FINANCIAL TIMES

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World Business Newspaper

News Briefing

Logjam of shelved IPOs in Europe grows
A logjam of IPOs is building in Europe, after almost $10bn of flotations were shelved in the first half of the year owing to market volatility and investors' disillusionment with recent listings. **Page 13; Failures raise fears, Page 15; www.ft.com/ipo**

Egyptian concessions
Fourteen new ministers have been appointed in Egypt as a concession to protests that have been taking place since July 8. **Page 3**

HNA vies for GE SeaCo
Chinese conglomerate HNA has emerged as a leading bidder for GE SeaCo, the container leasing arm put on the block by GE and its partner. **Page 13**

US debt deal's limits
With less than two weeks to go before the US might default on its debt, the reality that the big money in the budget is likely to remain untouched is starting to sink in. **Page 5; US faces suicide, Page 9**

Zimbabwe poll fears
As elections loom in 2012, top figures in the army, which has benefited most from Robert Mugabe's 31-year rule, are making menacing threats about the opposition MDC. **Page 3**

Chaebols angered
Plans by Seoul to protect some sectors from competition or buy-outs have angered the country's powerful conglomerates. **Page 4**

China housing slows
Chinese property prices rose at a slower pace in June – 0.1 per cent up from a month earlier, down from 0.2 per cent in May – as Beijing's efforts to prevent a real estate bubble weighed on the market. **Page 4**

Syrian attack imminent
Syrian forces were poised to attack the town of Abu Kamal after reports of defections among troops sent there to quell protests. **Page 3**

Suzuki queries VW link
Suzuki has called into question its 19-month-old co-operation with Volkswagen as tensions between the two partners flared again. **Page 13**

Palestine brand forms
Although it may be years before Palestinians establish a nation state, Padico, a national brand is in the making. **Page 3; www.ft.com/arabisrael**

Readers Digest sale
Readers Digest, the 90-year-old publishing group that last year emerged from bankruptcy, is looking at selling itself for about $1bn. **Page 16**

Dreamliner's take off
Within the next two months, Boeing's first 787 Dreamliner should finally be operational in the hands of All Nippon Airways. **Page 14**

Travel group acts
Thomas Cook moved to calm nerves about its balance sheet by negotiating a one-year extension on its loan and revolving credit facility. **www.ft.com/ukcompanies**

UK mobile chief quits
The chief of Everything Everywhere, the UK's largest mobile phone operator by customer numbers, has resigned. **www.ft.com/telecoms**

Gold price breaches $1,600 on debt fears

Markets heap pressure on European leaders

US concerns add to haven demand

By Jack Farchy and Richard Milne in London

Gold burst through $1,600 an ounce for the first time as the eurozone's escalating debt crisis sent fear through markets.

Markets turned up the pressure on European leaders ahead of a summit on Thursday, with bank shares plummeting and Italian and Spanish borrowing costs hitting euro-era records.

The eurozone crisis, combined with the possibility of a US default, have burnished the appeal of gold and other havens such as the Swiss franc and German Bunds.

The precious metal touched a nominal record $1,607 a troy ounce on Monday afternoon, having rallied 8.2 per cent in just over two weeks. It also breached £1,000 an ounce for the first time.

Investors argued that it was a crucial week for the eurozone with Spanish debt auctions scheduled today and on Thursday. The second sale will coincide with an emergency meeting of European leaders to discuss how bondholders can contribute to Greece's second bail-out, a move likely to trigger a default.

"The consequences of not getting it resolved are significant," said Jeffrey Molitor, European chief investment officer at Vanguard, the US fund manager. "What does it mean for a eurozone country to default? There are lots of theories but nobody really knows. It is a worrying time."

Shares in Lloyds Banking Group and Barclays fell more than 7 per cent, as investors digested the results of last week's European stress tests. UniCredit and Intesa Sanpaolo, the two largest Italian lenders, tumbled more than 6 per cent, as did Royal Bank of Scotland. Under the tests' worst-case scenario, UK banks suffered the second-biggest fall in capital.

Gold was set to register its 11th consecutive day of gains on Monday, its longest run since 1980 when an oil-price spike and the billionaire Hunt brothers' squeeze on the silver market drove bullion to its all-time record. When adjusted for inflation, that record translates to $2,400 in today's money.

Politicians in the US remained locked in negotiations to raise the country's debt ceiling by August 2 or trigger a possible default.

Italian benchmark bond yields broke through 6 per cent on Monday, closing at their highest level since 1997. Spanish 10-year yields rose to 6.39 per cent, up 1 percentage point this month.

The Swiss franc soared to a record 1.1397 against the euro, while the dollar firmed 0.5 per cent on a trade-weighted basis and German Bund yields fell to an 8-month low of 2.66 per cent.

Additional reporting by Michael Mackenzie in New York

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Over and out Petraeus relinquishes Afghan command

General David Petraeus (left) hands over command of Nato forces in Afghanistan yesterday alongside Admiral Mike Mullen (centre), chairman US Joint Chiefs of Staff, and German general Wolf Langheld. Gen Petraeus' successor is General John Allen Report, Page 2 epa

Murdochs take $1bn hit on shares

By Andrew Edgecliffe-Johnson in New York and Helen Warrell and Ben Fenton in London

The value of the Murdoch family's shareholding in News Corp has fallen by $1bn since the political firestorm erupted over the phone-hacking scandal at the News of the World.

A 5 per cent slide in News Corp's shares on Monday to $14.86 by lunchtime trading in New York left them down 18 per cent, or $8.6bn, since a July 4 report first revealed that the UK tabloid Sunday newspaper had accessed and deleted voicemail messages left for Milly Dowler, a teenager found murdered in 2002.

The share fall came as Rupert Murdoch, News Corp chairman, and his son James braced for what looked likely to be a bruising appearance before a parliamentary committee today.

The shares have seen record trading volumes in the past week, as merger arbitrageurs betting on its planned bid for full control of British Sky Broadcasting baled out when political pressure forced News Corp to abandon the deal.

The two men are due to appear before the parliamentary committee an hour before Rebekah Brooks, their confidante and former NoW editor who resigned as chief executive of News International on Friday.

In another day of febrile activity, Scotland Yard saw its second top-level resignation in 24 hours. John Yates, Metropolitan Police assistant commissioner and the UK's most senior counter-terrorism officer, resigned over his role in the phone-hacking affair. His departure created a leadership vacuum at Scotland Yard a day after Sir Paul Stephenson, commissioner, also resigned.

Mr Yates, who stepped down just as the Metropolitan Police Authority's committee on professional standards announced its decision to suspend him, said "inaccurate, ill-informed and on occasion downright malicious gossip" had been a "significant distraction".

David Cameron, prime minister, said he would cut short a trip to Africa for an emergency parliamentary session on Wednesday, the day after MPs were supposed to begin their summer recess.

> A 5 per cent slide in News Corp's shares on Monday left them down 18 per cent, or $8.6bn, since July 4

Mr Cameron for the first time faced media questions about whether he would resign over his decision to hire Andy Coulson, a former NoW editor, as his communications chief.

In a macabre twist to the saga, Hertfordshire police said on Monday afternoon that they had found the body of a man later identified as Sean Hoare, a former NoW showbusiness reporter who helped publicly reveal the extent of phone hacking at the newspaper. The death of Mr Hoare was not being treated as suspicious.

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www.ft.com/phonehacking

Bankia fundraising

Bankia, the largest of Spain's troubled unlisted savings banks or cajas, will today announce it has raised up to €3.3bn ($4.6bn) from investors in a deeply discounted share issue seen as a crucial step in the reform of the country's banking system. The bank is expected to price its shares at €3.75 each to raise between €3bn and €3.3bn in new money, people close to the institution said.

Report, Page 17

Facebook ad prices soar as big brands shift from TV and print

Cost per click increases 74% during past year

By Tim Bradshaw in London

The cost of placing ads on Facebook is rising rapidly as more big brands begin to move their television and print advertising spending on to the world's largest social network, two recent reports have revealed.

The "cost per click" of an ad placed on Facebook has increased by 74 per cent during the past year in four of the world's largest media markets, according to TBG Digital, an independent marketing firm specialising in social media.

The price of display advertising, charged per thousand "impressions" or ads seen, rose 45 per cent year-on-year, across the US, UK, France and Germany in the second quarter, TBG found.

Facebook's dominance of the social networking market and rapid growth in advertising revenues has prompted comparisons with Google.

"In my experience of digital advertising this is the biggest growth that we have seen since Google," said Simon Mansell, chief executive of TBG. "The main difference is that this is being fuelled by brand spend rather than [direct] response spend. That is an inflection point for the whole digital marketplace."

TBG's report, based on analysis of 200bn ad impressions from 167 clients in the three months to June, follows a similar global study by Efficient Frontier, another digital marketing firm. Efficient Frontier found that cost-per-click ads rose 22 per cent in the second quarter of 2011 compared with the first.

"Over the year, we expect [Facebook advertising spending] to have grown by 80 per cent from last year," said Jonathan Beeston, global marketing director at Efficient Frontier.

Advertisers that have long held off spending more than a tiny fraction of their marketing budgets on the web are now diverting funds from traditional media, Mr Mansell says. That includes food and drink advertisers such as Coca-Cola, owner of the most popular branded Facebook page with more than 32m fans, as well as retailers, entertainment groups and automotive brands.

The figures come as Facebook gears up for an initial public offering, expected before spring 2012. The company has increased its efforts to win over the advertising industry in recent months, creating new ad formats and creating a "client council" to advise it on how best to market to its global audience of 750m.

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World Markets

STOCK MARKETS

	Jul 18	prev	%chg
S&P 500	1301.87	1316.14	1.08
Nasdaq Comp	2758.03	2789.8	-1.14
Dow Jones Ind	12348.0	12479.73	-1.06
FTSEurofirst 300	1067.96	1086.9	-1.74
Euro Stoxx 50	2622.36	2675.38	-1.98
FTSE 100	5752.81	5843.66	-1.55
FTSE All-Share UK	2997.21	3045.51	-1.59
CAC 40	3650.71	3726.59	-2.04
Xetra Dax	7107.92	7220.12	-1.55
Nikkei	(c)	9974.47	
Hang Seng	21804.75	21875.38	-0.32
FTSE All World $	(u)	222.08	

CURRENCIES

	Jul 18	prev		Jul 18	prev
$ per €	1.403	1.412	€ per $	0.713	0.708
$ per £	1.602	1.612	£ per $	0.624	0.620
£ per €	0.876	0.876	€ per £	1.142	1.141
¥ per $	79.1	79.1	¥ per €	111.0	111.7
¥ per £	126.7	127.4	£ index	79.1	79.2
$ index	77.3	76.9	€ index	94.88	95.17
SFr per €	1.148	1.153	SFr per £	1.311	1.315

COMMODITIES

	Jul 18	prev	chg
Oil WTI $ Aug	95.93	97.24	-1.31
Oil Brent $ Sep	116.05	117.26	-1.21
Gold $	1,593.68	1,587.25	6.43

INTEREST RATES

	price	yield	chg
US Gov 10 yr	101.80	2.91	0.01
UK Gov 10 yr	105.69	3.03	-0.05
Ger Gov 10 yr	105.17	2.65	-0.03
Jpn Gov 10 yr	101.00	1.09	-
US Gov 30 yr	101.41	4.29	0.04
Ger Gov 2 yr	101.02	1.20	0.02

	Jul 18	prev	chg
Fed Funds Eff	0.06	0.06	-
US 3m Bills	0.02	0.02	-
Euro Libor 3m	1.55	1.55	0.00
UK 3m	0.71	0.71	-

Prices are latest for edition

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Egypt	E£19	Poland	Zl 15
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Italy	€3.30	Spain	€3.30
Jordan	JD3.25	Sweden	SKr32
Kazakhstan	US$4.90	Switzerland	SFr5.40
Kenya	Kshs300	Syria	US$4.74
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Latvia	Lats3.40	Turkey	YTL6.25
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Lithuania	Litas14	Ukraine	€5.00
Luxembourg	€3.30		

Eurozone woes

Politicians' perks anger Italians

Austerity drive hits lower-paid citizens

Free air travel among privileges

By Guy Dinmore in Rome

As elements of Silvio Berlusconi's austerity drive come into force this week, hitting the pockets of lower-paid Italians, pressure is building to rein in the high cost of the country's politicians, who have amended the budget to protect their own interests.

Stoking popular passions over the issue is an anonymous Facebook author, calling himself a former parliamentary aide, who has been revealing what he alleges are MPs' secret privileges. By Monday he had 254,000 "friends", drawing a flood of outraged comments, including calls for revolution and a lynching in the piazza.

Among the perks he cites under the pseudonym "Spider Truman" are fake insurance claims by MPs for "stolen" laptops, police escorts for wives on shopping trips, visits by MPs to their lovers, free travel on national flag-carrier Alitalia and big discounts on cars and mobile phone expenses.

Italians are particularly incensed at now being charged €25 ($35) for an outpatient visit to a state hospital, while parliament deferred a possible cut in MPs' salaries pending a "review" as far off as 2013.

A proposal by Giulio Tremonti, finance minister, that MPs' pay should be brought into line with the EU average was changed during debate to the average of the EU's six biggest economies.

Tito Boeri, of Bocconi university, has issued an analysis of the budget, comparing the final version with drafts.

He claims that in the finished budget MPs are €12,000 a year better off than in the drafts.

Sergio Rizzo and Gian Antonio Stella, authors of the best-selling *The Caste*, about corruption and excess in Italian politics, quote a study by Pennsylvania university's Antonio Merlo, which found that the cost of Italy's parliament was about €1.6bn a year, or €27.5 for every Italian – 5.5 times what the average US citizen pays for politicians in Washington.

The authors say the government has lost the trust of the people, and they demand that Italy's politicians publish all their expenses on the web.

"What do they really earn so that they can drive a Ferrari?" asked Mr Rizzo in a television interview, referring to Marco Milanese, a fast-driving MP of Mr Berlusconi's party who until last month was political adviser to Mr Tremonti. A Naples judge has approved his arrest for alleged corruption, but this requires the consent of parliament to be carried out.

Mr Rizzo said that in the UK one could find out "with a click of the mouse" which MPs enjoyed flights paid for by the state, but not in Italy.

"Give us names," he said.

Alitalia confirmed that flights for MPs on official duties were paid for by parliament.

Even newspapers usually supportive of the government are attacking the "caste", with the weekly Libero reporting that a former head of Sicily's regional waste administration – which has since been dissolved – enjoyed a monthly pension of €41,600.

Whatever the veracity of the blogger's claims, his purported revelations are falling on fertile ground. Mr Berlusconi's party suffered heavy defeats in local elections in May and its ratings are at the lowest since he took office three years ago.

Taxi drivers blockade airport

Athens strike

By Kerin Hope in Athens

Greek taxi drivers staging a 48-hour strike blocked roads leading to Athens International Airport and the port of Piraeus, causing chaos at the peak of the summer tourist season.

The striking drivers were protesting against a government decision to lift restrictions on issuing taxi licences in a move to open up more than 140 "closed-shop" professions.

"We've seen our earnings decline by more than 40 per cent in the past year ... Having more taxis on the streets will drive many of us out of business," said Demetrios Kapelos, an owner-driver taking part in the airport blockade.

The taxi-drivers' protest follows battles last year with lorry drivers over road haulage liberalisation and seamen's unions over access by international cruise-ships to Greek ports.

Site, a lobby group for hoteliers and travel agents, said: "This is another blow to our country's image [after last month's Athens riots]. This strike creates more problems for a sector that is critical to our hopes of emerging from crisis."

The taxi-owners' union said the new licence fee of €3,000 ($4,200) amounted "to a huge blow for owners who paid €80,000 for a licence just two years ago".

With 14,000 yellow cabs, Athens has a higher ratio of taxis to residents than other European capitals and cheaper fares.

The government made concessions to truck drivers and seamen, setting a transition period before making haulage licences widely available and only partly lifting curbs on port calls by foreign cruise ships with non-Greek crews.

Last month's move to liberalise taxis and other closed shops, including architects and lawyers, followed pressure from international lenders for reforms as the government negotiated a second bail-out.


Walking to work: a man wheels his suitcase past lines of taxis blocking roads near Athens airport yesterday during a 48-hour strike Reuters

ECB warnings raise price of Greek plan

Athens bail-out

Nations' leaders are fighting to keep Greece's banks afloat if its bonds default, writes Peter Spiegel

European leaders are looking at ways to keep Greek banks afloat as part of a new €115bn bail-out plan for Athens, amid European Central Bank warnings that it may no longer be able to lend money to Greek financial institutions if the country's bonds are in default.

The plans could add up to €20bn ($28bn) to an increasingly costly bail-out proposal, according to estimates by the European Commission but the amount would probably depend on how long Greek banks were cut off from ECB financing.

A temporary default could be declared as early as this week, forcing officials to come up quickly with a bank support plan.

European negotiators are locked in intensive talks to secure a bail-out deal in time for an emergency eurozone summit on Thursday. The main hurdle continues to be German and Dutch insistence that the bail-out be funded, in part, by contributions from private bondholders – plans which rating agencies have warned would lead them to declare at least some Greek bonds in default.

Greek banks have been reliant on the ECB to fund their daily operations but that money is provided in the form of loans in return for "adequate" collateral.

Greek sovereign bonds are the primary collateral used by Greek banks but, if the bonds are in default, Jean-Claude Trichet, the ECB chief, has said the central bank can no longer accept them.

Under one proposal, eurozone governments would set up a "cash buffer" to assist Greek banks. The funds may not necessarily be pumped directly into the banks themselves, however. Instead, they could be used to guarantee other forms of collateral offered to the ECB. The Greek government has, for instance, already offered guarantees for €30bn in bank bonds but so far the ECB has not accepted them as collateral: further guarantees from the "cash buffer" could make the bonds more acceptable to the ECB.

Separately, some officials have proposed having the ECB authorise Greece's national central bank to provide "emergency liquidity assistance" – direct government loans that bypass the ECB. This facility has been used extensively in Ireland but not yet in Greece. Some negotiators are still pushing Germany and the Netherlands to abandon plans that would cause a temporary default, a push that has gained strength amid runs on Spanish and Italian bonds – panic fuelled by fears that German and Dutch demands for bondholder "haircuts" could soon hit other peripheral bonds.

The shift in sentiment has seen a rise in support for a plan, backed by some officials in Paris, to tax European banks to help pay for eurozone rescues. Two banking executives said the proposal had become a new focus of attention for negotiators, who are trying to find a way to get private investors to pay up without triggering a default.

A French executive involved in the talks said one of the proposals would see tax revenues from the levy go to the eurozone's €440bn bail-out fund, which would have its powers expanded to lend money directly to struggling banks or to national authorities charged with bank recapitalisation.

Another bank executive said although the levy plan has been mooted only "informally and at an early stage", it was garnering support. "One problem will be that it might clash with levies already being planned, such as in Germany," the executive said. "But otherwise it is a simple solution."

Overhaul of the bail-out fund has been a focus of negotiations since last week, particularly proposals to use it to lend Greece as much as €30bn to conduct a repurchase of its bonds on the open market. Because many Greek bonds are trading at nearly half face value, officials believe they could buy back and retire €50bn through the plan. It is not clear that the bond buy-back plan, even if it were exercised without any other private bondholder participation, would escape a veto from the rating agencies, however.

Additional reporting by Stanley Pignal in Brussels, James Wilson in Frankfurt and Richard Milne in London

Bank support

Proposals to support Greek banks if the country's bonds default:

- Eurozone governments set up a "cash buffer" to guarantee other forms of collateral offered to the European Central Bank.
- Greece's national bank provides "emergency liquidity assistance" – direct government loans that bypass the ECB.
- A tax on European banks to help pay for eurozone rescues, expanding the €440bn bail-out fund to lend to Greek banks.

Merkel remains too calm as financial crisis engulfs Europe

GLOBAL INSIGHT

Quentin Peel in Berlin

When Angela Merkel took her seat by the banks of Berlin's river Spree on Sunday afternoon, all ready for a "summer interview" on public television, the German chancellor looked remarkably unruffled.

She did not appear to notice that the wind was rising, the heavens were overcast, and the first drops of rain were falling. Her fuchsia jacket clashed grievously with the scarlet chairs set out for the annual event. She merely joked with the presenters, and urged them to get on with the job.

Barely an hour later, the German capital was drenched in a downpour.

It is much the same with the political climate in Germany: the mood is grim, and the chancellor is facing a rising tide of criticism for her leadership, above all in dealing with the financial crisis in the eurozone. Yet she insists that sensible decisions have been taken, the euro is stable, and that eurozone states must simply get their debts under control.

Ms Merkel's ability to remain calm, composed and pragmatic, even as financial storms threaten to engulf the eurozone, is one reason she is still remarkably popular, even as her centre-right coalition government is slumping in the polls. But her personal ratings are slipping, attacks from right and left are getting more vociferous, and pollsters say she seems to be losing her popular touch.

This week's eurozone negotiations leading up to Thursday's emergency summit in Brussels will test the German chancellor's leadership both in the European Union and at home. She can make or break any deal for Greece with her insistence that it must include a substantial contribution from private bondholders as well as taxpayers. But if she goes too far in pledging German taxpayers' money, she may be forced to seek a vote of confidence to preserve her centre-right parliamentary majority in the Bundestag.

German voters are worried that the European Union is becoming a "transfer union" in which Germany guarantees the debts of its more profligate partners in the eurozone. But the main criticism of Ms Merkel on Europe is that she is not pro-European enough.

That was the whole tenor of a combined onslaught on Monday by three top leaders of the opposition Social Democratic party (SPD). Sigmar Gabriel, the party chairman, pledged to support Ms Merkel in Brussels – provided she came up with a radical and generous plan to stop the eurozone crisis. "Without a solution to the financial crisis, Europe will become immobilised," he declared, saying that German leadership was lacking.

Peer Steinbruck, who was finance minister in Ms Merkel's last administration, called for a substantial debt relief programme for Greece, a sort of Marshall Plan for the peripheral states of the eurozone, and the introduction of eurozone bonds to help their future finances.

"It is important that this summit takes decisions that are comprehensive and powerful," he said, while admitting that they might well be unpopular in Germany. He accused Ms Merkel of failing to try to sell essential European policies to German voters.

The same sort of criticism has been heard increasingly from pro-Europeans in the ranks of her own Christian Democratic Union. Indeed,

> The main criticism of Ms Merkel on Europe is that she is not pro-European enough

the weekly magazine Der Spiegel reported at the weekend that Helmut Kohl, the former chancellor and godfather of the euro, had complained that "she is ruining my Europe".

Mr Kohl flatly denied the quote on Sunday, but the damage had been done. Other senior party members complain that the chancellor is "too passive". A vociferous minority, it must be said, argue that she is too pro-European: they want a much tougher line to resist any more German guarantees being given for countries such as Greece.

Ms Merkel's response is to "lead from behind", as a top German banker remarked last year. When challenged in Sunday's TV interview on why she never tried to sell the EU as "the project that has brought 50 years of peace", she retorted: "I have said that if the euro fails, Europe will fail ... But we must find practicable solutions."

She had a chance to say something passionate about Europe, but she could not quite bring herself to do so. Sometimes, it works to her advantage. Right now, it looks like a missed opportunity to get ahead of the debate.

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Biggest banks should hold extra capital, says watchdog

FSB backs 'living wills' idea for G20

By Brooke Masters in London and James Boxell in Paris

Global regulators endorsed twin proposals on Monday to force the biggest banks to hold extra capital and write "living wills" that will enable them to be shut down safely in a crisis.

The Financial Stability Board, made up of regulators, central banks and international organisations, will now send the proposals on to the leaders of the Group of 20 leading economies for approval in November.

The capital surcharge plan, which was drafted by the Basel Committee on Banking Supervision last month, will require about 30 global systemically significant financial institutions, known as G-Sifis, to hold additional equity against unexpected losses.

The surcharges – equivalent to 1-2.5 per cent of each bank's assets, adjusted for risk – will phase in between 2016 and 2019 on top of the global minimum capital ratio adopted last year of 7 per cent for all banks.

As a result, the very biggest, most interconnected banks such as HSBC, BNP Paribas and JPMorgan Chase will have to hold top-quality capital equal to 9.5 per cent of their risk-weighted assets.

The FSB this week plans to publish its methodology for deciding which banks will be subject to the surcharges and how big each surcharge will be. Banks are expected to be judged on their size, global reach, complexity and how easy they are to replace.

The FSB also unveiled what its chairman, Mario Draghi, promised would be a "very major change in national and cross-border practice" towards deeply troubled global institutions.

Regulators will be given a toolkit for breaking such banks into viable and non-viable parts, said Paul Tucker, the Bank of England deputy governor who has been leading the FSB's resolution work.

"Informally, this is precisely living wills," Mr Tucker said.

The FSB also endorsed the idea of a "bail-in" procedure that could be used to impose losses on bondholders, something that did not happen in the 2008 financial crisis. A consultation on the resolution package is also due to be made public as soon as Tuesday.

The group said its next report to the G20 this year would include recommendations on regulating the shadow banking sector – non-banks that take on the characteristics and risks of traditional banks.

The FSB is considering whether to regulate money market funds, securities lending and "repo" – raising short-term funds by selling assets while agreeing to buy them back.

News digest

Law threat on bank access

Policymakers warned European Union banks that they face new laws unless they voluntarily extend access to the estimated 30m adults in the bloc without bank accounts.

The European Commission on Monday urged member states and their banks to ensure that reasonably priced accounts were made available.

"The situation will be reviewed in a year's time," an EU official said. "Should it remain unsatisfactory, the Commission will consider binding measures."

Monique Goyens, director-general of Beuc, the European consumers' organisation said: "Without a bank account, shopping and doing business online is virtually impossible."

Nikki Tait, Brussels; Full story, www.ft.com

Petraeus hands over command

General David Petraeus, the new head of the Central Intelligence Agency, has handed over command of US and Nato forces in Afghanistan.

The 140,000-strong coalition force in Afghanistan will now be led by US Marine Corp General John Allen.

In his new role Gen Petraeus will continue to monitor CIA paramilitary forces in Afghanistan and drone attacks. He leaves at time when western allies are edging towards the exit. Afghanistan's rudimentary security forces began formally taking responsibility for defending their country at the weekend when Afghan police took command in the province of Bamiyan.

Six other towns and provinces are due to follow suit in the next few weeks.

Matthew Green, Islamabad; Full story, www.ft.com


Commission: King Hamad bin Issa al-Khalifa of Bahrain

Rights group raps Bahrain arrests

Human Rights Watch urged the Bahraini authorities to halt what said was a "systematic campaign" to intimidate doctors suspected of sympathising with anti-government protests.

The New York-based group said on Monday that more than 70 medics had been arrested since March. Forty-eight medical staff are on trial, charged with inciting attempts to overthrow the ruling Al Khalifa family and other offences.

About 30 people died in unrest this spring. King Hamad bin Issa al-Khalifa last month formed an independent commission to investigate the unrest.

Camilla Hall, Abu Dhabi; Full story, www.ft.com

Europe stress tests have been undermined by indecision

INSIDE BUSINESS

Patrick Jenkins
on Finance

So was it all a waste of time? Were stress tests conducted by European regulators on 91 banks from across the continent just a whitewash?

That is certainly the consensus conclusion of analysts. A flood of research notes hit screens over the weekend and on Monday morning, dismissing Friday's results with varying degrees of ferocity.

European bank shares had their worst day in eight months, falling 2.9 per cent – hardly the reassurance to investors that the authorities had hoped for.

The justification is the obvious one – that despite some late tweaks to toughen the methodology, an all-out default of Greek sovereign debt is not factored into the tests. And given the imminent threat of Greek default, it is indeed a nonsense that a "stress test", which is supposed to imagine the improbable, cannot even countenance the probable.

On the other hand the counter-argument has largely been lost. Even as analysts whinged at the lack of credibility of the stress parameters, they were crunching their own numbers on the basis of the underlying data disclosed alongside the results.

Privately, European regulators happily concede that this was the real merit of the exercise all along. Having forced banks to publish details of their holdings on sovereign bonds and credit exposures country by country, it didn't matter that political constraints stopped them modelling for a Greek default, if that modelling could be done independently by professional analysts who the market was more likely to listen to in any case.

And yet the European tests have always been seen as a poor relation of the US exercise in 2009, which began the public stress test trend and promptly saw the market's scepticism about US banks evaporate. There were widespread plaudits for Tim Geithner, the Treasury secretary who ordered the tests. But the homegrown European model has some merit.

The detail that the world now knows about Europe's top banks is clearly greater than it ever knew about the US banking system, either in the light of its own 2009 exercise or in subsequent tests.

Consider the breadth of the exercise – the EBA tests involved 91 banks in 23 countries, representing two-thirds of the asset base of the European Union's banking system. The US tests covered only 19 banks.

The depth is also superior. Each bank in the EBA tests disclosed 3,200 data points, compared with a couple of dozen in the holy-grail US tests.

If Europe was not caught in the middle of a crisis, the market might be able to appreciate the merits of its conclusions.

By any objective assessment, the stress tests' results – even when "superstressed" by analysts to reflect more meaningful "haircuts" on sovereign debt holdings – show investors have panicked, turning bearish on strong and weak names alike.

How else can you explain the fact that the shares of Italy's Intesa Sanpaolo and Spain's BBVA both plunged on Monday – despite having emerged from even the "superstress test" with the top two eurozone core tier one capital ratios (both on more than 8 per cent)?

The truth is that investors are obsessed by only one thing in today's environment. "Bottom-up" analysis of individual banks, and their individual merits, counts for nothing; the macroeconomic, "top-down" approach overrides everything. That infection spread beyond the eurozone to UK banks – thanks to their exposure to Ireland (RBS and Lloyds) and Spain and Italy (Barclays).

And here is the crucial difference with the US in 2009. Not only did the US have in place a centrally co-ordinated structure to recapitalise banks that needed it (the celebrated Tarp programme); it also had a macroeconomic programme of "quantitative easing", to artificially boost the economy; and, helpfully, it was not on the hook, politically and economically, for imminent bankruptcy in one of the states of the union.

To the credit of European authorities, they, too, tried to put in place a structure to enforce recapitalisation on banks that failed or "near-failed" the stress tests.

On the other hand, efforts to use QE in Europe have been halfhearted and horribly complicated, in the absence of political union.

Moreover, until European political leaders, the European Central Bank and the banks and insurers that own the bonds of troubled peripheral sovereigns, come up with a decisive plan to impose losses, roll over debt and facilitate buy-backs, the bank stocks of Europe will remain untouchable. No stress test on earth could change that.

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FINANCIAL TIMES

"Without fear and without favour"

Tuesday July 19 2011

Saving the euro, saving Europe

A comprehensive plan is needed to end the debt emergency

Early this year, Europe's policymakers portrayed their struggle to contain the sovereign debt crisis as a difficult, but not insurmountable, challenge. If intelligently handled, it could be confined to the small economies of Greece, Ireland and Portugal. As for the rest of the eurozone, a judicious mixture of fiscal austerity measures, economic governance reforms and light revisions to the European Union's governing treaty would do the trick.

Now it is obvious that the battle for the euro is entering an altogether more dangerous phase. Italian and Spanish government bond yields rose again on Monday to their highest levels since the euro's launch in 1999. So did the premiums that investors demand to buy Italian and Spanish debt rather than top-quality German bonds. "Decoupling", or the notion that Italy and Spain have inoculated themselves against contagion from Europe's outermost nations, is being ruthlessly exposed in debt markets as an illusion.

Yet Italy and Spain are the third and fourth biggest countries in the 17-nation eurozone, accounting for more than 28 per cent of the area's gross domestic product. Add the six per cent represented by Greece, Ireland and Portugal, and the startling realisation dawns that, measured in terms of economic output, financial markets are raising concerns about the creditworthiness of more than one-third of the eurozone. The risks to the European banking system, with its intricate patterns of multibillion-euro, cross-national loans and investments, are correspondingly high.

As a result, there is nothing to be gained from maintaining the pretence that the survival of Europe's monetary union in its present form is not under threat. Yet the implications of this crisis are even more profound. The euro stands as the crowning achievement of the post-1945 project of European political and economic integration. Remove this pillar and there is no saying what may happen to the rest of the architecture, as well as to the EU's influence in the world.

It follows that, when they meet in Brussels on Thursday, the eurozone's leaders must finally deliver on their repeated promises to do "whatever it takes" to save the euro. The time for vague, tough-sounding language is over. The time has arrived for concrete, measurable steps that will restore market confidence sapped by months of public disagreements among European politicians and central bankers.

The confusion, indecisiveness and lack of urgency with which eurozone policymakers have addressed the crisis must be replaced this week with a comprehensive strategy for defending the eurozone. Fixing the terms of a second rescue for Greece, though important, will not be enough.

True, it will help if Angela Merkel, Germany's chancellor, and Jean-Claude Trichet, the European Central Bank president, end their increasingly pointless squabble over private sector involvement in a Greek debt relief package. But it will not transform Greece's prospects for escaping from its debt trap, and it will not touch the heart of the matter – that Europe faces not a mere liquidity problem in a small, sun-kissed Mediterranean state, but a systemic crisis of its monetary union.

Eurozone finance ministers stated on July 11 that they were looking at ways to enhance the flexibility and scope of the European financial stability facility, the EU's main rescue mechanism. It is essential that eurozone leaders put flesh on the plans this week. Proposals are in the air for the EFSF's lending capacity to be tripled to €1,500bn, or made even larger still, in order to cope with possible emergencies in Italy and Spain. There are also suggestions that the EFSF should be given the power to buy government bonds in the secondary market.

Europe faces not a mere liquidity problem in Greece but a crisis of its monetary union

Such ideas have drawbacks as well as positive features. For example, an exceptionally large increase in the EFSF's lending capacity might put the top-notch credit ratings of Germany and France at risk. But the important point is that the eurozone's leaders must dither no more. Any suggestion that they will put off consideration of a comprehensive solution until September could be fatal.

As long ago as February 2010, European leaders promised to take "determined and co-ordinated action, if necessary, to safeguard financial stability in the euro area as a whole". The political hurdles to courageous action are obvious. But it is the leaders themselves who have repeatedly pointed out the dangers of inaction. Now they must make up their minds how they plan to save the euro.

Clearing out at Scotland Yard

The hacking scandal has highlighted a broader malaise

The fallout from the phone hacking scandal continues to widen. Following last week's high-level resignations at News Corp, it is the turn of the Metropolitan Police.

It was inevitable that the police would be held to account after the botched investigation into hacking. The lack of investigative zeal at the Met remains a source of dismay. Just as concerning is the impression – still unproven – of a subsequent cover-up, and the possibility that some officers may have been corrupt.

So it is welcome that those at the top have accepted responsibility for the mess – even if their hands were somewhat forced by Boris Johnson, the Mayor of London, who has now jumped on a scandal he denounced only last September as "codswallop". Sir Paul Stephenson, head of the Met, has quit, along with John Yates, the officer responsible for the probe between 2009 and January this year.

Sir Paul must bear overall blame for the Met's still-puzzlingly mulish reluctance to investigate phone hacking, even as ever more information tumbled out. If the buck resides anywhere, it should be with him.

But if he is taking the rap for others' mistakes, the affair has also portrayed his own judgment in a very poor light. Sir Paul should not have let the police employ a former deputy editor of the News of the World, the tabloid newspaper at the heart of the crisis, while the affair was unresolved. And while it is tangential to the scandal, he should not have taken £12,000 of free treatment from a health club when he was recovering from a serious operation.

With Mr Yates, the position is equally clear-cut. He was, after all, the officer responsible for dismissing the idea of re-opening the investigation in 2009 – a decision he took in just eight hours in spite of the existence of some 11,000 pages of largely unread evidence. However that decision was arrived at, it looks rash at best.

It remains for the judge-led public inquiry to get to the bottom of the Met's inertia. Was it due to an unhealthy relationship with the tabloid media, or simply a cultural disinclination to see hacking as a serious offence? The independent-led police investigations into corruption allegations must be pursued with vigour.

The hacking affair points to a broader malaise in Britain. The understandable desire of the police to retain public confidence – a vital precondition for effective policing – has at times degenerated into an unhealthy obsession with media management. This has manifested itself in a reluctance to countenance the public admission of error in high-profile cases such as the deaths during police actions of Jean Charles de Menezes and Ian Tomlinson, a newspaper vendor killed during the G20 protests in London. The hacking affair feels like more of the same

The next head of the Met must put spin aside and deal with the cause of the problem. This will not be solved by curtailing police contact with the media. It means tackling the culture that makes such poor judgments possible.