Corporate Governance

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9th International Conference on Corporate Governance

Making Capital Markets Work through Corporate Governance

18 – 19 September 2008, London

PROGRAMME*

Thursday, 18th September 2008

0830 – 0930 Tea & Registration

0930 – 10.15 Plenary 1 - Opening Session

Ola Ullsten, Former Prime Minister of Sweden
Lord Hunt of Kings Heath, Parliamentary Under Secretary of Justice **
Baroness Flather, House of Lords
Dr Madhav Mehra, President World Council for Corporate Governance

1015 – 1045 Tea and networking break

1045 – 1145 Plenary 2

Keynote Session:
Strengthening Capital Markets through good Corporate Governance

George Osborne, Shadow Chancellor **
C B Bhave, IAS, Chairman, Securities & Exchange Board of India
Olivier Giscard d'Estaing, Founder Chairman of INSEAD, France

1145 – 1245 **Plenary 3 - Panel Discussion**
Regulating the Capital Market – Social Role of Capital

Stephen Spratt, Director of NEF's Centre for Future Economy
Pratip Kar, Corporate Governance, Tata Management Training Centre, Pune, India
Hashim Mohammed, Chief Internal Auditor, Telekom Malaysia Berhad, Malaysia
Dr Graham Wilson, Consultant, Oxford, UK

1245 – 1400 Lunch and networking break with Chairman Security & Exchange Board of India on Doing Business With India

1400 – 1515 **Plenary 4 - Panel Discussion**
Credit Crunch – What were the boards doing?

Dr Darlene M Andert, President & CEO, Andert Governance Corporation, USA
Paul Moxey, Head of Corporate Governance, ACCA, UK
Dr Coral Ingley, Associate Professor of Management, New Zealand,
M T Raju, Director, Indian Institute of Capital Market, India*
Christophe Clerc, Marccus Partners, Partner, France

1515 – 1545 Tea and networking break

1545 – 1700 **Plenary 5 - Panel Discussion**
Managing risk for the investors

Brigit Gandi, Head of Accounting and Corporate Governance Research - Fitch Ratings
Ahmed Elbadry M Abdellatif, Faculty of Management and Law, UK
Jermyn Brooks, Executive Director, Transparency International, Germany
Rashad Ali Albakri, Advisor - Market Supervision Dept, Capital Market Authority, Saudi Arabia
N R Narayanan, Company Secretary, Hindustan Petroleum Corporation Ltd, India

1700 - 1830 **Plenary 6 - Surviving the Downturn**

Prof Colin Coulson –Thomas, University of Lincoln Cambridge, UK
Lalit Jain, Company Secretary, Organosys (India)
Manli Fu, Research Associate, University of St. Gallen, Switzerland
Dr Rashid Rehman, Prof Dep of Bus Administration, Gomal University, Pakistan
Andrea Bortoluzzi – Faculty of Economics, University Insubria, Italy

1830 - 1930 Cocktail Reception

Friday, 19 September 2008

0845 – 0930 **Plenary 7 – Keynote Session**
Reforming the Capital Market

Graham Ward, President and Chairman of the Institute of Chartered Accountants,
Partner Global Energy & Utilities Group, PricewaterHouse Coopers
Nouriel Roubini Professor of Economics, Stern Business School, New York University**
Erich Kandler, Audit Partner Deloitte & Touche, Austria

0930 – 1030 **Plenary 8 – Restoring Trust in the Capital Market**

Dr Hugues Bouthinon-Dumas, Associate Professor, UK
Prof Viviane de Beaufort, Professor and Academic Director, ESSEC Business School, France
Dr V Prabhu Dev, Director, Surana College Centre For Post-Graduate Studies, India
Dr. Florian Schilling – Partner – Board Consultants International, Germany
Lt Gen J S Ahluwalia, Vice President and CEO Institute of Directors, India

1030 – 1100 Tea and Networking Break

1100 - 1200 **Working Session 1**
Regulating Financial Markets - Enhancing Clarity and Disclosure

Prof Bjoern Fasterling, Professor of Law, EDHEC Business School, France
Ms Despina Doxaki, Partner, Kyriakides Geogopoulos & Daniolos Issaias Law Firm, Greece
Prof Tatyana Boikova, Associate Professor, Baltic International Academy, Lativia
Antoni Bosch Pujol, Director, Institute Audit & IT-Governance (IAITG), Austria
T P Subramanian, President - Costing and CFO, Ispat Industries, India

1200 – 1300 **Working Session 2**
Making Capital Markets More Responsible

Dr Joseph Lee, Lecturer Business Law, Nottingham University Business School,
Dr T V Raju, Director, RV Institute of Management, Bangalore, India
Sanjeev Shah, CA, Consultant, All India Institute of Local Self Govt, India
Dr Iris H-Y Chiu, School of Law, Kings College London
Dr Hana Horak, Faculty of Economics, University of Zagreb, Croatia
Dr Arif Khurshed, Senior Lecturer in Finance, University of Manchester, UK

13.00 - 1345 Lunch and Networking Break

1345 – 1445 **Plenary 9 - Presentation of Golden Peacock Awards for CSR and Corporate Governance**

1445 – 1545 **Plenary 10 – Case Studies of winners of Golden Peacock Award**

1545 – 1615 Tea

1615 – 1715 **Plenary 11 - Presentation of Recommendations of working Sessions followed by discussions and final recommendations and conclusions**

1715 – 1730 Closing Remarks

*Programme is subject to change without notice (as on 5th Sept 2008)
**Confirmation awaited

CORPORATE GOVERNANCE

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POUNDING THE POUND
THE ROLE OF SOVEREIGN WEALTH FUNDS

Going abroad has become expensive for British people. Even the British Prime Minister could not afford it. He had to make do with a holiday in Britain. The decline in sterling, which began a few months ago, has become a rout. It has lost a sixth of its value against Euro. Against the US dollar, it has lost 13 per cent of its value. Thanks to a downbeat medium-term assessment from Alistair Darling, chancellor of the exchequer, fortunes of UK home owners have tumbled not only due to the fall of 12% in house prices but in addition a sudden fall of almost 13% in exchange rate.

A feeble package to reflate the housing market as recently announced will only further reduce confidence in the pound. Its slide and the slide of the housing market is inevitable. Both had been overvalued for a long while. UK has been living a life of luxury on others' money as the financial hub of the world. UK public must now contend with rising import costs. All else being equal, the weakness of sterling means the Bank of England will need tighter monetary policy than would otherwise be necessary to bring inflation back down to the target of 2 per cent from its August level of 4.4 per cent.

There is however good news elsewhere. The spotlight is back on sovereign wealth funds. While Qataris have bought into Barclays, Abu Dhabi is investing in an English Premier Football club. The emirate has set out plans to become one of the world's largest film producers, with $1bn to invest in productions to be made in Hollywood, Bollywood and beyond.

Further good news is that the SWFs have come up with a voluntary code of conduct supported by countries as diverse as China, East Timor, Libya, Norway, Russia, the US and the United Arab Emirates. This is a step in the right direction and a new hope to a dematerialised growth that I talked about in the last issue of this journal. Thanks to high commodity prices and global imbalances, sovereign wealth funds now control at least $2,000bn in assets. It is widely accepted that the scale of their activities is far too important to ignore. One is acutely reminded of the resistance to investments by Gazprom in the UK and by CIC (China Investment Corporation), China's sovereign wealth fund . Last year Gao Xiqing, the president of China Investment Corporation, frustrated at the opposition to its investment in US said "Fortunately there are more than 200 countries in the world. And fortunately there are many countries who are happy with us."

This does not mean we dilute our principled approach to investments. Faced with one of the worst financial crunches in history we simply need to be more realist. The purchase of a soccer club hardly compromises national security. Like US we are reaching an uneasy relationship with our creditors. Time has come to review the contribution SWFs to help UK and the world get out of the financial crisis. Of course we cant make the same mistake as we did with hedge funds. We have to ensure a measure of transparency and make them accountable.

Effective Mobilisation of Sovereign Wealth Funds should go to the top of global agenda. It will be beneficial to all parties including the emerging countries who are all dressed up with bagful of dollars but no strategies where to go. This is one area that should occupy the world nations next only to climate change . The Santiago meet heightened attention to the growing role of these state-owned funds in the global financial system.

The world recognises the stability that SWFs investments in UBS, Merrill Lynch and Citigroup have provided to the world financial system. Funds from Singapore and Abu Dhabi have helped to keep US financial markets afloat during the credit squeeze. The decisions, at the conclusion of the two-day Santiago summit on a voluntary code of conduct that followed months of discussions supported by the International Monetary Fund could not have come at a better time.

The code of conduct agreed in Santiago, covers a set of 24 principles. All sides agree that the SWFs are long term and are diversely invested. The concern is only when they try to take controlling stakes in strategic companies. The voluntary code provides a benchmark for market participants to judge. It will go a long way towards increasing transparency in the governance structure and investment strategies of SWFs thereby fuelling growth and true internationalisation of the shrinking world economy.

Madhav Mehra

Presidential address at the 19th IOD Foundation Day on 2 August 2008 in New Delhi, India

Capital Markets as Instruments of Social Inclusion

*Dr Madhav Mehra

We are living in one of the most inequitable worlds in history posing a palpable threat to global security. The richest 1100 own wealth, double of half the world's population. Our greatest challenge is to bridge this widening gap. Capital markets are the best human innovation and our only hope to achieve our goal of an equitable society. But like parachutes they can only function when open.

The current debacle of capital markets is fuelled by the greed of bankers, financiers institutions and the monied class. The shenanigans that followed the collapse of Bear Stearns showed crass behaviour of market manipulators that have spelt doom of the global free-market capitalism. This has made Sarbanes Oxley Act irrelevant. Far too many regulators with overlapping roles are competing with each other to deregulate the financial system in a race to the bottom.

The unique spectacle of impending recession coupled with rising inflation produced by one of the most reckless manipulations of capital markets with the connivance of regulators has catastrophic implications. Billions of dollars in shareholder value has been wiped away. Stunned Bear Stearns shareholders have seen their investments virtually wiped out overnight. The takeover deal with J P Morgan Chase offered $2.4 a share compared with Bear's $159 stock price in last April. Questions abound on the buyout. Shareholders, law makers and public at large want answers on how the deal was arranged, and gained government approval and financing, all in a few hours, and seemingly without alternative bidders being canvassed.

While irresponsible subprime lending in the US stock market has played havoc in the global markets, it is the derivatives, a fast growing category of contracts whose value is derived from the underlying value of bonds, stocks and currency futures which has shaken the public confidence in the rising stock market in India. According to a recent survey, Indian companies may have suffered $5 billion mark to market losses due to subprime and derivative crises.

Capital markets are the best human innovation and our only hope to achieve our goal of an equitable society

That all this should happen despite the draconian Sarbanes Oxley Act points to the abyss reached by the free-market capitalism which displays flagrant disregard of all norms of corporate governance practices and risk management standards which Sarbanes Oxley Act was supposed to uphold.

Insider trading on Wall Street is starting to look as troubling as it was in the time of Ivan Boesky in the 1980s, the head of enforcement at the US Securities and Exchange Commission warned recently. Linda Chatman Thomsen, the SEC's director of enforcement, said she had been "quite dismayed" at the nature of the commission's recent insider dealing actions.

The rules of the game in the financial markets are set up solely to benefit the financiers whether in London, New York or Hong Kong. Globalisation today appears to be run in the interest of big monied class which has western governments in its thrall. As Will Hutton says in Guardian: "Interpol should make arrests in New York, London, Tokyo, Beijing, Frankfurt and Paris, starting with all the executives in the credit-rating agencies who blithely ranked the debt as creditworthy in exchange for fat fees and freebies from the very banks who were making the absurd loans. Governments should bring suits against the executives involved, the repository of vast personal wealth, to help repair the hole in private and public balance sheets."

The problem is that all governments play hostage to the big financiers and are reluctant to regulate them despite warnings. It is naïve to suggest that self-regulation can work in the markets. In an interview to Wall Street Journal, Eliot Spitzer, the much defamed former Attorney General of New York, said: "The honour code among CEOs didn't work. Board oversight didn't work. Self-regulation was a failure". Even a staunch defender of free capital markets as Joseph Ackerman, Chief Executive of Deutsche Bank says " I no longer believe in the market's self-healing powers."

Markets became jittery only because following the subprime lending crisis nobody knew who had lost what. Market valuation of CDOs (Collateral Debt Obligations and CLOs (Collateralized Loan Obligations) are presumptive. The exposures are not objectively validated. Banks behind the subprime loans had sold the debt to other banks and specialized funds known as CLOs and hedge funds exposing them to billions of dollars of debt when mortgages defaulted.

We need to question the performance of the financial system against the time honoured principles of corporate governance of accountability, equity, integrity, transparency and responsibility.

The crucial question in these financial failures is the lack of accountability. The system of compensation of bankers and operators in the financial system itself is flawed. According to Nouriel Roubini, Economics Professor at the New York University's Stern Business School, the compensation system is a source of moral hazard in the form of gambling for redemption. He enumerates ten fundamental issues that led to the melt down.

One of the arguments in favor of this market discipline approach is that financial innovation is always one or more steps ahead of regulation; thus, one needs to design a regime that does not rely on rigid rules that would kill financial innovation. But experience has shown that markets cannot be relied upon in a world where bankers are improperly compensated, where agency problems lead to poor monitoring of

The compensation system is a source of moral hazard in the form of gambling for redemption.

lending, where a flawed transfer of credit risk to those least able to understand it and manage it occurred, and where regulatory arbitrage was widespread and rampant. It is because of this that even Paul Volker; a doyen of central bankers commends tighter regulation in the interest of the industry itself.

The current securitisation model is packed with greed, opacity and irresponsibility. It reduces the incentive for the originator of the claims to monitor the creditworthiness of the borrower. Every intermediary in the chain is interested only in its fee and eventually transfers the credit risk to those least able to understand it and bear it.

The mortgage broker, the home appraiser, the bank originating the mortgages and repackaging them into MBSs (Market Backed Securities), the investment bank repackaging the MBSs into CDOs, CDOs of CDOs and even CDO cubed, the credit rating agencies giving their AAA blessing to such toxic instruments: each of these intermediaries was earning income from

In a world of financial mobility, mobile capital, instant transferability, globalization and financial intermediation, capital will always have a tendency to move to more lightly regulated shore.

charging fees for their step of the mortgage intermediation process and transferring the credit risk down the line to lay investors. In this maze of CDOs no one knew the level of risk at each stage.

There are fundamental accounting issues on how to value securities, especially in periods of market volatility and illiquidity when the fundamental long term value of the asset differs from its market price. The current "fair value" approach to valuation stresses the use of mark-to-market valuation where, as much as possible, market prices should be used to value assets, whether they are illiquid or not.

Financial markets have become less transparent and more opaque in many different dimensions. The development of news exotic and illiquid financial instruments that are hard to value and price; the development of increasingly complex derivative instruments; the fact that many of these instruments trade over the counter rather than in an exchange; the fact that there is little information and disclosure about such instruments and who is holding them; the fact that many new financial institutions are opaque and with little or no regulation (hedge funds, private equity, SIV and other off-balance sheet special purpose vehicles) have all contributed to a lack of financial market transparency and increased opacity of such markets.

The absolute lack of supervision on the non-banking financial institutions like Bear Stearns and hedge funds has the real cause of the havoc. By their very nature the banks borrow in the short term and in liquid ways whereas they lend in the long term and in illiquid ways. There is therefore need for proper tab on their lending.

Finally in a world of financial mobility, mobile capital, instant transferability, globalization and financial intermediation, capital will always have a tendency to move to more lightly regulated shore. Reforms of financial regulation and supervision cannot be effectively carried out only at the national level. Indeed, the recent

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STRATEGIES FOR RISK MITIGATION

*Prof. Colin Coulson-Thomas

Some risks are strategic in nature. Effective boards ensure that steps are taken to identify major trends and developments in the business environment, assess their consequences and determine the steps a company should take in response at local, business unit and corporate levels. Other risks may be tactical or an inherent consequence of operating across national borders or in a complex and regulated sector. Thus there could be foreign exchange or miss-selling risks.

Traditional Approaches to Avoiding Risks

Many traditional approaches to risk management have involved layers of checks, reviews and approvals which can increase costs and result in delays. Nervous directors who are conscious of the risks of being sued limit local discretion and require various matters to be referred to senior and/or head office staff for approval.

Reviews are built into business processes. A major bid may be subjected to a succession of reviews covering whether or not to bid, technical issues, and commercial and quality risks. The need to bring people together for review meetings can significantly extend the time required to submit a proposal. Bid team members can spend more time satisfying internal hurdles than they devote to meeting the requirements of prospects.

The delays and overhead costs and the inhibition of entrepreneurial spirit that can result in a risk averse and stagnant corporate culture. Opportunities are lost – particularly for bespoke responses to individual requirements - because directors and senior management are afraid to let go and trust their colleagues to do what they feel is right for their customers.

A New Approach to Avoiding Risks

Yet there are alternative approaches and new and much more effective ways of avoiding risks. Pioneering companies are building controls into the processes and support tools used by key workgroups. Quite simply those using the latest generation of support tools – for example to design a bespoke solution for a particular customer – cannot generate a proposal that would involve items of equipment that are not compatible or the breach of a regulatory requirement.

In this paper we will examine some examples of what particular boards and leading companies are doing to avoid technical, commercial, regulatory and relationship risks in activities such as developing and costing bespoke solutions, preparing proposals and sales and marketing materials, purchasing etc. They all involve the use of support tools that make it very easy for a particular and important work group to do a difficult job. A central feature of the approach is to build controls into the processes and tools used to do difficult jobs so that areas of risk are addressed before outputs can be produced.

Support tools can also be used to identify areas of risk, help people to assess them and direct them to sources of specialist expertise as and when further help is required. A good example is PROMPT-RPS a support tool developed by Cotoco (www.cotoco.com) for the risk management practices of AIG Europe, Clifford Chance, Dames & Moore, Deloitte & Touche, Hill and Knowlton, and Kroll Associates (Coulson-Thomas, 2007b, pp 128-129).

The core risk management expertise of the six firms was assembled in the form of a diagnostic toolkit that people could use to carry out an initial risk assessment. The tool enabled people to carry out an initial risk assessment. It provided an overview of the major areas of corporate risk – from finance to reputation – and enabled users to capture basic information about their situation and identify when and where they required specialist counsel.

A tool such as PROMPT-RPS can be distributed via a website or by direct mailing a CD-ROM disc to a target group. Its focus can be upon a problem that recipients are either known or likely to have. Self-assessment checklists can be included for completion by either the recipient or colleagues to whom they are emailed. Explanations can be provided where appropriate. Once an initial review has been completed the results can be emailed to the expert sources of advice the tool suggests for tackling whatever problems have been identified.

The recipient of a completed review can quickly check that an enquirer has followed a suggested process. If this has happened, any subsequent relationship can be built upon the overview obtained and the understanding gained during the self-assessment process. The expert will not need to spend time collecting basic information and may be able to avoid an iterative process to determine whether or not there is an issue to address and in what area. Use of such a tool can provide compliance teams with evidence that risks have been identified, assessed and addressed and that appropriate processes are both in place and used.

For many companies, for example those offering a large number of products supplied by other parties, ensuring bought in items satisfy quality requirements can be an expensive process in view of the risks involved in cases of non-compliance. B & Q has used a support tool which makes it much easier for external suppliers to understand and meet its quality criteria. Use of the tool has enabled it to both increase and speed up the flow of new products to its stores.

The use of a new generation of support tools by pioneering companies to increase understanding of complex issues, boost the productivity of key workgroups and make it easy for people to do difficult jobs (Coulson-Thomas, 2002, 2003 & 2007b) has significant implications for directors and boards that are keen to reduce risk as well as increase performance. Let us examine the approach being adopted and consider some further examples, particularly those involving front line groups dealing with customers and prospects where the penalties for non-compliance can be high, particularly in regulated sectors.

Applying A New Approach to Customer Facing Roles

Many companies initiate grandiose training and knowledge management initiatives but do little to help important workgroups improve their performance (Coulson-Thomas, 1999 & 2003). Putting information on an Intranet or running a course is not enough – especially when significant risks are involved. The expertise to do something better, new or different may require additional skills and tools, as well as access to relevant knowledge. Successful companies take practical steps to enable their people to compete and win.

Improved sales of existing products and more successful product launches are the ambition of every board. Practical knowledge-based job support tools can help achieve this aim and reduce the risks of miss-selling. They can incorporate critical success factors and how high performers operate, capture and spread best practice, and improve product and market knowledge. They can also monitor and collect the evidence needed for compliance purposes.

Many sales teams are being pressured to win more orders. With competitors snapping at their heels and customers demanding more bespoke responses, prices and margins are under threat. No wonder sales staff turnover is sometimes so high. With the extra pressure comes the risk of some individuals cutting corners.

While superstars achieve their targets, many average performers rely increasingly upon specialist support. Some ignore regulatory requirements, make errors when pricing, or leave out standard clauses from proposals. They also struggle to explain what is special and distinctive about their offerings.

Eyretel whose products recorded and analysed telephone calls found its growth limited by the speed with which it could recruit, induct and train new sales representatives and bring existing staff up to speed with new offerings. Cotoco, a supplier of bespoke support tools, developed a laptop based toolkit with animations to explain Eyretel's voice recording solution, multimedia tours of its software, slide presentations, price and cost justification calculators, and report generators.

Users of the tool are taken through a list of questions and can only proceed if responses entered satisfy the requirements for avoiding certain forms of risk. For example, if an attempt were made to incorporate into a suggested solution two items of equipment that cannot operate together a red traffic light would appear. Tools can be designed so that windows open to explain why a red light has appeared. In addition to avoiding risks users of tools can also learn from them. In relation to improving performance the tool developed for Eyretel made such an impact on increasing sales and reducing sales costs that the company won an eBusiness Innovation Award.

Sales support packages developed for 3Com, Cisco, Dana, ICB and The Innovation Group have included interactive presentations, demonstrations of products in operation, decision trees to assist account planning, and tools for developing and pricing solutions. Job support tools can use whatever formats - from text and graphics to animations, visual images and video and audio material - best help understanding. Thus areas of risk could be explained.

The development and launch of a new product can be a relatively high risk undertaking. Support tools are particularly suited to the launch of new products. A single repository like K-frame (www.k-frame.com) can hold all the information and knowledge needed. Technical details can be quickly communicated to groups in various locations around the world. Animations and video footage can be used to show offerings in use, and secrecy can be maintained until the moment of release.

The Innovation Group has used support tools to launch a new Local Authority operating system and roll out its project management methodology. 3Com has employed a similar tool to introduce network products to both direct and indirect channels. Simply increasing understanding can itself reduce risk, quite independently of the controls that can be built into support tools.

Advantages of a New Tools Based Approach

A sales support package can gather together the critical information, knowledge and tools a sales person needs. It can incorporate 'best practice' and the approaches used by 'superstars' as well as key success factors for winning business identified by the winning business research programme led by the author. It can also ensure sales people focus on value and benefits to the customer rather than product features.

Even with complex products tools can be used to assess customer requirements and configure and price solutions. The automation and checking of calculations can reduce commercial risks. Multimedia capabilities usually enhance the portrayal of corporate credentials and capabilities, while animations can bring technology to life. ICB uses its 'Navigator' sales support tool to build product knowledge and communicate with customers.

Support tools can automate routine tasks and provide support for every stage of the sales process from prospecting and qualification to negotiation meetings. Commercial, quality and regulatory checks can be built in. A library of background information can help users to answer customers' questions on the spot. Marketing materials can include templates, case studies, testimonials and independent endorsements, competitor analysis, and industry and market knowledge.

Seamless links can be provided to web sites and on-line applications. In dynamic situations there is a risk that people may operate and take decisions on the basis of out-of-date information. Support tools can be designed so that they are automatically updated whenever users go online. Feedback mechanisms can gather information from the field.

Tools can help sales people identify cross-selling and upgrade opportunities and create bespoke solutions. In the latter area the existence of built in controls can allow senior managers and directors to 'let go' and trust users to address the particular requirements of individual customers and prospects.

Support tools can also ensure consistent application of best sales practice and a high standard of proposals. They can be constructed to automatically generate high quality proposals that contain all the clauses required to mitigate known areas of legal risk. Marked improvements in product and market knowledge can occur. Other benefits include fewer errors, higher win rates, greater customer retention, less support staff, increased order value, and lower sale force churn.

Refining the sales process and making it easy for people to follow can increase sales. Better prospecting and improved qualification can focus effort on the most productive accounts. New staff can be inducted more quickly.

Prospects can use tools to discover new options that better meet their needs. When operating it themselves some customers order more than they would with a sales representative present. They feel in control and can explore alternatives in their own time. Automated calculations enable them to quickly assess the consequences of different approaches.

Sales support tools can be used to secure control over an indirect sales process. Consistent messages can be delivered to market. Training costs can be slashed by ensuring material is easy to learn and use, and instantly accessible. Reliance upon specialist staff can be reduced considerably.

Friends Provident uses a sales development support toolkit called THE MARKiT to assist staff running local marketing campaigns. The business objective was to deliver an interactive toolkit that would help sales managers and their teams respond to requests for mail shots, local ads, posters and other lead generation material. Prior to its use sales materials such as advertisements and fliers had to be checked by the head office compliance team to ensure that clauses required by law were included. Because of controls built in, users of the tool are unable to produce outputs that do not include what is required. The risk of miss-selling which can lead to financial penalties is therefore reduced.

Support tools allow managers to maintain quality and avoid risks when delegating responsibilities. The automation of routine tasks frees up time for the greater differentiation and tailoring that may enable a price premium to be charged. Sometimes less experienced and qualified staff can be used.

Learning through doing is particularly effective. Building knowledge into tools makes it very easy for people to get complex tasks right first time and every time. Using them can be a differentiator. A systematic and customer focused approach enhances a supplier's reputation and helps to build relationships.

Users of support tools report significant increases in productivity and the ease with which best practice can be spread. Quick paybacks of the cost of developing them can be achieved. Returns on investment of 20:1 or more can invariably be obtained. For example, an analysis of just a small proportion of the users of one support tool developed for Cisco Systems revealed a 38 times return on its cost during the first six months of use (Burr, P, 2007).

Eyretel's tool helped both its own people and customers to better understand its technology and products. Users felt so confident in the presence of customers that the ratio of support to sales staff was cut by a third. Win rates increased, orders were brought forward and more professional presentations delivered.

Lessons to be Learned from the Experiences of Pioneers

There are certain lessons to learn from the experience of support tool pioneers (Coulson-Thomas, 2003 & 2007b). Avoid using tools that de-skill. Tools should help people to learn. Cisco's IP Telephony Sales Tool up-skills people working in its direct and indirect sales channels. As users work through prospect qualification and other tools windows open up to explain why certain courses of action are advocated. People learn from each use.

Ease of use is critical to success. The toolkits mentioned have all been developed by Cotoco. The company's designers ensure they are simple to use and capable of processing a large quantity of material in an interactive and user-friendly fashion, whilst also being flexible enough to cater for additional information to be added as required quickly and easily. To encourage take up and change behaviour support tools should provide the easiest way to accomplish desired outcomes.

Gartner research suggests the key to success is to improve a process before automating it (Thompson and Eisenfeld, 2000a & b). Building critical success factors into tools and incorporating the insights of superstar performers is more likely to get outstanding results than automating current practices. Content is critical. Existing approaches should be reviewed. Building in controls can allow useful short cuts and how high achievers operate to be included.

Friends Provident considered paper-based guides. However those responsible recognised that these documents could very easily become shelf-fillers, gathering dust and rarely used. The company had a huge library of available materials. The challenge was finding how to present it in the most user-friendly way.

Where support tools have been used the best results are usually achieved with relatively homogenous groups of people undertaking similar tasks. Avoid fixed and inflexible tools in areas undergoing rapid change, unless arrangements are made for continuing review and regular updating. Ongoing maintenance can greatly increase a tool's shelf life.

Once support requirements have been agreed rapid progress can usually be made. Even complex tools can be developed and tested within a few weeks of a go ahead. The introduction of a new tool needs to be carefully planned if people are to obtain the maximum of benefit from it. Putting a CD-Rom disc into the post is not enough. Make sure people understand the significance of what is provided.

Gartner's research found that successful projects need clear goals, management commitment, a sound process and sales force buy in (Thompson and Eisenfeld, 2000a & b). In the case of the Friends Provident tool there was close liaison between the field and the company's IT, compliance and design departments. Directors who are concerned to reduce risks in complex and customer facing operations should explore the opportunities for building ways of avoiding risks into appropriate support tools. The new approaches that are being pioneered can both reduce the cost of compliance and increase performance.

***Colin Coulson-Thomas, author of 'Developing Directors, a handbook for building an effective boardroom team' and 'Winning Companies; Winning People' (both Policy Publications, 2007) is an experienced chairman of award winning companies and Professor of Direction and Leadership at the University of Lincoln. He has advised over 100 boards on director, board and/or business development.**

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Viewpoint

Social Innovation and Responsibility

*Dr Iman Bibars

Out of a deep concern for social responsibility and involvement in non-profit work for years, I consider it an obligation to advocate social innovation or social responsibility for all citizens especially heads of businesses. It is a characteristic of advanced countries for the business sector to financially support civil society and provide citizens with the expertise and confidence required.

Money is not everything civil society needs; as far as money is concerned, NGOs receive money mostly from international organizations and sometimes from the government. Social Responsibility means that business men and women feel that they have a responsibility towards society in ways that make them care for their society in addition to establishing organizations serving their own interests. Such a feeling of commitment prevents them from inflicting any damage to the surrounding environment caused by industrial emissions and drives them do their best to develop and support the manpower working for them. They also develop and support the civil sector and different NGOs that has the technical expertise in development.

I want to start a dialogue on how to help and encourage the business sector to change its perception of social responsibility from mere benevolence or 'Zakat', which is a religious obligation, to a national duty. In fact, business men and women working in different fields have done splendid efforts such as developing schools, establishing new ones, and building hospitals. We want these efforts to continue and aspire to see real institutions funding projects of different organizations not only the projects that serve their own interests.

Plenty of international companies, banks and cellular-phone-service companies have adopted the concept of social responsibility and supporting development projects, which is very promising. It is very strange that media outlets refuse to mention the names of the companies supporting social work out of a belief that highlighting these names is a way of making Public Relations on their behalf. We owe a lot of Egyptian companies much because they have supported us repeatedly in the medical convoys to Misr Al Qadima that served more than three thousand Egyptian families. Other companies have helped us develop more than eleven schools in Misr Al Qadima and five schools in Gharbiya governorate and plenty of other projects. Despite all that, their names are not even mentioned in the media! Why don't we reward those for helping society? Why don't we keep a profile of everything these companies have done to society? Bringing up their names in the media would refresh the citizens' confidence in their country on the one hand and their confidence in the business sector that has been under wide attack on the other. Accordingly, I believe we should encourage them instead of making hasty charges, and the media would play a prominent role in this regards. In fact, many of them contribute to development projects that have direct impact on the masses.

"Business people use social contributions to hide a great deal of corruption"

What is worse, I noticed that media outlets are being so cynical towards all that is new and different only because it is new. For instance, in a TV series entitled, "A Poor Rich Man," the serious and patriotic star, Mohamed Subhi, says that business people use social contributions to hide a great deal of corruption. I wish this concept does not spread, and I hope that the media would emphasize the bright side and encourage the business sector to play a role in modernizing and developing Egypt by citing the names of active and patriotic business people instead of highlighting the names of those indicted even prior to a court decision. If anything, it is the public interest that is injured by such neglect.

There are obviously corrupt elements or business people with political goals. However, these are few, but the media does not highlight the serious ones and cast light on the corrupt ones. This is why we only see the bad side.

To conclude, I suggest reconsidering the new tax law in a way that allows business people to enjoy greater tax relief if they prove to be funding development projects. All over the world, donations are discounted from taxes, not only for business people but also for the regular citizen, and they could reach 25 percent. In Egypt, it does not exceed 7 percent even though the state is calling for social responsibility and the "new social contract."

Henceforth, I call for spreading and advocating social innovation or social responsibility and stopping those who highlight only the negative side so that we don't lose those business people and their contributions. Government orders and rules are not the sole source of development. All of us should voluntarily contribute to it.

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CORPORATE GOVERNANCE IN SOUTHERN AFRICA

An analysis of Corporate Governance Processes, Inequalities in the Region and their Implication to the Integration Process

*Afonso Anderson Mondlane

Introduction

The regional integration process is on top of the agenda of both the European Union and the Southern African Development Community member countries. The EU is seen in some quarters to be pushing an agenda which will leave most countries in the SADC Region poorer in that they will not be able to sustain competition once their economies are open to countries well equipped with resources and advanced technology. Besides the EU is seen to be using a divide and rule technique in that it segregates the region as it goes about negotiating the Economic Partnership Agreements.

On the other hand, in opinion of South Africa Minister of Finance, Trevor Manuel the region's integration comes as a need not only to remove trade barriers but also to harmonize economic activities in the region especially, because you have countries belonging to more than one trade blocks in the continent; these include the Common Market for Eastern and Southern Africa-COMESA and the Southern African Custom Union-SACU.

This paper looks at how Corporate Governance will influence or be influenced by this integration, taking in consideration the economic imbalances within the region and Zimbabwe's crises. As Corporate Governance in Africa is often appreciated on the point of view of the Republic of South Africa, the paper explores the subject at a point of view of one of the countries rated poorest, but with a fast growing economy-Mozambique.

Background of economic partnership agreements

According to the EU Publication on EU-SADC, Economic Partnership Agreements, the negotiations on EPAs between the EU and the 77 ACP countries started in Brussels in September 2002. These continued until the ACP-EU interministerial meeting of October 2003, in which the ministers approved the joint report which marked the beginning of regional EPA negotiations. On the other hand EPA negotiations between the EU and some members of SADC started on 8 July 2004 in Namibia. It is important to note that not all the SADC member countries are part of the negotiations, while South Africa is negotiating a different agreement on its own.

The EU points at various benefits which will come with the opening up of the regions economies and these include better access to the market, clear and transparent trade rules, stable business activities and growth in commercial services. The EU also sees the agreements as capable of accelerating regional integration which is aimed at allowing freedom of trade within the SADC member countries. Above all to the EU the EPA will enhance investment in the region.

On the other hand, concerns have been raised over EPA especially by members of the civil society in these developing countries. 'STOP EPA' groups emerged pointing out dangers of these agreements. In the centre of their arguments are; retardation of the regional integration process, in that there would be stiff competition amongst the SADC countries themselves when you have major imbalances in economic muscles. Another point focused is the fact that EU chose to negotiate with the regional blocks who themselves are weak and poor. Therefore the EU is perceived to be creating an environment where by Africa will be a perpetual supplier of raw material and importer of finished goods and services.

Regional integration

Regional integration is the process through which the SADC member countries are endeavoring to harmonize their tax regimes or systems and level the trading grounds. Within the same region with an agenda to develop together, you find trading segregations in the form of SACU and COMESA where some of the SADC member countries belong in neither of them, while others belong in one or both. Integration is set to review the region's tax regime from 2008 resulting in a free flow of goods by 2015.

Corporate governance challenges

It is a fact not to be debated that any trade agreement or tax regime reform in the region is directly linked to how institutions are directed and controlled, or as Head of Global Corporate Governance Forum, Philip Armstrong puts it 'who controls what for whose benefit?'. In short there is a great corporate governance challenge ahead of the SADC member countries in the dawn of the integration process and the EPAs.

While the history of contemporary corporate governance could in most countries be traced from about 15 years ago, some countries in the region would still be in their first year or year zero. South Africa for example with a globally recognized corporate governance code is seen as a country with all it takes to compete in an open regional economy.

On the other hand you have countries like Angola in which the subject is not yet an issue for debate. While the debate is going on in Mozambique, it will take some time for the concept to be consolidated. In fact the challenges in these two countries is that the concept does not easily translate to Portuguese and any attempt to do so results in bringing Brazil Portuguese 'Governance Corporativa' which is not favoured by some academicians or professionals.

It is worth noting that these countries have no codes on corporate governance and there are yet no sign at least to have them in the next 2 years, when their national companies would be expected to trade with companies from well structured systems of corporate governance. The situation is even worse for countries like Democratic Republic of Congo which has just had its first democratic elections. In such situation statements like, 'we do things our own way are common' but will this stand the test of integration?

In turn, within the region you have small economies like Swaziland and Lesotho. These with both Botswana and Namibia who are also members of the South African Custom Union, are seen to be heavily dependent on South Africa. As most of the major companies in these countries are branches of companies in South Africa, they often bring with them the corporate governance tendencies in South Africa. This however, does not have much impact on national companies as they have no national codes binding them. In these economies again the stock markets which could be sort of enforcement agents of standards are not visible.

Environment as having four dimensions which are bio-physical, social, economical and political. Both the biophysical and social environments have in the past been subjected to degradation by corporate activities in their quest for creating wealth.

Though privatization has swept economies of almost all the countries in the region, since the last 15 years, government linked companies still constitute a major part of the private sectors of most of the countries. This takes us into another dimension of corporate governance, where political influence is unlikely to be avoided and it puts in danger directors independence and independent mindedness. The situation is tough in Zimbabwe where at this stage of the processes President Robert Mugabe, still talks about nationalization of the private sector. This arrogant attitude of course will undermine the whole process. When countries should be focusing in strengthening their systems they have to turn their efforts in trying to resolve the Zimbabwe crisis.

One can wish that Zimbabwe be left alone, but the fact is she is part and parcel of the SADC region, and will not be excluded from the integration process. At the same time both the economy and corporate governance have deteriorated over ages and continues to deteriorate in that country. The great challenge here is that Zimbabwe will be freely trading with its SADC counterparts while suffering sanctions from EU, but EU in turn will be trading well with Zimbabwe counterparts.

Triple bottom line challenges

In their governance, institutions are challenged to meet the triple bottom line. Gone are the days when companies believed that they existed to maximize profits gain and again. Sustainable development and environmental concerns are boardroom matters now. This is evident in the King II Report on Corporate Governance (South Africa), but to countries where nothing much is happening this seem to be of no relevance. This is coupled with the situation where by the enforcement of laws in most of the SADC countries leave a lot to be desired. This leaves the countries at the mercy of good corporate citizens, and in situations where the companies and their directors are unscrupulous, the economies are depleted.

Again in an unbalanced region, where you have countries with a strong civil society on one hand, and others with a toothless civil society on the other hand, mitigating issues of degradation of environment and social impacts caused by economic activities will be challenging. Companies are expected to trade at an equal level and playing the games according to the sustainability rules. Of course sustainability is seen in both terms of profits and environment. Rhodes University Professor Rob O'Donoghue sees the environment as having four dimensions which are bio-physical, social, economical and political. Both the biophysical and social environments have in the past been subjected to degradation by corporate activities in their quest for creating wealth. Most countries in the SADC Region have been victims of mining activities which left them with open and dangerous holes and dongas. Most rivers which once were a source of food for most communities can no longer be used for consumption.

Companies and other laws

Corporate Governance recognizes that it has as its base the law in general and Companies' Act in particular, independent of what it is called in the different countries. Again, in this area the region is faced with several challenges. We still have countries which are using colonial laws such as the Companies Act of 1912.

While this will have some basic of what is required for compliance by companies, surely the environment today has changed from what used to be and companies here will surely be taken advantage of by their counter parts from the EU and other countries in the region. Other countries which have done some reforms in their Companies Act may not have brought issues of corporate governance when debating as this was never one of the subjects on debate in the country. Besides the Companies' Act, corporations are expected to comply with other laws such as environmental and insider trading. These in most of the region's countries need yet to be reformed.

Summary

Let me conclude by saying that even at this late stage, the integration process and the EPA should see corporate governance as inherent to the whole process. The core aspects of corporate governance include compliance, ethics and strategy. Companies should be able to comply with the various legislations not only in the SADC countries but also the EU countries. Companies are also expected to exhibit a high standard of behaviour and be in a position to strategically match any company in any part of the world.

The King Committee on Corporate Governance identified what it termed the pillars of corporate governance and these are: transparency, accountability, responsibility, independency, fairness, discipline and social responsibility. These need to be inculcated in all the companies and directors within the SADC region. Above all participatory learning should be one of the key items in boardroom debates.

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Recommendations

1. **Countries in the SADC Region should be analyzed individually yet recognizing that they should move as a block**
2. **Corporate Governance should be in the centre of the EPA and the integration process and the EU should commit itself to helping uplifting Corporate Governance standards in the region**
3. **The EU should consider going to the other countries which were left out of the EPA negotiations as without them the SADC block is not complete**
4. **Zimbabwe issue should not be ignored.**

Contd. from P. 5

US debate on reforming capital markets was driven – before the current market turmoil – by the concerns that a tighter regulatory approach in the U.S. (say the Sarbanes-Oxley legislation) was leading to a competitive slippage of New York relative to London in the provision of financial services. There is therefore a

A need to encourage cross-national fora and develop a global financial monitoring system for stronger coordination to avoid a race to the bottom of financial regulation.

need to encourage cross-national fora and develop a global financial monitoring system for stronger coordination to avoid a race to the bottom of financial regulation.

At the heart of the matter is whether the corporate governance infrastructure, built over the decades to provide checks and balances to ever more powerful chief executives, has been exposed as woefully inadequate by recent events. Where exactly were the boards & the independent directors of financial giants such as Citibank, Bear Stearn, Freddie Mac, Fanny Mae, Merryl Lynch, Lehman Brothers & Morgan Stanley etc when all this was happening? This is the question being increasingly asked by shareholders and employees and the public at large whose lives have been destroyed by these market manipulatorsis. We are tasked today to find out the answers, not only for improving the quality of capital markets but also to ensure world security.

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Managing Information Security – An IT Experience

Dr. Anuraag Awasthi & Mrs. Sunita Chauhan

"Security is like oxygen; when you have it, you take it for granted but when you don't, getting it becomes the immediate and pressing priority"

Joseph Nye, Harvard University

Introduction

We are living in an information age. Information in all it's forms is handled like a hot resource. It is the competitive advantage that an entity has over others. Increasingly it is becoming a regulatory requirement as well. As information takes myriad forms and becomes all pervading, and the world gets ever more connected, the risks associated with this information handling multiply manifold. All this information brings with it enormous risks in terms of maintaining the confidentiality, integrity and availability of the data, as well as ability to recover in case of any disaster.

How does one manage risks associated with handling all this information? What are the organizations that have been in this area in these early years doing? Different organizations / industries may deploy different techniques for managing the risks. This paper talks about the risks management from an IT organization perspective, and the lessons learnt.

Background

This is truly the age of information. Information pervades all aspects of our lives. And this is not just restricted to organizations handling information as a resource like IT, but any business worth it's salt handles information in it's myriad forms. From paper to Paper-less, all organizations handle information be it pertaining to Customers, Orders, Employees, Products or any thing else. Information provides the competitive edge.

With the world getting more and more connected, the information repositories have become exposed to the risks of sharing. With LAN, WAN and Internet connecting the world like no time before, the risks to the information were never greater. The Wi-fi and Wi-Max's of the world have made the sharing both easier as well as riskier.

Employees increasingly owe allegiance to their profession and not to the organization they work in. As the business models change, there is more outsourcing of tasks that were earlier done in-house. These inadvertently increase the people based risk. As per a recent survey, 59% of security risks emanate from within the organization by employees or others who are legally within the organizational LAN.

How does one protect one's information in such a scenario? With people, process and technology constantly throwing up issues, no information is safe. With daily new threats coming up, how does one minimize the risk to one's business and control the damage? How does one ensure business continuity?

As networks and applications grow in complexity and security threats become more prominent and increasingly sophisticated, perimeter security is no longer regarded sufficient. There is a need to have layered security to ensure in-depth defense.

For an IT company, where information is a key resource, ensuring the confidentiality, integrity and availability of information is even more important. As the world moves from Product to Service, even a minor loss to business can result in the business closing down. Who can forget the number of IT companies operating from World Trade Tower filing for bankruptcy after 9/11 because they had no disaster recovery plan in place? Kingfisher airlines was duped of $3.8 million in online fraud. Another example is fraudulent transfer of $400,000 from Citibank customer accounts to bogus accounts in India by a BPO employee. Recently there was a case of a major SW Company declaring that they expect losses of Rs. 80 crores due to some unauthorized transactions done by one of their senior employees. Last year during heavy rains in Mumbai, all Servers of a major Oil company went down, as a result of which Petrocards for filing Petrol across India didn't work. These are no stray cases. Virus attacks, Website hackings, Phishing where the organization is fraudulently represented as a sender, Spyware attacks, key logging, IM, peer-to-peer, blended threats, threats of customer / employee data, insider abuse of Net access, instant messaging misuse, unauthorized access to information, financial fraud, sabotage – the list is endless.

How does one manage these risks? How does one minimize the loss to business due to unavailability of any information processing facility. Today there are so many interfaces to an organization – partners, vendors, customers, employees, support staff, contract workers, auditors etc. Any of these is a potential risk. Similarly, facilities like a Power Supply, Communication link etc. can become a risk to business by being unavailable. Any Housekeeping person who access the facility at odd hours can lead to pilferage of important information. Photocopier, Concierge, Transport, Canteen supplier, even Security personnel can pose a threat to business.

Telecommuting work culture also poses significant security risks such as data loss or leakage. With PDAs, Blackberrys, laptops and other wireless data access means freely available, data security is emerging as a key area of concern for Indian enterprises as increasingly mobile employees are carrying confidential company data in their laptops, handhelds or PDAs.

In the recent times, regulators have also come in the picture. Regulatory bodies like RBI, SEBI, BASEL II, PCI etc have laid down guidelines especially in the areas of Banking and Financial industry. Growth of data centres across cities and growing outsourcing contracts also require integration of Information Security in outsourcing agreements.

All the above reasons justify the need to have a comprehensive and robust information security framework. It can mean the difference between success and failure.

Information Security

This is the age of information. Information is power. Information is competitive advantage. Information is risk. Information needs security.

Information Security consists of all the activities we perform to protect the important information assets from loss of confidentiality or integrity or unavailability. This also covers the equipment on which these reside and the people who are critical for running the business from business continuity point of view.

Information resides in the form of Information Assets, which are sprinkled across the organization. These Information Assets include not just the Paper documents, computer files, databases, emails, photographs, websites etc. but also all the elements, which ensure their integrity, confidentiality and availability of these. This includes People, Facility, Databases and IT infrastructure, which ensure access to information, Processes, Facility, Electricity availability, Backups etc. The information itself can be of any type – Employee related, customer related, IPR, financial records, Product designs, email lists, telephone numbers, Sales information, Business knowledge, competitor information etc. - virtually any information whose unavailability / loss of integrity or unauthorized access may harm the interests of the organization. The list is endless. Every organization needs to identify information and assets which are critical from business point of view and whose compromise and unavailability may lead to business risk.

These Assets, which are critical from business point of view, need to be protected. Also, the organization needs to ensure business continuity in the event of a disaster. Thus disaster recovery (DR) is also a part of information security management.

Risk Management

Central to the implementation of any information security system is the concept of risk management. Risk management contains all the coordinated activities, which an organization performs to manage and control risk.

The traditional steps in risk management are :

- Risk assessment
- Risk treatment
- Risk acceptance
- Risk communication

Risk Assessment :

Risk assessment involves identification of the assets, threats and vulnerabilities and estimating the level of risk – estimating the probability of an event occurring and the magnitude of effects if the event does occur. Risk assessment lies at the heart of risk management, because it assists in providing the information required to respond to a potential risk.

Risk Assessment consists of following steps :

- Identification and valuation of assets
- Identification of security requirements, i.e. threats, vulnerabilities, legal and business requirements
- Risk analysis (Likelihood of threats & vulnerabilities to occur & importance of legal, business requirements)
- Risk evaluation - compare the estimated risk against the risk criteria to determine the significance of risk

An Asset is something that has “value”. Possible Information assets of an organization are :

- business data
- employee information
- research records
- price lists
- tender documents

As per Webster’s a Risk is the possibility of incurring misfortune, loss, injury, disadvantage or destruction. It is any event that affects business objectives’ accomplishment. Something is at risk if it is vulnerable or likely to be lost or damaged. Risk has following characteristics associated with it :

- Uncertainty i.e. the probability that it may happen, and
- Loss – extent of loss in the event of risk becoming a reality

Vulnerabilities are potential weakness that can cause a threat to occur. In itself, a vulnerability does not cause harm - it is merely a set of conditions that may cause a threat to materialize. For example, absence of Security guards is a vulnerability; absence of fire detection system is a vulnerability.

A Threat is a declaration of intent to cause harm. A threat may be intentional or unintentional, man-made or natural. Threats exploit vulnerabilities. For example, presence of an unauthorized person in our premises is a threat, presence of inflammable material is a threat. The threat may exploit a vulnerability and become a risk.

A business faces several security risks. These could be related to :

- Country : The country a business operates in may pose a risk if it is not stable in terms of social stability, terrorism, political stability, rule of law etc. - for example it is not safe to operate in a country where there is dictatorship and the government policies keep changing.
- People Management : People are a major security risk. With major advances in Network and system security, people have become the major cause of security related incidents.
- Process related risks : Informal and fragmented processes provide vulnerabilities, which can be exploited. For example if a process does not take care of all types of media that go out of the organization, it could be exploited.
- Technology : The pace of technology is frightening. Nothing is impossible. It is a challenge to keep pace with the technological advances, which create newer ways of doing business, and also create new vulnerabilities in the system. The availability and widespread usage of mobile computing devices, Wi-fi and Wi-max are areas, which are still not secure.
- Operational : With multi-location, multi country businesses, spreading security culture is becoming a Herculean tasks. With acquisitions and large-scale outsourcing, suddenly the field becomes open to all sorts of threats.
- Legal challenges : With increasing controls required by regulatory bodies like SEBI, RBI and IT Act etc. making security requirement more stringent, it is a challenge to keep meeting the legal requirements.
- Time to deliver : With delivery times under pressure, time to implement all security controls is just not available. Shortcuts introduce vulnerabilities.

Apart from above general business related security risks, which are applicable across industries, these are risks, which are specifically IT related. These are :

- Security of IT infrastructure, including Applications and Data
- Availability of IT services 24x7 at all locations under all conditions
- Performance assurance (e.g. Latency)
- Compliance with regulatory requirements

Risk Treatment

Having done the risk assessment one arrives at the Risk value for each Asset. Based on management decision, appropriate controls are put in place to bring down the Risk value of the assets with more than that value. Thus, risk treatment consists of :

- Selection of appropriate risk treatment option
- Selection of controls to reduce risks to acceptable level

Controls could be Preventive, Detective or Corrective. For example, assets could be moved away from the risky areas, risk could be transferred to third party thru outsourcing, insurance etc.

Controls should ensure that risks are reduced to an acceptable level taking into account:

- National and International legislation requirements
- Organizational objectives
- Operational requirements or constraints
- Cost of implementation

The cost of implementation and operation of controls is to be balanced against the loss likely to result from security failures.

For example, if there is a risk of fire in public auditorium, controls could include

- Reducing probability by banning smoking
- Reducing impact by fire extinguishers

In case of a risk of project delays by attrition, possible controls could be :

- Reducing probability by human relations
- Reducing impact by backup staff, processes being followed, training etc

Risk Acceptance

Risks, which cannot be brought below acceptable level, the management decides to accept the risks. Such risks that remain after risk treatment are called Residual risks. It is not possible to achieve absolute security. Just like there is nothing called zero-defect quality, there is nothing called foolproof security. It is not always financially feasible to reduce all risks to acceptable level. If a residual risk is unacceptable, the management takes a decision to deal with it. By putting suitable controls, we try to minimize the risks associated with known threats, and have a readiness for disaster recovery when the need arises.

Risk Communication

Having put all the controls, processes, policies and guidelines in place, it is the time to communicate to the organization, make them aware of all the Do's and Don'ts, and finally implement the Information Security Management System (ISMS). All the employees, partners, vendors, contracting parties etc. must be made aware of their revised roles under the ISMS. This requires ongoing communication from time to time thru various media.

Recommendations

Having been there and done that, especially from IT perspective, we recommend following approach :

- Top management commitment : It goes without saying that this is a critical piece in the whole picture as without this commitment time, people and money resources would not be released. Top management also defines the Security policy and Objectives and have to periodically monitor the implementation.
- Constitute Information Security oversight board : Create a senior people steering committee to oversee the definition and deployment of ISMS. This could be a two-tier committee with functional representative to drive the activities within their function at the next level.
- Adopt an existing standard : Instead of re-inventing the wheel, it would be pragmatic to start with a basic framework like ISO 27001 as the base standard. This is a comprehensive Process model based on PDCA approach and also provides a relevant Information Security benchmark.
- Focus on critical business processes : Depending on the size and geographical spread of the organization, it can select the scope of the ISMS deployment. It can be done at the corporate level, one unit, all units, some functions etc. The key functions whose processes undergo biggest revision are IT, Admin. (facilities), Commercial and HR. Thus time needs to be spent wherever these lie. One may also choose to implement security in certain critical functions / processes / areas like Physical Security, Disaster Recovery, Outsourcing Contracts etc.
- Ongoing management & measurement of security effectiveness :
  - Periodic user awareness trainings : It is a major area where most of the ISMS implementations fail. After the external audit is over and the certificate is on the wall, implementations generally fail because employees fall back on the old ways, whereas new employees are not given awareness, and management is not serious. This is typically a weak area.
  - Conduct periodic security audits : It is not sufficient to just implement ISMS unless its deployment is not maintained over a period of time. Any successful deployment requires a continuous oversight. One simple way of doing this is through Internal / external Security Audits.
  - Have simple Metrics to track security incidents : Post deployment, it is important to keep a tab on security related incidents that happen. Several metrics could be implemented are :
- No. of intrusions detected
- No. of Security Awareness trainings given
- Amount of downtime caused by security incidents
- No. of vulnerabilities detected
- Time to handle incidents etc.
- Regulatory Compliance : Depending on the country one operates in and regulatory framework an organization is subject to, it is important to keep compliance with all laws of the land as a high priority area. IT Act 2000, SOX are examples of this.

Existing Security Models

Though an organization can make its own roadmap for implementing security practices, today there is a plethora of models and frameworks available to choose from. Instead of reinventing the wheel, it is advisable to select one basic framework and then add to it by referring to it from other models and industry specific regulatory guidelines. An list of some such models is given below.

- ISO 27001
- ISO 20000
- INDIAN IT ACT
- SSE-CMM
- COSO
- COBIT
- HIPPA
- FISMA
- IEEE P1074
- SARBANES OXLEY ACT (SOX)
- GRAMM-LEACH-BLILEY ACT

Conclusion

With security fast becoming a mandatory requirement in all types and sizes of business, it is only a matter of time when it becomes a mandatory requirement. From early model of business followed by risk management is now turning into Risk management followed by Business.

The early experiences in this area by the organizations that have implemented it and see some cycles can come handy for new organizations. The suggestions given above would help organizations in several ways:

- It provides a structured approach to managing information security risks.
- There is adequate Management and employee buy-in.
- It ensures compliance to regulatory requirements.
- Representation from all functions, ensures seamless implementation across departments.
- Starting with a model as a base ensures benchmarking and best practices roll out.
- Metrics ensure a basis for ongoing vendor evaluation.

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Sunita Chauhan With more than 15 years of enriched, varied experience in Quality domain across industries, Mrs. Sunita Chauhan is a mover and shaker who believes in leading from the front. A BE (Electronics), MBA (Finance) and CSQA (QAI, US), Presently working as Senior Manager (Quality & Testing) with Bharti Telesoft Ltd. she has earlier worked with Continental Device (I) Ltd., Aithent Technologies, Chipsoft Technlogies etc.

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3. Indian IT Act
4. Other standards like SOX, COBIT etc.

International Academy of Law (IAL)

*J C Khurana

There is a prevailing belief that law and its execution is not giving justice to the common man. The whole body of law and governance are under the scanner today. The emerging issues of human rights, equity, security and terrorism, cyber laws climate change, economic laws, inclusive growth, transparency, capital market laws, public awareness of laws, rules & regulations, inter governmental co-operation on global issues demand a proper forum to discuss & debate these issues.

The 'International Academy of Law' an independent not-for-profit organization established by the World Council for Corporate Governance, UK, and the Centre for Social Responsibility of India, focuses on the development, legislation and enforcement of laws on issues such as above. Its mission is to stimulate and channelise debate on the development and application of laws that respond to the new challenges in a holistic manner. Details of the Vision, Mission & Objectives of IAL are on our website www.wcfcg.net. The Academy is chaired by Justice P N Bhagwati, former Chief Justice of India, Member UN Human Rights Commission.

The IAL is a Registered Society registered in the NCT of Delhi.

In the last meeting of the Executive Committee of IAL held on 1st August 2008 at the India International Centre, New Delhi, suggestions and views on the "Nature of Activities & Topics" the IAL should engage, in were discussed.

There was wide-ranging and lively discussion, on this. The members suggested that the IAL could engage on Legal and Statutory Aspects of issues, such as, economic laws; environmental laws; climate change; noise & hazardous waste pollution; cyber laws; human trafficking, alcoholism, gambling laws; dowry laws; validity of many old laws and legislative drafting; capital market laws , rules and regulations;

Justice P N Bhagwati addressing the IAL Executive Council meeting at New Delhi

Dr Madhav Mehra addressing "the IAL conclave an legal measures to combat climate change" at the Raj Bhawan, Nainital

L to R: HE Sudarshan Agarwal, Governor of Uttaranchal; HE S S Banwala, Governor of Tamil Nadu; Justice MN Venkatachliah, former Chief Justice of India; Padma Vibhushan Sonal Man Singh; Dr CK Gariyali, IAS Principal Secretary to Governor of Tamil Nadu; Smt. Venkatchaliah; Dr Madhav Mehra, President, World Council for Corporate Governance; J C Khurana, Director General, International Academy of Law; Seema Mustafa, Chief Editor, Asian Age; Dr Veena Pande and Dr Kotlia; Professor of Climate Change at Kumoun University (back) and B C Roy, Director, NTPC (back).

political reforms; 6th Schedule of the Constitution of India; reservation; and federalism vs. regionalism. It strongly emerged that public awareness of laws, rules and regulations is weak. Emphasis was placed on implementation areas of administering the laws and regulations.

It was recommended that IAL may make effort to work in conjunction with the Law Commission of India, Govt law depts. and international law experts, in suitable areas, including public awareness and debate, as the IAL has a strong network of experts and eminent persons, nationally and internationally, and a wide reach through its various conferences and workshops/seminars.

Ladies who joined in for the Dinner with Mrs P N Bhagwati

There was a consensus that the IAL should concentrate on limited issues intended to give it wider visibility & involvement to begin with. The issues suggested, included :

1. Cyber Laws - Security issues
2. Climate Change
3. Economic Laws

It was felt that Cyber Law was possibly the most topical issue, which is critical for cross-border control & world security. It was decided to hold a two days conference on "Legislation, Monitoring & Enforcement of Cyber Laws" to contain global terrorism, on 29th & 30th November 2008, New Delhi.

A Standing Committee was formed to plan and progress the activities of IAL under the chairmanship of Justice R C Lahoti, former Chief Justice of India

International Conference On Cyber Security

29-30 November 2008, New Delhi

Theme : **"Legislation, Monitoring & Enforcement of Cyber Laws"**

Need for the Conference

"Internet has become an integral part of our professional and personal lives. Consequences of cybercrime, cyber terrorism and cyber warfare can be catastrophic. Internationally regulated and policed cyber laws are critical for humanity's survival".

Conference Objectives

- Discuss strategy for formulation and implementation of holistic measures for development, legislation & enforcement of laws for Cyber Security to contain terrorism & promote public interest.
- Sharing of knowledge and experience of leading Information Technology Experts and Companies, enforcement agencies & jurists in adopting strategies & processes for improving Cyber Security.
- Develop plan of action for promotion of Public awareness of Laws, rules and regulations on e-governance and security of information in Cyber Space.

Justice R C Lahoti, Shri Suresh Prabhu, MP, Dr A N Saxena

- Identify available hardware & software products / services for Cyber Security and share. experience of users such as Cos, agencies, government departments and institutions.
- Recognize industrial enterprises which have achieved high standards of cyber security in the interest of clients and public good.

Justice R C Lahoti, former Chief Justice of India and Dr Madhav Mehra engrossed in IAL future plans

Sub-themes

- Power, potential and perniciousness of the web
- Cyber security & terrorism – monitoring and regulation of cyber traffic
- Regulation, detection and prevention of hacking and viruses
- Capital Markets : Regulating Cross-border capital movements and trading to ensure transparency and prevention of fraud
- Unsolicited e-mails, SMSs & phone calls-Dealing with junk and viruses
- Data protection, privacy and piracy
- "Private International Law and Intellectual Property Rights" – promulgated by 'WORLD

INTELLECTUAL PROPERTY ORGANISATION', Geneva-2001 – adherence and areas of improvement.

- Information & Technology Act of India (2000) – experiences : positive and negative, areas of improvement.
- Regulation of Internet Service Providers (ISPs)
- Raising public awareness of laws, rules & regulations on cyber security and privacy
- Capacity building – school curriculum to include awareness of cyber laws, penalties for hacking, monitoring the web, respect for privacy laws and specially training of key personnel such as police, banks & corporations on regulation and monitoring of cyber laws
- Legislation and implementation of cyber laws

***J C Khurana is Director General, International Academy of Law**

Justice P N Bhagwati, founder Chairman and Dr Madhav Mehra, founder President IAL

L to R HE Sudarshan Agarwal, Governor of Uttaranchal addressing the conclave on climate change; JC Khurana, Director General International Academy of Law; Justice MN Venkatchaliah, former chief justice of India; Padma Vibhushan, Sonal Man Singh, Padma Bhusan; Dr CK Gariyali, IAS Principal Secretary to Governor of Tamil Nadu and Smt. Venkatchaliah

Can corporate governance result in triple bottom line benefits?

*Graham Ward CBE

The triple bottom line: social, environmental and economic sustainability, is of great interest to companies and to stakeholders. Customers care about financial strength and the way in which a company deals with social and environmental issues. Staff and potential staff also care deeply about these things. Indeed, in my firm the first question asked by potential recruits at interview is not about career prospects but about our approach to social and environmental matters. Investors, increasingly, also care about these issues. Recent research with fund managers carried out for the Institute of Chartered Accountants in England & Wales shows that "sustainability of the business in the longer term" is their most important issue when deciding where to invest. A company's attitude to the triple bottom line is an important risk factor in investment appraisal.

Similar views are shared by business leaders, for example:

"Corporate social responsibility is a hard edged business decision. Not because it is a nice thing to do or because people are forcing us to do it…because it is good for our business" – Unilever, Former CEO.

"People are going to want, and be able, to find out about the citizenship of a brand, whether it is doing the right things socially, economically, and environmentally" – Proctor and Gamble Europe, President of Business Development.

"Ethics is the new competitive environment" – Mountain Equipment Co-op, CEO.

"The brands that will be big in the future are those that tap into the social changes that are taking place" – Centrica plc, Chairman.

Corporate governance was defined by Sir Adrian Cadbury as "the system by which companies are directed and controlled". Such a system is not, however, an end in itself but a means to an end: to facilitate strong, sustainable companies respected in the markets by capital providers, customers and employees alike. Indeed it is important for this respect to go wider, into the political community and the community as a whole, since companies can only exist in the form that they do because society gives them a licence to do so, a licence that is increasingly difficult to obtain and to retain.

This wide concept of governance has been emphasized by the International Federation of Accountants(1) in its report "Enterprise Governance". Enterprise Governance encapsulates not only traditional corporate governance, which it describes as "conformance" but also business governance: the achievement of performance. It brings together the conformance aspects of accountability and assurance with the performance aspects of value creation and resource utilisation. This emphasizes that governance is a means to an end, not an end in itself.

So how does governance achieve business benefits? It begins with the tone at the top but requires the right approach to be embedded in the way in which a company does business, throughout the whole business, including systems of internal control and reward systems. The Board takes responsibility not only for doing things right but for doing the right things - and for requiring systems within the company to enable it to demonstrate to the Board, and ultimately, via its annual report and other means, to all stakeholders that the right things are being done right.

Experience of the performance aspects of governance has shown that management exercises control over a business in three ways:

Culture and values - which establish an individual's sense of appropriate personal behaviour and business ethics set by the "tone at the top" and supported by a corporate Code of Conduct. Guidance on preparing and implementing such a code is available from IFAC.

Management systems - providing instructions and guidance on how particular types of task should be achieved and the processes and technology to achieve them.

Oversight - ensuring the right people are asked to do the right tasks, that they have sufficient resource and training to support them and that they are properly supervised and monitored.

Key questions to be asked by the board in relation to the triple bottom line include:

- What does success look and feel like – how is this measured?
- How are triple bottom line issues integrated into strategy and strategic conflicts avoided?
- What Executive and Board accountability structures are in place?
- To what extent do risk processes incorporate robust analysis of triple bottom line issues?
- How are KPIs selected and what KPI analysis is performed?
- What assurance mechanisms ensure effective controls and reliable disclosures?
- How are stakeholder needs understood and responded to?
- What basis is used for determining materiality?
- How is the effectiveness of communication assessed?
- What are your competitors doing?

Research carried out by META Group on behalf of PricewaterhouseCoopers showed that an integrated approach to governance, risk and compliance that properly utilises culture, process and technology can enhance reputational value (by 23%), employee retention value (by 10%) and revenue (by 8%).

Achieving stakeholder trust requires robust and honest reporting. Is the right information being reported? Not just is the reported information right? ie relevance as well as reliability. Not only trumpeting virtue but admitting to vice - and saying what will be done to deal with it. No company is perfect in every respect and an annual report which claims that it is will lack credibility and introduce distrust into the minds of investors, customers and staff. What should be a means of reducing the cost of capital and increasing customer and staff loyalty will, if a balanced picture is not given, have exactly the opposite effect.

Some worry that honest disclosure will depress the share price. In fact, research carried out for PricewaterhouseCoopers indicates that, when analysts feel that they are receiving a balanced view of the company, the share price goes up, because the risk premium for uncertainty goes down. There is also evidence that balanced disclosure leads to lower share price volatility.

Guidance for companies on environmental management accounting is available from IFAC and the International Auditing and Assurance Standards Board is preparing guidance on assurance for emissions disclosures and a standard which embraces assurance on sustainability reporting.

In conclusion, can corporate governance result in triple bottom line benefits? My answer is an emphatic yes, if it is properly used. Companies with high standards of enterprise governance can look forward to a higher share price and greater loyalty from staff and customers alike.

***Graham Ward is Immediate Past President of IFAC and a Senior Partner in PricewaterhouseCoopers LLP. He is a member and former Deputy Chairman of the Financial Reporting Council, a member of its Corporate Governance Committee; a board member of the UK India Business Council and Chairman of its Audit Committee.**

Reference

1. See www.ifac.org

Africa: Hot on Corporate Governance

Dr Madhav Mehra, President, World Council for Corporate Governance, chaired the African Directors Forum at Johannesburg in South Africa on 14 and 15 August 2008 comprising 160 directors, CEOs, Chairmen and Presidents of corporations right across Africa. Participants included former chairman of Ernst and Young and presidents of African Stock Exchanges.

The African Directors Forum was organized by Marcus Evans, world's largest event management and conference producing company. The organisers expressed gratitude to Dr Mehra saying this was their most successful directors conference in Africa. Mr Vadula their South Africa based General Manager confided "Ïn the past we have done many conferences using Mervyn King's name" . Mr King is the guru of corporate governance and highly respected in Commonwealth. He is the author of 3 reports on corporate governance – King Commission 1, 2 and 3. King Commission 3 has just come. Mr Vadula continued, "this time we thought we will not use King's name because it has become commonplace in Africa and instead use WCFCG and Dr Mehra in our promotion material. We have been amazed by the response. We never had such high level participation in such large number. They lapped up Dr Mehra's cohesive approach to corporate governance."

Negotiating Multilateral Issues: Good Versus Best

*M J Cadbury

Introduction

It is generally accepted that the best way to handle international issues, be they environmental, social or, economic is through multilateral agreements. The belief that multilateral is best can, however, lead to a view that any other actions are therefore not desirable. The consequence of this view can be an "all or nothing" approach to global issues. In many cases there are second best solutions that can be implemented by individual countries, but these solutions may not get considered. This paper looks at opportunities that could be considered by individual countries without the need to wait for a multilateral agreement, drawing parallels between action on the environment and the economy.

Environment: Multilateral and Unilateral

The Kyoto agreement entered into force without the USA signing the agreement and attempts to negotiate a follow-up agreement have so far not been successful. The negotiations are stuck over insistence by developed countries that the developing world must also play a role in reducing greenhouse gasses and the view held by developing countries that they should be exempt from the agreement. Looking after the environment is seen as a zero sum game, a tragedy of the commons, where countries gain by polluting and lose when they reduce emissions. It is seen as being in every country's economic interest to pollute to the maximum.

As a consequence of zero sum thinking, countries see themselves in a situation where they can only make progress through a multilateral deal or put themselves at a significant economic disadvantage versus other countries, as the UK's King Review of Low Carbon Cars states "Achieving international consensus and co-operation is essential in many areas" and "International agreement on Measurement methodology, incentivisation and enforcement will be needed". Assuming that environmental progress is damaging to the economy is not necessarily correct and there are ways for countries to improve their environmental performance without compromising their economies. It is true that a multilateral agreement would be the best option of all, but this does not automatically mean that second best options are not also good options. There is a similar issue occurring with environmental technologies themselves, it is natural that we should search for the best, carbon neutral, solutions to our energy needs, but that should not blind us to second best options which may be easier, cheaper and quicker to implement.

According to the UK's Stern Review "Climate change presents a unique challenge for economists: it is the greatest and widest-ranging market failure ever seen". The total cost of using fossil fuels, including the effect on the environment, has not been understood until recently and as a consequence fuels have been widely sold at their marginal cost of extraction. Cheap fuel has helped economies develop, but has created the problem of global warming; a problem that was first identified some 120 years ago and which is now well accepted.

However we are now largely stuck in an "all or nothing" thought process, where we believe that only multilateral solutions and carbon free technology can work. The consequence of this kind of thinking is that we are making too little headway whilst waiting for the perfect solution; it is time to take a look at whether second best solutions might be useful until such time as the perfect solutions become available.

The first step that an economist would take towards finding a solution to global warming would be to correct the market failure "Establishing a carbon price, through tax, trading or regulation, is an essential foundation for climate-change policy" (Stern Review). If the cost of CO_2 emissions is not factored into prices, then there is no economic incentive to reduce emissions and hence to develop lower emission technologies. The King Report on Low-Carbon Cars states "The urgent challenge for the short term is to develop a strong and rapidly growing market for low emission cars". The simplest way to correct prices is to have a tax on emissions of greenhouse gasses and a subsidy for the removal of greenhouse gasses, providing an economic disincentive to all emitting activities and an economic incentive for all removing activities i.e. a carbon tax. The main argument used against such a move is that any country that applies a carbon tax unilaterally will make its economy uncompetitive compared with other countries that do not have a carbon tax. There are two reasons why this argument isn't valid.

Firstly overall taxation does not have to increase. Critics of a carbon tax tend to assume that it would be an additional tax, but there is no reason why this should be so. The main sources of taxation today are typically income from employment, business profits and value added. Today's taxes disincentivise employment, profit and value added. It would surely make sense to shift some of the tax burden onto disincentivising something that we actually want to reduce, rather than things that are beneficial to society? A carbon tax could be applied together with tax reductions in other areas, such as employment, and it is quite likely that this would improve allocation of resources within the economy and have a net economic benefit.

The second point to note is that tax is not a net loss to an economy and as a result there is no direct link between tax levels and the competitiveness of an economy. Taxes are simply money spent communally by the government; if the government spends tax money wisely there is no loss to the economy, thus high tax countries like Norway are as competitive as lower tax countries like the USA. Taxes are only bad for competitiveness when badly spent.

A carbon tax could be increased in a predictable pattern over several years to minimise the cost and waste of adjustment in the economy "Clarity and predictability about the future rules and shape of schemes will help to build confidence in a future carbon price" (Stern Review). In the absence of similar forms of taxation in other countries, there would need to be some taxation and subsidy for trade, particularly in carbon intensive products like aluminium.

Directly correcting a market failure is a good approach since this harnesses the energies of the market into finding solutions. The alternative approach is for the government to choose solutions and regulate them or provide direct subsidies. The problem with this non-market approach is that it is very complicated to get an accurate picture of what actually works in reducing CO2 emissions, as the King Review states "A significant international challenge will be to establish a robust and accurate agreed methodology for measuring the life-cycle emissions of fuels". Both the EU and the USA have chosen to act directly, with the EU choosing to mandate use of Bio-fuels in vehicles and the US choosing to subsidise production of Bio-fuels for vehicles. However the analysis in the King Review shows that these choices are unlikely to have been good ones "Car transport is currently one of the least cost-effective uses of Bio-mass in saving CO2". It turns out that it would make more sense to substitute Bio-fuels for oil used in oil fired boilers than to refine it to use in vehicles, exactly the sort of trade-off where the market is more likely to make good choices than governments.

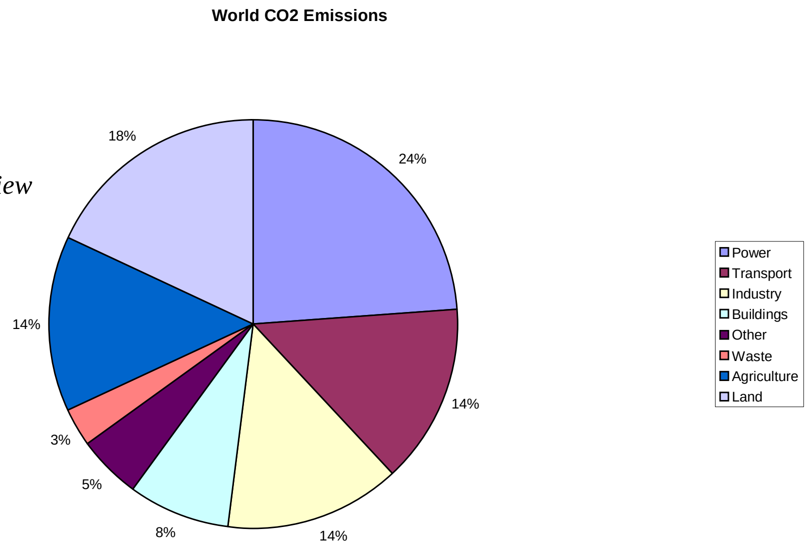
There is, therefore, no reason why countries should not pursue a unilateral policy on climate change, irrespective of whether a satisfactory multilateral agreement comes into force, without a significant negative impact on their economies. At the same time there is reason to suggest that there might be a key economic benefit in doing so. According to the Stern Review the market for low carbon energy products will reach US $500 billion by 2050, any country which tackles climate change faster than its peers will ensure itself a first-mover advantage in this market. Aggressively tackling climate change could be a driver of future competitiveness for an economy.

Environment: Good and Best Technologies

The world has total CO2 emissions of 42 Giga tonnes. The biggest sources of emissions from energy use are electricity generation and road transport (see Chart 1), in the long run carbon neutral electricity generation and transport are the keys to reducing energy related emissions. There are also very significant emissions from non-energy related activity, mainly de-forestation and agriculture, a halt on de-forestation would be the single most effective contribution to combating climate change.

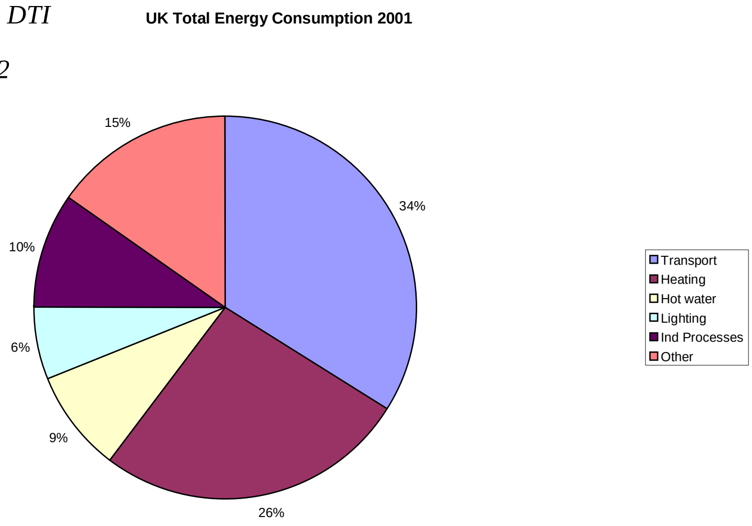
Source: The Stern Review

Chart 1



Source DTI

Chart 2

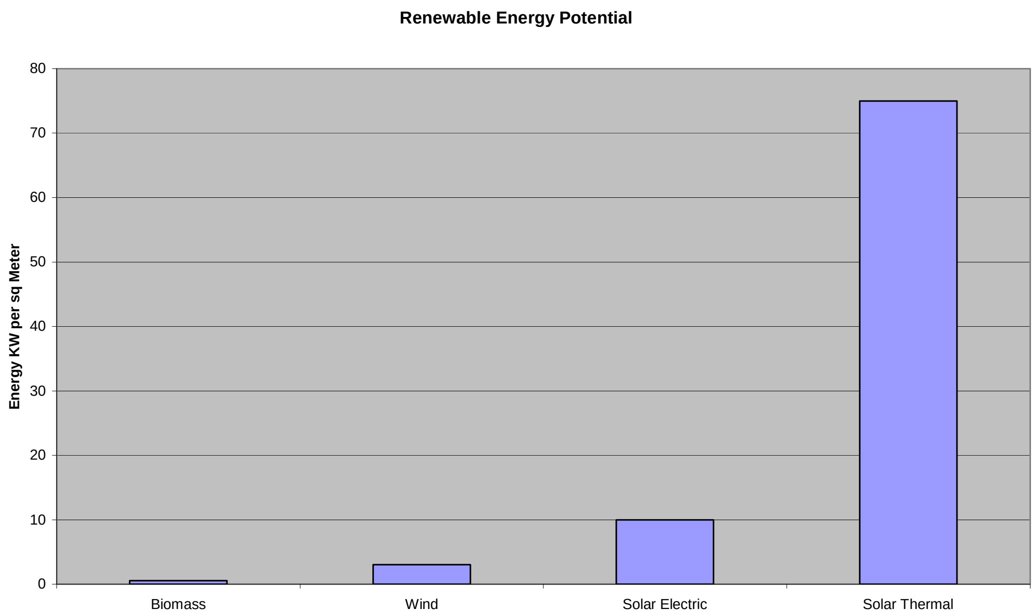


Another way to look at energy is to split it by final use, as shown in Chart 2 for the UK. This shows that heating of buildings is the largest energy use after transport, followed by heating of water, "buildings account for almost half of the energy consumption and carbon emissions in the UK" (HM Govt). Heat is the simplest form of energy and is the easiest form of energy to obtain directly from sunlight, yet with the exception of China, relatively little has been done in this direction. New houses in China almost invariably have solar hot water heating and the rest of the world lags behind. One reason is that winter time provides less solar heating than the summer, making a solar only heating system not sufficiently reliable, but too little has been done to develop viable systems using solar heat with a secondary back-up heat source. Solar heat is by far the most effective way of harnessing the sun's energy in terms of the energy that can be obtained per area of ground surface, as shown in Chart 3. Using solar energy for heating would reduce energy costs and hence have a positive economic impact as well as reducing carbon emissions.

Carbon output can also be reduced in other areas like transport. Carbon fuels have varying proportions of carbon and hydrogen in them. The carbon burns to carbon dioxide, whilst the hydrogen burns to water, so different carbon to hydrogen proportions lead to varying carbon emissions for the same output in energy. Coal is the worst performer, being made up almost entirely of carbon, and natural gas is the best performer having 4 hydrogen atoms for each carbon atom. Burning coal produces 0.09 kilograms of carbon dioxide for each Mega Joule of energy (Chart 3), whilst burning natural gas produces slightly over half this amount.

Chart 3

A move towards gas and away from coal and oil would produce a significant reduction in carbon emissions. Such a shift would clearly involve some investment, but would not require the invention of entirely new energy technologies. Simply ensuring that future power stations were gas rather than coal fired would halve the carbon emissions of the electricity generated. Similarly, a saving of up to 20% in



Source: Building industry interview

Chart 3

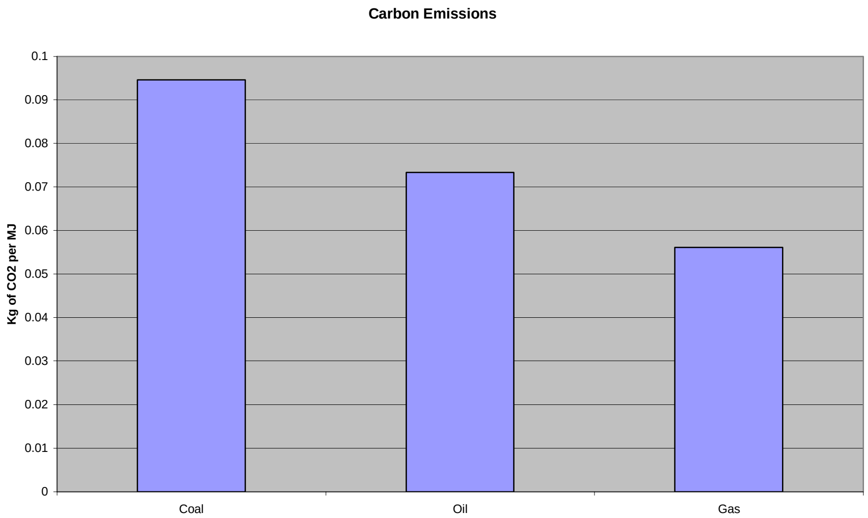
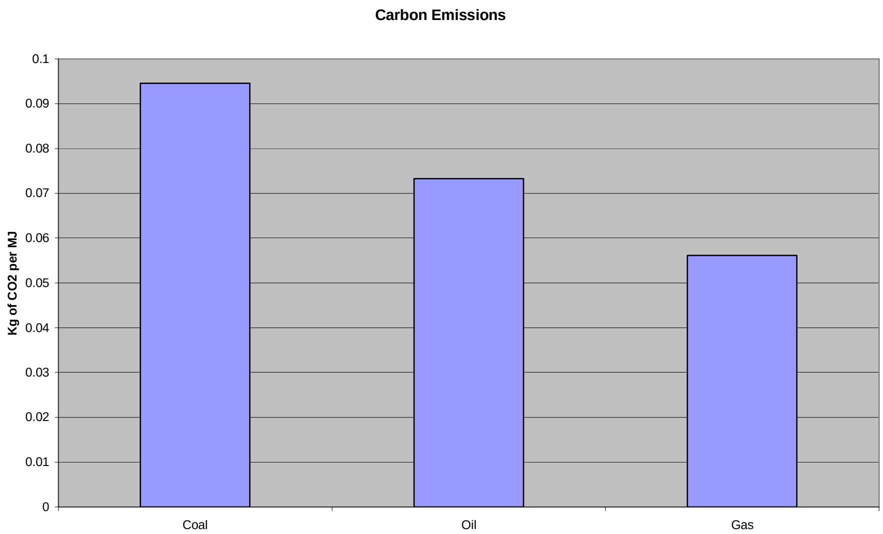


Chart 3



Source: The King Review *Chart 4*

carbon emissions could be achieved by converting Petrol-engined cars to run on natural gas, which can be done at relatively little cost. Traditionally natural gas was simply burnt by flaring at oil wells. Today most oil fields collect the gas, but flaring is still carried out. Carbon pricing would make natural gas more valuable than oil and hence ensure that gas was used rather than being wasted through flaring, carbon pricing would also encourage the search for sources of natural gas. Electric cars are also a good option; since the efficiency of a power station is much higher than an individual vehicle engine, there is a reduction in carbon emissions when fossil fuels are burnt in a power station and the electricity is then used to power a vehicle (Chart 4).

Economy: Multilateral and Unilateral

International economic relations are most affected by trade in goods and services. The majority of the world's countries are now members of the WTO, which is the forum for negotiating multilateral trade agreements. As is the case for the environment, the best approach to world trade would be a multilateral removal of trade tariffs. The WTO has been trying to secure a new trade agreement, but this has stalled over disagreements about the relative contribution of developed and developing countries. Once again the best solution can become the enemy of the good solution, with many developing countries doing nothing towards trade liberalisation except waiting for a WTO agreement.

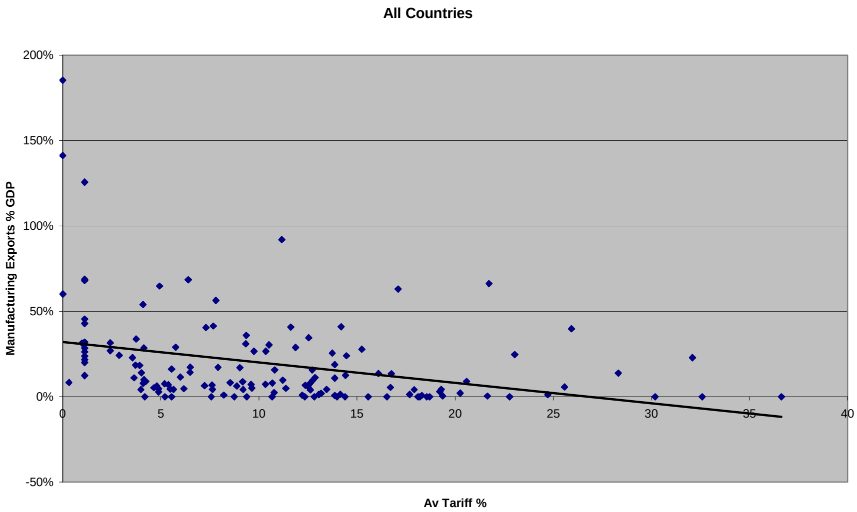
As in the case of environmental performance; trade liberalisation is widely seen as a zero sum game where countries which liberalise their trading regimes become less competitive than those which do not. The consequence of this thinking is that the majority of WTO members seek to minimise their own trade barrier reductions, whilst persuading other countries to maximise their's. A key reason for this is the belief in "mercantilist" trade theory, mercantilists believe that trade is a win/lose transaction and that trade barriers are helpful for countries to win this trade contest. This thinking is particularly applied to developing countries which, largely for historic reasons, tend to have high trade barriers. There is a widespread belief that keeping those barriers in place is good for developing country economies and this is exactly what developing country negotiators are trying to achieve in the World Trade Organisation's Doha Development Round.

The logic behind mercantilism is that it is better to be a seller than a buyer and therefore countries should restrict their imports and promote their exports. Unfortunately this logic is misconceived: if I go to a shop and buy a litre of milk for £1, I do so because the milk is worth more to me than my £1 coin; the shop's owners are happy to sell the milk to me for £1, because my £1 coin is worth more to them than their litre of milk. It is obvious that neither party in the transaction has won or lost; the transaction occurs precisely because it is a win/win opportunity with both parties benefiting, and there is no reason why this should be any different when a transaction takes place across a political border.

The mechanism of mercantilism is that a country restricts imports through tariffs whilst continuing to export to other markets. In practice economic systems adjust over time towards an equilibrium. In the case of a mercantilist country this typically results in an increase in the exchange rate, which in turn increases the price of that country's exports. In the long run the trade barrier therefore reduces both imports and exports, which is clearly counter-productive for development. Data confirm this diagnosis. There is empirical evidence to suggest that countries with high import tariffs do indeed have overvalued exchange rates and a simple graph of average import tariff versus manufacturing exports as a percentage of GDP (Chart 5) shows that exports do indeed suffer when import duties are high. The data in the graph is for 165 countries; the higher the average tariff a country has on its imports, the less well it performs on exports, which clearly isn't beneficial for the economic development of that country.

It is also interesting to note that the recent success of China as an exporter has been accompanied by very rapid reductions in China's import tariffs to levels much lower than those required by the WTO. Free trade is clearly beneficial for developing countries, as China has found out to its own benefit, other developing countries need to follow China's example if they are not to be left even further behind economically.

The best outcome for trade is a multilateral reduction of trade barriers, but failing that countries should unilaterally remove their own trade barriers. Far from disadvantaging a country economically, removal of trade barriers can give a country a head start in developing an economy that is internationally competitive. This is precisely what happened to two developing countries: Singapore and Hong Kong, in the latter half of the 20th century and the same thing is now happening to China.



Source: UNDP and UNCTAD *Chart 5*

Conclusions

There is much that can be done to reduce CO2 emissions, without implementing perfect multilateral agreements or moving to new, entirely carbon free, technologies. The best way to make progress on greenhouse gas emissions would be to use a tax on emissions, thus using the market to find the most effective means of reducing them. Whilst such a tax would be best applied globally, it could also be introduced by individual countries without necessarily compromising competitiveness. The main emphasis to date on reducing carbon emissions has been on finding alternatives to carbon fuels and many of the alternatives seem expensive or out of reach. In reality there is also much that can be done at relatively little cost in terms of reduction of waste and substitution within current carbon fuels and current technology. The perception that a choice has to be made between the economy and the environment is wrong; countries which move first will have a competitive advantage in the future.

The situation faced by countries on international trade negotiations is similar, unilateral tariff barrier reductions would be beneficial, with or without a multilateral agreement.

***Matthew Cadbury spent twelve years working on business development in the confectionery industry. This included setting up businesses in Poland and Mexico and managing a £100m business in India. During this time he had direct experience of the limiting effect of trade barriers on business growth. He was Managing Director of Cadbury India, before returning back to England.**

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Stern Review	**The Stern Review: The Economics of Climate Change www. hm-treasury.gov.uk/stern**
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UNCTAD	**Tariff data from TRAINS database**
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HM Govt	**A Guide for Businesses, Reducing the energy usage and carbon emissions.**

News & Views

Goldman, Fidelity facing probe in US

The New York attorney general's office it is investigating whether Fidelity Investments was given incentives by Goldman Sachs Group. to sell auction-rate securities to investors.

Investigators are examining if Fidelity pitched auction-rate securities that were underwritten by Goldman Sachs because it received other services from the investment bank. A spokesman for New York Attorney General Andrew Cuomo confirmed the probe was under way but declined to provide further details.

The attorney general is leading an investigation into how major Wall Street investment banks and smaller financial companies sold auction-rate securities to customers. The securities were marketed as being as safe as cash until the market froze up amid the credit crisis, causing investors to lose money.

Fidelity said about 600 to 700 accounts out of some 8 million customers held auction-rate securities. Ann Crowley, a spokeswoman for the company, said there was ``no financial incentive for Fidelity to promote auction-rate securities as opposed to other short-term investments.'' A spokesman for Goldman Sachs declined to comment.

Cuomo, leading the investigation on behalf of state and federal authorities, has gotten investment banks to agree to buy back more than $50 billion worth of auction-rate securities from eight global banks. Goldman Sachs agreed to buy back about $1.5 billion in securities still held by private clients that were purchased through the firm before Feb. 11. It also agreed to pay a $22.5 million fine.

Auction-rate securities resemble corporate debt, but the interest rates on the investments are reset at regular auctions, some as frequently as once a week. The market for the securities collapsed in February amid the downturn in the broader credit markets.

Regulators have been investigating the collapse to determine who was responsible and whether banks knowingly misrepresented the safety of the securities when selling them to investors.

FRC updates guidance to directors on 'going concern'

UK Companies urged caution on the Financial Reporting Council the UK accounting watchdog after its proposals that directors should lay out clearly any significant doubts over whether the business was a going concern.

The Financial Reporting Council is consulting on whether it should update its guidance to company directors over their responsibilities regarding "going concern" - the judgment that says a business is viable for at least 12 months from the day the accounts are signed off.

Directors at present can reach three conclusions on a going concern. The FRC has proposed adding a fourth that would require them to disclose if they had "identified material uncertainties that may cast significant doubt about the ability of the company to continue as a going concern".

There are fears more extensive disclosures could unsettle investors. "We're wary about rushing on such a key area," said John Pierce, chief executive of the Quoted Companies Alliance. "It's an absolutely timely review to do, but markets are twitchy enough at the moment that phraseology and wording in these things is crucial.

"We are studying it to determine whether it means a change in substance or in form. If substance, then it could have all sorts of unintended consequences and perhaps precipitate the demise of a business that, without veiled warnings, could pull through," he added.

The FRC has said it does not consider the changes a new departure and that they largely represented updates to accounting rules made since the guidance was first drawn up in 1994.

Some experts have, however, questioned the need for a fourth category in the updated guidance. "They could just use the new tougher language and replace the middle one - its not clear why a fourth one is needed," said Steve Priddy of the Association of Chartered Certified Accountants.

The FRC's consultation is open until November.

Over 37m poor in US; 46m without health insurance

More than 37m Americans live in poverty and nearly 46m have no health insurance, an official report showed, spotlighting two key issues in the race for the presidency.

Some 37.3m people lived in poverty in the United States in 2007, an increase from the 36.5m people in 2006, the US Census Bureau's annual report on income, poverty and health insurance coverage showed.

The poverty threshold for 2007 was set at $21,000 for a family of four, regardless of whether they lived in a smaller US city such as Milwaukee or a large city like Los Angeles, where the cost of living was significantly higher.

"The number of people without health insurance coverage decreased to 45.7m people in 2007" from 47m in 2006, said David Johnson, head of the housing and household economic statistics division of the Census Bureau. But while the report showed slightly more Americans had health coverage than in 2006, the changes were too little to cheer about, said Paul Fronstin, a senior research associate at the Employee Benefits Research Institute.

"Generally, what the report shows is that there has been some change but it's pretty minor," said Fronstin, of the Washington-based think-tank.

"This isn't progress. The changes are insignificant and we would need to see this happen for 10 years to say there has been progress," he said.

According to a report published earlier this year by the Annie E Casey Foundation, which advocates for public policies and reforms to alleviate poverty, both the Democratic and Republican parties have made the "fight against poverty a priority in their campaigns."

Indian cabinet approves new Companies Bill

A liberal regulatory set-up for corporates is on the anvil with the Cabinet approving the introduction of a new Companies Bill that will replace the present archaic and voluminous Companies Act of 1956. The Companies Bill 2008 also paves the way for the formation of a one-person company (OPC) that would help start-up entrepreneurs operate as a company without facing the liabilities attached to a sole partnership firm.

Corporate affairs minister Prem Chand Gupta said companies should expect a liberal and less cumbersome regime in India as the proposed Bill suggests cutting down many provisions that are not relevant in today's economic environment. "Against the 800-odd provisions in the existing act, the proposed law aims at pruning this to almost half," Gupta said, adding that the aim was to bring in "self regulation, but with accountability".

Gupta had initiated the process to revamp the existing Companies Act in 2004 and the government had formed a committee, headed by JJ Irani, to help draft the new law for which it also held consultations with industry bodies as well as professional organisations like ICAI and ICSI.

The Companies Bill 2008 would be tabled in the coming session of Parliament, Gupta said, adding that it contained various provisions aimed at bringing in a flurry of changes for the corporate sector. The Bill aims at cutting down many of the approvals companies need to take from the government at present. These include on matters like remuneration of directors, related party transactions, attachement of balance sheet of subsidiary companies etc.

"In another crucial recommendation, we have done away with promoters buying shares at a discount," the minister said. Also, it lays down higher and stringent penalties for corporate offences, many commensurate with the nature of default and its effect on ordinary shareholders.

The proposed Bill also states that 33% of directors on a company's broad should be independent, which appears relaxed compared to the 50% norm stipulated by market regulator Sebi. Gupta said sectoral regulators were free to prescribe higher limits if they deemed fit. "So unlisted companies can have one-third independent directors while for listed companies, it has to be 50%, as prescribed by Sebi's Clause 49," he said.

US prime mortgage defaults worsen faster than subprime

Delinquency rates on many better quality U.S. mortgages last month outpaced those on the subprime loans that helped spark the U.S. housing crisis, Standard & Poor's recent reports showed.

Total delinquencies on prime "jumbo" loans and "Alt-A" loans made in 2007 rose at a 7.3 percent and 9.12 percent rate, respectively, from June, the rating company said. These loans require less proof of repayment but were made to borrowers with credit scores above subprime. For subprime loans, the rate of delinquency rose 7.0 percent rate last month.

Overall, delinquencies on 2007 prime jumbo loans rose to 3.22 percent in July, while Alt-A loan delinquencies increased to 14.56 percent, S&P said. Defaults on subprime loans from last year hit 31.25 percent. The housing slump, now in its third year, has surprised many mortgage companies, such as

Freddie Mac, as its effects erode more creditworthy loans. Potential downgrades to such loans, including top-rated ones, have put mortgage bond markets further on edge in recent weeks as they await rating company reviews, investors said.

S&P in late July increased its loss assumptions on many types of mortgages, including doubling the projections for the Alt-A sector. The company aims to complete reviews using its new assumptions "within a few weeks, as opposed to a few months," said Robert Pollsen, an analyst at S&P in New York.

Delinquencies on loans made in 2006 exceed those of 2007, probably because of the longer period from origination. "The more recent vintages are suffering more performance related issues sooner, and to a greater degree," Pollsen said.

In a positive note for prime jumbo loans, serious delinquencies -- including loans more than 90 days past due, foreclosures and bank-owned real estate -- increased at a slower rate in July, Pollsen said.

New York may sue Merrill over ARS

New York state has recently threatened to sue Merrill Lynch & Co over auction-rate securities (ARS) as part of its industry wide probe of banks accused of misleading investors about the debt's risks.

Attorney general Andrew Cuomo, who has reached settlements with five major banks to buy back more than $30 billion of the securities and pay fines of $360 million, said on a conference call with reporters that his office is "preparing to commence legal action" against Merrill. Merrill said it was surprised by Cuomo's announcement.

"We have been discussing this issue with New York and other regulators since we announced last week our plan to purchase our retail clients' ARS and we thought we were making progress," Merrill said "We anticipated further talks."

Merrill had offered to buy back as much as $12 billion of the debt but has not settled with regulators. In a letter to Merrill, Cuomo's office described the buyback plan as "woefully inadequate" and short of the investor safeguards contained in settlements reached with Citigroup Inc, Swiss bank UBS AG, Morgan Stanley, JPMorgan Chase & Co and Wachovia Corp.

"We are still open to trying to resolve our investigation in a settled fashion," said the letter, signed by David Markowitz, chief of the Investor Protection Bureau, an arm of the attorney general's office. It gave Merrill five business days to explain why the attorney general should not sue. Regulators say banks misled investors into believing that auction-rate securities, which have interest rates that reset in periodic auctions, was the equivalent of cash. Much of the $330 billion auction-rate securities market has been frozen since February, when brokerages abandoned their traditional role as buyers of last resort.

Cuomo told reporters that his terms for settlement were "fairly clear and established because we've done them with a number of institutions". Cuomo also told the reporters that his office was investigating investment bank Goldman Sachs Group Inc and a host of other financial institutions.

US minorities in majority by 2042

White people of European descent will no longer make up a majority of the US population by the year 2042 - eight years sooner than previous estimates. The big change is among Hispanics and Asians whose share of the population is set to double to 30% and 9%.

The population is also ageing: by 2050 one in five residents will be aged 65 or over, up from one in nine today. The US Census Bureau's latest projections are based on birth, death and current immigration rates.

The projections show that the US population is expected to rise from 305 million people to 439 million by 2050, but it will be a population that looks quite different both in age, race and ethnicity. According to the census bureau's statistics, people who regard themselves as Hispanic, African-American, Asian, American Indian, Native Hawaiian and Pacific Islander will become the majority by 2042. Officials had previously projected that this change would happen in 2050. The new projections suggestion that by 2050, minorities will account for 54% of the population and non-Hispanic whites 46%, down from their current 66% share.

Immigration and higher birth rates among US minorities, especially Hispanics, are accelerating the demographic changes. Hispanics will see their population nearly triple from 47 million to 133 million, causing their share of the population to increase from 15% to 30%. Asians will also see a big increase, with their numbers growing from 16 million to 41 million. Single-race Asians will account for 8% of the population and 9% including those of mixed race. The black population, including those of mixed race, will show a slight increase from 14% to 15% of the total.

UBS execs knew of risk of U.S. rule breaches

Senior executives at Swiss bank UBS (UBSN.VX: Quote, Profile, Research, Stock Buzz) were aware in 2006 of a whistleblower's complaints into cross-border services provided to U.S. clients, long before a U.S. probe began, a letter from the bank's chairman shows.

A UBS spokesman confirmed a report in the Financial Times on Wednesday that Peter Kurer, UBS chairman and then the bank's general counsel, had written to the whistleblower in May 2006 to thank him for raising attention to the issue.

"The letter confirmed that an investigation into the complaints had been completed, the results would be reviewed and recommendations formulated," the spokesman said.

The whistleblower was Bradley Birkenfeld, a former UBS banker at the centre of U.S. inquiries into whether the bank helped wealthy American clients evade taxes by moving their money to European tax havens.

Kurer wrote to Birkenfeld after he complained about working practices in the U.S. cross-border business.

"Management was copied on this letter to further demonstrate the seriousness with which the complaints were being treated," the spokesman said.

The FT said the letter was copied to Marcel Rohner, then head of private banking and now group chief executive, as well as Lawrence Weinbach, a UBS director who sits on the board's audit committee. UBS declined to comment on those names.

In May, the U.S. Department of Justice and the Securities and Exchange Commission revealed they were investigating UBS's conduct in relation to cross-border services provided by UBS advisers to U.S. clients from 2000 to 2007.

UBS shares were down 4.3 percent at 21.64 francs compared to a 3 percent weaker European banking index Traders said UBS, like other European banking stocks was tracking losses by their U.S. peers overnight on rekindled worries over credit losses, rather than reacting to the letter.

The stock lost 2.4 percent after UBS, Europe's biggest casualty of the credit crunch, announced rich clients continued to withdraw money in the second quarter and said it will separate its investment bank from wealth management.

The letter was now in the hands of the U.S. Department of Justice, the FT said. UBS declined to comment on that. Birkenfeld, who admitted this year to helping a billionaire U.S. businessman evade millions in tax while at UBS, has been co-operating with the authorities, the paper added.

New yahoo election tally lets out big protest vote

Yahoo Inc recently released a recount of the vote for its board that sharply altered the results, revealing a strong protest vote against five of nine directors including CEO Jerry Yang.

The Internet company said revised vote tallies showed 33.7 percent of votes withheld for Yang, the company's co-founder, with 66.3 percent in favor of him remaining on its board.

Yang has been under pressure for months over failed attempts by Microsoft Corp to buy the company and over questions about his leadership, but the shareholder vote had suggested the tide was turning in his favor. The initial tally showed 85 percent of votes going to Yang. The stunning new twist in the saga of Yahoo came after one its largest and most critical shareholders, Capital Research Global Investors, called on for a probe of the recent shareholder vote after finding discrepancies in the results.

Yahoo said it had been informed by Corporate Election Services, the company's inspector of elections, that Broadridge Financial Solutions, a proxy voting intermediary for major investors, had made significant errors in reporting votes at its annual shareholder meeting.

Three other directors, including Yahoo Chairman Roy Bostock, also had strong protest votes, with nearly 40 percent of votes withheld for Bostock, 38 percent withheld for director Ron Burkle and 32 percent withheld for Arthur Kern. The three are members of the company's compensation committee and have borne the brunt of criticism for the company refusing to do more to link executive pay to performance as corporate governance critics have demanded.

A fifth board member, Gary Wilson, the former chairman of Northwest Airlines, had 28 percent of votes on his reelection withheld. The remaining four board members -- Vyomesh Joshi, Eric Hippeau, Robert Kotick and Mary Wilderotter -- all received strong endorsements, with each winning more than 90 percent of votes in favor of their reelection. Ahead of the August 1 meeting, Kotick said he planned to resign shortly after the meeting as part of a settlement deal with proxy challenger Carl Icahn in which Icahn and two members of a slate proposed by the billionaire investor would join an expanded board of 11 members instead of the previous nine.

Gordon Crawford, whose Capital Research Global Investors owned 6.2 percent of Yahoo as of early June, said in May he was "extremely angry" at Yang over the breakdown of talks with Microsoft. Critics of corporate voting technology have called for a system overhaul, said the counting process was complicated and lacking in transparency.

In a statement, Broadridge acknowledged the error, but said it was an isolated incident and that it did not change the outcome of the election of the company's directors.

"Upon review, it was determined that there was a truncation error in the final printout sent to the tabulator," said Chuck Callan, Broadridge's senior vice president of regulatory affairs. "

JPMorgan, Morgan Stanley settle securities probe

JPMorgan Chase & Co. and Morgan Stanley became the latest banks to reach settlements with New York Attorney General Andrew Cuomo and other regulators as part of a investigation into the collapse of the auction-rate securities market.

The pair of banks will repurchase a combined $7 billion in the troubled securities at face value from investors. Morgan Stanley agreed to pay a fine of $35 million, while JPMorgan will pay a fine of $25 million.

JPMorgan and Morgan Stanley are the third and fourth to reach settlements, following deals by UBS AG and Citigroup Inc. Regulators continue to investigate other banks as well.

In addition, Wachovia Corp. was in a final round of talks with Cuomo and was expected to announce a settlement soon, according to a person close to the talks who spoke on condition of anonymity because the agreement had not yet been finalized. The Charlotte, N.C.-based bank was close to agreeing that it will buy back $8 billion of auction-rate securities by the end of the year, the person said.

"We are doing an industrywide investigation," Cuomo said during a news conference, adding that his office continues to discuss settlements with additional banks that sold the securities. Cuomo's office, the Securities and Exchange Commission and other state regulators reached settlements that required Swiss bank UBS to repurchase $18.6 billion in the securities, while Citigroup agreed to buy back $7 billion of the securities. UBS will also pay a fine of $150 million, while Citigroup will pay a $100 million fine.

The $330 billion auction-rate securities market involved investors buying and selling instruments that resembled corporate debt, except the interest rates were reset at regular auctions, some as frequently as once a week. A number of companies and retail clients invested in the securities because they could treat their holdings almost like cash.

The bond-like investments were widely held by many institutional and individual investors and were seen as highly liquid, money market-like investments.

US closes 9th bank this year

Bank regulators closed Columbian Bank and Trust Company, the ninth US bank to fail this year as the weakening economy and falling home prices take their toll on financial institutions. Customers can access their money by check, teller machine or debit card, the Federal Deposit Insurance Corp (FDIC) said.

Citizens Bank and Trust has agreed to assume the failed bank’s insured deposits. Columbian Bank and Trust’s branches will reopen as branches of Citizens Bank and Trust, which is based in Chillicothe, Missouri.

The FDIC said Columbian Bank and Trust of Topeka, Kansas, had $752 million in assets, $622 million in deposits, and nine branches. The failure is expected to cost the FDIC deposit insurance fund an estimated $60 million. The FDIC oversees an industry-funded reserve used to insure up to $100,000 per account and $250,000 per individual retirement account at insured banks. The biggest bank failure this year was IndyMac, seized by regulators on July 11. IndyMac had $32 billion in assets and $19 billion in deposits as of March. It was the third-largest bank insolvency in US history. Columbian Bank is the first bank to fail in Kansas since Midland Bank of Kansas in Mission, Kansas, on April 2, 1993, the FDIC said.

Indian hacker behind largest cyber heist?

An unknown Indian hacker is being charged with the greatest cyber-heist in history for allegedly helping a criminal gang steal identities of an estimated eight million people in a hacking raid that could ultimately net more than 2.8 billion pounds in illegal funds.

An investigation by Scotland's Sunday Herald newspaper has discovered that a previously unknown Indian hacker successfully breached the IT defences of UK's Best Western Hotel group's online booking system and sold details of how to access it through an underground network operated by the Russian mafia.

There are no details yet on how the hacker was identified to be an Indian and if a probe is on to identify the person. It is also not known if the hotel chain has alerted the police about the heist. The attack scooped up the personal details of every single customer that has booked into one of Best Western's 1312 continental hotels since 2007. Amounting to a complete identity-theft kit, the stolen data includes a range of private information including home addresses, telephone numbers, credit card details and place of employment.

"They've pulled off a masterstroke here," said security expert Jacques Erasmus, an ex-hacker who now works for the computer security firm Prevx. "There are plenty of hacked company databases for sale online but the sheer volume and quality of the information that's been stolen in the Best Western raid makes this particularly rare. The Russian gangs who specialise in this kind of work will have been exploiting the information from the moment it became available. In the wrong hands, there's enough data there to spark a major European crime wave."

Mobiles play banker for rural India and Bangladesh

Masses in under-banked regions may now be able to perform banking transactions using their mobile. Obopay, a payment services provider and Grameen Solutions, a Grameen Bank subsidiary, have entered into a tie-up to provide mobile-banking services to the poor in India and Bangladesh. However, these services will have to wait for the Reserve Bank of India's (RBI) guidelines which are expected anytime now.

This may include services such as cross-border fund transfers, payments, savings and credit accounts. However, it can be operationalised only after the central bank releases final guidelines on mobile banking. By December 2008, the two entities are planning to launch fund transfers between India and the US.

RBI has asked banks to put their plans to launch mobile-banking services on hold till these guidelines are released. Obopay plans to enter into a partnership with three banks and a few micro-finance institutions based in India, such as SKS Microfinance and Ujivan. The company is also looking at utilising the business correspondent model to expand.

Speaking on the sidelines of a conference, Obopay executive director Aditya Menon said, "We are in talks with four banks and a few MFIs in India.

The aim is to use the mobile device for facilitating payments, but this can be done only though regular banking channels. This will help lower cost of transactions for MFIs which face huge operational expenses, as they largely offer doorstep services."

According to statistics compiled by Obopay, only 34% of the Indian population currently has an access to banking services. India is seen having the second-largest number of unbanked households at 13.5 million, and among those who have an account, nearly 40% do not even access the account once a month.

Obopay CEO Carol Realini said, "Both Obopay and Grameen Solutions are run on a for-profit model. However, the idea here is to provide services, which are affordable and convenient for end-users. Also, MFIs offering services at customers' doorstep could be risky. Hence, it serves better to make it automated.

We are targeting a one billion customer base by 2018." The idea is to roll out two platforms — one in India and the other in Bangladesh. Obopay would bring in the technical expertise by providing the last-mile connectivity while Grameen Solutions would provide the know-how from the micro-credit angle.

The cashless way to cash in on MFs

Many companies have perfected the art of making a fast buck from mutual funds (MFs) without investing a penny. They do this by playing around with the cut-off timings set by fund houses for accepting cheques from investors. This is how it works: companies and some high net worth investors give cheques to buy units of liquid-plus MF schemes just before the weekend, when there's no money in their current accounts.

They enjoy free returns for two days, fund their accounts on Monday morning, stay invested for a few more days and then switch to a new scheme to play the game all over again. For mutual funds, it's like offering the net asset value (NAV) of the scheme to the investor without receiving any money. It's akin to a bank paying interest on a non-existent deposit. Fund houses know the game, but are unwilling to spoil their relationship with big investors.

Google, Yahoo partially disclose ad pact

Google Inc (GOOG.O) and Yahoo Inc (YHOO.O) released excerpts of a pact covering their search advertising partnership that keeps secret financial terms and the extent of other ties between the two.

In a filing with the U.S. Securities and Exchange Commission, the companies take the unusual step of disclosing the contract governing the partnership, but leave out any financial terms, such as the revenue split on their deal.

Companies in the Internet industry typically jealously guard the terms of such contracts to protect their ability to negotiate pricing at variable terms with other customers.

Critics say the deal threatens competition for advertising that runs alongside Web searches. Congressional leaders have conducted hearings to investigate what impact the partnership could have on the Internet market. The agreement covers the United States and Canada, but not other international markets.

Financial reforms to focus on i-banks

The global financial crisis may have sparked calls for markets and governments to be more tightly regulated, but a year after the credit crunch hit reforms are still a long way off, analysts said. The reforms would largely target investment banks, which are accused of indiscriminately approving risky loans, then buying or selling financial products linked to these loans, leading to the US subprime market collapse.

Credit rating agencies have also been criticised for contributing to world financial turmoil by not sounding the alarm. In April, finance ministers of the G7 nations approved a series of recommendations from the Financial Stability Forum (FSF) to improve the practices of banks and financial markets. But the recommendations, which aim to improve good practice and transparency without restricting behaviour, have yet to be executed. In July, the European Commission also put forward similar measures to supervise credit rating agencies.

"Governments needed to show that they were doing something," said Andrew Haynes, who teaches international banking law at Wolverhampton University in central England, in an interview with AFP. Another ambitious plan, proposed in March by the US Treasury Secretary, Henry Paulson, to overhaul the US regulatory system and strengthen the US Federal Reserve's monitoring role has also stalled. "Nothing will happen until the presidential election", said Patricia McCoy, a professor of law, banking and securities regulation at the Connecticut University. When George W. Bush's successor was elected, McCoy said she expected "a big, big fight" because "the agencies and investment banks are going to resist" any significant regulation.

But there are other complications. Despite announcing operational changes to boost transparency and the spread of information, the three main credit rating agencies, Standard and Poor's, Moody's and Fitch, will still be paid by the companies they rate. A further weak set of proposals put forward in June by the US Securities and Exchange Commission, the official regulator for the agencies, is also making little impact. At the same time, investment banks and credit rating agencies have little to fear from the creation of a new international Committee on Banking Supervision suggested by G7 members which would group regulators from different countries.

European fraud sinks SOCGen's India Project

One of the largest global securities frauds in recent times that cost French banking major Societe Generale (SocGen) $7 billion early this year has now come to haunt its India plans.

The government has rejected SocGen’s proposed 35:65 joint venture with India’s largest bank, the State Bank of India (SBI), for custodial and depository services, after the Reserve Bank of India (RBI) raised concerns about the securities scam in Europe. The central bank also highlighted that SocGen was found violating trading norms in Zurich.

SBI had, in June, signed a joint venture agreement with Societe Generale Securities Services (SGSS), a division of the SocGen Group, to offer custodial and depository services in India. According to this agreement, the SBI was to appoint the CEO and SocGen the deputy CEO. The SBI was supposed to invest Rs 52 crore while SocGen was to bring in FDI worth 28 crore.

Raising objections, the RBI said the government needs to take into account regulatory and supervisory concerns arising out of the international developments while clearing the proposed JV. The regulator specifically referred to two instances. It pointed out that a Zurich-based exchange, SWK, had imposed a fine on SocGen for violating trading rules by allowing authorised traders to make transactions under other people’s name, besides allowing an unauthorised trader to trade on the exchange.

BNP, Indian executive in dock for data theft

Thomas Weisel Partners LLC, a US-based investment banking outfit, has sued French banking giant BNP Paribas and one of its Indian employee in a California court alleging data theft from its Indian subsidiary.

Thomas Wiesel alleges that the sudden departure of the head of research of its India unit at the end of 2007, who left with his entire team, forced the company to shut down its research unit in Mumbai which led to a loss of millions of dollars. The head of research also had access to confidential client information, says Thomas Wiesel. While all this happened in Mumbai, Thomas Wiesel wants a California court to hear the case, claiming that the Indian legal system is weak in protecting intellectual property. BNP Paribas, for its part, wants the case to be heard in India.

BNP Paribas recently argued before the US court that it wanted the case to be resolved in line with Indian laws, as both companies in question are based in Mumbai and intellectual property rights are very strong in the country. A lawyer familiar with the case told ET that Thomas Weisel has disputed this, saying the Indian legal system takes much longer to resolve disputes related to intellectual property rights.

Consequently, it would be better if the American courts hear this case, the US investment bank has argued. KK Venugopal is the advisor to BNP Paribas. The genesis of the dispute can be traced to end-2007 when Thomas Weisel filed a suit in the US Court of the Northern District of California.

According to the suit, Praveen Chakravarty, currently chief perating officer of BNP Paribas Securities Asia, joined the French banking giant from Thomas Weisel’s Indian subsidiary in December 2007. Chakravarty, who was head of research at Thomas Weisel, took the entire research team at the investment banking outfit to BNP Paribas, which led to the closure of the Mumbai unit. Within days, Thomas Weisel moved the American court.

When contacted, the BNP Paribas India spokesperson diverted queries to its Hong Kong office and said that Chakravarty will not speak on this issue. A telephone query and an e-mail to BNP Paribas in France did not elicit any response.

The San Francisco-based firm said Mr Chakravarty, then based in the US, had joined in 2003 and he had signed a confidentiality agreement on client information, marketing strategies and terms of employment in the US, a lawyer close the development said. In 2005, Mr Chakravarty was sent to India to set up the research unit. In November 2007, 17 employees, including 10 analysts of Thomas Weisel, quit the company and joined BNP Paribas.

Within days, BNP Paribas announced the setting up of its India-based research team led by Chakravarty. Stung by this mass exodus which led to the closure of its India research unit, Thomas Weisel sought punitive damages and safe return of its trade secrets from both Chakravarty and BNP Paribas.

In the suit, Thomas Weisel said Chakravarty shared confidential information, including current and projected profit and loss statements, research reports, coverage decisions, contact information for covered companies, employee training material besides customer information with BNP Paribas. A similar research unit would have taken BNP Paribas millions of dollars to set up. The American company then made eight claims against Chakrabarty and six claims against BNP Paribas. Currently, the legal proceedings are centred on which country is the appropriate forum to hear the case.

Net traffic begins to bypass US

The era of the American Internet is ending

Invented by American computer scientists during the 1970s, the Internet has been embraced around the globe. During the network's first three decades, most Internet traffic flowed through the United States. In many cases, data sent between two locations within a given country also passed through the United States.

Engineers who help run the Internet said that it would have been impossible for the United States to maintain its hegemony over the long run because of the very nature of the Internet; it has no central point of control.

And now, the balance of power is shifting. Data is increasingly flowing around the United States, which may have intelligence — and conceivably military — consequences.

American intelligence officials have warned about this shift. "Because of the nature of global telecommunications, we are playing with a tremendous home-field advantage, and we need to exploit that edge," Michael V. Hayden, the director of the Central Intelligence Agency, testified before the Senate Judiciary Committee in 2006. "We also need to protect that edge, and we need to protect those who provide it to us."

Indeed, Internet industry executives and government officials have acknowledged that Internet traffic passing through the switching equipment of companies based in the United States has proved a distinct advantage for American intelligence agencies. In December 2005, The New York Times reported that the National Security Agency had established a program with the cooperation of American telecommunications firms that included the interception of foreign Internet communications.

Some Internet technologists and privacy advocates say those actions and other government policies may be hastening the shift in Canadian and European traffic away from the United States.

"Since passage of the Patriot Act, many companies based outside of the United States have been reluctant to store client information in the U.S.," said Marc Rotenberg, executive director of the Electronic Privacy Information Center in Washington. "There is an ongoing concern that U.S. intelligence agencies will gather this information without legal process. There is particular sensitivity about access to financial information as well as communications and Internet traffic that goes through U.S. switches."

Climate fight hit by economy

The fight against global warming is in danger of being downgraded on more urgent fears over energy security, heightened by a Russian war with Georgia, and a global economic slowdown.

Added to the mix - politicians are faced with a rising clamour of complaints from voters over record fuel bills, and racing gas and oil prices have sparked new interest in high-carbon coal as well as cleaner alternatives.

"A few years ago it was all about climate change. Now energy security has come up too. The problems arise when the two come into conflict," said Michael Grubb, chief economist at the Carbon Trust think-tank. Energy security can clash with the fight against climate change. In particular, the cheapest, energy source is coal, which also emits the most greenhouse gases when burned to generate electricity.

The sight two weeks ago of Russian tanks rolling into Georgia, a key energy transit route to Western Europe, has raised anxieties about Europe's dependence on Russia for a quarter of its natural gas and thrown a spotlight on alternatives like coal, wind and nuclear.

Poland said last week that the Russia-Georgia dispute had made gas a less attractive source of electricity. That shift has alarmed environmentalists who have also accused Eu lawmakers of weakening emissions curbs from cars and planes.

The trick is to balance the three issues of climate change, energy security and fuel poverty, said Welsh MEP Eluned Morgan, who is guiding legislation to liberalise EU power markets through the European Parliament.

California moves on bill to curb sprawl, emissions

California, known for its far-ranging suburbs and jam-packed traffic, is close to adopting a law intended to slow the increase in emissions of heat-trapping gases by encouraging housing close to job sites, rail lines and bus stops to shorten the time people spend in their cars.

The measure, which the State Assembly passed and awaits final approval by the Senate, would be the nation's most comprehensive effort to reduce sprawl. It would loosely tie tens of billions of dollars in state and federal transportation subsidies to cities' and counties' compliance with efforts to slow the inexorable increase in driving. The goal is to encourage housing near current development and to reduce commutes to work.

Gov. Arnold Schwarzenegger, a Republican, has not said whether he will sign the bill.

The number of miles driven in California has increased at a rate 50 percent faster than the rate of population growth for the past two decades. Passenger vehicles, which produce about 30 percent of the state's heat-trapping gases, are the single greatest source of such emissions.

The fragile coalition behind the measure includes some longtime antagonists, in particular homebuilders and leading environmental groups in California. Both called the measure historic. The bill yokes three regulatory and permit processes. One focuses on regional planning: how land use should be split among industry, agriculture, homes, open space and commercial centers. Another governs where roads and bridges are built. A third sets out housing needs and responsibilities — for instance, how much affordable housing a community must allow.

Once state approval is granted, or an alternative plan submitted, billions of dollars in state and federal transportation subsidies can be awarded.

Instittue of Directors, India marches in its 20th year

August has been one of the busiest months. IOD launched another initiative- International Academy of Law (IAL), with legal luminaries, government officials, regulators and business leaders such as Justice P N Bhagwati, (Chairman), Justice R C Lahoti (Co-chairman), Justice Ruma Pal, Mr Fali Nariman, Abhishek Singhvi, Mr K K Venugopal, Mr Vinod Dhall Acting Chairman Competition Commission, Mr M Damodaran former chairman SEBI and Mr Yogi Deveshwar as founding members. Dr Madhav Mehra , as usual was the facilitator as president of of the academy. IAL has already commenced its work from IOD Convention Centre in Gurgaon and will be holding the first International Convention on Cyber Security on 29-30 November 2008 in New Delhi.

This was followed by the 19th Annual Day celebrations on 2 August 2008 with the theme of 'Making Capital Markets Work through Corporate Governance'. The theme address was given by Dr Madhav Mehra and the keynote address by Shri M Damodaran, former chairman SEBI. HE Dr A R Kidwai, Hon'ble Governor of Haryana was the chief guest and handed over the IOD Distinguished Fellowship Awards to some of India's most eminent persons. Malvinder Mohan Singh, CEO & MD of Ranbaxy Labs Ltd received the Golden Peacock Businesses Leadership Award.

The next event was the launch of Chennai chapter of IOD on 09 August 2008 by Justice M N Venkatachalliah, National Chairman of IOD and former Chief Justice of India. The event was attended by over 200 business leaders of Chennai. Dr Madhav Mehra, founder President IOD and Dr Sudarshan Maini, Chairman, Maini Group, Bangalore and Chairman IOD South India Chapter also graced the occasion. The Golden Peacock Lifetime Achievement Award for Environmental Management was presented to Dr MS Swaminathan.

Leadership Development is an ongoing process in IOD. Masterclasses for Directors were held simultaneously during this month in Mumbai, Delhi, Bangalore and Chennai. Dr Mehra must have had the most excruciating time because he had to shuttle back to back from addressing one event to the other during the whole month. One of his crowning achievements and also the one he found most satisfying was the chairing the African Directors Forum at Johannesburg in South Africa on 14 and 15 August 2008.

It's next major event is the 9th International Conference on Corporate Governance along with the World Council for Corporate Governance, UK on 18-19 September 2008. The event would also include presentation of Golden Peacock Awards on Training, Innovation and Corporate Governance, along with Global Awards on Corporate Governance and CSR Reporting by Dr Ola Ullsten, former Prime Minister of Sweden.

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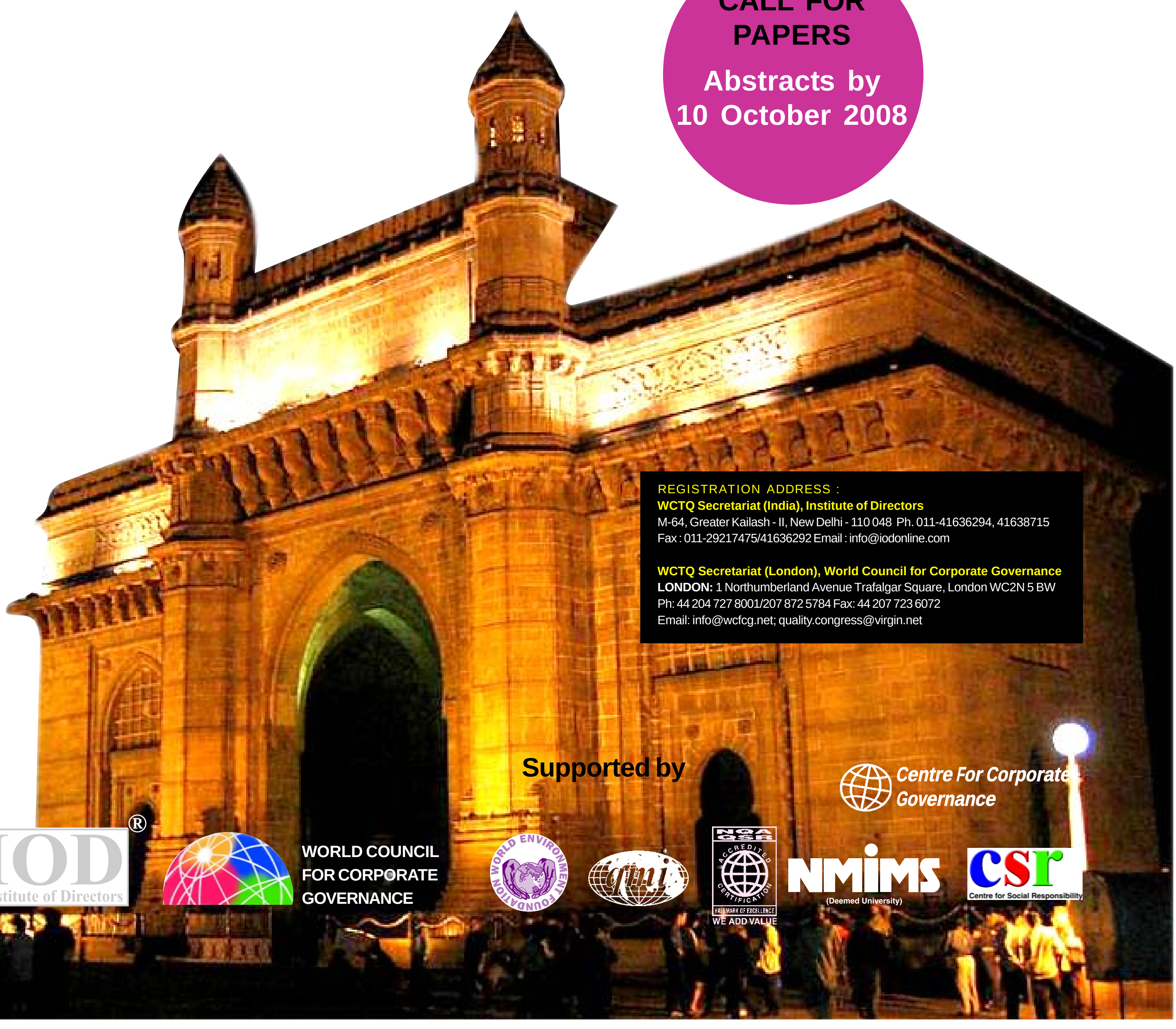

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