Turnbull principles upheld

A principles-based approach to UK corporate risk management has been upheld following a four-month review, in contrast to the radical shake up undergone in US corporate governance.

Led by ACT Member Douglas Flint, a senior review group of investors, accountants and business people concluded in June that there was little need for a major overhaul of the existing Turnbull guidance on internal controls. The Turnbull guidance on best practice in internal controls management was established five years ago and supplements the UK Combined Code on corporate governance.

In contrast to the US Sarbanes Oxley Act (SOX) which requires boards to personally attest to the effectiveness of a company's internal controls, the review group rejected the need to enshrine such a reform in UK guidance.

The group did however suggest the guidance cover all controls, and not be limited to internal controls on financial reporting.

Flint, Group Finance Director of HSBC, who chaired the review group, said: "The overwhelming view was that the Turnbull guidance continues to provide an appropriate framework for risk management and internal control. Its relative lack of prescription is considered to have been a major factor contributing to the successful way it has been implemented, and we have therefore decided against substantial changes."

But Flint said the conclusions shouldn't be viewed as a green light for boards to do nothing. He said:"[Boards] need to ensure that their internal controls systems develop to take account of new and emerging risks, for example, and some boards could do more to explain to their shareholders in their annual reports how they are managing their risks."

SOX was drafted following a spate of financial scandals in the US that began with the discovery of a major accounting fraud at energy giant Enron in 2001.

As part of minor reforms to accountancy regulation in the UK, the Financial Reporting Council (FRC), the independent regulator of accounting and auditing, set up the review group last July. In a bid to boost public confidence in UK quoted companies following the financial scandals, the FRC's powers and budget were increased to turn it into a more proactive regulator. ■

Main recommendations:

- Guidance should cover all controls, not just those on financial reporting.
- No changes should be made that will restrict a company's ability to apply the guidance in an appropriate manner to their business.
- Guidance should be updated to include any changes in the Combined Code and Listing Rules since 1999, as well as proposed changes in the Company Law Reform bill.
- Boards should review their application of the guidance on a continuing basis.
- Boards should confirm necessary action has been or is being taken to remedy any significant failings or weaknesses in internal controls.
- Boards should communicate in their annual report to shareholders how they are managing their risks.
- Companies complying with guidance should not need to develop additional processes to comply with the Operating and Financial Review.
- No extension of external auditors' duties in relation to internal controls.

Treasurers marginalised in energy buying decisions

Treasurers need to stamp their authority in the decision-making process of energy buying as corporates fork out more than ever due to the volatility in energy markets, results of a new study suggest.

The FTSE 250 are failing to manage the energy buying process effectively and as a result are at the mercy of market conditions, suffering losses estimated to be as much as £1bn last year, according to a survey carried out by consumption risk management provider Utilyx and investment bank Barclays Capital.

"Organisations need to take a more proactive approach to the energy buying process and look at adopting better risk management programmes," Chris Bowden, Chief Executive at Utilyx said.

The survey showed that few companies had an energy buying strategy, active management of the buying process to reduce energy price risk, or much board level accountability for energy buying decisions.

"It is staggering that this whole area is being overlooked," said Bowden.

Richard Lewis, a Managing Director in commodities at Barclays Capital added: "It seems that corporates in the UK still view buying energy as a physical and not a financial process. The survey indicated that the involvement of the treasury department in energy buying is marginalised, which begs the question of who owns or has responsibility for energy price risk?"

Volatility in energy prices is here to stay so treasurers should begin to manage this "huge unknown cost" the survey found.

Bowden said: "Big businesses need to address energy price risk now. Operational management as well as treasury departments need to take ownership of the process." ■

The energy market isn't about to cool off for treasurers

Oracle UK questions payments hold-up

Oracle UK has criticised the banking industry for delaying implementation of the Office of Fair Trading's (OFT) recommendations for speeding up the clearing process for electronic payments.

The OFT report issued in May recommends that banks cut the standard three-day delay it takes them to process electronic payments to same day clearing, offering treasurers a chance to get their hands on their cash much quicker than in the past.

But banks say they need two years to implement the new software to comply with recommendations following a six-month review period.

Nicola Toombs, Banking Director at Oracle UK, said: "I am surprised that technology could be considered an obstacle to faster payments clearing, when in fact it could enable not only end of day settlements but real-time settlements. In other words, current technology can both meet the OFT's recommendations, and in fact go one step further by offering real-time settlements of both electronic and cheque payments. Imagine how attractive this would be to banks' corporate customers."

Toombs said she supported the six-month breathing period for banks to decide on the best course of action but said change could be achieved in 12 rather than 24 months with "the willingness of banks to move with more fleet of foot".

The reforms will make a significant difference for corporates treasurers in the interest receivable on payments they receive.

"Treasurers have been pushing this for a long time. It's a step in the right direction but not a quick enough journey," added Toombs.

What penalties banks will face for not achieving full implementation of the OFT's recommendations in time remains unclear. ■

Europe lags US money market funds

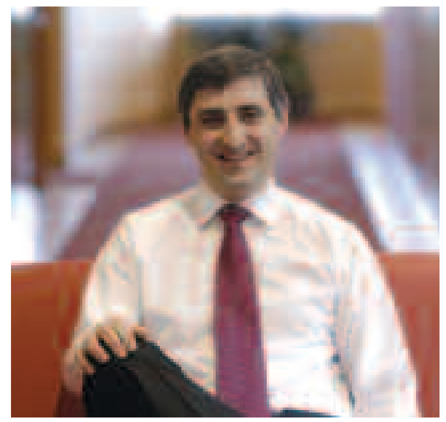
Europe invests only 5% of corporate cash in institutional money market funds compared to the US's 40% investment, according to new research.

The European corporate market is lagging behind its US counterpart in the use of Triple-A rated institutional money market funds as an alternative to traditional money market deposits partly because of the cost and effort in meeting cross-border registration requirements, said the Edinburgh-based Scottish Widows Investment Partnership (SWIP).

The cross-border registration obstacles are a major factor in why Europe's institutional money market fund industry is worth $230bn to the US's $2,000bn, said fund managers SWIP.

Donald Aiken, Head of Cash Services at SWIP, said: "We are undoubtedly witnessing a quiet revolution in liquidity cash management with cash becoming an investment asset class in its own right, there still remains a number of significant challenges to overcome in order to fully realise the potential of the product."

Institutional money market funds can effectively replace multi-deal placements to diversify risk and reduce cost, said SWIP, whose £9.5bn sterling Triple-A rated fund is one of the largest in Europe.

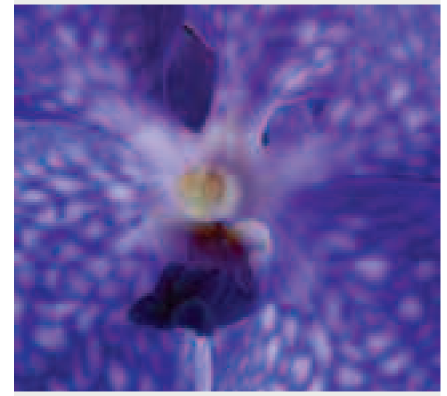


Donald Aiken, Head of Cash Services at SWIP

The Committee of European Securities Regulators (CESR) is currently looking at harmonising the registration process for institutional money market funds within Europe. It will mean changing the existing Undertakings for Collective Investments In Transferable Securities (UCITS) Directive to make this kind of financial instrument eligible under EU law to trade freely within EU borders.

For more information go to www.cesr-eu.org ■

Hybrid deals bloom



German sugar producer Suedzucker, Swedish energy company Vattenfall and Danske Olie & Naturgas AS (DONG), the Danish state-owned energy company, were all in the market with hybrid deals in June.

The increasing number of corporate hybrid structures highlights the growing interest in such transactions among corporate treasurers.

DONG enlisted BNP Paribas to lead a hybrid capital issue, also known as subordinated debt – an instrument that stands midway between bonds and shares in a company's capital structure.

The company achieved 50% Standard & Poor's (S&P) equity credit, Basket C for Moody's and only two notches off the senior rating from both S&P and Moody's.

Vattenfall, Europe's fifth largest energy generator, was able to reach 60% equity credit from S&P with a three notch differential to the senior rating and Basket D from Moody's. After the announcement Moody's placed Vattenfall on positive outlook following the flexibility that the group has built up.

Also in the market with a new hybrid deal was Suedzucker, one of the world's largest sugar producers. For S&P, a three notch differential to the senior rating was applied and the hybrid received a 50% equity credit and Basket D from Moody's.

The attraction of hybrid capital is that it is not counted as company debt on the balance sheet, but because of its subordination is partly treated like true equity capital.

Using hybrid capital a company can strengthen its balance sheet without having to dilute the holdings of existing shareholders by issuing new shares.

See page 22 for more on hybrid capital ■

IN BRIEF

■ FX service upgrade
The Royal Bank of Scotland has upgraded its online foreign exchange service RBS FiX to provide forward foreign exchange (FX) prices for 12 new emerging market currencies. The upgrade, in response to customer demand, now provides FX prices for Kuwaiti Dinar, Hong Kong Dollar, Singapore Dollar, Polish Zloty, Hungarian Forint, Czech Koruna, South African Rand, Israeli Shekel, Slovakia Koruna, New Turkish Lira, Mexican Peso and Slovenia Tolar.

■ Software solution implemented
Pennon Group plc, owner of South West Water and waste management company Viridor, has implemented a new software solution to deal with the implications of IAS 39 *Financial Instruments: Recognition and Measurement* reporting. The Devon-based group has implemented Reval's HedgeRx for interest rate risk management and IAS 39 reporting, replacing its existing client server Treasury Management System (TMS) used for money market investments and debt management. Tony Hooper, Pennon's Group Treasurer, said: "Pennon is looking forward to the benefits of simplified IAS 39 reporting opportunities."
See page 37 TMS goes back to basics

■ Trustees found lacking
Many pension fund trustees have little understanding of modern investment, a new study, sponsored by the UK's National Association of Pensions Funds, has found.

According to the study, carried out by researchers from Oxford University, pension fund decision-making was "less than ideal". The study, *Pension fund trustee competence: decision-making in problems relevant to investment practice,* also said that trustees are "nothing like the super-human calculating machines" of economic theory and prone to errors like the rest of the public.

■ Rate cut predictions grow
Interest rates should be cut to 4.5% before the end of the year to avoid a further slow down in the UK economy, says Scottish Widows Investment Partnership (SWIP).

Jennifer Gillespie, fund manger of the SWIP global liquidity fund, says: "The UK economy is now on a gradually slowing trend and we expect that to continue during 2006. Our GDP forecasts are more pessimistic than the official view from the Treasury."

GDP growth forecast is set to decelerate from 3.1% in 2004 to 2.5% in 2005 and to 2.2% in 2006 according to SWIP's latest research.

ACT member takes top post at Economist Group

ACT member Chris Stibbs has bagged the top finance role at the Economist Group, joining a growing band of ACT members who are moving into high profile finance roles.

Stibbs left his post as Development Director at Incisive Media at the end of June to take up his new role as Group Finance Director at the Economist Group, which publishes the weekly news magazine The Economist. He joined Incisive Media as part of a management buy-in and was appointed Development Director following a merger in 2000 between City Financial Communications and Timothy Benn Publishing, where he was responsible for acquisitions and disposals.

Qualified both as a Chartered Accountant and a Fellow of the ACT, Stibbs worked for ICI for four years before joining Pearson in 1994, where he became Managing Director of Pearson's law publishing activities. He joined the TBP Group as Finance Director in 1998. ■

Regional Groups

12 July 2005
ACT London Group
Title: *Treasury during a major acquisition*
Host: Ellinor Fitzgibbon, Robert Walters
Speaker: Tim Owen, ACT Council Member
Venue: Robert Walters,
55 Strand,
WC2
Time: 6.00pm

14 September 2005 London Regional Group
Title: *Getting a good deal in the syndicated loan market*
Speaker/Host: Martin Bradley, Dresdner Kleinwort Wasserstein
Venue: Dresdner Kleinwort Wasserstein, 20 Fenchurch Street, EC3
(Nearest tube: Monument)
Time: 6.00pm

For further information, please email Anna Corr **acorr@treasurers.co.uk** or call 020 7213 0719 ■

On the move...

■ **Steve Ellis** MCT, formerly Manager, Treasury Services at KPMG, has been appointed Assistant Treasurer at Pearson plc.

■ **Paul Johnson** MCT, previously Marketing Finance Manager at British American Tobacco Australia Ltd, has been appointed European Regional Treasurer at BAT Germany Group.

■ **Ian Kerr** AMCT has joined as Treasury Manager at Intel Corporation (UK) Ltd. Prior to this appointment he worked for The Peacock Group plc as Group Treasury Manager.

■ **Mark Knight** AMCT, formerly Assistant Treasury Manager at Omnicom Finance plc, has been appointed UK Treasurer at Brakes.

■ **Catherine Mulvihill** AMCT, formerly Senior Manager at Morgan Stanley, has been appointed Relationship Manager at Lehman Brothers.

■ **Adam Richford** AMCT has been appointed Treasurer at GE Commercial Finance – Real Estate (UK). He was previously an Executive at Kelso Place Asset Management.

■ **Colin Robertson** AMCT has been appointed Chief Financial Officer, Asia at Coutts Bank. Previously he was Head of Strategic Projects.

■ **Mikko Saressalo** AMCT has joined KPMG LLP as Tax Manager in the M&A group. He joins from Deloitte & Touche LLP where he was a Tax Manager.

■ **Jamie Smith** MCT has joined Taylor Nelson Sofres plc as Director, Treasury and Tax. He was previously Group Treasurer at Tibbett & Britten Group plc and Interim Group Treasurer at the Weir Group.

MEMBERS' DIRECTORY:
Members' contact details are updated regularly on: **www.treasurers.org** *Email your changes to Anna McGee:* **amcgee@treasurers.co.uk**

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