## Bank continues to warn on risk

The Financial Stability Report published bi-annually by the Bank of England provides an analysis of the market turmoil of recent weeks along with much data in graphical form. The extraordinary conditions are all too clear with $ Libor reaching more than 360bp over official rates and 200bp in the case of sterling. The flow of cash out of the interbank market into government paper drove US treasury bill yields towards, and briefly below, zero.

The report notes that risks remain in the financial system. It also highlights that, over the medium term, banks will need to adjust their balance sheets and funding models, weaning themselves off current high levels of official sector support. Capital injections and debt guarantees will help this adjustment. The Bank discussed the need for a fundamental rethink of how to safeguard against systemic risk, for example through the development of new countercyclical tools to dampen the financial cycle and though stronger capital and liquidity requirements.

# EC moves on rating agencies and fair value

The European Commission is taking steps on both accounting and ratings agencies in a bid to restore confidence in the financial system. Rating agencies face a mandatory regime replacing a voluntary code of conduct. Under the draft law set out in November, rating agencies would have to:

McCreevy: agencies' charmed existence

- register with European regulators and submit to monitoring by national authorities
- disclose how they determine risk
- make changes in their corporate governance to prevent conflicts of interest, including imposing restrictions on board members' pay, credentials and terms for dismissal.

EU Internal Market Commissioner Charlie McCreevy said agencies had led a "charmed existence" until now and predicted the new rules would be in place within the next 12 months.

At the same time the EC has asked the IASB to give banks more leeway in booking losses. In a letter to the IASB at the end of October, the EC said it expected the IASB to clarify certain practical aspects to ensure the effective implementation of the recently adopted amendments to IAS 39. The EC added: "Moreover the endorsement of the IASB's recent amendments to IAS 39 and IFRS7 was only a first step in an ongoing process to comprehensively address accounting issues raised in the context of the financial turmoil. In a bid to relax fair value rules further, the EC told the IASB: "It is important that financial instruments currently classified under the fair value option can be reclassified into other categories that are not, or no longer, measured at fair value. This should be possible due to the same reasons and under the same conditions as the assets reclassified out of the held-for-trading category." ■

# On the move...

- **Lucie Harwood**, AMCT, previously Assistant Group Treasurer for Kerry Group plc, has been appointed Group Treasurer for Laird plc.
- **Martin Curry**, MCT, has joined Direct Wines (Laithwaites) as Group Treasurer.
- **Robin Graham-Adriani**, MCT, has joined Melrose plc as Group Treasurer. He was previously Group Treasurer at FKI plc.
- **Julian Warburton**, AMCT, has been appointed Assistant Group Treasurer for Intertek Group plc. Previously he was Dealing Room Manager for ICI Finance plc.
- **Judy Massa**, FCT, previously Corporate Treasurer for Pilkington Group Limited, has been appointed Group Treasurer for the NSG Group.
- **David Andrews**, MCT, previously a Senior Manager at Chatswood Trading, has joined P&O Ferries Division Holdings Ltd as Group Treasurer.
- **Stuart Kirkland**, FCT, has been appointed Director of Treasury and Risk for Servite Houses.
- **Nicholas Franck**, AMCT, previously Treasurer for International SOS has moved from Singapore to Switzerland to become Treasurer GIL & Deputy Group Treasurer, Agility Logistics Group.
- **Michael Fox**, MCT, previously Assistant Treasurer for Reuters Group plc, has been appointed Interim Treasurer for Xchanging plc.
- **Andrew Foulkes**, FCT, previously Group Treasurer for LINPAC Group, has been appointed Treasurer for EMAL in Abu Dhabi.
- **Tony Winterbourn**, AMCT, has joined Arqiva as Group Treasury Manager. He was previously Treasury Manager for Nampak Holdings (UK) plc.
- **Mark Palmer**, AMCT, previously Treasury Finance Manager for BAE Systems plc, has been appointed Treasury Controller for British Sky Broadcasting plc.
- **Tom Price**, AMCT, has joined Petro-Canada International as Head of Risk and Financing. He was previously Deputy Senior Manager for Sony Global Treasury Services plc.
- **Gary Slawther**, FCT, previously Group Treasurer of Speedy Hire Plc, has now joined Enterprise Managed Services Limited as Group Treasurer.

### MEMBERS' DIRECTORY

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## Triple wave warning for private equity

Private equity faces a triple hit from the financial crisis, according to Adveq, the international private equity fund of funds investment manager.

It expects a short-term correction of EBITDA multiples, a contraction in corporate earnings resulting from reduced GDP growth rates and that some companies will need to seek refinancing in a more challenging credit environment.

The firm foresees a number of key dynamics in the private equity market over the next few years:

- The large buyout segments will need redefining before any meaningful recovery begins. This means either a "right-sizing" of the segment, or a refocusing towards more value oriented or distressed investments. There could also be a movement of large buyout investors downscale into the mid-market;
- An orientation back to the core segments that distinguish private equity from other assets segments, such as proprietary deal sourcing, real operational and strategic value add and strong exit orientation. Traditional private equity segments, such as small/mid-sized buyouts and venture capital, as well as special situations are likely to offer the most attractive return generating opportunities;
- Venture capital will remain dominated by the US and Asia will offer strong growth opportunities, particularly China;
- It will take the US a long time to recover fully from the current crisis;
- Europe will yet again find itself "stuck in the middle", with some countries such as the UK facing challenges similar to those of the US;
- The current market dislocations will see a major power shift from the West to Asia, as the region will prove most resilient to reductions in GDP growth rates and earnings contractions.

Adveq also expects a sharp correction in portfolio company evaluations, which, says managing director Peter Laib, will be evident in three ways:

"Managers are now correcting the earnings multiples in their respective valuations. In the medium term, the profitability of portfolio companies will be lower. Finally, the discount applied to companies which cannot refinance their credit lines will be evident."

# Companies Act offers savings says PwC

The changes introduced by the Companies Act 2006, which will be fully implemented by next October, will enable companies to achieve cost savings in addition to encouraging "good boardroom behaviour", claims PricewaterhouseCoopers Legal LLP.

Sarah Holmes: complex Act presents a challenge

The Act, which represents the most major piece of corporate legislation since the mid 80s, includes deregulatory measures and codified directors' general duties from October 2007. The next phase, introduced from 1 October this year, requires directors to avoid conflicts of interest, outlaws accepting benefits from third parties and requires them to declare their interest in any proposed or existing transactions or arrangements with the company.

PwC partner Sarah Holmes say the Act is a complex piece of legislation and presents a challenge for most businesses, due partly to its extended transition period. While many of its changes are deregulatory, others require consequential changes to be made to a company's governance systems and individual directors have a duty to be fully informed of the changes, their obligations, risks and responsibilities arising from the new rules.

"The Act provides a modernised governance framework, but it is ultimately dependent on shareholders and directors to embrace it in full," she adds.

A new guide to the changes, co-written by PwC and PwC Legal, has recently been issued and provides directors and company secretaries with an "easy to read" summary. ■

## Warning on demands from pension scheme trustees

2009 is likely to prove "the bleakest year yet" for companies that sponsor defined benefit pension schemes, warns Aon Consulting.

In a bleak assessment, the group warned that the funding deficit for the UK's 200 largest privately sponsored pension schemes widened by £9bn during the month of October to reach £15bn. It also calculates that, over the past year, total asset losses for the country's 8,000 final salary schemes have ballooned to £226bn.

According to Aon, pension scheme accounting measures are fundamentally flawed in the current economic climate and mask the true extent of massive losses being suffered. Companies are suffering a "triple whammy" on final salary schemes as a result of the financial crisis, it adds:

- The poorer economic climate is making trading conditions difficult; forcing pension scheme trustees to view the sponsoring employers as weaker and seek higher contributions to secure pension scheme benefits;
- Liquidity problems are creating cash pressures for companies and making it harder for them to meet agreed contribution levels;
- Falls in world equity markets have caused heavy asset losses in the value of the final salary pension schemes themselves.

Although companies are being squeezed, Aon warns that trustees could still ask sponsoring companies to commit an additional £45bn a year over the next five years to make up the huge shortfalls.

"Sensible financial plans, which ease pressures in the short term, are required to ensure companies can meet their pension obligations in the long-term," says Marcus Hurd, head of corporate solutions at Aon Consulting. "The sensible outcome may be that companies should in fact be paying less next year rather than more.

"Just as companies thought pension debt was under control, this clearly shows that you can't afford to ignore £1trillion of liabilities managed by private sector UK pension schemes, and only long-term strategies to remove or reduce the risk are the answer." ■