

Issue

1

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First Issue



IAFEI Quarterly

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Dear Financial Executive, member of an IAFEI member institute,

Please find, hereafter, the ***IAFEI Quarterly***, the electronic professional journal of IAFEI (International Association of Financial Executives Institutes). This is the first issue, of November 2007:

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Letter of the Chairman

Dear Financial Executive,

Today we are sending to you the first **IAFEI Quarterly**, that is the electronic professional journal of IAFEI. We intend, to send a similar journal to you from now on quarterly.

We also intend, to improve the quality of this **IAFEI Quarterly**, gradually over time. For this, your input and your recommendations are highly appreciated, as well as the input and recommendations of your national IAFEI member institute. With creating the **IAFEI Quarterly**, we are creating the so far still missing cornerstone of the entire IAFEI architecture: this cornerstone being the **Added Value IAFEI**, which, from now on, we want to regularly deliver to your desk.

This added value will be professional content and know-how of potentially and effectively great benefit for you, the financial executive of your corporation. All content that goes into the **IAFEI Quarterly** has before crossed the hurdle of IAFEI professionals who have filtered it out as "worthwhile to be known" for the financial executives from around the world. To do this condensing and filtering process, is an ongoing duty of all presently acting IAFEI officers, to which they are collectively committed. The **IAFEI Quarterly** is meant to enrich you, we do not want to waste your time with it.

We, at IAFEI, are doing this for the first time. Should we not meet your expectations, please let us know quickly. We stand ready on growing IAFEI on your proposals and on your input. Let us therefore also use this quarterly journal as a sounding board and an instrument for the mutual flow of professional information within IAFEI.

Over time, all present IAFEI member institutes will contribute professional articles and condensed other information to this **IAFEI Quarterly**. They all have been asked to do so, after they all unanimously had agreed to create this **IAFEI Quarterly**. Already, we have sufficient commitments for articles in the pipeline, so that we will be able to produce the following four quarterly journals.

Please, be not irritated by the simplicity of the form and format of our first issue of the quarterly journal. We just wanted to get the thing started. To us, for the first issues, content is all, and form is secondary. It is, though, our intention, to also improve form and format over time.

But, please, also bear in mind: IAFEI is a very slim organization. IAFEI has very small financial means. Our member institutes presently are providing to IAFEI a budget in the order of only 80,000 US-Dollars, most of which goes to our secretariat and website administration and travel expenses for the IAFEI Executive Director, who himself works as a professional without being presently paid a salary by IAFEI.

With such limited financial means, we cannot provide a printed version of the **IAFEI Quarterly**, with lots of graphs, photographs, and colour, as much as we would prefer to do so.

In summary, let me *remind all of you: IAFEI is, first and foremost, your professional input into our agenda.*

Therefore, we do ask you personally, as well as your national IAFEI member institute, to provide us, from time to time, with professional input, at your discretion, and at the best of your knowledge, and also to let us know, which subjects/topics you wish to be featured by the journal over time. This will be the best way to grow IAFEI and make it interesting for all interested parties. Let us jointly and effectively accept and take up this challenge.

Last, but not least, let me mention, that IAFEI - other than the newly created **IAFEI Quarterly** - is following additional objectives, which are defined in our by-laws and which can be accessed by our website www.iafei.org. Such objectives are the networking between financial executives and national financial executives institutes from around the world, as well as advocacy on professional regulations and standard settings vis-a-vis national and international legislators and regulators, to just name the two other most important objectives of IAFEI. Of course, IAFEI does also pursue these objectives diligently and relentlessly, within the limitations of its resources, and on the basis of the professional commitment and input of its member associations.

I am wishing to you, and to the IAFEI family, acceptable satisfaction from receiving and reading this **IAFEI Quarterly**.

You will hear from us again, as much as we look forward to hearing from you in the future.

With best personal regards,

Your Chairman
IAFEI

Helmut Schnabel

News: Initiative/Lessons in the Aftermath of the Financial Crisis Caused by Subprime Mortgage Loans

International bankers have gathered at the October meeting of the international monetary fund in Washington D.C., USA, and have discussed ways and means out of the financial crisis.

The chairman of Deutsche Bank, Josef Ackermann, in his capacity as head of the international bankers association "Institute of International Finance (IIF)" announced the following:

IIF, which has over 370 international financial corporations as members, will work out a catalogue of voluntary guidelines "Best Practices" until next spring.

A committee has been established, to which belong managers of the largest financial institutions. This committee will work out, until spring 2008, recommendations on the following subjects: how the risk management and the loan making process of the banks can be improved, how the determination of prices for risks can be improved, how future liquidity risk can be taken care of, and how the transparency of the banks can be improved. Further on, conduits for the financing of structured products, and the liquidity risks, which the banks are entering in off balance sheet. Evaluation methods in non liquid and barely liquid markets. Interpretation and improvement of ratings. Transparency and disclosure and communication of the standards, to be developed. In addition, IIF wishes to act in the future as a kind of early warning system, which will in time alert on potential systemic risks for the market. – Obviously, this initiative is also meant to make unnecessary a new wave of regulations.

"We want to establish a platform, which more often can raise the moral finger." In addition, the association in future wants to co-operate with governmental agencies, in order to improve cross boarder supervision of banks.

Ackermann also admitted that the banks had made mistakes, which have contributed to causing the financial crisis. "This is our responsibility." However, the financial crisis could be controlled. "Without doubt, we can survive this crisis, and we can come out of it even stronger than before", he said.

"Even though it is a heavy crisis – there is not a systemic risk", is calming down Baudouin Prot, Chairman of BNP Paribas.

Danger is, though, still emanating from the off balance sheet special purpose vehicles (conduits) – eventually, though less from those, owned by banks, but more from those owned by others. These companies are still having difficulties, to refinance themselves. "Some special purpose vehicles could be hit, which are not being supported by banks. But the problem is, we do not know, who is in danger", says Alessandro Profumo, Chairman of the Italian UniCredito bank.

"More than 60% of the subprime mortgage volume is on the books of not regulated market participants", says Klaus-Peter Müller, Chairman of Commerzbank and of the Association of German Private Banks. He is asking for a quick international application of the new equity regulations for banks. These regulations are being called in the banking jargon "Basel II".

“The financial market turbulences should not be taken as excuse to defer the introduction of Basel II in the United States again”. In Europe such regulations are in force starting 2008, whereas in the United States such regulations are still being debated. The new regulations forbid, among other things, off balance sheet conduits without sufficient equity financing – that is exactly the methods which led IKB and Sachsen LB in Germany to the brink of bankruptcy. “Had we introduced Basel II already a few years earlier, then we would not have had this financial crisis”, says Müller.

More on “Institute of International Finance (IIF)”:

The IIF was founded by leading banks in 1982, after the eruption of the Latin American debt crisis. With presently 300 leading banks and other financial institutions as members, of which 100 are from the emerging markets, the association is taking care of the interests of the leading banks, investment banks, insurance companies, investment funds, vis-à-vis governments, central banks, and international organizations.

According to IIF-Director Charles Dallara, the IIF has experience with its development of standards for the bond market in emerging market economies, which is “useful experience how with a negotiation of best practices among all participants a possible counterproductive regulation can be avoided”. As an example, the IIF has worked out, in cooperation with the great issuers of the emerging markets (Brazil, Mexico), and with the associations the financial industries a catalogue of best practices, which was thereafter recognized by the group of 20 (G20), and also the seven leading industrial countries (G7), and the large emerging market countries.

Content of the article quoted from Frankfurter Allgemeine Zeitung, from Börsen-Zeitung, and from Handelsblatt, October 23, 2007

Helmut Schnabel

News: Crises Be Better Resolved in Silence / McCreevy against More Transparency in Financial Markets

The EU Commissioner for internal market, Mr Charlie McCreevy, has opposed requests, which have been made for more transparency in the financial markets. If the financial crisis of the past four months has showed anything, then this, that the existing requirements for transparency have rather done damage than provided benefits, said the commissioner on Friday in Dublin, Ireland, and he thereby took a position against the Federal Chancellor Angela Merkel of Germany and the President Nicolas Sarkozy of France.

Should the stability of credit institutions be in danger, one should better resolve this behind closed doors. The hailed regulations for transparency have made this more difficult, and they have contributed to that a problem has developed into a crisis, said McCreevy. They had put the investors into panic and to a run on "Northern Rock", the British Bank. Transparency, which is leading to panic, then subsequently to saving activities by the central banks and to general distress of investors, is a transparency, without which one would be better of.

He went on to say, that consequences from the financial crisis must be especially taken by the rating agencies. In order to regain their credibility, they should make sure, that their rating departments are independent, and are at the same time controlled by an independent supervisory body. The rating agencies have been criticised, because they had given very good ratings to bonds secured by weak mortgage loans until shortly before the crisis broke out.

Content of the article quoted from Frankfurter Allgemeine Zeitung, October 27, 2007

Helmut Schnabel

**“Transparency in the Financial Area, the Perspective of the Outside Auditors“,
Mr Prof. Dr. Gerd Geib, member of the board of management, KPMG Deutsche Treuhand-
Gesellschaft AG, presentation at the event “Transparency in the Financial Area”, organized by
the “Finance Research Institute of the University of Cologne”, Germany, October 12, 2007**

Translation by Mr Helmut Schnabel

Article provided by the Association of Chief Financial Officers Germany

The article addresses accounting issues, which, due to the recent financial market turbulences, have got increasing attention in Germany and worldwide, including the IFRS standards. Themes are the consolidation of certain special purpose vehicles, valuation of Asset Backed Securities, concomitant loan commitments, special accounting regulation developments for the insurance industry, ever increasing regulations changes requiring more and more transparency via notes to the financial statements, to the degree of approaching the point of informational overkill.

“Transparency in the Financial Area, the Perspective of the Outside Auditors“: Ladies and Gentlemen, it is obvious, that I will focus on the accounting and the transparency of the annual financial statements. As regards measures for the enhancement of the transparency in accounting – in general terms and in the financial area – it is to be stated, that there are legislative measures, as well as voluntary disclosures.

Let me point out, that the financial statements accounting law – if you look at a large time span – had three essential reform periods: 1937, and 1965, in the German Law for Joint Stock Corporations, and later on in the eighties and nineties in the HGB (German Commercial Code) regarding the translation of European Union regulations into national law, especially also the accounting regulations regarding bank financial statements and insurance companies financial statements.

Between such phases, there was a regulatory standstill. In 1998, it was made possible for (German) corporations, to publish group financial statements according to IAS or US-GAAP, instead of accounts according to HGB. Especially the banks and the insurance companies made use of this new possibility.

In most recent history, the German legislator has passed numerous laws in the area of accounting, almost all of which are aiming at a further improvement of transparency: introduction of segment accounting, introduction of reporting about risks, enlargement to chances in the framework of the statement on the affairs, quarterly interim reporting, etc.

As voluntary measures have to be mentioned the recommendations by the Federal Association of German Banks – for instance regarding derivatives and statements about their market valuations – or the voluntary publication of detailed information regarding the market value of the invested assets of insurance companies.

As the emphasis of my job in the insurance industry, I had hoped, to be able to limit my presentation to the theme, how the accounting can contribute to transparency in this industry.

A good basis for this discussion is given by the present thoughts at the IASB, to introduce, for insurance contracts, a market value or a fair value accounting. A development, which certainly will be expanded to other industries as well.

In view of events of the recent past I regarded, though, as necessary, to address three additional non-insurance industry specific subjects:

1. The consolidation of certain special purpose vehicles in the context with structured financial products.
2. as well as the problems of valuation of ABS-papers (Asset Backed Securities).
3. and the treatment of loan commitments given in conjunction with such constructions, but especially also for leveraged buy-out financings.

You will understand, that what I will say about this will be general statements, that is I cannot address individual, customer specific single situations.

At first, the question of consolidation: According to the international accounting regulations – IFRS – a consolidation is necessary, when a company is under the command of another company (the parent company).

The criterion "under command of" is applicable also to special purpose vehicles. A situation "under the command of" between initiator/sponsor and a special purpose vehicle is being assumed, briefly put, when benefits and risks, with majority weight, can be attributed to that one. A dominance of control can exist even in such cases, in which the parent company is not at all share holder of the special purpose vehicle.

The application of the criterion "under command of" in this context necessitates in each case an evaluation by making use of all relevant factors, and an economic valuation. In favour of a consolidation, at first the question puts itself: who is really participating in the situation? The bank, which is selling the loans made to the special purpose vehicle, the bank, which initiates the special purpose vehicle, the institutional investors, which are purchasing the issued papers (commercial paper) and, last but not least, also the banks, which provide the liquidity, if the investors do not or not in time, acquire such papers. Generally speaking, at first all parties, participating in this structure, eventually have to be considered for consolidating the special purpose vehicle.

Secondly, the question has to be answered: Which risks have to be taken into consideration, with which probability can they become reality, and who is carrying such risks: default risks, liquidity risks, currency risks, market risks, etc.

Dear Ladies and Gentlemen, you see: it is not so easy to answer the question, who should make a consolidation. In the end, it is necessary to make a diligent evaluation of all aspects of each single situation.

Some leeway of judgement is remaining. Often, the special purpose vehicles are being set up especially in such a way, that a consolidation must not be done. The German accounting regulations require, for a mandatory consolidation, in principle the existence of a participation. Consequently, under the German HGB, presently there is no consolidation of conduits.

With the planned financial modernisation law, however, an alignment between the principles of consolidation under national financial statements law with the international accounting regulations is being targeted. Especially this relates to special purpose vehicles.

If it is the sense and the purpose of a consolidated financial statement, to show the risks of all group companies combined like with the single company, then the consolidation is mandated at least in cases, in which the assumption of the majority of risks by a group company is being given. A consolidation is on the one hand supplying a different kind of balance sheet, but only a subtly different accounting of risk. Already today exists the obligation to set up a risk reporting respectively a reporting of liability situations and other financial liabilities. Certainly, however, a consolidation does result in a different effect of recognition. Here, I can only appeal, that the companies make transparent the respective risks, clearly and distinctly, in order to prevent, that investors and readers of annual financial statements put into question the reliability of financial statements.

If all present, principles based rules for consolidation will not be applied diligently, then a detailed enlarged collection of single case regulations is threatening. Experience shows, that single case regulations, in the end lead to the creative development of even more complex structures, in order to prevent a consolidation. Which, however, further decreases the transparency.

Trust in the balance sheet is a totally essential prerequisite for stability of the financial system. To this extent the lately spoken out request by Ackermann should be supported, that all banks should account for their investments in ABS products with market values. Difficult, however, is to find such values in illiquid or little liquid markets.

What is here the problem? In the summer of this year a dramatic re-evaluation of the risks took place, that are related with private mortgage loans in the USA. From this resulted an extreme expansion of the credits spreads for individual rating classes.

It is important to understand, that this is not credit defaults, but market value changes. As well, the loan conditions for the respective rating classes were dramatically increased. Or to put it differently: If one would have to sell such loans today, one could do this only by accepting significant discounts.

Not only the market for collateralized mortgage receivables, but also the entire ABS market presently shows a significantly decreased transaction volume. Few ABS funds even have cancelled to take back fund certificates, in order to prevent a necessary sale of assets in this unusual market situation in case of higher cancellations. This is certainly also in the interest of the investor.

Thus, the problem of the valuation of the default risks of credit portfolios is on the table. These risks cannot only be made simply visible by pushing a button. When looking at the special purpose vehicles and similar structures, the above mentioned conduits, it is not simply recognizable, what is standing behind the investments. The conduits often consist of numerous sub-companies, which are invested in different kinds of securities. Here exists a very clear demand for transparency, by way of

a so-called “look through” to the originally collateralized assets, so that the risks can be identified and evaluated adequately.

Against this background, it is presently being discussed how to arrive at market values especially for ABS-papers in illiquid or little liquid markets. The international accounting regulations define such market value, to be applied, as “the amount, at which the financial instrument could be exchanged between knowledgeable parties, which are willing to enter into a contract, and which are independent from each other”. The best point of orientation for market value is listed prices in an active market.

The question arises, whether in view of the presently small transaction volume one can still speak of an active market? When a transaction is made close to the effective timeline, the price of such transaction is also the best indicator for the value, even when extreme volatility and shortage of liquidity exist. The last transaction price must only then not be taken as market price, when the company can prove, that it was a so-called “forced sale”. That is, the transaction was a forced business, a forced liquidation or an emergency sale.

Also the evaluation by a broker, who is regularly dealing with the paper, can be a price. In recent times, broker prices have become known, which very obviously were given with the intention to prevent, that a paper would have been delivered to him (so-called “defense quote”). Before quotes by brokers can be treated as active market prices for the evaluation of the market value, therefore such quotes in each case have to undergo a plausibility test.

What happens, when really no active market for financial instruments exists? Then the market value has to be found by way of a valuation method. To be mentioned are, for instance, latest contracts with other, essentially identical financial instruments, an analysis of discounted cash flows, or valuation models.

The objective is to find the transaction price, which would have existed on valuation date, had normal business conditions been existing. Important is, when making use of models, that the market liquidity is entering such models as well.

Also a few words regarding the accounting for credit or liquidity promises. According to HGB, such promises have to be reported already in the footnotes, and also under IFRS, they have to be reported in the footnotes. In so far, transparency is already existing. But what, when it is threatening, that use/draw down is made of such promises? In many cases, it could then be the case, that the amount to be paid cannot be recovered anymore, or the result will be too small a compensation. Then the question of the necessity of creating a provision has to be discussed.

Important with regard to these questions are also national and international reconciliations. Among them the initiatives of the SEC, the big external audit firms, as well as discussions on the national level, for instance with business associations and with supervisor agencies. The objective has always to be the uniform and consistent interpretation of the regulations with relation to the existing situations. In this case, explanatory guidance has to be given, in order to provide a valuation consistency as large as possible. Presently, one is working on the subject, with emphasis, at all levels.

Ladies and Gentlemen, after these comments on present situations, let me look at the future of accounting. Here, a change of paradigm is recognizable, for which the present discussion about an international standard for the accounting of insurance companies is a good example.

What is being discussed? The IASB has published, this May, a discussion paper. The central theme of this discussion paper is an evaluation of insurance specific provisions by way of use of the market value, more specifically a "up to date sales price". For insurance risks, there exist in very few single cases market prices. Therefore, valuation techniques have to be applied, which attempt on a fictitious basis, to simulate the assumed price finding process of a market participant.

Thereby, only cash flows should be considered in such a way, how a purchaser of the rights and the obligations out of the contract would assess them. As a consequence of this, the amount of the cash flows of the individual corporation is not essential. For instance, market untypical efficiencies (=smaller provisions) or inefficiencies (=higher provisions) with regard to administrative costs, are not being accounted for.

The cash flows have to be discounted in such a way, in order to find the market value of the money – not much can be said against this. Discounting, however, does not take place with regard to the expected investment returns of an insurance company, but exclusively on the basis of present market interest rates.

The balance sheet items thus become significantly more volatile. This makes it more difficult to recognize trends in the profitability. The insurance business is a long-term business: Live insurance contracts are running over decades, and also in the casualty / accident insurance, risks – especially in the cases of catastrophes – can only be compensated often over several accounting periods.

In addition, it has to be considered, which price a market participant would attach to the risks, taken over. In this case, not only risks at random must be modelled, but also the behaviour of customers, as for instance the cancellation by the purchasers of insurances. Here, no rational behaviour can be assumed. For the management, for managing the corporation, this may function. The management knows, which uncertainties go with the stated values.

But is such a modelling really suitable for the financial reporting in the annual financial statements?

An "up to date sales price" arrived at in such a way, can materially depart from what the insurance company has expensed for completing this contract, respectively from what it has received for taking over this obligation: The expenses to make the deal, respectively the premiums. Thus, in the case of the first time accounting of the contract in the financial statements, a P&L-reporting is resulting.

The calculated profit will be reported in the period when the contract has been signed. I state once more: we have, for the insurance typical provisions, no listed prices, which can be used in order to make an objective evaluation. Such an advance P&L-reporting is made exclusively on a basis of models and the assumptions on which they are based.

Can subjective valuations be regarded a reliable? Have they any relevance for decisions for the readers of such an annual financial statement?

It is popular, in this context, to point to the necessity to supply information in the footnotes. Information in the footnotes, which should allow to the reader of the annual financial statements, to evaluate the assumptions, made by the corporation, with regard to plausibility. Which dimensions take such footnotes in case of a group, which, for instance, is active in 15 different regions and with the sale of a large number of products? I am afraid of, here, an “information overkill”.

Please do not get me wrong. I do not misunderstand, that there is a necessity to increase transparency in annual financial statements. And the insurance industry itself takes this view as well: Since a few years, German insurance companies are accounting under IAS, even before such application was made mandatory. And they report in their annual reports, the “embedded value”, the value of the portfolio of insurance contracts. I have doubts, however, when including future calculated profits in the P&L and the equity.

We also have to question ourselves, to whom such information is addressed? I have already said it: in the first row stand the investors. These decide not only over investments in a specific industry, but they must also receive information for a comparison between different industries.

The insurance business can be broken down – and also the IASB has recognized this – into two phases:

1. The abstract promise of performance protection, that is the granting of insurance protection.
2. And the concrete compensation for a damage when the insurance case has occurred.

This break down of the insurance products into two phases makes it clear, that there is not only the pure exchange of cash flows, as we have it in the case of financial instruments (for instance deposits or bonds), but that there is a very essential service element. Obviously, such service (granting of insurance protection) is meant to be depicted differently from service contracts in other industries. Companies in the manufacturing industry are not showing expected profits from orders in the annual financial statements, as well as do not mobile telephone companies from mobile telephone contracts.

Also here exists the danger, that the readers of annual financial statements are overly stressed, when insurers are reporting and accounting under totally different standards than companies in other industries. I am waiting here for even more intense discussions, before the proposals of IASB will have found a broad acceptance. However, for the insurance industry, there is not only the subject of transparency in the capital markets.

We also have the effects on supervision. With this, we are getting additional obligations for reporting from the point of view of the supervisor in the notes to the annual financial statements.

Objective of the insurance supervision is primarily to protect the interests of the purchasers of insurances, that is consumer protection. The purchasers of insurances are the main creditors in insurance companies. Our present accounting regulation system under HGB is obviously principally directed at the protection of the creditor. And this by the cautious definition of the profit that is available for dividend. With this, our accounting regulations are also serving the supervisors purposes. We haven an identity of objective.

At present, the supervisor law in Europe is being fundamentally reformed and harmonized in the

framework of the already mentioned project solvency II. It is necessary for the evaluation of the solvability to be based on the uniform measures, to apply uniform valuation standards.

This should be done, as much as possible, by an adaptation to the international accounting regulations standards. This one, however, is not directed in the first place, to state a profit suitable for dividend, and thereby it is not directed at the protection of the creditor. Rather it serves the purpose of delivering information: information, which should be suitable, in the first place, for capital markets participants. Which should be suitable for the decision, whether or not they should invest in a company respectively divest.

Nevertheless, this kind of accounting has a very special meaning for the supervisor: next to the – harmonized – evaluation of the solvency capital, is positioned the relevance the transparency: solvency II assumes, in column 3 of the new supervision system for the insurance industry – also as in the case of banks – through extensive reporting a disciplining by the market. Market discipline through transparency. Accounting and disclosure of financial information therefore continues to play a pre-eminent supervisory role.

There will also continue to be a solvency request, which means to ensure, that companies have a sufficient equity (namely column 1). But next to this creditor protection through measuring the profit for dividend, respectively regulations for maintaining equity, now comes also the protection of the creditor through information and transparency.

The creation of transparency therefore is going like a red thread through the directive regarding solvency II published this year in July by the EU-commission.

Thereby, the expectations and requests to the future international accounting regulation standards for insurance contracts therefore, in my view, have to be positioned highly.

Here, the regulators are asked for, to find a suitable solution in the context of relevant and reliable information. Deficits in the quality of balance sheet numbers can not be compensated through footnotes.

Here, the information, necessary for a critical evaluation, can almost not be stated clearly and transparently. Especially in cases, when because of the volume of data the clarity gets lost, “less” often means “more”.

Already by now it seems to be, that footnote reporting mandatory under IFRS does overexpand the users of annual financial statements. Even industry insiders have difficulties to interpret the footnotes under IFRS.

Conclusion: the relevance of transparency for the creation of trust in the financial markets is shown by the timely themes, which I have first mentioned.

I had to leave out a large number of measures to enhance transparency in the framework of accounting regulations in the most extensive sense, as for instance:

- interim reporting
- oath of the balance sheet
- enlarged footnotes as to compensation for the board of management, stock options, or reporting on external audit fees.

And further developments are becoming visible with the increasing trend towards market value accounting. But in future deliberations, it has also to be considered, that enthusiasm will not lead to overweighting the financial statements with detail information to the extent that the desired transparency will lead to intransparency.

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Of BPOs, Controls, and Assurance Standard

You have no control over what the other guy does. You only have control over what you do.

- A. J. Kitt

The business processes outsourcing industry has driven the country to become a service-oriented economy. The basic premise is that one's core business should be one's main pre-occupation. In order to focus on core competencies and in the process derive cost savings, many entities have decided to outsource to service organizations a variety of functions, including some related to accounting, finance and reporting.

Indeed, major initiatives among multinational and domestic companies are success stories of outsourced accounting and reporting. Whether the provider of the outsourced business processes is a third party or a separate entity within the group of companies or a dedicated unit within the organization, the integrity of the outcome of the outsourced processes and the relevant reports are of primary concern.

While the traditional work process provides inherent control or oversight by the process owner over the tasks involved, outsourcing may remove such control or oversight from the responsible officer of the function. For example, if multinational company M&E International, Inc. sets up a hub for accounting processes to service all of its entities

globally, all the respective controllers of the different jurisdictions of M&E would lose partially or entirely the control over the accounting function depending on the terms of reference of the outsourced services. In some cases, it can be full outsourcing and therefore, control over the function is totally turned over to the service organization. Auditors of companies that outsource accounting and financial reporting should consider the implications of outsourced tasks, more importantly the following:

1. Controls that are turned over to the service provider; and
2. Controls that the user organization maintains over the activities of the service provider.

Outsourcing comes in different forms. Some service providers are dedicated to a group of companies while some cater to numerous clients. The user companies' auditors are not necessarily the service provider's auditors or the user companies' auditors may not have any direct relationship with the service provider or the service provider's auditors. To avoid many different user auditors performing similar audit procedures at a service provider, the latter can engage a service auditor to issue a report on controls at the service provider. At this point of time, there is no specific assurance standard to which auditors can refer to. Presently, there is only the International Standard of Audit (ISA) 402 (revised and redrafted), 'Audit Considerations Relating to an Entity Using a Third Party Service Organization' .

Cognizant of this global phenomenon and the need to have an appropriate assurance standard, the International Auditing & Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) is now developing an International Standard on Assurance Engagements (ISAE) 3402, "Assurance Reports on Service Organization's Controls". A task force for the project has come up with the collated concerns and issues that have been reduced to categorized subject matters, criteria,

subject matters' information and the draft assurance standard. The task force presented them to the meeting of the Consultative Advisory Group of the IAASB last September 21, 2007 in London with John Kellas, the Chairman of the IAASB and other regular members of the CAG chaired by David Damant in attendance. The draft assurance will undergo further processing including the required exposure before it is tabled for approval and pronouncement as an Assurance Standard.

If you are one of those who have outsourced your accounting and reporting functions, have you ever asked what level of assurance can you attribute to your service provider? Can you sleep at night?

Dr. Conchita L. Manabat is a member of the Consultative Advisory Group of the International Auditing & Assurance Standards Board of the International Federation of Accountants and President of the Development Center for Finance. She may be reached at clm@clmanabat.com.

REPORT FROM THE IAFEI AREA PRESIDENT FOR ASIA - VICTOR Y. LIM

Presented at the IAFEI Board of Directors meeting in Tokyo, Japan, September 10th, 2007

The Asian member institutes of IAFEI are composed of the following:

- 1) China Association of Chief Financial Officers (CACFO)
 - with 2,843 members
- 2) Japan Association of Chief Financial Officers (JACFO)
 - with 112 corporate members and 2,633 individual members
 - our host for the 38th World Congress
- 3) Financial Executives Institute of the Philippines (FINEX)
 - with 730 members inclusive of over 200 life members
- 4) Financial Executives Institute Chinese Taiwan (FEI CHINESE TAIWAN)
 - with 436 members
- 5) Korea Association of Chief Financial Officers (KCFO)
 - with 400 members

We attach a brief synopsis of the activities of each institute for the current year.

CACFO is headed by the following officers:

President:	Mr. Zhang Youcai
Executive Vice President:	Mr. Liu Changkun
Secretary General:	Mr. Dong Feng

They have registered 24 delegates to the 38th IAFEI World Congress.

Their major activities are:

1. Organizing a seminar with over 1,000 member participants to discuss and study the newest enterprise accounting principles in the accounting field;
2. Publication of excellent theses of CFOs within China written in the year 2006, consisting of 60 chosen papers from hundreds of articles;
3. Regional membership meeting was held from March 26 to 29 in Hangzhou, the capital of Zhejiang Province;
4. Co-hosting with China AMC, the largest fund management company in China, of a forum on the Situation of the Capital Market and the Enterprise Pension on June 15, in Beijing. Enterprise Pension market is a fast developing market in China and this forum was attended by over 80 CFOs and Executive Directors from 28 large companies.

JACFO is headed by the following officers:

President:	Mr. Toyoo Gyohten
Executive Vice President:	Mr. Katsushige Kondo
Executive Director:	Mr. Hiroshi Yaguchi

This organization was founded in Year 2000. Their principal activities are among others, investigation and research related to financial management, training and other seminars on financial management, certification and accreditation examination programs for the development of CFO's Analysis and surveys covering financial management.

Their major activities are:

1. Professional CFO Certification Program;
2. Finance and Accounting Service Skill Standard (FASS0 seminar and accreditation seminar;
3. Development of FASS 2.0, which incorporates risks and controls inherent in the finance and accounting process;
4. Organized the 6th CFO Forum, Japan in December of 2006; the 7th CFO Forum will be held in November, 2007;
5. JACFO organized 18 CFO seminars during 2006 and seven so far for the first eight months of 2007;
6. CFO Roundtable are held on a regular basis for purpose of networking the peer CFOs for both members and non-member companies;
7. Publication of Quarterly Journal called "CFO Forum" which covers topics in accounting, tax, treasury, risk management, M & A, internal control and other financial matters;
8. Organization and Hosting of the XXVIII IAFEI World Congress.

FINEX is headed by the following officers:

President:	Mr. Abelardo Cortez
Executive Vice President:	Ms. Grace Tiongco
Vice President for Internal Affairs:	Mr. Roberto Borromeo

We have 16 delegates to the 38th World Congress of IAFEI. Our theme for 2007 is “BE AHEAD IN A GLOBALIZED ECONOMY”.

Various seminars and forums were organized and conducted by the different countries, including the Committee on Public Affairs, Professional Development, Small and Medium Enterprises, Corporate Finance, Audit, Ethics, Tax and Legal and Good Governance. Among the topics covered were:

1. The Philippines Interest Forex and Equities market Expectation;
2. Directors' Risks and Protection, Risk Management and Theory practices;
3. 2007 updates PAS/IAS – IFRIC Interpretation
4. Anti-Money Laundering Act Seminar;
5. Collective Investment Funds Seminar;
6. Managing Risks – A Global Perspective;
7. Midyear Economic Forum & Briefing for 2007 & 2008;
8. Ethical Values in Law Enforcement;
9. Alternative Financing for Emerging Businesses;
10. Power Industry and Mining Industry Seminar;
11. Entrepreneurship and the Government Economic Growth Agenda.

There have been 8 monthly membership meetings held on the 3rd Wednesday of every month and among the speakers were the President of the Philippine Stock Exchange, Francis Lim, who spoke on the state of the local market, and plans and directions of the Philippine Stock Exchange. Other speakers were Regional Head Catherine Weir of Citibank who spoke on Development of Capital Markets in the Asean Region, the Chairman of HSBC, who spoke on “Inspiring other Foreign firms to invest in the Philippines.

FINEX will also hold two major competitions; the first of which is the 9th Inter-Collegiate Finance Competition participated in by more than 70 colleges and universities were one school will emerge as Champion. The second is the inaugural launching of the CFO of the Year Search in partnership with ING Bank and under the auspices of IAFEI. Their awarding ceremony will be held on November 29, 2007.

FEI CHINESE TAIWAN is headed by the following officers:

Chairman: Mr. Peter Hsu
Secretary General: Mr. David Chou

There are 3 Deputy Secretary Generals.

They have registered 6 participants in the 38th IAFEI World Congress.

Their major activities for the year include the convening of monthly meeting and seminars on various financial topics:

- 2007 - January – REIT's Introduction and Investment Guides
- March - Impacts to Greater China economics from Latest Global Economic Developments
 - Corporate Governance Evaluation System in Taiwan
- April - Investment Presentation for A New Drug Discovery Company
 - Global Investment Outlook
- May - Latest Trends of Cross Border M & A in Europe
 - Investment Opportunities of the The Fast Growing China Economy
 - Corporate Governance and Social Responsibility
- June - Trap of Insider Trading: How to Avoid
 - Global Investment Outlook for 2nd half of 2007
- July - Taiwan Stock Market Outlook for 2H2007
 - Annual Members' Meeting
- August - Corporate and Individual Strategies for Tax-Saving
 - Corporate Subsidiaries Monitoring and Practices
 - Financial Services Act: Monitoring Principals vs. Corporate Disciplines

KCFO is headed by the following officers:

Honorary Chairman:	Mr. Lee Hun Jae (former Minister of Finance & Economy)
Chairman:	Mr. Kim Sang Hoon
President. Secretary General:	Mr. Robin Lim

Their objectives are networking among peers, alerting members to emerging issues, advocacy of the views of financial executives and promoting ethical conduct.

Their major activities are:

1. Monthly CFO Seminars and annual "CFO Conference" to address key issues and appropriate topics for the CFOs;
2. Roundtable discussions, also on a monthly basis to provide networking opportunities for financial executives, treasurers, controllers and CEOs;
3. CFO Conference is scheduled Sept. 19 at Lotte Hotel with the Theme: How to Build the Sustainable Growth Engine, CFO as a Growth Champion;
4. Regular small group luncheon meetings where 10-20 member CFOs meet and discuss current pending issues. There are 3 regional luncheon meetings a year (North, South and Youido Region) in Seoul;
5. Publication of Research Papers and Quarterly Journal "CFO" on topics such as, management strategy, accounting, treasury, risk management, M & A and Internal Control;
6. Holding of an Annual Best CFO Award ceremony;
7. Exclusive licensing agreement for CTL (Certified Treasury Professionals) exams in Korea with AFP of USA.

This report is based on the individual reports submitted by the aforementioned member institutes.

SUBMITTED BY: MR. VICTOR Y. LIM
Area President for Asia

The French CFO Study

The Rise, Evolution and Future Path of the French CFO

December 20, 2006



A Message

from the DFCG Chairman



FRANCOIS MEUNIER

The role and the mission of the CFO are rapidly evolving. So it is always beneficial, from time to time, to pause and question his or her position in the rapidly changing corporate world. And the ideal tool to perform this necessary introspection into our profession is a survey.

That was exactly the intention that IAFEI, the International Association of Financial Executives Institutes, had when it conceived and organized its comprehensive survey on "The Rise, Evolution and Future Path of the Global CFO." It was initially launched in three countries: Germany, Philippines and Chinese Taiwan. From there on, DFCG, the French association of corporate financial executives, took over and launched its own survey among its French members, of course in exactly the same format as in the other countries.

On behalf of DFCG, I am extremely pleased to co-present, with Ms. Conchita Manabat, Chairwoman of IAFEI, the results of this survey. It confirms the dramatic change CFOs are today experiencing in their responsibilities: more involvements in strategic matters for the company; more in defining and putting in place adequate corporate governance and reporting standards; probably less time for traditional matters, important though they remain, which means more support from other financial executives and more team work within the firm. Two things are not changing though, and they should not: first the necessity for any CFO to keep a good common sense and to refrain from having rigid certainties. He or she always makes good use of what Bacon said: « If a man will begin with certainties, he shall end in doubts; but if he will be content with doubts, he shall end in certainties. » The other fixed point in what a CFO should bring in, is a good management of risks, since, in any corporation, the danger is not in the risk, but in a wrong appraisal of the risk.

One fascinating aspect of the survey is its international reach. France is now the fourth country to bring about the questionnaire. As more countries and more financial executive institutes participate, international comparisons will be made possible. Even now, for example, much can be drawn from simple comparisons between France and Germany. And still more to come with the successful continuation of the project.

This study couldn't have been put in place without the full involvement of Ms. Conchita Manabat, together with Deloitte Philippines. Let me warmly greet her and her colleagues for the fantastic job undertaken, which should not come as a surprise knowing her impressive personality. Not only they have conceived the questionnaire, but have given the impetus within IAFEI to have it rolled out in several institutes, to have analysed their results and drafted the excellent summary document that you can read. Once again our warmest thanks.

François Meunier

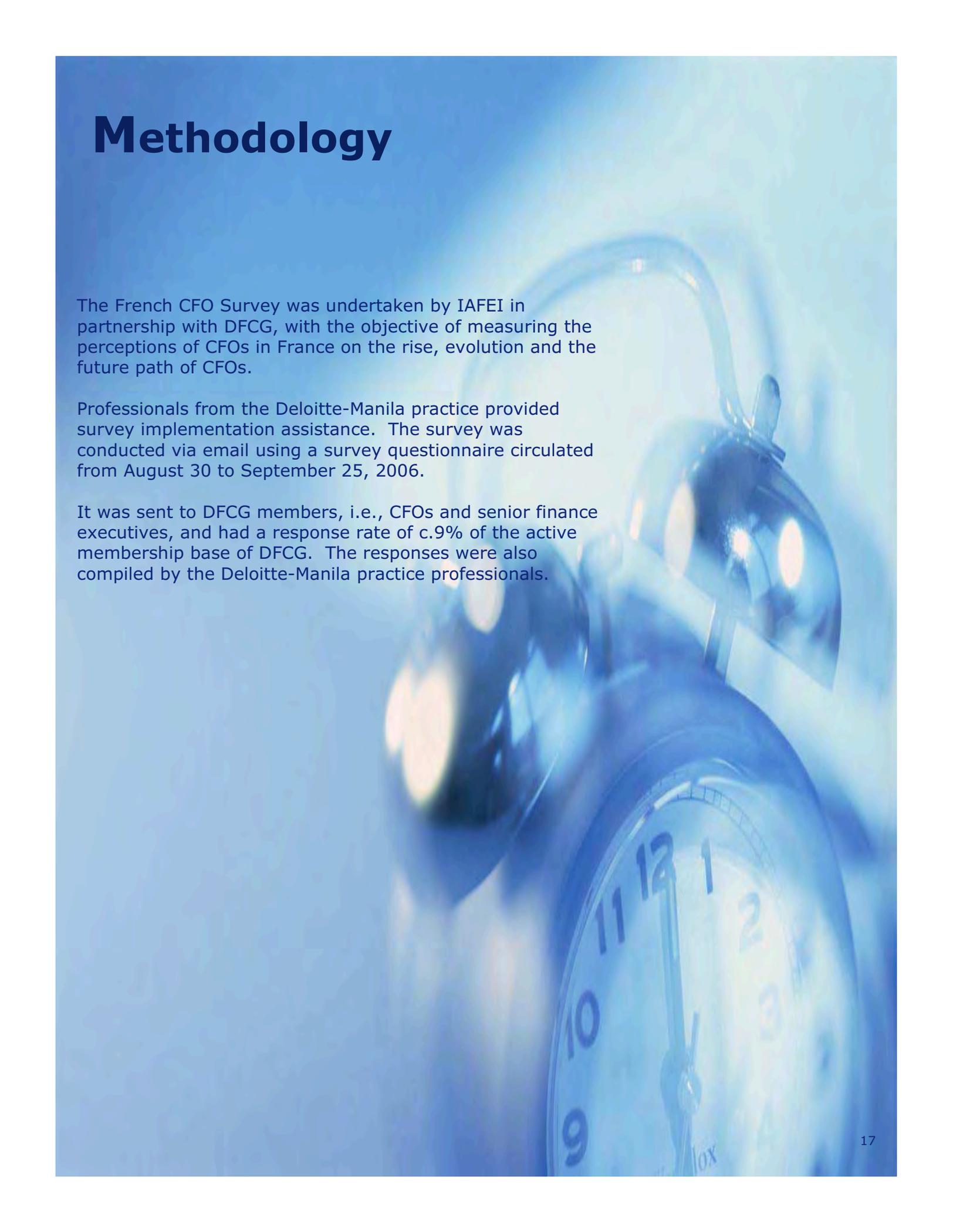
Chairman, Association des directeurs financiers et du contrôle de gestion

Highlights of Key Findings

CFOs see significant transitions in their function, focus, priorities and challenges and are consequently reassessing their skill set and education needs. Changes in the 'CFO experience' are making CFOs better prepared for the CEO role, and many CFOs expect to assume CEO positions during their careers.

TOPIC	HIGHLIGHTS
Career Progression	Approximately half of the financial executives are confident that their CFO experience has prepared them to take on the CEO function. Though this may be the case, a substantial portion (c.43%) of the respondents still would like to transition to the CFO position of another company.
Evolving Function	CFOs say that their zone of responsibility has rapidly expanded to include corporate strategy formulation, mergers and acquisitions, and most importantly, managing corporate governance, controls and risk.
Transitioning Focus	CFOs expect to spend an increasing amount of time on the areas of corporate strategy formulation, M&A transactions and corporate governance. On the other hand, CFOs perceive that they will be allocating less of their time to their core/traditional functions.
Challenges and Changes	Generally, CFOs say that the biggest challenge in the current business landscape has been meeting compliance requirements, including risk management. The biggest change in the CFO function, for the past three years, has been the position's increased role in business operations.
Expanding Skill Set Needs	CFOs say that general management skills are critical to CFO success, and that CFOs increasingly need communication, marketing and sales skills.
Need for Specializations	Many are starting to associate CFO success with the possession of a combination of skills and knowledge, rather than specialization in any one finance area.
CFO Accreditation	Majority of CFOs surveyed (c.64%) were in favor of a CFO Accreditation Program, while only c.15% disagreed. C.21% of the respondents neither agreed nor disagreed.
Expectations from DFCG	CFOs expect that DFCG will play an important role in providing information on best practices on CFO activities. CFOs also expect the support of DFCG not only in terms of providing information on accounting, tax and regulating matters, but also in terms of training sessions on CFO matters so as to better equip them in their evolving CFO role.

Methodology



The French CFO Survey was undertaken by IAFEI in partnership with DFCG, with the objective of measuring the perceptions of CFOs in France on the rise, evolution and the future path of CFOs.

Professionals from the Deloitte-Manila practice provided survey implementation assistance. The survey was conducted via email using a survey questionnaire circulated from August 30 to September 25, 2006.

It was sent to DFCG members, i.e., CFOs and senior finance executives, and had a response rate of c.9% of the active membership base of DFCG. The responses were also compiled by the Deloitte-Manila practice professionals.

About DFCG

Founded in 1964, the Association Nationale des Directeurs Financiers et de Contrôle de Gestion (DFCG) represents over 2,800 members from 1,000 companies that account for roughly one-third of France's GDP. Since that time, membership in DFCG has grown to include CFOs, VPs of Finance, Finance Directors, Corporate Controllers from companies of all sizes and across all industries. DFCG continues to grow its membership base by way of fostering its professional identity and it is helped in this by its strong regional anchorage and by its international reach. DFCG is considered a co-founding member of IAFEI in 1969. For more information, please visit its website at www.dfcg.com.

About IAFEI

IAFEI is a federation of Financial Executive Institutes of countries across the world, and is a private, non-profit, non-political organization, domiciled in Switzerland. With 15 member-institutes comprising more than 130,000 financial executives, IAFEI is the only global organization of its kind. IAFEI provides networking, visibility, advocacy and information access opportunities to member institutes and their individual members through quarterly publications, regional summits, global research projects and the annual world congress. Please visit the IAFEI website, www.iafei.org, for more information.

About C.L. Manabat & Co. (Deloitte Philippines)

In the Philippines, C.L. Manabat & Co. is the member firm of Deloitte Touche Tohmatsu, and services are provided by C.L. Manabat & Co. The Philippine member firm is among the nation's leading professional services firms, providing audit, tax, consulting, and financial advisory services. Known as an employer of choice for innovative human resources programs, it is dedicated to helping its clients and its people excel. For more information, please visit the Philippine member firm's website at www.deloitte.com/ph.

Seminar for Young Leading Professionals in the Finance Department of German Companies

The German IAFEI member institute GEFIU, the Association of Chief Financial Officers Germany, had its 24th annual seminar for young leading professionals in the finance departments of German companies

It is now since 24 years, that GEFIU offers a one week seminar for young professionals, who are already in an outstanding position in the finance department of their companies and who have a potential for very senior positions. The seminar, which is organized since 7 years together with the Austrian IAFEI member institute Forum Finanzen in the ÖPWZ, focuses on actual developments in the finance area and is limited to 20 participants, to guarantee a good working environment for the group. The lecturers are leading professionals in the financial industry and the corporate world, consisting of members of the German institute and outstanding specialists in the specific area.

We start in our first issue of IAFEI Quarterly to give a survey about the headlines of an education seminar, held in the environment of one IAFEI member institute, giving impressions on contents, which are seen as important for the overall education of our young professionals. Similar reports are planned for future IAFEI Quarterlies.

The topics of this years GEFIU seminar were:

Communication with the Financial Markets (Henkel Group)
Europe within the Triade
Optimizing Working Capital Management Using Electronic Instruments
Finance and Portfolio Management of the Bayer Group
Responsibility of Management in Cultural Changes of Merged Companies

Full Fair Value Accounting
Strategic Risk Management within the BASF Group
Equity Stock Based Compensation
Corporate Governance
Meeting with GEFIU Board Members on Career Ways and Challenges

Shareholder Value, Theoretical Frameworks and Concepts
Present Critical Developments in the Financial Markets
Value Reporting
Control of Hedge Funds

Dr. Horst Laubscher

Organizational Changes, New Names at IAFEI

Since September 2007, the secretariat of IAFEI has been moved from Vienna, Austria, the Austrian IAFEI member institute Forum Finanzen in the ÖPWZ, to Manila, Philippines, the Philippines IAFEI member institute FINEX. The relocation of all files and materials is on its way. Together with this change, IAFEI has **restructured the officer position of the IAFEI Secretary, by separating from this position the administrative position of “Head of Secretariat”**.

The new administrative position of “Head of Secretariat” is to be headed by a professional, who is responsible for all the administrative work of the secretariat, irrespective from who is Secretary IAFEI, and irrespective of from which country the Secretary IAFEI is coming. The position of “Secretary IAFEI” is being separated from the administrative position of “Head of Secretariat IAFEI”.

With this organizational structural change, IAFEI is gaining the advantage, that the officer position of Secretary IAFEI can be moved from one country to another one, and even to another continent, without that the IAFEI Secretariat has to move around the globe at the same time. IAFEI is confident, that the organizational change will be to the benefit of the organization.

Mrs Rescina Bhagwani from Manila, Philippines, is employed part-time as Head of Secretariat IAFEI, by FINEX, and at the expense of IAFEI. Mrs Rescina Bhagwani is a seasoned academic person and professional who, among many other things, has worked for many years in various positions in the Philippine Deposit Insurance Corporation. There she had strong international linkages with the International Association of Deposit Insurers (IADI) and its members. Presently, she is working in addition on behalf of FINEX in its Capital Markets Council of the Philippines.

As new Secretary IAFEI was elected **Mr Alfredo B. Parungao**, Manila, Philippines, by the IAFEI Board of Directors meeting of September 10, 2007, held in Tokyo, Japan. Mr Parungao is a seasoned academic person and professional and a former president of FINEX.

As new Executive Director IAFEI was recruited **Mr Dr. Horst Laubscher**, nearby Frankfurt am Main, Germany, by the IAFEI Board of Directors meeting, September 10, 2007, held in Tokyo, Japan. Mr Dr. Laubscher is a seasoned academic person and financial professional and a long standing member of the German Financial Executives Institute. He has held leading professional positions in a handful of the largest German corporate groups. He has held numerous positions in supervisory boards of subsidiaries of German industrial groups in the Americas, Asia, and Europe. Presently he is also consulting corporations, teaching young financial professionals from developed and developing countries, and he was recently awarded the title Professor from a Hungarian University where he is also teaching. Dr. Laubscher allocates 60 % of a year's working time to the position Executive IAFEI. IAFEI is presently not in the position to financially reward him for his work.

Helmut Schnabel