Women make rapid progress in boardroom

In the year since the report Women on Boards was published, the number of women directors in listed companies has risen sharply.

At the end of February, women accounted for 15.6% of all FTSE 100 directorships compared with 12.5% in 2011, while the number of all-male boards fell from 21 to 11 after a total of 47 female appointments were made over the year.

Davies: corporate culture change

Progress has been slower in the FTSE 250, where women now account for 9.6% of directorships against 7.8% previously, and 44.8% of boards are still all-male, although the figure has fallen from 52.4% last year.

Lord Davies and his review panel, who produced the report, proposed that FTSE 100 boards should aim for a minimum of 25% female representation by 2015. To date, 17 of the top 100 companies have reached that target and a further 17 are now in the 20–25% range.

"We are finally seeing a culture change right at the very heart of British business in relation to how women are seen within the workforce," said Davies, although he added that efforts towards improved female representation "need to be ramped up and the speed of change accelerated" if government intervention was to be avoided.

However, a separate report produced by Cranfield School of Management has predicted that if current momentum is maintained, a record 26.7% female board representation will be achieved by the 2015 deadline. Business minister Vince Cable added that the government did not currently believe that imposing quotas was necessary as business took the issue of board diversity seriously and "the UK is making the voluntary approach work".

Too many "artificial means" of attaining the goal set out in the Davies Report would be counterproductive for women already working in senior positions, said Carmen Watson, managing director of recruitment consultancy Pertemps. "There is still a level of unconscious bias that takes place among senior decision-makers that can affect the recruitment of women in senior positions. In addition, communication should be rolled out internally through all departments to embrace the benefits of a more diverse workforce. Buy-in on such themes should be company-wide if we are to promote a continued pipeline of female talent in the future." ■

No foundation for naked CDS ban

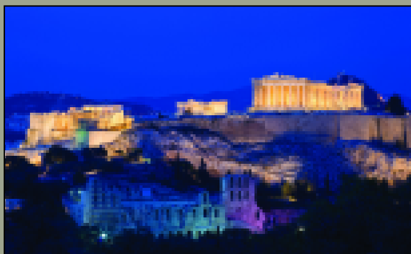
Credit default swaps (CDS) were not to blame for the slide in bond prices that led to an EU ban last October on so-called naked CDS, claims new research.

Paris-based business school EDHEC examined the relationship between euro zone sovereign-linked CDS and the same sovereign bond markets during the euro zone debt crisis of 2009–11. Its study concluded that CDS spreads did not drive sovereign bond spreads in all circumstances, and could actually have the opposite effect.

EDHEC's affiliated professor of finance Dominic O'Kane added that CDS spreads were a "cleaner and more transparent measure of market-perceived credit than bonds since CDS are not limited by supply, are as easy to buy as to sell, and have a lower cost of entry".

O'Kane added that bond spreads had been catching up with the "fair value" already established in the CDS market. The widening of Greek CDS before bond spreads in 2010 attracted criticism from governments, but was valid and proved the CDS market was "an earlier predictor of default than the bond market".

EDHEC also warned that the ban "will make the market less liquid and will prevent many participants from easily hedging the sovereign risk they wish to avoid".


Athens: CDS was good predictor of default

Student excluded

In accordance with the ACT's ethical code and disciplinary rules and further to an order of the disciplinary committee dated 9 February 2012, Seema Kotecha is excluded from being a student and sitting any of the ACT's exams. In addition, following a resolution passed by Council on 8 March 2012, Kotecha is excluded from membership or from serving as a corporate representative. The ethical code and disciplinary rules are available at **www.treasurers.org/ethicalcode**

Pensions must 'prepare for the worst' on FATCA

It is unlikely that UK pension schemes will escape the reach of the US Foreign Account Tax Compliance Act (FATCA), claims an expert.

Jim Muir, director of financial data management firm AutoRek, said: "It seems to be absolutely certain that pension income will be included for FATCA purposes as the traditional annuity is easy to assess for liability. It's also clear that it will apply to other cash distributions such as 'tax-free cash' or income drawdown."

The complexities over the valuation of a pension pot that isn't delivering income – especially defined benefits plans – may mean plans which have not yet moved into maturity will need to be excluded in the early days.

Muir added: "Complex arguments around refund of premiums which have been tax-relieved or otherwise will no doubt surface, but my sense and judgment would be that businesses should prepare for the worst – even though it may not quite materialise on day one."

Pensions industry backs defined ambition schemes

Pension minister Steve Webb's advocacy of "defined ambition" pension schemes has been welcomed by the pension industry.

In a recent speech Webb said defined ambition schemes, which are being pioneered in the Netherlands, would usefully open up the defined benefit (DB) versus defined contribution (DC) pension scheme debate.

Webb: open up pension debate

Emma Watkins, director of business development and insurance and financial services provider MetLife, said that workplace pensions needed reinvigorating and the initiative marked "a step in the right direction".

"Defined ambition schemes may be a way for an employer to provide something greater than a DC scheme without taking on all the volatility and perceived risk of a DB scheme," she added. "The recent closure of the last remaining open DB pension scheme in the FTSE 100 is a timely reminder that more creative thinking is needed."

Watkins noted that much of the detail was yet to be determined and, in addition to a review of the models used in other countries, consultation with employers and employees was needed to design a financially sustainable system that allowed individuals to retire in dignity.

"Whether finance directors' memories are sufficiently short to risk the possibility of an ambition subsequently turning into a cast-iron guarantee remains to be seen," she concluded. ■

Kay sets out UK equity market issues

The interim report of the Kay Review has identified a wide range of issues affecting UK equity markets.

Professor John Kay is looking at how investment in shares affects company performance and governance. Business minister Vince Cable ordered the review in June 2010 to examine how investors, shareholders, regulators and the boards of UK quoted companies can best serve the long-term interests of British business and the economy.

His move followed concerns that short-term incentives and pressures could be having a damaging effect on the way that companies are owned and managed in the UK.

The interim report provides an overview of submissions and signals areas of interest for the final report, which include the purpose of equity markets, the company and the board, performance measurement and the effect of financial reporting, market practice and corporate governance standards, and asset management.

The final report, which will come with recommendations, is due this summer. ■

Crisis prolonged

Some of the problems faced by credit markets are the unintended consequences of actions taken by well-meaning policymakers, a credit strategist has suggested.

Ben Bennett of Legal & General Investment Management said: "When the credit crisis hit, policymakers cut interest rates, pumped money into the system through measures such as quantitative easing and ran large government deficits. All of these were eminently sensible, but all had knock-on effects that we're seeing now."

He added that the excessive borrowing that caused the crisis was being unwound and the policy responses had merely deferred some of the pain caused by deleveraging, as low asset costs could boost asset prices. "The obvious danger is that sectors or asset classes that are being supported by these measures may still weaken or fail once the support is taken away. At the same time easy monetary policy threatens future problems if rates have to be hiked to cool inflation, while deleveraging could trigger Japanese-style deflation."

Bennett warned of an extended period of weak growth and ongoing nervousness, but believes this will also create opportunities.

Correction

The ACT wishes to correct the following October 2012 MCT exam results, published in the March 2012 edition of The Treasurer. The two entries affected should have read:

- Andrew Hill, BUPA: pass
- Andre Khor, Shell: pass with distinctions for the Case Study Exam and Project

Our congratulations go to both candidates.

made easy

The London Stock Exchange's Order book for Retail Bonds (ORB) offers private investors simple and efficient access to bonds from a range of issuers, opening up an important new investor base for companies seeking to diversify their sources of funding.

www.londonstockexchange.com/bondsmadeeasy

Watchdog wants fair deal on pension TVAs

The Financial Services Authority (FSA) is consulting on proposed changes to pension transfer analysis.

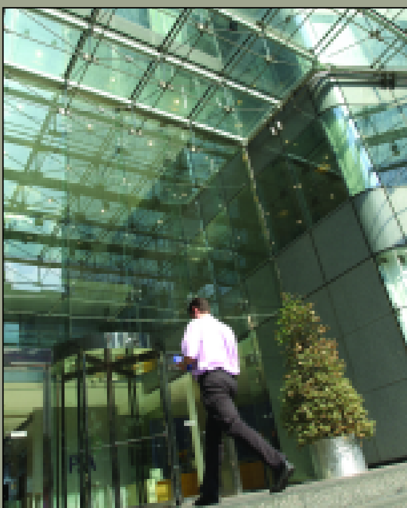
The watchdog said it wanted to clarify and update current standards, so that pension scheme members considering a transfer from any defined benefit (DB) scheme to a personal pension scheme were first given a fair assessment of what they were likely to receive in retirement in the form of a transfer value analysis (TVA).

The FSA pointed out that TVAs were "a complex process" and said that changing the way they were performed would prevent an undervaluation of benefits of up to £20bn, effectively meaning that transfer values would have to increase before an adviser could recommend a transfer.

"It is vital that employees get a fair deal as more and more employers are looking to reduce liabilities by offering members of DB schemes a move to a personal pension," said Sheila Nicoll, FSA director of conduct policy.

She added: "As things stand, there is a high risk members receive unsuitable advice as a result of the mechanistic approach to analysing transfer values taken by some advisers. These changes are important to make sure that members' interests are at the centre of any decision to transfer and that any advice to transfer is suitable.

"We have seen examples of advisory firms recommending a transfer when there is little or no justification, or where the reasons given for an individual to transfer have nothing to do with their particular circumstances."



Setback for pension scheme deficits

Pension scheme accounting deficits among FTSE 350 companies widened in February despite rising equity markets, according to Mercer.

Hartshorn: pressure from investors

The consultancy group, whose data covers 50% of all UK pension scheme liabilities, estimated that the aggregate IAS 19 measure of the FTSE 350's defined benefit (DB) schemes' accounting deficit stood at £92bn at 29 February. That is equivalent to a funding ratio of 84% and compares with £83bn a month earlier and £84bn at 31 December 2011.

The deterioration came despite a rise in asset values over the first two months of 2012, from £478bn to £494bn. The FTSE 100 index edged nearer the 6,000 level over the same period, recording a 7% rise. However, as the yield on the corporate bond yield index used to calculate the liabilities fell, so IAS 19 liability values increased over the same period, from £562bn to £586bn.

Ali Tayyebi, senior partner and pension risk group leader at Mercer, said: "Not only are government bonds at historically low levels but the extra yield on corporate bonds is coming down. This could push up the liability calculations.

"However, bond yields at longer durations have not fallen. This means some companies that have taken this fully into account could have seen a reduction in liabilities over the month. We expect to see developments in the approaches companies adopt for valuing pension scheme liabilities when the end of December accounts are published."

Adrian Hartshorn, a partner in Mercer's financial strategy group, said investors and lenders were likely to increase pressure on companies to reduce their pension scheme deficits and their impact on corporate cashflow. ■

Ethics reporting remains fixated on finance sector

Bribery, corruption and fraud were the ethical issues most reported on by the media over the past two years, according to an overview issued by the Institute of Business Ethics.

As in previous years the finance sector received by far the greatest media coverage with a total of 295 news stories. Retail came next, just ahead of the technology sector (including IT companies) and the extractive industries of oil, gas, metals and mining. By contrast the tobacco, chemicals, construction and property sectors attracted relatively little media attention.

The next most frequently reported ethical issues were executive remuneration, corporate governance and fair competition. Fewer news items focused on corporate whistleblowing and "speaking up", lobbying and donations, discrimination and human rights.

The IBE detected a shift last year in reporting on ethical concerns and lapses. The number of news stories on the extractive industries nearly doubled, while coverage on utilities companies fell by two-thirds and on the food and drink sector by more than half.

More attention was paid to corporate governance, with the number of reports more than trebling since 2010; reports of bribery, corruption and fraud nearly doubled in that time. Less attention was paid to executive remuneration, with 33 reports against 87 in 2010, and even sharper falls in the number of news stories on product safety lapses and lobbying/donations. Year on year the number of stories on marketing/advertising and supply chain/procurement halved.

"Concerns and Ethical Lapses, 2010 and 2011" can be downloaded at **www.ibe.org.uk** ■

Breedon outlines options

BUSINESSES FACE A SHORTFALL IN CREDIT OF UP TO £191BN WITHIN FIVE YEARS UNLESS ACTION IS TAKEN, CLAIMS A REPORT INTO ALTERNATIVE FINANCE. **GRAHAM BUCK** SPELLS OUT THE HIGHLIGHTS.

The ACT has been asked to spearhead an initiative to increase the number of UK-based private placement investors. The move is one of a series of measures designed to give UK companies better access to non-bank lending over the next few years to meet expected growth in demand for financing as the economy starts to recover.

The initiative was called for in a report issued by the Breedon taskforce, which includes ACT president James Douglas, last month. The taskforce was appointed by business secretary Vince Cable to come up with recommendations on how to encourage alternative funding sources to the banks, particularly for small and medium-size businesses (SMEs).

The taskforce is headed by Legal & General's chief executive Tim Breedon, who in describing its remit said: "At a time when growth is likely to be highly dependent on business investment but banks are under pressure to strengthen balance sheets and deleverage, how are we to give SMEs sufficient access to credit? The crucial SME segment does not have companies big enough to access public bond markets, but it needs to invest in people, plant and expansion."

Other taskforce members included London Stock Exchange chief executive Xavier Rolet and HSBC's chief executive. The team reviewed more than 100 submissions from businesses during its three-month consultation period.

The Breedon Report confirmed the continuing slump in applications for bank loans, with only 9% of SMEs seeking finance in the 12 months to the fourth quarter of 2011. It anticipates that the problem will worsen as the recent quarters of weak or negative economic growth give way to recovery, improved business confidence and renewed demand for working capital.

This is likely to occur as the banks continue to deleverage their balance sheets. The report predicted that by the end of 2016 "the finance gap could be in the range of £84bn to £191bn – the amount potentially required to meet comfortably the working capital and growth needs of the UK non-financial business sector". Of this between £26bn and £59n is likely to relate to SMEs, most of which are unable to access the public corporate bond markets due to a combination of high upfront costs and investors' general preference for larger and more liquid issues.

Breedon admitted there was no "silver bullet" for neatly solving the problem, but hoped that the report might assist SMEs in developing other options for non-bank finance.

One way the government could help, the report suggests, would be by replacing its current "alphabet soup" of support programmes with a single brand and business support agency.

The taskforce also noted that the UK was lagging both the US and much of the EU in the size of its corporate bonds market and urged a greater degree of investment by institutions – for example, through private placements of debt as is commonplace in the US. Britain could also consider establishing an agency specifically for bundling together loans to SMEs and selling them on to investors and/or pooling loans in order to access the public corporate bond markets. More could also be done to encourage small investors' appetite for corporate bonds, such as offering tax breaks and electronic retail-dedicated gilt investment products.

> "THE CRUCIAL SME SEGMENT DOES NOT HAVE COMPANIES BIG ENOUGH TO ACCESS PUBLIC BOND MARKETS, BUT IT NEEDS TO INVEST IN PEOPLE, PLANT AND EXPANSION."

Douglas said: "The Breedon recommendations present an opportunity both to unlock the full potential of untapped credit supply in the UK economy and to increase the velocity at which this supply is circulated. To achieve these goals, a detailed execution plan is being developed, and the ACT is at the centre of it."

The ACT – which contributed to the report – has welcomed its role in working up a private placement market. It believes it is vital for a much wider range of companies to have access to non-bank lending to oil the wheels of economic growth.

It added that producing a form of standardised documentation with adaptable clauses could be a big help to new users of the placement market. ACT chief executive Colin Tyler said: "Realistically, it will take time to develop this market. By comparison, we should remember that the huge US private placement market has been in existence for many decades, born of that country's historical state-by-state bank fragmentation. Company treasurers have a key part to play and we look forward to making our contribution towards improving the structure of the UK business environment."

Other recommendations in the report include setting up a business finance advice network consisting of the main accountancy bodies; reviewing the possibilities for the government's Business Finance Partnership to invest in products such as mezzanine loan funds and peer-to-peer lending; and for the government to use its weight as the biggest single purchaser of goods and services to reinforce prompt payment practices, support greater use of invoice discounting and use supply chain financing to invest in smaller suppliers.

The report received a broad welcome from bodies such as the Confederation of British Industry. The Federation of Small Businesses' national chairman John Walker said: "Putting the government's financial products under one umbrella organisation and looking at a pilot SME bond scheme, as well as learning what works well in other countries is a good step forward."

The report was issued days before chancellor George Osborne delivered his third Budget, in which he confirmed other measures to alleviate the funding gap, such as a £20bn loan-guarantee scheme to provide discounted lending to SMEs.

Graham Buck is a reporter on The Treasurer
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The Breedon Report is at **http://bit.ly/GLsbpj**