Treasurers.org hits the spot for finance professionals

Treasurers and other finance professionals are making more use of the ACT website, with the latest statistics showing a big increase in the numbers of visitors and pages viewed.

A lot of traffic is generated by readers of The Treasurer following up on items they have read as well as referrals from other websites, mostly those of other professional bodies.

After the home page, the most popular pages are those connected with careers and qualifications. The AMCT page has been particularly popular recently.

More people are registering with the ACT website and while many are first-time visitors, a significant percentage have made repeat visits. Around this time of year a lot of traffic is driven by the ACT Annual Conference.

If you haven't visited the ACT website, or haven't been back for some time, it could be time to take a look at what is happening. Go to: **www.treasurers.org**

Late payments cost Europe €300bn

European companies have had to write off a total of €300bn over the past year as late payments turned into bad debts, according to a new study.

Swedish credit management company Intrum Justitia said the amount of written-off debt had risen by 8% since last May and now equalled the national debt of Greece. "It is an increasing problem, especially for smaller companies, who are really hurt," said the firm's chief executive, Lars Wollung. "They may have a business that could survive by itself but they might go bankrupt because of funding problems."

Wollung added that banks' reluctance to lend had exacerbated the problem. Of the 6,000 businesses participating in the survey, 52% expressed doubts that they could rely on the support of their banks.

One crumb of comfort from the latest survey was a slight improvement in average delay in payment, which was 18 days compared with 19 days a year ago. But there was little evidence of improved business confidence, with only 10% of businesses anticipating an improvement in trading conditions over the next 12 months.

S&P instigates corporate credit health checks

Ratings agency Standard & Poor's has added to its services a credit evaluation benchmark that assesses the credit health of more than 3,000 rated and 23,000 unrated non-financial public companies.

S&P said the Credit Health Panel benchmark was primarily aimed at commercial lending, corporate treasury and risk management professionals. It is being added to the Global Credit Portal investor analytics platform offered by its independent business unit, S&P Valuation and Risk Strategies.

According to the agency, Credit Health Panel "provides an instant peer comparison and a rapid, market-wide perspective on income, operational, liquidity and probability of default estimates" for the 26,000 entities. A total of 33 key metrics are used for the check, which include:

- overall credit health score, analysing a company's cash-generation capabilities, operational risks and ability to meet its financial obligations;
- probability of default score, enabling users to assess the chances of default over the next 12 months by using financial, industry and macroeconomic factors; and
- credit model score, a quantitatively derived credit assessment based on historical default frequency.

Eccleston: heat map of credit health

"With the Credit Health Panel we've created an extensive heat map of corporate credit health that allows investors to quickly evaluate entities relative to their peer groups," said Lou Eccleston, executive managing director and head of S&P VRS. "By expanding well beyond the Standard and Poor's-rated universe, we are giving investors of every size the tools intended to help them conduct truly robust risk-driven investment analysis." ■

Capital disclosures under scrutiny

The additional disclosures about a company's objectives, policies and processes for managing capital, which have been required for some time now following amendments to IAS 1, are being poorly undertaken, according to the Financial Reporting Review Panel.

The ACT is interested in hearing comments from the preparers and users of company accounts about any disclosures that they think are particularly informative or which might represent best practice, and the extent to which treasurers have been contributing to those disclosures (email address for comments is given below).

As international financial reporting standards (IFRS) do not define "capital", IAS 1 requires companies to explain what they manage as capital before providing other details. Some entities treat some financial liabilities (for example, some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (those arising from cashflow hedges, for example).

Companies should be disclosing any externally imposed capital requirements and the degree of compliance with them. Summary quantitative information should also be given about what the company manages as capital.

The significance to users of this information is particularly important in periods of economic downturn. Information about the dividend policy, for example, and share buyback arrangements is particularly relevant to a user's assessment of stewardship and how prepared corporate management is to face the challenges of the next stage of the downturn. Poor disclosure in this area could obscure the extent of expected capital raising.

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Businesses fall behind on auto-enrolment

Workers must be enrolled automatically in their employer's pension scheme from October 2012 onwards, but few employers have made any preparation, according to Mercer. The HR and financial advice group said more than two in three businesses had yet to begin preparations for auto-enrolment or were only in the early stages.


Brassett: deadline is approaching fast

"Many employers are unaware of the complexity and detailed implications of the changes that lie ahead," said Geraldine Brassett, a principal in the group's outsourcing business. "2012 may sound like a long way off, but unless they start to prepare soon, many companies may find themselves rushing to meet their deadline.

"The reasons employers commonly give for holding back are that they have not yet agreed their pension strategy. Others believe they have no action to take as they operate auto-enrolment under their existing pension arrangements."

Until last month, uncertainty ahead of the election was an added factor, but Brassett noted that the national employment savings trust, due to be introduced in 2016, and auto-enrolment both appeared in the Pensions Act 2008 and so could not be ignored.

"The legislation will require changes in current systems, processes and member communications, even for those companies that propose to continue with their current scheme and auto-enrolment processes," she said.

One in three survey respondents said they expected their scheme administrator to have managerial responsibility for auto-enrolment. Another third will look to their HR department and most of the remainder believe management responsibility should be shared between payroll, HR and the scheme administrator.

Forecasts vary on the cost of implementing auto-enrolment. One in three put it at £5,000 to £20,000, a similar number at £20,000 to £50,000, while other guesses ranged from less than £5,000 to £50,000-plus. ■

Optimistic lending groups flock to LMA


Fitzgerald: lenders want products to remain strong

The Loan Market Association has reported that membership is at a record total of 421, after attracting 51 new members despite the financial sector's consolidation and cost cuts. There are now 40 countries represented in the LMA, with members including both bank and non-bank lenders.

Although volumes have not yet regained pre-credit crunch levels, the LMA believes this reflects an absence of lending opportunity rather than liquidity. It added that the loan market had shown signs of reviving confidence and a new willingness to underwrite, particularly for the better-rated credits.

"Market participants clearly appreciate the important role of the LMA, particularly at this time of change in the industry, and the benefits that membership of the association brings," said Ian Fitzgerald, LMA chairman and head of loan syndicate at Lloyds Banking Group. "They want to ensure that the loan product, which plays such as important part in the European economy, remains strong."

ACT Digest

Below is a brief round-up of the issues the ACT has been working on in the past few weeks.

Policy & Technical

▪ OTC derivatives/Basel III
While the ACT has worked with the EACT to win concessions to exempt non-financial companies from having to trade all derivatives via central clearing houses, real concern remains that capital weightings under Basel III could be penal. This could be a massive blow to funding flexibility.

▪ Bank regulation
In the last parliament the treasury select committee joined calls for radical changes in bank regulation. Breaking up the very biggest banks might still have to be considered as a last resort. We need to keep the emphasis on bank regulation and the ACT will work with the new government to achieve the best result.

▪ Non-bank lending
The Budget Book specifically highlighted the ACT as an organisation the government wishes to work with to increase awareness of the diverse sources of finance available and to improve bond market access for more issuers.

Visit www.treasurers.org/technical for the latest updates from the ACT policy and technical team.

ACT Middle East

▪ Dubai date for ACTME AC
Following the *talkingtreasury* event which took place in Abu Dhabi on 10 May, planning is under way for the ACT Middle East Annual Conference, which will be held in October in Dubai.

The conference will focus on the latest issues facing treasurers in the region, including risk disclosure, corporate governance and the need for greater accountability as well as emerging trading opportunities and options in the Middle East.

For more information on ACTME, visit: www.treasurers.org/actmiddleeast

Pension trade-off favours less money

Many European workers would rather make do with less money when they finish working, rather than have their government raise the national retirement age, reports Aon Consulting.

The firm surveyed more than 7,000 workers across 10 leading European economies and found that 29% would opt for a less affluent retirement rather than continue working.

The survey revealed 46% of Irish workers expected to work longer than their parents, as did 44% of the British and Danish, and 41% of the Dutch.

German workers took the most pragmatic approach, with 49% ready to use financial products such as annuities so as not to postpone retirement. More than a quarter of Europeans said government policy had persuaded them to take responsibility for their own financial situation, while nine in 10 showed a keen awareness of the minimum state retirement age.

£10bn cost of IAS 19 change

The International Accounting Standards Board's proposed changes to employee benefit accounting standard IAS 19 would increase the combined pensions costs for UK companies by £10bn, predicts PricewaterhouseCoopers.

PwC partner Brian Peters said the proposals would "radically change" the way organisations were required to account for the pension costs in company accounts and would affect the profits of companies with UK or overseas defined benefits pension schemes.

IASB boss David Tweedie: overhaul long overdue

"A company with a £2bn pension scheme would typically see reported pension costs rise by about £25m a year," Peters predicted.

He added that while better transparency and consistency were welcome and would benefit the long-term confidence of investors and business decision-making, companies in the UK and Europe would be likely to resist the changes.

Aon Consulting welcomed the IASB's removal of "some of the most unpalatable aspects of the IAS 19 proposals", but said they would still translate into lower profits and a worsened balance sheet, particularly for companies that use the corridor method.

"The corridor method currently allows companies to show pension scheme deficits that are heavily smoothed, so the actual scheme experience does not appear in the company accounts," said Sarah Abram, a group consultant and actuary for Aon. "From 2013, however, these companies will no longer have this option and may see dramatic movements in their balance sheet."

IASB chairman Sir David Tweedie insisted that the latest proposals on pension accounting represented a "long overdue" overhaul. ■

A matter of life and death

PENSION SCHEME RISK HAS BECOME AN INCREASED AREA OF FOCUS FOR CORPORATE TREASURERS OVER RECENT YEARS AND IS LIKELY TO REMAIN SO FOR SOME TIME TO COME.

Many pension funds have already made changes to their funding and investment strategies to reduce exposure to interest rate and inflation risks. Longevity risk has tended to attract much less attention, but this is changing.

So far, managing liability risk has focused on the hedging of interest rate and inflation risk. There are two reasons for this. First, the risks are significant and, second, markets for instruments that allow these risks to be managed are much larger and more liquid, allowing cost-effective and simple risk management.

Until recently, longevity risk management has attracted less attention and while it has been possible to hedge this risk it has typically been more complex and expensive. But markets that cater for this risk are now evolving rapidly, bringing a wide range of options to pension scheme trustees and sponsors.

This is significant as a relatively small change in longevity rates can have a large impact on total liabilities. For instance, if longevity expectations increase by just 2% per annum more than forecast, a typical scheme would see its future liabilities increase by approximately 15%, as more members would be receiving pension payments for a longer period. These payments are also likely to be increasing due to future inflation.

Finding the solution

The development of the market is still in relative infancy, but has made great strides in recent years. Furthermore, the infrastructure that has been built up to service interest rate and inflation swaps can be used to manage longevity hedges, including counterparty risk assessment and collateral management.

Many pension schemes have built relationships with solutions providers, which in turn have developed the technical expertise to help implement these types of strategies efficiently. Obviously there are costs associated with introducing a longevity hedge, and structures vary. Under a typical longevity swap the scheme will be paying an amount based on the best estimate of future longevity costs plus a risk margin. The size of the margin will depend on the size and nature of the scheme. However, an effective strategy can help minimise costs and reduce uncertainty.

Long-term pension provision has caused many concerns over the past 10 years. Including longevity hedging in a liability-driven investment strategy will not completely eliminate those concerns, but will increasingly play a part in managing and reducing them.

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