This month the Association of Corporate Treasurers (ACT) is launching a major debate on the need for credit rating agency regulation. As explained here and in a further article on p18, we are not in favour of yet more detailed regulation, but feel that any potential concerns can be met through an agreed code of practice. We hope the document we have published will contribute to the widest possible discussions and will influence the position in Europe, where regulation is a common theme.

Interestingly for the Securities and Exchange Commission in the US, there may be some hesitancy on regulation because of First Amendment fears over an agency's right to express opinions. For the treasury profession to get its voice heard, we need your opinions and thoughts, be they brief or long, and we greatly welcome comments from all other interested parties too.■

Please provide your feedback to ratingcode@treasurers.co.uk

ACT proposes new ratings code

The credit rating agencies (CRAs) have been finding themselves the subject of calls for regulation and improved oversight of their industry, particularly over the past two years. Given the perceived failures of the CRAs to predict certain significant corporate failures, such as Enron and WorldCom, it can sometimes be thought strange that companies which play such an important role in the financial market remain virtually unregulated.

Against this background, the international treasury community, led by the Association of Corporate Treasurers (ACT), the Association of Finance Professionals (AFP) in the US and the French Association Francaise des Tresoriers D'Enterprises (AFTE) in France, has published an exposure draft proposing a system to minimise regulation and instead rely more on an agreed market led code of practice.

The Code of Standard Practices for Participants in the Credit Rating Process places obligations on the agencies in respect of transparency, confidentiality, conflicts of interest and communications, and additionally requires an issuer to make adequate disclosure to the agencies on its business strategy, its risks and opportunities, material changes and timely provision of information.■ *The full exposure draft is available on* ***www.treasurers.com***.

Director and Auditor liability changes

The ACT has submitted a response to the Department of Trade and Industry's (DTI) consultation on the responsibilities of directors and auditors, and the liabilities they can incur. The response was drafted with the objective of ensuring that a healthy and competitive financial market should continue to exist for corporates. Reducing the willingness of audit firms to work for large clients on account of litigation risk would be counterproductive and, similarly, we thought that innocent directors should be given appropriate indemnifications against the costs of defending claims.

Under UK Company Law, the responsibilities of directors and auditors are owed to the company, and it is the company and not a shareholder that can bring proceedings to enforce rights such as claims for negligence or breach of duty. The decision to bring proceedings is therefore a matter for the board or, if the company is in administration or liquidation, the administrator or liquidator. In serious cases, the shareholder has the sanction of bringing in new directors or of petitioning the court in a case involving actual or likely abuse of fiduciary duties or fraud. The ACT supports continuation of the existing set up and regards any moves to the US style of class actions as a retrograde step.

However, in recognition of the danger of an excessively litigious environment, we do see the need for some form of limitation of liability for auditors, which, if the law were to be changed to permit it, could be built into the contract with the auditor. We believe that the current system, whereby the auditor's liability is joint and several, should remain rather than be moved to proportionate liability basis. We do not suggest that the auditor's duties should be extended to additional parties, such as potential investors in the company.

On the matter of directors' liabilities, we see the cost and complications from defending negligence claims to be a serious concern and one that might directly affect our members, many of whom hold directorships in subsidiary companies. Section 310 of the Companies Act 1985 prohibits a company from indemnifying its directors, but with limited exceptions (for example, buying directors' and officers' insurance). We support the proposals to allow an advance indemnification in respect of defence costs, broadly in line with the Company Law Review.■

DTI and ASB consult on strategy for IFRS

At the end of March 2004, the Accounting Standards Board (ASB) published a discussion paper 'UK Accounting Standards: A Strategy for Convergence with IFRS'. The paper proposes a phased approach to convergence, with a batch of new standards effective for accounting periods starting in 2005 and 2006, followed by a series of step changes thereafter to introduce UK standards based on IFRS.

Specific intentions for new standards from the ASB include:

- Financial instruments – from 2005, standards based on IAS 32 and, for listed companies (and on a voluntary basis for other companies), much of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) will be introduced.
- Retirement benefits – FRS 17 will replace SSAP 24 in 2005 so that, in consistence with the International Accounting Standards Board's (IASB) proposals for IAS 19 Employee Benefits, actuarial gains and losses are fully recognised in the statement of total recognised gains and losses in the period in which they arise.
- Post-balance sheet events – a standard based on IAS 10 Events After the Balance Sheet Date, replaces SSAP 17 from 2005.
- Earnings per share (EPS) – a UK standard (applicable to listed companies only) based on IAS 33 Earnings Per Share and replacing FRS 14 from 2005.
- Related party disclosures – a standard based on IAS 24 Related Party Disclosures replaces FRS 8 from 2006.

Additionally, the ASB has formally issued FRS 20 (IFRS 2) Share-based Payment. The new Financial Reporting Standard (FRS) requires companies to recognise an expense, measured at fair value, in respect of their employee share option plans, share purchase plans, and other share-based payments. It is mandatory for accounting periods beginning on or after 1 January 2005 for listed companies and 1 January 2006 for all other entities.

This standard has the effect of implementing in the UK IFRS 2 Share-based Payment, which was published in February by the IASB. The UK standard is identical to the international standard, save that implementation of the standard for unlisted entities has been deferred one year (to allow more time for unlisted groups to prepare themselves for implementation) and companies applying the FRS for Smaller Entities (FRSSE) are exempt from the standard.

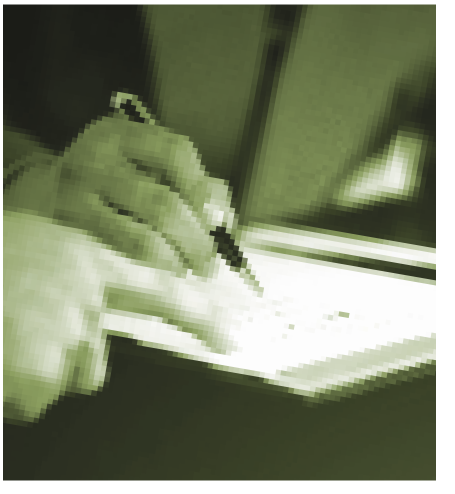
DTI consults on accounting requirements

Simultaneous with the ASB's announcement on convergence of UK standards, the DTI has started a consultation on proposals to adapt Company Law to allow firms to use international accounting standards and to implement an EU directive that modernises the existing accounting directives. For example, although the IAS regulation is automatically law in member states and will require publicly traded companies to prepare their consolidated accounts using adopted IAS, there will need to be changes in UK law to allow a parent company to use IAS in its group accounts without having to use IAS for its individual accounts, and vice versa.

On dividends, the 1985 Companies Act requires paid and proposed dividends to be shown in the profit and loss (P&L) account. The new requirement will be to include in the P&L dividends paid or liable to be paid at the balance sheet date, with any proposed dividend being included in the notes to the accounts.

The full consultation document is available on ***www.dti.gov.uk/cld/current.htm*** *and anyone wishing to contribute comments to an ACT response should email these to* ***technical@treasurers.co.uk***.

Rating agency addresses IFRS impact



Standard & Poor's has written to all its issuers to provide a preliminary view of the credit rating impact of the move to International Financial Reporting Standard (IFRS) in 2005. It acknowledges that a change of accounting treatment does not affect the underlying economics or operating risks of the business, but it does highlight three areas that have the potential to change their ratings, as follows:

- Any new information that comes to light because of accounting changes that is relevant to the qualitative aspects of business and financial risks – for example, off-balance sheet items such as operating leases, pension and derivative obligations.
- Any changes in actual business transactions that have been driven by the accounting changes, such as revisions to hedging policies or variations in employee compensation provided in the form of stock options.
- The uncertainties surrounding the potential reaction of other parties, for example, the extent to which IFRS will drive taxation or regulatory processes, or the effects on the ability to comply with financial covenants.

During 2004, Standard & Poor's will be engaged in discussions with issuers to reach a clear understanding of the impacts on the creditworthiness of the companies concerned.

IN BRIEF

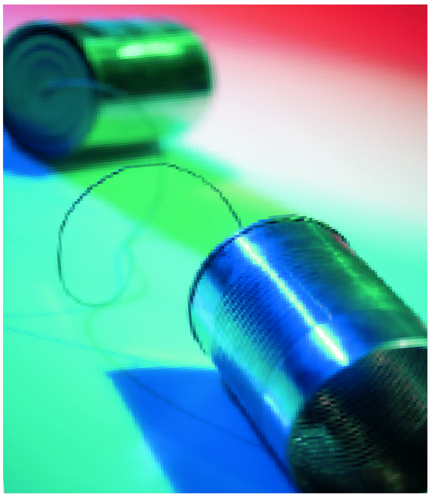
Euronext (www.euronext.com) has cut 30% off the cost of trading in Dutch stocks in a bid to head off competition from **Deutsche Borse** and the **London Stock Exchange (LSE)** (www.londonstockexchange.com) – which have made aggressive bids to target Dutch brokers on Euronext. The LSE plans to launch a trading service in Dutch securities – EuroSets – in May that will, it says, undercut Euronext fees by 40%.

FXpress Corporation (www.fxpress.com) has released Foreign Exchange v6.5, an improved version of its treasury management system for foreign exchange exposure. The latest version gives more support for efficient FAS 133 accounting and offers an expanded product line, including non-deliverable forwards, additional electronic confirmation capability with a CLS interface, improved credit limit functionality and additional reporting functions.

Goldman Sachs Asset Management (www.gs.com) has launched a new European cash management platform that allows corporate treasurers and financial institutions to trade funds from a range of providers on one single platform. Features of the platform include real-time execution with a range of counterparties through one secure internet connection, consolidated reporting, statements and settlement across fund families and integration with treasury workstations via SWIFT messages.

JPMorgan (www.jpmorgan.com) is expanding its trade services, trade finance, payables discounting and value chain management businesses for EMEA. The group is extending its offering to incorporate more elements of the financial supply chain – such as logistics.

Information flow between banks and corporates must improve



The exchange of real-time information about payments and transactions between banks and corporates must get faster to meet market needs. This was the recent viewpoint reached at a roundtable, hosted by Cable & Wireless **(www.cw.com/new)** which centred on corporates' existing requirements, whether they can be met now, and how banks can provide those services. Participants noted that while the corporate world can manage the supply chain, the inventory and the logistics, they find the financial supply chain much harder to manage.

The roundtable heard that banks are faced with a combined mass of regulatory and commercial pressures, and operate in an environment where margins are decreasing at an alarming rate and products are becoming more and more commoditised.

But they must be a greater part of the solution and work with corporates to actively facilitate improvement in payment and information flows. This is hampered by a number of barriers, including the current low corporate appetite to invest, limited visibility and data flow, and a lack of strong leadership.

Nonetheless, corporates do believe that straight-through processing (STP) can be achieved. According to the roundtable's participants, this should not be effected through one large initiative, such as CLS, but by banks focusing on a few key elements: the availability of affordable and stable technology - which has largely been achieved; legislative support to facilitate the use of technology – which is also for the most part in effect; and the delivery of these solutions to the market.

Among those attending the roundtable, it was generally agreed that the provision of information is likely to be a key differentiator for banks in the future. As all banks can handle payments, more focus will be placed on the added value they provide, particularly in the realm of service innovation.

"In terms of providing information in the supply chain, you could conceive a world where information could be broadcast simultaneously to all the people who need to do something with that bit of data. It applies to the cash management world, in terms of providing the information required by the corporate community," said roundtable chairman Eric Sepkes, Vice President and Director Global FI Strategy, CitiGroup.

Amendments made to IAS 39

The International Accounting Standards Board (IASB) **(www.iasc.org.uk)** has issued an Amendment to IAS 39 Financial Instruments: Recognition and Measurement on Fair Value Hedge Accounting, which simplifies its implementation by enabling fair-value hedge accounting to be used more readily for a portfolio hedge of interest rate risk.

The standards board says that the revision is a response to concerns expressed by the banking community about the potential difficulty of implementing the requirements of IAS 39. With the publication, macro hedging will become part of the IASB's set of standards to be adopted in 2005. Discussion will continue on another aspect of IAS 39, namely an additional hedging methodology and the balance sheet presentation of certain hedges.

US banks should not fear Basel II

Moody's **(www.moodys.com)** is trying to ease US fears over Basel II's implementation with a recent release emphasising that the initiative will be "a net positive for the banking industry." The ratings agency said that even with the current controversies, it believes that ultimately the US will adopt Basel II and that most of the largest US banks will comply with it. "The regulatory philosophy in the United States already closely follows the Pillar 2 framework that the accord prescribes," said Moody's Senior Vice-President David Fanger.

He added that the main benefit of Basel II would be an improvement in risk measurement, management and controls at many banks.

Some of the biggest banks in the US have already made considerable progress down this path, says Moody's, and many more banks should eventually follow. "Even among those US banks that never opt in to Basel II, many will still end up adopting at least some of its precepts and practices," said Mr Fanger.

Corporate governance will impact D&O insurance costs

With the cost of Directors' and Officers' (D&O) insurance expected to continue rising in 2004, companies must demonstrate exceptional governance, finance and management controls to ensure that premium rise are kept to a minimum, according to Zurich London **(www.zurichlondon.com)**.

Chris Hewitt, Head of Corporate D&O Liability Underwriting for Zurich London, believes the best way forward is for corporates to "lift the drain covers and look at their risk management, corporate governance and audit processes."

"However, compliance with Higgs & Smith and for many, Sarbanes-Oxley, is not where it should stop," said Hewitt. "As companies strive to improve their profitability, they should also be seeking better risk management processes, something which has been neglected in the past with disastrous consequences."

Zurich London insures 45% of FTSE 250 companies, and says that those companies that are able to demonstrate their commitment to risk management could achieve more favourable terms.

Among the key areas that companies can evaluate when determining the stringency of their risk management and adherence to corporate governance regulations are records of the board of directors' performance; the mix between non-executive and executive board directors and other commitments they have; analysis of the balance sheet; corporate governance procedures; audit processes and the Code of Ethics.

"We are looking to see that these controls are being rigorously adhered to by companies. Their directors may have all the best practice processes in place, but are they following them? A strong, balanced mix of executive and non-executive directors with the appropriate committee structures is one of the key controls to eliminate abuse," said Hewitt.

New fixed income standards

Asset managers and investors are currently in the process of setting new fixed income attribution standards, which could help institutional investors assess the performance of their fixed income collective investment schemes.

Two methodologies that could be used as the blueprint for soon-to-be fixed income attribution standards were suggested by a working group set up by Deloitte **(www.deloitte.com)** in France, which includes participants such as HSBC Asset Management and Wilshire Associates. The first method is known as the analytical method, and involves the breakdown of successive spreads taking into account the bond price formation characteristics. The second is described as the pedagogical method, as it is based on the breakdown of successive portfolios, using ficticious portfolios.

Securitisation is key

Corporates are increasingly turning to securitisation as a key financing mechanism, according to research conducted by Standard & Poor's **(www.standardandpoors.com)**. The group rated three transactions during the first two months of 2004 with an estimated issued volume of more than £4.5bn ($5.5bn) – five times the value of securitisation deals for the same period last year.

According to Standard & Poor's, the outlook for new issuance continues to be positive and the utility, transportation, and telecommunications sectors are expected to be the star performers, even as new asset types continue to emerge.

New treasury survey

The ACT **(www.treasurers.org)** is running another Treasury Operations survey with Ernst & Young **(www.ey.com/uk)** this year, focussing more attention on two key areas: risk management and responsibilities/structure/staffing/reporting.

The survey, which is available on both websites, should be returned to Alistair Wright at Ernst & Young.

IN BRIEF

- **Reval (www.reval.com)** has launched the latest version of HedgeRx – its online application for front-to-back office capabilities in managing interest rate, foreign exchange, and commodity hedging portfolios. This version allows organisations to comply with complex derivative accounting regulations, such as FAS 133 and IAS 39, says the group.

- **BACS (www.bacs.co.uk)**, the US clearing house, and treasury systems vendor **Eurobase (www.eurobase.co.uk)** have become the first direct sponsors of **Twist (www.twiststandards.org)**. The latter is representing the interests of over 70 financial market participants and service providers in defining communication standards for commercial and financial processes.

- **Standard and Poor's (www.standardandpoors.com)** has recently launched a new service designed to provide independent assessment of UK pension schemes' strength. The service will investigate the possibility of pension scheme members receiving curtailed benefits due to inadequate funding or financial failure, as well as assessing the likelihood that investment objectives be reached.

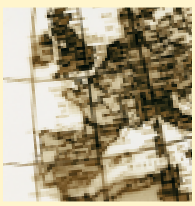
- **Thomson (www.thomson.com)** has agreed to purchase electronic fixed income network **TradeWeb (www.tradeweb.com)** for $385m in cash and a three-year earn-out of $150m. More than $43tn in bond trades have been executed over the TradeWeb network since its inception in 1998. The deal puts Thomson in competition with Bloomberg for this market space.

- **Currenex (www.currenex.com)** has opted for Cameron Systems' CameronFIX engine to support its Executable Streaming Prices (ESP) service, which provides streaming FX rates and allows price makers to transmit real-time spot bids and offers to corporate customers.

- **The Financial Services Authority (FSA) (www.fsa.gov.uk)** is phasing in new XBRL-based electronic reporting standards for all UK regulated firms over the next three years. Mandatory Electronic Reporting (MER) will start on 1 April 2005 for insurance and mortgage firms and for IFAs and other retail investment firms. At the same time electronic filing of complaints data will be introduced for almost all firms. The FSA is likely to implement MER for other regulated activities concluding with deposit takers in 2007.

LETTERS

A European issue



I wonder if I might be allowed a few lines to comment on the article on USPPs in the latest Treasurer? In particular I would like to present a slightly different conclusion to the one drawn regarding the development of a Pan-European market.

The article underplays the attraction of the market for European issuers because of the substantial price advantage against public issuance in the Sterling or Euromarkets.

Interestingly, the adoption of a 'one rating' standard cuts against the traditional development of the market as a home for unrated borrowers. On that basis it may begin to resemble a quasi-public market – which will clearly have an impact on those borrowers able to access the market – hardly conducive to its European development.

The suggestion that "...there is also a danger that the shifting balance of bargaining power results in a softening of covenants..." cannot go unchallenged. That, surely is the point of bargaining – as the ACT recently said when responding to the paper published by the 'Group of 26' in the Euro and Sterling markets!

There is a Pan-European market in existence, at least for rated borrowers with MTN programmes. If the market is firming to the extent that borrowers will need at least one rating, then this type of programme provides clear advantages for borrowers over 'one-off' negotiated deals such as a PP. As such a borrower, RWE has benefited from precisely the move by European investors towards the stance advocated by Fitch.

Peter Matza, Senior Manager, Treasury, RWE
peter.matza@rwe.com

The Treasurer welcomes letters and comments from its readers. If you would like to express your opinion on any of the contents in this issue or issues affecting the world of treasury today, please write to Liz Salecka at the ACT (lsalecka@treasurers.co.uk).

On the move...

■ **Chris Balm AMCT**, previously Finance Director of Copperbelt Energy Corporation, National Grid Transco's joint venture operation in Zambia, has been appointed Finance Director of Onstream, the group's new non-regulated gas metering business.

■ **Paul Bramley MCT**, previously CFO at OM London Exchange Limited has been appointed Chief Financial Officer at venture capitalist Amadeus Capital Partners Limited.

■ **Toby Bullivant AMCT**, formerly Senior Treasury Dealer at Prudential Bache International Bank, has joined the Instituitional Sales Desk at Wachovia Bank London.

■ **Simon Fisk MCT**, previously Managing Director at Tishman Speyer Properties (UK) Ltd, has joined Hypo Real Estate International as Head of Risk Management.

■ **Matthew Hurn AMCT**, has been appointed Group Treasurer for Dixons Group plc. Previously, he was the Group's European Treasurer.

■ **Jane Hurworth AMCT** has joined Ernst & Young as Senior Manager. She has moved from Lloyds TSB Bank plc where she was Deputy Head of Treasury Finance.

■ Following the spin-off of Hudson Highland Group Inc from Monster Worldwide Inc (formerly TMP Worldwide), **Steven London AMCT**, has joined Hudson Highland in New York as VP, Global Treasurer. He was previously European Treasurer for Monster Worldwide in London.

■ **Nick Mourant MCT** has been appointed Group Treasurer at Tesco plc. Previously he was Divisional Director Treasury, Tesco Stores Ltd.

■ **Leigh Nissim AMCT**, formerly Chief Executive Officer at BusinessesForSale.com, has moved to Vitesse Media plc as COO.

■ **Gearoid Pierse AMCT**, formerly Consultant at IBM Switzerland, has been appointed Senior Consultant, SAP Treasury Projects at IBM Ireland Ltd.

■ **Members' Directory**
Member's contact details are regularly updated on the ACT's electronic directory at www.treasurers.org. Details for the following members have been updated recently: Niall O'Shea, David Pugh, Stephen Pugh, Arun Shankardass, Michael Smith, Harjinder Sohal, Graham Swetman, Robin Swift, David Tilston and John Westby.

PERCENTAGES

PAYMENT INFORMATION NEEDED
Sixty percent of corporates would pay additional fees to banks for improved, more detailed information about their payments, according to a poll by gtnews on behalf of LogicaCMG (**www.logicacmg.com**). In addition, a third of those surveyed said they would consider switching banks for such information. The poll of both banks and their corporate customers contradicts the widespread industry perception that corporate customers are unwilling to pay for new or improved banking services.

WORKING CAPITAL GROWTH
More than two thirds of European companies have active working capital management programmes underway, according to a survey of European company finance professionals by a leading financial publication on behalf of ABN AMRO (**www.abnamro.com**). Respondents cited growth in net profit, cash generation and growth in gross margin as the most important company performance measures for investors. They also felt that operating profit, cash generation and working capital management were the most effective means of encouraging management to meet targets.

PORTALS MATURE
In just four years, broker/dealer portals have evolved from immature distribution channels to indispensable tools for the delivery of core competencies and new business opportunities, according to research by TowerGroup (**www.towergroup.com**).

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