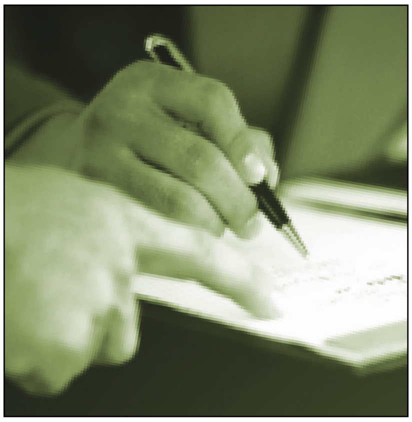
We all have to work hard to keep up with market trends, developments and the seemingly ever-expanding rules and regulations affecting the financial markets. So how much better would it be for those of us working in this arena if we could play a part in shaping any new proposals? With your help, the Technical Department at the Association of Corporate Treasurers (ACT) tries to do just that. For example, the new Loan Market Association (LMA) standard investment grade facility agreement, soon to be released, has been created with significant input from the ACT, (see right). We have just seen the new proposals for the OFR (page 11) and by the time of publication we may have implementation measures for the third Money Laundering Directive. We also eagerly await ideas from the Association of British Insurers on improving standards of protection and transparency in the bond market. Following our own initiative last month, we are collecting comments from industry participants on our exposure draft of a Code of Practice for the Credit Rating Process. If you have missed seeing this one please refer to *The Treasurer*, May 2003, pages 18-19, or see the draft code itself on *www.treasurers.org* **and provide us with feedback at** *ratingcode@treasurers.co.uk* ■

Loan facility updated and ready for release



The LMA will imminently be publishing a revised version of its standard syndicated loan facility. A standardised agreement has been in existence for many years but over time the need for a major update has arisen.

As was the case for the original document the ACT, with very significant assistance from Slaughter & May, has been negotiating with the LMA to produce a fair and reasonable document which is suitable to use as a starting point for individual tailoring and negotiation on a case-by-case basis.

The objective was to obtain a balance between the interests of borrowers and lenders, with terms appropriate to a single A-rated borrower. The ACT believes the standard form agreement will provide a valuable aid to the development and efficiency of the syndicated loan market.

Until early 2004 there was just this one standard LMA agreement. At that time a leveraged acquisition loan standard was created and the original agreement was annotated as the 'investment grade' agreement. It is important to distinguish between the two since the newer leveraged loan format does not have the benefit of having been through any pre-publication negotiation with the ACT. Beware if any of your banks or lawyers imply that the leveraged loan is in any way endorsed or approved by the ACT, and ideally let the ACT Technical Department know of any such misrepresentation.

The new form of the LMA primary investment grade document follows very much in the vein of the previous version. However, this time round it has been updated to include additional obligations on the borrower to provide information to the lenders and potential lenders in connection with the 'Know Your Customer' requirements imposed on banks. Additionally, the letter of credit option has been revised and a new euro swingline option introduced.

Guidance notes on the use of the LMA primary investment grade document and the points to be alerted to in any negotiations have been produced by Slaughter & May for ACT members and are available on the website. These will be updated in due course.

Even if you are not using the LMA standard loan, these guidance notes are a valuable examination of the terms and conditions found in most agreements, with numerous important points to look out for. ■

Benchmarking your operations

For the second consecutive year, the ACT is working with Ernst & Young on their Treasury Operations Survey, which aims to understand the key issues affecting the treasury community – allowing you the real benefit of being able to benchmark your operation against that of other organisations. This year the survey focuses strongly on the impact of IAS 39. To access the questionnaire please visit the ACT (**www.treasurers.org**) or Ernst & Young (**www.ernst&young.com**) websites. ■

Goodwill disclosures inadequate

The Financial Reporting Review Panel has found certain disclosures made in accounts about goodwill and intangible assets have not been up to standard. However well known a brand or other intangible may be, whether it is amortised over a period exceeding 20 years or not at all, then a reasoned explanation must be given.

Under Financial Reporting Standard (FRS) 10, 'Goodwill and intangible assets', there is a rebuttable presumption that the useful economic life of purchased goodwill or an intangible asset is limited to a period of 20 years or less. Where goodwill or an intangible asset is amortised over a period exceeding 20 years, or not amortised at all, the standard requires the grounds for rebutting the presumption to be disclosed.

The panel found that the failures often occurred with particularly well-known brands where it was assumed further explanations were not needed. This was deemed to be an insufficient basis; a 'reasoned explanation' must be provided. ■

Yet more rules proposed for OFR

The Department of Trade and Industry's (DTI) long-awaited draft of new regulations for the Operating and Financial Review (OFR) surfaced at the start of May. The aim is for it to be finalised by late 2004 with implementation to follow for years starting after 1 January 2005.

Legislation is proposed that will authorise the Accounting Standards Board (ASB) to prepare the standards required of the OFR, thus building on its existing January 2003 statement. The rules will be applicable to all quoted companies.

Although the voluntary form of the OFR has been a matter of best practice for some time, the Company Law Review (CLR) found a significant proportion of large companies fell well short of meeting the ASB's recommended practice. Content and rigour of reporting varied widely. The new regulations will create an enforcement mechanism with a new criminal offence of 'knowingly or recklessly approving an OFR that does not comply with the relevant provisions of the Act'.

The auditors too will have a role in completing a 'process' review of the OFR. They will express an opinion on the process that has been followed in producing the OFR, as distinct from the content. Nonetheless, they will be expected to review consistency with the auditors' knowledge from the accounts. This will culminate in an opinion on whether the directors have prepared the OFR 'after due and careful enquiry'.

SECRETARY OF STATE, PATRICIA HEWITT

Introducing the consultation period, Patricia Hewitt, Secretary of State, said: "The OFR is a narrative report by quoted companies that will be made annually to shareholders, setting out the principal drivers of a company's performance both in the past and in the future.

"It will cover the issues traditionally seen as key to a company's performance – an account of its business, objectives and strategy, a review of developments over the past year, and a description of the main risks. But it will also cover prospects for the future and, where necessary, information about the environment, employees, customers or social and community issues where that information is important for an assessment of the company. It simply demands that directors explain their stewardship to their shareholders."

Specifically the draft regulations state that 'the review shall include':

- a statement of the business, objectives and strategies of the company and its subsidiary undertakings;
- a description of the resources available to the company and its subsidiary undertakings;
- a description of the principal risks and uncertainties facing the company and its subsidiary undertakings; and
- a description of the capital structure, treasury policies and objectives and liquidity of the company and its subsidiary undertakings.

It will be for the OFR standards to expand on this last requirement regarding capital structure and treasury.

In a welcome change from the CLR recommendations, the government talks of including information 'to the extent necessary' for an understanding of the business, rather than using the term 'material', which should eliminate some confusion.

In acknowledging that each business is different the government emphasises that the OFR must reflect the directors' view of the business. When drafted, the OFR standards will give guidance on topics that the directors must consider for inclusion in the OFR. The proposal is that when directors conclude there is nothing relevant to report, they must make an explicit statement to that effect. The aim is to make the them consider the many factors affecting the business and to avoid a box-ticking approach. They are looking for quality rather than quantity of disclosure.

At the same time as publishing the draft OFR regulations, *Practical Guidance for Directors,* by the economist Rosemary Radcliffe, was also issued. Both documents may be accessed on the DTI website *www.dti.gov.uk/cld/financialreview.htm.*

The ACT intends to make a response to the consultation and comments from readers would be welcomed on **technical@treasurers.co.uk**. ■

Watch your covenants closely

Will you breach your covenants under the new International Financial Reporting Standard (IFRS)? Most bank agreements will include some form of financial covenants, which fortunately are normally expressed under frozen generally accepted accounting principles (GAAP).

With the advent of IFRS or after the eventual changes to UK GAAP, there may be a need to produce reconciliations back from 'new' GAAP to the old frozen principles. This is a good safeguard in the short term, but cumbersome in the medium term. IAS 39 causes more than just a top-level adjustment, so a reconciliation will become impossible to complete without running two set of books.

It would seem banks and borrowers have not worked out the consequences of IFRS just yet, but now is the time to start thinking about replacement ratios. This will avoid the dangers of accounting driven volatility.

Even if you can achieve cashflow hedging treatment of forecast transactions under IAS 39, remember the revaluation differences on financial instruments will still go to shareholders equity, giving gearing volatility. Without hedge accounting, that volatility will be in the P&L. ■

IN BRIEF

Atradius, a credit insurance and credit management software firm, is working with Standard & Poor's to launch a comprehensive credit information and modelling service covering nearly 200,000 private companies in Germany. Credit Risk Tracker offers an independent credit assessment of German SMEs that will be accepted by banks and investors internationally, according to the groups. **www.gerlingncm.com – www.standardandpoors.com**

Barclays Bank – through its partnership with Deutsche Bank – has launched a new European cash management service called Barclays Euro Treasurer. Barclays will use Deutsche Bank's cash management infrastructure in continental Europe. It said the service will provide wholesale clients with a "comprehensive" service including payments, collections, electronic banking and liquidity management. As well as customer service support and streamlined documentation processes, it is hoped the service will provide a more joined-up solution than that currently offered by traditional correspondent or partner banking models. **www.barclays.co.uk – www.deutsche-bank.de**

Cambista Technologies has announced a range of Rapid Deployment Packages designed to help European business and corporate banking organisations roll out new online services in the shortest time possible. The four packages are fixed price and fixed delivery-time solutions. According to Cambista, the products should enable business and corporate banking organisations to deliver cost-effective services without placing unnecessary or high-cost transactions at branch level. **www.cambista.net**

A multi-country agreement has been reached between Citigroup Global Transaction Services (CGTS) and Visa that will see CGTS launch commercial payment and information management card programs to Citigroup corporate clients in Latin America and the Caribbean. The service is designed to increase procurement process efficiency and provide cost savings, according to Citigroup. Under the agreement, the bank will provide Visa-branded card payment solutions to multinational corporate clients in the region through their Citibank Commercial Cards business. **www.citigroup.com**

Kestrel Technologies, a financial markets software provider, has released the latest version of its RAPTr fixed-income trading system. Currently called 'RAPTr eT', this product was point-designed to handle the data update rates of the world's most active e-trading firms. **www.kestreltech.com**

Global credit boom is sitting on a knife edge

In the wake of a global credit explosion there may be some backlash if the economic recovery is flawed, according to a report by Fitch Ratings. The global credit markets have put up an 'all are welcome' sign during the first quarter, according to the rating agency. But this enthusiasm may be short-lived given the various questions that have surfaced about the sustainability of the global economic recovery.

Fitch said the most resonant uncertainty is a possible US interest rate increase and its potential market repercussions.

Glen Grabelsky, Managing Director of Credit Policy at Fitch, said: "While the near-term credit picture remains favourable and corporate profiles continue to improve, the possibility of higher rates and recent cautionary comments about a short-term US interest rate increase have led to recent sell-offs in both the equity and fixed-income markets." But he added that Fitch believes that the favourable credit trends will continue for some time at least, as higher global interest rates will not happen overnight. Development is expected to be gradual and the markets are already pricing in any potential rate moves.

The advent of companies returning to investment grade status is another positive indicator of a corporate sector recovery, according to the report. Fitch is also expecting more activity as companies continue to execute solid business models and strategies while reducing debt.

Debt redemption levels have also reached new highs as issuers are taking advantage of low interest and ample market liquidity, said Fitch, and in the process securing improved financial flexibility in the long term. **www.fitchratings.com**

Crackdown on UK leasing

With the passing of the Finance Bill fast approaching, corporates who use leasing structures will be forced to look at how these will be affected now and in the future, once the bill is introduced. In particular, proposals to target existing deals have left a bad taste in the mouths of many market users.

According to a report by the Inland Revenue (IR), called 'Double-benefit Leasing', measures have been taken to close loopholes in existing lease structures. The tax authority uses the term 'double-benefit leasing' to describe lease and leaseback deals and extends this to cover sale and finance leasebacks.

Structures primarily affected are the '222' leases and 'premium lease' deals. The former depends on a loophole created by Section 222 of the Capital Allowances Act, where a company enters into a sale and leaseback of equipment. The sale is largely untaxed and the lease rentals are also deductible for tax purposes.

In the case of the latter, the premium lease – also called lease-to-premium or loli (lease-out, lease-in) – the structure has allowed similar benefits from a lease and leaseback deal. This means that the owner of equipment receives a premium for consenting to a lease on their property and subsequently leases it back, again deducting lease rentals and retaining capital allowances.

"Some businesses have exploited the capital allowance rules," said the report in preparation for the budget. "This new measure will remove the unintended tax benefits for lessees by limiting the relief for the lease rental payments."

In the meantime, it is crucial for companies to determine where they stand and how these changes will affect them in terms of structuring lease transactions. It is then up to the companies to make sure the necessary changes are enacted before the regulations take effect. **www.inlandrevenue.gov.uk**

Small banks suffer

Small national banks are suffering at the hands of large international players, and changing the way that corporates view their relationship banks. International banks are increasing their market share in Europe and taking over business in the domain of the smaller players. This includes those that have served as the traditional suppliers of credit to European companies, according to research by Greenwich Associates (GA).

This shift in market share from domestic banks to international competitors could transform today's buyer's market into something more closely resembling the United States, according to GA, where companies feel the need to reward banks that provide credit with higher margin business.

"The current European business environment favours the pan-European and international banks," explains GA consultant Berndt Perl. "And those banks will be much more effective at fostering a US-style credit model."

According to the report, European corporations currently enjoy easy access to credit relative to their counterparts in the United States. But GA says that with these changes it is imperative for companies to evaluate their credit needs and the impact that a reduction or concentration in supply would have. However, as many of Europe's domestic banks adjust their traditional strategies to the modern European marketplace and international banks extend their market penetration, GA recommended European corporate executives begin to consider how a reduction or concentration in credit supply would affect their financing strategies.

In another report, GA found that competition among banks for treasury management business is benefiting companies and institutions around the world by making credit more easily available, customer service more focused and electronic services more efficient.

While treasury management customers stand to reap considerable gains from these developments, they must also be on guard against customer service downgrades by banks that are increasingly segmenting their client lists on the basis of profitability, said GA.

The report went on to explain that with new coverage systems, banks will be able to monitor the relative profitability of their accounts more efficiently than they had in the past.

Robert Statius-Muller, GA Consultant, said: "If a given company is producing too few profits in comparison with other corporations in its category, it is liable to get downgraded in terms of coverage, idea flow, and service generally." **www.greenwich.com**.

IN BRIEF

- A new version of SOXA Accelerator – which helps US-listed European companies address the challenges of the Sarbanes-Oxley Act – has been launched by HandySoft Global and Plumtree Software. SOXA Accelerator 2.0 provides updated reporting capabilities for improved control and administration. It also provides enhanced support for Sarbanes-Oxley Sections 302 and 404. Section 302 requires CEOs and CFOs of public companies to certify their company's financial results quarterly and annually. Section 404 requires public companies to compile annual reports on the effectiveness of their reporting process and internal controls. **www.handysoft.com – www.plumtree.com**

- The Treasury Workstation Integration Standards Team (TWIST) standards initiative has announced that BACS Limited and Eurobase International have agreed to become gold-level sponsors. The TWIST initiative was formed to stimulate the adoption of common standards built around XML across the financial services industry. **www.twiststandards.org**

- Wachovia's International Division has entered into an agreement with eTraderoom to make a web-based service. It is hoped the service will simplify international trade for middle-market customers. The agreement provides middle-market businesses access via a secure web-based location, to information and resources required for cross-border trade. **www.wachovia.com – www.etraderoom.com**

- Wall Street Systems has launched the Credit Derivatives module and Structured Products Framework for creating, tailoring and auditing structured products. The products offer advanced ability to manage complex products and their inherent risks. The new Credit Derivatives module is available either as a standalone solution, or as an integral part of the Wall Street System treasury and capital markets solution. **www.wallstreetsystems.com**

Clearing up in settlement

Securities regulators in the EU have published revised proposals for harmonising clearing and settlement, in an effort to broker a compromise between depositories and custodian banks over the imposition of tougher regulatory standards.

The revised blueprint from the Committee of European Securities Regulators (CESR), and the European System of Central Banks (ESCB), covers 19 draft standards aimed at making Europe's patchwork clearing and settlement systems safer and more efficient. An initial draft of the rules called for the imposition of tougher standards on banks operating "systemically important" clearing and settlement systems. This encountered resistance from agent banks operating under the banner 'Fair & Clear'.
www.fsa.gov.uk/international/2_cesr.html
www.euro.ecb.de/en/what/system.html ■

Investment rules

National financial authorities will soon have a clearer picture of the intertwining European rules on collective investment funds (UCITS). This will also cover the financial derivatives in their portfolio.

The commission, following on from its directive on investment funds, has adopted two recommendations to ease the common implementation of some crucial EU rules on UCITS, such as unit trusts, common funds and SICAVs.

The first recommendation adopted by the EC contains clear rules and principles to set the stage for robust risk management standards for derivatives such as options, futures or swaps. **www.europa.eu.int**. ■

PERCENTAGES

GET PAID

The latest remuneration poll by Watson Wyatt puts the UK in the top five in terms of take-home salary. Annual total remuneration includes bonuses and other incentives, and in some countries a higher proportion of earnings are typically at risk. The top-five countries with the highest basic pay for a top manager are Switzerland, Germany, the UK, Norway and Belgium with earnings over €135,000. Tax and social security payments also have an impact, meaning the countries with the highest average net earnings for top managers are Switzerland, the UK, Germany, Luxemburg and Spain, with earnings over €108,000. Countries with the lowest take-home pay for top managers are Finland, Sweden, Greece, Belgium and Denmark, who earn less than €85,000.
www.watsonwyatt.com

DOUBLE VOLUMES

With electronic foreign exchange (e-FX) trading still soaring, almost 50% of global FX institutions still say they have no intention of trading online. But that is not enough to stop users, as growth within the ranks of e-FX market participants was enough to double electronic trading volumes to $8 trillion in 2003, according to a survey by Greenwich Associates. **www.greenwich.com**

FORTHCOMING EVENTS

REGIONAL GROUPS

Midlands Group: Economics update from the RBS Chief Economist
Date of Event: 7 June 2004
Contact Email: jmessore@treasurers.co.uk
Event Location: TBC

ACT Thames Valley Group Event: Insurance Issues for Corporate Treasurers
Date of Event: 8 June 2004, evening starts at 7pm
Location: Marsh, Marlin House, Brunel Road, Theale, Reading, RG7 4BY
0118 958 5235 (Marlin House Reception)
Directions: At Junction 12 take the A4 west towards Theale. Go straight over the first roundabout (Arlington Business Park). Take the next left off the dual carriageway signed towards the Station. At the double roundabout turn right, then left towards the station. Ins Merlin House is on the left hand side after just 75 metres. There is ample car parking available around the building.
ksowden@treasurers.co.uk

For more information, contact Anna McGee amcgee@treasurers.co.uk 020 7213 0719. Or visit our website at ***www.treasurers.org/membership/rgoevents.cfm***

Outsourcing to rise

Corporates must become comfortable with banks that no longer provide full services within the institution itself, as outsourcing is set to soar.

This claim, made in a report by ABN Amro Bank, said the trend for outsourcing of global trade activities is set to increase rapidly for corporates and financial institutions alike.

The report claims that the number of financial institutions considering outsourcing their trade operations, either in part or in full, is increasing as consolidation takes place. The top 2% of banks currently handle 70% of trade volume.

The focus on effective working capital management is driving corporates away from using transactional banking products for specific needs, according to ABN, and there is a move towards a more holistic approach to their financial supply chain.

The report found that 67% of companies surveyed already had active programmes under way to improve working capital.

Daniel Cotti, Managing Director of Working Capital Global Trade Advisory at ABN Amro, said: "With an increased focus on working capital it becomes clear that by consolidating and outsourcing trade activities, corporates can benefit from the core competencies of banks in financing and settlement, business and process expertise, regulatory knowledge and global presence."
www.abnamro.com ■

ACT library change

The IFS library, which held the ACT's collection of books, has closed and the collection has been moved to the ICAEW Library and Information Service.

The ICAEW Library and Information Service is a leading business library with unrivalled holdings of publications in accounting and auditing and important collections in taxation, law, finance and management.

Members and students can acccess the ACT and ICAEW collections by visiting the library and can also have material sent on loan by post or have pages faxed to them.

ACT students and members have free access to the full range of services available, including the enquiry service (available by email, fax and phone), company information services, photocopy/fax services and online information.

The library is at Chartered Accountants' Hall, Moorgate Place and visitors are asked to use the entrance at 11 Copthall Avenue EC2.

Upon entry, visitiors will be asked for proof of ID. Opening hours are Mon-Thur 9am-5.30pm; Fri 10am- 5.30pm.

On the move...

■ **Martin Anderson AMCT** has joined Credit Lyonnais. He was previously at Tokyo-Mitsubishi International in Energy Derivatives.

■ **Paul Astruc AMCT** has been appointed Financial Controller of AIB Group (UK) plc, which trades as Allied Irish Bank (GB) in Britain and First Trust Bank in Northern Ireland. Mr Astruc, previously at Abbey, has just completed his Executive MBA at Cass Business School in London.

■ **Barbara Bailey AMCT**, previously Assistant Treasurer at Kingfisher plc, has joined Kesa Electricals plc as Group Treasurer.

■ **Sarah Boyce AMCT** has been appointed International Treasurer at Cadbury Schweppes plc. Previously she was Treasury Operations Manager.

■ **Katherine Horrell AMCT** has joined Hewlett Packard Ltd as Treasury Consultant. She previously worked for the BOC Group plc as Treasury Analyst.

■ **Michelle Morrison AMCT**, formerly Group Treasury Manager at AEA Technology, is now Head of Group Treasury Operations at Imperial Tobacco.

■ **Guy Thomas FCT** has been elected as a Board Member at Principality Building Society following his appointment as Finance Director.

■ *Please send items for inclusion (including daytime tel no) to Anna McGee, amcmgee@treasurers.co.uk*

SOURCES • bfinance.co.uk • The News section was compiled by Denise Bedell • Press releases should be addressed to lsalecka@treasurers.co.uk.