Golden era of borrowing to end

The cost of corporate funding is at historically low levels and this golden period for borrowing will not last forever, the ACT's 2007 Funding Conference heard last month.

The debt markets offer borrowers of almost any credit standing numerous possibilities, including syndicated or self-arranged bank loans, dollar private placements or dollar/Eurobond public markets, and short-dated floating rate instruments versus 30, 40 or even 50-year fixed-rate funding.

Corporate treasurers from Wolseley and Meggit advised treasurers to keep it simple but seriously to consider taking advantage of the market of their choice.

A more complex theme at the conference, sponsored by Bank of America, concerned the relationship between corporate borrowers and the debt derivative markets.

Gillian Tett, from *The Financial Times*, voiced borrower and regulatory concerns about risk and moral hazard, and how the interplay between the $35 trillion market for credit derivative swaps and $4 trillion debt securities market was increasingly affecting pricing.

Delegates also heard from Stephan Michel of investment manager Cairn Capital, who advised treasurers to engage with the new markets but not to fear them as they had added liquidity and diffused risk to new investors. ■

Commodities markets pose new risks

Significant changes in the commodities markets have brought new issues that need to be understood by participants, according to the Financial Services Authority (FSA).

Record prices, high volatility and high returns have attracted a wave of new investors and companies into what was previously viewed as a specialist market. New entrants to the commodities markets include hedge funds, pension funds, high-net-worth individuals and even a small number of retail investors. The level of funds being invested is expected to grow and, unlike previous cycles, to remain.

Hector Sants, FSA Managing Director of Wholesale Business, said: "The risks we have identified should not come as a surprise to those active in the market, but serve to focus attention on the areas we consider to be of most impact and importance. Firms and exchanges need to consider how they have addressed these risks and continue to mitigate against them." ■

Workers pay the price of private equity ownership

Private equity firms that take over companies and bring in new management teams cut jobs and hold down wages, but management buy-outs that take companies private expand jobs and have a softer impact on wages, according to a report by The Work Foundation.

Will Hutton: virulent new form of capitalism

The foundation – a not-for-profit organisation that brings all sides of working organisations together – said its report took an even-handed look at the claims and counter-claims surrounding the growth of private equity, although it noted that the secretive nature of the private equity industry made it difficult to come by first-hand evidence.

Will Hutton, Chief Executive of The Work Foundation, said: "A sizeable tranche of corporate Britain is falling under private equity, but the industry operates with near-zero levels of public accountability. This report seeks to shed some light on one of 21st century capitalism's most virulent and secretive new forms.

"Private equity firms pride themselves on their ability to squeeze performance from the organisations they own, and they turn up the pressure on individuals in order to do so. When private equity backs an incumbent management team the result can be improved productivity and higher employment. But the price paid by workers is often too high and that levels of trust between workers and managers suffer."

See The Party Goes On, page 40 ■

Private equity conclusions

The Work Foundation's analysis of independently gathered data, which tracks companies as they enter and exit ownership by private equity funds, found:

- **Management buy-outs (MBOs, which account for most private equity deals) cut jobs in the first year, but expanded them subsequently – by an average of 36% over six years. Yet workers were £83.70 a year worse off than other private sector workers because wages grew more slowly.**
- **Where an outside management team was introduced to an organisation in a management buy-in, employment fell on average by 18.25% over a six-year period. Workers were on average £231 a year worse off than other private sector workers.**
- **Private equity firms tended to introduce strict performance management systems such as performance and merit pay, regular performance appraisal, and new HR systems.**
- **40% of managers in private equity firms were hostile to trade unions.**

Private equity goes from strength to strength

The value of UK private equity buy-outs in the first quarter of 2007 reached £5.1bn – up 47% on the £3.49bn value of deals achieved in the same quarter a year ago.

Forty-five transactions were completed between January and March 2007 compared with 33 in the same quarter of 2006.

Michael McDonagh, Corporate Finance Partner in KPMG's Private Equity Group, which produced the figures said: "The year has kicked off to another strong start with a string of mid-market deals in particular. Around half of the deals involved secondary or even tertiary buy-outs, where one private equity house sold an asset on to another.

"Deals continue to be fuelled by liquidity in the debt markets, where banks are now giving private equity houses even more latitude over businesses that have been acquired. With a couple of billion-pound-plus transactions pencilled in for the coming weeks, we predict a strong second quarter." ■

ACT surveys pension risk management

The 2007 ACT/Mercer survey on managing pension financial risk will take place during May. With more solutions available to treasurers for managing their company's deficit, this year's survey focuses on the use of derivatives and contingent assets, while retaining some questions from last year's survey to monitor trends.

Participants can complete the questionnaire enclosed with this issue of *The Treasurer*, or complete it online at www.treasurers.org.

The eight-question survey takes only a few minutes to complete and those taking part will be entered into a prize draw for a free place at the ACT's one-day conference on Changing Landscapes in Pensions, sponsored by Mercer HR Consulting and ABN Amro, on 27 June. See www.treasurers.org for details.

The closing date for completed questionnaires is Thursday 31 May. ■

ACT sets out fast-track route for ICAEW

The ACT has announced that ICAEW members will now qualify for the AMCT FastTrack route to the Diploma in Treasury.

As chartered accountants, ICAEW members already receive exemptions from the Foundation Papers. Now they will receive a further half-paper exemption to the Corporate Finance & Funding Associate Paper, reducing their study time to just two and a half papers.

This accelerated route is open to ICAEW members who have qualified since 1998. For further information, contact the education department on enquiries@treasurers.org or +44 (0)20 7248 2540 or visit www.treasurers.org/amct/icaew ■

Money market funds claim success

The Institutional Money Market Funds Association (IMMFA) has boasted it is "punching above its weight" in lobbying Europe over regulation after funds under its management hit a record high last year of $355bn – an increase of $100bn over 2005.

Speaking at the IMMFA's annual general meeting, Chairman Donald Aiken said: "We continue to punch above our weight as we strive to gain appropriate regulatory recognition for our funds in the new integrated financial services world and to raise awareness of the usefulness of money market funds to support other products."

During the year IMMFA focused on the Committee of European Securities Regulators consultation on eligible assets, where it lobbied for the right to have stable-priced funds co-existing alongside other types of money market funds.

It also successfully put the case for the continuing use and clear recognition of amortised accounting to value funds. The industry is set to reap the rewards of this lobbying once the Eligible Assets Directive is adopted as stable NAV funds will then be permitted to be domiciled in the UK.

The association also lobbied the European Commission, demonstrating the credit quality of the asset portfolios of triple A-rated money market funds. As a result, investment firms covered by MiFID will be permitted to hold client money in such funds as an alternative to bank accounts.

IMMFA welcomed EC proposals to amend EU legislation to support greater efficiency in the European funds market.

But Aiken warned against complacency: "We must ensure that the excellent track record and integrity of our product remains sounds. Put simply, we cannot afford to take our eye off the ball and must constantly seek ways to improve our product in the interest of investors." ■

On the move...

- **Stella Chan**, MCT, has been appointed Vice-President, Treasury Finance at Merrill Lynch. She was formerly Senior Manager, Group Treasury, at Barclays Bank.
- **Ben Gothard**, AMCT, previously Group Treasury Manager at WH Smith, has joined Habitat as Group Treasurer.
- **Robert Marshall**, AMCT, has been appointed Financial Controller at BMB Group. Previously he was Group Treasurer and Head of Tax at Matalan.
- **Alistair McLean**, MCT, formally Manager, IAS Hedging Project A&LM at Commonwealth Bank of Australia, has joined Lion Nathan as Assistant Treasurer.
- **John Perris**, MCT, has been appointed Group Treasurer at Otto UK. Previously he worked for Barclaycard as Treasury Manager.
- **Nikheel Shah**, AMCT, previously Assistant Manager at KPMG, has joined Deloitte & Touche as Manager in the Private Equity TS department.
- **Gary Starling**, MCT, has joined Accenture as Manager. Previously he was Client Services Manager at Ernst & Young.
- **Chris Tyson**, MCT, has been appointed Group Treasurer at Enodis. Previously he worked for Tomkins as Director – Treasury.
- **Bob Williams**, FCT, has been appointed Group Treasurer at Barratt Developments. Previously he was Group Treasurer at Allied Domecq.
- **Mark Williams**, AMCT, has been appointed Treasury Accountant as Dyson. Previously he worked for Arval as Treasury Analyst.

MEMBERS' DIRECTORY

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

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