Issue

12

OCTOBER 2010

Twelfth Issue

INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

IAFEI Quarterly

The electronic professional journal of IAFEI
(International Association of Financial Executives Institutes)

October 7, 2010, final version, www.iafei.org

IAFEI Quarterly, Twelfths Issue, October 7, 2010

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Letter of the Editor

October 7 , 2010

Dear Financial Executive,

You receive the **Twelfth 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 ongoing 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.

We still continue to feel the effects of the worldwide financial crisis, especially as far as Europe and North America are concerned, from where it emanated. The heavy and deep recession, which was caused by it, is tapering off in most affected countries, and is making room, in some of them, for partly even strong growth. Still, there is worry in some countries about a possible double-dip, but in recent weeks this fear is getting smaller, because of positive news from the real economy.

Overall, this is good news, and adding to this is the ongoing strong growth in the major emerging economies.

Tighter regulations for the financial markets in the northern hemisphere continue to be in the making and the picture of upcoming regulations is getting clearer week by week. To keep track of these developments has since long become a daily companion of the financial executive.

Thus the upcoming IAFEI World Congress in Rome, Italy, on October 13 to 15, 2010, is coming at the right time, a time when re-orientation of the finacial executive, in this ever and ever faster changing world, is a must and a most welcome occasion.

Together with you, I am looking forward to this exciting event, and to seeing as many of you as possible at this IAFEI World Congress.

With best personal regards

Helmut Schnabel

Helmut Schnabel

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Austria, Article: Financial Statements with Puzzling Transparency

by **Prof. Dr. Alfred Wagenhofer,** ***University of Graz, Austria, Managing Director of the Institute for Corporations`Accounting and Controlling, and Managing Director of the Schmalenbach Association for Business Administration***

Formerly annual reports of large corporations had 150 pages - today they easily have 400 pages. On the one hand, the business world has become more complex. On the other hand, many contents only serve the purpose of securing, that in the case of an event one has already pointed to it somewhere. The upcoming German Conference for Business Administration is dealing from this point of view with „ perspectives of financial reporting".

The reason for the ever thicker annual reports - today as an example the ones of Allianz and of Siemens are already 400 pages thick - lies in the steadily increasing requirements of the International Financial Reporting Standards (IFRS), which at present prescribe roundabout 3000 obligatory notes. With this, it is intended to increase the transparency. The thereby resulting financial informations and notes, however, are becoming ever more complicated, and are being understood only by a few specialists.

Which reader is asking oneself, what the book value of financial assets means, which is shown in the group financial statements ? Many will think, that this is the actual value of the financial instruments as of the balance sheet date. In fact, this position can contain financial instruments, which are booked at Fair Value (present market value), but also such ones at historical purchasing cost, or at such a value which resulted from a value diminution of the historical purchasing costs, because of a credit risk. The Fair Values can be market prices, or derived from market prices of comparable instruments, or even only be estimated by the corporation.

In order that the situation is not getting too easy, there are, under the financial instruments valued at Fair Value, such ones, the valuation changes of which affect the result of operations, and such ones, which are not changing the profit, but which are included in „other income", which is showing changes of equity, which are not included in the profit from operations. Upon sale of a financial instrument, a value added increases indeed the profit, and at the same time it lowers the other income.

A Member of the International Accounting Standards Board explained lately, that the IFRS do define twelve different valuation methods for financial instruments and three more for value diminutions. At this, there exist at least 22 ways, how to come to these valuation methods. This depends, among others, from the kind of the financial instrument, the market for it, and the intention of the user of the instrument.

The IASB is working intensely, as a reaction to the financial crisis, on a new standard, which foresees a certain simplification, which, however, does not get away with the basic discrepancy because of the mixture of different valuation methods, and which at the end is not really easier.

The present version of IFRS encompasses in two volumes more than 3000 pages. The regulations for accounting of financial instruments alone comprise 200 pages. Who now thinks, that the German accounting law situation is much easier, must be pointed to the fact, that the legal regulations in the Commercial Code (HGB) are relatively slim, but that that the comments to them also comprise several thousand pages.

The complexity of the accounting standards has many causes. One of them is the complexity of the business situations. Finacial instruments are a good example for this. They result from a contract between two parties, which can make complex agreements at will about future payments.The advantage of so called financial engineering is, that the parties can consciously redistribute risks. This is for the risk management of the corporation of essential importance. On the other hand it is also possible, to generate financial instruments, which are tight at the borderline of certain accounting consequences, in order not to have to report in the financial statements certain positions or risks, or to be able to value in a certain way. Practice is very innovative.

Other examples for the complexity of business cases are mergers, deconsolidations and demergers, transactions which imply own ownership portions, or client contracts which contain many components. Single case regulations are trying, to assure, for such transactions, an economically reasonable accounting presentation. The more single case regulations are contained in the accounting regulations, the more they are becoming, however, at the same time, a textbook of how one can avoid these regulations. Therefore, again and again, a simple, principle based accounting regulation is being requested.

The Global Accounting Alliance, comprising prominent members, is dealing since more than two years with how one can make the financial reporting simpler and at the same time more useful. But it is hard to imagine, that complex situations and transactions can reasonably be accounted for with simple accounting regulations. In so far, we are having here an unavoidable complexity.

The non-understandability is also increased, when it has contra-intuitive consequences. A famous example is the following: Assumed, a corporation is issueing a bond with a nominal value of hundred million, which is valued with the Fair Value. Two years later the credibility of this corporation is going down and therewith the Fair Value of the bond to 60 million. In the accounting, now, because of the now lower liabilties, a profit (!) arises in the amount of 40 million – this finally because things are going badly for this corporation. This consequence is not been accepted by many, although, from a conceptional view point, it is adequate. And there have indeed been corporations, which in such a situation have bought back their bonds and which thereby realised a profit. The IASB has recently proposed, to show value fluctuations, which result from ones own credit risk, not any longer in the profit, but in the other income. Also by this increases the non-understandability.

But contra-intuitive results are created from the special definition of equity in the IFRS, under which, among other things, limited partner ownership shares in a subsidiary in a group, constitute debt. Then the therefrom resulting results from participation are then being showed as decreasing the profit. Recently, the related standard has been complemented by detail-regulations, according to which at least the limited partnership ownership share at the parent company can be classified as equity.

Another example relates to the increase from a minority holding to a majority holding. A profit arises thereby, from that the corporation, as an assumption, is selling the minority participation to itself. And during the course of a corporate merger, the effects of different regulations acting together can lead to a surprising result, like in the case of „disappering“ of a quarterly loss of Dresdner Bank in the group accounts of Allianz or Commerzbank in the previous year, which has got a lot of attention. This arises from the changed valuation method for the sale of assets, when they are destined for sale.

But there exists also complexity which can be avoided. It is created, among other things, by compromises, which the standardsetters sometimes accept or even have to accept, in order that their standards are accepted or politically enforcable.

The accounting of financial instruments is a good example for this. A simple regulation seems to be, to value all financial instrument with a Fair Value. The balance sheet numbers are said to be able to be interpreted in a uniform way. Indeed the IASB has already for more than ten years made such a proposal. Why it was not put into practice, has the reason, that the most producers of financial statements and many regulators did not want this. Also a compromise had to be found, which at the end led to the complex regulations mentioned above. The American Standardsetter FASB has now made a step foreward and recently proposed a complete Fair Value valuation for financial instruments, however with differentiated presentation form, which effects only a different kind of complexity.

Recently many have come back to increasingly appreciate the traditional principle of prudence according to which uncertain future profits should not be accounted for in the accounts, but future losses should be accounted for. During the course of the financial crises, the IASB made it possible under the pressure of the European Commission to make a change of the valuation category of financial instruments away from Fair Value and to historical purchasing costs. At this it was shown, that counter to the expectations of many, the historical purchasing cost valuation, has the effect, that many corporations did not have to devalue their financial instruments so strongly, as this would have been done with a valuation at Fair Value. The reason for this, again, is in the complex single regulation: Whereas the Fair Values are being found on the basis of effective or assumed market prices, the devaluation of historical purchasing costs is only necessary in the case of a deterioration of the creditworthiness of the debtor, and then also only to this extent.

An ever more important reason for complex and often not-understandable accounting standards is the shying away of financial statement producers from decisions at one`s own dicretion. It is not by coincidance, that the accounting regulations in the United States are even somewhat more detailed than those of IASB. The United States are known for their situation where there is a friendly climate for suing corporations in court. Bodies of corporations, as well as auditors, therefore want so secure themselves, when making decisions about financial statements to a maximum degree secure from being sued in court. This can be achieved through detailed standards, which prescribe exactly, how to proceed in the special situation. In Europe the behaviour of suing in court is not so strong, but the enforcement, and also the help for the filing of suits, also result in incentives, to secure oneself as much as possible against decisions on accounting.

The similar effect has the increase of requirements regarding corporate governance, in the accounting field especially as regards the auditing committee. Financial statements, for these reasons, are more viewed as compliance documents, which have to be legally secured against all sides. Almost by constraint, they are becoming more complex and they are leading to a little understandable financial reporting, which can almost only be read and interpreted by specialists.

Political influence and lobbying during the development or the changes of standards are nothing unusual. The reason for this is that the accounting regulations not only present the situation of the corporations, but that effectivly they change these corporations, because many decisions are based on such accounts. The sharpness, which lobbing achieves presently at many regulations, is, however, not surprising. Often it is being argued, next to own interests, with „national interests". As for example, recently, when the standardisation treaty was cancelled between the German Accounting Regulation Standard Setting Commitee (DRSC) and the federal ministry for finance.

The many diverse situations of interest and the effects of making tighter the corporate governance regulations, have therefore a significant influence on the making of accounting regulations standards. The themes, which have been discussed here as an example, are only a small excerpt from the substantial requirements which the standardsetters had to meet and which have to be applied by corporations and which have to be examined by supervisory boards, auditors and enforcement institutions, and which have to be understood by the users of accounting statements.

The 64. German Conference for Business Administration (29./30. of September, Düsseldorf, Germany) is taking up this discussion under the general theme „perspectives of financial reporting and the corporate governance in the next decade“. Experts will elaborate on present developments and will give an insight into their experience from the perspective of corporations, the capital markets, science, and regulation.

Belgium, Article: **Spreadsheet-Based Planning in Today's Economy: Why You're up Against the Wall**

Patrick Jongen, IBM Business Analytics Account Manager

Overview

Spreadsheets are useful tools in many aspects of business, but they cannot support today's complicated enterprise planning needs because they:

- Are prone to data errors
- Cannot handle the complex processes of business modeling and aligning operational tactics and financial targets
- Lack features such as workflow, metadata management and version control for inter-departmental collaboration
- Often cannot provide the immediate, real-time information necessary for rapid corporate decision making

Instead, companies in every industry are turning to more comprehensive, integrated solutions that connect operations and finance and enable continuous planning – without the limitations of spreadsheets.

The error-riddled spreadsheet

Errors in spreadsheet-based planning can severely compromise corporate performance. Individuals and businesses will run a spreadsheet through various stages, such as designing, testing, modifying, sharing and archiving. This multistep route introduces risk at each stage, according to Kenneth R. Baker, Lynn Foster-Johnson, Barry Lawson and Stephen G. Powell.2

The research team also states, "Opportunities for poor practice, carelessness and serious mistakes exist throughout those stages, and the risk may even be magnified as the spreadsheet matures."

Spreadsheet guru Raymond Panko has observed that a number of systematic audits in recent years suggest error rates in 88% of the spreadsheets examined.3 News outlets support this recurring problem with numerous stories on the world of business problems and the restatements attributable to spreadsheet error.4

Given the increased regulatory scrutiny and extreme pressure-to-perform currently faced by most companies in today's turbulent business environment, it is no longer alarming to suggest that even a simple spreadsheet error in expense and risk management, profitability and cash flow can result in considerable damage to corporate credibility and share value.

A look at spreadsheet error

Three types of errors typically occur in spreadsheet model modification, according to Panko and Halverson, who have extensively researched spreadsheet effectiveness.5

The first is mechanical error, which arises from flawed typing, pointing or other simple miscues. Although a mechanical error might appear to be minimally significant, its consequences can be severe: Incorrectly entered data can affect the integrity of an entire model. Furthermore, if an item is inserted but the rest of the model is not updated to reflect this item, calculations throughout will be flawed. Also, with each added item, the likelihood of mechanical error increases.

A second type of error is logic error, where an inappropriate algorithm is chosen or where inappropriate formulas are created to implement the chosen algorithm. The flawed calculations that result will affect not only the worksheet where the error appears, but also the entire model.

The third and most likely type of error, according to Panko and Halverson, is omission error, where critical components are left out of a model entirely. As a user labors through worksheets in a complex plan, the likelihood is great that a critical item will simply not be added.

Whether a given error is one of mechanics, logic or omission, the result will be the same: a flawed model and inaccurate calculations, hence an ineffective budget, plan, or forecast.

Spreadsheet flexibility – sort of…

Spreadsheets offer flexibility but no real structure. They can, for example, model a reasonable range of business scenarios. But when business users deal with complex, multidimensional plans and forecasts that involve numerous formulas, calculations and organizational drivers, such as gross-to-net planning or analyzing customer profitability, it's a different story. Spreadsheets quickly run up against their natural limits with minimal capabilities such as pivot tables, which introduce their own limitations.

As the world economy bends and buckles and market conditions change, business decision-makers need to revise goals, build contingency plans, add or delete products or services and modify plans and reports quickly. To do so, they must be able to analyze data and model scenarios in real time. To make such changes in a large, complex spreadsheet, these planners must apply both an inordinate amount of time and great care since they might not always know what changes are needed – or where.

Consider the modest addition of an expense item to a typical business plan. Two options present themselves, both of which are time-consuming and prone to error.

In the first option, users:

1. Manually navigate through the entire plan with its numerous workbooks, worksheets, rows and columns.
2. Insert a new row or column.
3. Enter the desired data or calculation.

In the second option, someone writes a macro. However, creating a macro requires fairly sophisticated programming skills not often found outside IT departments. After a macro is written, tested, de-bugged, and run, decision makers must review the entire model manually to ensure that the macro has achieved its desired result; if it hasn't, then a tedious process of reworking begins. The time someone needs to create, test and debug the macro and then proof the model can be even greater than the time it takes to insert the item manually in the first place. Clearly, neither option contributes to efficient enterprise planning.

Business problems

The challenges and problems of spreadsheet-based planning reverberate past simple errors and the mechanics of updating data. This section looks at the broader issues that spreadsheets create for a business during the process of planning.

Challenges to enterprise planning

Corporations need effective, real-time enterprise planning. Unfortunately, spreadsheets fail to support many aspects of effective enterprise planning.

Collaboration

Successful enterprise planning depends to a large extent on high levels of collaboration and employee participation: the greater the cross-enterprise input, the greater the accuracy and insight a plan will deliver. But spreadsheet use only inhibits collaboration and participation. Because of error frequency and deployment difficulties, spreadsheet-based planning demands a constrained, centralized process that – by its very nature – can represent only a small part of a given organization. Consequently, collaboration and participation are further inhibited.

Workflow management

Another challenge to successful enterprise planning is that it is very difficult to manage planning process workflow effectively with spreadsheets. Spreadsheets cannot track progresses of data contributors – or even whether contributors have begun work at all.. The end result, then, is a process that can only move forward at the pace of the slowest participant.

Version control

Spreadsheet-based approaches to planning are characterized by poor version control – that is, the difficulty in knowing whether everyone is using the most recent version of a given plan. Moreover, when a plan is revised and passed on to contributors, there is no assurance that all have actually disposed of previous versions and are working on the most current one. Poor version control will result in a consolidated plan based on inaccurate data or – owing to a mismatch of model structures – the inability to consolidate at all.

Aggregation

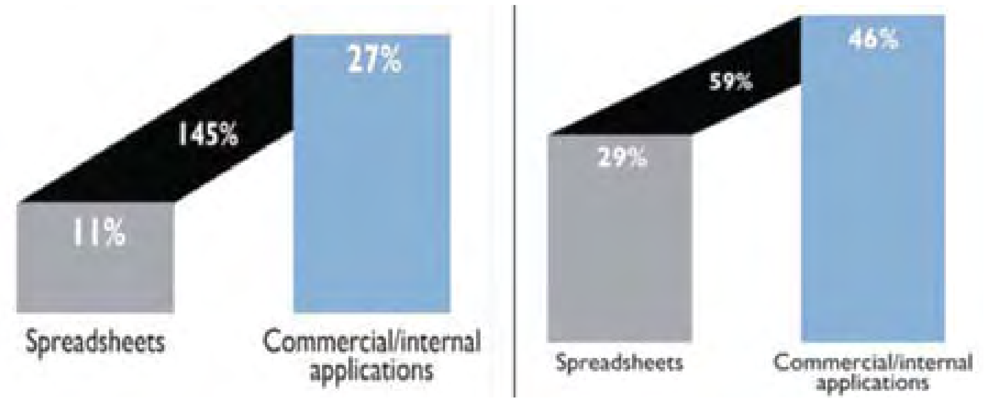
The process of aggregating inputs from multiple users and spreadsheets also inhibits planning effectiveness. A single person or task group must collect the numerous spreadsheets and consolidate them into a single version. Even if individual spreadsheets are error-free or the structured has not been modified by a contributor, consolidation is a tremendous undertaking that can lumber on for weeks.

Uniform, centralized data

Spreadsheets are typically created and propagated by finance departments, who – not surprisingly – tend to use concepts and terms quite familiar to themselves, but unfamiliar to other organizational units. There is no centralized approach to metadata and business rules definitions, and no sharing of metadata or metadata definitions. This leads to mismatched numbers in models and reports. For completely aligned planning and forecasting, it is essential that all users – department heads, directors, analysts, knowledge workers, business leaders and executives – be able to access the data with a common business view and an understanding of their organization's data assets.

Spreadsheet planning in real time? Impossible!

The error-prone, narrowly focused, cumbersome spreadsheet planning and analysis process simply does not permit companies to alter plans, reforecast, or modify budgets frequently, much less in real time. For example, because the spreadsheet-based planning process moves so slowly, timely gathering of cross-enterprise information to reallocate funds for accelerating research and new product creation typically proves a near-impossibility, a competitive disadvantage in an economy in which timing is critical. When conditions demand rapid reaction, but real-time information is lacking, executives might be forced to rely on educated guesswork or even a "gut-level" hunch.
Technology can speed up planning and forecasting and even reduce budget iterations. APQC and the Beyond Budgeting Round Table (BBRT) recently reported that organizations using "commercial and internally developed software applications [for planning and forecasting] are 145% more likely than [organizations using] spreadsheets to have real-time data fully available." (See Figure 1.) APQC and BBRT also report that organizations using commercial or internal applications are 59% more likely than spreadsheet users to land within 5% of planned targets."
(See Figure 2.)5



Conclusion

In fairness, it must be said that spreadsheets are useful personal productivity tools for most areas of human endeavor – but not for enterprise planning. Spreadsheets can manipulate numbers, it's true, but spreadsheets are greatly limited because they depend on fallible human users to generate complex formulas and macro routines. And, because spreadsheets work poorly in collaborative environments, they are unable to access and aggregate data from different sources and can hardly be considered an enterprise solution.
Further, the use of spreadsheets for enterprise planning and analysis can result in significant error at a cost of millions and can create serious doubt about the integrity of strategic plans.
Spreadsheets make plans and reports difficult to maintain, and inhibit – rather than facilitate – a collaborative enterprise-wide planning process. And as business plans and analyses become larger, more complex and more dynamic, the inadequacy of spreadsheet-based systems is only magnified.
True enterprise planning solutions, such as the enterprise planning and analysis solutions based on the IBM Cognos, free companies of their reliance on spreadsheets and can be applied to the planning process in virtually any industry

Notes :

1 According to a 2008 Hackett Group study, 56% of companies use spreadsheets at the corporate level as their key tool for annual planning and budgeting; 63% use spreadsheets as the key tool for these processes at the division level. (The Hackett Group, "The Book of Numbers," 2008.)
2 "Spreadsheet Risk, Awareness, and Control," by Kenneth R. Baker, Lynn Foster-Johnson, Barry Lawson, and Stephen G. Powell, Tuck School of Business, 2007, http://mba.tuck.dartmouth.edu/spreadsheet/product_pubs.html

3 “What we Know about Spreadsheet Errors,” by Raymond Panko, Journal of End User Computing’s, Special issue on Scaling Up End User Development, Volume 10, No 2. Spring 1998, pp. 15-21, Revised May 2008.

4 http://www.eusprig.org/stories.htm 5 Panko, R & Halverson, R (1996). “Spreadsheets on Trial: A Survey of Research on Spreadsheet Risks,” Proceedings of the Twenty-Ninth Hawaii International Conference on System Sciences, Maui, HA, January 1996.

5 “Charting the Course in Stormy Seas: Planning and Forecasting in Turbulent Times,” by APQC and Beyond the Budgeting Round Table, 2009, p. 3-4

Source: The Financial Executive, Quarterly, Nr. 50, July, August, September, 2010, Belgium, responsible publisher: Jacques de Smet, FEIB Chairman, Financial Executives Institute of Belgium, FEIB

China, Article: Beijing Spring

China’s new freedom for its currency will have few immediate positive effects. In the long term, however, it is excellent news for European exporters and their finance functions.

By Michael Hedtstück, finance-magazine

Summer surprises out of Beijing are usually unpleasant: heat waves, sandstorms, smog – visibility in the capital currently runs at less than 300 metres. The announcement in June by the People’s Bank of China (POC), China’s central bank, stating it would relax the peg of the renminbi to the US dollar, however, was received with enthusiasm abroad.

The POC declared that the exchange rate of the renminbi, which the bank sets daily, is to be loosely tied to an undefined basket of currencies. This takes China back to its currency regime of 2005 to 2008, which was then replaced with a dollar peg at the onset of the financial crisis. During that three-year period, the central bank allowed the renminbi to rise by 20 per cent against the dollar. Foreign businesses with strong exports to China are hoping that the return to the old regime will once again usher in a period of appreciation for the Chinese currency. Experts estimate that the renminbi is 30 to 40 per cent undervalued against the most important global currencies. There are fears, however, that this will also increase the flow of hot money to the Middle Kingdom.

To date, not much has happened. The renminbi appreciated 0.8 per cent against

the dollar within the first two weeks after the decision, but the POC already stepped in at the beginning of July to prevent further strengthening. In 2005, the central bank only allowed the price of the renminbi to rise 2.5 per cent during the first months of the new regime; a more dramatic appreciation is not on the cards this time around either. Above all, abandoning the strict dollar peg has been a symbolic step. Beijing is not willing to loosen its grip over its currency just yet.

A war within

In fact, a power struggle that is being fought out in Beijing makes change unlikely before the end of the year. The POC had barely publicised its decision when officials of the Chinese finance ministry stepped forward to declare that even an appreciation of just 2 to 3 per cent would be considered “strong” and “a blow to labour-intensive industries”, which also has to cope with rising wages. The war of words is over the future business model of the People’s Republic. Traditionalists want to see that China remains the world’s factory floor in order to use the money flowing from the trade balance surplus to upgrade the country’s infrastructure. The central bank, however, is dominated by reformers worried about inflationary pressures and the price bubble forming in the real estate market. A stronger renminbi would dampen upward pressure on prices and facilitate access to foreign assets and raw material deposits.

The outcome of the power struggle is undetermined. That is why European exporters should hold back with their bets on a permanent appreciation of the renminbi for a little longer – not only because its price has risen by 10 per cent regardless since spring on the back of the strengthening dollar. More important is the fact that the increased flexibility will primarily benefit the Chinese, at least in the short term.

In theory, it is now possible for China to depreciate the renminbi against the dollar to offset its appreciation against the euro. Any critical reaction from the US that such a move would be certain to provoke, China would simply shrug off, says Hans-Günter Redeker, head of global currency strategy at BNP Paribas: “A temporary depreciation of the renminbi would have the additional charm for the POC to increase volatility, thus limiting the inflow of speculative capital from abroad.” A long-term devaluation of the renminbi is out of the question, however. The growing risk posed by price bubbles and inflationary tendencies stands against this.

In the longer term, however, the POC decision could be a watershed for the whole of Southeast Asia. Most relevant currencies there are strongly correlated with the currency pair formed by renminbi and dollar, thanks to the emulation policy pursued by the regional central banks. “People are underestimating the medium-term impact,” Mr Redeker believes. “The POC will revalue the renminbi to prevent the western world relapsing into recession.” That is an essential condition to achieve high GDP growth in China – which in turn is necessary to forestall social unrest. Experts estimate that China needs growth rates of at least 8 per cent to create enough jobs for the migrant workers who have lost their livelihood in the agricultural sector.

The rest will follow suit

Mr Redeker is convinced that decoupling from the dollar is China’s first step toward full liberalisation of its currency. “The POC has set out on the road to free renminbi convertibility. In a few years, its currency regime will resemble that of Singapore,” he predicts. “At that point it will at long last be legal to take renminbi out of the country.” He expects other Southeast Asian exporting countries like Indonesia, Malaysia and South Korea to follow suit by revaluing their currencies and eliminating restrictions on their convertibility. “They will not let this opportunity to fight inflationary tendencies slip by,” he says. In his best-case scenario, the currency regimes of Southeast Asia would have been set free almost entirely in five years’ time. The flip side of this will be an increase in the volatility of their currencies. Moreover, it will become difficult, if not impossible, to use the dollar as a proxy hedge for trade with China. But finance chiefs of sellers to China need not panic, says Daniel Schappner, a consultant on currencies for medium-sized businesses at Commerzbank. “Existing instruments like non-deliverable forwards or options that companies use to hedge against exchange rate movements of non-convertible currencies like the renminbi will remain effective for the foreseeable future,” he says.

The liberalisation of the renminbi, therefore, is great news for European exporters: it will create better sales opportunities in China, reduce the cost advantages enjoyed by Chinese competitors, and bring more freedom to the Southeast Asian currency markets. Meanwhile proven instruments will continue to function. The only downside is that the direction in which the price of the renminbi will move over the next months hinges on political decisions, making it highly uncertain. At present, finance functions do not have a clearer view than the people in the streets of Beijing. ||

michael.hedtstueck@finance-magazine.eu


By
Frédéric Doche
Member of the Scientific Committee of DFCG (Management Controllers)
Founder and Chairman, Décision Performance Conseil
Catherine Duban-Doyard
Senior Consultant, Cegos

Expertise

WHAT DOES BEING A MANAGEMENT CONTROLLER MEAN TODAY? ARE THERE ANY FUNDAMENTAL DIFFERENCES IN THE WAY THESE PROFESSIONALS SEE THEIR JOB AROUND THE WORLD? WHAT ARE THEIR EXPECTATIONS? OUR INTERNATIONAL SURVEY[1] BRINGS ANSWERS TO THOSE QUESTIONS.

International Survey **How management controllers see themselves**

Find out more

The complete results of the survey are reported in technical e-paper no.2 by the DFCG entitled "Management control, a comparative view of international practices," available on dfcg.com

"The management controller Business Partner", report published in issue no.261 of Échanges in January 2009

GLOBALISATION, ACCELERATION of business, financial market crisis… During the years 2000, many upheavals shaped a new economic environment. To cope with the changes, the political and economic leaders of numerous nations introduced new regulatory frameworks, such as the French financial security act, Basel 2, Solvency 2, the law on the modernisation of the economy, IFRS, etc. These changes have also added new dimensions to the role played by management controllers who have seen their sphere of influence expand. Are management controllers ready to assume their new responsibilities? What expectations does the profession have?

A profession at the crossroads between analysis and decision-making: Is the management controller a business partner?

There is still a long way to go before management controllers become real business partners in terms of steering operations. The three main activities currently performed by management controllers are forecasting (budgets, etc.), reporting (scorecards, etc.) and advising executives and managers. Producing figures is still therefore a major task and leaves little time for implementing and monitoring action plans for example (6th place in the ranking for the item "Manage action plans"; *cf. "Distribution of management controllers' activities"*).

Distribution of management controllers' activities

Plan	21%
Closing and Reporting	21%
Executive, Management support	18%
Analyse	12%
Develop tools	10%
Manage action plans	8%
Communicate and Manage	7%
Audit	3%

Steering involves planning, assessment and action/reaction. While management controllers indeed take part in forecasts and assessments, their role as partners to operational staff is reduced to that of "internal consultant". They thus partake little in activities done by operational personnel who must implement and monitor their action plans independently. This finding gives rise to a double debate.

Firstly, is it unnatural to want management controllers to play a more predominant role in steering operations? Who keeps them away from it? Is it the controllers themselves, because they feel more comfortable dealing with figures? Is it the operational personnel because they are afraid of losing their independence? Or is it top management, which does not see the point in, and therefore does not wish to develop such partnerships?

Scope of the survey

The survey was conducted in nine countries: France, Italy, UK, Belgium, Germany, Austria, USA, Japan and the Philippines, with the help of eleven associations around the world. International partners were found with the help of the International Association of Financial Executives Institutes (IAFEI). Contributions from almost 500 respondents were thus collected and analysed.

Secondly, would greater involvement of management controllers in action plans help to bridge the gap between forecasts and actual data by knowing more about the business and constantly challenging operational personnel? Would bridging the gap help to reduce time spent on reporting and re-forecasting tasks?

Which tools do they use? Use of office and transactional tools greatly prevails over use of decision-making tools. There is still a lot to be done to optimise returns on investments in steering systems, which are not always optimally used, or to design tools suited to management controllers' work. Such improvements would undoubtedly enable them to spend less time producing figures and more time on higher value-added activities (analysis, simulation, advice, etc.).

What obstacles do they face?
Information systems (IS) are the main obstacle faced by management controllers (21% of responses). Yet, they actually spend little time developing these tools (10% out of main activities). A lack of management culture in the company is the second obstacle (15%). But, is this not an opportunity to legitimise their role as business partners by disseminating a management-oriented culture?

These major obstacles are at the root of the four main difficulties that management controllers come up against: organisation, lack of resources, and producing and accessing information. And these difficulties are widely shared in all the countries that took part in the survey.
These major obstacles are at the root of the four main difficulties that management controllers come up against: organisation, lack of resources, and producing and accessing information. And these difficulties are widely shared in all the countries that took part in the survey.

How do they see their profession and changes to it?

The survey also addressed the question of the skills required to do their job, but also those they feel will be necessary to fulfil their role in future.

In terms of core competencies, "forecasting" is indisputably the predominant skill, whatever the country or the business sector. This is followed by scorecard management and cost and margin analysis. The importance of strategic management control varies depending on the country, with this skill ranking top in Anglo-Saxon countries. In all cases, strengthening this core competency is a priority in all countries, which logically reflects an ambition to focus more on supporting top management than producing figures.

As regards non-core competencies, i.e. outside management control techniques, interpersonal and communication skills on the one hand, and knowledge of the company and its business on the other, are the most frequently quoted. Skills in internal control clearly emerge as more important in the United States, which is most likely due to the Sarbanes-Oxley act *(cf. "The necessary skills").* One surprising fact is that cash management and risk management were not rated as real priorities by management controllers. Does the fact that cash management is not regarded as a top priority mean the crisis is already over in their minds, even though it is not in reality? And what should we infer from the lack of interest in risk management when it is a factor of progress for the profession? Managing risks is not solely the responsibility of internal control or other corporate support functions, but a key factor in assessing any activity.

As for their career paths, the respondent management controllers mostly hope to hold more responsibility in their department or to join the finance department, rather than move to an operational position.
As for their career paths, the respondent management controllers mostly hope to hold more responsibility in their department or to join the finance department, rather than move to an operational position.

Company- rather than country-based differences

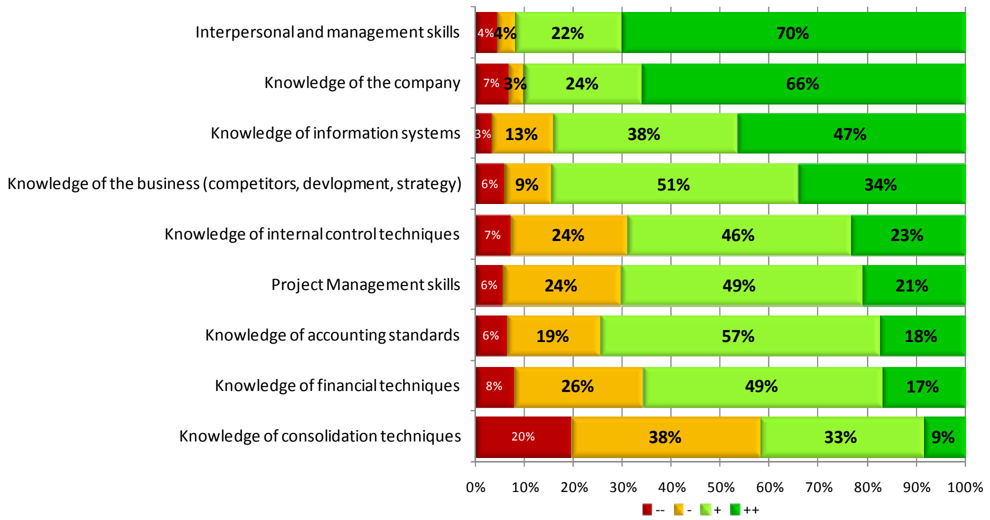
As part of the survey, an analysis was done to attempt to draw up a typology of management controllers. The findings of the analysis show that, contrary to what we might think, there is not really any class of Anglo-Saxon management controllers as opposed to Latin or even European management controllers. The typologies tend to emerge more according to the size of the company and its organisation and culture. Five main classes were thus identified:

Companies that are primarily French which consist, for the most part, of medium-size structures with practically no subsidiaries abroad. Management controllers are mainly involved in forecasting and mostly use office tools. The main obstacles faced are the IS and a lack of ongoing training. They would like to improve their skills in strategic management control.

Highly decentralised companies and corporations in which the management controller's role is clearly split between those in subsidiaries who work closely with the subsidiary management as business partners, and corporate management controllers who are very detached and often focus more on finance than operations. ■■■

The necessary skills

Level of importance of non core competencies



■■■ **Corporations with large-scale international business activities** in which management controllers tend to have a profile as advisor. Interpersonal skills and ability to make forecasts are the all-important qualities, along with good knowledge of the company and of different international standards.

Very large corporations in which knowledge of the IS, project management and process-based approach in a world of standards are all assets and skills required of a management controller who, tomorrow, will move towards a role as strategy advisor to management.

Japanese companies in which key characteristics and skills are quite similar to those of very large corporations but which differ in that management controllers are often older and have been in their jobs longer.

Japanese companies in which key characteristics and skills are quite similar to those of very large corporations but which differ in that management controllers are often older and have been in their jobs longer.

There is a lot to be learnt from the findings of the survey. The usual assumptions made about the role of management controllers must be analysed with precaution. Applying conventional principles such as the fact that controllers mainly deal with figures can be dangerous. To do their job well, management controllers must obviously know about the company and the business sector in which it operates. They must be focused on its developments, attentive to those around them, capable of communicating and adjusting. Such are the qualities that will enable them to skilfully manage the antinomic facets of their job: produce reliable, increasingly accurate information and ever more in-depth analyses, in a constantly changing and faster-moving environment, while providing management with real added value. ▬

adjusting. Such are the qualities that will enable them to skilfully manage the antinomic facets of their job: produce reliable, increasingly accurate information and ever more in-depth analyses, in a constantly changing and faster-moving environment, while providing management with real added value. ▬

1. The survey was conducted by a working group whose members are: Denis Cailliau (CFO - Domaine Consulting, L'Espace Dirigeants); Katrien De Block (Finance Manager, Microsoft France); Annick Delhon-Bugard (head of management control, La Poste Courrier); Frédéric Doche, (working group leader and founder and chairman of Décision Performance Conseil); Catherine Duban-Doyard (senior consultant, Cegos); Xavier Durand (Professor, Essca); Jérôme Guenée (Chief finance and operations officer, Wright Medical France); Marc-Olivier Levy (CFO, Vulcanic) and Olivier Sorel (senior consultant, Cegos).

Source: échanges, La revue des dirigeants financiers, juin 2010,nr. 277, Le mensuel de la DFCG, the French IAFEI member institute

Germany, Article: How Corporate Banks Can Meet the Demands of the Future

Werner Steinmueller,
Head of Global Transaction Banking, Deutsche Bank

As we enter the next stage of the global economic crisis, with all eyes on the Eurozone and the sustainability of recovery in other parts of the world, the role played by the corporate banking sector will be crucial. Indeed, with the ongoing troubles in Europe, question marks have been placed about the state of the region's banks.

Notwithstanding the problems facing Europe, there are many other factors that will shape how corporate banks will perform in the years ahead. There are a number of trends that are already moulding the direction of the sector and those banks that evolve and meet the challenge of growth will emerge as the true winners.

Although some market watchers doubt if the pace of globalisation can continue in the aftermath of the global economic crisis, I firmly believe that it will move forward and expand, creating ever more complicated supply chains and inter-dependent networks.

A new phase of globalisation will emerge as more and more companies look beyond their traditional markets. And to meet the demands of a potentially new client base, corporate banks will have to internationalise their back offices – essential if they are to seamlessly serve multi-domiciled clients.

Recent history has taught us that economies are now very inter-connected and it is in the interest of, for example, Europe, that Asia Pacific continues its upward trajectory and Latin America fulfils its rich potential. Economies like China, India and Russia will all need a vast array of banking services as their middle classes grow and financial transacting becomes more sophisticated.

Against this backdrop, there is every reason to suspect that banks will have to rise to the challenge of increased competition and industry consolidation. Meeting clients' industry-specific requirements will be crucial – and as the drive for greater efficiency, cost reduction and business model adjustment continues, corporate banks will play a key role.

How can this be achieved? To a large degree it is all about ensuring that you have the right technology and that your platforms are cutting edge. Although access to technology has never been easier, there are few corporate banks who already have the necessary systems to provide the kind of service that places them head and shoulders above the competition.

Why is this? Partly, the current climate has restricted growth, and in the case of larger, multi-faceted banks, it has been a question of priorities. I believe that corporate banks will need to embrace investment in the near future if they wish to attain or retain market leading status.

Without investment, or a commitment to provide an integrated offering, clients may suffer from sub-optimal service. Many corporates invest in extraordinary levels of computing power with the aim of achieving seamless connection with their banking partners. There is an obligation to meet this head-on, especially if you wish to build scale in transaction banking.

Customers are looking for ease of use, customisation and improved two-way communication with their banks. The corporate bank needs to develop a holistic view of each client – the banks that build deep, real-time data and analytics will be able to achieve that and more.

How then do I see the future of corporate banking? I am very positive about the role it will play in the post-crisis era. For example, the crisis has revealed that a diverse business model is vital for banks to survive, let alone thrive. It also highlighted just how attractive transaction banking can be, providing solid fee revenues, the oxygen of cash deposits and a less volatile seam of profitability through the cycle. But as we have witnessed in the past few months, transaction banking is not without its headwinds and nothing can be taken for granted.

However, I believe there are three pillars on which tomorrow's transaction bank should be founded. Firstly, the market leaders will have top quality products, not just generic offerings but also those that offer solutions for areas such as supply chain finance, liquidity and working capital.

Secondly, sales and service should be at the forefront of the client offering. Reputation is everything in today's business environment and feedback from clients should be sought and processed. Too often we hear that clients in our industry are disappointed with the service provided by their banks. To be successful, the sector must build long-term and deep relationships, rather than hunt-down quick-wins.

Better online-access systems, permitting a high level interaction with clients are a pre-requisite – we can expect to see more and more e-portals coming to market, connected to cost-efficient systems. Essentially, a powerful, well equipped and trained sales force will capture the best clients.

Thirdly, more effective delivery and operating models are necessary. No longer can banks compete with minimal investment in process and technology. Proactivity around IT architecture is key.

Some firms have shown that even the worst of times can also present opportunites. The corporate banks that combine a robust business model with creative and forward-thinking strategies will emerge successful in the years ahead. And that success will be self-fuelling – profitability will provide the capital needed for the further investments needed to offer customers the best possible service. Above all, we have to remember that they have a choice…

Germany, Article: The Gap of Convergence

The FASB has shown no willingness to compromise on IFRS convergence for a long time. But with the unexpected departure of FASB's chairman Bob Herz, the route towards convergence has been cleared of a major stumble stone.

By Katharina Schlüter, finance-magazine.eu

The news was a bombshell: On 24

August, FASB chairman Robert Herz resigned, two years ahead of schedule and without giving any explanation for his sudden departure. From 1 October, the US standard setter will be headed by the FASB member Leslie Seidman as acting chairman. Moreover, the FASB's foundation FAF announced that it will increase the FASB's size from five to seven members. While accounting professionals recover from the shock, it is worth contemplating the most pressing question for European CFOs: What does all this mean for the convergence process?

Thanks to the financial crisis, accounting standards, once the exclusive domain of nerds and number crunchers, have worked their way up to the top of the political agenda. The fair value concept came under severe attack as it was suspected of at least fueling the fire of the financial crisis. Moreover, the G20 urged the FASB and its international counterpart IASB to "increase their efforts to complete their [IFRS and US GAAP] convergence project by the end of 2011", in order to create a single-set of high-quality accounting standards. The request for converging international and US accounting standards may seem simple enough, but the never-ending wrangling over how to account for financial instruments reveals just how difficult this is to achieve. Last autumn, the IASB, tasked with developing the international accounting standards IFRS, published the first part of its guidelines on the topic, called IFRS 9. Anxiously, the board then waited for its US counterpart, the FASB, to do the same, knowing that the G20 convergence request issued in Pittsburgh in September 2009 could only be fulfilled, if the FASB draft would follow quickly and showed some rapprochement to IFRS 9.

However, the reaction of the FASB was neither fast nor conciliatory. When it finally published its draft in 2010, it became clear that it did not care much about either the G20 or the IASB. While the IFRS 9 reduced the use of fair value to a minimum, as requested by the G20, the FASB did not give an inch. On the contrary: Instead of dampening the influence of fair value, the FASB strengthened it. "In comparison to IFRS 9, for many the US draft is a step backward," IASB member Stephan Cooper said, slamming the work of the US board. "I'm sure that the FASB will receive many national and international comments. As usual in the standard setting process, the FASB will have to take these comments into consideration when revising their draft."

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One may wonder if convergence is

not as important for US companies

as it is for European or Asian ones.

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While Mr Cooper is hoping that the FASB will eventually have to cave in to domestic and international pressure, one may actually have to start wondering whether the FASB has simply lost its grasp on reality. Publicly listed companies have the option or obligation to use IFRS in over 100 countries around the globe. In the next two years, this group will be joined by the leading emerging markets of China and India. Several other important countries, namely Japan, Canada and Brazil, are also on track for adoption. Once the companies from all these countries use a unified accounting language, US companies will face an uphill battle when competing for investors in the international capital markets. The refusal of the FASB to even budge could have severe repercussions for the domestic industry. “One may wonder if convergence isn’t as important for US companies as it is for European or Asian ones,” says Elke König, who has a vested interest in convergence, as another IASB member. But the mind of Bob Herz seemed to be untroubled by such considerations. In a recent public speech he declared: “International convergence is only one of the things we are supposed to consider, and then only to the extent that it is in the interest of US investors and the US public.” The standard setter seems to think that the US capital market is big enough for US corporations.

However, support for Mr Herz was not as unconditional at the FASB as one might think from listening to this rather bold speech. Two of the five FASB members voted against the new draft. One of them: Leslie Seidman, the FASB’s new acting chair. Explaining her dissent at the end of the document, Seidman made the following point: “IFRS 9 offers a much better starting point for a converged accounting project than the proposed [FASB] guidance. World leaders have requested that the Boards develop an improved, converged standard on financial instruments, [and we] believe that appeal must be weighed heavily in evaluating alternative improvements.” There are, however, more ominous signs of a negative reaction to the going-it-along mentality of Mr Herz. US companies that are unable to raise funds abroad are just one side of the coin. The countermovement – foreign companies shying away from the US capital market, in part to spare themselves the burden of double accounting – is already clearly visible. A host of European groups, like Bayer and Daimler, have recently pulled their listings from the NYSE, partly as a reaction to onerous compliance regulations brought on by Sarbanes-Oxley. After all, a US listing is not the only way to tap into the US capital market, and for alternatives such as a private placement, the IFRS are enough – whether or not the US converges to international standards.

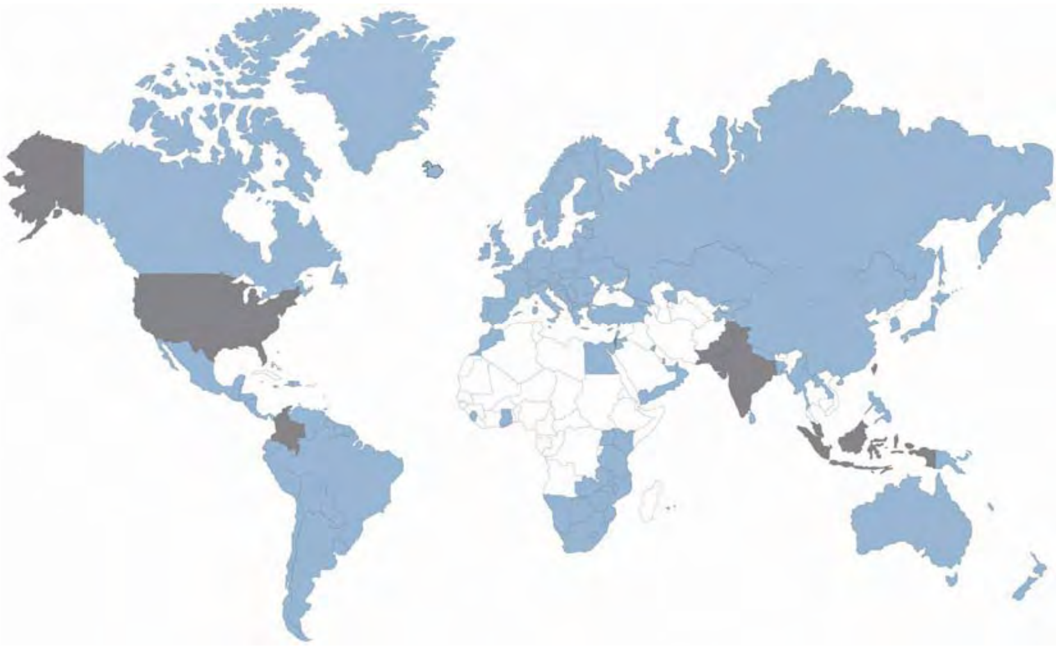
At the same time, US companies are growing tired of the ongoing uncertainty and the resulting wait-and-see position related to the convergence process: “Some US companies have an interest in performing a first-level assessment to have a sense of what significant differences between US GAAP and IFRS could exist for their organisations. They are looking to begin some strategic thinking about the potential consequences for their organisation of a conversion to IFRS as changes to financing, processes and controls, or contractual arrangements,” says Paul Munter, a professional practice audit partner at KPMG in the US.

With Mr Herz’s unexpected retirement, the FASB looses one of its most ardent fair value advocates, meaning that the route towards convergence should be cleared of a major stumble stone. Taking her explicit criticism of the FASB draft into consideration, the appointment of Ms Seidman as acting chair may well be interpreted as a sign for a more pro-convergence US standard setter. Moreover, FAF chairman Jack Brennon motivated the decision of increasing the standard setter’s size with the argument that “returning the Board to the seven-member structure will enhance the FASB’s investment in the convergence agenda with the International Accounting Standards Board.”

Mr Herz's retirement, the mounting internal pressure, but also the increasing criticism from US corporates, support Mr Cooper's hopes that the FASB will ultimately significantly revise the draft and thereby clearing the path towards converged accounting standards. ||

katharina.schlueter@finance-magazine.eu

An ever larger union: the map of global IFRS adoption



Countries that require or permit IFRS, light blue colour

Countries seeking convergence with the IASB or pursuing adoption of IFRS, grey colour

IASB (no lliability accepted)

Italy, Interview:“Italy, Since Long, Has Given Itself a Stability Culture”

As minister of finance, Mr. Carlo Azeglio Ciampi has once brought Italy into the European Currency Union. Now, the later Italian State President sees his live-time work of a unified Europe in danger

How do you value the pessimistic voices about the Euro from former central bankers, important bank managers and politicians?

In the middle of the financial crisis, without precedence, such opinions are absolutely unsuitable. I have always been of the opinion, that it is not going well for a central banker, and also not for a former one, to make such attention catching statements.

How do you evaluate the behaviour of the European Central Bank?

I think, that the latest decision of the European Central Bank, including the decision, to buy, in special situations, state bonds in the market, corresponds as well to the spirit, as well as to the letters of the treaty of Maastricht.

Where the Europeans too much giving in, when they took up Greece into the currency union?

The admission criteria have been the same for everybody. There is doubt, today, instead, about the truth-content of data, which have been presented by Greece. In addition, at the time, there existed no rigorous monitoring by the European Office for Statistics.

Also Italy, now, is suspected by the German citizens to belong to the mediteranian countries, which already in the medium term can weaken the Euro. What are you responding to them?

Italy, since long, has given itself a stability culture. In 1993, every rest of inflation indexing has been abolished. Since 1997, the reference year for taking Italy into the currency union, until 2008, that have been twelve years, Italy had an average annual state budget deficit of 2,7 per cent of the gross domestic product. In 2007, in the last year before the crisis, the deficit was at 1,5 per cent. With the crisis, the deficit has increased, but by far not as strong as in other countries. As then the international financial crisis broke out, no supporting actions for the banks have been necessary in Italy. They were solid, also because for decades they have been put under a tight banking supervision and because they had been cautious with handling risks.

Italy had promised a further restructuring of the state finances, when it was taken into the European Union?

Italy has completely fulfilled the pre-conditions of Maastricht. The relationship of government debt to gross domestic product has decreased over more than a decade, from 121,8 per cent in 1994 to 103,5 per cent in 2007. The government debt could have been lower even more. Altrough the Italian state debt is now high, there is a substantial real and financial property of the families standing against it, against the background of a limited indebtedness of private households.

If the Germans would have known, that with their money they would have to guarantee for all future members of the currency union, they would still not have admitted a country like Italy, which, in 1997 had government debt of 115 per cent of gross domestic product?

That Germany should pay for the state debt of Italy, has never been requested by anybody, nor are there any intentions, to request that.

That the regulations of the currency union, as a matter of fact, had been changed, has caused bitterness in Germany. There are voices for a division of the currency union. Do you have an understanding for this?

This is understandable. The Germans had made great sacrifices by giving up their miracle child, the Deutsche Mark. In addition, no other country in the world has taken up, like Germany, the challenges of competitiveness of the global market. But especially in difficult moments, it is a task of Germany, to show leadership and the ability to formulate long term visions. Would Germany give up the European ideal, this would have dramatic consequences especially for Germany itself. The currency union was not only an economic project, but also a great plan of integration policy. Chancellor Merkel is therefore acting in the European tradition of Adenauer and Kohl.

How should the regulations of the currency union be changed?

Always already I have complained, that next to the so to say federal monetary policy in the currency union, there is no coordination of the economic policy. Other than that it is important, in my opinion, to completely apply the "Pact for stability and growth". It is all about tieing stability and growth, because the one objective can not stand without the other one. In order to improve the deficit and indebtedness quota of the government one also must mention, that the denominator, the gross domestic product, must increase as well. For this, Europe must improve its competitiveness capability in the global market. It would be something completely different, to question the entire structure of the Euro, a perspective, which must be rejected with decisiveness.

The questions were asked by Tobias Piller.

Responsible for translation: Gefiu; translator: Helmut Schnabel

Italy, Interview: "The New Regulations for the Financial Markets are Miserable"

Interview with Donato Masciandaro, Capital Market Expert from Milano, Italy

Core issues of regulation are still not resolved, means the Milano economic scientist Donato Masciandaro. Lessons will probably only be learned in the next even bigger crisis**.**

Professor Masciandaro, what are the most important lessons from the financial crisis?

The first and most important lesson is that the entire financial system is polluted, when there are grey zones in the global financial world.

Can you give an example for this?

It exists a shadow banking system.The accounting regulations in the United States allow for activities outside the financial statements. This holds true for normal commercial banks, investment banks, and conglomerates like the insurance group AIG. They can put up more risks, than their financial statements are showing, and with this the grey zones are growing. The risks of the various players in the financial markets are closely related to each other.

Which consequence has to be drawn from this?

Neither in America, nor in Europe, is the declared will, to unify the accounting standards. Even when everybody is talking about improved regulations, one continues not to be able to see with them, where the risks are lying.

What is the second lesson, from which all of us should learn?

The markets have not been regulated. In the world, there are ever more transactions, which are not done on official market platforms. Then there are financial instruments, which again build on this. It is like a tower of stones, which is ever getting complicated, but is lying off the regular playing ground. Therefore, one does not know any more, what is really happening, for which information one should really look. For this reason, all transactions should be executed on official market platforms.

What speaks against it?

The Derivatives are being essentially traded by five big banks, Goldman Sachs and friends. And they have no interest in regulation at all. In Europe nobody speaks about it.

Americas President Obama has promised regulation, but this one is in the hand of a small institution, the Commodity Futures Trading Commission with an ex-Goldman-manager on top, together with the American stock exchange supervisor SEC. How this then should function, does nobody know.

Is there reason for worry?

In any case. The banking lobby has worked well. They have committed themselves to general principles, without that tight laws resulted from this. And the trading with derivatives is growing again.

What would be the prerequisites for the regulation of this trading?

One talks about “Market”. But this word has as prerequisite, that one knows the prices and the players. The market participants must also deliver the information, how their products are structured. Who wants to bet on something, must in addition give guarantees. With this, however, trading on a regulated market becomes more expensive. But at the same time the liquidity is improved.

Is it only about information about prices and liquidity?

Regulated markets always also allow, to estimate the present status of risks. Also in the crisis, markets go never bancrupt, but only the players with too high risks.

What is the third lesson from the crisis?

The crisis has shown, that the supervision over the banks is constructed in a bad way. The regulations about capitalization must be better tuned to the risks, and we also need a supervision about liquidity.

About this, talks at the Basel III -Treaty are centering?

Exactly. But it must be feared, that nothing fundamental will be improved. At the moment there is great uncertainty. The Americans, with their already passed new legislation, already in the pre-stage want to make silent any discussion, and basically many mean, that one should leave the matter to the experts.

How was, generally, the experience with the supervisory agencies, in the crisis?

This is the lesson four from the financial crisis: The crisis has shown, that there are too many supervisory agencies for the financial world. The financial markets are forming a cohesive unity, so there would be one single supervisory agency the best, or at least as few supervisory agencies as possible.

What is one gaining with this?

On the one hand, control would become more efficient. Because, if there are more controlling levels, there remain between them always gaps. On the other hand, the costs are increasing as well for the supervisory agencies, as well as for the controlled, when there are many different institutions for the control. At the end, there is with less controllers also a clearer responsibility. The other way around, if there are more supervisors, they keep pushing guilt always mutually to each other, when there are problems.

Do you see a development into the right direction?

No. As well in the United States, as well in Europe, the number of supervisory agencies is increasing. In the United States alone there are 115 on the level of the single states and on the national level. Each supervisory agency is gathering a lobby around itself, and no local politician would go without it.

In Europe?

In Europe, instead of a simplification, now a new level of supervisory agencies is being introduced. One wants one for the banks, one for the insurers, and one for the financial markets, with vague descriptions of duties, but for this each of the large member states gets a new institution. Even more, behind such new institutions are positioned the representatives of national supervisory institutions. Their power one does not want to touch, but one only wants to create new jobs and positions. All of this is leading far away from the idea of a unified European supervisory agency. On the other hand, Europe was so fast to create a rescue fund.

What are the reasons, when things develop in the wrong direction?

In the real world, everything is not about the ideals of financial market supervision, but about the cost-benefit-analysis of politicians and burocrats.

Should then the central banks have a role in the financial market supervision?

The experience with the financial crisis shows, that the European Central Bank has played the best role, especially because it had no role in the banking supervision. It could pump liquidity into the market, without that one could criticise it for that it only wanted to save the banks, which eventually had been supervised in a bad way. The American Fed, by contrast, has a credibility problem, just because it is also responsible for the supervision. The more disappointing it is, that the Europeans are now wishing to imitate the Americans, and that the European Central Bank should now be participating as well in the supervision of systemic risks. In the end, then politicians and commercial banks would have more influence on monetary policy.

But just in Italy, the central bank has also the role of the banking supervisor, and here there has been no banking crisis.

This is simply due to the fact, that the supervisors have not allowed for risks outside the balance sheet. They always had the overview over all risks in the Italian banks. At the end, a central bank can always only look for one, either monetary policy, or banking supervision, and with this, the Banca Ìtalia is strongly concentrating on its role as controller of the banks.

How do you see the role of the rating agencies?

They, from my point of view, are not so important. One has simply given them too much importance. When one takes away from the system of ratings their official status, then they are loosing their role as megaphone of news and uncertainties. It is schizophrenic, when all are complaining about the rating agencies, and then are building their judgement into their regulatory system. It is sufficient, to trim back the role of the agencies.

Before the financial crisis, the accounting regulations in Europe have been adapted to the anglosaxon principles. Had these changes a context with the crisis?

The continental European accounting regulations are more comprehensive and more transparent than the American ones. Had the United States applied the traditional accounting regulations from continental Europe, then there would have never been a financial crisis.

What do you think of stress tests?

This was the wrong answer to a real problem. After the crisi, s the trust in the markets is missing. Formerly one was trusting not the banks, but the supervisors, but the supervisors have failed. Normally, one changes in such a situation the supervisor, and changes the regulations, but this has not happened. Now one tried to calm the doubters with the promise, to disclose all the informations about banks. But the stress tests have not generated informations about the grey zones. It was only useful for those, who made speculative businesses around the stress tests. The European Union was a good target for this, because the number of 27 member states did multiply the doubts and the uncertainty.

Are there still, from your point of view, signs of hope at the reforms of the financial markets?

The new regulations for the financial markets in Europe and in America are miserable. Europe creates more burocracy, without that there would be any effects on the financial system. At the same time, the Europeans are ever more looking after the wishes of the financial industry. It is to be feared, that one will only learn after the next, bigger crisis. Therefore it is to be hoped, that Europe will fail soon with its present project for changes in the financial market supervision.

The questions were asked by **Tobias Piller**

Please turn over

Dean of Italy`s Elite University

The 48 year old Professor Donato Masciandaro is Dean of Economic Sciences at the Milano University Bocconi, Italy`s elite forgery. In the Italian financial world, Masciandaro is recognized as an expert of critique of regulatory issues. He is issuer of an English language Handbook of European Central Banks, and of financial supervisory agencies, and he is managing at the university Bocconi a research institute for issues of financial regulation.

This institute had been named after the former Italian central bank governor Paolo Baffi. This one is regarded in Italy and by the Bank of Italia as a kind of martyr, who paid for his independent thinking with his career. Baffi, in the seventies, has spoken out, as highest ranking banking supervisor, in favour of a screening of the mafia infected Banco Ambrosiano, against the wishes of politics, which then, with invented accusations, put him under house arrest and forced him to resign. That Baffi was right, was shown shortly thereafter, with the scandal of Banco Ambrosiano and the Vaticanbank

Responsible for translation: Gefiu; translator: Helmut Schnabel

Japan, News: Japanese Central Bank is Breaking with Tradition

cag, July 14. - For the Bank of Japan it is a step of decisive importance. On Friday, the 45 year old Tokio Shimizu as first woman is taking over the management of an outpost of the Japanese Central Bank. In this outpost in Takamatsu in Shikoku, the smallest of the four main islands of Japan, she will in future manage the businesses of the Central Bank.

She thereby is the first woman in the 128 year old history of the bank, who will manage an outpost. Shimitsu came to the bank after her exam at the Tokio University in 1987. Now, one is expecting for her a great career, because the post in Shikoku in the Bank of Japan is not just any one outpost.

Former heads of the Japanese Central Bank like Toshihiko Fukiui, or also the present Central Bank Governor Hirohide Yamaguch ibegan their careers on this outpost in Shikoku in the West of Japan..

The top of the Bank in Japan is still dominated by men. The appointment of Shimizu is therefore seen as well as a hint, that the Bank wishes to see in the future more women in the governing bodies.

USA, News: **USA is Restrucuring the Credit Unions:**

Five corporate credit unions are being dissolved/Costs of up to nine billion US-Dollar

pwe. Washington, September 26 - Two years after the top of the financial crisis the USA are attempting to restructure the segment of credit unions. The responsible supervisory agency, the National Credit Union Administration (NCUA) has put three more corporate credit unions with a balance sheet total of almost twenty billion US-Dollar under chapter eleven protection.

Tighter capital and investment regulations are made with the intention to make this segment of the financial system more robust.

“Up to now we have only stabilised the system. Now we are resolving the difficulties and are reforming the system”, said Debbie Matz, Chairman of the NCUA. The taxpayer will not be burdened with it. The costs of the restructuring which the supervisory agency estimates at seven to nine billion US-Dollar will be charged to the credit unions. Corporate credit unions are parent companies of the credit unions; they make available to them services like operational support or accounting services.

The credit unions are not in the center of the financial crisis. The collapse of the market for mortgages of lower quality (subprime) and credit defaults as a consequence of the high unemployment, however, is burdening also these smaller financial institutes. The majority of credit unions, however, is in a quite solid position.

Since 2008, 66 credit unions have declared insolvency, by contrast to more than 290 banks and savings associations. According to the NCUA there are 7445 credit unions in the United States, which at the federal level are secured by an own fund.

Their balance sheet total amounts to over 900 billion Dollar.

Problems exist especially at the corporate credit unions for which loose investment regulations apply. As a consequence of the losses by too great investments in subprime mortgages, now five of these 27 financial institutes are under chapter eleven administration. This, according to NCUA, represents around 70 per cent of the fixed assets of the corporate credit unions.

Matz gives as reasons for the losses the unprecedented economic times, as well as bad decisions of the supervisors, the managers, and the managing directors of the credit unions. The supervisor agency wants to liquidate these five credit unions, which are under chapter eleven administration, over a period of two years, in order that the other regular credit unions, linked with them, have enough time, to look for new service suppliers for themselves. The portfolio of around 50 billion US-Dollar of predominantly doubtful mortgage backed securities will be de-merged into a “bad bank”.

For the financing of this restructuring, the NCUA is trying a new innovative way. The doubtful securities will not be sold directly, in order to keep the realised losses as low as possible. The agency wishes, to rather bundle the mortgage papers with the help of Barclays

Bank with new securities, which then serve to the agency as security for bonds of 30 to 35 billion US-dollar. In the back of these bonds will be in addition a state guarantee. To this way it is intended, to stretch the costs of the restructuring of the five credit unions under chapter eleven administration, which, according to NCUA statements, amount to net roundabout 7 to 9 billionUS-dollar, over the coming ten years.

They will be charged to the regular credit unions. For the roundabout 90 billion members of the credit unions the probable result will be higher interest rates on loans and lower interest rates on deposits.

Responsible for translation: Gefiu; translator: Helmut Schnabel

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.