Fears grow over IAS 39 usage

Participation, application and interpretation of the new international accounting standards, particularly IAS 39, is the greatest concern of the financial community now that IFRS reporting has begun.

At an ACT conference on *IAS 39: understanding the repercussions* in April – sponsored by Commerzbank – treasurers, analysts, auditors, regulators and preparers of financial accounts gathered in London to hear an update on the status quo of IAS 39 and current reporting trends.

Christopher Bowmer, Treasurer of consumer packaging company Rexam, said: "The standard is far from perfect but it does force a more disciplined approach by treasury and accounting departments to look at how we deal with derivatives."

But Bob Garnett, International Accounting Standards Board (IASB) member, urged more participation from treasurers, asking: "How quickly do you want us to move [to update IAS 39]? Do you want us to make the changes rapidly or progressively?

"Please don't just say you want it easier and simpler. Explain why and suggest ideas. It's not just about 'hating the IASB'. Let's work together on how we can improve operability of financial instruments."

What emerged as one of the more worrying aspects of IFRS was how companies were applying the rules and how to minimise the differences across countries now reporting under IFRS.


ROGER HARRIS

Bob Garnett addressing treasurers at the ACT conference at the Cavendish Centre, London.

Ian Wright, Partner at PricewaterhouseCoopers, said: "I'm finding it difficult to know what IFRS is. As I go around the world I notice differences already. We're struggling to try and get this right first time. The platform is a little shaky."

The goal of comparability and consistency in standards is made more difficult given the European Commission's (EC) endorsement of a different version of IAS 39.

Arto Leppilahti, a member of the Directorate General for internal markets at the EC, defended the Commission's decision to carve out certain sections of IAS 39, saying: "It's unthinkable to leave the legislation for outside parties. We need to consider the political and legislative process."

Leppilahti said the reason behind the decision to carve out hedge accounting aspects of the rule was because "many EU banks said the way they manage risk doesn't fit in to the hedge accounting rules".

"They felt that the accounting tail wagged the dog rather than the other way round," he said. Most British companies are applying the full version of IAS 39, as recommended by the IASB.

Leppilahti added that no international financial reporting standard had yet been blocked by the EC. But he said now his greatest concern was consistent application of the new rules. "I can only encourage you as issuers to discuss the issues among peers and put pressure on auditors to do the same."

In a veiled attack on the financial community, Wright criticised those not participating more in the standard setting debate or monitoring the work ahead of the IASB issuing new rules.

"It's important to try to deliver that dream; I'm not sure how we are going to get there. Underlying regional models clearly aren't right," said Wright.

He urged all parties concerned with the switch to make their 'voice' heard now, otherwise surprises will end up damaging "us, you and the credibility of accounts". ■

FRRP's powers start to bite

The influential Financial Reporting Review Panel (FRRP) has finalised an agreement with the Financial Services Authority (FSA) for it to begin investigating listed companies as part of a more proactive approach in the wake of the catalogue of accounting scandals that have plagued corporates since Enron collapsed in 2001.

Barbara Moorhouse, ACT member, sits on the FRRP

From 6 April the FRRP has, for the first time in its 14-year history, statutory powers under the Companies Act to require companies, directors and auditors to disclose information.

Panel Chairman Bill Knight said: "These changes increase the panel's authority, but we know that the best regulation is by agreement, and that is what we will try to achieve. Every business which prepares accounts also uses them, and it is in all our interests to make sure the system of regulation works and that accounts continue to be true and fair."

Under a new arrangement the Inland Revenue will also disclose information to the panel about a company's accounts.

The FRRP cannot however penalise a company for any wrongdoing but it will work closely with the FSA so that the watchdog can impose whatever sanction it deems fit.

ACT member Barbara Moorhouse, Director General of Finance for the Department of Constitutional Affairs, is among the 22 leading financial professionals who sit on the panel. ■

SunGard taken over

A consortium of seven private equity investment houses have finalised a deal for the $11.3 billion acquisition of SunGard, a global provider of integrated financial services software and processing solutions.

The deal, financed through a combination of equity contributed by each of the consortium partners and debt financing, is expected to be completed in the third quarter of 2005 subject to shareholder approval. SunGard directors have shelved plans to spin off SunGard's Availability Services business in light of the acquisition.

The acquiring consortium, organised by Silver Lake Partners, includes Bain Capital, the Blackstone Group, Goldman Sachs Capital partners, Kohlberg Kravis Roberts & Co and Providence Equity Partners and Texas Pacific Group.

Glenn H Hutchins, a co-founder of Silver Lake partners, said: "We believe the company has excellent prospects for continued growth." ■

SEC eases IFRS burden in US filings

Foreign private issuers in the US adopting the new international financial reporting rules from this year will be allowed to file two, rather than three, years of statements of income with the Securities and Exchange Commission (SEC).

The SEC took the decision following lobbying from British and European businesses and their representatives because of the onslaught of new regulations and legislation, such as the Sarbanes-Oxley Act and the Operating and Financial Review, that publicly listed companies in the EU have to grapple with this year.

To be eligible to adopt the SEC amendment to form 20-F, foreign private issuers must adopt IFRS for the first time prior to, or for its first financial year, starting on or after 1 January 2005.

Donald T Nicolaisen: "investors and issuers are well served by…broader use of IFRS"

The SEC said it was allowing the concession in recognition of the "significant efforts" with IFRS adoption and "to ease the burdens that foreign companies may face" as well as promoting and encouraging the use of IFRS.

Donald T Nicolaisen, SEC Chief Accountant, said: "These amendments will facilitate the transition by foreign registrants to IFRS and will promote investor protection by requiring comparable, high quality information. We believe investors and issuers are well served by the greater comparability that will result from broader use of IFRS, and look forward to many companies switching to IFRS in their SEC filings." ■

£40bn pension shortfall for FTSE100

FTSE100 companies face a £40 billion hit to their balance sheets this year due to the new accounting requirements to book pension deficits, fuelling fears that share prices may dive as the disclosures are revealed, new research has shown.

Britain's largest public companies currently have a combined final salary pension liability of £50 billion, but less than £10 billion is booked in the accounts, according to Deloitte, which carried out the research. Across all UK companies, the total hit could be as much as £100 billion.

The new accounting treatment of final salary scheme pension funds mean that companies have to book deficits in the balance sheet instead of applying the traditional method of smoothing. The impact on a company's share price depends on how well they have communicated the adjustment to the City. ■

UK confidence rising for M&As

Corporates are failing to cash in on cheap debt despite intense competition for deals and rising confidence levels, a new study shows.

With corporate confidence rising, companies have moved back onto the acquisition trail but are staying close to home and focusing on smaller, bolt-on transactions, according to a new survey by PricewaterhouseCoopers.

Over 70% of respondents said they were confident enough to make a major acquisition in the next six months. Nearly all respondents (96%) said they felt confident enough to make smaller, bolt-on acquisitions.

But more than half of those polled said they would not be confident about making a major disposal in the next six months because they didn't feel confident about current valuations.

Paul Rawlinson, head of PwC's transaction services, said: "I am surprised that half the respondents do not think this is a good time to sell businesses. In a market where there is intense competition for deals – particularly among private equity houses – and plenty of cheap debt, I think it is a great time to be selling.

"Private equity houses are jumping at the chance to sell or re-leverage portfolio investments and I am astonished corporates are not cashing in as well."

The findings show 67% of respondents expect to see increases in UK M&A in the next six months, a fifth of whom predict a major increase. Nearly two thirds (57%) of those polled expect UK deal values to increase in the next six months.

Factors considered a high or major concern included regulation (29%), exchange rates (25%) and interest rates (20%). Only 11% rated consumer debt increases a high or major concern, reflecting confidence in the UK consumer market.

Graeme Pike, head of corporate finance at PwC, said: "Confidence, more than any single factor, is the essential prerequisite for M&A, yet it's always been the hardest ingredient to quantify." ■

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IN BRIEF

■ 2005 treasurers' study launched
Treasurers are to get their chance to express their opinions and concerns once again this year in the now annual survey carried out by Ernst & Young and the ACT.

Treasury Operations Survey 2005 aims to allow treasurers to benchmark their own operation against other organisations and identify the latest trends in treasury operations and risk management.

The survey's main findings will be published in the September issue of *The Treasurer.*

Please contact Martin O'Donovan at the ACT on 020 7213 0715 or Jeffrey Teague of Ernst & Young on 020 7951 8494 with any questions. *See page 29 for more information.*

■ RBS launches new online FX trading service
The Royal Bank of Scotland Financial Markets has announced the launch of Trade, an online trading service for foreign exchange, money markets and global treasury funds.

Trade, suitable for all sized companies provides electronic trading for Spot and Forward FX (for tenors up to 3 years), FX swaps, FX time options, FX multi deals, and allows you to place FX orders electronically. Trade is a browser based product available via rbsmarkets.com

■ European liquidity survey
Treasury Strategies Inc is undertaking a European Corporate and Liquidity Survey. For further information visit www.kadquest.com/tsi/liquidity

NEW ACT members appointed to Council

Four ACT members have been successfully elected to Council for the term commencing 1 May 2005: Gerry Bacon, FCT, Group Treasurer, Vodafone; Matthew Hurn, AMCT, Group Treasurer, Dixons Group; Andy Longden, FCT, Group Treasurer, Shell and Tim Owen, FCT, recently retired Director of Treasury, Cadbury Schweppes. From that date Stephen Crompton becomes President with Chris Jones moving to Immediate Past President and Stephen East and Malcolm Cooper becoming Deputy President and Vice President respectively.


Gerry Bacon

Richard Raeburn, ACT Chief Executive, said: "With this year's election we will see four new people on Council, replacing Philip Gillett, David Adams, Michael Bryant and Lance Moir. We will be sorry to lose their involvement – they have all been excellent contributors to the governance and development of the ACT – but we are of course enthused at the prospect of the new faces joining Council and the practitioner experience they bring." ■

Forthcoming conferences and events

26 May 2005
London City Group
Title: *The Prospectus Directive – how will implementation affect you?*
Speaker: Marc Hutchinson, Slaughter and May
Venue: Slaughter and May, One Bunhill Row, EC1
Time: 12.30pm

16 June 2005
Yorkshire & Humberside
Title: *Tax Implications of IAS*
Speaker: Iain Hill, Director, Tax, PwC Global
Venue: PriceWaterhouseCoopers, Benson House, 33 Wellington Street, Leeds LS1 4JP
Time: 6.00pm

For more information, visit **www.treasurers.org** or call Makayla Rahman on 020 7213 0703 ■

Statement in respect of Wing Kit Chu, former Treasury Manager, Charter plc

In consideration that Wing Kit Chu has resigned as a member of the ACT and has undertaken that he will not at any time in the future apply for membership of the ACT, the Council has determined that it will not continue with disciplinary proceedings against him pertaining to his conviction on theft charges at Southwark Crown Court on 25 January 2005. ■

On the move...

■ **Grant Armstrong** AMCT has joined Commonwealth Bank Sydney as part of their Treasury IAS Project team.

■ **Edwin Bolton** MCT has been appointed Treasury Focal Point at Shell. He was previously Treasury Analyst at Syngenta

■ **Paul Cuddihy** MCT has joined KPMG LLP, Treasury Advisory Services, as Manager. Previously he was Head of Middle Office in Group Treasury at Diageo plc.

■ **Stephen McNeil** AMCT has been appointed Head of Trade Finance at Barclays Bank plc. Previously he was Regional Head, Global Trade Services at Royal Bank of Scotland plc.

■ **Shyam Moorjani** AMCT, formerly Vice President, Head of Institutional Client Reporting at JPMorgan Fleming Asset Management, has been appointed Head of Marketing at Key Asset Management.

■ **John O'Toole** MCT is moving from his position as Senior Portfolio Manager at Luxembourg-based IKANO Fund Management SA to join Dublin-based Pioneer Investment Management in its quantitative management team.

■ **Shanta Perera** MCT, formerly Risk Analyst, Panorama Division with SunGard Systems Ltd, has been appointed Quantative Analyst Programmer, Multi Asset Solutions at Schroder Investment Management Ltd.

■ **Carol Power** AMCT has joined Richmond Software as a Senior Treasury Consultant. Previously she worked for TNS plc as Deputy Group Treasurer.

■ **Alasdair Smith** AMCT has been appointed Assistant Director, Financial Markets Advisory at ABN AMRO Bank NV. Previously he was Manager, Corporate Treasury Solutions Group at PricewaterhouseCoopers LLP.

■ **Nicholas Smith** AMCT has been appointed Insurance Manager at ICI plc. Previously he was Director, Group Risk Management at Invensys plc.

■ **Richard Symonds** MCT, previously Group Treasurer at Chubb plc, has joined First Technology plc as Group Treasurer.

MEMBERS' DIRECTORY:
Members' contact details are updated regularly on: **www.treasurers.org** *Email your changes to Anna Corr:* **acorr@treasurers.co.uk**

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