Chancellor attacks flight to low-tax regimes

Companies hoping to set up operations in low-tax jurisdictions will be subject to more regulation after the Chancellor of the Exchequer introduced measures in his Pre-Budget Report in December to ensure they are engaging in genuine economic activity.

The move by Chancellor Gordon Brown follows the recent European Court of Justice decision in favour of Cadbury Schweppes in a controlled foreign company (CFC) case.

Stephen Herring, Tax Partner at BDO Stoy Hayward, said: "The implementation of complex financing structures for European operations will need careful planning to avoid unnecessary UK taxes arising."

In his Pre-Budget Report, the Chancellor also addressed the relaxation and refining of aspects of the UK-REITs regime.

Legislation has been changed to make it easier for startup property companies to become UK-REITs, when the regime is launched in January 2007.

Gordon Brown: Pre-Budget clampdown on CFCs.

The two key REITs changes the Chancellor has made are to relax the 75% business balance test in the first accounting period, and to lift the requirement on companies to list at the point when they apply to become a REIT.

The relaxation of the business balance rules acknowledges the difficulty that a new fund might have in purchasing a property portfolio on or around the conversion date.

The changes regarding UK listing will be implemented in time for the beginning of 2007.

Some minor amendments have also been introduced to make the REITs regime more manageable and to allow complex joint venture structures to join.

In particular, the further amendments to the joint venture regulation are a recognition that the property industry is often commercially dependent on joint venture structures.

Brown goes a shade green, page 40. ■

On the move...

- **Gary Burton**, AMCT, previously Treasury Consultant at Hewlett Packard, has joined Kingfisher as Assistant Treasurer, International.
- **Anne Coghlan**, AMCT, has been appointed Assistant Group Treasurer at Dyson. Previously she was Assistant Treasurer, International & Tax, at Allied Domecq.
- **Ian Kerr**, AMCT, has been promoted from Interim Treasurer to Group Treasurer at the Peacock Group.
- **Rachael Kinder**, AMCT, has joined Phones4U as Group Treasury Manager. She was Treasury Manager at Matalan.
- **Philip Learoyd**, AMCT, previously Assistant Treasurer at O2, has been appointed Head of Funding and Treasury Risk at SABMiller.
- **Francis Stewart**, MCT, previously Corporate Treasurer at the International Air Transport Association has joined the World Health Organization as Treasurer.
- **Christopher Warner**, AMCT, previously Corporate Finance Manager at MFI, has joined Marks & Spencer as Finance Manager for Direct.

MEMBERS' DIRECTORY

Members' contact details are updated regularly at **www.treasurers.org**. *Email changes to Anna Corr:* **acorr@treasurers.org**

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Business fears over pension levy

Business has expressed concern at the level and volatility of the Pension Protection Fund (PPF). The PPF board is proposing a levy estimate of £675m for 2007/08 to help make up for an under-collection of levy fees during 2006/07 and help reduce the PPF's deficit – a move that the PPF said would ensure public confidence in the fund's financial security.

PPF Chairman Lawrence Churchill said: "The announcement accords with the views of many advisors that we should recoup some of the under-collection of last year's levy. The board has taken a measured approach which should reduce some of the fund's deficit in 2007/08."

But the CBI countered that businesses were worrying about PPF costs.

Susan Anderson, CBI Director of Human Resources Policy, said: "Against a background of historically high contributions to company pension schemes, the cost of the PPF is a real concern to business, and the volatility of the levy makes it difficult for companies to plan ahead.

"Many companies are struggling to meet the cost of their liabilities. They need to be reassured that in future the cost of the levy to business will be kept under control."

PPF Chief Executive Partha Dasgupta said: "Last year, we collected less money than we had originally anticipated because of market movements, improvements in the quality of data, direct action by schemes to reduce their risk and as a result of fixing the process for distributing the levy between schemes. Going forward, we will need to collect a levy nearer our original estimate.

"Now that more detailed information on schemes is available through the Purple Book, we have decided that a 1.25% cap on how much an individual scheme pays in risk-based levy strikes the right balance between continuing to protect weaker schemes and not penalising stronger schemes which subsidise them."

He also stressed that continuing to provide incentives to pension schemes to reduce their own risks remained at the heart of the PPF proposals. ■

Lawrence Churchill: A measured approach.

Transparency Directive comes into force

The Financial Services Authority (FSA) has published a commentary on the European Commission's Transparency Directive that comes into force on 20 January 2007. The new rules on transparency in the capital markets take effect for the accounting year beginning on or after 20 January.

The Transparency Directive is one of the major elements underpinning the European Union's financial services action plan.

It seeks to enhance transparency in EU capital markets through a common framework, requiring the following:

- issuers to produce periodic financial reports;
- shareholders to disclose major shareholdings;
- issuers to disseminate regulated information; and
- the provision of central mechanisms for sharing regulated information.

For more information, visit: www.fsa.gov.uk/pubs/ukla/list_dec06.pdf ■

Hybrid bond issuers fear downgrades

Hybrid bond issuers face a downgrade as a result of a proposal by Moody's to change its methodology for notching hybrid securities.

A report from JPMorgan published late last year said that if the proposals for the difference of treatment for cumulative and non-cumulative coupon deferral were implemented, many recent hybrid bonds could be downgraded.

Olek Keenan: Unhelpful move.

Olek Keenan, Analyst for European Credit Research at JPMorgan, said: "It is Moody's intention that hybrids that are classified as either strong or moderate will generally be classified as non-cumulative and therefore be downgraded by one notch."

Keenan said that the majority of European hybrid bonds were not vanilla cumulative or non-cumulative but had various settlement mechanisms, and that separating them into two categories could be a very arbitrary process.

He said: "We believe there is considerably more debate to be had in the marketplace about Moody's proposed new methodology."

Moody's issued a request for comment from the market on the proposal. All responses were due in December 2006.

Keenan said: "We think that neither issuers nor investors will welcome the new method, essentially because we believe it is another unnecessary and unhelpful instability in rating agency methods for hybrids." ■

European credit quality in dispute

The current boom in dividends, share buybacks, buyouts and acquisitions is likely to damage the creditworthiness of European companies in 2007, according to Standard & Poor's.

The credit ratings agency said that with management teams under pressure to increase shareholder value, the prudent financial policies adopted after the last cyclical downturn were rapidly being discarded. As a result, debt and leverage levels among European companies – at both the investment and speculative-grade ends of the credit spectrum – look set to rise.

In contrast, Moody's Investors Service is cautiously optimistic about the credit quality of Europe's non-financial corporate sector in 2007. It said that the M&A-driven decline in credit quality seen in 2006 would ease in 2007. It based its view on the expected reduction in event risk and the continued solid credit quality of the investment-grade segment, reflecting its strong liquidity and growth overall, with the exception of a few industries.

S&P did say that it was not all bad news. While risks mount in the corporate sector, credit quality among banks and insurers remains strong. The upward trend of ratings on banks is also expected to continue into 2007, buoyed by business diversification and improved risk management practices, while insurance companies should benefit from a resilient underwriting environment and more disciplined risk management.

Although economic conditions are expected to remain relatively benign next year, downgrades among non-financial companies rated by S&P's ratings services are likely to outnumber upgrades again. Defaults, although still low by historic standards, will also edge up gradually during 2007.

In the 11 months to the end of November 2006, there were 94 downgrades on rated Western European industrial (that is, corporate and infrastructure) credits and 47 upgrades.

Central and Eastern European credits, on the other hand, experienced just one downgrade and 47 upgrades over the same period.

Moody's pointed to three risk areas that might derail this benign credit environment.

First, the agency is concerned about an increase in interest rates and the consequent focus on fundamentals following a period of strong liquidity in the market.

Second, inflated asset values – particularly prevalent in some sectors – may be corrected more materially and more rapidly than currently anticipated. The consequence would probably be a higher level of default as sponsors realised that the high level of debt they had assumed could not be fully repaid with only the cashflow from assets.

Third, Moody's said a marked slowdown in the European economy – or in the US economy for those issuers exposed to it – could also result in a shortfall in the projected growth of revenues that had often served to justify asset value. Moody's said the ultimate outcome would also be a more severe correction and a higher level of financial distress for more leveraged transactions. ■