

Hotline

Welcome to the January Hotline. We would like to welcome Sheelagh Killen who joined us as Technical Officer just before Christmas. Sheelagh will also be covering for me for the first five months of this year while I am on maternity leave. We are in the process of finalising the major topics that the Technical department will be working on in 2002, therefore please let us know your ideas. We are still looking for more members who would like to participate in technical workgroups on a variety of subject areas. To find out more information on technical workgroups please contact us. Please email all technical enquiries to technical@treasurers.co.uk □ Helen Wilkinson, Technical Director, hwilkinson@treasurers.co.uk.

CONDUCT OF BUSINESS RULES

Categorisation of investors and rules harmonisation

During its last meeting in September 2001, the Committee of European Securities Regulators (CESR) agreed to publish a second round of public consultation the following documents the revised proposal for harmonisation of core conduct of business rules, including the retail and the professional regimes; and the revised paper on the categorisation of investors

Since the appearance of CESR's first set of proposals the European Commission has confirmed in its review of the Investment Services Directive (ISD) that the revision of Article 11 is based on the work of CESR.

The ISD would in due course have to be incorporated into the UK Investor Protection regime, although this is unlikely to be for a few years. The ACT responded at the end of November 2001 to the CESR consultations and commented on the following areas: the categorisation of investors; the regime for counterparties relationships; and the revised regime on the 'know-your-customer' principle and the duty to care □HW

The ACT response can be found at www.treasurers.org/know/services/tech.html

The consultative documents can be found at: www.europefesco.org/v1/default.asp

DERIVATIVES

Accounting – IAS39: Financial instruments

At the end of November 2001, the ACT issued its proposal to the Accounting Standards Board (ASB) of suggested amendments to IAS39 – Financial Instruments: Recognition and Measurement. Our remit for the response to the ASB was to suggest amendments that will facilitate the implementation of IAS39, rather than to propose major changes to the principles of the Standard. The draft proposal was sent to over 3000 member and non-member institutions reporting under UK GAAP, IAS, Australian GAAP and SFAS. We received responses from over 50 institutions, but only 36 of these responses commented on the specific draft proposals. We understand that many institutions were unable to respond due to the short timescale. However, the majority of the 50 responses did comment on the principles of IAS39 and FAS133 (which was not within the scope of our review) but we have summarised below:

- a mixed model of cost and fair value accounting for derivatives will always be overcomplicated;
- an accounting standard on derivatives that is trying to be applied to both

COST OF CAPITAL

Treasury shares consultation

In May 1998 the Department of Trade and Industry (DTI) issued a consultative document, *Share Buybacks*, which sought views on whether there should be a change to company law under which a company that purchases its own shares is required to cancel them. The present law prohibits purchased shares being held 'in treasury' for resale at a later date. The ability to re-issue treasury shares quickly and cost-effectively should give companies more flexibility in the management of their capital base to allow them to run, on average, with a higher level of debt/equity and a consequently lower cost of capital. The ACT responded to this consultative document in May 1999 with a proposed framework for the purchase and re-issue of treasury shares.

In September 2001 the DTI issued a second consultative document, *Treasury Shares*, for consultation which sought views on the draft amending regulations. The DTI plan to introduce the regulations as soon as possible, and, although under separate legislation, the proposed changes to tax law would come into force

on the same date.

The ACT responded to the DTI consultation at the end of November 2001 and continues to support the introduction of treasury shares as an additional tool for treasurers to increase their capital structure flexibility and competitiveness compared to US companies. The ACT believes the proposed changes in regulations will not impact the governance of PLCs, and provide adequate safeguards against market manipulation, shareholder and creditor protection. Nearer to the time that Treasury Shares will be introduced, the ACT will produce implementation guidelines as we believe it is essential that the framework within which a treasury programme is conducted is well understood by shareholders, managers and institutional investors prior to shareholder approval. □HW

Both DTI consultation documents, and responses to the first consultation can be found at: www.dti.gov.uk/consultations/. The ACT responses from May 1999 and November 2001 can be found at: www.treasurers.org/know/services/tech.html.

- corporates and financial institutions will never meet the requirements of both; and
- the accounting of derivatives should remain at cost; the disclosure should include sufficient information on a company's risk management policies and fair value information to allow investors to accurately understand a company's treasury performance.

Only a small number of respondents were in favour of all derivatives being held at fair value and supported the JWG approach.

We set up a technical working group to review the problems with implementation of IAS39. Our response to the ASB focussed on those areas of IAS39, which we considered to be most relevant to corporate treasurers. We commented on 13 core areas of the Standard:

- Measurement of financial assets and financial liabilities.
- Hedging through cross currency swaps not referenced to the reporting currency.
- Treasury centre netting.
- Basis adjustment.
- Hedge accounting.
- Hedging with a non-derivative financial asset or liability; hedge accounting: hedging of future foreign currency revenue streams.
- Definition of hedged risk.
- Hedge effectiveness.
- Definition of a derivative.
- Embedded derivatives: foreign currency provisions.
- Options: treatment of time value of bought/written options.
- Options: combination of written and purchased options; and hedge accounting: use of written options in combined hedging instruments.
- Embedded derivatives: capital instruments.

For comments on Hotline or news, please contact Sheelagh Killen at technical@treasurers.co.uk.

ABS MARKET

Exclusive for ACT online and *The Treasurer*

ACT online and *The Treasurer* are being given exclusive access to the BT team involved in the recent complex and innovative sale of BT's property portfolio for £2.4bn to Telereal. The story will be available online in January and in the February edition of *The Treasurer*.

www.treasurers.org □

Speaking with treasurers who have implemented IAS39/FAS133, our main concern is the level of resource that they have had to increase and/or re-deploy from core risk management activities to support the implementation of IAS and FAS accounting and disclosure requirements. We are hopeful that our proposals will carry weight with the ASB and IASB as the IASB completes its short-term high priority project to consider ways of improving IAS39 and IAS32. We are expecting an exposure draft to be released at the end of February by the IASB and will keep members updated on the feedback we receive from the ASB.

We are interested to hear your feedback on the process of consultation with members on this project, and whether you believe this is a good model to be adopted on similar projects going forward where we need member input on proposals. Please email your comments by to: technical@treasurers.co.uk. The ACT response to the ASB can be found at: www.treasurers.org/know/services/tech/html. □HW

News

TECHNOLOGY

Pay structure of trade finance marketplaces under scrutiny

As a handful of online trade finance marketplaces look to establish dominance, their pricing structures have come under scrutiny by potential users seeking to determine which if any deliver true value.

In their simplest form, marketplaces such as LTPTrade, ITFex, LCConnect, WorldBankNET and bfinance enable corporates to purchase trade finance products, such as the financing of promissory notes, bills of exchange and letters of credit from a variety of banks, forfaiting houses and other financial institutions. The benefits in terms of operational efficiencies and cost savings for corporates can be significant. Rather than tendering business over the telephone or by fax to a select group of banks, corporates can access a wide number of counterparties with just one online application saving hours in the process. And with many more banks competing for a corporate's business, it can expect the best market rate.

Some marketplaces, such as LTPTrade and ITFex, offer more than simply connecting buyers and sellers and lowering financing costs.

By providing full execution services they aim to make the entire trade process more efficient by ensuring the elimination of errors and manual delays at each step of the process.

PAY STRUCTURE. The marketplaces have adopted a variety of different pay structures, which are likely to have a significant impact on their success in the future. According to Managing Director Jack Killick, WorldBankNET initially targets multinational corporates that use a large number of relationship banks, which he hopes will be persuaded to use the marketplace to compete for their client's business. Banks pay a yearly annual subscription of £3,975 for unlimited access to the marketplace which simply connects buyer and seller. However, one drawback identified by Jim Rowe, a trade finance consultant at the Bank Relationship Consultancy, is that corporates are often reluctant to give out lists of all the banks they use.

In addition, the banks are often reluctant to pay the subscription cost. Killick told bfinance that the pay structure is currently under review and while the details are not finalised, it is likely that WorldBankNET will revert to charging a comparatively smaller, quarterly subscription fee. And although corporate use of the marketplace is currently free, in the future Killick expects a modest yearly subscription fee will be imposed.

James Parsons, Chief Operating Officer at LTPTrade, argues that one disadvantage with charging joining fees and annual subscriptions is in demonstrating value: "You have to demonstrate that you add value before you even think about a subscription to all-comers." LTPTrade, which facilitates the execution of the transaction as well as matching buyers and sellers, only charges the seller and the fee depends on the type of deal. "We tailor our price according to the

MANAGEMENT & STRATEGY

New sources of capital for bare-all corporates

Companies that provide more and better information to shareholders about the underlying value of their business gain a competitive advantage in attracting new sources of capital, according to a new book from PricewaterhouseCoopers (PwC).

Noting that the 5% of companies listed on any single stock exchange typically account for 60-85% of the market value of all the listed companies on the exchange, PwC Partner David Phillips, executive editor of ValueReporting™ Forecast 2002, said the quality and depth of a company's corporate reporting significantly improves its potential to draw new investors.

Designed to help companies keep abreast of what others within their own industries and beyond are doing to become more transparent, the 2002 Forecast highlights advances in corporate reporting. It features real-life examples of how leading companies are experimenting with financial and non-financial performance measures. The examples have been drawn from publicly available information sources – annual and quarterly reports, briefings and press releases among others – of 61 companies in 17 countries.

The Forecast found that in every industry surveyed, both executives and investors placed greater emphasis on the importance of non-traditional measures of performance than they did on those found in traditional annual reports. PwC has conducted surveys of executives and analysts in the financial services, consumer goods and industrial products & services, and technology & communications industries.

The research has shown serious communication gaps between the information that companies report and the information that investors want and need to value shares properly. Combined, the communication gaps can result in the "value gap" – the difference between management's perception of the value of their company and the value placed on the company's securities in the capital markets. As companies struggle to achieve or maintain shareholder value, many are recognising that information can be a competitive weapon in addressing the "value gap." www.valuereporting.com. □ Reuters via bfinance

nature of the product so that it reflects the extent to which the system is adding value for that product," said Parsons.

LCconnect and ITFex charge a significant joining fee, an annual maintenance fee as well as a per-transaction levy on both the winning bank and corporate. However, charging on each transaction can act as a disincentive for a deal, says Rowe: "Often a marginal transaction becomes even more marginal with fees levied by the marketplace. Two, three or four basis points more will affect the profitability of an individual transaction."

bfinance provides corporates with access to over 300 financial institutions across its three country-based websites serving UK, France and Germany. Users can tender for a variety of financing and depositing products including trade finance instruments such as letters of credit, performance and retention bonds. A commission is charged to the winning bank and can vary according to the complexity of the structure of the deal.

Killick believes that banks will be attracted to WorldBankNET pay structure because once the subscription is paid, there are no other fees. Therefore the bank can predict and control their costs over the course of a year. According to Killick, WorldBankNET has a low cost-base, which enables it to charge the flat annual sum: "We are not trying to provide an all-seeing, all-doing service. We just look at the core needs of exporters and banks and work to strip out all unnecessary costs," he said. Once members have a user name and password, with which they can gain access to the system, they can transact without any assistance. Rowe agrees: "Simplicity is what a lot of people look for."

However, an expert at one marketplace told bfinance that although charging a one size fits all fee might work for some financial products, it is simply not viable in trade finance: "Some trade finance products, such as simple letters of credit, maybe amenable to his approach but highly structured deals involving a lot of documents can require a lot of explaining." In addition, he said that marketplaces that really added value would be the long-term winners: "There is value in reducing financing costs, but adding value is not just about connecting people, it is in the execution of the whole process." www.bfinance.com. www.itfex.com. www.ltptrade.com. www.lconnect.com. www.worldbanknet.com. □ bfinance

MONEY MARKET FUNDS

Latest monetary loosening trims yields

Competitive yields and added liquidity continue to attract corporate treasurers, according to the latest figures on European institutional money market funds from iMoneyNet and the International Money Market Funds Association (IMMFA). The latest bout of monetary policy loosening on both sides of the Atlantic has made competition between money fund managers more intense.

Seven-day simple yields for institutional money market funds (both stable and accumulative net asset values) have been trimmed between 2 and 9 November, according to iMoneyNet data.

Average stable net asset value (NAV) returns for sterling, dollar and euro-denominated funds have slipped by 10bps, on average, since the start of November. emfrinfo@imoney.net. www.imoney.net.com. □ bfinance

DOCUMENTARY CREDITS

New electronic rulebook

The rulebook governing the electronic use of documentary credits has been approved by the International Chambers of Commerce's (ICC) banking commission. The Supplement to the Uniform Customs and Practice for Documentary Credits for Electronic Presentation (eUCP) was drafted to take account of the increasing number of documents being presented to banks electronically. It allows presentation of the electronic equivalent of paper documents under the UCP, the ICC's universally accepted rulebook on letters of credit.

According to the ICC, all of the articles of the eUCP are consistent with the UCP except where they relate specifically to electronic presentations. "A credit subject to the eUCP is also subject to the UCP without express incorporation of the UCP. The eUCP, however, has to be specifically

incorporated by the parties if they intend to use it," said a spokesman for the ICC. The eUCP contains a number of definitions of terms that have a different meaning in the electronic environment, he added. "Terms such as 'appears on its face', 'place for presentation' and 'sign' – all common features of the UCP – are re-defined to take account of the electronic environment."

INCREASE IN CORPORATE USE. Following the approval of the rulebook, internet-based platforms that automate the trade cycle are set to benefit from increased bank and corporate interest.

According to experts, the eUCP should help accelerate the transition from inefficient paper-based processes to full automation for exports and imports where country risk is considered too high for open account trading. Some companies have already started utilising the internet to make their trade processes more efficient without waiting for an international legal framework to be put in place. However, typically these are larger corporates with

access to legal expertise. "Without an international standard, online transactions have been possible, but have required long and complicated contracts," said Robert Parson of law firm Sinclair Roche and Temperley. "The complexity of the legal structure has restricted the market to only sophisticated participants. However, an international standard governing the online use of documentary credits opens it up to more people." Parson believes banks have been deterred from signing up to the rival trade finance platforms by the lack of an international standard. And it's not just the banks that have been waiting. A number of platforms being developed to automate the trade cycle have had their launch date put back in anticipation of the eUCP.

The new supplement will be effective by the end of March, 2002 and will be available from ICC Publishing in January of 2002 in several formats. However, parties wishing to use eUCP will specifically have to incorporate it into documentary credits since it is a supplement to, rather than included in, the UCP 500.

www.iccwbo.org/home. □*bfinance*

FINANCING

Force majeure and letters of credit

Beneficiaries in letters of credit transactions should ensure that they are protected against banks failing to honour their commitments in the event of terrorist attacks, US law firm Hall & Evans LLC has warned. According to counsel Brooke Wunnicke, a force majeure provision in UCP 500 – the International Chambers of Commerce's rulebook on the global use of letters of credit – exempts banks from their responsibilities if forced to close due to terrorist attacks.

The force majeure clause lists events that relieve institutions or individuals from liability for failure to meet a contractual obligation, including: Acts of God, wars, revolutions or insurrections, political upheavals, rules or regulations by a government agency or executive order, strikes, lockouts and riots. "As of 2001, terrorist attacks should be an unwelcome but necessary addition to the traditional list," said Wunnicke in a recent article in Documentary Credits Insight.

Wunnicke warns that Article 17 can be particularly difficult for users of standby letters of credit. Many standbys expire on the last calendar day of the month, and the beneficiaries of those credits expect to be paid when the banks reopen on the next following business day.

"Force majeure provisions, whether contractual or by rule such as UCP 500 Article 17, are important and should not be neglected. This is particularly true today, when acts that cannot be reasonably anticipated or controlled are taking new forms," she said.

www.hallandevans.com. www.iccwbo.org/home. □*bfinance*

ASSET & LIQUIDITY MANAGEMENT

Pension fund trustees get a helping hand

The National Association of Pension Funds (NAPF) has published a new guide for trustees who are considering changing their fund's investment management. The guide recommends trustees should adopt a cautious and studied approach to transition management – a movement of fund assets between managers or between asset types.

'Transition Management Made Simple' outlines the options available to pension funds on the verge of changing their investment stance. "The booklet aims to help trustees to avoid unnecessary cost to the scheme or undue reduction in the value of scheme assets," added a NAPF spokesman.

PAYING OVER THE ODDS TO CHANGE MANAGER? Recent research from multi-manager Frank Russell revealed that UK pension funds were paying over the odds for transition management, dissuading many from changing fund manager.

The Myners report has also stressed the headache pension funds faced when changing fund manager: "Switching costs money, not only to conduct the search but also because the switched portfolio requires sales and purchases of securities, and attendant transaction expense, to reshape it in line with the manager's preferred dispositions." www.napf.co.uk.

□*bfinance*

TREASURY PRACTICE

The Treasurer's Handbook 2002

The new edition of *The Treasurer's Handbook*, sponsored by Abbey National Treasury Services, will be published on 18 February 2002.

The Treasury Practice section has been revised and updated and reflects the five pillars which are the foundation for all the ACT's qualifications and education material. The Country Guides have been expanded and updated to provide an even more valuable tool for treasurers with operations outside the UK. All other statistical and financial information has been updated, and the index of all *Treasurer* articles in 2001 has been included again.

All members (FCT, MCT and AMCT) will receive it free of charge. Student members, members of IGTA national associations may purchase it at the special rate of £80 (also applicable to second copies for members). Non-members may purchase it at the early bird rate of £110, before 1 March 2002. (All prices plus £10 p&p). Please contact Alison Mouncer on 020 7213 0710, at amouncer@treasurers.co.uk, or visit www.treasurers.org. □

CASH MANAGEMENT

ACT's Survey published

The results of the ACT/JPMorgan Fleming Cash Management Survey for 2001 have been published. The 2001 survey included responses from Europe, Middle East, Asia and Africa. An in-depth article will appear in the February 2002 issue of *The Treasurer*.

In the meantime, the full results will be available from www.jpmmorganfleming.com/liquidity or www.treasurers.org/cashsurvey. The respondent who won the prize draw has been notified and is looking forward to a weekend golfing break in La Manga in the New Year. □

Crossword answers

December 2001 issue

ACROSS 1 Spot; 3 Clot; 6 Yield; 10 Refunds; 11 Squared; 12 Agreement; 13 Bacon; 14 Simple; 16 Parsley; 18 Borrower; 19 Ferret; 22 Elude; 23 Par; 24 Floor; 26 Deities; 27 Dervish; 28 Delft; 29 Rate; 30 News.

DOWN 1 Spreads; 2 Offer; 4 Lessee; 5 Test team; 6 Your best effort; 7 Euroclear; 8 Dedans; 9 Unreel; 15 Marsupial; 17 Help; 18 Blended; 20 Torches; 21 Credit; 25 Opine.

SOURCES

bfinance	www.bfinance.co.uk	
IFR	These extracts are from IFR (International Financing Review). For further details, please contact Ann Gordon: T 020 7369 7521 F 020 7369 7330 E ann.gordon@tfeurope.com	
AQ	Anne Querée is freelance journalist who contributes regularly to <i>The Treasurer</i> and monitors IT & e-commerce news.	
HW	Helen Wilkinson is Technical Director, Association of Corporate Treasurers.	

In brief...

Bottomline Technologies, a provider of payment management and integration products, has made an 'online adjudication' service, part of i-Collect Business, available to UK corporates which enables firms to settle invoices over the internet. www.bottomline.com.

□ *bfinance*

Currenex™, Inc., today announced a set of significant service enhancements including a customisable user interface designed for live executable streaming prices and orders, a real-time market view featuring live indicative interbank rates from Tullett & Tokyo Liberty, and a complete suite of straight-through-processing (STP) solutions that provide members faster, easier trade execution and complete STP. www.currenex.com. □

FTI, the Dublin-based treasury outsourcing, systems and consulting company, has launched the second release of FTI-STAR, its debt management system. The **FTI-STAR** system enables expert debt management. It is designed specifically for the needs of large borrowers, both public and private sector. The system provides comprehensive portfolio analyses, risk measurement and reporting. The latest release adds budgeting and benchmarking functionality, now enabling the debt manager to analyse actual, budget, scenario and benchmark portfolios. www.fti.com. □

The **Institute of Public Finance's** new website has a Europe theme, where you can register for a free eNewsletter on "Signposts to Europe" – regularly updated and containing news, announcements and details of resources available across the internet. www.ipf.co.uk/europe. □

Knowledge Technology Solutions (KTS), the UK based data technologies provider, has challenged Reuters and Bloomberg with the release of **MarketTerminal**, a new real-time financial information system. MarketTerminal provides comprehensive financial information including data, news, analytics, commentary and market research. End users will be able to monitor market activity from any location, provided they have internet access. www.ktsplc.com. □ *bfinance*

SimCorp has launched version 4.2 of its IT/2 treasury management system. Features include the ability to support systems around the clock and across multiple time zones. Other developments include new deal types (commodities, guarantees and letters of credit) and enhancements to internet integration (to support transfer of deal information from Atriax, Currenex and FXAll), workbenches and the system's support of accounting standards FAS 133, IAS 39 and FRS 13. Other areas that have been enhanced include cash management, nominal ledger, back office, data analysis and investment dealing. www.simcorp.com/products/it2. □ *bfinance*

SuperDerivatives has incorporated a powerful risk management tool, known as a risk matrix, into its software, allowing users to analyse the impact of spot movements on various different parameters in their options portfolio. Overall, the new tool improves the understanding and hedging of the risk of a users' option portfolio. www.superderivatives.com. □ *bfinance*

EURO

Cross-border clearing

The infrastructure for clearing and settling cross-border transactions in the European Union remains highly fragmented, according to a report submitted to the European Commission today by Alberto Giovannini, Chairman of the so-called 'Giovannini Group' – the group of financial experts offering advice to the EU on capital market issues.

While investor demand for foreign securities has increased sharply in the EU since the introduction of the euro, fragmentation hampers post-trade processing of cross-border securities transactions as opposed to domestic transactions, and creates barriers to the efficient delivery of clearing and settlement services.

The Group has identified three main types of barrier: (i) national differences in technical requirements and market practice; (ii) national differences in tax procedures; and (iii) issues relating to legal certainty. To tackle these, the Group suggests that clearing and settlement in the EU be significantly improved by market-led initiatives to convergence and/or ensuring inter-operability as regards technical requirements and market practices across national systems. However, it places responsibility for the removal of barriers related to taxation and legal certainty clearly on the public sector.

Internal Market Commissioner Frits Bolkestein said the Commission would present a Communication on EU clearing and settlement systems next year with a view to tackling some of the barriers identified. europa.eu.int/comm/economy_finance/giovannini/clearing_settlement_en.htm. www.euroimpact.com. □

Percentages...

More banks tightened credit standards for businesses the past few months, citing a less favorable US economy, as they also faced big downgrades on loans to airlines and travel-related industries after the September attacks, a Federal Reserve survey released on 13 November showed. The percentage of domestic banks that reported tightening their standards on business loans to large and middle-market firms rose to 51% in October from 40% in August. Results were similar for lending standards on loans to small firms. The survey, which polled officials at 57 large US banks and 22 US branches of foreign banks, found 49% of the domestic banks had "tightened somewhat" business credit in recent months, which was up from 38.6% in the previous survey released in August.

www.federalreserve.gov. www.reuters.com. □ Reuters via bfinance

In a survey of 320 organisations across the euro area, fewer than one in five reported full confidence in their own preparations for the euro changeover. Europartnership, which carried out the survey, predicts that disruption will be widespread unless there is a last minute effort to mitigate the risks, and commented that the palpable concerns of companies in the computer/IT company sector should "give us all cause to assess our contingency plans."

www.euro-impact.com. www.europartnership.com.

Correction

In our Deals of the Year feature in December's issue, we inadvertently predicted Eurotunnel's balance sheet as at 31/12/01 (p41). This should of course have read 31/12/00.

New! in the ACT's Business of Finance Series

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