Corporates told: create ethical ambassadors

Setting up a network of ethics ambassadors helps boost ethical values, according to the Institute of Business Ethics. The Institute says it is a challenge to establish an effective ethics programme that is consistent across a business, particularly a global one. As local knowledge and input are critical, it suggests ethics ambassadors are a cost effective and powerful way to address this issue.

A good practice guide from the Institute sets out the case for using ethics ambassadors – employees selected to formally assist in embedding ethical values in corporate culture and promoting ethical behaviour.

These ambassadors may help companies move towards the implementation of 'adequate procedures' for the prevention of bribery, as required by the 2010 UK Bribery Act which comes into force in the UK in April 2011.

IBE Good Practice Guide: Ethics ambassadors. ISBN 978-0-9562183-4-6, £15.00, published October 2010. The guide is available to buy at: www.ibe.org.uk

Refinancing figures emerge

In the next three years investment grade corporates in Europe, Middle East and Africa, face an estimated need for refunding of up to $1 trillion. Moody's says this includes $380bn in bank debt and $650bn of bonds. Although the volume of bank maturities will decline from 2012 onwards, the volume of bond maturities is set to increase to $206bn in 2014.

A3 issuers will drive bond maturities where it is A3 and Baa2 that dominate the bank debt market. Telecomms, energy and automotive sectors have the greatest amount of debt maturing over the next fours years, with 15%, 14% and 12% of the total respectively. Germany accounts for the greatest number of maturities (22%) followed by France (17%) and the UK (13%). In expectation of a possible tight bank-lending environment, corporate issuers are retaining a substantial amount of cash on their balance sheets.

In this respect, investment-grade corporates are better positioned to meet their refinancing requirements since they have larger cash cushions than high-yield issuers.

Pension funds warned over investment breaches risk

An increase in the number of complex funding arrangements between pension schemes and employers has led the Pensions Regulator to issue a stark warning over the risk of breaching investment rules.

The regulator has set out its expectations of trustees, employers and advisers involved in making pension scheme investment decisions. No more than 5% of the current value of the scheme can be invested in employer related investments (ERI) and some ERI is prohibited, including an employer related loan or guarantee.

The regulator is concerned about the potential risk involved in some of the more innovative funding mechanisms being employed to fund defined benefit schemes.

June Mulroy, the regulator's executive director of business delivery, said: "The laws governing employer related investments are a key concern for schemes – for both complex defined benefit funding structures and for collective investments. Trustees are responsible for ensuring that their scheme does not fall foul of the law on ERI, and we're keen to help them understand the issues.

June Mulroy: Trustees are responsible.

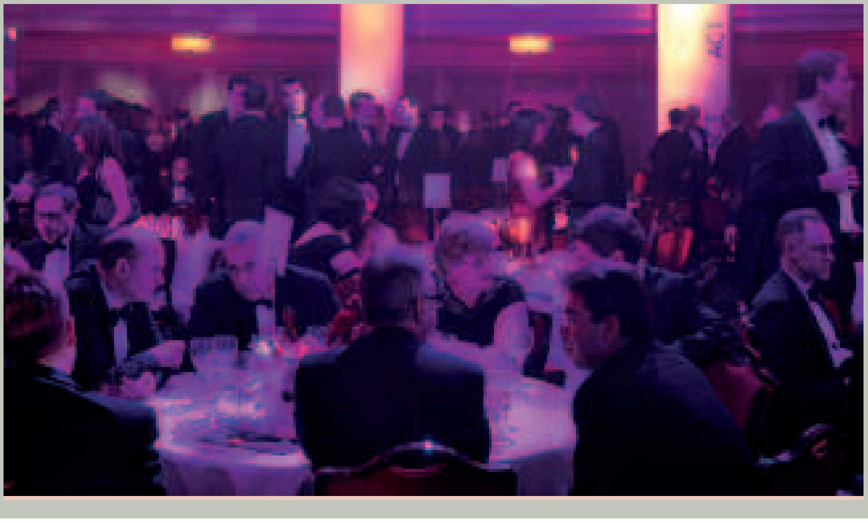
She continued: "Where we see potential breaches, we will consider each case on its own merits and will take a proportionate approach." ■

http://tinyurl.com/37o6pgs

In the thick of it

A packed ACT annual dinner was addressed this year by Alastair Campbell, the former press secretary to Tony Blair. The 1,400 guests always raise money for charity and for the second year the main beneficiary was WellChild, the charity for sick children. They raised £50,000, which included money donated from the sale of signed copies of Campbell's books and proceeds from a prize draw for a dining experience and a champagne diamond draw.

The dinner also heard from ACT president Matthew Hurn. See page 10 for more.



Buyouts slump in 2010 but revival hopes hold

Pension buyouts slumped in the third quarter of 2010 with only one major transaction. But pension experts predict the bulk annuity market will revive towards the end of the year. The only major transaction in Q3 was the £124 million Next Group buy-in, and the period saw the continuation of 2010's major trend: transactions under £10 million.

Stuart Faloon, principal and UK head of bulk annuity broking at Mercer, said: "Insurers' ability to raise additional capital continues to be constrained by those who provide it demanding a relatively high return on their investments. Upward pressure on premiums will remain high as insurers' ability to write new business becomes increasingly dependent on the availability of capital, whether from internal group resources or from accessing new sources of finance".

Faloon: Capital-raising constraints remain.

According to Faloon, a key short-term risk for employers and trustees looking to buy out liabilities will be the basis on which statutory revaluation and pension increases is provided. When statutory inflation and revaluation increases become linked to the consumer price index rather than the retail price index, the terms of buyout policies bought before 6 April 2011 may need to be updated before the wind-up is finalised, since legislative changes coming into effect on 6 April 2011 could have an impact on the basis on which annuities need to be purchased. ■

ACT member offer: **Journal of Corporate Treasury Management**

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ACT digest

Key messages

Basel III
Although some details have yet to be calibrated, the main shape of the new Basel proposals for bank capital and liquidity are fairly definite now. What is clear is that the implications for companies are significant and many. There will be pressure for the cost of bank facilities – especially undrawn facilities – to rise, but will depend on whether the facility purpose is defined as for credit or liquidity. There will also be pockets of demand to invest in well-rated bonds as liquid assets in the hands of the banks; off balance sheet commitments like letters of credit will be hit by the 3% leverage ratio on banks; banks may want to use loans as collateral so tradability could become an issue; bank demand to take short term deposits will dry up; but corporate cash held for cash management purposes will be treated favourably as bank funding; demand for government securities will shoot up; and more.

The message is that treasurers should be planning for the knock-on effects of Basel III and for that reason this topic will be covered extensively by the ACT in the months ahead, at ACTAC and other events, and in articles and briefings.

All change at the FSA
The ACT has submitted a formal response to HM Treasury's consultation on the future of the UK tripartite financial regulatory structure. It welcomed the enhanced emphasis on financial stability but was not in favour of moving the UK Listing Authority to sit within the Financial Reporting Council. It is pleasing that in the end the government has decided to leave the UKLA within the new Consumer Protection and Markets Authority. Our arguments were among those cited by the Treasury minister when he announced his decision.

Hedge Accounting
The IASB exposure draft on hedge accounting is expected very soon. Indications from IASB board meetings during the year are that the rules should become more flexible and user friendly. Once the draft is out the ACT technical team will be very keen to hear views and reactions from as many members as possible. This is a great opportunity to iron out many of the minor – and more major – niggles in the current IAS 39.

Help to prepare for future refinancing needs

What does the future hold for CFOs and corporate treasurers refinancing over the next two years?

Will the general economic conditions improve? How will the strategic priorities of commercial lending banks develop and influence their appetite for a refinancing? What will be the minimum level of borrowing necessary to access the debt capital markets? How will asset based lenders approach new deals?

Internally, how will a corporate need to prepare for its next refinancing? What is your track record of delivery against the promises made at your last refinancing? How has the cash generation capability and risk profile of the business changed?

In January 2011, the ACT and the European corporate finance practice of FTI Consulting Inc will be launching a research project to investigate and collate feedback in all of these areas. The findings will be ready in time for the ACT Annual Conference in May 2011, where the full results will be shared. The research and analysis will be conducted in partnership with FTI Consulting. The survey will be structured around four themes:

- Respondents' views on the business and economic outlook in 2011 and 2012 and the resulting context for a scheduled refinancing.
- Perspectives on the sources and availability of debt capital for all corporates, including mid-market corporates, from the commercial banks, debt capital markets, asset based lenders and alternatives.
- What treasurers think they will need to do differently in approaching an upcoming refinancing compared to last time around.
- What the priorities will be regarding tenure, pricing, structure, security and operational flexibility of a new facility.

The next few years are likely to prove a time of significant change for all sizes of corporates seeking to refinance facilities put together under very different conditions three or five years ago. From a demand perspective the coming years will see the scheduled maturity of a significant volume of private equity-backed leveraged deals. In addition, many of the debt restructurings that have taken place over the last two years will need to be refinanced if the "sticking plaster" solutions start to come unstuck.

For many corporates there is also competition from new private equity led investments. PE funds have significant capital to deploy and banks can often earn much better margins and fees from such transactions than from more vanilla lending to listed businesses. On the supply side of the equation, the reduction in bank balance sheets – from a strategic perspective – coupled with the stricter capital requirements of Basel III, is likely to make the competition for capital more intense and probably more expensive. All these factors will contribute to when and how treasurers seek to go about their next refinancing. This survey aims to gather and share views about these issues and to help treasurers address some of the key questions for an upcoming refinancing. ■

The survey, which will start in January 2011, can be downloaded from www.fticonsulting.co.uk/actsurvey. The results will be published in the May issue of *The Treasurer* and presented at the ACT Annual Conference 2011 in May.

What to do with cash

IN THE FIRST OF TWO ARTICLES, JENNIFER GILLESPIE LOOKS AT THE EMERGING TRENDS IN CASH MANAGEMENT FUNDS.

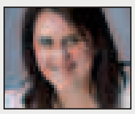
Everyone realises that cash is a separate asset class and you have to do something with it. The current question for treasurers, or indeed anyone with cash to invest, is do they jump and start to take on more risk or do they hold onto their cash?

The market is clearly segmented. There are those who still don't want to take any significant risk, putting their money only into funds that invest solely in T-bills. Then there are people who believe the world has moved on and they are prepared to think about investing cash into a liquidity fund or a longer-dated fund with a lower rating than a T-bill fund.

Finally some are saying they want their cash to work harder, so they are moving out of liquidity funds and into a LIBOR-generating pool of funds with a longer duration and taking on credit risk. When you take that step it is important to understand and explain that you are moving out of cash funds. Part of the trouble over the last few years has been extending the term "cash funds" to investments that really weren't, partly to answer the demand for greater returns, taking on risks that weren't quantified or examined closely enough.

One result is a scrutiny of terms and definitions. Treasury departments are more interested than ever before in what exactly they own. It is not enough to invest in a fund; it has to be clear what you hold in the fund. A decade ago an investor would have struggled to find an investment manager who was prepared to hand over a list of holdings: investment managers saw the make-up of funds as proprietary information. We can't do that any more. Treasurers need to know who they are invested with in order to see the bigger picture, looking at the total exposure they have to a particular bank or financial institution across the board.

Speaking to treasurers, it is clear that increasingly they want to see the detailed holdings. That is a welcome development but we do have to think carefully about the way treasurers and investment managers deal with this requirement for extra information. The trick is to find the "spot", avoiding information overload for both user and provider, which would increase costs. But this move towards greater transparency should be welcomed by everyone, particularly treasurers.



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