Nearly all banks compete for supply chain market

Kerle: demand has caught up with supply

Over 90% of major international banks are offering their corporate customers supply chain financing solutions – nearly twice as many as last year.

Research from working capital solutions provider Demica also found greater interest from corporates in collaborative financing tools, with a 65% increase in live supply chain financing programmes over the past year.

European corporates expect supply chain financing to grow more strongly over the next two years than lines of credit from their relationship banks. This is an inverse ranking to last year's prediction and probably a reflection of the credit crisis.

Phillip Kerle, Chief Executive Officer of Demica, said: "Supply chain financing has been much talked about over previous years but it seems that demand has finally caught up with supply. Although supply chain financing is still in its infancy, banks in our research were emphatic in their view that it is a strong and rapidly growing market, and will provide an alternative source of funding for those corporates facing difficulties obtaining traditional bank credit."

The majority of banks surveyed said supply chain financing provided "an efficient deployment of scarcer credit in the current climate" for corporate customers, underlining the belief that the credit crisis is driving growth in the financing model.

Banks also stressed that supply chain financing services offered them a valuable opportunity to consolidate and extend their existing customer relationships, in addition to attractive margins.

FSA takes aim at short-sellers

The Financial Services Authority (FSA) provoked a mixed response last month with its sudden clampdown on the practice of short-selling.

The regulator announced on 13 June that new rules would be introduced within seven days to protect companies from investors betting against them when they are raising emergency funds.

During rights issues, short-sellers – those investors who bet the company's share price will fall – must in future declare themselves where they have taken a substantial short position equivalent to 0.25% or more of the company's share capital.

The FSA's action came after aggressive short-sellers targeted shares in several rights issuers, selling borrowed shares with the aim of buying them back more cheaply at a later date.

Although some investors and lobby group the Association of British Insurers welcomed the move, critics described it as a panic decision and claimed that it was typical of the regulator to fail to involve industry participants in any prior consultation.

Some even suggested the move was taken in response to fears that the £4bn rights issue planned by HBOS, parent of mortgage lender the Halifax, could fail.

The FSA said it regarded short-selling as "a legitimate technique, which assists liquidity and is not in itself abusive", but that the rights issue process offered scope for practices amounting to market abuse. They include deliberately disseminating false information to drive share prices artificially low.

Travers Smith, Corporate Partner at Richard Spedding, said: "The FSA move is a reaction to the much publicised difficulties with the B&B/HBOS rights issues, and the concern for future ones.

"The advent of black-box trading and other long/short trading strategies enhances the volatility in the markets, which is particularly painful during a long rights issue period." ■

Deals of the Year

After a very successful awards process culminating in a celebration dinner in early 2008, *The Treasurer* is once again running its annual Deals of the Year Awards and an enhanced Team of the Year Awards under a new chairman, **Jonathan Slade**, Director of Capital Markets and Corporate Finance at Diageo.

The ACT is delighted that Lloyds TSB Corporate Markets will again be sponsoring the Awards. Full details will follow in the autumn. In the meantime, *The Treasurer* would encourage all readers to get their thinking caps on to be ready to make their nominations. Given the conditions in the markets it looks set to be an intriguing year.

On the move...

- **Christopher Archer-Lock**, MCT, has been appointed Treasury Operations Manager at Oxford University Press. He was previously Director of Finance, College Division, and Treasurer at the American Institution for Foreign Study.
- **Alan Clarkson**, AMCT, previously Assistant Treasurer at BAA, has been appointed Group Treasury Manager at Reckitt Benckiser.
- **Paul Edgar**, MCT, has been appointed Group Treasurer at John Menzies. He was previously Assistant Treasurer at British Energy.
- **Suzanne Reynolds**, AMCT, has been appointed Treasury Controller at Burberry Group. She was previously a Manager at KPMG.
- **Max Rink**, AMCT, previously Finance Manager at Birds Eye Iglo Group, has been appointed Senior Business Analyst at HSBC Bank.
- **Justin Robinson**, MCT, previously Liquidity Risk Manager at Citigroup, has been appointed Treasurer for Europe and Asia at Cantor Fitzgerald International.

MEMBERS' DIRECTORY
Members' contact details are updated regularly at **www.treasurers.org**. *Email changes to Tolu Babatola:* **tbabatola@treasurers.org**, *or phone +44 (0)20 7847 2558.*

CAREERS
For up-to-date treasury vacancies and careers articles, log onto: **www.treasurers.org/careers/index.cfm**

Risk management soars to top of agenda for audit committees

With the credit crunch showing no sign of diminishing and an economic slowdown seemingly taking hold, audit committees are putting risk management at the top of their agendas.

According to the annual Audit Committee Member Survey conducted by KPMG's Audit Committee Institute, risk management is now the clear top priority of audit committee members, ahead of the more traditional areas of accounting judgements and estimates, and internal controls.

Copnell: incentivisation worries

Nearly 150 UK audit committee members of public companies, and more than 1,000 audit committee members globally, shared their perspectives and priorities for the year ahead for the survey.

The survey found that only 46% of audit committee members were very satisfied that their company had an effective process to identify the potentially significant business risks facing the company, and only 38% were very satisfied with the risk reports they received from management.

The prominence of risk management on audit committee agendas this year is fuelled by a number of factors. Contributory elements include the fall-out from sub-prime exposure and the credit crunch, increasing awareness of significant business risks and their potential impact, and heightened scrutiny of risk management and its oversight, particularly given the perceived shortcomings of risk management processes during the sub-prime crisis.

Tim Copnell, Head of KPMG's Audit Committee Institute in the UK, said: "Recession-related risks as well as the quality of the company's risk intelligence are two of the major oversight concerns for audit committee members.

"But there is also concern about the culture, tone and incentives underlying the company's risk environment, with many saying the board and/or the audit committee needs to improve their effectiveness in addressing risks that may be driven by the company's incentive compensation structure."

The research found that nine out of every 10 audit committee members believed their audit committee was more effective than it had been five years ago, with just over half rating their committee as "much more effective". ■

Rating agencies agree to fee-based risk assessment

The main three credit rating agencies, Standard & Poor's, Moody's and Fitch, have agreed with US regulators a new regime to improve the way in which they assess risk.

Under a deal with New York Attorney General Andrew Cuomo, the trio have committed to adopt various reforms aimed at weeding out the practice of "ratings shopping".

In the past, companies issuing bonds have gone between the various rating agencies to secure the most favourable rating for their securities. This practice gave the agencies an incentive to be lenient in their rating to help win the business.

Under the new agreement, which will apply only to one part of the market for residential mortgage-backed securities – those bonds that are backed by pools of individual home loans – the agencies will instead receive a fee, which will be paid regardless of whether they ultimately rate the transaction.

Cuomo said the change, together with a number of other reforms, would boost the independence of the rating agencies, ensure they received adequate information on which to base their ratings and increase transparency across the industry.

The ratings agencies have been criticised for failing to recognise that a number of mortgage-backed bonds carried a high risk of default and of being slow to alert the market when this weakness started to become evident. ■

A solution to the Libor squeeze

The credit crunch and falling equity prices have upset market flows of liquidity. Term funds have become scarce with some banks unable to fund themselves at Libor. In the USD market, spreads are reaching 20-50 basis points over Libor before liquidity is found. And where banks do have excess liquidity, they are unwilling to lend it for longer than seven days.

Corporates have been moving away from one-bank into multi-bank relationships. Those with excess liquidity have been placing it in ring-fenced liquidity funds. These funds have been the major beneficiaries of this diversification of counterparty risk. Some of them have grown their funds under management by 100% or more. But this means that cash does not find its way into the inter-bank money markets and further reduces liquidity.

In combination these factors combine to heighten uncertainty in both credit and interest rate markets. Treasurers who are looking to reduce financial risk and lower their organisation's funding costs are beginning to question whether debt referenced to Libor offers the most optimal solution.

The Bank of England could help by introducing a flexible "prime rate." Such a rate could signal to the market a change in official stance without necessarily changing the base rate.

This new prime rate could be fixed at the monthly MPC meeting at between 50bps and 150bps above the Bank's base rate depending on the underlying Libor/base rate spread. This would legitimise the current emergency funding arrangements, fully reducing any stigma associated with seeking funding from the lender of last resort. Furthermore, the flexibility inherent in the 50 to 150bp spread would enable markets to reflect liquidity concerns.

Banks could reference the new rate in new retail loan agreements allowing themselves to be funded at current Libor levels. This would make mortgages available to the mass market once again and could boost the sluggish housing market.

Tim J Kirkham
Executive Director
Head of UK Corporate Sales
Fortis Bank SA/NV UK