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January 31, 2010, corrected for omission of part of one article, www.iafei.org

IAFEI Quarterly, Ninth Issue, January 31, 2010

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Letter of the Editor

January 31, 2010

Dear Financial Executive,

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

The worldwide financial crisis continues to taper off, and many of the economies in Europe and North America are back again in a growth mode, though modestly. Whereas in other parts of the world like China signs of overheating are emerging here and there. Overall, 2010 is going to be a better year for the world than the previous year.

Yet, much still has to be done in the financial arena in terms of setting up a new framework of regulation and supervision, in order to avoid, in the future, mega financial crises like the one of 2008 to 2009. Governments, central banks, the G 20, the International Monetary Fund, the Bank for International Settlements, but also universities and the public at large, keep making proposals, of how to make the financial arena a better and solidly safe system, for the benefit of people and the world economies.

There is very widespread recognition that national solutions, alone, will not work in a globalized world of ever increasing interdependence. The necessary process of building worldwide, ideally uniform, regulations and supervisions is without precedence, historically, and therefore progress in this field takes place much slower, than desired by the victims of this past crisis. However, the timetables of the authorities are set for the present year, to cope with this huge effort, and all of us do take notice of developments almost every day.

The stock markets worldwide continue to bet on a lasting recovery of the economies, respectively on a continuation of economic booms in the blessed countries where such booms take place. For the bond markets chances of rising interest rates slowly keep getting closer, with no clarity, yet, about the timing.

Together, we go into a new year full of challenges, particularly for the financial executives, in company terms, in financial market terms, and in macroeconomic terms.

May, in this situation, the networking opportunities of IAFEI serve us well.

With best personal regards

Helmut Schnabel

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

Deutsche Bank

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starting 2009

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

Interview: SODEXO, Siân Herbert-Jones, "CFO of the Year", France, 2009

Interview provided by the French IAFEI Member Institute, DFCG

In December, 2009, in Paris, France, on the occasion of the annual French CFO conference "FINANCIUM", Missis Siân Herbert-Jones, Chief Financial Officer of SODEXO Group, was elected " CFO of the Year ", in France, for 2009.

We attach the interview, given on this occasion, by Missis Siân Herbert-Jones, and taken from the DFCG publication "Échanges".

See next page.

Échanges

December 1, 2009

ACQUISITIONS, DEVELOPMENT OF PUBLIC-PRIVATE PARTNERSHIPS ...SODEXO'S FINANCIAL MANAGEMENT TEAM LED BY SIÂN HERBERT-JONES IS A TRUE STRATEGIC PARTNER IN DEVELOPING BUSINESS FOR THIS GLOBAL EXPERT IN SERVICES THAT IMPROVE THE QUALITY OF LIFE.

"Lose not a single client or a single key manager"

Siân HERBERT-JONES,
Chief Financial Officer, Sodexo

Career

- 2003 to present: Chief Financial Officer, Sodexo
  Executive Committee member
- 1998 - 2000: Director of Financing and Treasurer, Sodexo
- 1995 - 1998: Head of International Development, Sodexo
- 1993 - 1995: Director, Mergers and Acquisitions, Price Waterhouse Corporate Finance, Paris
- 1983 - 1993: Price Waterhouse, Corporate Finance, London
- 1980 - 1983: Price Waterhouse, Audit, London (2 yrs), Brussels (1 yr)

Key figures

- Sodexo (as of August 31, 2009)
- 380,000 employees
- 132 nationalities
- 33,900 sites in 80 countries
- More than 350 subsidiaries
- 14.7 billion euro in revenues

Echanges: What are the key factors in Sodexo's success?

SIÂN HERBERT-JONES: Sodexo is actually a Group that has had very strong growth. With 380,000 employees, it is present in 80 countries and generated 14.7 billion euro in revenues in Fiscal 2009. Our profession is to propose comprehensive solutions, whether On-site Service Solutions (foodservices or facilities management) or Motivation Solutions (service vouchers and cards). We are very client-focused. 98% of our employees are in direct contact with consumers on over 33,900 sites around the world. We serve more than 50 million people every day! This proximity implies a strong decentralization of operational decision-making. Our success also is based on our expertise in engaging people, as well as in their recruitment and training: one of our major assets is our human capital! In addition, we have a culture that is very much oriented toward growth. Team spirit, service spirit and the spirit of progress are truly our DNA. Finally, the success of our financial model is based on an activity with both low capital intensity and a negative working capital model. Ensuring regular cash flow is a responsibility shared by everyone, financial and operational managers. Conversely, decisions on debt are not delegated. It balances the strong autonomy provided to the field on many subjects.

How do you succeed in adapting to different local cultures?

More than 130 nationalities are represented throughout the Group. In France, we are French and in the United States, Americans. Almost all employees of our subsidiaries are local staff. Our values are at the same time both simple and powerful and it is why our teams adhere to them easily. In joining us, we also offer them opportunities to develop, in keeping with our commitment to act as a springboard for their personal and professional development. With the density of our international network and the diversity of our teams, we have developed a true know-how in terms of integration. This enabled us in acquiring RKHS in India, to re-group two entities into one, which today includes over 30,000 people. In addition, Sodexo's brand was accepted very quickly by the employees even with the very strong local reputation of the former company's brand. Moreover, for each development operation, we always set two objectives: lose not a single client, lose not a single employee.

What has been the impact of the crisis on Sodexo's activity?

We are number 1 worldwide in the Health Care, Seniors, Education and Defense client segments which were less affected by the crisis. It was the Corporate segment that was the most affected, reflecting reductions in discretionary spending by our clients and decreases in their workforces. On a geographical basis, the region most affected was Central Europe, where our client portfolio is dominated by industrial companies. On the other hand, in most of the emerging market countries, our growth remains satisfactory. As expected, and like others, we have seen longer payment periods on the part of our clients. Fortunately, we are very conscious in tracking cash flows, a reality since Sodexo's founding, and this has enabled us to react very quickly. Our policy regarding cash placements has always been very stringent and careful. At the same time, we have reviewed more frequently our compensation risks with our banks. Thus, the crisis also was an opportunity to improve our processes. We also implemented a cost reduction plan that yielded savings beyond our original objective. In addition, we were able to anticipate the refinancing of the Group's long-term debt. Our debt was based on two bond issues of 13 billion euro maturing in March 2009. In August 2008, I organized a private placement with U.S. investors (USPP) and, in the first week of January 2009, I succeeded with my teams with a bond issuance that, in spite of the crisis, was underwritten seven-fold. In total, we have lowered the Group's average financing costs and extended the average maturity of the debt.

How is the Finance function organized within the Group?

There are about 2,000 people in Sodexo's Finance function worldwide. The Group Finance department comprises 65 people, involved in the typical functions: Reporting-Consolidation (combined in the same team), Mergers-Acquisitions, Group Tax, Administrative Cost, Group Treasury and Finance, Legal, Investor Relations and Internal Control. Eleven finance directors specializing in an activity, a zone or a large country report to me functionally. Finance is a department in which international mobility is among the strongest. Thus, the Group Finance management team includes ten different nationalities. Career opportunities in operations also are possible. For example, in the U.S., a Finance manager recently was put in charge of responses to tender offers.

Our financial reporting is based on a single tool (HFM). For non-financial reporting, we deployed this year a new ERP system called "Sunrise," accessible to 1,000 of the Group's top managers. Within the countries, we select the information management system depending on the activity and size of the subsidiary. And, sometimes during acquisitions, if we find that the management system of the acquired subsidiary performs well, we don't hesitate to adopt it in other Group entities. This was the case with multiple management systems of Zehnacker in Germany.

Internal control is also part of my perimeter. A very structured approach (the CLEAR Program) was launched in 2004. Implementation was phased in and was facilitated by the Sarbanes-Oxley financial securities law and calendar. Thus, Sodexo was the first European group to have obtained SOX Section 404 certification. Our internal controls today provide us with a good command of operational risks and we adapt them to each local situation. Our subsidiaries are required to identify annually their fifteen major risks, the control level for each risk and the action plans to reduce them. Audits are conducted both by an internal team of auditors and local auditors, as appropriate.

How do you organize your acquisitions? "

In 2005, Sodexo set as our ambition to double in size over the next 10 years. To date, the Group's growth is in line with this objective. We seek not to diversify, but rather to remain coherent with our original business. Our growth is primarily organic. For example, we have recently taken over the Facilities Management services for KLM at the Amsterdam airport. Before anything else, we analyzed the culture and the quality of the teams of the target company; the key question is whether there will be compatibility with our own teams. I personally worked a lot in mergers and acquisitions prior to joining Sodexo: I have never seen a Group that performs such a stringent level or human resource due diligence. Only once this is validated are the traditional financial criteria of payback and return on capital employed considered. Among the recent acquisitions are Score, which allowed us to strengthen our leadership in foodservices in France. We knew the target and the market very well. We were able to close the operation in three weeks by mobilizing a team of 30 people. The acquisition of RKHS in India also is a positive story. We had to adapt our negotiating strategy to local traditions. For example, I learned that certain days of the week are not conducive to discussing some subjects!

Public-private partnership contracts are a priority for the Group. How is the Finance Director involved?

The origin of the public-private partnership (PPP) is British. The State faced deficits and needed to outsource prisons, hospitals and military bases. We have deployed our knowledge which includes achieving - on behalf of the State – the financing, design, construction and operation of these sites. The duration of these contracts is therefore necessarily long, about 25 to 30 years. Each project is very complex and includes negotiations with banks, financial engineering, risk allocation and contracts with suppliers. The work of the finance department is key. We manage 17 PPP contracts in the UK and Chile. We are in the process of setting up a major project with the British Defence Ministry involving the building and management over a 30-year period of a training site for all of the military. In France, the PPP approach has already begun. The "French Pentagon" project in Paris is within this framework.

You are Welsh. Has it been difficult to adapt to a Group based in France?

Not really. My father was a diplomat, so I grew up in a multicultural environment. In addition, the Group is very international and very diverse, so I've fully found my place here.

What do you like most about your profession?

Diversity, in every sense of the term. I am in regular contact with many countries, many cultures and a variety of subjects. There is always something new and passionate that allows me to contribute continuously to the Group's development and to move forward with my teams."

Article:

Facing up to the Changing Regulatory Landscape

Author: Werner Steinmueller, Deutsche Bank, Head of Global Transaction Banking

With economies beginning to emerge from the downturn, transaction banking practitioners and their clients are dealing with the challenge of unprecedented regulatory changes, says Werner Steinmueller, Deutsche Bank's Head of Global Transaction Banking

As we begin to emerge from the economic downturn, many corporates and financial institutions are beginning to face up to another raft of challenges: a changing regulatory landscape and growing financial harmonization. Indeed, the transaction banking landscape – especially in Europe – is currently undergoing an unprecedented level of change that will profoundly affect both service providers and their clients.

One issue that transaction banking practitioners have been facing for some time is how to continue expanding their business in the face of regulatory changes that are demanding increasing levels of investment. While an initiative such as the Single Euro Payments Area (SEPA) certainly promises much in terms of efficiency gains and cost savings, the short-term reality for many is that achieving full compliance within the necessary time-frame is proving problematic. And this is leading to some tough decisions among providers regarding whether to continue building systems in-house or to outsource certain aspects of their provision to more specialist providers – a theme that emerges again and again across various transaction banking practice areas.

Indeed, a combination of increased costs due to regulatory initiatives – such as SEPA and the Payments Services Directive (PSD) – and tougher competition due to the opening up of payment markets to non-banks have impacted margins in transaction banking. As a result, many institutions will be forced to outsource this provision to larger providers that have the size and scale to maintain profitability in this space. While this scenario has been developing for some time, the impact of the financial crisis on profitability and investment budgets may well have brought the situation to a head for those worst hit.

SEPA

The SEPA project has now reached a critical stage, with the official launch of the SEPA Direct Debit (SDD) having taken place on November 2nd of this year. However, while this launch has been eagerly anticipated, the key date will come a year later – in November 2010 – as this is when it will become obligatory for banks to be able to act as debtor on SDD business-to-consumer (B2C) transactions.

The B2C Direct Debit is only one aspect of the SDD, the other being the B2B scheme that will only be used between corporates. While the two schemes operate on identical principles and use the same technical infrastructure, the key difference between the two lies in the finality of the payment after processing. With the B2C scheme, the payment can be returned by the debtor for a period of up to eight weeks after debit, while the B2B is non-refundable. This is due to the consumer protection aspect of the PSD that prohibits non-refundable direct debits in the consumer space. The B2C SDD also provides other features designed to increase security such as the capability to selectively block or limit debits to certain creditors.

While B2C Direct Debit schemes exist already in all European countries, the SDD will allow this functionality to take place across borders and on similar terms to domestic transactions. And in many European jurisdictions there was previously no specific B2B system for Direct Debits at all, so the SDD will provide opportunities for corporates to further streamline their collection processes with trading partners.

One area of contention surrounding the latest stage of SEPA has been the issue of interchange fees – something that has led some countries, such as France, to delay the introduction of the SDD. While this issue has now been resolved by European Commission, the period of uncertainty has meant that the French banking community has stated they will only be working towards the mandatory November 2010 deadline. Despite this, other banks operating in France will be ready sooner and Deutsche Bank's French subsidiary will be among those able to handle SDDs much earlier than November 2010.

The issues surrounding interchange fees are indicative of the fact that the technical requirements of the SDD are much more exacting than the previous stage in the initiative, the SEPA Credit Transfer (SCT). Indeed, there are many banks across Europe that will need more time to prepare, and are therefore setting their sights on the mandatory November 2010 deadline rather than the earlier date. Thankfully, the European Payments Council (EPC) are providing transparency on this issue and will soon publish lists of which banks have achieved SDD reachability.

While the PSD is integral to the success of SEPA, its scope is much more extensive, affecting all payments instruments and all financial services providers across the EU. The pricing and reporting requirements contained within the directive are likely to have a substantial impact on bank revenues, accelerating the trend towards consolidation in the transaction space and leading to many smaller banks outsourcing this provision to specialist providers.

We have recently seen the PSD implemented into the national law of all EU member states, yet the setting of an end date for the coexistence of legacy payment schemes with the associated SEPA initiative has yet to be decided on. This may well be hindering migration to the new SEPA instruments as the setting of an end date would provide a strong impetus for financial institutions and corporates to move away from legacy systems. And retaining parallel sets of infrastructure – something that could go on for some time if an end date is not set by regulators – could also prove costly, with the investments made in maintaining legacy systems yielding little future benefit.

SWIFT Connectivity

SWIFT connectivity for corporates is another area of interest for transaction banking practitioners, treasurers, and others. While in the early days of SWIFT for corporates, it was mainly the larger multi-national companies – with the most complex connectivity needs – that were attracted to the scheme, this has now broadened to include a much wider range of organizations. Indeed, with SWIFT connectivity becoming much more established in the corporate community, attention is increasingly turning to expanding the functionality available to corporates and increasing automation in order to boost efficiency.

As well as improving the service for existing corporate users of SWIFT, the eligibility criteria for the Standardized Corporate Environment (SCORE) were recently extended to make SWIFT membership easier for mid-sized corporates and those in emerging regions without becoming a member of a Member Administered - Closed User Group (MA-CUG) – a system where corporates leverage the SWIFT platform of a member bank. Changes such as these are part of a broader movement towards realizing SWIFT's full potential. Indeed, when corporate-to-corporate traffic becomes feasible – thus enabling supplier-to-customer communications – the potential for driving further efficiencies from cash management arrangements and the financial supply chain will be enormous.

Global Transaction Banking

With all this uncertainty, one thing remains a given – Deutsche Bank's commitment to this complex area of banking. Indeed, throughout the crisis and subsequent downturn, we have remained in a strong position. The Global Transaction Banking (GTB) brand has remained intact throughout and we continue to invest in technology, product innovation and in expanding our global footprint. Maintaining stability and continuing to innovate during the hard times is key to delivering a best-in-class service to clients and ensuring that they emerge well-positioned to take full advantage of economic recovery.

We also remain dedicated to assisting other financial institutions by being the partner of choice for cash management and transaction services. Deutsche Bank has invested heavily in building new technology and infrastructure with an eye to offering other institutions – and their clients – the ability to benefit from market-leading functionality and service levels.

Article: Liquidity Comes at a Price

Sound Crisis Management Starts before the Crisis

(by Klaus Kühn, Chief Financial Officer of Bayer Group)
Article provided by the German IAFEI Member Institute, Gefiu

In order to safeguard liquidity and flexibility within the financial crisis, the Bayer Group has deliberately paid "certain insurance premiums" at the capital markets. As an example, Klaus Kühn, chief financial officer of Bayer Group, highlighted during his speech at the Luxemburg Financial Market Forum (organized by Börsenzeitung and Deutsche Bank) the 1.3 Million Euro bond issued in March 2009.

Due to the timing in March 2009, the company had to pay 190 basis points above bench, whereas in normal times Bayer would have paid only 50 to 60 basispoints. As the bond has a coupon of 4,625 percent (then issue price of 99,4 percent) and the company's cash of 2,6 billion Euros can safely be invested only at 1 percent return presently, the liquidity cushion created by the bond issue comes at a cost of 50 million Euros per annum.

In his presentation about corporate financing in critical times, Kühn pointed to the fact that the financing strategy inherently must be linked to the business as well as the risk strategy. "Sound crisis management therefore starts before the crisis", said Kühn.

It has to consider, amongst others, product risks and acquisition risks as well as country risks. For Bayer, the highest country risk is linked to the US due to potential product liability litigations against pharmaceutical companies. As chief financial officer of Bayer, Kühn has experienced these risks by himself, whether it was the LipoBay withdrawal, the Cipro patent dispute, or litigation in connection with the acquisition of the Aventis CropScience business and others.

As of September 30, 2009, Bayer's financial debt amounted to 13.3 billion Euros versus liquid assets of 2.6 billion Euros. However, the company still has significant leeway on the debt side since neither the commercial paper programm, nor a credit facility of 3.5 billion Euros has been drawn down so far.

Kühn's financing strategy for Bayer consists of a balanced mix of equity and debt, of divestments as well as strict management of the working capital. This approach has always supported the strategic objective of an "A-Rating". Prerequisite for this is, apart from financial ratios, the proactive communication with the capital markets, especially with the rating agencies. Kühn considers it of greatest importance not to surprise anybody in the capital markets.

Bayer's key messages to the capital markets comprise, aside from maintaining the "A-Rating", not to buy back shares as well as to refrain from major debt-financed acquisitions during the critical year 2009.

The foreign exchange risk of Bayer is reflected in its financing structure which follows the sales structure of the company. Accordingly, 55 percent of the financing is in Euro, 23 percent in US dollar, each 9 percent in Yen and in Yuan, and 4 percent are diversified over other currencies. This means, according to Kühn, that a change in value of the Euro by 1 percent (compared to the remaining currencies) results into a change of around 50 million Euros in net debt. Since beginning of 2009, the Bayer currency basket has appreciated by around 5 percent compared to the Euro, leading to a negative currency effect of around 250 million Euros.

As a reaction to the financial crisis, Bayer has also examined banking limits, default risks, and has introduced criteria of creditworthiness into the risk analysis of corporate financing. In addition, intervals for controlling and also for stress tests have been shortened significantly.

Furthermore, Bayer pays particular attention to the management of financing maturities. The company foresees no major refinancing in 2009 and in 2010, and larger amounts will expire only in 2011 and 2012 (1.9 and 2.3 billion Euros respectively).

Overview: Debt Management at Bayer Group

Diversification by Financing Instruments, Volume in Billion Euros

Hybrid bond	***1,3***
European Medium term Notes	***6,0***
US – bonds	***0,4***
Debt Obligation "Schuldschein"	***0,6***
Syndicated Loan (Schering acqu.)	***1,3***
Bank liabilities	***2,8***
ABS, commercial paper	***not drawn down***
Leasing	***0,6***
Other financial instruments, net	***0,3***
3,5 billion Euros revolving credit line	***not drawn down***

Cash Position: **2,6 billion Euros**

Total Net Debt: **10,7 billion Euros**

Quoted from Börsen-Zeitung, November 6, 2009, translated by Helmut Schnabel

Article:

Would a VAT Work in the U.S. … *Now* ?

Article provided and authorized jointly by

Financial Executives International, FEI, of USA

French IAFEI Member Institute, DFCG

See next page.

Would a VAT Work in the U.S. ... *Now?*

Back in 1991, James P. Bryant, vice president and director of Corporate Taxes for J.C. Penny Co., wrote in *Financial Executive*: "For over 20 years, I have participated in the debate on a federal value-added tax (VAT) and its viability as the answer to our nation's tax policy woes. Changes in our national and world economies in the late 1980s encouraged the proponents of a VAT to mount yet another charge for the adoption of such a system.

"But I remain resolute: a VAT will not cure the budget and tax ills plaguing this country."

Here in 2009 there are again rumblings of a VAT to help solve the nation's spending shortfall problems. Indeed, as noted in an Oct. 8 editorial in *The Wall Street Journal*, House Speaker Nancy Pelosi (D-Calif.) was quoted as saying, (when speaking with PBS's Charlie Rose): "Somewhere along the way, a value-added tax plays into this," when referring to the rising possibility of broader tax reform. "Of course, we want to take down the health-care cost, that's one part of it. But in the scheme of things, I think it's fair to look at a value-added tax as well," she added.

One of the simplest and most efficient systems of taxation ever devised, the VAT is, at its core, a consumption tax — but with a twist. It flows through the supply chain, adding to the national treasury as it

By Glenn A. Cheney

Europe does it. So do Japan, Mexico and Canada. Arguments for and against a value-added tax in the U.S. have been going on for more than 35 years. With more than 30 countries doing it, should the U.S. enact a VAT now?

"VAT is, in most cases, a neutral tax, it is often not a decisive issue for investors, whereas corporate taxes are more decisive. So replacing VAT with higher income tax rates is not as simple as it appears. It would generate strong and complex domestic and international competitiveness issues."

— Sabrina Grifat and Jacques Masseca, tax attorneys with the British law firm Eversheds LLP (in Paris)

goes, policing itself along the way and ultimately putting the tax burden on the consumer.

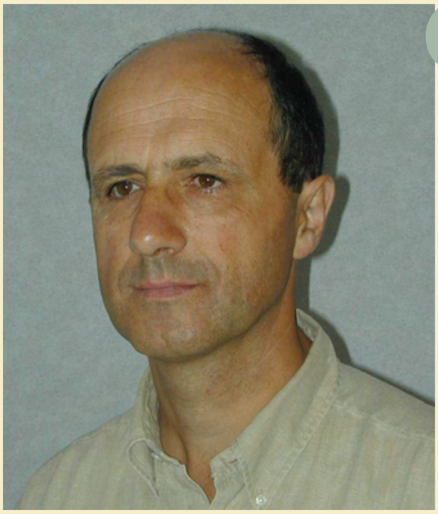
The most tantalizing temptation of a VAT is what it isn't. It isn't an income tax, it isn't a corporate tax and, theoretically, it could reduce or replace either or even both. It sounds simple, and the VAT has been a fixture in nations across the rest of the world for decades. Europe does it, Japan does it, Mexico and Canada do it. But it's also been the subject of ongoing debate within the United States for more than 35 years and past efforts to enact such a tax system have fallen short.

The VAT has been working quite well in Europe, according to Sabrina Grifat and Jacques Masseca, tax attorneys in Paris with the British law firm Eversheds LLP. Created by a French economist in 1954, the VAT system has been "a great success in France from the very beginning and is imposed on all business activities in the French economy," Grifat and Masseca say. "The VAT contributes a substantial share of the government's revenue (45 percent of French revenues) while remaining neutral for the economic participants."

The economic participants in a VAT system are all the companies in the supply chain, from providers of raw materials to retailers to the final consumer. Businesses collect the tax along the way, each being reimbursed by the next in line.

How it Works

Say the VAT is 10 percent. A manufacturer wants to be paid $1 for its widget, so it sells to a retailer for $1, plus a VAT of 10 cents. The manufacturer sends the dime to the government. The retailer wants to sell the widget for $1.50, so it sells to a consumer for $1.65 ($1.50 plus the 10-percent VAT). The retailer keeps 10 cents (reimbursement for the VAT paid to the manufacturer) and sends five cents to the government. Thus, at the time of the final sale, neither manufacturer nor retailer has lost anything to the VAT.



"VAT computation is integrated in the invoicing and purchasing process of companies and therefore is computerized at 98 percent."

— Jean-Luc Peyret, chair of the accounting and tax committee of the French Association Nationale des Directeurs Financiers et de Contrôle de Gestion

Why not simply charge the customer 10 percent and spare everyone else in the supply chain the trouble of charging a VAT? Because the higher the tax at the end of the line, the more likely retailers will simply not charge the tax or many would subvert the process. But when the tax is passed through (and recorded) at each stage of the supply chain, each participant has an incentive to seek reimbursement by taxing the next in line. Since the tax is incremental, at no point is it worth the risk of breaking the chain and selling without charging the tax. The risk of punishment outweighs the benefit of cheating.

Jean-Luc Peyret, chair of the accounting and tax committee of the French Association Nationale des Directeurs Financiers et de Contrôle de Gestion, reports that in Europe, VAT fraud is estimated at only 13 percent, where sales tax fraud in the U.S. is close to 40 percent. He also says that the accounting burden is lighter for VAT.

"VAT computation is integrated in the invoicing and purchasing process of companies and therefore is computerized at 98 percent," he says. "There is no cost [for taxation] to companies, and

"It's conceivable that a VAT could finance the lowering of corporate tax rates, substitute for raising personal income tax rates at the top or to take some people off the income tax roles."

— Eric Toder, Fellow, Tax Policy Center, Urban Institute

it is quite easy to handle from an administrative standpoint."

Disadvantages and Advantages

VAT is not without its disadvantages. Being a tax on consumption, it's a regressive tax, one that is disproportionately burdensome on the poor and middle class. The lower a person's income, the greater the proportion of that income that goes into products and services. The higher one's income, the greater the proportion that goes into savings and investment. In most countries, this disparity is alleviated through exemptions or a lower VAT on essentials such as food, clothing and medication, though this benefits the wealthy as well as the poor, necessitating taxes elsewhere to rise.

Another disadvantage, opponents say, is that while the income tax system can be used to manipulate the economy by inducing consumers and companies to move money one way or another, the VAT is less flexible. By its very nature, it discourages consumption while rewarding investment. Not that there's anything wrong with investment, but sometimes that's not what the economy needs. A VAT can be tweaked and tinkered with — and it's likely that the U.S. Congress would be sorely tempted to do just that.

Most European Union countries use multifaceted tax regimes that include income and corporate taxes, a wealth tax on luxury products, capital gains tax and a variety of local taxes. VAT rates vary, with a majority ranging between 25 percent in Sweden and Denmark and 15 percent in the United Kingdom and Luxembourg. Most have reduced VAT rates for certain essentials.

Proponents say a big advantage of a VAT is that it can help keep corporate taxes down. In Europe, most corporate taxes are well under 30 percent. While a little higher in France — 33.33 percent — that's still well below the U.S. where, at 39 percent, it is the second highest (after Japan) of the Organization for Economic Co-Operation and Development member countries and more than 10 percent higher than the OECD average. Europe's lower corporate tax rates attract business away from the U.S.

"Replacing a VAT with higher personal and corporate income taxes would have a negative effect on the competitiveness of a country because too much tax kills the tax," Grifat and Masseca say. "Moreover, as VAT is, in most cases, a neutral tax (with input VAT offset by output VAT), it is often not a decisive issue for investors, whereas corporate taxes are more decisive. So replacing VAT with higher income tax rates is not as simple as it appears. It would generate strong and complex domestic and international competitiveness issues."

The size and complexity of domestic and international corporate taxes are indeed a problem in the U.S. A VAT could well relieve some of those issues. It has been suggested that the country simply replace or reduce the corporate tax with a VAT. After all, the corporate tax raised only 12.6 percent of federal revenues in 2008, with about half that expected in 2009. Is the corporate tax worth the headaches, the business maneuvers and the drag on competitiveness?

A rather small VAT rate could easily replace the corporate tax, but Eric Toder, a fellow with the nonprofit, nonpartisan Urban Institute and Tax Policy Center, says that would not be advisable.

"We need a corporate income tax to backstop the income tax to keep people from accruing income tax [for] free in corporations," Toder says. "But it's conceivable that a VAT could finance the lowering of corporate tax rates, substitute for raising personal income tax rates at the top or to take some people off the income tax roles."

Toder says we also need the personal income tax. The VAT is impersonal, but an income tax can be varied for individuals in a variety of ways for a variety of reasons. One of those reasons could be to reverse the regressive effects of a VAT.

What Would the VAT Cover?

Raising revenues through a VAT is one thing; spending those revenues is another. Neither Toder nor the Tax Policy Center has a position on how to spend tax money, but Toder notes that if the federal deficit needs to be reduced — as it surely does — that slashing the budget would never suffice to reduce it to zero. Some argue higher taxes will be necessary and a VAT might be the best way to do it. It would avoid taxing corporations beyond competitiveness or taxing individuals to an excruciating level. But, in effect, wouldn't that just be adding another layer of taxation?

Clint Stretch, managing principal, Tax Policy for Deloitte Tax LLP, agrees that something needs to be done about the deficit. "Currently, the long-term budget projections for the United States are clearly unsustainable, and it's going to require a fairly significant reduction in spending in very painful areas, such as entitlements. I think it's ultimately going to require some additional revenue," Stretch says.

How much comes from revenue and how much from spending is a political question, he says. "We're looking at deficit projections within a decade of 4.5 or 5.5 percent of GDP. That would quickly bankrupt the country."

Though everyone's in favor of reducing the deficit, many are leery of the destination of new taxes. In a September op-ed piece in *The Wall Street Journal*, Martin Feldstein, a Harvard professor and former chairman of the Council of Economic Advisors under President Reagan, warned that "a VAT would open the door to an explosion of new spending programs. That's because no matter how low the initial rate, the tax rate would be drawn inevitably to European rates of more than 15 percent — on top of existing income and payroll taxes."

The political question of introducing Americans to a new tax is likely to make the debate over health-care reform look like a sandbox squabble. But maybe it's only a question of spin. Suggesting that a VAT could allow a reduction of the corporate income tax would surely meet fierce resistance. But a VAT to bolster Social Security or Medicare might find some support, especially if it replaced the onerous payroll tax.

Eliminating the payroll tax would relieve employers of a financial and bureaucratic burden, and it would put a little more pay in employees' pockets. It would also eliminate a point of common tax avoidance.

Stretch suggests a variation of the VAT — a business transfer tax. It's basically a VAT in which the collection process stops at the sale at the retailer. Up to that point, a VAT is relatively easy to collect and hard to avoid. Why go the extra step just to

tempt fraud and burden the smallest businesses?

"Politically, you'd only be taxing corporations (though of course it gets passed through to the consumer), and you wouldn't be trying to collect tax from hundreds of thousands of small retailers who have a demonstrated difficulty paying tax," Stretch says. "If you relieve them of the wage tax, the government would be freed from collecting that nonsense."

Leonard E. Burman, the Daniel Patrick Moynihan Chair in Public Policy at the Maxwell School of Syracuse University, would like to see a VAT exclusively dedicated to paying for all government health-care programs, including Medicare and Medicaid. He also sees economic responses that would benefit business.

"A VAT would be relatively efficient," Burman commented in *Tax Notes*. "It doesn't tax savings, it's relatively easy to administer and it would even serve as a stimulus. If you said that a VAT was going to take effect next year, you'd give consumers a powerful incentive to buy things now. If you phase it in over a couple of years, you can repeat that trick over and over again for a while.

"Over time, it would encourage saving, which is something desperately needed over the long run."

Columbia University law professor Michael Graetz, author of *One Hundred Million Unnecessary Returns – A Simple, Fair and Competitive Tax Plan*, has another appealing idea: Let a VAT of 10 to 14 percent lower the corporate tax to 15 to 20 percent,

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— Clint Stretch, Managing Principal, Tax Policy, Deloitt Tax LLP

eliminate the income tax for everyone who makes under $100,000 a year and lower rates for people in higher income brackets. The consequent economic growth, achieved through improved corporate competitiveness and a greater incentive to earn more, would ultimately leave the country better positioned to whittle down the deficit.

"We should be taxing consumption, not income," Graetz says. "The OECD has shown that a VAT is more conducive to economic growth. We should be in a position to have a tax system that finances our government and stimulates investment by foreigners and residents in the United States."

It would also eliminate a huge number of issues and problems that occur under the existing income taxes, he added.

VAT is working in many countries around the globe. So, to the question of whether it would work in the U.S.: The political implications are huge and complex, but so is the current American tax system. Back in 1991, serious consideration was given to instituting a VAT and was defeated.

Is it time now for a VAT?

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CFOs: Optimism on the Rise, Committed to Efficiency Post-Recession

– Few Plan to Continue Layoffs, but Half Have No Plans to Replace Eliminated Positions –

– Cost, Leadership Priorities, and Public Perception Driving Environmental Actions –

FLORHAM PARK, N.J. and NEW YORK, January 28, 2010 - As Chief Financial Officers emerge from the ups and downs of 2009 and shift to a new decade, they reveal a continued up-tick of optimism toward both the U.S. economy and their own companies. According to findings from the fourth quarter "CFO Outlook Survey" conducted by Financial Executives International (FEI) and Baruch College's Zicklin School of Business, CFOs are looking up, but remain committed to utilizing some of the important lessons learned during the downturn and keeping companies streamlined. Their views on staffing are mixed. In exploring what steps companies are currently taking toward environmental responsibility, the survey uncovered varying drivers behind those actions.

Following an eight quarter decline beginning in 2007, the CFO Optimism Index for the U.S. economy rose in the third quarter and continued that rise in the fourth, increasing from 54.20 in Q3 to 56.98 in Q4 2009. Similarly, CFOs' financial prospects for their own companies rose another three points to 67.09 over Q3's 64.10. Despite an improved overall outlook, U.S. economic growth remains at the top of list of CFOs' concerns (38% rank as their number one economic worry for 2010), and one quarter of CFOs (26%) cite consumer spending/demand as their top concern. Specific business challenges on CFOs' minds include competition (25%) and expense control (23%). With regard to a timeline for recovery, over one half of CFOs (58%) believe a U.S. economic recovery will be realized by the end of 2010; however, nearly one-quarter (22%) do not believe it will occur until the first half of 2011.

"The findings of our Q4 survey demonstrate that CFOs overall closed 2009 with a much improved sense of optimism that when it began, but they are realistic about the challenges that still lay ahead," said John Elliott, Dean of the Zicklin School of Business at Baruch College. "CFOs are indicating that they have learned lessons from the downturn and can face the coming year looking forward to the opportunities at hand."

Fewer Layoffs Planned, but Hesitancy to Re-hire

In the shadow of 2009's dismal unemployment rates, hiring prospects at respondents' companies show modest signs of buoyancy in 2010, with 44 percent reporting an anticipated increase in hiring at their companies. This joins the finding that the majority of CFOs (62%) indicated they do not plan any layoffs for the coming year. However, 27 percent admitted it is "too soon to determine" if they will conduct layoffs.

Retrospectively, three out of four CFOs (77%) indicated they were forced to cut back on staff during the course of the downturn. When those companies that had reduced staff were asked what they will do prior to rehiring new full-time employees, nearly half (49%) say they do not plan to replace the positions. In addition, at least one-fifth plan to reinstate overtime for existing employees (31%), hire part-time employees (23%), and/or make current part-time employees full time (21%) before rehiring new full-time employees. These facts put the positive hiring plans of 44 percent of CFO respondents in perspective.

CFOs to Increase Spending, Retain Efficiencies

While recent quarters' surveys painted a picture of unrelenting cutbacks, CFOs looking toward 2010 anticipate positive increases in a number of areas. Key areas of expected increases include:

- Net earnings expected to rise by 22 percent (more than double anticipated Q3 mean increase of 11%)
- Revenue anticipated to grow by 10 percent
- Capital spending expected to grow by 8.9% (compared with an increase of 1.1% in Q3)
- Technology spending anticipated to increase by 6.1 percent
- Inventory anticipated to increase by 2.5 percent (compared with Q3, where CFOs predicted reductions of -1.9%)
- Hiring expected to grow by 2.9 percent (up from 1.7% in Q3)
- Price of products expected to grow by 1.13 percent (up from the Q3 projected increase of 0.7%)

When CFOs were asked this quarter to identify areas for increases in 2010, marketing and advertising and business acquisitions were also top of mind, with 39 percent of CFOs planning to increase marketing and advertising and 33 percent of CFOs planning increases in business acquisitions. In addition, while 37 percent of CFOs reported they will cutback on executive perks, a small number of respondents remain (4%) who plan to increase executive perks in the coming year.

"The return to a place where CFOs are anticipating increased earnings and revenue provides encouragement that those companies that have endured the downturn are ready to come back strong," said Marie Hollein, CEO and President, Financial Executives International. "As far as the new normal is concerned, efficiency is the name of the game."

When asked what their organizations would continue to do as they begin to emerge from the recession, nearly nine out of ten CFOs reported that they would continue process efficiencies put into place during the downturn. Two-thirds (66%) said they will continue technological efficiencies, and one-third (34%) plan to continue the restructuring of their business.

CFOs Taking Steps to Be "Greener" but Debate Continues Over Regulation

As the global conversation on sustainability heats up, this quarter's survey examined what steps companies are taking to become more environmentally responsible, and why they may be taking them. The most frequent "green" action among respondents' companies is reducing energy consumption in company facilities (48%). This was followed by reducing waste in production and packaging (30%) and promoting incentives and initiatives encouraging customers to be "greener" (21%). Least popular initiatives were reduction of greenhouse gas emissions from factories and plants (6%), and supporting legislation on environmental issues (7%).

While few are actively supporting legislation on environmental issues, sentiment toward governmental regulation of environmental responsibility is split among CFOs. Though nearly half (49%) believe regulation a bad response, more than one-third (37%) support government incentives to spur innovation, 14 percent support limits on emissions, and 9 percent support cap and trade and other financial incentives.

Perhaps disappointingly, 28 percent of CFOs indicated that their companies are not taking any actions to make their companies more sustainable. With regard to those companies who are taking actions, the survey revealed a number of motivators. More than one-third cited cost efficiencies as the main driver, 31 percent refer to personal priorities of their leadership as the cause, 29 percent say enhancement of public perception is the reason, and 24 percent point to a desire to emerge as a committed leader in the industry.

Additional Findings:
Other topics examined in this quarter's survey included International Financial Reporting Standards (IFRS), CFOs' perceptions of Barack Obama's presidency nearly one year after his inauguration, and the impact of the SEC's enhanced disclosures on risk, compensation and corporate governance in annual reports. With regard to IFRS, an overwhelming majority of CFOs (80%) are confident that IFRS will be adopted, but do not know when. CFOs' perceptions of President Obama remain low, with 64 percent reporting their U.S. economic outlook has weakened since he took office.

Full survey results and historical data comparisons are available at www.cfosurveys.com or from Nicole Madison at Nicole.Madison@fd.com. The study is also available online at the Financial Executives Research Foundation bookstore and on the Baruch College home page at www.baruch.cuny.edu.

Overview of the Survey:
This quarter, the CFO Outlook Survey, conducted by Financial Executives International and Baruch College's Zicklin School of Business, interviewed 371 corporate CFOs electronically from January 2 – January 13. CFOs from both public and private companies and from a broad range of industries, revenues and geographic areas, including some off-shore companies, are represented. Survey respondents are members of Financial Executives International.

Financial Executives International has been conducting surveys gauging the country's economic outlook from the perspective of CFOs for more than 11 years.

About FEI
Financial Executives International (FEI) is the leading advocate for the views of corporate financial management. Its 15,000 members hold policy-making positions as chief financial officers, treasurers, and controllers. FEI enhances member professional development through peer networking, career planning services, conferences, publications, and special reports and research. Members participate in the activities of 85 chapters, 74 of which are in the United States and 11 in Canada.

Financial Executives Research Foundation (FERF) is the non-profit 501 (c)(3) research affiliate of FEI. FERF researchers identify key financial issues and develop impartial, timely research reports to FEI members and non-members alike, in a variety of publication formats.

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For more information, visit www.baruch.cuny.edu.

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Commentary:

Will Corporates be the Collateral Victim of Financial Regulation ?

By Olivier Brissaud, December 17, 2009. The commentary does only and exclusively reflect the writer`s personal ideas. Mr .Brissaud is Board Member for European Affairs of EACT, the European Association of Corporate Treasurers, and Chairman of ATEB, Association of Corporate Treasurers in Belgium

Both in the USA and on this side of the Atlantic Ocean, politicians are going out of their way to prove to their electorate that they have learnt the lessons from the financial crisis and that it would never happen again (in this way...).

Now that they have taken a number of measures which are completely unfocused, overly timid or pointless (fiscal shelters, traders' bonuses, supervision of financial systems or rating agencies) they might well end up achieving the exact opposite of what they should have been after (regulation of derivatives and reshaping of Basel II), had they been serious about preventing another financial crisis in the years to come.

Let’s put this straight: The action of small states whose survival depends on their ability to attract monies from abroad has certainly not been at the origin of the financial crisis, nor has it compounded its effect. But our politicians gladly availed themselves of the opportunity to lure back some funds that escaped taxation at home. Some of these monies will be used to finance the recovery of the banking system...fair enough? Some may say so and part of their electorate may rejoice. Still, as this was obviously considered to be the most urgent political priority, one might have wondered about the consistency of the steps to come, and rightly so....

Because, what came next? In search of a culprit to point a finger at, our politicians thought credit rating agencies would do nicely as scapegoats. You may indeed wonder why some special purpose vehicles, filled with junk mortgage loans, were rated as if they were riskless.....despite extremely juicy returns offered to investors. Common sense should have prevented investing in such opaque instruments, not bad ratings! This being said, the real issue is an evident conflict of interest rather than credit rating agencies using a flawed methodology - it is very difficult to seriously challenge the intrinsic quality of analysts, and opening the profession to further competition may well result in worsening the quality of the overall output.

Actually, the real issue is the business model itself, whereby the issuer pays the rating agency for issuing an “opinion” on the likelihood of the debtor to default. The expertise should be paid for by the investor and not by the issuer - but although this is visible to the naked eye, nobody seemed to care. Instead, registration, supervision and check of methodology were chosen as the easy way out.

Alas, powerful financial institutions will invariably be in a favourable position to press a rating agency to accept “a slightly different approach to risk for this specific asset”, particularly if there are new entrants that will have to fight to find their place in the picture....and here we go again. Your suggestion is not feasible, I hear you say; how would the rating agencies collect fees from millions of individual investors? This is a tricky question, admittedly, but dodging it is a major mistake. I remember a situation in the late 80's when holders of petrodollars founded IBCA in London and hired analysts from banks and rating agencies to give them advice. The clients were the shareholders. Where there is a will there is a way, provided you really want to look for it.

Now, what about a more stringent, fitter and more resilient supervision of the financial markets? Dream on... National supervisors that clearly failed to recognise the crisis to come - or worse, did not dare alert the authorities - are still fighting to resist a properly organised oversight which would have to operate at European level, at least.

Financial markets do not recognise national boundaries or sector separation: the bank insurance model that allows shifting risks from one activity to another around the globe within seconds should be supervised by a common institution to banking and insurance. Well, nothing has been achieved at all in that direction. Fragmentation of oversight is still there, because of fiscal sovereignty, they say. All of this is highly unwise; these national contraptions will not survive the next bubble, and tax payers will soon have to come to the rescue of the financial sector again.

The last proof of the poor performance of our politicians in trying to take action to prevent the next serious crisis is the way in which traders' bonuses are handled; what we see is once again fiddling with symptoms rather than curing the underlying disease. Traders are instructed to generate short term profit (and are rewarded accordingly, which is fair enough). Do not blame the traders; blame the institutions for fuelling unsustainable growth and faking wealth, and perhaps also the greedy shareholders that expect management to deliver 20% ROE year on year on year.... but hang on, who are these shareholders? Isn't it us, the tax payers, in this day and age?

Well, let's relax and wait for the next financial crises, which hopefully will come quickly enough to prevent oblivion, because you can't get rid of greed, can you (Mahatma Gandhi said that there is enough on earth for everybody's needs but not for everybody's greed...).

But before we get there there is worse to come. As if it were not enough that our politicians are incapable of taking bold measures - now they are missing the target even more by planning to regulate the derivatives market through a "one size fits all" approach. Credit Derivative Swaps (CDS) have indeed fuelled the crisis; you may wonder whether this would have been as dramatic had the US administration prevented Lehman from going bust, but that is a moot point.

The CDS market is an opaque one and ought to be reorganised, without any doubt. The equity linked swaps market could probably also do with a serious clean-up. But can anyone please tell me how you would reduce systemic risks by pushing the foreign exchange, the interest rate and the commodities markets (the only markets used by corporates to hedge their risks) towards a *central clearing counterpart* (CCP) model or towards exchanges? One might even argue that creating a single point of failure will increase the risk; you will be hard put to find any convincing evidence in literature.

Once again it is not the instrument as such that creates a risk but the way you use it. Corporates have never used CDSs and equity linked derivatives: only banks and hedge funds did. By concentrating the risks you might well trigger a number of additional unintended effects as a consequence of corporates changing their attitude towards risk management.

Let me explain. Banks will be incentivised (through capital adequacy rules) to go towards CCP and exchanges to clear the derivative business; they will pass on the initial costs of change to the users of all derivatives, thus including users of forex, interest rates and commodities instruments. Additionally, as banks will have to post collateral with CCPs and exchanges as well as margining, they will have to extend additional credit lines to their corporate customers to reflect the cost of their collateral/margins; but will they do so? Their appetite for corporate lending has been shrinking continuously for years. More subtly: The incentives given to banks to use CCPs and exchanges will push for standardised contracts and will induce the disappearance of an effective OTC market (bilateral market) which corporates need to hedge non standard positions and qualify for hedge accounting.

This leaves the corporate customer who needs to cover his risks - non standard by definition as it is derived from his normal industrial activity - with an additional problem: Hedging will not only be more expensive but will become dependent on the management of an additional risk which is the liquidity risk! Although some say that corporates are not good at managing their counterparty risks, they will most certainly be even worse at managing liquidity risk as this is not within their reach. Who can force an unwilling bank to extend additional credit lines unless you pay a significant premium for them? Corporates have no access to central bank monies.

And now we come to the real dilemma: If the hedge of an exposure does not qualify for hedge accounting to offset the risk from P/L; if hedging is additionally more complex (margining) and expensive....then corporates may well decide to keep more risks in their books, particularly SMEs, increasing by so doing the volatility of the accounts. A carve out of some sort is thus absolutely necessary to avoid a huge step back in risk management processes in the corporate world.

Not to finish on too desperate a note: Hopefully we can rely on the wisdom of the Basel Committee to make sure that the revised rules do not miss the target as well by penalising the corporates. There is no doubt that procyclicality has to be stopped. Spain was very proud of the anticyclical measures which the financial regulator had successfully imposed upon the Spanish banks for many years. Although this did not prevent the housing bubble, their banks were obviously more resilient to absorb the shock than those in other European countries.

Sadly though, these anticyclical measures will discourage banks from entering into longer term commitments with their customers. Will this be yet another unintended consequence? The bottom line is that corporates will end up footing the bill for wrongdoers.

Commentary: The Chinese Crisis Management Must Adapt Itself

By Yu Yongding. He was member of the monetary committee of the People`s Bank of China, director of the Institute of World Economy and Politics of the Chinese Academy of Science, and president of the Chinese Society of World Economy.

The highest decision makers of China have recently agreed on a continuation of the expansive budget and monetary policy, which had been initiated at the end of 2008. However, one was also requesting to pay more attention to the course of the Chinese development as well as to the reconstitution of a balance of the economic structures.

This step, having been taken much earlier than in other countries, is signaling the exit of China out of certain economic strategies which had been determind by the crisis. Indeed, China should even accelerate its change of course. Although through the expansive policy the recession remained short, the longer term effects of such a policy give rise to concern

Overcapacities Increase

Firstly, the growth path of China by way of massive capital expenditure demand is becoming more problematic through the crisis management. China`s investment rate is extremely high compared to other important economies, whereby at first overheating and then overcapacities have been created. Until the global financial and economic crisis, starting in 2008, a strong export economy was overlaying this problem., which is now threatening to exacerbate. In the year 2009 the investment rate in China has possibly exceeded 50 percent.

Secondly, Chinas external disequilibriums could exacerbate.Before the global crisis, trade and export stood for 67 respectively 37 percent of the Chinese economic performance, but have since considerably decreased.. In spite of this, the dependance from the external demand remains practically unchanged, although the share of the net exports, in the growth, turned into negative territory. Indeed, the exacerbating problem of overcapacities as well as the many still existing price distortions, could induce Chinese firms to even further promote the production for exports into the USA, where protectionist tendencies will probably continue to intensify.

Thirdly, the financial stability and the budget situation of China could deteriorate in the medium term. The government, which is well aware of the problems of overcapacities, was putting the emphasis of the stimulating measures rather on capital expenditures into the infrastructure, and less into new factories. Infrastructure, however, is a longterm investment, and the returns from this are smaller without the accompanying investments in productive capacities.On an eight lane highway, there must be traffic, in order that there arises toll income..

In addition, the waste of ressources, because of hastened and insufficiently supervised execution of infrastructure projects, can take deplorable dimensions. The capital base has, after the lately available data, an ever lowering efficiency, from which a significant increase of non performing loans may be concluded.

Finally, the monetary policy is much to loose. Contrary to the USA, China was not suffering during the global financial crisis from a bottleneck of liquidity or a credit crunch. The explosive credit expansion in the first half of 2009 has therefore rather been caused by low interest rates and not market economy oriented interventions, but by the demand from corporations. Had one allowed to the commercial banks, to base their loan making decisions exclusively on the basis of business considerations, then the credti and money volume would have grown more slowly. Thus, one could have limited the danger of an increasing number of non performing loans, a deleted company reform, of inflationary pressures and the renewed arising of bubbles, in view of excessive liquidity in the stock markets and the real estate markets.

Indeed, the real estate prices in China have really leaped in recent months. The government was calibrating its aid for the revitalisation of real estate demand too generously.. Because of the fear from negative effects of falling real estate prices on the growth of the economy, one acted overcautiously with recurring bubbles.. After the residential real estate sector stands for 10 percent of GDP, , and capital expenditue into real estate development stood for 25 percent of all capital expenditure, it is becoming difficult, to contain the stongly increasing house prices.

Structural Problems Remain.

All in all, the negative effects of the crisis management of the Chines government for the longterm growth could become very problematic, if the authorities do nothing against the structural problems of the economy. It can also be stated, however, that the government is indeed conscious of the problems and has already started, to put structural changes at the top of the political agenda. In the current year, for example, , the government is striving for a stimulation of domestic demand by way of a better income distribution to the households as well as through a better providing of more public goods, in order to lower the savings of the households for retirement considerations. Without a more just distribution of income, the official commentaries of a “harmonious society” are sounding like shallow phrases.

In addition, the government should get away with price distortions through the creation of more flexible mechanisms, also with regard to exchange rates..

The Chinese government should not only reach out to a success in revitalising the economy, but it should also attack the Chinese structural problems, only whereby first a solid base for future growth could be laid.. In this regard, the Chinese have reason for optimism, because their country has repeatedly falsified, in the last three decades, forecasts of an economic fall and downturn.

Quoted from Börsen-Zeitung, January 23, 2010,. Translated by Helmut Schnabel

Study: Chief Financial Officers are Falling Fast and Deep

Study by Utz Schäffer, Professor for Controlling and Management at the WHU - Otto Beisheim School of Management, in Vallendar, nearby Koblenz, Germany

Chief financial officers are having an outstanding position in a board of management, especially in a crisis situation. Where one is looking, every day, at the development of numbers, there the head of the numbers is becoming the most important person after the chief executive officer. This close relationship to the chief can be a curse or a blessing. For Werner Wenning it was a blessing. The previous chief financial officer became the successor of his chief executive officer at Bayer AG. For his professional colleague Holger Härter at Porsche AG, the close relationship to his chief executive officer Wendelin Wedeking became a curse - he had to leave the company together with his boss.

The curse of a close relationship to the chief executive officer, however, is hitting hard even more often now. This is the finding of a study by Professor Utz Schäffer, who has researched 120 changes in the chief financial officer position at corporations making up the German joint stock corporation Dax family stock indices, in the years 1999 to 2006. It has there been proven, that especially in times of crisis the outstanding function of the chief financial officer, in special circumstances, has been a springboard into the top position of the chief executive officer, but has more often been an ejection chair into a career offsite.

When the chief financial officer has done his job well, he is allowed to become heir of the chief executive officer in his job - provided other prerequisites are being fulfilled. "A typical chief financial officer, who manages to ascend to the chief executive officer, used to work in the company since very long (35 years in the case of Wenning), thereby mostly in positions with operating responsibility, and he finally moves up, in the framework of a routinely planned successorship, into the chief executive officer position," summarizes Schäffer the conditions which must apply to make possible a further rise.

As important proves to be the routinely managed successorship. If the chief executive officer must go, then the chief financial officer mostly is being considered as burned. "In the researched position changes between 1999 and 2006, no chief financial officer achieved in such a situation to move to the top of the firm, contrary to internal managers from other business units", said Schäffer. Obviously, the chief financial officer, because of his close working relationship to the chief executive officer, after this one is fired, is not any longer regarded as independent. Almost half of the firings of chief financial officers occurred in close vicinity, timewise, to the firing of the respective chief executive officer. The firing of Porsche chief Wiedeking and his chief financial officer Holger Härter is therefore no exception. Things are getting especially tight for chief financial officers when they had assumed their office approximately at the same time as the chief executive officer, when this one falls into disgrace.

Chief financial officers must therefore be careful, not to get into the rapids of a tumbling chief executive officer. But they also have to pay attention to their numbers. Because bad results significantly increase the risk of being dismissed for a chief financial officer. " The supervisory board, and especially the chairman of the managing board, who must be afraid of himself getting fired in such a situation, can have a special incentive to work for personell changes in the board of management - and the chief financial officer obviously is lending himself for that," interprets Schäffer the results of the study. Adding to that is the belief, that chief financial officers can be exchanged easily, because they do not need special industry knowhow.

In line with that, in Dax and Mdax firms, about 40 percent of vacant chief financial officer positions are being staffed with successors from other industries, and in the case of chief executive officers this is only 10 percent. However, in this case, the chief financial officer has almost no chance to make it later into the chief executive position, because he is not coming from the same industry.

To the double risk of being dismissed, for chief financial officers, is adding the hopelessness and helplessness after having been fired. Not even every one out of ten (only 7 percent) dismissed chief financial officers of a listed joint stock corporation has found again a comparable position after one year.

The chief financial officer should therefore pay attention, to quitting himself early enough. Because in the cases of a voluntary quitting from the position, 80 percent of the chief financial officers again found an at least adequate position, the scientists from Vallendar have found out.

Quoted from Frankfurter Allgemeine Zeitung, November 18, 2009. Translated by Helmut Schnabel

Commentary, Germany: We Need a Regulation of Banks with Eyesight

By Manfred Weber, managing director of the Federal Association of German Banks

Politics and Supervisors are presently disussing many measures, which are meant to make the financial system more resistant. Many of the proposals aim at increasing the equity position of the banks, which in several cases makes sense. But the great challenge ist to rightly estimate the cumulative effect of the indivudual measures. Given the great number of proposals there is the risk that the view gets lost for the task in its totality.

At times, one must almost have the impression, that so far there exist no regulations at all for the equity position of the banking institutes - which is not the case. Since 1988, by way of Basel I, there have been worldwide clear regulations for the equity position of the banks, how much equity banks must be held available for default endangered businesses, socalled risk positions. For example, for each Euro of a loan to a non financial corporation, eight cent (eight percent) of equity have to held available.

With Basel II the evaluation of risk positions has been fine tuned in 2008. The higher the expected default risk of a loan was, the higher the risk weight of the individual invested single Euro was. The risk weight reaches from zero percent for safe loans up to 1250 percent for bsuinesses with extremely high default risk. At a risk weight of 150 percent, one Euro is evaluated at 1,50 Euro, the equity to be held available is then twelve cent.

When introducing Basel II, the regulators paid very much attention to that the accumulated equity position of the banks was brought up to a certain level. In addition, one agreed upon to not let the complexity of the changes get too great: The composition of the equity, and the equity portion to be held available per unit of risk, remained unchanged.

The presently discussed new formation of regulations in its principles and its effects goes far beyond those of Basel II. On the screen fo reevalauation, is the evaluation of risk positions, the accumulated equity position of the banks, the pricipal composition of the equity, and even the individually to be held available share of the different forms of equity.

At the numerous considerations of reform, it is therefore important to rightly evaluate the effects - especially also the acting together of individual measures. Which does not mean that the banking association is against a more far reaching regulation. Not at all. The financial system must be equipped with more equity, in order to make it more robust and in order to prevent future crises. Thus, the various risks which areembedded in the trading books and in the liquidity credit lines must be adequately evaluated. This does serve the stability of the financial system, and it is also in the interest of the banks. Further more, it is important, to eliminate weak point in the supervisory framework, like the socalled procyclicality.,

However, there should not be hastened actions. At the present, there is so much at the same time twisting on so many switching screws, that the effects are overlapping. So, the evaluation of the risks, for instance by way of the new regulations for the trading book positions and ever more discussed additional risk premiums for banks "relevant to the system", is considerably tightened up. At the same time, the introduction of a leverage ratio (of an equity position without risk weighting) leads to an overstating of risks from safe businesses such as state financings; risk are thus systematically overstated and eventually burdened with too high equity requirements. Other measures, like the restrictions at the recognition of equity instruments or the creation of anticyclical equity buffers as well as "forward looking depreciation" are decreasing the equity of the banks for supervision purposes.

As important and as right equity increasing measures basically are, in order to guarantee resistence against crises and the stability of the banks and the financial markets, without effects on the financing of the economy this will not be. Every regulation always has its price.

The joint objective must be, to set the regulations in such a way, and to position the banking system in such a way, that the financing of the corporations remains safeguarded. Only thereby growth and employment can be safeguarded. The planned measures must therefore be exactly screened as to their efficiency, concerted action and results. This cannot be done from today to tomorrow. Quality here must come first, before speed. In addition, one has to look at the right timing of the introduction against the background of the overall economic situation. An introduction in steps, of the new regulations, would also allow for an ongoing finetuning. In short: Necessary is a regulation with eyesight.

Quoted from Handelsblatt, December 10, 2009. Translated by Helmut Schnabel

News: In the Crisis, the Balance Sheet is Becoming a Mine Field

The critique of the international accounting standards is not tapering off.

Frankfurt, November29, 2009. The international accounting regulations IFRS are increasingly being criticized. Especially the fair value accounting of assets in the balance sheet as of the balance sheet day is being criticized ever more. “Without the fair value accounting, the financial and economic crisis would have never had happened so intensely and so quickly”, said the director of the Saarbrücken Center for Accounting and Auditing, Professor Karl-Heinz Küting at the 10th professional conference “Accounting in the Group” in Frankfurt on Main. He said he can see everywhere that the blind euphoria for fair value accounting has now been followed by a critical reflection. The IFRS regulations are mandatory in the European Union for publicly listed enterprises since 2005.

Only a few days ago, the Federal Association of German Leasing Corporations has accused the standard setters in London of acting like dictators. With professional arguments nothing is getting moving here, complained the president of the Association. The IASB is refusing to even discuss the over 300 filed critical opinions on the future accounting of leased assets at the lessee.

For Karl-Gerhard Eick, former chief financial officer of Deutsche Telecom and former CEO of Arcandaor AG, it is almost weekness of mind, to assume the volatility of markets into the balance sheet, as he said about the fair value concept in the accounting conference. And Norbert Pfitzer , president of the External Auditors Association, made it clear, that one should decide, about what financial statements should deliver. One can show the asset situation,as the Anglosaxons do wish it, or one can show the earnings situation, as is the case historically in Central Europe. “The fair value in the balance sheet leads to compromising the statement on the earnings situation.” Pfitzer was quoting Eugen Schmalenbach, who already in 1953 had pointed out that the asset situation and the earnings situation cannot be presented in a joint financial statement, because the valuation principles for both financial stements must be different.. Pfitzer therefore expressly welcomed that the legislator, when modernising the German HGB law by way of the accounting modernisation law BilMoG, becoming effective January 1, 2010, has abandoned the fair value valuation for all corporations. “The legislator has here demonstrated measure and backbone”, said Pfitzer.

The participants to the conference complained especially that the accountig is not resistent to crisis. “Even at the universities have we taught, for too long, a good weather business administration and accounting scheme,” complains Küting.

For Eick, a crisis does exist, when the company is in a situation where its existence is in danger. And such crises are coming up about every ten years, is his experience. In the crisis, the existence is conditional on securing the liquidity and the balance sheet valuation. There is though much talk about liquidity management and working capital. But hardly any corporation can make sure, “ that, even when cashflow stops, it has enough liquidity for 18 months.” This is the period, however, one has to be able to bridge, as the reluctance by the banks, to make loans, does last that long.

Eick was pointing out, that many loan covenants have clauses, that the loans can be cancelled just about then when the money is needed most urgently.. He was therefore asking to in the future extend the investors relations activities for the benefit of shareholders, beyond those, to the providers of debt capital, “ because in the crisis no shareholder gives you money, then you do need the banks.”

It is said to be as well necessary, to keep an eye on the often in good times neglected balance sheet, “ beause in the crisis the balance sheet is becoming a mine field. So the equity is just so melting down”, is his experience. “Equity is not there to be cashed out to the shareholders, as has been fashionable by way of share buyback programms before the crisis. “Equity has the purpose, to serve as a buffer in the crisis”. The former Arcandor Chief is even convinced that in the future more provisions will have to be made. In any case, it is important in good times to stresstest the balance sheet whether or not it is resistant to crisis with regard to every item.

Quoted from Frankfurter Allgemeine Zeitung, November 29, 2009. Translated by Helmut Schnabel

News: Three New European Agencies to Supervise Financial Markets

European Union Finance Ministers agree on a New Supervision

Brussels, December 2, 2009. A joint European financial supervision is getting closer. The European Union finance ministers have agreed in the meeting in Brussels on Wednesday, to create 3 new supervisory agencies for banks, insurance companies and securities markets, which will apply uniform regulations for the financial industry.

In so doing, the finance ministers somewhat diluted the proposals of the European Commission of September 2009 in important aspects. The now agreed upon additional regulations intend to prevent a too great influence of the new EU supervision over the national authorities. Also it is meant to be avoided, that the EU supervision in cases of crises can make decisions, which would cut into the fiscal sovereignty of the member states.

The Acting Council President, finance minister Anders Borg from Sweden, said after the meeting, that the supervision in relation to national affairs completely remains in the hands of the member states, but that at the same time gaps in the supervision will be closed, which up to now existed in transborder affairs. German federal finance minister Schäuble said, that the national supervisory agencies remain fully functioning, the sovereignty over the budget by the national parliaments remains untouched. Also in British negotiating circles the result was welcomed. Reservations of Great Britain about too far reaching competencies could be put aside. Thegovernment in London had been afraid of a too great influence of the EU authorities over the London City.

The 3 European administrations that will emerge from already existing counseling committees, shall in the future decree standards for the national supervisors for the execution of the supervisory rights. They shall, at the decision of the ministers, take on their work by January 2011. They can force the national authorities to abide to the European rights. And in case of dispute among the supervisors of the member states, for instance when saving a bank that is avtive transborderwise, they can make an arbiter decision.

Still under dispute was, till the end, the allocation of competencies between national and European authorities and the reservation rights of member states, in the case, that the EU supervisory agencies in a transborder dispute make a controversial decision. Here, the ministers have changed the original draft and have reduced the competencies of the EU agencies.The respectice state, in such case, is allowed to appeal to the Council of the EU finance ministers, which can reject the decision of the authority agencies with the majority of executed votes.

Another important change relates to the competencies of the EU administrations in the cases of crises. Other than suggested by the commission, the European agencies shall in such cases give no direct orders to the companies under supervision. Thus, in cases like the failure of the German Bank Hypo Real Estate, which made a substantial takeout of national tax means necessary, the European supervision will have no possibility, to directly interfere.

The new agencies shall complement the European Council for Systemic Risk in the Financial Sector, which the ministers had already decided upon in October 2009. This one will be positioned close to the European Central Bank and act as a kind of early warning system against financial crises.

Whether or not these decisions for reform will be maintained, is open, because the European Parliament will have to decide whether to agree. The economic policy speakers of the Christian Democrats, the Liberals, the Socialists, and the Greens, in parliament, announced on Wednesday, in an unusually joint declaration, that the deputies to parliamen will resist, in further counselings, to a dilution. of the supervision.

The EU-Commission, in the meantime in an announcement, has drafted new precise legislation on trading with derivatives. A representative of the administration said on Wednesday in a conference in Brussels, that the regulations, announced in October 2009, which make a central counterparty mandatory for the offsetting of standardized forward contracts, will be presented until the middle of 2010.

Quoted from Frankfurter Allgemeine Zeitung, December 3, 2009. Translated by Helmut Schnabel

News: Eastern Asia Creates the World`s Largest Free Trade Zone

Singapur, January 3, 2010. At the turn of the year, the greatest free trading zone of the world has been created - at least when measured by the size of its population of almost 1,8 billion people. To it belong China and the six leading ASEAN countries, out of a total of ten ASEAN countries, that is Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand.

These seven countries had decided, to cancel, at the beginning of this year, a good 90 percent of all customs tariffs. Until the last minute, Indonesia had still tried, to further negotiate the treaty, out of concern, to get inundated by chaep Chinese goods.

Thanks to further treaties with Australia, New Zealand, Japan, India and South Corea, South East Asia has developed into a core region of a free trading zone which encompasses half of the world.

When measured by the trade volume, then the treaty between China and South East Asia is the third largest free trading zone, after the European Union and the Noth American Free Trading Zone. The participating countries of Asia have an intra zone trading volume of almost 200 billion Dollar... Ten years ago this was only 39,5 billion Dollar. In the meantime, China is the third largest trading partner of South East Asia, after Japan and Europe, and has thereby passed by America.

The region has a gross domestic product of almost 6000 billion Dollar. “When China is growing, we must make sure, the we as suppliers remain important.”, said Secretary General of the South East Asian state alliance, Surin Pitsuwan. The total economic product of the ASEAN-countries is greater than that one of India. Of interest to China are especially palm oil, rubber, wood, gas in countries like Birma/Myanmar or Indonesia. At the same time, Beijing is hoping, thanks to the growing welfare of South East Asia, to get a certain compensation for the slower growing sale of its goods to Euope and America..

Until 2015, East Asia wants to also lower tariffs on the remaining “sensitive goods” to a maximum of 50 percent, to which belong not only parts for the automobile industry and chemicals, but also popcorn in Indonesia or snow boots in South Corea. Already since 2005, China and the six leading ASEAN countries areworknig on a reduction of tariffs.

In five years, it is planned, that the other four ASEAN member countries, Birma/Manmar, Cambodia, Laos, Vietnam, will follow. The Chinese ministry of trade said, that the average tariff for goods from South East Asia now is at 0,1 percent, versus 9,8 percent before. The import tariff for Chinese goods in South East Asia has now fallen from 12.8 percent to 0,6 percent.

Not impacted, however, by the trade treaty now in force, are the non-tariff trade impediments, which, so is the view of experts, have still much more leeway for lowering. Because the tariffs which now have been cancelled, had in most of the cases only been at 5 percent.

Indonesia, the largest country of South East Asia, is now fearing for many of its industries, that they now will be run over by Chinese industries. As especially endangered regard the Indonesians the textile sector, steel and electronics. The association of shoe producers has warned that the share of Chinese shoe producers in the Indonesian shoe market may now increase from 40 to 60 percent. Thereby, at least 400.000 jobs in Indonesia would be lost. Therefore, the government had announced last week, to scrutinise the contact once more, before becoming effective.. However, so far, there has only been this announcement.

Already now, the six leading ASEAN countries have a trade deficit with China of almost 22 billion Dollar.

Japan, already, has proposed, to put together the various treaties of Asia, into one greater joint free trading zone, which should then encompass East Asia and America.

The New Free Trading Zone, by Comparison:

Population	**EU – 27**	**500**
In million 2008	**Nafta**	**450**
	China+ASEAN-6	**1750**
	0f which China	*1330*

Gross Domestic Product	**EU – 27**	**18,4**
In billion Dollar 2008	**Nafta**	**16,9**
	China+ASEAN-6	**5,7**
	of which China	*4,4*

Trade of Goods	**EU – 27**	**5,9**
In billion Dollar 2008	**Nafta**	**2,0**
	China+ASEAN-6	**2,2**

Quoted from Frankfurter Allgemeine Zeitung, January 4, 2010. Translated by Helmut Schnabel

News: The Asian Economy Could Recover Quickly

Singapore, January 14, 2010. Asia is obviously close to a very fast upturn after the crisis. “The region shows a v – shaped recovery. For this year, we expect a growth of 6,6 percent”, said Haruhiko Kuroda, the President of the Asian Development Bank (ADB) at a conference of the bank in Manila. It is the first time, that an Asian leader is speakin of a v – shaped – development. By this, one understands, that after a fast downturn into the recession, a robust upturn is following.

The developing and threshold countries of Asia are leading the global recovery process, said the ADB president. But almost at the same time, there were warnings at the World Economic Forum, WEF, from too great risks in China.

Kuroda was warning the politicians and the central bankers to take the enhancement of demand and the stabilisation of the financial system not too easily: “ We must be quite especially cautious, to find the right timing for the exit from the stimulus packages.” With an oberbording inflation because of the fast growth, the ADB president is not counting, however.

The bank is now expecting, that Asia, without Japan, will now increase its gross domestic product this year by 6,6 percent. Then the region would grow faster than 2008, when the rate was at 6,1 percent. In the past year, according to estimates, the Asian economy has grown by 4,5 percent.

The upturn is carried by China, the third largest economy of the world, which will grow by 9 percent in 2010, and by India, the politicians of which are expecting a growth of 8 per cent.. In China, ABD is not seeing great risks, although there, concerns are increasing about the creation of a bubble expecially in the real estate market.. Kuroda declared it as “rather adequate”, that the Chinese government, last Tuesday, had asked the commercial banks, to hold more reserves at the central bank, in order to withdraw money from the market..

The World Economic Forum evaluates the situation in China differenly. In China, it is said, ever more domestic demand is financed by loans.. Thereby the risk is increasing, that the capital is not used in the best way, and that new bubbles in the stock markets and in the real estate market are developing, it is said in the “Report on Global Risks 2010”. “Such a development always carries the risk of a sharp correction which may eventually lead to a recession, warned the WEF on Thursday.

However, also the ADB sees risks. At the forum, Hiroshi Watanabe, President of the state owned Japan Bank for International Cooperation, warned from an upturn without new jobs.. The cheap loans are said to induce corporations, to invest rather in capital intensive than in labour intensive techniques..

Kuroda himself advised, not to contain the state money flow, now. “ It is still too early, to cut back on the enormous efforts to enhance demand,” he said. An increasing consumption is necessary, already for the reason alone, of lowering poverty in the region. From the point of view of ADB, this region encompasses 44 countries: from China and India, up to Afghanistan and the Pacific islands. Had there not been he financial cisis, then 55 million less Asians would presently have to live below the poverty level, said Kuroda.

A study by ADB, is preparing the great theshold countries of Asia, for a stronger pressure from the West."The great Asian eonomies like China and India, cannot any longer behave like a passenger of theworld economy and react only to global changes: They must share their responsibility with America, Japan , and Europe". This, however, means that in the future, they can much less protect their currency policy and their other economic decisions from the critical evaluation by other large economies, it is said in the study.

Quoted from Frankfurter Allgemeine Zeitung, January 15, 2010. Translated by Helmut Schnabel

News: OECD Experts Asking for a Structural Reform of Large Banks

The traditional deposit and loan making business and the investment banking, according to a new study, should be separated, in order to preserve the equity base.

The Organization for Economic Cooperation and Development, OECD, is afraid of the next financial crisis, if the renewed accumulation of risks at large banking groups is not being avoided. Because some of the highly systemically relevant banking groups are expanding their investment banking, as if a financial crisis had never occurred, the OECD experts do write in the study: "The Elephant in the Room: The Need to Deal with What Banks Do". In spite of the worldwide efforts of the G – 20, it is said that the central problem of the elephant-like large banks, namely their structural reform, has not yet been tackled.

The experts are therefore requesting the separation of the two different risk areas: the traditional deposit business, versus the investment banking with its higher risks. For this purpose, the diversified banking groups should be separated into legally separated, separately capitalized and managed subsidiaries, under the roof of a Non-Operating Holding Company Structure.

The introduction of elements of a system of separated banking activities, are regarded by the OECD – experts as a necessary complement to other proposals of the Basel Banking Committee, in the framework of the G – 20 reforms, such as the "Leverage ratio", that is the limitation of total indebtedness on the basis of the group balance sheet. This concept is said to be more flexible than the US situation up to 1999. The limitation, however, is said to disregard which business types the individual banking groups are pursuing and which risks are going with this. Through a, complementing, Non- Operating Holding Company Structure, it is said to be possible to prevent, that losses in the investment banking business do as well affect the commercial banking business and push this one into the loss of its equity basis.

The losses in the investment banking are said to accumulate for the following reasons: by way of the risky proprietary trade of the institutes, by way of the dependence on the short term refinancing and the thus resulting maturities disparity, and by way of the huge volume of the derivatives business like in the case of AIG.

As shown during the course of the recent financial crisis, the globally managed leading institutes have risked the entire banking group like a highly leveraged hedge fund. Into this category, the OECD – experts are as well putting the Deutsche Bank with a leverage of 50, although this one had not to be saved by the German state. Nevertheless, the experts are pointing to the payments of the U.S. state to the bankrupted insurer AIG. By meeting insurance contracts with AIG, the Deutsche Bank has received U.S. state aid to the amount of 37 percent of its equity base.

The authors of the study are proposing, to combine the group leverage ratio, targeted by the Basel Banking Committee, with a group structure which separates investment banking from commercial banking. They are thereby following the good example of several countries, Australia and Canada, and of individual banking groups, in the recent financial crisis, such as the Australian Macquarie Bank and the Spanish Santander Bank.

The authors do recommend the Australian Macquarie Group as a model: In such a group structure solution, there is a clear equity separation, group companies are separately listed on the stock exchanges, they must compete in the markets for their debt and equity capital, and thus a concomitant market discipline is imposed on them, it is said.

This structure is said to help, to make the businesses more transparent, and to make transparent the internal capital flows. Financing costs would not any longer be subsidized, but they would be calibrated in line with the assumed risks, and capital takeouts from within the group, in the case of bankruptcy, would be limited.

Quoted from Handelsblatt, January 21, 2010. Translated by Helmut Schnabel.

News: Sarkozy Wants New World Currency System

Davos, January 27, 2010. The French President wants the creation of a new world currency system, in which not any longer, like up to now with the dollar, one single currency is dominating, and in which it should be impossible for individual countries, to create trade advantages for themselves by way of manipulation of the exchange rates. France is said to push this plan in the coming year, when it will have the presidency of the G – 8 – Group, as well as the G – 20 – Group.

At the same time, Sarkozy was heavily critizising the banks.He is in favourof capitalism and globalisation, but it has been wrong to believe, the market alone can turn everything to the better.. “Too much regulation kills the dynamism, no regulation kills the capitalism”, said Sarkozy.

The economic disequilibriums had enhanced the development of the financial markets in which primarily short term speculative profits had been paramount, instead of the financing of corporations and the safeguarding of employment..”From there on the speculator counted more than the entrepreneur, the bond income earner more than the emplyee. Without the interference of the states in the recent crisis, everything would have collapsed.”

Sarkozy supported the plan of President Barack Obama, to turn against the proprietary trade of the banks and against the financing of the hedge funds by the banks. All necessary regulations like equity regulations for financial institutions, as well as new regulations for accounting and for bonusses should jointly be taken care of by the G – 20 – Group.

Many participants to theWorld Economic Forum in Davos discussed difficult scenarios, which were reaching from a bumpy upturn to the eruption of a new financial crisis. “Heavy financial crises, in the past, have often been follwed by heavy state debt crises, reminded Professor Ken Rogoff of Harvard University. This, he said, is not surprising, because governments, during crises, are inclined to expand their expenditures. Such an expansive financial policy, as short term means, is getting Rogoff`s support. However, afterwards, unpopular steps for consolidating the state finances are necessary, to which politics and population are often not prepared. Rogoff can even imagine interventions by the International Monetary Fund in individual European countries.

The President of the German Federal Central Bank, Axel Weber, spoke in a reserved manner, like some bank managers, about the Obama plans. The attempt goes in to the right direction, to cut back on excessive risk taking by banks. But Europe has good experiences with the universal banking model, encompassing all banking activities., said Weber. A clear support, however, is gettingObama from the EuropeanCentral Bank and from the Bank of England. The debates are increasingly centering now on the danger of new asset price bubbles as a consequence of the presently very loose monetary policy. Also, in the leadership of central bank, concern is expressed about the possibility of a new cycle of boom and bust.

Quoted from Frankfurter Allgemeine Zeitung, January 28, 2010. Translated by Helmut Schnabel.

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 in October 2010 has not yet been fixed. It will be made known as soon as possible.

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.

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.