Hotline

Welcome to the December Hotline. We would like to thank Judith Harris-Jones for her dedication and contribution to the Association during her role as both Chairman and as an active member of the Technical Committee. We are pleased to welcome Jon Boyle, Director of Treasury of Fidelity International as the newly appointed Chairman of our Technical Committee. Jon brings considerable experience to the Technical function of the ACT and has been a member of the Technical Committee for six years. Jon and I will be reviewing both the structure and membership of the Technical Committee, and the establishment of further specialist work groups. We are interested to hear from any members who would like to participate in the development of leading treasury policies and practices. We would also like you to tell us what the five major issues are that you want to see addressed by the Technical function in 2002. □Helen Wilkinson, Technical Director, **hwilkinson@treasurers.co.uk.**

LOAN MARKET ASSOCIATION

New LMA syndicated loan documentation launched on 1 November 2001

The LMA forms of recommended syndicated loan agreements have been revised. The original forms were developed with the involvement of the ACT, and the ACT has been involved in the revision process.

The revisions are, largely, minor changes which leave much of the original forms as they were. There are, however, some significant changes:

- Non-bank lenders. Lenders no longer have to be banks: a wide range of investment entities are also now permitted. Borrowers do, however, retain their veto to transfers by lenders, on the same terms as before. The LMA was under considerable pressure from its members to permit non-bank lenders, due chiefly to concerns that market liquidity will be adversely affected by consolidation in the banking sector. Another factor is the growing trend among banks towards more active loan portfolio management, and the use of securitisation vehicles as lenders. This is an area where borrowers will need to consider their position carefully.
- Withholding taxes - corporate lenders. Withholding tax used to be one of the obstacles to the inclusion of non-banks in syndicates. A change in law earlier this year has, however, meant that interest payments by one company to another UK taxpaying company may be made without withholding tax if certain requirements are satisfied. As a result, the new forms of agreement anticipate gross payments to corporate lenders.
- Withholding taxes - treaty lenders. Lenders which rely on a double tax treaty to receive interest free of withholding taxes are included more often in syndicates than they were a few years ago. The new forms of agreement include wording which is more precise in addressing the issues than the previous forms. This means, however, that borrowers need to be even more careful in their assessment of the risks in this complex area. The additional precision in the new forms means that, overall, they are less borrower-friendly than the original versions, and leave the parties to consider the appropriate wording on a case-by-case basis.

  The forms also contemplate the operation of the Provisional Treaty Relief Scheme. This may speed up the procedure to enable borrowers to pay treaty lenders without deducting withholding tax. There continue to be, however, uncertainties about the legal basis of the operation of this scheme which may make it unattractive to borrowers.
- Bills, letters of credit and swingline facilities. New provisions have been published which can be inserted, as options, into the new forms of agreement. These options allow acceptance facilities, letters of credit facilities and swingline facilities to be included as part of a revolving facility.
- Term sheet. The LMA has also recently published a term sheet for use with their forms of syndicated loan agreement. This includes some wording to go in mandate letters. The ACT was not involved in the preparation of this document, and borrowers may find the mandate letter provisions unacceptable. □ *Andrew Balfour, Partner of Slaughter & May and a member of the ACT Technical Committee.*

DERIVATIVES

Understanding the latest ISDA changes

On 29 October 2001, ISDA published its revisions to the long-serving ISDA 1992 Master Agreements ('local' and 'cross-border' versions). The revisions are the output of the first stage of a Strategic Documentation Review that started in late 1999. The revisions were originally intended to have been launched mid-September this year, adopting the same 'protocol-based' approach used in the 1998 and 2000 EMU amendments. However, with the exception of a limited, euro-specific Protocol published in September this year, the launch has been postponed and ISDA have taken the more traditional approach of the 'amendment agreement' route. Stage two of the review process, which is underway, will result in the publication of a new master agreement that consolidates all the above protocols and amendments, expected in 2003.

The Form of Amendment agreement includes nine attachments. The important point to note is that amendment is consensual, and there is no compulsion on parties to change existing documentation.

We will provide detailed practical guidance for treasurers in the January 2002 issue of *The Treasurer*. Further information on the Form of Amendment agreement can be found at: **www.isda.org/publications/index.html.** □*HW*

DERIVATIVES

Accounting – IAS39

At the end of November, the ACT issued its proposal to the Accounting Standards Board (ASB) of suggested amendments to IAS39 – *Financial Instruments: Recognition and Measurement*. We would like to thank the working group members and all respondents who have contributed to our response, and we will keep you updated on the developments between the ASB and IASB with respect to this Standard over the coming months. The ACT response to the ASB can be found at: **www.treasurers.org/know/services/tech/acctfi_asb.htm**□*HW*

CAPITAL MARKETS

Understanding the impact of the new FSMA on CP issuance

When the new Financial Services and Markets Act 2000 (FSMA) comes into effect on December 1 2001 the territorial scope of the prohibition on deposit taking (replacing the prohibition in the Banking Act) for UK-incorporated issuers of commercial paper (CP) will be extended in some respects. For these purposes, CP means debt securities with a maturity of less than on year. Under the new regime, for such an issuer accepting the proceeds of an issue of CP anywhere in the world will still constitute the acceptance of a deposit in the UK unless either the issuer is an authorised person under FSMA or the CP falls within an exemption. The exemption has two limbs: (1) the CP is issued to a 'professional investor', and (2) is issued, and only transferable, in a minimum denomination of £100,000 (or currency equivalent).

A 'professional investor' is defined as a person whose ordinary activities involve them in acquiring, holding, managing, or disposing of investments (as principal or agent) for the purposes of their businesses.

The extraterritorial concern comes from section 418 of FSMA. This contains a provision to the effect that a regulated activity (such as deposit taking) is to be regarded as carried on in the UK, even if in fact carried overseas, if 'day to day management' of the carrying on of the activity is the responsibility of a registered/head office or another establishment of a UK company.

The consequences of FSMA for issuers of CP are twofold. First, if the proceeds of the issue are to be credited to an account in the UK (as in the case of a sterling issue) the CP issue must be structured to fall within the exemption if the issuer is not an authorised person. Secondly, UK issuers of CP in overseas markets, if the issue is 'run' from the UK, should also ensure that the issue falls within the exemption unless it is clear from the circumstances that 'day to day management' of the issue is not the UK office's responsibility. UK companies therefore may need to establish that overseas investors in their CP meet the FSMA 'professional investor' definition. In the US, for example, qualified institutional buyers (QIB) almost certainly meet the definition whereas institutional accredited investors (AI) may not. This is because an AI may be an individual or trust not carrying on a business. However, provided that the US dealers (who will be professional investors) subscribe the CP as principal, they may on sell to AIs (in minimum amounts of £100,000 or equivalent) without losing the exemption for the issuer. This is because the exemption looks to the investors which first subscribe the CP and not to subsequent holders, provided that the minimum denomination requirement is always observed. It should be stressed that if the CP falls within the exemption, then section 418 becomes irrelevant and it no longer matters whether or not day to day management of an issue is a UK responsibility.

Forms of selling restrictions have been settled by the five major firms in the ECP market (Clifford Chance, Allen & Overy, Linklaters, Freshfields and Slaughter & May) and endorsed by IPMA. The standard approach on ECP programmes where the issuer is not exempt or authorised will be that the representations obtained from the Dealers track the FSMA exemption requirement (to sell only to 'professional investors') and the issuer must undertake to issue in a minimum denomination of £100,000. Therefore, the dealer representations on ECP programmes are designed to bring issues within the FSMA exemption. However, the current forms do not specifically address sales to AIs and some adaptation would be necessary.

This note is designed to provide a summary of certain aspects of the FSMA prohibition on deposit taking. It is not intended to be comprehensive or to provide specific legal advice. □*HW*

CODE OF CONDUCT

The new Non-Investment Products code

The new Bank of England Non-Investment Products code (NIPs code) replaced the old London Code of Conduct at the end of November. This Code has been drawn up by market practitioners representing principals and brokers in the foreign exchange, money and bullion markets. The code is intended to underpin the high degree of professionalism and the maintenance of the highest standards of business conduct in these markets. It applies to trading in the wholesale markets in NIPs, that is sterling, foreign exchange and bullion wholesale deposit markets, and the spot and forward foreign exchange and bullion markets. These products were previously covered by the London Code of Conduct, and are not among the investments covered by the Inter-Professionals Conduct (IPC) Chapter of the Financial Services Authority (FSA) Handbook.

The NIPs Code itself covers three cores areas: (1) general standards, (2) controls, and (3) confirmation and settlement; however most of the detail is contained within Annexes one through to six. The most relevant Annex for corporate treasurers to read is Annex 1: *Dealing principles and procedures – statements of good practice*. □*HW*

The full NIPs code can be found at: www.bankofengland.co.uk/markets/nipscode.pdf Alternatively, members can collect a hard copy from the ACT office at Ocean House.

For comments on Hotline or news, please contact Helen Wilkinson at **hwilkinson@treasurers.co.uk**. Additional technical updates are available at **www.treasurers.org**.

News

TECHNOLOGY

Treasury and the internet

While treasurers currently believe the greatest benefits from using the internet have been in improving the efficiency of treasury operations, most believe the benefits from sourcing funds at a lower cost will be a key advantage in the future according to a recent report.

The survey, conducted by the US-based Association for Finance Professionals (AFP), found that over 70% of respondents believe the internet will have a major impact on borrowing and foreign exchange practices over the next few years. Over 1,000 treasurers and financial directors were surveyed from a broad range of industry segments. Over half had more than 10 years' experience working in treasury.

While many treasurers are yet to reap gains from the use of online platforms to cut borrowing costs, more than three-quarters of the respondents cited "access to more real time or updated information" as the most significant benefit for the treasury provided by the internet. In addition to reducing funding costs, more than two-thirds of the respondents expect the internet to play a key role in accomplishing their goal of centralising all corporate treasury functions by 2003.

NOT YET, BUT SOON. The survey also revealed that the impact of the internet is growing within treasury, albeit not at the rate that many had expected in the halcyon days of the late 1990s. However, most treasuries have the expectation that the internet will have a considerable impact on treasury in the near future. Only 35% of respondents said the internet was extremely or very important to their treasury operations at the moment, while 68% believe its role will be extremely or very important two years from now.

According to observers, this signals that most treasuries are open to the idea of using the internet for arranging funding or placements, despite the fact that many are yet to participate in such a venture. Jim Kaitz, president of the AFP, notes: "We have been monitoring internet usage by financial professionals for three years and while some adaptation has taken longer than originally predicted, we firmly believe that internet strategies will advance."

CASHING IN FROM THE INTERNET. Apart from the benefits in enabling centralisation of the treasury and sharing information, treasuries believe that the major advantages of increased internet usage will be found in payments, cash collections, and fundraising. More than two-thirds thought that use of the internet would offer access to more providers, which should in turn offer lower costs due to increased competition between providers. 70% of respondents believed the internet would reduce borrowing costs, while 68% anticipated a reduction in foreign exchange costs.

Over 80% of respondents said that cash collections and payments would benefit significantly from increased internet usage, while more complex treasury functions, such as hedging, derivatives, or insurance cover were likely only to benefit from more general efficiency advantages. **www.afponline.org**. ☐*bfinance*

EURO PREPARATIONS

E-day approaching

From 15 December 2001 'starter kits' of real euro coins will go on sale to citizens across the euro area. On E-day – 1 January 2002 – the euro will displace the existing currencies for retail cash transactions for 300 million consumers. The period of 'no compulsion/no prohibition' is nearly over. After 28 February 2002 at the latest, if euro area citizens want to buy goods in shops, they will have to use the new euro notes and coins.

For the latest information, download the November publication from HM Treasury – Fifth report on Euro Preparations which can be found at: **www.euro.gov.uk/prep_reports.asp**.

HM Treasury Euro Preparations Unit is also holding a series of meetings on preparations around Europe. The next meeting is on 12 December, covering Business Preparations in Greece. Further details are available from **www.euro.gov.uk**. ☐

INSURANCE

Catastrophe market tested

The capacity crunch expected in the insurance and reinsurance industry poses a crucial test for the catastrophe bond market. "Insurers will need coverage and they [may not be able to] get as much as they want in the traditional market. Also, prices will be high," said Steve Dryer, Managing Director of insurance ratings at Standard & Poor's in New York.

Depending on various factors, such as the type of coverage sought, early estimates of insurance/reinsurance renewal rate increases for next year vary from 30% to 150%.

Secondary catastrophe bond trading is already showing that the premium investors require for the event risks they are running on cat bonds has increased since 11 September. The increases range from about 75bp for single event bonds to between 150bp and 200bp for multi-region, multi-event bonds.

As the underlying risk of natural catastrophes has not changed, the increased premium reflects secondary market sentiment that reinsurance rates should be increasing, said Alex Duncan, Director of insurance products at Lehman Brothers in London.

At the same time, the squeeze on capital in the reinsurance markets caused by huge claims should lead to both primary companies and reinsurers looking to the capital markets to support their own underwriting, he noted.

Despite this, capital market and reinsurers are only expecting this year's $1.5bn or so of issuance to rise to about $2bn in the foreseeable future. The reinsurance industry seems to take the view that lack of investor demand is restricting issuance. Around 120 institutional investors have bought deals in this asset class, and only 30 to 35 are core buyers that are willing to invest about $5m–$10m per trade.

Some bankers attribute the muted investor demand to a lack of new issuance. They say more deals and series of transactions must be rolled out for investors to pay attention to the market. That, they say, would justify more marketing, which in turn would bring in more investors. "You can't make people issue these securities," one official noted. ☐*IFR*

See also Sam Alexander's article on p26.

FINANCING

Sale-leaseback transactions could harm credit ratings

Use of sale-leaseback transactions involving real estate and other operating assets could harm European telecoms companies' debt ratings, according to Moody's. In a report published Wednesday, *European Telecommunication Operators' Use of Sale and Lease-Back Transactions Can Pressure Ratings*, Moody's claims that such transactions "engender little real debt reduction and reduce collateral protection for existing bondholders."

According to the ratings agency, ongoing lease obligations are themselves a form of debt and it does not view the sale of assets as true disposals because they are often integral to the company's ongoing business. Consequently, Moody's capitalises the leases and adds back both the asset and the corresponding adjusted debt to the company's balance sheet as part of its rating analysis. Incremental off balance sheet financing in the range of 20-40% of total debt could be enough to prompt a one-notch downgrade of a European telecoms operator currently rated in the single A to Baa range, said Moody's. This figure includes all types of off balance sheet funding, however, and not just leases.

Moody's stressed that there are a number of factors that need to be considered when evaluating the impact of such transactions on other creditors. These include the total amount of off balance sheet liabilities, the use of the funds, the extent to which the use of such transactions represents a significant change in a company's financial policy, and the recourse that off balance sheet creditors may have to balance sheet assets or other cash flows. **www.moodys.com**. ☐*bfinance*

FINANCING

Letters of credit confirmation prices harden

Trade finance bankers are admitting that UK corporates are paying more to export goods in the wake of the 11 September terrorist attacks in the US and a continued slowdown in the world economy. As banks seek to limit their exposure to problematic regional markets, such as the Middle East and Latin America, and exporters increasingly look to protect themselves from the risk that foreign banks will not honour their credit commitments, confirmation of letters by banks is becoming more expensive, according to bankers.

While risk in the Middle East is on the rise due to the war against terrorism, Latin America is being affected by a general downturn in world business confidence. While the perception of risk in the Middle East and Latin America increases, there has been little change in the Asia economies since the terrorist attacks. ☐*bfinance*

TMS

Treasury advances spur development, but...

While the increasing complexity of corporate treasury operations is driving the development of treasury management systems (TMS), most companies still feel that they are able to do without the expense of a large treasury-specific software system. As traditional TMS systems find a home in large companies performing a sizable amount of complex international transactions, smaller firms are finding they can rely on bank-built systems, or enterprise resource planning (ERP) systems.

The greater centralisation of the treasury, combined with an increased scrutiny of treasury operations by shareholders, has nevertheless led to a greater demand for TMS. With increased centralisation has come a need to monitor more accurately a myriad of positions, further increasing demand.

INVESTMENT COSTS FAVOUR INERTIA. But for most companies, a TMS is a luxury they can do without. Recent figures from Greenwich Associates, a US research-based financial services consultancy, found that 64% of the 2,900 large companies surveyed do not use a TMS. Respondents cited a variety of reasons. Many companies have designed in-house systems, or use function-specific software and therefore do not require the services of an all-encompassing treasury management system. Other companies have eschewed the TMS path because their existing treasury policies and procedures do not accommodate the use of a system that may, for example, automate many tasks that need formal approvals. But the most resounding reason highlighted by the survey was simply that the respondents' treasury operations are just not complex enough to justify the expense of purchasing a system that can often cost more than £1m to implement and then training staff how to use it.

EXPENSIVE TOYS FOR THE BIG BOYS. According to Greenwich, smaller firms still tend to use either bank-built systems, or ERP systems. Both of these systems had their treasury origins as cash management tools, but both have been expanded in terms of functionality to meet the demands of the middle market. For even smaller firms that handle relatively few complex transactions, a mix of task-specific tools is normally sufficient.

But the use of TMS systems by corporates is expected to continue growing, partly driven by the ease of set-up and the reduction in cost that new delivery models such application service providers and business service providers produce. **www.greenwich.com**. ☐*bfinance*

SOURCES		
bfinance	www.bfinance.co.uk	bfinance.co.uk
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RISK

Measurement tools re-examined

Banks are once again examining the ways they measure risk. Regulators continue to show broad support for use of Value at Risk (VaR), the classic risk assessment tool, even though its volatility and correlations are suspect, according to Michael Alix, Managing Director and Head of global credit risk at Bear Stearns in New York.

"What [VaR] does not say is how bad it can get, and that is what risk managers want to know," Alix told attendees at a Bond Market Association credit risk conference.

To bolster VaR, firms have employed stress tests and scenario analyses. With stress tests, firms often waste their time in areas that have little impact on overall operations. "Very rarely do simple market moves cause havoc," said Leslie Rahl, president at Capital Market Risk Advisors.

The critical point that should be examined is when relationships change, she added, citing the relationships between the shape of the yield curve and the shape of the volatility curve as an example of a more relevant indicator.

Liquidity adjusted VaR (LAVaR) represents another effort to fortify classic VaR. LAVaR serves as a useful index of relative risk and was endorsed in a 1999 report published by a credit risk management policy group assembled by the US Securities and Exchange Commission. It does not provide an absolute measure of potential loss, however.

"It's hard to know how much can be sold without impacting the markets," said Bear Stearns' Alix, noting that LAVaR's square root scaling is also open to challenge. Because liquidity changes under stress, it is also questionable whether recent volume is a good proxy for volume under stress, he added, noting that volume is particularly hard to estimate for over-the-counter trades.

Another limitation is that in scaling-up risk factors, it makes implicit assumptions about how a portfolio would be liquidated.

As a tool, LAVaR is consistent with keeping reserves for less liquid bonds, or instances when valuations do not reflect where a position can actually be sold. This includes times when prices cannot be obtained directly, which is often the case with over-the-counter trades, or when markets in general are illiquid, said Steven Allen, a Managing Director at JP Morgan Chase. ☐*IFR*

TECHNOLOGY

Mobile promise... but with a sting

Despite the failure of WAP (wireless application protocol) to deliver the promise of the mobile internet, it is still an attractive proposition for many. GPRS and third generation services are coming, and mobile computing devices are getting smarter, but where are the 'killer apps'? To help service developers navigate through the technology maze, Compaq, Microsoft and a number of technology partners have put together the Finance Mobility Platform. Amongst other initiatives, demonstration applications show how information services (including data streaming), mobile banking and customer relationship management can be securely delivered today.

But while finance and sales automation are the most popular hosted wireless applications, so called W-ASPs (wireless application service providers) are finding times tough. According to research company Cahners InStat Group, W-ASP's spending on infrastructure will be 20% below 2000 levels. **www.instat.com**. ☐*AQ*

DERIVATIVES

Triple A vehicles under scrutiny

Banks may decide they do not need their derivative product companies to be Triple A rated if earnings pressure intensifies within the next few quarters. Banks may come to view derivative product companies as a place to cut costs and free capital, according to Eileen Fahey, Senior Director in financial institutions at Fitch in Chicago.

A reduction or decline in a DPC's rating would cut capital requirements, said Fahey. Capital requirements are driven by volume as well as counterparty credit default assumptions. The lower the credit rating of the counterparty the higher the capital requirement, she noted. In addition, the capital models are managed on a portfolio basis. This means the greater the number and diversity of counterparties, the smaller the overall capital requirement may be, she added.

"I wouldn't call the operating costs of a DPC high, although DPCs as operating vehicles are inefficient. By improving the efficiency, either by volume increases or reducing operating requirements, the overall profitability is improved," said Fahey.

While several exploratory discussions on downgrading and/or unwinding DPCs have taken place, no firms have yet followed through. "If you go to the trouble [to change or set up a new lower-rated DPC] you have to ask yourself 'Is it worth it to you at the margin?'" said an official at a New York-based DPC. Unwinding a DPC might prove more trouble than it is worth, he added. In addition, no major banks have been downgraded yet in the current market downturn, so there is limited incentive. Investment bank downgrades in the early 1990s were the reason DPCs were set up.

In recent years, derivative counterparties have grown more comfortable with the concept of accepting collateral. Providing collateral is often less expensive to the overall operations of the firms than using a DPC, said Fahey. Comfort with collateral and cost savings are key reasons why volumes going through DPCs have been declining, she said. Some DPC officials maintain that volumes have not fallen, only levelled off. ☐*IFR*

CORRECTION

In the article on Brazil (page 59 November issue) the publishers of the Latin American Law & Business Report are WorldTrade Executive, Inc. **www.wtexec.com** and not Wordtrade.☐

ASSET & LIQUIDITY MANAGEMENT

Treasurers bypass banks

A report by the London School of Economics (LSE), commissioned by money market fund specialist AIM Global, claims that the advent of the euro and accelerating bank disintermediation have helped drive recent growth in money market funds (MMF) in Europe.

Consolidation in the European banking industry and the introduction of the euro have combined to make capital markets more streamlined and have encouraged corporates to raise short-term capital directly on the capital markets, said the report. And the volume of assets managed in money market funds has benefited from a dramatic increase in corporate debt issuance on to the market.

SAFETY, LIQUIDITY AND BETTER YIELDS. The report's authors, Professor Ronald Anderson and Dr Oliver Renault, argue that bank disintermediation has provided European firms with cheaper loan funding and better rates on short-term cash investments. In turn, corporates are looking to money market funds as a "safe alternative to bank lending" with potentially higher returns. The offer of better market rates – 15 to 50 bp above interbank rates is not unusual - has proved a big-selling point to corporate treasurers.

Treasurers are benefiting not only as lenders but as debtors too, via improved liquidity of their short-term traded debt.

GROWTH TO CONTINUE, PENDING REGULATION? Despite the infancy of the capital markets in Europe more corporates and institutions are steadily moving their liquidity away from banks towards money market funds. And other factors like the persistence of high spreads at the long end of the credit curve and proposed regulatory changes are likely to help sustain strong growth in short-term corporate debt issuance, predicts the report.

But despite MMF growth, there are significant challenges facing the young market. Achieving uniform regulatory treatment in Europe – via the marketing efforts of money fund standard-bearer IMMFA – is proving difficult. In Europe any mutual fund investing the majority of assets in money market instruments can wear the badge 'money market fund'. In the US, only funds complying with Rule 2a-7 of the Investment Company Act can be given the title.

Nevertheless, the report ends on an optimistic note. "Should issues (such as regulation) be addressed and bank disintermediation continues, then the growth of MMFs in Europe is likely to follow the path taken a decade ago in the US." **www.aimglobal.com**. ☐*bfinance*

FINANCING

Innovative Islamic lease

HSBC bank has structured a ground-breaking $100m Islamic lease deal financing an Airbus A330 aircraft for UAE airline Emirates. The transaction is unprecedented because it is the first Islamic lease to be combined with export credit agency support.

Islamic law prevents lenders from charging interest on loans. In this form of transaction, the Islamic institution purchases the asset, leases it to the lessee for a specified period of time and at the end of the lease, assuming the asset has any value, there is a purchase option that the lessee can exercise. There is no tax benefit.

STRUCTURING ISSUES CREATE DIFFICULTIES. Riyaz Peermohamed, Corporate Treasurer at Emirates in Dubai, said: "It is an important deal for us because it opens up a new source of funding for Emirates. Given that we have a lot of funding requirements going into the long term, it is important from a strategic point of view that we double up a new source of funding now."

Peermohamed said "structuring issues" had created difficulties in completing the deal because "it was the first deal of its kind." "There was a lot of education needed on the Islamic side. Also the export credit agency are quite keen to have their own security in a clean manner. So to balance the interests of both parties was something we had to work to achieve," he said.

But he emphasised the deal "was done well" and predicted its structure would be replicated in future financing deals. "In the future, you may finance whole aircraft with Islamic lease financing as well. Alternatively, you may finance aircraft just with export credit agency debt, so there is a need to mix and match to have a diversified portfolio," said Peermohamed. ☐*bfinance*

PENSIONS MANAGEMENT

New code on trading costs

A new Disclosure Code on trading costs for fund managers is to be developed jointly by the National Association of Pension Funds (NAPF) and the Fund Managers' Association (FMA).

The move follows calls from Paul Myners in his report on institutional investment for pension fund trustees to press fund managers on the thorny topic of equity trading costs.

The code builds on the ten 'sample' questions originally devised by Myners for pension fund trustees to ask their fund managers with regard to soft commissions and other less transparent costs.

The use of soft commissions – where brokers contribute to fund managers' costs typically in the form of research in return for business – has been criticised by Myners, saying it lacked transparency and undermined fund managers' incentives to cut costs. However the FMA said recently that an all-inclusive fee structure, proposed in the Myners report, would do little to optimise the trade-off between share trading costs and best execution.

Alan Rubenstein, chairman of NAPF's Investment Council, said: "At a time when many in the pensions industry still have concerns about parts of the Myners report, this project with FMA will provide a practical framework to help trustees and their managers."

A working group with representatives from NAPF and FMA, a strong critic of Myners' recommendations, will develop the new code as part of a regular review process for the pension fund industry.

Lindsay Tomlinson, Chairman of FMA, added: "We believe that there is a need to improve transparency in trading costs and we hope the new code will achieve and industry wide standard whilst not prescribing an onerous disclosure regime."

NAPF's Alan Rubenstein also called for "common sense" to prevail within the industry if its problems are to be solved in the long run. **www.napf.co.uk**. **www.ifma.org.uk**. ☐*bfinance*

In brief...

Alex Lawrie Factors has launched a new website which allows potential clients to obtain detailed quotes from the finance house before choosing a factoring service.

The quotation system, dubbed 'Instant Quote', provides prospective clients with two options: a basic quote which can be obtained in around 5 minutes; and a more detailed quote (approx. ten minutes). The service may usher in a more transparent pricing system for factoring houses, which have traditionally been reluctant to advertise their pricing regimes. **www.alexlawrie.com**. □*bfinance*

Atriax and **Fxpress Corporation** have announced the full integration of the Atriax Dealing engine and the FXpressTM FX risk management system. From within the latest version of their existing software, Fxpress users can now trade on live two-ay pricing from Atriax member banks and utilise a full range of deal execution functinality. This seamless systems integration facilitates tfull pre-and post-deal straight-through processing (STP), from deal generation to execution and settlement. www.atriax.com. **www.fxpress.com**. □*bfinance*

A new online mechanism has been launched to help those buying and selling crossborder to conclude the deal securely. Once buyer and seller agree contractual terms, documentation can be lodged online. Then each stage of the transaction can be verified and validated against the contractual obligations, allowing errors and discrepancies to be picked up immediately, and speeding up the trade cycle. This reconciliation process can include matching orders and delivery data and managing orders against settlement, to optimise cash. The new service, called boleroSURF, is from **bolero.net**, the company set up by Swift and the TT Club to speed the trade process by allowing importers, exporters, banks, customs authorities and shipping companies to exchange documentation online. This new service is also being targeted at banks as an off-the-shelf solution for offering online credit and risk management to their customers. **www.bolero.net**. □*AQ*

Currenex have introduced FXinternal, a new offering that gives global corporations capabilities to manage FX transactions with their subsidiaries and affiliates. FXinternal will enable central treasury operations to leverage aggregated trades in behalf of their smaller subsidiaries through Currenex's trading service. **www.currenex.com**. □

SuperDerivatives have added new products and increased the level of functionality of its system. The addition of European-style knock out and knock in options follows a request from customers to have them available on the system. SuperDerivatives has also added a facility that allows users to download portfolios from the pricing system onto an Excel spreadsheet. This can be used to prepare valuation reports for bith internal and external use. **www.superderivatives.com**. □

ValiCert, Inc, a leading provider of secure solutions for paperless e-business, and XRT have formed a strategic partnership. As part of this relationship, XRT will incorporate ValiCert e-Treasury SecureTM into its Pilot V Enterprise Applications to enable the delivery of secure financial transaction capabilities to the desks of corporate treasurers. This is expected to allow safe ands secure exchange of financial information via electronic messaging across multiple conduits and platforms. **www.xrt.com**. **www.valicert.com**. □

RECRUITMENT

Salaries increase for treasury specialists

The latest Robert Walters Salary Survey shows a clear increase in salaries earned by those finance professionals working in treasury roles. According to Peter Cosgrove, Manager of the Treasury Division at Robert Walters, "Despite a slowdown in global market conditions, demand by European-based companies for high calibre treasury professionals continues to increase. As a result of this and the fact that other sectors are also experiencing candidate shortages, the knock-on effect is that we have seen an increase in remuneration being offered to candidates."

"One interesting factor that has emerged over the last four to six months is an increased desire by newly qualified candidates to consider a career in treasury. This has coincided with exceptionally strong demand by corporates for high calibre treasury analysts. Subsequently, we have seen salaries range from a low of £26k to some companies paying upwards of £45k."

Cosgrove also says that " At the senior executive end of the marketplace, we are seeing demand by global corporates for candidates who have had strong international backgrounds running sizeable corporate treasury operations. Remuneration for senior roles at group treasurer and director level has continued to increase including the breadth of the package."
www.robertwalters.com/salarysurvey□

RISK MANAGEMENT

Insurance attempts to fill the gaps

While insurance is unable to provide safeguards against all the risks faced by businesses, the industry is increasingly developing innovative products that go further in helping firms to better manage risk, according to Chris Mundy, Director of UK Marketing at insurer Marsh. The past 12 months have seen several new corporate risk management products, but Mundy believes some of the focus on innovation will be dulled as insurers concentrate on traditional products in the aftermath of the terrorist attacks on the US.

The banking and insurance industries have been slowly converging over the past few years as corporates look for increasingly sophisticated ways of managing risk. Initially driven by the risk transfer needs of the insurance industry, and the diversification benefits perceived by investors in the capital markets of funnelling, the convergence of insurance and capital markets is now accelerating. The use by issuers of catastrophe bonds and catastrophe-linked swaps is one example of the growing use of the capital markets to manage risk.

A recent survey by Mercer Management Consulting found that of the Fortune 500 companies that experienced a 25% plus fall in their share price, not one suffered due to the kind of events that insurance traditionally covers – such as lawsuits or natural disasters. The majority were either strategic failures such as a shortfall in customer demand (58%), or operational troubles, such as cost

overruns (31%). Financial events, such as a change in commodity prices, caused only 6% of such losses in market capitalisation.

Mundy admitted the statistics may not be the best advertisement for insurance, as there are a large number of risks that insurance is currently unable to protect against. But he argued that while insurance is not the only answer to risk management, it is slowly becoming more important as traditional insurance products are refined to encompass a wider range of risks.

Mundy said that it is likely that insurance companies may put some of their more innovative products on hold over the next 18 months: "The increase in both demand and the price that the insurance market has experienced since the WTC and Pentagon attacks will probably see the insurance companies concentrating on their bread-and-butter products in the short term." The events of 11 September have signalled a 'wind-change' in the way corporates view insurance: "There has been a realisation that insurance does provide useful financial relief in the event of disaster. But even more importantly, corporates should be concerned with communicating the fact that they are insured, and can maintain a semblance of certainty. The markets hate nothing more than uncertainty." ☐*bfinance*

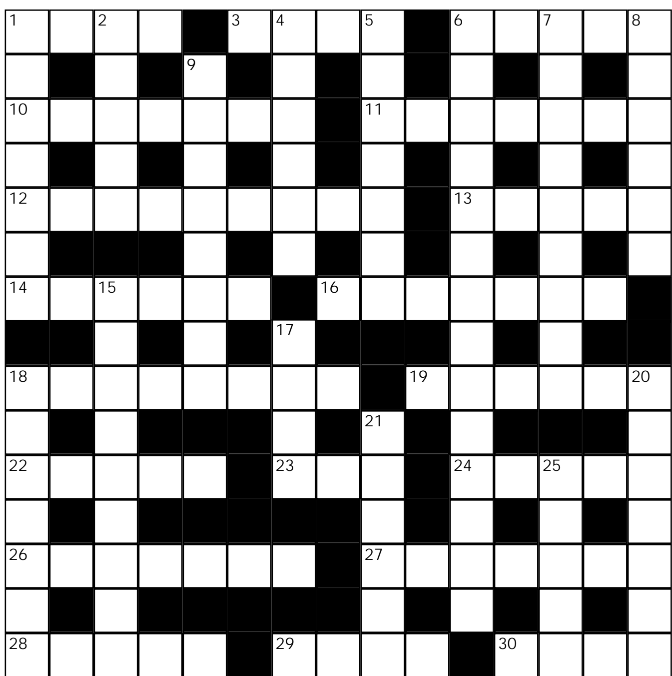
Percentages...

The volume of customer payment delays reported by UK corporates continued to rise sharply in the third quarter of the year, according to a survey commissioned by leading credit insurer Euler Trade Indemnity (ETI). Not only did delays increase sharply, but the rate of increase rose at the fastest pace in the last four years.

Payment delays by UK firms to suppliers also rose strongly in the third quarter 2001, albeit at a marginally slower rate than in the previous two quarters. Of the four broad sectors covered by the survey in the third quarter, only the service sector reported a fall in the number of late payments made to suppliers. The survey indicated that firms again blamed their customers' cash flow problems for the late arrival of payments. The volume of payment delays from overseas customers increased again in the third quarter of this year. Despite the sharp uptick, the rate of increase of late payments from overseas customers was less marked than in the second quarter. **www.eulergroup.com**. ☐*bfinance*

CROSSWORD

TO WHILE AWAY THE HOURS OVER THE HOLIDAY PERIOD, *THE TREASURER* IS PLEASED TO PROVIDE ITS REGULAR DECEMBER CROSSWORD. NO PRIZES, ITS JUST FOR FUN!



ACROSS

1 Notice a blemish (4)
3 A group of a hundred on a piece of ground (4)
6 Give up and return (5)
10 Borrows frequently but always repays (7)
11 All sides made equal (7)
12 Harmonious arrangement (9)
13 Farm animal's savings (5)
14 Easy way to earn more money (6)
16 Herb the French spray about (7)
18 She receives advances! (8)
19 Search for an animal (6)
22 Avoid the Spanish fee confusion (5)
23 This is normal of course (3)
24 Knockout option (5)
26 Mars and Venus (7)
27 Five hundred shiver? Give it a whirl! (7)
28 Harry Potter's home town in the Dutch version (5)
29 Estimate speed (4)
30 Points of information (4)

DOWN

1 Intervals between lunch and dinner (7)
2 Sell mouldy King Edwards (5)
4 He wants the goods, but he doesn't want to buy them! (6)
5 Examine a group of tourists (8)
6 You can't improve on this (14)
7 System makes currency easy to understand (9)
8 Spectators at a real match (6)
9 Sounds like an amazing way to unwind (6)
15 Australian who is in pocket (9)
17 Support serviceman (4)
18 Compounded loan in foundation (7)
20 Lights illuminations (7)
21 Standing on a roll (6)
25 State views about an absence of trees (5)

Crossword set by Dominic Bennett. Answers will appear on the website at **www.treasurers.org** and in the January issue of *The Treasurer*