Hotline

Welcome to the March Hotline. This month, a key technical theme at the ACT is the role of the rating agencies. John Grout, ACT Technical Director, previews a much anticipated report by the US regulator on the future of credit ratings on page 17 and launches a new ACT Working Group looking at rating aspects. For those who would like to get more up to date on ratings issues, there will also be a one-day conference on Thursday 20 March 2003, 'Rating Agencies: Prophets, Judges or Mere Mortals?' which includes panel discussions featuring the treasurers of leading companies such as Aviva, BAT, BT, ICI, Invensys and United Utilities. Places are still available by contacting mrahman@treasurers.co.uk. If you have any comments on any of the topics covered in Hotline, please contact technical@treasurers.co.uk. ■ *Sheelagh Killen, Technical Editor. skillen@treasurers.co.uk.*

COMPLIANCE

Inside knowledge

Work continues on implementation preparations for the EU Directive on Insider Dealing and Market Manipulation (Market Abuse Directive).

In February 2003, the European Commission issued its second mandate to the Committee for European Securities Regulators (CESR) for technical advice on implementing measures under the Market Abuse Directive adopted on 3 December 2002. The CESR has already submitted initial advice to the European Commission on the Directive at the end of last December covering:

- The definition of inside information (article 1 of the Directive).
- The definition of market manipulation (article 1).
- The disclosure obligations of issuers (article 6).
- The requirements for research (article 6).
- The conditions for access to the safe harbours for share buy-backs and stabilisation (article 8).

The CESR has been asked to finalise its second submission by 31 August 2003 and will therefore publish a preliminary draft of its advice for consultation in April 2003. Full details of the advice requested by the Commission and earlier CESR submissions are available at **www.europefesco.org**. ■

DERIVATIVES ACCOUNTING

Open to debate

On 12-14 March 2003, the International Accounting Standards Board (IASB) will be holding Open Meetings in London to discuss proposed amendments to IAS39 and IAS32 on the accounting treatment of financial instruments. Jon Boyle, Chairman of the ACT Technical Committee and member of the ACT's Derivatives Accounting Working Group (DAWG), will be representing the ACT at the afternoon session on 13 March 2003. The meetings will be held at One Whitehall Place, London, and there are some places available in the public gallery. Members interested in attending should visit the IASB website at **www.iasb.org.uk** for details of admission.

For a copy of the ACT's written response to the consultation on FRED30 and IAS39 and IAS32, go to **www.treasurers.org/treasury_resources/fred30_act.cfm**. ■

FINANCIAL REGULATION

Governance for life

The FSA continues to cement its role as regulator of the UK insurance sector with its latest programme of proposed reforms for the life insurance business. A new Consultation Paper (CP167) includes a number of far-reaching proposals including plans to:

- make the use of discretion in with-profits funds more transparent;
- make directors and senior management of life insurers explicitly responsible for all decisions of their business, including those taken on actuarial advice;
- include an independent review of the valuation of life insurers' policyholder liabilities in the scope of the annual audit; and
- change the certification process for regulatory returns, with which all insurers (life and non-life) would need to comply.

John Tiner, FSA Managing Director for Insurance, stressed the importance of strong corporate governance for life insurers, maintaining that the proposed measures would "shine a searchlight into life insurers' boardrooms". The Consultation Paper can be downloaded at **www.fsa.gov.uk/pubs/cp/cp167.pdf**.

For more on treasury practice in the life insurance sector, see the Legal & General case study in the Spotlight section, p35. ■

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EQUITY FINANCE

Provisional licence

The Financial Services Authority (FSA) has published an interim update on its project to review the UK Listing Rules. The update summarises the main themes drawn from responses to the consultation which focused on five key area of the Listing Regime (see October 2002 Hotline, p 10):

- **Corporate Governance.** Respondents considered that the Listing Rules played a valuable role in supporting the Combined Code. There was also support for the Model Code.
- **Corporate communications.** There were mixed views about the selective disclosure of price-sensitive information, although respondents generally agreed that some reform was needed in this area. The majority of respondents also agreed that the rules relating to the publishing of forward-looking information needed reform.
- **Shareholders' rights.** There was strong support for existing provisions designed to protect the interests of shareholders.
- **Financial information.** Respondents generally did not favour a significantly increased role for the FSA. They were concerned about the proposal in the draft Transparency Obligations Directive for quarterly reporting. There was strong support to maintain the requirement in the Listing Rules for a working capital statement.
- **Sponsor regime.** Most respondents supported the current regime. However, some respondents questioned whether others could not undertake the role played by sponsors. There was also a concern that the requirements for qualifying as a sponsor were onerous.

Ken Rushton, Director of Listing at the FSA, summarised the overall tone of responses, commenting that "the feedback we have received so far has been supportive of the FSA's current approach and has highlighted the need to maintain the UK standards of investor protection".

The FSA expects to publish follow-up Consultation Papers on this topic in Summer 2003 and Spring 2004, in line with its intention to co-ordinate the overall timetable for the Listing Review with the implementation of relevant European legislation. The original July 2002 Discussion Paper can still be downloaded at **www.fsa.gov.uk/pubs/discussion/14/**. ■

This month in treasury

TECHNICAL AREA	WHAT'S HAPPENING?	WHAT NOW?	WHEN?	WHAT NEXT?
GET INVOLVED				
RATINGS	**New ratings regulation?** SEC issues interim report on role of credit ratings	**ACT working Group.** Please refer to John Grout's article on p17 of this edition and find out about a new ACT Working Group	Final SEC report expected by end of March 2003	**March event.** For the latest issues in the ratings world, attend the ACT Ratings Conference on 20 March 2003. Contact mrahman @treasurers.co.uk
FOR INFO				
CORPORATE GOVERNANCE	**Auditors under spotlight.** DTI issues new proposals on accounting and audit supervision	**Key proposals.** For a summary of the planned changes, see Hotline item		**Governance focus.** For more on corporate governance, review last month's Spotlight and the February Hotline
EQUITY FINANCE	**FSA update on listing rules.** Interim responses on Listing Rules consultation	**Hotline reports.** More details in Hotline		
FINANCIAL REGULATION	**New life responsibilities.** FSA publishes consultation paper on Board accountability in life insurers	**Details.** For more information, refer to the Hotline		**Treasury in the life business.** For more on the challenges of treasury in the life insurance sector, see the case study on p35.
DERIVATIVES ACCOUNTING	**IASB open house.** ACT to attend public meetings on IAS39 and IAS32 in March	**Attendance.** To hear the discussion, visit www.iasb.org for admission information		**ACT response.** Visit www.treasurers.org for a copy of the ACT written response on FRED30 and IAS39/32
COMPLIANCE	**Abuse directive study.** Work continues on implementation strategy for EU Market Abuse Directive	**Latest developments.** See Hotline and www.europefesco.org for more details		

CORPORATE GOVERNANCE

Called to account

The Department of Trade and Industry (DTI) has announced a proposed package of measures aimed at improving regulation of the accounting and auditing professions in the UK. The new regime will be founded on the combined recommendations of the Coordinating Group on Audit and Accounting Issues and the DTI review into the regulatory regime governing the work of the accountancy profession (see November 2002 Hotline).

The proposals include plans to:

- create a single authoritative regulator with responsibility for setting accounting and auditing standards, pro-actively enforcing and monitoring them as well as overseeing the regulatory functions of the professional accountancy bodies;
- transfer responsibility for setting ethical standards on independence, objectivity and integrity from professional accountancy bodies to an independent body – the Auditing Practices Board;
- establish a new independent audit inspection unit to monitor the audits of listed companies, major charities and pension funds;
- set up the long-delayed Investigation and Discipline Board with the power to remove eligibility to audit from firms and individuals;
- improve auditor independence by rotating the lead audit partner every five years and introduce greater transparency about major audit firms' businesses;
- prevent partners and senior employees of auditing firms taking up employment with a company they audit within two years of leaving; and
- enhance the role of audit committees and ensure larger companies disclose more information about non-audit services they buy from their auditor.

"The report of the review of the regulatory regime of the accountancy profession represents an important move forward. It is tough, but fair," said Charles Tilley, Chief Executive of the Chartered Institute of Management Accountants (CIMA), while Institute of Chartered Accountants in England and Wales (ICAEW) President, Peter Wyman, commented that "The report sets out a comprehensive and sensible package of measures, which build on more than a decade of corporate governance and financial reporting reforms here in the UK and… will further enhance the quality of UK auditing, which is already widely acknowledged as the global benchmark."

The Co-ordinating Group on Audit and Accounting was set up by the Secretary of State for Trade and Industry and the Chancellor of the Exchequer in February last year to look at the whole range of audit and accounting issues which were raised post-Enron, and to make recommendations to the government. The Group is jointly chaired by Melanie Johnson (DTI Minister for Competition, Consumers and Markets) and Ruth Kelly (Financial Secretary to the Treasury) and members of the Group also include independent academic experts as well as representatives from the main regulatory bodies.

The full proposals of the review of accountancy regulation, all of which have been accepted by the Secretary of State, will be taken forward by a DTI-chaired steering group. The Chair of the Financial Reporting Council, Sir Bryan Nicholson, and that of the Accountancy Foundation, Lord Borrie, have both agreed to serve on the steering group which will also include the ICAEW's Peter Wyman.

The report of the Co-ordinating Group on Audit and Accounting and the DTI's review of audit regulation can be viewed on the DTI website at **www.dti.gov.uk/cld/post_enron.htm**.

For comments on Hotline or news,
please contact Sheelagh Killen at **technical@treasurers.co.uk**.

News

CORPORATE CONTROLLING

Budgeting for the future, not the past

Company budgets may already be redundant before they take effect, according to a report by ALG Software, as finance directors focus solely on last year's financial data instead of looking forward with more predictive accounting methods.

The report looks at whether budgets are still dominated by finance and too focused on costs and control, to the detriment of key non-financial drivers of today's corporate. Backward-looking approaches to performance management are entrenched within organisations, argues the report. A major initiative for many companies has been the 'fast close' (the relentless pursuit of closing books and sub-corporate level reports ever earlier), which often requires significant enterprise-wide effort and costs.

According to KPMG Consulting's *Fast Close Survey 2002*, UK and mainland European companies still currently take 17.2 days to submit sub-corporate level reports and 48.5 days to publish financial results. But, according to ALG, by the time these results are calculated and the books are closed at the end of a period, the business is well into the problems of the next period and beyond.

The analysis of the last period is actually irrelevant to the operational managers who drive the financial results, says ALG, as few executives manage their responsibility centres by constantly and only looking at their costs. They generally focus on the handful of key non-financial performance indicators that drive those costs. **www.armstronglaing.com**. **www.kpmg.co.uk**. *bfinance*

MONEY MARKETS

IMMFA sets code of practice

The Institutional Money Market Funds Association (IMMFA) has released a code of practice to create internal consistency between members, maintain high standards in the industry and support investor confidence in IMMFA funds. Members include promoters and service providers for triple-A rated constant and accumulating net asset value money market funds domiciled in the EU.

According to IMMFA, the Code sets standards of best practice for members in the management and operation of triple-A rated money market funds. The aims of the code are to clarify the basis on which members are admitted to IMMFA and the fundamentals on which members' funds are managed; to ensure a consistent approach to valuing funds for greater transparency and comparability; and to ensure the regular publication of standardised data about members' funds. **www.immfa.org.** ■

TAX LITIGATION

Tax back for EU parent companies

The Advance Corporation Tax (ACT) Group Litigation case, settled in the High Court in early February, could prove beneficial for some UK companies, according to PricewaterhouseCoopers (PwC). The group litigation follows on from the March 2001 ruling by the European Court of Justice on the Hoechst case, in which the court ruled that the now-defunct ACT tax was unlawfully levied and retained by the Inland Revenue (IR) against UK companies with a parent in another EU member state.

According to PwC, the claims relate to ACT levied on dividends paid to those parent companies by their UK subsidiaries, and the group litigation – which is a group action of over 100 claims – marks a widening of the IR's liability under the Hoechst judgment.

The decision paves the way for all UK companies with EU or European Economic Area parents to seek relief for past ACT payments, says PwC.
www.pwcglobal.com. ■

EC NEWS

Treaty of Nice takes effect

At the beginning of February 2003, the Treaty of Nice entered into force in the EU. The treaty makes changes to many European institutions to enable the EU enlargement process. According to officials, it will also allow Europe to act more effectively by getting rid of the national veto right in some areas. The institutional adaptations will take effect in 2004, which is when the first new countries are expected to join the EU.
http://europa.eu.int/. ■

Bolkerstein speaks on EU governance

Fritz Bolkerstein, in charge of Internal Market and Taxation for the EU, spoke at a Clifford Chance conference in late January about the future of corporate governance within the EU. He said corporate governance was very high on his political agenda:

Bolkerstein said : "For me, it is now a matter of utmost priority to come up with a communication on company law and corporate governance. I intend to do so by the end of the first quarter of 2003."

In the communication, the commission will present its action plan, define priorities and determine whether initiatives should use binding or non-binding instruments.

"We do not intend to act solely through legally binding acts, namely directives or regulations, but we will use all tools that we have available: legislative and non-legislative, whatever is more appropriate for a given problem," explained Bolkerstein.

He added that regardless of the outcome of the consultation process, he does not believe there is a need to establish a comprehensive EU Corporate Governance Code. He said the EU cannot ignore the differences in corporate governance arrangements that frustrate the realisation of a single capital market: "But we are also aware of sensitivities in this area. Any initiative at EU level should therefore only address those barriers that truly arise in practice. This is why our work should in principle not go beyond publicly traded companies."

"Given the multitude of corporate governance efforts in the Member States, I also firmly believe in co-ordinating these efforts," he added. "The ultimate goal of such enhanced co-ordination would be to foster convergence not only as far as the content of the codes is concerned, but also regarding monitoring and enforcement of compliance with the codes."
http://europa.eu.int/.■

Using your voice

The European Commission has created a new web portal to facilitate EU-wide participation in policy-making. The portal, called 'Your Voice in Europe', replaces the previous version, offering information and services by all eleven EU languages. The goal is to help business, citizens and all other stakeholders communicate their views on new policy initiatives to the Commission. In addition, results of consultations will be available immediately upon closing, which should increase transparency and accountability in the EU's policy-making process.

The portal gives access to the Commission's public consultations covering all EU policies. Users can participate directly by sending comments or filling in on-line questionnaires.

In addition, users will be able to use the portal as a discussion forum, to share views with other participants and discuss issues directly with policy-makers.
http://europa.eu.int/yourvoice. ■

In brief...

ABN AMRO has made changes to its trade finance portal MaxTrad. The MaxTradSM portal provides online trade solutions, services and support to corporates and financial institutions. MaxTrad applications are available in 25 countries. Following the recent MaxTrad 4.0 release, which features import collections and Letter of Credit/Documentary Collections Letter on the export side, ABN AMRO has updated labels for bank text links and improved the L/C edit function. **www.maxtrad.com.** ■*bfinance*

Deutsche Bank and **ABN AMRO** have released a suite of credit default swap products linked to the iBoxx indices. The primary product, iBoxx 100, is linked to the performance of the top 100 in the iBoxx euro Corporate Overall index. It is weighted by their duration-adjusted market capitalisation. For deals of up to €50m, a live tradable two-way market will be available with a joint market-making capability. **www.db.com. www.abnamro.com.** ■

Electronic currency broker **EBS** and **The Royal Bank of Scotland** have launched a new FX benchmark, EBS RBS FiX, to enhance corporate insight into interbank dealing rates and to set a price for bundling subsidiary deal flows. There are benchmarks generated for 61 currencies, which are fixed at set points across time zones and published soon after. RBS has also introduced an online product allowing clients to deal at FiX prices at pre-agreed spreads. **www.ebs.com. www.royalbankscot.co.uk.** ■

Eiger Systems has launched BANK WIZARD International, a pan-European bank account validation system allowing customers to validate bank details across various European countries in a single application. The system uses a software application combined with a frequently updated database of bank details to validate sort codes and account numbers, and has functionality in place to deal with different formats, rules, and modulus checking in each country. **www.eiger.co.uk.** ■

JPMorgan Treasury Services has added a new euro bank-to-bank reimbursement processing system to its UK operations centre. The system enables dual-site processing capabilities – including common service standards, pricing parameters and functionality – by integrating euro and US dollar reimbursement processing on one operating platform. It also offers automated discrepancy tracing, automatic debit and credit advising, automated pre-debit notification messaging, and includes a link to JPMorgan's Trade Information Exchange (TIE) system. **www.jpmorgan.com.** ■

Kiodex's flagship Risk Workbench platform has been upgraded. It features new Value-at-Risk (VaR) and Cash-Flow-at-Risk (CFaR) reporting tools, a foreign-exchange tools module, improved monitoring of physical-delivery exposures and transportation and storage risk reporting capabilities. In addition, European Swaptions have been added to the range of products for which clients enter, price, and run reports. **www.kiodex.com.** ■

Misys Asset Management Systems has launched the latest version of Quasar, its global back-office solution. According to Misys, Quasar 6 offers users improved business workflow, flexibility, usability, and unrestricted open-data access within the Quasar-related operational and business environments. **www.misys-ams.com.** ■ **>>**

HIGGS REPORT

ACT gets connected

Improved controls and process efficiencies are two of the key benefits for treasuries developing the capability to execute foreign exchange (FX) transactions online, according to a recent ACT/British Bankers' Association online FX seminar sponsored by HSBC. Moreover, treasurers found that a substantial percentage of these benefits could be achieved by the staged automation of steps in the trade flow cycle without the need to move direct to full straight-through-processing (STP).

Speakers at the event included Hans van den Bosch and Tipi Jokiranta, who shared their experiences of online FX implementations at Unilever and Diageo respectively. The programme also included informative presentations on the current e-FX marketplace, security, legal aspects and STP developments. ■

STRUCTURED FINANCE

Securitisation takes off

Although it was a bumpy road to get where it is now, securitisation has become a mainstream financing tool in the UK. In 2002 the UK and Ireland became the biggest market in Europe for structured financing, with a total issue volume of €59bn, according to Moody's Investors Service.

Although slow to start, the market took off last year with 5% growth overall and strong activity across all asset classes, said Moody's in its yearly review. The group said investors recognised the strength of the UK economy versus some of its European neighbours, and also the well-established legal and regulatory framework for structured finance in the UK.

The ratings agency said issue volume is expected to grow steadily in the coming year. **www.moodys.com**. ■

CORPORATE CREDIT

Credit outlook improves

The outlook for corporate credit quality in Europe will improve in 2003 after a record deterioration in 2002, according to a report from Standard & Poor's (S&P). However, the credit worthiness of many corporates will continue to be challenged – constrained by a poor earnings environment, tepid economic performance, and a low volume of asset sales amid widespread equity-market jitters. Insurance companies, banks and utilities are among the most vulnerable to potential downgrades, according to the report.

"In 2002, EU credit quality plummeted to record lows," explained Diane Vazza, S&P's head of fixed income. In total, 168 downgrades and 23 upgrades were recorded in the full year.

"The creditworthiness of European firms remains under pressure from increased liquidity risk, since bond markets are inaccessible for financially weaker issuers at a time when banks are increasingly selective in their lending decisions," Vazza warned. **www.standardandpoors.com**. ■*bfinance*

<< **The Royal Bank of Scotland** (RBS) has announced that it is restructuring its treasury outsourcing operations. Various strands of RBS Financial Markets e-commerce activities will be combined with existing outsourcing operations to form a single unit. The new team includes E-ventures, RBS Agency Treasury Services, the group's proprietary foreign exchange and money markets dealing system, external website development and all other e-commerce projects in interest rate derivatives and capital markets. **www.royalbankscot.co.uk.** ■

SimCorp has launched version 5.0 of its corporate treasury management system, IT/2. The two most significant enhancements are a new user interface, Treasury Workspace, and a new web front-end module, IT/2 NET. Other developments include enhancements to the system's reconciliation and limits facilities. IT/2 NET provides a web-based front end, to allow subsidiaries secure communication with central treasury, and gives subsidiaries access to run reports from central treasury. Also, the addition of Treasury Workspace gives users instant access to a whole range of information and different applications from within a single screen, says SimCorp.

SimCorp, has also launched a new sales channel, IT/2 Choice, in connection with the launch of version 5.0. IT/2 Choice allows corporates to download a prepackaged version of the system from their website for a test period. SimCorp says it lets prospective customers test IT/2 directly and assess the product's functionality and application potential. The group says it would incur substantially lower distribution costs than before with the addition of IT/2 Choice. Previous sales channels will still be maintained for those who prefer it, according to the group. **www.simcorp.com.** ■

SuperDerivatives has added a customisable interface to its benchmark currency options pricing system. Clients can drill down and configure the system to show the information they need to price and trade options. It is already available to the group's customers and can be switched to in real-time or set as the default. The goal of the simplified interface is to encourage more buy-side users to price and use options to hedge FX exposures. **www.superderivatives.com.** ■

Percentages...

UK mid-caps big on invoice discounting. Small to mid-sized firms in the UK are some of the key exponents of factoring and invoice discounting in Europe, according to statistics from the International Factoring Group (IFG) and the Factors and Discounters Association (FDA).

Figures from the IFG reveal that the UK is second only to Italy in the volume of factoring carried out across Europe, with a 29.5% share of the factoring market across Europe. Total funding provided has increased from £1.3bn in 1991 to £7.1bn at year-end 2001. And according to the FDA, market growth will continue in the UK in 2002.

Figures from the IFG also found that invoice discounting is likely to become the dominant force in other 'mature' European countries where the legal environment allows. **www.factors.org.uk.** ■*bfinance*

Better service for better savings. CFOs believe improvements in services procurement and management could save their companies nearly $95m per year in services-related costs, according to a **>>**

Forthcoming events

REGIONAL GROUPS:

7 April 2003, 18.30 – **Midlands** – Securitisation
Speaker: James Newman, Deloitte & Touche
Venue: Deloitte & Touche, 4 Brindleyplace Birmingham

4 June 2003, 18.30 – **South West** – Economic Update
Speaker: Mark Berrisford, HSBC
Venue: Arval PHH PHH Centre Windmill Hill Swindon

3 September 2003, 18.30 – **South West** – Managing Risk, Joint meeting with AIRMIC
Venue: Royal Bank of Scotland Account Management Centre, 740 Waterside Drive, Aztec West, Bristol

12 March 2003, 18.00-20.00 – **South East Regional Group**
Speaker: Brian Welch, Usercare Treasury Consultancy
Venue: Nera Satellite Services, 6 Wells Place, Gatton Park Business Centre, Redhill, Surrey

*For more information, contact John Messore on **01242 284647** or email **jmessore@krafteurope.com***

CONFERENCES:

20 March – **Rating Agencies: Prophets, Judges or Mere Mortals?**
The Royal Society of Arts, London, WC2

*For further information contact Makayla Rahman **mrahman@treasurers.co.uk***

RATINGS AGENCIES

Liquidity reigns

Rating agency Moody's Investors Service said it will focus more on liquidity and generation of free cash flow, rating triggers and parent-subsidiary support structures in its rating analysis of European corporates. The change is in response to possible continued turbulence in Europe's bond markets and closer public scrutiny of rating agencies on the back of high-profile corporate defaults.

Richard Stephan, Chief Credit Officer of Moody's European Corporate Finance Group, explained: "Moody's credit analysis of European corporates now places greater emphasis on liquidity and the generation of free cash flow than on earnings (as represented by Ebitda.) We believe that liquidity and free cash flow are better indicators of a company's ability to meet financial obligations when facing a variety of unforeseen challenges." **www.moodys.com.** ■

<< study by Forrester Research. When asked to estimate how much their companies could save if they could find the right service suppliers, negotiate better contracts and ensure compliance with those contracts, survey respondents estimated an average annual savings of 9.6%.

However, the study found that visibility into services expenditures remains low – about half of the CFOs surveyed did not know the ratio of services-to-goods expenditures for their company.

The Forrester study also asked CFOs about their spending priorities for 2003, including outsourcing. More than half (54%) of CFOs reported that increasing the use of lower-cost outsourcing alternatives would be a priority in 2003. **www.forrester.com.** ■*bfinance*

M&A still weak. KPMG Corporate Finance reports that the total value of global M&A deals has fallen sharply since mid-2002, making this the fifth successive half-yearly drop. The total for 2002 was 17,414 deals worth $996bn – a 47% reduction in value and 24% decline in numbers compared to last year. The report shows the most depressed set of statistics for over seven years.

In the UK figures were similar, with a fall of 25% in total deal numbers, from 3,443 in 2001 to 2,580 for 2002. The total value of UK deals declined from $264bn in 2001 to $163bn by the end of 2002 – a 38% drop. In addition, the UK had a 47% decline in cross-border deals. Cross-border transactions now account for 60% of total UK activity compared to 70% in previous years. Despite this, the UK remains a major bidding force and a target for overseas investment after the US, concludes the consultancy. **www.kpmg.co.uk.** ■*bfinance*

Outsourcing to rise. Spending by European corporates on IT outsourcing will rise by over a quarter in the next two years, according to new research from Datamonitor. And although largely untapped, Datamonitor says business process outsourcing (BPO) will be the area likely to receive new business between 2003-2005.

Although much scepticism surrounds it, the end of 2002 showed that a number of key corporates were willing to consider outsourcing all or part of their IT functions. Datamonitor predicts that European corporates and financial services firms will spend $12.4bn by 2005. In 2002, money on IT outsourcing reached $9.7bn.

However, the research points out that BPO will fail to deliver on its potential if technology vendors do not make the business proposition clearer to potential clients. The group says that in most niche markets, vendor strategy and benefits offered to institutions remain confusing and ill-defined. **www.datamonitor.com.** ■*bfinance*

Funds love corporate bonds. A survey of 167 UK pension funds with £73bn of assets under management shows that the love affair with equities has yet to be rekindled, despite a modest rally in the FTSE 100 and Dow Jones in late autumn. The survey by fund tracker Lipper showed balanced funds in the pension and life sector reduced equity allocations in the US by 0.3% to 6.7% of total holdings in December.

Pension funds raised UK debt holdings to an average of 12.7% from November's 12.3%. Life firms running £31.29bn of assets cut UK stock holdings to an average of 55.7% in December from 55.8% in November. Life firms raised UK bond holdings to 13.1% from 12.8%. **www.lipperweb.com.** ■*bfinance*

BASEL UPDATE

Changes for the better

Changes to the Basel II Capital Accord are all for the better, according to Fitch Ratings. In a report commenting on the proposed changes, Fitch says the Basel Committee has moved closer to its goal of better aligning regulatory capital with underlying economic risk. The changes provide better incentives for financial institutions to use more precise measurement techniques, according to Fitch, and the Accord may enhance mid-to-lower quality capital market activity.

Says Fitch: "Under the new Basel II proposals, the level of required regulatory capital will increase as credit risk increases. Fitch believes that the pursuit of funding in the bond markets, particularly by non-investment-grade companies, may become relatively more attractive than it had been previously under the 1998 Accord, where a flat 8% capital requirement was levied for all corporate exposures irrespective of underlying risk."

The proposed changes primarily affect the internal ratings-based (IRB) approaches and include lowering required capital for sovereign, bank and corporate credits versus charges proposed in 2001; changing the correlation assumptions within the corporate and retail risk curves; adding new risk curves for certain asset subclasses; changing the loss given default and maturity assumptions in the foundation IRB; allowing the recognition of loan loss reserves as an offset to required capital and of future margin income on credit card portfolios and specifying the treatment of equity holdings. **www.bis.org/bcbs. www.fitchratings.com.** ■

Banks struggle to meet deadlines

Only 17% of European financial institutions are on course to meet the Basel II deadline, according to a survey by business analyst SAS. The survey also suggested that 70% of respondents were not managing risk as effectively as they could.

Over 80% of respondents said that risk management is more important than ever given recent high profile accounting scandals and 90% said that poor management of credit risk is a real threat to their own organisation – but only 17% were confident that their organisation will meet the deadline for the Basel II Capital Accord.

The Bank for International Settlements has set implementation for the accord for next year but institutions need three years of historical operational and credit risk data before that date. The quality of the data was cited by 65% of survey participants as their greatest concern. **www.bis.org/bcbs www.sas.com.** ■*bfinance*

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