

## Hotline

Welcome to the May Hotline. On 3 June 2003, The Association of Corporate Treasurers (ACT) is hosting, in conjunction with Commerzbank, a one-day event, *Living with IAS 39*, which will look at the potential implications for the treasury function of derivatives accounting changes under International Financial Reporting Standards. The day offers a chance for practitioners to hear from treasury professionals from companies like ICI, GlaxoSmithKline and Thames Water about their experiences of implementing fair value and hedge accounting for derivative transactions. For more information or to book a place for the event, please contact [mrahman@treasurers.co.uk](mailto:mrahman@treasurers.co.uk). If you have any comments on any of the topics covered in Hotline, please contact [technical@treasurers.co.uk](mailto:technical@treasurers.co.uk). ■ *Sheelagh Killen, Technical Editor. [skillen@treasurers.co.uk](mailto:skillen@treasurers.co.uk).*

## FINANCIAL ACCOUNTING

### To capacity

The Accounting Standards Board has announced that Urgent Issues Task Force (UITF) *Abstract 36 'Contracts for sales of capacity'* will take effect for accounting periods ending on or after 22 June 2003. As reported in the January 2003 Hotline (p12), UITF Abstract 36 sets out the recommended accounting treatment of sales of capacity and capacity swaps in energy and telecommunications companies. [www.asb.org.uk](http://www.asb.org.uk). ■

## TAXATION

### New UK-US treaty

A new double taxation treaty between the UK and the USA came into force on 31 March 2003. The treaty replaces the earlier double taxation agreement which dated from 1975.

The new provisions will apply:

- in both countries in respect of taxes withheld at source from 1 May 2003;
- in the United Kingdom, from 1 April 2003 for corporation tax, from 6 April 2003 for income tax and capital gains tax and from

1 January 2004 for petroleum revenue tax; and

- in the USA, in respect of taxes not withheld at source, from 1 January 2004

The text of the Statutory Instrument setting out the provisions of the revised treaty and the related exchange of notes can be accessed at [www.legislation.hmso.gov.uk/si/si2002/20022848.htm](http://www.legislation.hmso.gov.uk/si/si2002/20022848.htm).

[www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk). ■

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## This month in treasury

TECHNICAL AREA	WHAT'S HAPPENING?	WHAT NOW?	WHEN?	WHAT NEXT?
■ GET INVOLVED				
DERIVATIVES ACCOUNTING	<b>Living with IAS 39.</b> A one-day event focusing on the new regime for derivatives accounting	<b>Contact.</b> For booking details, get in touch with <a href="mailto:mrahman@treasurers.co.uk">mrahman@treasurers.co.uk</a>	3 June	<b>Working Group.</b> If you are interested in contributing to an ACT panel to meet with the IASB on IAS 39 amendments, email <a href="mailto:technical@treasurers.co.uk">technical@treasurers.co.uk</a>
■ FOR INFO				
PENSIONS	<b>ACT backs simplification.</b> ACT response to Pensions Green Paper welcomes reduced complexity	<b>More detail.</b> See the item in Hotline or visit <a href="http://www.treasurers.org">www.treasurers.org</a> for the press release and full text response		<b>Pensions in focus.</b> The ACT will once again be hosting a Pensions conference in October 2003. Contact <a href="mailto:mrahman@treasurers.co.uk">mrahman@treasurers.co.uk</a> for advance details
FINANCIAL ACCOUNTING	<b>UITF confirms treatment of capacity transactions.</b> Final version of UITF Abstract 36 issued	<b>Hotline.</b> See this month's and the January 2003 Hotline or visit <a href="http://www.asb.org.uk">www.asb.org.uk</a>		
TAXATION	<b>New US DTT takes effect.</b> Double tax agreement comes into play from 31 March 2003	<b>Find out more.</b> Visit <a href="http://www.inlandrevenue.gov.uk">www.inlandrevenue.gov.uk</a> for more details		

## PENSIONS

# A simple equation

Simplification and security must be seen as the key objectives of pension reform, according to The Association of Corporate Treasurers (ACT) recent response to the government Green Paper on the subject.

In comments made to the Department for Work and Pensions and the Inland Revenue, submitted on 28 March 2003, the ACT welcomed the government's proposals to "replace the numerous complex existing regimes by a single unified approach, giving individuals clearer, simpler choices and making it easier for companies and others to set up and run good pension schemes".

In particular, the ACT expressed support for a Central Clearing House for annuity purchase

and for the insurance of pensions benefits within certain guidelines. In this regard, it was felt that it would not be appropriate for insurers either to offer cover for unfunded liabilities previously accrued or to be prescriptive as to the permitted investments of any insured fund. Specific comments were also put forward on the question of the ranking of pension benefits in a company winding up. The ACT believes that pensions can be seen as deferred remuneration and that, therefore, contributions deducted from wages and salaries (and corresponding employers' contributions) should have similar priority to unpaid wages. In any case, these contributions should not rank below secured creditors.

Notwithstanding its overall support for the principles on which the Green Paper is based, the ACT did make recommendations for improvements to the draft proposals. These included suggestions that the current lifetime cap on pensions benefits accrued should be replaced with a cap on overall contributions. This would eliminate uncertainty for pensions savers inherent in both future investment returns and tax rates and would also render the present complex annual contribution limits system redundant. ■

*For more details or to download a pdf copy of the full response, visit [http://www.treasurers.org/about\\_us/prssrsls280303.cfm](http://www.treasurers.org/about_us/prssrsls280303.cfm).*

For comments on Hotline or News please contact Sheelagh Killen at [technical@treasurers.co.uk](mailto:technical@treasurers.co.uk)

## News

## GLOBAL FINANCIAL MARKETS

# Increasing financial stability

Members of the Financial Stability Forum (FSF) of the Bank for International Settlements met in March to discuss potential vulnerabilities in the international financial systems and to review progress that has been made in addressing weaknesses in market foundations. They looked at underlying sources of economic and financial strength and weakness, and reviewed a number of financial factors that could be important to the economic outlook, including volatility in equity markets, various strains affecting some parts of the banking and insurance sectors, and credit risk transfer activity.

The FSF analysed actions taken at national and international levels to uncover weaknesses in market foundations. The group

said it found similar objectives across countries, and extensive cross-border consultations – all laying the basis for stronger and internationally more coherent market foundations.

But according to FSF members, work remains to be done to implement and enforce the reforms. Action is needed in the areas of corporate governance, auditor independence and oversight and accounting standards. The group said it welcomed the progress in the convergence project between the IASB and the FASB, which underscores the importance of progress towards a single set of principles-based accounting standards, with due regard to financial stability concerns, and their adoption within the timeframe established by the IASB. [www.fsforum.org](http://www.fsforum.org). [www.bis.org](http://www.bis.org). ■

## In brief...

**BNP Paribas** is in the pilot phase of its new Secure Electronic Transaction Environment, designed to accelerate and simplify electronic B2B transactions in a secure environment and eliminate the need for paper transaction trails. [www.bnpparibas.com](http://www.bnpparibas.com). □

**Fortis Commercial Finance** and **Electronic Data Systems (EDS)** are partnering to provide back-office services to the accounts receivable and commercial finance markets. The partnership will help Fortis expand its portfolio of services and develop new revenue sources by offering commercial finance and accounts receivable services to third parties on a European scale. [www.fortiscomfin.co.uk](http://www.fortiscomfin.co.uk). [www.eds.com](http://www.eds.com). □

Customers of foreign exchange trading portal, **FXall**, will be now able to access Reuters Messaging to connect with users globally to discuss market movements and potential deals – both externally and internally – with counterparties, clients and colleagues. [www.fxall.com](http://www.fxall.com). [www.reuters.com/messaging](http://www.reuters.com/messaging). □

**JPMorgan Treasury Services** says its trade supply chain solution – JPMorgan TradeDoc – is now available online to clients. The system – which automates preparation, transmission and negotiation of trade documents, helping to streamline existing processes – is now accessible through Trade Information Exchange, JPMorgan's online inquiry system. TradeDoc acts as a platform for the automation and outsourcing of document management. [www.jpmorgan.com/ts](http://www.jpmorgan.com/ts). □

**Moneyline Telerate** users will soon be able to access real-time spot and forward FX quotes through multi-bank currency portal FXall. Work has begun on integrating the platforms and full integration is expected in the second quarter. Data will also be accessible to for analytics, charting and other decision support activities. [www.telerate.com](http://www.telerate.com) [www.fxall.com](http://www.fxall.com). □

**NASDAQ Deutschland** went live on 21 March, beginning trading in 128 securities and with plans to bring that number up to 3,000 over the coming months. The market was created through a partnership between the Berlin and Bremen exchanges, NASDAQ, comdirect bank, Commerzbank and Dresdner Bank. [www.nasdaqgermany.com](http://www.nasdaqgermany.com). □

Standard Chartered has launched its **B2BeX** system in Singapore, offering a web-based trade facilitation platform that helps businesses manage their supply chain activity by putting importers and exporters on the same platform. [www.standardchartered.com](http://www.standardchartered.com). □

The **Real Time Nostro Account Information Steering Group** has been formed by 18 global banks to develop standards for real-time interbank payment transaction data. The steering group was formed through the merger of two industry initiatives previously both working on the development of such standards: the Nostro Account Information (NAI) Swift working group and a consortium of banks working with Cable & Wireless and Gresham Computing. The Steering Group plans to deliver its first results at Sibos in October. It is now focusing on nostro/vostro account balance and related transaction information exchange. [www.gresham-solutions.com](http://www.gresham-solutions.com). [www.swift.com](http://www.swift.com). □

**TWIST**, the Treasury Workstation Integration Standards Team has added Eurobase Banking solutions to its roster of providers offering financial instruments via an integrated platform. Eurobase Banking Solutions, a division of the Eurobase International Group, will be providing a TWIST XML interface. [www.twiststandards.org](http://www.twiststandards.org). □ *bfinance*

**Wall Street Systems** has agreed to purchase Deutsche Bank's 50% stake outsourcing joint-venture Settlement & Operations Clearing eXchange (SOCX). This will give partner Wall Street Systems complete ownership of SOCX, which provides processing, settlement and clearing services to financial institutions. [www.wallstreetsystems.com](http://www.wallstreetsystems.com). [www.db.com](http://www.db.com). □

## PENSIONS

# Reactions to Green Paper

As discussed on page 11, The Association of Corporate Treasurers (ACT) says it welcomes the government's attempt in the UK Pensions Green Paper to simplify the taxation of pensions and its proposals to replace the numerous complex existing regimes by a single unified approach. However, the ACT also made recommendations for improvements.

The National Association of Pension Funds (NAPF), in its response, says the government has missed a golden opportunity to simplify the pensions landscape and boost

future retirement saving.

The NAPF said the proposals would do nothing to boost public confidence in pensions by simplifying the complex State pension system and would also offer no incentives to save, either to pension scheme members or employers who provide them. With growing numbers of employers closing their final salary pension schemes to new members, concluded the NAPF, the Green Paper proposals will not reverse this trend and are unlikely even to halt it.

NAPF Chairman, Peter Thompson, said the Green Paper proposals are too narrowly focused: "They fail to address the problem of complexity in the State pension system, which is a critical barrier to building public understanding of, and confidence in, pensions. They also offer no boost to incentives to save through a pension." [www.napf.co.uk](http://www.napf.co.uk). ■

## PENSIONS

# No news is good news

Credit ratings agency Fitch has said that firms with underfunded pension liabilities will not have their ratings downgraded in the immediate future, although any such actions could follow during the course of the year, should the need arise. In its recently published European Pensions Methodology, Fitch defined the steps it would take to assess the affect of underfunded pension liabilities on corporate credit ratings.

The good news for corporates with underfunded pensions is that Fitch does not believe wholesale rating changes will be required during the next two years. According to Fitch, the problems raised by increased pension contributions used to reduce the deficit are more likely to result in outlook changes in individual situations than direct rating changes, for example tipping a rating outlook from 'Stable' to 'Negative'.

Fitch concludes that because pension liabilities are long term in nature, the assets backing them will fluctuate in value over the course of the liabilities' life – so downgrading a corporate on that fact alone would be fruitless. The rating agency said it would add ratios to its financial analysis in order to determine the scale of the effect increasing pension deficits have on credit ratings.

[www.fitchratings.com](http://www.fitchratings.com). ■ *bfinance*

*For a write-up of the ACT's recent Pensions Conference, see the feature on page 23.*

TREASURY OPERATIONS

# Assessing best practice

Final responses for the Treasury Operations Survey 2003, conducted by Ernst & Young in conjunction with the Association of Corporate Treasurers (ACT), have now been received. The main findings of the survey are being made available at the ACT's UK Treasurers' Conference, held in association with EuroFinance Conferences, in Brighton, from 29 April to 1 May 2003 and summarised in the June edition of *The Treasurer*.

One objective of conducting the survey was to provide a reference point against which organisations can assess their treasury operations and risk management practices. The number and breadth of the responses we have received persuade us that the results contained in our report will indeed be useful in providing this.

The findings will focus on the following principal areas:

- governance and management information;
- treasury structure and staffing;
- financial risk management; and
- liquidity, cash management and funding.

and also examine anticipated future developments in the role and scope of the treasury function.

Our survey clearly highlights that treasurers foresee a combination of external drivers and internal pressures which will continue to affect the development of the function and provide challenges over the coming years. Ernst & Young and the ACT would like to thank all respondents and trust you will find the results of the survey interesting and informative. ■

## FORTHCOMING EVENTS

### REGIONAL GROUPS

14 May 2003, 18.00 for 18.30. **South East – Securitisation.** Speaker: Steff Gray, The Royal Bank of Scotland. Venue: The Royal Bank of Scotland, Lombard House, 3 Princess Way, Redhill, Surrey, RH1 1NP.

29 May 2003. **London City – Corporate Treasurers and the Financial Markets: the practical legal issues.** Speaker: Barney Reynolds. Venue: Shearman & Sterling, London. More details to be confirmed.

For more information, contact Anna McGee [Email amcgee@treasurers.co.uk](mailto:amcgee@treasurers.co.uk)  
Tel. 020 7213 0719. Or check our website at <http://www.treasurers.org/members/regional-groups-events.cfm>

### CONFERENCES & TRAINING

#### Training Dates

- 7 May 2003, Getting the Most from Your Banks
- 8 May 2003, Introduction to International Cash & Liquidity Management
- 13 & 14 May 2003, Fundamental Accounting Principles
- 20 & 21 May 2003, Principles of Raising Finance
- 29 May 2003, A Practical Understanding of Finance Arithmetic

#### Conference

3 June 2003, Living with IAS 39 – Implementation Challenges for Treasurers.

For further information contact Makayla Rahman [mrahman@treasurers.co.uk](mailto:mrahman@treasurers.co.uk)

## EU INTEGRATION

# Modernising competition law

A consultation on EU competition law reform proposals has been published by Competition Minister Melanie Johnson. The proposals will give national competition authorities and courts responsibility for enforcing bulk of competition law enforcement. She said the aim is to ensure that competition authorities act consistently irrespective of whether they are applying EC or UK law. Under the reforms, national enforcement would be supervised by the Commission and the Community courts to ensure consistency in decision-making across the EU while a network of national competition authorities – the European Competition Network – would collaborate in deciding which authority is best placed to bring a case, consulting each other on policy issues and exchanging information. The consultation deals with areas where it may not be either possible or appropriate to simply extend existing domestic powers under the Competition Act. The reforms will come in to effect on May 1 2004. [www.dti.gov.uk/ccp/consultations.htm](http://www.dti.gov.uk/ccp/consultations.htm). ■

# Step towards single market

Howard Davies, chairman of the Financial Services Authority (FSA), says prospects for an integrated single European financial market are good, however more flexibility for M&A activity is essential if it is to succeed. Speaking at a conference on the direction of European financial regulation, Davies said a single financial market across the EU would be "advantageous", creating a "broader and deeper capital market". Davies highlighted five priorities for achieving an integrated market by 2005, including gauging how far harmonisation of the core standards process needs to go and analysing what the barriers to cross-border activity really are. "Many of these barriers are not to do with drafting harmonised regulations. Sometimes they are attributable to the way in which those regulations are implemented in member states," he said in his speech.

He added the involvement of European-wide financial institutions is key, "yet there are still countries in which it is quite impossible to buy a bank, or even a significant fund management operation. These informal barriers, sometimes imposed by prudential regulators, are too little discussed." [www.fsa.gov.uk](http://www.fsa.gov.uk). ■

## SOURCE

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[www.bfinance.co.uk](http://www.bfinance.co.uk)



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