

# Policy Focus



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June 2011

## BABC Policy Update:

### The UK Bribery Act

We were pleased that, following our representations on this issue in February to Kenneth Clarke, British Lord Chancellor and Secretary of State for Justice, the UK Bribery Act (as finally published on March 31) provided more clarity in areas such as corporate hospitality: this will limit the likely negative impact on our member companies. However, we continue to be concerned by the prohibition of facilitation payments (which are allowed under the equivalent US legislation); and by the lack of clarity as to the 'adequate procedures' that companies must implement to prevent bribery by associated persons. We will monitor implementation of the Act and continue to relay the various continuing concerns of our members to government.

## London

### LSE Annual Profit Surges

The London Stock Exchange exceeded its profit forecasts for the year up until the end of March. Profit increased 22 percent on the previous year to the equivalent of 388 million euros. Chief Executive Rolet said the performance boost was partly down to a diversification strategy. He has been working hard to diversify the business since his appointment in May 2009, looking to derivatives trading, clearing and technology services for growth, and credited his strategy for the better-than-expected results.

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## Brussels

### Sarkozy Supports Draghi for ECB Presidency

French President Nicolas Sarkozy has endorsed Italian Mario Draghi to be the next head of the European Central Bank, enhancing the Bank of Italy governor's hopes of succeeding Frenchman Jean-Claude Trichet who steps down at the end of his term in office later this year. Draghi's candidacy has gathered momentum since former Bundesbank president Axel Weber withdrew from the race two months ago. Sarkozy's endorsement raises pressure on German Chancellor Angela Merkel to accept Draghi as Trichet's successor. The decision on Trichet's replacement will be taken at an EU summit in June.

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## Brussels

### Portugal Bailout Talks Underway

Portugal has started bailout talks with officials from the European Commission, the European Central Bank and the International Monetary Fund. They will inspect Lisbon's public accounts to decide what further austerity measures are needed to cut the budget deficit. In return, the debt-burdened country will receive a three-year loan of as much as 80 billion euros. However, even with the bailout Portugal's economic future looks grim with current and future austerity measures depressing consumer demand and causing a second economic contraction in just two years in Portugal.

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## Washington

### Fed To Keep Interest Rates Low for Extended Period

The US central bank, the Federal Reserve, says US interest rates will likely stay low for an "extended period" and that – as originally planned – it will complete its 600 billion dollar stimulus program, which involves buying back government bonds, in June. Ben Bernanke, chairman of the Federal Reserve, said the economic recovery is continuing at a moderate pace but that growth in the first quarter would be weak – under two percent – but that was due to transitory factors, including lower defence spending and exports as well as the winter weather.

## Brussels

### Berlusconi and Sarkozy Call for Schengen Reform

Italian Prime Minister and French President Nicolas Sarkozy spoke after their summit which covered several subjects including the flood of migrants from North Africa. As expected the two leaders said the Schengen treaty, which removes many European Union border controls, should be modified temporarily

to allow countries to deal with exceptional circumstances. The flow of migrants to southern Italy had raised tensions between the two countries in the lead up to this summit.

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### **Washington** **Republicans and Democrats on the Attack After Credit Warning**

After Standard & Poor's changed its outlook from stable to negative and threatened to reduce the US's AAA rating, both Republicans and Democrats lashed out at each other's solutions to the national deficit. US stocks tumbled after the financial warning – World War. The US federal deficit currently stands at \$1.4 trillion dollars and is expected to reach \$1.5 trillion in the current fiscal year. President Obama and the Republicans are locked in battle over the extent of spending cuts needed to balance America's budget.

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### **Washington**

#### **US Credit Outlook – From Stable to Negative**

Ratings Agency Standard & Poor's has warned it has changed its outlook for its credit rating for the US over the next couple of years. The agency has revised its outlook from stable to negative. A downgrade would be a blow to the largest economy. S&P blamed factors including the large US budget deficit and government debt. A downgrade would cause interest rates to rise and the tightening of credit, possibly derailing the recovery from the worst recession since The Second

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### **Washington**

#### **Obama Orders Expansion of US Oil Production**

US President Barack Obama has announced an expansion of domestic oil production to counter rising crude prices. High fuel prices have affected Obama's popularity ratings and could derail his bid for re-election next year amid continued voter concern over the state of the US economy. "I am directing the Department of Interior to conduct annual lease sales in Alaska's National Petroleum Reserve, while respecting sensitive areas, and to speed up the evaluation of oil and gas resources in the mid and south Atlantic," Obama said in a televised address. The recent unrest in the Arab world has seen the price of oil shoot up since the start of the year.

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