Deposits with London branches of US banks

You may have seen reports in the press about the ranking of deposits placed with foreign branches of a US bank relative to those placed with domestic US branches. It appears that deposits placed with foreign branches are subordinated to domestic deposits as a result of a regulation dated 1993 which was designed to deal with a separate issue. The unintentional impact on foreign branch deposits has only just come to light.

Of course, the subordination would only be effective in the case of liquidation which is unlikely in view of the well-capitalised nature of the US banks concerned. The UK authorities seem to be fairly relaxed about the situation. It is as well to remember that a London branch of a US bank could also be subject to the English insolvency rules. This might mean that the assets and liabilities of the branch are dealt with under the Insolvency Act 1986, under which there is a principle of equal treatment of unsecured creditors (subject to a few exceptions). The potential conflict between the US rules and the English rules has never really been tested. In the case of the Maxwell companies a deal was done between the US bankruptcy official and the English administrators. ■

Basel capital adequacy proposals

The consultation period for the second set of proposals is coming to an end and there is still considerable uncertainly as to how the new rules will affect borrowers. One thing that seems clear is that lending banks will use one of three possible approaches; one based on external ratings and two using internal ratings systems of varying sophistication. Understandably borrowers will be concerned that the new rules may put them at a disadvantage but they do at least give some scope for treasurers to find out what approach is adopted by particular banks and choose lenders accordingly. For some maturities, a lender using external ratings may offer more competitive rates than those using internal systems. A borrower with a stronger or weaker credit may find the position reversed. It remains to be seen how much impact the capital requirement for credit risk (as opposed to that for market and operational risk) will have on margins. Certainly there seems no need for un-rated companies to rush out and get a rating. ■

FESCO regulation of EU financial markets

FESCO, the Forum of European Securities Commissions, is the EU organisation of which the Financial Services Authority (FSA) is a constituent. In contrast to the FSA three-tier system for the categorisation of investors in the financial markets which is due to come into force this November, FESCO is proposing a two tier system in which corporates are categorised as retail investors with a considerable overlay of customer protections. We have heard that some Continental companies are supporting this approach in the expectation that it will prevent the Procter & Gamble-type losses arising from the use of derivatives. The Technical Committee believes this to be misguided and that it will increase costs of dealing in the markets to no obvious purpose. The committee's response to these proposals is that the solution to the very rare cases where mis-selling by banks had been alleged is not to increase regulation over the whole market but to improve corporate governance and treasury skills and expertise. The full response can be found on the Association website . ■

Pension schemes investment – impact on corporate bonds

Following the Chancellor's announcement in the March budget that the Minimum Funding Requirement was to be abolished there has been much speculation as to what was likely to replace it. One of the objections to the MFR was its distorting impact on the gilt markets as pension funds chased a limited supply of gilts. It seems likely that the abolition of the MFR could benefit the corporate bond markets as funds shift their investments out of gilts but also possibly out of equities, motivated by the new accounting standard that requires the discounting of pension fund liabilities at a corporate bond rate.

In recognition of the increasing importance to companies of this area of financial risk, the Association is in the process of producing a book in the Business of Finance series called *Pension schemes – controlling the corporate risk*. We intend to publish this book in early September. ■

First wave transition to the euro

The Bank of England pre-empted concerns about the abolition of legacy currencies by asking the EC for answers to a number of questions about the end of the transition period. In the November 2000 edition of *Practical Issues*, the Bank listed the questions it had asked. It has now published the responses which, although not complete, may be well worth a look by those with operations in the euro countries. They cover redenomination of securities, company accounts and the conversion of bank accounts and payments, and can be found at . ■

Hotline is prepared by Caroline Bradley, the Association's Technical Officer. For any comments or new items, please contact her at cbradley@treasurers.co.uk. Additional technical updates are available on the website: www.treasurers.org.