IAFEI Quarterly

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"Our goal is to share experiences, cultures and best business practices"

Fausto Cosi - IAFEI Chairman at the 47th IAFEI World Congress - The annual IAFEI Meeting held in Sao Paulo - Brazil

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INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

LETTER OF THE CHAIRMAN

Dear Colleagues,

After too long an absence, the IAFEI World Congress returned to Brazil, and it was a definite success! I am very satisfied with the excellent organization, in such a prestigious location, which managed to reunite a very broad based participation of finance professionals and delegates from every corner of the world. The conference program was extremely interesting, thanks in particular, to the experience and prestige of the speakers involved. We also managed to dedicate some time and thoughts to the activities and developments of IAFEI itself.

Our sincere gratitude goes to IBEF, to its board members and to its staff, for the tireless work done to ensure a perfect event in every aspect. We all left San Paolo with a smile on our faces, having experienced a marvellous occasion to meet old and new friends and colleagues in the most stimulating and easy-going context.

In this number of IAFEI Quarterly, you will find a full synapsis of the event, with plenty of photographs capturing the spirit and the important moments we witnessed together.

Next year, the IAFEI World Congress will be hosted in Morocco, and we are very pleased to see the availability and the enthusiasm of our colleagues of the local Institute, who have very recently joined our association, in getting involved and organizing everything to welcome us there. It is certainly worth underlining that this means, that the IAFEI World Congress will return to Africa for the second time in three years. There couldn't be a more eloquent way of demonstrating the dynamism and growth of the African continent, which we are proud to observe and encourage through our organization's activities.

During the Congress, all the statutory bodies of the IAFEI met for their periodic meetings. The Executive Committee was reconfirmed unchanged for 2018, and thus I will have the honour of chairing our wonderful institution for a third year.

My very sincere thanks goes to all the Member Institutes who chose to confirm their trust in me and the team that works with me, and I am delighted to reconfirm to you my untiring enthusiasm and determination for the work needed, in the coming 12 months, to guide our association to a further development and growth.

The programme and goals for the coming year is an ambitious one. We must renovate and modernize our website, increase the usefulness and incisiveness of our Technical Committees, grow on importance and influence at world level, deliver more value to our members, attract and affiliate more member institutes worldwide. There is certainly plenty of work to be done, and I count on the support and help of all our members to achieve rapidly our joint objectives.

Once again, a huge vote of thanks and appreciation, to all those who embrace the spirit of sacrifice and cooperation, in order to develop IAFEI, during the year leading up to our 50th anniversary in 2019!! What an achievement that will be to celebrate together the first half-century of our Association.

Yours sincerely

Fausto Cosi
IAFEI Chairman

LETTER OF THE CHIEF EDITOR

Dear Financial Executive,

You receive the IAFEI Quarterly XXXVIII[th] *Issue.*

This is another issue of the **IAFEI Quarterly,** *the electronic professional journal of IAFEI, the International Association of Financial Executives Institutes.*

This journal, other than the IAFEI website, is the internal ongoing professional information tool of our association,

> *destined to reach the desk of each financial executive,*
> *or reach him, her otherwise, at the discretion of the IAFEI member institutes.*

This issue is the eighth one under the regime of the New Start for the IAFEI Quarterly. This new start has been backed up by the IAFEI Board of Directors decision of October 13, 2015, to establish an Editorial Board consisting of now 11 IAFEI representatives from all continents.

The IAFEI Global CFO Survey Quarter 3, 2017, included in this issue, reports that optimism remains strong all over the world, an encouraging situation. Globalisation and Free Trade are other important themes of this issue.

Most articles of this Quarterly issue are from inside IAFEI sources. But still: More IAFEI member institutes should contribute articles.

I repeat our ongoing invitation, to all IAFEI member institutes, and to each of their individual members, to send us articles for inclusion in future IAFEI Quarterlies.

With best personal regards

Helmut Schnabel
Chief Editor

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"SURVEY OF CFOs ACROSS THE WORLD FOR THE 3RD QUARTER 2017"

IAFEI AND A GROUP OF PARTNERS AMONG WHICH DUKE UNIVERSITY AND GRENOBLE EM SURVEY CFOS ACROSS THE WORLD. FOR THE SECOND QUARTER 2017, THE SURVEY WAS RUNNING FROM 22^{nd} AUGUST TO 7^{th}SEPTEMBER 2017.

BY JOHN GRAHAM AND PHILIPPE DUPUY

For **only the second time in the history** of the survey, difficulty attracting and retaining qualified employees is the top concern of U.S. CFOs. This same concern ranks highly in many places around the world.

Firms are having a much harder time finding the right managerial talent, and a somewhat harder time hiring rank-and-file workers. In addition, many U.S. companies indicate that their currently employed managers do not have enough bandwidth to oversee an expanded organization.

Firms pull back on expansion: 89 percent of companies surveyed do not intend to pursue all planned projects that would increase the value of their firm, with the inability to hire the right employees a binding constraint at about half of these companies.
The survey asked why firms don't hire or train more managers. CFOs indicate that the pool of potential managers lacks enough candidates with industry-specific experience and technical knowledge, critical thinking skills for complex problems, leadership and people skills and judgment. Firms that say they struggle to hire enough rank-and-file employees indicate that many job candidates lack basic writing and math skills, job-specific technical skills, perseverance and work ethic.

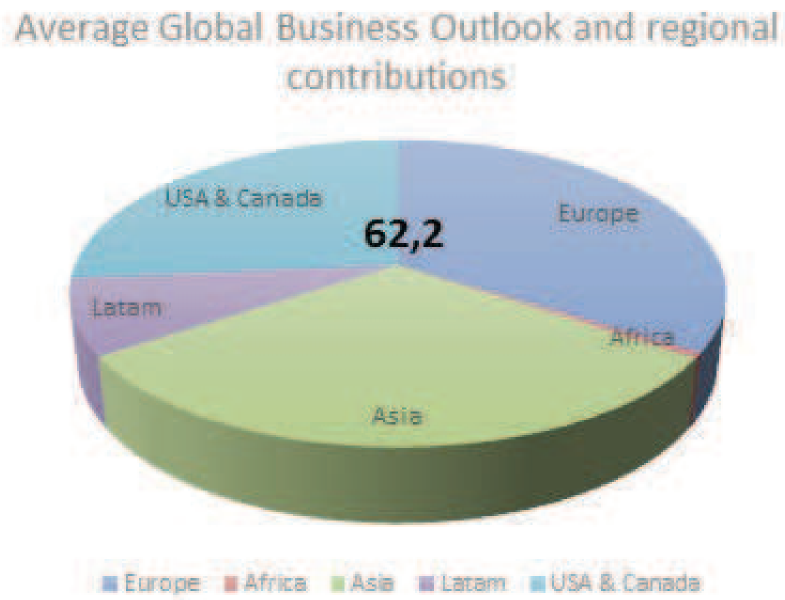
Due in part to the tight labor market, U.S. companies expect to pay higher wages, with median wage growth of about 3 percent over the next 12 months. Wage growth should be strongest in the tech, health care, and construction industries.

IT employment

Forty percent of U.S. companies said difficulty hiring and retaining technology workers is causing a moderate to substantial negative impact to their organizations.

The technology shortage is most evident in operations support, innovation and product development support, IT core functions and analysis of big data.

Optimism Remains Strong all over the world



North America

In the **US**, the Optimism Index fell slightly this quarter to 66 on a 100-point scale. That's one point lower than last quarter but still far above the long-run average of 60. CFOs remain optimistic not only about the overall economy but about their own firms, too. Our analysis of past results shows the CFO Optimism Index is an accurate predictor of hiring plans and overall GDP growth.

Fifty-six percent of **Canadian** firms say a managerial labor shortage prevents them from pursuing all value-enhancing projects. Compared to other countries, a relatively large 42 percent of Canadian firms indicate that non-managerial labor is also constraining their ability to pursue desirable projects.

Europe

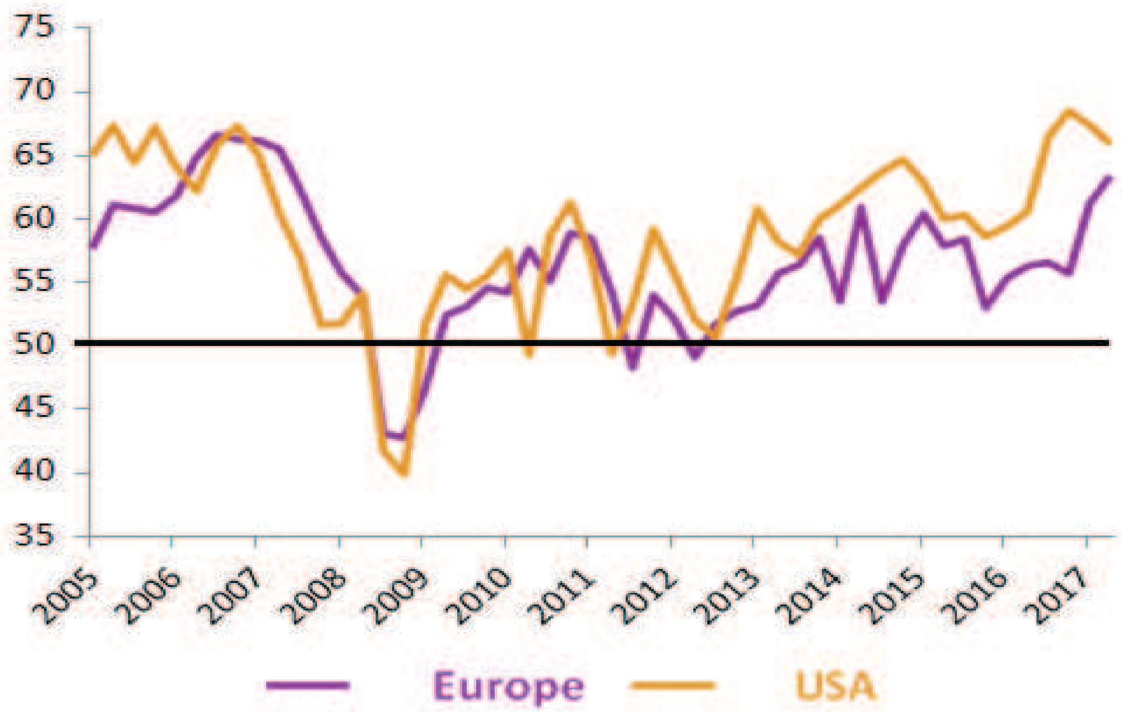
Optimism is up at 63. Capital spending will strengthen to 6 percent (median 2.4 percent) growth, with flat employment growth expected.

For the first time, the top concern among European CFOs is attracting and retaining qualified employees, followed by economic uncertainty, governmental regulations and productivity. Thirty-six percent of European firms say that managerial labor shortages cause them to pass up value-increasing projects.

European firms are slow to increase the managerial workforce or hours worked because it is hard to get new managers up to speed, top management does not have the bandwidth to oversee additional projects, hiring more managers would reduce organizational focus and because of financial constraints.

European firms find it difficult to hire non-managerial workers possessing the required skills, and firms say they are hesitant to hire more workers now due to the difficulty in laying off workers later if circumstances change. **Optimism is particularly high in France (61.9) and Germany (75.9) but weak in the UK (52).**

CFO survey: Optimism index



Asia

Optimism is somewhat lower at 60. Economic uncertainty, difficulty attracting employees, government policies, and weak demand for products are top concerns. Median 3 percent capital spending and flat employment growth are expected. Half of Asian companies indicate that a shortage of managerial talent is preventing them from pursuing value-enhancing projects, greater than the one-third say that a shortage of non-managerial labor does the same.

The top factors driving the shortage of managerial workers are financial constraints, ability to get new managers up to speed quickly and lack of bandwidth for current employees. IT shortages in Asia consist primarily of lack of innovation/product development support, sales and marketing support and operations support. As one sign that Asian economies have cooled, most companies indicate that they have fewer back-logged value-enhancing projects now relative to three years ago.

Latin America

While the level of optimism is still relatively low compared to most other regions (57), Latin American CFOs are much more optimistic than they were one year ago. Optimism has improved the most in Brazil relative to one year ago, up to 57. Economic uncertainty is far and away the top concern among Latin American CFOs, with 70 percent of firms listing it as a top four concern. They are also concerned about governmental policies, weak demand, and access to capital. Capital spending and employment are expected to increase modestly (1 to 2 percent), which again is a year-over-year improvement.

Latin American firms are less likely than firms in the U.S., Europe and Asia to say that they bypass value-enhancing projects or have a managerial labor shortage. Among those firms that are struggling to hire the right management team, half say that financial constraints prevent them from hiring adequately and 38 percent say it is difficult to get newly hired managers up to speed quickly. About one-third of companies indicate that a shortage of IT workers is moderately or severely affecting them; among these companies, the greatest shortages are a lack of innovation support, operations support, analysis of big data and competitive intelligence.

Africa

Business optimism in Africa is up from last quarter to 52, though still the lowest in the world. Capital spending should increase by about 3 percent, while employment will be flat. Though weak, both of these numbers are improvements from last quarter. The biggest concerns for African CFOs are economic uncertainty, governmental policies, volatility of the political situation, and corruption. Only about one-third of African companies indicate that shortages of managers or non-managers restricts their abilities to expand. To the extent there is a shortage of desirable managerial candidates, companies indicate that the candidate pool is weak on both the desired hard and intangible skill sets.

Table 1: During the past quarter, which items have been the most pressing concerns for your company's top management team?

Revenue	**7.0**	**8.24**	**2.9**	**4.3**
Inflation (Change in prices of own-firm products)	1.5	2.43	0.8	1.2
Capital spending	**6.6**	**2.74**	**8.1**	**4.2**
Technology spending	**5.2**	**5.26**	**8.9**	**5.2**
R&D spending	3.2	1.62	3.4	1.3
Advertising and marketing spending	4.9	2.68	2.5	1.7
Employment – full-time	0.4	1.17	-0.49	3.4
Wages and Salaries	2.7	3.79	1.65	3.9
Health Care Costs	1.2	4.33	1.82	8.6
Earnings growth	5.8	7.93	4.3	4.7

DUKE THE FUQUA SCHOOL OF BUSINESS CFO | DUKE CFO GLOBAL BUSINESS OUTLOOK

IAFEI INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

GRENOBLE ECOLE DE MANAGEMENT

EVENT SUMMARY 47TH EDITION OF THE IAFEI WORLD CONGRESS FOR CFOS

by DÉBORA SOARES, LUIZ CALADO and PRISCILLA ARROYO, IBEFSP, the Brazilian IAFEI Member Association.

The increasing challenges facing CFOs in Latin America and the rest of the world permeated discussions at the 47th World Congress of CFOs of the International Association of Financial Executives Institutes (IAFEI), in partnership with the Brazilian Institute of Executives of Finance (IBEFSP).

The event, which took place on September 27-29, in São Paulo, also marked the 28th National Congress of Finance Executives (CONEF). Amidst the panels on career and business issues, the theme of infrastructure has gained prominence among the issues that drive and influence business in Latin countries.

During the official opening, Fausto Cosi, Chairman of IAFEI, highlighted the optimistic tone of the meeting. “Our goal is to share experiences, cultures and best business practices. We believe in the potential of the Brazilian economy”, he said. The positive mood was underlined by Luiz Roberto Calado, Chairman of the Congress Organizing Committee of IBEFSP. “We are in a favorable moment in Brazil, with controlled inflation and the resumption of growth. The idea of overcoming problems and advancing prevails, which made the agenda of the congress more positive and in line with the prevailing climate around the world”, he said.

Igor Rocha, Director of Economics Planning of the Brazilian Association of Infrastructure and Basic Industries, inaugurated the lectures with a speech in defense of the participation of foreign capital in the financing of infrastructure works in the country. "In the current moment of recovery of the economy, the expectation is that the sector will gain new momentum and contribute strongly to the attraction of foreign investments," he said.

As a complement to the report of Chairman Luiz Calado, we summarize other important panels of the Congress.

IAFEI leaders discussed issues pertaining to the performance of CFOs in Latin America and the world. Juan Ortega, IAFEI Area President Americas, pointed out that about $ 1.5 trillion is directed annually to bribes around the world, which means 2% of global GDP. In the face of the scenario, one of the most contentious issues in the world, especially among CFOs, is how to implement efficient systems of internal controls that address the latent need to combat illicit practices, since anti-corruption policy is an increasingly prominent chapter in the code of business ethics. It is important to emphasize that communication has unparalleled importance in this process, because it allows all hierarchical levels of the organization to understand the methods to which they are being submitted", said Ortega.

The relationship between corporate governance and auditing was highlighted by Conchita Manabat, executive who implemented Deloitte's operations in the Philippines. She underscored the importance of using international auditing standards as a relevant tool to reduce disruptions related to business bribes. "It is worth highlighting that the International Ethics Standards Board for Accountants (IESBA), the body responsible for issuing ethical standards for accounting professionals, will launch a new version of its code of ethics in December, which should help maintain a unique analysis in audits. Accountants most often take their opinion into account, but we know that this view may vary from one professional to another", she noted.

For CFOs operating in Latin America, the challenge of mitigating risk goes beyond compliance, and requires a constant reassessment of strategies. The political and economic uncertainties faced especially in the last quarter are at the top of the list of concerns of professionals working in the region. Another latent issue is the possibility of an abrupt decrease in the flow of capital if the Federal Reserve promotes the complete withdrawal of its current monetary easing program.

"We do not know what the rigidity of monetary policy in the United States will be. The injection of resources into the economy has brought an important flow of dollars to Latin America, which has boosted the performance of the Stock Exchanges. The risk inherent in this scenario is that we can see the reversal of this flow if the Fed tightens its monetary policy", said Dominique Chesneau, a French representative and Chariman of the IAFEI International Treasury Committee.

He threw out a provocative question: "Would not it be time for Latin America to enter into negotiations to strengthen trade ties with Europe and the United States?"

CFO Panel: Companies reinvent to deploy new technologies

No matter the size of the company or sector of activity: digital transformation is a reality that permeates - with increasing emphasis - all strategic business planning, often executed in real time. This is an additional challenge for CFOs, traditionally accustomed to thinking about operations in the medium and long term. This issue permeated the discussion between the finance executives of three large publicly traded Brazilian companies and two multinational companies in the technology area in the panel mediated by Henrique Luz, Partner of PwC Brasil.

The implementation of new technologies is a challenging reality for the country's largest private bank, Itaú Unibanco, which is redesigning its entire business model. "Today more than 80% of transactions are done through digital channels, which reduces the cost of agency transactions by a third. Everything happens faster as customers demand more and more sophisticated solutions", said Caio Ibrahim David, the bank's CFO.

In order to meet the new demands, the employees of the financial institution are expected to fulfill their functions within a reformulated dynamic, which is presented by the alteration of the physical space of the offices. "The floors have been redesigned to allow groups of professionals from different areas to participate in the same project, which brings a concept of latent diversity of ideas, a key factor in this agenda in search of greater competence in the use of technologies within institutions", he added.

Klabin, one of the largest pulp & paper exporters in Brazil, focuses on technological innovations in the area of safety and machinery operations. "We are in a new era in operations related to alarms and controls. In the older plants, we have opted for modernization with solutions that are often simple, such as using programs that measure engine performance and can be accompanied by the cell phone," said Eduardo de Toledo, CFO of the company.

As a family business with more than a century of experience, one of the biggest challenges in implementing innovations at Klabin was the change in culture, which tends to start from the top down. “That’s why we chose to have greater diversity in the Board of Directors, with the presence of young members. We also travel to Silicon Valley constantly in search of improvements”, said Toledo.

The change of culture was a path also faced by Gerdau, a centennial Brazilian steelmaker, which occupies the position of the 14th largest steel producer in the world. “We embarked on a journey of cultural change three years ago, which culminated in the entry of a non-Gerdau CEO,” said Harley Scardoelli, CFO of the company.

“Today we have a sector that develops solutions tailored to customers, such as special steel used in the automotive industry. In internal processes, we start using drones to control the scrap received at the factories”, said Scardoelli.

This cultural metamorphosis was also faced by technology companies, which have seen a sharp transformation in the way they do business in the last four years. Microsoft, which previously marketed software, became a company specializing in selling online services in the cloud.

“Today we have 36 data centers around the world. Internal processes had also significant changes, we use artificial intelligence in a process in which software is developed based on another, already existing - so we can get quick responses about the profile “said João Paulo Seibel de Faria, CFO of Microsoft Brazil.”

The role of the CFO is to evolve along with this transformation and make the area of finance more attractive to young people. “You have to let technologies make processes innovative,” said Paulo Guiné, Oracle’s Business Development Executive for Latin America.

Guiné has defended the transformation beyond the front office. “We need to allow the accounting analyst to understand the importance of the company in the market. We are undergoing a transformation as we stop being a company that sells software to act as a service provider,” he said.

Strategic risk management

If in the past the duties of a CFO focused on accounting issues and financial operations, today the basket of responsibility of these professionals does not fit in a brief description. In the midst of digital transformations, CFOs take even more risks as they become involved in the strategic development of companies, which means “informing the past, managing the present and creating the future.” It is with this argument that Wagner Roberto Pugliese, Nasdaq BWise’s leader in GRC solutions for Latin America, began his talk about the current career of finance executives.

In its evaluation, the main trend in this new scenario is that the CFO also assumes the area of Information Technology (IT). “We have seen a decline in the Chief Operating Officer’s role, and these responsibilities are divided between the CEO and the CFO”, he said.

This move contributes to executives qualifying the adoption of compliance as investment rather than a cost. Defending that the compliance program needs to be implemented and monitored, Pugliese highlighted the risks of cyber-attacks, now one of the highest, a scenario that needs to be watched more closely, especially when taking into account the increasing participation of CFOs in related decisions to IT. “Data governance requires methodology and knowledge to bring the expected benefits”, he said.

Bank and private equity perspective

Emerging markets have benefited from the flow of capital from the United States, reflecting the expansionary monetary policy of the Federal Reserve. This scenario encourages companies already consolidated in the market to be interested in taking the first steps to carry out the Public Offering of Shares (IPO).

This scenario was discussed by financial sector executives during the panel on the perspective of Banks and Private Equity funds for Latin America, mediated by José Roberto Securato Júnior, founding partner of Saint Paul Advisors.

In the assessment of Carlos Takahashi, BlackRock’s senior consultant in Brazil, despite the crisis in politics and economics, the government’s economic team is handling the challenges in the right way. “We will have a peculiar presidential election next year, but we remain optimistic because of a demand scenario, especially in the infrastructure segment, which brings interesting opportunities for investors”, he said.

Regarding companies’ access to capital markets, many Brazilian companies have strong potential for an IPO. “It’s important that these organizations receive the support of Private Equity at this time of transition until they are ready to host an IPO opportunity”, said Robert McCooey Jr., Nasdaq vice president.

The Mergers and Acquisitions segment, in turn, was impacted by the fraud allegations triggered by Operation Car-wash (Lava-Jato). “These scandals have encouraged a move to deleverage companies, which in many cases have opted to put their assets on sale and make cash. However, the distance between the intended price and what the buyer is willing to pay is large, which ends up curtailing a large part of the operations”, concluded José Berenguer, CEO of J.P. Morgan Brasil.

Challenges in sight for regulation

The cost-benefit analysis (CBA) regarding the experimentation of reforms to be implemented in the US securities legislation was the subject of Eric Talley, a professor at Columbia University in his presentation.

“We have faced a major challenge in recent years related to trading activities associated with data collected in cyberattacks. The challenge is to find ways to regulate this activity and punish illegal actions”, he said. Talley noted that while there are some changes in insider trading legislation, the rules are still subjective when it comes to current issues such as cyberattack.

Congress Chairman Luiz Calado asked Eric Talley about the inspiration for new laws in the United States. “We have not yet figured out the right approach to dealing with insider trading, but we are giving the authorities a cost-benefit analysis of experimenting with changes in legislation.

The objective is to contribute to the basis of the decisions of the regulators. “You have to risk changing the law, even if it leads to a wrong decision making that needs to be corrected”, he said.

Fabio Henrique de Sousa Coelho, CEO of the Brazilian Regulator for Pension Funds (Previc), highlighted in his speech the need for this industry to reinsert itself in the movement to implement governance and control of operational management within international standards. For him, this is the primary initiative that will lead the industry to regain its lost breath in recent years.

As a concrete action to improve this scenario, Previc created special rules to guide the supervision of the activities of the 17 largest private pension entities. “Since March, the managers of these funds undergo a permanent audit with groups of specialized auditors”, he said.

Although Previc is studying some new enforcement measures, Coelho emphasized the need for improved leadership training and good management to improve the sector’s performance. “Regulating has its limitations, we cannot solve all the problems of the market with rules, so we are committed to the importance of supervision,” he concluded. “The key is to work to raise levels of governance and compliance.”

IBEF São Paulo announces certification for CFOs

During the 47th edition of the World Congress of CFOs, IBEF São Paulo announced the launch of a certification for these professionals in Brazil (CFO BR) and three bilateral labor agreements with Argentina, Morocco and South Africa.

The certification was inspired by the pioneering initiative of South Africa (CFO X), which highlights the new competencies inherent in CFOs, said Luiz Roberto Calado, Vice President of Institutional Relations at IBEF São Paulo.

“CFOs today operate within companies in functions that go beyond accounting, so we have launched a designation that reflects that reality,” said Nicolaas van Wyk, CEO of the South African Institute of Accountants (SAIBA), who participated in the announcement.

“We are glad to join the Brazilian, Argentine and South African associations in this initiative. Having this integration is positive for the improvement of our people and institutions, “added Mohamed El Fezzazi, president of the Moroccan Association of Finance and Management Professionals (AMMFG).

The expectation of Luiz Calado is that 100 certificates will be granted in the coming months by IBEF São Paulo. “The target audience is professionals who work in large companies with more than five years of CFO experience,” he said. In conclusion, he announced that IBEFSP members will now also enjoy the same benefits that already exist in Brazil when they are in South Africa, Argentina and Morocco.

Positive Rating

The 47th edition of the IAFEI World Congress of CFOs was a very successful event, said Fausto Cosi, Chairman of IAFEI. “We thank and congratulate IBEF SP for the high level of speakers, the wonderful logistics and hosting and the large number of participants. We at IAFEI are very satisfied. We have returned to South America after many years, and I am happy to see that Brazil has the right spirit. Growth, not only from the economic point of view, but also from cultural sharing and greater professionalism are important steps for the country’s progress¨.

LATIN AMERICA AND GLOBAL CONNECTIONS: INNOVATION IS THE ENGINE FOR DISCOVERY OF OPPORTUNITIES

By **LUIZ CALADO** – Chairman of the 47th IAFEI World Congress, organized by IBEFSP, the Brazilian IAFEI Member Association.

It was a great honor to have been the chairman of the 47th IAFEI World Congress for CFOs. As the name itself suggests this is a global event that began in the 1960s. Since then, the world of finance has changed a lot: financial environment and products on the one hand, but on the other hand , the ability to deal with crises and to propel a company's situation through the use of sound financial management has evolved accordingly.
This has impacted how professionals like us perform their function. The exchange between CFOs of different countries only became more important.

This congress crowns a journey that started 5 years ago, as part of the strategic planning of the Brazilian Institute of Financial Executives SP, Sao Paulo, when one of the priorities was to intensify the relationship with the other countries.

If Institutes of Brazilian Financial Executives from other states of the country agreed and supported this vision, it can't go without saying that IAFEI identified us as the largest leadership in the area - accepting the Brazilian association, and relied on our ability to host this event in Brazil.

This whole process has taken a lot of effort in recent years, and I am grateful to all the international and Brazilian leaders who have made this possible.

The moment is favorable to Brazil, with both the control of inflation and return of economic growth.

This allowed the country to focus on congressional themes consistent with the global agenda of financial executives. Our themes have been selected to allow a high-level discussion. In the next paragraphs, I select some of the best moments of the congress.

As Chairman of the congress, I am at everyone's disposal.

The role of the finance executive in the digital journey

The scenario of digital transformation in the market and in the media has a direct impact on the way of doing business. This context has brought about exponential changes in the work routine of Oracle, a company that has shifted its position from software vendor to becoming a service provider. The change was addressed in the speech of Paulo Guiné, Oracle Business Development Executive for Latin America, held on the second day of the event.

"From the moment we started selling direct services to a business unit, there was a significant change in the ecosystem of the company. If we used to make large and unique sales, today we have annual contracts, which directly impact my operational team.

According to the executive, there are two special challenges in the process: reducing costs and communicating changes to the staff. Another aspect of the strategy is to attract young professionals to the team. "What we expect from executives is that they are ready to enable transformations, to convince young people and other employees to see the new," he said.

CFO Global panel: Diversification and good practices

Amid positive expectations related to the conduct of economic policy in Brazil, CFOs of five multinationals with operations inside and outside Latin America discussed financial and infrastructure issues. One of the options faced by companies to deal with the crisis is to diversify operations and investments in the face of the global business scenario as they seek to organize themselves to attract the attention of the capital market.

Mr. Augusto Ribeiro Jr., CFO of Iochpe-Maxion, asserted he intends to continue investing in Brazil and also in other emerging countries, such as India, which has a favorable logistics chain and tax system. He claimed they are building a factory there.

Already mentioned as positive, prospects for operating in Brazil in the next few years bring yet a few pluses. "Because of the crisis, we improved our factories' production capacity for exports", said René Marzagão, CFO for Latin America at AkzoNobel.

One of the most repeated demands by Brazilian and foreign investors is the promotion of a more transparent and secure business environment in relation to the rules in place. "We have to regain the confidence of our shareholders" said Davide Mele, deputy chief operating officer of Fiat Chrysler.

Pieter de Jager, CFO of the Afrisam Group, pointed out that in addition to the tax issue, another barrier to be broken in developing countries is the attraction of investments. "Just as in Latin America, we face the same topic in Africa. To overcome this, we need more involvement with financial institutions, since there is a lot of capital waiting for an opportunity. If Brazil continues to pursue this path of structural reforms, there is a big chance that the capital market will meet the infrastructure needs", he said.

Mohamed El Fezzazi, leader of the DHL tax area in Morocco, stressed the importance of compliance when raising capital. "As a global company, one of our biggest challenges is to educate our employees about transparency and good management practices. I believe that in the next decade we will achieve this goal", he said.

Global CEO Panel: Innovation and governance at the top of the agenda

Altair Rossato, CEO at Deloitte, acted as panel mediator on the subject of innovation and governance - composed by three other executives – with topics ranging from technology and infrastructure to business models.

Ana Paula Assis, general manager at IBM for Latin America, stressed the importance of the technology sector, which in its evaluation has undergone an important transformation in recent years. “If technologies had previously automated business processes over the past three years, they have also been used to improve the customer experience and have a key role in creating new products”.

Era of change - The need to change the culture of companies for the implementation of the technological apparatus is one of the main obstacles faced by organizations in Brazil. According to Paulo Melo, the director of Serasa Experian, as companies modernize, the tendency is for more foreign investment funds to have an interest in offering contributions. “We are in an ideal moment to show the world the capacity of innovation of our organizations amid the background of resumption of economic growth, in which the default rate decreases and consumer confidence increases”,” he said.

“We know that implementation of compliance is very relevant because it enables a good level of competitiveness linked to social responsibility”, said Maurício Barros, CEO at DHL Supply Chain in Brazil.

In the opinion of Carlos Zarlenga, president of General Motors, Latin America has a complicated history regarding the maintenance of good governance practices in the country. “But we have an opportunity to rethink the future, because good governance makes the company more competitive”, he said.

WE NEED A FEEDBACK-CULTURE

EVONIK INSTALLS A BROADER DISCUSSION FORUM – CFO: INTEGRATION HAS AN ABSOLUTE PRIORITY – ACQUISITIONS DECREASE THE DEPENDENCY FROM ANIMAL FEED BUSINESS UNIT

Interview with Mrs. **UTE WOLF,** CFO of Evonik Industries AG, from Börsen-Zeitung, Frankfurt am Main, Germany, September 16, 2017, article provided by GEFIU, the German IAFEI Member Association.

Mrs. Wolf, after the change at the top management, Evonik has announced that it wants to develop a new corporate culture. What was wrong with the previous one?

Even something good can be improved. That is how I would subscribe the theme. Three years ago, we brought the group in a new position. With Nutrition & Care and Resource Efficiency we have defined two new growth segments and with the segment Performance Materials we have rather created a business area which is driven by efficiency and cash-flow. This positioning has been right and still is, and has contributed to a sharpening of the profile in the business segments. Now, we need to address the next step.

Why, if everything is running well?

We have the vision to become the best specialty chemicals group. The question is how to get there. Regarding this, essential aspects has been already mentioned by Mr. Kullmann after his inauguration in May: We must redirect the portfolio in a stringent way and we must allocate the capital which is available to us in a disciplined and consequent way. The corporate culture must support these objectives. We need a feedback-culture, which produces more agility over time. One of the first steps was to create a broader discussion forum with the enlarged managing board, also the four heads of the business segments were included. These are more effectively addressed and more responsibility is allocated to them.

This sounds as if Evonik had been managed per decree from the top to the bottom so far.

We are a traditional corporation group from Germany which – on principle – has been managed in a rather hierarchical way. This must be changed gradually.

Of course, also before and earlier there has been feedback. But it is all about the understanding how we want to work together. Now, we must fill this thrust with life.

When you say that Evonik respectively Degussa corporation has been managed in a hierarchical way so far, one would think that you take out a hierarchical level. Instead, with the enlarged managing board, you are introducing a new hierarchical level.

This has nothing to do with hierarchy. It is rather about the question of cooperation. How are decisions being prepared, made and put into practice? Regarding the number of hierarchical levels, Evonik is not made with so many levels at all. It is rather the question how quickly somebody raises the voice when a project is not working as planned. Keyword: error culture. Searching the best solution needs more openness. And this is what it’s all about.

We permanently check all parts of the portfolio. That applies to the business segments and further on to our products and further on to our production sites. As of today: There are no candidates for sale.

In 2009, Evonik had first positioned itself as a holding. In 2011, after the large non-core segments Steag Corporation and Real Estate had been separated, a group managing board of six people had been installed. Two years later, the organizational set-up had been changed again. Since then, Evonik is on its way as a management holding. Will this remain unchanged?

Three years ago, we have firmly decided for the business segment organization. It was less about making a difference between business segment and holding, but it was about to better raising the potentials of the individual business segments. Now, we want to continue what had been started three years ago. Especially in the growth areas we must focus ourselves in a stronger way.

Regarding the performance materials segment, there has been the discussion three years before – however – what should happen to this business segment. Are you looking for a purchaser?

We permanently check all parts of the portfolio. That applies to the business segments and further on to our products and further on to our production sites. As of today: There are no candidates for sale. However, portfolio management does not only mean to make decisions at the highest level. Especially at the business segment performance material we see quite a lot of potential for improvement. Here, we are not yet at the end of what is considered as being possible, although our attempts already bear fruit today.

Potentials for improvement in the sense of improvement of efficiency?

Yes, in the sense of efficiency. We have started very well, but we still have a number of projects in the making. Because of this we expect further value improvements.

In due time, Dr. Engel has also spoken about partnerships. Are you exploring this?

At present, we have no concrete plans in this respect for any of the business segments, also the performance materials segment. But the portfolio is a living constructure and we will always examine if our activities meet our objectives.

In the business segments the business of methionine is in the focus. Since some time, price decline is causing problems. Have you reached the bottom with regard to the sales prices in the meantime?

The methionine business is certainly not problematic. It is true that in the past two years we have seen a price normalization there, after we could sell at extremely high prices in 2015. However, the methionine market continues to grow very well with a rate of 5 – 6 % annually. We are very strong in this business and we are represented with production facilities worldwide. Regarding production we are cost leader.

In spite of this, this business was responsible for a decrease of profitability in 2016.

The reason is the normalization of the methionine prices. But we cannot lean back, of course. When the market grows, there is the danger that also the costs are growing significantly, especially regarding administration and marketing. Additionally, regarding the animal nutrition business we have much more in our offer as only methionine. So we have also started to use our capacities in organic amino acids otherwise. Remember the joint venture with DSM in the range of omega-3-fatty acids. We can use parts of our lysine-facilities for the production.

But at the end it is all about the offer and demand situation. What about the methionine?

In this year, a Chinese competitor has started the production of a new plant with methionine. A Japanese competitor has announced the start of a new production plant by end of 2018. And at the end of 2019 we shall start with our new production plant at Singapore. This sounds like a lot, but it is not much against the demand growth of 60,000 to 70,000 tons annually. The new capacities will be needed the next 3 – 5 years. This is occasionally perceived as over-capacity.

What does that mean for the price development?

We are making no price-forecast. Now, we have arrived at a level of the long-term average. In the second quarter there had been smaller price-decreases in little partial markets. At the beginning of July, we have announced a global price increase by 15 %. It is too early yet to say how sustainable this is. But the first signals are encouraging.

In the past, the methionine business has dominated the development of the nutrition and care business area. Will this one-sided dependency be significantly changed by the acquisition of the air-products-business?

The relative portion is changing significantly. Animal Nutrition presently stands only for 15 % of the group sales. This is significantly less than in the record year 2015. Animal Nutrition is and remains one of our growth cores, even though today at a normalized level.

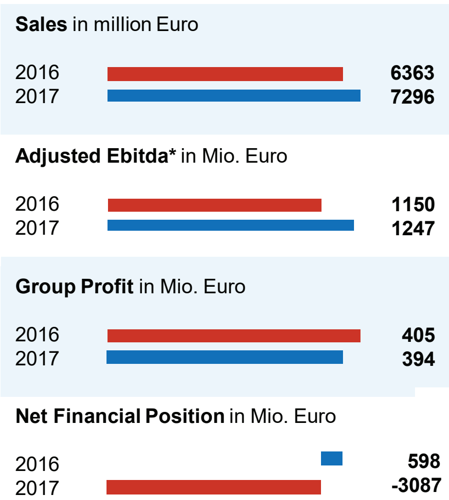
The acquisitions served very clearly the purpose of strengthening the two growth segments. Will there be any changes to this?

This relates to our strategy. The capital expenditures – by way of acquisition or organically – are being made in the growth segments. Performance Materials will continue to concentrate on the improvement of products and technologies, very precisely aiming at cash-flow-generation.

Evonik at a glance

EVONIK
POWER TO CREATE

Group in the first Half Year 2017

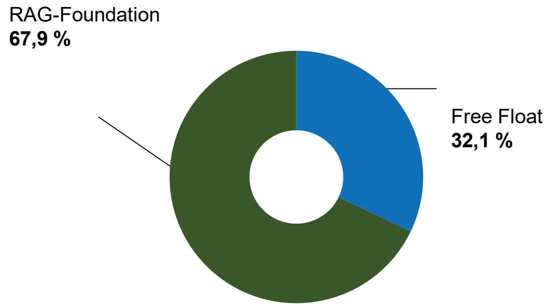


Long Term Rating

Moody's	**Baa1/stable**
Standard & Poor's	**BBB+/sable**

* Earnings before interest, taxes, depreciation and special factors

Shareholder Structure



Market capitalization
Status September 15, 2017
13,4 Billion Euro

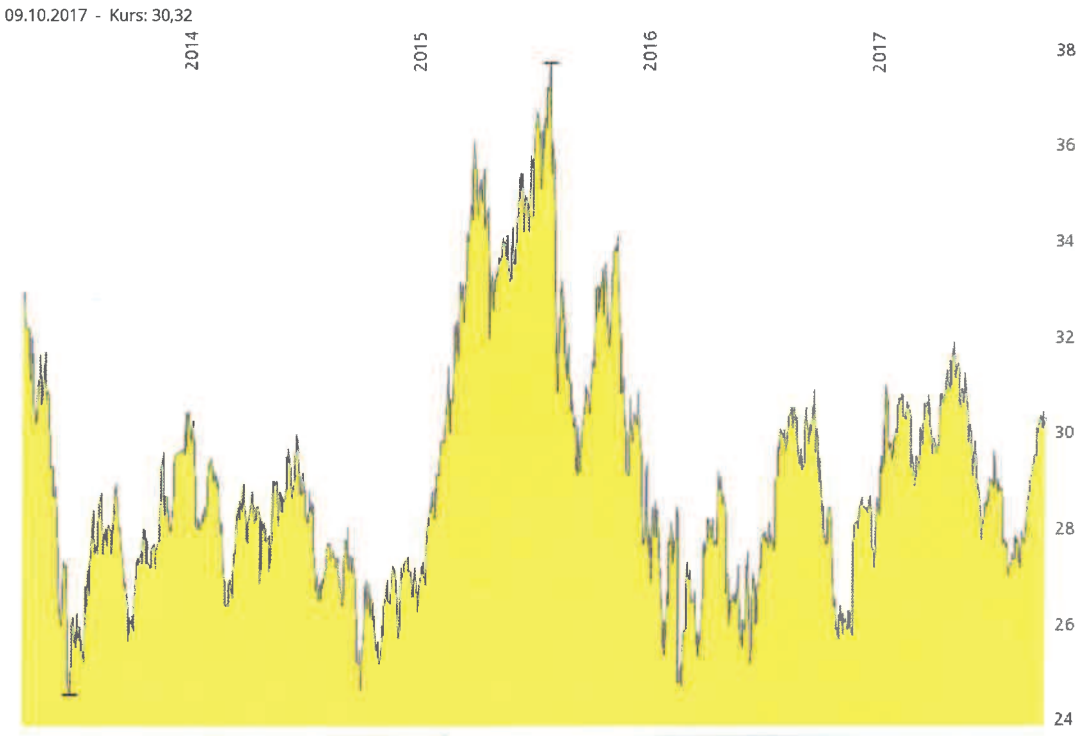
Source: Corporation, Thomson Reuters

How far bave you advanced with the integration of the additive business of Air Products?

We are very advanced yet; the closing was on January 3rd. In terms of organization we have finished, everybody knows his piace. Especially regarding the production sites we have taken the necessary time to review how the larger integrated production sites suite at best to our organization. Thereby, we do not put on the Evonik-organization, but we integrate truly as per the motto “the best ofboth worlds”.

Evonik Industries AG, 30,47 Euro Share Price as of October 10, 2017, German Stock Exchange Xetra

Price Chart, starting April 25, 2013, the day of initial public offering, ipo, of Evonic shares



The synergy potential has been estimated of 80 Mio. Dollar as of the takeover. To what extent have you realized such synergies?

We allowed a time horizon till 2020. The synergies are composed of 60 Mio. Dollar cost synergies and 20 Mio. Dollar sales synergies. In the present year, we expect to realize 10 – 20 Mio. Euro. Synergies in purchasing and in the organization naturally can be realized quicker than in the areas of the production processes. Also for sales synergies one naturally needs much more time, because at first a new joint set up has to be developed.

Does that mean that the cost synergies will already have been realized in 2018/2019?

Exactly. Especially because our cost synergies are not based on personell measures so much. Here, it is indeed rather about conditions in purchasing and process optimization in the production. We can rely on our experience from the program "Operational Excellence". All synergies are ready today and defined by way of exact single measures.

Recently, you have concluded the acquisition of Huber corporation. Have you exhausted your resources?

Our aim is to develop the portfolio in a value increasing way. Here, also in the future, acquisitions will play a role. The focus is on enriching the existing product areas, in which we know the market- and customer-structures, either by capital expenditure or by acquisitions. Presently, however, the integration of Air Products and Huber Corporation has absolute priority. It is simply not enough to negotiate a good deal. The success only comes with integration.

Presently, a large consolidation-wave is swapping over the chemical industry. How does it look in concrete terms with the specialty chemicals business of Akzo Nobel? Would that suit for you?

We look at every activity in the industry. But we do not comment on individual themes. For us, it is important to have a clear view on the possibilities fitting for us – strategically and financially. But to say it clearly, it is not about making a larger acquisition in a specific timeframe, but it is about the further development and the value addition of the portfolio.

You have just eluded the financial aspect. How about the further financial leeway after the two acquisitions?

In spite of the two acquisitions, for which we have paid roundabout 4 Billion US-Dollar, we have maintained our solid investment-grade-rating. With this we are fine. At the end, it must also fit to our financial objectives, of course, especially regarding the points of view concerning growth and margins.

However, this is not an answer to question about the financial leeway.

I understand that you would like to know a number. But it is not that simple as you have to look very carefully at how about the deal is and how to create the financing. There is not a patent recipe for this.

To say it clearly, it is not about making a larger acquisition in a specific timeframe

The net debt in relation to the operating earnings (leverage) at last was at 3. With another debt financed acquisition could then the solid investment grade rating get in danger?

Regarding the rating, it is not only about leverage. It is also decisive how stable the businesses are. At this, it helps to direct the portfolio further to specialities and towards long-term growth trends. What matters as well is the financing done so far. We have always maintained the promises in a reliable way and we have always paid attention to an adequate capital structure. In 2010, we have started with the funding of our pension provisions. All of this plays a role.

When I have understood right, first of all a strategic fit is of importance concerning acquisitions. The financing comes rather in second place. Is this right?

Regarding cause and effect this rhetoric is too strong for me. Certainly, it has to fit strategically first of all. But the financial criteria must be fulfilled as well.

Doesn't the charm of a listed corporation lie in the possibility of raising new equity when needed, does it not? Regarding to your shareholder-structure – the RAG-foundation is your biggest shareholder with short of 68 %. This would certainly not be a disadvantage.

If an acquisition is strategically fitting concerning financial aspects, the question of financing comes up. There are existing many instruments, starting with bonds over to hybrid capital and over to a capital increase. This would then have to be discussed in a concrete situation with all shareholders. However, I would not reduce the subject to the question which acquisition volume we could realize with which financing.

However, against a capital increase certainly speaks the stock price. Its development is disappointing, even when looking at it in a benevolent way, what are the reasons?

With a shareholder price which is below the issuing price, nobody can be satisfied. We are not satisfied either. There are a number of factors which are responsible for this. We have gone on our way several years ago, to get more specialties and more stability in the portfolio. This takes time.

Will you get this time regarding the investors?

We think that the Evonik share still has much potential. We have recently re-defined our objectives once more and declared how we want to achieve this. Looking back, we must state that we had significant fluctuations of results and margins. This produces question marks in the market and is not helpful to raise the stock price.

With a shareholder price
which is below the issuing price,
nobody can be satisfied.
We are not satisfied either.

You have not only re-formulated your medium term objectives at the beginning of June, but also silently cashed your recent objectives. How large is the loss of trust?

The old medium term objective has been formulated under totally different world economic framework conditions. Between 2013 and today, the world economy has grown between 1 and 1,5 % slower than anticipated. This naturally has an effect on the total performance. When re-defining the financial target, we had therefore a stronger look to the naming of the promoters of growth. This relates to the margin objectives and growth. We want to grow faster than the world economy. At the same time, we want to achieve more cash flow, than we are dividending out. We are now rather looking at a series of ratios, than on sales and profit numbers. With concrete margin objectives we can also argue and act better within our organization.

The interview was made by Annette Becker.

About the Person:

Demonstratively factual

Ute Wolf has made it. Since October 2013, the 49-year-old belongs as CFO to the managing board of the chemical group Evonik and it speaks for her that she has survived many changes in the management board of the corporation. This is specially an achievement when taking into account, how much the RAG-foundation as a large shareholder is annoyed about the disappointing stock price development. Especially the stock slump following the balance sheet press conference 2016 has been made a critique against Wolf.

The CFO herself, who especially speaks on facts with substance, is not commenting on this naturally. Instead, she presents an optimistic attitude even when often being confronted with biting questions at investor conferences. The road shows are both, duty and honour, the master in mathematics is commenting. Not without reason her efficiency in sticking to facts is appreciated by third parties.

Her professional career began in 1990 with the training program at the Deutsche Bank after which followed a 2-year-activity as equity analyst. In 1995, she changed over to Deutsche Telekom Group as team head of risk management and financial planning. Five years later came the change to Düsseldorf as head of department financial management at the merchandise group METRO, before in 2006, she went to RAG-group as head of the central unit financing. Out of RAG-group, the new Evonik-group emerged. With Dr. Wolfgang Colberg leaving the management board in autumn 2013, Mrs. Wolf moved up into the managing board.

From Börsenzeitung, Frankfurt am Main, Germany, September 16, 2017. Responsible for English translation: GEFIU, the Association of Chief Financial Officers Germany, translator: Helmut Schnabel

THE MERCK-FAMILY BEHAVES AS A RATIONAL INVESTOR

THE CFO ABOUT BALANCING THE INTERESTS BETWEEN THE CORE-SHAREHOLDER AND THE CAPITAL MARKET, THE ADVANTAGES OF THE CONGLOMERATE GROUP AND THE DIGITAL CHALLENGES

Interview with Dr. **MARCUS KUHNERT,** CFO of Merck Group, Germany, from Börsen-Zeitung, Frankfurt am Main, Germany, August 19, 2017, article provided by GEFIU, the German IAFEI Member Association.

Mr. Kuhnert, Merck will become 350 years old in 2018. What can the CFO contribute to the celebration?

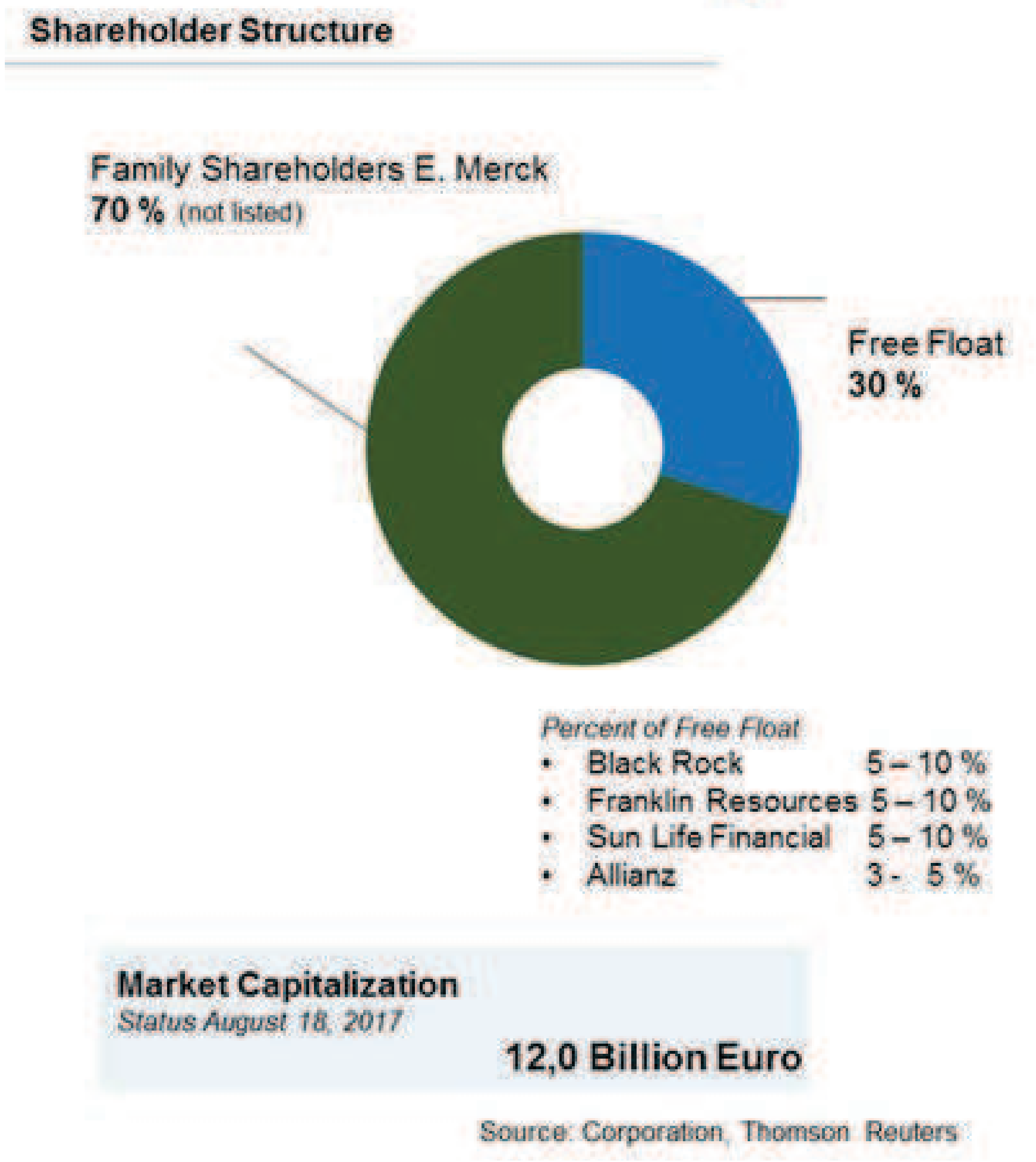
For me, it is the occasion to observe the long-term context and to ask, what a CFO can contribute in order that a company becomes so old. During all times, financial stability is an important condition for successfully doing business. In a family corporation like Merck, the CFO in addition has a special role as intermediator between the family, which owns 70 % of the shares, and the other shareholders. Of course, we want to have the celebration also in an adequate way for our employees without doing financially unsound measures in this context.

Can one bring the interests of the two shareholder-groups to an agreement at all?

The family takes a very long-term perspective when it comes to the further development of the group. For this family it is the top objective to hand over the corporation in an even better condition to the next generation. Against this stand the often rather short-term determined interests of the capital market.To maintain a balance here belongs to the most important tasks of the CFO at Merck.

Does the capital market show an understanding for the view of the family?

The Merck family acts as a rational investor. Thus, there is a larger homogeneity of the interests between the shareholder groups than one would suspect to see at first sight from outside. The material difference here is rather the time horizon with a focus of institutional investors on quarterly results.



Has it been possible in the long history of the Merck group to hand-over the corporation in a better position to the next generation?

In the history of the corporation, the highs and lows are tightly linked to the German history and to the two World Wars. At the end of the war in 1945, Merck achieved a turnover of converted 5 Mill. Euro which were modest dimensions. In 1959, the mark of 100 Mill. Euro has been exceeded for the first time, in 1980 the first billion Euro mark has been achieved and after the initial public offering in 1995, things went up rapidly.

So the opening towards the capital market has paid off?

Yes, the opening has paid off because the performance-pressure by the capital markets is a good complement to the long-term perspective of the family. Merck had already been active in the capital markets long before the initial public offering. The first bond issue dates back to the year 1919. Volume : 7 Mill. Deutschmark.

Your CEO has recently been quoted with the words : Merck has also been a start-up corporation, however, in the year 1668. Probably, risk capital has been scarce in these times?

The risk was borne by the company founder Friedrich Jakob Merck. And this at a time, when the 30-year war had not been over since a long time. The corporation, the Engel-Apotheke (angel-pharmacy) at Darmstadt, has obviously succeeded as a start-up. In our industry I do not know any corporation being older.

Merck, at last, has put the business on a broader basis with large acquisitions. Besides Bayer group you in the meantime belong to the rare species of chemical-pharmaceutical conglomerates. Does this model has a future?

Definitely yes. Conglomerate, in our interpretation, stands for a determined degree of diversification. Merck is being diversified across various business models. So, for example, the business area life science is a stability anchor in the portfolio. We are acting in a big market, which has sustained growth and which is producing high cash flows. The performance-materials business unit is more volatile. Pharmaceuticals by way of the necessary market approvals by the State Pharmaceuticals Agencies are following almost a binary logic : A new drug is coming to the market, or not. In addition, the group is diversified by way of the broad regional representation. With this, we equalize business cycles on a world-wide basis.

So it is primarily about compensating risks?
Yes, it is primarily all about risk diversification. The diversification in this form is also related to our shareholder-structure. The typical argument for focussed corporations is that shareholders can diversify their portfolio more cheaply and better themselves. This is not true for Merck, because the family shareholders have their property invested in the company, and because they do not diversify that portfolio outside of the company. Therefore, the corporation must take care itself by way of its portfolio for a certain degree of diversification. There will be few changes in the years to come as to the diversified basic orientation.

Does this include an active portfolio management ?

Here, we are very active and naturally, we look at our portfolio regularly and we put it on a review. In the past 15 years, Merck has managed transactions by the volume of almost 40 billion Euro, especially on the aquisition side, but we have also divested parts. This way of acting will be continued. For example. in this year's spring, we have announced that we are selling our biosimilars-business to Fresenius. Among experts, there is – by the way – no clear view whether conglomerates are being better than focussed corporations. This strongly depends on the management in each case and thus, whether the internal capital market within the group is functioning. Meaning, whether or not, there are transparent and efficient rules for the internal capital allocation. Merck has been very successful with acquisitions. The earnings contributions of all larger acquisitions of the past years have exceeded the capital cost**s.**

There will be few changes in the years to come as to the diversified basic orientation.

Is this also true for the acquisition of Serono?

Yes. Though the pipeline, which we took over, did not provide the product flow which we had expected. But the products, which had already been introduced to the market, have exceeded our expectations by far – for example the multiple-sclerosis-pharmaceutical Rebif.

How high do you estimate the conglomerate-discount of your share?

If one looks at the average of the reports of analysts, it is at around 10 %.

Are there synergies between the three business areas ?

Yes, and they often exceed what one thinks to recognize as at first sight. With a new innovation center at Darmstadt, we also pursue the objective to raise even more synergies between the business areas, especially as regards research and development.

After the 17 Million Dollar heavy takeover of Sigma-Aldrich in 2014, first of all the emphasis was on integration. Is it true that this has been achieved widely ?

We are doing well in line with the plan, but we have not yet fully completed it. When we originally defined a synergy target for 2018, we have now exceeded it by 20 Million to 280 Million Euro. In the current year, a few things are still ahead of us, especially the optimization of production and supply chains. Also, on the sales side we still have to complete one or more integration measures. Here, at the beginning, we have been cautious in order to not put the sales dynamic into danger.

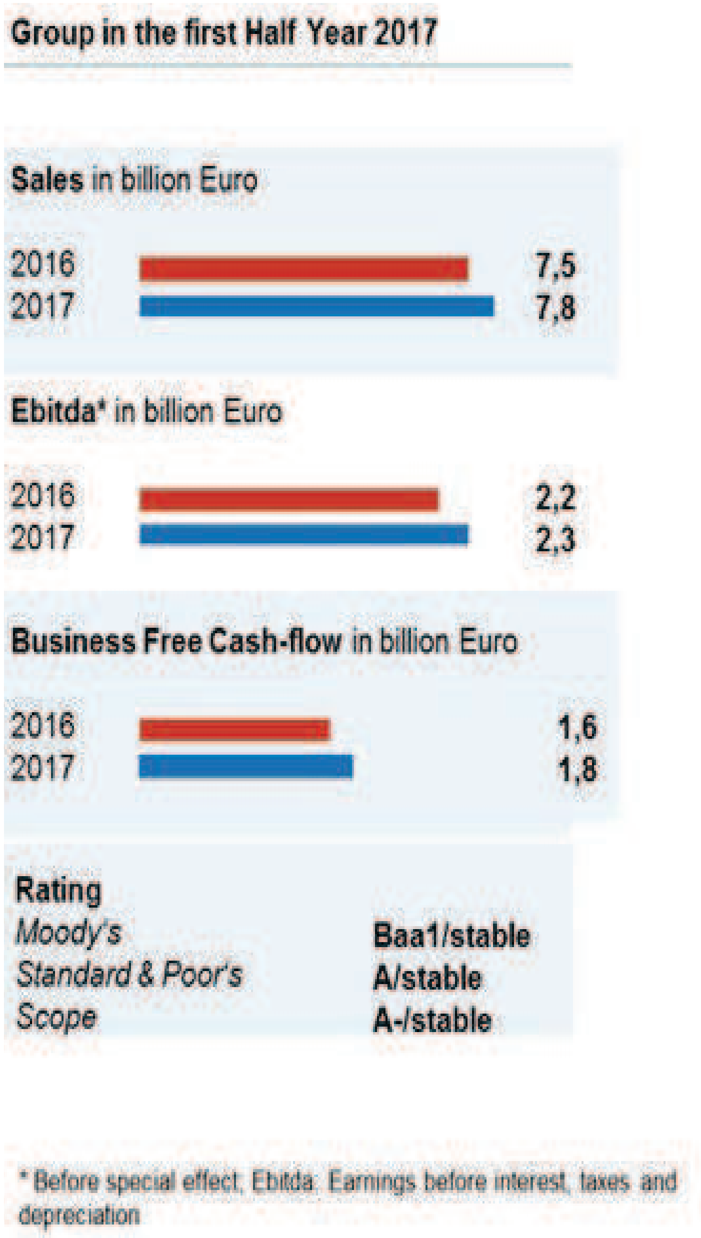
The debt ratio is already back to 2,4. In spite of this, you have given to yourself a grace period for new acquisitions until the end of 2018. Why so cautious ?

This is a tightrope walk. On the one hand, we have to make certain acquisitions from time to time in all three business areas, in order to remain competitive. On the other hand, there exist clearly communicated targets with regard to the rating agencies and thus with regard to debt-investors.

Their reaction to the Sigma-acquisition has been benevolent, though ?

Right. Behind this is the expectation that we will quickly reduce the comparatively high level of debt. The rating agencies are granting a manouvering time to Merck on a basis of a fast debt relief after acquisitions in the past and on the basis of the diversified business model. This time we must utilize, in order to bring back our financial ratios, especially the relation between operating cash-flow and debt, in a dimension which justifies the present rating. This results in a clearly defined path for the reduction of debts. Thus, our financial flexibility is limited, until we have a relation of net debt to ebitda again, before special effects, of around 2.

Merck at a Glance



Smaller acquisitions will be possible ?

Acquisitions up to 500 Million Euro are possible. What is beyond that, will have to be financed by divestments. Otherwise, we would run the risk not to meet the debt-reduction-plan.

Would then a rating by one level below be a problem in these times ?

It would not be problematic with regard to the absolute interest rate level. But Merck has used hybrid bonds for the financing of the Sigma-acquisition. The charm of such bonds is that, when designed in a special way, the rating agencies regard them partly as equity. With their character as subordinated debt, the hybrid bonds are ranking two levels below the corporate rank:ing. Here, Moody's presently gives us a Baal. The hybrid is thus just about in the investment grade range and would land with one level lower in the junk: area. We want to avoid this in any circumstances.

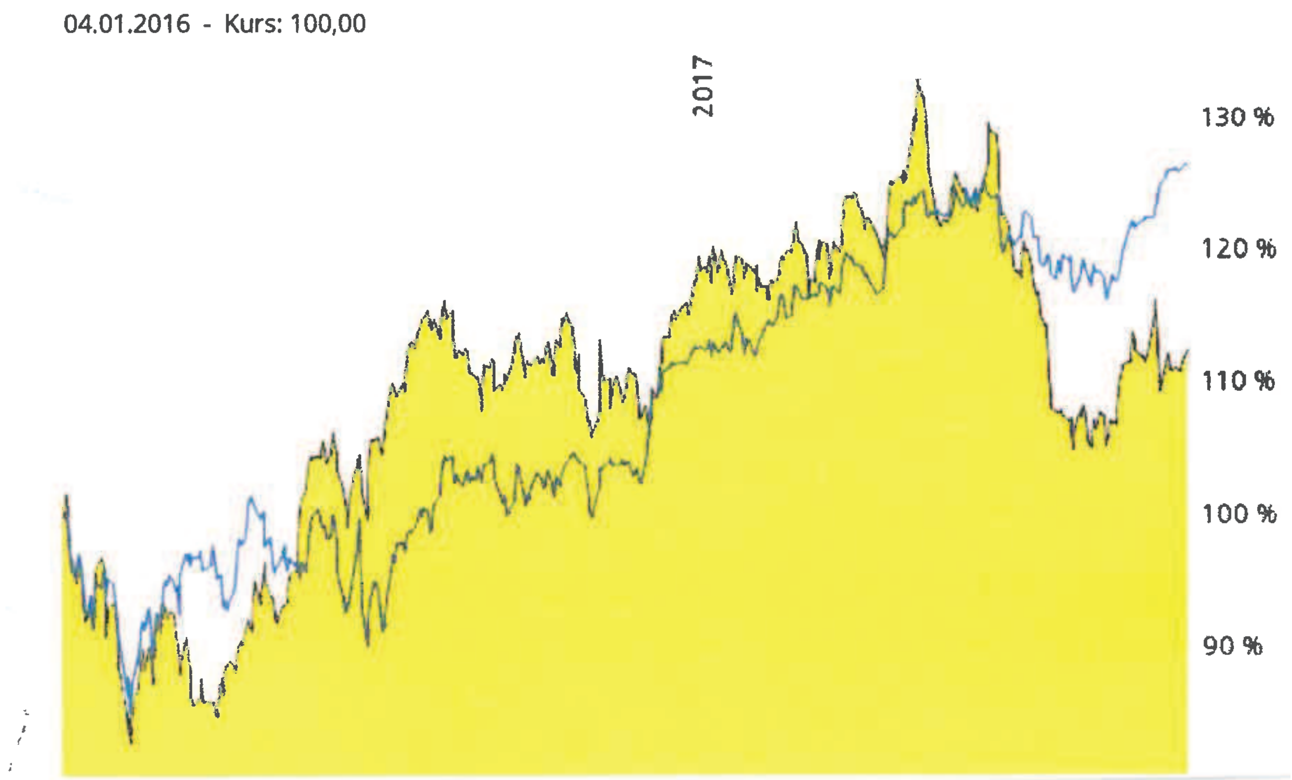
What would happen?

Many investors would have to walk away, relatively fast and probably with a loss. That would not be helpfui for our standing in the market. We want to prevent this in any case.

Merck KGaA, 95,40 Euro Share Price as of October 17, 2017, German Stock Exchange Xetra

Index Price Chart, Index-base as of January 4, 2016 = 100

-Black line: **Merck KGaA Share**
-Upper blue line: **DAX German 30 Companies Large Cap Stock Index**



You have defined the objective that all business areas must earn their capital costs over the medium-term. Have you reached this target everywhere?

We need more time after the acquisition of Sigma. We had anticipated 5 – 10 years until the return on capital employed would exceed the capital costs again. All other business areas are already significantly above it.

The long hoped-for progresses in the pharma-pipeline are pushing the expenses for research and development. For 2017, you have announced higher costs by 150 – 200 Million Euro. Will it continue up further in 2018 ?

It is still too early for a statement. On the one hand, by the way of the agreed upon sale of the biosimilars business, research and development costs will go away with it. On the other hand we have many projects in the pharma-pipeline. In addition, in the upcoming year, the first sales from new pharmaceuticals are to be expected which puts away pressure on the earnings.

Sigma and the newly formed life science division with this acquisition, are meant to equalize the period until which new pharmaceutical products are coming out of your pipeline. Will you manage to realize this, against the background that presently the liquid cristal business is shrinking ?

For clearance in advance : The Sigma-acquisition was a strategic decision for the enhancement of one of our core-business areas. It was not about supporting a weak pharmaceutical business. For the business area performance materials it will become difficult in the future regarding the situation at liquid cristals, to maintain the margin on the level of the past. The well-best segment by far of the business area is going down in importance because the business with liquid cristals is not growing any more.

But it also plays a smaller role than in the past ?

The liquid cristal business today contributes less than 50 % to the entire business area. In the meantime there exist next to it three strong areas which develop very well. This helps to compensate the presently difficult situation at the liquid cristal business.

There will not be a dent in the entire group ?

This one cannot answer at this stage. Here, we have several factors. Until the end of 2018, we are loosing in the high-margin liquid cristal business 200 – 300 Million Euro in sales because of the normalization of the market share. On the other side, there stand additional pharmeceutical sales, among which with new products, and the existing life-science-business continues to be successful.

With the Sigma-acquisition the business in the USA has got a significantly higher weight. How does Merck experience living with the chaos of the US-politics ? Do you still have a reliable framework there ?

For us, not much has changed. We recognize a higher uncertainty of our customers because they are investing more cautiously. But so far, this is not impacting our business significantly. To this comes the currency situation which is more painful and which has a direct result on the numbers. The weakness of the Dollar was indeed a main reason for the smaller adaptation of our sales forecast after the second quarter.

The first bond issue dates back to the year 1919.

A future theme is the digitalization of the business model. The entire managing crew was in Silicon Valley in spring. Which impressions have been the most lasting ones for the CFO ?

There, but also previously, we had studied scenarios of disruptive developments. So, for example, with the question whether at any time in the future this place will be substituted by virtual reality or holograms. Or what it would mean when material for research labs could only be purchased by online sales organizations. Or when pharmaceutical corporations would only be producers of drugs whereas the management of clinical data is at third parties.

Did you find answers ?

The answer of all questions is rather the same : We must be open for digital business models. To this theme our CEO has committed the corporation. We have started a number of digital initiatives which are developing well.

What is changing from the financial point of view ?

The finance department supports the various business areas with the execution of their digital projects. But we also perform an original contribution. It belongs to the core-competencies of the finance areas to transform data into information types which are relevant for decisions.

Where are you starting with this?
We are concentrating regarding digital technologies and the finance area on three areas : mobile data access through finance apps. Here, for example, the employee is being informed when there is a threat, that the budget will be exceeded. In addition, we are working at predictive analytics for the improvement of the quality of the business administration decisions, for example in the area of improved sales forecasts which do allow us to lower our holding of inventories. The third theme is robotics, that is the automization of standardized processes in order to generate efficiency advantages.

**I have doubts that one can substitute important functions,
in the finance area, by a robot in the near future.**

Is there not also necessary a different risk appreciation in controlling ? In the scene you can find the slogan: If you want to ruin a start-up, send the corporate controller.

Merck has not been a start-up for a quite long time. One cannot transfer findings and conclusions of a start-up simply to large enterprises. In spite of this, we should adapt much from the start-up thinking, because intensity and profoundness of change are increasing and because one must approach themes and subjects with different thinking patterns.

Are you afraid of the competition by a robo-CFO ?

Not during my time. I have doubts that one can substitute important functions in the finance area by a robot in the near future. On the other hand, the understanding of the role of top finance managers will change significantly in future. Change processes will become significantly more disruptive and will take place faster than in the past. We will be forced also in the finance area to test many things rather more by way of trial and error.

The interview was made by Sabine Wadewitz.

About the person

Being Sporty

When Dr. Marcus Kuhnert started as CFO at Merck three years ago, he could quickly manage all aspects and produce the financing of the 17 Billion Dollar heavy takeover of the US-lab specialist Sigma-Aldrich. The sportive manager, who had worked for Henkel for many years before, was familiar with the requirements of a family enterprise. He is standing for a conservative balance sheet and finance policy and he sees himself as a mediator between the more long-term interest of family shareholders and the short-term thinking of the capital market. In addition, he pursues the digitalization in the financial area and he supports other departments of the pharmaceutical and chemical group when using new technologies.

Kuhnert was born in Chicago in 1968. After the study of business engineer and doctoral studies at the Technical University Darmstadt, he started his professional career at Henkel as corporate controller in 1999, he then turned over to investor relations and starting 2003, he was heading the area group financial reporting and controlling of subsidiaries. Starting 2007, he worked at Singapore as regional head for the glue-division and he participated there in the largest acquisition, in the Henkel history, of National Starch. In 2008, he took over the responsibility for the CEO-office and acted as head of strategy development. Kuhnert is married and has three children. The fan of Eintracht Frankfurt soccer club has played himself soccer over decades. But after several injuries he is engaged in this sport only from the stadium arena or with his small son on the playstation. His next challenge is his 50th birthday in the upcoming year.

From Börsenzeitung, Frankfurt am Main, Germany, August 19, 2017.
Responsible for English translation: GEFIU, the Association of Chief Financial Officers Germany,
translator: Helmut Schnabel

WHAT'S THE FUTURE OF GLOBALISATION? WHAT'S THE FUTURE OF FREE MARKETS?

EUROPEAN OPTIMISM IN AN UNCERTAIN WORLD

Dr ANDREAS DOMBRET Member of the Executive Board of the Deutsche Bundesbank Eurosystem/German Central Bank - Speech given at New York University - New York | 11.10.2017

1 Introduction: Whither globalisation? Whither free markets?

Ladies and gentlemen

It gives me great pleasure to be back in New York and at NYU.
Today I want to talk about two things: chocolate and Nobel prizes.

Stay with me for a moment. Some time ago, I stumbled upon a story that connected chocolate and Nobel prizes in a way that reminds me of how we talk about globalisation nowadays. In
2012, a New York-based physician and researcher published a note in the New England Journal of Medicine in which he analysed the link between chocolate consumption and cognitive function.[1] While not unusual, his measurement was, let's say, creative. He measured the correlation between a nation's chocolate consumption and the number of Nobel laureates per population. It came as little surprise that Switzerland won, with the US and Germany achieving only a mediocre ranking.

While the author himself was careful not to claim that he had found a causal link, he highlighted an extremely strong correlation – indeed, his only regression graph was quite close to being a perfect line. Thus, others were tempted to debate the merits of launching a government programme to boost national cocoa consumption.

Correlation does not imply causation. Intuition is not always based in fact.

Confusing correlation with causation is amusing – but it is also disturbingly similar to what we are seeing in current political debates. Is the idea that more chocolate leads to more Nobel prizes really any different from the idea that protectionism brings back old jobs? Is it really
any different from the idea that Brexit or the

breakup of the European Union would bring with it increased welfare and security?
Across the globe, populism is on the rise – leading many to fear that the post-war economic order is coming to an end. What's more, even the future of the Western alliance has come into question.

My impression is that many people in the United States are still asking these questions. Political tensions still dominate. The role of global cooperation with other nations is still contested. Globalisation and free markets are still questioned.

Some of you may be wondering whether I have brought optimism with me from across the ocean.

Sadly, I have not. In my talk, I will argue that too little has been done to resolve the economic challenges that underscore populist success.

I will start in the present by giving you my take on the current state of the European Union. Much like in the US, we have not yet found the solutions to the root causes of these problems. Next, I take a look back at the past to explain that the root causes lie at the heart of our market economies – the tension between innovation and social cohesion that has been there for more than 200 years. Finally, I will turn to the future to discuss three principles for better economic policies and several concrete policies that could serve to implement these principles.

2 European optimism in an uncertain world

So let's start with the present – with Europe's current economic and political condition. Since the financial crisis, the pace of recovery in the euro area has been slower than it has
been in the United States. Lately, however, there have been signs of a broad economic
recovery.

Recent figures reveal a pleasant surprise for the euro area, with sound GDP growth of 0.6%
for the second quarter of 2017. Unemployment stood at 9.1% in July, down from its peak of
12.1% in 2013.

But a recent study has shown that the labour market in the euro area is in worse shape than the official job figures suggest, with workers unlikely to see real increases in pay because of the level of underemployment.[2] A measure of "'slack"' in the labour market indicates that about 15% to 18% of the euro area workforce are without jobs or would like to work more – which is nearly double the official unemployment rate. Underemployment is even growing in weaker labour markets, such as those in France and Italy.

The still weak labour market in many regions of the euro area is one of the gravest ongoing consequences of the recent financial crisis and an indication that the recovery is still weak. This is particularly true with respect to the high level of underemployment in peripheral regions and among young people.

Thus, while the euro area economy looks increasingly healthy on average, it becomes clear on closer inspection that a lot still remains to be done to move onto a sustainable, integrative path of prosperity.

And this is one of the reasons why extreme populists are still making gains at elections. Sure, Marine Le Pen, the front woman of the far right in France, did not become the French president, and Geert Wilders, her counterpart in the Netherlands, did not become part of the Dutch government. So yes, there is reason to be a little less pessimistic.

However, two weeks ago, the German general election showed us that politics has not yet laid the groundwork for optimism, as a populist party came in third. I will come to that in a moment.

In my eyes, though, the positive outcome is one of government stability: Chancellor Merkel's conservative Union gained the majority again. But she faces the difficult task of forming a coalition, as only two options are possible. The first, which is to continue her current grand coalition with the social democratic SPD, has little chance of success as the SPD wants to go into opposition. Second, she could form what has been dubbed the Jamaica coalition with the liberal Free Democratic Party and the Green party. While all parties are willing to enter into negotiations, it will be challenging – finding common ground, will take creative political agenda-setting and political diplomacy. But I am confident that an agreement can be reached. Thus, I am confident that the stability of the German political landscape will remain intact. And with that the strong growth momentum of the German economy will also remain intact, which, in turn, will be a strong basis for continued growth of the Euro area economy.

Yet this election reveals a deeper, inconvenient truth – that we are far from having found sustainable solutions to the root causes of populist success. This is mirrored in the first far- right party entering the Bundestag since 1949: Alternative for Germany, or AfD for short. It is now the third-biggest party in the Bundestag, with almost 13% of voters supporting it.

Its supporters can be divided into three buckets: first, an established fringe group of far-right voters; second, a group frustrated with how the government handled the refugee crisis and their integration; and third, a group of economically disappointed people. About half of the party's voters are economically disappointed.

This is the economic side of why protectionism and populism still enjoy strong support. The AfD, like many other populist parties, pins the blame for economic malaise on globalisation and European integration – and demand that they be reversed.

These simple explanations offer intuitively appealing solutions to Europe's problems – they are the chocolate to Nobel prizes. And they overshadow the actual economic challenges.

If we do not solve these actual challenges, populist influence might well grow – and that would put global and European cooperation at risk. These unresolved economic tensions could become the roots of serious political conflict.

Can this really become such a problem? My answer is one word: Brexit.

In June 2016, UK voters decided to leave the EU – they had been told that they would be able to save their money and put it to better use, and that they could once again be sovereign in the global economy, all without any negative consequences. Unfortunately, the campaign was

built on false anti-EU information. These intuitively appealing anti-European sentiments did find support – to a substantial degree – among economically disappointed citizens.

Where are we now? Brexit is definitely happening, and chances are it will be a hard one – by which I mean that there will be a complete exit rather than a partial one. The UK and the EU will go their separate ways in March 2019. After we agree on how to separate, we will start to negotiate the terms of our new partnership. Since negotiations have been going rather slowly, there may be a transition period of two years from 2019 to 2021 – during which the old rules would still apply and the terms of their new partnership could be drawn up. What kind of economic partnership this will be has yet to be determined. If we do not find a solution, the EU and the UK will trade under rules set by the World Trade Organization – which is in nobody's interest, but could be particularly harmful to the UK economy. I hope that negotiations will be able to strike an economic partnership that underscores the close political friendship between the UK and the EU.

Brexit shows that less integration is not the solution to the root causes of our economic problems. But a simple case of more integration is not a solution either.

The EU appears stronger today than it did a year ago. This was mirrored in Commission President Jean-Claude Juncker's State of the Union address on 13th of September, and in French President Emmanuel Macron's plan to reform the EU, as set out in his speech on 26th of September. I agree with them that a strong EU is in the best interest of all Europeans and that it can play an important role in international relations.

But I think that we should get the order right: first reform, then the next steps towards more integration. Taking economic and monetary union as an example, there remains a lot to be done to become a stable monetary union – in the case of the United States, it took more than a century of conflicts. We need to work on equalising living conditions across the widely differing economies of the euro area and on improving the fiscal rules. This will take years of political work and debate. We should take this step first before rushing prematurely into integration projects.

But let me be as clear as I can: I am a passionate European, and I want the EU to become stronger and better in the years to come.

Neither less nor more integration at any price is a panacea for the problems in our market economies. Our problems are not that we cooperate at a European or a global level – the EU and globalisation are achievements. But they have serious side effects. These side effects give us a glimpse of the fundamental challenge that our economies are facing – and this holds, to varying degrees, for all developed market economies.

What is this fundamental challenge?

3 It's not globalisation, stupid – it's the (market) economy

It lies at the heart of our market economies: it is the tension between liberalisation of economic exchange,

on the one hand, and social cohesion, on the other.
Let's take a historical look at this tension, and let's do so through the eyes of two great economists: Adam Smith explained in the 18th century that if you allowed people to work

wherever they want and for whomever they want, the market would then work like an invisible hand, creating prosperity.[3] The idea of a liberal market economy was born.

But this liberalisation created tension. It was the economic historian Karl Polanyi, who identified this tension.[4] In the early 1940s, Polanyi lived in exile in Vermont. Thinking about the root causes of the rise of fascism in Germany and Austria, he realised the economic tensions that underscored the ascent of Hitler and his like. He understood that the rise of the market economy had brought with it not only unmatched prosperity but also rising social hardship and tensions.
He studied the emergence of modern market economies during the industrial revolutions of the 18th and 19th centuries. At that time, huge workforces were required to produce goods. Workers needed to be drawn away from their previous occupations into factories, and so labour came to be seen as an economic resource – one that needs to be flexible for a complex economy to function.

Industrialisation and market economy changed the social structure, as people were now relying on a macro-economic production process – and this dependence could have very negative consequences if working conditions were bad or people lost their jobs.

Thus, while the market economy created much prosperity, it did also change society. Polanyi realised that this led to a struggle that helped to explain many historic events since the industrial revolutions: liberalised markets would create change and prosperity, but the social problems that they created would lead to opposing forces. The negatively affected would then demand policies to counterbalance the negative side effects, one example of which was social security.

You can look at the history of the markets over the last 200 years through the lens of this struggle. Until the 1930s, laissez-faire liberalism led to markets being quite unconstrained, which created social tensions that contributed to the rise of fascism.

From the late 1940s until the 1970s, the developed nations experienced the glorious thirty years of rising wealth and welfare states, during which the markets were much more constrained by government regulation. This episode, however, came to an end with the decade of stagflation in the 1970s.

The response was to liberalise the markets once again. From the 1980s until today, privatisation and globalisation have been the leading paradigm.

The financial crisis, which erupted in 2008, may have been a turning point. Today's big economic debates may very well be a sign of the tides turning.

Criticism of globalisation and inequality, as well as rising populism and socialism, are symptoms of a bigger problem of our market economy model.

Now, that was a fast ride through 200 years of economic history. And to be clear, much of this story has been simplified and I mooted many competing explanations. My point is that, at
their core, our market economies are fraught with tension – the tension between free market exchange, on the one hand, and social cohesion, on the other. This tension can create social and political conflict.

We must ensure that these conflicts are mediated in a spirit of cooperation and that our economic and political model can survive.

How do we achieve this?

4 How to soften the blow: principles for a better global economy

To my regret, I do not have a master plan. That's because there are no simple, realistic, quick- fix solutions. And that's why a serious debate is needed about what we can do to make our economies future-proof.

Three principles, in my mind, should guide our discussions.

First, we need a fairer market economy. What do I mean? Markets are in principle successful in organising the complex division of labour. But they have negative externalities – in other words, others may be negatively affected by a market transaction between two individuals or firms. It might lead to the pollution of our environment, the lowering of labour standards or the loss of jobs. If these side effects become too much, they can threaten social cohesion.

To prevent this, we need to strike the right balance between two policies: policies that foster the competitive dynamics of market economies, and policies that ensure the social cohesion that is necessary for market economies and indispensable to democratic societies.

The most obvious tools are fiscal policy instruments that serve to strengthen the social security system, which provides financial compensation to individuals such as those who are unemployed.

At least as important as the provision of financial compensation is making sure that people are capable of helping themselves. To that end, we need better education and higher qualifications: countries need to promote equal access to high-quality primary, secondary and tertiary education. What is crucial to educational success in 5 to 50 years is that we increase public spending on qualified personnel. Moreover, active labour market policies are needed to support the jobless in their efforts to qualify for other professions.

The second principle is that we must tackle the hidden problems that are weakening our market economies. What do I mean? I'm talking about the problems that are complex in nature and difficult to solve – which makes them less intuitively appealing – but nonetheless pose challenges that are significant.

We need an open and honest debate about these problems, even though the debate might not be promising in terms of electoral gains. Because if we don't talk about them, the populists surely will – and once they own the debate, facts will certainly play less of a role.

Let me give you an example of what I mean: where should we take money from to fund the compensation and education measures that I just talked about – without increasing public debt? This is a difficult debate, but one important aspect needs more debate than it has received so far: financing must be tax-based rather than debt-based. And the tax base has been seriously weakened by international tax evasion and avoidance.

This is one of the big problems of globalisation. According to Gabriel Zucman, 8% of the world's total household wealth, which is USD 7.6 trillion, was in tax havens in 2016 – according to Zucman's conservative estimates, 75% of these funds are derived from illegal tax evasion.[5] In 2009, the G20 took action and compelled tax havens to sign bilateral treaties providing for the exchange of bank information. While this is an important first step, there is evidence that the effects are modest and that more needs to be done.[6]

Moreover, in addition to tax evasion, the public is also saddled with substantial losses due to tax avoidance stemming from profit-shifting strategies implemented by international corporations.[7] The reason is simple: our tax codes are outdated and not ready for the digital age, in which it is possible to shift profits around the world. Fortunately, the first steps in the right direction are also being taken here.

OECD and G20 countries have agreed on the BEPS project – short for Base Erosion and Profit Shifting. But this agreement is toothless without effective implementation – which is the important task for all signatory countries. A promising approach is the recent initiative by ten EU member states to enhance the taxation of international corporations by updating the corporation tax codes in a manner independent of profits.

And this brings me to the third principle: we need better globalisation. We need to find a form of global cooperation that lies in between the two extreme, ideologically motivated solutions of national isolation and a borderless global economy.

A realistic middle ground would be focused global cooperation: continuing to exchange, to cooperate and to harmonise regulations, where sensible – but also focusing and improving our efforts. Focused global cooperation would also offer greater scope for solutions that respect the legitimate interests of countries wanting to run their economies independently.

An example is the global harmonisation of banking regulation. We, the Basel Committee – which includes the banking supervisors from the G20 – currently work on the final piece to complete global regulatory reforms after the financial crisis – the so-called Basel III agreement; and we are close to an agreement. That would bring global minimum standards to regulate internationally active banks.

Yet, for purely nationally active banks, there is no need to have global minimum standards. National supervisors may adapt the standards to fit historically grown national circumstances. For example, in the EU we are considering a small banking box, with less complex rules for small, non-risky, and nationally focused banks.

But let me make one thing very clear: focused cooperation and more national autonomy must not be abused to water down post-crisis reforms of financial regulation. I am concerned by such efforts, because they could be captured by the financial industry and result in a race to the bottom. Instead, we need sound minimum standards for a stable, global financial system.

5 Conclusion

Ladies and gentlemen

To my regret, more chocolate does not lead to more Nobel prizes – even if it looks that way.

Neither the US nor Europe has yet sorted out the economic problems that contribute to the success of populism. I am an optimist, so I would say that we have made progress – but we are certainly not there yet.

Our economic policies need to strike a balance between Smith and Polanyi – enabling the competitive dynamics of market economies while safeguarding the social cohesion indispensable to democratic societies.

You may not share all of the policies discussed. But I hope we can debate on the basis of the three principles: a fair, social market economy; the need to identify and tackle hidden problems; and better globalisation through focused global cooperation.

This debate will not come easy: many must be willing to overcome their ideological convictions. It is only in this way that we can harness the benefits of market economies and limit their social costs, that we can create better market economies and a better global economy, and that we can stabilise our economies and our democracies.

And now, let's debate!

Footnotes:

1. Franz H Messerli (2012), Chocolate Consumption, Cognitive Function, and Nobel Laureates. New England Journal of Medicine, 367 (October): 1562-1564.
2. European Central Bank (2017), Assessing labour market slack. ECB Economic Bulletin 2017 (3): 31-35.
3. A Smith (1776), An Inquiry into the Nature and Causes of the Wealth of Nations.
4. K Polanyi (1957), The great transformation. The political and economic origin of our time. Beacon Press.
5. G Zucman (2015), The hidden wealth of nations: The scourge of tax havens. University of Chicago Press.
6. N Johannesen and G Zucman (2014), The End of Bank Secrecy? An Evaluation of the G20 Tax Haven Crackdown. American Economic Journal: Economic Policy 6(1): 65-91
7. G Zucman (2015), The hidden wealth of nations: The scourge of tax havens. University of Chicago Press.

Deutsche Bundesbank
Communications Department

Wilhelm-Epstein-Straße 14, 60431 Frankfurt am Main, Germany
Internet: www.bundesbank.de | E-mail: info@bundesbank.de
Tel: +49 69 9566-0 | Fax: +49 69 9566-3077

TAXATION OF DIGITAL BUSINESS IS YOUR COMPANY READY?

by **PIERGIORGIO VALENTE**
Chairman IAFEI International Tax Committee, July 10, 2017, Link Campus University, Rome, Italy

Introduction: Digitalization, A Worldwide Project

Digital economy[1] seems to be monopolizing the attention of tax policy makers all over the world at international level. It is considered undertaxed due to its falling beyond the scope of existing direct tax rules, made for traditional business models.

September 2017 alone saw a row of policy actions evidencing the increasing concerns and the urgency of constructing solutions. The European Commission launched a new agenda focused on taxation of digital business in the Single Market[2], which underlying principle is to warrant fair and growth-oriented tax rules for such business. Immediately afterwards, the OECD released a public consultation regarding the issues digitalization raises in terms of taxation. The consultation shall assist with the preparation of the interim report on taxation and digitalization[3]. However, the implications of any subsequent measures shall not be limited to digital business models, which cannot be effectively ring-fenced, but be diffused in worldwide economy.

At the current stage, no conclusions can be drawn with certainty. However, important progress towards clarification of the international tax landscape is envisioned by early 2018[4]. The business sector is thus compelled to monitor closely the relevant developments, evaluate potential tax risks, and be prepared to respond to any new measures and safeguard effective tax planning. To this end, the present article seeks to provide a brief overview of the tax measures currently under consideration.

Taxation of the Digital: The proposals on the table

I. OECD Proposals Under Consideration

A primary comprehensive illustration of potential legislative measures that could be adopted at national level with international consensus and allow effective taxation of digital economy, is included in the Final Report on Action 1 of the BEPS Project[5]. The options considered are: (i) a new nexus approach, (ii) withholding taxation of digital transactions and (iii) equalization tax on specific business activities. None of them though is held to have been fully developed such to be applicable, yet.

More specifically, a nexus approach indicates the jurisdiction that has the right to tax specific income. Today, the OECD nexus approach is based on an evaluation of three factors – assets, people's functions and risks – deemed to indicate the place (and hence legislation) where a certain value (taxable income) is created and therefore should have the right to tax it. The new nexus approach promotes the concept of significant economic presence over physical presence. It favors new factors – different from the above – as more appropriate to indicate nexus in

1 Digital economy is defined by the OECD as "the result of the transformative process brought by information and communication technology (ICT) which has made technologies cheaper, more powerful and widely standardized, improving business processes and bolstering innovation across all sectors of the economy". Cf. OECD, Addressing the Tax Challenges of the Digital Economy – Action 1, Final Report, 2015.

2 The new agenda is additional to the Digital Single Market Project, in progress ever since 2015; this latter project engages in broader challenges digitalization raises for the Single Market and seeks to establish that digitalization's opportunities are free and accessible to all throughout the EU; Taxation: Commission Sets Out Path Towards Fair Taxation of the Digital Economy, Press Release, 21 September 2017; Communication from the Commission to the European Parliament and the Council, A Fair and Efficient Tax System in the European Union for the Digital Single Market, COM(2017) 547 final, 21.9.2017.

3 OECD, *OECD invites public input on the tax challenges of digitalization*, September 22, 2017..

4 Declarations have been made for (i) the interim report on taxation and digitalization by the OECD TFDE (Task Force on the Digital Economy), (ii) possible legislative proposal on taxation of digital economy in the Single Market by the European Commission.

5 OECD, Addressing the Tax Challenges of the Digital Economy – Action 1, Final Report, 2015; Action 1 is one out of fifteen actions compiled in the context of OECD's Base Erosion and Profit Shifting (BEPS) Project, launched in 2013 with a view to addressing the loopholes and mismatches of the international tax framework that allow for aggressive tax planning.

digital economy. Such factors are divided into three categories:

(i) revenue-related factors reflecting income generated from transactions taking place in a given jurisdiction;
(ii) digital factors, e.g., local domain name, local digital platform and local payment options;
(iii) user-based factors, e.g., number of active users of digital platform resident in specific jurisdiction or data collected from specific jurisdiction.

Adoption of the new nexus approach would require respective amendment of transfer pricing (TP) rules to determine the part of the income generated and hence taxable in each jurisdiction. Alternatively, the OECD considers an equalization tax (third above option) to supplement the new nexus approach. Such tax could be under the form of excise tax on pre-defined activities and would be applicable where significant economic presence has been recognized.

The second legislative measure considered by the OECD within the context of the said Final Report is withholding taxation at country-level on gross outbound payments for online purchases. Such option is promoted in order to be jointly applied with the new nexus approach. However the OECD acknowledges that (i) gross taxation and (ii) requirement of an intermediary agent to withhold and remit tax are hurdles to the application of such mechanism.

II. The EU Position

In the recently released communication, as above, the European Commission sought to clarify its position on the matter of taxation of the digital economy. It also seized the opportunity to underline the importance of EU Member States adopting common relevant approaches.
The Commission illustrated (i) a long-term position and (ii) certain measures that could fill the gaps in the taxation of digital economy in the short-term. Remarkably, the long-term position is developed into two discrete levels: (i) international, i.e., beyond the EU and (ii) limited to the EU, where international consensus is lacking.

In the context of its main proposal and presuming international consensus, the Commission seems to favor (i) change of the existing nexus approach and (ii) corresponding update of TP rules. The former (nexus approach) is presented in the form of virtual permanent establishment (PE), albeit departing from the very same concept as the OECD's, i.e., significant economic presence. Following establishment of such nexus, amendment of TP rules is deemed essential. Main argument for such amendment is that the existing framework does not adequately address evaluation and value attribution for intangible assets and hence is not fit-for-purpose for digital business models. Any new rules on virtual PEs and corresponding TP would probably need to be complemented with an anti-abuse framework.

Nevertheless, the Commission specifies that where consensus is lacking, subsequent legislative action to address the challenges of digital economy would be restricted to the EU. In such scenario, the prioritized solution would be the one incorporated in the 2016 proposal for a Common (Consolidated) Corporate Tax Base[6]. In a nutshell, this proposal envisages corporate taxable base to be calculated according to the same rules throughout the EU. The single EU taxable base arising would then be apportioned among taxing jurisdictions according to a specific formula, taking into account assets, labor/functions and sales[7]. Yet, it is always questionable whether the unanimity required at EU level for the adoption of this proposal can be realistically expected to be achieved[8].

In view of the tax revenue generated by digital business activities, the Commission promotes a number of interim measures to address the problem of effective taxation of such activities as soon as possible. In this context, the Commission endorses withholding taxation on digital transactions, as described above. In addition it refers to (i) equalization tax on inadequately taxed income of digital companies from digital activities and (ii) taxation on profits of virtual PEs/companies with significant economic presence from digital services. It is recognized though that a number of practical questions are pending with regard to such measures.

Conclusion: International Approach

This article gave a short overview of what business can expect in the area of taxation in the near future, focusing on digital economy, as it is the main driver of business developments today. Ultimate purpose of all measures under examination is fair and effective taxation of corporate profit in the Information Age. It must not, however, be underestimated that digitalization is all about erasing national borders, unifying territories and establishing a global economy. In other words, international consensus is a de facto pre-condition to the success of any initiative to tax digital business. Yet, such consensus seems hard to reach.

If the European Commission seeks international consensus, prioritizing OECD proposals and the establishment of a level playing field for all companies in the EU, the U.S. tax reform currently discussed seems to target nationally favorable solutions. For the time being, the only certainty is uncertainty and is, beyond all doubt, harmful for the development of digital economy and the widest possible diffusion of its opportunities worldwide.

6 European Commission, Commission Proposes Major Corporate Tax Reform for the EU, Press Release, 25 October 2016.

7 Following apportionment, each Member State may apply its own tax rate on the share of taxable base apportioned thereto.

8 In fact, the CCCTB was launched by the Commission in 2016 for the second time, following rejection of its 2011 relevant initiative.

EXPERTISES

INTERNATIONAL

BY
PAOLO DE RUGGIERO
FORMER CFO WITH GE CAPITAL AND EXPEDIA,
AND AN AMATEUR LYRICAL SINGER AND AUTHOR

FINANCE&GESTION **SEPTEMBRE 2017**
66

A CFO guide

A few thoughts on my personal itinerary and experience beginning to prepare this transition

There comes a time for a cowboy to ride into the sunset, and say goodbye to his corporate life and career. It may be due to age, health, changing circumstances, or simply, he wakes up one morning and decides he has had enough. While this is bound to happen to all the characters populating the C suite, the transition into a new life can be especially traumatic for a CFO. Why is that? What can we do to ensure an enjoyable leap into one's second (sometimes third or more) life?

Throughout my CFO tenure, when asked to describe my job to junior associates, I have often used a series of metaphors to frame the job content and prerogatives. The iconic representations I have traditionally used are: "The High Priest", "The Compass", "The Rudder", "The Consiglieri" (this one especially betrays my Italian heritage), "The Shepherd Dog", and finally "The Metronome".

It is a non-exhaustive way to dissect the job in its key pillars. All sorts of nuances may apply, and different CFOs may distribute the weighting among these characters differently following their personal bias. They all coexist in us and define, to a large extent, who we are and how we are perceived.

As we commence on a new adventure, some of these personas may become cumbersome presences in our lives. We like it or not, they define us. All of them will try to get in the way of change.

Some will prefer to continue along their old ways even after the CFO phase of their lives has ended. Still, if painless transformation is a goal, I strongly recommend that some strategies are adopted to keep our emblematic figures in check, and eventually leave them behind.

Below, are a few thoughts on my personal itinerary and experience in preparing this transition.

THE METRONOME

Many do not understand how one of the main roles of the CFO is to beat that invisible drum dictating the pace of the enterprise, and leading the invisible dance of the operating cycles. The planning cycle. The investment cycle. The strategic planning cycle. The various disclosures and financial reporting cycles. The numerous statutory and regulatory compliance cycles. The list is long.

This crucial role has invariably transformed us into creatures of habit. While we are asked to write (most of) the sheet music for the dance, we are also the Prima Ballerinas of corporate life. When we choose to give it up, the ticking of the metronome in the background can be sorely missed. Of course, this will not hold true for all of us, but it remains a significant risk that cannot be ignored. An early preparation is good hygiene.

For a long time, I have found comfort in knowing with considerable advance what my travel and business schedule would be. As one prepares for change, it is good to savor the sweet taste of improvisation, and living by the day. Whatever occupation you may choose for your time, I recommend it is one that you can conduct without a fixed schedule, yet following the inspiration of the moment.

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1. Paolo de Ruggiero has held many CFO jobs, in recent years within GE Capital and Expedia Inc. He is also an amateur lyrical singer, author, miniature-scale farmer, and a mediocre golfer. He currently lives in Paris with his wife Angela and three dogs.

Years ago, I took to writing, following my personal interests, and I published my first book (a Roman history essay) in 2012. Now that I am working on a second one I make it a point not to follow a schedule for writing or library research. While this approach is clearly slowing me down in my literary production, I am unyielding in my yielding to the whim of the moment, and many fishing expeditions at the National Library may get canceled, simply to make room for a good game of golf.

The pleasure that ensues is worth the inevitable decline in productivity. No schedules. No recurring obligations. The pleasure of following the inspiration of the moment.

THE HIGH PRIEST

The High Priest is a tough one to fight against. We have all faced the perception that CFOs are - pass me the term – squares. We can spell out the stereotype in many ways, but they all converge in portraying someone a bit grey, dull, nerdy (yet below IT-grade), certainly mathematically inclined, but certainly not the guy you want to have next to you at the corporate Christmas Party dinner. The custodian of the sacred shrine of Money is not fun. Thank the Gods for all those CIO/CTOs that are tainted with worse stigma than us, and are therefore bound for an even lower circle in the Corporate Inferno.

We all know how these prejudices are unfounded, but I know for a fact that most of us still find them annoying. On the other hand, we are fantastic jack-of-all-trades. The stereotypes on the super-bean-counter have been gone for generations. No other C-suite role requires at the same time great variety of competences and hard, factual knowledge. We are the super - Swiss Army Knives of the business world. Why not pull out the Arts and Crafts blade at this point in your lives? Broadening yourself in new directions can do wonders for you while still in career, improve your personal brand and boost your self-esteem. As you move on with the next life, and you have a bit more time available, you can take your interest to new heights or new depths if you prefer.

While I have nothing against Theater, Poetry, Dance, and the rest, I decided six years ago that Euterpe was to be my Muse, and I started taking (lyrical) singing classes from a professional Opera singer. Singing is a beautiful experience because it reunites the Pythagorean beauty of music with an element of physical challenge and (if all goes well) the sense of reward that follows. While my tenor High C is still a hit-and-miss, the payback has been enormous.

All the other Arts above will do just fine if you cannot carry a tune. I recommend those that entail public performing, because the element of challenge is amplified ten-fold, as you will have to play to your weaknesses and bare to others a side of you that you probably has remained hidden, unknown.

At any rate, you will have to be an active player in your field, and not a simple spectator. Otherwise, your experience will be that of an outsider. You may find a passion in pottery, so organize a suitable exhibition with your twenty best vases. You may find a passion in music, perform live for all your friends and business associates. If you are a poet, organize a readout with a piano or violin in the background.

THE COMPASS / THE RUDDER

I must admit that in my case the struggle with these ones is still ongoing. I don't even know if the habitus mentis of the

Planner can even be dinged, let alone destroyed. Many of us mastermind all the aspects of Planning, from long range strategic to short term forecast, from capital allocation to funding, and so forth.

Every plan has an alternative based on contingent events. Laser vision and perfect foresight on all risks and opportunities is needed before commitments to investors are made, and investment money starts changing hands. Surprise is the name of Evil Incarnate, no matter if it is a bad or a good one. The future is there, to be accurately predicted, and rational expectations rule decision making.

We take great pride when, as time passes, we can continue refining and narrowing down our outlook. As I change my perspective on the matter, I am finally deciphering the glance in the eyes of my wife every time I present her with an Excel spreadsheet containing the most elaborate plans for our future. "You are a freak!"

For years, we have all been handsomely remunerated to worry about things, in fact to worry about almost everything. When you let go, there is another big transition to make. We should accept, and even welcome, the unforeseen. Ongoing contingency-planning is a bad use of our time, time that we could use in more enjoyable ways. In order to facilitate the transition out of your old CFO ways, I recommend undertaking activities where you can truly savor the sweet taste of randomness.

For years, I have wanted to find my way in the world of farming, where the whims of the weather, bugs, celestial alignments, can frustrate the attempts of the most skilled and patient of men.

In Italy we say that, if you want to throw money away, the most exciting way is gambling, the most fun is chasing women, but the best is farming. If you decide to follow in my footsteps, I recommend that you do it in a miniature scale, as I have. Last year my olive oil production has been less than one third of expectation, after the implementation of several bugs control strategies meant to enhance production. I stood in line at the mill with the other wannabe farmers the same expression on my face, between disenchanted and conscious of the ineluctability of Fate. Next year will be better, if it isn't, so be it.

The redemption resides with accepting and even enjoying the Epicurean view of the Universe, where the random swerve and collision of atoms determines events, and we are here to enjoy the show.

THE SHEPHERD DOG

Nobody should take offense or be surprised if I say that the clear majority of CFOs are control freaks. Most have their feelers in all the aspects of the Company's life, even from a people's perspective. This goes well beyond planning or FAS 5 considerations. Visibility must be unrestrained and information complete. Even the coffee machine gossips serve their function in financial management.

Recently, I was looking at the behavior of my youngest (11 month) German Shepherd while playing with a group of other young dogs. She was staying on the fringe of the bunch, herding them and controlling that things did not get out of hand. Her instinct is powerful, and so is that of a CFO.

We do not know exactly why, but we know that controlling others is our mission. We cannot help grinning when we overhear another exec complain that "I got Finance on my tail, I need to do this and that". There is a gray zone around the legitimacy of this behavior: the extent to which the boundaries are stretched determines the possible frictions with all the other corporate constituencies. This sense is also reinforced by a common habit of CEOs to delegate to us all those unpleasant police activities, well beyond the basic attribution and duties of the job.

I have noticed how this behavior tends to spill over beyond the professional realm, and carry over into one's personal sphere, be it with family, friends, sports, leisure etc. We feel vested with a high authority, and entrusted with the sacred mission to control the Others. We know better than the rest what is good. Our natural assertiveness is boosted by the habit we have made of holding others accountable, and holding in some way a casting vote to decide what is right.

I don't have any real-life examples of tactics that can be used to soften or eliminate this behavior. Still, I strongly recommend appropriate measures are enacted to minimize a canine behavior that can be perceived as annoying especially when exercised outside the professional sphere. The casting vote will be gone. While we may perceive them as a flock needing herding: as it turns out, wrong that they may be, the others prefer self-determination, and we must acknowledge that.

THE CONSIGLIERI

... or, more properly, The Consigliere in good Italian, outside its Mafia-movie context. This is perhaps the metaphor that sums up and resumes all the others. Many can relate to Robert Duval in the role of Tom Hagen. He is not only the most trusted advisor, but is also ready to step in the action as needed. He is not only the éminence grise behind the curtains. He can conduct negotiations with movie producer Jack Woltz, deal with rival families Tattaglia and Barzini, and even be proclaimed acting Don when Michael Corleone is forced to temporarily step aside. A true "primus inter pares", widely recognized as fully interchangeable with the CEO. No doubt where the smart thinking comes from in the enterprise.

It is not a case that this persona comes at the end of my list. The behaviors, the routines, the mental habits can be nuisances. But the sum of the parts is what makes the CFO role so special and unique.

The broad base of knowledge, the forward-looking attitude, the multiple dimensions, the holistic view of the business, the risk-management savvy, the moral rigor and righteousness: one should shed the exterior aspects of these talents, but remain aware and proud of the talents themselves.

We are currently undertaking some house work. I doubt that my general contractor owns a race horse, and I am quite sure that I would never cut the animal's head off and put it in the guy's bed, to obtain better service and prices. This is as far as my examples will go today, before this article gets gruesome.

Still, I am sure that all the intangibles above, albeit made less conspicuous, will accompany a former CFO for the rest of his life, and command the same consideration and respect he had in the professional sphere. ●

Payden&Rygel

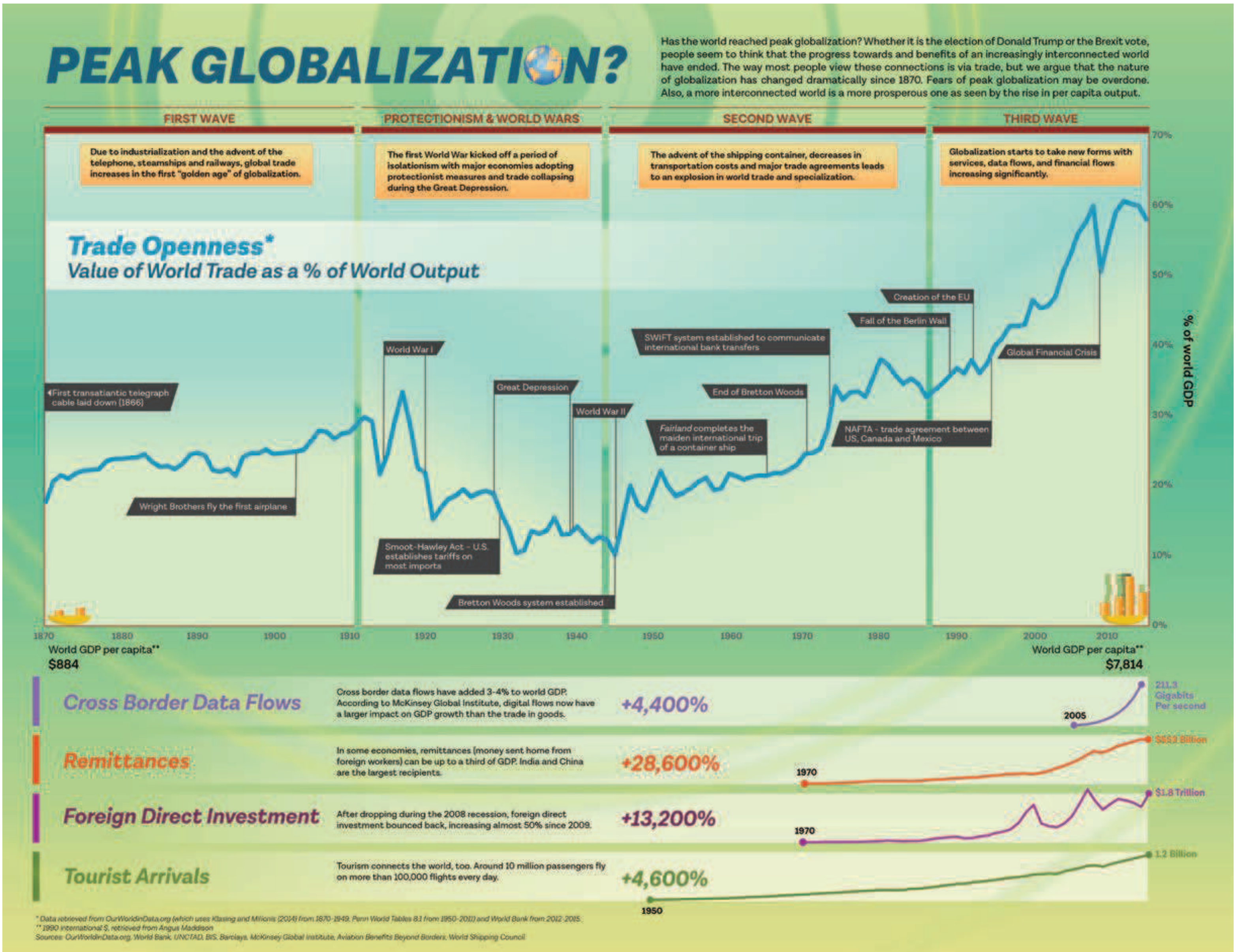
POINT of VIEW

FALL 2017

Our Perspective on Issues Affecting Global Financial Markets

PEAK GLOBALIZATION?

Has the world reached peak globalization? Whether it is the election of Donald Trump or the Brexit vote, people seem to think that the progress towards and benefits of an increasingly interconnected world have ended. The way most people view these connections is via trade, but we argue that the nature of globalization has changed dramatically since 1870. Fears of peak globalization may be overdone. Also, a more interconnected world is a more prosperous one as seen by the rise in per capita output.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FIRST WAVE
Due to industrialization and the advent of the telephone, steamships and railways, global trade increases in the first "golden age" of globalization.
PROTECTIONISM & WORLD WARS
The first World War kicked off a period of isolationism with major economies adopting protectionist measures and trade collapsing during the Great Depression.
SECOND WAVE
The advent of the shipping container, decreases in transportation costs and major trade agreements leads to an explosion in world trade and specialization.
THIRD WAVE
Globalization starts to take new forms with services, data flows, and financial flows increasing significantly.
Trade Openness*
Value of World Trade as a % of World Output
First transatlantic telegraph cable laid down (1866)
Wright Brothers fly the first airplane
World War I
Great Depression
World War II
Smoot-Hawley Act - U.S. establishes tariffs on most imports
Bretton Woods system established
SWIFT system established to communicate international bank transfers
End of Bretton Woods
Fairland completes the maiden international trip of a container ship
NAFTA - trade agreement between US, Canada and Mexico
Fall of the Berlin Wall
Creation of the EU
Global Financial Crisis
70%
60%
50%
40%
30%
20%
10%
0%
% of world GDP
1870
1880
1890
1900
1910
1920
1930
1940
1950
1960
1970
1980
1990
2000
2010
World GDP per capita**
$884
World GDP per capita**
$7,814
Cross Border Data Flows
Cross border data flows have added 3-4% to world GDP. According to McKinsey Global Institute, digital flows now have a larger impact on GDP growth than the trade in goods.
+4,400%
2005
211.3 Gigabits Per second
Remittances
In some economies, remittances (money sent home from foreign workers) can be up to a third of GDP. India and China are the largest recipients.
+28,600%
1970
Foreign Direct Investment
After dropping during the 2008 recession, foreign direct investment bounced back, increasing almost 50% since 2009.
+13,200%
1970
$1.8 Trillion
Tourist Arrivals
Tourism connects the world, too. Around 10 million passengers fly on more than 100,000 flights every day.
+4,600%
1950
1.2 Billion
* Data retrieved from OurWorldinData.org (which uses Klasing and Milionis (2014) from 1870-1949, Penn World Tables 8.1 from 1950-2011) and World Bank from 2012-2015.
** 1990 international $, retrieved from Angus Maddison
Sources: OurWorldinData.org, World Bank, UNCTAD, BIS, Barclays, McKinsey Global Institute, Aviation Benefits Beyond Borders, World Shipping Council

CHART OF THE WEEK

Payden&Rygel
Investment Management

Guess Who's Back?

Evolution of Year-End Forecasts for Euro Area Real GDP Growth By Year, 2012-2017

For The Week Ending 09/22/17

Source: Bloomberg

At the start of the year, investors worried a lot about euro area growth due to the uncertainty of elections and potential Brexit fallout. We advised investors to ignore politics and focus on underlying fundamentals. Indeed, the euro area unemployment rate fell to 9.1% in July, its lowest level since the start of 2009. Economic growth on the continent rose 2.3% year-over-year in Q2 2017, its fastest annual growth pace since Q1 2011. Measures of manufacturing, business sentiment and consumer confidence all point to a continued pick-up in growth in 2017 and beyond. Well, forecasters appear to be taking notice at long last. After slashing forecasts post-"Brexit," forecasters have continually upgraded their GDP expectations as 2017 progresses. In sharp contrast to prior years when the euro area seemed to always find a way to disappoint, 2017's progress means Europe is back.

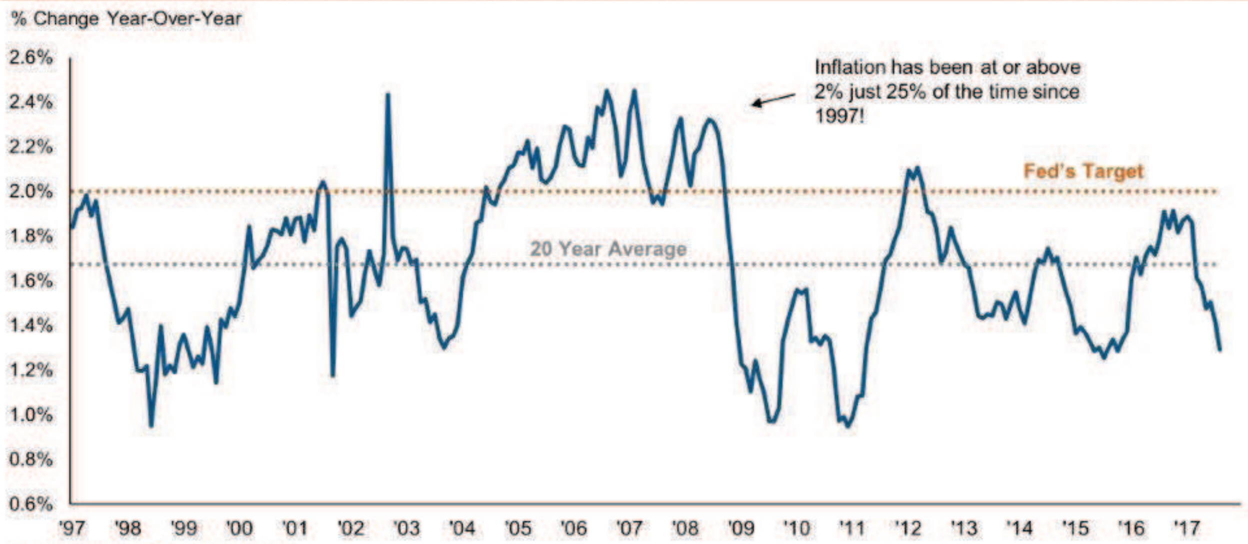
CHART OF THE WEEK

Payden&Rygel
Investment Management

Is Yellen *Still* Not Worried?

U.S. Core Personal Consumption Expenditures Price Index (Core PCE)

For The Week Ending 09/29/17



Source: Bureau of Economic Analysis

Chair Yellen took the stage this week and reiterated that policymakers continue "to anticipate that inflation is likely to stabilize around 2 percent over the next few years" and that the recent bout of "low inflation is probably temporary." Of course, her comments arrived before Friday morning's release of the August core personal consumption expenditure (PCE) price index, which fell to 1.29% year-over-year. Policymakers may have trapped themselves with the self-imposed "2% target". Optically, it will prove difficult to hike in December unless monthly inflation numbers move back toward their target. What's a better approach? Well, in the last 20 years, core PCE has averaged 1.7%--lower than the Fed's target! It might have been better to adopt a band, say 1.5-2%, rather than an unrealistic point target. Kevin Warsh, former Fed Board Governor and betting market favorite for next Fed Chair recently said, "the idea that policy should be looser or tighter because we are at 1.71% instead of 2.0%, that is way beyond what the science of monetary policy really has…that sounds more like physics to me." We agree!

Some pictures from

47th IAFEI World Congress

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IAFEI SECRETARIAT

Corso Genova, 6
20123 Milan - Italy
Email: secretariat@iafei.org | Phone: +39 02 83242288 | Fax: +39 02 58118093

www.iafei.org