Welcome to the November Hotline. There are two key issues this month you will probably want to take action on. First, IAS 32-39: small but essential change is needed – ACT and IGTA continue to press but if you can help influence the IASB now is the time. Second, an important initiative from major bond investors on market practices. We also look at a move by a number of UK bodies to influence the EU's draft Transparency Obligations Directive.

As usual the Technical Committee is continuing to work on a number of other issues too and always want to hear of what is concerning you. Contact the Technical Department by email at *technical@treasurers.co.uk*. ■

EU TRANSPARENCY

Immediate disclosure vital

With other organisations such as the Association of British Insurers, British Bankers' Association, and Quoted Companies Alliance, among others, the ACT has endorsed a position paper on *News Dissemination and the EU Transparency Directive.*

The current proposals by Internal Market Commissioner Frits Bolkestein endorse the continental habit of quarterly announcements, rather than the UK tradition of making an immediate announcement.

The position paper endorses his objectives in ensuring investors "are able to invest across borders easily and with confidence…without excessive burdens on issuers", but raises the concern that the proposed directive will not deliver in its current form. By mandating quarterly reports, an opportunity is being missed "to raise the quality of disclosure across all the Member States and to promote a real pan-European market for investment and for company information."

The paper concludes that effective electronic information dissemination will ensure that regulatory information is distributed quickly, simultaneously and widely to all market participants and investors and thereby: protect all investors, particularly private ones, by ensuring 'a level playing field'; reduce the scope for market abuse; encourage cross-border share trading; and, harmonise access across the EU to company information. ■

The full document is available via the ACT's website ***www.treasurers.org****.*

CAPITAL MARKETS

Investor initiative on market standards

A group of major investors has taken a major initiative on bond-market practices, on which the ACT has been asked to comment. The investors note the lack of European-wide regulation or legislation and immaturity of the European credit markets has led to "poor market practices, such as the unavailability of proper documentation for investment decision-making, and a lack of adequate protection in bond indentures". In addition, "bondholders have been left vulnerable to significant capital deterioration in the advent of changes in a firm's capital structure or credit profile".

The investor working group was established to consider ways of promoting "better standards" in the European credit markets. Their views have been summarised in a consultation document *Improving Market Standards in the Sterling and Euro Fixed Income Markets*, released at the beginning of October, and signed by more than 25 major fixed-income investors. It is available, together with a letter from the group to the ACT and the Euro-using Association of Corporate Treasurers (EACT) on the ACT's website at *http://www.treasurers.org/technical/papers/investorinitiative.cfm*.

The document outlines a series of best practice principles aimed at jointly benefiting both bond issuers and investors, as well as other market investors. The investor group believes that the markets would become more efficient and less volatile if a number of key features were adopted. The paper says "none of these impose any meaningful restrictions on a borrower's operating or financial flexibility". Proposals include:

- minimum covenants for corporate issuers;
- issuer call options;
- more rigorous documentation standards;
- improved disclosure;
- more widespread use of ratings;
- a focus on secondary market liquidity; and
- better understanding between issuers and investors.

More than 25 major European investors have signed up to the document, with many other significant investors broadly supporting its principles but unable to sign up within the deadline. The initiative was led by Karl Bergqwist of Gartmore Investment Management, Andrew Winn of Barclays Global Investors and Stephen Wilson-Smith of M&G Investment Management (pictured, left to right).

RESPONSES. The investor working group has asked that the ACT and the EACT (through their member organisations) co-ordinate responses of their members to its proposals. The ACT has set up a Bond Documentation Working Group to consider the proposals. Working Groups usually operate using e-mail correspondence and membership is open to members and to others with a professional interest in the topic. Anyone interested in joining the ACT's working group should contact ACT Technical Director, John Grout. Please send comments on the document as soon as possible by email to the ACT's Technical Department (*technical@treasurers.co.uk*). ■

A full copy of the consultation document and the investor group letter is at ***http://www.treasurers.org/technical/papers/investorinitiative.cfm****.*

RATINGS

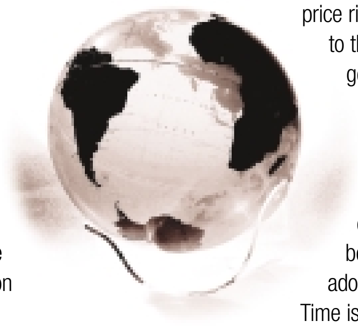
High-level principles

The Technical Committee of the International Organisation of Securities Commissions (IOSCO) has released its *Report on the Activities of Credit Ratings Agencies*. An IOSCO Task Force had been set up to examine certain key issues regarding the role credit ratings agencies (CRA) play in securities markets which regulators, CRAs and others may wish to consider when deliberating policy choices in this area.

Several regulators are starting to move in this area and action will surely follow. Join the ACT's Credit Rating and Rating Agency Working Group – open to members and others with a professional interest (email technical@treasurers.co.uk). *A copy of the Report is available at* www.treasurers.org/ *technical/papers/resources/iosco.pdf.*

IAS 39

Time running out



The International Group of Treasury Associations (IGTA), of which the ACT is a member, while supporting the principles behind IAS 32-39, believes changes must be adopted before it can be implemented. Its position mirrors that of the ACT.

The International Accounting Standard Board's (IASB) detailed rules for implementation of the principles of IAS 39 have serious potential impact on companies and make effective hedging become much more difficult and considerably more expensive to achieve for many companies

Simple changes, wholly consistent with the principles of IAS 39, are available to solve the problem, and would bring IAS 39 more closely into line with US GAAP's FAS 133/138 in these areas.

IGTA supports the IAS 39 principles of marking positions to market as long as these are consistent with sound financial management.

IGTA considers that hedging of financial price risks by companies is important to them and to financial stability generally.

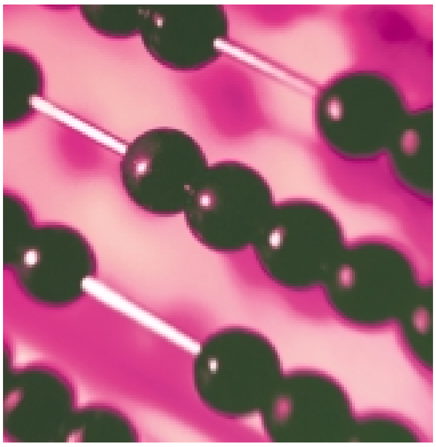
ACT AND IAS 39. The ACT continues to seek to persuade the IASB that small but vital changes need to be made before IAS 39 is suitable for adoption into EU law.

Time is now short on this and all opportunities to influence the IASB should be taken. Please contact John Grout as a matter of urgency if you or your company would like to add to the debate. jgrout@treasurers.co.uk. ■

For further details about IGTA's position, please visit ***www.igta.org****. The ACT's responses and papers are available at* ***www.treasurers.org/technical/papers/index.cfm#derivatives****. You can also search previous Hotline coverage at* ***www.treasurers.org/technical/index.cfm#hotline.***

ACCOUNTING STANDARDS

Preparation is key



Howard Davies, Chairman of the Financial Services Authority, is urging listed companies in the UK to ensure they are prepared for new accounting standards, effective in just 16 months. All listed companies in the European Union that publish consolidated accounts will be required to prepare their accounts in accordance with adopted International Financial Reporting Standards (IFRS) for accounting periods beginning on or after January 1 2005.

"I am very concerned to learn that many issuers are poorly prepared for these changes," Davies told delegates at a Confederation of British Industry (CBI) meeting at the beginning of October. The FSA chief cited a recent ICAEW survey that said a third of respondents were either "not very aware" or "not at all aware" of the publication of the relevant regulation on the how to apply International Accounting Standards (IAS). The survey also found less than half of respondents felt they were aware of the effect IAS would have on their company or financial statements.

"I appreciate that the timetable is made more difficult, given the fact that not all the relevant standards have been agreed and some have not yet been published," said Davies. "Nevertheless, a consequence of not being in a position to adopt IFRS will be that issuers are unable to meet the reporting requirements and deadlines of the listing rules. Failure by issuers to submit preliminary or interim results within the required timescale is likely to result in the suspension of the issuer's securities."

His speech was part of a letter, also signed by FSA Director of Listing, Ken Rushton, sent to all companies with securities on the UK Listing Authority's Official List. It added: "For many companies there is a significant amount of work and resource involved in changing from UK GAAP to IAS. We are rapidly approaching 2004 when issuers are going to need to start getting the information to enable them to produce their opening IFRS balance sheet."

"It is vital that listed companies are ready for the introduction of IAS and have the necessary procedures and processes in place to ensure that they are able to continue to meet reporting requirements."

For a company with a reporting date of 31 December 2005, the date of its transition to IFRS will actually be the start of January next year (2004). **www.fsa.gov.uk** *bfinance*

IN BRIEF

- CheckFree and SunGard have decided to end their joint marketing relationship for reconciliation products. They will share rights to develop existing software – in SunGard's case, intelliMATCH, which provides straight-through exception processing – but begin to separately develop their offerings. **www.checkfree.com**. **www.sungard.com**

- Clear2Pay has acquired MaXware Benelux, an Amsterdam-based payments and reporting solution provider. The group says that combined product offerings provide a full suite of electronic payments services to help large corporations reduce transaction processing costs. **www.clear2pay.com**

- CLS Bank settlement service users can now authenticate static data, and search for data from existing and potential counterparties, through The Settlements Directory – a single, secure source of CLS settlements information. **www.cls-services.com**

- Export credit company Coface UK is launching an online invoice collection service as part of its Flexi Collect product range, to speed-up late payments. Final Demand provides an automated way to reduce days sales outstanding, whether they deal with customers in the UK or overseas. Companies register their debts, debtor details, monies outstanding online and Coface UK sends a Final Demand letter from their group. The group says 70% of debtors pay upon receiving the letter. **www.cofaceuk.com**

PERCENTAGES

CREDIT DERIVATIVES BENEFICIAL

Credit derivatives are positive for the global financial system, according to ratings agency Fitch. In its global credit derivatives survey, Fitch found that they facilitate enhanced risk transfer and dispersion. However, the report also identifies weak disclosure standards, the potential for unanticipated risk concentrations and the role of hedge funds as areas of concern. **www.fitchratings.com**

LATE PAYMENTS

Midsize corporates with persistent cashflow problems stemming from late payments are using invoice financing in increasing numbers, according to the Factors and Discounters Association (FDA). Quarterly figures produced by the FDA revealed that the largest increase of invoice finance usage was among companies with a turnover of more than £10m, with a 13.5% rise. However, there was a decrease of 4% among companies with a turnover of under £1m. **www.factors.org.uk.** *bfinance*

OBSTACLES TO INTEGRATION

Tests conducted by the Financial Services Technology Consortium (FSTC) found that interoperability and immature standards are the key obstacles to the use of web services technology for cash management systems integration. The tests were aimed at validating the use of web services technologies for cash management application and data integration for bank-to-bank and bank-to-customer connections. **www.fstc.org**

CORPORATE PROFITS RISE

The global economy should grow over the next 12 months and corporate profits continue to rise, according to a Merrill Lynch survey of fund managers. The survey of more than 300 fund managers for September reveals a substantial improvement in investor sentiment, concluding that the investment landscape "has returned to that of a classic recovery". Over 80% of fund managers surveyed by Merrill Lynch said they expected corporate profits to rise in the next 12 months, buoyed by better economic conditions. **www.ml.com.** *bfinance*

IN BRIEF

FNX has released a real-time Treasury Blotter for its Sierra product line. The Treasury Blotter offers traders a consolidated view of positions and cash needs for various instruments and should reduce delays in consolidating cross-product exposure for on and off balance sheet instruments. **www.fnx.com**

FXall Settlement Center has added real-time matching and messaging capability for clients planning to use the CLS third-party settlement services. **www.fxall.com**

Katotech has launched ezSwift message testing solution – a tool for generating SWIFT messages into testing environments, which lets users simulate incoming and outgoing SWIFT messages for testing and benchmarking purposes. **www.ezswift.com**

SunGard has released MessageHub, a connectivity service for SWIFT, which gives corporate treasuries and other SunGard clients the chance to utilise SWIFT connectivity and messaging under SunGard's Business Identifier Code (BIC). The group says that SWIFT-eligible clients can also now outsource all of their SWIFT operations to SunGard. **www.sungard.com**

Travelex will offer a Risk Solution service, called FX Healthcheck, to companies that regularly do cross-border trade. Consultants and auditors will help assess foreign exchange risk, identify potential balance sheet exposures and help the group analyse what hedging options would best meet its risk management needs. **www.travelex.com**

XRT Globe$ 4.1 now includes an advanced risk management module that allows clients to graphically display risks with online graphical feedback. The tool calculates risk profiles within the entire portfolio (accounts, deals, cashflows). **www.xrt.com**

Wall Street Systems will launch its new Operations Control Manager as an integrated part of the group's treasury engine. The new module will give management a graphical representation of the processing flow of all transactions, allowing them to monitor, control and process trades through every step of the lifecycle, from front to back office, according to Wall Street Systems. Users will be alerted to any bottlenecks or issues that need human intervention through an operations console. **www.wallstreetsystems.com**

SME FINANCING

Level playing field

It is a tough market for smaller companies looking to fund development, and the result is that small and medium-sized enterprises (SMEs) have cut down on capital investment over the past year. According to the Finance and Leasing Association (FLA), proposed corporation tax reforms will just make it more difficult for SMEs to find funding.

The FLA reports that the amount of new equipment finance that UK asset finance firms have provided to SMEs has fallen by 6.3% in the past year, equivalent to a £1bn fall. Figures from the FLA annual survey of business finance 2003 show a worrying lack of capital investment by SMEs, says the industry group.

"These figures demonstrate the importance of a level playing field for asset finance," said FLA Director General Martin Hall. "In particular we call for an end to the exclusion of leased assets from enhanced fiscal depreciation for SMEs. The government's consultative proposals on corporation tax reform only make the problem worse for many SMEs.

"SMEs remain reluctant to commit to capital expenditure, and if such a trend continues it can only lead to a lack of innovation and productivity in those very businesses that play such a key part in maintaining the UK's economic health." **www.fla.org.uk**

TAX

Interest relief

According to PricewaterhouseCoopers, a win in the European Court of Justice (ECJ) provides further evidence that the tax systems of European Union (EU) member states are discriminatory. The landmark ruling involves Bosal Holding, a Dutch holding company with subsidiaries in a number of EU countries.

The court found that Dutch rules confining tax deductions by Dutch parent companies to interest solely on borrowings to finance investments in subsidiaries that generate Dutch taxable income, are contrary to EU law. Peter Cussons, PwC's International Corporate Tax Partner, says: "EU countries cannot have different interest relief rules for such investments which are less advantageous than for comparable domestic investments." **www.pwcglobal.com** *bfinance*

PERCENTAGES

ONLINE FX SOARS
A recent report from Greenwich Associates showed that a quarter of corporate and financial institutions are trading FX products online, up from 17% in 2001. The report said 22% of corporates trade $770bn a year. Banks and other financial institutions lead volume levels with $2.9trn traded annually. **www.greenwich.com**

ADVANTAGE OF BAD DEBT
A credit management specialist and leader of the profit-centred credit and collection movement, Abe 'Walking Bear' Sanchez, believes bad debt can improve corporate profitability. The Native American, who is recognised as a leading practitioner in credit management, addressed a seminar hosted by European credit group Gerling NCM early in October. His US think-tank provides knowledge and research on how a company can use debt to its cash flow advantage.

"Without risking bad debt, we would miss out on the opportunity of new sales," said Sanchez. "Imagine you have a company with £10m in sales. There is unused capacity, and variable costs are 45%. It is easy to see what the impact would be on the bottom line if you could book another £1m. But what if that means having to accept offers from more risky customers? Well, even if 10% of that £1m extra sales had to be written off, the company would still have a net profit of £450,000. Is this worth it? I think so." **www.gerlingncm.co.uk.** *bfinance*

PENSIONS

Changing tactics

With solvency ratios hovering around 92%, European pension funds are changing tactics to manage their portfolios more effectively, according to Greenwich Associates. Europe's pension funds are increasing equity allocations, stepping up participation in international and alternative investments and rethinking their use of absolute return as a measure or their portfolios after a period of disappointing market returns, according to the research firm's study.

"Given that their equity allocations are roughly 20% of their assets, and that fixed-income rates are at or near historic lows, it is difficult for a lot of plan sponsors to see how they will be able to cover their obligations to beneficiaries – except by obtaining large contributions from employers," observed Greenwich consultant Berndt Perl.

Research by consultancy Watson Wyatt concurs that pension funds in the UK should focus more on achieving positive investment returns than trying to beat the market average. According to the consultancy firm, eight of its 150 pension fund clients in the UK are now using absolute return mandates, where return targets are uncorrelated to peer-to-peer benchmarks and aim at delivering a return in excess of inflation year on year with a capital preservation bias. Pension funds in the UK allocate on average 60-70% of their money to equities; however, accounting standard FRS 17 and a three-year glut in the stock market has forced a general shift to lower risk/average yielding 'AAA' corporate bonds.

But this flight to quality might not be adequate to sustain investment returns in the future, according to the group, adding that if pension funds use more 'absolute return' mandates in running their portfolios, they will spread their risks better than at present. **www.greenwich.com**. **www.watsonwyatt.com**. ■

STRUCTURED FINANCE

European innovation

The innovative European market is turning securitisation on its head, according to Standard & Poor's. In a report, Ian Bell, Senior European Legal Counsel at S&P, describes how transactions have been emerging in Europe without true sales, relying instead on various local law security interests. This was virtually unheard-of a few years ago, but is now making inroads in Europe, and may signal a sea-change for how securitisations are structured outside the US.

"The traditional view in the market is that structured finance transactions cannot be put together without a true sale of the assets that are being securitised," said Bell. He says this comes from the US structured finance market.

"At the heart of securitisation is the removal of the seller's corporate risk so that noteholders can measure their risk solely by reference to the relevant assets. Since only a true sale can achieve that result in the US, it became the hallmark of all securitisations."

In a related report, S&P outlined how the conditions for originating and rating corporate securitisations in Europe are affected by a jurisdiction's treatment of insolvency. The relative rights of secured and unsecured creditors are greatly influenced by the insolvency regimes of individual European countries, together with their respective security and contract law structures; thus the effect of insolvency legislation on the transaction structure and the structure's ability to withstand challenges from the courts before and during any insolvency proceedings are key rating considerations. **www.standardandpoors.com** ■

Increasing transparency

In an attempt to increase transparency and disclosure within the billion-pound structured finance industry, the average spreads for tranches of RMBS transactions in the UK, Italy, Spain and the Netherlands are to be published.

The European Securitisation Forum (ESF), a group representing the industry's interests, says the ESF European Securitisation Indicators will be published every week on Securitisation News. "The purpose of the indicators is to improve secondary market transparency in European securitisation markets and to serve as a benchmark for investors and securitisation market participants," a spokesman for the industry group said. The figures are in basis points and show the bids over London InterBank Offered Rate (Libor).

"The purpose of the indicators is to improve secondary market transparency in European securitisation markets and to serve as a benchmark for investors and securitisation market participants," a spokesman for the industry group said. **www.european securitisation.com**. ■ *bfinance*

FORTHCOMING EVENTS

REGIONAL GROUPS

South West. An Introduction to Basel II for Corporate Treasurers
10 November 2003, 12.15 for 12.30. Finish 14.15.
Speaker: Tolek Petch.
Venue: Slaughter & May, One Burnhill Row, London, EC1Y 8YY.

Midlands. Tax Matters for Treasurers
17 November 2003, 18.30 for 19.00. Venue: PricewaterhouseCoopers, Victoria House, 76 Milton Street, Nottingham NG1 3QY.

Midlands. Title to be confirmed
10 December 2003, 18.30. Venue: Wragge & Co, 55 Colmore Row, Birmingham, B3 2AS.

For more information, contact Anna McGee amcgee@treasurers.co.uk 020 7213 0719. Or visit our website at www.treasurers.org/membership/rgoevents.cfm

SOURCES • bfinance.co.uk **• The News section was compiled by Denise Bedell • Press releases should be addressed to mhenigan@treasurers.co.uk.**