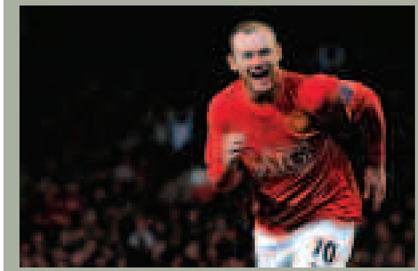
Virgin and Man U lead bond rush



The new year has begun with a rush by governments and businesses to tap international investors through the bond markets. The surge in bond supply has been triggered by fears that many countries may follow Australia's lead and begin raising interest rates as economic growth revives.

Among those turning to the capital markets in January were BMW, Virgin Media and Manchester United. Governments that followed their lead included Poland and Mexico.

However, anticipation of higher interest rates is accompanied by fears that market conditions may again become volatile as the emergency monetary and fiscal measures taken in late 2008 and last year to prop up economies, which include governments purchasing their own bonds, come to an end.

Some companies fear a double-dip recession or that the market may become crowded by businesses issuing higher-yielding debt in an attempt to refinance loans taken out during the boom.

Basel moves to strengthen banking resilience rules

The Basel Committee has published its proposals for strengthening global capital and liquidity rules to boost the resilience of the banking sector.

It has issued two consultation documents covering the following areas:

- raising the quality of Tier-1 capital and harmonising other capital structure elements;
- strengthening the capital requirements for counterparty credit risk exposures arising from derivatives, repos and securities financing, as well as promoting convergence in the measurement, management and supervision of operational risk;
- introducing a leverage ratio to help contain the build-up of excessive leverage in the banking system, and additional safeguards against model risk and measurement error; and
- introducing measures to promote the build-up of capital buffers in good times, and promoting more forward-looking provisioning based on expected losses.

After carrying out an impact assessment of its proposed capital and liquidity standards in the first half of 2010, the Committee will review the regulatory minimum level of capital and the reforms proposed to calibrate the total level and quality of capital. The standards will be developed by the end of 2010 and phased in as financial conditions improve, with the aim of implementation by end-2012. ■

16 April 2010 is the deadline for comments on the consultation documents, which can be viewed at:
www.bis.org/publ/bcbs164.htm
www.bis.org/publ/bcbs165.htm

New Year's honours for ACT pair

Boyle: OBE

Two members of the ACT's advisory panel have been recognised in the New Year's Honours List for their services to the financial services industry.

Paul Spencer, former ACT president and lately chairman of NS&I, becomes a CBE, while Paul Boyle, former chief executive of the Financial Reporting Council, was awarded an OBE. Boyle is on the ACT advisory board and Spencer is about to step down as its first chairman.

Spencer said: "I was delighted to receive the award as I see it as being on behalf of all the people at National Savings, who have worked incredibly hard over the difficult last couple of years with such success. I believe my treasury background helped in taking them through this period."

On the move...

- **Madalitso Chimphondah** AMCT, previously senior manager at KPMG, has been appointed business risk officer at insurance company Absa.
- **Damian Cunningham** MCT has left his position in tax and treasury process improvement at Kellogg's and joined Jaguar Cars and Land Rover as treasury financing manager.
- **Rachael Kinder** AMCT, previously group treasury manager at Phones 4U, has been appointed treasury manager at TDG.
- **Rod MacAskill** MCT, previously worldwide treasury manager at EMI Group, has been appointed assistant treasurer at SEGRO.
- **Amarjit Mahi** AMCT, previously treasury accountant at ICI, has joined BP as treasury product accountant.
- **Richard Mallett** MCT has joined Intangible Business as technical director. He was previously director, technical development, at the Chartered Institute of Management Accountants.
- **Philippa Watterson** AMCT has been appointed relationship director at Santander Corporate Banking in Liverpool. She was previously corporate banking manager for Allied Irish Bank.
- **Jacqueline White** AMCT has been appointed head of planning and forecasting at Lloyds Banking Group. She was previously head of finance, MI and risk at Intelligent Finance.
- **Mathew Wimsett** AMCT has left his position as manager, intra-group limits, at Royal Bank of Scotland and joined UBS as global corporate treasury controller.

MEMBERS' DIRECTORY

Members' contact details are updated regularly at **www.treasurers.org**. *Email changes to Matthew Trickey:* **mtrickey@treasurers.org**, *or phone +44 (0)20 7847 2557.*

CAREERS

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

Ethical adviser elected to prestigious fellowship

The council of the ACT has elected Justin Welby as an honorary fellow of the association.

Currently dean of Liverpool Cathedral, Welby is a former treasurer. His career included a stint at Enterprise Oil and he has been the ACT's ethical adviser for 12 years. He also contributes regularly to The Treasurer and this year wrote a chapter for the International Treasurer's handbook.


Welby: confession

The ACT now has 17 honorary fellows, an award granted only occasionally to an individual who has made a significant contribution to the profession.

Welby said: "I am very honoured to have been made an honorary FCT. Having been a member since 1983, I got in before exams happened, and have therefore covered up the fact that I was the only innumerate group treasurer of a FTSE 100 company. Becoming an honorary FCT means I really need to confess that.

"The association has grown immeasurably both in size (obviously) but more importantly in imagination and effect. It is needed more than ever as the world of finance changes, and I feel very proud to have a continued, if rather small, involvement in it." ■

Moody liquidity fears ease

Credit ratings agency Moody's has offered a tentatively upbeat forecast for 2010 on the liquidity of non-financial corporate issuers in Europe, the Middle East and Africa.

But it warned that the threat posed by corporate illiquidity to the financial markets was likely to persist. So while investment-grade and solidly positioned speculative-grade issuers should benefit from improved bond market access over the coming months, credit shocks may still temporarily affect the markets.

"For weakly positioned issuers at the end of the rating scale, external funding is likely to remain constrained during 2010," warned Moody's analyst Sabine Renner. She said that lower-rated issuers would be particularly susceptible to difficulties in securing funding.

Although the percentage of issuers expected to face liquidity weakness over the next 12 months has risen slightly, Moody's said its overall concerns had eased over the past six months.

Moody's study of 463 corporate borrowers, all rated B3 and above, found that 83% still showed sufficient liquidity to cover the next 12 months' debt maturities (totalling $528bn) and other cash outflows. While the other 17% demonstrated "liquidity inadequacies", Moody's said the overall level of funding gaps had eased since last March.

'Gulfo' project threatens the greenback

The steady eclipse of the US dollar as the world's principal trading currency could be hastened by plans for a new single currency in the Gulf region.

In December Saudi Arabia, Kuwait, Bahrain and Qatar announced plans to create a Gulf Monetary Council in 2010 as a first step towards a fully fledged central bank. The new bank is to develop a single currency modelled largely on the euro, and the petro currency looks likely to replace the dollar for pricing oil contracts.

The other two members of the Gulf Cooperation Council, the UAE and Oman, have opted out of the project for the present because Riyadh rather than Abu Dhabi has been chosen as the location of the central bank at the insistence of Saudi King Abdullah, but are expected to join at a later date.

The new currency, dubbed the "Gulfo", is likely to track a global basket of currencies and may eventually float as a regional reserve currency in its own right.

Reported fraud losses break all UK records

Reported fraud losses suffered by UK companies rose by 76% last year to nearly £2.1bn, according to BDO, by far the highest annual total since the accounting firm began keeping records in 2003.

The number of reported cases of company fraud has also jumped to a new record, from 285 to 363. However, these official statistics underplay the problem as more than 90% of the cases investigated by BDO and its peers are never reported to the authorities and are handled privately or through civil litigation.

The firm said that the 2009 figure easily surpassed the previous worst year of 2006, when losses of £1.37bn were reported.

Simon Bevan, head of BDO's fraud services team, warned that many current cases had been initiated when the economy was still growing strongly. These have come to light as companies were checking expenses and revenue more stringently. He added that as the recession bites he expected the annual total to continue to rise to as much as £5bn.

As in previous years, London and South East England accounted for the bulk of losses, with an increase of 70% to £1.34bn in 2009. The financial sector accounted for 64% of all reported fraud last year, a percentage that showed little change from previously. The retail sector recorded the sharpest increase with a 730% rise.

The most frequently reported category of loss was management fraud, which accounted for 24% of all losses. Mortgage fraud, included as a separate category for the first time after a sharp increase, accounted for nearly 18% of losses, followed by tax fraud at nearly 15%.


Bevan: expects fraud losses to hit £5bn

The top 10 tips for audit committees


Copnell: challenge

High shareholder expectations, new regulations and legislative reforms, and a tenuous economic recovery will leave corporate audit committees with a challenging task ahead of them in 2010, according to Timothy Copnell, an associate partner at KPMG and director of its UK Audit Committee Institute.

The tax and advisory firm has again published a list of the top 10 issues that it believes will be a priority for audit committees in the year ahead:

- developing more focused, yet flexible agendas as signs of recovery emerge, which focus on the key financial reporting risks;
- reviewing whether cost cuts initiated as a result of the economic crisis should be reinstated, or whether a cost-reduced business model can be sustained;
- focusing on financial communications and whether these divulge important business information that comes from outside the financial reporting system;
- continuing to monitor fair value issues, impairments, management assumptions that underlie critical accounting estimates and pension funding shortfalls as well as new financial reporting developments;
- rethinking the audit committee's role in risk oversight, and deciding whether members have sufficient expertise and time to deal with strategic, operational and other risks;
- helping to refine internal audit's role and focus its activities both on key areas of risk and risk management generally;
- preparing for the potential impact of key public policy initiatives on compliance, risk and governance processes, as well as for the coming general election;
- reviewing corporate anti-fraud and compliance programmes, including the impact of new anti-bribery legislation;
- helping to reduce the risk of misalignment as a company undergoes change; and
- deciding whether the committee's composition and leadership is adequate, or would benefit from fresh input.

FTSE 350's pension gap balloons to £170bn

FTSE 350 companies ended 2009 with a combined pension deficit of £170bn, compared with £60bn a year earlier, and liabilities rose over the 12 months from £440bn to £620bn, reports Mercer.

The investment services group said the deterioration had occurred despite positive asset returns last year.

Mercer added that the yields on corporate bonds and price inflation expectations were the main drivers of pension liability values.

Uncertainty over the impact of the Bank of England's quantitative easing exercise has led investors to seek protection from major changes in future price inflation, Mercer suggested. This has pushed up the prices of investments offering such protection and, in turn, increased market-derived measures of inflation used to value corporate pension liabilities.


Cooper: inflation is pushing up liabilities

"Much focus has been placed on falls in corporate bond yields from the highs seen earlier in 2009," said Mercer principal Deborah Cooper. "However, over the past few months bond yields have been relatively stable. Much of the recent increase in liabilities can be attributed to changes in the long-term outlook for inflation.

"Market-derived inflation measures, such as the difference between the yields on fixed-interest and index-linked gilts, have historically overstated actual levels of inflation. This may be because investors are paying a premium for protection against the uncertainty in long-term inflation, rather than simply getting an inflation-linked return." ■

Next crisis to strike before 2015

The next major economic downturn is already in the making and will hit before 2015, a poll of regulatory experts polled by Complinet suggests.

The financial software group's poll of 232 global compliance officers revealed that 77% doubted recent reforms would prevent a global financial crisis recurring in the next five years.

It cited one of the businesses polled: "The continuing lack of company transparency and accountability to the public makes the possibility of another crisis almost assured."

The survey found that 91% of those polled acknowledged that the bonus structure in financial services industries aroused widespread resentment. However, 62% of senior managers believed they had put the right controls in place, and 40% thought their own firm had changed remuneration policy to better reflect risks.

Complinet's Paul Jones said: "Financial firms must ensure they have enough compliance resource to navigate the regulatory maze and reduce the risk of falling foul of the rules." ■

The survey can be downloaded from: http://tinyurl.com/yag8yax

Internal auditors lack resources

Two in three internal auditors feel that a lack of resources hinders them from carrying out their job effectively, suggests a survey conducted by Protoviti.

The risk and business consultancy polled delegates at the Institute of Auditors annual conference in October. It found that 40% felt that, before the onset of the recession, they could not adequately assess and carry out their duties because internal audit was not focused on the "right" risks.

Protiviti director Sukhdev Bal said: "The last couple of years have exposed deep flaws in governance and risk management. We believe that internal audit can help to address these flaws, but there needs to be a clear understanding of the evolving role, requirements and expectations of internal audit."