Corporates look to TMS upgrades

Hedge accounting, SEPA and Swift, and cash and liquidity are the key issues likely to impact treasury management systems (TMS).

According to the 2009 global treasury management system survey conducted by Deloitte, 28% of treasurers who responded believed cash and liquidity would have the biggest impact on the treasury function; 22% said hedge accounting, while another 22% thought it would be SEPA and Swift.

Over 60% of respondents said they were planning significant TMS upgrades over the next 12 to 18 months.

Of those planning to invest, over 90% intended to focus on cash management.

The survey found increased interest from companies in outsourcing the hosting and maintenance of their TMS to vendors.

Finance bosses all talk, no action

Financial executives claim to be more focused than ever on planning and cost cutting, reports McKinsey, but a global survey of 591 executives by the consulting group, conducted during February and March, found little appetite among them for a radical restructuring of the finance function.

The survey asked finance and other senior executives how the finance department had changed since the financial crisis began, what new challenges they were facing, what were the main priorities, whether they were modifying their centralisation or outsourcing plans, and how the CFO's focus had shifted.

The results, according to McKinsey, suggest that few companies have yet responded with the kind of structural change that could most boost performance.

Few respondents said CFOs had been given formal responsibility for more activities than before. Even fewer reported any acceleration in the degree or pace of centralisation within their company. There was also little evidence of companies planning more outsourcing of financial activities.

However, CFOs are spending much more time in such critical areas as financial planning and analysis, financial risk management, strategic risk and credit decisions.

Treasurers flock to ACT Annual Conference in Manchester

Treasurers, bankers and other finance professionals met in Manchester at the end of April for the ACT Annual Conference.

Attended by nearly 800 delegates and exhibitors, just over half the delegates were from the corporate sector. Representatives came from all types of organisation, with the FTSE 350 being particularly well represented.

ACT president David Swann said that the conference continued to go from strength to strength and welcomed everyone to the superb venue in Manchester. ■

For more on the ACT Annual Conference, see Ask The Experts p10 and What Next? p12. A full run-down of the conference begins on p14

Insolvency figures jump as UK economy shrinks

The deepening recession is taking a heavy toll on business, with a total of 4,941 UK companies either going into compulsory liquidation in the first three months of 2009 or opting for creditors' voluntary liquidations (where shareholders agree to put the company into liquidation because it is insolvent).

The figures, from the Insolvency Service, represent a 56% increase on the first quarter of 2008 and a rise of 7.1% on the final quarter of last year. Analysts have suggested that if the experience of the previous recession is repeated, the upward trend could continue until 2012. Although after the last big bust the UK returned to growth in early 1993, the number of corporate insolvencies did not plateau until 1995.

The casualty rate shows that one in every 130 active companies went into liquidation in the 12 months to the end of March 2009, compared with one in 150 companies in the year to December 2008.

A total of 1,311 companies in England and Wales were placed into administration during the first three months of this year, up from 859 in the first quarter of 2008.

The number of individual insolvencies is also on the increase.

A total of 29,774 were recorded in the three months to March 2009, a 19% rise on a year earlier. And personal bankruptcies showed a 23% jump over the same period to 19,062.

Separate data from PricewaterhouseCoopers suggests there was a 10% rise during 2008 in the number of self-employed traders who went bankrupt in 2008 and the firm expects an even bigger increase this year. ■

OBITUARY

Lord Edward George

Lord Edward George, who served two five-year terms as governor of the Bank of England from 1993 to 2003, died on 18 April at the age of 70, *write Richard Raeburn and Graham Buck*.

Having joined the Bank in the early 1960s after graduating from Cambridge, he earned the soubriquet "Steady Eddie" partly because of his decision not to jump ship at the time of the "big bang" deregulation of the financial markets in 1986, despite the attractive financial rewards on offer elsewhere. As deputy governor, he stabilised the pound after the UK's ignominious exit from the exchange rate mechanism in September 1992 and began his first term the following year.

This period was marked by the Barings crisis in 1995, when rogue trader Nick Leeson torpedoed one of the City's oldest names by running up huge financial losses. The Bank held back from mounting a rescue attempt, with George correctly judging that the system could withstand the demise of the merchant bank.

Two years later came the event for which his tenure may be best remembered, when the Bank gained its independence shortly after the May 1997 general election. For the first time, the Bank had the power to set interest rates through its monetary policy committee and direct responsibility for keeping inflation under control, in addition to its traditional tasks of advising the government and managing its debt. Its supervisory role was transferred to the Financial Services Authority.

Lord George

The move to independence came as a surprise at the time but followed discreet negotiations between the Bank's governor and shadow chancellor Gordon Brown before the election. Lord George was reappointed in 1998 and his second five-year term saw the Asian and Russian financial crises successfully handled, as well as the shocks to the system caused by the 9/11 terrorist attacks.

During this time, the UK economy enjoyed continued growth and inflation was relatively subdued. However, as Lord George later acknowledged, consumer spending began reaching non-sustainable levels and he began to grow concerned over sub-prime lending in the US, although he admitted that he had not appreciated the extent of the risks involved.

Once his second term expired, Lord George became a trustee of the Eden Project in 2003 and chairman in 2007 until ill health forced him to give up the post. He was also a non-executive director of Nestlé, NM Rothschild & Sons, Grosvenor Group Holdings and the Bank for International Settlements.

He became a life peer in 2004. The ACT awarded him an honorary fellowship in July 2004, rewarding not just his distinguished career but also the outstanding speech he gave at the ACT's annual dinner in 2002. ■

Protests hit ACT exams

The last sitting of the ACT's London examinations was severely disrupted by the G20 protests which took place as the ACT was staging examinations for several hundred students.

In the day or so before the protests, advice on the likely impact became more cautious and our central London examination centre was closed. This caused a major headache for the ACT and the students. The ACT team did all it could to ease the stress that this caused. A sitting was held for some students at an alternative venue but this was not ideal, and the postponed exams were staged on 27 April.

The examinations planned for 2 April did proceed but in the afternoon one of our students became seriously ill during the exam. Regrettably, the student did not recover despite the attendance of first aiders from the examination centre and subsequent care from paramedics.

As a result of the disruption to the exam and distress to other students, the exam was abandoned. However, the chief examiner was able to mark the papers so the need for a general resit has been avoided.

This tragic incident had a wide impact on those close by in addition to the student's immediate family. The ACT's condolences to the bereaved family could not have been more heartfelt.

Stuart Siddall, chief executive, ACT

On the move...

- **Lloyd Cochrane**, AMCT, has been appointed managing director for retail products at Northern Rock. He was previously executive director for European mortgage trading at Lehman Brothers.
- **Hervé Delebarre**, AMCT, has left his position as group treasurer of A&D Pharma and joined Travelport as senior director for capital markets.
- **Julian Llewellyn**, AMCT, has joined Optima Receivables Management as managing director. He was previously vice president at Surfcontrol.
- **Nathaniel Mead**, MCT, has joined Shell International as a senior market dealer. He was previously treasury manager for Westfield Shoppingtowns.
- **Nigel Moule**, AMCT, has left his position as financial controller at NEC Europe and joined Mitsubishi Corporation as senior manager in the accounting department.

MEMBERS' DIRECTORY

Members' contact details are updated regularly at **www.treasurers.org**. *Email changes to Matthew Trickey:* **mtrickey@treasurers.org**, *or phone +44 (0)20 7847 2557.*

CAREERS

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

- **Dave Patterson**, MCT has been appointed group treasurer of Rotork. He was previously group treasury manager at Unite Group.
- **Matthew Rose**, AMCT, has joined Royal Mail as group taxation director, having previously been head of tax at Taylor Wimpey.
- **Jeffrey Speke**, MCT, has joined Cheltenham Ladies' College as finance director. He was previously a managing director at Rothschild.
- **Glyn Thomas**, FCT, previously chief financial officer at Accsys Technologies, has moved to Hong Kong as chief financial officer of Diamond Wood China.

Green light for Solvency II

The proposed Solvency II regime, which will revise the capital adequacy tests for Europe's insurance industry by introducing a set of EU-wide requirements and risk management standards, has moved a stage closer.

As expected, the directive was adopted by the European parliament in late April and by the European Council last month, setting the new regime on course for implementation in 2012. Its supporters claim that European consumers will benefit, as it makes prudential failure less likely and reduces the probability of consumer loss and market disruption.

PricewaterhouseCoopers partner Mike Batten welcomed the news: "With the framework directive soon to be in place, any doubts about implementation have been dispelled. We will now move swiftly onto the detailed requirements of Level 2 and 3.

"The devil will inevitably be in these details, and companies need to follow the work of the Committee of European Insurance and Occupational Pensions Supervisors in this area closely, and contribute where appropriate to make sure that their implementation plans stay on track.

"Concerns about a delay in the timetable have proved unfounded, with the tight 2012 deadline still in place. Robust plans need to be established as soon as practical to meet this deadline and these plans also need to be sufficiently flexible to anticipate and adjust for the detailed measures to follow. There is still a good deal of work remaining, including another quantitative impact study exercise, probably next year."

Big on bonds

Institutional buyers continue to have appetite for covered bonds, according to the first survey by the European Covered Bond Dealers Association (ECBDA). Of the asset managers, commercial banks and pension funds surveyed, 64% said they were looking to increase or maintain their investment in covered bonds for the rest of 2009.

Covered bonds are debt instruments secured by a cover pool of mortgage loans or public-sector debt to which investors have a preferential claim in the event of default. Total issuance year to mid-May was €22.9bn, according to research by Barclays Capital.

Pension deficits soar

The combined pension scheme deficits of the FTSE 350 companies ballooned to an estimated £61bn at the end of March 2009, according to the latest quarterly pension deficit survey from consulting firm Mercer. The median scheme deficit of a FTSE 350 company now stands at £225m compared with only £40m at the end of March 2007.

Collinson: pension scheme trustees are walking a tightrope between obtaining more funds and not damaging the sponsor

Reflecting the volatility of the past 15 months, FTSE 350 pension scheme funding levels on a company accounting basis have ranged from 78% to 104% over the period. The average now stands at 85%.

The risk of a pension scheme defaulting has also risen. For the 10% of FTSE 350 companies regarded as most vulnerable to default, the figure has increased by almost 19 times since the start of 2008.

"The decline in funding levels is likely to prompt trustees to issue demands for increased funding at a time when resources are scarce," warned Matt Collinson, leader of the integrated retirement financial management group at Mercer.

He added: "Fortunately, the Pensions Regulator has indicated that trustees may be sympathetic to company requests to pay lower contributions, where it is clear that higher contributions are not affordable."

However, Mercer's report predicted that even if company contributions were treble their 2007 levels, their recovery – that is, the estimated time needed to cut back the projected scheme deficit to zero – would still take more than 15 years to complete.

"The strength of the sponsoring employer should be at or near the top of every trustee's agenda," said Collinson.

"If economic uncertainty continues and funding levels remain weak, trustees are walking a tightrope of trying to obtain additional funds to increase security for scheme members, while at the same time not putting too much pressure on the company and damaging its financial strength and future prospects."

Mercer has urged the government to allow companies at risk of insolvency to defer contributions to their pension scheme.

The group recently wrote to the Pensions Regulator and the Minister for Work and Pensions after the regulator stated that, in certain circumstances, companies should not give priority to shareholder dividends over contributions to their pension scheme. However, Mercer suggested that "more radical thinking" was needed.

Among Mercer's proposals are that in cases where the company is not at immediate risk of insolvency but jobs are under threat, trustees and employers should be able to agree to temporary or permanent reductions in benefit.

Normally, the only circumstance in which accrued benefits can be reduced is following insolvency, when the scheme usually passes to the Pension Protection Fund (PPF). ■

■ Meanwhile a separate report from Aon Consulting has warned of a £120bn pensions black hole, caused by FRS 17 accounting standards that distort the scale of scheme scheme losses.

Aon said that the accounting position for the UK's largest 200 final salary pension schemes had improved by £28bn in the month of April to a deficit of £8bn. However, the corresponding position on a funding basis would be much worse, with a massive deficit of around £130bn.

The discrepancy has led to Aon extending the scope of its Aon200 index, which tracks the pensions accounting position using FRS 17 of the top 200 privately sponsored pension schemes to include their position on a funding basis. Aon said the new measure, the Aon200F, indicated the scale of cash contributions required to offset the impact of the economic crisis.

According to the Aon200F, the funding deficit for the 200 biggest schemes has risen by £100bn since April 2007. By contrast, their accounting deficit has not changed significantly over the same period despite what Aon described as "the turmoil that has wreaked havoc on companies and financial markets".