Issue

25

JUNE 2014

Twenty-Fifth Issue

INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

IAFEI Quarterly

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

June 28, 2014, www.iafei.org

IAFEI Quarterly, Twenty-Fifth Issue, June 28, 2014

Table of Contents

International, Article: **The Future of IFRS in a Globalised World,**
By **Dr. Ralf P. Thomas,** CFO of Siemens Group, Munich, Germany, and chairman of the administrative council of DRSC, the German Accounting Standards Committee

India. Article: **India Country Focus**
Last year was a rocky time for emerging markets, but India`s future looks bright. By **Arvind Chari**, fund manager at ACPI Investment Managers, from **The Treasurer,** May 2014, **ACT,** UK

OECD, News: **Countries commit to automatic exchange of information in tax matters,** released May 6, 2014, by OECD. News provided by IAFEI Working Committee on International Taxes

UK, Article: **Corporation Tax**
There are reasons why the UK seems an attractive tax haven to US companies, by **Jeremy Warner**, assistant editor of *The Daily Telegraph* and one of Britain´s leading business and economics commentators, from **The Treasurer,** June 2014, **ACT,** UK

UK, Article: **Bright Idea. Supply Chain Finance Special,**
Supply chain finance can help businesses manage their working capital more efficiently.
By **John Bugeja,** Head of open account, products at Lloyds Bank Commercial Banking, from **The Treasurer,** June 2014, **ACT,** UK

USA, Article: **Deflation: We Fear You Not.**
Deflation fears grip the globe. One central banker called inflation the "ogre stalking the world economy". Should you be afraid? We say no. Deflation is more common than you think and far more desirable than you might imagine.
By **Payden & Rygel,** Los Angeles, California, USA, Spring 2014, Point of View, Our Perspective on Issues Affecting Global Financial Markets

IAFEI News

Letter of the Editor **June 28, 2014**

Dear Financial Executive,

You receive the **IAFEI Quarterly XXV th Issue.**

This is another issue of the **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.

This issue again contains a broad variety of articles, from three continents, on accounting, financial and tax subjects, all of which merit the reader´s attention.

Once again:

I repeat our ongoing invitation, to IAFEI member institutes, and to their members,
to send us articles for inclusion in future IAFEI Quarterlies,
and to also send to us your suggestions for improvements.

With best personal regards

Helmut Schnabel

Helmut Schnabel

China, Interview: **"We are the Warren Buffet of China"**

Interview with **Guo Guangchang**, Chairman of the Chinese investment corporation Fosun-Group.

Fosun is not as much known as Berkshire Hathaway, the Investment company of the American investor Warren Buffet. The strategy is the same. But here we are talking about building a bridge to China.

Mr. Guo, since a few days your investment-corporation Fosun is holding a participation of 19.3 % at the new BHF-bank and the Kleinwort-Group: Here a tradition-steeped private bank, there a still quite young Chinese investment company - how does this fit together?

Very well, because here at Frankfurt, we have also taken over an excellent management team and together, we will open up new chances for growth. This relates for affluent private clientsof the BHF-bank on the one side as well as for Chinese entrepreneurs on the other.

With our help, the BHF-bank can become a bridge for German and Chinese entrepreneurs likewise.

Is there a demand for that in China?

Definitely, yes. More and more Chinese entrepreneurs are looking for competent partners who can administrate their assets even in foreign countries.

Lately you have also invested in insurance companies, for example in an appropriate supplier in Portugal. Do you expect synergies in cooperation with the BHF-bank?

Well, the business with BHF-bank has been scrutinized for a total of 2 years – and at the beginning of the review we had not yet planned the investment in Portugal. But now it may actually happen that joint products could be developed.

Why entrepreneurs or investors, who are in the Chinese market, should address themselves to the BHF-bank and Fosun - and not to a large competitor as HSBC?

Very simple: Because we are experts in the field of Chinese industry and of the Chinese market. We have investments in many enterprises. We have a deep understanding of China and in addition we have a global reach.

And the BHF-bank?

For example, it has accompanied our IPO of our pharmaceutical business at the stock exchange at Hongkong. This has been a very, very good business for all participants - and therefore also for the bank and especially for the clients of BHF. Remember that: Such a big bank as for example the HSBC will never be able to concentrate that strongly on an individual customer as the BHF.

Do you feel opposition when acquiring foreign corporations or financial services providers especially in Europe, or are you welcomed in a friendly manner?

We are welcomed in a friendly manner. Certainly, this is also based on the fact that we are acting as long-term investors, that we are interested to refine businesses with our connections to China and that it is not primarily aimed at reducing staff and then move on quickly. We want to be very transparent as an investor and act socially responsibly and support the management team of the corporations in which we invest.

Therefore you are compared with Warren Buffett very often.

Yes, we are following Warren Buffett and his investment-company Berkshire Hathaway with our investment-strategies. This idea is the basis of all our investments. In doing so, Fosun is pursuing a development-model which we call the “Twin-Driver”-concept. This means, on the one hand we shall reinforce the general insurance oriented model to ensure the access to long-term, high-quality capital to the group. At the same time we will continue the approach forof investing in the basic industries world-wide. This corresponds to the Fosun-principle, only to invest in sustainable investments.

However, by all means, in the BHF-bank, staff is cut down at all...

The most important for every company is to continue in development and to gain efficiency. In this, we want to contribute to the companies in which we invest and so increase their enterprise value. In the foreground is the perspective of an expanding bank.

Are you hereby aspiring for certain return-targets?

No, concerning that, we have not defined explicit targets which can be illustrated with concrete figures.

Only for our understanding: Your participation in the BHF-bank will soon be exchanged into shares of the majority BHF-akquirer RHJI?

Yes, that’s right. But this is a technical procedure. Here, we have stepped in to continue the development of the BHF-bank. The BHF-bank is the core of our investment.

Are you planning further take-overs in Europe?

We are permanently scrutinising opportunities. Currently, the question is to concentrate on the two new acquisitions in Portugal and - of course - to support the BHF-bank here in Frankfurt.

Could you also imagine to buy a bank in the United States? In this regard, you still have a blank on the landscape there.

No, we are not intending that.

Should we worry about the banking-business in China? There, there is lately talk about high need for depreciation regarding non-performing loans.

There are a few areas that have to be adjusted. That’s right. But there is no reason at all to expect a crisis because of that. All this is to be managed without difficulties. Basically, China is on a good way to grow by up to 7 % in each of the next upcoming years. Sure, the companies are rather highly indebted, but the state indebtedness is within the normal range - and especially the private consumers are barely indebted. And if the government supports a corresponding behaviour, for example with a view to the social protection, the private individuals will be prepared to spend more money in future.

Through the industrial participation, your business model aims at a constant growth in China, but also at the aim that the people further save money in the future and do something for their pensions, right?

Yes, we are focussing on the desires of the extremely growing middle-class in China and want to serve it with innovative financial and pension products as well as with fashion-articles of strong brands or with holiday-offers, for example by our associated company Club Med.

And this will work?

Clearly yes. As an example, we are operating 2 Club Med-complexes in China in the meantime, a third will be opened in the near future. I can imagine that some day there could be 30 of such complexes.

Will the air-pollution in China be no obstacle for your hopes of economic growth?

No, because all Chinese want this problem to be solved. And therefore we will solve it as it is shown with a look in our history. By the way, this will be a big chance for suppliers of environmental technology, especially from Germany. We are looking closely at them. And do not forget: also at London or German cities as Frankfurt there were very large problems with air-pollution. And you met these challenges. We can learn from these experiences which have been made and solve the problem.

How important is the new Renminbi-Clearing-Bank which will be built up in Frankfurt now?

That's a very good indication and comes at good time with a view on our joining with BHF-bank.

Interview made by Gerald Braunberger and Carsten Knop, Frankfurter Allgemeine Zeitung

Addendum: The Strategy: Buying and Developing Strong Brands

According to the forecasts of the HSBC-bank Trinkaus China will follow France as the most important trading partner of Germany until 2030. Furthermore, the Chinese middle-class will increase by up to 700 million people until 2050 - more than twice as many people as the population of the United States. In China there will be then 200 towns with more than 1 million inhabitants. Fosun wants to benefit from these developments. It is its aim to make payable the Western life-style to the Chinese middle-class, either by the purchase of fashion-companies as “St. John”, holiday-concerns as Club Med or providers of life insurances as the life-insurance-company in Portugal which has been recently acquired. In addition, Fosun is active in mining, in pharmaceuticals as well as in production of steel in its homeland.

This has lately been a very profitable business. Relating to the latest figures, the group's net profit for the parent company increased to up to 5.5 billion Renminbi in 2013 (roundabout 890 million US-dollar), which corresponds to a rise of 48.9 %.

In the course of this year, the holiday club-company Club Med is to be taken over completely by Fosun in cooperation with other investors and executives in the context of a so-called buy-out - and after that will be delisted from the stock exchange. So, this company is a demonstration for the strategy to purchase cheaply comparatively strong brands, as it worked successfully so far with Club Med, considering the crisis where France had been some years ago.

It is permitted to assume a similar strategy behind the joining of BHF-bank. Also here, a very much lower price was paid than has been hoped for by the seller Deutsche Bank. At the same time the brand has not lost prestige among the private well to do customers, despite all the turmoil of the past years. Fosun International has been listed at the stock exchange at Hongkong since 2007.

 Responsible for translation: GEFIU, the Association of Chief Financial Officers Germany; translator: Helmut Schnabel

China, Article: **Daimler Successfully Issues a “Panda-Bond”**

Daimler AG has issued the first bond by a foreign industrial corporation in Chinese mainland.

from Frankfurter Allgemeine Zeitung, March 15, 2014

Beijing, March 14. On Friday, the Daimler AG has issued the first bond by a foreign industrial corporation in Chinese mainland. The issue amounts to 500 million Yuan, for about 60 million Euro, Daimler announced. The bond has a maturity of one year.

It was issued in the interbank-market by the Bank of China. It is addressed to institutional investors, not to retail investors, and due to capital controls, it cannot be purchased abroad either. It was communicated that the bond-product has been overbooked by demand. As the regulatory authority NAFMII announced, the coupon is 5.2 %. These are 0.8 points less than the interest rate to be paid for one year bank loans.

Daimler has registered a total bond issue volume of 5 billion Yuan at the authority. According to comparable situations, the Germans can utilize this framework with issues within two years.

Already before Daimler, the Asian Development Bank and the World Bank subsidiary IFC had issued Renminbi-bonds in Mainland China. Daimler, however, is the first non-Chinese corporation of the real-economy that offers “Panda-Bonds”.

Up to now, foreign corporation groups are financing themselves with Yuan (Renminbi) loans, or they issue Renminbi bonds in Hongkong. Volkswagen did this for example, also KfW-Bank or Bosch Siemens Hausgeräte (BSH). The planned segment for international share-issues at the stock-exchange at Shanghai is presently on hold.

Daimler wants to use this money for financing its strong Chinese growth, CFO Bodo Uebber said. In 2013 one has achieved almost one tenth of the group sales in China. In February, the Chinese sales went up to 74 %. The bond issue is broadening the financial basis in China, Uebber explained. Where possible, financial debt is always taken up in the markets themselves, where Daimler is active. The opening of the Chinese markets is facilitated by this.

The Central Bank PBOC at Beijing expressed satisfaction about the premiere. “Herewith a domestic financing channel for non-financial corporations has been established”, the PBOC vice governor Liu Shiyu said. “This will facilitate the opening of our bond markets and it will enhance the use of Renminbi beyond the borders.” The convertibility of the currency is coming closer, Liu said, the move of Daimler is “of great importance”.

Analysts said that the advantages for the car producer would be a more favourable conditions for the taking-up of loans, the marketing-effect “to be the first one” and to please to the authorities.

Mercedes, which is producing its cars jointly with the state owned Baic-group, is dependent on the huge market. In November, Daimler purchased 12 % of Baic and is now hoping that the Chinese themselves will invest in Daimler AG.

COUNCIL OF
THE EUROPEAN UNION

EN

Luxembourg, 20 June 2014
9402/14
(OR. en)
PRESSE 254

Council agrees to close tax loophole for corporate groups

The Council today[1] agreed to an amendment to EU tax rules in order to prevent the double non-taxation of corporate groups deriving from hybrid loan arrangements[2] (*10419/14*).

The aim is to close a loophole that currently allows corporate groups to exploit mismatches between national tax rules so as to avoid paying taxes on some types of profits distributed within the group.

The amendment to the parent-subsidiary directive[3] will help boost member states' tax revenues. Furthermore, it will help create a level playing field between groups with parent companies and subsidiaries located in different countries and those that have all entities based in a single member state.

The original parent-subsidiary directive, currently in force, was intended to ensure that profits made by cross-border groups are not taxed twice, and that such groups are thereby not put at a disadvantage compared to domestic groups. It requires member states to exempt from taxation profits received by parent companies from their subsidiaries in other member states.

However, this currently applies even if profit distribution is treated as a tax-deductible payment in the country where the paying subsidiary is based. Some member states classify payments from hybrid loan arrangements as tax deductible "debt".

1 At a meeting of the Economic and Financial Affairs Council.
2 Hybrid loan arrangements are financial instruments that have characteristics of both debt and equity.
3 Directive 2011/96/EU

P R E S S

Rue de la Loi 175 B – 1048 BRUSSELS Tel.: +32 (0)2 281 6319 Fax: +32 (0)2 281 8026
press.office@consilium.europa.eu http://www.consilium.europa.eu/press

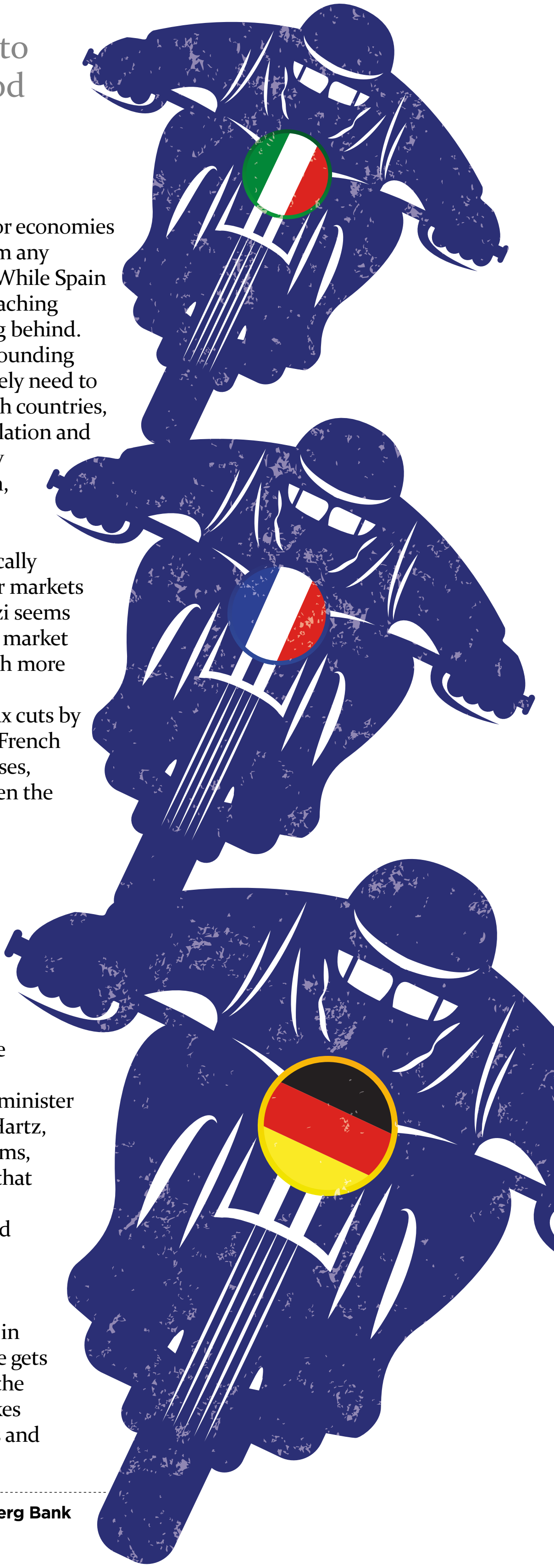
The amendment approved today will prevent cross-border companies from planning their intra-group payments in such a manner as to benefit from this provision in order to enjoy double non-taxation. The member state of the parent company will henceforth refrain from taxing profits from the subsidiary only to the extent that such profits are not tax deductible for the subsidiary.

In approving the text, the Council agreed to split it from a broader proposal in order to allow early adoption of the new rule on hybrid loans, whilst allowing work to continue on another aspect, namely the introduction of a common anti-abuse provision.

Following today's political agreement, this part of the legislation will be adopted at a forthcoming Council session, after finalisation of the text. Member states will have until 31 December 2015 to transpose it into national law.

THE RACE IS ON

France and Italy need to follow Germany's lead to get their economies on track, explains Rob Wood



The two European reform laggards, France and Italy, have new prime ministers. Manuel Valls and Matteo Renzi have simple jobs to do. There is no need to reinvent the wheel. To get their economies moving, they need to follow one simple strategy: copy Germany.

Imitation may not be an elegant solution. But it can sometimes be the right one. France could quite plausibly become the powerhouse of the eurozone if the new prime minister plays his cards right.

As the new prime ministers of both countries chew over their options, they should take a look at Germany's experience. Ten years ago, Germany was the sick man of Europe. Core employment was in relentless decline. Companies were shifting jobs abroad to escape overmighty regulation and eye-watering labour costs. The government was breaking the 3% deficit limit. Germany was heading for the brink.

Chancellor Gerhard Schröder's labour market reforms of 2004 turned the tide. Since early 2006, German core employment has surged. The number of people with a job paying enough to be subject to payroll taxes has risen by 3.5 million. With jobs galore, German consumers are upbeat and wage gains are picking up.

How did Schröder do it? He made the labour market more flexible and sharpened individuals' incentives as well as companies' incentives to hire.

Temporary work contracts were liberalised, benefits cut, trade unions weakened and a *de facto* cap put on payroll taxes. As the power of trade unions was weakened, workers had to accept a period of wage restraint while unemployment was still high. The reforms were the foundation for today's strength.

A reformed France would be a match for Germany. France has babies and invests a lot. What it is lacking is a flexible labour market.

In contrast, Germany is now showing signs of complacency. It will suffer from an ageing population in the coming years, and has backtracked a little on reforms. The changes have been moderate so far, including lowering the pension age, limiting the flexibility of temporary contracts and introducing a minimum wage.

France and Italy are the two major economies in Europe that have shied away from any serious structural reforms to date. While Spain and Portugal gain from their far-reaching changes, France and Italy are falling behind.

So these two heavyweights and founding members of the eurozone desperately need to follow the German example. In both countries, labour markets are ossified by regulation and taxation. It may hurt the popularity of Valls and Renzi in the short term, but there is still time until the next national elections.

Valls and Renzi could gain politically if they dare to shake up their labour markets now. For Italy, the hyperactive Renzi seems likely to deliver a significant labour market reform this year. France hangs much more in the balance.

Funding corporate and payroll tax cuts by wielding the knife on spending, as French president François Hollande proposes, makes sense. But that will not loosen the regulatory shackles that leave France ranked 71st for labour market efficiency in the World Economic Forum rankings, just one place above Russia.

By appointing Valls as his prime minister and having a cosy chat with Peter Hartz, a key architect of the German reforms, Hollande has at least raised hopes that he might be ready to go further. It would be unpopular, but could yield handsome returns.

Unlike Germany, France has demographics on its side. It would have the people to fill the new jobs in a reformed labour market. If France gets real, it could overtake Germany as the eurozone's growth engine. The stakes are high. Over to you, Manuel Valls and Matteo Renzi.

These two founding members of the eurozone desperately need to follow the German example

Rob Wood is UK economist at Berenberg Bank

Germany, Article: Linde Reaps the Rewards of Record Capital Expenditure

Interview with Mr. Georg Denoke, CFO, Linde Group, Munich, Germany

The CFO discusses the advantages of rapid refinancing and the role of banks and explains why the group's focus is now on rounding out its portfolio.

Interviewed by Walter Becker and Julia Roebke, Börsen-Zeitung, Frankfurt am Main, Germany, May 17, 2014

Mr Denoke, the euro is too strong. The French Prime Minister is pushing for devaluation. As part of the real economy, what is your take on this?

We would certainly prefer a stronger dollar. Our reporting figures are in euro and a stronger dollar would of course translate into higher euro figures. But we can't pick and choose the exchange rates which suit us. That makes it all the more important for us to increase our competitiveness across all currency areas. In the medium term, I expect interest rates in the dollar zone to rise and that will cause the dollar to strengthen.

Which currencies have the greatest impact on Linde?

Last year it was the Australian dollar that had the greatest impact, even more than the US dollar. Our business in Australia is relatively extensive and we have a high market share there. Our performance was also adversely affected by the depreciation of the South African rand. But we only notice the impact when the figures are translated into euro.

You might not be able to pick and choose exchange rates. But you can hedge against them. Are there opportunities for fine-tuning here?

In our gases business, we produce and sell in the same currency. Unlike traditional exporting companies, we also incur our costs in the currency of the country in which we're operating. This means that our profit margins are not at risk even if exchange rates are unfavourable. There is therefore no need for currency hedging. The situation is different in our engineering business where we handle international projects. Production takes place in a number of different countries which is beneficial for us. We cover the currency risk in the terms and conditions we include in our contracts.

The other side of the coin is that a strong euro will help the group to reduce its debt, won't it?

Indeed, the strong euro has helped us recently in this respect. Last year we were able to reduce our net financial debt by more than 200 million euro. Our intention is to reflect the international outlook of the group in our debt structure. In those countries where we conduct most of our business, we borrow in the same currency as that in which we conduct the business. If a foreign currency loses value against the euro, this is reflected in the euro figure for financial debt in our balance sheet. By way of example, when we acquired US company Lincare two years ago, we financed the transaction in dollars.

Is it likely that there will be similar shifts in exchange rates in 2014?

Exchange rates have hardly moved since 31 December 2013. At the end of the first quarter of 2014, the effect on equity was minimal. There might be further shifts during the year, but certainly not as significant as those we saw in 2013.

At the year-end, Linde had gross debt of 9.6 billion euro. What is Linde's plan for deleveraging?

We have set ourselves an upper limit of 2.5 for our dynamic indebtedness factor (the ratio of net financial debt to operating profit) and we intend not to exceed that limit. In the first quarter, our dynamic indebtedness factor was 2.1. The positive trend in cash flow from operating activities contributed to this figure. We want to continue to maintain a sensible balance between deleveraging, investment and dividend distribution. In 2013, we invested a record amount in our operating business. The impact of this investment on our earnings and cash flow will become evident in 2015, 2016 and in subsequent years. In the medium term, we will continue to use cash flow to reduce debt.

Do you have a target ratio?

As I said, for our dynamic indebtedness factor we have an upper limit of 2.5. When you look back at Linde’s recent history, this figure was of a different order of magnitude altogether. The day after Linde acquired BOC in September 2006, the dynamic indebtedness factor was 6.8. Following the sale of Kion, it was 4.8. Gradually, over time, the ratio of net financial debt to EBITDA has improved. This has also improved our credit ratings. Our current Standard & Poor’s rating is A+.

What about the bond markets? Do you have anything up your sleeve here? Maybe some hybrid bonds?

We are fully financed at the moment. Our maturity profile is geared towards the long term. Just under 90% of our debt is due after 2014 and around 50% is due in more than five years. Hybrid bonds are most useful in times of major acquisitions, when it is important to repay loans rapidly. That was the case for us with BOC. At that time, Linde’s rating was BBB-, just into the investment grade. Hybrid bonds were perfect in that situation. They would make less sense for us now. However, we do follow developments in the international financial markets very closely. We’ve also just renewed our major syndicated credit facility. We seize opportunities when they arise and have always succeeded in the past in choosing the right moment.

Was that not just good fortune?

Fortune favours the brave.

You say you look for opportunities. Where do you look?

It’s really a question of fine-tuning. This year, we have 400 million euro of loans maturing. We won’t necessarily require finance from the capital market to repay those loans. However, we are keeping a very close eye on developments in the market. Just this week, we took advantage of the favourable situation to make a successful placement in the market of a ten-year 300 million euro bond. We shall use the funds generated by this small bond to fund an additional portion of our pension provisions in Germany.

What is your assessment of the debt market?

As we all know, tapering is continuing in the US and we expect the Federal Reserve to raise interest rates in the coming year which will cause the dollar to strengthen. When looking at financing, it is important to bear in mind longer-term prospects. In 2007, following our acquisition of BOC, 68% of our liabilities were financed at fixed rates. We gradually reduced the proportion of fixed-rate debt to 30% in the period leading up to the financial crisis. Now, the proportion of our debt at fixed rates is back up to 60%. This flexible approach has had a positive impact on our bottom line of 340 million euro.

You have plenty of cash. How do you plan to use it?

We have a strategic cash reserve which we keep for a rainy day. It is extremely important that those funds are secure. We therefore invest this money in short-term euro government bonds with a triple A rating.

How do you see the role of the banks?

We always listen carefully to what the banks are telling us and are happy to take advice. Our syndicated credit facility is provided by 33 different banks.

That's a large number of banks!

Linde generates plenty of interest in the banking world. We're a regular player in the capital market, as evidenced recently by the Lincare acquisition. We engage in constructive dialogue with the banks. We listen to a range of suggestions and then decide what is appropriate for Linde in that particular situation. When allocating the transaction to different banks, we look favourably on banks which have come up with particularly innovative proposals. We also believe it's important for us to have relevant skills in-house, especially with regard to the implementation of deals.

How many of the banks are key players in the syndicate?

At least ten. Of course the number of banks involved in a syndicated credit line varies according to the structure of that particular line. The number of banks that may be involved in acquisitions is even more limited.

How is your financing organised? Does everything go through your HQ?

We manage the banks centrally out of our Corporate Centre in Munich. As far as cash management is concerned, it's very important also to have a regional perspective. We rely on direct local dialogue with our finance-providers, so we also have treasury hubs in the Americas and in Asia. Linde operates in 13 countries in south-east Asia, so it's a definite advantage if you're based in the same time-zone.

On the financing side, there are all sorts of possibilities for mergers and acquisitions. Does a CFO not also feel the urge to do something?

In view of the markets, it's best to act early, as we did in the middle of 2012 with Lincare. At that time, there was still great uncertainty in Europe and valuations were not as high as they are today. Of course, the financing conditions must be right, but the key element is strategy. Timing should depend on strategic considerations.

So things are currently quiet for Linde on the M&A front?

We have gone a long way towards consolidating our markets, though rounding offs are always possible in the regions.

How much scope do you have for acquisitions?

We need to work within our upper limit for indebtedness. Any potential regional expansion would also have to be a good fit in strategic terms. We are already very well positioned in many different markets, partly as a result of having made a number of smaller acquisitions.

Where do you see potential for expansion?

First, you have to look at what's available and see if there is someone who is willing to sell a business, perhaps a small family company. Sometimes it may be more efficient to make a straightforward acquisition than to grow a business organically. That way you can save time. In the healthcare sector, the time saved could be as much as two years, as long as you are quick to integrate the business into your organisation.

Let's move on to the operating business. Linde has set itself clearly defined targets for 2016. On what does the group base its forecasts?

Our operating projections are based on underlying assumptions about industrial production in the various countries in which we operate. In addition, we consider the prospects for individual market segments. Then we assume that our investments will grow and that we will make a number of minor acquisitions. All these factors combine to give the full picture.

You also examine different scenarios.

Yes, you won't get very far these days without scenario planning, especially as forecasts of macroeconomic trends are more volatile than before. Something else you have to consider is that when we make our medium-term forecasts we predict absolute values for EBITDA. This means that if there are significant shifts in exchange rates, we will have to provide additional explanation. We comment in detail on the impact of exchange rate movements, even if this does nothing to reduce the complexity involved in describing our outlook.

Since 2009, your efficiency programme has achieved cost savings of 1 billion euro. You are forecasting a further 800 million euro of cost reductions by 2016. How do you expect to achieve this? Surely the easy pickings are already long gone?

You have to bear in mind that Linde has achieved significant growth over the years by making acquisitions. Examples of this are AGA, BOC and Lincare, companies which had their own history with a variety of local businesses and standards. We've brought these companies together, but there is still room for process harmonisation. We will be able to achieve further synergies at the interfaces between procurement, production and distribution.

Which performance indicators do you apply to the management of Linde?

Our key performance indicators are revenue, operating profit (EBITDA) and return on capital employed (ROCE). Our overriding objective is to continue to achieve sustainable profitable growth. Our investment is well-targeted and we exploit opportunities as they arise.

Is Linde earning its cost of capital?

Absolutely. You shouldn't overrate the static effect of ROCE. Our figure for total assets is around 33 billion euro. Of this amount, 10 billion euro is goodwill arising on acquisitions. This is the price we paid to acquire a market presence in strategically important regions. Even if we repay our loans, this goodwill will remain in the balance sheet.

Have you not had any nasty surprises yet in terms of impairment losses?

No, they're not part of the plan! (He laughs.) We assume an average weighted cost of capital of around 7%.

Today Linde is the market leader in four out of five of the growth markets. What's gone wrong in South America?

Well, at least we're number two there. We set our priorities and recently our focus has been on Asia, Eastern Europe and the Middle East. When you operate in 100 countries around the world, you can't be the market leader everywhere.

Shouldn't you be doing more in North America in view of the shale gas boom?

We're very active there. Indeed, we were one of the first companies in the plant construction industry to benefit from becoming involved in the shale gas business. Our order intake is evidence of this. Over the past three years, we have obtained orders worth around 1.7 billion dollars just for natural gas processing plants. In our gases business, we are also playing a part in the increasing exploitation of shale gas reserves. One example of this is the development of the supply of gases at the petrochemical site in La Porte, Texas. We are investing more than 200 million US dollars here to meet the growing demand from industrial customers on the site for oxygen, methanol and synthesis gas.

The margin in the engineering business is significantly lower than that in the gases business. Is the business worth keeping?

Yes, because it enables us to offer value added to our customers, who appreciate the fact that we're a one-stop shop. For example, we not only build air separation plants, we can also operate them.

Are there any other advantages to the plant construction business?

Our plant construction business often opens doors for our gases business: for example, in the energy market and the chemical market. Earlier, I mentioned shale gas in North America. Something similar happened in the past in the petrochemical industry in the Middle East. Our

Engineering Division built a number of ethylene crackers in Abu Dhabi for the Abu Dhabi National Oil Corporation. This business relationship subsequently resulted in the creation of a joint venture, the purpose of which was to use nitrogen for the more efficient recovery of gas reserves.

What are the prospects for growth in the gases business? And what about the recent disappointing performance of the healthcare business?

What we saw in our Healthcare business in the first quarter of 2014 was completely in line with our expectations. When a number of supply contracts in the European homecare business were put out again to tender, it was likely that changes might occur as a result. The reorganisation of supply areas had an impact on the operations we had acquired from Air Products in April 2012. Provision for this eventuality had been made in the purchase agreement with Air Products and in the second half of this year we will receive a compensation payment in accordance with the terms set out in that agreement. In the healthcare market in North America, regulatory changes also had an impact on business. We had already incorporated these changes into our calculations. This year we are expecting growth in our Healthcare business of between 4% and 5%.

How is the on-site business faring?

Our on-site business saw growth of over 7% in the first quarter. We have a healthy project pipeline in this product area. In view of the ramp-up of these plants, the on-site business should see further strong growth in 2015 and 2016. In this segment, we benefit from contracts which run over a very long period, generally 15 years.

How do you ensure you always find the right partner in this business? In the past there were some problems: for example with BorsodChem when your CEO designate, Mr Büchele, was in charge…

With BorsodChem, as with other companies, we managed in the end to find a sensible solution which was acceptable to both sides. Not least thanks to the efforts of Mr Büchele. But our approach is always to conduct a detailed analysis of the entire project before we make any long-term commitment to the customer. At the same time, we look for potential synergies for our products in local markets.

Linde is currently investing heavily. When will it reap the rewards of its investment?

Yes, we are investing a great deal. Our investment ratio in the gases business reached 16% recently, a significantly higher figure than the historical average of 13%. Over the coming years, the positive impact of this investment will start to show and return on capital employed will rise. One thing you need to bear in mind is that projects now (especially in the promising energy and environmental sectors) are bigger than they were in the past. They take longer to execute and it's not rare for them to take as long as three years. Many of the tangible assets in which we have invested in recent years will become operational in the period from 2015 to 2017 and these will then start to contribute to revenue and earnings.

In view of the price-earnings ratio of 18 based on estimated profit in 2014, Linde shares are not exactly a bargain. Why then should an investor buy Linde shares?

Because of our group's prospects. Based on our outlook for 2015, the P/E ratio is 15. Our shares are not overvalued when you compare them with those of our competitors. They have a P/E ratio of 20. And anyway, good shares never appear to be cheap at first sight.

Article provided by GEFIU, the Association of Chief Financial Officers Germany.
Source: Börsen-Zeitung, Frankfurt am Main, Germany, May 17, 2013. Responsible for translation: GEFIU, Association of Chief Financial Officers Germany; translator: Helmut Schnabel

Germany, Article: Shrinking Asset Universe

To invest more than 1 billion Euro of liquid assets during times of financial repression, and this cost-neutral, is no easy job.

The CFO of Fraport AG, **Dr. Matthias Zieschang**, and his head of finance, **Stefan J. Rüter**, are reporting about the conflict between return and security.

By Marc-Christian Ollrog, Finance, Das Magazin für Finanzchefs/ The Magazine for Finance Chiefs

The forward-financing, so to say financing on stock, is an art in itself. On the one hand it creates room for manoeuvering and provides safety. On the other hand, high amounts of liquid assets are making the balance sheet longer, deteriorate several financial ratios and generate cost of carry, at least in theory. In spite of these reservations, the Fraport-Group at Frankfurt am Main, Germany, decided to hold on to massive liquid assets, and it wants to do that for a long term. “The asset management has become a permanent objective for Fraport”, says CFO Dr. Zieschang.

In the Basel III-scenario the group wants to make itself independent from the capital market as well as from its banks. “To maintain liquidity reserves, we always want at least 1 billion Euro, to all instances but also for further M&A-transactions”, says Zieschang. Differently from other corporation-groups which are doing ongoing refinancing and transactions of optimising interest rates, Fraport is emphasizing the long-term focus of financing means: “We tend to decide for one financial strategy and thereafter stick to it”, Zieschang says.

Since long the Frankfurt operator of the airport has held on to liquid assets. Still in 2006 the MDAX stock exchange index member corporate group had no net-corporate-debt at all and even a net-surplus-liquidity caused by the executed public offering in 2001 as well as the partial privatization. However, all this happened before the construction of the landing-strip north-west and the extension of the airport-gate “A-Plus”. Although Fraport is going sedately about the construction of the new terminal T3 because of the currently expected lesser number of passengers growth, so that the used-up capital expenditure has recently flattened a bit.

Lean Asset Management

The overall strategy has not changed anyway: At the end of the third quarter 2013, the group has roundabout 1.5 billion Euro of liquid assets which the treasury department has to administer and invest. Anyhow, it is done by it completely with the existing on-boards and is abstaining from external asset managers or from using investment funds which would cause additional costs. It is invested in individual securities and at most in the secondary market.

“With a four-member team we are a set up in a rather streamlined format”, opines Zieschang, having been officiated since 2007. One member of staff is controlling the risks in line with internal limits. In addition there are Stefan Rüter, head of finance and investor relations, as well as the CFO himself. “We are deciding quite rapidly to the dual-control principle in every situation whether the issuer is fitting from a portfolio point of view, according to the limits given by the committees of the corporation. This may happen within one or two hours. And it must be like that otherwise the broker is simply selling this paper to another investor.” - a major challenge for the small, but effectively manned asset management of the Frankfurt airport operator.

After the experience of possible total losses by investing in equities, for example on the basis of the New-Economy-Bubble in the late nineties, Fraport has dispensed with this type of assets except for one single title. “However, this stock was sold with a good profit in 2012”, says Zieschang.

Since the Lehman-crisis, when Fraport divested several investment assets in time, the quality of the asset investments has stabilized further in terms of repayments and interest payments, Rüter says. But the task to administer the assets has become significantly more difficult in the recent years: “The universe of good issuers is not becoming bigger”, Zieschang admits.

This is particularly relevant, when it comes to the first investment decision which relates to the geographical investment region of the issuers. “We essentially deposit in German banks, and concerning securities investments we limit ourselves to issues from the domestic country as well as the Northern European countries and the USA. Fraport is not bothered by the fact of downgrading France by S & P, lately - it had already not belonged to the main geographical areas of investment anyway. And: “Southern Europe is a no-go-area for us”, CFO Zieschang says. The second largest economic power of the EU may gradually move towards this category, though this is not (yet) reflected by the way of the spreads.

As to the portion of the portfolio of individual security issues, Fraport has defined upper limits per issuer, with the target to attain a broad diversification of the portfolio. Per issuer this limit is at 20 million Euro which can also be invested in various securities of the same issuer, Stefan Rüter says. Concerning the instruments of indebtedness by financial institutions, the limit generally is at 200 million Euro, which includes deposits at an individual bank.

Own rating-process

The group, which is steadily dispensing with a rating of itself, although it considers itself to the investment-grade domain, is investing only in investment-grade securities with a rating better than BBB+. However, the financial organization has recently received approval from the group`s supervisory board to also invest in a small and in advance defined number of bonds of unrated companies. “It is consequent to concede entrepreneurial freedom to other issuers as well”, Zieschang says who has himself already placed an unrated benchmark-bond by Fraport.

“Anyway, we are making a both quantitative and qualitative internal assessment”, Rüter says. His team is following the capital markets and is monitoring the market situation via media. Since up to now, no failures have arisen in the portfolio. Zieschang concludes from the macro-economic overall economic situation, that Fraport will continue to keep many liquid assets also at the end of the expansion program at the airport - be that for using M & A-chances, be that to be armed for unforeseeable risk-situations - one may remember the volcano ash-cloud of Iceland which interfered in the air-traffic for days in 2010. Or September 11, 2001, which caused trouble also for the airline companies.

Similar to the airlines, Fraport is holding on to a war chest of cash. In the Basel-III-scenario it is advantageous not to be dependant from the capital markets and from the banks - at least not completely dependant.

Addendum: The Fraport Group, Financing Aspects

Up to 2006, Fraport was debt-free and was even in a net liquid asset position. Then the extension of the airport came, this was estimated at 7 billion Euro. 3 billion of it will be generated by the cash flow until 2015, 4 billion Euro have been taken up by debt capital. Thereof about 1.1 billion Euro are state incentivised loans, around 800 million Euro are from the unrated bond issue as well as 1.2 billion Euro from bond-like loans/ the German instrument of Schuldscheindarlehen. Almost 1 billion Euro comes from bilateral loans of banks which is a precondition for additional banking business with Fraport.

The net finance debt is at short of 3 billion Euro, the operative cash-flow was at 550 million Euro in 2012. As a rough guideline the dynamic level of indebtedness of net financial debt versus ebitda is to be in the 4 to maximum 6 corridor, whereas the interest cover, on ebitda-basis, should be at least at 3 to 4.

The Changing Asset Management of Fraport Group

After the financial crisis in 2008, the Fraport AG has realigned its asset portfolio. Before that, up to 80 % were invested in banks and short-term-bank deposits, structured products as ABS and CDOs and the rest in financial institutions-bonds. Now, the new structure is further regarding the risk of counterparty and of banks in a much broader framework, and in addition it is looked at in different scenarios. Only at least 25 % are deposited at banks, the rest of maximum 75 % is distributed along bonds of banks, industrial corporations and governments. It is also allocated after due dates on the liability side of the Group balance sheet. The average rating of invested corporate bonds is A-.

If a security is making it on to the watch-list caused by negative developments, Fraport is normally reacting faster than the rating agencies. Rüter and his team are rather putting great emphasis on indicators as security price development, news and credit loss insurances (CDS) – in conjunction with further qualitative indicators. “As soon as the investment grade is lost, corporate bonds have to be sold immediately”, is the rule. When the repayment date is getting closer, then the Fraport team can also endure a temporary accounting loss of individual securities, provided that the repayment is regarded to be safe.

The declared aim is not to achieve excess returns, but to minimize the cost of carry.

This can be done through the making of changes to the interest duration on the asset side, whereby slightly positive costs of carry are achieved with a normal yield curve. “Concerning the costs of carry, we are moving around zero long-term”, Zieschang says. Periodically, profits and losses balance out against each other in the long run.

Provided by GEFIU, the Association of Chief Financial Officers Germany.
Source: Finance, Das Magazin für Finanzchefs/ The Magazine for Finance Chiefs, December 2013, Financial Gates GmbH, Frankfurt am Main, Germany. Responsible for translation: GEFIU, Association of Chief Financial Officers Germany; translator: Helmut Schnabel

International, Article: The Future of IFRS in a Globalized World

By Dr. Ralf P. Thomas, CFO Siemens Group, Munich, Germany, and chairman of the Advisory Board of the DRSC, Deutsche Rechnungslegungs Standards Committee/ German Accounting Standards Committee

The accounting regulation standards IFRS are European Union Law since over 10 years. Disparities of interpretation are reducing transparency.

In many areas the harmonization of our European day-to-day-life is advancing. So, as well, in the area of accounting. In the middle of 2002, per decree, the European Union paved the way for the uniform application of international accounting regulation norms within the European Union. Since then, the so-called International Financial Reporting Standards (IFRS) are being transposed, step by step, into European law. On April 6, 2014, it is exactly 10 years that IFRS 1 became European Union Law. The standard regulates how corporations have to proceed when applying IFRS for the first time.

In the meantime, the IFRS have been established as the worldwide leading accounting regulation norm. But the international harmonization has not been completed – and still a few countries are hesitating to make the norms legally binding.

Since the 19^{th} century, when for the first time the corporations had to obligate themselves through mandatory accounting regulation norms to apply strict accounting regulations in reports, the economy has globalized in a speedy way. Since then, the international volume of trade has increased for about 200 times; roundabout 80 % of the world trade are accounted for by the value-added-chains of globally active corporations.

Considering the backround of this development, todays International Accounting Standards Board (IASB) – an independent group of experts at London – has set itself the task to develop international accounting regulations since the mid-seventies. A core milestone for the breakthrough of IFRS was the entering into an official partnership with the European Union in 2000. Two years later, the EU made a start for the expansion of the standards in Europe. At the same time, this was the initial spark for the worldwide spreading of IFRS.

In the meantime, the IFRS have become the leading world language of accounting regulations. Including the countries in the European Unions, more than 100 countries are prescribing the application of the standards for capital market orientated corporations in a binding form. Especially for IFRS-appliers with foreign subsidiaries, the internationally recognized accounting regulation standards are providing the basis for a high-grade production of corporate group financial statements.

US-GAAP Is Going its Own Way

However, the progress of the last years should not detract from the fact that there is still potential for improvements in the international setting of standards. On the one hand, the heavy weights of the world economy like USA, Japan and India are continuing to allow themselves their own accounting regulations only in line with national standards.

Some years ago, there still existed a rapprochement between IFRS and US-GAAP. In the meantime, however, the US stock market supervision SEC is not aspiring for convergence between both accounting regulation systems in the medium term. A further drifting apart would be a clear retrogate step; and at the latest with the next crisis there would be calls that the competing systems would open up competitive advantages to certain groups.

On the other hand, the IFRS are not being applied uniformly on a worldwide basis. For example China and other countries are using the standards as an orientation; but the regulations are only taken over partly by them into national law – with deviations up to the discretion of the own national legislative bodies. Even if the Chinese accounting regulations have been adapted to IFRS in essential points, a considerable uncertainty remains especially from the perspective of foreign investors evaluating the comparability of Chinese financial statements.

But even countries which have completely transposed IFRS to national law, do interpret these in different ways in practice. So the reading of IFRS in Anglo-Saxon shaped countries may be interpreted otherwise than in continental Europe. An example for this is the Anglo-Saxon tradition of fair value accounting, which - with the introduction of IFRS - has increasingly moved into Europe.

Too Much Complexity Is Damaging

Therefore, the IASB is directing its attention increasingly to the uniform interpretation of the norms. Because how can there be a benefit to investors and other interested parties in financial statements when the local application of the international standards is preventing a comparability from country to country?

Therefore, it is not surprising that supervisory agencies such as the European Securities and Markets Authority (ESMA), are exercising more and more influence on the process of the interpretation of norms and of the setting of norms, in order to attain a uniform application of IFRS. Should the disparities increase further, then the financial markets will as well exercise discipline in the long term: Investors will certainly react to a lack of transparency with an increased risk premium.

A need for action is also necessary for the increasing complexity of the international accounting regulation standards. According to IFRS, a typical group financial statement consists of several hundred pages. This raises the question whether the required obligation to report does always contribute to more transparency or whether in several cases information is produced with great efforts which do not serve an added value to the investors. Concerning the advancement of IFRS the observance of a well-balanced cost benefit- ratio is of central importance.

With what has already been achieved, the IFRS have created a strong basis. But also in the future the ever more complex processes of business will make the steady change of IFRS a condition. This has to be brought into accordance with an adequate continuity of the setting of standards. In this task the IASB deserves our support.

Responsible for translation: GEFIU, the Association of Chief Financial Officers Germany; translator: Helmut Schnabel

INDIA

Last year was a rocky time for emerging markets, but India's future looks bright, says Arvind Chari

Last year was undoubtedly a turbulent time for emerging markets because political instability, inflation and the fledgling recovery in the West all caused significant headwinds. Unsurprisingly, this has led some commentators to be sceptical about the prospects for these markets, including India. But the Indian economy is showing signs that it will weather the challenges of the next few years. This may not be an easy task given the way the Indian rupee plunged in response to the US Federal Reserve's decision to taper asset purchasing. Nevertheless, India does have the political will to make the necessary reforms to deliver on its potential.

While the Fed's decision has caused some fallout in emerging markets, commentators expect that this will tail off over time. Meanwhile, India's economy is driven by domestic demand, which means that it is better placed than most to deal with the world post-quantitative easing. Without the so-called 'taper tantrum', investors in India might have focused more on the positives in 2013. But given the overall improvements in the economy and the political outlook, we feel the India story will be harder to ignore in 2014.

One of the most significant changes in recent months has been the appointment of Dr Raghuram Rajan as governor of the Reserve Bank of India (RBI) in September 2013. He is clearly part of a dying breed of central banker: that is, one who actually knows how the world works. He will make mistakes, but the most important thing is that he will be trying to move India in the right direction, as shown by his decision to continue with a hike in interest rates at the end of January. Bond and currency markets have reacted very well to this move, which shows the bank is now ahead of the curve in fighting inflation. In October, Rajan remarked that India's debt market needed to attract stable investors over 'bond tourists', a reference to the short-term foreign flows that have been evident in India's bond markets. His stance is an indication that policies could be shifted to attract more long-term, stable money into India's government bond markets, away from a focus on the foreign-bank 'proprietary' investments that dominate flows currently.

India's current account deficit (CAD) was set to halve in the year ending March 2014. It was due to fall to 2.5% from 4.8% of GDP in 2013. The fall in gold imports, alongside currency depreciation, was a major contributing factor to this reduction. India's exports have become more competitively priced over the past few months, which has led to higher exports in textiles, chemicals and leather goods, while the drop in the value of the

Country file

Population size: 1.2 billion
Area: 3,287,263km^2
Type of government: Federal republic
Official language: Hindi
Capital city: New Delhi
Largest city: New Delhi
GDP (2012): $1.825 trillion
Central government debt as a proportion of GDP: 67%
Currency: Indian rupee
Conversion rate against the euro: 0.012

SOURCE: INDEX MUNDI

Beach view, Mumbai, India

PHOTO: SAPSIWAI/SHUTTERSTOCK

TOP TIPS FOR DOING BUSINESS IN INDIA

1. Hire a local manager or partner who has a very good understanding of local rules and regulations.
2. Have a longer-term investment horizon because the Indian rupee will remain volatile for a while.
3. Don't view volatility as a risk; view the integrity of the government and management as a risk.
4. Be patient and have realistic expectations – things take time to work out in India.
5. Travel to India and feel the 'micro' India story rather than just read about the 'macro' India story.

rupee has also led to a fall in non-oil/gold imports. We expect the CAD to increase to around 3% of GDP for this financial year as gold import restrictions are removed, a shift that should still be easily fundable. Additionally, the RBI's FX reserves have increased by $34bn through the bank and non-resident Indian deposit swaps, which was a much higher figure than anticipated. This gives the RBI the additional firepower to intervene in the markets if it is necessary to counteract currency volatility. In fact, the rupee has been remarkably stable since October and has steadily outperformed its other 'fragile' emerging-market peers.

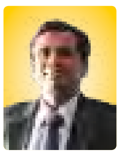
There has also been an improvement in how other countries perceive India. Net foreign direct investment is stable, despite some negative sentiment driven by the outflows from the bond markets and banks in July and August 2013. Vodafone, described by Rajan as 'the poster child for companies with difficulties in India', is investing more in spectrum and also buying out minority operators. In addition, significant Japanese investment into India's infrastructure is a further boost to the country. Japanese prime minister Shinzō Abe was the guest of honour at India's Republic Day and this relationship will be one to watch over the coming years.

Overall, the world has a much better impression of India than it did a few years ago, when the country was facing significant obstacles. In 2010, increasing inflation, expanding fiscal deficits and an escalating CAD – all coupled with slowing growth rates – put India in a very difficult position. But in 2012, the government realised that the current situation could not continue and, since then, there has been a much greater focus on reform.

A mixture of poor growth and bad policies dramatically hampered India's progress earlier this century, frustrating many investors. But the country is now beginning to drive a wedge between itself and the other, more troubled emerging-market economies. We feel that these differences will mean that India significantly outperforms those economies over the coming years. And while we might still be facing some turbulent times, for India, at least, the dark clouds are beginning to break.

Politically, the Bharatiya Janata Party appears to have gained good momentum in preparation for this month's general election. The possibility of a government with a growth and infrastructure development agenda – in conjunction with the new RBI governor's mandate of inflation and currency stability – seems a very exciting prospect for the next five years. But predicting India's election outcome with any certainty is fraught with risk because there is a high likelihood of a future coalition government. Since 1980, six of India's nine governments have been coalition governments and our research shows that GDP growth has averaged 6.3% per annum. As a result, if investor expectations are realistically set at 6% to 6.5% GDP growth for the long term, it will not largely matter which government is in power. In addition, the drive towards fiscal consolidation and inflation control will continue, irrespective of the government at the centre.

As with any emerging-market economy, the next few years will present challenges alongside opportunities, and investors will have to be comfortable with this state of affairs. But India is committed to making the reforms it needs to improve its future. The country has much better potential for growth than any developed country and it is also in a far better position than many of its emerging-market peers. Now is the time to take advantage of all that India has to offer to investors.



Arvind Chari is fund manager at ACPI Investment Managers. www.acpi.com

OECD, News: Countries commit to automatic exchange of information in tax matters

06/05/2014 - Bank secrecy for tax purposes is coming to an end as countries and major financial centres commit to automatic exchange of information between jurisdictions.

The Declaration on Automatic Exchange of Information in Tax Matters was endorsed during the OECD's annual Ministerial Council Meeting in Paris by all 34 member countries, along with Argentina, Brazil, China, Colombia, Costa Rica, India, Indonesia, Latvia, Lithuania, Malaysia, Saudi Arabia, Singapore and South Africa.

The Declaration commits countries to implement a new single global standard on automatic exchange of information. The standard, which was developed at the OECD and endorsed by G20 finance ministers last February, obliges countries and jurisdictions to obtain all financial information from their financial institutions and exchange that information automatically with other jurisdictions on an annual basis.

"Tax fraud and tax evasion are not victimless crimes: they deprive governments of revenues needed to restore growth and jeopardise citizens' trust in the fairness and integrity of the tax system," OECD Secretary-General Angel Gurría said. *"Today's commitment by so many countries to implement the new global standard, and to do so quickly, is another major step towards ensuring that tax cheats have nowhere left to hide."*

The OECD will deliver a detailed Commentary on the new standard, as well as technical solutions to implement the actual information exchanges, during a meeting of G20 finance ministers in September 2014.

G20 governments have mandated the OECD-hosted Global Forum on Transparency and Exchange of Information for Tax Purposes to monitor and review implementation of the standard.

More than 60 countries and jurisdictions have now committed to early adoption of the standard, and additional Global Forum members are expected to join this group in the coming months.

See: http://www.oecd.org/tax/countries-commit-to-automatic-exchange-of-information-in-tax-matters.htm

News: Provided by IAFEI Working Committee International Taxes

{ CORPORATION TAX }

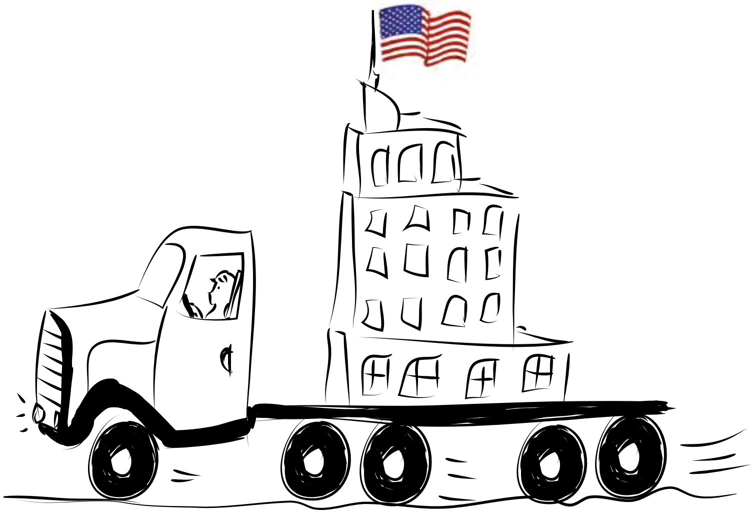
JEREMY WARNER

There are reasons why the UK seems an attractive tax haven to US companies

Tax efficiency is rarely a good reason for doing a takeover, but that didn't stop US pharmaceuticals giant Pfizer embracing the rationale with open arms. Achieving tax benefits appeared to be one of the primary purposes behind its blockbuster bid for AstraZeneca. But let's not single out Pfizer. Hundreds of American companies plan to escape the US's relatively high corporate tax environment using so-called 'inversion' takeovers – a practice that allows companies to re-domicile for tax purposes simply by acquiring a foreign concern that dilutes its US ownership. With relatively open borders and freedom of capital movement, the UK is a primary target for such acquisitions.

Pfizer's bid can be seen as validation of efforts to improve Britain's tax competitiveness and make the UK an attractive place for foreign investment. In any case, that's how George Osborne, the UK chancellor, likes to see it. This is all very well, but if companies are investing in the UK merely because of its attractions as a tax haven, that's not necessarily a good place to be.

It is unclear what Labour will do to the corporate tax regime should it win the next general election in May 2015 – best guess is that it will leave it untouched – but one thing is for sure; in the absence of an outright Conservative majority, Britain's overall tax burden will be going up steeply. Both the Liberal Democrats and Labour have pledged to raise more from taxation. The minimum the Lib Dems will extract from the Conservatives for supporting another coalition government is a 'mansion tax' on residential properties worth more than £2m. As framed, such a tax might not seem so bad. The Lib Dems calculate that it would raise 'only' £1.5bn and apply to no more than 75,000 homes. In truth, the number of homes worth more than £2m is far higher – possibly as many as 600,000. Theoretically, then, the tax could raise much larger sums – £10bn or more.



Hundreds of American companies plan to escape the US's relatively high corporate tax environment using so-called 'inversion' takeovers

Labour, too, backs much higher property taxes, together with an array of other measures for taxing high earners and wealth by more, including restoration of the 50% tax band and removal of some of the tax incentives for pension saving. Experience in France, you might think, acts as a salutary warning against high taxes, but Labour has an answer to that, too. We wouldn't go as far as France, party leaders say, but we could tax more without destroying incentives. Believe it if you will.

Data compiled by the International Monetary Fund show the UK is about middle of the pack for major advanced economies in terms of taxes as a percentage of GDP, at an expected 37.7% for this year. No prizes for guessing who comes top – France at an eye-watering 52.9%. Only the Nordics beat France in terms of their overall tax burdens. In any case, in the round, Britain is neither a particularly low- or high-tax economy. Certainly, in terms of its overall tax burden, it bears very little resemblance to established tax havens, which tend to be minimally taxed. Yet when it comes to international business and finance, it has some of those attributes.

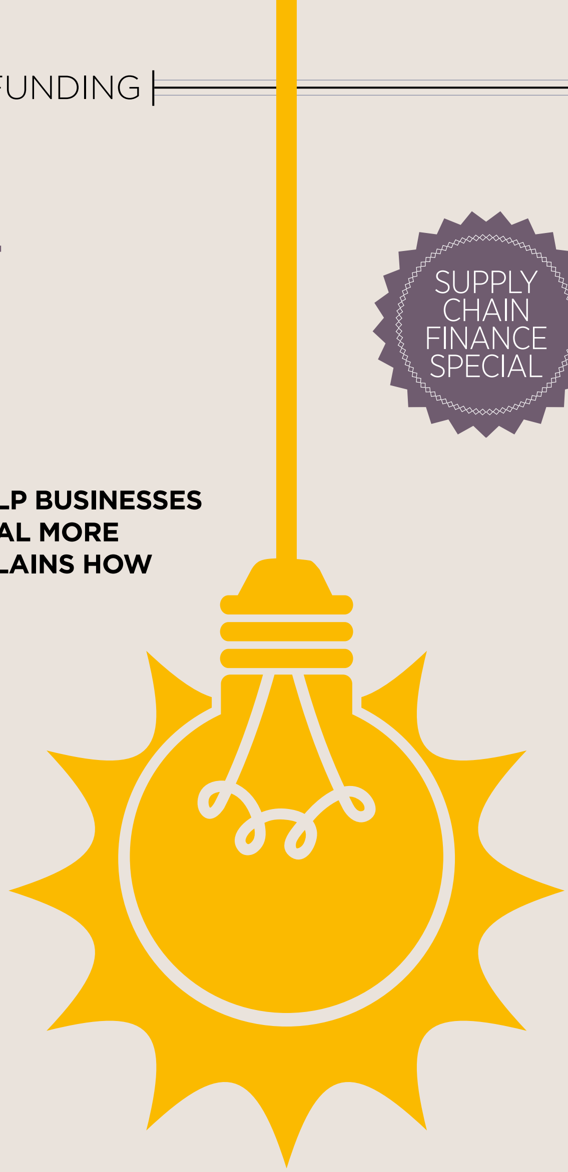
Does this work as an economic model? With America, it's the other way around – at just a little over 31% of GDP, the overall tax burden is relatively low, but the corporate tax regime is proving so hostile that companies are seeking refuge overseas. There may or may not be reason to worry about the British approach, but the American one seems virtually suicidal.

Jeremy Warner is assistant editor of ***The Daily Telegraph*** and one of Britain's leading business and economics commentators

BRIGHT IDEA

SUPPLY CHAIN FINANCE SPECIAL

SUPPLY CHAIN FINANCE CAN HELP BUSINESSES MANAGE THEIR WORKING CAPITAL MORE EFFICIENTLY. JOHN BUGEJA EXPLAINS HOW



Supply chain finance (SCF) is nothing new. Companies have been working with financial institutions to fund and support their supply chains for decades. What has changed during that time is the accelerating trend away from traditional documentary settlement instruments to an open account model. (See diagram on page 47.)

The traditional documentary model provides visibility and high levels of control, but it is paper-intensive and slow. Therefore, with efficiency gains a key priority for treasurers, the open account model has been brought in. The aim of SCF within this open account space is to meet the risk mitigation, finance and settlement needs of the client in a far more efficient manner than previously, with a greater emphasis on data rather than on paper. Typically, large corporates sit in the middle of a sourcing/selling trade cycle and so it is of significant importance for them to have a balanced supply chain.

Characteristics of SCF

The solutions to support SCF are event-driven, with finance and payment flows triggered by events in the client's physical supply chain. Supplier finance, sometimes known as 'approved payables finance', is the most popular form of SCF in today's market and often involves one buyer dealing with multiple suppliers. In this programme, the buyer initiates the process as the lead party.

In contrast to many other forms of SCF, such as factoring or invoice discounting, the start of the supplier finance process is triggered by approval of the payables rather than the shipment of the goods. This enables both the buyer and the financing bank to eliminate the performance risk of the suppliers because the buyer's obligation to pay has already been established prior to the purchase of the receivable by the bank.

A further benefit of supplier finance is its cost-efficiency. This is largely because once the programme has been set up, it is a straight-through process driven by data rather than paper.

Meeting buyer objectives

Supplier finance impacts upon a buyer's debt capacity. Therefore, a multi-bank solution is sometimes appropriate to manage the implementation of a large programme. As buyers with supplier finance programmes are generally investment-grade businesses, it is usually a straightforward process to bring another financial institution on-board. As an example, Lloyds Bank worked alongside JPMorgan to set up a successful SCF programme for UK telecommunications company EE.

"The relationship with Lloyds Bank and JPMorgan enabled us to leverage the strength of two banks' balance sheets," says Daniel Jefferies, who works in debt and capital markets for EE. "Simplicity for us was maintained by the signing of one set of documents and we have a single system access point common to both banks. Since launch in September 2013, we've worked closely with both banks to maximise the efficiencies of the system and are pleased with the progress made."

Benefits for the buyer

A buyer benefits in a number of ways throughout the supplier finance process. These include:

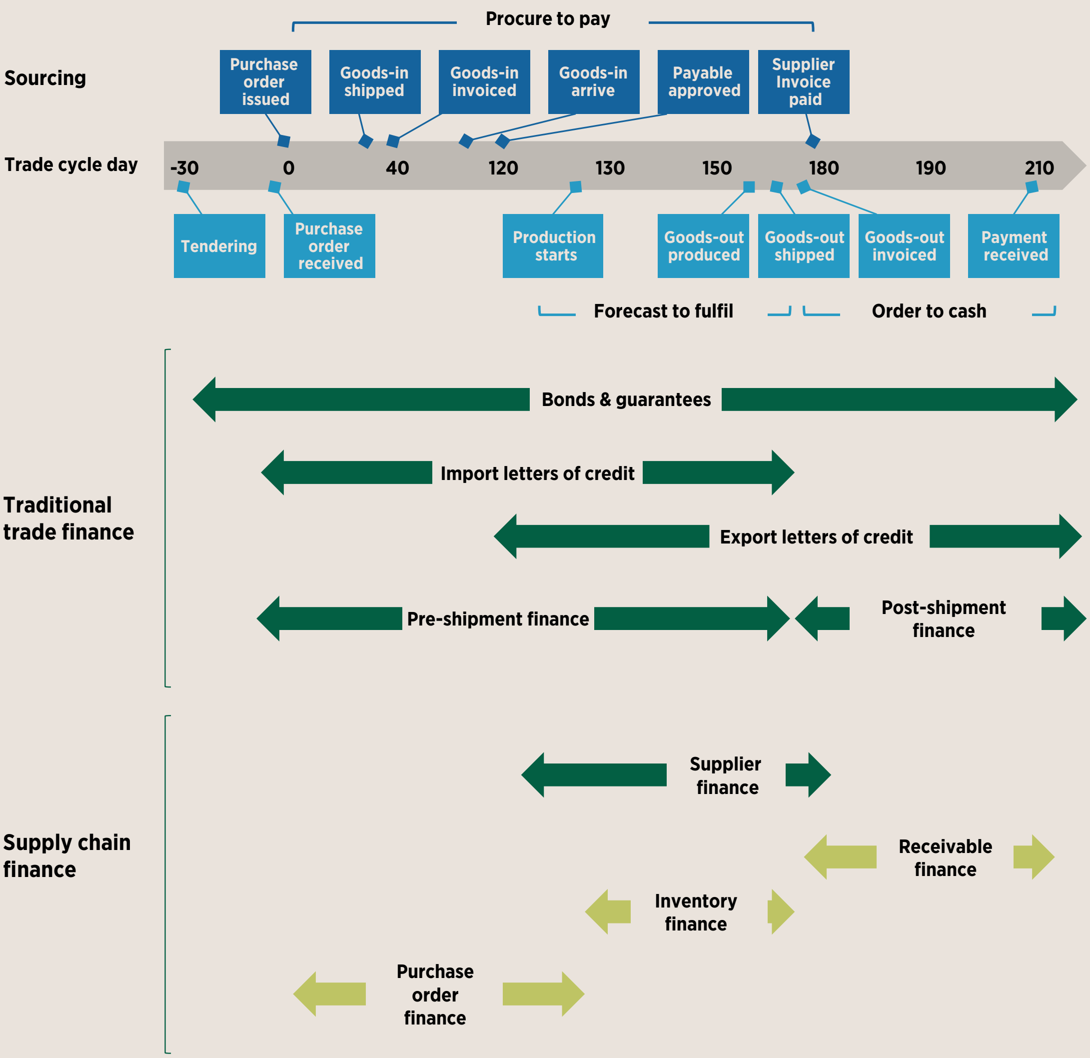
- Increased days payables outstanding (DPO) – DPO can be extended to the industry standard across all suppliers, making businesses more efficient.
- Reduced cost of goods sourced – the cost of goods to the buyer can be reduced because the supplier's finance costs are typically lower and trade becomes more cost-effective and assured.
- Stabilisation of the supply chain – by extending finance to suppliers, effectively supporting their suppliers' businesses and ensuring that they can deliver consistently, a company reduces the risk of having empty shelves (as a retailer) or mitigates any potential threat to their production line (as a manufacturer).
- Corporate social responsibility – securing a supply chain and standardising payment terms strongly demonstrates the fair treatment of suppliers.
- Balance sheet neutrality – an SCF programme is designed to have no impact on the buyer's balance sheet, although this will depend on the approach of the buyer's auditor and would be considered on a case-by-case basis.

Benefits for the supplier

For suppliers, supplier finance has a number of benefits, including:

- Reduced days sales outstanding – payment is

OPEN ACCOUNT MODEL: TYPICAL TRADE CYCLE



received upon the supplier's sale of the receivable, ensuring quick access to cash.

◆ Reduced finance costs – because supplier finance typically benefits from the buyer's better credit risk, a lower financing cost is applied to the receivable.

◆ Access to finance decoupled from balance sheet strength – suppliers are not dependent on the strength of their own balance sheet to access borrowing.

◆ Improved visibility and control – there is greater certainty over the amount and timing of payments, allowing suppliers to manage their businesses more efficiently.

◆ Risk mitigation – the bank provides finance by purchasing the receivable on a non-recourse basis.

Success of an SCF programme

The success of a business's supplier finance programme depends on its approach to the process, both during the initial scoping and implementation through to managing the process once it is in place.

Programme initiation – issues to consider include:

◆ Ensuring collaboration between all stakeholders, in finance, treasury and procurement, for example, is key.

◆ Making sure objectives are clear. For example, EE sought out a supplier finance solution to standardise payment terms and improve its working capital, while ensuring no disruption to its business practices.

◆ Having a robust 'supplier on-boarding' site makes the process as easy as possible for suppliers.

◆ Consistent messaging so that communications with suppliers about how the programme works all tell the same story.

◆ Prioritisation of on-boarding the key suppliers by focusing on those with which the business enjoys good, long-term relationships will help ensure success.

◆ Strong project management through the creation of an internal team to work closely with the supporting bank. This team will manage the project from end to end, contributing to the success of the programme and helping the implementation meet the business's objectives.

Programme optimisation – to make the most of a supplier finance programme, a business should:

◆ Monitor the benefits to working capital and measure internal cost savings.

◆ Ensure leverage efficiency gains through the standardisation of payment terms.

◆ Ensure that new and existing supplier relationships are embedded within the programme to create a business-as-usual environment.

◆ Leverage the potential for credit extension.

Experience counts

Supplier finance provides businesses with an efficient, cost-effective and straightforward way of dealing with today's global business priorities – securing the supply chain, managing working capital more efficiently and making every part of a company work as hard as possible.

John Bugeja is head of open account, product at Lloyds Bank Commercial Banking

LLOYDS BANK

USA, Article: **Deflation: We Fear You Not.**

Deflation fears grip the globe. One central banker called inflation the "ogre stalking the world economy". Should you be afraid? We say no. Deflation is more common than you think and far more desirable than you might imagine.

By Payden & Rygel, Los Angeles, California, USA, Spring 2014, Point of View, Our Perspective on Issues Affecting Global Financial Markets

Deflation: We Fear You Not

Do you like low prices? Relish discovering a bargain online or hidden on a store's shelf? Do you celebrate better, faster and cheaper electronic devices with each passing year? Wish your hard-earned dollar (or pound or yen or yuan) stretched further with each passing year?

Well, the world's most powerful central banks stand ready to prevent such a global economic disaster. Christine Lagarde, managing director at the International Monetary Fund, described the phenomenon of falling prices, known to economists as deflation, as an "ogre stalking the world economy."[1] That's right: central bankers aim to fight deflation at every turn with every weapon in their formidable policy arsenals.

But deflation does not send shivers down our spines. We think deflation is misunderstood, particularly by economists and, by extension, investors who subject themselves to the vagaries and vicissitudes of economic advice. At worst, deflation is a symptom of other problems, not the disease. At best, it is a benign byproduct of rapid economic progress (yes, you read that right, progress). By first understanding what mainstream economics despises about deflation, we see that while today's theories cast them in a bad light, falling prices are not always bad–and historically have even signaled robust economic performance.

DEFLATION: WHAT'S THE THREAT?

What better way to understand the consensus opinion toward deflation than reading a Nobel Prize winner in Economics: Paul Krugman. Writing in the New York Times in 2010, he cited three reasons to worry.

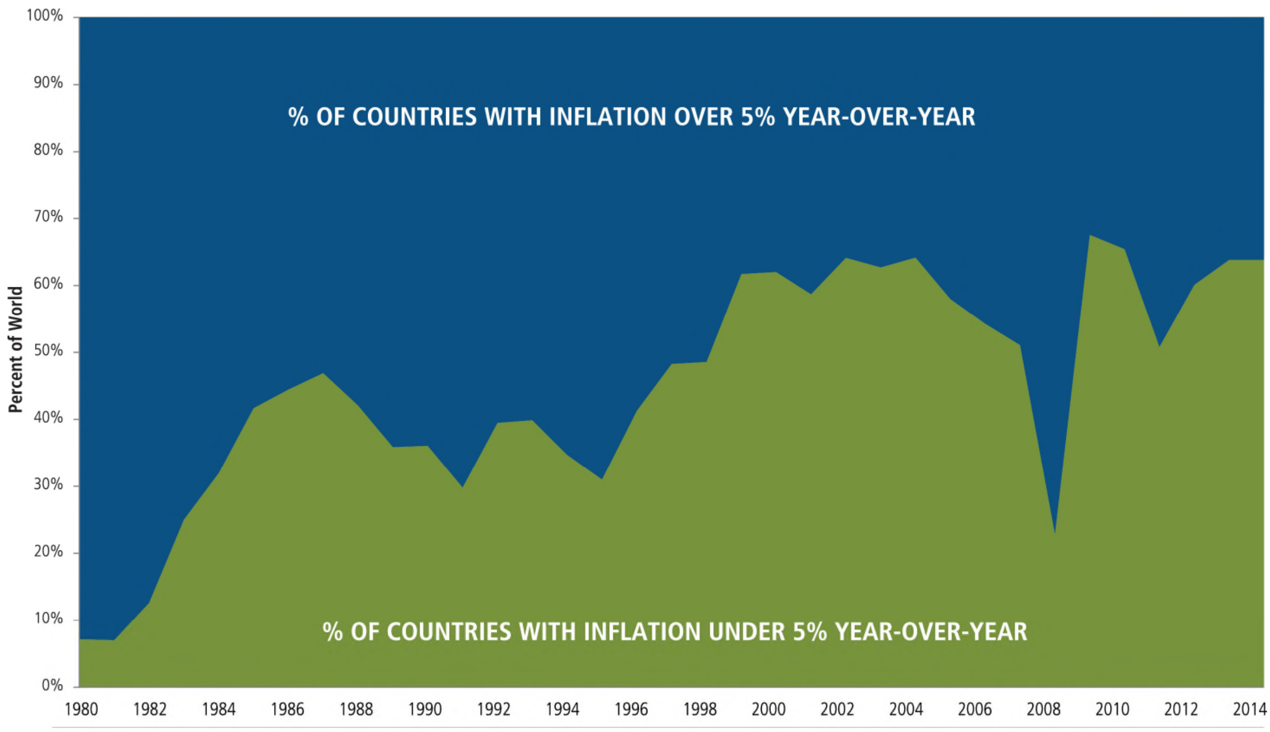
The first charge is that falling prices curtail consumption and harm producers: "when people expect falling prices, they become less willing to spend, and in particular less willing to borrow." Intuitively, the argument makes sense. If you are in the market for a new washing machine, but expect the price to fall in the future, you postpone the purchase until the price declines. Moreover, the loan you might have taken out to finance a car purchase makes little sense today if vehicle prices will be lower tomorrow. Expectations of future price declines supposedly delay purchases and slow economic growth.

Appealing though the logic may be, the world works differently. Take computers. Moore´s Law says that chip processing capabilities double roughly every 18 months. Over the last four decades, as technology improved exponentially, the price of computing has plummeted. Since 1994, the cost of a personal computer fell 95%. In spite of the knowledge that prices would fall in the future, the prospects of better, faster, cheaper technology have continually brought buyers out in droves. After all, how many cell phones have you owned in the last decade?

At Worst, Deflation is a symptom of other problems,
not the disease.
At Best, it is a benign byproduct of rapid economic growth
(Yes, you read that right, Progress)

What is more, a dollar spent on a "computer" today produces different results than a dollar spent on a "computer" in 1984. Mobile phones now pack more computing power than the entire operating system which piloted Apollo 11 to the moon and back in 1969.

The second terrifying feature of deflation, Krugman asserts, is that falling prices "increase the real burden of debts." If 90 cents tomorrow buys you the same basket of goods and services as $1 today (the horror!), then anyone who borrowed $1 dollar will apparently have to work harder to pay off their debt, if wages and income follow prices lower. Borrowers must repay lenders with currency units that are worth more than the units they borrowed. This could, in theory, discourage borrowing and crimp economic activity.



Source: IMF
*Number of countries varies by year. Percentages include only those countries for which data exists

In actuality, it is less the price level and more uncertainty about the price level that stifles investment. Throughout much of the 18th century deflation was a fact of life, yet loans were made and bonds were purchased.

Financial market participants readily adjust if they anticipate and can plan for price changes–whether rising or falling. For the prepared borrower and lender, there is no difference between a rising 3% per annum inflation rate and a falling -3% deflation rate. That's right, no difference, other than we aren't accustomed to such year-on-year "wealth creation."

Third, Krugman complains that "it's a fact of life that it's hard to cut nominal wages." In a recession, the story goes, employers are reluctant to slash nominal wages and thereby forestall the adjustments necessary to heal the economy. The solution is to have the government unleash a surreptitious campaign to lower wages. How? By eroding the purchasing power of the unit in which workers are compensated–read, by creating inflation. With inflation during a recession, employers can pay employees less in real terms (as inflation erodes purchasing power) without lowering the nominal number written on the paycheck.

fig. 2 IN THE EURO AREA, LOW INFLATION PREVAILS ACROSS COUNTRIES AND PRICE INDEX COMPONENTS

	Last Month	Last Year	Last Two Years
# of Countries With Inflation *Below* 1% Year-Over-Year (of 15 total)	8	6	1
# of Price Index Components *Below* 1% Year-Over-Year (of 17 total)	11	9	5

Source: EuroStat, Payden Calculations

As you may have guessed, we aren't buying it. And by "it" we mean the sticky wage demon. Historical evidence suggests workers are much smarter than economists give them credit for: they adjust their expectations based on real wages (adjusted for inflation) and do not simply focus on nominal wages.[2] Japanese employees, for example, readily took pay cuts and maintained employment levels in the late 1990s and 2000s. Where "sticky wages" do live (or lurk rather) is in economic models employed by economists.

PERIODS OF DEFLATION IN HISTORY DEFY DOOM

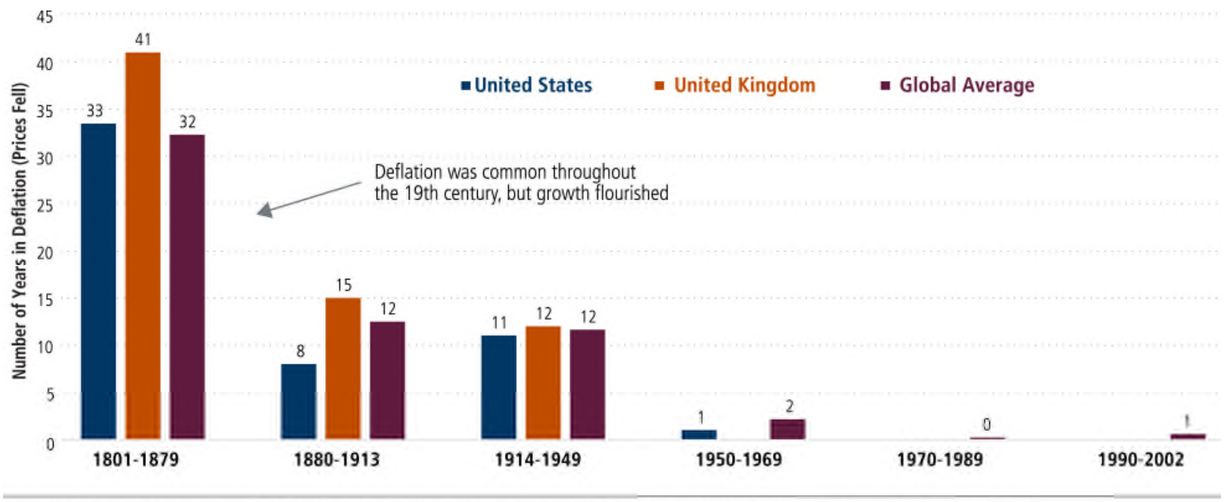
The deflation worriers' case disintegrates in the face of history. Historically, deflation is common. Some instances of historical deflation represent cases of "bad deflation" (where actual currency hoarding caused a severe decline in the money supply), but the vast majority of deflation episodes in Western history were harmless.

In the 19th and early 20th centuries, deflation was a frequent occurrence (see Figure 3 above). In the United States, in 33 of the years between 1801-1879 the price level fell. In particular, from 1873-1896, prices in many countries across the world fell by 2% per year, but economic growth continued at 2-3% on average. How?

Productivity-induced growth fueled by the second industrial revolution and the connecting of railroads across North America and Europe provided gale force tailwinds. In the 20th century, the 1920s was an epoch of good deflation. The blossoming of high tech industries like manufacturing, radios, telephones and refrigerators brought more, better goods, more cheaply, to U.S. consumers.

Some instances of Historical Deflation represent cases of bad deflation (where actual currency hoarding caused a severe decline in the money supply) But the vast majority of Deflation Episodes in Western History were harmless

What changed in recent history? We are accustomed to Inflation and rising prices (for many goods and services). So for most people born after 1950, deflation would indeed be a strange outlier. But let's not confuse strange with bad. On a long enough timeline, deflation is anything but an outlier



Source: Michael D. Bordo and Andrew Filardo, "Deflation and Monetary Policy in Historical Perspective: Remembering The Past or Being Condemned to Repeat It?" Working Paper 10833, October 2004.

WHAT SHOULD WORRY US: BAD DEFLATION

Not all periods of falling prices are good, though. Bad deflation, as conceived by Milton Friedman, is a decline in the price level caused by a monetary disturbance which goes unchecked by central bankers.

The modern example of “bad” deflation, the one Mr. Friedman had in mind, is the Great Depression of 1929-1933. Real output plunged across most of the developed world, led by a 7.6% contraction in the U.S. between 1929 and 1933. In such an inclement economic environment, banks failed by the scores, depositors scrambled for currency, the money supply declined by 30% in the space of two years, and prices plunged.

Instances such as this, disturbing as they are, are surprisingly rare. Indeed, even Japan, the supposed incarnate warning against deflation has avoided such terrible circumstances. As former Bank of Japan Governor Shirakawa notes, Japanese CPI declined by a mere 4% over 15 years, and output has grown very modestly.

Japan also witnessed bank failures, the likes of which might have caused a grave contraction in the money supply. In 1997, Yamaichi Securities failed (Japan’s “Lehman event”). Yamaichi held massive off-balance sheet losses and its assets of ¥3.7 trillion ($30 billion) were comparable to those held on the balance sheet of Lehman Brothers in 2008.[3]

Despite the bank failure, deflation did not suddenly spiral out of control. The lesson from Japan, then, is not that deflation devastates economies, but rather that even if a central bank can stave off a monetary disturbance, it has little impact on “real” factors in the economy. Faced with a shrinking population and structurally underutilized labor markets, the factors driving consumer goods price deflation in Japan are beyond the control of a central bank.

Central Bankers around the developed world
debate the danger
of historically low levels of Inflation

DON’T FEAR DEFLATION, DON’T FEAR PROGRESS

Financial writer Jim Grant recently opined that, “Deflation is a word for progress - and central banks seek to forestall progress.” We think that critique is a bit too harsh. While deflation does represent progress, central banks misdiagnose deflationary pressures as signs of economic distress or even depression (Japan).

However, it is important to distinguish between good periods of deflation, driven by productivity growth and supply shocks, and bad deflation, induced by monetary distress caused by financial crisis.

Failing to do so can have significant consequences. Never more so than today, as central bankers around the developed world debate the danger of (and the appropriate policy response to) historically low levels of inflation. As you may have guessed by now, none want falling price levels.

Janet Yellen recently opined, “a persistent bout of very low inflation carries other risks as well. With the federal funds rate currently near its lower limit, lower inflation translates into a higher real value for the federal funds rate, limiting the capacity of monetary policy to support the economy.”[4]

In our present environment, the passionate dedication to preventing even a period of low inflation, let alone deflation, will prompt further unconventional policy measures from the world’s central banks in the years ahead.

SOURCES:

1 Christine Lagarde, managing director of the International Monetary Fund, in a speech Jan. 15, 2014, to the National Press Club in Washington, D.C.

2 Michael D. Bordo and Andrew Filardo, “Deflation and Monetary Policy in Historical Perspective: Remembering The Past or Being Condemned to Repeat It?” Working Paper 10833. October 2004.

3 Masaaki Shirakawa. “Is Inflation (or deflation) “always and everywhere” a monetary phenomenon? My intellectual journey in central banking.” BIS Papers No. 77.

4 Janet Yellen. “Monetary Policy and the Economic Recovery.” Speech at the Economic Club of New York. April 16, 2014.

IAFEI News **June 28, 2014**

Election on February 20, 2014, of IAFEI Officer
Area President the Americas, for 2014:

Mr. Juan Alfredo Ortega, of IMEF-Mexico

New IAFEI Member Institutes, June 26, 2014
The IAFEI Board of Directors approved the application for IAFEI membership of the financial executives institutes from

Greece: HIFM, Hellenistic Institute of Financial Management
Russia: RCFD, Russian Club of Financial Directors

Both institutes are new IAFEI Member Institutes with immediate effect.

DFCG, the French member institute of IAFEI, celebrated
its 50 th Anniversary in Paris, France, on June 26 and 27, 2014
The celebrations were attended by representatives of several IAFEI member institutes

IAFEI Executive Committee Meeting, Manila, The Philippines, October 15, 2014

IAFEI Board of Directors Meeting, Manila, The Philippines, October 15, 2014

44th IAFEI World Congress 2014, Manila, The Philippines, October 15 to 17, 2014

Hosting IAFEI member institute will be the Financial Executives Institute of the Philippines, FINEX

45th IAFEI World Congress, 2015, Milano, Italy, October 15 to 17, 2015

Hosting IAFEI member institute will be the Financial Executives Institute of Italy, ANDAF