Russell Bedford

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Business World

News, views and analysis from the **Russell Bedford** accounting network

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Welcome to **Business World**

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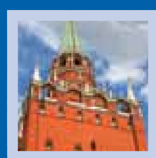

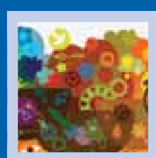

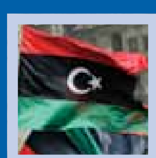

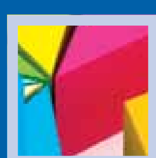

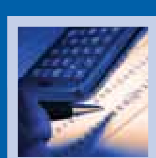

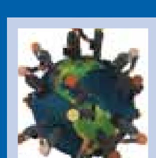

Today's Russia

About the author

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Igor Nevsky is a senior auditor with Mikhailov & Partners Consulting Group, Russell Bedford's member firm in Moscow. He has a PhD in Economics and is a professional accountant, certified auditor and expert in IFRS. He is the author of numerous articles on bookkeeping and tax accounting issues in professional publications.

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The financial crisis of 2008 affected Russia just like all other major economies around the globe. But the Russian economy is now recovering. Recently published figures show that Russian GDP grew by 4.2% in 2011. What's more, other economic indicators such as industrial production, consumer spending, imports and exports already exceed the levels they were at before the crisis.

After economic growth hit 4.5% in the fourth quarter of 2010 it slowed to 4.1% in the first quarter of 2011 and 3.4% in the second quarter. Inflation also rose during the first half of 2011 – the Consumer Price Index hit 8.7% in December 2010, peaked around 9.5% in May before settling at 6.1% by the end of 2011. But this is a big change from the days when Russian inflation was measured in hundreds or even thousands of per cent.

The structure of the Russian economy during the last five years has been remarkably stable. On average, the largest contributors to GDP have been wholesale trade which has made up around 9%, oil and natural gas production 7%, retail trade 6%, and public administration and defence 5%.

Russia's dependence on raw materials remains high. Raw materials not only contribute a significant share of GDP but also make up a 30% share of the export charge in the federal budget income.

The role of the State

The State controls much of the market in Russia. Of 4.8m registered businesses the State owns almost 120,000 and a further 240,000 are owned by municipalities.

Further, there exist many vertically integrated structures where the State owns the parent company, which holds shares in companies lower down the structure. Examples include Rosatom, Rostekhnologii and Gazprom.

Businesses controlled by the State tend to operate in strategic sectors such as nuclear, military, and energy. This leaves openings for businesses in non-strategic industries where the private sector continues to dominate.

Recent forecasts of social and economic development during 2012-14 estimate the State will be responsible for 25.4-25.6% of GDP. This illustrates the important role the State plays in the Russian economy.

Direct foreign investments

More than 55% of existing foreign investments exist as share capital in incorporated Russian companies. A further 33% is in the form of foreign loans to Russian businesses.

During 2009-10 direct foreign investment decreased significantly due to the state of the global economy and the resultant shortage of capital. The continued crisis in the euro zone points to little short-term change. However, once Europe recovers the opportunities that investment in Russia presents should prove attractive.

Doing business in Russia

One of the attractions of running a business in Russia is its low taxation – corporate income tax at 20% and value-added tax at 18% are both lower than the European average. And social insurance contributions are also lower than elsewhere in Europe.

On the downside, business in Russia is severely hampered by State regulation of economic activity. For example, in 2011 alone there were changes to social insurance rates, new laws governing licensing and digital signatures, and more than 20 pieces of legislation updating the taxation regime.

However, there were some encouraging words from Russian Prime Minister Vladimir Putin who, in December 2011, outlined his aim to stamp out corruption and make Russia more business friendly.

"We are setting the goal of accelerating economic growth to 6%, better to 6-7%, and join the list of the world's top five economies in five years but not only because advanced economies will be falling but also because we'll be growing.

"We need to outline a quite clear goal - to become one of the world's leading countries with the best conditions for entrepreneurial activity within ten years," said Mr Putin.

If Prime Minister Putin's vision becomes reality there will be real opportunity in Russia for businesses in the coming years.

Be sure to get advice

The Russian regulatory landscape makes using external consultants in business a regular occurrence rather than an extraordinary one. The main consultants used are legal advisers for drafting contracts or defending business interests in court, or financial consultants such as accountants and auditors.

By law, certain companies are subject to compulsory audit. These include open joint-stock companies, banks and issuers of listed securities. Further, any company where turnover exceeds 400m roubles (10m euros) or assets exceed 60m roubles (1.5m euros) must also be audited.

However, many companies that do not fall into these categories may also employ external auditors. Often this will be when they require an audit of financial statements that are prepared in line with international standards such as International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and US Generally Accepted Accounting Principles (US GAAP). Companies will also use external auditors for other complex issues where specialist expertise is a must.

Although there is much practice of outsourcing to auditors, use of external services from accountants is low. This is largely explained by the level of qualifications among accountants and bookkeepers, which is often inadequate for the continually evolving needs of business. Therefore, most companies keep this in-house.

Data published by the independent ratings agency Expert supports these findings. In 2010 the top 15 largest consulting groups derived revenue of 20.2bn roubles (500m euros) from audit services. Contrast this with the revenue earned by the leading 15 accounting and tax services providers of just 850m roubles (20m euros).

This evidence supports the need to use high-quality and professional consulting firms when outsourcing services.

One of the attractions of running a business in Russia is its low taxation...On the downside, business in Russia is severely hampered by State regulation.

Creating a culture of **innovation**

Creating a culture of innovation typically involves complex changes throughout your organisation: its structure, measurements, incentives, performance reviews, leadership, training, technology and more. However, one simple change can have a massive impact on your ability to innovate.

Although many companies are keen on generating new ideas, there is a more important skill – one that involves asking better questions. Albert Einstein reputedly said, 'If I had an hour to save the world, I would spend 59 minutes defining the problem and one minute finding solutions.' From my perspective, most organisations spend 60 minutes of their time finding solutions to problems that just don't matter.

This is why many innovation efforts fail. Too much energy is invested in projects that are not real value-creators. If you spend time defining the real problems, challenges, and opportunities for your organisation, you will massively accelerate your innovation efforts.

All companies have challenges. They can be technical challenges on how to create a particular chemical compound. They can be marketing challenges on how to best describe your product to increase market share. They can be HR challenges around improving employee engagement. Where do you find these challenges? You can find them anywhere – from customers, employees, shareholders, consultants, suppliers, competitors, and the list goes on.

Clearly, organisations have no shortage of challenges. And some of the most important challenges to solve are hard to spot because of organisational blind spots and assumption making.

The meta-challenge for all organisations is to find which challenges, when solved, will create the greatest value. Given that organisations have limited resources and money, setting priorities is critical. Therefore, the first step in creating a culture of innovation is to look for, identify, and organise challenges. And then you must become skilled at valuing, ranking, and framing these challenges.

Think of your innovation portfolio much like you would handle a financial investment portfolio. You want some safe bets (incremental innovation) and some riskier investments (radical innovation). You also want varied innovations ranging from technical challenges to marketing challenges, and service challenges to performance-improvement challenges.

Of course, you only create value when you find and implement solutions. Therefore, framing the challenge is only the first step. But as Einstein noted, if you take time to define your challenges properly, you will be able to find workable solutions more easily.

Innovation is not about one-time change; it is about continual and sustainable change. And an organisation's ability to change hinges on its ability to continually identify its most pressing challenges.

My mantra is this: when the pace of change outside your organisation is faster than the pace within, you will be out of business. As today's pace of change is crazier than ever, a culture of innovation, when done right, can give you a leg up in an evolving marketplace.

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Stephen is one of the foremost authorities on innovation culture, collaboration, and open innovation. He is the author of Personality Poker: The Playing Card Tool for Driving High Performance Teamwork and Innovation (Penguin Portfolio) and Best Practices Are Stupid: 40 Ways to Out-Innovate the Competition (Penguin Portfolio). You can read over 500 articles at SteveShapiro.com.

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Business valuation:
a brief guided tour

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Business valuation is a process that makes it possible to place a monetary value on an entire business or part of a business. A business valuation is carried out by a qualified valuation analyst.

Having determined what is to be valued, at what date and for what purpose, the business valuation assignment will consider the following:

- Standard of value – the type of value being used to value the business
- premise of value – going-concern or liquidation value
- ownership characteristics and size of interests
- marketability of the business
- form and extent of the report – conclusion of value or calculation of value
- any special requirements.

There are several reasons to value a business and, in recent years, the need has increased significantly. Reasons why a business valuation may be necessary include merger, acquisition, stock-market flotation, liquidation, financial reporting, tax planning, estate planning, and dispute resolution.

Types of valuation

Each valuation is different and depends very much on the context in which it is carried out. Local laws and regulations will also have a bearing.

There are three ways to approach a business valuation. The purpose of the valuation will mainly determine which method is appropriate.

Income-based approach

This approach values the business based on a present-day value of future earnings or cash flows. There are two main methods:

- capitalisation of future earnings, which takes a projection of future earnings and divides it by a capitalisation rate
- discounted future earnings, which adjusts projected future earnings for the time value of money.

Asset-based approach

This approach values the business as the total value of its assets, adjusted to fair market value – the price a willing independent buyer will pay and a willing seller will accept.

Market-based approach

This approach works on the basis that the value of a business is that of a comparable business in the same market. The most frequent methods of market-based valuation are:

- guideline public company method – based on a comparison of the business with similar publicly quoted companies
- guideline company transactions method – based on analysis of published data on transactions in public and private companies
- guideline sale of interests method – based on analysis of sales of interest in other comparable businesses.

Types of engagement

When you appoint a valuation analyst there are two versions of engagement: a valuation engagement and a calculation engagement.

Valuation engagement

The valuation analyst is free to decide the appropriate approach and method and the resultant valuation is known as a conclusion of value, expressed as a single value or range of values. In effect, the valuation analyst is giving an expert opinion on the value of the business.

Calculation engagement

The valuation analyst will agree the approach and method with you, the business owner. A calculation engagement is not as rigorous as a valuation engagement and the resultant valuation, known as a calculation of value, is merely a product of the processes that you have agreed with the valuation analyst. The valuation analyst is not giving an expert opinion and the calculation of value will likely differ from a conclusion of value.

Costs

Valuation costs depend on the complexity of a given valuation engagement. You are paying for the valuation analyst's time and fees will be calculated using an hourly rate. A valuation engagement tends to be more complex, takes more time, and costs more than a calculation engagement.

Valuation standards

In the United States, standards have existed since 1989 when the Appraisal Standards Board (ASB) set out the Uniform Standards of Professional Appraisal Practice (USPAP). The American Society of Appraisers, the American Institute of CPAs, and other North American appraisal bodies publish their own standards but they are mostly consistent with USPAP.

More and more international markets are now adopting these valuation standards. Several governments have made USPAP and the ASA's Business Valuation standards mandatory for business valuations involving privatisation. Further, the United Nations, the World Bank, and other international business organisations have actively sponsored presentations of USPAP and ASA's Business Valuation standards.

When valuing your business, for whatever reason, it is important you use a properly qualified and experienced valuation analyst and that the valuation assignment is clearly defined and properly conducted.

> There are several reasons to value a business and, in recent years, the need has increased significantly. Reasons why a business valuation may be necessary include merger, acquisition, stock-market flotation, liquidation, financial reporting, tax planning, estate planning, and dispute resolution.

Conflict in Libya: a story of business survival

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Abdalla Hamed is a Chartered Accountant, managing director of Consultancy House, a partner in Bader Al-Hasse & Co. Chartered Accountants in Libya and a visiting lecturer at the University of Wales, Cardiff. Consultancy House joined Russell Bedford International in 2009 as the network's representative firm in Libya.

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Consultancy House (CH) is one of the top financial firms in Libya, providing financial services and consultancy mainly to international companies operating in the Libyan market.

Consultancy House was growing rapidly. It had a presence in several Libyan cities and planned to expand further during 2011. The Libyan conflict changed everything; our business plans were no longer about growth, they were only about survival. In this article I describe how CH survived the Libyan conflict and some of the steps we took to make that happen.

The gathering storm

What became known as the Arab Spring began in Tunisia and quickly spread to Egypt. After the collapse of the Tunisian and Egyptian governments unrest started in Libya.

Anarchy followed. Many companies lost equipment and premises. Later the Transitional National Council restored some order but this was too late for some businesses. Fortunately we were not one of them.

Planning to survive

The first step we took was to stop operations across Libya from 19 February 2011. We gave all staff a week off while we took stock of the situation and made plans.

A week became a month while we waited for the unrest to calm down. In mid-March we decided to start work again but even after a month we could not operate to our full capacity or to any degree of normality.

Overcoming adversity

Once we decided to reopen for business, we had to think about the issues we would face and the steps we would take to help us work around them.

The Libyan conflict changed everything; our business plans were no longer about growth, they were only about survival.

Moving from Tripoli

Tripoli was too dangerous. We decided to operate from our Al Baida office – being in eastern Libya, Al Baida was far enough away from the major conflict. This meant moving some key staff from Tripoli and Benghazi. Although we now had an office to work from there were many other problems to overcome.

Communications

We were cut off from the rest of the world. We had no mobile phones, no Internet and all post offices were closed. And couriers like DHL and TNT had stopped operating in Libya.

We organised access to the Internet by using a two-way satellite connection. For voice communications we used a satellite telephone. These were expensive solutions but the ability to communicate with clients was vital.

Access to cash

All the banks in Libya imposed caps on cash withdrawals of around $600 a month per account. This made paying salaries and other expenses difficult. We had to minimise our need for cash, but how?

We agreed with suppliers that we would pay them by cheque. While this affected our bargaining position it meant the liquidity problem became the supplier's. We also paid employees by cheque.

Power supply

Power cuts became the norm. As our business relies heavily on electrical equipment, especially computers, a power cut means we cannot work.

Our Al Baida office regularly experienced power cuts lasting six hours or even longer. This meant we couldn't work conventional hours but had to work when the power was on. We also maximised our use of laptop computers and searched out other premises equipped with generators.

Problems beyond our control

While there were problems we could mitigate, there were other problems that we could do nothing about. For example, our non-Libyan employees left Libya creating a staff shortage, our international client businesses and their employees left Libya, and records were lost when tax offices were destroyed.

What we have learned

The experience we have gained from the conflict means we will be better informed and prepared should similar circumstances arise again.

Other businesses can learn from our experience and taking the following steps will stand you in good stead.

- Hold enough cash in case the supply should dry up.
- Leave some cash overseas as an alternative source.
- Keep your records up to date and regularly take backups. Do not rely on the authorities for records.
- Issue invoices immediately as these are records of what you have supplied. Your clients' records may not be so reliable.
- Do not delay discussions with employees and customers once problems start. You will be amazed at how accommodating people can be.

Phantom stock: a key employee retention tool

About the author

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Paul is a founding partner of Russell Bedford's Boston firm Rucci Bardaro & Barrett where he heads the Valuation and Litigation Support Services practice. He specialises in helping client businesses manage the opportunities presented by growth, merger, acquisition or sale, and has significant experience assisting family-owned businesses with transition and succession planning. Contact Paul for a complimentary copy of *Top 10 Questions to Ask When Considering a Phantom Stock Incentive Plan.*

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A constant challenge facing many small businesses is how to motivate and retain key employees without giving them a stake in the business. While the recession may have pushed employee incentive schemes down your list of priorities, as the economy improves it may be time to think ahead.

Motivating the employees who are essential to your business success may require incentives that go beyond the usual benefits like pensions and health insurance. However, you may not be ready to offer a share in the business with any partial loss of control this may bring.

But what if you could have the upside of employee ownership without the downsides? One solution is to grant phantom stock, which offers benefits for both you as the employer, and your employee.

- **Easy to set up and monitor** – phantom stock avoids much of the paperwork, restrictive rules and reporting requirements of conventional share ownership schemes.
- **Complete control of the plan terms** – you have total flexibility over the plan: which employees participate, when, and how many, shares are granted, terms of vesting, payout schedules and other details.
- **Protects ownership control** – since phantom shares carry no voting rights, there is no impact on the control of the business.
- **Stimulates employee motivation and productivity** – high-value workers now have more than just a job and a salary to keep them interested. They are in it for the long haul, especially if you link the rewards to long-term company performance.

A sense of ownership with little downside risk

Phantom stock is an effective compensation tool that allows key employees to enjoy a sense of ownership in the company. It enables them to share in the company's future success without necessarily enjoying the voting control, profits, dividends or distributions that normally come with conventional share ownership schemes.

For the employee, the potential financial reward of participating in a well-designed phantom stock plan can closely mimic actual equity or options. This is why these schemes are sometimes known as mirror stock or shadow stock. However, phantom stock avoids many of the risks and liabilities that normally go with real equity ownership. For instance, the employee doesn't put cash into the business, isn't exposed to corporate governance issues, and doesn't personally guarantee company debt.

A unique benefit at a comparatively modest cost

Although a phantom stock plan carries some administrative costs, such as legal fees and accounting fees, they compare favourably with the costs of a conventional share ownership scheme.

But the costs look small if you compare them with the cost to the business of losing a key employee. In fact, some experts estimate the cost of turnover at the senior level to be between 100% and 150% of the employee's annual salary.

Rather than face this situation, wouldn't you agree it's better to retain your top people with a well-thought-out reward package? One that benefits them, and keeps them engaged, productive and happy.

For both the company and the key employee, the phantom stock option can be a win-win solution.

Case study

Squeaky Clean, Inc is a family-run commercial cleaning outfit. It has enjoyed years of steady growth and profit, thanks in part to two dedicated sales executives. Recognising their value to the company's success, the owners set up a phantom stock plan and issued to each executive phantom stock equivalent to 5% of outstanding common stock as an incentive to stay with the company.

The vesting schedule was built around a combination of time periods of continued employment and certain economic milestones. The executives would only receive their payouts on retirement at age 65, or the liquidation, merger or sale of Squeaky Clean.

Six years later Squeaky Clean was sold to another commercial cleaning business. As a result, the value of the owners' original equity trebled. Because the value of the sales executives' phantom mirrored the owner's common stock, the two received a handsome payout when the sale went through.

Outsourcing internal auditing – the benefits

About the author

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Pablo Moyal is a partner at Stavros Moyal y Asociados, the Russell Bedford member in Uruguay, where he heads the audit division. He is a Certified Public Accountant and has an MBA. Pablo has lectured in accounting theory (specialising in IFRS) at the State University of Uruguay since 2000. He also lectured in finance at the ORT University, Uruguay.

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By necessity internal auditing has to be independent and objective to achieve its goal of making your business more efficient.

The role of the internal auditor

Your internal auditor must take a systematic and risk-based approach to evaluation to:

- meet your strategic business goals
- ensure the integrity of financial and operational information
- protect your assets
- comply with local laws and regulations
- assess any risk of fraud.

The case for outsourcing

While there is a clear need for internal audit, you need to decide whether to create your own internal audit function or use the services of an external consultancy.

For the typical small and medium-sized enterprise there are clear benefits to outsourcing.

- You can focus your attention on your core business activities – the activities that make you money.

- You will find it easier to buy in the services of an expert than it is to recruit and employ an expert.

- Specialist consultancy firms can give you the range of skills that you won't find in one person. For example, you may not only need an accountant but also an information technology or human resources expert.

- When you employ a specialist you create a reliance on that person. When that person leaves, you suffer disruption to your business while you try to replace that expertise. This is not an issue when you outsource as each consultant works to a common process.

- Employing someone with the experience and qualifications to perform an internal audit role is expensive. If you try to recruit cheaply you will get someone who is poorly qualified; this may cost you in the future. There is a clear cost-benefit argument for outsourcing.

Specialist consultancy firms can give you the range of skills that you won't find in one person.

- When you outsource you ensure independence and objectivity.
- You can monitor easily your relationship with your consultant through confidentiality and service-level agreements.

Development of standards

Standard-setting has developed at a pace in recent years and will no doubt continue to do so in the future.

The Institute of Internal Auditors (IIA) – the international professional body – laid down the first standards in 1978. These were reviewed and updated in 1998. In doing so, the IIA redefined the role of an internal auditor, introduced a code of ethics, created international standards and incorporated earlier guidelines.

You can expect the internal audit arena to continue to develop and evolve in the future. This strengthens further the case for outsourcing as you can be confident you are using up-to-date expertise.

Regulation

Financial scandals such as Enron increased the need for robust regulation. One of the most important developments was the Sarbanes-Oxley Act, the requirements of which all companies listed on the US stock exchange have to meet.

This US law was designed to protect stakeholders in listed companies by improving the accuracy of corporate disclosures and deterring corporate and accounting fraud.

Among other things, the Act introduced the idea of the audit committee to oversee corporate financial reporting, established mandatory registration of auditors of listed companies, defined conflicts of interest, prohibited external auditors from providing certain services, and introduced a system of periodic rotation of auditors.

The Act also imposed on management the legal responsibility for the content of the financial report and for maintaining a system of controls to discourage fraud.

Although Sarbanes-Oxley only applies to companies listed on the US stock exchange, many companies are adopting its requirements in the spirit of good governance. Several countries around the world have developed legislation that has its roots in Sarbanes-Oxley.

Information technology (IT) risk

In recent decades, business reliance on IT has increased out of all proportion. It is essential that your corporate governance addresses and manages your IT risk, and there are steps you can take to do this.

- Review your IT service level agreement and check that it meets the needs of your business.
- Ensure your IT operates in a secure area, is reliable, and confidentiality and integrity are not compromised.
- Make sure you provide adequate training and support to users.
- React to issues and solve them as they arise.
- Review your business continuity and other contingency plans to ensure they are robust and up to date.

The IIA's international standards contain specific guidance on evaluating IT risk and provide a methodical approach to doing so.

In summary, outsourcing your internal audit provides you with a highly specialised, systematic approach to a task that carries the utmost importance to the success of your business. For the small and medium-sized enterprise there is also a clear cost-benefit advantage to outsourcing.

For the small and medium-sized enterprise there is also a clear cost-benefit advantage to outsourcing.

Negotiation: an essential business skill

About the author

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Ed Brodow has trained negotiators from Microsoft, Goldman Sachs, KPMG, Starbucks, Hyatt Hotels, and Learjet. He has appeared as negotiation guru on PBS, Fox News, ABC National News, Fortune Business Report, and Inside Edition. His latest best-selling book is Negotiation Boot Camp: How to Resolve Conflict, Satisfy Customers, and Make Better Deals (Doubleday). Ed's website is www.brodow.com.

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Just the mention of the word 'negotiation' is enough to make some of us tremble. But knowing how to negotiate in today's unusual business environment can determine whether you succeed or fail. Negotiation, as defined in my book Negotiation Boot Camp, is the process we use to overcome obstacles – our respective positions – to reach agreement.

Here are some rules that will help you to reach excellent agreements.

Aim high with negotiation consciousness

Before you begin a negotiation, have a clear idea of what you need and what you can settle for. When pinpointing your needs, I believe in a concept that I call negotiation consciousness.

People with high negotiation consciousness are assertive, aim high, and are willing to challenge everything.

Challenge means not taking things at face value. It means thinking for yourself. You must be able to make up your own mind, as opposed to believing everything you are told.

Keep your ears open

We can resolve many conflicts easily if we learn how to listen. You can become an effective listener by allowing the other person to do most of the talking.

Follow the 70/30 Rule – listen 70% of the time, and talk only 30% of the time. Encourage the other negotiator to talk by asking lots of open-ended questions – questions that can't be answered with a simple 'yes' or 'no'.

Always be willing to walk away

Never negotiate without alternatives. If you depend too much on the positive outcome of a negotiation, you lose your ability to say 'no'.

When you say to yourself, 'I will walk if I can't conclude a satisfactory deal', the other side can tell you mean business. Your resolve will force them to make concessions.

I am not advising you to walk away, but if you don't even consider the option of walking away you may be inclined to cave in to the other side's demands simply to make a deal.

Adversarial v cooperative negotiation

There are two different types of negotiation. The first is the adversarial negotiation, which means that your objective is to fulfil your basic interests, not necessarily those of the other side.

The second is the cooperative negotiation, in which success is measured by the fact that the interests of both sides have been fulfilled.

Adversarial negotiation is a contest: each side attempts to realise its own interests – at the expense of the other side, if necessary. This type of negotiation is represented by the hard-nosed conflict that has become synonymous with negotiation.

Cooperative negotiation is a collaboration. In this type of negotiation, both sides work together to achieve mutual satisfaction – you win and I win too. In win-win it is essential to create an atmosphere of trust.

The best way to do this is by listening to the other negotiators and letting them know that you appreciate their point of view, even though you may disagree. Then try brainstorming the problem, which, in turn, will expand the number of possible solutions.

Anyone can be a world-class negotiator. You just have to do your homework and pay attention to a few basic rules.

News in brief

- Abdulwahid Aboo, managing partner of the Russell Bedford network's correspondent firm in Kenya, has been appointed as a member of the Small and Medium Practices (SMP) Committee of the International Federation of Accountants (IFAC).

  IFAC is the global organization for the accountancy profession. It is comprised of 167 members and associates in 127 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

  The SMP Committee is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small-and-medium-sized entities (SMEs). The constituents of the SMP Committee are small-and-medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. The SMP Committee has 18 members from 18 countries.

- Russell Bedford International has announced the strengthening of its coverage in the Baltic Region by the appointment of ECB SIA as a correspondent in Latvia.

  ECB was established in 1999 by a British owner. It is now run by its two Latvian directors, both Certified Accountants and members of the Latvian Accountants Association.

  The firm provides accounting, tax and bookkeeping services, mainly to subsidiaries of foreign companies in Latvia. It also offers forensic accounting, due diligence and translation services. Statutory audit services are provided via an arrangement with an independent registered auditor.

- The Managua-based CPA firm FIACYCP, S.A. has been selected as the Russell Bedford correspondent in Nicaragua.

  FIACYCP (Firma Internacional de Auditores, Consultores Y Contadores Públicos, S.A.) is a newly-established four-partner practice. The firm offers a multi-discipline range of services including audit, accounting, tax, legal assistance and business consulting.

  The partners have particular experience in providing services to international and national NGOs, central and local government authorities, universities and companies operating in the trading and import/export sectors.

- Russell Bedford Argentina, a member of the Russell Bedford International accounting network, has appointed three new partners in Buenos Aires: Darío Rajmilovich, Ariel Goñi and Eduardo Enderle.

  Darío is a Certified Public Accountant and a specialist in taxation. He has been appointed as the partner responsible for developing the firm's tax department. He has over 20 years of experience in tax advisory positions in several professional firms, including the last 13 years at a Big Four firm in Argentina. In addition, he is an active member of the International Fiscal Association (IFA) and the Argentine Association of Fiscal Studies (AAEF).

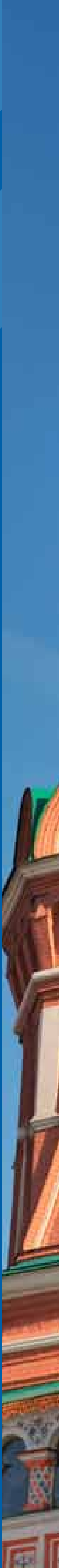
  Ariel Goñi is a Certified Public Accountant. He specialises in corporate finance and consulting. Prior to joining Russell Bedford Argentina, he worked as a senior consultant in the tax department of a Big Four firm.

  Eduardo Enderle is a Certified Public Accountant and a specialist in audit and advisory services for insurance and utility companies. Eduardo was a senior manager at a Big Four firm before he joined Russell Bedford Argentina.

  With these three appointments, Russell Bedford Argentina has a total of eleven partners in Buenos Aires.







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