

IN BRIEF

► The Alternative Investment Management Association (AIMA) has announced that its Investor Steering Committee is to publish the world's first **collaborative educational guide for hedge fund investors**. The guide is the first global effort between investors and the hedge fund industry, and aims to provide access to meaningful and practical information on the nature and activities of the hedge fund industry. The guide will include information on hedge fund strategies, performance data, investment processes, and industry and business dynamics.

See **Hedge Trimming**, page 28

► Barclays has become the first UK financial services firm to use the **bank services billing (BSB) standard** provided by corporate standards body Twist. BSB provides for electronic reporting of bank information to corporate treasurers and wholesale clients. Barclays will introduce BSB to a limited range of clients in this first phase of implementation; the service is currently only available for UK sterling accounts. Twist produced the standard last year, with Denmark's Danske Bank as the first European bank proponent.

► The Global Debt Group, part of the UK listing authority, has recently created a webpage on the FSA site covering **eligibility for companies listing in London** and requirements for prospectuses. As well as assessing the eligibility of companies seeking to list in London, the organisation reviews and approves prospectuses and listing particulars for debt securities and global depository receipts. The new webpage covers plain-vanilla securities, redemption-linked securities, global depository receipts, securitised derivatives, sukuk, asset-backed securities, convertible securities, and MTN programmes. Visit the webpage at: <http://tinyurl.com/2u3vto>

► The International Accounting Standards Board (IASB) has published a discussion paper on **the distinction between equity financial instruments and other financial instruments** (non-equity instruments). The paper is the first stage of the IASB's project to improve and simplify the requirements in IAS 32 *Financial Instruments: Presentation*. Stakeholders around the world have raised a number of criticisms of the requirements. The ACT is likely to respond to the paper, so the Policy and Technical team would appreciate comments and suggestions from interested members.



INTRODUCTION

By Peter Matza  
*ACT Policy and  
Technical Officer*

**It seems to be a case of one step forward, one step back in the credit markets at the moment. On the positive front, investment-grade bond issuance has picked up in the euro and US markets where absolute fixed rates are relatively attractive.**

**On the downside, credit default swap spreads have reached historically wide levels, driven in part by the impact of financial companies on the indices. The ratings agencies are reporting slightly higher default rates but corporate balance sheets, as shown by cash assets, are much strengthened. There is a great deal of talk in the media about personal recession but the corporate picture is much less clear. We are keen to hear our members' own experiences when they talk to their banks about credit.**

Payment systems take the strain

The Bank of England published its fourth payment systems oversight report at the end of February. The Bank currently has non-statutory responsibility for ensuring the resilience of payment systems, while the Financial Services Authority (FSA) has responsibility for the regulation of members and other elements of market infrastructure (for example, clearing and settlement systems).

The report describes the challenges presented to the key UK payment systems over the past year and explains the focus of the Bank's work in this field. It also notes that the period of market turbulence over the past six to nine months has tested the payment systems infrastructure, with unprecedented volumes of transactions being processed. The report concludes that the UK payment systems have generally coped well with these additional pressures.

It is likely that the report's findings will form a large part of the imminent consultation on payments governance. The need for consultation has come out of the government's investigation into the implications for financial stability and retail depositor protection following the collapse

and subsequent nationalisation of Northern Rock.

The government intends to propose a legal framework so it can assign oversight responsibilities to an appropriate authority. This power will be sufficiently extensive to ensure that:

- the relevant authorities are properly equipped with powers and duties to take on the oversight responsibilities assigned to them, depending on the nature and characteristics of the payment system in question; and
- the framework for oversight is flexible enough to be able to respond to the evolution of payment systems over time.

It does not follow that this is the most appropriate response to ensuring the solidity of the UK payments system, nor that an existing agency is the one to choose. There is no date set for the consultation but we shall keep members advised.

**As always, comments from interested members are welcomed by the ACT's Policy and Technical team. Email: [pmatza@treasurers.org](mailto:pmatza@treasurers.org)** ■

European boss questions market value methods

Charlie McCreevy, European Commissioner for Internal Market and Services, has recently questioned whether the mark-to-market valuation of assets is always the correct rule for illiquid assets or liabilities. In his view, the consequences of the mark-to-market rule will need to be closely examined once the present credit squeeze has run its course. Regulators, politicians and central bankers have also been questioning this principle, with some suggesting that to avoid similar turmoil all such instruments

should be traded on managed exchanges with additional regulatory requirements.

McCreevy also said a balance needed to be found for regulating remuneration structures. He suggested examining the issue in the context of revisions to corporate governance codes. The Chairman of the FSA, Callum McCarthy, added that banks and other financial market players needed an incentive system that promotes behaviour with a better balance between risk and reward, and between shareholder and employee.

# Pension scheme consultations demand an ACT response

Consultations issued by the regulatory agencies for the pension industry tend to come in twos or threes, and recently have appeared in fours.

The ACT's response to the Pension Protection Fund's (PPF) consultation on changing some of its calculation assumptions for 2008/09 was that the timetable was too short for informed discussion even for relatively minor changes proposed (see: <http://tinyurl.com/3ac6db>).

In addition the Pensions Regulator, PPF and the Department for Work and Pensions have issued a joint consultation paper to speed up the pension scheme winding-up process, providing earlier certainty for scheme members about the benefits they will receive. It is not currently our intention to respond on this topic.

The first quarter of 2008 has also seen two important papers from the Pensions Regulator (discussed below). The ACT Policy and Technical team intends to respond to both documents so the views and comments of all members are welcomed. Email [pmatza@treasurers.org](mailto:pmatza@treasurers.org).

The first paper contains draft guidance on how trustees should approach conflicts of interest within their own ranks and among their professional advisers. The paper highlights the importance of the chair of a trustee board in establishing robust conflict management arrangements and suggests the appointment of an independent trustee as chair.

The regulator also suggests it is good practice for trustees to have a regularly reviewed documented policy on conflicts of interest.

Trustees are urged to continually assess the need to identify and manage conflicts, with boards maintaining an up-to-date register of each trustee's interests.

The paper says that trustees should implement procedures for evaluating and managing conflicts independent of the conflicted trustee. The most important area here relates to the impact of confidentiality on conflicts – for example, where an employer-nominated trustee has a duty of confidentiality to the employer that conflicts with their duty to share information with fellow trustees.

The paper encourages trustees to manage actively their relationship with their advisers, and to ensure that the advisers are able to provide independent advice. The paper reaffirms the importance of advisers declaring conflicts irrespective of any underlying legal duty.

Though deliberately light on legal principles, the regulator's draft guidance is a useful practical guide to the issues faced by trustees in dealing

with conflicts of interest. It also appends useful specimen documents, including a conflicts policy and a conflicts register.

The document can be found at: <http://tinyurl.com/2yvvac>

The second paper concerns a new approach to mortality assumptions in the regulation of defined benefit pension schemes. The actuarial profession has for a number of years been highlighting rapid reductions in mortality (increases in longevity) and the impact of increased longevity cannot be understated. The PPF has recently highlighted evidence that two years of extra life could add 5% to pensioner liabilities, and proposed changes to the levy for 2009/10 with updated longevity assumptions.

In broad terms the regulator is recommending that in applying good practice, trustees need to ensure that their views on longevity are transparent and evidence-based, especially if they diverge from the recommendations of the regulator. In fact, the paper proposes this standard for any assessment made by trustees when deciding funding valuation assumptions for a defined benefit scheme. It is likely that the ACT view will be generally supportive of the principles involved but the Policy and Technical team would appreciate comments and suggestions from interested members by 14 April.

The document can be found at: <http://tinyurl.com/3cuoa8>



For those readers who want to keep up with all things to do with listing – especially equity listing – the website of the London Stock Exchange contains a breadth of news and information. It also contains all the background detail on the rules of the exchange. This may be particularly useful to students or occasional users of markets

who want to understand how market exchanges and trading actually operate.

[www.londonstockexchange.com/en-gb/](http://www.londonstockexchange.com/en-gb/)

## IN BRIEF

► The Financial Services Authority (FSA) has published an update in which **disclosure and financial reporting by listed companies** is discussed. There are concerns that recent adverse changes in market conditions have meant many financial products have become difficult to value. This has led to questions as to the validity of financial information that will appear in annual reports. The FSA highlights the various actions and initiatives being undertaken by the Financial Reporting Council (the regulator responsible for accounting and audit), which the FSA believes will help maintain market confidence. The FSA believes that both formal and informal information which companies publish should give investors an understanding of the basis of the quantitative disclosures being made.

► **The Takeover Panel has issued new advice** (practice statement no. 21, rule 3: independent advice) to explain modifications to its approach in determining whether an adviser is sufficiently independent of a company making an offer when it is giving advice to the company being bid for.

The Panel believes that relationships between financial advisers and their clients are in many cases less exclusive now than used to be the case, and has therefore decided to be more flexible in its approach in determining the independence of an adviser.

The Panel also recognises that it is now common for parties in bids to use multiple financial advisers in a single transaction or different financial advisers in successive transactions. In future, the Panel will be prepared to accept that some matters, whether current, past or prospective, may not compromise the independence of the adviser.

In assessing materiality, the Panel Executive will continue to examine the strength of the overall relationship between the bidding company and the adviser.

In addition, the Panel will be more likely than it has been in the past to conclude that an adviser is independent if it has acted for the bidder only infrequently over a reasonable past period and the bidder has instructed a number of other financial advisers over the same time. The Panel recommends consultation as soon as practicable in cases where there is any doubt about the independence of an adviser.