Agenda

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{ CAPITAL MARKETS AND FUNDING }

CROSS-BORDER LENDING PLUMMETED IN Q4

Cross-border lending by internationally active banks in the fourth quarter of 2011 fell by the largest amount since Lehman Brothers collapsed, new figures show.

Statistics released by the Bank for International Settlements (BIS) last month reveal that BIS reporting banks recorded their largest fall in aggregate cross-border claims since autumn 2008. The decline was worldwide, although the deleveraging of banks headquartered in the euro area was a primary factor. Cross-border lending to non-banks also fell, but the drop in claims on banks was sharper.

Overall, the cross-border claims of BIS reporters on both banks and non-banks in developed economies shrank by $630bn. Banks in the euro area accounted for most of this decline. Cross-border claims on emerging market economies fell by $75bn (2.4%). The decline was concentrated on Asia-Pacific, and on banks in China in particular. For China, this was the first overall decrease since the opening quarter of 2009.

Among all developing countries, only those in Latin America and the Caribbean saw an increase in cross-border claims.

"There is no way that Britain is going to be part of any eurozone banking union."

Chancellor George Osborne doesn't mince his words with the Radio 4 Today programme.

"The economy is probably in better shape than we are all willing to admit."

Michael Blythe, chief economist at the Commonwealth Bank of Australia, can't help being smug about his country's 1.3% growth in the first quarter of 2012.

SOURCE: BBC 7 JUNE 2012

{ QUESTIONS YOUR FD IS LIKELY TO ASK THIS MONTH }

LEVERAGED BUYOUT LOANS

We need to refinance our leveraged buyout loan. Is that going to be a problem?
Maybe, maybe not. According to research company Dealogic, some $2 trillion of loans need to be rolled over globally in the next four years, with $550bn of that in Europe. So far, the 'refinancing wall' hasn't been a massive obstacle, but it's still early days. The peak is likely to come in 2013-15 and with conditions in the eurozone deteriorating, credit is set to become scarcer just when it's needed most.

Why hasn't the refinancing wall been a problem to date?
Well, luckily we're in a low-interest rate environment and companies have been fairly successful at accessing the bond markets. But banks have also postponed the problem by extending maturity dates in the hope that the wider market will improve. This is only a temporary fix, and a lot of companies that have already extended for two years will find their loans coming up for renewal at the peak. Meanwhile, LBO structures with collateral loan obligations face a big hurdle since CLO funds, unlike banks, will have a term date beyond which the loan can't be extended any more.

What do banks look for when considering refinance?
They will look at our trading through the financial crisis and our track record of deleveraging; plus the strength of our historic relationship.

What happens if the bank says no?
Companies that are turned away and are too small to use the bond market can seek out specialist lenders and the US private placement market. In a worst-case scenario, the bank might step in, take over the business and sell it.

So what should we do?
Experts say we should start talking to our advisers early; review our banking syndicates; and take early soundings on what they're likely to do. If we wait, we may get better terms – or worse terms or no financing at all.

{ AMERICAN EXPRESS GLOBAL BUSINESS AND SPENDING MONITOR }

GREATEST GLOBAL THREATS TO GROWTH (2012)

New or expanded regulatory compliance requirements **39% of North American CFOs**
More aggressive tax enforcement **19% of CFOs in Asia-Pacific**
Sovereign debt problems in our country/region **31% of European CFOs**
Greater exposure to changing currency exchange rates **38% of CFOs in Asia-Pacific**
Increased volatility in the capital markets **31% of Latin American CFOs**
Rising prices for raw materials or intermediate goods **36% of CFOs in Latin America**
Rising prices for energy/fuel **35% of European CFOs**

{ LAW AND REGULATION }

BANK RECOVERY AND RESOLUTION PROPOSALS

New EU-wide rules intended to prevent any future bailouts of banks by taxpayers were adopted by the European Commission last month.

The proposals for bank recovery and resolution would give supervisory authorities early intervention powers so they can take prompt action should a bank start to fail. Authorities would also have to draw up resolution plans for dealing with banks that find themselves in a critical condition.

Banks, meanwhile, would need to draw up recovery plans setting out the measures that would restore their viability in the event their financial situation deteriorates.

If authorities identify what the Commission describes as "obstacles to resolvability" during the planning process, they would be able to force a bank to change its legal or operational structure to ensure that the crisis can be resolved in a way that does not compromise critical functions, threaten financial stability or involve costs to the taxpayer.

Under the proposals, financial institutions may enter into intra-group support agreements to limit the development of a crisis.

WHAT THEY SAID

What do you say? Tweet us: **@thetreasurermag**

"The financial crisis has cost taxpayers a lot of money. Today's proposal is the final measure in fulfilling our G20 commitments for better financial regulation. We must equip public authorities so that they can deal adequately with future bank crises. Otherwise citizens will once again be left to pay the bill, while the rescued banks continue as before knowing that they will be bailed out again."
EU internal market commissioner Michel Barnier (pictured left)

"Today's proposal is an essential step towards banking union in the EU and will make the banking sector more responsible. This will contribute to stability and confidence in the EU in the future, as we work to strengthen and further integrate our interdependent economies."
EU president José Manuel Barroso (pictured right)

FRANCIS DEAN: ISOPIX/REX FEATURES

€100bn
the sum of cash pulled out of Spain in the first three months of the year by private and corporate investors, according to the Bank of Spain

£64bn
the excess working capital treasure chest that UK companies are sitting on, according to Deloitte. It's the equivalent of the UK government's debt interest costs for the next 18 months

90%
the percentage of Spanish bank Bankia owned by the Spanish government

6.31%
the Chinese interest rate after it was cut by 25 basis points by the People's Bank of China on 7 June. The country's first interest rate cut since 2008 was intended to counter its slowing economic growth

160,100
the number of jobs created in Australia between January and May, an eight-year high

£495
the cost of an Olympic torch

{ CORPORATE FINANCIAL MANAGEMENT }

COMPANIES FACE SERIOUS THREATS

Increased regulatory pressure, currency-market volatility and rising prices for raw materials and intermediate goods are among the most serious threats facing companies in 2012.

Over 541 senior finance executives were interviewed for American Express's fifth annual Global Business and Spending Monitor published last month. The research found CFOs around the world expect growth to moderate this year, in light of the uncertain economic climate, and the wide range of threats that their companies face.

Indian CFOs were most confident about growth in their country with 86% anticipating economic expansion in the coming year. CFOs in the US (78%), Germany (74%), Australia (69%) and Canada (67%) were also optimistic.

At the other end of the spectrum, UK CFOs were particularly pessimistic (or perhaps realistic), with less than a quarter (24%) holding out any hope of economic growth. CFOs in Singapore (47%), Sweden (45%) and Japan (36%) also had a cautious outlook.

"With a backdrop of uncertainty and volatile economic conditions across Europe, this year's figures show a substantial drop in UK corporate confidence and willingness to take risks compared with 12 months ago," said Brendan Walsh, senior vice president for commercial payments solutions at American Express Services Europe.

For more on business risks, see Global warning on page 18 and our eurozone special report starting on page 36

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{ LAW AND REGULATION }

READY FOR FATCA?

Compliance professionals around the world have admitted that they are not fully prepared for implementation of the US Foreign Account Tax Compliance Act (FATCA).

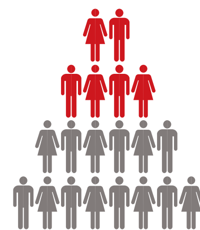
Research published by Thomson Reuters last month (above right) found that while most organisations know they need to make important decisions around FATCA, their risk and compliance teams are hindered by minimal regulatory guidance, lack of budget and limited board awareness.

The survey of nearly 200 compliance, risk, audit and legal practitioners from organisations across Europe, the Americas, Australasia, Asia, Africa and the Middle East uncovered a significant divide in the extent and state of preparations being undertaken for the new FATCA rules. "While this has been driven predominantly by continued lack of clarity about what the final practical requirements will entail, financial organisations must ensure they fully understand the detailed impact that the final FATCA requirements will have on their businesses," said Mark Schlageter, managing director, governance, risk and compliance, Thomson Reuters.

FATCA, which comes into effect on 1 January 2013, is designed to improve tax compliance for financial assets held by US individuals in bank accounts and other vehicles outside the US. Under FATCA, all financial institutions must classify account holders as either US or non-US based and foreign financial institutions are expected to identify US account holders and disclose their balances, receipts and withdrawals to the US Internal Revenue Service.

{ KEY FINDINGS OF THE THOMSON REUTERS GLOBAL SURVEY ON FATCA }

>50% of respondents believed that overall responsibility for ongoing compliance with FATCA fell to the compliance function

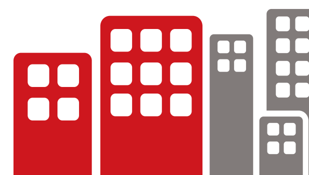


>33% of respondents stated that FATCA had only been discussed once or never at all at board level

>50% of the practitioners surveyed were unsure of the impact that the new FATCA requirements would have on their organisation

43% of organisations are still unsure of their strategic approach for FATCA, while 51% of those with a US legal entity in the group were unsure of what approach to take in relation to US customers

60% of organisations have not allocated a separate or specific budget to resource the preparation for FATCA



59% of respondents are expecting the new requirements to have some impact on their bottom line

{ AROUND THE WORLD IN 30 DAYS }

DOWNGRADES AND SAFE HAVENS

Moody's and German banks
Moody's downgraded seven German banks last month, blaming their exposure to the deepening eurozone debt crisis and comparatively small equity cushions, which limit their capacity to absorb new losses. Commerzbank saw its long-term credit rating cut by one notch from A2 to A3, and it remains on a negative outlook, with a possible further downgrade. Affected banks also include DekaBank, DZ Bank and three major regional banks, as well as the German subsidiary of Italian financial group Unicredit.

Nordic countries are safe havens
The Nordic countries have cemented their position as safe havens in the financial markets, a report by financial services group Nordea has found. The currencies of countries not participating in the euro have strengthened as a result of the euro debt crisis, while the Nordic countries benefit from relatively low unemployment and inflation rates. "Denmark, Norway and Sweden can moreover boast significant surpluses on their external balances," said Helge Pedersen, Nordea's global chief economist.

EU endorses IAS 19R
The EU has endorsed the revised international accounting standard, IAS 19R, *Employee Benefits*. EU-listed companies will have to adopt IAS 19R for the accounting period starting on or after 1 January 2012. Under the revised standard, the treatment of pensions risk on a company's balance sheet will become more transparent to investors through the recognition of any under- or over-funded disclosures. So companies must review the risks in their defined benefit pension schemes.

{ TECHNOLOGY }

EBA CLEARING LAUNCHES MYBANK

Euro clearing services provider EBA Clearing has launched a technical pilot for MyBank, its pan-European online banking payment system.

Banks from Austria, France, Greece, Italy and Luxembourg will participate in the pilot between June and October 2012. Proper functioning of the system will be tested at both national and cross-border level.

"The European e-merchant community is eagerly awaiting an online banking-based e-payment solution that will work at a pan-European level. We look forward to sharing its key benefits with customers across Europe," said Wijnand Jongen, executive committee member for international e-commerce association Ecommerce Europe.

EBA Clearing aims to roll out MyBank in early 2013.

For more on technology, see Taking tablets, on page 40

{ CORPORATE FINANCIAL MANAGEMENT }

COMPANIES NEED BETTER PROCESSES

Many companies need to close a performance gap in their business processes to boost competitiveness, a new study suggests. The research by CFO Research Services, on behalf of US business processes and technology services provider Genpact, found that use of external benchmarks is linked to higher performance in financial and administrative processes.

Respondents at companies where benchmarks are excessively used are more likely to report that their companies excel at a variety of planning, consolidation and reporting activities, compared with companies that make only some or limited use of benchmarks.

According to survey data, companies in North America are most likely to make extensive use of external benchmarks. Almost half of respondents based in North America (46%) say that their companies make extensive use of benchmarks, compared with only 23% of respondents based in Europe and the Middle East.

Chinese credit growth

Broad credit growth in China continues to decelerate, according to Fitch. Last month the rating agency said 2012 was shaping up to be the first year since 2008 that the net amount of new credit extended to the economy will fall below the prior year. "Broad credit growth began to moderate in the second half of 2011, and this slowdown has accelerated in 2012," said Charlene Chu, head of Chinese banks' ratings at Fitch. "Weakening demand for credit, as well as resource constraints from thinning bank liquidity, has been weighing on bank lending."

US treasury yields

US treasury bond yields plummeted to historic lows last month after continuing turmoil in the eurozone increased investor demand for so-called 'safe haven' investments. The yield on the benchmark 10-year treasury bond was down to 1.46%, a 220-year low. The 30-year bond traded at 2.56%, the lowest yield since December 2008.

New FCA chair

KPMG senior partner John Griffith-Jones will chair new market regulator the Financial Conduct Authority (FCA), it was announced last month. He joins in September 2012, a few months after the FCA replaces current watchdog the Financial Services Authority (FSA). The change comes as part of a reform of banking and market supervision in the wake of the financial crisis. The FCA's chief executive designate is Martin Wheatley, managing director of the FSA's consumer and markets business unit.

{ UPS AND DOWNS }

GOOD MONTH: US FINANCIAL PROFESSIONALS

US financial professionals received better-than-average pay rises in 2011, according to the *2012 Association for Financial Professionals Compensation Report*, published last month.

The research found they enjoyed an average increase in base salary of 3.3% in 2011, more than one percentage point above the national average. Of the different financial job tiers, management earned the highest percentage increase of 3.7%.

At executive level, directors of treasury/finance got the biggest boost to their pay packets, with a 3.8% base salary rise, while average increases for CFOs were 3.6%. Within the management tier it was cash managers who scooped the highest average salary increase – 4.5%. Meanwhile, financial analysts earned the highest increase in base salary within the staff tier (3.8%) for the second year in a row.

BAD MONTH: BRITISH MANUFACTURING

Manufacturing had looked the unexpectedly bright hope of the UK economy until last month, when a survey revealed that in May it had suffered its worst performance for three years.

The sector, which accounts for 10% of UK GDP, fell 4.3 points on the Markit/CIPS manufacturing Purchasing Managers' Index to 45.9 from 50.2 in April. According to the report, manufacturers cut back on output, employment, purchasing and inventories.

"The escalation of the eurozone crisis is having a very damaging effect on confidence, not just in the eurozone itself, but also in the UK," said Andrew Goodwin, senior economic adviser to the Ernst & Young ITEM Club. "With both new orders collapsing and backlogs being cleared, this points to a steep decline in production over the next couple of months."