UHY

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# International Business

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# Carbon trading: the new investor opportunity

**Carbon trading is expected to move up a gear during 2008 with the launch of an international carbon trading market by NYSE Euronext – which operates the world's largest and most liquid exchange group.**

The market will position itself for an increase in emission credits trading as international governments and industry step up efforts to cut pollution.

NYSE Euronext is expected to be the majority shareholder in the market, while the French state-owned bank, Caisse des Dépôts et Consignations, is set to be its main partner.

The lack of a single market for the trading of all forms of carbon credit instruments – emissions allowances granted by governments, plus credits of individual companies – is one of the market's weaknesses, and the initiative is expected to be welcomed by the industry and investors alike.

Carbon trading is already a niche commodity market – but its huge potential to operate in a global arena makes it a prospective opportunity for institutional investors and for the several multinational financial organisations developing investment products.

### Rapid growth in trading

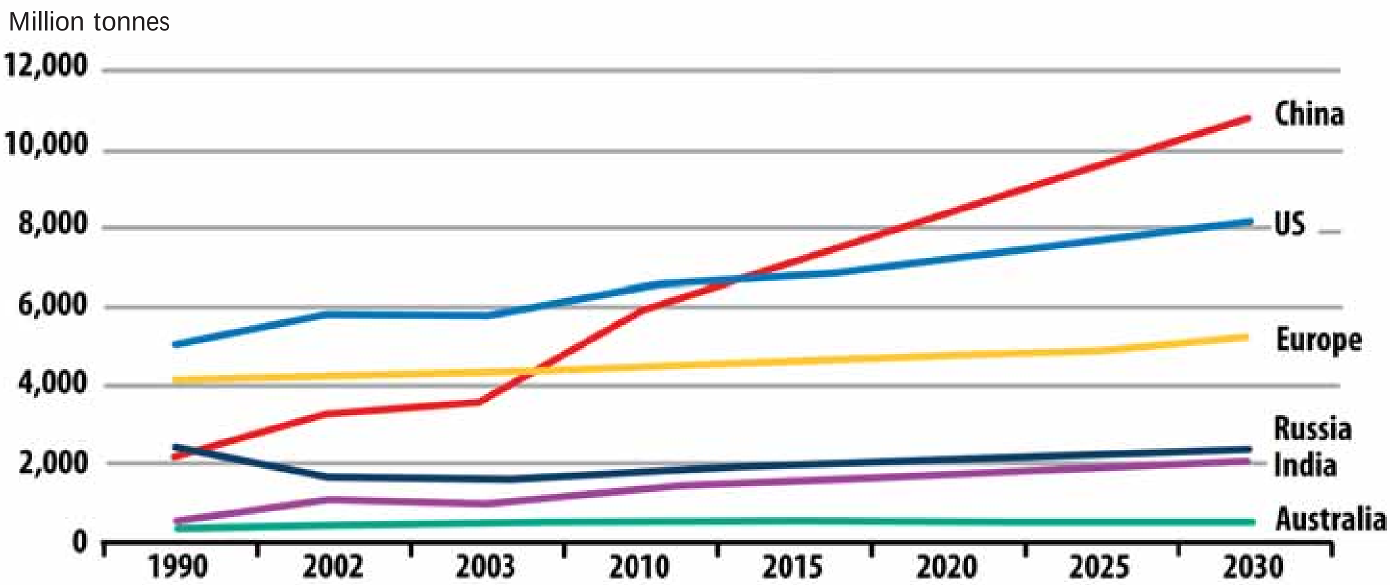
The growth of carbon exchanges – similar in principle to the more familiar global stock exchanges – in major economic regions of the world also suggests that the international market is set for rapid expansion.

The European Climate Exchange, where most of Europe's carbon credit exchange trading takes place, has seen its USD 9 billion (6.3 billion euro) worth of carbon credits traded in 2005 increase threefold by 2007. Prospectively, its credits are forecast to be worth USD 100 billion by 2020.

Key to that exchange's success is the second phase of the European Emissions trading scheme, which begins in 2008. Under the system to date, the European Union (EU)

## Fossil fuel consumption

**World carbon dioxide emissions by country, 1990-2030**




**The man-made increase in greenhouse gases during the past century has been largely the result of rapid economic growth in the world's developed economies. By about 2020 this is expected to be eclipsed by the fast-growing developing economies, led by China.**

imposes pollution limits on countries and industries and allows heavier polluters to buy carbon dioxide emission credits from those who emit less than their quotas. But for the second phase, the EU has more than doubled the fines for non-compliance with allowed emissions, and has issued tighter emission ceilings.

Australia's first carbon trading exchange, Australian Climate Exchange (ACX), was established in 2005 with the aim of cutting the country's greenhouse gas emissions and bracing firms for possible pollution limits five years ahead of the introduction of a government-backed scheme.

But Australia's change of government at the end of 2007 – and the new administration's immediate ratification of the Kyoto Protocol (the international treaty to reduce emissions) – is set to hasten that process.

"One of the reasons for the change of government was that the prior administration did not treat climate change as a serious electoral concern," says Allen Bolaffi, managing partner of UHY's firm in Adelaide, South Australia.

Now that the government has adopted Kyoto, more Australian companies – along with companies facing, or imminently facing, similar legislative pressures in jurisdictions around the world – will be assigning carbon audits and allied undertakings to their business and financial advisors.

"Companies will need to get an understanding of the balance sheet issues as they deal with purchased carbon credits, and create intangible assets for those clients that are carbon credit producers," says Bolaffi. "How will we recognise these assets and liabilities?"

As companies become required to purchase carbon credits to offset their carbon emissions, what impact will this have on prices? Will it jeopardise inflation in volatile jurisdictions? "Shipping and airlines are amongst the greatest polluters," says Bolaffi. "How will this affect their operations in places like Australia and the EU?"

UHY Haines Norton (Adelaide) has participated in the establishment of the Australian Carbon Group, bringing together major carbon producers and academics so that there is a better understanding of what is required. "Society is demanding an integrated response from government and business," says Bolaffi. "There are a lot of companies that want to be 'carbon neutral' by 2010, but do they really know what it means? Generally, there is little understanding, especially of the costs that will be required to effect this."

**More carbon exchanges**

Bolaffi points to the rapid growth of carbon

exchanges around the world. "Over time, carbon will be a commodity, much like any other, that is traded 24 hours a day across the globe," he says.

The Australian ACX exchange was the fourth voluntary market, following schemes in the US, UK and Japan.

The US' Chicago Climate Exchange (CCX) was the first carbon exchange when it opened in 2003. It provides a market for six different polluting gases including carbon dioxide, methane and nitrous oxide. Economist and financial innovator, Dr Richard Sandor, who started CCX, believes that the market for carbon credits could one day be larger than the market for oil.

Brazil's new carbon exchange is controlled by Brazil's financial regulator, the Securities and Exchange Commission (Comissão de Valores Mobiliários).

China and the United Nations are setting up a carbon trading exchange in Beijing – a move that could establish the Chinese capital as a key centre for global trade in carbon credits, according to the UN's top official in China. The UN's climate change secretariat has said China is expected to account for 41% of all carbon credits issued by the UN by 2012.

### Carbon trading system

The prevalent carbon trading system is called cap and trade. Members agree to reduce the amount of greenhouse gases they release into the atmosphere by a percentage. That limit is the cap.

Trading takes place when members release less than their limit. That leaves them with a surplus of emission credits. These credits can then be sold to members who have released more than their limit.

Market forces drive the price of the credits. The credits are called Carbon Financial Instruments. Each credit is equal to 100 metric tonnes of carbon dioxide, the most common greenhouse gas.

Carbon credits are issued by the UN under a Kyoto provision, known as the clean development mechanism, by which developed countries invest in projects, such as wind farms or hydroelectric projects, that reduce greenhouse gas emissions in poor countries.

Carbon trading has its roots in the Kyoto agreement – an international and legally binding agreement to reduce emissions worldwide. It came into force in February 2005 after being agreed at a 1997 UN conference in Kyoto, Japan. A total of 174 nations ratified the pact to reduce emissions by developed countries to at least 5% below 1990 levels by 2008-2012. Subsequent UN climate talks begun in Bali at the end of 2007 are working towards a target of a 25-40% reduction in emissions by 2020.

Under Kyoto obligations, industrialised countries have 100 days after final annual assessments to pay for any credits shortfall – by buying credits or more allowances via emissions trading. Failure to do so leads to penalties.

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# SOX made simpler: adopting best practices to reduce risks and costs

**In a move intended to simplify compliance, the US' Securities and Exchange Commission (SEC) has approved new interpretive guidance to help companies comply with Section 404 of the Sarbanes-Oxley Act of 2002.**

The SEC's *Amendment to Rules Regarding Management's Report on Internal Control Over Financial Reporting* is intended to help companies focus on the internal controls that will best protect against the risk of a material financial misstatement.

In a related move, the SEC also adopted PCAOB Auditing Standard No. 5, *An Audit of Internal Control over Financial Reporting That Is Integrated with an Audit of Financial Statements*. AS 5, for short, replaced an equally lengthy-titled standard, AS 2.

AS 5 is now considered the standard for external auditors to follow for assessing internal controls over financial reporting.

"This new interpretive guidance creates flexibility for management in developing a strategy for how best to comply with SOX requirements," says Chris Reece, senior manager with UHY Advisors' Enterprise Risk Advisory Services (ERAS) practice in New York.

"Because AS 5 also prescribes a risk-based approach, a byproduct will be more efficient use of time for everyone involved in the compliance process."

Reece adds that some companies anticipate that the new guidance will reduce compliance costs associated with Section 404 testing, as well as the costs of the external audit engagement. This is largely because the new guidance allows a more focused, risk-based approach. AS 5 also enables external auditors to rely on testing and other work performed by a company's internal audit department or external SOX consultants.

However, Reece says that any prior issues – such as deficient approaches and methodology or material deficiencies – may conspire to reduce any cost savings. "In the future, there should be a likelihood of greater cost savings, particularly if best practices are already in use," he says.

### Impact on public companies

Norm Shikuzawa, who heads UHY Advisors' ERAS practice in California, says proactive companies that have viewed SOX compliance as an opportunity to reassess their financial reporting processes, to identify redundancies or improvement areas, will likely embrace the new SEC guidance as a way to maximise value in further streamlining compliance efforts.

"We have seen added attention by management to increase the effectiveness and efficiency of the financial close process," says Shikuzawa. "Because many companies in the past took the view that they had to test all areas, it was getting ridiculous when certain non-core items were scrutinised to the same degree as a major risk area."

While some management teams may feel liberated that they can be flexible in their approach to 404 compliance, others may still need hands-on assistance. Shikuzawa and Reece say that UHY Advisors generally recommends companies to take a strategic approach that fits their corporate culture and embraces:

- A holistic approach that balances qualitative inherent risk assessment with the appropriate control response and quantitative risk frequency and impact studies, as well as key process indicators to improve risk identification and the related controls over financial reporting. This approach should encompass risks related to a company's environment, business processes and information flow – and how these areas influence financial reporting.

- Open and proactive communication with the external auditors to ensure acceptance and minimise surprises during their assessment of internal controls.

- Identifying opportunities for increased reliance on prior-year assessments of internal controls over financial reporting.

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# Tentacles of new US fraud law likely to reach far and wide

**The Foreign Corrupt Practices Act – primarily applicable to US companies and their subsidiaries worldwide – is 'the next hot topic' following in the wake of Enron-style scandals and Sarbanes-Oxley Act regulations (SOX). The new Act prohibits money payments, or 'anything of value', to a foreign official or employee in order to obtain or retain business, or to gain any other improper competitive advantage.**

It covers, for example, bogus consulting fees, excessive gifts and travel benefits provided to government officials. ('Anything of value' is defined broadly.)

The law relates primarily to entities organised under US law; those that have their 'principal place of business' in the US; and issuers of securities in the US – including foreign companies whose stock is listed with the US' Securities Exchange Commission.
One settlement arising from fraud in a US company in 2007 resulted in a USD 44 million fine.

As happened with SOX, the Act's influences are likely to be felt not just among US subsidiaries worldwide but also, through national or regional legislation, throughout industrialised jurisdictions globally in time.

UHY's specialist Forensic, Litigation & Valuations Services Group (FLVS), based in Houston, US, is primed to take on more transnational work and is well resourced with multi-skilled expertise to provide integrated investigations – what its leader, Jeff Harfenist, describes as a 'highly specialised, response team'. Resources include an 'eDiscovery' electronic data system that can sift through millions of documents at a time (see panel page 7).

Worldwide it is estimated that more than 60 billion email messages are sent each day. On average each employee has between 2 and 5 GB of electronic data stored away. Ninety per cent of all documents created are stored electronically. More than 100 billion instant messaging and text messages are sent each day. Despite the enormous quantities, such data needs to be investigated to help detect fraud.

### Fraud's pressure cooker

All fraud, say Jeff, "starts with pressure". Unrealistic expectations, bonuses, extra stock rewards and other incentives create a 'pressure cooker' that drives fraud.
It "starts small", becomes habitual and, after a while, "people don't believe what they're doing is criminal". They rationalise their actions by asking themselves how they will be judged "if they are the only company playing by the rules". Fraud grows over time. "You get into it so deep you can't grow your way out of it."

The 'slippery slope' may start with delaying costs for a period, then accelerating revenue recognition, making unsupportable entries, and fabricating additional revenues.

### UHY services

Services offered by UHY within the US, and transnationally through its network of firms in 66 countries, includes forensic investigations, tracing assets, and providing background information and intelligence. Local languages and knowledge of local cultures are key assets in any transnational forensic assignment.

Typically, the team will be called in by a client company when it suspects financial statement fraud from among its employees; bribery and corruption; or misappropriation of assets.

The team assesses financial statement fraud stemming from irregularities (as opposed to errors). The distinction between 'errors' and 'irregularities' is crucial. An error may be a mistake in gathering and processing data; incorrect use of estimates; and mistakes in applying accounting principles. Irregularities would be manipulating, altering or falsifying records; intentional omission of transactions or significant events; or misapplication of accounting principles with intent to deceive.

Fraud may include failing to recognise expenses when incurred; accelerating revenue recognition; and mischaracterising transactions for reporting purposes.

### Potential warning signs of conditions in which fraud may exist include:

- Accounts receivable grows substantially faster than sales
- The majority of net income comes from one-time gains (core business may be deteriorating)
- Operating expenses decline sharply relative to sales
- Changes to accounting principles, estimates and classifications (may mask operating problems).

Theft through 'conflicted' sales or purchases is another area the team is called in to investigate – that is, selling to, or buying from, a customer where an employee has an undisclosed interest.

### Process 'red flags' may include:

- Limited staff performing multiple tasks
- Employees failing to take vacations
- Ready access to cash
- Internal control weaknesses
- Continuing accounting discrepancies
- Unexplained analytical anomalies
- Missing or altered documentation.

Each forensic team is recruited according to the skills and experience required on each assignment and its investigative plan. Reporting lines (including a list of people or entities not to be contacted) are drawn up and the team communicates through daily or weekly meetings or conference calls. As the investigation continues, plans are often modified as the case changes, and counsel must be available at short notice.

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## Data discovery lab processes evidence

UHY has an electronic data discovery lab – a state-of-the-art facility for processing large volumes of electronic evidence and conducting sophisticated computer forensic investigations.

The lab, located in Houston, US, is used for both high-volume electronic data discovery – including data processing, culling with search terms, de-duplication and file conversion – and complex digital forensic activities.

It is secured with biometric locks and the evidence storage 'vault' is secured with advanced motion detectors.

"With approximately 90% of all business communications now stored in some sort of electronic form, it's crucial for law firms and corporate legal departments to be able to rely on outside professionals who can provide high-quality electronic evidence collection, processing, review and production services from a secure location," says FLVSG managing director Doug Herman.

"Our lab is capable of uploading up to 50 gigabytes of electronic data every 24 hours. Coupled with our knowledgeable consultants, project managers, forensic investigators and the sophisticated digital forensics equipment in the lab, we have the capability to handle all electronic data discovery requirements – from the pre-filing stage of the case to its successful conclusion – all in one location."

# Fair value accounting: is it fair?

**When two academics from each side of the Atlantic publicly criticised fair value accounting as a "bubble-blowing accounting model" – accusing it of contributing to last year's market crash and credit crunch – the debate about its value and also its fairness entered the public domain.**

Stella Fearnley, from Bournemouth University, UK, and Shyam Sunder, from the Yale School of Management, US, said that the model is "built on sand".

"Instead of informing markets through prudent valuation and controlling management excess, 'fair' values feed the prices back to the markets," the academics wrote in the UK's influential *Financial Times* newspaper.

"For example, a drop in the market value of the borrowings of a troubled company is reported as an increase in its income because the reduced liability flows through the income statement, thus obscuring the problem."

The system needs a rethink, said the academics. But are they being fair?

### Fair value definition

'Fair value' has been used in accounting standards for nearly two decades. Some advocates regard it as the ideal basis for measurement in financial reporting.

Definitions vary but, in substance, it is the same as market value – an estimate of the price a company would realise if it were to sell an asset, or the price it would pay to relieve a liability.

The term's most common use is in acquisition accounting, where separable assets and liabilities are measured at fair value at the date of the acquisition. Effectively, it is a proxy for *historical cost* (original price paid or received). If, for example, a company decides to hold a bond to maturity, the bond can be shown at its original cost.

But fair value is also used as a form of *current value* measurement. In this case, if that same company buys another identical bond that it intends to sell soon, that bond can also be accounted for at fair value. Financial instruments, such as shares traded on an exchange, debt securities, and derivatives, are assessed in this way.

Companies also measure internal processes at fair value, such as making investing and trading decisions; managing and measuring risks; determining how much capital to devote to various lines of business; and calculating compensation.

### Determining fair value

The process of valuing a financial instrument to its fair value depends on how easy it is to determine a price for that instrument.

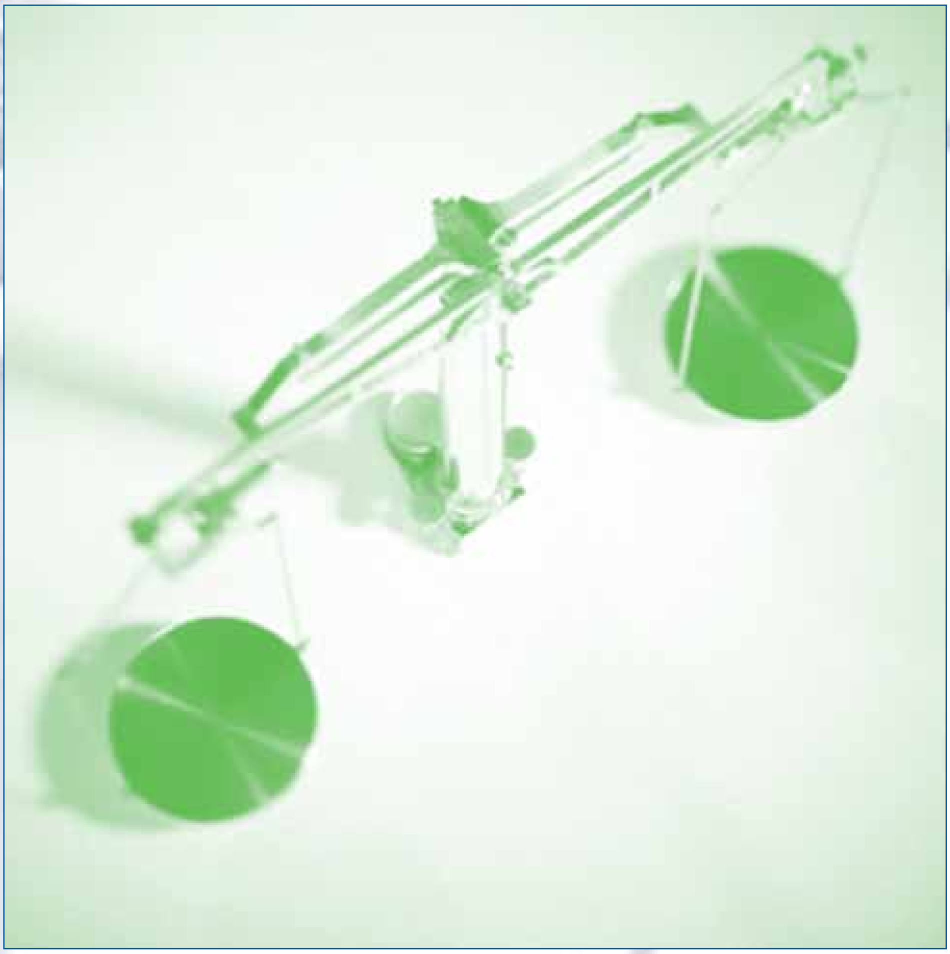
Because fair value is the price at which a willing buyer and seller agree to trade, finding the right price is the key to valuation.

In its simplest form, a company can find the price or value of an instrument in a newspaper or other quotation system. These prices typically reflect the last price reported to the secondary market. This usually works well because listed prices are generally available – but not for all financial instruments. In those cases, an auditor is required to determine fair value.

Auditors use valuation models to measure fair value that take into account various data, such as current economic forecasts, general market conditions, the price of similar financial instruments, etc. Auditors rely primarily on judgment only for the most complex instruments where market parameters and prices do not exist.

Measuring things at fair value is straightforward where there is an active market for them, but for most items in accounts there is often not an active market. So fair value is measured in various ways, including:

- Market value
- Replacement cost
- Depreciated replacement cost
- The lower of replacement cost and net realisable value
- Market price adjusted if necessary for



unusual price fluctuations or for the size of the holding

- By reference to market prices
- By discounting to present value.

International accounting standards state: "The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique…

"Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models."

### Ensuring accuracy

Although judgment is involved in the fair valuation process, most companies need a robust internal control process for ensuring valuations are reasonable and consistent, points out Bill Charlton, UHY Haines Norton in Brisbane, Australia, one of UHY's international specialists on valuation.

"Management review and oversight are key to ensuring accuracy," he says. "Company directors must always subject valuation models to independent review as part of the internal control process to ensure that they reflect underlying market conditions; moreover, they must not be changed without appropriate approvals."

In addition, estimates generated by the models are compared to actual trades to determine the reasonableness of the estimates, says Charlton. Companies also employ other means of independent verification, such as comparing estimates to the value of the instrument at termination.

Regardless of whether financial instruments are reported at fair value on the face of a firm's balance sheet, financial statement footnotes provide details about the fair values of all financial instruments.

Fair value provides important information about financial assets and liabilities compared with values based on only their historical cost, says Charlton. Because fair value reflects current market conditions, it provides a comparison of the value of financial instruments bought at different times. In addition, financial disclosures that use fair value provide investors with insight into prevailing market values, further helping to ensure the usefulness of financial reports.

"However, without proper controls, the fair value, market regime provides company directors and others with the ability to overstate unrealised profits and understate unrealised losses," says Charlton. "That is what I consider to be the most important issue."

### Prospects for change

Using fair value as a proxy for historical cost can involve severe practical problems – both for preparers in arriving at reasonable measurements and for auditors in confirming that they are reasonable, says the Institute of Chartered Accountants (ICAEW) in the UK.

"But this use of fair value is relatively uncontroversial," it says. "The real controversy arises over the increasing use of fair value as a measurement of current value, and it is primarily as a measure of current value that some wish to see it used more generally."

Advocates of change argue that historical cost information is out of date and therefore necessarily irrelevant to any practical decision. They also point to the degree of judgement involved in many historical cost measurements, which they regard as involving an unacceptable level of subjectivity.

Where fair values reflect active market prices, however, they embody the best available measure of the present value of risk-adjusted cashflows that the assets in question are likely to generate.

But there is also a case against fair value:

- A major practical problem is the lack of active markets for most assets and liabilities. This means that most fair value measurements are estimates. They are at least as subjective as historical cost measurements and, some would say, a lot more so.

- Assets in businesses generate cash flows jointly, not separately, so it is questionable just how useful information on the current values of individual assets will be in predicting the cashflows of a business as a whole.

- Fair value information can be costly. Even if it is worth obtaining for large listed companies whose accounts are pored over by armies of analysts, this does not necessarily mean that it is worth the money for privately owned companies.

- Recognising profits based on fair values means that unrealised profits are recognised. Some would doubt the prudence of this for the purposes of either dividend decisions or calculations of management bonuses, as well as its fairness for taxation.

The ICAEW's position is a practical one. It says it does not have an ideological commitment to any single basis of measurement that it believes should be applied universally. Each basis has its uses, and fair value seems to be appropriate for many financial instruments.

But there are also many circumstances in which historical cost seems to work well, it says. For example, the International Accounting Standards Board (IASB) issued a discussion paper, *Measurement Bases for Financial Accounting – Measurement on Initial Recognition*, which proposed that assets and liabilities should preferably be measured at fair value on initial recognition.

The issue over fair value accounting is likely to arise in the context of the IASB's work with the US Financial Accounting Standards Board as they converge international accounting standards and prepare a joint conceptual framework.

That framework will cover the question of measurement – and, say analysts, may well prepare the way for more extensive use of fair value that is both fair and valuable.

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# Gateway to the Middle East: aiming for prosperity and profit

**Cross-border capital flows between the Gulf's six-member trade bloc, the Gulf Co-operation Council, and Asia are forecast to climb from an annual USD 15 billion today to USD 300 billion in 2020, according to international consultants, McKinsey & Company.**

That highly-respected forecast of huge trade growth underlines just how fast the Gulf Arab States – and Dubai, United Arab Emirates, in particular – are becoming a gateway for business from India, as well from North Africa, the Levant, Saudi Arabia and Europe.

The Gulf's oil-fuelled economic boom has created a surge in financial liquidity. Its emerging market status has attracted significant capital from high-profile international investors. And agile home investment – not least Dubai's building frenzy to secure its future as a world tourist destination – has laid foundations for the region to become an international hub for business exchange.

With Asia's biggest economies competing to secure energy imports from the Gulf to fuel their own growth, there's talk of a 'New Silk Road' – goods and services are once again flowing along the route that connected the Middle East and Asia until the 13th century.

If more evidence were needed, the MENA (Middle East and North Africa) region now ranks as the fastest-growing economy behind China and India – it recently clocked up one of its best performances since its heyday of the 1970s.

The Middle East – roughly defined as the area from the south-eastern Mediterranean Sea to the Arabian Gulf – encompasses more than a dozen oil-producing countries with distinct economic and social characteristics, but at least one in common: young, rapidly growing populations in need of employment. Only 4% of the population is over 65 as opposed to 12.5% in the US.

With governments aware that they can no longer provide full employment for their citizens, an enormous need for private-sector jobs is fundamental to their strategic plans to attract foreign investment.

"Their primary need is the technology required to create long-term economic opportunities for their citizens," says managing partner Rajiv Saxena, of UHY Saxena in Dubai. "For anyone, like myself, tracking Dubai's development as an international hub and gateway for business exchange, it soon becomes apparent that there are attractive opportunities for sector interests across the board – particularly in construction, telecommunications and financial services – not least to service the expatriate community."

The British, for example, now make up a substantial 10% of the population. Less than 50% of the population is Arab. Large groups of the community are Indian, Pakistani and South East Asian.

Dubai itself is billed as a "global city under construction" by its ruler. It is part of a larger vision of His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai. "People think we're just building Dubai," he says. "But no, we're accommodating 1.5 billon people in the central world between the East and West. When we say the West, we think of Europe and America. When we say East, we think of Japan and China."

Telecommunications is a prime sector opportunity. With the decision by the UAE government to open its telecoms market to additional operators, every country in the region is heading towards market liberalisation, generating massive opportunities for companies operating in network development, satellite applications, and infrastructure solutions.

According to industry analysts Arab Advisors Group, even though penetration of communications infrastructure is increasing throughout the Arab world, the region still lags behind with broadband Internet access. However, this gap is expected to narrow soon, due in large part to significant telecoms investment in the region.

But budding investors would have to move quickly – regional telecom operators raised a combined USD 14.7 billion from investors in the first four months of 2007 alone to support expansion and acquisition strategies.

A recent World Bank report endorses this regional growth. The report, *The Middle East and North Africa Region, Economic Developments and Prospects 2007*, states that the region "for the fourth year in a row enjoyed a robust pace of economic growth. Strong oil revenues, along with European recovery, a more dynamic private sector, and a shift toward more investment provided the momentum needed for another year of first-rate economic performance". GDP increased by 6.3%, up from 4.6% in 2004.

"It is clear that what attracts business to the Middle East is the dynamic and viable trading environment, and the bridge it offers between time zones," says Saxena. "In Dubai, in particular, the creation of the Jebel Ali Free Zone draws private investors and commercial businesses from around the world, tempted by exemption from import, export and personal taxation; business laws allowing 100% foreign ownership; total repatriation of profits; and the consistent and easily convertible currency."

In the past in Dubai, says Saxena, petrodollars tended to be deposited in international banks and left to accumulate without being actively managed. Today, new Arab financial institutions, many of them based in Dubai, are doing the investing themselves. Government investment arms are also diversifying across asset classes and regions. Islamic investment is showing strong momentum. The world's appetite for Shari'ah-compliant investment products that invest outside the Muslim world is increasing.

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A significant amount of Gulf money is going to India and a significant amount of Indian trade going through the Gulf. The Middle East, it seems, has much stronger cultural ties with the Indian subcontinent than China.

"Economic and business indicators point to a bright future as the region builds linkages that draw the countries within it further into the global economy," says Saxena. "Cultural differences – including the blurring of state treasury and private finances, and top-down economic policy set by a closed ruling family or ruler – are being smoothed over by an expanding class of cosmopolitan facilitators with one common aim: prosperity and profit. So far, it's a game in which all sides are winning."

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## Landmark for growth and expansion

Since its inauguration in September 2004, the Dubai International Financial Centre (DIFC) has attracted more than 270 companies, including many of the world's leading financial firms, and is also home to the Dubai International Financial Exchange (DIFX), opened in 2005.

Ideally located to bridge the gap between existing financial centres of London and New York in the West, and Hong Kong and Tokyo in the East, it will service a region said to have the largest untapped emerging market for financial services.

The DIFC is a 110-acre free zone, located in the heart of the city, close to leading banks, hotels and retail outlets. It is part of a vision to create an environment for progress and economic development and diversification by functioning as a globally recognised regional financial centre.

The DIFC is designed to create a unique financial services cluster for wealth-creation initiatives. Banking services, capital markets, asset management and fund registration, reinsurance, Islamic finance and back office operations are its six focus areas.

Financial institutions may apply for licences in these sectors. Firms operating in the DIFC are eligible for benefits such as a zero tax rate on profits, 100% foreign ownership, no restrictions on foreign exchange or repatriation of capital, operational support and business continuity facilities.

Financial services in the DIFC are regulated to international standards by the Dubai Financial Services Authority.

It is expected that by 2010 more than 30,000 professionals in the global financial market will work in the DIFC.

**This 'lighthouse' tower is a 400-metre tower of luxury offices to be constructed next to 'The Gate' at the DIFC. Its external lighting features will make it a new Dubai landmark. The gross floor area will be 90,000 sq m. His Excellency Dr Omar Bin Sulaiman, Governor of the DIFC, says: "The launch of the DIFC Lighthouse Tower, the newest landmark on the skyline of Dubai, is in line with our objective for ongoing expansion of the DIFC and concomitant growth of the emirate. This tower will help meet the burgeoning demand for high-quality office space in the heart of our thriving community."**