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European Commission Targets Acquisitions of Minority Shareholdings

By Davina Garrod and Miguel Vaz (Bingham McCutchen, London)

The European Commission ("EC") is continuing its public consultation aimed at achieving more effective EU merger control. In order to do so, the EC is considering, *inter alia*, expanding its merger control powers to review certain acquisitions of non-controlling minority shareholdings (also known as "structural links").[1] The possible expansion of the EC's jurisdiction to such investments would be more consistent with the UK, Austria and, most notably, Germany, where the Bundeskartellamt[2] has blocked or conditionally cleared a material number of minority acquisitions. Mindful of the need to provide a proportionate response to the very limited potential competitive harm brought about by minority investments and to minimize the cost burden for firms,

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Conflict Minerals and Your Business:
Complying with Complex Regulations

By Tolga Yaprak (Sandler & Travis Trade Advisory Services)

Tucked away at the end of the Dodd-Frank Wall Street Reform and Consumer Protection Act in Section 1502 is a section entitled "Conflict Minerals." Seemingly unrelated to the other 800 pages of the legislation ("the Dodd-Frank Act"), the conflict minerals reporting requirements of Sec. 1502 has created significant controversy throughout the business world as its reach touches upon a broad array of industries and creates overwhelming compliance challenges for thousands of companies. The Dodd-Frank Act requires publicly traded companies to conduct upstream due diligence investigations of their suppliers' sourcing practices, and disclose their use of certain minerals (i.e., columbite-tantalite, cassiterite, gold, wolframite and their derivatives) originating in the Democratic Republic of the Congo ("DRC") or adjoining countries. These minerals are generally referred to as "3TG", which refers to their common names: tantalum, tin, tungsten and gold. For decades, the DRC has been the scene of horrific human rights atrocities and violence driven chiefly

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during the EC consultation, many stakeholders have cautioned against such an extension on various grounds (see below), whilst supporting other measures to streamline the review process. EC Commissioner Almunia has yet to reach a decision on whether to extend the EC merger review to minority acquisitions.

Currently the EC's powers are limited to the review of pre-existing structural links of the parties to a notifiable acquisition or merger. This is because the creation of a structural link in itself, without triggering a change of control in the target company, is not a notifiable transaction under the EU Merger Control Regulation ("EUMR"). This limitation of the EC's power to intervene became apparent in the *Ryanair/Aer Lingus* saga. While the EC has been able to block Ryanair's proposed hostile takeover of Aer Lingus twice to date,[3] it was powerless to order the divestment of Ryanair's remaining 29.4 percent stake in its direct competitor, Aer Lingus. As there was no change of control (because the EC blocked the merger and Ryanair's shareholding in Aer Lingus did not trigger a change of control) the EC did not have jurisdiction to review the minority shareholding[4]. Instead the UK Competition Commission has since ordered the reduction of Ryanair's stake to 5 percent.[5]

The EC believes that a stake as low as 15 or 20 percent in a competitor or supplier/customer (i.e., vertically related company) could potentially materially influence the competitive conduct of the parties. Having influence over the target's decisions, for example, via a seat on the board, may reduce the parties' incentives to compete because the acquirer shares the target's profits. In the same way, a minority stake owned by a firm in a company that supplies an important input to the acquirer's competitors may, according to the EC, lead to supply problems for those competitors.

Since 1990, the EC reports to have reviewed 53 merger cases where pre-existing structural links between competitors have had an impact on the competitive assessment of the transaction[6]. However, in only 20 of those cases,[7] structural links were found to create significant competition problems. While the EC might think that these figures as well as the Ryanair saga are enough reasons to expand its merger review powers to cover the acquisition of minority shareholdings, many stakeholders do not see a material problem here and believe that the changes are not needed at all as the EC's theories of harm have not been fully substantiated, the number of cases in need of intervention is *De minims* and/or addressable via Article 101 or 102 of the TFEU.[8] Additionally, many argue that there is no actual or empirical evidence that previous minority shareholding acquisitions have caused significant competitive harm.

Below, we explain the main changes proposed by the EC and how they might affect European equity acquisitions.

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Mexico's Proposed Energy Reform Marks a Potential Turning Point for the Country

By Rodrigo Dominguez Sotomayor and Humberto Padilla Gonzalez (Morgan, Lewis & Bockius LLP)

Newly-proposed legislation is bringing long-awaited energy sector reform in Mexico closer to reality, with tremendous potential for domestic and foreign energy companies.

The Proposed Reform

After decades of unsuccessful attempts to overhaul the legal framework for Mexico's energy sector, renewed optimism surrounds the potential enactment of constitutional amendments permitting domestic and foreign private investment in the energy sector, which today is, for all practical purposes, a monopoly of the Mexican state.

The Mexican government's monopoly over the nation's oil and energy sectors is more than 75 years old. Despite some lingering opposition based on that long history of government control, newly proposed reforms are expected to include a radical change to the legal framework for the oil and electric power sectors in Mexico and to broaden the participation of private and foreign investors in gas-related activities.

On July 31, 2013 the Partido Acción Nacional (PAN) submitted a bill (the PAN Proposal) to the Mexican Congress proposing a constitutional amendment to allow private and foreign investors to participate in Mexico's oil, gas and electricity sectors. On August 12, President Enrique Peña Nieto and the Partido Revolucionario Institucional (PRI) submitted a less ambitious energy bill to Congress (the PRI Proposal), which would nevertheless represent a complete overhaul of Mexico's rigid energy legal framework.

The Politics

Mexico's main political platforms have historically been represented by the PRI and PAN. The PRI is considered a left-of-center ideological party and had, for many years, defended the Governmental monopoly on oil and gas activities under a nationalist flag that many considered outdated and harmful to the much-needed development of Pemex. The PRI governed Mexico for 71 consecutive years, from 1929 to 2000, and returned to power on December 1, 2012, under President Enrique Peña Nieto. On the other hand, the PAN, which broke what some call a 70-year de facto dictatorship with the election of former presidents Vicente Fox Quezada (2000-2006) and Felipe Calderon Hinojosa (2006-2012), is considered a right-wing ideological party.

Although the third largest political party in Mexico, the Partido de la Revolución Democrática (PRD), a left-wing ideological party, strongly opposes reform as proposed by both the PRI and the PAN, most analysts believe it does not hold sufficient power to block reform altogether or push through its own proposal (the PRD Proposal). The PRD Proposal, among other things, would, for all practical purposes, maintain Pemex's monopoly but reorganize it internally and allow the injection of capital through the relaxation of requirements for the issuance of public debt. The PRD was created in 1989 as a spin-off of the PRI by disgruntled members of that party and came close to winning an extremely contentious 2006 presidential election with Andres Manuel Lopéz Obrador as its candidate. It is important to note that the PRD was founded and led for most of its existence by Cuahutemoc Cardenas Solorzano, the son of former president Lázaro Cárdenas del Río (1934-1940), who founded Pemex and, on March 18, 1938, nationalized Mexico's petroleum reserves and expropriated the equipment of the foreign oil companies in Mexico.

Newly-proposed legislation is bringing long-awaited energy sector reform in Mexico closer to reality, with tremendous potential for domestic and foreign energy companies.

PAN Proposal

With respect to oil and gas activities, the PAN Proposal seeks to replace the state monopoly over the upstream, midstream, and downstream activities with a concession system that would allow private parties to participate in such activities. Title to the hydrocarbons would be acquired at the wellhead after paying all applicable fees and taxes. It is currently unclear whether reserves may be booked before the hydrocarbons are extracted. This issue would presumably be ad-

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dressed through secondary legislation. Under the concession system proposed by the PAN, the Comisión Nacional de Hidrocarburos (National Hydrocarbons Commission) would be given the task to award concessions through open international public bids.

With respect to power generation activities, the PAN Proposal would replace the current regime with one that allows private parties to freely generate, transmit, distribute, and market electricity. Currently, private parties are allowed to generate power only for self-consumption and co-generation with the Comisión Federal de Electricidad (CFE), the Mexican state-owned power company, and for export abroad. Nuclear power and the use of radioactive materials would continue to be limited to the state

With respect to power generation activities, similar to the PAN Proposal, the PRI Proposal would open the door for power generation to be undertaken by private investors and limit the control of the CFE to transmission and distribution activities.

PRI Proposal

The PRI Proposal compromises with its base and moves closer to a profit-sharing regime in which (i) Pemex would retain ownership of all hydrocarbon reserves and (ii) private parties would receive a cash payment for hydrocarbons produced. It is unclear from this proposal whether the profit-sharing agreements would allow the booking of reserves in accordance with the U.S. Securities and Exchange Commission's rules, but, according to some public statements by Enrique Ochoa Reza, the Mexican Subsecretary of Energy, following the announcement of the PRI Proposal, the reform would be implemented in a manner that would allow it. Under the PRI Proposal, private investors would also be able to participate in midstream and downstream activities.

With respect to power generation activities, similar to the PAN Proposal, the PRI Proposal would open the door for power generation to be undertaken by private investors and limit the control of the CFE to transmission and distribution activities.

The Constitutional Amendment Process

This historic proposed energy reform marks a potential turning point for a country that was the first big oil producer to nationalize its oil industry in 1938. In order to enact the proposed constitutional amendments, one of the proposed bills, or a negotiated settlement, will have to be approved by two-thirds of the Mexican Congress and by 17 of the 32 state legislatures. Then, the bill would need to be sent back to Congress and presented to President Peña Nieto, who must sanction and sign the bill into law for its publication in the Diario Oficial de la Federación (Mexican Federal Official Gazette).

Observations

Notwithstanding the existence of an organized (and seemingly well-funded) public campaign objecting to the proposed reform, according to most political think tanks, the chances of the reform passing this time around are significantly higher than in previous attempts because the PRI and the PAN are aligned with respect to the need for comprehensive energy reform. Both leading political parties have enough votes to pass the reform through the Senate and, although they are a few votes short of the majority needed in the House of Representatives, that is expected to be a non-issue, since an agreement is expected to be reached with one of the minor political parties that have historically aligned their votes with either the PAN or the PRI.

According to Emilio Lozoya Austin, Pemex's CEO, reform is expected to be enacted before the end of 2013. It is hard to put into context all the benefits that would result, but a conservative reading of the economic impact by Lozoya estimates the creation of over 500,000 jobs in the short term and 2.5 million new jobs over 10 years. The magnitude of private investment, domestic and foreign, is projected to be so substantial that it will be a complete game-changer for the country. If the politicians and lawmakers get it right this time, they could be remembered as the political class that transformed Mexico and finally positioned it to take its rightful place as a global power. ❑

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Early Stage Investing in Mexico:
The Role of Angel Investors and Seed Capital Funds

By Roberto Charvel (Vander Capital Partners)

In 1994, Mexico positioned itself at the forefront of the private equity industry in Latin America by launching the first venture capital fund. The fund (NAEF-Ventana) was sponsored by Nafin—a local development bank—and specialized in early stage investments in environmental technologies and their commercialization. Mexico had just signed NAFTA, and it would have to comply with the environmental requirements of its northern neighbors. The fund raised $34 million and conducted 12 investments. The rest of the story is not as glamorous for the 13 institutional investors which included groups from Austria, Belgium, Cyprus, Japan, Spain, UK and U.S.[1]

Emerging VC Market in Mexico

During the Internet boom years, Mexico had relatively less entrepreneurial activity than Argentina or Brazil. It is not clear whether this was the case because Mexico also had a smaller VC industry or simply because there was less of an entrepreneurial culture. In any case, today, the VC industry is still small with three established funds (Alta Ventures, Ignia and Latin Idea) which together, manage close to $300 million and other new entrants (Adobe Capital or Capital Indigo among others) which still need to consolidate their positions.

Without a doubt, the best thing that could happen to the industry is to start seeing great returns from these managers. In an ecosystem where entrepreneurs are financially starved, it would seem that this is a buyers market and that VCs would be able to choose among the best teams and achieve their financial goals. This is still to be proven. There is hope as there is a lot of excitement around a hugely successful exit from Alta Ventures that is supposed to have secured the expected return of the fund. However, an industry is not supported by one lucky investment or one fund. The fund managers need to step up to the plate and make the case of why it makes sense to invest in early stage firms in Mexico.

The three VC funds have different vintages. Ignia is fully invested while the other two are still on their investment commitment periods. It is not clear when the industry will be able to show consolidated returns to create an asset class. Before that happens, the focus could be around entrepreneurs in Mexico as a proxy of future returns.

Examining Leading Accelerators

A good way to understand entrepreneurial activity is to look into what some of the leading accelerators have done in the country. Table 1 has a list of the performance of the three leading accelerators since 2002. Unfortunately, there is little or no data on the performance of the firms, on how much they have grown, how many patents they have or how many jobs they have created over time. However, at least it can be concluded that there seems to be a healthy number of entrepreneurs that could be seeking financing.

> **Mexico, like other emerging markets, needs a robust and well-trained group of entrepreneurs that can implement technologies or strategies developed in other markets or come up with proprietary ideas and implementations.**

But numbers don't tell the whole story. Even when the selected firms may have been good targets for accelerators, there is no information about how these firms could have been good investments for VC.

In 2012, a group of successful entrepreneurs launched an accelerator that eventually was partially sponsored by 500 Start Ups from the U.S. and it is now known as 500 Start Ups Mexico. They started investing in firms even before they got funding from the co-investment fund managed by the Mexican government. They also created the first co-working space from they have been able to source some of their investments.

Mexico, like other emerging markets, needs a robust and well-trained group of entrepreneurs that can implement technologies (peer-to-peer lending) or strategies (car sharing) developed in other markets or come up with proprietary

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Table 1. Firms

Name	Type	Year	Reviewed	Accepted	%
Endeavor	Accelerator	2002	2,812	86	3.1%
New Ventures	Accelerator	2004	2,000	152	7.6%
CNN-Expansion	Accelerator	2004	1,185	119	10.0%

ideas and implementations. This group of entrepreneurs needs to be trained and to work closely with early stage investment managers that will help them understand the investment cycle and prepare them for VC investments. Before receiving VC investments, it could be helpful for them to have rounds with angel investors or seed capital funds. This is exactly what is happening now and what may impact positively the VC industry in the future.

It is probably a matter of time until Mexico has a larger pool of good fund managers, better-trained entrepreneurs and a more liquid market, which would transform itself in a self-fulfilling prophecy.

Involvement of Development Banks

The beginning of this movement can also be tracked down to Nafin, the development bank that launched NAEF-Ventana. In the early 2000's, it created an early stage investment vehicle, which performed over 40 transactions. Nafin also tried to organize an online market for angel investors through Mexico with a very limited result. It wasn't until 2009 when things started to change. Some MIT Sloan grads decided to start the first angel investment network in Mexico and created Angel Ventures Mexico (AVM). In the first year, they focused more on convincing middle-aged successful professionals and entrepreneurs to invest in early stage firms. They now have clubs set up in several cities through Mexico and have been used as reference by nascent similar organizations through Latin America. Even when the number of investments they have performed seems small (see table 2 below), the cultural change will probably be felt overtime. AVM is in the process of closing a co-investment fund, which will bring more liquidity to the market. Some U.S. based development banks seem to be among the potential limited partners of the fund.

In 2011, two seed capital players entered the market: Wayra and Venture Partners. Wayra, an arm of Spanish telecom giant Telefónica, started performing investments in start-ups. Their strategy seems to be a hybrid between an incubator and a seed capital fund. They have been able to attract a lot of attention from entrepreneurs and have had great media coverage. Venture Partners is possibly the first seed capital fund in Mexico that has evolved organically from an effort of two Stanford MBAs. The two partners started teaching entrepreneurship in a leading school in Mexico. Eventually they decided to leave their jobs and start Venture Institute, which is an accelerator with an academic component. They were also successful in raising the first seed capital fund called Venture Partners.

By 2012, Nafin with the Ministry of Commerce decided to make an entrance into the space and created a seed capital co-investment fund that can invest up to $4 million in a seed capital fund or perform investments in early stage firms of up to $800 million. Apart from Nafin and the Ministry of Commerce, CAF, Latin America's leading development bank, committed capital to the fund.

Table 2. Firms

Name	Type	Year	Reviewed	Accepted	%
Angel Ventures	Investment club	2008	2,650	11	0.4%
Wayra	Early stage fund	2011	1,344	20	1.5%
Venture Institute	Early stage fund	2011	147	12	8.2%
500 Startups	Early stage fund	2012	600	30	5.0%

New Players Enter in 2013

2013 has brought two new players into the seed capital investment arena. One is the first specialized Internet seed capital fund that is managed by a proven Endeavor entrepreneur and Harvard grad that was among the few successful Internet entrepreneurs in Mexico. His fund is called Capital InventMX. A large private media company has approved a potential investment of up to 50 percent of the equity required by the fund. This is also a first for Mexico.

The other great story of 2013 is the creation of an investment club started by Harvard Business School grads that secured the first round of financing from other fellow alumni. This fund is called Soldier's Field Partners[2] and could be a good idea for alumni of other business schools to start early stage investment vehicles that will create better entrepreneurs. In the meantime, some of these fund managers could graduate into VC, which is where Venture Partners is.

NAEF-Ventana was a bad investment for limited partners, but not for firms. Three of the twelve investments have resulted in leading firms in the environmental industry in Mexico. One of them secured a round of $75 million from private equity investors and another one is among the leading private developers of energy generating infrastructure with one of their latest projects valued at $300 million. Regardless of the return of the first three VC funds, more people and organizations are looking into the early stage arena. It is probably a matter of time until Mexico has a larger pool of good fund managers, better-trained entrepreneurs and a more liquid market, which would transform itself in a self-fulfilling prophecy. Perhaps the industry will get the required traction in 2014 when it turns 20 years old. ❑

1 See Charvel R. et al, North America Environmental Fund, 2009, Sociedad Panamericana de Estudios Empresariales, A.C. (Instituto Panamericano de Alta Dirección de Empresa, IPADE), printed in EDAC, S.A. de C.V., Cairo No 29, 02080 México, D.F. Business case code (P)DGe-440

2 The fund is not affiliated with Harvard Business School.

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Snapshots

By Reuters

Congress May Use 'Fast-Track' Bill To Up Trade Input

With two large-scale U.S. trade negotiations underway and "fast track" legislation still pending approval, certain members of Congress are actively seeking ways to adjust the bill, demanding greater oversight of trade deals than the bill would stipulate, according to the Sandler, Trade & Rosenberg Trade Report and Law360.

With two large-scale U.S. trade negotiations underway and "fast track" legislation still pending approval, certain members of Congress are actively seeking ways to adjust the bill, demanding greater oversight of trade deals than the bill would stipulate.

As is, Trade Promotion Authority, or "fast track", limits Congress' oversight to a yes-or-no vote without amendments, which President Obama and his administration have called a key tool to support ongoing Trans-Pacific Partnership and Transatlantic Trade and Investment Partnership talks. One potential adjustment would be to allow congressional committees to elect to remove a trade issue off the "fast-track" in cases of concern.

EU States in Breakthrough Over Accounting Reform

The European Union moved closer to forcing companies to change accountants and avoid close ties that could lower the quality of book-keeping, sources with knowledge of the matter said. After two years, member states reached an agreement which enables them to open talks with the European Parliament and thrash out the detail of a final law.

The "Big Four" accountants, PwC, KPMG, Deloitte and EY, dominate the sector and came under scrutiny after giving banks a clean bill of health just before they were rescued by taxpayers in the 2008 financial crisis. Some companies have kept the same accountants for decades.

"The ambassadors today gave a mandate to the EU presidency by qualified majority to start negotiations with the European Parliament," an EU diplomat with knowledge of the meeting said.

The member states backed a deal under which banks and other systemically important companies could keep the same auditor for up to 15 years. If the bank has two accountants, known as joint audits, switching could be deferred for another five years. All other types of companies could keep their accountant for 20 years, the diplomat said on condition of anonymity.

"Twenty years is quite a long time and the way the transitional arrangements are done, no company would have to change auditor until nine years after the law is published," a second source said.

Parliament has backed a maximum period of 25 years for sticking with the same accountant.

"Member states and parliament are not a million miles away from a deal now," a third source said.

Some countries, including Britain, opposed mandatory rotation but appear to have been out-voted. Friday's meeting also backed a cap on how much fees an accountant can earn from advisory services to customers whose books they check. The cap was set at 70 percent of the audit fees. Parliament's proposal has no cap but some officials expect a cap in the final law.

The members also rejected a push by France and parliament to make the Paris-based European Securities and Markets Authority (ESMA) the main regulator for auditors. After opposition from Britain and others, the ambassadors agreed that ESMA would have an advisory role only to a new pan-EU committee made up of national regulators. The final law is now likely to mark a big dilution to the rotation every 6-9 years the EU's executive European Commission had proposed, making it more palatable to the Big Four.

"Bring it on," an official from one of them said.

Such a lengthy rotation period would offer useful predictability and would make it easier to arrange advisory services, the official said. It would also make it more worthwhile to take part in tenders for audits knowing the business cannot stay with the incumbent. Reform is already underway in Britain where the Competition Commission is due to publish its final recommendations for changing audit market practices.

Having opposed mandatory rotation, the watchdog has proposed instead that companies must put out their audit work to tender every five years though this could be watered down in the final recommendations. Britain would have to apply an EU law on compulsory switching of accountants. Rotation seen so far at banks has been between the Big Four, rather than giving mid-ranking rivals like Grant Thornton or BDO an entry.

France to Increase Temporary Business Levy

The French government aims to raise an existing temporary levy on large companies' profits to offset lost revenues from scrapping another business tax, the budget ministry said.

The government will raise the levy on companies with revenues over 250 million euros ($339 million) to 10.7 percent from 5 percent currently, a ministry official told Reuters.

The move should bring in 2.5 billion euros to state coffers, offsetting the impact of abandoning a new tax on operating profit included in the 2014 budget.

Angering some fellow Socialists in parliament, Finance Minister Pierre Moscovici scrapped plans on Sunday for the operating profit tax, only weeks after presenting it, following criticism from business leaders.

The surcharge comes on top of companies' corporate tax, which is already among the highest in Europe with a standard rate of 33.3 percent. Many firms pay much less because of various tax breaks.

Moscovici has pledged not to add any more to companies' overall tax burden over concerns that any more fiscal pressure would add to high labor costs in France and threaten jobs.

Hong Kong Securities Regulator Warns on FATCA Compliance

Hong Kong's Securities and Futures Commission (SFC) has warned firms in the territory to be prepared for compliance with the U.S. Foreign Account Tax Compliance Act (FATCA), which is set to come into effect in January 2014, according to Compliance Complete. The SFC said the Hong Kong government had been in talks with the U.S. Department of the Treasury over a deal that would ease the reporting burden for Hong Kong firms. However, no such inter-governmental agreement (IGA) has been announced yet.

The SFC said licensed corporations and registered institutions in Hong Kong would have to report to U.S. tax authorities on any accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial interest.

Asia-Pacific Firms Suffering from Weak Compliance

Weak systems and controls are exposing Asia-Pacific companies to significant risks as internal policies and compliance programs are not implemented as thoroughly as they should be, said an EY report, according to Compliance Complete Australasia. The consulting firm commissioned Asia Risk to conduct a survey for its "Building a More Ethical Business Environment" report. Asia Risk polled 681 senior executives, managers and "working-level" employees from March to May 2013 in eight countries. They shared their perceptions of fraud, bribery and corruption in the countries they were based: Australia, China, Indonesia, Malaysia, New Zealand, Singapore, South Korea and Vietnam. They also voiced their opinions on what efforts had successfully mitigated the risks. The report found fraudulent practices were on the rise, with a disconnect between policies in place and how they were applied in practice.

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Report Shows U.S. Department of Justice Criminal Antitrust Fines Reach $1 Billion

The U.S. Department of Justice's Antitrust Division reached $1.02 billion in the fiscal year 2013, the second straight year of total fines exceeding the $1 billion mark, according to a report conducted by law firm Allen & Overy. Most of the fines concentrated on price-fixing and bid rigging among global auto parts suppliers as well as alleged collusion regarding LIBOR-pegged lending rates by major banks.

Foreign-based corporations also became a prime target for anti-trust enforcement. Japanese, Korean, Taiwanese and UK companies and subs were targeted with fines in 2013, with the Japanese corporations hit the hardest, making up 90 percent of the total. ❑

Foreign Exchange Rates and Forecasts For the Asia/Pacific Region

Currency Forecasts © and The Economist Intelligence Unit

Australia

A decline in global commodity prices, concerns about sluggish domestic economic growth and a rush by investors towards less-risky assets have caused a fairly rapid depreciation of the Australian dollar since mid-2013: the currency has lost around 12% of its value against the US dollar. However, this is to the general satisfaction of the authorities, whose monetary policy settings were complicated by a previously very strong local currency.

AUSTRALIA

	2011	2012	2013	2014	2015
A$:US$ (av)	0.97	0.97	1.06	1.20	1.17
Nominal appreciation of A$ (%)	12.4	0.4	-9.2	-11.4	2.6
Real appreciation of A$ (%)	13.2	-0.3	-9.5	-11.5	2.5
A$:US$ (end period)	0.98	0.96	1.16	1.18	1.15
A$:€ (av)	1.35	1.24	1.39	1.52	1.47
Nominal appreciation of A$ (%)	7.2	8.7	-11.0	-8.5	3.4
Real appreciation of A$ (%)	7.9	7.9	-10.0	-7.3	4.3
A$:€ (end period)	1.27	1.26	1.50	1.49	1.45
A$:¥100 (av)	0.89	0.90	1.00	1.14	1.13
Nominal appreciation of A$ (%)	5.5	-0.8	-10.4	-12.2	1.6
Real appreciation of A$ (%)	9.0	0.8	-8.9	-10.5	3.1
A$:¥100 (end period)	0.91	0.90	1.10	1.13	1.11
Real effective exchange rate (1997=100)	98.2	107.1	110.3	109.0	114.6

CHINA

	2011	2012	2013	2014	2015
Rmb:US$ (av)	6.5	6.3	6.2	6.2	6.1
Nominal appreciation of Rmb (%)	4.8	2.4	1.6	0.5	0.9
Real appreciation of Rmb (%)	7.7	2.5	1.4	1.0	2.2
Rmb:US$ (end period)	6.3	6.3	6.2	6.2	6.1
Rmb:€ (av)	9.0	8.1	8.1	7.8	7.7
Nominal appreciation of Rmb (%)	-0.1	10.8	-0.4	3.8	1.7
Real appreciation of Rmb (%)	2.7	10.9	0.8	5.8	4.0
Rmb:€ (end period)	8.2	8.2	8.0	7.8	7.7
Rmb:¥100 (av)	5.9	5.9	5.9	5.9	5.9
Nominal appreciation of Rmb (%)	-1.7	1.2	0.2	-0.5	-0.1
Real appreciation of Rmb (%)	3.8	3.6	2.1	2.1	2.8
Rmb:¥100 (end period)	5.8	5.9	5.9	5.9	5.9
Real effective exchange rate (1997=100)	94.8	92.3	91.8	93.2	97.0

HONG KONG

	2011	2012	2013	2014	2015
HK$:US$ (av)	7.8	7.8	7.8	7.8	7.8
Nominal appreciation of HK$ (%)	-0.2	0.4	-0.2	-0.4	0.0
Real appreciation of HK$ (%)	2.4	1.9	1.0	0.6	1.3
HK$:US$ (end period)	7.8	7.8	7.8	7.8	7.8
HK$:€ (av)	10.8	10.0	10.2	9.9	9.8
Nominal appreciation of HK$ (%)	-4.8	8.6	-2.2	2.9	0.8
Real appreciation of HK$ (%)	-2.4	10.3	0.4	5.4	3.1
HK$:€ (end period)	10.0	10.1	10.0	9.8	9.8
HK$:¥100 (av)	7.2	7.2	7.3	7.4	7.5
Nominal appreciation of HK$ (%)	-6.4	-0.8	-1.6	-1.3	-1.0
Real appreciation of HK$ (%)	-1.4	3.1	1.7	1.7	1.9
HK$:¥100 (end period)	7.2	7.3	7.4	7.5	7.5
Real effective exchange rate (1997=100)	89.7	84.7	81.5	79.4	75.7

China

We believe that the renminbi will strengthen against the US dollar in 2013-17, by an annual average of 0.9%, owing to forecast higher productivity growth in China than in the US. The fact that the pace of appreciation will be only modest will partly reflect the strength of the US currency in the period; the renminbi will rise more swiftly against the euro and the yen, with the strengthening trend against the latter currency proving particularly strong owing to forecast loose monetary policy in Japan. However, with the renminbi now close to a market-determined level, there is likely to be greater volatility in its value, including bouts of depreciation, in the next five years.

Hong Kong

The HKMA has reaffirmed its commitment to maintaining the Hong Kong dollar's peg to the US dollar, and this policy is expected to hold for the next five years. We assume that large foreign-exchange reserves, supplemented by the current-account surplus, will enable the HKMA to resist pressure to alter its exchange-rate policy. Given the potential for volatility in global financial and foreign-exchange markets, the currency peg will remain an important source of economic stability in the territory. There will nevertheless be growing discussion of the options for a move away from the US dollar peg towards a closer link to China's renminbi, perhaps via a peg to a basket of currencies. The timing of such a move (which will not occur in the next five years) would depend on how quickly China opens its capital account.

India

In recent weeks emerging markets, including India, have suffered large-scale capital flight amid indications that the Federal Reserve (Fed, the US central bank) will cut back its bond-buying program from late 2014. In India's case, this has been exacerbated by the large current-account deficit and the perception that policymaking will suffer in the run-up to the next election, expected in mid-2014. As a result, we forecast that the rupee will weaken against the US dollar in 2013-14, to an average of Rs56.77:US$1. In 2015-17 the currency will strengthen as economic growth gains traction, the current-account deficit narrows and the world adapts to the Fed's winding down of quantitative easing. In 2017 we expect the rupee to average Rs50:US$1. Our exchange-rate forecast is subject to downside risks: we will revisit our forecasts if portfolio investment flows remain volatile or if key external debt indicators deteriorate significantly.

Indonesia

The rupiah performed poorly in 2012, losing an estimated 6.6% of its value in nominal terms against the US dollar owing to Indonesia's weakening balance-of-payments position, lower real interest rates and increased risk aversion on the part of foreign investors. The rupiah will depreciate by a further 8.5% against the US dollar in 2013. It will remain weak but will regain some stability in 2014, as markets will have already accounted for the ending of QE in the US, before beginning to strengthen more consistently in 2015 as Indonesia's strong economic fundamentals are no longer swamped by the effects of unconventional monetary policy elsewhere. Maintaining currency stability amid volatile flows of foreign capital will remain a priority for officials, but restrictions on short-term capital flows are unlikely to be tightened significantly.

Japan

The yen has been relatively stable at around ¥98:US$1 in August, and we expect the currency to decline to around ¥100:US$1 by the end of 2013. The interest-rate differential between Japan and the US is likely to remain negligible for the next 12-18 months: the Federal Reserve (the US central bank) is expected to keep its funds rates at 00.25% until mid-2015, while Japan's main policy rate, the overnight call rate, will remain at zero. Low interest rates in Japan will continue to encourage the carry trade (whereby investors borrow in currencies that are subject to low interest rates and lend in currencies attracting higher ones, profiting from the difference), and this will tend to depress the value of the yen. From mid-2015 we expect US interest rates to rise faster than those in Japan, further reducing the yen's attractiveness, although it will continue to be supported by a growing current-account surplus. After averaging ¥79.8:US$1 in 2012, the yen is forecast to weaken to ¥97.3:US$1 on average in 2013. It will then depreciate further, to ¥103:US$1 on average by 2015, before stabilizing at ¥101:US$1 in 2017.

INDIA

	2011	2012	2013	2014	2015
Rs:US$ (av)	46.7	53.4	56.6	56.9	55.1
Nominal appreciation of Rs (%)	-2.0	-12.7	-5.6	-0.6	3.3
Real appreciation of Rs (%)	4.7	-6.5	0.6	5.3	8.8
Rs:US$ (end period)	53.3	54.8	58.3	56.9	53.9
Rs:€ (av)	65.0	68.7	74.2	72.3	69.5
Nominal appreciation of Rs (%)	-6.6	-5.5	-7.5	2.6	4.1
Real appreciation of Rs (%)	-0.3	1.2	0.0	10.3	10.7
Rs:€ (end period)	68.9	71.7	75.2	71.8	67.9
Rs:¥100 (av)	42.9	49.7	53.4	54.2	53.0
Nominal appreciation of Rs (%)	-8.1	-13.6	-6.9	-1.5	2.3
Real appreciation of Rs (%)	0.8	-5.4	1.3	6.5	9.4
Rs:¥100 (end period)	49.1	51.4	55.2	54.5	51.8
Real effective exchange rate (1997=100)	105.4	105.4	109.4	109.0	119.4

INDONESIA

	2011	2012	2013	2014	2015
Rp:US$ (av)	8,770	9,387	10,258	10,478	9,944
Nominal appreciation of Rp (%)	3.6	-6.6	-8.5	-2.1	5.4
Real appreciation of Rp (%)	6.4	-4.9	-4.3	1.9	9.1
Rp:US$ (end period)	9,068	9,670	10,440	10,189	9,766
Rp:€ (av)	12,206	12,067	13,455	13,307	12,529
Nominal appreciation of Rp (%)	-1.2	1.1	-10.3	1.1	6.2
Real appreciation of Rp (%)	1.4	2.9	-4.8	6.7	11.1
Rp:€ (end period)	11,733	12,657	13,467	12,838	12,306
Rp:¥100 (av)	8,067	8,732	9,678	9,979	9,561
Nominal appreciation of Rp (%)	-2.8	-7.6	-9.8	-3.0	4.4
Real appreciation of Rp (%)	2.5	-3.9	-3.5	3.0	9.8
Rp:¥100 (end period)	8,358	9,080	9,896	9,750	9,391
Real effective exchange rate (1997=100)	89.2	85.3	84.0	97.6	98.1

JAPAN

	2011	2012	2013	2014	2015
¥:US$ (av)	79.8	79.8	97.3	101.2	103.0
Nominal appreciation of ¥ (%)	10.0	0.0	-18.0	-3.9	-1.7
Real appreciation of ¥ (%)	6.9	-2.4	-20.3	-4.8	-2.9
¥:US$ (end period)	77.7	86.6	99.8	102.6	103.0
¥:€ (av)	111.1	102.6	127.6	128.5	129.8
Nominal appreciation of ¥ (%)	4.9	8.3	-19.6	-0.7	-1.0
Real appreciation of ¥ (%)	1.8	5.6	-20.7	-0.3	-1.1
¥:€ (end period)	100.6	113.3	128.7	129.3	129.8
¥:¥100 (av)	73.4	74.2	91.8	96.4	99.0
Nominal appreciation of ¥ (%)	3.2	-1.1	-19.1	-4.8	-2.7
Real appreciation of ¥ (%)	2.9	-1.3	-19.7	-3.8	-2.3
¥:¥100 (end period)	71.6	81.3	94.6	98.2	99.0
Real effective exchange rate (1997=100)	98.1	99.0	93.0	83.8	77.4

New Zealand

The New Zealand dollar has remained strong against the US dollar so far this year, and we expect the local currency to weaken only slightly, by just 1.6% to NZ$1.25:US$1 on average, from NZ$1.23:US$1 in 2012. During the rest of the fore-

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cast period, we expect a further gradual depreciation in the New Zealand dollar's value, to stand at an average of NZ$1.5:US$1 in 2017. Given the country's wide and expanding current-account deficit, a greater fall in the currency's value is possible. However, our forecast is based on the positive outlook for domestic economic growth, in addition to expected interest rate rises from 2014, which will help to attract foreign capital. The New Zealand dollar has historically been popular with investors, and its value has held up well amid the recent instability in global financial markets. We expect this to remain the case, although the volatility of international investor risk appetite and eventual increases in global interest rates mean that a steeper weakening of the local currency in the next five years cannot be ruled out.

NEW ZEALAND

	2011	2012	2013	2014	2015
NZ$:US$ (av)	1.26	1.23	1.25	1.39	1.49
Nominal appreciation of NZ$ (%)	9.7	2.4	-1.1	-10.2	-6.9
Real appreciation of NZ$ (%)	11.2	1.0	-2.6	-10.7	-7.6
NZ$:US$ (end period)	1.30	1.22	1.31	1.43	1.49
NZ$:€ (av)	1.76	1.59	1.64	1.76	1.88
Nominal appreciation of NZ$ (%)	4.5	10.9	-3.0	-7.2	-6.1
Real appreciation of NZ$ (%)	5.9	9.3	-3.1	-6.5	-5.9
NZ$:€ (end period)	1.68	1.60	1.69	1.80	1.88
NZ$:¥100 (av)	1.16	1.15	1.18	1.32	1.43
Nominal appreciation of NZ$ (%)	2.8	1.2	-2.4	-11.0	-7.8
Real appreciation of NZ$ (%)	7.1	2.1	-1.9	-9.7	-7.0
NZ$:¥100 (end period)	1.19	1.14	1.24	1.37	1.43
Real effective exchange rate (1997=100)	92.3	98.6	104.0	96.4	102.7

PHILIPPINES

	2011	2012	2013	2014	2015
PhP:US$ (av)	43.3	42.2	42.7	43.1	43.0
Nominal appreciation of PhP (%)	4.1	2.6	-1.1	-1.0	0.3
Real appreciation of PhP (%)	6.3	3.3	-1.1	-0.7	2.1
PhP:US$ (end period)	43.9	41.2	42.9	43.1	43.0
PhP:€ (av)	60.3	54.3	56.0	54.8	54.2
Nominal appreciation of PhP (%)	-0.7	11.0	-3.1	2.2	1.1
Real appreciation of PhP (%)	1.3	11.8	-1.7	4.1	4.0
PhP:€ (end period)	56.8	53.9	55.3	54.3	54.1
PhP:¥100 (av)	39.8	39.3	40.3	41.1	41.3
Nominal appreciation of PhP (%)	-2.3	1.4	-2.5	-1.9	-0.7
Real appreciation of PhP (%)	2.4	4.4	-0.4	0.5	2.8
PhP:¥100 (end period)	40.5	38.7	40.7	41.2	41.3
Real effective exchange rate (1997=100)	67.3	64.4	68.1	74.8	81.0

SINGAPORE

	2011	2012	2013	2014	2015
S$:US$ (av)	1.26	1.25	1.23	1.21	1.20
Nominal appreciation of S$ (%)	8.4	0.7	1.5	1.5	1.2
Real appreciation of S$ (%)	11.2	2.7	1.0	1.3	0.7
S$:US$ (end period)	1.30	1.22	1.23	1.21	1.19
S$:€ (av)	1.75	1.61	1.62	1.54	1.51
Nominal appreciation of S$ (%)	3.3	9.0	-0.5	4.9	2.0
Real appreciation of S$ (%)	5.9	11.2	0.4	6.1	2.5
S$:€ (end period)	1.68	1.60	1.59	1.52	1.50
S$:¥100 (av)	1.16	1.16	1.16	1.16	1.15
Nominal appreciation of S$ (%)	1.7	-0.5	0.1	0.6	0.2
Real appreciation of S$ (%)	7.1	3.9	1.7	2.4	1.3
S$:¥100 (end period)	1.20	1.15	1.17	1.15	1.15
Real effective exchange rate (1997=100)	85.8	84.5	83.4	84.6	84.6

Philippines

We expect the peso to appreciate marginally in 2013, to P42.04:US$1 on average, from P42.23:US$1 in 2012. The currency has strengthened in recent years, appreciating by over 10% between 2009 and 2012. Capital inflows and remittances have supported the peso. Amid strong inward flows, in July last year the Bangko Sentral ng Pilipinas (the central bank) announced rules tightening restrictions on flows of foreign capital into special deposit accounts, and said that further measures might be forthcoming. There is a downside risk to our exchange-rate forecast should the withdrawal of QE by the US earlier than we currently expect result in a surge in capital outflows. In the latter part of the forecast period the peso will weaken slightly, in part reflecting monetary policy tightening by central banks in the developed world, which will make Philippine yields less attractive. The currency will stabilize at around P43.1:US$1 on average in 2016-17, with strong GDP growth and the current-account surplus supporting the peso.

Singapore

As reflected in its monetary policy decision in April, the MAS will continue to support the steady appreciation of the Singapore dollar against the US dollar in order to counteract the inflationary pressures arising from a tight local labor market. We therefore expect the local currency to strengthen in 2013, to an average of S$1.23:US$1, from S$1.25:US$1 in 2012. Assuming that inflationary pressures remain moderate, the authorities will attempt to bolster the city state's international competitiveness by limiting the pace of the Singapore dollar's appreciation against the US dollar in 2014-17. The local currency will nevertheless continue to strengthen gradually, and will average S$1.16:US$1 in 2017. Exchange-rate management could be complicated by factors influencing the values of other currencies. The announcement by the Federal Reserve (the US central bank) regarding its plans to taper off its quantitative easing program has led to exchange-rate volatility and currency depreciation, particularly in emerging markets. Imbalances in European economies could also lead to long periods of turbulence for the euro, in turn causing volatility in Asian currency markets.

South Korea

Factors including South Korea's sizeable trade and current-account surpluses have buttressed the value of the won in recent years, while a positive interest-rate differential with other advanced economies has encouraged financial inflows, further supporting the local currency. In January the won reached a two-year high against the US dollar. However, concerned about the impact on exporters of the strong currency, in November last year financial regulators moved to try to curb the won's rise by tightening regulations on currency forward positions at domestic and foreign banks. The rule changes, along with an interest-rate cut in October 2012 and again in May 2013, combined with concerns about the effect of an earlier than expected withdrawal of quantitative easing by the Federal Reserve (the US central bank), have caused the won to weaken since January, although it has stabilized somewhat in recent months.

SOUTH KOREA	2011	2012	2013	2014	2015
W:US$ (av)	1,108	1,126	1,117	1,085	1,041
Nominal appreciation of W (%)	4.3	-1.6	0.9	2.9	4.2
Real appreciation of W (%)	5.7	-1.9	-0.3	2.6	4.3
W:US$ (end period)	1,152	1,071	1,101	1,063	1,046
W:€ (av)	1,542	1,448	1,465	1,378	1,312
Nominal appreciation of W (%)	-0.6	6.5	-1.1	6.3	5.1
Real appreciation of W (%)	0.8	6.2	-0.8	7.5	6.2
W:€ (end period)	1,490	1,401	1,420	1,339	1,317
W:¥100 (av)	1,019	1,048	1,054	1,033	1,001
Nominal appreciation of W (%)	-2.2	-2.7	-0.5	1.9	3.2
Real appreciation of W (%)	1.9	-0.8	0.5	3.8	5.0
W:¥100 (end period)	1,062	1,005	1,044	1,017	1,005
Real effective exchange rate (1997=100)	76.5	77.6	86.0	90.1	90.2

Thailand

Following rises in the value of the baht against the US dollar of 8.2% in 2010 and 3.9% in 2011, the currency depreciated by 1.9% on average in 2012. In 2013 the baht will strengthen by an average of 1.4% against the US dollar. Although the currency has weakened sharply in recent weeks, as investors have withdrawn capital from emerging markets in anticipation of monetary tightening by the Federal Reserve (the US central bank), the baht had appreciated by 7% in the first four-and-a-half months of the year, to trade at its strongest level since the 1997 devaluation. The baht will depreciate by 1.9% against the US dollar in 2014, before strengthening by 0.5% a year on average in 2015-17. Although the Bank of Thailand (the central bank) will not to attempt to reverse market-driven trends in the baht's value, the authorities may make limited revisions to regulations over asset purchases in response to large movements in short-term capital flows. The currency will remain vulnerable to sudden swings in investor sentiment towards emerging markets.

THAILAND	2011	2012	2013	2014	2015
Bt:US$ (av)	30.5	31.1	30.7	31.2	31.1
Nominal appreciation of Bt (%)	3.9	-1.9	1.4	-1.9	0.4
Real appreciation of Bt (%)	5.1	-1.4	0.9	-1.8	1.9
Bt:US$ (end period)	31.7	30.6	31.0	31.2	31.0
Bt:€ (av)	42.4	40.0	40.2	39.7	39.2
Nominal appreciation of Bt (%)	-0.9	6.2	-0.6	1.3	1.2
Real appreciation of Bt (%)	0.2	6.7	0.3	2.9	3.8
Bt:€ (end period)	41.0	40.1	39.9	39.3	39.1
Bt:¥100 (av)	28.0	28.9	28.9	29.8	29.9
Nominal appreciation of Bt (%)	-2.5	-3.0	0.0	-2.8	-0.5
Real appreciation of Bt (%)	1.3	-0.3	1.6	-0.7	2.5
Bt:¥100 (end period)	29.2	28.8	29.3	29.8	29.8
Real effective exchange rate (1997=100)	84.7	84.6	86.2	93.0	98.6

Vietnam

Vietnam will continue to operate a crawling-peg system, allowing the dong's exchange rate against the US dollar to adjust to changing market conditions. The SBV devalued the currency on four occasions in 2009-11, resulting in a cumulative drop of almost 13% in its value against the US dollar. A slowdown in inflation and improved trade performance reduced the downward pressure on the currency in 2012, so that the dong depreciated by only around 1% against the US dollar. However, a further devaluation took place in July 2013, when the SBV reduced the value of the dong by 1% in a move to boost exports and expand foreign reserves. We expect the dong to continue to depreciate gradually in 2013-17, ending the forecast period at around D23,100:US$1. Foreign-exchange reserves are rising at a strong pace, improving the ability of the SBV to counteract further downward pressure by intervening in the currency markets if necessary. IMF data show that foreign reserves stood at US$23.6bn in November 2012, up from US$13.5bn at end-2011. In 2013 reserves will exceed their high of US$26.4bn in early 2008, and they will continue to grow at a brisk pace in the next few years. ❑

VIETNAM	2011	2012	2013	2014	2015
D:US$ (av)	20,649	20,859	21,303	21,947	22,157
Nominal appreciation of D (%)	-7.4	-1.0	-2.1	-2.9	-0.9
Real appreciation of D (%)	7.1	5.4	1.8	0.7	3.6
D:US$ (end period)	21,024	20,825	21,625	22,052	22,506
D:€ (av)	28,737	26,816	27,942	27,873	27,918
Nominal appreciation of D (%)	-11.7	7.2	-4.0	0.2	-0.2
Real appreciation of D (%)	2.1	14.1	1.2	5.5	5.5
D:€ (end period)	27,202	27,257	27,895	27,786	28,358
D:¥100 (av)	18,992	19,404	20,097	20,902	21,305
Nominal appreciation of D (%)	-13.1	-2.1	-3.5	-3.9	-1.9
Real appreciation of D (%)	3.2	6.6	2.6	1.8	4.2
D:¥100 (end period)	19,376	19,554	20,498	21,103	21,640
Real effective exchange rate (1997=100)	87.0	86.0	89.6	92.0	92.6

Pacific Exchange Rate Services Exchange Rates for the Dollar as of October 15, 2013

The table below gives the rates of exchange for the U.S. dollar against various currencies as of October 15, 2013. All currencies are quoted in foreign currency units per U.S. dollar except in certain specified areas. All rates quoted are indicative. They are not intended to be used as a basis for particular transactions. Pacific Exchange Rate Services (http://pacific.commerce.ubc.ca) does not assume responsibility for errors.

	Currency	Value of U.S. Dollar	Country	Currency	Value of U.S. Dollar	Country	Currency	Value of U.S. Dollar
Afghanistan	Afghani	57.27	Georgia	Lari	1.663	Norfolk Islands	Aus. Dollar	1.0499
Albania	Lek	103.65	Germany	Euro*	1.3492	Norway	Krone	6.0191
Algeria	Dinar	81.665	Ghana	Cedi	2.173	Oman Sultanate	Rial	0.385
Andorra	Euro*	1.3492	Gibraltar	Br. Pound*	1.5936	Pakistan	Rupee	106.25
Angola	Kwanza	95.32	Greece	Euro*	1.3492	Panama	Balboa	1.00
Antigua	E.Car. $	2.7	Greenland	Dan. Krone	5.5285	Papua N.G.	Kina	2.4447
Argentina	Peso	5.8318	Grenada	E.Car. $	2.7	Paraguay	Guarani	4452.50
Armenia	Dram	406.25	Guadeloupe	Euro*	1.3492	Peru	Nuevo Sol	2.7695
Aruba	Guilder	1.79	Guam	US$	1.00	Philippines	Peso	43.15
Australia	Dollar	1.0499	Guatemala	Quetzal	7.9685	Pitcairn Island	NZ Dollar	1.1944
Austria	Euro*	1.3492	Guinea Republic	Franc	7030.10	Poland	Zloty	3.0979
Azerbaijan (new)	Manat	0.76	Guinea Bissau	CFA Franc	487.68	Portugal	Euro*	1.3492
Azores	Euro*	1.3492	Guyana	Dollar	212.44	Puerto Rico	US$	1.00
Bahamas	Dollar	1.00	Haiti	Gourde	44.326	Qatar	Riyal	3.6418
Bahrain	Dinar	0.3769	Heard/McDonald Is.	Aus. Dollar	1.0499	Rep. Yemen	Rial	210.52
Bangladesh	Taka	77.645	Honduras	Lempira	20.45	le de la Reunion	Euro*	1.3492
Barbados	Dollar	2.00	Hong Kong	Dollar	7.754	Romania	Leu	3.2984
Belarus	Ruble	9190.00	Hungary	Forint	219.02	Russia	Ruble	32.286
Belgium	Euro*	1.3492	Iceland	Krona	121.28	Rwanda	Franc	668.13
Belize	Dollar	2.0101	India	Rupee	61.845	Samoa (American)	US$	1.00
Benin	CFA Franc	487.68	Indonesia	Rupiah	10904.00	San Marino	Euro*	1.3492
Bermuda	Dollar	1.00	Iran	Rial	24792.00	Sao Tome/Principe	Dobra	18160.00
Bhutan	Nguitrum	61.845	Iraq	Dinar	1165.00	Saudi Arabia	Riyal	3.7506
Bolivia	Boliviano	6.911	Ireland	Euro*	1.3492	Senegal	CFA Franc	487.68
Bosnia Herzegovina	Konv. Marka	1.340	Israel	New Shekel	3.5501	Serbia/Montenegro	Yug. N. Dinar	84.48
Botswana	Pula	8.5252	Italy	Euro*	1.3492	Seychelles	Rupee	12.03
Bouvet Island	Krone	N/A	Jamaica	Dollar	103.830	Sierra Leone	Leone	4328.00
Brazil	Real	2.1831	Japan	Yen	98.513	Singapore	Dollar	1.2431
Brunei	Dollar	1.2429	Johnston Island	US$	1.00	Slovakia	Koruna	22.329
Bulgaria	Lev	1.4497	Jordan	Dinar	0.709	Slovenia	Tolar	N/A
Burkina Faso	CFA Franc	487.68	Kazakhstan	Tenge	153.78	Solomon Is.	Solomon$	7.1023
Burundi	Franc	1545.00	Kenya	Shilling	85.07	Somali Rep.	Shilling	1238.00
Cameroun	CFA Franc	487.68	Kiribati	Aus. Dollar	1.0499	South Africa	Rand	9.9564
Canada	Dollar	1.0363	Korea, North	Won	118.18	Spain	Euro*	1.3492
Cape Verde Islands	Escudo	81.25	Korea, South	Won	1066.80	Sir Lanka	Rupee	131.14
Cayman Islands	Dollar	0.82	Kuwait	Dinar	0.2827	St. Helena	Br. Pound*	1.5936
Cent. Af. Republic	CFA Franc	487.68	Kyrgyzstan	Som	48.692	St. Kitts	E. Car. $	2.7
Chad	CFA Franc	487.68	Laos	Kip	7876.00	St. Lucia	E. Car. $	2.7
Channel Islands	Br. Pound*	1.5936	Latvia	Lat	0.5209	St. Pierre/Miq'lon	Euro*	1.3492
Chile	Peso	498.54	Lebanon	Pound	1511.50	St. Vincent	E. Car. $	2.7
China	Renminbi	6.1025	Lesotho	Maloti	9.9564	Sate of Cambodia	Riel	4065.10
Christmas Islands	Aus. Dollar	1.0499	Liberia	Dollar	77.13	Sudan	Dinar	N/A
Cocos Islands	Aus. Dollar	1.0499	Libya	Dinar	1.2467	Suriname	Dollar	3.3
Colombia	Peso	1881.40	Liechtenstein	Sw. Franc	0.9161	Swaziland	Lilangeni	9.9564
Comoros Rep.	Franc	364.54	Lithuania	Litas	2.5591	Sweden	Krone	6.4968
Congo Republic	CFA Franc	487.68	Luxembourg	Euro*	1.3492	Switzerland	Franc	0.9161
Congo Dem Rep.	Franc	N/A	Macau	Pataca	7.987	Syria	Pound	138.26
Costa Rica	Colon	499.94	Macedonia	Dinar	42.51	Taiwan	Dollar	29.407
Cote d'Ivoire	CFA Franc	487.68	Madagascar	Ariayry	2255.00	Tajikistan	Somoni	N/A
Croatia	Kuna	5.6467	Madeira	Euro*	1.3492	Tanzania	Shilling	1608.00
Cuba	Peso	1.00	Malawi	Kwacha	367.00	Thailand	Baht	31.29
Cyprus	Pound	0.4337	Malaysia	Ringgit	3.1578	Togo Rep.	CFA Franc	487.68
Czech Repub.	Koruna	18.986	Maldive Is.	Rufiyan	15.370	Tokelau	NZ $	1.1944
Denmark	Krone	5.5285	Mali Republic	CFA Franc	487.68	Tonga Island	Pa'anga	1.67
Djibouti	Franc	177.1	Malta	Lira	0.3182	Trinidad/Tobago	Dollar	6.41
Dominica	E.Car. $	2.7	Martinique	Euro*	1.3492	Tunisia	Dinar	1.6567
Domi. Rep.	Peso	42.32	Mauretania	Ouguiya	299.00	Turkey	Lira	1.9877
Dronning Maud.	Nor. Krone	6.0191	Mauritius	Rupee	30.5	Turkmenistan (new)	Manat	2.79
East Timor	US$	1.00	Mexico	New Peso	13.013	Turks & Caicos	US$	1.00
Ecuador	US$	1.00	Moldova	Lei	13.12	Tuvalu	Aus. Dollar	1.0499
Egypt	Pound	6.891	Monaco	Euro*	1.3492	Uganda	Shilling	2547.50
El Salvador	Colon	8.7484	Mongolia	Tugrik	1681.50	Ukraine	Hryvnia	8.1904
Eq'tl Guinea	CFA Franc	487.68	Montserrat	E.Car. $	2.7	United Kingdom	Br. Pound*	1.5936
Eritrea	Nafka	13.43	Morocco	Dirham	8.3052	Uruguay	Peso	31.65
Estonia	Kroon	11.597	Mozambique (new)	Metical	27.57	U.A.E.	Dirhan	3.673
Ethiopian	Birr	18.948	Myanmar	Kyat	972.06	Uzbekhistan	Som	2158.40
European EMU	Euro*	1.3492	Namibia	Dollar	9.21	Vanuatu	Vatu	96.015
Faeroe Islands	Dan. Krone	5.5285	Nauru Is.	Aus. Dollar	1.0499	Vatican City	Euro*	95.16
Falkland Islands	Br. Pound*	1.5936	Nepal	Rupee	98.98	Venezuela	Bolivar	6.29
Fiji	Dollar	1.8315	Neth. Antilles	Guilder	1.79	Vietnam	Dong	21105.00
Finland	Euro*	1.3492	Netherlands	Euro*	1.3492	Virgin Islands BR	US$	1.00
Fr. Pacific Islands	Franc	88.423	New Zealand	Dollar	1.1944	Virgin Islands US	US$	1.00
France	Euro*	1.3492	Nicaragua	Cordoba	24.501	West Samoa	Tala	2.1
French Guiana	Euro*	1.3492	Nieue	NZ Dollar	1.1944	Zambia (new)	Kwacha	5.27
Gabon	CFA Franc	487.68	Niger Rep.	CFA Franc	487.68	Zimbabwe	Dollar	N/A
Gambia	Dalasi	32.605	Nigeria	Naira	159.01			

(N/A) Not Available * U.S. Dollar per national currency unit

Minority Shareholdings, From page 2

What are Structural Links and How Important are They in Today's Corporate World? The Supposed Theories of Harm Involving the Acquisition of Minority Stakes

It is clear that the acquisition of minority shareholdings below the level that confers control is widespread and important. They not only allow companies to have access to funding via the investment made by the new minority shareholder (often pension funds, insurance companies, and other financial institutions), but also diversify the income sources and mitigate investment risks of global investors. Further, minority acquisitions can also be a preliminary step for a fully-fledged acquisition of control, which in most cases would be reviewed under EC or national merger control rules. This has been the case in many industries, from energy (e.g., Exxon/Mobil) to mining (e.g., Glencore/Xstrata), where the acquisition of a minority shareholding was followed by a takeover bid or public offer.[9]

Generally, the acquisition of minority shareholdings - even in a competitor - raise no or very limited competition issues. However, in its Staff Working Document (published as Annex I to the consultation) the EC suggests various theories of harm in order to justify the need for a tighter control on minority shareholdings. Firstly, the EC argues that structural links may give rise to horizontal unilateral effects by reducing the competitive pressure between two competitors (i.e., a competitor may have less incentive to compete with a company whose profits it shares) and by increasing transparency (i.e., via information sharing). Secondly, horizontal coordinated effects might also arise as structural links facilitate coordination between competitors (i.e., holding a minority shareholding in a competitor can be enough to influence its competitive behaviour and commercial decisions)[10]. Further, the EC also suggests that a minority shareholding in an upstream supplier may influence such supplier to disrupt or affect its supply to the minority shareholder's competitors in the downstream market (vertical foreclosure). To control these potential threats, the EC suggests the following three merger control options.

The EC Proposed Options - Pros and Cons. Is Here a Business-friendly Solution?

The first reform option is the "*notification system*", where companies would have to notify their acquisitions of minority shareholdings (as well as controlling stakes) to the EC before being able to implement them ("*ex ante* control"). The EC would then decide in each case whether the investment could be approved and, if so, on what terms. It is clear that a mandatory full notification system would not be practical as it would lead to a considerable amount of notifications, most of them not raising any anticompetitive issues, and should be rejected.

Generally, the acquisition of minority shareholdings - even in a competitor - raise no or very limited competition issues.

Under the second option the EC would have the discretionary power to investigate potentially problematic structural links cases. The so-called "*self-assessment system*" would require the parties to self-assess whether their structural link would raise competition concerns (presumably aided by detailed guidance to be issued by the EC). Further, the EC - relying on market intelligence or complaints - could decide to open an *ex post* investigation depending upon the size of the proposed investment (e.g. a voting stake of 20 percent or more) and whether it could otherwise reduce competition in the relevant markets (e.g. because the deal involves competitors in a concentrated market). Finally, the "*transparency system*" simply requires the parties to notify their proposed investment to the EC using an abbreviated notification.

The self-assessment system is currently the best option, provided that the EC issues clear and precise guidelines for the companies to rely on when deciding whether to file or not to file a minority stake acquisition. Given the EC's proposed *ex post* powers to review structural links under this option, it will also be paramount to define a reasonable limitation period after which the EC could no longer review a minority acquisition which was not notified by the parties under the self-assessment system. In the UK such limitation period is four months[11], which has proved to be sufficient time for the OFT to detect a deal which has raised concerns. Finally, a clear safe harbour for transactions involving, for example, less than at least 15 percent equity and no material influence could be established in order to avoid the notification of transactions unlikely to raise competitive constraints. A safe harbour for minority shareholdings acquired purely for financial investment

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reasons by financial investors, even if the acquirer owns companies in neighbouring markets, would also make sense, as financial investments seldom give rise to competition law concerns.

As equities become more attractive and an important source of income diversification for many investors, any form of administrative burden imposed indiscriminately and disproportionately on equity transactions would be problematic.

The Potential Impact of the Suggested Changes to the European Merger Market

By making minority shareholdings notifiable the EC could seriously impede investment in EU markets at a time of constrained liquidity. Further, if the EC were to review minority acquisitions this would affect the timing and costs of an investment decision which under today's legal framework can be closed overnight or in days. The creation of an extra hurdle in structural links transactions is not welcomed, namely at a time where the European economy is struggling. As equities become more attractive and an important source of income diversification for many investors, any form of administrative burden imposed indiscriminately and disproportionately on equity transactions would be problematic. This would go against not only the consultation's core objective of creating a more effective merger control process (which can benefit businesses by simplifying its administrative procedures), but also affects the EC merger simplification procedure goals.[12]

The Way Forward for Undertakings Acquiring Minority Stakes

The EC is now discussing the consultation responses,[13] and EC Competition Commissioner Almunia will ultimately decide whether or not to make changes to the current EUMR. A number of stakeholders[14] have publicly questioned the need to extend the current merger control rules to minority shareholdings. In the event that the EC decides to act, new rules governing minority acquisitions could be in place by end 2014/beginning 2015.[15] Bingham advises numerous companies and investors on financial and strategic minority investments and wishes to reinforce the need for a business-friendly and proportionate approach in this area. ❏

1 The initiative consists in a possible amendment of Council Regulation (EC) No 139/2004 (OJ: L24 29.1.2004,
p. 1 ("the Merger Regulation")), focussing on the issues presented in the Staff Working Paper "Towards more effective EU merger control" which was published for comments on 20 June 2013. In light of the comments received by stakeholders in the consultation, the Commission will decide whether it will take further steps towards a legislative proposal.

2 German Federal Cartel Office.

3 See, Cases COMP/M.4439 (2007) and M.6663 (2013).

4 Such view was confirmed by the General Court case T-411/07 *Aer Lingus v. Commission* [2010] ECR II - 3691.

5 See the Competition Commission report (dated August 28, 2013) on the completed acquisition by Ryanair Holdings plc of a minority shareholding in Aer Lingus Group plc. Please note that Ryanair has just appealed the CC's decision to the CAT on September 23, 2013 (Case number 1219/4/8/13 Ryanair Holdings PLC v Competition Commission).

6 See Annex II to the Consultation's staff working paper .

7 Such as cases M.42 Alcatel/Telettra, M.833 Coca Cola/Carlsberg, M.873 Bank Austria/Creditanstalt, M.1080 Thyssen/Krupp, M.1383 Exxon/Mobil, M.1453 AXA/GRE, M.1673 VEBA/VIAG, M.1684 Carrefour/Promodes, M.1712 Generali/INA, M.1940 Siemens/ Framatome Cogéma, M.1980 Volvo/ Renault, M.2050 Vivendi/Canal+/Seagram, M.2431 Allianz/ Dresdner, M.2567 Nordbanken/Postgirot, M.3653 Siemens/VA Tech, M.3696 E.ON/MOL, M.4150 Abbot/Guidant, M.4153 Toshiba/ Westinghouse, M.5096 RCA/MAV CARGO, M.5406 IPIC/MAN Ferrostaal.

8 Treaty on the Functioning of the European Union - Chapter 1: Rules on competition - Section 1: Rules applying to undertakings - Article 101 and 102 - Official Journal 115 , 09/05/2008 P. 0088 - 0089

9 Published as Annex I to the Consultation.

10 We note that coordinated effects are usually hard to prove, even in full ownership acquisition cases

11 As per the UK Enterprise Act 2002, Part 3 and Articles 23, 24 and 25 the limitation period is of four months from the date of the completion of the initial acquisition (unless the merger took place without having been made public and without the OFT being informed of it, in which case the four month period starts from the earlier of the time that material facts are made public or the time the OFT is told of material facts).

12 EC Notice on a simplified procedure for treatment of certain concentrations under Council Regulation (EC) No 139/2004 (OJ C 56, 5.3.2005, p. 2 ("the Notice on a simplified procedure").

13 At the time of writing the EC had not published the consultation responses.

14 E.g., European Competition Lawyers Forum, European Chemical Council as well as a number of

renowned practitioners

15 Many Member States are then likely to follow the EC (and UK, Germany and Austria), implementing similar controls on minority shareholdings.

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Trade Regulation

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by trade in these minerals. The Dodd-Frank Act is intended to educate U.S. consumers about the origin of components in common commercial goods in order to allow them to make informed purchasing decisions. In addition, by spotlighting the use of conflict minerals, the Dodd-Frank Act is intended to prompt companies to exercise greater control over their supply chains and seek alternative sources for these minerals.

What Are Conflict Minerals?

Although the Dodd-Frank Act targets four specific minerals (and their derivatives), the term "conflict minerals" commonly refers to any type of minerals that are mined in conditions of armed conflict and human rights abuses. The minerals that are at the heart of the Dodd-Frank Act are those that directly or indirectly finance or benefit armed groups in the DRC or the above-referenced adjoining countries. See Section 1502(b)(1)(i). A recent study by the United Nations found that armed groups have gained control of more than 50 percent of the mines in the DRC, enslaving local populations (including children and the elderly) through such means as illegal taxation, extortion, rape and sexual violence.

Where Are 3TG Minerals Used?

3TG minerals are used in a wide variety of industries and consumer products. Tantalum is generally used in electronic components such as mobile phones, computers, video game consoles and digital cameras. Tantalum is also used as an alloy for making carbide tools and jet engine components. Tin, generally in alloy form, is used in tin plating and soldering of electronic circuits. Tungsten is more commonly used in metal wires and electrodes, but also has applications in a wide range of contacts, including lighting, electronics, heating and welding. In addition to the use of gold in jewelry, gold can also be found in electronics, communications and aerospace equipment due to its superior electric conductivity and corrosion resistance.

The Dodd-Frank Act's conflict minerals reporting requirements are complex and at times ambiguous, making navigating the compliance requirements especially challenging.

Whether or not a company directly sources 3TG minerals, often unknowingly, many manufacturing companies use 3TG minerals.

Disclosure of Use of Conflict Minerals and Compliance

The Dodd-Frank Act's conflict minerals reporting requirements are complex and at times ambiguous, making navigating the compliance requirements especially challenging. Congress assigned the task of regulating, enforcing and ensuring the enactment of the conflict mineral provisions to the Securities and Exchange Commission, which published proposed rules on

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December 23, 2010. After lengthy delays and extensive consultations with public and industry groups, the SEC issued its Final Rule almost two years later, on August 22, 2012.

Companies subject to the conflict minerals reporting requirements are those that are required to file reports with the SEC under Section 13(a) or Section 15(d) of the Exchange Act, and whose use of conflict minerals is "necessary to the functionality or production" of the products that they manufacture. The word "necessary" is not defined in either the Dodd-Frank Act or the SEC's regulations, and there is no materiality standard or 'de minimis' threshold for determining when a conflict mineral is "necessary to the functionality or production" of a product. In addition, neither the Dodd-Frank Act nor the SEC's regulations defines the term "manufacture." However, it is understood that this term is intended to capture companies that directly manufacture products as well as those that contract the manufacturing of their products.

Understanding the complex conflict mineral supply chains, obtaining upstream origin information, and establishing effective due diligence programs pose significant costs and burdens for publicly traded companies facing the first SEC reporting deadline in 2014 and their suppliers.

If the use of any of the above-referenced minerals are "necessary to the functionality" of a product, the Final Rule will require manufacturers, as well as companies that contract the manufacturing of their goods, to identify the origin of any of the minerals used, report the country of origin due diligence methodology they employed, and disclose their findings to the SEC. While there are many complicated if-then scenarios regarding the specifics of 3TG minerals, liability and disclosure under the law, the following summarizes the steps that companies are required to take:

Due Diligence

Companies must perform a "reasonable country of origin inquiry" in order to identify the origin of any 3TG minerals used. Such an inquiry should attempt to trace the "source and chain of custody" of the minerals used. However, there is little guidance in the regulations as to what precisely constitutes a "reasonable country of origin inquiry." The SEC has acknowledged that a company's reasonable reliance on representations made by suppliers or mineral processers may be sufficient.

SEC Disclosure Requirements – 3TG Minerals Originated in the DRC

If conflict minerals are found to have originated in the DRC or adjoining countries (or if the company is unable to determine the origin of any minerals used), the company must disclose this fact in its annual SEC report and submit a separate Conflict Minerals Report. The SEC created a new form for companies to use when disclosing their use of conflict minerals—the Form SD. Companies must attach their Conflict Minerals Reports to the newly created Form SD, stating that their products are "not DRC conflict free," describing the due diligence they performed, and identifying the products that are not conflict free. The Conflict Minerals Report must also be audited by an independent private sector auditor, and the audit report must be submitted to the SEC.

SEC Disclosure Requirements – 3TG Minerals Not Originating in DRC

On the other hand, if a company determines that the minerals did not originate in the DRC or adjoining countries, the company need only include a statement to this effect in the body of its annual SEC report with a detailed description of its country of origin investigation.

Public Disclosure Requirement

In addition to the SEC disclosure requirements, companies must also post a copy of their SEC annual reports on their websites and maintain records relating to the country of origin of minerals used in their products.

Application of the Final Rule if the 3TG Minerals Originated in a Conflict-Zone

The Final Rule provides for two separate, phased-in reporting periods for large and small companies. First, for a period of two years, companies that cannot determine origin may report their products are "DRC (Congo) conflict undeterminable. Small companies will be permitted (for a four-year period) to report that their products are "DRC (Congo) conflict undeterminable." When these periods come to an end, however, companies must report that their products are "not DRC conflict free," submit conflict mineral reports and undergo formal audits. The initial reporting period will commence in January 2013, and the first reports must be submitted to the SEC in May 2014.

Challenges, Opportunities & Recommendations

Understanding the complex conflict mineral supply chains, obtaining upstream origin information, and establishing effective due diligence programs pose significant costs and burdens for publicly traded companies facing the first SEC reporting deadline in 2014 and their suppliers. The SEC's Final Rule was adopted by a very narrow margin. Three SEC Commissioners voted in favor of the Final Rule noting implementation was required by Dodd-Frank Act, and noting that the legislation is an important step toward ending the violence in the DRC. However, two commissioners dissented, arguing that provisions exempting small companies from the reporting requirements as well as 'de minimis' levels should have been incorporated into the Final Rule. They also noted that the Final Rule will likely bring about unwanted consequences—for example, companies will likely avoid sourcing any minerals (even legitimately sourced minerals) from the DRC, resulting in a de facto embargo and a likely increase in the violence, suffering and poverty in the region.

Seeing the opportunities in the current compliance situation regarding conflict minerals is understandably hard to discern. These regulations have created a complex, time-consuming and costly process, requiring in-depth checks of the entire supply chain. Yet, looking at the public-relations results of similar "Social Responsibility" programs one can begin to appreciate the benefit companies may gain when they rigorously apply the rules in their own operations. If history has taught us anything, we can look at companies like Nike, who experienced serious backlash in 1992 and thereafter from the "sweatshop" sourcing allegations. In addition, Starbucks was virtually forced to adopt free-trade coffee sourcing practices. These companies faced their sourcing

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challenges head-on, and continue to constitute the biggest brands in their respective markets. Thus, the companies that have the wherewithal and foresight to implement internal processes to ease the transition with SEC compliance will not only be ahead of the pack, but will be able to potentially build a competitive advantage from doing so. In this case, companies should achieve a sizeable return on their investments in additional compliance processes—establishing a brand and household reputation as socially responsible and morally proactive companies.

It is imperative for companies to address the issue of conflict minerals proactively, specific to their operations and supply chain. U.S. companies should first determine if they are in fact covered by Dodd-Frank or by virtue of their activities will somehow be impacted by it.

It should be noted that these regulations are currently being challenged in court by the National Association of Manufacturers (NAM). However, a potential "wait-and-see" approach may be viewed in a zero-sum game context. A decision from the court is not likely to emerge until the third quarter of 2013, leaving little time for companies to act in compliance with the regulations. The SEC is required to provide an annual progress report to Congress regarding Section 1502 of the Dodd-Frank Act, where specifics on industries' progress and response to the regulations. The negative press that could arise from being called out in any such proceeding would be damaging to any company's brand. Therefore, waiting to see how the litigation plays out could put companies at serious risk.

It is imperative for companies to address the issue of conflict minerals proactively, specific to their operations and supply chain. U.S. companies should first determine if they are in fact covered by Dodd-Frank or by virtue of their activities will somehow be impacted by it. Companies should then try to identify products that may contain conflict minerals, attempt to map their supply chains back to the smelters if possible, and strategize processes for obtaining sourcing information. Record retention processes will need to be enhanced, formal corporate policies and procedures expanded and written agreements with upstream vendors amended. In so doing, companies may be able to save time and money, as well as take advantage of an opportunity to build a competitive advantage on an issue that has become prevalent in the minds of the modern consumer.

Moreover, 3TG minerals mined in the DRC and adjoining countries that are "conflict-free" need to be documented and reported to the Securities and Exchange Commission (SEC) as well as made available to the public under Sec. 1502 of Title XV of the Dodd-Frank Act. In addition, many companies who are not SEC filers will be affected, in cases where they sell to customers bound by these new requirements, as they are themselves SEC filers. ❏

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