Budget gloom for treasurers

Corporate treasurers' lives are set to get tougher following plans announced in Chancellor Gordon Brown's ninth Budget.

A raft of anti-avoidance measures announced in the Budget on Wednesday 16 March mean that treasurers will find it increasingly difficult to obtain low-cost borrowing through structured finance deals.

As a result of the Chancellor's clampdown on sophisticated tax planning schemes offered by banks and accountancy firms to reduce companies' tax liabilities, many schemes are being shut down.

Mohammed Amin, AMCT, partner at PricewaterhouseCoopers, said: "More structured finance transactions that allow treasurers a reduced cost of borrowing will be closed down. If banks can't offer these deals then borrowing costs will go up."

The Treasury's anti-avoidance clampdown is nothing new but the pace of change has accelerated in the past year, including the establishment of a joint taskforce between tax authorities from the UK, the US, Australia and Canada. The aim of the taskforce is to share information on cross-border tax planning in order to boost governments' tax yields.

"What we are seeing is the collaborative fruits of that working group," added Amin.


REUTERS/TOBY MELVILLE

Chancellor Gordon Brown poses with his red despatch box on Budget day March 16, 2005.

Until recently such sophisticated tax planning measures were commonplace and viewed as legitimate efforts by companies to return more money to shareholders rather than tax authorities. But recent years have seen increasing concern by governments about companies' ability to reduce their tax liabilities through planning.

Concerns are mounting in the UK that ministers' efforts to crack down on tax avoidance is making the UK a much less attractive location in which to headquarter a business. In contrast, Ireland, with its low corporation tax rate, is becoming an increasingly popular country in which to set up business.

The only positive news for corporate treasurers in this Budget was the Chancellor's announcement that the UK is to issue long-dated gilts, which will offer a good alternative investment for pension funds.

"Many more treasurers are involved as pension fund trustees, and all treasurers need to consider the risks in their pension fund as part of managing the group's risks. Long-dated gilts may be attractive to pension schemes, as they allow better matching of their long duration pension liabilities," said Amin.

For more in-depth budget analysis by Mohammed Amin, see page 18 ■

Pensions should reduce equity holdings, warn actuaries

UK pension funds face unnecessary risks because they hold too much in UK equities, according to a study by actuaries Watson Wyatt.

Roger Urwin, global head of investment consulting at Watson Wyatt, predicts a decline in pension funds investing in UK equities in the coming years and says more pension funds should diversify to reduce risk.

He suggested using alternative assets, such as high-yield debt, emerging market debt, commodities and private equity, without lowering returns.

But treasurers hit back saying the placing of a company's pension funds should be wholly dependent on a business' profile.

ACT members say pensions schemes should be looked at on a case-by-case basis. At Vodafone for example the workforce is young, so the liabilities are long-term liabilities. In this case investing a higher proportion in equities rather than in fixed income would be appropriate.

A further issue complicating pensions' management for treasurers is the conflicting advice they receive.

A third of CFOs, CEOs and senior financial officers surveyed in a study by SEI Investments said they have to liaise with too many parties to get a complete picture of their pension scheme, with 57% saying they had to rely on advisers more than they wanted to.

Experts say another problem confounding the matter is conflicting advice that trustees and treasurers receive from different advisers.

Patrick Disney, head of European Business at SEI Investments, said: "While most companies seek expert advice to help with the running of their pension funds, they feel that the advisers involved lack sufficient accountability." ■

S&P looking to expand short-term rating

Standard & Poor's is proposing to expand its short-term credit ratings scale for speculative grade issuers to provide greater differentiation and transparency.

The short-term rating grade B will be broken down into B-1, B-2 and B-3. There has been a growing interest from investors in enhanced analysis of the credit quality of non-investment grade issuers looking out over 12 months.

Most non-investment grade issuers (BB+ long term and below) are expected to fall into the short-term range B-1, B-2, B-3 or C, although those with exceptional near-term liquidity and credit characteristics could potentially receive an 'A-3' short-term rating.

These changes are increasingly sought by many market participants and will provide for greater differentiation of short-term credit risk, greater transparency and more flexibility in the correlations between short-and long-term ratings, the ratings agency said. ■

IAS 39 hedging row grows

Only a few powerful companies will stand up and be counted by continuing with current hedging practices as more and more corporate treasurers are looking to alter or simplify their hedging practices in light of IAS 39 so as to ensure the maximum level of compliance.

New international accounting rules on derivatives require companies to disclose more information about the derivatives they use, by either booking them at market value or explaining how they manage the risk.

The volatility that will be introduced into company accounts by showing derivatives at fair value and not getting hedge accounting is causing a growing number of companies to re-examine the whole hedge accounting versus no hedge accounting issue.

Experts predict the majority of treasurers will go for hedge accounting. Tom Gunson, treasury advisory partner at PricewaterhouseCoopers, said: "The majority of companies will go for hedge accounting. You will get some companies however because of their industry sector or their relative size within it or the market overall, that will be prepared to stand up and explain why they have increased volatility in their profit and loss statement due to them not seeking hedge accounting under IAS 39."

Gerry Bacon, Group Treasurer at Vodafone, told *The Treasurer:* "It [IAS 39] hasn't changed the way we do business. In fact it's done the opposite. What we do we believe is the right thing for the business.

"The general thing that's coming through is probably one of moving towards a bit more simplicity, which isn't a bad thing."

Some ACT members have said they are revisiting their hedging strategies because of the change in accounting rules.

This month Cobham, the UK aerospace and engineering group, said it would review its hedging policy.

"The group does not intend to change the fundamental tenet of its foreign exchange hedging policy. Up until now the nature of Cobham's use of this form of derivative instrument is to take broad hedges against the anticipated net position of a portfolio of foreign exchange risks. Meeting the strict hedge criteria for all contracts may therefore not be practicable," the company said.

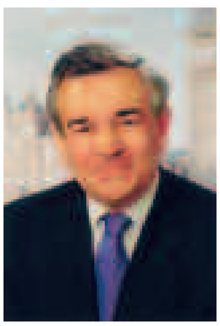
Peter Russell, Deputy Treasurer at Alliance Unichem, is facing the same realisation. Russell said: "Economically our approach should not change, but it has become clear the administrative burden to achieve hedge accounting is huge, and some of the accounting results may not fairly reflect our approach or indeed the approach of most corporate treasurers to hedging."

In view of the prospect of increased volatility, treasurers have also been in discussions with analysts and investors to see if they will ignore the changes in the figures when making their forecasts.

Peter Elwin, Head of Accounting and Valuation Research at Cazenove, said: "Changes in fair values of assets or liabilities such as those arising from IAS 39 cannot be forecast, and have no direct bearing on the underlying performance of the business. For this reason, analysts ignore them when analysing historic earnings, and exclude them from their forecasts."

See Ask the Experts page 14, and page 36 to read in full the profile of Gerry Bacon, Group Treasurer at Vodafone. ■

Trustees' pension panel to be set up



MINISTER: Malcolm Wicks MP

Pensions minister Malcolm Wicks MP has asked the Pensions Management Institute to set up a trustees' panel to advise the government on issues affecting trustees such as post-Myners investment decisions and conflicts of interest.

The TUC, NAPF and the Occupational Pension Defence Union have all expressed an interest in being involved in such an initiative.

Wicks said: "The strength of this panel will lie in the fact that it will be completely independent of government, but will have access to me on a regular basis and as such give a voice to trustees of all sorts at the highest level."■

UK standard-setter looks to beef up financial services links

The UK Accounting Standards Board (ASB) is looking to recruit a director of regulated industries to liaise more closely with banks and insurers.

Reporting directly to Chairman Ian Mackintosh, the director of regulated industries is a 'high-profile post', responsible for managing the ASB's relationship with companies and regulators in the financial services and other regulated industries.

The posting could well help the UK regulated industry fight its corner at an international level as the ASB feeds directly into the International Accounting Standards Board (IASB). Debate over the effectiveness of rules such as IAS 32 and 39 on accounting for derivatives and hedging, continues. The IASB has launched a long-term project to revise these rules, adopted for the most part from its predecessor.

The successful candidate will be a qualified accountant with standard-setting experience and working knowledge of the field. The individual should have sound technical knowledge, good communication and negotiation skills, according to the ASB advertisement.

The ASB has also issued a consultation document on the board's future role in light of the switch to IFRS on 1 January 2005 for all European public companies.

Mackintosh said: "The exposure draft sets out the ASB's vision of its role in the changing environment of standard-setting. The board has an important role to play in contributing to the development of IFRS and working effectively in the international partnership of standard-setters. Effective communication, both with the IASB and UK constituents, will be a key part of achieving this: therefore during the consultation period I look forward to discussing the board's role with many UK constituents." ■

SEC offers extension to overseas companies

The Securities and Exchange Commission (SEC) has given overseas companies listed in the US an extra year to comply with the internal control requirements of the Sarbanes-Oxley Act.

The original compliance date for section 404 of the Act for dual-listed foreign companies was 15 July 2005, but regulators decided to extend the deadline for compliance to 15 July 2006 after UK and other European industry representatives heavily lobbied the SEC.

Announcing the extension deadline, Alan Beller, director of the division of corporation finance at the SEC, said: "Section 404 reporting has the long-term potential to substantially improve the reliability of financial reporting.

"Given the burdens in designing and implementing s404 compliance for smaller and non-US companies, this extension strikes the right balance. Companies should use the extension not to delay but to improve the quality of their efforts."

European companies are already struggling to keep on top of new regulations coming from the European Commission, as well as the mandatory switch at the beginning of this year to accounting under international financial reporting standards, the new financial reporting regime.

Digby Jones, Director General of the Confederation of British Industry, has been in regular discussions with SEC regulators to come to an arrangement to allow British companies more time to fulfil their new obligations, warning that unless more concessions were forthcoming UK companies would pull out of the US.

Following the announcement Jones said: "Poorly implemented regulation destroys wealth, with no upside for the consumer or investor. That is why it is essential that the right balance between corporate governance and wealth creation is achieved."

Already several British companies, such as ITV and Lastminute.com, have delisted from US stock exchanges publicly citing escalating costs and the compliance burden of Sarbanes-Oxley as their prime reason.

In contrast, US companies with 31 December year ends were due to attest to their internal controls for the first time in March. ■

Forthcoming conferences and events

The 4th IAS 39 Conference
- *Understanding the repercussions of IAS 39*
  Sponsored by Commerzbank

7 April 2005
The Cavendish Conference Centre,
London W1

Training
Treasury Management for International Groups – Key Issues – 5 April
Basic Treasury – 19 April
Cross Border Cash Management – 4 May
Treasury Security and Controls – 8-9 June

For more information, visit **www.treasurers.org** or call Makayla Rahman on 020 7213 0703 ■

IN BRIEF

■ RBS launches new online cash service

The Royal Bank of Scotland has launched a new online automated cash management service, allowing customers to view their account balances and transaction details across the globe through one system.

Global Liquidity Engine (GLE) allows customers to auto-initiate transfers, move funds to where they are needed and give a projected close of business position each day.

GLE aims to minimise debt on overseas accounts and maximise interest on surplus cash balances, as well as reducing idle balances in overseas accounts.

Catherine Adair-Faulkner, head of international cash management at the Royal Bank of Scotland, said: "As a UK bank providing global solutions, we are acutely aware of the importance of assisting our customers to manage their monies across the globe."

■ Study of European corporate liquidity

Treasury Strategies, a US-based treasury consultancy, has launched a study of European corporate liquidity and treasury practices.

The study aims to help banks and fund companies better understand the size and composition of the European liquidity market, as well as corporate liquidity needs, behaviours and concerns. It will also provide treasurers with a benchmark on issues, trends and best practices.

Chrystal Pozin, senior consultant, said: "In this era of rising interest rates and volatile exchange rates, treasurers are under pressure to improve performance."

On the move...

- **Stephen Barnett** MCT has joined Mercer Oliver Wyman as Director. He previously worked for Aon Risk Consulting as Chairman.
- **Sidney Bieri** AMCT, previously Business Analyst at Citigroup Schweiz AG, has been appointed Treasurer at Swisslog Management AG.
- **Gill Darling** AMCT has joined Manchester City Council as Principal Technical Accountant. Previously she was Corporate Projects Accountant at Riverside Housing Association Ltd.
- **Andrew Hughes** MCT, previously Chief Treasury Officer at Octel Corporation, has joined Bodycote International plc as Group Treasurer.
- **Gavin Jones** AMCT has joined Ahold Finance Company NV as Treasury Director Europe, based in Geneva.
- **Steven Laws** AMCT has been appointed Associate Director at Barclays Capital. Previously he was Head of Structured Asset Finance at Barclays Bank plc.
- **Jonathan Logan** MCT, formerly Assistant Treasurer – Europe at GlaxoSmithKline plc, has been appointed Director – Corporate Development.
- **Isobel MacLeod** MCT, formerly Finance Manager at Saint-Gobain Building Distribution Ltd, has been appointed Group Treasurer at AZ Electronic Materials.
- **Craig Marks** AMCT, formerly Group Treasurer at Halfords Group plc, has joined Britvic Soft Drinks Ltd as Head of Treasury.
- **Robert Marshall** AMCT has been appointed Group Treasurer and Head of Tax at Matalan plc, previously he was Finance and Treasury Manager at Premier Farnell plc.
- **Matthew Rose** AMCT has been appointed Head of Tax at George Wimpey plc. Previously he was Head of Tax Special Projects at British Telecommunications plc.
- **Mark Taylor** MCT has joined GTNews as CEO. Previously he was Chief Operating Officer at Canadian company Alterna Technologies.
- **Paul Tydeman** AMCT, previously Treasury Manager at Memec, has moved to Virgin Atlantic Airway Ltd in the role of Group Treasury Manager.

MEMBERS' DIRECTORY:

Members' contact details are updated regularly on: **www.treasurers.org** *Email your changes to Anna McGee:* **amcgee@treasurers.co.uk**

CAREERS:

For up-to-date treasury vacancies and careers articles log on to: **www.treasurers.org/careers/index.cfm**