Basel III proceeds to implementation

Work on developing the regulatory framework for Basel III is largely complete, according to Stefan Walter, secretary general of the Basel Committee on Banking Supervision, with the committee moving onto the next stage – implementation.

In a recent speech at the Financial Stability Institute Conference, Walter called the reforms "significant", combining micro and macro lessons learned from the crisis. One lesson was the critical need for all countries and regions to follow the global implementation process.

Walter noted that the frequency and the resulting costs of banking crises were extremely high. "Since 1985, there have been over 30 banking crises in Basel Committee member countries," he said. "Roughly, this corresponds to a 5% probability of a Basel Committee member country facing a crisis in any given year – a one in 20 chance, which is unacceptably high."

He admitted that it would be hard to predict the cause of the next crisis, and also warned that lessons learned in 2007 and 2008 were already beginning to fade.

"Many risks are still looming on the horizon, and all countries need to continue the process of building their capacity to absorb shocks, whatever the source," he said. "The banking sector's shock-absorbing capacity must be much stronger than it has been in the past, and the implementation of our standards must be more globally consistent and robust."

The full speech is available on the Bank for International Settlements' website at www.bis.org

Basel Committee operates out of BIS Basel

Brokers given export credits

The British Insurance Brokers' Association (BIBA) has secured an agreement that gives general insurance brokers access to the government's Export Credits Guarantee Department (ECGD) export insurance scheme.

The move means that BIBA members can now use the scheme to underwrite insurance for UK exporters against non-payment by overseas buyers.

BIBA and ECGD have also reworked the wording of the policy so it can be used to obtain trade finance.

Crawford: overseas opportunities

BIBA's head of technical services, Peter Staddon, said: "Access to ECGD to the wider BIBA membership will be invaluable to businesses in distributing and placing the export risk."

Specialist credit insurance broker Perkins Slade will be wholesaling the scheme to the wider BIBA membership.

Last month, ECGD announced that many more British exporters (including many small and medium-sized businesses) could now apply for short-term credit insurance.

Patrick Crawford, CEO of ECGD, said: "We are pleased to be able to work with BIBA and its specialist members to encourage businesses across the UK to look at overseas countries as marketing opportunities."

As part of the change, contract values have been revised and can now be as low as £20,000.

The Government's white paper, Trade and Investment for Growth, published on 9 February, announced that ECGD would be able to offer short-term export credit insurance for all types of goods (for non-marketable risks). ■

Risk exposure rises for investors

A low interest rate environment could be tempting investors to search for yield in more complex non-standard markets that increase their exposure to liquidity risks, warns the Financial Stability Board (FSB). It wants regulators to look closely at developments in exchange-traded funds, commodities and high-yield markets.

At its most recent meeting, the FSB said "pockets of weakness" remained in the global financial system. This frailty has been reflected in sudden changes to funding conditions, credit losses and yield curves. In some emerging market economies, rapid credit growth and portfolio inflows has increased the risks of asset price inflation and other "financial imbalances".

The FSB also said that it was accelerating work in identifying systemically important financial institutions (SIFIs), which will need to hold additional capital over and above the level required under Basel III. It plans to deliver its recommendations in time for the G20 summit in November. It will accompany these with the views of its task force on strengthening the regulation and oversight of shadow banking. This system of non-depository banks and other financial entities has grown rapidly in the past decade. ■

Cash split creates a two-tier economy

Global competition for capital is set to intensify over the next five years and the availability of debt capital will be limited, a study issued by Deloitte predicts.

The study analysed the debt of more than 9,000 large companies in G20 countries, and noted that over £7 trillion of corporate financing falls due over the period. It suggested a two-tier economy had resulted from the split between cash-rich businesses and those in need of capital.

Margaret Ewing, Deloitte partner and vice chairman, said capital had become a powerful competitive asset. "CFOs of highly indebted companies need to address their refinancing requirements sooner rather than later to improve their financial flexibility and boost their liquidity position," she said.

James Douglas, head of debt advisory at Deloitte and ACT deputy president, said: "Increased regulatory pressures will constrain banks' abilities to fund lending activities as cheaply as before, and will require greater capital to be held against liabilities. With £500bn of UK banks' wholesale term debt due to mature by the end of 2012, UK banks may also be vulnerable to volatility in the wholesale funding markets."

Hallam embeds CertITM into MSc

Working in partnership, the ACT and Sheffield Hallam University have developed a unique opportunity for students wishing to work in treasury and risk management. From September 2011, the ACT's Certificate in International Treasury Management (CertITM) will be embedded in Sheffield Hallam's Banking and Finance MSc as part of an international treasury management module. The innovative partnership will provide an opportunity for students to differentiate themselves by gaining both an academic and professional qualification.

Treasury masterclass under way at Hallam

Jonathan Jeffery, principal lecturer in finance and risk management at Sheffield Business School, said: "Students who successfully pass CertITM will have demonstrated they have met the key benchmark technical and practical skill sets required to work in the industry. The ACT has been very supportive of Sheffield Business School over a number of years and this ground-breaking agreement will greatly benefit our graduates. It also reflects the importance Sheffield Business School places on working with a key professional body such as the ACT."

As part of the partnership, ACT education technical officer Will Spinney presented a master class on treasury risk to students on the Masters Finance Programme at Sheffield Hallam University in March. The class covered the fundamentals of how risk arises in the supply chain. The interactive session also explored six case studies in foreign exchange and interest rate risk. ■

CBI wary of EU governance

The Confederation of British Industry has responded cautiously to the EU's green paper on corporate governance, aimed at ending short-term thinking in the boardroom, which the paper describes as having had "disastrous consequences".

Matthew Fell, the CBI's director for competitive markets, said: "The Commission is right to look at ways of improving the dialogue between shareholders and boards, but this must be achieved though a 'comply or explain' approach, not rules-based box ticking.

"There is a strong business case for greater diversity on boards and this is best achieved by companies setting targets and reporting against them, rather than by enforced quotas.

"The Commission should look closely at the lessons learnt from the financial crisis, but we should apply new measures only if they are appropriate to all listed companies." ■

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ACT digest

Key messages

■ Basel III

The knock-on impact of Basel III on corporate business remains a subject for treasurers to consider and plan for. Greater capital and liquidity requirements will increase costs, but of particular concern is the impact on off balance sheet trade finance products where the weighting for the leverage tests is due to increase from 20% to 100%. The ACT is taking every opportunity to flag the negative impact this would have and most recently has raised the issue with MPs interested in finance for manufacturers.

■ Hedge accounting

The ACT has responded to the IASB's exposure draft on hedge accounting. We support the closer link between the accounting and the risk management policy of the company but have concerns over many of the details. For example, extensive disclosures would be required about future exposures and hedging to claim cashflow hedge accounting. This could be commercially sensitive.

■ New ECGD cover available

ECGD is making new and extended trade-related products available to British exporters. By risk-sharing with the banks, these will help with bond support, working capital finance and FX credit support, and provide an extended credit insurance scheme. All the new schemes are available but companies may need to prompt their banks to take advantage of the risk-sharing schemes.

Chancellor's pension consultation 'misguided'

Osborne: under fire

George Osborne's plan to hold a consultation on asset-backed pension funding, as revealed in the March Budget, has come under fire from consulting firm Mercer.

The chancellor announced he would canvass views on a change to the tax rules to limit the amount of tax relief available to employees when they make asset-backed contributions to their defined benefit pension schemes. According to Mercer, he is targeting arrangements under which an employee makes a pension contribution that is invested in assets associated with the employer, typically through an arms' length special purpose vehicle (SPV).

Some asset-backed contributions have involved the effective sale and leaseback of commercial property, whereby the property is held by an SPV, the employer pays rent to the SPV, and cash payments based on the rental income are returned to the scheme over time. Those payments are effectively securitised and the value is treated as an asset of the scheme, which also has the benefit of security over the property. Employers normally get up-front tax relief on the value of that asset.

Any change could damage both corporate cashflow and pension scheme funding levels, Mercer suggested. Matthew Demwell, a partner in Mercer's financial strategy group, said: "The current funding method can be a good solution for trustees and employers alike. The pension scheme has its deficit addressed upfront and the employer's cashflow requirement is less onerous than under a typical cash-only recovery plan. This is particularly important in the current climate." ■