Quarterly Quiz

Autumn 2007
Answers

Question 1

Answer
The right answer is (c) The Pensions Regulator can issue a Financial Support Directive which, if ignored, can result in the issue of a Section 47 Contribution Notice. As a result a statutory debt exists which can be pursued through the courts.

The power to issue a Financial Support Directive has only been used once, the target being Sea Containers Ltd who had sought Chapter 11 protection. The regulator's stated intention has been to avoid using its stronger powers and to achieve its aims through constructive dialogue.

Despite this, trustees do have significant power to influence proceedings as the Alliance Boots acquisition has shown.

The Treasurer, July/August pp 28-30, Pension Risks, A World of Difference by Peter Elwin, JP Morgan Cazenove

Question 2

Answer
The right answer is (a) 28th January 2008

The reason given for the deferral was that many banks were concerned at potential operational problems if the start date of SEPA were to coincide with the change of year. As a result, the start date has been put back by 28 days.

European Central Bank website: http://www.ecb.int/paym/sepa/timeline/html/index.en.html

Question 3

Answer
The right answer is (d) The bank's duty of best execution does not apply to "eligible counterparties"

Your client categorisation is open to discussion. You may opt up or down categories from that which you are initially assigned. In theory your categorisation could be different for different banks or for different transactions, although this is unlikely in practice.
The gain from being a less-protected counterparty is that administration and bureaucracy do decrease.
The duty of best execution is not the same for all clients – if dealing with an "eligible counterparty" or if the bank is not acting "on behalf of a client", then best execution does not apply.

ACT Briefing Note on ACT website: http://www.treasurers.org/technical/resources/mifid_0907.pdf
This has been prepared with the assistance of Slaughter and May
The Treasurer October 2007 MiFID, Measuring the Impact by Martin O'Donovan pp30-31.

Question 4

Answer

The right answer is (c) Contingent assets are an alternative to funding the scheme while conditional assets are true funding. Contingent assets do not attract a tax deduction as they are not contributions, while contingent assets do attract a tax deduction.

The Treasurer September 2007, Trapped Surplus; Avoiding the Traps by John Hawkins pp42-44

Question 5

Answer

The right answer is (d) The main focus of any changed requirements should relate to the disclosure between General Partners and other stakeholders and should be voluntary on a comply or explain basis.

Walker's consultation document suggests that General Partners should publish an Annual Review, accessible on their website, which should become an "important channel of communication on the values that inform their approach to business and the governance of their portfolio companies."

The ACT's response has been that this is a matter for the private equity industry and any outcome should not affect other large private companies.

ACT website: Walker Group on Disclosure and Transparency in Private Equity
http://www.treasurers.org/purchase/customcf/download.cfm?resid=2336
ACT response
http://www.treasurers.org/purchase/customcf/download.cfm?resid=2335

Question 6

Answer

The right answer is (a) banks will benefit by a 3bp reduction in cost of capital and no cost reduction for corporate borrowers.

It has been argued in The Treasurer by Martin Cade of Deloitte's that the small gain from the implementation of Basel II is likely to be offset by other regulatory costs and therefore there is unlikely to be any resultant change in borrowing cost as a result of Basel II.

The Treasurer September 2007, No choice but to wait and see by Martin Cade pp32-33