Banks must beef up their internal controls

Hayes: not hard to buck system

Internal controls and trading practices may need tightening in many international investment banks, where cases of overstepping the mark are "far from uncommon", according to law firm LG.

Amid widening questions about banking compliance in the wake of scandals involving Société Générale and Northern Rock, Angela Hayes, Regulatory Partner at LG, said she had come across a number of cases involving major investment banks "which led me to question the overall level of controls".

She added: "It doesn't seem to be very difficult to buck the system in many large banks. Clearly, it's not possible to prevent a determined fraudster, but it is possible to ensure any irregularities are picked up swiftly before too much damage is done."

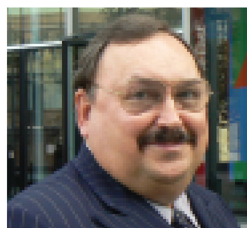
European regulation in the shape of MiFID was introduced last November to regulate potential conflicts of interest more rigorously, but there is no evidence of a significant change in working practices.

"The legislation is in place for the Financial Services Authority to press the banks to address internal controls more vigorously and this might be a good moment for a review of their progress in complying," Hayes added.

ASB pension proposals pose dilemma

The pension accounting proposals of the Accounting Standards Board (ASB) will have far-reaching consequences if accepted, pensions consultancy Mercer has warned.

The ASB proposals include the suggestion that companies use a lower discount rate in calculating the value of their future liabilities and substitute actual investment returns for expected investment terms.


Hawkins: surprising

John Hawkins, Principal at Mercer, said one outcome would be that FDs and treasurers would face a trade-off between the higher return expected from equity investments and the volatility experienced from equities.

Justifying this volatility to directors and investors will be less of a problem for large companies, but a real issue for smaller companies, especially those with large pension schemes.

Hawkins said that the ASB's recommendations were particularly surprising in that they diverged on a number of issues from those expected from the International Accounting Standards Board (IASB).

He added that the ASB "ducks the issue" of attribution of pension benefits and did not clearly address allowance for future salary growth.

"The consequences of this paper will be interesting," Hawkins said. "The recommendations will take a long while to come through in revisions to FRS 17 or IAS 19.

"However, the lower discount rate, if adopted, will push pension liabilities in the balance sheet closer to buy-out, so may further increase the pressure on trustees and sponsors to consider this in future as a relatively cheap alternative." ■

Fraud barometer puts UK on red alert

An economic slowdown in 2008 could result in a rise in the emergence of high-value corporate frauds, according to KPMG's Fraud Barometer.

The last major recession in the early 1990s was followed by the emergence of the notorious Polly Peck, Maxwell and BCCI frauds.

Alex Plavsic, Head of Fraud Investigations at KPMG, said: "Our analysis shows that in times of economic slowdown, when belts are tightened and processes are committed to greater scrutiny, more high-value frauds have tended to be uncovered. If the current credit crunch does lead to a slowdown through 2008, we may therefore see the detection of some high-value frauds."

In recent years there has been a big increase in the number of frauds committed in the UK. In the four years between 2003 and 2006, more than 800 frauds of £100,000 or more came to court, which was more than in the previous 12 years put together. ■

On the move...

- **Andrew Baillie**, AMCT, previously Senior Account Executive at American International Company, Bermuda, has been appointed Global Risk Manager of Property Insurance at AES.
- **Spencer Costley**, AMCT, previously Planning Accountant at Coventry Building Society, joins Alliance & Leicester as a Senior Mortgage Analyst.
- **Gavin Leake**, AMCT, has joined Deloitte Central Europe as Partner. He was formerly Chief Financial Officer at Chipmunks Mt Roskill.
- **Stephen McNeil**, AMCT, previously Head of Trade Finance at Barclays, London, has been appointed Director, West of Scotland, at Lloyds TSB Scotland.
- **Niall O'Shea**, AMCT, has joined Bank of Ireland Global Markets as Director of Finance. He was previously with Ernst & Young's Financial Services Risk Advisory Services practice.
- **Denise Parker**, AMCT, previously Treasury Controller O-I Europe Sarl, has been appointed Pensions Manager at O-I Manufacturing UK.
- **Carol Power**, AMCT, has joined Carphone Warehouse Group as Assistant Group Treasurer. Carol was previously Senior Manager, Treasury Advisory Services, at KPMG.
- **Peter Russell**, MCT, previously Deputy Treasurer of Alliance Boots, is now Group Treasurer of Travelex.
- **Elizabeth Skilbeck**, AMCT, previously Treasury Consultant at 3GDC, has been appointed Deputy Head of Treasury at Saint-Gobain.
- **Thomas Smethers**, AMCT, previously Financial Controller Major Projects and Investment at Network Rail, has been appointed Group Financial Controller at EasyJet.
- **David Tilston**, FCT, previously Head of Group Finance at Mowlem, is now Interim Chief Financial Officer at international specialist staffing business SThree.
- **Almar Van Paeschen**, AMCT, has joined Morgan Stanley as an Associate in Treasury Control. He was previously Senior Treasury Analyst at Carphone Warehouse Group.
- **Trevor Winter**, AMCT, has been promoted from Head of Treasury Operations to Group Treasurer at Network Rail.

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Europe's default rate subdued, for now

The effects of the credit crunch on this side of the Atlantic have so far largely been restricted to the financial sector.

According to Moody's, its European speculative-grade default rate for the 12 months to the end of January was 0.7%, against a revised figure of 1.1% at the end of December, and 3.1% at the end of January 2007.

But the picture is bleaker elsewhere. On a global basis, Moody's speculative-grade default rate was 1.1% at the end of January, from 0.9% a month earlier. The US default rate was also higher, rising to 1.3% from 1.0%, although still below the 1.8% of a year earlier.

Moody's also predicted worse to come. It projected a sharp rise in the global speculative-grade default rate to 4.6% by the end of this year and 4.8% by January 2009. It expects the European rate to have reached 3.3% by the end of 2008.

The agency's model suggests that the highest default rates over the next year will come from the hotel, gaming and leisure sector in Europe, and the construction sector in the US.

Moody's also reports that its Distressed Index hit 18.8% at the end of January – its highest level since November 2002.

Worldwide, seven Moody's-rated bond issuers defaulted in January, the highest monthly total since 2004. Six of them were US issuers and one was Canadian. ■

PPF calls for valuation changes

The Pension Protection Fund (PPF) is proposing changes to valuation assumptions.

A consultation was issued by the PPF in February with responses called for by the middle of March.

Under the proposals, companies would see an increase of between 6-8% in stated liabilities, according to *The Financial Times*, which claimed in its headline that pension funds faced a shortfall of billions. However, experts view the move as sensible, although the timescales are short.

The PPF is responsible for keeping the assumptions used for pension scheme valuations under the Pensions Act 2004 in line with pricing in the buy-out market. The PPF is considering making some changes to these assumptions to bring valuations into line with market prices.

The proposed new assumptions concern changes to mortality assumptions and discount rates. It is proposed to keep all other assumptions unchanged. The changes may result in fewer schemes entering the PPF because valuations based on the new assumptions may mean they are able to pay benefits greater than PPF levels of compensation. The last time the PPF changed these assumptions was in September 2006.

The PPF proposes to introduce these changes for valuations with an effective date on or after 31 March 2008. This means there will be no impact on PPF levies for 2008/09. The first year in which these new assumptions will have an impact will be 2009/10.

The ACT welcomes responses to this consultation or any other pension issue. Contact Peter Matza, Policy and Technical Officer, at pmatza@treasurers.org ■

Corporate gloom descends on credit prospects

A survey of senior corporate executives suggests that the vast majority expect bank-supplied credit to become less available this year, due to the liquidity freeze and general financial insecurity.

The findings come from Belgium-based KBC Bank, which commissioned the first of what it said was due to be an annual online survey of 107 corporates at finance director, treasury and board level.

Half of the respondent companies said they expected their reliance on bank-supplied credit facilities to remain stable in 2008. Over a third expected to become more reliant and about one in five thought that their reliance would decrease.

Seven in 10 companies said that bank credit would become more expensive this year and only 7% thought the price would decrease.

Most companies also believed that banks' increasing caution would mean a greater reliance on the depth and quality of corporate banking relationships when funding was being sought.

A greater number of corporate credit defaults was anticipated by 59% of respondent companies, with one in 10 predicting "significantly higher" levels.

Only 3% thought the number would decrease. A similar number expected lending covenants to tighten and only 2% felt they were likely to relax.

Trustees warned on PPF deadline

Companies and pension trustees have only until the end of this month to take action to minimise the Pension Protection Fund (PPF) levy.

David Everett, Head of Pensions Research at actuary Lane Clarke & Peacock, said that too little attention had been paid to the recent court case of the High-Point Rendel Pension Plan.

The pension scheme was given a PPF levy note of nearly £231,000 for 2006/07, of which around £225,000 represented the risk-based levy.

The trustees of the plan appealed the amount, claiming that the basis on which the levy had been calculated and the risk-based levy should have been nearer £60,000 than £225,000. The trustees' contention was rejected by the PPF and also the Deputy PPF Ombudsman.

Everett said: "Once the levy deadline has passed, so long as the PPF has calculated the levy in accordance with their determination, there can be no appeals to natural justice."

Everett recommended that trustees and employers should work with their advisers in the short time remaining to minimise the charge.

"Come the end of March, those who do not will be given no quarter," he warned. ■

Everett: work with the advisers