Refinancing priority for UK treasurers

The scope of treasury is changing and will continue to do so, according to an Ernst & Young international survey. The main drivers are greater integration between the business units and treasury, as well as an increased focus on liquidity and funding.

Other drivers of change include more regulation, such as over-the-counter (OTC) derivatives reform, advances in payment processing and the emergence of effective in-house banking solutions.

In the past year treasurers have focused on refinancing, mentioned by 40% of survey respondents as a priority and by 27% as their top priority. Other big issues were financial risk management (including foreign exchange and commodity risk), mentioned by 21%, capital structure, technology project, counterparty credit, cash management and acquisition integration.

The survey was conducted through face-to-face interviews with 101 treasurers of large companies in 14 countries and 21 industry sectors in late 2011.

The challenges unearthed by the research included talent management and development, with treasuries in Asia Pacific having the biggest problems in both recruitment and training. Liquidity management was a key concern, with companies looking to diversify their funding sources. Direct use of capital market funding is expected to become more mainstream. Cash forecasting was another major concern. Centralisation of payments and the use of payment factories help good cash management and improved liquidity.

Ernst & Young said it was surprised that operational risk was not mentioned among risk management concerns, despite recent high-profile cases of fraudulent activity in bank treasury environments.

Olivier Drion, EMEIA head of treasury advisory at Ernst & Young, said: "The financial crisis, its prolonged aftermath and the shift to greater integration of business units and processes have greatly enhanced the role and the capabilities of treasurers. Their concerns about liquidity are not being helped by the continued prevalence of inadequate cash forecasting mechanisms, decentralised payment arrangements and the continuing lack of transparency and access by treasury to business units' cash."

Researchers to study transaction banking

SWIFT is setting up a research body to focus on transaction banking.

The financial messaging provider for more than 10,000 financial institutions and corporations in 210 countries said the independent research conducted by academics and senior industry professionals was designed to bring together academics and practitioners and to inform debate.

Shah: thought leadership goal

Yawar Shah, SWIFT board chairman and chief operating officer, said: "SWIFT is stepping up to the requests of the banking industry, especially from the leaders of the global transaction banking businesses, to foster research in this important area to assist with thought leadership on key strategic matters. It is a limited but important initiative for SWIFT in its role as a global, neutral, trusted third party."

The research will look at payments, clearing and settlement, cash management, trust and securities, and trade finance. ■

Another ACTAC success

Over 1,000 corporate treasurers, corporate finance professionals, bankers and others connected with the treasury profession attended the ACT Annual Conference in ACC in Liverpool on the banks of the Mersey in the middle of April.

The key ingredients for another successful conference included a lively conference programme, the biggest exhibition to date and a gala dinner held in the nave of the wondrous Liverpool Anglican Cathedral on the second day of the conference.

For more details about the three-day event, see page 12.

Regulator warns on DB schemes' deficit plans

Trustees and sponsors of defined benefit (DB) pension funds have been told to maintain deficit recovery contributions in real terms. The regulator has said it will seek "strong justification" where a reduction is proposed.

The Pensions Regulator has published its first annual funding statement to offer guidance on how to approach pension scheme funding valuations in today's challenging economic environment.

Galvin: bigger breathing space

It is aimed at trustees and employers of defined benefit schemes who are undertaking their scheme valuations with effective dates in the period September 2011 to September 2012. According to the regulator, it applies to around one-third of the UK's 6,500 DB schemes and their total 12 million membership. However, the regulator added that it was relevant to all trustees and employers with a DB scheme.

Trustees and employers that follow the guidance in the statement are more likely to reach funding agreements that the regulator finds acceptable without the need for regulatory involvement. Most schemes should be able to meet their pension promises to members with either no change or only small changes to their present deficit recovery plans.

Bill Galvin, chief executive of the Pensions Regulator, said: "Employers that are struggling have greater breathing space to fill deficits over a longer period. However, we will draw a distinction between this group and those cases where schemes are substantially underfunded and employers are able to afford higher contributions. In such cases we will expect pension trustees to be taking steps to put their scheme on a more stable footing."

The regulator also warned that in some cases dividend payments should be cut back in recognition of shareholders' subordinate position to the scheme. The regulator said: "Where available cash is used within a business that might otherwise have been used to increase contributions it should have the demonstrable effect of strengthening the 'employer covenant' (the employer's ability to support the scheme)." ■

FTSE 350 face audit rotation

FTSE 350 companies could be forced to put their external audit contracts out to tender at least every 10 years, under proposals put forward by the Financial Reporting Council (FRC).

In a consultation on proposed revisions to the UK corporate governance code and International Standards on Auditing, the FRC is also suggesting that boards should explain why they believe their annual reports are fair and balanced.

All the changes are designed to give effect to the FRC's company stewardship proposals. The corporate governance code marks its 20th anniversary this year while the stewardship code – which sets out good practice for institutional investors on monitoring and engaging with investee companies – was first published in 2010.

Other major changes are designed to encourage more meaningful reports by audit committees and provide more guidance on explanations that should be given to shareholders when a company chooses not to follow the code.

Baroness Hogg, chairman of the FRC, said: "The revisions on which we are consulting this time are deliberately limited. We want to build on the proven track record of the UK corporate governance code and the promising initial response to the stewardship code by reinforcing rather than fundamentally changing the codes. We will maintain the 'comply or explain' approach to improving standards of governance.

"The auditing standard proposals are designed to enhance the relevance and value of the audit for users and the public by stimulating greater transparency about board and auditor judgments."

Subject to the outcome of the consultations, all the proposed changes will apply to financial years beginning on or after 1 October 2012. ■

LMA constructs real estate form

The Loan Market Association is recommending a new type of single-currency term facility document for use in multiple real estate finance (REF) transactions.

The form was designed following calls from LMA members for a common framework and language for REF transactions. The aim is to improve efficiency within the REF market.

The REF agreement uses the same basic structure and boilerplate as the LMA recommended forms of primary documents for the investment-grade and leveraged finance market. The forms were put together by bank representatives, including in-house lawyers and City law firms.

The document has been produced on the basis that a transaction is for investment purposes only and not for the development of a property. It also assumes a structure whereby a parent company establishes subsidiaries (all of which are incorporated in England and Wales) and that finance is provided to those subsidiaries for the acquisition of one or more properties.

Clare Dawson, LMA managing director, said: "The LMA REF agreement is a major step into an additional area of the syndicated loan market, and signals the LMA's commitment to expand its suite of documentation into more specific debt sectors so as to bring about the benefits in these markets which LMA documentation has already effected in the corporate lending sphere.

"We hope that it will be a useful starting point for law firms drafting facility agreements for real estate finance investment transactions and that it will lead to more efficient and productive negotiation of documentation."

Dawson: big step into new sector

Europe builds SME bond market

European stock exchange bond platforms are opening up vital sources of funding for small and medium-sized enterprises (SMEs), according to a financial advisory firm.

A number of stock exchanges have recently developed SME-specific bond platforms in response to the lack of bank credit caused by the financial crisis and new bank regulatory requirements, and Bishopfield Capital Partners said SMEs should consider tapping debt capital markets directly to replace shrinking bank finance.

German SMEs have so far launched 50 bond issues on regional German stock exchanges – Dusseldorf, Frankfurt, Hamburg/Hanover, Munich and Stuttgart – in the last two years, raising €2.7bn. The majority of these issues have been for less than €50m.

NYSE Euronext has also recently announced plans to promote the issuance of corporate bonds by SMEs on constituent stock exchanges via its Alternext capital markets platform.

Arjan van Bussel, partner of Bishopsfield Capital Partners and co-author of the report, said: "Disintermediation of bank finance is an ongoing story and these initiatives are making it easier and cheaper for SMEs to issue bonds on dedicated stock exchange platforms, while also improving visibility and liquidity for investors. Debt capital markets funding is now within reach for European SMEs and should be seriously considered as part of their funding mix."

Risk managers rise to prominence

Risk managers in financial institutions across Europe are seizing the opportunity created by the financial crisis to demonstrate how they create value and are rapidly gaining kudos in the boardroom as a result.

Research published by insurance giant Marsh reveals that the role of the risk manager in financial institutions has grown, with 68% of respondents reporting that they now have a higher status within their organisation. The greater status of risk management is also affecting the level of that risk organisations are prepared to take, according to the survey, with 34% saying board-level risk appetite has risen over the last three years, compared with 18% in 2009.

Lambert: risk playing a growing role

Just over six in 10 of the risk managers also reported that new regulation had done little or nothing to reduce their operational risk exposure. Risk managers are more concerned about threats associated with credit and liquidity risk than at any time since the height of the economic downturn.

Carrick Lambert, industry practice leader of Marsh's financial institutions practice in EMEA, said: "Three years ago, financial institutions were recognising their problems in the wake of the banking crisis and making the resolution of these problems a top priority.

"Today, our research reveals that boards increasingly recognise that risk management can provide a competitive advantage. With capital now no longer as cheap or as available as in the pre-credit crunch days, good risk management is an essential tool for securing new funds."

According to the risk managers surveyed, among the top risk priorities for financial institutions over the next 18 months are credit risk (mentioned by 69%), liquidity risk (56%), operational risk (25%), and interest rate risk (24%).

Marsh said that there had been a significant swing towards a more centralised model for risk management, with 30% of respondents describing their risk management structure as managed by a central team, compared with only 17% in 2009.

This centralisation trend is expected to continue, and chief risk officers should finally become permanent and influential fixtures on most boards. ■

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