ACT digest

Key messages

▪ Basel III
Basel III heads the list of significant influences on the banking markets. There is not much scope for modifying the proposals given the international consensus that exists, so planning for the effects is the only way for treasurers to mitigate the downsides.

▪ OTC derivatives
Two versions of a draft law on OTC derivatives are going through the European Parliament and the Council, with significant differences emerging, such as an exemption for pension funds in one version but not the other. A new review of the Markets in Financial Instruments Directive is also seeking to push more non-cleared OTC derivatives onto exchanges and so into clearing and margining. The work of explaining the corporate position goes on.

▪ Hedge accounting
Treasurers should to read the IASB's hedge accounting proposals and consider exactly how they would apply to their organisation's financial instruments. It is beginning to look as if the devil really is in the detail. For instance, if you claim hedging for forecast cashflows you will have to disclose so much detail in the notes that you will be all but giving a sales forecast to your competitors. The deadline for comments to the IASB is 9 March, so time is short.

▪ Pensions
Lord Justice has given a significant legal judgement that where a pension fund is in deficit and the sponsor in administration, the pension liability imposed by the regulator through a financial support direction and contribution notice has super-priority over all creditors save secured creditors. This may push banks into attempting to have their normal lending secured, and greatly changes the dynamic of restructuring negotiations for a company in difficulties.

▪ Credit rating agencies
The ACT has responded to the European consultation on credit rating agencies. While the Commission's objectives of enhancing competition are good, its specific ideas are unhelpful and even counterproductive.

Visit **www.treasurers.org/technical** *for the latest ACT policy and technical updates.*

FX markets stay buoyant

Global foreign exchange market turnover in 2010 was 20% higher than three years earlier, reports the Bank for International Settlements (BIS).

The bank's latest triennial survey shows the increase driven by a 48% jump over the three-year period in the turnover of spot transactions, which at $1.5 trillion represent 37% of FX market turnover.

Spot hike drives FX market boom

Currency swaps and outright forwards also grew, by 36% and 31% respectively, but the large FX swaps segment was flat relative to the previous survey, and currency options fell.

There was increased trading by non-reporting banks, hedge funds, pension funds, mutual funds, insurance companies and central banks. Turnover with these counterparties rose to $1.9 trillion, a 42% rise from $1.3 trillion in April 2007.

Activity with other financial instruments also drove global FX trading and their 45% share surpassed transactions with reporting dealers, at 36%, for the first time in 2010. ■

Sluggish recovery forecast for 2011

The year ahead will see more "sluggish recovery", as most economies manage to avert double-dip recession but sovereign debt problems continue to limit economic growth, according to Moody's.

The ratings agency's 2011 outlook for corporates in Europe, the Middle East and Africa (EMEA) suggests that the credit quality of non-financial companies will continue to stabilise, but there will be only limited scope for upgrades.

A possible exception is speculative-grade corporates, which should continue to strengthen their profile. This will underpin upgrades at the "very low end" of the ratings scale and also for so-called "fallen angels (issuers whose ratings have fallen from investment-grade to speculative).

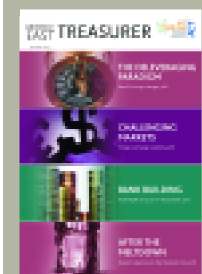
However, this modest recovery could be undermined by a continuing sovereign debt crisis.

The outlook follows an easing in the negative pressure on ratings and outlooks for EMEA corporates during 2010, leaving the proportion of stable rating outlooks at a two-year high of 71%. Many corporate downgrades last year involved government-related issuers as a consequence of the downgrades of sovereign ratings.

Over the 12 months to November 2010, Moody's recorded 65 rating downgrades for EMEA corporates and 28 upgrades, compared with 249 downgrades and 23 upgrades for the previous year.

In a separate report, the agency examined 62 companies that issued payment-in-kind toggle debt in leveraged buy-outs and recapitalisations before the crunch. It found that they defaulted at a higher rate than comparably rated speculative-grade companies in 2009, at the peak of the current default cycle. ■

Standalone Treasurer for Middle East



The Treasurer's Middle East Supplement has been relaunched as the Middle East Treasurer. The move reflects both the magazine's content and the maturity of the ACT Middle East (ACTME) network.

The magazine will continue to meet the demand for authoritative and independent comment, advice and guidance on treasury, risk and corporate finance issues in this region. Our current publishing schedule is for three editions a year – in mid-January, early/mid-June and early/mid-October (to coincide with the ACTME annual conference).

The magazine is also published digitally on our website and is freely available to the 1,300+ members of the ACTME network as well as our regular publications distribution list of 8,000+ treasurers, corporate finance and risk professionals worldwide.
www.treasurers.org/actmiddleeast/publications

Wall Street Systems buys Treasura service

Wall Street Systems has agreed a deal to acquire the assets of Treasura, Thomson Reuters' corporate treasury management software service.

The company plans to integrate the Treasura service into its existing suite of treasury management systems, with a particular emphasis on its cash management functionality. It expects the addition of Treasura to accelerate its North American expansion in the mid-tier corporate market.

Larry Ng: treasury critical

Larry Ng, managing director of corporate development at Wall Street Systems, said: "The Treasura acquisition will enhance our existing strong cash management capabilities to a broader market, expand our client base and position us for further growth as companies re-engineer their financial infrastructure and their workflow.

"In the midst of the financial crisis, the treasury function has become critical and strategic in the face of increasing complexity, regulatory changes and demands for better cash, liquidity and risk management."

The purchase of the Thomson Reuters division marks the third acquisition for Wall Street Systems in 12 months. It purchased London-based City Financials in June 2010 and Speranza Systems, the electronic bank account management solutions provider, in April 2010. ■

OBITUARY

Sarah Jones

The ACT is sad to report that Sarah Jones has died. She was head of strategic business development at Bottomline Technologies at the time of her sudden death in January 2011.

Sarah had also worked as EMEA treasury director at HP and CEO of SCF Capital.

Nigel Savory, managing director EMEA at Bottomline, said: "Sarah was a wonderful friend and colleague. Her fun-loving personality, industry expertise and thought leadership earned admiration and respect."

A leading commentator on supply chain finance solutions, Sarah passed her AMCT in 1991, became an MCT in 1994 and was made a fellow in June 2007.

Conor Maher, head of corporate liquidity at RBS, who worked with Sarah at HP, said: "We all loved her warmth and good humour and shall miss her terribly."

All at the ACT pass on their condolences to Sarah's family.

Ask the tough questions

IN THE SECOND OF TWO ARTICLES ON COUNTERPARTY RISK FOR CASH MANAGEMENT FUNDS, **JENNIFER GILLESPIE** CONSIDERS WHAT QUESTIONS TREASURERS NEED TO ASK.

Setting the right level of transparency and information flows for cash management funds to handle counterparty risk is a matter of debate among investors and in the investment community. Whatever the eventual agreed level of transparency, it is clear there has to be a level playing field where everyone has access to the same information at the same time. Treasurers have to decide how they will use the information they receive. If they discover they are breaching their overall counterparty limits for an individual institution through different holdings, fund managers may be able to do little about it.

Treasurers should engage with investment managers to discover the analysis on which a particular investment decision was made. Legal & General Investment Management has a team of credit analysts focused on looking at financial and corporate risk, and treasurers should ask questions about that process such as: the use we make of credit rating agencies; whether we have a "black box" approach; what the strength of our team is; whether we take a long or short term view; what our view on counterparty risk is. Treasurers may also have specific questions – about country limits, for example, which has been a live issue recently.

Greater interaction with treasurers would be welcome, not only with our sales team but with the fund management team. When you consider that treasurers can be handing over tens, and sometimes hundreds, of millions of pounds for us to manage, such engagement should be encouraged. This sort of process is already well established – for instance, with pension trustees.

Overall, the objective is to help treasurers manage their money better and help their cash work a little harder, improving return on cash that is sitting in the bank account. Moving money from earning base rate to an L&G liquidity fund, a treasurer would see a welcome uplift (at the time of writing amounting to 24 basis points).

With increased return comes increased risk, so greater knowledge and information is needed.

The right level of disclosure is when treasurers are aware of, and comfortable with, what they are investing in. They should also be satisfied with their investment managers' processes and procedures for making investment decisions. The heightened awareness about counterparty risk will not diminish in the short term. One way for treasurers to cope with the increased demand from the board for a tighter grip on cash and liquidity risk management is to start talking to us, asking tough and insightful questions.

Jennifer Gillespie,
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