Missing analytics hinders receivables

Many companies lack control over their trade receivables because they do not routinely aggregate data or carry out detailed scoring analytics, according to SunGard.

The IT services and software group surveyed nearly 300 companies worldwide in 23 sectors and found that 81% of respondents did not carry out scoring or analytics on receivables on a monthly basis, and 46% never did so at any time. Yet 41% of companies with annual revenue under $5bn leverage receivables as part of the capital structure.

Lack of appropriate risk models was cited as a major reason for failure to score the receivables portfolio; cost and inability to access data were also given as reasons.

Enrico Camerinelli, senior analyst at Aite Group, which carried out the research, said: "Increased emphasis on working capital and deriving the maximum value in investments are factors driving corporations to re-examine their receivables management practices.

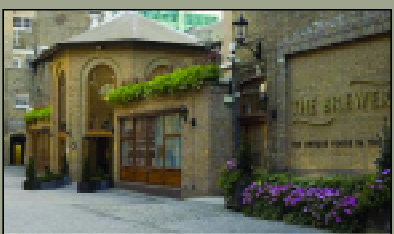
"Many corporations are employing more sophisticated analytics to manage inherent customer risk and internal resources, and to improve performance of the receivables portfolio, particularly with collateralisation."

CJ Wimley, executive vice president of trade credit liquidity solutions at SunGard, added that companies could also work to increase the funding on their credit facilities and reduce borrowing costs by gaining a deeper view into their receivables portfolio through improved control and analytics.

SWIFT solutions

The London 2011 SWIFT Business Forum will be held at the Brewery Conference Centre in the City on 19 May 2011. The theme will be "Common Challenges, Collaborative Solutions" and include SWIFT's role in supporting the financial services industry. The ACT will have a display stand and representation at the event.

http://bit.ly/hZss2Q



Payout failures loom for insurance buyers

British companies are unnecessarily exposed to potentially heavy losses due to major flaws in the way they arrange their corporate insurance policies, according to a new report.

Insurance research firm Mactavish, together with professional services business PwC, based the report on consultations with more than 600 UK firms and 100 insurers and brokers. It concluded that there are serious deficiencies in the process by which companies buy commercial insurance policies, which are "not fit for purpose" in the post-crisis era. This leaves companies vulnerable in the event of a major loss and any resulting dispute with their insurer.

The report found that 87% of insurance buyers did not realise the extent to which the duty of insurance disclosure was their responsibility, nor the consequences of failing to meet it. Nearly two in three insurance buyers at major companies failed to review the materials used to arrange their corporate policies and hardly any discussed the coverage adequately with their insurers and brokers.

Sykes: policies might not pay out

Mactavish's chief executive officer, Bruce Hepburn, said the system had prioritised low transaction costs over reliability. This is increasingly inappropriate in the current business climate, with medium-sized companies particularly exposed should one of their main insurance policies fail to pay out.

Boards had not recognised the possibility that their insurance policies might not pay out, added Richard Sykes, governance, risk and compliance leader at PwC. "Companies need to make more informed decisions about how much risk they should retain or transfer, rather than simply seeking to minimise insurance expenditure." ■

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European repos keep the upswing going

The European repo market continued its recovery in 2010, according to the latest twice-yearly survey by the European Repo Council of the International Capital Market Association (ICMA). It calculated the market's size in December at €5,908bn, a 6% increase on the December 2009 figure of €5,582bn.

Although the figure also represented a sharp fall from the total of €6,979bn recorded mid-year in June 2010, ICMA said the earlier figure had included unusual specialised transactions that were subsequently unwound over the second half of 2010, and the underlying trend remained a return toward pre-crisis levels.

The latest survey shows a sharp increase in electronic repo trading, which accounted for 28.3% of volume in the December 2010 survey, compared with 22.5% in the June survey. The rise was attributed partly to the revival of the repo market in Spain, where banks regained access to money market funding via new central counterparty (CCP) clearing services introduced in the latter half of 2010 by Spain's electronic trading exchange MEFF and LCH Clearnet.

Tri-party repo also took an increased share of the market, at 11.5% in December compared with 7.9% six months earlier, which ICMA said demonstrated "increasing confidence of market participants in this product as a means of reducing risk".

The chairman of ICMA's European Repo Council, Godfried de Vidts, said the latest survey again demonstrated "the increasing importance of CCP services in the repo market and also that significant volumes of repo-cleared trades are now registered with CCPs after the trade has been completed between two parties or via a voice broker, not just via electronic trading systems". ■

Confusion rife over pension tax scheme

HM Treasury last month announced legislation to allow the high pension tax bills caused by a cut in the annual allowance for final salary pension schemes to be paid directly out of individuals' pension schemes.

However, the government's move "raises more questions than it answers", according to Anthony Arter, senior partner and head of pensions at law firm Eversheds. He said it was bad news for pension schemes and mainly benefited high-earning members.

He said: "It will be mandatory for schemes to offer the 'scheme pays' option, where members are subject to an annual allowance tax charge of only £2,000, yet the government has not indicated how schemes should operate this facility and they will not be able to charge for providing this option.

Arter: high-earners benefit

"This seems unfair as the additional cost and administrative burden on schemes is likely to be significant, particularly for defined benefit schemes, where adjusting benefits to reflect the amount of tax paid from the scheme will be complicated. The cost to the scheme of doing so – including the cost of actuarial advice – could be greater than the tax charge itself." ■

See panel, this page

Risk reduction project for FX deals restarted

The Basel Committee on Banking Supervision and the Committee on Payment and Settlement Systems (CPSS) are establishing a joint working group to revise the Basel guidance for managing settlement risk in FX transactions. The aim is to ensure that financial institutions adequately control their FX settlement exposures.

FX settlement risk was identified as significant for market participants in a 1996 CPSS report. A May 2008 update to that report found that, through mechanisms such as CLS Bank, the financial services industry had made substantial progress in reducing FX settlement risk. However, it also found that part of the market still settled in a manner that did not mitigate risk and that some bilateral settlement exposures were large in relation to capital. The 2008 report recommended the following actions:

- individual institutions need to ensure their risk controls and incentives favour the use of risk-reducing FX settlement methods;
- industry groups should continue to develop FX trade settlement services so as to reduce risks, particularly same-day settlement services, next-day trades and trades involving additional currencies and counterparties; and
- central banks should work with supervisors to encourage further progress by the financial industry.

The latest announcement indicates the relaunch of the planned work between central banks and supervisors, postponed with the onset of the financial crisis.

The working party is an important step in ensuring that market participants focus on FX settlement and that their FX exposures are properly controlled. ■

Pensions checklist for tax changes

Tax changes that take effect from 6 April will have a major impact on the way that pensions are considered and administered by companies, according to professional services group Punter Southall.

Businesses should have identified in advance which employees will be affected by reductions in the annual allowance (from £255,000 to £50,000 from 2011/12) and the lifetime allowance (from £1.8m to £1.5m from 2012/13).

Options to address the impact of the changes include, for defined contribution schemes, restricting total contributions to the annual allowance and redesigning contribution rate structures. For defined benefit schemes, a revised definition of pensionable pay is among the options.

Alternative forms of remuneration could be considered to compensate employees whose future pension savings will be restricted, while offering them access to independent financial advice.

Punter Southall suggested that companies should discuss with trustees and scheme administrators how best to comply with the annual allowance information requirements and how to assist employees who were considering opting for the "scheme pays" route to meet the annual allowance changes.

CFC regulations still up in the air

In the March Budget, the government announced it would introduce new controlled foreign company (CFC) rules so that UK-based groups could compete more effectively with those based overseas "while protecting against the artificial division of UK profits". A consultation document will appear in May 2011 and draft legislation in autumn 2011.

The chancellor, George Osborne, said there would be a finance company partial exemption that, in broad terms, resulted in an effective UK tax rate of one quarter of the main rate on profits derived from overseas group financing arrangements (equivalent to 5.75% by 2014). This will be preceded by interim changes to the current CFC rules for accounting periods beginning on or after 1 January 2011, to make the CFC regime easier to operate ahead of full reform.

Early start urged on IFRS 9

Many corporate treasurers are uncertain about the relevance and implications of new global accounting standards for their treasury operations, according to IT2 Treasury Solutions.

The software group said its research suggested barely more than half were aware of impending changes in international financial reporting standards (IFRS). In Europe, IFRS 9, the standard for classifying and measuring financial instruments released in November 2009, will apply to accounting periods from 1 January 2013.

"In less than two years, corporate treasurers will have to respond to the onerous financial requirements of IFRS 9," said IT2 chief executive Kevin Grant. "Within one year, the window of opportunity to take the benefits of early adoption will close. IFRS 9 may still be a work in progress, but its scope and adoption timetable strongly suggest that treasurers should be actively evaluating the requirements of compliance."

IT2 added that there were good reasons for not adopting a wait and see attitude towards IFRS 9, as its clients had already reported that the calculation and data retention requirements for compliance were demanding. It said treasurers should consider the benefits of early adoption, which include not having to restate accounting results retrospectively.

"Companies that are not currently trying to understand and manage the impact of IFRS 9 will be confronted with a potentially substantial catch-up exercise some time during the next two years," said Pål Johan Aronsen of marine industry group and IT2 customer Wilh Wilhelmsen.

Name change for AFME division

The Association for Financial Markets in Europe (AFME) has changed the name of its European Primary Dealers Association, which will henceforth be known as AFME/Primary Dealers and will maintain the work of its predecessor.

AFME was formed in November 2009 by the merger of the Securities Industry and Financial Markets Association and the London Investment Banking Association, with the aim of providing a single vehicle for wholesale financial market participants in Europe.

Resurgent sukuk market smashes all the records

Prospects are bright for the sukuk market, which is back on track after "two turbulent years", according to ratings agency Standard & Poor's.

Its recently published report, Global Standards Needed to Give Breadth and Depth to Growing Sukuk Market, notes that issuance in the Islamic bond market reached an all-time high of $51.2bn last year, beating the previous record set in 2007 by 34%.

Provost: $16bn already issued in 2011

"By mid-February 2011, even those 2010 levels were being given a run for their money, with more than $16bn of sukuk already issued since the beginning of the year," said S&P credit analyst Paul-Henri Provost.

The rating agency reported that although structural differences and geographic disparities acted as a brake on worldwide uptake, the depth and breadth of sukuk issuance should continue to expand during 2011. "This is notably crucial… for the return of corporate sukuk issuers, including financial institutions, which fell from an average of about 65% over 2001-07 to a mere 12% of issuance in 2010," it added.

Recent sukuk growth has centred once more on Malaysia, which accounted for 78% of issuance in 2010 as the financial crisis curtailed the financing needs of Gulf issuers. S&P expects Asian markets to remain buoyant, but the Gulf to start playing catch-up as growth there revives.

Although Western investors showed a marked interest in sukuk during the crisis, the report suggested this was partly due to the average yield being slightly higher than that on a comparable "plain vanilla" conventional instrument. But it said this interest would cool as rate rises started to increase the average yield of conventional bonds, while the complex web of socioeconomic, political and religious issues would also hamper any swift take-up in non-Muslim countries. ■

Auditor scepticism under scrutiny

The Financial Reporting Council (FRC) has said it will continue to monitor the extent to which auditors apply professional scepticism. At the same time it was joined by the Financial Services Authority in releasing a feedback statement as efforts continue to enhance auditors' contribution to prudent regulation.

The FRC has announced measures designed to ensure a consistent understanding of the nature and role of auditor scepticism and appropriate support for, and transparency of, its application. Both the FSA and the FRC expect these measures to contribute to effective auditing and higher quality disclosures, including company annual reports. Auditors are encouraged to share with the FSA any observations or concerns about the adequacy of disclosures.

Several other initiatives have been started to back up the demand for greater auditor scepticism:

- development of a draft code of practice by the FSA alongside the Bank of England designed to enhance the dialogue between auditors and supervisors;
- greater dialogue between the FSA and auditors, individually and collectively, to discuss key financial reporting issues;
- greater and more effective use by the FSA of section 166 skilled person reporting; and
- formalisation of co-operative arrangements between the FSA and the FRC's audit inspection unit.

One of the biggest audit firms, PwC, said that it welcomed greater transparency.

PwC added that it had launched an initiative with the audit committee chairs of some of its business clients to see if they could work together on a voluntary basis and improve disclosure of risks of mis-statement and areas of judgement in the financial statements over the next reporting cycle. ■