EU financial institutions heading for MiFID failure

Almost two-thirds (60%) of European financial institutions will fail to meet the EU Markets in Financial Instruments Directive (MiFID) by the deadline of November 2007, according to research.

The study – conducted on behalf of HandySoft Global Corp – found that UK-based institutions were in a more advanced state of preparation than the EU average, but concluded that nearly a third (27%) were unlikely to comply in time.

The research, which surveyed 100 European financial institutions and a sample of specialist corporate lawyers, found that only a third of European firms (33%) and just over half of UK firms (52%) had appointed a dedicated MiFID compliance officer. Little progress has been made since a KPMG study in April 2006 put the European average at 29%.

Wendy Cohen: don't play the waiting game

The research reported that 9% of European financial organisations saw 'a great deal of overlap' between their MiFID implementations and other compliance needs. A further 23% saw 'a fair amount of overlap', but 68% saw 'little overlap'.

The findings show growing polarisation between firms using compliance as a platform for wider business process improvement, transparency and competitive reform, and those who see it as a one-off 'box-ticking' exercise.

Wendy Cohen, Sales and Operations Director EMEA at HandySoft Global Corporation, said: "Many compliance preparations are behind schedule but it is not advisable to play a waiting game, as non-compliant firms could potentially lose business and attract regulator-imposed penalties, from fines to suspension of trading. But it is reputational damage which financial firms have most to fear, as the market is increasingly defined by reputation and customer service." ■

Transactional cashflows still drive hedge activity

Companies' hedging activities remain squarely focused on hedging transactional cashflows, with 12 months the most common maximum tenor for hedging forecasted transactions, according to a recent study.

The second corporate risk management study by Citigroup Foreign Exchange found that minimising earnings volatility was the most frequently cited main risk management objective, although precisely defining the concept did not prove as easy as first thought.

Forward contracts continue to be the hedge instrument of choice, although options seem to be used more frequently than was previously thought.

Most North American and European companies make hedging decisions and execute hedge centrally, while Asia-Pacific organisations show a much higher propensity to utilise a decentralised structure for risk management.

The study looked at regional groups – North America, Europe and Asia-Pacific – and at the size of the responding organisation, broken down into two groups based on turnover above or below annual sales of $5bn.

For US dollar-functional companies, the euro, sterling and the Canadian dollar continue to constitute the three largest foreign exchange (FX) exposures in order of ranking.

For euro-functional companies, the largest FX exposures are the US dollar and sterling. Like US-dollar-functional companies, euro-functional respondents are long in most foreign currencies, except emerging market currencies where the direction of their exposures is mixed.

Risk quantification is widely accepted as best practice in risk management: 72% of the companies studied quantified risk.

An analysis by region showed that European respondents were most inclined (85%) to do so, while Asia-Pacific respondents were least likely (45%) to go through the rigour of quantifying risk.

The three most common methods of quantifying risk were:

- Stress testing/sensitivity analysis: to determine the profit and loss impact of various percentages of exchange rate movements.
- Historical analysis/backtesting: using historical market movements to test the impact on profit and loss if such moves were to be repeated.
- Value at risk (VaR): a probability-based estimate of portfolio risk to adverse profit and loss. ■

European companies warned over second set of IFRS accounts

European listed companies have been warned to ensure their accounts are complete and give a true and fair view.

The warning was issued by the Committee of European Securities Regulators (CESR), as EU listed groups were preparing to publish their second set of IFRS financial statements.

CESR stressed that its members remained watchful and noted the continued need for companies to deliver to investors as true, fair and complete a set of information as possible under IFRS.

Many listed companies are now publishing their second set of IFRS financial statements.

CESR said that as 2006 was still a transitional period with practical experience in applying IFRS growing, retrospective adjustments to financial information already presented and covering 2004 and 2005 financial years could appear in these 2006 consolidated financial statements.

Since January 2005, approximately 8,000 listed companies in the EU have implemented IFRS for their consolidated financial statements.

The implementation of IFRS has been a significant change which, according to the early studies, has taken place without any major difficulties. Most importantly, there has been no evidence of a loss in market confidence during this transition.

IFRS principles-based standards rely on the experience and judgement of those preparing them, including auditors and users alike, to apply them to companies' circumstances.

Stakeholders need to be aware that IFRS is a new body of accounting standards for many preparers. ■