Anxiety over greater SEC focus on disclosure documents

The US SEC's plans to zoom in on firms' disclosure document filings is causing unease among US corporate treasurers. Of particular concern is the SEC's stated goal of scrutinising Financial Accounting Standard 133 disclosure documents.

"[Treasurers'] fears are that the SEC will really dig into their disclosures and find that they are not detailed enough," said Mike Joseph, a partner at Ernst & Young in New York and a taskforce member of the US Financial Accounting Standards Board's Derivatives Implementation Group. For most US firms, compliance with the FASB's new hedge accounting rules started in January. As such, they will be filing – or have just recently filed – their first quarterly reports under FAS 133.

Corporate treasurers should also expect the SEC to examine closely disclosures on concentrations of credit risk, as laid out in Financial Accounting Statements 107 and 133, as well as in Financial Accounting Standards 114 and 118, which deal with loan loss allowances, he added.

"The SEC has been explicit about what they expect [on FAS 133 disclosures]," Joseph said, adding that treasurers' anxiety probably has more to do with the extent to which the new regime differs from its predecessor. Whereas FAS 133 calls for detailed disclosure on how a firm measures hedge effectiveness, what underlying is being hedged, and why a treasurer believes the hedge will be effective, the old rules were nowhere near as specific, he said.

Annual reports filed with the SEC stand a better chance of being selected for review this year, compared with last year, because of the slowdown of the US IPO market. At the end of the SEC's fiscal year last September, the securities regulator reviewed more than 1,300 IPOs and more than 1,000 initial Exchange Act registrations.

With more time on their hands to look at filings, the SEC's accountants may start examining whether certain agreements should, in fact, be considered derivatives, said Joseph. These "surprise" derivatives could potentially pop up, for example, in instances when a company enters into a contract to purchase more electricity than a plant needs so that it can in turn sell it back to the grid. IFR

ECP all the rage for Asian investors

Euro commercial paper (ECP) is finding an audience in Asia with local sovereigns and banks increasingly using the product to invest short-dated US dollar cash. The financial benefits are also drawing in corporates and Asian bond funds to the asset class.

Asia's share of the US$300bn plus a year ECP market is set to increase significantly in 2001 as investors tune in to the liability and liquidity management dynamics for the product. Some market participants estimate that as much as 25% of sovereign ECP issuance from European names is now placed into Asia. The move to Europe has been in part stimulated by a lack of Triple A names in Asia aside from those in Singapore. Furthermore, there are only a handful of ECP programmes for Asian borrowers, with the last one set up by LG Caltex in September.

For sovereigns the attraction is, simply, liquidity management. And the credits they like include supranational and European sovereign names, with the EIB, EBRD, the Republic of Austria and the Kingdom of Belgium all in demand. The abundance of availability in these names allows Asian investors to buy in size and at levels of around Libor less 15bp to Libor less 25bp.

Flows are running at around US$500m a week from the Asian sovereign investor base. The pick up in activity can be attributed to the increasing sophistication of funding teams within central bank and sovereign funding centres in Asia. It is a case of moving away from the traditional reliance on repo and deposits for investing short-dated US dollar cash and diversifying their investment portfolios, said bankers.

For banks and funds in the region there are also financial incentives. With deposit rates in the three-month sector at around 5% last week, Asian banks can pick up about 5bp in investing in Single A rated bank names in the ECP market. In decent size, the numbers soon add up. Investing US$500m of short-dated US dollar cash in a Single A European bank's ECP at 5.05% for three-months as opposed to placing it on three-month deposit at 5% would earn an extra US$62,500.

For Asian banks it is also a good way to diversify their portfolios of US dollar assets. A handful of corporates in the region are also said to be using the ECP market to diversify US dollar portfolios. IFR

Mexican euro bonanza

The United Mexican States took advantage of a fleeting window for its biggest ever euro deal, a E750m seven-year bond at aggressive terms. Mexico's annual foray into the euro market attracted strong demand throughout Europe, despite aftershocks in the emerging markets from Turkey and Argentina, which dragged the bond down in the aftermarket.

The UMS aimed to raise cheap funds to manage more expensive liabilities and returned to a strategy that has served it well in the past. The bond priced bang in the middle of price talk, at 230bp over mid-market swaps, or 278bp over Bunds. It was through the dollar curve and there was no new issue premium. IFR