Hotline

Welcome to the November Hotline. Our aim is to provide you with the most up to date information on technical matters relevant to corporate treasurers. Each month our Technical Committee meets to approve ACT policy statements and to prioritise technical issues requiring specific work groups to be established, such as financial derivatives, treasury stock and stock options. We have highlighted here just a few of the agenda items from our October meeting. It is key that the Technical function is representative of corporate treasurers, therefore, we encourage you to give us proposals for subject matters you would like to see tabled at our next meeting, and to participate in work groups that are of interest to you. □

Helen Wilkinson, Technical Director, ***hwilkinson@treasurers.co.uk***

TAXATION OF TREASURY INSTRUMENTS

ACT response to consultation

The Inland Revenue (IR) issued their consultative document on the proposed changes to the taxation of *Corporate Debt, Financial Instruments and Foreign Exchange Gains and Losses* on 26 July 2001. The ACT has responded to the IR with comments to major points of principle rather than details of the legislation addressing the five issues below:

- effective date for introduction of the new regime and anti-avoidance provisions;
- matching elections;
- deferral relief;
- paragraph 13; and
- accounting treatment.

www.inlandrevenue.gov.uk/consult_new/corpdebt.pdf
ACT response: **www.treasurers.org.uk/know/services/tech.html** □*HW*

TREASURY SHARES

ACT lobbying

The Department of Trade and Industry (DTI) issued a consultative document on treasury shares at the end of September, and has requested responses by 30 November 2001. The ACT has been lobbying in favour of the introduction of treasury shares for the past few years.

In May 1999, the ACT issued a press release in conjunction with the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF) setting out a recommended framework for the purchase and re-issue of treasury shares, including pre-emption rights. The DTI consultative document has been held up by the Company Law Review which has recommended not changing the current arrangements for shareholders' pre-emption rights in the UK. The consultative document addresses only company law and is based on the assumption that pre-emption rights will apply to treasury shares.

The consultative document raises 25 questions on legal, tax, operational and accounting aspects. The ACT Technical Committee will be drafting a response to the consultative document.

We would ask members to give us their feedback, review the questions and email your responses to Helen Wilkinson at ***hwilkinson@treasurers.co.uk. www.dti.gov.uk/cld/bybak247.pdf*** □*HW*

CONVERTIBLE BONDS

Issuer and investor protection

In response to the increased volume of convertible and exchangeable issues, the Association of Convertible Bond Management (ACBM) has prepared recommendations for standardising issue terms and prospectuses. The ACBM comments that the rapid growth and increasingly complex structures used have meant that investor protection and prospectus clarity have fallen behind. They mention, for example, Vodafone's take-over of Mannesmann which "left investors at the mercy of the issuer" as no change of control language existed. Investors in the straight bond market have raised similar concerns. Therefore, the ACBM recommendations are aimed at benefiting issuers and underwriters, while maintaining the flexibility that is one of the key strengths of convertibles. The ACBM recommendations cover three core areas under their Convertible Issuance Principles, which address prospectus risk: best practice; material terms; and prospectus standards.

Best practice is defined as the communication of all material terms at launch. Investors frequently have difficulties assessing the merits of a new convertible deal when material terms such as redemption details, conversion periods, and dilution events are held back until the publication of the prospectus.

Material terms are defined as the right of investors to know at launch basic terms such as the conversion period and implications of particular corporate actions. The list of material terms is not meant to be exhaustive, but rather the minimal information to be communicated at launch.

Prospectus standards are an attempt to standardise material terms for prospectus drafting. If the lead managers convey to investors that ACBM standards will be adhered to, issuers will gain from greater interest, investors gain from increased clarity and basic structural protection, and lead managers' gain from added marketability. **www.acbm.ch/news_acbm.asp** □*HW*

CAPITAL MARKETS

More from Europe

Keeping up with the recent flood of draft European legislation is not easy, but it is worthwhile looking at two associated proposals, which would have a big impact on capital raising for EU companies – the proposed **Prospectus Directive** and the **Consultation Paper on Transparency**. The Prospectus Directive will require companies issuing debt or equity which is offered to the public in one or more EU Member States, or which are admitted to trading on a regulated market within the EU, to file a prospectus with its home Member State before the offering. The structure and definitions give rise to major problems, among them:

- private placements will be limited to a much narrower range of investors than at present, and must be unlisted, otherwise disclosure documents will have to be prepared and approved beforehand;
- more securities issues will trigger the need for a prospectus, the timing of which is highly problematic;
- it will be almost impossible to operate current MTN programme structures;
- it is not clear whether second and third tier markets such as AIM and OFEX would be able to continue business at all; and
- small and medium sized companies might not find it cost-effective to issue securities at all.

The Consultation Paper on Transparency includes the following provisions:

- issuers of securities to file quarterly reports;
- reports would use a format which is not necessarily compatible with current accounting practice;
- reporting time limits would be much shorter than at present; and
- as with the Prospectus Directive, exemptions are very limited.

A number of bodies in the financial services industry have made the point that these proposals would increase the cost of capital for EU issuers. First, there would be a direct effect on EU issuers who would have to provide additional information, which would be expensive to collect. It is not clear that investors really demand the information contemplated. Second, there would be an indirect effect in that non-EU issuers would be discouraged from using the international market, with consequent loss of efficiency in the market.

The European Commission acknowledges that an increase in the cost of capital raising for EU issuers is a valid concern, which should be set against any potential public gain in terms of investor protection. We encourage members to work with their banks to estimate the potential impact of the above proposals. □*HW*

*The ACT is interested to hear your comments, and the incremental cost to your business resulting from these proposals. Please email Helen Wilkinson at **hwilkinson@treasurers.co.uk***

The International Primary Market Association responses to both the above proposals:
www.ipma.org.uk/general/pstatements.htm
The Prospectus Directive:
http://europa.eu.int/comm/internal_market/en/finances/mobil/prospectus.htm
http://europa.eu.int/comm/internal_market/en/finances/mobil/com280en.pdf
The Consultation paper on Transparency:
http://europa.eu.int/comm/internal_market/en/finances/mobil/transparancy.htm

EMPLOYEE SHARE OPTIONS

Deadline extended

In December 2000, the ACT responded to proposals by the Accounting Standards Board (ASB) on accounting for share options. A parallel consultation was launched by the International Accounting Standards Board (IASB) last year, which has increased relevance now for UK companies following the decision of the European Commission to require all EU listed companies to comply with IAS from 2004/5. The deadline for responses to the IASB has been extended by three months to 15 December 2001.

We are interested in hearing your comments and if you are interested in participating in a working group with other treasury professionals to review this subject. Please email Helen Wilkinson at hwilkinson@treasurers.co.uk.
www.iasc.org.uk/cmt/0001.asp □*HW*

The Treasurers' Handbook 2003

We will soon be starting work on the 2003 edition. If you would like to volunteer to help with reviewing, commissioning or writing, please contact Mike Henigan on 0207 213 0723 or email **mhenigan@treasurers.co.uk**. □

PENSIONS

New ACT book published

Fellows and Members of the Association will shortly be receiving their free copy of *Pension Schemes – Controlling the Corporate Risk*, edited by Caroline Bradley. We are able to distribute this latest book in the ACT's Business of Finance series thanks to the generous support of Law Debenture.

The book is also being made available free of charge to all Associate Members, who should fax their details to Alison Mouncer on 020 7248 2591 or email **amouncer@treasurers.co.uk** □

The book is also available for purchase at £20

FINANCIAL DERIVATIVES

What model of fair value and cost accounting will the UK adopt

In December 2000, the Joint Working Group (JWG) which comprised nominees of the ASB and a number of other national standard-setters issued a consultation paper *Accounting for Financial Instruments and Similar Items*. The intention of the JWG proposal was to find an internationally accepted approach to the recognition, measurement, presentation and disclosure of financial instruments. However, the JWG proposal goes far beyond both Accounting for Derivative Instruments and Hedging Activities (FAS133) and Financial Instruments: Recognition and Measurement (IAS39) which are based on a mixed measurement model that requires some financial instruments to be measured at fair value and some at historical cost.

The JWG proposed that all financial instruments be immediately recognised at fair value with all fair value changes recognised immediately in the income statement. Under the JWG proposals there would be no 'special hedge accounting'. That is, there would be no possibility to defer and match derivative gains and losses and properly reflect the economics of a hedge.

CURRENT STATUS. The ACT and many other bodies from the UK and around the world responded to the JWG proposals. The standard-setters are now busy analysing the comments received before deciding what their next steps should be. This is, however, a long-term project and the ASB has already made it clear that any standard developed from the JWG paper is at least five years away.

In the meantime, the IASB has announced a short-term, high priority project that will consider ways of improving Financial Instruments: Disclosure and Presentation (IAS32) and IAS39. This project is of particular significance here in the UK following the decision of the European Commission to require all EU listed companies to comply with IAS from 2004/5. The ASB has emphasised the importance of the UK participating fully in this review and is actively seeking views on how the standards should be amended. As part of this effort, it has suggested that the ACT work with treasurers of UK, European and US companies to draft a proposal of suggested amendments to IAS39. The scope of the proposal will be to suggest amendments that will facilitate the implementation of IAS39, rather than to propose major changes to the principles of the Standard.

COMMENTS ON IAS39 VS. JWG PROPOSAL. The two main objections to the JWG proposal were that firstly, company's own debt had to be held at fair value, and secondly, the abolition of hedge accounting. There are two key aspects of relevance to treasurers when comparing IAS39 to the JWG proposal:

- Both require all financial assets and liabilities to be recognised on the balance sheet and all derivatives to be measured at fair value. However, while the JWG proposal requires all financial assets and all financial liabilities to be measured at fair value, IAS 39 requires investments held-to-maturity and loans and receivables originated by the company, together with all non-trading non-derivative liabilities, to be measured at cost.
- Hedge accounting is permitted under IAS39 in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and actually effective. The JWG proposed that all hedge accounting should be prohibited.

Both IAS39 and FAS133 are based on a mixed model of cost and fair value approaches, which remains the most practical way forward, even in the longer term. We are not convinced that the JWG model will improve financial reporting, regardless of its' conceptual simplicity. Neither do we believe it is practical to implement. We therefore support a model based on the principles in IAS39 and FAS133. However, this creates a number of inconsistencies, which necessitates more detailed definitions and implementation guidance. Already, the IASB has issued over 200 interpretations of the standard. Currently, there are many aspects of IAS39, which require clarification and/or amendment to reduce the complexity of implementation.

*The ACT technical function has set up a working group of members, with support from PricewaterhouseCoopers and Arthur Andersen to prepare a draft proposal to the ASB by the end of November. We would like our response to be as representative of corporate treasurers as possible, therefore, please email Helen Wilkinson at **hwilkinson@treasurers.co.uk** if you are interested in participating in the working group and/or able to review the proposal prior to submission.* ☐*HW*

References:
Summary of JWG consultation paper
www.asb.org.uk/publications/content/current39.rtf
ACT response to JWG proposal
www.treasurers.org/know/services/tech/acctfi.htm
BBA response to JWG proposal
***www.bba.org.uk/businesses** (Article: New Accounting Proposals Misleading)*
Accounting for Financial Instruments
*Standards, Interpretations, and Implementation Guidance can be obtained from the IASB at email: **publications@iasb.org.uk***

For comments on Hotline or news, please contact Helen Wilkinson at **hwilkinson@treasurers.co.uk**. Additional technical updates are available at **www.treasurers.org**.

News

TREASURY PRACTICE

Banks holding treasurers back

Leading treasurers opened the International Cash and Treasury Conference in Madrid in September with a call to bankers to get out of the 14th century. Speaking at the conference, Joris Kniep, Shell's Group Central Treasury Manager, admitted that treasury processing remained "somewhat medieval".

David Blair, Managing Director, Nokia Treasury Asia, said: "When attending cross-functional meetings at Nokia, I feel ashamed at the cost levels of transaction processing in treasury, compared to the progress made by colleagues in sales and logistics."

TREASURERS SHOULD SHARE THE BLAME. Shell's Kniep admitted that treasurers were partly to blame for the high cost and lack of automation in the processing of treasury transactions. "Treasurers have not pushed hard enough and banks have been very defensive. Banks need to be helped by corporate clients. In particular, foreign exchange dealing and commercial paper issuance are very backward processes."

Blair added that banks were not entirely to blame and called for a change of approach by regulators and for governments to reassess taxation issues related to treasury. Noting consumer-based payments and transaction processing solutions recently developed by software giants such as Microsoft, Blair warned: "Someone else will step into the breach if the banks don't act."

QUICKER, NOT CHEAPER. Acknowledging that it was unlikely that treasurers could expect a reduction in transaction processing costs, Patrick Villers, Director of Treasury Consulting at GE Capital, suggested that banks were responding to the needs of corporates to increase the efficiency of treasury processes by harnessing internet-based technologies. General Electric, the largest US issuer of commercial paper, would be issuing 20% of its paper via the internet by the end of the year, he said.

Declan Lynch, Managing Director of Dublin-based outsourcing unit Vtreasurer, believes that the current environment is "confusing" for treasurers, due in part to the "encroachment" of new technologies – such as multi-bank FX platforms and internet-based application service providers (ASPs) – into the traditional core competences of the treasurer. Ken Lillie, Principal Consultant at SunGard Treasury Consulting, said treasurers should nevertheless grasp the opportunity to automate non-value added processes. "The cost savings offered by the outsourcing and the new technologies are marginal in comparison with the value that can be added by treasurers being freed up to think more strategically and making better use of the information now available to them." ☐*bfinance*

FAIR-VALUE PROPOSALS

ISDA objections

More consultation is needed on draft proposals for fair-value accounting for all financial instruments, the International Swaps and Derivatives Association said in a letter to the Joint Working Group of Standard Setters.

"Our committee strongly agreed that a fair value model based on guidance contained in the draft standard would be significantly flawed," said Robin Doyle, vice president, JP Morgan Chase and chair of ISDA's North American accounting committee. The fact that the Joint Working Group (JWG) proposal prohibits the use of hedge accounting could have massive repercussions for the derivatives industry, ISDA noted.

"A period of two years is [not] adequate for the implementation of an accounting standard that fundamentally changes the way that entities will account for financial instruments," ISDA's letter said. Separate fair value projects addressing measurement, recognition and derecognition, liabilities versus equity and hedging are advisable, ISDA argued.

ISDA argues that the proposed new methodology is too restrictive and will not always result in the application of an appropriate valuation. Market quotes, for example, may be available for certain instruments, but these may sometimes be indicative quotes that do not represent the level at which instruments can actually be traded, ISDA pointed out.

According to ISDA, additional consideration needs to be paid to the radical changes in store for repurchasing agreements and stock lending transactions. In the proposal, both are to be accounted for as sales and purchases. "After all, the nature and intent of repurchase agreements and stock lending transactions is that of secured lending," the letter said. The trade group also cited as a major concern the proposal's suggestion that market prices be used to value large blocks of an instrument. **www.isda.org**. ☐*IFR*

PENSIONS

Equal treatment problems

A European Union (EU) anti-discrimination directive will increase the cost and administrative burden of UK pension schemes, according to leading actuary consultant William Mercer.

The Directive for Equal Treatment in Employment and Occupation – which prohibits discrimination based on religion, belief, disability or age – is scheduled to be adopted by member states by December 2003. The Directive will also affect working conditions and pay.

The directive is most likely to be felt in the UK, Ireland and the Netherlands, which have highly developed occupational pension systems. Other countries, such as France and Germany, may be affected on a smaller scale. **www.wmmercer.com** ☐*bfinance*

FOREIGN EXCHANGE

Atriax adds flexible functionality

The online battle for companies' foreign exchange business rages on with the announcement that Atriax has enhanced its platform with improved dealing functionality and new intra-company dealing facilities.

The platform now offers main spreadsheet deal import functionality which enables users to prepare unlimited individual and batch deals offline before importing them in a single operation for execution. In addition, Atriax also provides users with the option to deal on either side of a requested two-way price with the introduction of Buy/Sell dealing screens.

Atriax also unveiled new intra-company dealing facilities which allow corporate members to supply FX pricing to subsidiaries worldwide and then lay off the risk to its banks as and when appropriate. Using the new system, the central treasury can set the prices on which its subsidiaries deal; prices are obtained by submitting requests for quote to the central treasury in the same way that the central treasury submits requests to its banks. **www.atriax.com**. ☐*bfinance*

For more on online FX trading, see this month's Spotlight on Treasury Technology, starting on page 29.

FOREIGN EXCHANGE

Straight through processing

TWIST (Treasury Workstation Integration Standards Team) have announced a revised version, TWIST2, of a global standards framework for straight-through-processing of FX transactions. TWIST2 has been developed in consultation with financial products mark-up language (FpML) FX Products Working Group, the industry-wide body responsible for accommodating use of FpML for FX products. TWIST said specifications incorporated into the new release included detailed instructions for foreign exchange trading, including trade and settlement confirmation, new trades, collections of trades, amendments, cancellations, allocations, rolls, aggregations, and split settlements.

THE FUTURE OF FX TRADING. To coincide with the above announcement an interface between the Currenex FX dealing platform and Trema's FinanceKIT treasury management system (TMS) was showcased. The interface between the two systems was built using the new TWIST2 standard, and similar interfaces with TMSs from XRT and Alterna are scheduled for release in the coming months.

TWIST also announced that Reuters, the global finance information firm, and tapX, a provider of straight-through-processing payment, netting and accounting solutions, have joined the group, which is also working with SWIFT, the funds transfer body, to encourage harmonisation of emerging standards. **www.twiststandards.org**. **www.swift.com**. **www.currenex.com**. **www.reuters.com**. **www.tapx.com**. **www.trema.com**. ☐*bfinance*

For more on TWIST, see this month's Spotlight on Technology, starting on page 29.

FOREIGN EXCHANGE

FXall ups the STP ante

News of FXall's STP initiatives came just after our e-fx feature (*page 29*) was completed. The two branch strategy (a partner channel programme plus a suite of STP products) should provide a more comprehensive solution and allow every user of the FX portal to get the benefits of automating post trade procedures. The partner channel programme is our attempt to make things easy for buy-side clients explains FXall's CEO, Phil Weisberg. FXall has worked with 19 portfolio and treasury systems vendors to integrate FXall into their systems. In some cases, this means embedding FXall so that users can trade without leaving the front office application; in others, it may mean XML-based messaging between FXall and a transaction hub.

FXall has also taken account of the many potential clients who use spreadsheets for managing their orders with a post-trade blotter that allows for download to spreadsheets, and a server based tool for up/downloading virtually any file. There is also a full API for integrating in-house systems.

The next step is to automate the confirmation and settlement functions says Weisberg, who emphasises the importance of process automation for e-fx. **www.fxall.com**. ☐*AQ*

CORPORATE BONDS

Default rate going up

Moody's has hiked its forecasted global corporate bond default week to 10% for this year from a previously projected 9.5%, and to 11% in 2002 from a previously estimated 10%. At the same time, the agency reported a jump in the US speculative-grade default rate to 9.40% in August, from 9.06% in July. Outside the US, speculative-grade defaults increased to 7.26% from 7.05% during the month.

In response to the revisions, Merrill Lynch research noted that, by its reckoning, the high-yield market has already effectively priced in an 11.75% default rate. According to Merrill's analysis, investors are receiving fair compensation for the scenario forecasted by Moody's and for the truly heightened risk of owning high-yield bonds.

Most recently, over the period of 31 August to 21 September, the average spread on Merrill Lynch's high-yield master index versus 10-year Treasuries widened to 870bp from 732bp. The level had escalated to 884bp by early October. That compares to a historical average mean spread of 466bp from 1985-2000.

On a yield basis, the Merrill Lynch index average jumped to 8.75% from 7.32% as of 21 September from the end of August and continued to rise to 8.84% in October. Accordingly, high-yield returns have been seriously eroded. Year-to-date returns were 7.52% as of 31 August but have since slid to just 1.95% as of 21 September and further eroded to 1.87% as of 26 September.

The index posted a -5.26% return for the period of 31 August to 26 September, which would be the worst monthly return since the inception of the master index in October 1984, according to Merrill data. **www.moodys.com**. **www.merrilllynch.com** ☐*IFR*

BASEL II

Increased price of corporate borrowing

Treasurers should prepare now for changes to banks' capital adequacy rules as they could result in higher pricing and decreased availability of bank debt. Michel Madelain, Group Managing Director, European Corporate Finance, at Moody's Investors Service told delegates at the EuroFinance International Cash and Treasury Management conference in Madrid that regulations scheduled for 2005 could be "one of the main drivers of repricing by banks."

"There are a lot of misunderstandings about the implications of Basel II. More than anything, treasurers must understand the true implications on the types of facilities and funding structures they are using," Madelain told bfinance.

CATCHING UP WITH EXISTING PRACTICE? Madelain said that treasurers should understand the differences between the two risk assessment methods allowed under the new regime. Under the new regime, a 100% risk weighting means that an exposure is risk weighted at its full value, thus translating into a capital charge equal to 8% of value. A risk weighting of 20% results in a capital charge of 1.6% (ie one fifth of 8%). The difference between the two approaches was underlined by Madelain: "Risk weightings under the standard approach vary between 20% and 100%; under the IRB approach the range is 14-625%."

The changes in risk weightings have led may to predict that corporates, particularly low or non-rated firms, will be forced to pay much higher rates for bank loans than under the current regime. But Madelain said the impact on bank's pricing and lending policies may be less than dramatic. "The new accord only reflects changes already made by the larger banks; the regulatory framework is really just catching up." He added: "We are likely to see accentuation and consolidation of practice rather than fundamental change."

Risk-based pricing and the offloading of high-risk business via credit derivatives and secondary loan trading is already common amongst the larger banks. In September, the Committee acknowledged concerns over whether credit risk mitigation techniques (ie use of collateral, guarantees, and credit derivatives) were "truly" effective in reducing or transferring credit risk. It said that any residual risk following use of these techniques would be treated under the new accord's supervisory review process rather than via minimum capital requirements.

Madelain nevertheless said that the new capital adequacy accord would extend these principles to second tier banks, "where relationship banking is still dominant". In its June statement, the Committee recognised the need to "deliver an appropriate treatment of credit exposures related to small and medium sized enterprises." It is expected that revised proposals will include lower capital requirements for SME lending than in the original draft.

Madelain also said that the new regulations could reduce the availability and pricing of short-term facilities and overdrafts as they would be subject to a capital charge for the first time. Short-term lending is often used as back-up support for commercial paper programmes.

UNDERLYING SHIFTS IN MARKET PRACTICE. Despite predicting a muted impact by Basel II, Madelain nevertheless said the Accord reflected an underlying shift in corporate lending: "More and more banks have been turning away from lending to larger corporates as returns are not in line with the risk involved." He predicted that the non-bank lenders that do not have to comply with banking regulations could soon step in and take advantage of lower regulatory costs.

Madelain denied that the new regime was "a second Christmas for ratings agencies", insisting that increased use of the debt capital markets by European corporates continued to be the major driver of growth for public ratings.

As well as introducing a more 'sensitive' framework for the assessment of credit risk, the new accord also includes proposals for assessment of operational risk in banks. On Friday, the Committee said widespread industry consultation had led to "significant changes to the January proposals" for minimum capital requirement for operational risk. These changes included a refined definition of operational risk and a proposed reduction in the overall level of the operational risk capital charge. Although it was widely expected that the committee would reduce the operational risk charge below 20%, no new figure was released.

The Committee is planning to release working papers on disclosure, asset securitisation and specialised lending (eg project finance) in the next few months. A new consultative draft of Basel II proposals is due in January 2002. **www.moodys.com** □*bfinance*

Percentages...

Pensions – FRS17. A PricewaterhouseCoopers (PwC) survey of 40 FTSE 250 firms has revealed that over half are unprepared for the advent of FRS17, thus risking volatile profit figures and adverse reactions in the capital markets. And just 9% of respondents had quantified the financial effects of the new standard on accounting for pension costs. PwC says the remaining 91% are not fully aware of the effects of the new standard on their earnings per share (EPS) or debt covenants, which may need to be renegotiated.

None of the firms surveyed were planning to adopt FRS17 in its entirety before the 2003 deadline, despite early adoption being encouraged by the ASB. **www.pricewaterhousecoopers.co.uk** □*bfinance*

For more on FRS17, see the article by Paul Stanworth on page XX.

Euro-unpreparedness. Many companies, even larger ones, are still failing to appreciate the need to prepare their market, their staff and their pensioners for the euro a new survey by the European Accountants' Federation (FEE) suggests. Of the 200 companies who replied, most of them larger companies, 23% have not yet decided on euro prices. More than half of these companies have no plans to announce their new prices in advance, but will merely move to their new prices when they send out their first invoices next year. Only one-third took information from suppliers into account in making their own pricing decisions and only one-third negotiated with suppliers about their proposed euro prices or other changes.

While there is much media attention on euro-induced price rises, there is little evidence in this survey that companies are putting prices up. Two-thirds have merely converted their existing price at the fixed conversion rate and most of the remainder chose new euro prices as close as possible to, ie within 5% either side of, the former price. **www.euro.fee.be**. **www.euro-impact.com** □

PAYMENTS

E-payment solutions

Electronic invoice presentment and payment services (EIPP) are generally driven by a vendor's accounts receivable process. But a new e-payment engine developed by JP Morgan will trigger a payment from a purchase order received via an e-procurement process. "E-procurement needs supplier adoption" says Ian Emery, head of e-commerce, Europe at JP Morgan Treasury Services, "so making it easy for suppliers to submit their invoice with all the details already in place is a useful incentive."

(E-procurement systems are typically used by companies for purchasing maintenance, repair and operations (MRO) supplies such as stationery, software, travel services and the like).

At its simplest, the new service takes a copy of the purchase order into the e-payments engine. The supplier then logs onto the service and enters the purchase order number in order to generate an invoice which is then processed according to the company's correct payment terms and other conditions. (JP Morgan also has an EIPP service).

Another issue for some companies doing business online is the relatively high cost of credit card transactions, says Matthew White, e-solutions industry specialist at Citibank e-business. He identifies a gap in what he calls "the big b to small b" market. "While large corporates are settling trade payments via electronic data interchange (EDI) between their respective ERP systems, there is a limited number of credible online payment solutions for, for example, a large pharmaceutical company selling to many small businesses via the web," he says. In general, he feels, the market is moving rather slowly towards the level of integration needed to make non credit card settlement a part of the process. "At present, companies are concentrating on information and physical goods flow with settlement coming third in priority" he says. **www.citibank.com**. **www.ebx.com**. **www.jpmorgan.com**. ☐*AQ*

ACT Online Forum

- How will online relationships with web-based traders affect the bank-treasurer relationship?
- Views on other aspects of treasury?

.... join the new discussion forum on the ACT's website, open to members and non-members alike, with input from the ACT executive as well. Log on at **www.treasurers.org/forum.**

SOURCES	bfinance	www.bfinance.co.uk	
	IFR	These extracts are from IFR (International Financing Review). For further details, please contact Ann Gordon: T | 020 7369 7521 F | 020 7369 7330 E | ann.gordon@tfeurope.com	
	AQ	Anne Querée is freelance journalist who contributes regularly to *The Treasurer* and monitors IT & e-commerce news.	
	HW	Helen Wilkinson is Technical Director, Association of Corporate Treasurers.	

In brief...

Bank of America has announced broader availability of its Global AdviceTM service to international clients. Global Advice provides detailed payment information to a company's corporate trading partners through a bank-branded website. Global Advice extends the bank's existing payment outsourcing capabilities and provides corporate clients an effective alternative to deliver both payment and detailed payment advice to all of their trading partners electronically, regardless of the trading partner's size or technological sophistication. **www.corp.bankofamerica.com**. ☐

The CLS Bank International (CLS Bank) settlement service, the global financial industry initiative to eliminate the settlement (temporal) risk that arises from foreign exchange transactions, will launch a live service in the first half of 2002. Trials will start in the first quarter of 2002, enabling a fully live service to be available in the following quarter. CLS Bank will provide a new global infrastructure for multi-currency payment clearing and settlement. **www.cls-services.com**. ☐

Direct-Issue Limited has launched an independent, 'no frills' electronic marketplace for trading new equity and bond issues. The London-based company helps organisations to raise money, fund managers to trade securities and banks to find new business throughout Europe and the United Kingdom. Membership is free and entails no obligations. It is open to corporations, financial institutions and state agencies. No special software or hardware is required to access the secure site at **www.direct-issue.com**. ☐

e-MID S.p.A., the European electronic organised market for treasury products, has today announced the introduction of the US dollar to e-MIDER, the multilateral market for Overnight Indexed Swaps (OIS). Both e-MIDER and e-MID, the deposits trading system, can be accessed directly or through Reuters Dealing 3000 foreign exchange interbank trading system. In conjunction with the expansion to US markets, e-MID is launching a new function, named Serial Quotation, which enables users to enter multiple quotes into the market with a single operation and to automatically update interest rates via a dynamic link to their pricing tools in Microsoft Excel. **www.e-mid.it**. ☐

LTP Trade plc has announced the launch of version 2.0 of LTPtrade.net, its trade finance dealing and information platform. www.ltp.com. **www.ltptrade.net**. ☐

Nordea, the largest financial services group in the Nordic region, has joined The IBOS Association, bringing its membership to 16 regional banks. The IBOS Association members offer a seamless platform of crossborder services, supported by a common charter. The aim is to give customers of each member bank access to comprehensive international services. **www.ibosassociation.com. www.nordea.com.** ☐*AQ*

PAS International has launched PAS Tallystick, a product that facilitates the dematerialised processing of business-to-business invoices. It is a symmetrical system for invoice tracking and processing that can be easily integrated with existing ERP and accountancy systems. **www.pasinternational.com**. ☐

Letters & Books

LETTER

Emissions trading

Dear Editor,
Your readers should be aware that the UK Government has launched the UK Emissions Trading Scheme which plays an important role in helping reduce the impact of climate change. Under the scheme, companies volunteer to take an absolute target on their emissions of greenhouse gases. If they are able to beat their target, then their over-achievement can be sold to companies which are not able to meet their targets. In that way, the marginal cost of abatement remains as low as is feasible.

There are three main reasons for firms to participate in the UK Emissions Trading Scheme:

- Financial incentive. The Government is making available up to £215m over five years for firms who voluntarily take on emission reduction targets for greenhouse gases. This equates to c.£30m per year after corporation tax. Any one firm can receive a maximum of 10% of the incentive monies. Additionally, reducing emissions often means improving energy efficiency. This, in turn, can result in lower costs.
- Company strategy. There are gains from 'learning-by-doing'. The Kyoto Protocol envisages global trading in greenhouse gas emissions from 2008. Such trading is likely to become an important risk management tool for firms. This voluntary scheme allows companies with UK operations to develop trading expertise in advance of markets opening up.
- Company reputation. Climate change is a mainstream political issue, and this is a major environmental initiative. Firms that participate and meet their targets will be able to demonstrate that they are part of an innovative and widely publicised scheme to tackle climate change.

Firms interested in participating must record their interest with DEFRA at ets@defra.gsi.gov.uk, telephone 020 7944 5933, as soon as possible and no later than 31 December 2001. ☐
John Craven, ETG Secretariat.

Note: Details of the Scheme are available at: **www.defra.gov.uk/environment/climatechange/trading/index.htm**. The *Guidelines for the Measurement and Reporting of Emissions in the UK Emissions Trading Scheme* are available at the same address.
The UK Emissions Trading Group (ETG) is preparing a CD Rom which further explains the Scheme. Electronic copies can be obtained by contacting John Craven at **ETGSecretariat@bciplc.com**, tel. 020 7245 8035. The presentations are also available at **www.uketg.com** (password protected but a password can be obtained by contacting the ETG).

The editor welcomes letters on any aspect of treasury. Please email **mhenigan@treasurers.co.uk**. Confidentiality is assured.
The views expressed in these lettes are those of the individual and do not necessarily reflect company policy, or the views of *The Treasurer or* the Council of the Association of Corporate Treasurers.

BOOK REVIEW

The Risk Factor

by Terry Carroll & Mark Webb £39.50 ISBN 1-873668-37-6 Published by Take That Ltd. www.takethat.co.uk

At the outset let me get a couple of personal gripes out of my system. This does seem an expensive little book (though with the special offer this is somewhat ameliorated). The style of presentation also tended to get up my nose a bit. It says the book is written for Directors, but will be equally valuable for senior managers. However, I felt as though I was at one of those presentations by a management consultant where the blindingly obvious was being put over with great emphasis and with all the attendant jargon. For example on p.41 we read:
"By reading this book alone, you will:
- become more aware and in control of your corporate destiny;
- make more informed choices;
- be aware of the challenges and possibilities; and
- arrive at optimal risk/reward decisions, leading to sustainable long-term value."

Maybe that is how to aim a message at Directors.

Yet if you get over these initial negative impressions to the main meat, about a third of the way through the book, there are some useful sections. Check lists abound and could assist in directing the mind of management towards areas often overlooked. Treasurers are well accustomed to many of the concepts here and the author, himself at one time a treasurer, brings an extensive appreciation of these ideas to the wider scene. The important message is that the same considerations apply in all aspects of the business and there is a role for a Risk Manager with a remit to raise awareness throughout. Of course, no generalised formula will be adequate to every situation or will be exhaustive for any particular company, but read with an open mind these can help readers to broaden their concepts of where risk could arise and thus possibly reduce the vulnerability of the company to adverse circumstances.

The book was obviously published before 11 September but other examples of catastrophes, man-made and accidental are considered – the Concorde crash, Piper Alpha, Barings and other usual suspects – but also less dramatic examples where lack of control led to losses of money, reputation etc. After such events it is often said "Well obviously…" but the main point in this and other writing on risk planning is to note in advance where the most significant exposures are, to identify the sequence of events which could lead to that most awful of consequences, and to put adequate checks in the way. As the book admits, nothing can give you absolute certainty – uncertainty after all is the name of the game – but in the event of failure you will have the comfort of knowing that you had in advance at least taken the sensible steps to mitigate or avoid it. A small comfort maybe but better than feeling a total prat.
☐*Arthur Burgess*