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IAFEI News

Dear Financial Executive,

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

Presently, the French IAFEI member institute, the *French Chief Financial Officers and Controllers Association (DFCG)*, is lead managing, together with two other French institutions, the Launch of the

International Observatory of Management Control

This observatory is launched with the participation of at least 8 associations around the world and the *support of IAFEI*. The aim of this observatory is to give a view of the perimeter, the activities, the tools and the methodologies of the management controller around the world.

While all IAFEI member institutes have already been asked to participate, we use the forum of this IAFEI Quarterly, to invite all readers of it, to participate in this survey. The broader the participation, the more representative will be the results.

The link to the survey is www.dfcd.com/international/obs-cg. For any questions contact Frederic Doche, Chairman of the DFCG Management Controller Commission, frederic.doche@conseil-dpc.com. For more on the subject, see next chapter.

The **41st IAFEI World Congress** will be held in **Beijing, China, September 16 to 18, 2011**. The Congress Program and the Registration Form are available on the IAFEI website, www.iafei.org, as well as on the special congress registration website www.iafei2011.org.

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

This **IAFEI Quarterly**, like its predecessors, offers a variety of articles and subjects. Enjoy reading them.

Best personal regards



LAUNCH OF THE INTERNATIONAL OBSERVATORY OF MANAGEMENT CONTROL

Dear colleague,

The *French Chief Financial Officers and Controllers Association (DFCG)* in partnership with *University Paris Dauphine* and *Decision Performance Conseil* is pleased to invite you to participate in the

International Observatory of Management Control

This observatory is launched with the participation of at least 8 associations around the world and the *support of IAFEI*. The aim of this observatory is to give a view of the perimeter, the activities, the tools and the methodologies of the management controller around the world.

Your active participation in this survey which includes more than 12 countries is very meaningful to us and to you. It will help to get a better understanding of your concerns, to share with you the vision of your foreign colleagues and boost best practices' sharing in the controlling area.

Your contribution is particularly important and will ensure the results reliability, thus, we thank you in advance for your participation. We will come back to you with the results for our country specifically and with comparative data, by the end of 2011.

The link to the survey is www.dfcg.com/international/obs-cg

Sincerely yours.

Best Regards

Frederic Doche, Chairman of the DFCG Management Controller Commission, frederic.doche@conseil-dpc.com

Armand Angeli, President, IAFEI EMEA, armand.angeli@orange.fr



Trading today: a changing and high speed environment.

Vincent Van Dessel

The world of finance seems to change rapidly, going from bubbles of exuberance to crashes bringing the whole economy close to major disruptions. But bubbles and crashes are not new. The most important factor of change is the computerization of the markets, replacing the former floor and opening its access to big international players. Besides, the real time transparency of the order book and prices has reduced the classic execution side of orders to a quasi commodity, except for bloc trading and trading in small and midcaps. Another major factor of change has been the implementation, in November 2007, of the Market in Financial Instruments Directive, the so called "MiFID", which has had a significant impact on the European trading landscape

The two objectives of MiFID.

MiFID brought two major modifications to the European financial environment: a more structured protection of the client and a new competition field for trading venues.

A more structured protection of the client.

The first change concerned the obligation for financial institutions to comply with new, mainly administrative, regulatory requirements so as to better serve the interests of the clients. In order to better assess the kind of services they can provide to each client, banks, portfolio managers and stockbrokers have to distinguish between three types of clients:

1. Retail clients
2. Professional clients
3. Eligible counterparties.

In particular, all retail clients have to be allocated into a category indicating their level of expertise concerning financial investments as well as the level of risk they should be able to bear. The basic philosophy of MiFID is that investors have different levels of knowledge, skill and expertise; hence, in order to protect them, regulatory requirements should reflect this. The consequence was a gigantic work to adapt their profiles. Banks and Brokers launched massive mailings sending standard forms to retail clients who were often puzzled by the additional administrative burden.

Under the pressure coming from compliance departments, many investment advisers had to redirect retail investors toward instruments such as investment funds, deemed to be less risky than shares or bonds,

but also much less transparent and liquid. Let us not forget that the financial crisis has its origin in non-listed financial products while exchanges perfectly played their role of providing liquidity.

A new competition field for trading venues.

The second major change brought by MiFID was the opening of the competition for trading venues. Until 2007, in certain countries, some concentration rules still existed which gave to the traditional stock exchanges a position that was close to a monopoly for small size orders. However, this monopoly was not total as the ISD (Investment Service Directive), the predecessor of MiFID, had already foreseen that a trade should always be allowed to be done off-exchange, referred to as "Over the Counter" (OTC). But due to existing habits at the beginning of the electronic trading, the bulk of the transactions between end investors were still taking place on the traditional stock exchanges, at least on the continent.

Appearance of new trading platforms.

The implementation of MiFID in November 2007 created a clearer set of rules, allowing the emergence of new trading platforms called Multilateral Trading Facility ("MTF"), such as Chi-X, BATS and Turquoise, which aim to compete directly with the traditional exchanges. MiFID has enabled every share listed on a regulated market to be freely traded on these new platforms.

The avowed objective of the regulation was to foster competition in order to reduce the cost of trading: Europe did not want to see cosy monopolies that would maintain

high fees and provide minimum levels of services.

A highly competitive environment had already been set in the United States with the so-called "reg NMS": all client orders routed to a market are potentially to be rerouted to the market where the best price is available, provided the client chooses this option. If we compare it to the retail sector, it would mean that Delhaize would be obliged to send his client to Colruyt to buy a bottle of water if its own store would not provide for the best price. As a consequence, there are now over 20 trading platforms collecting orders for the same shares in the US, and traditional exchanges such as NYSE or NASDAQ execute only a fraction of them, in spite of their prominent role as listing venues. So in the US, the exchanges were somewhat forced into a role of intermediary. In Europe, things are different. The way best execution rule has been written gives the intermediary the necessary flexibility to comply with it, and a sole link to the regulated markets is enough. However, MiFID has encouraged the creation of a series of new trading platforms; all sponsored by the big brokerage

houses and banks as well as by pure trading firms. In fact, since more than ten years, the formerly mutualized bourses at the service of their shareholder-members have transformed themselves into powerful and secure listed IT companies. Markets have become fully transparent and accessible reducing the possibility for traders to create execution margins. The tick size has been reduced to 0.1 cent and spreads narrowed due to algorithmic trading. So by creating alternative platforms, the intermediaries attempt to circumvent the central market in order to avoid orders to participate to the price formation. As a result, they hope to widen the spread and get more control over the markets. This situation creates an evident conflict of interests between the order execution role and the intermediation role of the parties at stake. The distinction between these different roles will have to be clarified in the revision of MiFID, referred to as MiFID II.

Moreover, contrary to the regulated markets, these new types of platforms only quote the most liquid shares in Europe (about 1000 stocks), and show no interest for less liquid small and midcap companies. Besides, they trade the shares of listed companies without any contact or authorisation of the issuers themselves.

In addition, the sustainability of the business model of these new types of platforms is questionable. As they are sponsored by their client-intermediaries, their aim is not to make profit. They tend to generate low revenues compared to their high fixed costs, since they tend to charge lower fees so as to encourage regulated markets to decrease their fees. However, this so called competition has had no influence on the fees



Vincent Van Dessel
Chairman & CEO
NYSE Euronext Brussels

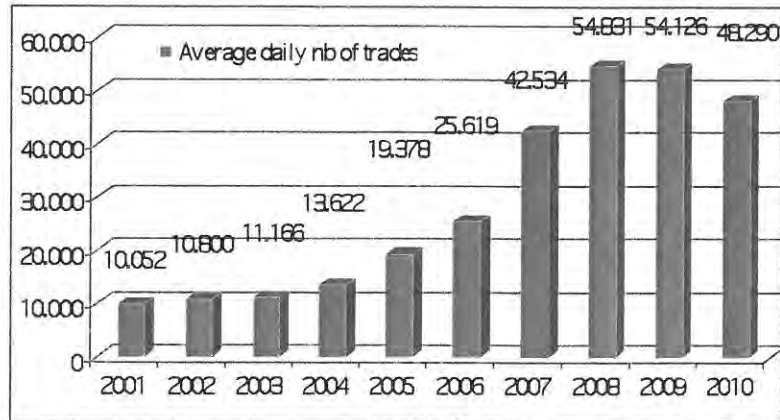
paid by the clients, i.e. the final investors. As, under the pressure of their institutional clients, intermediaries have to connect to different platforms, their fixed costs have increased, which has been passed on to their clients. Bourse mergers, on the contrary, indeed led to diminishing of tariffs for the clients, especially for cross border trading.

Dark pools vs. lit.

Another novelty that appeared on the markets under MiFID is the concept of "dark pools". Unlike "lit markets", dark pools offer no pre-trade transparency: no one can see what is in the order book. The basic idea was to allow big blocks to be traded on an electronic platform, without having an impact on the market prices. It was meant to be an alternative for OTC trading. Technically, orders lie in an invisible order book and are executed automatically at the midprice of the central order book whenever matching is possible. NYSE Euronext has launched such a dark pool under the name of SmartPoo. Strangely enough, today, the average execution size on dark pools lies below the one of the lit order books, this being explained by the algorithmic trading engines sending fragmented orders to all platforms, regardless of their specificity.

Systematic internalisers.

MiFID also allows intermediaries to match internally the orders coming from their client base instead of routing them to a trading platform. But in most cases, and especially for liquid shares, the matching of two internal clients is very unlikely. Therefore, internalisation is used with the bank acting as counterparty,



Number of trades in Brussels has increased dramatically since the Euronext merge, despite the loss of some blue chips.

enhancing the risk of conflict of interests between execution and intermediation.

Fragmentation of the liquidity.

In conclusion, MiFID has largely contributed to the fragmentation of the markets, even if the traditional venues still handle the biggest fraction of the total trading (for instance in 2010, NYSE Euronext treated approximately 72 % of the orders of the constituents of the BEL 20 index). The liquidity is now fragmented into several private pools and less orders participate to the price formation. This situation can become detrimental for issuers who tend to have less and less visibility on what is going on in their share, which could ultimately harm not only their own confidence in the markets, but also the investors' one.

When stock markets become high tech companies.

The response of NYSE Euronext to these changes and to evolving clients' needs has been a massive investment in technology to launch

a new platform, called "Universal Trading Platform" (UTP) and a new Data Center. The capacity has been raised to 100 000 orders per second. The speed of the engines has been reduced dramatically. Speed is critical for high frequency traders: their benefits lie in the speed of reaction, either for arbitrage or after any change in the global environment. Some traders are prepared to pay to put their servers next to the servers of the exchange, a process called "co-location", in order to gain some nanoseconds over the others. Today approximately half of the transactions taking place in North America and in Europe are generated by algorithmic trading. These trading systems are based on advanced mathematical models for making transaction decisions. In fact, computers are executing what their conceptors have told them to do. It allows traders to follow an almost unlimited number of financial instruments, increasing volumes and liquidity on the markets as well as the correlation between the financial products at stake.

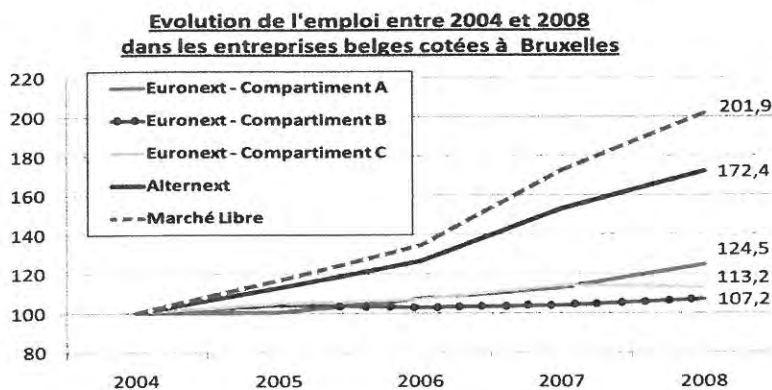
This permanent quest for speed and capacity is the main driver behind the consolidation of the stock exchanges. The stock exchange

of today is not a cosy building manager any more. It has become a big, secured and reliable computer operator worldwide. It is a high fixed cost company as once the initial investments have been made, the costs of connecting a new member or admitting a new financial instrument are minimal. That is why exchanges have an evident interest to merge, so as to benefit from network effects. Mergers have not only a positive impact on the average cost, but they also widen the accessibility of the listed companies to a broader "hinterland" of members like they widen the accessibility of the members to a broad range of listed instruments. The Euronext experience has proven it to be the right choice. While 10 years ago, before the creation of the Euronext pan-European market, only 5% of the volumes in Brussels came directly from foreign members, today more than 80% do. In return, more than 70% of the volumes of Belgian members are executed on the other Euronext markets. In the meantime, overall volumes have been multiplied by five.

A local door to a World exchange

The NYSE Euronext federal model has had very positive results. It enables access to the biggest market in the world through a local door. And this is not only valid for blue chips. Alternext, the Free Market and the C compartment of the regulated market count for almost 60% of the listed companies on NYSE Euronext European markets, even if they represent only 2% of the total market capitalisation.

As it is well known, SME's as job creators are crucial to the economy. That is why NYSE Euronext is keen on helping them to grow. It aims at encouraging their access to the financial markets. . Contrary to the alternative platforms, the traditional exchanges feel they have an important role to play in this field and they are continuously developing new solutions to better meet the needs of this market segment.



Employment created by listed small and midcap companies justifies that traditional exchanges, unlike the new trading platforms, take care of them.



Interview, China: China Will Soon Again Grow as Fast as Formerly

Helen Qiao, China – Chief Economist of Goldman Sachs, about the weak business cycle, the high inflation, and the real estate bubble.

Missis Qiao, China is not growing as fast any more. At the same time, the country is so important for the German economy. Will things go better for China, soon ?

China is just about changing. Formerly, China has lived especially from the demand from other countries. In future it is more about what is being bought in the country itself. This means, that the gross domestic product of China will not grow any longer between 11 and 12 percent annually, but rather on the level of 9 to 10 percent annually.

These are the longterm developments. But at the moment, China is simply growing more slowly.

China is going through a phase with a few challenges. The inflation has increased visibly, therefore the government is trying to dampen the growth. As soon as the inflation will be contained, the growth should return again to its longterm level.

Enormously have increased for instance the real estate prices. Is there a bubble ?

Whether there is, indeed, a bubble, one knows always only afterwards, just too bad. But we can make an estimate. We are looking at whether the people can still afford the houses and the mortgages or whether they already have become too expensive. Up to now, this is not a problem, because incomes have increased together with the real estate prices - at least when one looks at China as a whole.

In some big cities things look quite differently.

In the big cities, the bubble risk is bigger. There, the prices have increased faster than the incomes. Also investors who are renting apartments, do not get any longer the same return. In spite of this, one must not talk this to be a bubble. The real estate prices do increase also in other countries. The 3 big cities in China are even more favourable than the main cities in other emerging countries. Effectively, Shanghai and Beijing are cheaper than the big economic and financial megacities in the other BRIC states.

So you do not believe, that the real estate prices will soon collapse and that there will be a real estate crisis ?

The prices may perhaps decrease a bit, but not so much, that it causes great problems in the economy. At the end, the purchasers can afford the high prices more easily, because their wages are increasing. In addition, China is not so prone for crisis. Because the Chinese are not buying their real estate by way of loans - or at least a lot less than the Americans. Most Chinese pay 42 to 45 percent of the purchase price out of their savings, and most of them repay their loans within the next five years completely.

Also the other prices are increasing at great speed.

In April they already were a bit lower. In May and June, according to our expectations, the inflation rate will be higher again, but after that it should decrease. We had expected it to be lower already in the second half of 2010.

Government and central bank are also working on lowering the inflation rate. The government is even forbidding increases of food prices.

Unilever, for instance, had to pay a fine, because it openly had said, that it thinks about price increases. But I think, the government is not so much after the price increases by one supplier. What it wants, is that one does not talk so much about inflation. Inflation should not be made a big subject, because it then easily accelerates.

Is the government still subsidising gasoline ?

Yes, the gasoline prices continue to be heavily regulated. The government lets them increase more slowly, than the oil price would require it. The government has also forbidden, that the electricity price is increasing. Therefore the power plants cannot buy enough coal, and therefore there are electricity shutdowns.

This shows: In China the demand for energy remains high. This also means for the rest of the world, that energy remains expensive.

It is not, however, only because of China, that the raw material prices are increasing. A big part of the inflation is caused by the lax monetary policy of the Americans.

In any case, the Chinese central bank is fighting against the own inflation, and it thus is putting the brake on growth.

Yes, the growth is coming down faster, than we had expected.

Does this also relate to the German firms which are exporting to China ?

Sorry to say yes. The capital expenditures will decrease. China has imported in the last two years many machines - these imports will not continue to grow rapidly.

This is bad news for the German corporations and their shareholders.

One has to think about, though, that this will only be the case for a certain time. In the long run, China has to invest still much and will produce much demand - then it will again wish to buy the best machines in the world, and Germany continues to be highly appreciated.

As the demand is now weak, will it first hit the machinery producers, or the car producers ?

It will start with investment goods like machinery, and then it will continue into consumption goods - at least we expect this, as this is how things develop most of the times. We are already seeing, that the demand for investment goods is growing more slowly. In future, China will be able to buy some more different goods from Germany.

Which companies will benefit from this, what will China buy in the future ?

China is here like other growth countries. The country will continue to need many machines for the further industrial development, for instance for the production of motors, high precision equipment, cars, yachts, and more others.

Again, German investors are having problems with an investment in China, because from an European point of view, the currency is so weak.

This is primarily a problem between Euro and US dollar, when the US dollar is weakening. The Chinese currency is still tied a lot to the US dollar, and this will remain so for quite a while - with this you will have to live. You also can live with that every once in a while the US dollar is weakening.

This makes investments in China less interesting.

Really interesting are only the investments, with which one cannot lose anything. Unfortunately, presently only investors from the United States, or others, the currencies of which are tied to the US dollar, have this luxury, when they invest in China and when they thereby win from a one sided bet on the renminbi. The investments in China are now, for Europeans, from today`s perspective, as risky as the ones in America or in Great Britain.

Should one then buy Chinese equities ?

Our equity strategists are still saying, that one should own relatively many Chinese stocks. Compared to other emerging markets they are favourable, compared to the developed markets anyway. But when they start to increase, is another question. We are expecting, that things will get better, when the inflation is decreasing - in the second half of the year chances are expected to be better.

The interview was made by Patrick Bernau.

The China Expert

Hong "Helen" Qiao is the chief economist of the US American investment bank Goldman Sachs for China and Vietnam. She has studied international trade at the Chinese People`s University in Beijing, has worked for the World Bank, and has got her doctorate degree at the Stanford University in USA in macroeconomics.

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Responsible for translation: Gefiu; translator: Helmut Schnabel

Germany, Article: Rating Agencies, Restricted Access

by Anne-Kathrin Meyer, European CFO Magazine

The recent avalanche of criticism against the three dominant rating agencies should have created the perfect moment for new players to step in. Nothing like that. The realities of the market have dashed the high-flying hopes of the ambitious contenders.

The time had come. The moment to reorganise the credit rating market finally appeared to have arrived. The Big Three had to take cover from the barrage of criticism for their role in setting off the global financial crisis. Their reputation was left in shambles for their overly optimistic assessment of ABS transactions based on US subprime credits.

A recently published Financial Crisis Inquiry Report, issued by the National Commission on the Causes of the Financial and Economic Crisis in the United States, even concludes that “the failures of credit rating agencies were essential cogs in the wheel of financial destruction”. Jean-Claude Trichet, President of the European Central Bank joined the chorus in 2010, when the financial crisis was still in full swing: “The world needs more than three major ratings agencies”, he declared, shaking a metaphorical fist at Standard & Poor’s, Moody’s and Fitch.

Behind the scenes, CFOs continued complaining about their dependence on the rating agencies. Taking heart from the failures of others, a crop of competitors threw their hats in the open ring. At the end of 2009, the French credit insurer Coface announced plans to set up a new field of business as a rating agency. Being a global player in its credit insurance field, Coface aimed at eventually becoming an alternative to the US agencies in the area of corporate ratings. The opponents are roughly in the same weight class: in 2009, Coface had a turnover of EUR 1.5 billion, Euler Hermes EUR 2 billion, and Moody’s USD 1.8 billion. Hence, Coface reasoned in a public announcement that credit insurers could easily draw on their huge database and derive corporate ratings from credit default histories. They were the first to announce plans of becoming a European rating agency. In retrospect, they may wish they had held their tongue.

Entering the ring

Other players have tried their luck as well. Germany’s global credit insurer Euler Hermes was the first to be granted registration as a European rating agency in late 2010. For the past ten years, the subsidiary Euler Hermes Rating has offered corporate ratings. However, they focus solely on German mid-cap companies and have not attempted to become an alternative to the Big Three.

By contrast, Coface has tried to obtain EU registration for many different countries simultaneously. Also, Creditreform and financial service provider Feri have submitted their applications for EU registration.

The desire of Coface, Euler Hermes, Creditreform and Feri to break into the exclusive credit rating market is understandable. According to information on NZZ online, an S&P rating ranges between EUR 45,000 and EUR 90,000 per year. Fitch's clients would pay between EUR 55,000 and EUR 88,000. S&P and Fitch do not repudiate these figures. According to the footnotes in Moody's press releases, fees range between EUR 1,000 and EUR 1.8 million. On top of that, agencies usually charge around 0.04 per cent of the issuance's volume for the rating of each bond. In total, more than USD 4,000 billion was issued with rated bonds in 2009 according to data available in Moody's 2009 annual report. Before the financial crisis in 2006 and 2007, these figures were even higher. Bearing in mind the revenue that Moody's generated alone in 2009, it is understandable that newcomers want to enter the ring.

However, their lofty hopes were soon dashed. The Big Three continue to dominate the market as before and the harsh critique has faded away since there are simply no real alternatives to them. Although the financial crisis hit the established agencies, in 2009 the revenues at Moody's already went up compared to 2008. Still, the pre-crisis level of USD 2.3 billion in 2007 has not been reached yet.

With the Big Three almost back in their old positions, Coface has recently indefinitely postponed its rating service. "With the new CEO Jean-Marc Pillu, the whole strategy of Coface is now put on review", says Martine Haas, director of the Paris communication department.

Mr Pillu's predecessor Jérôme Cazes was the advocate for setting up the rating business at Coface. He wanted to turn the business model of the established rating providers upside down. The big difference between Coface's model of business and the one of the US agencies was that at Coface investors would have paid for the ratings and not the rated companies, respective the bond issuers.

Attracting investors

Since the EU registration is modeled after the business model of the Big Three, Coface has complained, it had difficulties in actually obtaining the registration. These complaints were also brought up by the other applicants. In total, eleven rating providers have applied for registration in Germany, more than 20 in the EU. These figures show that competition for the established players is already there. Ironically, EU registration now sets up even more barriers to market entry for newcomers although politics initially wanted to trigger more rating providers to join the game.

However, there are more reasons for the failure apart from difficulties with EU registration. For most companies, a rating is crucial advertisement to attract investors and to get access to capital markets. As a result, not the companies, but the investors pick the rating agencies. "It's not really our decision, but the choice of our bondholders that we have ratings

by S&P and Moody's", says Martin Novák, CFO of the Czech energy supplier CEZ. And as long as the Big Three are the ones that investors rely on, it will be hard for competitors to get a piece of the pie.

Costs are another, maybe somewhat underestimated, aspect. It will cost a lot of money to develop an adequate infrastructure and to obtain a reputation that is comparable to the Big Three. "S&P employs more than 1,000 credit analysts and issues about 1,000,000 credit analyses per year", says Martin Winn, spokesman at S&P. With such high barriers to market entry "newcomers besides small players in domestic markets will stand no chance", confirms Carmen Hummel, director debt capital markets at Unicredit, even though everybody would welcome more competition amongst the agencies.

Creating new rating agencies "has been a big topic for years now", says Ms Hummel, "and not a single attempt to break up the long standing oligopoly of the Big Three has really worked out." For years to come, new agencies will face a classic example of a rookie's dilemma: theoretically, everybody wants them, but nobody wants to be the first to try them out in real life.

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Germany, Article: More Picard, Less Borg

by André Hülsbömer, European CFO Magazine

Wealth Accumulation Comes at the Steep Price of Hypercompetition, Declining Fertility and Sinking Happiness. HighTime for New Utopias.

Finding herself transported into the 24th century, Lily Sloane can hardly believe her eyes. A gigantic spaceship with dozens of decks, travelling faster than the speed of light? The question of scientific possibility aside, just the cost alone is inconceivable. The price of titanium she needed to build her own rocket back on Earth three centuries ago was astronomic; the thought of financing an entire spaceship – ridiculous.

Captain Picard, Starfleet expedition leader, offers her the following explanation: “The economics of the future are somewhat different. You see, money doesn’t exist in the 24th century. The accumulation of wealth is no longer the driving force in our lives. We work to better ourselves and the rest of humanity.” She lets the thought marinate.

“First Contact”, the eighth feature film based on the Star Trek TV series, offers a satirical perspective on us and our era – “our era” being this small window of time between the Industrial Revolution in late 18th century Great Britain and now. Just a miniscule time span in the 100,000-year history of mankind, these 200 years have turned everything upside down.

Gregory Clark, an economic historian at the University of California, traces the world’s economic development through three stages in his book “A Farewell to Alms”. From the beginning of human life until about 8,000 BC, man existed as nomadic hunters and gathers; thereafter until 1800, they focused on settled agriculture; this was then followed by modernity in the wake of the Industrial Revolution. According to “First Contact”, the fourth stage, let’s call it enlightenment, will not arrive around until the middle of the 21st century. So we still have a few years to go.

Unlike Captain Picard and his crew, therefore, we still live to accumulate wealth. Unfortunately for us, increasing wealth comes at a heavy price, the first being dismal inequality. Indeed, with Stone Age society having almost no income divergence, the average caveman may actually have been better off than most unskilled labourers in the 1800s, who had to toil away in bondage, says Clarke. It was not until the onset of industrialisation that income divergence went through the roof, with a factor 50 existing between the per capita income of the highest and lowest country at the beginning of the 21st century.

Two factors essentially sparked economic Big Bang in Britain around 1800: the increased rate of technological progress, rocketing from 0.05 per cent p.a. to about 1.5 per cent, and the dramatic drop in reproductive rates. Before that time, all technological advances

would eventually be offset by a growing population. With the introduction of birth control, which was especially popular in growing cities, the age of accumulation took off.

However, birth control and the hedonism it bred also brought on the second bane caused by rising wealth: shrinking populations. Nineteenth century France can be seen as an early harbinger of things to come when, despite better hygiene and health care, more people were dying than being born – and not because of an epidemic. Emile Zola's fin de siècle novel *Fécondité* ("Fertility") paints a gruesome picture of the values that were at the heart of this development: midwives were specialising in abortions; babies were "given to wet nurses", a euphemism for abandoning them and declaring them dead for having contracted diseases from feeding on foreign breasts; and the first surgical hysterectomy opened the way for having sex without fear of conception, an operation that soon became fashionable amongst women of high society in Paris.

Suicidal tendencies

As it turns out, the decadence decried by many critics of capitalism is indeed a modern affliction. Ask Professor Gunnar Heinsohn, a German sociologist and an expert on genocide, who divides societies into three groups: growing, stable and "suicidal". Germany and other central and southern European countries, all beacons of industrial progress, have long fallen squarely into the third category. Well-nourished and increasingly healthy, these societies are headed towards their own demise. What was once celebrated as progress – emancipation from the Darwinian principal of the survival of the fittest – seems to have sown the seeds for society's downfall.

Ironically, not only is our increasing wealth a first-class ticket to extinction; even worse, it fails to make us any happier. Research tells us that we derive happiness not from what we earn per se, but what we earn relative to others. Put differently: individuals are happy if they have more than those around them. Getting a bigger piece of the pie than one's neighbour improves happiness for oneself (while diminishing happiness for the neighbour) – but a growing pie, i.e. more wealth for all, does not equal growing happiness. Quite the contrary: suicidal societies typically are less happy in spite of rising income levels.

In this context, Marx and Engel's posthumously published Paris Manuscript is elucidating, recording their observations as it did at the threshold of the transition from an agrarian to an industrial society. Marx revealed himself as a pioneer of happiness research when introducing the concept of alienation, caused by the increasing division of labour. The transition to a capitalist economy, he realised, strips man of his relationship to the product of his labour, to the community he works in, to his family, to other men and, not least, to nature. As it were, the sources of happiness are ground to dust by the cogs of an industrial society.

Efficiency over happiness

This trend of sacrificing happiness to efficiency still carries on today. There are fewer vacation days and tighter work schedules, all for the sake of optimising production cycles. But the pressure has an impact that is beginning to extend into the family, with implications that reach far beyond shortened parental leave times to general attitudes towards

reproduction. This is especially true as labour is becoming scarce and more women are joining the workforce. In the best case scenario, this means mothers (and fathers) are spending less time with their children after birth before they return to work. At worst, motherhood is put off indefinitely, until even this most intimate of all human relationships has to be industrialised. If people still even want kids, then certainly not more than one. Birth control just seems easier.

The Catholic Church has been one of the few voices of reason on the topic, admonishing the parish to keep love in reproduction, thus evincing an intuitive appreciation of the relationship linking income with fertility on the one side, and income with happiness on the other. However, the church has long lost impact on society as it wants to achieve the right end, but for the wrong reasons. Wagging the finger is not the way to go about convincing people to have children. Instead, they need to be reminded of the love and happiness this brings – ultimately self-serving interests. But this insight comes easier to those with firsthand experience. As it turns out, there is a strong downside to maximum efficiency in child rearing, and the true cost of replacing parents with day-care centres, all-day schools, TVs and PCs will only reveal itself when it might already be too late.

The latest financial crisis is one instance in a long list of indications that society may not yet be ready to handle the technical and economic possibilities of a world with a division of labour as vast as ours. Over the last 100 years, a few international wars and at least two significant economic crises have proven that we are willing to go to any extreme to continue playing this game. How much longer will this go on?

Of course warnings of our society's imminent demise are as old as mankind itself. But aside from the undeniable demographic decline in the developed countries, there are other trends elsewhere in the world that are equally unsettling: the BRIC countries are following in the footsteps of the developed world, on a condensed schedule – a frightening thought, considering the negative consequences that accompanied the 200-year version. The Chinese have long since proven that an industrial revolution is possible without the accompanying democracy. But a true test of their capacity to absorb the societal shocks this radical transformation will cause is yet outstanding. China's reproduction rate is declining just as fast its income level is catching up with the rich countries. Unfortunately for us, there are few options to stop the decline caused by the relentless hunt for efficiency. Our ability to soften the blunt logic of capitalism has declined to the extent that our institutions and morals are left behind in a rat race to come out on top. The perennial justification muttered of capitalist practices, "If I don't do it, then someone else will", is at once its marching orders and its requiem as it ushers in a race to the lowest morals. The recent spate of corruption and price-fixing scandals in Europe is but one symptom of this.

Limits of the invisible hand

In the twilight of the 18th century, Adam Smith gave us the image of the invisible hand of the market, which creates a maximum of benefit for all precisely because everybody only thinks of himself. But the powers of the invisible hand are reaching their limits as competition is more and more usurping our morals. Put differently, there is no Captain Picard to tell the

android race of the Borg, whose morals are a mere function of their overriding goal of dominance, “Thus far, no further!”

The emergence of a new world order that can rein in the powers of the market is both at once a wonderful and a vain hope. Indeed, global capitalism facilitates innovations and inventions better than all other economic orders, but only if all the parties are bound by the same democratically enacted and revised rules. This institutional precondition is no longer a given. While the economic system now operates on a global scale, political institutions do not. They are still playing the game of nation-states and regional alliances and are allowing themselves to be undercut by the logic of global competition. The best indicator of this is the sinking long term average tax burden of companies – in spite of growing national debt.

The politics of climate change may be the best illustration of this dilemma. While certainly a complex issue, the underlying problem is simple: the more carbon dioxide in the air, the faster will global temperatures rise – with effects that are likely devastating. Anders Levermann, a professor at the Potsdam Institute for Climate Impact Research, says that if we stay on our current trajectory, global temperatures will rise by eight degrees Celsius this century. In fact, he believes, actual temperatures will not rise quite that far – not because we will voluntarily curb emissions, but because the global political and economic chaos created by a temperature increase of just six degrees will put an equally effective end to global energy consumption. In spite of this uncomfortable scenario, however, each new attempt to agree on effective climate control policies at yet another summit fails as spectacularly as the last one, thanks to the exigencies of efficiency.

That it is bad for our souls to constantly put ourselves and our desires before everything else is nothing new. That emptiness results from excess is apparent. While we clearly feel that our way of life has negative aspects, we have not yet found an alternative. If we have any desire to return to a life-affirming worldview and reverse the trends behind the 200-year history of economising our institutions and families, we will have to ask ourselves some difficult questions.

There is a clever saying that charity begins at home. However, change in this direction has to come from the individual because a global system that could take that responsibility away from each one of us is not going to emerge. We as individuals need to reject greed and instead must relearn to embrace life in the form of, say, our children or nature. Or more practically spoken: fertility begins at home, too.

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Greece, Article: Banks Worry about Greek Receivables

by Stefan Ruhkamp, Frankfurter Allgemeine Zeitung

The German Banking System Holds 40 Billion US Dollars / High Risks also for the German Tax Payers

Whereas, in the capital markets, the risk of restructuring of the Greek debt is evaluated as being increasing, also German Banks and Insurance Corporations are worried about their money. The Greek Central Bank is saying that the total foreign debt of the country amounts to a market value of 410 Billion Euro. Of this, 190 are government debt, and a good 200 Billion Euro are receivables from Greek Financial Institutions.

By way of restructuring, especially the receivables from the Greek State would immediately been hit, which in the bond market and regarding the longest maturities are now traded with only 50 Cent per 1 Euro nominal value. As a consequence, probably one would have to expect losses of value also regarding the receivables from banks and other private debtors. Accordingly, with tension the banks and the European Central Bank are following the development in Greece, and they are warning from the consequences of restructuring.

Of the receivables from Greek debtors, according to the data of the Bank for International Settlement (BIZ) as of end of September 2010, roundabout 170 Billion US Dollar are related to foreign Banks. If one adds to this the Market Value of Derivatives and unutilised Credit lines, then the values standing in fire in the case of the restructuring would increase for the banks to roundabout 278 Billion US Dollar. Of this, approximately one quarter relates to the German Banking System, which, with 69 Billion Dollar – without Derivatives and unutilised Credit lines it is 40 Billion US Dollar – carries the highest risk, behind France.

Considerable positions are being held, among others, by the German mortgage banks. The members of the mortgage bank association have in their books, end of 2010, Greek bonds of the amount of almost 9 Billion Euro. Of these, roundabout 2,5 Billion Euro are used for securing public mortgage bonds. The rest is being held outside mortgage bond securities.

The receivables from the weak Euro-States Portugal, Ireland, Italy, Greece and Spain amount at the mortgage banks to 70 Billion Euro, of which 35 Billion Euro are used as security for the mortgage bonds. The public mortgage bonds are oversecured by roundabout twice the sum, it is said by the Association of German Mortgage Banks. Even in the worst case, the owners of the mortgage bonds must not be worried, says the message of the association of mortgage banks.

As the bank with the highest Greek-risk in Germany was regarded for long the nationalized Hypo Real Estate. Since the fall of the last year, the bank itself is almost holding no receivables anymore from the Greek State. Also the risks from other Euro-States have been strongly reduced.

However, these receivables have been transferred almost completely to the FMS Value-Management, an institution of public law, for which the federal government is liable. The risk of the German tax payer has just not been changed. The FMS presently is set to be holding

bonds and other receivables from the Greek State in the amount of 9,5 Billion Euro nominal value.

If one adds the positions of HRE and FMS together, the receivables from state debtors in the five weak Euro-countries amount to 77 Billion Euro.

More risks are lying at the KFW Banking Group, for which the federal government is guaranteeing. Through this bank, the German portion of the stabilisation program for Greece is being granted. Greece has, at the KFW Banking Group, a loan frame of 22,3 Billion Euro, for which the federal government is guaranteeing. From this sum, up to now, 8,4 Billion Euro have been paid out.

The German insurance industry so far stands relaxed in the present debt crisis. The Greek State debt amounts to less than 1 percent of the total capital investments of roundabout 1200 Million Euro, it is said by the Association of the German Insurance Industry. Precise numbers about the engagement in the other Euro-Countries are not available. However, in the industry estimates are being given, according to which the positions in Ireland and in Portugal are also below 1 percent, and in Spain and Italy they are bigger.

Receivables of Foreign Banks from Greece

in billion US dollar, as of end of third quarter 2010

French Banks	92,0
German Banks	69,4
Banks from the USA	43,1
British Banks	20,4
Other Banks	53,0

Receivables of German Banks from

in billion US dollar, as of end of third quarter 2010

Greek State	26,3
Greek Banks	3,9
Greek Corporations	10,1
other risks like positive market value of derivatives, guarantees, credit lines	29,2

Source: Bank of International Settlement, BIZ

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Greece, Commentary: Failure in Hellas

by Holger Steltzner, Frankfurter Allgemeine Zeitung

Greece is bankrupt. Therefore a new loan package is being set up of about 60 Billion Euro. At the same time, the old loan program of 110 Billion Euro is still only utilised by half. The International Monetary Fund, however, under its rules, is not allowed to pay out the next loan tranche, because Greece cannot service its loans in the next twelve months. In order to still be able to pay out, it is said, that new loans should be made, although Greece has also only delivered part of the reforms. Still, tax collection is coming in only thinly, the privatisation of the Greek state property still remains to be seen.

The bailout politicians have broken their word. It was said, that the bailout would cost no money, it would only be about loans, which would be repaid, was promising “bailouters” like German finance minister Wolfgang Schäuble. Now the finance minister is setting up with the other “Bailouter Europeans” the next bailout package. It is said, that there will be fresh money only against reforms. Who should believe that? How do the “Bailout Europeans” want to force Greece for structural reforms, when they answer to the refusal of reforms not with the withholding of loans, but with new loans? This is a devastating signal. Breach of rules is again rewarded. What should German, Dutch, or Finnish employees think, when next time they are asked again for more work for the same wage, in order that Europe can remain competitive in the world market?

The breach of the Maastricht treaty was coated by the “Bailout Europeans” by disguising financial help, which is forbidden according to the treaty, as loans. Now everybody is seeing: Greece is insolvent and cannot repay the loans. Even longer maturities of the loans and lower interest rates do not help. The continuation of such a soft restructuring would not bring Hellas ahead. It is not all about the saving of the Euro (“regardless of the cost”), but about overcoming the structural crisis in the Euro Area. A Greece, which is not willing to accept change, in which chaos and capital flight are growing, is a barrel without a bottom, in which Billions disappear. For the tax payers of the giving countries an end with a disaster would be better than a disaster without an end.

Of course, a state bankruptcy of Greece, or a going out of the currency union would be bad for the country and the Euro Area. But the eternal bailout is also bad. In the giving countries the resistance to the European Union is growing, and in Greece the anger on Brussels is growing. The sums in the meantime are so high, that they are even threatening the Eurosystem of the Central Banks. The European Central Bank has industriously bought the Greek State bonds in the market, partly at overrated prices, at the joy of banks and insurance companies. In order to provide the Greek Banks with liquidity, the European Central Bank even threw its safety standards over board and accepted itself junk bonds as a pledge for the refinancing.

The result of the double brake of taboo, is a monetary policy catastrophe. The European Central Bank has questionable bonds of Greece by the volume of about half the Greek State debt on its books. Adding to this are questionable papers from other crisis countries. Additional Billions are piling up in the balance sheets of other State owned banks like KfW, HRE-winding down institute or in the Landesbanks.

In the meantime, estimated two-thirds of the Greek State debt is on the books of other states or state institutions. Out of anxiety from banks and insurance companies, the “Bailout Europeans” want to buy even more time with new loans, in order to restructure debts further. If then, later on, the inevitable debt haircut comes up, then especially the tax payer will bleed.

One would like to ask banks now, to hold on to Greek State bonds. This, the finance ministers informally have already done formerly – with little success. German Banks were following this wish, but French Banks and Dutch Pension Funds threw their junk bonds into the market.

The monetary policy council of the European Central Bank doesn't want to continue to finance any longer unsound states. Rightly, such monetary politicians are playing the ball back into the field of the fiscal politicians. But the insight comes too late. The European Bank President Jean-Claude Trichet has made the Central Bank to a huge bad bank. He is now himself looking for being saved, when proposing a new European Finance Ministry. The state debt crisis has evolved, because European Finance Ministers did not abide to the rules that had been decided in the treaties and the institutions. How this should become better by creating an European Super Finance Minister will remain the secret of Trichet.

A sole huge European tax pot, free of parliamentary control, into which the European Union bureaucrats can put their hands, without having to present themselves to the vote of the tax payer – this is an old dream of Brussels. But something like this would not only be undemocratic, but also uneuropean.

No European Union Summit must decide on the restructuring of the currency union into a transfer union or into the introduction of a political union, without that the voters have been asked for that.

IFRS, Article: Break Through: First Global Definition of Fair Value

The IASB, with the newest IFRS-Standards, has drawn consequences from the financial crisis, **by Dr. Elke König**, member of the board of management of IASB

A few days ago, the IASB in London has published four new standards for the accounting under the IFRS: IFRS 10 Consolidated Financial Statements (Consolidation), IFRS 11 Joint Arrangements (Joint Ventures), IFRS 12 Disclosure of Interests in other Entities (Information to be given in the appendix), and IFRS 13 Fair Value Measurements (Identifying Market Prices). With the publication of these standards, we are essentially concluding the revision of two important areas of themes, to which also the G-20-Finance Ministers have attached a high priority in the context of the financial crisis: the Fair-Value-Evaluation, and the question, which companies have to be consolidated. The standards are promoting the Convergence-Project with the US American standard-setter, the FASB, by a good way, and they contribute to that the IFRS, as a whole, are becoming more consistent, and thereby making the financial statements more transparent, more comparable, and more informative.

The financial crisis has shown with pain, that standards of consolidation in difficult cases are not enough, when they take, as a basis for decision, only the legal structure or the distribution of the risks and chances of the activities. Although the IFRS, as a whole, have proven to be good, it became apparent, that more international convergence was necessary and that investors needed better information about the risks from entrepreneurial liaisons to special purpose corporations.

Our reexamination of the existing regulations regarding consolidation under IFRS has shown, that the existing “control”-principle was good, but it could be improved. Based on the existing principles in our standard on consolidation (IAS 27), we have made, in the new IFRS 10, the effective economic control to the governing principle for the decision “consolidation yes or no”. With this, we have created a uniform and consistent control-principle for all types of enterprises, which is applicable as well to traditional operating corporations as well as to special purpose corporations. The new IFRS 10 defines the control-principle and contains procedures, which in difficult cases are meant to help to determine, whether a consolidation has to take place. The standard is not a complete turnaround, but the consequential further development of an already existing principle; by the way from an “old known Person” from the German HGB (Commercial Law Book).

It is important, to point out, when developing the standard the point was not for us, to attain more or less consolidation. Our objective was, to make sure, that the balance sheets reflect the effective economic situations. Where no consolidation has to take place, now, through IFRS 12, more comprehensive, but also more meaningful informations have to be shown in the appendices. The new standard requires, for instance, statements about the kind, size, and importance, of the existing relationships to other companies, including to consolidated and not consolidated special purpose corporations. With this, we are meeting the requirements of the analysts, which have to evaluate the risks that go along with such activities.

Another new regulation is the elimination of the choice about the so called quota consolidation for joint ventures through IFRS 11. Here, in future, either the accounting of a participation under the equity-method has to take place, or of the proportionate assets and liabilities of the investor.

With IFRS 10, 11, and 12, we have also brought forward our convergence-projects with the United States of America. Still, we have not published, other than in the case of Fair Value Measurement, same language standards, but in our joint deliberations we have concluded, that our regulations, especially about the treatment of special purpose corporations, are leading to very similar results.

With the publishing of IFRS 13 we are putting together the regulations for the determination of fair values (often called market price) in one standard. Here, through intense collaboration with the FASB, we have reached the break through. We have agreed on a uniform definition and a uniform regulation for determining the fair value. That means, regardless of whether IFRS or US GAAP are applied, the fair value is being determined in future in the same way.

Important, with a view to the lessons from the financial crisis is, that IFRS 13 defines, how the fair value has to be determined, when markets are not liquid and when therefore the fair value has to be evaluated by way of help of models. To this belongs as well, which additional information has to be made available in such a case.

At the same time as us, the FASB has published changes to its regulations, which make the standards almost word by word the same. This is a milestone, with which we are also meeting the requirements of politics, especially of the G-20-Finance Ministers, for uniform standards.

It is certainly true, that with these changes significant requirements are coming on to the producers of the financial statements and to the investors. But: Accounting is not a rigid structure of regulations, but it must further develop in a world, which is getting even more complex, and it must also draw conclusions from critique. Only like this, accounting regulations can meet the expectations of the capital markets and can be used as a base for decisions.

Dr. Elke König, previously CFO of Rückversicherung Hannover Re, is member of the board of management of the IASB International Accounting Standards Board in London, United Kingdom. The article represents the personal view of the author, and is not an official statement of the IASB.

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By Steven Arons

>> Mr Reitan, you've been CFO of Statoil for two weeks. Why did they put you in this position?

<< I know the role and the business very well and have established quite a network within the company – just like many others, of course. But I believe I am seen as very action-oriented, trustworthy and as having high integrity – one of the most important character traits for a CFO.

>> How would you describe your new role?

<< The CFO role has evolved in general over the past years, and this is particularly true within Statoil. The CFO is now the CEO's co-pilot and involved in all of the company's strategic decisions. This means the CFO must have firm control of all the basics, such as accounting and controlling, and ensure there are streamlined processes in place, especially for the closing phase of each reporting period. For Statoil I can say that this has been achieved, which frees up time for the finance function to perform the strategic role and really work with the business.

Taking over such a well-run finance function is a real privilege.

>> How do you handle disagreements with Helge Lund, your CEO?

<< I've only been CFO for two weeks. Disagreements with the CEO are rare, but do arise and are a healthy sign that real discussions are taking place in the boardroom.

>> Although the Statoil finance function is already well-run, where do you see areas for improvement?

"Complacency Is Our Worst Enemy"

Torgrim Reitan, Statoil's new CFO, explains his take on the new role, the contribution of finance to sustainability, and why it is easier to be a good CFO in bad times than in good ones.

■ Into oil

Torgrim Reitan has been the CFO of Statoil since 1 January 2011. He has spent his entire professional career, spanning 15 years, at the Norwegian oil giant, both within operative roles in the natural gas area and corporate functions with a focus on M&A and performance management. His last position before his promotion to the executive committee was as senior vice president trading and operations of natural gas out of London. He will move back to Norway next summer.

With revenues of NOK 462 billion (EUR 59 billion) and a profit of NOK 18 billion in 2009, Statoil is among the biggest oil and gas companies in the world. The company, majority-owned by the state of Norway but listed on the New York and Oslo stock exchanges, employed 29,000 at the end of 2009.

<< I want to ensure that my people grow into their roles as business advisors even more strongly, which means identifying potential issues before others see them and bring them to management's attention. I also want us to become more visible, both internally and externally. Finally, it is crucial for us to always be prepared.

Being a good CFO during a downturn is challenging, but, ironic as this may sound, it may be easier than being a good CFO in an upturn. Let me explain: in a crisis it's all about reducing cash out and

putting liquidity in place to ensure safe passage. This means CFOs know pretty much what they have to do; it is only a question of competent implementation. In good times, though, you may have ample liquidity, which can cause investors to push you towards spending it on, say, M&A. It's during these sunny times that many of the really bad decisions are made that will come to haunt you once the rain starts pouring down again. Companies thus need a strong CFO during good times to ensure decisions will not turn on them later.

>> To what extent are Statoil investors worried about knock-on effects from the eurozone debt crisis?

<< Investors are generally uncertain about the direction of the overall economy. But we currently see very strong oil prices, and gas prices are heading up, too, so our business is very healthy. People who are looking at our industry are not so much worried about the debt crisis, but rather that the industry has been struggling to achieve future growth as we need to replace depleted oil sources with much more expensive ones. Many companies in the industry have recently delivered weak growth while taking on huge investments.

>> Have you received worried calls from investors after today's announcement that

the oil reserves off the Norwegian coast are lower than previously thought?

<< I will need to speak about the Norwegian Continental Shelf (NCS) to answer this question. The NCS is Statoil's backbone and its potential reserves are still huge. There is one part of the NCS that is mature with declining oil extraction, but improving recovery rates. Then there are production facilities that are coming on stream as well as an interesting exploration portfolio. Taken together, the growth outlook for NCS is fantastic, with breakeven prices that are competitive compared with anything in the world. It's not a dying province at all, and we will continue to be there for many, many years.

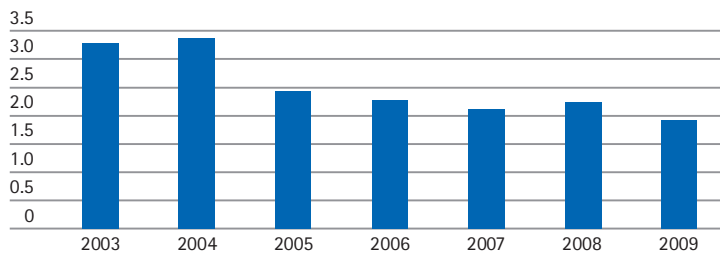
>> So, no calls from investors?

<< It does not seem to worry them much.

>> Statoil recently announced its decision to shut down 50 wells due to security concerns. How much will this affect your operations?

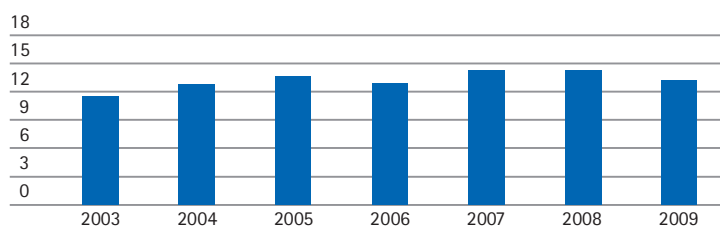
<< We are positioned to deliver a compound annual production growth rate of around 3 per cent between 2010 and 2012. However, due to the constraints of existing production permits and the temporary issues at Gullfaks, this growth will not be linear. We expect production for 2011 to be around the 2010 level, or slightly below. >>

■ A positive decline: number of serious incidents per million working hours (SIF)



Source: Statoil

■ Facts of the footprint: carbon dioxide emissions (million tonnes)



Source: Statoil

>> Statoil has won plaudits for its sustainability record. How?

<< What is unique here is that 50 per cent of the bonuses for leaders are tied to delivery targets and the other half to what we call behaviour targets linked to leadership skills and values and so on. Our consistent improvements are illustrated by a decline in the serious incident frequency (SIF). But we can never be satisfied; complacency is our worst enemy.

>> How do you set the targets?

<< The SIF indicator is widely used in Norway. Incidents are bound to happen in as big an organisation as ours. Whenever they occur, we need to find out whether they had a systemic cause. If yes, we need to remove it and implement the lessons learnt throughout the organisation.

>> Critics say a focus on sustainability conflicts with shareholder value.

<< Ask shareholders in companies with large accidents. Sustainability is as much about value creation as it is about safety.

>> Is there a way to measure how much, say, HSE is contributing to company value?

<< I think the only way to measure it is to compare our performance with companies that are not as good in HSE.

>> How important is the sustainability section of the annual report to investors?

>> **Macondo has been a reminder of how vulnerable a company can be to a single incident and how important our HSE efforts are.**

<< I certainly hope our investors read it thoroughly. We put quite some effort into it. It helps us in our effort to be as open and transparent as we can.

>> Will carbon capture and storage (CCS) technology ever contribute a large part of revenues to Statoil?

<< I don't think the industry has come far enough to say yet. But as a general rule we don't pursue projects where we don't think we can earn money. CCS is developing, and it might be able to make a significant contribution. However, much will depend on government subsidies. Investments of the kind we're doing, which have a horizon of up to 40 years or so, can only occur where there is trust in the sustained willingness of governments to support them.

We take climate change seriously. But it's also important to be realistic and accept that hydrocarbons will continue to provide an important part of our energy mix, with renewables hopefully making up a significant part, too. Our job is to work in both areas while reducing our carbon footprint as much as we can – which, frankly, we have been quite good at.

>> Given the recent Republican resurgence in the US, are your investments in climate control technologies going to decline?

<< We're making quite a significant investment effort in this area at the moment, for instance in a wind farm development in the UK.

>> Can you credibly support climate control when business success depends on consumption of hydrocarbons?

<< We are in favour of many different forms of energy. Indeed, natural gas should and could play a major role in reducing carbon emissions across continental Europe, if we replaced coal-fired energy plants with gas-fired ones.

>> How much has the Macondo disaster changed the way Statoil and indeed the entire industry operate?

<< It has been a reminder of how vulnerable a company can be to a single incident and how very important our HSE efforts are. We have gone through all the Macondo reports in great detail and compared that with the way we operate to ensure we are in good shape.

<< It also shows that when you operate in a business like deep sea exploration, you need quite a balance sheet, along with profound technological expertise and a good HSE track record. We are such a company. ||

Interview, South-Corea: The Monetary Policy Must Influence the Risk Preference

The central banks must recognize, early enough, the creation of financial bubbles, is requesting the South Korean economist **Hyun Song Shin**. Smaller countries are allowed to work with market interference against the international consequences of the monetary policy of the Fed.

Professor Shin, are you the new Milton Friedman ?

No. How come, you ask this question ?

Because you, like Friedmann half a century ago, have rediscovered the importance of money volume for the monetary policy.

I am examining the behaviour of financial corporations and for this also the money volume. But I do this for different reasons. Friedman analysed the money volume with a view on inflation. I am analysing the money volume with a view to the stability of the financial system.

The lately dominating school of direct inflation steering does regard it as not reasonable, to make analyses of the monetary and credit volume for the monetary policy.

In science, it happens, that the search for theoretical elegance and technical perfection makes the analyses somewhat onesided, and that the look back can be helpful.

What happens, if, according to your analysis, the central bank lowers the interest rates, as a difference to direct inflation steering ?

In the world of direct inflation steering, the changes of key interest rates have the effect, that the inflation expectations of people are being changed. This produces changes of the longterm interest rates, which again influences the real economy factors like consumption and investment. The monetary policy, in this model, is having an effect by way of adaptations of the interest rate curve.

And what is happening in your model ?

I am asking, what happens after changes of the key interest rates in the financial sector, and here especially at the banks. These influences are very important. Changes of key interest rates influence the refinancing costs of banks and therefore have an influence on how they are shaping up their balance sheet. Changes in the banks`balance sheets then influence the real economy. This can be shown quite well by way of the international role of the US dollar.

In which way ?

Large, internationally active banks have indebted themselves in the United States cheaply and then brought these monies to their headquarters and have invested them, from there, around the globe in investments, appearing to be attractive. In this way , the American monetary policy transfers itself abroad.

Of this, however, the Fed does not want to hear anything.

It would be unreasonable, to expect from a central bank, that it pays attention to the international arena. The mandates of central banks are limited to their home countries. From this, other countries have to draw consequences.

What remains to be done, if the Fed is pursuing such a lax monetary policy, that significant transfers of its policy abroad do take place ?

The capability to act regarding the monetary policy in other countries must be maintained. The monetary policy, there, must not get into a situation, that it does not take steps which are necessary from an internal economic point of view, because it is afraid, in this case, of too great capital inflows.

Milton Friedman supposedly would have answered to this: Flexible exchange rates are fully sufficient, in order to safeguard the national sovereignty of monetary policy.

The classical argument is: When a country has capital inflows it lets its currency revalue, and the capital inflows will stop soon. This may be true for a world with many small investors. But we live in a different world, in which there are big investors, which work with a big lever of indebtedness. With the revaluation of the currency, increases the value of the investments, and the return, and the capability for indebtedness, and from this arises an incentive, to continue to invest in the revalued currency.

But this cannot continue for ever.

No, if the emerging country currency revalues astronomically, then the moment comes, when the highly indebted investors suddenly want to liquidate their positions. From this, heavy disturbances in the foreign exchange markets can arise, and in the economy of the emerging country. A policy directed at financial stability, will want to prevent such a development.

If you regard as insufficient flexible exchange rates, for deterring foreign influences, would you then not have to welcome capital market transfer controls ?

This is being considered by the International Monetary Fund. But for me, I am not especially interested in capital market transfers controls. There exist for countries also other possibilities, for instance of a tax nature in the financial industry, in order to get away with undesired consequences of a too large liquidity in the world economy. When I worked during the last year temporarily for the government in South Korea, we had introduced there tax measures, in order to make a contribution to financial stability.

Such market interferences can also create disturbances in the market.

Right. The consequences of market intrusions have to be exactly evaluated, because a market interference for taking away a disturbance, will create another disturbance. It is a question of the smaller evil.

Do you believe, that the lax monetary policy of the past years has contributed to a rise of raw material prices ?

This is a very difficult question. One interpretation says, that the price increase is only been influenced by fundamental factors like the demand from China. Another interpretation makes the monetary policy responsible. The situation of the facts is not quite clear, but I think, that also monetary influences do play a role.

In your works, you point out a so-called risk taking canal of the monetary policy. What do you mean with this ?

Let us take an example: The Fed announces, that the key interest will be kept low for a long time. This is an invitation to the commercial banks, to borrow money shortterm at a low interest rate as much as possible, in order to invest it longerterm and at higher interest rates, but also to often invest in less liquid investments, and to thereby incur more risks. This leads to a paradox result: Although the central bank wants to create safety, by way of its announcing of constant interest rates, it is encouraging the banks, to enter into additional risks. This may be not bad in a normal situation, but if the financial system is already under stress, such risks can exceed an acceptable measure, and through the international proliferation of the monetary policy described above, there do result effects in the world.

Should central banks, apart from the control of the price level of goods, also try to steer prices in asset markets like equities or real estate ?

This is a traditional question. I think, it is not very helpful. A central bank has not the possibility to discover whether a speculative bubble has been created in an asset market. A central bank should try, to discover in time the prerequisites for the creation of speculative bubbles.

And to this can serve the analysis of monetary and credit volumes ?

Exactly. The developments of these volumes give valuable informations about the risk preferences in the financial industry, and about the liquidity in the market. An interesting indicator is for instance the ratio of lending financings through banks and through the bond market, which according to experience reacts to changes in the economic situation. The money volume, again, supplies information about the making of loans through banks and their risk preferences.

Is it possible to conclude, from these concepts, a simple rule for the monetary policy ?

Yes. When analysing the bank balance sheets, it is worthwhile, to compare the growth of loans made, based on the financing with deposits, with the growth of loans, which are financed in a different way. It is typical for a boom, that the portion of loans not financed with deposits, in relation to the total liabilities of the bank, is ever increasing. From this, one can early on recognise hints on developments, which can become a danger for the financial stability, and one could indeed formulate this as a rule. From a political point of view, simple rules are always more recommendable than complicated rules.

The interview was made by Gerald Braunberger and Philip Plickert. The complete interview can be read in the internet under www.faz.net/shin

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Mr Chollet gives a speech at the CFO Summit Southern Europe.

By Steven Arons

>> How much is the sovereign debt crisis affecting NH?

<< It is not affecting us much. Most Spanish companies feel it through the increased cost of borrowing. But we haven't started working on our refinancing yet. We will go through this process in the second quarter of this year.

>> But then you will be facing higher refinancing costs?

<< They will be higher than before the crisis. But then again, credit was unreasonably cheap back then, so we're now going back to a more rational level. In addition, the financing terms have been relaxing recently, which you can see if you take a look at the CDS spread between

■ Many beds, no rest

Roberto Chollet Ibarra has been the CFO of NH Hotels since 1998. He joined the company after the merger with industrial holding Cofir, a major shareholder, where he also served as finance chief from 1990. NH Hotels, which is listed on the Madrid Stock Exchange, has seen its sales increase from EUR 148 million in 1997 to EUR 1.2 billion in 2009. Perhaps more importantly, it has grown from a domestic into a global company with almost 400 hotels on three continents. Mr Chollet has been actively involved in all the M&A transactions, most notably those of the Dutch Krasnapolsky in 2000, the Mexican Grupo Chartwell in 2001, Astron Hotels in Germany in 2002, and the Italian Framon and Jolly Hotels in 2006.

"We've Been Doing Our Homework"

Roberto Chollet Ibarra, CFO of NH Hotels, talks about the cost of capital, the threats to leasing, and the lure of China.

Spain and Germany. This will help us in getting better refinancing conditions.

>> Your big syndicated loan must be refinanced next year. How much of a problem are you anticipating?

<< We've already started talks with banks to find out what the market conditions are. We're also intending to diversify our funding, which means we want to tap funding sources other than bank loans such as bonds or US private placements. But those discussions are still at an early stage.

>> If indeed issued, would that be your first bond?

<< Yes. Up until the crisis there really was no need to look for alternatives to bank credit. It was fully available and really cheap. This is different now. Bank credit has not just become more expensive but also scarcer as banks have less capital at their disposal.

>> How difficult was it to manage the syndicated loan during the crisis?

<< We came close to a covenant breach in 2009 and 2010 but were able to get a waiver in both cases. We entered into talks very much in advance. The first waiver in 2009 was agreed to by around 90 per cent of the syndicate, and the second waiver was even unanimously approved. That was the first time I've ever seen that happen. The banks were very cooperative and appreciated the transparency we offered them and our clear deleveraging strategy. We've been keen to do our homework: we raised our capital in 2009 and have since

stuck to our asset disposal plan. It wasn't easy, of course, but it worked out well.

>> How much are you relying on Spanish banks for your funding?

<< Our syndicated loan is managed by Spanish institutions but banks from Germany, France, Italy and the UK are participating in it. About a third of our debt funding comes from international banks.

>> Are you concerned that the Cajas will not be able to fulfil their commitments toward you?

>>

We've been selling a fair number of assets and have realised a capital gain on each one.

<< There's no reason to be concerned. Those cajas that are shareholders of NHH are either big enough to be insulated against potential shocks or among the most highly capitalised institutions in Spain.

>> The Spanish savings banks are about to undergo a massive restructuring process. How is this going to change the way Spanish companies can procure financing for themselves?

<< One important effect will be that there will be fewer players in the market, albeit bigger ones, resulting in less financing

available to Spanish businesses from Spanish institutions.

>> NH Hotels is a big owner of real estate. How much has the crisis in Spain eroded the value of your assets?

<< Not much. The value of our hotels is calculated according to the discounted cash flow method – so their value is a function of the cash flow they produce. That did go down in 2009, but has been recovering since 2010, with further recovery expected for this year. On top of that, the book values of our assets did not reflect the prices you could have fetched at the peak of the cycle because we acquired most of them at a lower point of the cycle. In fact, we've been selling quite a fair number of assets and have been able to realise a capital gain on each one.

<<

>> That may simply show that you're only selling assets that you can realise a gain on.

<< Well, we've also sold several assets which we only acquired in 2007 – that was at the very peak of the real estate boom. And we haven't sold any assets in the Netherlands, although we bought them as far back as in 2000. I think this shows that the asset values we have in our books are very precise and, if anything, are probably a little lower than their actual market value.

>> You've announced an asset disposal programme of EUR 300 million. How far have you progressed with that?

<< We're now at 70 per cent and convinced we'll be able to complete the >>

CFO INTERVIEW



Mr Chollet (center) at the gala dinner of the CFO Summit, held at the NHow hotel in Milan.

programme by the end of the first quarter 2011.

>> Given that it's not a seller's market, how difficult is it for you to find buyers?

<< The market has changed very much since 2010. Before last year, all the letters of interest and so on that we were receiving were subject to financing. But the liquidity has come back, at least for specific operations and investors. Not only are we now receiving a higher quantity of LOIs; they're also of a higher quality as they are not all subject to financing.

>> How do you decide whether to buy, lease or manage a hotel?

<< The hotel market in Europe is tremendously fragmented. Only 20 per cent of the hotels are managed by big brands. Compare that with the US where they control 75 per cent. Many times the properties are in the hand of wealthy families who are unwilling to sell, regardless of how much we'd like to buy them. But maybe they will be open to leasing the property for a given period of time. This is one strong constraint. Right now we're also facing new IFRS accounting rules that may force us to take our operating leases on the books, which would make the life for the lessees and lessors more difficult.

>> Does this change mean you will be relying less on leasing?

<< It means we'll have to think twice before we decide to lease a hotel. If the final rules look like the proposals that we're seeing on the table right now, they would very much penalise our future leasing operations. This would require us to be much more demanding with respect to the return we'd expect from those hotel operations.

>> As a general rule, how much of a return do you expect from any hotel in order for it not to be disposed of?

<< This very much depends on the context. But whenever we decide whether we want to take on a new property we apply a full equity approach, meaning we determine the return we'd like to get if we decided to buy the hotel. The internal rate of return we demand from hotels also depends on which countries they're in. Our hotels in South America are expected to yield higher returns than the ones we have in Western Europe.

>> How can you sell an unprofitable hotel?

<< It depends on why we want to sell it. Maybe it's not in the right price segment or maybe we bought it as part of a larger portfolio but it doesn't fit with our strategy. For example, we're mostly focused on four-star hotels, so sometimes we cut five star hotels out of portfolios we have bought and sell them on to five-star hotel chains.

>> When will you open the first hotel in Asia?

<< This company wants to grow, and there are opportunities in many different places. Our decision to go to China or any other BRIC country depends on whether we can find local partners there with good market knowledge. But if we find the right partners, the financing conditions are right too, and the directors approve it, then China will be a very interesting place to be.

>> It seems like for a hotel business it shouldn't be too difficult to break into a new market: you just buy a single hotel there to gain market knowledge, possibly incurring some minor losses, to set yourself up for expansion there?

<< If you want to cover a territory as big as China's, anything under what we call a certain minimum muscle, that is a minimum number of hotels, is nothing. One of our advantages is to have a network of hotels all over the country. For example, it's different for eastern European countries with much smaller territories and almost the entire economic activity concentrated in very few urban centres. In China, though, there are more than 60 cities with more than 1 million people.

>> So China is not a top priority?

<< It's not a top priority yet because we've been focusing on honouring each of the stages of our strategy, namely the capital increase, the cost reduction plan and the sale of non-strategic assets. Now that we're beginning to see the recovery taking hold, we should be able to restart our growth process, mainly through management contracts. ||

USA, Article: How Greek is Amerika ?

**by Christian Siedenbiedel, Frankfurter Allgemeine
Sonntagszeitung**

After the Greek, the Irish and the Portuguese, now the USA are falling into distress. But for this country every bail-out fund would be too small.

The past Monday could enter into the history books: As the day, on which one of the great certainties of the world economy became shaky. Proud 70 years long, since 1941, the rating agency Standard & Poor's had evaluated the bonds of the United States of America, without interruption, with the best rating "AAA".

Now the agency has lowered its outlook to "negative": With the probability of still one-third, America is threatened to lose the good rating – and thereby its reputation as good debtor. Around the globe, as a consequence, share prices went down – in the contrary to that, the price of gold increased. The message was clear: The world of exchanges is worried about America.

The big question now is: Is the state debt crisis, which is raging since more than a year at the outskirts of Europe, now also reaching the largest economy of the world ? Will things go for the Americans like for the Greek ? Will the proud country of the stars and stripes and the marines possibly soon be in a similar situation like the country of the fallen down temples and columns ? And if so: Who should, would, and could in such a case save this huge country ?

For certain: There are parallels between America and Greece. The American economist Barry Eichengreen said: "Other than in Portugal and in Ireland, the crises of the state debt in Greece and America are not the consequence of an expensive banking bailout". It is rather due to "chronically too high state expenses" with at the same time "chronically too low tax income ": Both states have lived beyond their means.

At the same time, however, beyond the Atlantic much different sums are at stake than in the province of Ägäis. More than fifteen trillion US dollar state debt have the Americans piled up – a number with still twelve zeros. This is more than 30-times the Greek indebtedness and is still more than all Euro-States together have state indebtedness.

Already three years ago, the Americans had to restructure a five times ten meter large debt clock, which hangs in the vicinity of Times Square in New York: Its numbers did not suffice anymore, when America's indebtedness reached a double-digit trillion amount.

Up to now, the Americans had not to pay higher interest rates on this huge indebtedness. The German economic expert Beatrice Weder Di Mauro calls this the "temptation of America": Because the US dollar is not only the money of America, but also the reserve currency of many countries, the interest rates for American state bonds traditionally react less strongly on a high state indebtedness than the ones of other countries. Still, however, the return on 10 year American government bonds increased since the last fall already from 2,4 to roundabout 3,4 percent. This is still much less than the good 7 percent, which Greece had to pay, before the bail-out package of the Euro-Countries was set up, but it is still increasing. Still the

Americans are denying that they are in serious difficulties. “ We are making progress in resolving the problems” was the standard sentence by the finance minister Timothy Geithner in the past week. A sentence, however, which sounds dangerously familiar – from the Greek. And these are now standing before a debt restructuring – despite of all denials.

The different ways of bail-outs are known from Europe, sufficiently, from the bail-out umbrella up to the bail-out fund. The principle is always the same: Countries with less indebtedness are stepping in for countries with too high indebtedness.

But who could at all save a country like America, when it comes to the worst ? Who should fill a bail-out-pot, 30-times as big as the one for Greece ? Europe ? This one is known to be completely busy with the Greek, the Irish, and the Portuguese. The International Monetary Fund ? Also this one will not help. There, the Americans, are themselves the biggest creditor. Or even the world-state-community ? This one probably would not agree so quickly. And also one should not rely on dear God too much – even though on each US dollar note one can read “In God We Trust”.

Remains the idea, China could save America. Still, Chinese with 1,2 billion US dollar are the greatest creditor of America – before Japan, Great Britain and the Oil States of the Gulf. And the Chinese have already bought critical Southern European state bonds. But can one rely on China ?

Finally, a lot is depending, for us, on Americas well-being. “When America falls into a state debt crisis, we can close down”, says Jörg Krämer, Chief Economist of Commerzbank. And this so, because world-currency-reserves partly are invested in American state bonds. “If America is not servicing anymore its debt, then the anchor of the world economic system is breaking.” A new world wide financial crisis will be the consequence.

But there is a difference between Greece and America. And this one could give the answer to the question, who would save America. “We Americans have our own currency”, says Eichengreen. “This is the difference”. Greek has still only limited influence on the Euro. About this one decides the European Central Bank. And there, Greece has only one voice among many.

America instead has a firm hold on the US dollar. “We can print more US dollars, in order to finance more debt”, says Berkeley-Economist Eichengreen. ” Therefore the answer on the question, who can save America, is – the Fed”. If the central bank is using the money printing press, then the inflation is increasing. All savings are then worth less – but also all indebtedness.

Bill Gross of the large investment fund Pimco expresses, that things might develop this way. “If there will not be radical reforms, the country will not be able to repay its debt”. He speaks of “default”. This one, however, will not happen in the conventional way: “ The state will self – service itself from the savings of the investors – by way of inflation and devaluation of the currency ”. His Fund has already drawn the conclusions since weeks – and has sold all US American government bonds. With the rationale, that America is said “ to be more Greek than the Greek”. Now he considers his position as confirmed.

Please turn over

Government Indebtedness 2011, gross, Billion US Dollar

USA	15.154 billion US \$
Japan	13.337 billion US \$
Euro-Area	11.293 billion US \$

of which:

Germany	2.819 billion US \$
Spain	949 billion US \$
Greece	473 billion US \$
Ireland	243 billion US \$
Portugal	214 billion US \$

In percent of GDP (2011)

Annual Government Deficit		Outstanding Government Debt
10,8	USA	100
10,0	Japan	229
4,4	Euro-Area	87
2,3	Germany	80
6,2	Spain	64
7,4	Greece	152
10,8	Ireland	114
5,6	Portugal	91

debt volume, gross, estimates of IMF. Sources: IMF, Bloomberg

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IAFEI physical Executive Committee Meeting, September 16, 2011, Beijing, China

IAFEI physical Board of Directors Meeting, September 16, 2011, Beijing, China

41st IAFEI World Congress, Beijing, China, September 16 to 18, 2011

Cacfo, the Chinese IAFEI member institute, will organise and host the 41st IAFEI World Congress, in Beijing, China, in September 2011.

September 16, congress registration, evening reception

September 17, full day conference program. Evening Gala Dinner

September 18, half day conference program, afternoon optional tours

The Congress Program and the Registration Form are available on the IAFEI website, www.iafei.org,

as well as on the special congress registration website www.iafei2011.org.