show a mix-up between cause and effect: the development of CDS premiums reflects the deterioration of Greece’s fiscal and economic condition as well as uncertainty surrounding domestic reforms and international rescue measures. Investors do not need the CDS market to recognize that a budget deficit of 12% is unsustainable.

- Without the possibility of hedging risks vis-à-vis Greek debtors – whether government or private – the financing costs for the Greek state and companies based there would be even higher, not lower. Investors would have not made an investment or would have actually reduced existing exposures.

- Contrary to what the often-cited analogy to fire insurance would suggest, credit derivatives do actually not involve an insurance policy, but rather a derivatives contract. Its primary economic benefit does not lie in the hedging against default, but rather in making risks tradable and in making a daily valuation of these risks possible.

- And for precisely this reason, selling short on CDS contracts – without owning a bond – is also a legitimate and meaningful practice. When an institutional investor or a bank hedges a portfolio of claims against Greece through liquid CDS on the Greek state, the investor or bank is acting responsibly, not irresponsibly.

As I said, I wanted to present these as illustrative arguments of the current debate that is often based on insufficient knowledge of the matters at hand. I also wanted to show that what people like to present as apparently patent solutions will not solve the problem, nor are they free of negative side-effects. The examples also show that we should not lose sight of the underlying, fundamental questions – for example, in the debate surrounding CDS contracts, the key question is actually how much market process and how much market discipline do we want to allow.

The required regulatory regime

As mentioned many times before, markets will only find acceptance when the participants consider the market processes to be basically reasonable, fair and orderly. For this reason, markets need to have a framework order with clearly defined rules and a balancing out of the inherent weaknesses in the market process. In the wake of the most recent financial crisis, it is a foregone conclusion that this framework order needs to be fundamentally reformed – the weaknesses identified through the crisis have become obvious.

In the search for the right reform measures, it is of course necessary to keep in mind that the crisis had many causes. It is undisputed and undisputable that the biggest responsibility for the crisis lies with the banks themselves. Risks were assumed that exceeded by far banks' risk absorption capacities and the quality of their risk management. Incentives were incorrectly set, not only for financial products, but also in connection with the internal allocations of capital and the compensation systems. Among the causes of the crisis, however, there were also macroeconomic errors such as an excessively loose monetary policy, for too long, as well as too much tolerance of global imbalances. In addition, there were regulatory failures; for example, with government-sponsored enterprises (GSEs) and in the role that was officially conceded to ratings within the framework of banking supervision. Weaknesses in financial accounting standards – for example, the questionable nature of fair value accounting for illiquid assets – also come under this category. And I could go on. The list of the causes of the crisis is long.

This being the case, it is also appropriate for the reform of the framework order to address several aspects. There cannot and will not be any easy, patent solutions – even if the desire for this is understandably high. The biggest losses and distortions actually occurred in entirely different areas. It is therefore an illusion to believe that a whole bundle of causes could be adequately addressed by a single or only a few measures. On the contrary: there must be an integration of numerous reform elements.

They must all be aligned to the target of making the **international financial system more resilient**. We will never be able to entirely avoid crises. Freedom always comes attached with risk; the market economy will always have ups and downs, success and failure. Here, the objective must be to strengthen the financial system in such a way that the effects of crises remain manageable, that is the political scope of action and the economic performance of a country must no longer be put into question. And, in ensuring this, we must preserve the integration of the global financial system for the reasons already specified.

To avoid creating any misunderstandings: when I limit my comments in the following to measures in connection with financial market regulation, I do not intend to say that the banks do not have an obligation to act. On the contrary: the first and most important line of defense against shocks is each bank's own risk management. At Deutsche Bank, we have already documented and explained in many ways the measures and improvements we have implemented based on the lessons from the crisis. In addition, the IIF has presented such activities of banks from around the world. During our discussion later, I would be pleased to speak about this, if you like.

In my comments, however, I would like to focus on **six regulatory aspects** that I believe represent the essential elements of an overall concept.

1) Systemic financial supervision

One of the first lessons from the crisis was that a monitoring of systemic risk for the entire market is indispensable, along with financial supervision at the institutional level. A comprehensive perspective on systemic risks is an important element in seeking to establish more stable markets. In terms of concrete implementation, we have already made good progress here in the EU: the European Parliament is currently discussing a draft law for the European Systemic Risk Board. This appears to be significantly less disputed than the realignment of regulatory structures currently being discussed in parallel.

Nonetheless, here we are only at the beginning of a long journey. I consider **three preconditions** to be necessary for successful systemic supervision. Unfortunately, I believe they have received too little attention in the discussion until now:

- **First:** We need a close integration of micro and macroprudential supervision. This is the only way we can fully realize the potential of macro-prudential supervision and avoid unnecessary double work.
- **Second:** We have to determine how the work of the various regulators in the EU and the USA as well as at the global level will be coordinated. These supervisors could actually assess risks differently, which would create uncertainty on the markets.
- **Third:** The tasks of macroprudential supervisory authorities must not be too narrowly defined. These tasks must do more than just monitor the equity capital backing of the financial system. This means that regulators must take a comprehensive approach to analyzing the system's stability. This includes, for example, examining the effects on financial stability from financial accounting standards, along with the impacts of monetary and fiscal policies and the effects from changes in market infrastructure and various regulatory plans.

2) Capital requirements

It is clear that we need a reform of equity capital standards. The crisis revealed more than just the weaknesses in the methodology of the current regulatory regime. An obvious example here are the boundaries of the previously used mathematical/statistical models that insufficiently mapped extreme scenarios – extreme scenarios that actually turned out to be probable scenarios during the crisis. However, the crisis also emphasized that the ability to absorb losses depends directly on the equity capital base. During the crisis, the amount of equity capital turned out to be of fundamental importance for banks' stability and competitiveness. Deutsche Bank therefore again and again emphasized the importance it attached to having a strong capital base, and it still does. It is also clear that the level of equity capital in the financial system was generally too low. I therefore unreservedly support the objective of strengthening the equity capital base of the financial system.

The institution responsible for this, the Basel Committee, already submitted a consultative paper on this in December: banks will in the future have to hold **more and higher quality** capital. In addition, a whole series of additional measures have been tentatively proposed: for example, anti-cyclical capital buffers and a dynamic risk provisioning, higher capital requirements for certain transactions between banks, as well as what is called a “leverage ratio”.

In particular, the intended leverage ratio turns out to have serious conceptual weaknesses. As with the other measures, in particular the anti-cyclical capital buffers, numerous questions are still unclear. In connection with the higher equity capital requirements, a great deal of importance is attached to an assessment of their possible impacts that is planned for later this year. A decisive question will be what consequences will higher equity capital requirements have on the banking system’s ability to provide financing for growth and innovation? Independently from the results of this study: the costs, which will certainly be high from the transition to a stricter capital regime, can be cushioned with the help of transitional periods, grandfathering clauses and a gradual introduction of the measures.

3) Management of liquidity risks

My third point involves the management of liquidity risks. Among regulators and at banks, this topic has stood in the shadows of equity capital regulations for years. One reason for this was certainly that before the crisis liquidity appeared to be a foregone conclusion, even in exotic market segments. The crisis thoroughly dispelled this misconception. The crisis impressively emphasized the importance of having solid and diversified refinancing with a large proportion from stable sources. Also issues relating to the management of currency and maturity mismatches have again come into focus.

In December last year, the Basel Committee also submitted a consultation paper on the regulation of liquidity. This paper basically addresses the important points: on the one hand, it proposes that banks must hold bigger buffers of liquid capital assets. This takes into account the experience from the crisis that access to liquidity on the market may be closed off for an extended period of time. On the other hand, it aims at reducing maturity risks by imposing stricter requirements for refinancing structures. These considerations reflect the knowledge gained from the failure of banks that tended to refinance illiquid, long-term assets with short-term revolving funds from the wholesale markets.

Both of these approaches and considerations are correct. Here, too, when implementation actually takes place, it will be important not to shoot above the mark. In particular, we should avoid establishing an overly rigid system based on key figures, one that no longer provides scope for internally used liquidity risk management models and systems. In Germany, we have had very good experiences with this approach in the past.

With regard to the rules, regulatory practices and liquidity policies of central banks, it is important to have an internationally coordinated procedure here, too. For the most part, banks steer their liquidity risk at the consolidated group level. In revising liquidity rules, regulators should therefore take into account systems at the group level. Cooperation of the respective national supervisory authorities should be organized correspondingly. A fragmentation would induce national authorities to require individual units of international groups to hold separate liquidity reserves. That would be neither efficient nor conducive to financial stability. The consequence would be liquidity pools trapped locally at the respective corporate unit. When needed, they could not be passed on to corporate units at other locations. This can become a source of problems.

4) Market infrastructure

The fourth element of a more resilient financial system is a better market infrastructure. Similar to the supply of power and water, this essentially involves reducing the interconnectedness of the market participants between each other through an intelligent market infrastructure.

Our objective must therefore be to isolate even big and highly networked financial institutions in the event of their failure from the rest of the system and to allow them to exit the market without large systemic distortions. We must prevent unhealthy financial institutions from infecting healthy competitors. The more successful we are in this, the more credible the market's sanction mechanisms will be. Considerations of limiting the size of such institutions artificially would then be unnecessary. Ultimately, a global economy with global industrial companies also needs correspondingly large global financial institutions.

Concretely, the discussions in this area are currently revolving around the clearing and settlement of derivatives and forex transactions. Even before the outbreak of the crisis, banks were working on a project to set up central counterparties, so-called CCPs. Furthermore, the CLS system ("continuous-linked system") for the clearing and settlement of forex transactions dates back to the year 1997; today, 55% of the world's forex transactions are already processed through CLSs.

Nonetheless, even in the CCP area, we have not yet taken advantage of all the available opportunities. With their help, we can achieve greater transparency. In combination with central pools of market data, CCPs can provide regulatory authorities and market participants a better overview of the distribution of risks in the market. A positive side effect from this could also be to more easily correct some distorted perceptions, for example those focused on CDSs, through greater transparency.

A better market infrastructure, of course, has its price. Greater automation, central counterparties and a pooling of market data will certainly bring more stability. A precondition for this, however, is a greater standardization of contracts. This, in turn, will make it more difficult to address the individual financing and hedging objectives of the companies involved. It will also lead, by the way, to lower margins for banks.

5) Effective crisis management

I now come to the fifth aspect: we need more effective instruments and processes to handle imbalances at banks, especially imbalances of large, complex financial institutions. Here, too, there are no simple solutions.

The right approach, I believe, consists in having various options available to select from in order to achieve the optimum combination of instruments in the event of an imbalance. From my perspective, at least the following elements would be required:

a) *Early intervention rights for regulators*: Regulatory authorities must have the right, for example, to demand that an institution affected undertake measures to reduce risks even before critical key figure levels have been reached. This also includes the regulatory authorities' right, actually I would say the obligation, to critically question business models.

b) So-called *"contingent capital arrangements":* Solid capital management also includes the capability of raising fresh capital at previously specified conditions or being able to convert debt into liable equity capital even in a difficult market environment. If such arrangements are in place, the probability is reduced that a financial institution will come into an existentially threatening imbalance.

c) *Clear corporate structures that are as simple as possible:* Banks should regularly examine whether their corporate structures can be simplified. Furthermore, they should also be able to present at any time their corporate structure as well as the service and debt relationships between their significant corporate units. I believe these measures would be a more expedient solution than the very theoretical exercise of what have been called "*living wills*". After a great deal of effort, such wills would specify potential crisis and reaction scenarios, which may not actually ever occur in such form.

d) *Intervention rights to implement a restructuring in the event of crises:* Regulators should have robust rights of intervention at banks that cannot stabilize themselves on their own, so that regulators can carry out the required restructuring. This includes, for example, the spin-off and transfer of individual corporate units. I also believe it would make sense to conduct a review of shareholders' rights and obligations, including measures relating to a bank's capital structure.

e) *Stabilization fund:* In my opinion, having a pool of capital available for the stabilization, restructuring or winding down of banks is also indispensable. We would also be sparing ourselves the need to gather fresh capital under extreme time pressure and tense conditions. Instead of the uncertainty connected to this, there would be an orderly process subject to rules and procedures that have already been defined in advance. I therefore consider establishing a stabilization fund to be indispensable.

f) *Insolvency regime*: Finally, we need to have an effective insolvency regime, which must be established at the international level. I am aware that this is a monument task. But it would be worth the effort, in the interests of financial market stability and integration. The EU has a solid foundation to build on here; in particular, the Winding Up Directive should be mentioned in this context. Also the United Nation Commission on International Trade Law has put forward good recommendations for handling the insolvency of international groups.

<u>6) Improving supervision</u>
As the sixth and last point, I would like to say that any changes in regulatory regimes will go to waste if the regulators are not able to check compliance with these rules and promptly identify developing risks – and react accordingly.

This, however, requires a system of financial supervision with experienced, professional, internationally trained and sufficiently staffed resources. It now appears we would be well advised to devote less energy to the discussion about new regulations and somewhat more to the qualifications and ongoing training of regulatory staff. Here in Germany, we have been conducting a spirited debate about the institutional anchoring of financial supervision; however, the **quality** aspect of supervision has not played a significantly important role in this.

Furthermore, I am somewhat concerned that the initially recognizable trend before the crisis towards a stronger consolidation of regulatory authorities and a supranational structure has come to a standstill, or even perhaps been reversed. In the EU as well, the European Commission proposals aimed at strengthening the European level have been seriously weakened by the member states. A fragmented regulatory structure hinders not just the overall European business model and internal financial market, but it also poses risks to financial stability. I therefore urgently recommend that we should not diverge from the long path towards establishing regulatory structures for all of Europe, but rather, on the contrary, we should again gradually pick up the pace of this process.

Conclusion
Ladies and gentlemen, these are my reform ideas for a more stable and resilient global financial system. Before I conclude, I would just like to summarize what I believe is important:

1. The numerous reform measures currently being pursued can be combined into a convincing overall concept. In their entirety, they will make the financial system more robust to shocks.
2. Banks support the efforts to institute a better framework order. No one has a greater interest than we do in the stability and resilience of financial markets.
3. Supposedly simple solutions are often not effective; they will not be able to address the complexity of the material at hand.
4. A careful analysis and weighing up of the potential consequences of new regulations are not only legitimate, but also required to avoid the unintended possible side effects.
5. We must proceed in an internationally coordinated manner. The loss of prosperity through national go-it-alone approaches is something we cannot afford.

Ladies and gentlemen, we now have the opportunity to draw the consequences from past mistakes and establish a more stable financial system without suffering a material decline in prosperity. These are opportunities we shouldn't miss. I would like to thank you for your attention and am looking forward to the discussion with you.

Translated into English by Helmut Schnabel, crosschecked by Press & Media Relations Deutsche Bank AG, London

Article: The Merck Group Will Be a Regular Issuer in the Bond Market

Author: **Dr. Michael Becker, Chief Financial Officer of the Merck Group**, Darmstadt, Germany

The Merck Group is a worldwide active chemical and pharmaceutical group, employing around 33.000 employees worldwide, in around 60 countries. Merck, since the middle of 2007, is member of the German large cap equity index DAX 30. Merck is the oldest chemical-pharmaceutical enterprise in the world. Its roots date back to the year 1668. In 1827, the industrial production was started. More than 100 years ago the first research on liquid chrystals has been started.

In 1917, as a consequence of the first world war, the Merck activities in the USA have been expropriated: Since then, they are incorporated in the USA as an independent enterprise Merck & Co. This one acts outside the USA under the name MSD (Merck, Sparp and Dome). Merck Darmstadt, however, is incorporated in the USA, today, under the name EMD (Emmanuel Merck Deutschland) and outside the USA worldwide under the name Merck.

Merck is bundling its operating activities under the roof of Merck KGaA. Today around 30 % of the equity capital is owned by free float shareholders; around 70 % is owned by the Merck family, which has over 100 members, by way of the personally liable owner E. Merck KG. In 2009 the group achieved a turnover of 7,38 billion Euro and operating earnings of 621 million Euro. The free cash flow was 821 million Euro.

The Merck Group, in 2010, has acquired the US firm Millipore for 5,3 billion Euro, against cash. A total of 5,4 billion Euro had to be financed. This number includes transaction costs and Millipore debt which was taken over. For the start, we have provided this amount by way of a bridge loan, a credit line of 4,2 billion Euro, which has been provided by Bank of America, Merrill Lynch, BNP Paribas and Commerzbank. In addition we have available cash of 2 billion Euro. Since we have already issued bonds, we shall not any more draw down the full bridge loan.

The bridge loan consists of three tranches, which have to be paid back after 1, 2, and 3 years. The one year maturity has a volume of 1 billion Euro, the two year maturity of 1,2 billion Euro, and the three year maturity of 2 billion Euro. Because of the means obtained by the issuance of the bond, however, we shall only draw down a part of the third tranch. 3,2 billion Euro bridge loan we want to substitute through financial means from the bond issue.

The fees on the bridge loan depend on the draw down and the rating, and the amount is managable. The remainder of the bridge loan will be syndizised with the bank pool, with which we always work together, this is roundabout 15 banks. When we agreed upon the credit line, we did not yet know, how the rating of the corporation would be changed. Things went very well, with the downgrading being only one notch to BBB+ (Moody`s A 3, under examination for downgrading).

When making the acquisition, Merck had to be prepared for a number of eventualities. We paid 107.- US dollar per Millipore share, at an exchange rate of 1,36 US dollar per Euro. We had to take into account, that eventually we would have had to pay a bit more - it was said there have been other bidders as well - and because the exchange rate of the dollar would go against us. But this did not happen.

As a consequence of the worldwide financial crisis we did not have to reshape our banking pool, fortunately. However, by way of mergers among banks, our banking pool has become smaller. For special purposes we have also relationships to Landesbanken, the German state banks, for instance the issuance of non-listed loans or when family shareholders need a financing. In the crisis these have been the safest banks.

Overall we are creating a cash reserve of 800 million Euro. In addition we have a credit line of 2 billion Euro from the acquisition of Serono, which we have never drawn down. This credit line runs till 2014, and also now it is not being utilized - this is our safe reserve.

The 3,2 billion Euro bond issue of Merck was very well received by the market. The demand was enormous. In only half an hour the bond was oversubscribed by 8.5 times. And Merck has benefitted from the fact, that during the crisis of Greece almost nobody else went to the market. So demand has been pent up. This was a favourable window. Conditions were better than at the bond issue which we placed in spring 2009.

One bond of Merck will mature in November 2010 for 500 million Euro. Merck can pay back this bond from liquidity reserve or it can issue a new bond. Since quite some time, bond issuance has become more important for Merck, given that syndicated loans could not be made for quite some times. There is a tendency at Merck, to issue more bonds in the future. Merck, internally, has an issuing programm of ten billion Euro, but this is just an internal figure. Within this programme, Merck will regularly issue bonds in the market.

When Merck, recently, lowered the dividend, we already had in mind the acquisition of Millipore, but could not make this known to the public. There are two reasons for lowering of the dividend. Merck had to show for two consecutive years a lower profit after taxes. 2008 because of special effects, 2009 because of the financial and economic crisis. In addition, corporate liquidity has to be protected, in oder to repay debt. In the meantime, the investors have understood and accepted this.

The refinancing of the US acquisition is exclusively done in Euro, although a company in the US dollar area has been acquired. The reason for this is, that indebtedness has to be incurred where interest expense can be deducted for tax purposes. Merck does not have a high income in the USA, and Millipore is organized in such a way, that profit is not high there either. In the USA, the group is not generating enough income, in order to expense the interest against it. But Millipore has also many international activities and is financing its European business via Ireland. Merck will therefore find group corporations in Europe, which shall shoulder the new indebtedness, probably in France and Germany. This will be coordinated with the fisc.

Overall, the acquisition financing cost will be in the order of 4 to 5 %, including the fees for the banks. The indebtedness, expressed by the ratio net debt including pension provisions to Ebitda will increase from 0,4 lately, to then 3,5. It is the intention, to again reduce the indebtedness over time. Standard & Poor`s, for this reduction, has granted a three year period, while at the same time maintaining the BBB+ rating. However, Merck aims at reducing the net debt faster, say over the next two years. Through this, the target is to reduce the net debt to Ebitda ratio to 2,5. In the long run, Merck is again aiming at an A rating.

Merck has been upgraded to the A area of rating during the financial crisis. The value of such a rating is, that it demonstrates the strong balance sheet and that it stands for a quality sign. The free cash flow of the Merck Group in 2009, with 812 million Euro, was high by company standards. For the group, this is the normal cash flow generating level. Including Millipore, the amount stands at 1 billion Euro. This cash flow volume is needed to reduce the debt volume over time, and in order to issue again a higher dividend. Profit in 2009 was not satisfactory, but the company expects a much stronger return for 2010. This will then also impact the dividend payout.

Merck, in the past, has used the instrument of pension provisions for the financing of overall corporate purposes, a longtime common procedure in German industry. In 2009, Merck has started to change that, and to fund these provisions partially with liquid investments, and keeping both items on the group balance sheet. Since a number of years, it has become fashionable in Germany, to fund parts or all of the pension provisions by way of the use of a special purpose vehicle, and to then take both, the pension provisions and the funding assets, off the goup balance sheet, which is allowed by IFRS standards, and to thereby shorten and purify the balance sheet from pension provisions. Merck has decided to do this exercise not outside the group balance sheet, but to do this on–balance sheet, for reasons of principle and of transparency. In the future, down the road, all 1,2 billion Euro pension provisions will be funded at Merck.

The Millipore acquisition will contribute positively to the group profit in the first year already. This is so, because Millipore has a very high operating margin, thereby contributing to group earnings per share even after acquisition costs. The operating margin of the combined new group will go down only marginally, if at all.

With the Millipore acquisition, the chemical activities of the group, outside liquid chrystals, will be restructured. The chemical activities will then be less cyclical and less dependent on the segment liquid chrystals. The life science business has now an order of size, that there is now a good balance within the chemical segment, as well as between the chemical segment and the pharmaceutical segment.

The star division liquid chrystals, which once had operating margins of over 50 %, has especially suffered in the financial and economic crisis. But the return is still high, but more than 40 % will probably not be achieved any more. In the fourth quarter 2009, the margin has again reached 45 %, which is a good number. This reflects the ongoing earnings power. The numbers of the last quarter 2009 could be overstated by the expectation of high sales of TV´s in connection with the upcoming Soccer World Chanpionship. The economic crisis is not over. Therefore prudence is the name of the game. Merck has lost market share during the crisis, because we did not participate in the price cutting competition in a falling market. The market share loss is at around ten percentage points, down to a level of still slightly over 50 %. But we are targeting at again regaining the higher market share, for which we shall have to incur quite some spending. This forecast is certainly cautious.

Traditionally, Merck is making cautious forecasts at the beginning of the year, and it is not known, why the stock exchange does not like that. By contrast, the Millipore acquisition was accompanied by a rising stock price of the Merck share, which is unusual. The company had not expected this.

Still, Merck is giving a forecast this year, by contrast to the previous year, when no forecast was made and when the company was critizied by the German Financial Reporting

Enforcement Panel, FREP. A year ago, the Merck Group was simlpy not in a position to make a reasonable forecast. It is to be known, that Merck is among the first companies in the year to publish an annual report. So, this early in the year 2009 it was not clear, how other DAX corporations would present their own forecast, and at the time it was not clear, how the German accounting standard setter DRSC, would react on the subject. This body has only later during the year issued the opinion, that companies must provide a forecast also in times of crisis.

Of course, Merck would have been in a position, to give a two page forecast in its annual report early in 2009, which, however, would not have been a real one. Also, in retrospective, the group is of the opinion, that it was right, to be honest to the investors. At the time, one could have either issued a wrong forecast, or a such broad and opaque outlook, that it would not have been a forecast. This would not have served the market, what investors have confirmed to the group. From this end, the group has not been critizised.

On the other hand, the Financial Reporting Enforcement Panel, as well as the German supervisory agency Bafin, considered this as an important event and have attached some publicity to it. But the group still thinks, that it has acted properly, and at least acceptably. For me, as a cfo, it is a question of outrightness, to point out in difficult times, that the view forward is being made difficult and that a forecast therefore does not make sense.

The external auditor has discussed intensely this subject with the group and has agreed to the group´s opinion. The external auditor is therefore, now, in the defence as well. This is also one of several reasons, why we pursue a legal procedure against the decision of the Financial Reporting Enforcement Panel and against Bafin.

Already at the time, in April 2009, and after the fog had gone away somewhat, we had then already given a forecast. But when we had to put together a forecast in February, the liquid chrystal business had come to a stand still, and we did not know, how the health reform in the USA would end up to be. This has pushed us into total uncertainty. Other corporations, at the time, have pointed out as well, how difficult a forecast is in such circumstances.

Table: Merck Group, Bond Maturities, in million Euro

2010	500
2011	0
2012	1000
2013	750
2014	0
2015	1350
2016	0
2017	0
2018	0
2019	0
2020	1350

Translated into English by Helmut Schnabel.

Article: An Anchor of Stability and of Trust

Author: Jean Claude Trichet, President of the European Central Bank

As promised, the ***Euro*** *is as "hard as the Deutsche Mark". The European Currency Union, however, is a lot more than a pure monetary arrangement. It is also a community of common fate. In order to overcome the consequences of the financial crisis, therefore all decision-makers, public and private ones, must live up to their responsibility.*

The author, Jean Claude Trichet, is, since November 2003, President of the European Central Bank and thus master of the Euro. In the worldwide financial crisis and recession, the 67 years old French man has added to his reputation as independent monetary polititian oriented towards stability - and thus to the reputation of the young currency. Also in his last year in office, he is kept busy with the consequences of the crisis. At this, the economist is confident, that the central bank will stay on its course. Greater worries are causing to him the way, in which European Union governments are dealing with the state debts, and the cohesion in the Euro-Area.

The broad public takes notice of the activities of central banks, as a rule, only in special situations. The financial crisis and the extraordinary measures taken by central banks worldwide, are an example for such a situation. The measures, taken in usual times, which serve the objective of price stability, however, typically attract less attention. This holds true, even more so, when periods of inflation are lying back since a long time and when the remembrance of the negative consequences of unstable currencies is waning.

Unstable prices are not a phenomenon with which the citizens of the Euro-Area, in their day to day life, have to deal with seriously. This is the merit of the European Central Bank (ECB), the ECB Council as well as of all acting persons, who carry joint responsibility within the Euro- System at national central banks for the monetary policy. The ECB has kept the promise of stability, made by the founding fathers of the Euro. The average annual inflation rate in the first 12 years of the euro until yearend 2010 is foreseen to be at around 1.95%.This meets exactly the quantitative objective for price stability which, in the medium-term, targets an increase of the harmonised consumer price index in the Euro-Area of below, but close to 2%. By comparison: The average inflation rate in Germany in the 90s before the introduction of the Euro was at 2.2 percent, in the 80s, it was at 2.9%, in the 70s at 4.9%. This means, the Euro does meet the comparison with the Deutsche Mark, as regards stability, easily. As promised, the Euro is at least as strong as its most stable predecessor currencies and it is at least as "hard as the Deutsche Mark". One could point out, in addition, that the inflation rate in Germany, with the Euro, has even been lower than at the times of the Deutsche Mark, namely only at 1.5% on average between 1999 and 2009.

In view of the significant challenges, which the Euro-Area had to meet in the past years, this is a great success, especially for the young central bank, which is responsible for a new currency, in a newly created currency area, with 16 countries and 330 million inhabitants. In addition, the ECB has achieved, by way of its reliable policy, to anchor the inflation expectations, which point to the future, strongly in conformity with the definition of price stability. This, as well, is a success. The citizens and the acting persons in the financial markets regard the stability target of the European Central Bank as credible, also under the lately difficult conditions of the financial crisis.

The fixation of a quantitative definition of price stability was a material factor, which has contributed to the firm anchoring of inflation expectations. The definition has been helpful as well in times of heightened inflationary pressure - lately in the first half year 2008 because of the high oil prices - as well as in times, during which deflationary risks have been discussed in the markets, such as for instance at the height of the financial crisis in September 2008.

The present financial crisis represents a deep cut, such as the world economy has not experienced since the second world war. The challenges, which are resulting from the crisis, are tremendous, and in many areas we are standing at the beginning, of putting unavoidable changes into practice. To all acting persons it has become clear, that in a globally networked world, mistakes on an individual level - for instance in the form of not sustainable business models of individual large banks - can quickly strengthen developments on the macroeconomic level, which can bring the system as a whole into a dangerous predicament. This holds especially true, when the starting situation is characterized by profound imbalances, such as for instance in the balance of payments of important economies. Only by way of on extraordinarily fast, comprehensive and in a multiple way well fine tuned intervention of monetary and fiscal policy, it has been achieved in the fall of 2008, to make halt to the panic in the markets, and to subsequently attain a far-reaching stability. Especially also in Europe the crisis management has functioned well. This should not be forgotten, when we are now dealing with how to conclude the necessary lessons from the crisis: Worldwide, on the European level, and in the individual member countries of the Euro-Area.

At the international level - in the framework of the countries of the G 20, and supported, especially, by the work of the Financial Stability Board - there is common understanding about that the global financial system must be made a lot more resistant and less prone to crises. In the European Union the cooperation of the national supervisory agencies is improved by the creation of a European framework for the financial supervision. In addition to that, a European Committee on Systemic Risks is being established, which will speak out early warnings and recommendations, in order to prevent the evolving of risks for the financial system as a whole. The ECB will provide the Secretariat for this committee and will support it analytically and organizationally.

The crisis forces us, to show, through careful analysis, wrong developments, and to correct them in the political process, also against resisting forces. At the same time, we should speak out also, what was proven to be good and what should be maintained. At the macroeconomic level, as I have already pointed out at a different occasion, it is certainly not a lesson from the financial crisis, that we should strive for higher inflation rates in the future. Against the obvious costs of a higher inflation - not least in the form of higher risk premiums and higher long-term interest rates - would stand no recognizable benefit for the entire economy. And we should never forget, that lower inflation rates protect the purchasing power, and this is especially the one of our low income citizens. At this basic insight nothing has changed through the financial crisis: Contrary to the fears of several critiques, the unusual monetary measures taken by the ECB, has worked precisely to the target, also in a situation of temporarily negative inflation rates, so that they now can be reduced, step-by-step, in a normalizing evaluation of inflation and a general recovery of the market. The ECB will maintain its definition of price stability.

A characteristic of the nature of the ECB and of the national central banks of the Euro-System is their longterm oriented action. In a situation, which as a rule is characterized by shortterm time horizons, the ECB differentiates itself through its longterm orientation as well from general politics as well as from the private financial sector.

It cannot surprise, that the political action in democracies is strongly determined, by coercion, by election cycles. This favors, especially in the area of fiscal policy, a short term action, oriented at election dates, and it creates, as a result, a tendency towards debt financing of public duties, and towards an increasing state indebtedness. As worked out by the literature on political economics, this shortterm orientation is itself based on the logic of the political process, which necessitates, in regular intervals, a new democratic legitimacy of the political actors by way of elections. Exaggerated shortterm orientation can and should, however, be corrected through fiscal regulations, which should work towards sustainability of public financing. Examples for this are the stability and growth pact, and the lately decided, and much to be welcomed debt brake in the German Constitution.

In the private financial sector, actions are often guided by shortterm profit orientation. Profit orientation is legitimate and an important driving spring in a market economy framework. However, a much too shortterm thinking is problematic. The excessive shortterm orientation was one of the great wrong developments in the financial sector. It was reinforced, among other things, by compensation systems, which led to wrong incentives. The presently discussed reforms therefore rightly aim at taking away, in the financial sector, the excessive shortterm orientation, apart from other wrong incentives. Goethes word to Eckermann from the year 1830, has again, especially today, special importance: “ The main thing is, that one learns, to control oneself. Should I want to let myself go, unhindered, it would be at me, to destroy myself and my surrounding.” We have admonished the acting persons in the financial sector, intensely, about their responsibility for self-control. Profits should not be used for inadequate bonus payments, but should be used to improve balance sheets, in order to safeguard an adequate credit supply.

The actions of the European Central Bank and the national central banks of the Euro-System are not governed by election cycles. On the contrary: The long term orientation of the actions has been explicitly secured by a far reaching institutional arrangement, which makes the ECB and the national central banks of the Euro-System completely independent from the exertion of political influence on the European as well as on the national level.

The independency of the central banks is the result of a long historic learning process in times of the paper money. Because of especially painful experiences in the German history, the Federal Republic of Germany has had an independent central bank earlier than most of the countries of Europe. I myself was the first governor of the totally independent French central bank more than 16 years ago. The successful model of the independent central bank was “ Europeanized “ and became the example for the ECB and the Euro-System.

Today, it belongs to the well founded insights of economic science, that independent central banks are better positioned to guarantee low and stable inflation rates, than such central banks which subdue to political influence. Empirical proofs of this finding go especially back to the works of Cukierman (1992) and Alesina and Summers (1993). Although this finding may not be surprising to many monetary policy practitioners, it has still only been proven by the analysis of the time inconsistency problems of monetary policy in the clear theoretical way. Fundamental theoretical works on this are from Kydland and Prescott (1977) and Barro and Gordon (1983). These studies lay out, that the monetary policy, in the short term, is exposed to the temptation, to utilise by way of an expansive course a supposedly safe trade-off between employment and inflation. In the longterm, however, such a trade-off does not exist, because, by way of the adaptation of inflation expectations, such a course is systematically anticipated, and is thereby completely reduced to having no effect. As a result, only higher inflation would be created, without positive effects on employment and growth.

The mandate of the ECB and its independent status are laid down in the European Treaties. These treaties have been ratified in all member states through democratically elected parliaments, in a few countries by popular vote. The core elements of the currency union - price stability as preeminent objective of the monetary policy and an independent central bank - have remained unchanged from the Maastricht Treaty in the year 1992 throughout all subsequent Treaty revisions. Accordingly, at the ratification of the Lissabon Treaty once more - and by in the meantime 27 European Union member states - they have been approved and legitimated. The members of the decision bodies of the ECB are appointed by democratically elected politicians. In addition to that, there are special measures, in order to safeguard the personal independence of the monetary policy decision makers. As an example for this, the period of office holding of the members of the ECB board of directors is limited to eight years, without the possibility of reappointment. Taken together, the contractual bases of the currency union are tieing the independency of the ECB with clear democratic legitimacy.

Price stability is in the well understood longterm interest of the citizens. A stable price level serves the society as a whole, and not the interests of special groups. Price stability secures the purchasing power of the incomes and the value of savings. It prevents arbitrary redistribution and enhances employment and growth. Only at a stable price level is the price mechanism - the central steering element of supply and demand in a market economy - transparent and efficient.

This recognition has, not at least, a good tradition in German economic science. So has Walter Eucken (1952), one of the mental founding fathers of economic framework policy of German shaping and of the Social Market Economy, rightly called price stability - in his rhetoric at the time the " primacy of monetary policy " - as one of the constituing principles of a competitive market. He had the vision of a " monetary order with a stabilizer for the value of the money ". Which avoids inflation and deflation and functions " as automatically as possible ".

The monetary order and framework of the European Union reflects the consensus of stability, which has grown in Europe over decades. The ECB, with its contractually guaranteed independence, acts as stabiliser for the value of the money. There is no complete automatism for the securing of the value of the money, but the clear definition of the preeminent objective of price stability, supplies to the European monetary policy the compass for all decisions.

Tensions, from time to time, between independent central banks on the one hand and governments and lobbying groups from the business and financial world on the other hand, are not unusual in democracies. In view of the differing time horizons of the acting persons this is rather the very nature of the situation. Thus, in Germany, the Federal Reserve Bank, and it's predecessor, again and again, had been exposed to criticism. An early example is the famous speech of Adenauer from the year 1956, in which he labeled an interest rate increase as" guillotine for the small people ". Also the ECB cannot complain about lack of advice from the political arena. It thereby stands in the good tradition of independent central banks. When the ECB decided, not to lower the interests in 2004 and to increase them again towards the end of 2005, this has been criticized by a few governments in the Euro-Area. Afterwards nobody would have contested the adequacy of the decision, made at the time. These examples are also typical in so far as the critique almost always starts with restrictive measures of the monetary policy. By contrast, expansive measures are almost never being criticized. Also this reflects the different time horizons which independent central banks on the one side, and governments elected for a certain time as well as organized lobbying groups on the other side, are aiming at.

With a view to the future, the financial crisis is making significant challenges to the monetary and fiscal policy.

The monetary policy measures, which the Euro-System has taken in the course of the financial crisis, have from the beginning been made in such a way, that they can be reduced relatively easily and readily, when the situation will be improving. At no point of time there has been lost sight for the objective of price stability, and in the meantime the reduction of the measures has been started.

In the field of the fiscal policy, the situation is more complicated. Worldwide, budget deficits of many national states have increased strongly, caused by the crisis, where the euro area with the average of its member states must by far not be mentioned in the first place.

Growing debt is not only housing potential for increasing conflicts between fiscal policy and monetary policy. It is burdening first of all and especially the stability of public financing in the respective countries. Therefore it is in the interest of every single country, to return as quickly as possible to a solid state financing.

Europe presently is standing before important decisions. Therefore it is more important than at any time, to recognize, that the well-being of the currency union requires adequate action from all responsible persons. In which way ever the further decisions may go: The most important is, that the European decision-makers live up to their responsibility. This should not only apply to the European institutions, such as the European Parliament, the Commission, and the European Central Bank. It is as well a must, that the governments themselves put into practice their responsibility for the mutual supervision of the economic policies within the Euro-Group and the European Council, rigorously.

I am confident, that Europe will find ways, to achieve this. Europe, since the 60s, has again and again achieved, to come out strongly from crises. As I have pointed out yesterday and at the plenary assembly of the European Parliament, the European Currency Union is a lot more than a purely monetary arrangement. It is rather more also a community of common fate. In order to overcome the consequences from the financial crisis, all public and private decision-makers must meet that responsibility in their respective area of duties. For the ECB this means, that it will carry out its mandate - the safeguarding of stable prices - also in the future, exactly as independently and relentlessly, as it has done this in the past. The ECB will remain an anchor of stability and trust. And it will make its unique contribution, to preserve, through stable prices, the long-term interests and chances of the future, of all of us.

Euro-Area Commentary: Do Not Accuse Greece

The European Currency Union Itself is Guilty of the Crisis, because It Breaks its Own Rules

The Sunday Economist, Gerald Braunberger, Patrick Welter

“I have sent a telegram to the club: Please accept my withdrawal. I do not want to belong to a club, which accepts me as a member.” This quote is not from the Greek Prime Minister Georgios Papandreou, but from the comedian Groucho Marx. Papandreou, though, would have all reason, to telegraph with similar words to Brussels. Because it is wrong, to make the Greeks alone responsible for the misery. The crisis also uncovers the year-long let go of the Europeans in the Currency-Area. Hesitantly, the Federal Chancellor of Germany has now hinted at this, when she was warning, that the mistakes should not be allowed to be repeated, which have been made at the entering of Greece into the Euro-Area. When so doing, Mrs. Merkel is not yet looking back far enough.

The prime mistake happened in 1998, when Belgium and Italy have been admitted to the at all not so exclusive club, although both countries, with a government debt of over 100% of the gross domestic product, did not meet the entry criteria. The admission of Belgium and Italy to the Currency Union prevented, to refuse two years later the entry of Greece. Indeed, not only the Greek debt volume was too high, but Athens even strongly helped, to reduce the inflation rate in an artificial way. The government lowered indirect taxes on goods; at the same time, corporations and business associations renounced in a “gentleman's agreement”, for some time, to increase prices. Already at the time, this was stigmatized as cheating, which the Euro-Europeans accepted with seeing eyes. In the report on convergence the European Central Bank was warning, that there “continues to be reason for worry ..., whether already a financial situation has been reached, which is bearable in the long run.” The European Central Bank turned out to be right. This surprise in Brussels, that the Greeks had shown up with cheated deficit numbers, after this start, feels like hypocrisy. Who wants to criticize the Greeks, that they do little, to go away from their beaten path.

Today, as at the time, some are pointing at, that the convergence criteria - low inflation rate and low interest rates, low deficits and low volume of debt - can not be justified economically. With this, they are right, and again not. In purely economic terms, it is difficult to give reasons, why the deficit under the stability pact should not be more than 3% and why the limit was not set at 2 or 4 %. This view, however, is just too narrow; the value of the convergence criteria lies in the political field: Governments and countries must demonstrate, that they are capable, to manage the enormous reforms towards a flexible national economy, which the renunciation of the nominal currency exchange rate makes necessary. They must prove, that they can abide to the rules.

Behind this, in the core, stands the consideration, which the economists Finn Kydland and Edward Prescott have described as the problem of time inconsistency: At a coastline, the regular innundations are threatening, and it would be much too expensive for the taxpayer, to protect with dams the land behind against high water. The government decides, that it will not build a dam. Some lovers of the coastline, who want to be wakened up in the morning by the noise of the sea, nevertheless built their homes there. The incentives have changed, and the government is being forced, to erect the relatively expensive structure. The expectation, that this will so happen, induces the lovers of the coastline, to build their homes, without worry, as close as possible to the water. Kydland and Prescott conclude from this time inconsistency of political decisions, that in many cases in the interest of all governing authorities clear limits must be set.

This, the European Union has attempted with its convergence criteria and with the stability pact. It has failed with this in a grand way, because the breaking of the rules from the beginning has accompanied the Euro. Now, the last and the most important rule of the Currency Union is at stake: The prohibition of the bailout of states, the prohibition of financial aids in case of a threatening overindebtedness. All members of the Euro-Area would find themselves in a better position, if each government would maintain fiscal discipline. But the damage of a violation of this rule by a single state is being shared, because the external value of the euro as a whole is suffering from it. With this, it is rational for each government, to see the indebtedness within the Currency Union in a loose way.

In order to restrict this wrong incentive, the fathers of the Euro in the European Union treaty have coined the prohibition of the bailout. Greece, like the builders of homes near the dam, has betted in a rational way, that the promise, that the Euro will not become a transfer-union, will not be able to be maintained. The economically small country at the south east tip of Europe is, though, not too big, to fall. But the possible damage, which a state bankruptcy of Greece would cause in the balance sheets of European banks, induces the European Union politicians, to back away from it.

With the bailout, the governments are breaking the last and most important rule, with which the Currency Union wanted to establish itself as a Union of Stability. All future attempts, to sharpen the fiscal rules, will suffer from it and will be able to develop only little credibility. Would it surprise, when the German voting citizen would refer to Grouche Marx and request withdrawal from the Currency Union ?

Finn E.Kydland, Edward C. Prescott: Rules Rather than Discretion: The Inconsistency of Optimal Plans, Journal of Political Economy, Volume 85, 1977, p. 473 - 492

News: Purchasers of Bonds Lay off Their Belief in Ratings

Against the Power of the Rating Agencies only Helps a Corporate Name with a High Degree of Recognition

ham.Frankfurt, May 3, 2010. The much criticized power of the rating agencies is decomposing at least in the market for European corporate bonds. Since January 2009, roundabout 40 European corporations have made it, to issue a bond without a rating, and that without a credit worthiness exam by one of the three Anglo-Saxon minded agencies S&P, Moody's, and Fitch. “15 months ago this has still been impossible, in the meantime this is even a trend”, said Roland Plan, who is responsible at the Royal Bank of Scotland for the bond business. Plan concludes from this: “The investors themselves, increasingly, are shaping their own opinion about the standing of a corporation”.

Rating agencies stand in the twilight, because, as creditworthiness examiners, they let pay themselves by the examined bond issuers. Lately, the investors have been angry during the crisis of Greece. A part of the market participants accuses the most important agency Standard & Poor's (S&P), of having lowered too late the creditworthiness of Greece; S&P reacted only, when the return requirements by the market towards Greece of at times more than 20% differed quite markedly from the presently customary returns of 2.5%, which bond issuers with the old credit standing of BBB+ for Greece have to pay. Other markets participants, by contrast, are angry, that S&P has lowered the standing of Greece at once by three notches and has thereby even enhanced the crisis. The German Federal Finance Minister Wolfgang Schäuble is said to have given the following advice in the heated debate: “No market participant is hindered, to take the rating agencies not as so seriously, as it is done today.”

The power of the rating agencies comes from America. Traditionally, bank loans are playing a small role, and the capital markets have a bigger importance than in Europe, when it comes to corporations needing debt capital. The money suppliers in the bond markets rely, since decades, on the judgment of the rating agencies. To the rating category, with which the agencies estimate the probability of default of the borrower, the investors attach their request for the size of the return. The reputation of the ratings is also enhanced by the legendary investor Warren Buffett with his company Berkshire being the greatest shareholder of the agency Moody's.

In Europe, the market for corporate bonds is rather small. It has only blossomed, because, in the financial crisis, it has become more difficult for corporations to obtain loans from their banks. At this, new customs are developing. “In Europe, investors seem to rely more than in America on their own credit worthiness examination and less on the judgment of external rating agencies”, says Michael Schramm, who is responsible at DZ bank for the issuance of corporate bonds. This attitude is of benefit for the corporations. Because they are saving the cost for the creditworthiness examination which the agencies let themselves get paid for each year. In addition, market rates are presently favourable. The not examined software producer SAP sold, at the end of March, two bonds for €1 billion against an annual interest payment of 2.5 and 3.5%.

Mr. Plan of the Royal Bank of Scotland observes, that bonds of European corporations, without ratings, are especially bought by domestic investors. “The degree of recognition plays an important role, when corporations, without a rating, go into the market, because also private investors do invest to great a degree in such bonds”, also says Roland Sand of Credit

Suisse. Indeed, shows a selection of issued corporate bonds, without ratings, see table, that such issuers are either exchange listed joint stock corporations like SAP, Fraport and Solarworld, or corporations with strong trademarks such as Christian Dior, Campari or Otto. The high degree of recognition obviously feeds so much trust into the investors, that they regard the danger of insolvency of such corporations as low, even without a rating.

Table: Bonds without a Rating

Bond Issuer	Coupon In %	Amount Million Euro	First Tading Day	Last Trading Day
Fraport	**5,250**	**800**	**01.09.09**	**10.09.19**
Christian Dior	**3,760**	**350**	**15.09.09**	**23.10.14**
Heineken	**4,625**	**400**	**01.10.09**	**10.10.16**
Evonik	**7,000**	**750**	**06.10.09**	**14.10.14**
Campari	**5,375**	**350**	**06.10.09**	**14.10.16**
Maersk	**4,875**	**750**	**23.10.09**	**30.10.14**
Sixt	**5,375**	**300**	**30.10.09**	**06.11.12**
Otto	**6,375**	**500**	**13.11.09**	**20.11.13**
Solarworld	**6,125**	**400**	**14.01.10**	**21.01.17**
SEAT	**10,500**	**650**	**22.01.10**	**31.01.17**
SAP	**3,500**	**500**	**31.03.10**	**10.04.17**
SAP	**2,500**	**500**	**31.03.10**	**10.04.14**
Galerie Lafayette	**4,500**	**300**	**19.04.10**	**28.04.17**

Japan, News: Japanese Central Bank Expects the End of Deflation

In 2011, the Prices are Said to Increase Slightly. Key Interest Rate Remains at 0.1 Percent.

cag. Tokio, May 3, 2010. The Bank of Japan (BoJ) expects, that Japan, in the coming year, can detach itself from the downward spiral of sinking prices and wages. For 2011, the central bankers, after three years of decreasing prices, are expecting again an increase of prices by 0.1 percent. In 2010, however, prices are expected to decrease once more on average by 0.5 to 0.2 percent - after the record decrease of 1.6 percent in February of this year. The food prices, which fluctuate extremely, are not included in these estimates. The central bank is also confident with a view to the growth of the economy. It expects, that the economy of Japan in this year will grow by 1.6 to 2 percent. In January, it had only talked of 1.2 to 1.4 percent. For 2011, it expects now a growth up to 2.2 percent.

At the same time, the bank decided, in spite of the ongoing signs of an economic recovery, against increasing the interest rate. The key interest for short-term loans to commercial banks thus remains at 0.1 percent - as already since the breakout of the economic crisis at the end of 2008. The bank explained, that it is all about withstanding deflation by way of this low interest rate policy, and of enhancing the economic growth.

A deflationary spiral has significant effects on the economy, as turnover and profits of corporations are falling, the readiness to invest is decreasing, and jobs are being terminated. The consumers, then, as a rule, ar withholding purchases. The central bank tries - also under the strong pressure of the Japanese government - to kick off demand and to give more life to the economy, by opening up the flow of money.

The Bank of Japan Governor Masaaki Shirakawa said in a press conference about the new economic outlook, that the economy of Japan " is moving steadily forward ", in order to overcome deflation, which has had hold over the country since the end of the 90s. In the outlook of the bank it is said further, that also private consumption is increasing, and that the export-led recovery leads to that new employment is created. Indeed, the wages of the Japanese workforce in March, for the first time since 22 months, have increased slightly. Including special payments and payments for overtime work, the Ministry of labor in Tokyo announced an increase of 0.8 percent to 275 637 Yen (2209,27 Euro), compared to the previous year.

These numbers show, that the corporations are paying again higher wages due to the ongoing global recovery and the own export growth, it was said. Also the industrial production and the expenses of the private households increased again in Japan in March.

With the expectation, that the deflation in Japan will be overcome in the upcoming business year, which starts on April 1, 2011, the Bank of Japan takes the wind out of the sails of its criticiques in government, who request further debt financed expenditure programs for the revitalization of the economy - and want to get the central bank to be ready, to increasingly purchase government debt. And this, although Japan is, today, the country with the highest government indebtedness.

A group of roundabout 130 deputies of Parliament of the governing Democratic Party of Japan, DPJ, wants to include the inflation target of 2% each into the election program for the elections of the upper house in summer. Also finance minister Naoto Kan repeatedly supported this request.

An inflation target, however, set by the government, would put an end to the independence of the central bank, to decide about the stability of the money value. As is being heard, the central bank governor Shirakawa sees little sense in the opening of the money flow gates. Japan's economy is rather said to need structural reforms, in order to become more competitive internationally. Also the decreasing trust of international investors in the Japanese fiscal policy obviously provides worry to the bank.

This year, for the first time, the Japanese government is financing its budget with more new debt than with collected taxes.

Indonesia, News: Indonesian Woman for the Top of the World Bank

In her new position, she will meet old colleagues: Missis Sri Mulyani Indrawati, who on Wednesday declared her stepping down as finance minister of Indonesia, will assume one of the three positions of managing director of the World Bank. Its President Robert Zoellick was, in his years as trade attaché of the American government, a well received guest in the largest muslim country of the world. The woman from the island of Sumatra takes over the position of Juan José Daboub, the former finance minister of El Salvador.

That the 47-year-old Sri Mulyani was called to Washington, will do well to her - but less to her country. She has been regarded, during her five years in office, not only as a heavyweight of the Indonesian government and as a leading reformer, but also as one of the most important politicians of Southeast Asia. The magazine "Forbes", in 2008, put her in number 23 in its list of the most powerful women of the world. In Jakarta, she was regarded as top candidate for the position of central bank governor, which has been vacant since more than a year. Now, in the fourth largest country of the world, the position of the finance minister, as well as the one of the central bank head, is vacant. As successors to Sri Mulyani, her deputy Abimanyu and her close follower Darmin Nasution are expected to be nominated, who as vice head of the central bank executed many of her reforms.

For Sri Mulyani, her move to Washington is an act of liberation: The opposition accused her and the last central bank head and today's Vice President Boedinio, to consciously having exceeded their competencies, when they where supporting the PT Bank Century with state funds during the financial crisis.

Her being called into the new position is also regarded as proof for the growing influence of the developing countries in the multilateral organizations.   che.

Citygroup, Interview: “Speculations are Not Part of the Banking Business”

Talk to: Vikram Pandit, Chairman of the Board, Citigroup

The Citigroup has been hard hit by the financial crisis. Vikram Pandit is executing the farewell from the idea of the financial-supermarket, and is requesting more transparency for his industry.

Mr. Pandit, the Citigroup is represented in 109 countries. What is your view of the economic development in the world?

The emerging market countries are in the upturn. In the United States there is especially the build up of inventories at the corporations. This is a good sign, but we have not yet overcome all problems in the real estate markets.

Is the real estate market remaining a reason for worry for American banks ?

Yes, but we must differentiate. In the market for commercial real estate especially medium-sized regional banks are engaged. The housing market is the field also for the large banks. The development of the house prices is important for the confidence of the consumers.

Is the worst of the financial crisis behind us ?

But this does not mean that we do not have to worry. I think, that the crisis is over.

About what ?

For instance about the question, as to how the banks shall grow. In former times, the banks have grown with the loans. Will this also be so in the future ? Which regulations shall we have to face? But I'm feeling better today than a year ago, or before three months.

You have assumed your job in December 2007. Since then it has been rough.

Yes, but since then the Citigroup has become another bank with another management. We have more equity and liquidity, but less risks. We are selling strategically not important businesses like the insurer Primerica. And we have paid back $20 billion to the government.

But the government, with 27%, is still the biggest shareholder.

Right. But the government has announced, to sell its shares.

The Citigroup has once been the biggest financial-supermarket of the world. Have you said goodbye to this concept ?

In business life, it is like in private life: one has to do, what one can do best.

What can Citigroup do especially well ?

Thanks to our strong global presence, we can network the world for our clients. The large German export oriented corporations are a typical customer group for us. For instance, we manage liquidity and risks, and we are making loans there, where they are needed. If there exists a global bank in the world, then it is us.

Which business segments belong for you to the core business ?

The core business of Citigroup is our investment- and corporate customers business, our capital markets- and private clients-business, as well as closely bank related businesses like cash management and securities custody, which belong to the business area Global Transaction Services. The rest is not any longer part of the core business. In a not at all easy business environment, we could already divest 30 of these non-core businesses. We have reduced our asset portions, which do not belong to our core business, by over $350 billion from the maximum number. Further divestments shall follow.

Critiques among your shareholders are saying that you separate yourself too slowly from not necessary businesses.

Others say: " Do it in any case slowly ". It is our job, to find the optimal timetable.

Has the name of Citigroup as trademark suffered during the crisis ?

I think, the banking industry as a whole has lost trust during the crisis. But I'm very satisfied with the standing of our bank.

Has the financial crisis made larger the distance between the normal American, the " Main Street ", and the financial industry, that is the " Wall Street " ?

Yes. Many Americans want to know for one, how this crisis could arise at all. Here, we must take over responsibility. But the Americans also want to know, which steps must be taken, in order to prevent future crises. Wise reforms can get together again "Wall Street " and the " Main Street ".

And how do such reforms look like?

We need three kinds of reforms. The first one is the reform of the institutions. Here we say: Banks must be banks, and nothing else. Speculations do not belong to the banking business. To the institutional reform also belongs the question, how we prevent, that big banks become a systemic risk.

What is the second type of reform ?

We need reforms of the market structures such as for instance the taking of exchange derivatives trade on to transparent platforms. With this, also the bank balance sheets would become more transparent.

Many of your colleagues in other banks do not share this view.

This is right. Lack of transparency is often beneficial for the business. I know, more transparency will cost us money. But we must perform this contribution to the financial market stability.

What remains ?

Reforms of financial products in the interest of the consumer. One example: We had, in the United States, mortgage loans without ongoing interest payments, at which the interest burden was simply added to the payback at the end of the maturity. These products have done more damage to the clients, then one had thought.

Do you share the complaints of the public about too high bonuses of the banks ?

There have been, in the past, wrong incentives. We must orient the compensations at longterm criteria. But we must also pay attention, that the compensations in the banks are not influenced by higher compensations in unregulated financial enterprises. There must be a level playing field for all disciplines.

Because of Citigroup having suffered a loss, you satisfy yourself with a salary for 2009 of one dollar. With this, supposedly, you have not been the best paid manager of your bank.

This I can guarantee to you.

Do you share the fear of some market observers, that the very low interest rates can cause new speculative bubbles in asset markets ?

The central bankers know about the problem , and have an exact look at it.

And what is your perception ?

It is still too early, to judge, whether the latest price increases of assets are a reaction to low interest rates, or whether they rather anticipate an economic recovery. In any case we are not yet seeing a speculative bubble.

Big investment banks pretend, that they have won market share in the crisis. Do you agree ?

Not a single investment bank has a big market share. Therefore, this is not so important. There will always be a bigger number of market participants in investment banking.

If you would have money for investments: what would you do ?

I would extend our presence in Asia.

The talk was made by Gerald Braunberger.

Article: Liquidity Management, under Worsened Conditions, Leads to a Strategic Strengthening of the Corporate Treasurer

11th Global Cash Management Survey of J.P.Morgan Asset Management

Author: Press Release, Frankfurt am Main, February 16, 2010, by JPMorgan Asset Management (Europe) S.à.r.l., Frankfurt Branch, Junghofstraße 14, 60311 Frankfurt am Main, Germany, www.jpmam.de

Corporate treasurers, in the crisis year 2009, have seen themselves confronted with numerous challenges: Through the combination of a tighter making of loans by banks and a recessionary situation, many corporations had to work with tighter liquidity ressources. So, cash flow handling became strategically more important. Parallel to this, high profile banking failures made it necessary, that the financial standing of business partners became more important. This shows the present Global Cash Management Study of J.P. Morgan Asset Management, which analyses, on a yearly basis, the developments and trends in the liquidity management of corporations. This study has been produced even the 11th time jointly with the Association of Corporate Treasurers (ACT).

At this present inquiry, which took place from July 1 till the end of September 2009, 334 corporate treasurers have participated worldwide. The largest share had the questioned managers from the USA (25 percent), followed by participants from Great Britain (22 percent). Germany, with 12 percent, is for the first time the third numerous participating country. Further participants are from Western and Eastern Europe, but also from Asia, the United Arab Emirates, and from Latin America. " With this extensive coverage of regions, markets and sectors, in which the questioned persons are active, the study is a really global voice of present developments in the corporate treasury, underlines Kathleen Hughes, head of the unit Global Liquidity Europe, Middle East, Africa (EMEA) of J.P. Morgan Asset Management. As the most important trend, it has found out the risk aversion of treasurers, who continue to evaluate quality as more important than return.

Strategic Importance of the Treasurer is Growing

As their most important work area, is being regarded cash flow forcasting by 72 % of the questioned corporate treasurers (previous year: 17%), followed by last year's top area cash management with 62% (previous year: 56%). This change underscores the importance, which the subject liquidity management has got for the corporations. So, today, the corporate treasurers assume a strategic role, and they expect, that this shall intensify in the future: whereas, presently, 66% of the respondents use a global cash management structure, they expect, that this portion shall increase to 81% in the future. " The last two years have shown, how important it is for a treasurer, to have all the time an overview over financial data and risks of the corporation. In many corporations the processes have been adjusted accordingly ", underscores Sven Lorenz, who at J.P.Morgan Asset Management in Frankfurt is responsible for institutional money market funds.

Counterparty Risk in the Focus

Whereas, before the crisis, the number of bank relationships has decreased continuously, the respondents are saying since 2007, that they again increase their banking partnerships. With 32% of respondents saying, that they have increased the number of primary banking relationships - not least in order to better diversify the counterparty risk, or to secure for themselves access to loans. In Asia, it is even 50% of the respondents, who mandated additional banks. At 46% of the respondents, the number of banking relationships has remained unchanged. With 22%, only each fifth wants to reduce them. When enumerating the most important used services, 94% of the corporate treasurers mentioned the cash management, with each, by 80% following, the offer of loans and currency services (79 %). The most important criterion for decision for a banking institute is, with 59%, the service quality. More important than the broad offer of various treasury management services, for choosing a bank, however, is a full-service offer.

Demand is Great, in the Crisis, for Money Market Funds with AAA-Rating

At the allocation of liquidity, very diversified ways of action continue to be found in the different regions. Whereas, in the USA, 45% of the corporate treasurers are using fund vehicles, it is only 28% from a global view. In the Asia Pacific region, with 25%, there is still to be found a greater affinity to funds than in EMEA, where fund investments with 18% continue to be underrepresented. Outside the USA, bank deposits continue to be the most used investment form (66% in EMEA, 60% in Asia). Overall, however, the allocation of bank deposits has decreased over recent years: in 2007, globally, this one was still at 61%, in 2008 at 55%, and in the present survey at 54%.

Liquidity more Important than Return

Whereas a large part of liquidity management is still being made by way of classical bank instruments, still 47% of the respondents, presently invest in institutional money market funds with AAA-rating. Another 27% rely on an even more safety oriented way of action: Money market funds, with AAA-rating, which exclusively invest in government bonds. Presently, only 10% use less security oriented funds. Whereas, at the questionnaire survey 2008, the return was still the most important criterion, when selecting a money market fund, there presently stands, totally up on the list, for 45% of the respondents, the daily liquidity and the availability of the monies at all times. In second place then follows the return (44%), and on the third place the reputation (39 %).

The risk aversion of the corporations is showing itself, among other things, by the fact, that the investment criteria, at 49% of the respondents, exclude money market funds - an increase by 10 percentage points. Here is certainly reflected the decreased confidence towards money market funds, which have no AAA-rating - several funds, after all, having shown in the financial crisis, that there exist different risk profiles among money market funds. At those corporations, which are still allowed to invest in money market funds, the requirements made for an investment had at last still been increased: over 50% do require, as a minimum quality, an AAA-rating. For bank deposits, as well, also roundabout 20% of the respondents require an AAA-rating - in view of the ever lower number of such banks of such quality, this appears as remarkable.

The Future of Liquidity Management

When asked about their most important future themes in cash management, 71% of the interviewed treasurers mentioned, that liquidity is first priority, followed by counterparty risk with 68%. The worry to meet cash projections, with 60% continuous to be high. Still in the last year, the currency risk was regarded as especially great, followed by the credit crisis and reporting.

" The consequences from the credit crisis will therefore continue to keep corporate treasurers busy ", concludes Sven Lorenz the findings of the study. So it is said to be observed especially in Germany, that - as increasingly bank limits are being restricted - the very risk averse money market funds are meeting an increased demand. " Preferably, such funds are being selected, the asset managers of which are organised in the IMMFA, that is the Institutional Money Market Fund Association. The IMMFA sets up clearly defined regulations, how these institutional money market funds can invest ", explains Lorenz.

J.P.Morgan Asset Management - 11th Global Cash Management Survey 2009

The " J.P. Morgan Asset Management - 11th Global Cash Management Survey 2009 "has been executed from July 1 until the end of September 2009. This global survey of corporate treasurers took already place for the 11th time in cooperation with the " Association of Corporate Treasurers " (ACT) and the " European Association of Corporate Treasurers " (EACT). The objective of the study is, to give insights into the trends and developments which presently make up the liquidity management. The notion of " cash or liquidity management " thereby comprises all measures for the short-term financial disposition of a corporation. The study examines, in this context, the bank relationships and treasury functions of the study participants, in which instruments as well as by which criteria these corporations do invest excess cash, and it asks for the future of cash management. The market participants, on the basis of the study results, can reflect their market position and their processes. The questioned treasurers are worldwide active in their corporations in most different industries, and represent organizations of all sizes.

With 334 respondents, the number of participants increased to a record level (previous year: 314 participants). The questioned persons have filled out questionnaires online. The regional distribution of study participants is in the present study even broader diversified than in the previous years: The corporate treasurers from the USA represent with 25% of the participants again the strongest represented nation (previous year: 32%), Great Britain is with 22% (previous year: 16%) on the rank two. For the first time, the German questioned persons with 12% are on the rank three (previous year: 4%), followed by Benelux (8%), and Singapore (4%). Further participants are coming from Ireland (3%), Italy, Switzerland and China (each 2%), the Czech Republic, Hungary, Denmark, Finland, France, Poland, Slovakia, United Arab Emirates, Sambia, Australia, India, Malaysia, Japan, with each 1%.

As already in the previous years, a large number of the questioned persons represents large cap corporations: 75% of the participating corporations have a market capitalization of more than US$ 500 million, whereas 31% even exceed the 5 billion mark. At the last survey these ones, however, were still 42%. Accordingly, the portion of smaller corporations with a market capitalization of less than US$ 500 million has increased from 22 to 25% .

The Survey is available in English language online under:
http://www.jpmgloballiquidity.com/uploads/pdfs/other/survey-2009.pdf

J.P. Morgan Asset Management - Global Liquidity

J.P. Morgan Asset Management is, with managed assets of over US$ 500 billion, one of the worldwide largest offerers of money market funds, of which alone outside the USA over € 184 billion are managed money market funds with AAA-rating (as of December 31, 2009). This shows the great confidence of investors in the comprehensive expertise of the company at the management of short-term investments. As globally, as the serviced customers have set up themselves, as equally do present themselves as well the sales and service teams in USA, Europe, and Asia. Also in Frankfurt am Main, Germany, there is an own liquidity team for servicing the customers in Germany, Austria, and in Switzerland around the theme of money market funds. Roundabout half of the German stock exchange index DAX corporations, already entrust their money to J.P. Morgan Global Liquidity.

About the Corporation

As part of the global financial services group JPMorgan Chase & Co, the subgroup J.P.Morgan Asset Management offers to its customers first class investment solutions. The corporation belongs to the worldwide leading investment corporations and manages in the asset management funds of JPMorgan Chase & Co per December 31, 2009, client monies of over US$ 1250 billion. With 41 branches worldwide J.P. Morgan Asset Management alligns a global offer and a broad expertise in all relevant asset classes with a strong local presence. In Germany, J.P. Morgan Asset Management is present since 21 years, and with over US$ 15 billion managed assets one of the largest foreign fund corporations. www.jpmam.de

Present sales prospectuses can be obtained, free of charge, at the issuer, JPMorgan Asset-Management (Europe) S.à.r.l., Frankfurt Branch, as well as the German payment and information location, J.P. Morgan AG, Junghofstraße 14, D-60311 Frankfurt.

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Translated into English by Helmut Schnabel.

Communiqué

Meeting of Finance Ministers and Central Bank Governors,
23 April 2010

1. We, the G20 Finance Ministers and Central Bank Governors, met in Washington D.C. to ensure the global economic recovery and the transition to a strong, sustainable and balanced growth as well as our agendas for the financial regulatory reform and international financial institutions remain on track.

2. The global recovery has progressed better than previously anticipated largely due to the G20's unprecedented and concerted policy effort. However, it is proceeding at different speeds within and across regions, and unemployment is still high in many economies. We recognize that in such circumstances different policy responses are required. In economies where growth is still highly dependent on policy support and consistent with sustainable public finances, it should be maintained until the recovery is firmly driven by the private sector and becomes more entrenched. Some countries are already exiting. We should all elaborate credible exit strategies from extraordinary macroeconomic and financial support measures that are tailored to individual country circumstances while taking into account any spillovers. We emphasized the necessity to pursue well coordinated economic policies that are consistent with sound public finances; price stability; stable, efficient and resilient financial systems; employment creation; and poverty reduction. Countries who have the capacity should expand domestic sources of growth. This would help cushion a decline in demand from countries that should boost savings and reduce fiscal deficits.

3. Our Framework for Strong, Sustainable and Balanced Growth for the global economy is a key mechanism through which we will continue to work together to address the challenges associated with achieving a durable recovery and our shared

objectives. In accordance with our timetable set out in St Andrews, we have conducted, with support from the IMF and World Bank, the initial phase of our cooperative and consultative mutual assessment process for the Framework by sharing our national and regional policy frameworks, programs and projections, assessing their collective consistency with our objectives, and producing a forward-looking assessment of global economic prospects. We further provided guidance to the IMF, and other international organizations, to assist us in assessing collective implications of national policies that could improve our global economic prospects and bring us closer to our shared objectives. For this purpose, we have agreed on principles to direct the development of alternative policy scenarios and have further elaborated the objectives of strong, sustainable and balanced growth as outlined in the Annex to this Communiqué. Drawing on these inputs we will deliver an initial set of policy options for consideration by our Leaders at the June 2010 Summit.

4. Recognizing the increasingly integrated nature of the financial regulatory reform issues, we reaffirmed our strong commitment to fully implement our reform agenda on the timelines agreed by Leaders in London and Pittsburgh. Good progress is being made and, to maintain the momentum, we:

- reaffirmed our reform is multi-faceted but at its core must be stronger capital standards, complemented by clear incentives to mitigate excessive risk-taking practices. We recommitted to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012. Implementation of these new rules should be complemented by strong supervision. We stressed the importance of the quantitative and macroeconomic impact studies underway and look forward to an update on their progress by the FSB for our June meeting.

- agreed to closely review the progress of and provide guidance and strong support for the work of the FSB, BCBS and IMF. We support the work of the FSB to develop prudential standards, market infrastructures to contain the propagation of shocks and resolution tools and frameworks for systemically important financial institutions and look forward to a progress report for our meeting in June 2010. We look forward to receiving the IMF's final report on the range of options that countries have adopted or are considering as to how the financial sector could make a fair and substantial contribution towards paying for any burdens associated with government interventions to repair the banking system. We call on the IMF for further work on options to ensure domestic financial institutions bear the burden of any extraordinary government interventions where they occur, address their excessive risk taking and help promote a level playing field, taking into consideration individual country's circumstances. We welcomed the FSB, IMF and BCBS's joint report on the inter-linkages between these issues and noted that, moving forward, we need to take into account the cumulative impact of the reforms on the financial system and the wider economy to move unequivocally in the direction of sound and stronger capital and liquidity framework ; and

- stressed the importance of achieving a single set of high quality, global accounting standards; implementing international standards with regard to compensation practices and welcomed the FSB's report; completing the development of standards for central clearing and trading on exchanges or electronic platforms of all standardized over-the-counter derivative contracts, where appropriate, and reporting to trade repositories of all over-the-counter derivative contracts; and consistent and coordinated oversight of hedge funds and credit rating agencies. We welcomed the progress by the Financial Action Task Force in the fight against money laundering and terrorist financing, particularly regarding the issue of a public statement on jurisdictions with strategic deficiencies last February. We also welcomed the report by the Global Forum on Tax Transparency and Exchange of Information, the launch of the peer review process, and the development of a multilateral mechanism for information exchange which will be open to all countries. We welcomed the launch of the evaluation process by the FSB on the adherence to prudential information exchange and cooperation standards in all jurisdictions.

5. We noted the draft report on the scope of energy subsidies and suggestions for the implementation of the Pittsburgh commitment from the IEA, OPEC, OECD and World Bank. In accordance with country ownership and circumstances and recognizing the

importance of providing those in need with essential energy services, we recommitted to prepare strategies and timetables for our meeting in June to rationalize and phase out, over the medium term, of inefficient fossil fuel subsidies that encourage wasteful consumption.

6. We urged progress to deliver on the representation and governance reforms of the International Financial Institutions agreed in Pittsburgh. We urged the IMF to deliver the quota and governance reforms by the November Seoul Summit. We look forward to an agreement on a package of voice reforms and World Bank financial resources, together with reforms to ensure effectiveness, at the upcoming Development Committee meeting. We will work towards ambitious IDA16 and African Development Fund replenishments. We welcomed the agreement in principle to increase the capital of the IaDB and EBRD and to adopt a robust reform agenda and look forward to the conclusion of discussions on general capital increase of the African Development Bank. We agreed to support full relief of Haiti's debt by all IFIs, including through burden sharing, and welcomed the agreement at the IaDB and World Bank to relieve its debt and the establishment of the Haiti Reconstruction Fund.

7. We acknowledged the progress achieved by the Financial Inclusion Experts Group and look forward to the successful launch of the 'SME Finance Challenge'. We welcomed the work of the Financial Safety Nets Experts Group and agreed to look at policy options to improve global financial safety nets, based on sound incentives, to better assist countries to deal with volatility in global capital flows. Inefficient markets and excess volatility in commodity prices more generally negatively affect both producers and consumers. We will finalize our work to address excessive commodity price volatility by improving the functioning and transparency of physical and financial markets in both producing and consuming countries.

8. We agreed to meet again on June 4-5 2010 in Busan, Republic of Korea, to prepare for the June Leaders' Summit in Toronto, Canada.

The G-20 Framework for Strong, Sustainable and Balanced Growth

The primary goal of the Framework is to encourage G20 countries to implement coherent **medium-term** policy frameworks to attain a mutually beneficial growth path and avoid future crises. While G20 countries should adopt policy frameworks that are appropriate to their individual circumstances, there are clear benefits to collective action to achieve this goal. Such an approach would also raise living standards in emerging markets and developing countries.

Given that it may take several years to realise the benefits of many policy reforms, G20 countries should consider initiating actions now to attain stronger, and more balanced and sustainable growth over the medium term. Policy frameworks should be forward looking to guide expectations and to be sufficiently flexible to manage potential risks and facilitate adjustment to shocks so that *strong*, *sustainable* and *balanced* growth can be maintained.

The objective*s* of *strong*, *sustainable* and *balanced* growth are closely **related** and need to be pursued in a way that is **mutually reinforcing**.

Strong growth should

a. Close current output and employment gaps in G20 countries as soon as possible,

b. Converge to the growth rate of potential output over the medium term, and

c. Be enhanced over the long term by increasing potential output growth, primarily by efficiently utilizing available resources through the implementation of more effective structural policies.

Sustainable growth should be:

a. In line with underlying potential growth over the medium term, thereby providing a firm basis for long term growth,

b. Based on sustainable public finances and price and financial stability,

c. Resilient to economic and financial shocks,

d. Determined primarily by competitive market forces, and

e. Consistent with social and environmental policy goals.

Balanced growth should:

a. Be broadly based across all G20 countries and regions of the world,

b. Not generate persistent and destabilizing internal or external imbalances, and

c. Consistent with broad development goals, in particular, convergence to high standards of living across countries in the long run.

In providing this support to the G-20, the Fund should be informed by the general principles to which G-20 Leaders agreed last year in Pittsburgh (http://www.pittsburghsummit.gov/mediacenter/129639.htm). In addition to this context, the Fund should be guided by the following principles in developing the alternative policy scenarios:

1. The Fund should present a limited number of alternative policy scenarios to Deputies (i.e., no more than 3-4);
2. All scenarios must include policies aimed at ensuring a collective outcome that brings the G-20 closer to its shared objectives as laid out above;
3. All scenarios must demonstrate a shared contribution to adjustment and reform across the G-20 and that the mutual benefits of strong, sustainable and balanced growth should be broadly shared, taking into account the different stages of development for countries as well as the spillover effects across G-20 and non G-20 countries;
4. The Fund should consider the specific and feasible fiscal, monetary, structural and financial sector policy actions necessary to achieve our overarching objectives of strong, sustainable and balanced growth over the medium term;
5. The broad social, environmental and development impacts of the proposed policy recommendations in the scenarios should be considered;
6. The policy scenarios should consider the choices between the pace of implementing policy actions and their feasibility, credibility and effectiveness. As well, consideration should be given to the choices of raising global growth and of achieving more sustainable and balanced growth;
7. Given that it may take several years to realise the benefits of many policy reforms, the scenarios should consider the actions that can be taken now to attain stronger, and more balanced and sustainable growth over the medium term;
8. Policy actions for June should be expressed as actions for groups of countries facing similar circumstances, and regional economic institutions where appropriate, taking into account different national and regional economic structures and policy frameworks; and
9. The Fund should closely consult with G-20 countries throughout the process when assessing the sustainability and stability of an individual country's macroeconomic policy.

In adopting these principles, the Fund's report on alternative policy scenarios should clearly describe the global effects of adjustment, as well as the implications for member countries across a spectrum of indicators.

We will ask the World Bank to advise us on progress in promoting development and poverty reduction as part of rebalancing of global growth.

We also look forward to contributions from other international organizations, including the FSB on financial policies, the ILO on labor market policies, the WTO on trade policies, and the OECD and UNCTAD where appropriate.

40th IAFEI World Congress, Rome, Italy, October 2010

The next IAFEI World Congress will be the 40^{th}. It will be held in Rome, Italy, in October 2010. The Italian IAFEI member institute **ANDAF** will organize and host the congress.

The **exact date is October 13 to 15.**

ANDAF is stepping in to hold this year`s IAFEI World Congress. It does so, voluntarily, and on short notice, when and as it became known in December 2009, that the Spanish IAFEI member institute AEEF is not in a position to host the 2010 IAFEI world congress, due to the heavy worldwide financial crisis and the especially heavy recession in Spain.

IAFEI is happy, lucky and thankful, that, in these circumstances, the Italian member institute is stepping in.

For more information on the Congress see www. iafei.org

41st IAFEI World Congress, Beijing, China, October 2011

Cacfo, the Chinese IAFEI member institue, will organise and host the 41^{st} IAFEI World Congress, in Beijing, China, in October 2011.

The exact date in October 2011 has not yet been set, and will be made known, when the decision will have been made.