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Letter of the Editor

July 8 , 2010

Dear Financial Executive,

You receive the **Eleventh 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, and also the consequences, to be taken, are in a slowly, but distinctly, ongoing worldwide discussion and decision process. The G 20 continues to be a leading body for reform on a world scale. We therefore include again its latest Communiqué, *The G-20 Toronto Summit Declaration, June 26 to 27, 2010.* And we quote from it:

" ..... advanced economies have committed to fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016."

As to Financial Sector Reform: "The first pillar is a strong regulatory framework. We took stock of the progress of the Basel Committee on Banking Supervision (BCBS) towards a new global regime for bank capital and liquidity and we welcome and support its work. Substantial progress has been made on reforms that will materially raise levels of resilience of our banking systems. The amount of capital will be significantly higher and the quality of capital will be significantly improved when the new reforms are fully implemented. This will enable banks to withstand – without extraordinary government support – stresses of a magnitude associated with the recent financial crisis. We support reaching agreement at the time of the Seoul Summit on the new capital framework.....

We agreed to strengthen financial market infrastructure by accelerating the implementation of strong measures to improve transparency and regulatory oversight of hedge funds, credit rating agencies and over-the-counter derivatives in an internationally consistent and non-discriminatory way. We re-emphasized the importance of achieving a single set of high quality improved global accounting standards and the implementation of the FSB's stand ards for sound compensation......

The second pillar is effective supervision. The third pillar is resolution and addressing systemic institutions. The fourth pillar is transparent international assessment and peer review."

IAFEI, due to the cancelled 2009 World Congress, had no physical Board of Directors, BoD, meeting in 2009. Therefore, on July 1st, 2010, a telephone conference IAFEI BoD meeting was held, which among other subjects, elected, respectively reelected, the IAFEI officers for the calendar year 2010. For details see chapter "IAFEI News". The next physical IAFEI BoD meeting will take place on October 12, 2010, preceding this years IAFEI World Congress in Rome, Italy, on October 13 to 15, 2010.

Looking forward to seeing as many of you as possible at this IAFEI World Congress, and with best personal regards

Helmut Schnabel

Helmut Schnabel

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

Deutsche Bank

Sponsor of IAFEI, starting 2009

It is the sponsorship policy of IAFEI, to thereby enhance the value of the organization to is member institutes and its individual financial executives members, around the world, while, at the same time, entering into a professional dialogue, by various ways and means, with the sponsoring corporations. In so doing, IAFEI is striving for having such corporations as sponsors, which are world class corporations, and among the best in their business sector, and with a truly global scope and focus of activities. Thus, IAFEI and its sponsors, want to jointly serve financial executives, worldwide, for their professional benefit.

Austria, Article: Supervision Controlling by the Supervisor or Advisory Board

Author: Dr. Peter Baier , of firm Dr. Peter Baier - Consulting, Linz, Austria, May 17, 2010

1. Avoiding undesirable developments and perception in public

Many enterprises, especially enterprises listed at the Stock Exchange which have to set up a (permanent) supervisory board, as well as a advisory board grant the committee members with great inspection rights partitioned both in rights and responsibilities. However, in these working sessions, the right questions are not always asked, thus resulting in only literally scratching on the surface despite the effort of some.

This unsatisfying situation is caused mainly by

- the composition of the committee,
- the missing time budget of many of its members,
- a misunderstood conception of oneself
- as well as an unsatisfactorily used Controlling.

The fact that the compositon of such an important control and advisory are still mainly characterized by personal aquaintances and family attachment , resulting in a lack of a critical distance between the supervision or advisory boards and the management has recently been criticised vehemently by the economy forum of executives (managers).

Although a more balanced composition of these committees, especially a higher proportion of qualified women, as well as a stronger international orientation/alignment is being demanded by the capital market representative of the Minister of Finance, the poor performance of the Austrian Corporate Governance is not being assessed self-critically but instead being referred to the lacking comparability concerning international comparison.

Despite the fact that the persons responsible are certainly not lacking self-confidence but often time budget, a demanding, full time job is still seen as a ticket of admission into the illustrious circle of the supervision or advisory board - although one objectively cannot additionally take ten or even more supervision mandates at the same time without trading the reproach of the superficiality.

A higher grade of professionalism of the supervisory bodies, as it has been demanded by investors, politics/politicians and science for a long time (now), can be achieved if - not only among other reasons but for the affinity with single enterprises, thus taking a seat in supervision or advisory boards- there are other permant supervision or advisory members who highly qualified and with a sufficient time budget.
Only in this case, the actual job of the committee, such as

- considering on data relying information (“confidence“),
- and orientation at the common sense (“trust“),
- the management advising and demanding

- sparring partners (“coachs“) of the management and
- will have a good look at the enterprise future in qualitative and quantitative regards.
-

However, in Austria, as well as other countries (though not to such an extent) we are far still away from these standards. As long as a lot of committees proceed both out of touch with the real world and too little effectively they are not being perceived as a positive corrective by the public and actual or particularly potential (small) shareholders

2. Necessity of change

Size and vehemence of the current economic crisis are partly due to the supervision and advisory boards which have not met their tasks to the extent as the legislator and the rules demand.

That so far no legal actions concerning the executive board, the supervisory board and supervisory authorities (which have failed to put the EU transparency guideline into action so far) were taken by – justifiably- embittered small shareholders honestly astonishes the author, even more that there certainly is a lack of insight of the responsible committees (only Mister Lacina put down his supervision mandate of Eybl International).

The current economic crisis can certainly not be solved under the slogan “business as usual“ and the current business where an - as an executive board or supervisory board member - obviously failed manager simply switches from company A to company B .

2.1 Change of the legal framework/conditions

Austria will not be able to oppose to put the EU transparency guideline, which also includes a stronger investor protection, any longer. A main starting point of this guideline, which actually was supposed to be implemented back in January 2007, is the improvement in the information of investors concerning the results as well as the financial position of enterprises listed at the stock exchange and changes of participations.

In order to prevent the financial centre of Vienna to sink (back) in complete insignificance and coming with that a (too) great and still increasing relative weight of the banking industry *Bankenlastigkeit*, it has to be adapted to international standards such as changing the ridiculously low threat of punishment for market manipulation and insider dealing. First steps by the (voluntary) Austrian Corporate Governance Code are set but other substantial steps – as transformation the EU transparency guideline in national law - have to follow!

The efforts of the finance market supervision of creating sanction possibilities on a comparable basis with other EU states will certainly change the formulation for supervision and advisory boards and demand a higher grade of professionalism.

Empirical examinations concerning the causes of the crisis showed that the risks of the market environment – this is strategic market risks - often have an outstanding importance.

At the same time, the market environment presents the relevant chance environment as well. To take this duality into account and to recognize and tone down crises as early as possible it necessary to make significant changes concerning the legal framework, the focusing, reporting and use of controlling.

2.2 Change of the focusing

Although it is both necessary and right to take a look at past data and facts and to have a look if and in what quality the specifications of the supervision and advisory boards have been met, as well as the reasons for naturally occurring deviations, it not advisable to only take past data into account in order to master the future.

For the supervision or advisory board a future-orientated monitoring, along with an adequate risk management system which is not overloaded with operative and superficial information, but primary the strategic goals as well as the operative measures leading to such and the basic data are of significant importance.

Therefore planning documents have to focus on

- strategic orientation,
- the operative control items and
- the targeted sub-goals

to keep up clearly with the needs of a general planning and reporting system which mirrors the structure and the hierarchy of decisions and communicates all this relevant and important information in a compressed but nevertheless transparent form to the decision makers and the supervision organs.

2.3 Change of the reporting and content

Apart from a stronger future orientation, a considerably improvement in qualitative and quantities regard is necessary.

Although it is widely assumed in literature that the executive board has to provide information, reality is quite different or at least not sufficiently practised .

However, persons responsible for implementation and practice additionally has to

- choose the right personality as a head of the Controlling department,
- ensure an adequate resource equipment (staff, IT/EDP equipment), and
- install especially the information - culture as well as the style of management
  to influence positively business planning, enterprise check, information and control.

As experience shows, controlling in enterprises which are run authoritarian by dominant personalities is only possible in a very restricted way and at the same time a significantly more frequent change of the persons responsible and/or staff is obvious.

Already quite a long time ago, the High Level Group set in by the EU commission suggested that the supervision or advisory board should meet on a regular basis with the Audit Committee or (in case no such committee was established) with the accountant and the person responsible for risk management (usually the controller) and discuss questions concerning a preventive, future-oriented supervision.
By this, controlling makes an institutionalized contribution for improvement of the Corporate Governance at a level above the executive board, thus transforming into a link between the executive board and the supervision or advisory board.

3. Controlling as a link between executive board and the supervisory board

The supervision or advisory board is only able to meet it's supervision and advice task adequately if it is provided with information in a professional way. Legal regulations impose the duty of information and the fundamental questions of the business planning, especially the

- Investment planning,
- Financial planning and
- Staff planning,
  as well as deviations of actual developments concerning earlier reported goals and the essential causes.

Furthermore, the supervision or advisory board has to be informed about the profitability, sales volume and situation of the corporation. However, this standardized information supply only sets the minimum standard and does not supply any information about the size and quality of the underlying presentations.
Frequently the management proceeds quite skilfully and rather talks about "favourite and controversial issues" such as the development of the travelling expenses or telephone expenses than about so called "burning questions" which may do not show the executive board in the best light.

Such a qualitative and quantitative convincing information provision requires the existence and use of a comprehensive controlling system, which provides the demanded

- Planning items,
- Control items and
- Information items
  in an understandable, comprehensive and condensed form ("report pyramid") for the periodical and event-related reporting - gathered or being able to be derived from basic documents ("controlling as a service centre of the enterprise").

Supervising the controlling results is an essential function of the supervision or advisory board and can not be delegated!

Construction and use of the controlling system should provide

- recording,
- structuring,
- evaluation and
- transmission

of information helping to filter the essential facts for decisions out of the enormous data flood and enables the supervision or advisory board to focus on the management of market risks as result of the ruling culture and style of management actually lived.

Source: Austrian IAFEI Member Institute, Gruppe der Finanzchefs im ÖPWZ

Belgium, Article: **Securitization: Back to Basics**
Replacing Humpty-Dumpty

Authors: Professor Dr. Dennis & Professor. Thibeault

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1. Introduction

The securitization of assets was first introduced to the American mortgage markets in the 1970s. The market for securities backed by these mortgages (the so-called mortgage-backed securities or MBS) was given a special impulse by the public authorities who endorsed these emissions. After the initial success of this type of transaction, the emissions were supported by an increasingly more diverse series of assets, including assets (such as revenues from leases) and bank assets (such as future payments associated with business loans). At the beginning of this century, the securitization market had become one of the most prominent fixed income sectors in the world and was, in fact, one of the fastest-moving. At the end of 2006, however, a change could be witnessed in the capital market. Like Humpty-Dumpty, securitization has taken a big fall. For the first time, it became clear that the risky subprime mortgages in the United States that served as collateral for many of these mortgage-backed securities actually represented a lower value than was previously assumed and adopted (see also Crouhy, Jarrow and Turnbull, 2008). Home owners came into financial distress as a result of rocketing variable rates and were no longer able to pay the increased interest. Many investors who had invested in these MBS saw their portfolios downgraded by the credit rating agencies, and investors booked tremendous losses that no-one had anticipated.

Has securitization come to an end? In October 2009 the International Monetary Fund published a report on navigating the financial challenges lying ahead. In it, the IMF makes the case that restarting the securitization markets is critical to limiting the real sector fallout resulting from the credit crisis amid financial sector deleveraging pressures. Mobilizing illiquid assets and transferring credit risk away from the banking system to a more diversified set of holders continues to be an important objective of securitization, and the structuring technology in which different tranches are sold to various investors is meant to help to more finely tailor the distribution of risks and returns to potential end investors.

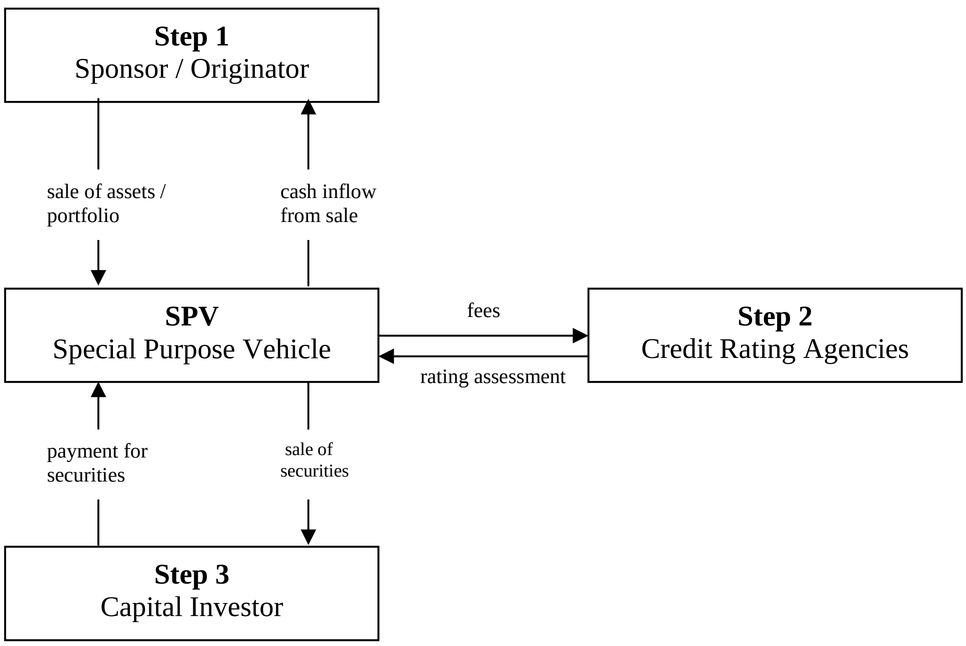
Because the concept of securitization - by its very nature and complexity - is not always well understood, this article deals with the building blocks of securitization. Next, the motivation is discussed that lies behind the structure of a securitization transaction, and finally the risks and limitations associated with this phenomenon are considered.

2. What is securitization?

2.1 Definition of securitization

Unfortunately, the term 'asset-backed securitization' is used differently by many, since usage is not entirely consistent. Asset-backed securitization first appeared in bank funding. Hess and Smith (1988), for example, explained asset-backed securitization in the context of financial intermediaries to manage interest rate exposure. The authors defined asset-backed securitization as a financial intermediation process, which re-bundles individual principal and interest payments of existing loans to create new securities. More recently, the term 'asset-backed securitization' has come to be used to refer to so-called 'structured finance', the general process by which illiquid assets are pooled, repackaged and sold to third-party investors. So, asset-backed securitization can best be defined as *the process in which assets are refinanced in the market by issuing securities sold to capital investors by a bankruptcy-remote special purpose vehicle*. This definition comprises the fundamentals of asset securitization and is visualized in Figure 1.

Figure 1: How does securitization work?



In step *one* the originator identifies future claims or other assets that generate income. This will be merged into what is known as the portfolio. The originator will sell the assets and the future cash flows to an established entity, the SPV. The SPV is a company for special purposes, usually set up by a financial institution with the specific intention to purchase the portfolio and facilitate the sale. In step *two* the quality of the collateral is assessed, usually by a credit rating agency that has the task to evaluate the credit risk of the collateral and the amount of credit support in the structure. The credit institution receives payment for its services. In step *three* interest-bearing securities are sold to investors, and the investors receive a spread as compensation for the credit risk they bear in the structure. Under normal circumstances the SPV pays the investors interest and principal that is generated by the cash flow of the portfolio, minus a service fee.

2.2 What can serve as collateral?

Securitization was initially used for simple, self-liquidating (or financial) assets such as mortgages. However, in principle, it does not matter what type of assets is used: even operational assets with a stable cash flow can be structured in a portfolio and sold to investors. However, there are substantial differences between *financial assets* and *operational* assets. A very important distinction between financial assets and operational assets lies in the management of the assets. This also has a substantial impact on the credit risk (see also Ayotte and Gaon, 2005, on the impact of collateral on credit risk).

Financial assets

One example of financial assets is a standard mortgage. If the mortgage is closed, the originator or mortgage lender, in principle, has no further liabilities towards the mortgage taker. After all, the mortgage is closed, and the provisions relating to future payments by the mortgage taker to the mortgage lender are stipulated in a contract. This commitment will end or wind up when the mortgage is paid off and the contract between the mortgage lender and mortgage taker has ended. This characteristic makes it relatively easy to construct a portfolio of several mortgages and sell to investors. In fact, after the pool is sold no active management on behalf of the originator is needed to generate cash flows. In this particular case, the *economic* and *legal* ownership of the mortgage moves from the mortgage lender/originator to the capital investor. Often the originator remains involved by servicing the payment from the mortgage taker to the capital investor.

Operational assets

In contrast to financial assets, with the securitization of operational assets the *legal* ownership often remains with the originator and it is only the *economic* ownership that moves on to the investor. The originator requires legal ownership because the originator needs to exploit the assets for the full term of financing. Consider the following example. If a football club were to sell future proceeds from the sale of stadium tickets to an SPV, the originator must continue to offer his management services to football spectators - in the form of managing the stadium - and to enable spectators to purchase tickets at the box office. Thus, the legal ownership of the assets will not move on to the investor, since the securitization structure requires the originator to have a permanent managerial involvement to produce revenues.

In summary, the securities issued by the SPV are not restricted by a mortgage or similar assets, but can also be supported by operational assets. Blum and DiAngelo (1997) and Choudhry and Fabozzi (2004) note that the capital market in which these asset-backed securities are traded are classified into: asset-backed securities (ABS), mortgage-backed securities (MBS), and collateralized debt obligations (CDO). As a general rule, the emissions that are supported by a mortgage are called MBS, and emissions supported by debt securities or similar assets are named CDOs (see classifications Nomura, 2004 and Fitch, 2004). Collateral supported by consumer-related assets such as car loans, consumer loans and credit cards are referred to as ABS (see Moody's, 2002). In this area, the following points should be noticed:

- The securities sold by an SPV can be supported by a highly diverse number of assets. This is not only restricted to mortgages, but also assets which require active management may serve as collateral.
- The capital market in which these securities are traded are composed of three important classes: ABS, MBS and CDO.
- There are several forms of securitization transactions, each with different collateral and with different levels of credit risk. More complex assets, such as assets that require substantial management, typically have a larger (credit) risk.

3. The allure of securitization

Securitization started out as a way for financial institutions and corporates to find new sources of funding, either by the off-balance sheet financing of assets or by refinancing the portfolio against a lower cost of capital (Greenbaum and Thakor, 1987; Fabozzi and Roever, 2003).[1] These methods have swamped the loan costs and, in the case of banks, lowered the minimum capital requirements. In turn, securitization has two substantial properties that will – theoretically speaking - result in lower borrowing costs compared with the issue of standard corporate bonds: *bankruptcy remoteness* and *subordination*. Both properties are described below.

Bankruptcy remoteness

Legal concepts in the field of securitization are varied and follow separate accounting and tax rules. They also have different tax consequences for both originators and investors. In spite of fundamental legal differences, it is the primary objective of an SPV to facilitate the sale of the assets and to ensure that the SPV - for bankruptcy purposes - is a separate legal entity separate from the originator.

According to Moody’s Investor Service (2002), it may be possible to achieve a rating substantially above the corporates’ unsecured rating by issuing senior classes that have significantly lower leverage than the corporate bonds of the originator. Jobst (2008) states that this is achieved by the detachment of the assets from the originator’s balance sheet (and its credit rating). This phenomenon allows issuers to raise funds to finance the

[1] If the loan cash flows are pooled but kept on the balance sheet of the issuing entity, this is considered a “covered bond”. This method has the advantage that the issuer has an incentive to screen and monitor the loans, but because they remain on the issuer’s balance sheet, capital must still be held against them, reducing the benefits of securitization. Nonetheless, the advantages of capital-market-type financing - selling the bonds to investors - allows for more intermediation.

purchase of assets more cheaply than would be possible on the strength of the originator’s balance sheet alone. For instance, a company with an overall “B” rating with “AA”-rated assets on its balance sheet might be able to raise funds at an “AA” rather than “B” rating by securitizing those assets. Unlike traditional debt, securitization does not inflate a company’s liabilities. Instead, it produces funds for future investment without balance sheet growth.

Thus, the result of bankruptcy remoteness is that the SPV generally issues securities that are rated higher (and in many cases significantly higher) in comparison with other alternatives, such as the issuance of ordinary secured debt by the company. This is the result of the risk mitigation generated by isolating the assets from the bankruptcy and other risks of the parent company through the securitization structure. Hence, the holder of an asset-backed bond is in a position similar to that held by the holder of an ordinary secured bond with regard to the originator, because repayment of the bonds takes place from a defined pool of assets. The *difference* is that the holder of an asset-backed bond is not affected by the non-performance of the originator’s other assets, whereas the ordinary bondholder is.

Subordination

The portfolio is divided into several tranches, each connected to a different level of credit risk and sold separately (see DeMarzo, 2005, on the properties of tranching). The reimbursement (nominal value and expected interest) as well as the losses are assigned to various tranches in accordance with their seniority. The least risky tranche, also known as the super senior tranche, has the first right to the income that is produced by the underlying collateral, while the most risky tranche (junior) is the last tranche to be entitled to that income. The conventional securitization structure implies a design at three levels: junior, mezzanine and senior tranches. This structure concentrates the losses to the most junior tranches. Usually these tranches are relatively small-sized, but they are nevertheless exposed to the lion's share of the credit risk. Crouhy , Jarrow and Turnbull (2008) offer a further explanation of the way in which subordination and the size of the bonds in a transaction determine how the risk of the underlying portfolio is evenly divided under the tranches.

<u>Example</u>

Let us illustrate the principle of subordination by means of an example. Here, we use a master structure of three emissions: junior class C of €10 million; class B mezzanine of €50 million, and a senior class A of € 40 million. Now imagine that the originator sells only class A and B, and that class C is retained by the originator. The investor would bear the risk in the event that the losses on the underlying portfolio exceed the cumulative subordination level of 10% (€10 million divided by a total of €100 million). If the losses cumulate to 10%, the junior class C will be wiped out. Losses between 10% and 60% translate into losses to the holder of the mezzanine class B. Finally, losses between 60% and 100% result in losses to the holder of A senior class.

In essence, securitization is based on the sale of credit risk by the originator to the investor by means of the SPV (see Riddiough, 1997). For investors, the benefit is that they can invest in a wider variety of assets that are available by securitization. However, this is not the only advantage. The subordination structure helps originators to create tranches with different risk and return profiles (Plantin, 2004). Pension funds, for example, require a larger diversity of investing in securities with a low-risk profile – a market that was dominated by debt issuance by governments. Buying securitization securities would give them the opportunity to optimize their portfolio at relatively low transaction costs. In this respect, the following considerations should be taken into account:

- Securitization allows for the transfer of credit risk from the originator to the seller.
- Bankruptcy remoteness makes sure that the bankruptcy risk of the originator can be circumvented. In principle, the SPV is originatorship bankruptcy-proof.
- The originator has the opportunity to sell securities with different risk-return relationships so that the investor is in a better position to diversify its risk.
- In theory, the most senior tranche will have nothing to fear from any losses, as long as the loss is limited to the subordinate tranches. This assumption, as has turned out in many structures with subprime collateral, was false and has led to a decline in investor confidence in tems of investing in these types of products.

4. Challenges in reviving the securitzation market

Over the past ten years, the securitization landscape has changed dramatically. It is no longer the traditional assets such as mortgages and consumer loans that play a leading role. In spite of warnings about the limitations of credit risk modeling, today's world sees a greater variety of classes of assets packaged and sold to investors, including income from an accumulation of other income-producing securities that have been issued earlier by SPV's, the so-called resecuritizations that are often structured in CDOs.

Securitization products have become too complicated, making reliable pricing or risk estimation too difficult to evaluate, especially when the quality of the collateral is hard to define and assumptions on poor correlation and diversification have to be made because of the complexity of the structures. To revive the securitization market, the Central Bank would be the best candidate by far to monitor the methodologies of the credit rating agencies and to formulate minimum requirements concerning the data used by these agencies. Policy is needed in this area, and the question can be asked whether credit rating agencies should in fact restrict the assessment of structures only to those cases in which the underlying assumptions are truly acceptable - or at least restrict themselves to assessing those securities that actually allow for a reliable assessment of market disruptions. If this means that structured securities are to be simplified, this would, in itself, send a good signal to the capital market. Furthermore, it would also be reasonable to require the originator to invest a substantial amount in each level of seniority in the structure and not, as has happened, in the most subordinate (junior) tranche only. In this way, the originator also bears the risk of potential losses in each layer of the structure and is better aligned with the interests of investors.

It is a positive development that various securitization securities have recently entered the market, for instance those introduced by SNS Bank through the Holland Mortgage Backed Series (Hermes) XIV, in February 2010. Still, a critical view remains necessary when it comes to credit ratings and the spreads that are paid on these securities in comparison with corporates (see also *Consultative document, Proposed enhancements to the Basel II framework, issued for comment by 17 April 2009)*. It cannot be denied that in comparison with corporates the credit ratings of securitization transactions are currently under pressure as a result of the association with the subprime mortgages. And this is precisely what should be bothering the credit rating agencies and the central banks, for is not the risk associated with an tripe A rated corporate the same as that of an triple A rated MBS? Investors translate insecurity into higher premiums for MBS in comparison with corporates, despite the fact that they all have the same rating. This is unacceptable. Given the pivotal role of securitization as an alternative and flexible funding channel, a failure to restart it would come at the cost of prolonging funding pressures on banks and a diminution of credit. What is needed is well-founded and balanced policy to put securitization together again, replacing Humpty Dumpty.

Source: The Financial Executive, Belgium, Quarterly Nr. 48, January, February, March, 2010, responsible publisher: D. Eeman, Financial Executives Institute of Belgium, FEIB

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Argentina, Greece, News: Argentinian-Greek Deja-Vu

Economists in Latin America Warn from an Overextension of Greece

mos. Buenos Aires, May 17. For Argentiniens the Greece-crisis is a deja-vu.Greece is suffering, according to the view of many economist, under the same problems, which had let fall Argentina, ten years ago, in its so far worst economic crisis. The currency is overvalued, and the goverment debt cannot be paid back.

Even much worse: The European Union and the International Monetary Fund, IMF, with their 110 billion-Euro-savings-plan, and with the imposition of drastic savings measures for Greece, are using the same recipies, according to the evaluation of Argentinian politicians and economist, of most diverse attitutes, which are said to already not have functioned in Argentina.

“What they propose to Greece, are savings measures and another three years of recession. They have not unterstood the crisis.”, said the former minister of economics, Roberto Lavagna, who had led Argentina, from 2002 on, out of the crisis. The savings plan is said “to be made to fail”, is the prophecy of the Argentinian State President Cristina Kirchner. “They are only saving the financial sector, but not the real economy”, said the head of state, who is cursing since long at the International Monetary Fund.

Also the liberal economist Ricardo López Murphy is warning from overextending of Greece with short term savings impositions. This would only intensify the recession and undermine the political support for reforms.

The budget adaptation, requested from the Greece, is said to be five times as high in relation to the gross domestic product as the one, wich López Murphy himself, as transitory minister of economics of Argentina, had tried to execute in the spring of 2001. Already after two weeks, López Murphy was at the time forced to resign. Nine months later, Argentina was finally bankrupt. It is said to be a mistake, to request saving efforts with such a short term view, said López Murphy. It is also said to be decisive, to have a long term concept for the reform of the social systems and to support the adaptation over “many years”, through the loan providers.

Argentina, which had tied its currency in the nineties by law in a fixed way to the US dollar, could at the time equally not devalue, as Greece cannot today as a member of the Euro-Area

Greece´s state debt obligations, in relation to the gross domestic product, are more than twice as high as at the time the Argentinian ones. The current public budget deficit is even three times as high.

Economists at the University Torcuato Di Tella (UTDT) in Buenos Aires are pleading for an immediate exit of Greece out of the Euro and for an immediate stopping of paying back its debt. This could provide air to the government and economy for breathing.

The costs of these measures are said to become only even higher overtime, the UTDT-economists are writing.

Argentina had given up, at the end of 2001, after more then three years of recession, to the fixing to the US dollar and had stopped paying back government debt. The example of Argentina is said to show, that there is a life after the crisis, said UTDT Guido Sandleris. In the six years after the collapse, the Argentinian economy recovered with yearly growth rates of more than eight per cent.

Argentina, News: The Debt Restructuring is Only a Small Success

Argentina´s Access to New Loans Remains Difficult for the Time Being

mos. Buenos Aires, June 24. Argentina is making progress at the reorganization of its old financial burdens from the state bankruptcy of the year 2001. In a second debt restructuring round, which ended on Tuesday, the creditors were handing in non-performing old debt securities with the total value of 12,1 billion US dollars in exchange for new securities with a lower coupon and longer maturities. The owners of round about 66 per cent of the creditor capital of a total of 18,3 billion US dollars, which had been admitted by the government for restructuring, were voting for the new offer of Argentina.

With this, the quota of yes-votes was over the minimum level of 60 per cent, officially requested by the government. The quota remained however, significantly below the original expectations of some financial analysts, who, at the launch of the offer at the beginning of May, had expected up to 85 per cent yes-votes.

Together with the result of the first restructuring of spring 2005, when 76 per cent of the creditors had participated in the exchange, Argentina has now been able to regulate a total of 92,4 per cent of the defaulted debt vis-à-vis private investors. In the middle of its so far worst financial crisis, Argentina, in December 2001, had stopped servicing bonds with the total value of 82 billion US dollars.

The conditions for the second debt restructuring were similarly as tough as the ones of the first offer of 2005. Argentinian State President Cristina Kirchner declared with satisfaction, that the creditors had accepted a renunciation to three quarters of their nominal receivables. “This is a day of deleveraging”, said the head of state.

After the new round of restructuring vis-à-vis private investors, still around eight billion US dollars bond debts still remains open. Of this, round about 4,5 billion US dollars are in the hands of creditors, who are sueing Argentina in courts everywhere in the world with a view to fully servicing their receivables, and who partly already have attained court judgements, which can be executed.

These investors shall continue to attempt, to get hold of Argentinian state property, where ever they believe is an opportunity. Minister of Economics, Amado Boudou hopes, however, that he can now be able to convince especially the US-American courts, that Argentina has sufficiantly moved towards its creditors with the two debt restructuring offers.

Of course, it is said, that the so called eagle-funds, which are buying debt securities in the secondary market for junk-prices, and then go to court and sue for the full nominal value, to have refused to accept the offer, Boudou was admitting.

But the “teachers and plumbers” are said to have agreed, said the Minister. So it is said, that three quarters of the Italian small retail investors have this time accepted, who with their receiveables of 4,3 billion US dollars had withstood the first offer in 2005. From the other private retail investors, who still hold one billion US dollar, 36 per cent have agreed. Institutional investors, with 8,5 billion US dollars, have contributed the biggest part of the restructured debt securities.

The access to new loans, however, remains strongly restricted for Argentina. An originally planned placement of a new bond issue of one billion US dollar parallel to the restructuring had to be deferred by the government. Argentina is said, not yet to be ready, to accept the interest return, requested by the market, said Boudou. According to the presently prevailing market rates, Argentina would still have to pay interest rates of 12 per cent to the investors, whereas the neighbouring countries Brasil und Uruguay can indebt themselfes for half of that.

Financial experts, therefore valued the results of debt restructuring only as “modest success”. The government is said to have offered to the creditors significantly less, than it could have paid, and it has therefore failed a better result, writes the bank Goldman Sachs Germany. As well, it is said, that the entire economic policy of Argentina is standing on week ground.

The access to loans and guarantees of other states is barred by the until today open outstanding receivables of Argentina vis-à-vis the rich countries of the Club of Paris, which amounts to more than six billion US dollars. Germany is with one third of these receivables the biggest creditor of this group.

China, News: China`s Revaluer

Central Bank Head Zhou Xiaochuan Makes the Yuan Always More Valuable

Like most central bank governors, Zhou Xiaochuan is not a loud drummer. Some of his decisions, however, sound like beating on the drum. One notice published in the internet of "Chinese Peoples Bank", of which Zhou is the head, achieved turmoil on the weekend, although it was coming in a quite unspectacular way. In the notice it was said, that the better situation of the economy in China and in the world does permit, to increase the "flexibility" of the Chinese exchange rate.

The world viewed this as nothing else but a sensation: The step by step revaluation of the country´s currency Yuan-Renminbi towards the US dollar, to which it is tied since two years. Also the bank made an effort afterwords, to talk the story down. Since the beginning of the week, however, it is clear, that the days of fixed tying to the dollar are indeed counted.

On Monday, the bank let the official exchange rate unchanged, but it allowed the Yuan in the interbank trading the biggest value appreciation since five years. On Tuesday, the bank of Zhou itself revalued the Yuan in fixing the highest official rate since 2005. A softening of the tying to the US dollar has been expected, however. But then, the announcement yet came unexpectedly, and it shows, how much Zhou is good for surprises. In the past half year, the sixty two year old had already twice said, a reform is possible, but has then left the markets reverberating and declared, that at the end, the time has not yet come.

This time, obviously he means it seriously, and already now reeinforced the importance of Zhou as one of the most powerful central bankers of the world at the equity, foreign exchange and raw material markets. Still, the chemical- and business engineer Zhou, who is a member of the communist party, cannot make such decisions alone. Ultimate deciders are premier minister Wen Jiabao, his State Council and the Party Leadership under General Secretary and State President Hu Jintao. Trade Minister Chen Deming has repeatedly stopped Zhou in the past, because the strongly shrunk exports of China in the crisis did not withstand a Yuan-appreciation.

In view of better foreign trade numbers, obviously Zhou could win with his view. He thereby enjoys the support of Wen, who, like Zhou is a moderate reformer. Of course, the announcements, before the summit of the twenty largest economies (G 20) on the weekend in Toronto is a gesture of goodwill. It is meant to adress such rivals and partners, which since long urged China to revalue, and who would have liked to make the country and its currancy in Toronto, co-responsible for the crisis-like imbalances in the world economy. However, Wen and Zhou are making their decisions less to the pleasure of the Americans or other monitors, but rather because of pure own Chinese interests.

They are concerned, to maintain control over the money devaluation, to enhance the domestic consumption, to build the export industry into the higher value added part of the value chain, and to finally establish the Yuan as a lead currency. Government and Central Bank have promised, to limit the inflation in this year to three per cent and to secure a medium growth of eight per cent. This will not be attained without the skilled monetary and exchange rate policy. Instead, as expected, to increase interest rates in order to put a break on price increases, Zhou can now build on lower import prices as a consequence of the Yuan appreciation. The higher purchasing power might heat up the domestic consumption and decrease the export dependency. The increasing export prices are not only accepted by Zhou and Wen, they also serve the same calculus as the present campaign for wage increases in the export industry: The corporations are expected to become more productive and to produce higher valued goods with qualified workers. Behind that is the objective, to help China to get from a quantitative to a qualitative growth and to lead the country into the group of developed nations.

For Zhou, who has written several financial publications, that have been hailed, and who is regarded as "academic technocrat", the rise of the country is not thinkable without a new positioning of the Yuan. Among this is the delinking from the dollar only one step. A further step is the establishment of a so far not convertible currency in the international trade.

Widely unrealised, the bank has announced on Tuesday, that the Yuan will be allowed to be utilised in 20 provinces and directly administered cities for transborder payments; up to now this privilege had been limited to Shanghai and four cities in Kanton. Since Zhou, in March 2009, was asking for a reform of the international financial system, and questioned the role of the U.S. d ollar as world reserve currency, he has again and again brought the Yuan into discussion as an alternative model.

Up to then, it is still a long way, but the governor is pursueing this steadily step by step. At the end of this, also knows Zhou, must necessarily stand the convertibility of the currency.

China, Article: The China Challenge

China's potential is stunning. No company can afford to ignore it. But Acciona, Danone and Shell have found the country to be a dragon's den.

By Steven Arons

China, China, China. Wherever you look, the country's name keeps popping up. Never out of the news, the country sets new records every day: the fastest recovery, the strongest growth, the largest market. The Expo, which recently opened its doors at Shanghai, the country's industrial centre, is yet another powerful sign of China's surging strength. It aims to attract 70 million visitors – more than the population of France – between May and October. Already the Chinese pavilion has become not only a magnet for tourism but a symbol of the country's unrivalled economic vibrancy. "You can't really afford not to take advantage of the opportunities offered by China," says Rick Fearon, CFO of American engineering group Eaton, succinctly summing up the feelings of top executives around the world.

In the mood for spending

The promise is indeed great. After a short dip during the crisis, China's V-shaped recovery is surpassing all expectations. In the first quarter of 2010, the country's GDP grew by 12 per cent year on year and over 11 per cent from the previous quarter. This has caused a purchasing frenzy amongst the Chinese population and its companies. In a little more than a decade the country will have passed the US as the world's hungriest consumer of commodities and energy, the World Energy Agency predicts.

Companies present in the Chinese market are exuberant. Mass market suppliers such as Motorola, Unilever and Volkswagen all recently reported record sales in the vast country; others are certain to follow. Those who have not yet made it to China are falling over themselves to get there. A recent private equity survey found consensus among the respondents that China was by far the most attractive country in the world, with over half saying that they would expand their investment in China or begin investing there. Disposable income is estimated to have reached about USD 2 trillion (EUR 1.6tn) last year while the middle class is expected to grow from 130 million people in 2006 to 500 million people in 2026, according to Global Demographics.

What finance chiefs need to keep in mind, however, is that China is full of risk. This is not just to do with the forming bubble which most observers believe will be kept under control by the authorities. It is also that western companies in China, in spite of their best efforts, can find economic success elusive. Google is arguably the most famous case in point. But many European companies have had to learn lessons too. Over the past few months, Acciona from Spain and Danone from France both pulled out of joint ventures with Chinese partners as results failed to deliver on expectations, while Shell from the Netherlands shelved a plan to take a stake in a joint venture.

Sacrifices must be made

The question many companies need to ask themselves about China, is whether they want to sacrifice their profitability to win market share. In fact, earning a decent return on investment is perhaps one of the greatest challenges facing European companies there. “We are currently offering discount prices to buy market share in Asia,” concedes one executive at a major western bank, who did not want to be named. A recent survey conducted by the Economist Group among over 1,000 executives worldwide points in the same direction: The problem most often cited as the next decade’s largest for companies already operating in Asia, was the turning of a comfortable profit there.

>>
Lax policies and enforcement
increase the risk of reputational
damage as a nasty side effect.
<<

Heavy competition from local and multinational rivals is the chief cause of squeezed profit margins. The retail sector provides a good example: UK supermarket giant Tesco has recently announced it will launch a heavy investment campaign in China over the next five years, opening 80 stores and spending GBP 2 billion (EUR 2.3bn) in the process. But its main rivals – Walmart from the US and Carrefour from France – are equally keen to secure their slice, especially in the big cities. With a string of home-grown chains now cropping up, competition is set to increase even further. 45 per cent of grocery sales in Shanghai already occur in hypermarkets, potentially leading to market oversaturation, a Deloitte report says. Branching out into the so-called second and third tier cities could be a solution. “There are only four megacities that everybody is looking at,” said Torsten Oltmanns, a partner at consultancy Roland Berger, at a conference. “But there are 200 more cities with populations over 1 million.”

Unorthodox practices

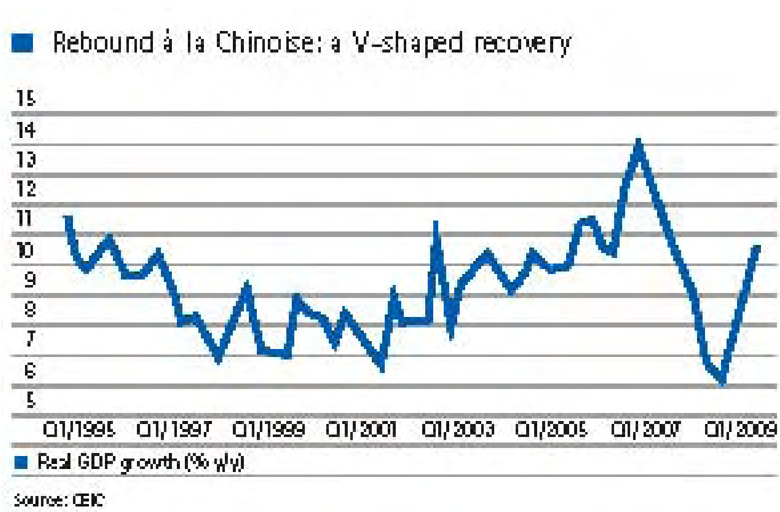
Low returns on equity are just one of the many problems western companies are facing. Many are struggling just as much with China’s unorthodox business practices. Danone is a particularly telling case. The joint venture which the French food maker cancelled last year had been in existence since 1996. But a simmering argument over trademark infringements came to a head in 2007 when both Danone and partnering local firm Wahaha, a juice maker, separately decided to make their disagreements public. Wahaha founder Zong Qinghou was alleged to have set up a vast network of parallel subsidiaries whose sole purpose, although legally independent of the joint venture, consisted of selling products identical to those of the joint venture. While Danone accused Mr Zong of exploiting its brand name, Mr Zong claimed that Danone had imposed an unfair contract on him.

“Equality and reciprocity”

The split between Danone and Mr Zong came last December. Both companies announced they had reached an “amicable agreement”, resulting in the sale of Danone’s stake in their joint venture to the Chinese businessman. While Danone reaffirmed its unbroken and “longstanding” commitment to China, Mr Zong explained what he thought was needed for westerners to succeed in China was a partnership of equals and nothing less: “Chinese companies are willing to co-operate and grow with the world’s leading peers on the basis of equality and reciprocal benefit,” he said. According to press reports, Mr Zong paid EUR 300 million for the 45 percent stake – a dumping price for a company that contributed the lion’s share to Danone’s hugely profitable and rapidly growing Asian operations. Wahaha’s annual revenues are - estimated to have reached USD 6.3 billion last year, thanks to the acquisition. Mr Zong is now the richest man in mainland China, according to the latest Forbes list.

In fact, the particular bone of contention in the Danone case – intellectual property – is one of the most frequent criticisms levelled at China. The Economist survey found that executives saw the weakness of the rule of law, in particular with respect to the protection of intellectual property rights (IPR), as by far the biggest threat to China’s growth over the next decade. The latest edition of the Special 301 report, an annual review of global intellectual property rights issued by the US Trade Representative, is condemning in its conclusions: “China’s IPR enforcement regime remains largely ineffective and non-deterrent.” It specifically cites the Silk Street Market in Beijing as an “egregious example of the counterfeiting of consumer and industrial products.”

But the criticism of Chinese policies does not stop there. Many foreign businesses also lament a growing protectionism that is keeping them away from lucrative public contracts. Philippe de Buck, director general of BusinessEurope, a pan-European business association, observes “a gradual trend towards impeding access [to government procurement] for non-Chinese companies,” describing the recent development of a catalogue of national indigenous innovation products as “a further worrisome example.”



Lurking dangers

Red tape and corruption are other major concerns. “For the first time I hear of companies contemplating leaving the country altogether,” Jörg Wuttke, president of the EU chamber of commerce in China, recently complained. “They consider this not because they cannot compete with local rivals but because they are weary of slogging through an unpredictable business environment where the odds seem deliberately stacked against them.” As everywhere, red tape goes hand in hand with corruption, apparently pervasive in the country. “Corruption in the private sector in China has traditionally been severe,” says the latest Global Corruption Report by Transparency International, the non-profit organisation. The recent conviction of four Rio Tinto employees, on charges of accepting bribes, demonstrates that even the most professional organisations are not immune to this threat.

This also shows that the lax policies and lack of enforcement increase the risk of reputational damage as a nasty side effect, especially in the areas of environmental and labour standards. Health scares are common. In 2007, US toy maker Mattel was forced to recall 9 million toys, leading to massive losses and even worse damage to its reputation. Steiff, a German manufacturer of teddy bears, pulled the plug two years ago before perceived risks could escalate into a full-blown crisis. In the summer of 2008 it announced it was relocating its production from China back to Germany because the products had failed to meets its quality standards. “If one of the glass eyes is a millimetre off, it means the adorable devoted look on the teddy bear's face ends up more like a stupid stare,” the company’s managing director said at the time. “What we expect, they cannot produce.”

The Chinese are eager to point out that the situation is improving. “In some instances dealing with the bureaucracy can be frustrating,” admits one Chinese expert on government relations in Beijing. “But in general the whole system is becoming more transparent. The quality of officials is rising too. They have become much more professional.” But it is clear that China still has a long way to go before European companies can go there and be certain of business success. China offers a path full of potential and promise. But for some European companies this path could lead straight into the dragon’s den. ||

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Euro-Area: **Point of View: Country Ratings and the Euro-Area**

By Thorsten Hinrichs*, Managing Director,*
Standard & Poor´s, *in Frankfurt am Main, Germany*

The reactions to the latest decision of Standard & Poor's, to lower the credit rating for Greece, have been quite diversified. They reached from too late or too early over too strong and too weak. This broadness of the band of reactions shows us, that we have to explain the reasons for our rating measures, but also our role in the market.

We do know, that our views are not always welcome at the issuers and also not at several European Union representatives. And this is quite clearly a difficult time for the Greek government and the Greek people, and for the Euro-Area at large.

As indepentent offerer of opinions about the credit-worthiness, which is adressed first of all to the investors, however, our role is quite clear. We must communicate our rules about the relative credit risk in such a way, how we see it. Without if and but.

Greece is a good example, of how this rule is excercised in practice. Our latest decision to lower the rating for Greece to "BB+", was caused by the fact, that we revised our expectations about the economic growth of the country to the downside. In our opinion, the fiscal measures, which are necessary for the stabilisation of the Greek debt burden, will further heavily weigh on the medium term growth expectations of Greece. Because of our revised assumptions, we expect, that the nominal Greec domestic product will reach the level of 2008 not before 2017.

At the same time we see – as many others also do – that the Greek government stands before ever larger challenges, to put its fiscal reform programm into practice.

We now estimate, that for the stabilisation of the Greece debt burden services (without interest payments) a lowering ot the state budget deficit in the order of size of 13 per cent of the gross domestic product is necessary. By comparing to that, what other counties could achieve in the past, this is an utmost demanding objective.

With other words: Because of the longer term perspectives for Greece's state budget, we have concluded, that the credit-worthiness of Greece is not any longer in line with a rating in the investment-grade-area.

Some are of the opionion, we should have cancelled our evaluation for so long, until the rescue action by the European Union and the International Monetary Fund would have been finished.

This view we do not share. We have pointed out in this context repeatedly, that such a rescue action does resolve the short term liquidity problems of Greece on the one hand, but that it does not necessarily secure the long term solvency of the country. Examples for such rescue actions one could observe in other parts of the world already.

In our opinion, Greece should be able to refinance its liabilities, maturing in 2010. For this, the official financial support should take care, which the country receives. And we have always again and again underlined, that we are of the opinion, that this rescue will also be coming. Our concerns about the credit-worthiness of Greece are focusing on the political and economic challenges, which the government has to master probably in the next three to five years. And these challenges, in our opinion, are, through such a rescue action, not so automatically off the table.

A quicker return to a balanced state budged can overtime contribute, that the confidence in the market will return and that the rating of Greece will improve again. In our opinion, however, the success of such strategies, at the end depends on one decisive factor, which nobody can control in the Euro-Area or at the International Monetary Fund. It is, here, the will and the readiness of the Greec People, to support the savings course of the government, which has never existed in this country to this degree. This readiness will now be put to probation.

As expresses our “BB+”, we do not see that Greece is an immediate danger of a payment default. The historic ten year default rate for a country with a rating of “BB+” is at 14 per cent. However, we see long term increasing risks for its credit-worthiness.

Some are of the opinion, our ratings are said to be simply driven by sentiments in the market. However, as our rating history shows, the contrary is the case.

In the past ten years until the break out of the financial crisis, the market has traded Greek liabilities almost exactly like liabilities from countries with “AAA”-ratings, like Germany or France.

But the first down-rating of the credit-worthiness of Greece by S&P occurred already in 2004, at the time from “A+” to “A”. Almost a decade long we had been with our opinion about the credit-worthniss of Greece in a clear constrast to the market consensus.

In the course of the past year, the sentiment among investors has totally turned to the contrary. Also during this time, we have had a much more balanced opinion about the credit-worthiness of Greece. And this is the case until today, even with our latest downgrading. Our rating opinion was partly driven by the market.

The fact is, that we state an independent opinon ,and it is totally left to the freedom of the investors, to take this into their consideration or not.

Ratings are one of many aspects, which investors observe, and they are also one of many factors, which can influence the market. While the credit markets, depending on sentiment situation, regulary underreact, respectivly overreact, ratings have a long term view of fundamental credit risks, and they therefore rather tend to a middle of the road position.

The market is profiting from competing views about the credit risk, whether they are from rating companies or from other sources. In the moment, it digests three different credit ratings about Greece from the three large rating offerers. We welcome this discussion, and we regard it as our task, to contribute with our independent opinion.

Our opinions are based on fundamental research, local market knowledge, and on criteria we apply consistently worldwide. Our rating results, and the assumptions on which they are based, are transparent, in order that investors can fully understand them.

This principle of independence, is of essential importance. It is coined into the European Union Legislation about rating corporations, which will come into force in September.

With this regulation, the ongoing supervision of the activities of the rating corporations through the European Union security supervision will be introduced, and it expressly serves the purpose, to enhance the independence and integrity of ratings.

Especially, with this, it is meant to be achieved, that ratings will not be influenced by issuers or by other third parties. We totally agree to this principle, and we are firmly convinced, that our latest rating measures in regard to country ratings, such as the one of Greece, are a clear example for the application of this principle.

France, Article: A Voice for the Voiceless

The Success of the Franch Credit Mediator is Remarkable.

Neighbouring countries are replicating the model to help SMEs wrest credit from bank,

By Christian Schlumpberger

Monsieur Marcel is in trouble. Despite the strong demand for the products of his mid-sized automotive company, he has been unable to find financing for necessary plant upgrades. Without additional capital from the banks, he won't be able to fulfill customers' orders. As a result, he might even lose them to his competitors – a death sentence for his company.

To avoid this fate, Monsieur Marcel does what a huge number of other French companies have done before: he turns to the credit mediator Gérard Rameix.

Since the appointment of the first mediator René Ricol in October 2008, no fewer than 17,500 companies have asked for his assistance in their negotiations with banks – in many cases with a positive outcome, Mr Rameix claims. According to his office, two out of every three cases ended with an agreement between a company and a bank, which saved about 160,000 jobs.

The French model has already found admirers abroad. Belgium has created a similar office and appointed Chris Dauw; Germany will follow this year. Neighbouring countries are replicating the model to help SMEs wrest credit from banks.

Gérard Rameix is convinced that the office of national credit mediator can be a success in almost every country: "This French experiment can be repeated elsewhere. A neutral mediator is something that can help the dialogue between banks and companies in every country."

But how can an office that can't resort to legal force be so influential? Much of its success lies in the fact that the clients are mostly small companies. They often lack the knowledge on how to properly negotiate with banks. In cases like these, giving a little guidance to the company can be enough.

But the mediator is also vested with significant moral authority. The mediator is appointed by President Sarkozy himself and can rely on the strong support of the French state as well as of the economic minister Christine Lagarde. There is also the threat of negative headlines. When a bank needs some extra Médiation du crédit aux entreprises .

When a bank needs some extra encouragement, Mr Rameix says he will take journalists to his meetings with the banks, to put more public pressure on them. And sometimes a short phone call to the right person can make the difference:

“If the negotiations with the local bankers fail, we sometimes call top management to make sure that they understand the importance of a medium-sized company for its region.”

The most valuable support for Gérard Rameix comes from the national bank of France. “The Banque de France has a very impressive network with experts in every region who act as our local eyes and ears.”

A leading example Given that Joachim Metternich, the designated German mediator, has much less backing than his French counterpart and also lacks the support of a strong central bank like the Banque de France, it is doubtful whether he can be as effective as Mr Rameix. Nevertheless, his appointment by economy minister Rainer Brüderle has sent an important message to the banks.

Martin Blessing, CEO of state-owned Commerzbank, recently stated that his bank would increase its credit allocation to small and medium-sized companies by EUR 5 billion. In addition, the bank has appointed a special manager who checks the credit worthiness of medium-sized companies and will act as the contact person for the new credit mediator. Despite signs like these, Mr Brüderle has already made clear that he is willing to increase the pressure if necessary: “The state can, of course, take further regulatory steps, if everything else fails.” ||

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Italy, CFO Interview: “We Will Not Miss Our Target”

Luigi Ferraris, CFO of Enel, discusses the utility’s ambitious deleveraging programme and the risks posed by carbon regulations.

>> Mr Ferraris, you hope to reduce Enel’s net debt to EUR 39 billion by 2014, down from the current EUR 51 billion. Will you be able to divest further assets should it become clear that Enel is going to miss that target?

<< Enel will not miss the target. We have already cashed in over EUR 3 billion through the sale of the Italian high volt-age grid, the sale of an 80 per cent stake in Enel’s low pressure gas pipeline and other minor disposals. Also, we confirm our commitment to generate about EUR 7 billion by the end of 2010.

But financial stability is of the highest relevance to us. We are able to cancel or postpone projects up to EUR 3 billion, depending on the evolution of the world energy demand. We are also focused on cash flow generation and operational efficiency. The synergies between Enel and [Spanish utility company] Endesa will contribute to the achievement of a cumulative consolidated operating cash flow of about EUR 65 billion through 2014. Finally, we have restructured our maturities to after 2014, and 80 per cent of our net debt is now fully hedged or at fixed rates.

>> How flexible will you be, should new M&A opportunities open up?

<< Enel’s global acquisition campaign has been successfully concluded with the purchase of 92 per cent of Endesa and the Russian assets of OGK-5. We do not fore-see any further major acquisitions although we will pursue some small and selected investments, mostly in the green business.

>> You are considering a floatation of your renewable energy unit as part of your deleveraging strategy. How likely is that IPO to go ahead, and in which circumstances would you opt for a private sale instead?

<< We are open to both options, or even some combination of the two. Our preferred scenario at this stage would be an IPO, though the direct sale of a minority stake combined with an IPO is also a possibility. In fact, we are currently working on filing the prospectus, and the IPO is now expected to take place in October. But in parallel with this, we are maintaining contacts with potential strategic investors. At this stage, I can only say that there isstrong appetite for acquiring a minority stake in Enel Green Power.

>> How much of your debt will be refinanced through new bond issuance?

<< As our debt profile has been restructured,at the moment there is no need to issue new bonds. In addition to a well-spread maturity profile, our liquidity position is supported by the availability of committed credit lines. Counting our cash and cash equivalents, group liquidity amounts to about EUR 21 billion. On top of this, EUR 7 billion of our committed credit lines are set to mature in 2010.

This is why we have negotiated a 5-year
revolving credit facility of EUR 10 billion that replaces the EUR 5 billion syndicated loan set to expire November 2010 which we're not currently utilising.The expected cash-in from disposals and the tariff deficit accrued by Endesa will further strengthen our consolidated liquidity position. >>

>> Much of your deleveraging is planned to come from reduced capital expenditures.How can you ensure that those cuts will not put you at a disadvantage with respect to your competitors?

<< We have announced a capex plan exceeding EUR 29 billion over the next five years. Nevertheless, as a result of the general deterioration of the macro-economic outlook, our investment programme has been revised. We will continue to include projects which we consider key to our margin growth even in unfavourable economic cycles.

These projects are primarily clean coal and gas midstream facilities; renewables and some initial nuclear initiatives in Italy; a focus on renewables and efficiency projects in Spain and Latin Amer-
ica; combined cycle gas turbines and upstream gas in Russia; a focus on nuclear power in Slovakiaand a focus on service quality and customer care in distribution networks.

>> Much of Enel's future growth is planned to come from the Latin American operations which you hope will achieve EBITDA growth of 18 per cent between 2011 and 2014. Given that you are also predicting slow growth in energy demand, how can you believe this target to be realistic?

<< Enel’s growth drivers mainly come from our international activities, including our Latin American operations, renewables, our efficiency programme and our domestic divisions in Italy and the Iberian peninsula. The Latin American region has proved to be resilient to the global economic downturn and currently enjoys a favourable economic and financial outlook. Investments in power generation and distribution in the region are sustained by a steady regulatory framework.

Our strategy for the region is to grow organically in this stable,
low-risk and attractive environment, mostly focusing on investments in efficiency improvements. Our presence is concentrated in the metropolitan areas where growth is particularly high. In fact, between 2010 and 2014, we are planning to add some 2 million clients to our existing customer base.

>> The threat of tighter carbon emission regulations is hanging over the energy industry.How much is that threat already affecting myour business decisions?

<< The EU regulatory framework on CO2 is one of the major challenges that utilities are facing at the moment. As a consequence, the European power industry is already including tighter carbon regulations in its business decisions. Enel in particular has been an early mover in the global carbon market, thanks to its investments in the flexible mechanisms of the Kyoto Protocol. Today Enel Group has a portfolio of about 200 million tons of CO2-equivalent certificates in the period up to 2020. This portfolio allows Enel to comply with its emission reduction commitments.

>> Changing carbon regulation across the world are a source of great uncertainty for utilities. What are you anticipating for the future in this area, and what provisions do you already have in place?

<< We feel that there are still many open and pending issues surrounding carbon legislation. The emission reduction level to be adopted up to 2020, the timeline for the European Emission Allowances (EUAs) and the auctioning procedure are all examples of that. Enel, relying on its successful carbon policy, has decided to go even further by creating a carbon unit in charge of setting the carbon strategy for the entire group. The unit will manage the internal demand of EUAs as well as developing primary sources of emission reduction in all the major markets.

>> The Greek crisis has generally made borrowing more expensive for companies in southern Europe. How much has it driven up the cost of credit for Enel?

<< The crisis followed after the restructuring our debt through the rights issue offering and the institutional bond placement of 2009, as well as the retail bond issuance of February 2010 that increased the group’s fixed rate debt profile against the floating rate profile. As a result, 80 per cent of our debt is now fully hedged or at fixed rates.

On top of this, we have also finalised a EUR 10 billion credit facility with a five-year duration, which is fully available today and entirely dedicated to backing up our treasury needs. Therefore, we do not expect the recent Greek crisis to have any major impact on us. |

The Electricity Executive

Luigi Ferraris is the CFO of Enel Group, Italy’s largest power company and Europe’s second listed utility by installed capacity. It is an integrated player which produces, distributes and sells electricity and gas. Thanks to the acquisition of the Spanish utility Endesa, Enel has now a presence in 23 countries with over 95,000 MW of net installed capacity, and sells power and gas to around 61 million customers.

Japan: News **The Crisis of the Euro Leads to a Rethinking in Japan**

Finance Minister Wants to Limit New Indebtednes / The Economy Moves Slowly Out of Deflation

Cag. Tokio, May 17. Under the impression of the European debt crisis, voices are on the rise that the Japanese government has stopped the free way of the country into indebtedness. Before all others, the finance minister, Naoto Kan, after his return from the international crisis conferences in the past week, has requested, that the new indebtedness of Japan should be reduced already visibly in the upcoming state budget 2011.

In the state budget for 2010, which has already started on April 1st, Japan is financing its record expenditures of 92,3 trillion Yen (755,4 Billion Euro) almost by half through new debt. 44,3 billion Yen of new debt takes Japan up during this year.

“This we must reduce”, says Kan. At the same time the finance minister thinks about, to increase significantly the consumption excise taxes of five per cent, which are low by international comparison. With the increased revenues it is intended to finance the additional social expenditures, that have been promised by the government, which has been newly elected in September 2009.

Kan, who has taken over his office in January as a convinced Keynesian, has changed his position in view of the European experience. He is afraid, that alternatively, a loss of confidence of international investors in the solidity of the Japanese state finances will occur – and in the medium term a possible repetition of the Greece example.

On the other hand, though, the Japanese state indebtness, which is almost twice as high as the yearly economic performance of the country (gross domestic product), is today by more than 90 per cent in the hands of domestic investors such as the state controlled postal bank or the state pension insurances. Refinancing problems like in the case of Greece will not happen so quickly. But even soon the country will not be able to avoid, to take up debts abroad, if it is not possible, to get control over the steadily growing new indebtedness.

In June, Kan wants to present a plan, how Japan can get control over its state budget. Premier minister Yukio Hatoyama is following the way of his finance minister – and party internal rival – not so far. Kan “speeks only for himself and thereby expresses not my view”, said the Premier in Tokio in front of Japanese journalists. While Kan believes, to be able to think about higher taxes because of the advancing business cycle, Hatoyama continues to build on debt financed governmental incensive programms.

The Ministry of Economics on Monday proposed in Tokio, to lower the corporate taxes of presently a little bit more than 40 per cent at least down to the European level. Hatoyama supported this with the words, “the corporations should be able to better compete in the international competition”. Kan’s finance ministry proposes a lowering of taxes without a counter financing so far, however.

In the meentime, signs are becoming more numerous, that Japan will be able in this year or in the coming year, to liberalise itself from the year long deflation. The orders of the private sectors for machinery had increased significantly in March for the first time this year. By monthly comparison, they improved by 5,4 per cent. The orders for machinery are an important indicator for the capital expenditure activity of the corporations.

At the same time, the wholesale prices in April have decreased much less strongly than expected. This points to that Japan slowly gets its way out of deflation. As the Bank of Japan reported on Monday in Tokio, the wholesale prices in April were at 0,2 per cent under those of March. In March and in February there had still been reported decreases by 1,3 und 1,5 per cent.

USA, News: Trillion Dollar Rescue in America

Fannie and Freddie Can Cost up to 1 Trillion U.S. Dollars

Washington, June 15 (Bloomberg). The costs for the rescue of the two state owned US American mortgage institutes Fannie Mae and Freddie Mac will amount to at least 160 billion U.S.-dollars, but can increase up to one trillion U.S.-dollars. With this, all rescue actions, incurred up to now in the USA, be it for automobile groups or for banks, will be dwarfed.

The Institutions, meanwhile belong to 80 per cent to the State and have already utilized 145 billion U.S.-dollars of its credit line which is un-capped to the upside. Should the prices in the private home market fall further, however, even more state money will be needed.

Analysts from Barclays Capital expect, that the rescue action could cost up to 500 billion U.S.-dollars. They expect, that the house prices can fall by further 20 per cent and that the default rate will triple.

Sean Egan, the head of Egan-Jones Ratings, expects, that Fannie and Freddie write off one fifth of their loans and garantees, as already had to be done by other great market players – amoung them Countrywide, now subsidery of Bank of America. “One trillion US dollars is an adequate assumption for a worst-case-scenario”, said Egan. His rating-firm has already warned investors, before 2002, from bond insurers (Monoliner) and had downgraded Enron one month before its collapse.

Fannie and Freddie are closely interlinked with the US-American and the global financial system. They make sure, that house purchasers continue to get loans, even when the private market for real estate financing is about to collapse.

In total, Fannie and Freddie own, or guarantee 53 per cent of all private real estate loans, according to the Federal Reserve Bank of the USA. The market has a volume of 10,7 trillion US dollars. “This is the mother of all rescue actions”, said Edward Pinto, formerly responsible as chief credit officer at Fannie Mae for the loans, and in the meantime counselor in the mortgage financing industry.

The G-20 Toronto Summit Declaration

June 26 – 27, 2010
Preamble

This document is also available in .pdf format

1. In Toronto, we held our first Summit of the G-20 in its new capacity as the premier forum for our international economic cooperation.

2. Building on our achievements in addressing the global economic crisis, we have agreed on the next steps we should take to ensure a full return to growth with quality jobs, to reform and strengthen financial systems, and to create strong, sustainable and balanced global growth.

3. Our efforts to date have borne good results. Unprecedented and globally coordinated fiscal and monetary stimulus is playing a major role in helping to restore private demand and lending. We are taking strong steps toward increasing the stability and strength of our financial systems. Significantly increased resources for international financial institutions are helping stabilise and address the impact of the crisis on the world's most vulnerable. Ongoing governance and management reforms, which must be completed, will also enhance the effectiveness and relevance of these institutions. We have successfully maintained our strong commitment to resist protectionism.

4. But serious challenges remain. While growth is returning, the recovery is uneven and fragile, unemployment in many countries remains at unacceptable levels, and the social impact of the crisis is still widely felt. Strengthening the recovery is key. To sustain recovery, we need to follow through on delivering existing stimulus plans, while working to create the conditions for robust private demand. At the same time, recent events highlight the importance of sustainable public finances and the need for our countries to put in place credible, properly phased and growth-friendly plans to deliver fiscal sustainability, differentiated for and tailored to national circumstances. Those countries with serious fiscal challenges need to accelerate the pace of consolidation. This should be combined with efforts to rebalance global demand to help ensure global growth continues on a sustainable path. Further progress is also required on financial repair and reform to increase the transparency and strengthen the balance sheets of our financial institutions, and support credit availability and rapid growth, including in the real economy. We took new steps to build a better regulated and more resilient financial system that serves the needs of our citizens. There is also a pressing need to complete the reforms of the international financial institutions.

5. Recognizing the importance of achieving strong job growth and providing social protection to our citizens, particularly our most vulnerable, we welcome the recommendations of our Labour and Employment Ministers, who met in April 2010, and the training strategy prepared by the International Labour Organization (ILO) in collaboration with the Organisation for Economic Co-operation and Development (OECD).

6. We are determined to be accountable for the commitments we have made, and have instructed our Ministers and officials to take all necessary steps to implement them fully within agreed timelines.

The Framework for Strong, Sustainable and Balanced Growth

7. The G-20's highest priority is to safeguard and strengthen the recovery and lay the foundation for strong, sustainable and balanced growth, and strengthen our financial systems against risks. We therefore welcome the actions taken and commitments made by a number of G-20 countries to boost demand and rebalance growth, strengthen our public finances, and make our financial systems stronger and more transparent. These measures represent substantial contributions to our collective well-being and build on previous actions. We will

continue to co-operate and undertake appropriate actions to bolster economic growth and foster a strong and lasting recovery.

8. The Framework for Strong, Sustainable and Balanced Growth that we launched in Pittsburgh is the means to achieving our shared objectives, by assessing the collective consistency of policy actions and strengthening policy frameworks.

9. We have completed the first stage of our Mutual Assessment Process and we concluded that we can do much better. The IMF and World Bank estimate that if we choose a more ambitious path of reforms, over the medium term:

- global output would be higher by almost $4 trillion;
- tens of millions more jobs would be created;
- even more people would be lifted out of poverty; and
- global imbalances would be significantly reduced.

Increasing global growth on a sustainable basis is the most important step we can take in improving the lives of all of our citizens, including those in the poorest countries.

10. We are committed to taking concerted actions to sustain the recovery, create jobs and to achieve stronger, more sustainable and more balanced growth. These will be differentiated and tailored to national circumstances. We agreed today on:

- Following through on fiscal stimulus and communicating “growth friendly” fiscal consolidation plans in advanced countries that will be implemented going forward. Sound fiscal finances are essential to sustain recovery, provide flexibility to respond to new shocks, ensure the capacity to meet the challenges of aging populations, and avoid leaving future generations with a legacy of deficits and debt. The path of adjustment must be carefully calibrated to sustain the recovery in private demand. There is a risk that synchronized fiscal adjustment across several major economies could adversely impact the recovery. There is also a risk that the failure to implement consolidation where necessary would undermine confidence and hamper growth. Reflecting this balance, advanced economies have committed to fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016. Recognizing the circumstances of Japan, we welcome the Japanese government’s fiscal consolidation plan announced recently with their growth strategy. Those with serious fiscal challenges need to accelerate the pace of consolidation. Fiscal consolidation plans will be credible, clearly communicated, differentiated to national circumstances, and focused on measures to foster economic growth.
- Strengthening social safety nets, enhancing corporate governance reform, financial market development, infrastructure spending, and greater exchange rate flexibility in some emerging markets;
- Pursuing structural reforms across the entire G-20 membership to increase and sustain our growth prospects; and
- Making more progress on rebalancing global demand.

Monetary policy will continue to be appropriate to achieve price stability and thereby contribute to the recovery.

11. Advanced deficit countries should take actions to boost national savings while maintaining open markets and enhancing export competitiveness.

12. Surplus economies will undertake reforms to reduce their reliance on external demand and focus more on domestic sources of growth.

13. We are committed to narrowing the development gap and that we must consider the impact of our policy actions on low-income countries. We will continue to support development financing, including through new approaches that encourage development financing from both public and private sources.

14. We recognize that these measures will need to be implemented at the national level and will need to be tailored to individual country circumstances. To facilitate this process, we have agreed that the second stage of our country-led and consultative mutual assessment will be conducted at the country and European level and that we will each identify additional measures, as necessary, that we will take toward achieving strong, sustainable, and balanced growth.

Financial Sector Reform

15. We are building a more resilient financial system that serves the needs of our economies, reduces moral hazard, limits the build up of systemic risk, and supports strong and stable economic growth. We have strengthened the global financial system by fortifying prudential oversight, improving risk management, promoting transparency, and reinforcing international cooperation. A great deal has been accomplished. We welcome the full implementation of the European Stabilization Mechanism and Facility, the EU decision to publicly release the results of ongoing tests on European banks, and the recent US financial reform bill.

16. But more work is required. Accordingly, we pledge to act together to achieve the commitments to reform the financial sector made at the Washington, London and Pittsburgh Summits by the agreed or accelerated timeframes. The transition to new standards will take into account the cumulative macroeconomic impact of the reforms in advanced and emerging economies. We are committed to international assessment and peer review to ensure that all our decisions are fully implemented.

17. Our reform agenda rests on four pillars.

18. The first pillar is a strong regulatory framework. We took stock of the progress of the Basel Committee on Banking Supervision (BCBS) towards a new global regime for bank capital and liquidity and we welcome and support its work. Substantial progress has been made on reforms that will materially raise levels of resilience of our banking systems. The amount of capital will be significantly higher and the quality of capital will be significantly improved when the new reforms are fully implemented. This will enable banks to withstand – without extraordinary government support – stresses of a magnitude associated with the recent financial crisis. We support reaching agreement at the time of the Seoul Summit on the new capital framework. We agreed that all members will adopt the new standards and these will be phased in over a timeframe that is consistent with sustained recovery and limits market disruption, with the aim of implementation by end-2012, and a transition horizon informed by the macroeconomic impact assessment of the Financial Stability Board (FSB) and BCBS. Phase-in arrangements will reflect different national starting points and circumstances, with initial variance around the new standards narrowing over time as countries converge to the new global standard.

19. We agreed to strengthen financial market infrastructure by accelerating the implementation of strong measures to improve transparency and regulatory oversight of hedge funds, credit rating agencies and over-the-counter derivatives in an internationally consistent and non-discriminatory way. We re-emphasized the importance of achieving a single set of high quality improved global accounting standards and the implementation of the FSB's standards for sound compensation.

20. The second pillar is effective supervision. We agreed that new, stronger rules must be complemented with more effective oversight and supervision. We tasked the FSB, in consultation with the IMF, to report to our Finance Ministers and Central Bank Governors in October 2010 on recommendations to strengthen oversight and supervision, specifically relating to the mandate, capacity and resourcing of supervisors and specific powers which should be adopted to proactively identify and address risks, including early intervention.

21. The third pillar is resolution and addressing systemic institutions. We are committed to design and implement a system where we have the powers and tools to restructure or resolve all types of financial institutions in crisis, without taxpayers ultimately bearing the burden, and adopted principles that will guide implementation. We called upon the FSB to consider

and develop concrete policy recommendations to effectively address problems associated with, and resolve, systemically important financial institutions by the Seoul Summit. To reduce moral hazard risks, there is a need to have a policy framework including effective resolution tools, strengthened prudential and supervisory requirements, and core financial market infrastructures. We agreed the financial sector should make a fair and substantial contribution towards paying for any burdens associated with government interventions, where they occur, to repair the financial system or fund resolution, and reduce risks from the financial system. We recognized that there are a range of policy approaches to this end. Some countries are pursuing a financial levy. Other countries are pursuing different approaches.

22. The fourth pillar is transparent international assessment and peer review. We have strengthened our commitment to the IMF/World Bank Financial Sector Assessment Program (FSAP) and pledge to support robust and transparent peer review through the FSB. We are addressing non-cooperative jurisdictions based on comprehensive, consistent, and transparent assessment with respect to tax havens, the fight against money laundering and terrorist financing and the adherence to prudential standards.

International Financial Institutions and Development

23. The International Financial Institutions (IFIs) have been a central part of the global response to the financial and economic crisis, mobilizing critical financing, including $750 billion by the IMF and $235 billion by the Multilateral Development Banks (MDBs). This has underscored the value of these institutions as platforms for our global cooperation.

24. We commit to strengthening the legitimacy, credibility and effectiveness of the IFIs to make them even stronger partners for us in the future.

25. Towards this end, we have fulfilled our Pittsburgh Summit commitment on the MDBs. This includes $350 billion in capital increases for the MDBs, allowing them to nearly double their lending. This new capital is joined to ongoing and important reforms to make these institutions more transparent, accountable and effective, and to strengthen their focus on lifting the lives of the poor, underwriting growth, and addressing climate change and food security.

26. We will fulfill our commitment to ensure an ambitious replenishment for the concessional lending facilities of the MDBs, especially the International Development Association and the African Development Fund.

27. We have endorsed the important voice reforms agreed by shareholders at the World Bank, which will increase the voting power of developing and transition countries by 4.59% since 2008.

28. We underscore our resolve to ensure ratification of the 2008 IMF Quota and Voice Reforms and expansion of the New Arrangements to Borrow (NAB).

29. We called for an acceleration of the substantial work still needed for the IMF to complete the quota reform by the Seoul Summit and in parallel deliver on other governance reforms, in line with commitments made in Pittsburgh.

30. Today we build on our earlier commitment to open, transparent and merit-based selection processes for the heads and senior leadership of all the IFIs. We will strengthen the selection processes in the lead up to the Seoul Summit in the context of broader reform.

31. We agreed to task our Finance Ministers and Central Bank Governors to prepare policy options to strengthen global financial safety nets for our consideration at the Seoul Summit. Our goal is to build a more stable and resilient international monetary system.

32. We stand united with the people of Haiti and are providing much-needed reconstruction assistance, including the full cancellation of all of Haiti's IFI debt. We welcome the launching of the Haiti Reconstruction Fund.

33. We have launched the SME Finance Challenge and commit to mobilizing funding for implementation of winning proposals, including through the strong support of the MDBs. We have developed a set of principles for innovative financial inclusion.

34. We welcome the launch of the Global Agriculture and Food Security Program in fulfillment of our Pittsburgh commitment on food security, an important step to further implement the Global Partnership for Agriculture and Food Security, and invite further contributions. Looking ahead, we commit to exploring innovative, results-based mechanisms to harness the private sector for agricultural innovation. We call for the full implementation of the L'Aquila Initiative and the application of its principles.

Fighting Protectionism and Promoting Trade and Investment

35. While the global economic crisis led to the sharpest decline of trade in more than seventy years, G-20 countries chose to keep markets open to the opportunities that trade and investment offer. It was the right choice.

36. As such, we renew for a further three years, until the end of 2013, our commitment to refrain from raising barriers or imposing new barriers to investment or trade in goods and services, imposing new export restrictions or implementing World Trade Organization (WTO)-inconsistent measures to stimulate exports, and commit to rectify such measures as they arise. We will minimize any negative impact on trade and investment of our domestic policy actions, including fiscal policy and action to support the financial sector. We ask the WTO, OECD and UNCTAD to continue to monitor the situation within their respective mandates, reporting publicly on these commitments on a quarterly basis.

37. Open markets play a pivotal role in supporting growth and job creation, and in achieving our goals under the G-20 Framework for Strong, Sustainable and Balanced Growth. We ask the OECD, the ILO, World Bank, and the WTO to report on the benefits of trade liberalization for employment and growth at the Seoul Summit.

38. We therefore reiterate our support for bringing the WTO Doha Development Round to a balanced and ambitious conclusion as soon as possible, consistent with its mandate and based on the progress already made. We direct our representatives, using all negotiating avenues, to pursue this objective, and to report on progress at our next meeting in Seoul, where we will discuss the status of the negotiations and the way forward.

39. We commit to maintain momentum for Aid for Trade. We also ask international agencies, including the World Bank and other Multilateral Development Banks to step up their capacity and support trade facilitation which will boost world trade.

Other Issues and Forward Agenda

40. We agree that corruption threatens the integrity of markets, undermines fair competition, distorts resource allocation, destroys public trust and undermines the rule of law. We call for the ratification and full implementation by all G-20 members of the United Nations Convention against Corruption (UNCAC) and encourage others to do the same. We will fully implement the reviews in accordance with the provisions of UNCAC. Building on the progress made since Pittsburgh to address corruption, we agree to establish a Working Group to make comprehensive recommendations for consideration by Leaders in Korea on how the G-20 could continue to make practical and valuable contributions to international efforts to combat corruption and lead by example, in key areas that include, but are not limited to, adopting and enforcing strong and effective anti-bribery rules, fighting corruption in the public and private sectors, preventing access of corrupt persons to global financial systems, cooperation

in visa denial, extradition and asset recovery, and protecting whistleblowers who stand-up against corruption.

41. We reiterate our commitment to a green recovery and to sustainable global growth. Those of us who have associated with the Copenhagen Accord reaffirm our support for it and its implementation and call on others to associate with it. We are committed to engage in negotiations under the UNFCCC on the basis of its objective provisions and principles including common but differentiated responsibilities and respective capabilities and are determined to ensure a successful outcome through an inclusive process at the Cancun Conferences. We thank Mexico for undertaking to host the sixteenth Conference of the Parties (COP 16) in Cancun from November 29 to December 20, 2010 and express our appreciation for its efforts to facilitate negotiations. We look forward to the outcome of the UN Secretary-General's High-Level Advisory Group on Climate Change Financing which is, *inter alia*, exploring innovative finance.

42. We note with appreciation the report on energy subsidies from the International Energy Agency (IEA), Organization of the Petroleum Exporting Countries (OPEC), OECD and World Bank. We welcome the work of Finance and Energy Ministers in delivering implementation strategies and timeframes, based on national circumstances, for the rationalization and phase out over the medium term of inefficient fossil fuel subsidies that encourage wasteful consumption, taking into account vulnerable groups and their development needs. We also encourage continued and full implementation of country-specific strategies and will continue to review progress towards this commitment at upcoming summits.

43. Following the recent oil spill in the Gulf of Mexico we recognize the need to share best practices to protect the marine environment, prevent accidents related to offshore exploration and development, as well as transportation, and deal with their consequences.

44. We recognize that 2010 marks an important year for development issues. The September 2010 Millennium Development Goals (MDG) High Level Plenary will be a crucial opportunity to reaffirm the global development agenda and global partnership, to agree on actions for all to achieve the MDGs by 2015, and to reaffirm our respective commitments to assist the poorest countries.

45. In this regard it is important to work with Least Developed Countries (LDCs) to make them active participants in and beneficiaries of the global economic system. Accordingly we thank Turkey for its decision to host the 4th United Nations Conference on the LDCs in June 2011.

46. We welcome the Global Pulse Initiative interim report and look forward to an update.

47. Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all. In this regard, we agree to establish a Working Group on Development and mandate it to elaborate, consistent with the G-20's focus on measures to promote economic growth and resilience, a development agenda and multi-year action plans to be adopted at the Seoul Summit.

48. We will meet next in Seoul, Korea, on November 11-12, 2010. We will convene in November 2011 under the Chairmanship of France and in 2012 under the Chairmanship of Mexico.

49. We thank Canada for hosting the successful Toronto Summit

IAFEI Telephone Conference Board of Directors Meeting, July 1, 2010

Traditionally a physical IAFEI Board of Directors meeting is held on the occasion of the annual IAFEI World Congress. As such annual congress was cancelled for 2009, the Board of Directors Meeting could not convene physically, as is traditional. A Telephone Conference Board of Dirctors Meeting was therefore held on July 1, 2010.

Elections, reelections of IAFEI Officers:

The Telephone Conference IAFEI Board of Directors Meeting, July 1, 2010, elected, respectively reelected the following persons as IAFEI Officers for the calendar year 2010:

Daniel Burlin, France,	Chairman IAFEI
Hiroshi Yaguchi, Japan	Vice Chairman IAFEI
Alfredo Parungao, the Philippines	Secretary IAFEI
Dr. Ronald Bunzl, Spain	Treasurer IAFEI
Paolo Bertoli, Italy	Area President Africa, Middle East, IAFEI
Mark Wei, Chinese Taiwan	Area President Asia, IAFEI
Armand Angeli, France	Area President Europe, IAFEI

The next physical IAFEI Board of Directors Meeting will be routinely held on October 12, 2010, on the occasion of the 40th IAFEI World Congress, Rome, Italy, October 13 to 15, 2010.

Please turn over

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

The next IAFEI World Congress will be the 40th. 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, and for registration,   see www. iafei.org

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

Cacfo, the Chinese IAFEI member institue, will organise and host the 41st 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.