Parliament passes last gasp Bribery Bill into law

The political accord that enabled the Bribery Bill to receive royal assent before parliament was dissolved for the general election sees the UK following the US with tougher regulations against fraud and corruption within financial institutions. The statute ushers in the biggest changes to UK laws in this area of business and commerce for many generations.

Will Kenyon, a partner at PricewaterhouseCoopers, said: "UK companies have a new set of risks to navigate with the introduction of this legislation. The act introduces a new crime of 'failure to prevent' bribery, which means that companies unable to demonstrate that they have implemented 'adequate procedures' to prevent corrupt practices within their ranks or by third parties on their behalf could be exposed to unlimited fines as well as other collateral consequences, such as debarment from government business."

Kenyon: new set of risks to navigate

The legislation makes it illegal for companies to bribe a foreign official to obtain or retain business. It is also an offence if companies fail to prevent a bribe being paid by their employees, or other firms, on their behalf.

Employees potentially face jail sentences of up to 10 years for an offence, and their company could be hit with unlimited fines.

The new rules are described as "the most powerful weapons yet" in the fight against fraud and deception, and the first step in worldwide co-ordination of compliance laws among regulators, by Chris Pilling, chief executive of software group Complinet.

He added: "We've seen financial companies trying hard to keep up with compliance changes, but the option for strict legal enforcement is necessary as well. The Serious Fraud Office urgently needs the new powers contained in the bill to deal with corruption in companies and keep Britain in line with laws which have been introduced in other countries." ■

See Clean Hands, p34

Treasury jobs buck industry trend

Although finance recruitment was particularly tough in 2009, the recession highlighted the importance of a strong treasury department and so treasurers enjoyed a consistent flow of new opportunities, according to Alex Hyde, a manager in recruitment firm Michael Page.

A review of the market by Michael Page suggests that organisations have created treasury teams for the first time, and existing functions have also looked to bolster their resources. The corporate treasury jobs market has seen an uplift in demand in Q1 for operational professionals, with permanent vacancies paying between £55K and £75K.

Hyde said: "Demand for individuals with strong technical accounting backgrounds remains high, as it did throughout the recession. Salaries haven't changed dramatically over the last year, although technical accountants still demand a premium due to the scarcity of quality candidates."

One area of treasury recruitment that continues to grow is the interim and temporary market, which looks set to become an increasingly popular method of resourcing in the post-recession economy.

See Career Path, p39

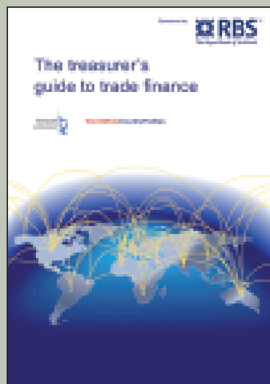
Moody's issues funding warning

Ratings agency Moody has warned that greater competition from sovereign issuers and banks and recent shifts in risk perception will probably entail a higher cost of funding for issuers of all types.

In its European Corporate Funding Costs report, Moody's said it did not question the availability of funds for high-grade corporate issuers, but pointed out that European companies need to refinance $283bn in maturing debt this year.

Heightened risk perception has inverted the "natural credit order" in which sovereigns normally issue and trade at narrower spreads than those paid by banks and high-grade corporates. In 2010, corporates have supplanted banks and sovereigns in the credit hierarchy. This offers temporary advantage to high-grade corporate issuers but also suggests greater competition for credit and more volatile funding costs as credit discipline works through.

Treasurer's guide to trade finance



The latest in the ACT's series of treasurer's guides was published at the end of April and will be distributed to all ACT members over the next few weeks.

Sponsored by RBS, The Treasurer's Guide to Trade Finance is a two-part book.

The first part takes a comprehensive look at trade finance by examining its traditional role in facilitating commercial transactions. It then assesses how technological change is making it increasingly possible for treasurers to integrate trade and cash and so unlock working capital and lower costs. It also considers how traditional trade techniques can support and finance activity along a supply chain.

The second part contains reference material, including chapters on different trade finance techniques, the various sources of working capital, and a guide to trade finance in 56 different countries.

The first two guides in the series, The Treasurer's Global Guide to Investing Cash and The Treasurer's Guide to International Cash Management, are still available from co-publisher WWCP via its website at **www.wwcp.net**

Pension funds 'should get tough on fees'

UK pension funds that fail to secure the best fee terms from investment managers are missing out on up to £100m in potential savings, claims a report by consultants Lane Clark & Peacock.

The report also concluded that the apparent cost savings offered by pool funds can be illusory, with "relatively high" indirect costs of up to 30% higher fees per year passed on to clients and often not disclosed.

A further finding was that investment managers still charge fees based on the level of assets under management, despite significant falls in asset values that meant many managers saw their fee revenue drop by up to 20% in 2009.

LCP suggests that most performance-related fee arrangements are unattractive, as they fail to align the interest of investment managers with their clients. Rewards tend to be skewed in favour of the investment manager and remuneration depends more on the markets than the manager's ability to add value.

Nicoll: challenge managers on fees

A more positive finding is that most UK pension schemes have not suffered any fee hike, despite a shift from traditional equity and bond mandates to alternative asset classes such as infrastructure and funds of hedge funds, which are usually much more costly.

Mark Nicoll, a partner in LCP's investment consulting practice, said: "A staggering 96% of managers say they are willing to negotiate on fees even for relatively small size mandates, although the good news is that trustees are increasingly aware that investment management fees vary widely and that there is a need for them to negotiate better terms on behalf of their scheme members. Trustees and their advisers should challenge their managers to justify the high fees paid."

The firm's findings were based on a survey of 68 leading UK-based investment managers, collectively responsible for managing more than 80% of the assets of occupational pension funds in the UK. ■

Company schemes smart over PPF pain

Nearly three in four pension scheme trustees and advisers are opposed to the Pension Protection Fund (PPF), which was set up five years ago and is supported solely by a levy on pension schemes without any government funding.

Actuarial and consultancy firm Barnett Waddingham said its latest annual PPF survey also showed that most pension professionals believed the government should be the fund's ultimate guarantor, and that they rated the stability of the PPF levy as more important than the absolute amount they were asked to contribute each year.

The survey, completed in the fourth quarter of 2009, involved 150 respondents, including pension scheme trustees, company representatives and advisers including lawyers. While 86% supported the existence of the PPF, 90% of trustees and 62% of advisers said that the PPF should not be exclusively funded by the levy. Asked if the government should be the fund's ultimate guarantor, 84% of trustees and 60% of advisers agreed. A large number of trustees and advisers (23% and 45% respectively) said they had clients who regarded the PPF levy as seriously jeopardising the existence of the employer associated with their scheme.

Nick Griggs, a partner at Barnett Waddingham, said: "The PPF's ever-increasing liabilities are becoming an unbearable burden on the declining number of eligible schemes. It is becoming apparent that there need to be some alternative ways of supporting the protection afforded to scheme members or for the level of benefits provided by the PPF to be reviewed."

Corporate ethics a sideshow

Half of annual reports present corporate responsibility as a disconnected issue from overall business operations and strategy.

Research from strategic corporate communication consultancy Black Sun found that although the vast majority of companies report on corporate responsibility only 39% of FTSE 100 companies link it to overall business strategy in their annual report.

Even fewer, 12%, put it as a strategic business goal or priority.

Although 52% of companies insisted that corporate responsibility was an integral part of their business or strategy, they reported it in a separate standalone section of the report, often at the very end.

Sallie Pilot, director of research and strategy at Black Sun, said: "In the future, operating in an environmentally, socially and economical way will be an essential component of a successful business strategy and critical to building and maintaining trust and a company's credibility."

Recovery in MBOs

Management buy-outs at the top end of the midmarket have bounced back in the first quarter of 2010. Figures from KPMG show that 15 midmarket deals (£100m-£400m) were completed in the first three months of 2010 compared with six in the final quarter of 2009. Total deal values rose by 470%, from £658m to £3.1bn.

Michael McDonagh, private equity partner at KPMG, said: "Many of these deals have been led by traditional UK midmarket private equity houses supplemented by a small number of US players picking up deal flow in the UK. There was only one deal we would describe as 'distressed' in the quarter."

KPMG said that while lenders have been shy of leveraged transactions, lending has started to ease, with high street banks clubbing together where private equity houses put 50%+ equity cheques on the table to back strong businesses with growth prospects.

McDonagh said: "While we have only seen one 'big ticket' transaction – the exceptional Pets at Home deal – retail is still a very difficult sector to secure backing for, with a number of high-profile retail deals being pulled for a variety of reasons."

European repo bounces back

After tentative signs of recovery, the European repo market showed strong growth in the second half of 2009, reports the European Repo Council of the International Capital Market Association (ICMA).

Its 18th semi-annual survey records a market that at the end of last year had grown to €5,582bn, an increase of 14.7% on the figure of €4,868bn for the previous survey in June 2009.

However, electronic repo trading missed out on this growth. Its overall market share slipped from 28.5% to 27.5% as much of the rise was accounted for by forward-start repo, relatively little of which is traded electronically.

The share of government bonds used as collateral for repo transactions also fell, to 76% from 81.2% in the previous survey, largely because of a reduction in the use of UK government bonds as collateral.

Godfried de Vidts, chairman of ICMA's European Repo Council, described the figures as encouraging, as a thriving repo market is vital for European economic recovery.

De Vidts said: "The repo product is a key source of funding in the interbank market, allowing banks to finance lending to their customers and so supporting revival in the global economy."

Recession leaves AIM stronger

Quoted companies on the secondary market have fallen in numbers but increased in strength, according to a survey.

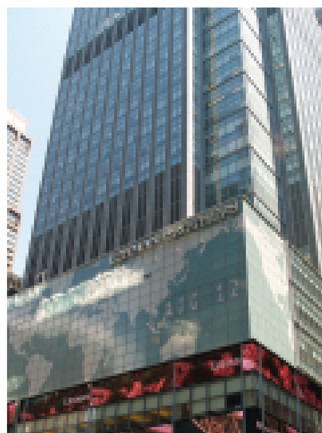
The 14th annual Taking AIM survey of institutional investors and AIM companies reported that most of the 300 companies that left the market last year had a capitalisation of under £5m. The average market capitalisation of an AIM company is now £44m compared with £24m two years ago.

Chilton Taylor, Baker Tilly's head of capital markets, said: "One notable success this year was the support institutions have given to well-managed companies on AIM, even while the markets were having a difficult time. The market has shown itself to be an excellent source of secondary funding and we expect that to continue."

Government bond deluge reverses swap rate norms

Record government debt issues are distorting the traditional relationship between bonds and derivatives on both sides of the Atlantic, according to market analysts.

Yields on government bonds, such as US treasuries, UK gilts and German bonds, have traditionally traded at a discount to swap rates, which are based on a funding rate linked to the interbank lending market that is usually higher than the repo rate used for financing government bonds.



Lehman collapse still reverberates

However, normal market conditions have been disrupted in the period since the demise of Lehman Brothers in September 2008. At the end of last year, 10-year swap rates began trading below the equivalent bond yields in the UK. And in the US, where swap rates have yet to fall below bond yields, they recently traded at a record low of just 2 basis points above government rates.

Alex Li, a strategist at Credit Suisse, said the negative spread between swaps and gilts largely reflected "the huge amount of supply that must be digested by the market".

Other factors include pension funds using swaps to meet long-dated liabilities rather than committing capital to buying bonds, and concerns about the sovereign credit ratings for both the UK and the US. ■

Corporate annual reports pose major business risk

Corporate reporting by FTSE 350 companies meets regulatory requirements but too often falls short in enabling investors, customers and suppliers to understand their activities and prospects, suggests PricewaterhouseCoopers.

PwC's report, called Integrated Reporting: What Does Your Reporting Say About You?, concludes that disconnected reporting fails to provide key stakeholders with what they really need to know about a company and poses a major business risk by raising questions about the quality of its management and governance.

Reports send out mixed messages

Although "quick wins", such as making information more reader-friendly, are an option, for most companies integrated reporting demands a more strategic approach to create a clear link between management information, board reporting and external communications.

More effective reporting can also help provide the company with a more robust defence against takeover bids.

David Phillips, senior corporate reporting partner at PwC, advised management teams to put themselves in the shoes of a sceptical outsider, such as an investor, analyst or shareholder.

He said: "If your business was to be bid for, would your current reporting help or hinder your defence?

"The starting point for an attack on your competence, integrity and track record will be how you have presented yourself externally. If the external picture is a poor reflection of the internal reality, it will only make your life more difficult." ■