The ACT's technical team will be continuing to monitor and respond to topical issues as they arise during the year. If this involves providing a response to a consultation this will oftentimes be publicised via Richard Raeburn's e-newsletter to members, or via Hotline if deadlines allow.

ACT Working Groups exist on a variety of subjects that have been considered in recent years and no doubt others will be set up during the year. This will be very much driven by the Technical Committee's view on which subjects are of general relevance to our members, and to know this we very much welcome feedback on what are the controversial or key matters of the moment for treasurers in the course of their normal activities. Please let us know what areas are expected to be important for you during the next year, or if you have a technical query which could become something of wider application across our membership.

If you are interested in joining one of the specific Working Groups or in putting forward new topics please contact Martin O'Donovan or John Grout by email at technical@treasurers.co.uk or call 020 7213 9728. Happy New Year to you all. ■

THIN CAPITALISATION

UK-UK transfer pricing

The Inland Revenue has been consulting on thin capitalisation and the removal of UK to UK transfer pricing relief. The likelihood was that intra-group loans could no longer be interest free but would have to be at arm's length and properly documented and administered.

The Inland Revenue was forced to re-look at this area as a result of decisions from the European Court of Justice. The point being that to have UK-foreign transfer pricing legislation but not UK-UK would be discriminatory. The pre budget report confirmed that the scope of transfer pricing rules would be extended from 1 April 2004, but in recognition of the immense burden that implementation will have the Chancellor will allow a relaxation of the penalty regime for a transitional period of two years to give businesses time to adjust to the new rules.

This and other aspects of the pre-budget report are more fully covered in the article by Mohammed Amin of PricewaterhouseCoopers on page 21. ■

DISASTER RECOVERY

Contractual obligations reviewed

Disaster recovery plans could always do with a periodic review. To help you think through some of the areas you need to consider, or to check that your banks have already considered, there is a lengthy document at http://www.fmlc.org/ published by the Financial Markets Law Committee in December. It is largely framed as a commentary on the legal position of contracts and operations in the financial markets in the event of an emergency, but as such could be a useful reference source. ■

BOND MARKET

Consultation on standards

The ACT has now made a formal response to the group of 25+ investors who backed the original proposals. The investors had been arguing for changes in disclosures and market practices that would, in their view, help support the continued growth and development in the sterling and euro credit markets. Key among the ideas was the proposal that there should be a higher degree of standardisation across issuers, with minimum covenants specified for investment grade issues.

The ACT accepted that the topics raised by the consultation document were all very relevant to the dialogue that should take place between issuers and investors, but felt that it was inappropriate to impose additional standardisation or codes of practice on the market. It was considered better to allow the normal market supply and demand pressures to influence the terms and conditions appropriate to each issue on a deal by deal basis, and depending on market conditions at the time.

It seemed to be a retrograde step if a market which appeared to be growing and flourishing was forced down a standardisation path when diversity and the opportunity for investors to make profits from good analysis and investment decisions appeared to be one of the factors contributing to that market's very success.

Minimum covenants for investment grade issuers were not supported. In the event of a corporate event making a breach of covenant likely it would be infinitely more complex, expensive, time-consuming and inflexible to have to deal with bondholders, even through a Trustee, as compared to the procedures with a bank loan. Indeed should a borrower be getting into financial trouble there were dangers in having too tight a set of covenants which could play into the hands of "Vulture Funds". Such funds buying into the bonds at a discount will have very different objectives compared to longer term bondholders who bought at full price. The Vulture fund will want a winding up and partial payout while the core lenders and will normally want the company to survive to maximise their returns.

The ACT agreed that the very publication of the document will have done much to stimulate awareness of the subject on both sides, and issuers will take into account the topics raised when planning new issues. However rather than create new codes of conduct we believe that the normal market pressures and pricing messages will ensure that the market will move on and develop. ■

IN BRIEF

Citigroup Global Transaction Services has released CitiDirect Online Banking, a new module designed specifically for correspondent banks. Using the platform, CitiDirect users can issue commercial letters of credit, letter of credit amendments, reimbursement authorizations, reimbursement amendments and free form trade services messages. **www.transactionservices.citigroup.com**

Eurobase Banking Solutions is incorporating TWIST XML messaging into its Siena treasury dealing solution to allow Siena to 'plug and play' with other systems with which it normally integrates. It should also reduce error correction costs and provide software cost savings to customers, according to TWIST. **www.eurobase.co.uk**

Financial Objects and **Surecomp** have announced a joint agreement under which Financial Objects will license and install two Surecomp trade finance solutions - IBSnet and NetIMEX - as part of its activebank system. Activebank's new trade finance module will incorporate the tools necessary for processing trade finance transactions - including import, export and standby letters of credit, collections, payments and guarantees. **www.finobj.com**. **www.surecomp.com**

FNX has launched FirstOrder Fixed Income, an IT solution that offers support for an array of fixed income instruments including bonds, munis and T-Bills. It also supports on-line position management, real-time audit checks and full price publishing. **www.fnx.com**

New upgrade methodology from **Nordic Financial Systems (NFS)** will help companies make quicker and more cost effective upgrades to their treasury management systems (TMS). The methodology can be applied to any TMS and reduces time and cost issues related to data or script conversion, inherent with projects of this kind, according to the company. **www.nfs.se**

Standard & Poor's Risk Solutions has launched a scoring service for private companies. This quantitative analytical service, Credit Risk Tracker, is the first service to provide probabilities of default (PDs) and quantitatively derived rating estimates of private companies across Europe. **www.standardandpoors.com**

ACCOUNTING STANDARDS

IAS latest

The ACT has been making great efforts to influence the IASB in respect of IAS 39 on financial instruments. This standard was due to be finalised, save for the rules on macro hedging of interest rate portfolios, at the end of November 2003 but this was postponed. On 17 December, revised versions of IAS 32 and IAS 39 were issued, but with no major moves to help corporates in the accounting treatment of their normal best practice hedging activity. The IASB is wanting to press on with finalising all its proposed standards in time for implementation in the consolidated accounts of all European listed groups for accounting periods beginning after 1 January 2005.

For a company with a reporting date of 31 December 2005 it will have to move to IFRS starting 1 January 2005 but to allow for comparatives it will need to be able to restate the 2004 results. For UK listed groups listing rules would then mean that Interim accounts for 2005 will also need to be under IFRS. However the IASB has allowed the concession that comparatives for IAS 39 will not be required for annual accounts in the first year of IFRS.

Back in October 2003 the Committee of European Securities Regulators (CESR) started a consultation on its recommendations covering the transition to IFRS. It proposed:

- that when publishing their 2003 accounts companies describe their plans for making the transition to IFRS and they identify the major differences in accounting policies;
- that in the 2004 financial statements companies provide some quantified information on the impact of the change to IFRS. This would be needed to provide comparatives in the 2005 accounts, but CESR is recommending this be disclosed as soon as it is available in a sufficiently reliable manner; and
- that for 2005 Interim information this be provided, along with restated comparatives, on a basis consistent with the full year IFRS-based information they will receive.

In the pre-budget report the Inland Revenue reported that it is continuing to work with consultative groups to look at the detail of IAS and of complementary changes to UK GAAP that will apply in 2005. As a result of work done so far legislation will be introduced to cover the use of IAS or UK GAAP and the tax treatment of derivatives and corporate debt. *See the article on page 21 for further details on the pr-budget report.*

New standards published

The International Accounting Standards Board (IASB) has published thirteen International Accounting Standards (IASs) which were revised under the IASB's Improvements project.

Assuming European adoption of the standards, the revised IASs will be mandatory for the consolidated accounts of listed companies in 2005. The UK government has also announced that the use of adopted international standards will be optional for private companies and for the individual accounts of listed companies. The thirteen IASs are among those that the IASB inherited from its predecessor body, the International Accounting Standards Committee, says the IASB, that were viewed as needing significant improvement to make them suitable to be adopted across Europe. www.iasc.org.uk.

CORPORATE CREDIT

Default rates ease

Corporate default rates fell sharply in 2003 across the world – especially in Europe – and re expected to fall further in 2004, according to Standard & Poor's Risk Solutions.

"After the extraordinary years of 2001 and 2002, when 9.0% and 9.3%, respectively, of speculatively rated companies defaulted globally, only 4.5% of such companies are expected to have defaulted by the end of 2003," said Brooks Brady, Associate Director of Default Research at Standard & Poor's Risk Solutions. "This marks the first year since 1998 that global default rates have been below the long-term average of 5.2%."

In addition, defaults among companies rated speculative (non-investment) grade at the start of 2003 have fallen by about half this year compared with 2002, says S&P. In the European Union, the default rate for speculative grade credits should be around 3.0%, which is a sharp contrast to last year's record default rate of 13.9%.

Similar results were reported Moody's Investors Service who found that the global issuer-based speculative-grade corporate bond default rate has dropped - to 5.3% in November, from 5.7% in October. This year has seen 69 corporate bond issuers default on a total of $31.2m, according to Moody's. **www.standardandpoors.com**. **www.moodys.com** ■

PENSIONS

Alternative investments growing

Following three years of negative equity returns to the end of 2002, many schemes moved into significant deficit and some trustees have looked to alternative investment products to improve their portfolios, according to Schroders, the investment advisory firm.

Moving significantly into bonds was unattractive as the deficit would need to be made up by other means, generally higher contributions and/or cash injections by the sponsoring company. So the catalyst for change for many funds has been the stark realisation that they must consider improving their investment strategy.

Attitudes are changing as trustees question both the amount of equity exposure within their benchmarks and whether setting a fixed benchmark between equities and bonds is the best approach for strategy. This debate has led to a greater acceptance of alternative asset classes such as private equity or hedge funds to help diversify risk within the portfolio.

Diane Knowles, Director, Strategic Solutions, Schroders, commented: "We expect pension schemes to focus on diversifying the sources of return, while at the same time extracting greater returns from different assets via tools such as specialist management and techniques involving derivatives." **www.schroders.com** *bfinance*

SECURITISATION

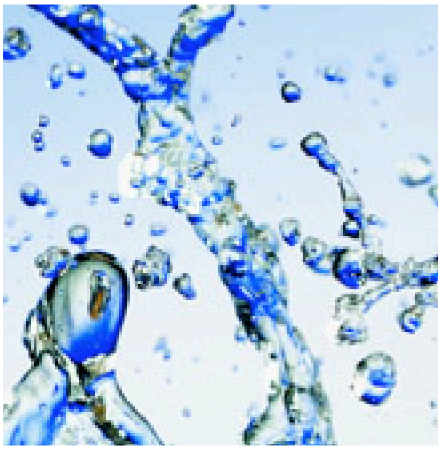
Growing use

European insolvency regimes continue to hinder the growth of corporate securitisation, but it is nonetheless becoming a more popular financing tool, according to Standard & Poor's.

Utility and transport sector transactions will help push European corporate securitisation issuance to record levels in 2004, according to the group. Asset classes offering the greatest potential for future securitisations include telecoms, commodities, rail, airports, nursing homes, and hospitals. In addition, other assets which have been securitised include forestlands, metals, funeral services, and electricity transmission. In total 19 different types of asset have been securitised to date. In the year to the end of November, European rated corporate securitisation issuance aggregated over £12bn in 14 transactions, says S&P. **www.standardandpoors.com** ■

PERFORMANCE MEASUREMENT

Improved transparency



The Institute of Chartered Accountants in England & Wales (ICAEW) is urging businesses to step up transparency of performance measurement. Though the professional associations, accountancy firms, think-tanks and consultants looking to reform financial reporting rules have different ideas about what constitutes reform, they agree that the traditional reporting model must be updated, according to the ICAEW. They also say companies need to beef-up their public disclosures to include non-financial and forward-looking data. However, the reformers have yet to make significant changes.

A 1994 paper by the American Institute of Certified Public Accountants first urged businesses to inform the public about measurements used to manage their operations. Today many would support this concept of transparency, but nearly a decade ago it was strongly opposed. In addition to transparency, reformers have focused on intangibles, how to serve multiple stakeholders through reporting and whether investors need more information according to the ICAEW. **www.icaew.co.uk** ■

FSA

Closed loophole

The Financial Services Authority has closed a loophole allowing Regulated firms and individuals to use insurance to pay FSA fines. Under the new rules, which come into effect from 1 January 2004, anyone who is fined must pay the fine themselves rather than claim it against insurance. **www.fsa.gov.uk.** ■

IN BRIEF

Sterling Commerce has launched Version 3.0 of its flagship Business Process Management (BPM) and integration platform, Sterling Integrator. The release includes product enhancements and has added platform support for mainframe and mid-range server systems and a secure repository for the 'staging' of data, allowing customers to manage the batched exchange of information. **www.sterlingcommerce.com**

SunGard Financial Networks (FN) has released an enhanced version of its Transaction Network (STN) Money Markets service, which provides corporate and institutional investors with single-screen access to commercial paper, certificates of deposit and money market funds. Previously, STN Money Markets' clients traded instruments separately, and via a combination of phone and stand-alone trading systems, according to SunGard FN. **www.sungard.com**

SWIFT network has completed migration from Message Type (MT) 100 to MT 103. The changeover is designed to increase automation and transparency for Single Customer Credit Transfers. The two messages have operated in parallel over the past three years but only the MT 103 will now be accepted on the SWIFT network. **www.swift.com**

Survey results

The results of the ACT/JPMorgan Fleming International Cash Management survey for 2003 have been announced. Highlights of the results can be found in the article by Mark Stockley on page 29.

Forthcoming events

Reducing risk in Emerging Market Investments. Unique new one day conference dedicated to the challenges of doing business in emerging markets. Sponsored by HSBC, Wednesday 18 February 2004, The Mayfair Conference Centre, London. Register online: **www.treasurers.org/events** or call the booking hotline: 020 7213 0703.

CONFERENCES

Convertible bonds: debunking the myths

On December 11th last year the ACT held an evening symposium on the Convertible Bond (CB) market, led and sponsored by SG Corporate & Investment Banking (SGCIB). The event was aimed at those who had little or no background knowledge of CBs, but some interest as a potential issuer.

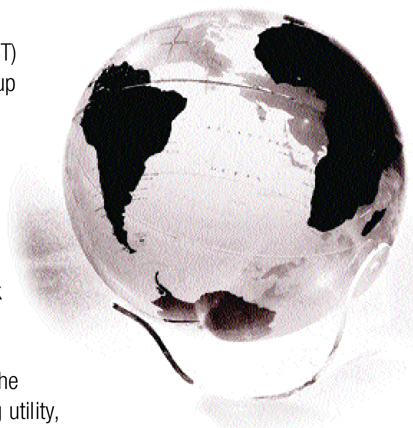
The focus was on debunking some of the myths still prevailing about CBs, which in the past have had a mixed reputation in the UK, despite having been a mature market in the US, Continental Europe and Asia for some years. Typical qualms are that CBs are shareholder unfriendly, dilutive, limited in size and introduce hedge funds into a corporate's investor base.

The team from SGCIB showed the great extent to which the CB market has grown in the issuer's favour in recent years. Today's CB arena is very much a seller's market, and recent innovations give the issuer the flexibility to manage potential dilution, enhance credit rating and secure funding at record-low yields. This is now an attractive financing tool readily accepted by UK shareholders.

For further details, Please see the ACT website for a copy of the presentation, access code: bonds1. www.treasurers.org/events/download.cfm# Access code – bonds1. *Convertible bonds are also covered in the article on page 18.*

STANDARDISATION

XML standard on the way



The International Standards Team (IST) Harmonisation Group is getting ever-closer to completing an XML-based industry standard for global corporate and bank payment messaging. IST includes SWIFT – the industry messaging utility, the International Financial exchange – the XML-based developer of messages, TWIST – the TreasuryWorkstation Integration Standards Team, and the Open Applications Group, a consortium that advocates interoperability.

The new standard permits data to move through an XML-based payment channel containing the core payment messages sent between businesses and banks, says IST, which can then be used for payment initiation, status advice, and reconciliation. However, these payment messages cannot be used for extended remittance advice and card payment messaging, which are beyond its capabilities.

Before the tool is fully effective, the group still has a number of things to resolve, including adopting a business model, standardizing content representation, resolving content differences between messages, establishing interoperability and recommending a core payment that can be accepted into XML standards bodies. How it is deployed will depend on the needs of banking clients, and vendors will have to ensure their delivery capabilities match the payment channel migration timelines, says IST.
www.openapplications.org/wg/ICXML.htm

SOURCES • bfinance.co.uk • The News section was compiled by Denise Bedell • Press releases should be addressed to mhenigan@treasurers.co.uk.