Guide shows how to embed ethics

The Institute of Business Ethics (IBE) has issued a guide to help companies avoid taking the major reputational and financial hits that can result from a lack of ethical awareness and reasoning in decision-making.

Ethics in Decision-Making, the latest in a series of good practice guides from the IBE, sets out to assist organisations in matching their ethical commitments with their decision-making.

The guide's authors are David Barr and Christopher Campbell, co-founders of educational firm CampbellBarr, and the IBE's head of projects, Nicole Dando. They draw on the experience of UK and international companies, as well as on psychological and behavioural research to offer practical assistance for businesses looking to encourage and embed ethical values and commitments across all decision-making.

The guide's contents include a framework for bringing ethics into business decision-making, real examples of how companies can use it, and chapters that focus on assistance for employees, managers and senior leaders.

Copies of Ethics in Decision-Making are available from the IBE, price £15, at www.ibe.org.uk

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Readers of The Treasurer can now access each edition from the June 2011 issue via iPad, tablets and e-book readers. To launch the digital version, click on the Save Pages icon at the bottom to open the PDF version, which you can store on your device to read later. This adds to the existing desktop digital version already available for current and past issues of the magazine.

PPF finalises new levy framework

The Pension Protection Fund (PPF), the "lifeboat" that since 2005 has provided compensation for the members of defined pension schemes when the sponsoring employer becomes insolvent, has announced changes to its pension protection levy framework that will take effect from 2012/13.

There are four main changes:

- fixing levy rules for a period of three years to provide greater certainty;
- taking into account a pension scheme's investment risk when calculating the levy to be paid by a sponsoring employer;
- averaging funding levels so that short-term volatility in financial markets is not included in the measure of underfunding risk; and
- applying a system of 10 insolvency rating bands – rather than the six originally proposed – to reduce the possibility of schemes facing large levy increases.

Rubinstein: big milestone

The PPF initially set out its proposals for the new framework last October, and has firmed up and refined some of the details

Its chief executive, Alan Rubenstein, said that the PPF had worked closely with all its stakeholders in developing the features and described the new framework as "a significant milestone on our journey to construct a levy which is fit for purpose in the long term".

He added: "We are now embarking on the second leg of our journey: making sure the new framework is implemented successfully." ■

The Pension Protection Levy: A New Framework is available on the PPF's website at www.pensionprotectionfund.org.uk

UK banks' loan share plummets

The impact of the credit crisis is reflected in data on the nationality of bank lenders providing liquidity, reports Lloyds Bank Corporate Markets. A number of banks have retrenched and are focusing on their home territories, following a review of business strategy.

In the year to May 2010 UK lenders provided 35.08% of total volume in the loan market, but this figure shrank to 26.32% in the subsequent year from May 2010, according to the report.

The top 10 lenders by volume to investment-grade and BB-equivalent rated UK corporates are Lloyds, BAML, Barclays, BNP Paribas, Citibank, Commerzbank, HSBC, JP Morgan, RBS and Santander. However, the percentage share of each of the UK clearers fell from 9-10% in the year to May 2010 to around 6% in the subsequent year as liquidity became more widely available.

BAML has enjoyed increased activity levels through its pursuit of market share in brokerage, US private placements (USPPs), bonds and US cash management. Swedish-based lenders have also been more active, while Japanese banks have increased their market share through efforts to diversify their income streams away from their home territory. ■

China's commodity craving fuels bubble

China's growing appetite for a broad range of commodities is increasing the risk of an unsustainable bubble that will inevitably burst, a Standard & Poor's study has warned.

The study forecast that China's high growth would continue, even if the pace slackened. However, study report author, Standard & Poor's credit analyst Scott Sprinzen, noted that growth "could slow more markedly at some point". He added: "Any sudden and severe economic deceleration in China would cause distress in the commodities markets, forcing prices downward and leaving companies with excess supply and production capacity that the more developed economies couldn't pick up."

CBI calls for shake-up of UK competition regime

The UK competition regime is one of the most highly regarded in the world, but changes could help to reduce business costs and red tape and enable companies to focus more on growth and job creation, claims the Confederation of British Industry (CBI).

In its response to a Department for Business consultation on competition regime reform, the CBI calls for the creation of a single competition and markets authority to improve efficiency and the deregulation of mergers where the target company's annual turnover is less than £5m. Matthew Fell, the CBI's director for competitive markets, said the moves would cut out unnecessary duplication and stimulate growth by encouraging acquisitions.

Other CBI proposals include:

- clearer merger tests to enable companies to make more accurate self-assessments using the share of supply test;
- market investigations to be limited to those based on clear failures of competition;
- scrapping the proposed extension of super-complaints to small and medium-sized businesses (SMEs);
- a swifter and more robust regime to deal with cases involving cartels and abuses of market dominance; and
- sector regulators to prioritise the use of competition measures before they resort to regulation.

Fell: enforcement cases drag on too long

The CBI also praised the voluntary regime for the notification of mergers, which it advocated retaining.

"Market investigations are a significant cost to business and hamper investment, so should only happen on the basis of clear failures of competition, not as routine interventions," said Fell.

"The antitrust regime is currently a major source of frustration for businesses, with enforcement cases dragging on far too long.

"There is a strong case to move towards a prosecutorial system for enforcement of cartels and abuse of dominance cases to improve robustness and speed up decision-making." ■

Spreadsheet failures exposed

Organisations are not exerting proper control over the way in which spreadsheets are used and managed, according to research by ClusterSeven.

The data management software group noted that spreadsheets enabled businesses quickly and flexibly to perform analysis that would otherwise prove difficult or time-consuming, but said that undue trust was often placed in the integrity of the analysis produced.

A survey of nearly 1,500 users conducted for the group by Consumer Intelligence found that 72% of respondents reported that no internal department checked their spreadsheets for accuracy, while 56.5% of spreadsheet users had never received training on the spreadsheet software they used and 47% had never been offered spreadsheet training. Just 12.9% said that their spreadsheets were reviewed by internal audit and only 1.1% received checks from their risk department.

Yet 47.2% of respondents admitted to making between one and four errors on their spreadsheets, 11.6% said they made between five and 10 errors and 6.6% confessed to at least 11.

ClusterSeven's chief executive Ralph Baxter said that high-profile cases in recent years had brought spreadsheet usage to the forefront of organisations' risk management procedures, but governance had yet to catch up.

"Organisations need to understand the risks they face now, and not when a serious financial error has arisen," he added.

"Currently no department is charged with reviewing and securing spreadsheets, leaving this process entirely in the hands of the end-user. As our research has shown, this needs to change, with one department charged with maintaining policy for the review and security of all business-critical spreadsheet usage." ■

EU audit reform under attack

Proposals being floated by the European Commission to make it illegal for audit firms to provide non-audit services to their audit clients or to adopt France's use of a two-firm system have been "quite properly dismissed" by the UK government and regulators, according to Baker Tilly.

The accountancy and business advisory firm surveyed directors of 117 businesses with an annual turnover above £5m and found that neither proposition was popular with them.

"UK corporates do not appear to agree with the proposed ban on existing advisers providing both audit and non-audit services," said Jane Bleach, head of Baker Tilley audit.

The survey findings showed that 81% of respondents wish to buy other advisory services from their auditing firm as they like dealing with someone who already understands their business, she added.

The survey also found that 72% of respondents regarded using two firms on every audit as a bad idea, because it would increase the time and cost spent on the audit process.

"The need for transparency and ethical conduct in the profession is obvious, but many of the respondents to our survey would prefer to deal with just one firm which has a fundamental understanding of their business," said Bleach.

Corporate spend refloats EU

The continued upswing in capital spending by businesses should extend the EU's economic recovery, says Standard & Poor's.

The ratings agency noted that a rally took hold last year for the majority of EU countries and should broaden over the next 18 months as demand picks up and corporate profitability continues to grow.

"We see capital spending as a major growth source in Europe this year and next, although we expect the euro zone's core countries will contribute more than those on the periphery, given the continuing multispeed recovery in Europe," said the agency's chief economist for Europe, Jean-Michel Six.

"After a strong start in first-quarter 2011, we think euro zone growth will slacken, while remaining more sustainable over the next 12 months," he added.

US whistleblower bounty blasted

The recent decision by the US Securities and Exchange Commission (SEC) to push ahead with plans to reward whistleblowers who directly report corporate misconduct to it has dismayed business lobby groups.

Bodies such as the US Chamber of Commerce, the American Bar Association and the Association of Corporate Council (ACC) argue that giving cash rewards of up to 30% of collected fines effectively circumvents internal corporate reporting structures and will have a negative impact on corporate compliance.

"The SEC's bounty rule is a Pandora's box that, when opened, is likely to create new and unanticipated harms rather than promoting better reporting of potential problems," said ACC senior vice president and general counsel Susan Hackett.

"Listening to the SEC's overview of the rule, we are unclear if they understand what the impact of this rule will be. They are assuming that offering whistleblowers money to come forward will yield better results without imposing disproportionate costs for companies, shareholders and the very compliance programmes that ACC members have spent decades building."

Government fraud levels surge

Government-targeted fraud has shown a resurgence in the past two years, according to the KPMG Government Fraud Barometer.

Fraud against the government previously peaked at £679m in 2006/07 but subsequently fell to £286m by 2008/09, due largely to concerted action against VAT theft. However, fraud levels have since jumped and the figure touched £693m in 2010/11. Since 2008/09 government-targeted fraud carried out by professional criminals has soared 90%, from £277m to £527m.

Most of the fraud committed since 2009 has been tax fraud, which increased 68% from £275m in 2008/09 to £462m in 2010/11. A total of 114 cases have come to court in the past year.

KPMG said that new types of tax had triggered an increase in fraudulent activity, with criminals focusing on carbon trading and green tax allowances.

Affluent pensioners skewing scheme risk

Pension schemes need to consider the risk posed by their more affluent members, following new data showing a widening of the life expectancy "class divide", according to Punter Southall.

The consulting actuary cites an Office of National Statistics survey showing an increase of almost two years in the difference. The life expectancy of a male aged 65 living in Kensington and Chelsea is now a further 23.7 years compared with 15.2 years for his counterpart living in Greater Glasgow and Clyde.

Gillespie: risk concentration

Adam Gillespie, head of Punter Southall's buy-out team, said the firm's research showed that the most affluent 5% of members of some pension schemes could account for up to a third of total liabilities.

"Trustees and sponsors can reduce this concentration of risk by partially buying in the benefits of such individuals with an insurer," he added. "Given their greater pound-for-pound reduction in risk, a partial buy-in of a small number of individuals can be a better use of pension scheme assets than a large scale buy-in or buy-out."

Gillespie said that while the level of deals had increased in 2010, large-scale buy-outs and buy-ins were still "an unaffordable option" for all but a handful of schemes. A total of £20bn worth of deals have been carried out since 2007, but this apparently impressive total is still less than 1.5% of an estimated £1.45 trillion potential buy-out liability of private UK salary schemes.

"We continue to see an appetite from pension schemes for other, more affordable forms of derisking such as liability hedging," Gillespie added. ■

High inflation boost for pension funding

Further rises in the level of UK inflation could benefit the UK's biggest companies by improving the funding position of their pension schemes, reports PensionsFirst.

The investment manager's research suggests that increases in inflation are costly to FTSE 100 schemes only up to a level of, on average, 1.4% above the current expected market rates. Inflation increases beyond this level – the so-called tipping point – should lead to improved funding levels as caps on pension increases to members then come into play while asset values continue to rise.

"Since the early 1990s inflation levels have remained below the cap levels associated with most pensions, and increases in liabilities as a result of higher inflation have not been matched by increases in overall asset values," said Matthew Furniss, an assistant vice president at PensionsFirst. "Inflation increases to date have therefore worsened funding positions for the FTSE 100.

"However, given the most recent figures showing that inflation remains above the cap for most pension increases of 5%, we are not far away from the point at which increases in inflation and inflation expectations should start to reduce rather than increase deficits."

The Office of National Statistics (ONS) reported that the retail price index (RPI) rate of inflation remained unchanged in May at 5.2%. ■

E7 banks start to close in fast on G7

The combined domestic banking assets of the world's E7 emerging economies will exceed those of the G7 much sooner than previously forecast as a result of the financial crisis, predicts PricewaterhouseCoopers.

Analysis by PwC in 2007 suggested that the banking assets of the E7 economies (China, India, Brazil, Russia, Mexico, Indonesia and Turkey) would overhaul those of the G7 (the US, Japan, Germany, the UK, France, Italy and Canada) in 2046. However, the group's Banking in 2050 report, published last month, brings this projected date forward by a whole decade to 2036.

According to the report, China could overtake the US to become the world's biggest banking market by 2023 – a whole 20 years earlier than previously predicted – with projected domestic banking assets of over $30 trillion by 2030.

And India, which is noted as having very strong long-term growth potential, could overtake Japan to become the third largest by 2035 if its growth-friendly policies are maintained.

Hawksworth: China top by 2023

The UK, currently in fourth place after the US, Japan and China, is likely to see its domestic banking assets grow from around $5 trillion in 2009 to $6 trillion in 2030. However, the report suggests that this will not be enough to prevent India overtaking the UK within 20 years, and Brazil relegating the UK to sixth position by 2050.

The forecasts are based on projections for each country's GDP, domestic banking, banking profitability, and an assumption that governments pursue growth-friendly policies. They also reflect the fact that the global banking crisis has had a much greater impact on the G7 than on the E7.

According to PwC's chief economist John Hawksworth, the revised scenario could mean that global banking assets quadruple to around $300 trillion by 2050, with banks around the world competing for a share. The success of the UK's banks "will depend a lot on their ability to compete in the fast-growing emerging markets". ■

Inherent risk key for debtors

Companies that place debtors with collection agencies primarily on the basis of the age of outstanding invoices should also consider inherent risk as a key factor, SunGard has suggested.

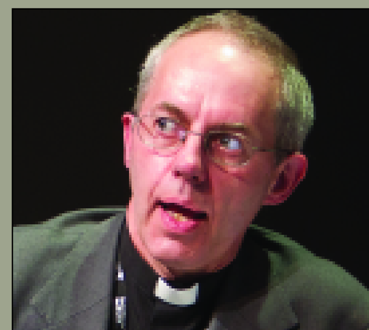
The software and IT services group said that 96% of 189 global corporations across 19 industry sectors in its study had cited the age of an unpaid invoice in deciding when to send B2B trade receivables to an agency, but only 38% incorporated risk into their decision-making. Four out of five organisations that used the age of an invoice as the determining factor said they passed invoices on to collection agencies only when they were 90 or 120 days past the due date.

According to Jim Mangano, senior vice president for receivables solutions at SunGard's AvantGard division, some companies have adopted risk-based collections, or modified their collection strategy based on a customer's inherent risk, yet do not include risk as a factor when deciding which invoices to refer to a collections agency.

"Statistical modelling is a method that helps corporations make this decision by using a combination of behavioural analytics based on years of aggregated data and transactions, combined with payment history details, to determine the likelihood of customers' delinquency in the future," Mangano said.

The study report pointed out that companies could improve their recovery rates by sending high-risk customers to a collection agency sooner, achieving better days sales outstanding (DSO) and reducing bad debt expense. The study also reviews factors that can impact on the effectiveness of collection agencies.

ACT adviser named bishop



Justin Welby, the Dean of Liverpool, has been named as the successor to the Bishop of Durham. He will take up his new post when the current bishop retires at the end of August.

Welby, who entered the ministry after a career in the oil industry, acts as personal and ethical adviser for ACT members and also serves on the committee of reference for the ethical funds of a major investment company in the City. He is profiled on page 42 of this issue.

Ronia joins Sonia in the hedge

A new measure of interbank lending rates launched last month aims to improve the way that UK banks and building societies, as well as traders in sterling, improve the hedging of their investments.

The Repurchase Overnight Index Average (Ronia) is the weighted average rate of all secured sterling overnight cash transactions. It is published by the Wholesale Market Brokers' Association (WMBA), whose overnight rate for unsecured cash transactions, Sterling Overnight Index Average (Sonia), is already widely used as the basis for hedging tools by market participants.

Ronia is promoted as a protection for bank balance sheets against fluctuating interest rates that could contribute towards a more secure financial system. It "should help provide the financial system with a much better way to hedge against counterparty risk," said WMBA chief executive Alex McDonald. Ronia is based on transactions where collateral is provided as security – a market that has enjoyed strong growth in the past four years as banks have become more reluctant to lend to one another.