



The state we're in

A cautionary financial tale from Illinois. Analysis, Page 7

Hurd on the street – a victim of zero tolerance

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World Business Newspaper

News Briefing

Grain price rise sparks fears over meat costs

The more-than-doubled price of barley over the past six weeks in response to the severe drought in Russia and Ukraine is prompting fears of increased meat and poultry costs. **Page 13;** **Farmers face bankruptcy, Page 6;** **Editorial Comment, Page 8**

Red faces over U-turn

Labour accused the government of being in utter chaos after Downing St scrapped a plan to end free milk in nurseries as a senior minister was defending the move on live television. **Page 2**

Headhunters hunted

Headhunter Korn/Ferry Whitehead Mann has poached key members from rival Heidrick & Struggles' financial services team in the latest sign of a recovery in the banking recruitment market. **Page 13;** **Earnings respite, Page 19**

Loan complaints soar

Complaints to the Financial Ombudsman Service about small business bank loans have more than doubled to nearly 500 in the past year. **Page 2**

FSA exodus doubles

Financial Services Authority staff resignations doubled driven by government plans to split up the regulator and the revival of the private sector recruitment market. **Page 13**

Britons rally to BP

A Harris poll for the Financial Times shows that people in the UK have taken a far more benign view of BP's oil spill in the Gulf of Mexico than their overseas counterparts. **Page 3**

US job hopes wane

The sudden slowdown in the US economy and the tepid pace of private-sector job creation have forced most of the 1.65m people who returned to the US labour market back on to the sidelines. **Page 5**

Castro comeback

Fidel Castro's sudden reappearance in public view in spite of handing over the Cuban presidency to his brother Raul is adding to confusion about who is really running the country. **Page 4**

Conversion bid denied

A Christian aid group denied accusations by the Taliban that eight foreign aid workers shot dead in Afghanistan, including six Americans and a British doctor had been attempting to convert Muslims. **Page 4**

BlackBerry ban delayed

Saudi authorities have agreed to delay until today a ban blocking BlackBerry's instant messaging services so that its carriers in the kingdom can test a server that bypasses overseas equipment. **Page 4;** **iPhone chief leaves, Page 12**

Africa trade aid failure

A US programme to help end Africa's isolation from world trade has served more to highlight African infrastructure and corruption failings than western trade barriers. **Page 6**

Lee keeps hardliners

South Korean president Lee Myung-bak kept the old guard spearheading his headline policy towards the North and changed only minor cabinet posts in his broadest reshuffle since coming to power. **Page 6**

Separate section

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Big sums on offer to Wall Street informants

SEC hopes to attract senior whistleblowers

Lawyers braced for surge in allegations

By Jean Eaglesham and Brooke Masters in New York

New US whistleblowing incentives within the Dodd-Frank financial reform act – that could net informants multimillion dollar pay-outs – are likely to generate a surge in allegations against US-listed companies and Wall Street banks, lawyers say. The Securities and Exchange Commission is expecting a sharp increase in tip-offs from senior employees and third parties prompted by potential seven-figure bounties.

"The scale of the awards reflects the high quality of whistleblower we hope to get – people within a company, broker or other regulated firm that we might not have heard from before," Stephen Cohen, an SEC official, told the Financial Times. "We're expecting a tremendous response."

The substantive new financial incentives for securities fraud whistleblowers are part of the sweeping Wall Street reforms that became law last month.

People who provide original information that leads to a successful SEC enforcement action will now be entitled to 10 per cent to 30 per cent of any sanction imposed over \$1m (£627,000) – including a share of the proceeds from any related regulatory action or shareholders' lawsuit.

"We've seen recent settlements of SEC actions of up to

\$800m... this is a tremendous incentive for people to blow the whistle and for entrepreneurial law firms to represent them," said John Coffee, a law professor at Columbia University.

Similar whistleblowing payments for actions for fraud against the government, under the False Claims Act, have spawned a multibillion dollar industry of law firms specialising in healthcare claims.

"We're predicting that there are going to be more cases, based on the experience under the False Claims Act," said Tim Coleman, a partner at Freshfields Bruckhaus Deringer, the law firm. However, financial industry bodies and lawyers representing companies warned that the scale of the potential pay-outs could generate rogue tip-offs by disaffected employees, wasting resources for both the employer and regulator.

"Our only concern is if this were to encourage malicious whistleblowing – people making stuff up to cause trouble," said the Association for Financial Markets in Europe.

"The company will end up being cleared, but investigations still take up a great deal of time and resources. This [provision] will need careful monitoring."

The SEC insisted it could cope with the expected influx of new allegations. "We already have systems in place, which we're improving, for dealing with thousands of tips every year," Mr Cohen said. "If this can help us to bring cases more efficiently and quickly, it will make us a more effective regulator."

Bounty hunts, Page 19

Flood barrier Concern grows as rains hamper relief efforts



Flood victims await relief supplies in Nowshera, Pakistan, which the United Nations says will need billions of dollars to recover from its worst floods, further straining a country that is already dependent on foreign aid to prop up its economy Report, Page 4

Fed set to downgrade outlook for US

By James Politi in Washington

The Federal Reserve is set to downgrade its assessment of US economic prospects when it meets tomorrow to discuss ways to reboot the flagging recovery.

Faced with weak economic data and rising fears of a double-dip recession, the Federal Open Market Committee is likely to ensure its policy is not constraining growth and to use its statement to signal greater concern about the economy. It is, however, unlikely to agree big new steps to boost growth.

Smaller measures to help the economy could initially take the form of a decision to reinvest proceeds from maturing mortgage-backed securities held by the US central bank, thereby preventing the Fed's balance

sheet from shrinking naturally.

Investors will also examine closely any changes to the pledge made by the FOMC in June to "employ its policy tools as necessary to promote economic recovery and price stability", which could be hardened if policymakers choose to signal the potential for more aggressive move to boost the economy in the future.

But even if that happens, most economists believe that it would take several more months of poor data for the Fed to actually begin a new round of asset purchases on the scale of those carried out during the recession.

In congressional testimony last month, Ben Bernanke noted "unusual uncertainty" in the economic outlook and in a speech last week the Fed chair-

man warned of a "considerable way to go" before the US achieves a full recovery.

Although Fed policymakers still believe the basic trajectory of the economy remains one of moderate expansion, there may be more attention given to heightened dangers of a sharp slowdown. "The FOMC will have to tone down its assessment of the economy in view of recent weak indicators on real growth, real consumption spending and employment," said Brian Bethune and Nigel Gault, economists at Global Insight.

The latest poor reading came in Friday's monthly employment report, which showed the US private sector creating only 71,000 jobs in July – not enough to keep up with population growth, let alone bring down

the unemployment rate. That followed news a week earlier that growth in US gross domestic product slowed from an annualised rate of 3.7 per cent in the first quarter to 2.4 per cent in the second quarter.

"Given how low inflation already is, and given the potential for the recovery to falter, we expect Fed officials will highlight downside risks and signal a bias to ease in the FOMC statement," said Jim O'Sullivan, chief economist at MF Global.

There is little, if any, doubt that the FOMC will maintain interest rates at their current low target range of 0-0.25 per cent.

Key decision, Page 5
Editorial Comment, Page 8
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Piracy clash



Britain is blocking international efforts to choke off funding to Somali pirates, driven by concerns that ship ransoms may encourage hostage-taking and even indirectly fund terrorism. The UK government has put a stay on proposed UN sanctions against Abshir Abdillahi and Mohamed Abdi Garaad, a pair of suspected pirates, after UK shipping interests warned that the action could make it harder to secure the release of crews, ships and cargo.

Report, Page 3

High-tech UK group in talks to sell controlling stake to Russia

Plastic Logic deal fuels technology export fears

By Lina Saigol and Peter Marsh

One of Britain's leading high-tech groups is in advanced talks with a Russian state-owned company over the sale of a significant stake, in a development likely to fuel fears about ownership of potentially world-beating UK technology being transferred to other countries.

Plastic Logic, a Cambridge company that has pioneered the development of low-cost computer chips made from plastic, is in discussions with Rusnano, a Russian state-owned nanotechnology corporation, about a capital infusion that would give it control of the UK company.

Plastic Logic – which has received \$200m (£125m) in investments since it started in 2000 – is owned by a consortium of venture capital firms and

large groups including Intel of the US and BASF of Germany.

A key condition of Rusnano's investment would be that Plastic Logic's production facility for the next phase of the technology is based in Russia.

Dmitry Medvedev, Russian president said last year his country would spend \$10.6bn on nanotechnology by 2015.

The Chinese government has also approached Plastic Logic about providing capital, but the two sides failed to reach agreement.

A deal with Rusnano would fuel the debate over foreign takeovers of UK companies and the loss of strategically important factories.

Cambridge has been the hub of the UK's high-tech business sector for several years, but the venture capital industry has suffered as a result of the credit crunch. Investment in start-ups specialising in new technology has fallen 40 per cent in value

over two years, according to the National Endowment for Science, Technology and the Arts.

While Plastic Logic's technology development centre remains in Cambridge, in the past two years it has shifted its headquarters to Mountain View, California and, in 2007, built its first plant in Dresden, Germany. The plant makes large plastic display screens for use in new generations of e-readers based on plastic chip technology.

For the company to fulfil its long-term potential to make plastic chips, it will require fresh injections of capital that could run to hundreds of millions of dollars. Plastic semiconductor would be a lot cheaper to produce than current-day silicon chips, thereby cutting the price of electronic circuitry by up to 90 per cent.

The low manufacturing cost of the chips could vastly extend the applications for microprocessors in everyday use.

World Markets

STOCK MARKETS	Wk's chg%		
	Aug 6	Jul 30	Aug 6
S&P 500	1121.64	1101.6	1.82
Nasdaq Comp	2288.47	2254.7	1.50
Dow Jones Ind	10653.56	10465.94	1.79
FTSEurofirst 300	1056.75	1043.66	1.25
DJ Euro Stoxx 50	2779.34	2742.14	1.36
FTSE 100	5332.39	5258.02	1.41
FTSE All-Share UK	2753.67	2715.36	1.41
CAC 40	3716.05	3643.14	2.00
Xetra Dax	6259.63	6147.97	1.82
Nikkei	9642.12	9537.3	1.10
Hang Seng	21678.8	21029.81	3.09
FTSE All World \$	195.6	191.06	2.38

CURRENCIES	Aug 6		Jul 30	
	Aug 6	Jul 30	Aug 6	Jul 30
\$ per €	1.329	1.303	€ per \$	0.752
£ per €	1.597	1.566	€ per £	0.626
¥ per €	0.832	0.832	€ per ¥	1.202
¥ per \$	85.12	86.66	¥ per €	113.1
¥ per £	136.0	135.7	£ index	82.50
\$ index	82.30	83.50	€ index	94.76
Sfr per €	1.377	1.363	Sfr per £	1.654

INTEREST RATES	Wk's chg	
	price	yield
US Gov 10 yr	105.72	2.83
UK Gov 10 yr	112.50	3.22
Ger Gov 10 yr	104.21	2.51
Jpn Gov 10 yr	100.30	1.07
US Gov 30 yr	106.47	4.00
Ger Gov 2 yr	99.55	0.75

COMMODITIES	Wk's chg	
	Aug 6	Jul 30
Fed Funds Eff	0.19	0.19
US 3m Bills	0.15	0.15
Euro Libor 3m	0.83	0.83
UK 3m	0.66	0.66

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The coalition

The key points in the government's first 100 days.
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Challenging China's dominance

From the Cheonan incident to the South China Sea islands dispute, the US is now making a point of standing up to China. It's a foretaste of the most important diplomatic tussle of the next decade, as China and the US vie for dominance in Asia.

Read the analysis in tomorrow's FT.

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