IN BRIEF

Following the inauguration of new **money laundering regulations** on 15 December 2007, the ACT has produced a short addendum to its guidance on loan agreements, explaining the implications for borrowers. The new regulations place additional know your customer obligations on banks providing corporate financial services, including lending. For example, lenders are required to verify the identity of any individual who beneficially owns or controls 25% or more of their customer. See: **www.treasurers.org/technical/lmaguide.cfm**

Free sterling-to-euro transfers are perhaps the first dividend of the Payment Services Directive and Single Euro Payments Area (SEPA), with National Irish Bank and Northern Bank announcing free cross-border electronic transfers between sterling and the euro. It is thought to be the first time that holders of standard business and personal accounts can make free electronic transfers between the two currencies. Only transfers between accounts of the two sister banks, which are subsidiaries of Danske Bank, are fee-free. Previously the banks had charged £12 per transfer out of the UK and €10 (£7) per transfer out of the Irish Republic. Electronic transfers from National Irish Bank to accounts elsewhere in the euro zone are free of charge. British banks typically charge £20 per transaction on euro accounts. National Irish Bank confirmed it would open euro accounts for British residents, subject to meeting money laundering regulations, as would Northern Bank.

The Office of Fair Trading (OFT) has welcomed **changes to the cheque clearing process** which will provide certainty and increased transparency for business and personal customers paying in cheques. The changes were introduced following agreement by the Payment Systems Task Force. For the first time, consumers across the UK will know that after six working days money paid into their account by cheque cannot be removed from the account as a result of the cheque being dishonoured. After two working days customers will start to earn interest on money deposited via cheque; if they are in overdraft, they will have their balance reduced. Account holders will be able to withdraw money against cheques deposited after four working days (six for savings accounts). The changes represent a major achievement for the Task Force and make the UK a world leader in the area. The OFT expects to see banks and building societies competing to beat these maximum limits, as some already do.

INTRODUCTION

By Peter Matza
ACT Policy and Technical Officer

As the glitter and shine of the festive season dims, we are confronted with the cold reality of continued financial market volatility in 2008. Treasurers will continue to play a critical role in addressing the implications for business strategy and corporate financial health. In particular, their skills in assessing and managing risk will be of great benefit to all stakeholders and their enterprises. The question to consider, however, is whether this is just another phase of modern capitalism or whether more structural financial change is developing in the world economy.

Walker Report brings clarity to private equity acquisitions

The Walker Report has published its final guidelines and recommendations on transparency and disclosure for the private equity industry.

The report hedges its bets but clearly demarcates who is affected and what is expected of them. Its recommendations will affect those private equity firms managing or advising funds that own or control large UK companies, which are those that meet all the following criteria at the time of acquisition:

- more than 50% of revenues generated in UK;
- more than 1,000 full-time-equivalent UK employees; and
- an enterprise value of £500m (in the case of a secondary or non-market transaction), **OR** a market capitalisation, together with the premium for acquisition of control, in excess of £300m (in the case of a take private transaction).

Walker's guidelines and recommendations cover private equity firms and their portfolio companies.

Portfolio companies will need to publish an annual report and accounts to include enhanced disclosure on their website within six months of year-end. They should also publish a mid-year update no later than three months after mid-year.

Private equity firms themselves will need to publish an annual review to include enhanced disclosures or regularly update their websites to show the same information. They should also use established guidelines for reporting to limited partnerships and for the valuation of investments.

Firms will need to provide data to the British Venture Capital Association (BVCA) for both the enlarged economic impact study and to allow industry-wide attribution analysis on private equity returns. That analysis will aim to attribute increases in company value to financial structuring, market movements and operational improvement respectively.

The report also suggests the BVCA should be much more active in representing the industry to the wider public and attempt to more broadly engage with all players in private equity and venture capital. Some criticisms have been made that the Walker Report and the BVCA must be fully inclusive if the report's recommendations and the effectiveness of its comply or explain strictures are to be fully implemented. ■

National payments plan mooted for UK

The UK Payments Council has proposed a national payments plan to set out the strategic vision for the UK payments industry and to guide collaborative activity.

At this stage, the plan is high level but is expected to be influential in speeding developments in the payments world over the next five to 10 years.

As examples of the specifics, the Payments Council is asking whether there should be a proactive plan to manage and encourage the decline in cheque usage and to end the cheque guarantee card scheme.

The council is also interested in how best to encourage direct debit takeup, and what enhancements could be made in the reference data transmitted with direct credits.

It also looks at innovation and whether action is needed on standards for contactless cards, mobile payments and e-invoicing.

Should ratings incorporate ERM?

Ratings agency Standard & Poor's has published a consultation paper (http://preview.tinyurl.com/ysvpqu) explaining its proposal to include its analysis of a company's enterprise risk management (ERM) position as a formalised part of the ratings process.

The ACT Policy and Technical team intends to respond to S&P's paper and is seeking the views of members. With an S&P deadline of 1 February, any feedback should be made promptly.

We would encourage everyone to read this short paper (just nine pages) for themselves, but would draw attention to just a few points.

S&P is looking for views on three aspects of its proposal:

- its approach to ERM;
- what value it adds to the ratings process; and
- how it will evaluate a company's framework.

The basic statement the agency is making is that, other things being equal, firms which understand and plan for risk – in whatever form – will generally achieve more stable earnings and cashflows that will offer debt investors greater security of repayment.

S&P has included an assessment of ERM in financial corporate ratings since 2005. It intends to follow its existing processes, adapting them for non-financial corporates. The assessment will include reviewing controls and governance, expecting given risks to be identified for given industry sectors, and looking for integration of ERM into business processes and strategic planning.

The agency will issue a risk rating scale, ranging from weak to excellent, to enable investors to make valid comparisons.

At first sight, it is not unreasonable to include some element of corporate risk understanding and management in a ratings review. Measurement of certain key market impacts can be modelled and mitigation evaluated.

However, issues that need to be considered, if based on financial corporate assessment, include:

- Is such an analysis transferable in principle or practice to the non-financial sector?; and
- Has S&P developed a reasonably full understanding of the non-financial corporate business world?

One might also question whether investors are ready to appreciate what an analysis will say rather than treat it as a box-ticking exercise.

S&P should certainly be commended for bringing this topic to a wider audience. As things stand, the ACT's response will be supportive in principle but challenging on the proposal's intellectual position and methodology.

We would be delighted to receive your views. Contact Martin O'Donovan (modonovan@treasurers.org) or Peter Matza (pmatza@treasurers.org). ■

EU tackles the rating agencies

The European Commission has published the mandate it has given to the European Securities Markets Experts Group (ESME) for advice on certain issues regarding the role of credit rating agencies and the importance of ratings in the financial markets and, in particular, in the field of structured finance.

The Commission's aim is to ensure that it has adequate technical background to be able to complete its examination of the rating process. It will use ESME's advice to complete its own assessment of the credit rating agencies' activities and their role in the recent crisis in the financial markets.

In particular, ESME is being asked about the perceived lack of competition in the ratings market and how that affects the quality of analysis.

There is also concern expressed about transparency issues – whether methodology, fees or ratings changes – and their impact on traded securities markets. Some of the questions, however, go further to the heart of agency principles (should there be formal due diligence of core information?), so it will be instructive what conclusions are reached by ESME.

ESME will also draw comparisons with the US Credit Rating Agency Reform Act of 2006, which came into force in June 2007.

See Time to Take Stock, page 40

http://ec.europa.eu/internal_market/securities/docs/esme/28112007_mandates_en.pdf ■

For a wealth of information on corporate finance theory, data and even spreadsheet templates for valuations, capital structure and more, visit Damodaran Online.

Among other things, the site lets you find country risk premiums (in the data pages), betas by industry sector, costs of equity, comparisons of financial ratios, and so on.

http://pages.stern.nyu.edu/~adamodar

PPF moderates its levy regime

Following on from the news item in last month's issue of *The Treasurer*, the Pension Protection Fund (PPF) has formally announced its response to the consultation of its proposed changes to the PPF levy. The proposals were developed following an eight-week consultation which garnered more than 50 responses from various bodies including the ACT. The PPF plans to carry out further work, with the next consultation in summer 2008.

The PPF now says it needs to collect £675m in pension protection levies in 2008-09, the same amount as in 2007-08. The PPF also confirmed its levy estimate would remain stable for the next three financial years unless significant change occurred in the level of risk faced by the PPF (although it will be indexed against average earnings).

Three main changes have been made to the levy calculations:

- the proposed deadlines at which actions taken by pension schemes to improve their funding positions will be taken into account when calculating individual levy bills have been altered; this change was specifically asked for by industry and the ACT;
- raising the funding limits at which schemes pay a reduced levy (from 104% to 120%), and at which they pay no levy at all (from 125% to 140%). This change will ensure schemes pay a levy that more accurately reflects the long-term risk they pose to the PPF while providing them with incentives to reduce that risk. It is thought that the PPF may have originally wished to increase the limits to 125% and 150% respectively, so these levels may represent a concession to the respondents to the consultation; and
- reducing the levy cap from 1.25% to 1% of liabilities, a move which continues to protect the weakest 5% of schemes from disproportionately high levy bills.

The ACT had also suggested that where companies carried ratings from the likes of Moody's or Standard & Poor's, these should be taken into account when the creditworthiness of sponsors was being assessed. Although not taken up at this stage, this suggestion and a number of others concerning the credit assessor are likely to be revisited in the next round of consultation.

In general, the PPF has addressed some of the most pressing criticisms in its processes and certainly seems willing to engage with stakeholders in developing a more responsive levy regime.