Transatlantic bond markets divided by covenants

Significant and idiosyncratic cross-border differences exist in bond covenants, according to rating agency Moody's.

Research by Moody's has revealed that North American investment-grade bonds consistently have stronger bond covenants than their European counterparts. But in the high-yield market the opposite is true, with European high-yield bond indentures tighter than their North American equivalents.

Moody's looked at 350 individual covenant packages on 760 bonds issues between 1998 and 2007. It found that in the US and Canada investment-grade bonds typically include covenant protections that restrict mergers, sale/leaseback deals and sales of "substantially all" assets. It is rare to find such restriction in European bonds.

High-yield bonds issued in North America in the Ba rating category often have covenant packages that are essentially indistinguishable from those in the investment-grade universe.

The high-yield protections often absent from Ba-rated North American bonds are more likely to be found in high-yield European bonds throughout the speculative-grade space, including important restrictions on borrowers' actions, such as limitations on restricted payments and indebtedness.

Companies are expected to face stronger covenant demands following the credit crisis which has left investors both nervous and in a position to call for tighter protection.

Treasurers told to look to HR in M&As

Treasurers and other financial professionals should rely on human resources professionals in merger and acquisitions (M&As) deals to ensure greater success.


Frances Wilson: take time to understand

A report from the Chartered Institute of Personnel & Development (CIPD) claims that HR can contribute to the success of M&As through the integration and transfer of knowledge and practices.

Frances Wilson, the CIPD's International Manager, said: "Mergers and acquisitions transcend national cultures, often making the integration process challenging and problematic. HR can play a key role in making this integration a success for employees at all levels and in particular lead the transfer of knowledge so that organisations' personnel learn from the operations they acquire."

The report shows that 60% of overseas-owned organisations growing through acquisition have already made deliberate attempts to share and integrate with the acquired firms' knowledge in the UK.

Wilson added: "If time is taken to understand and engage with an acquired entity's' employee practices, organisations will be able to effectively share ideas and gain their new employees' co-operation. This requires an acquisition strategy from HR to make sure that the mechanisms for learning are in place."

In 2006, according to the CIPD, 172 deals involving UK companies were involved in cross-border deals amounting to more than $1bn. Many international mergers have encountered problems due to their complex nature.

CIPD research shows that HR's contribution to mergers can be substantial, particularly on the issue of employee integration.

Satish Pradhan, the Executive Vice President of Group HR at Tata Sons, the Indian conglomerate that has acquired 98 companies and operates in six continents with a payroll of 289,500, said: "Leadership is about taking the view that people capabilities are a source of competitive advantage. In mergers and acquisitions this is reflected in a business perspective that thinks post-merger integration before due diligence.

"When we scan, explore, consider or even begin to think about a potential M&A candidate, we are already thinking about the future combined entity. This has huge implications for the way we approach and address issues right through the whole process from scanning to integration."

The full research report, called *International Mergers and Acquisitions: How Can HR Play a Strategic Role?*, will be launched at the CIPD's annual HRD conference in London on 15-17 April. Pradhan will be a speaker at HRD. ■

On the move...

■ **Richard Adamson**, AMCT, has been appointed Financial Controller at Insignia Finance. He was previously Interim Financial Controller at Blue Motor Finance.

■ **Stephen Barnett**, FCT, previously Director at Mercer Oliver Wyman, has been appointed Partner at Deloitte & Touche.

■ **Andrew Bateman**, MCT, has been appointed Chief Operating Officer at SunGard Asia Pacific. He was formerly Managing Director at SunGard AvantGard.

■ **Margaret Britten**, AMCT, previously Trust and Tax Manager at Wood, Awdry & Ford, has been appointed Cash Management Analyst at Marathon International Petroleum (GB).

■ **Graeme Gilbert**, AMCT, previously Treasury Controller at EMI Group, has been appointed Treasury Manager at Thames Water.

■ **Martin Livsey**, AMCT, has been appointed Financial Controller at Thomas Cook. He was previously Finance Manager at Nationwide Building Society.

■ **Glen Millar**, AMCT, previously a partner at Moore Stephens, has been appointed Consultant at Kinetic Partners, responsible for building technology solutions and business in Switzerland.

■ **Colm Reid**, AMCT, has been appointed Chief Financial Officer at Itinere Ireland. He was previously at NTR.

■ **Caitlin Telford**, AMCT, previously Assistant Group Treasurer at Jarvis, has been appointed Treasurer at Pace Micro Technology.

■ **Penny Wallis**, AMCT, has been appointed Treasury Operations Manager at Rentokill Initial. Previously she was Treasury Manager at Caledonia Investments.

MEMBERS' DIRECTORY

Members' contact details are updated regularly at **www.treasurers.org**. *Email changes to Tolu Babatola:* **tbabatola@treasurers.org**, *or phone +44 (0)20 7847 2558.*

CAREERS

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

Corporate governance pays off

Peter Montagnon: good governance brings rewards

Companies with the best corporate governance records have produced returns 18% higher than those with poor governance, according to research from the Association of British Insurers (ABI).

The research also found that a breach of governance best practice – known as a red top – reduces a company's industry-adjusted return on assets (ROA) by an average of one percentage point a year.

For even the best-performing companies (those with the top quartile of ROA performance), that equates to an actual fall of 8.6% in returns a year.

Peter Montagnon, ABI's Director of Investment Affairs, said: "Our growing database has enabled us to look at the impact of corporate governance over a period of time. Our members' interest in governance has always been driven by their desire to generate value for policyholders over time. The results confirm our belief that good governance produces better returns with less volatility – something that long-term savers need."

The research also shows that shareholders investing in a poorly governed company suffer from low returns. £100 invested in a company with no corporate governance problems leads to an average return of £120; but if invested in the worst-governed companies the return would have been just £102.

The ABI, whose members hold shares in 20% of the stock market, said that the worst-offending companies (those which breached the guidelines in every year examined) underperformed the average industry-adjusted return on assets by three to five percentage points a year.

There was also found to be a time lag of two to three years between any breach and the impact on performance. ■

Key findings

- **The volatility of share returns is 9% lower for well-governed companies than for poorly governed companies.**
- **The balance of the board is crucial. More non-executive directors improves performance, although too great a number is linked to a fall in profitability.**

James Lockyer, Technical Officer, Education, at the ACT, recently delivered a masterclass lecture to Sheffield Hallam University's treasury management module students.

Slowdown fears for British business

With the prospects of a significant slowdown in the UK economy, new research from the Society of Turnaround Professionals (STP) and GE Commercial Finance says retail, financial and manufacturing businesses are the most likely to be hit.

The poll of 56 turnaround professionals found that 13% believe that businesses operating in the financial sector are the least prepared for a downturn. Retail was thought most vulnerable (63%) while manufacturing was mentioned by 9%.

Christine Elliot, Chief Executive of the STP, said: "With the last major slump coming in the early 1990s, many of today's business managers and owners have not had to deal with the consequences of softening demand and limited credit availability. Being able to successfully deal with these more adverse conditions will require businesses to focus on their cashflow, costs and markets."

Only 4% of STP members believe UK businesses are well equipped to deal with a downturn in the economy, with over half (52%) saying they were poorly prepared. The top three regions most likely to be hit by a deterioration in the economy are Wales, the North East and London.

John Jenkins, CEO of GE Commercial Finance, Business Finance, said: "Many profitable firms can quickly end up in difficulty if they have not focused on generating cash quickly. Alternative forms of finance, such as asset-based lending, could play a significant role in helping some firms release cash tied up in assets such as invoices, inventory, plant and machinery."

Also on GE's list of tips is to seek the advice of experienced managers and business advisers early on and to focus on winning new business from customers less likely to be hit by a slowdown in domestic demand.

4th ACT pensions survey

The 4th annual ACT/Mercer pension financial risk management survey takes place in April. The survey poses key questions arising over the past year, including use of contingent assets, increased buy-outs of liabilities and the impact of the credit crunch.

See p41 for more or visit www.treasurers.org/pensionssurvey ■