European steel giant to issue hybrid

Austrian steel company Voestalpine has announced that it will bring to market up to €1bn of hybrid capital. The company said the hybrid would maintain financial leeway and allow for further growth. In particular, it will also refinance the takeover of Austrian high-grade steel company Bohler-Uddehom in a deal completed earlier this year which valued Bohler-Uddehom at €3.7bn.

The hybrid bond planned by Voestalpine has an indefinite term and is subordinated, ranking before shares but behind debt. The first call date for the bond is after seven years, whereas most hybrid bonds' call date is 10 years.

Market commentators said the company and the instrument would be unrated, which allows its features to be significantly different from those found in the structures usually designed to gain equity credit from the rating agencies.

The precise terms of the bond are to be determined following a roadshow with international investors.

See Aligning The Stars, page 19

Pension schemes could fall foul of credit crunch

UK defined benefit pension schemes could be among the indirect casualties of the fall-out from the credit crunch sparked by US sub-prime mortgages.

David Poynton: warning

The warning – from David Poynton, Head of Credit Analysis at Lane Clark & Peacock – came after the publication of the Bank of England credit conditions survey for third quarter of 2007, which reported that lending to the corporate sector had been cut back and the availability of credit was expected to fall further.

Fees, commissions and interest margins have risen and lenders expect to impose stricter covenants, seek additional security and reduce credit line limits.

Poynton said: "This means that many sponsoring employers will be faced with increased costs of financing, as well as lenders looking for additional security for their lending. Shareholders are the most obvious losers from these developments but the additional financial strain on employers can also weaken the security of pension benefits.

"For pension fund trustees, the key to deciding an appropriate approach on funding and investment issues is a clear understanding of the situation. The crucial first step is engaging with the employer to obtain the best possible understanding of its financial position and any impact from the tightening of credit markets and what the options are for addressing the situation."

Meanwhile, actuary Hamish Wilson has warned that pension schemes that have not yet submitted their first Pension Protect Fund valuation (up to half of the 8,000 or so affected) must do so by 31 March 2008. A PPF valuation deficit is a key determinant of the risk-based levy. ■

On the move...

- **David Andrews**, MCT, has been appointed Group Treasurer at P&O Ferries and continues as Senior Partner with Chatswood Trading.
- **Paul Bramley**, MCT, formerly Group Finance Director for Climate Change Capital, has been appointed Chief Financial Officer at Lennox Investment Management.
- **Francis Burkitt**, FCT, previously Managing Director at JPMorgan Cazenove, has moved to NM Rothschild & Sons as Managing Director in Rothschild's Debt Advisory Group headed by Paul Duffy.
- **Nicholas Burrough**, AMCT, moves to the Commonwealth Bank of Australia as Head of Debt and Derivative Trading. He was previously Director at Depfa Bank.
- **Paul Grunstein**, AMCT, previously Team Leader for Financial Controlling at Fujitsu Siemens Computers, has joined Eco-Bat Technologies as Assistant Group Treasurer.
- **Nicholas Guest**, FCT, has been appointed Group Finance Director at Scottish Resources Group. He was previously Group Treasurer for Stagecoach Group.
- **Jeremy Kernthaler**, AMCT, has joined SunGard AvantGard as Consultant.
- **Lorcan McHugh**, AMCT, has been appointed Director at Merrill Lynch, London. He was previously Senior Manager at Accenture.
- **Claire Newton**, MCT, has been appointed Chief Finance Officer at Great Ormond Street Hospital. She was formerly the Finance Director at Marie Curie Cancer Care.
- **Tim Pascall**, MCT, has joined BrightHouse as Company Secretary and Treasurer. Previously he worked at the Tetley Group and then with the administrators of Courts.
- **Mick Platt**, AMCT, has been appointed Finance Director at Wallace Partnership Group. He was formerly CFO for Northern Europe at Linedata Services.
- **John Rowan**, MCT, previously Head of Banking ALM at HBOS, has joined Morgan Stanley as Executive Director, Balance Sheet Control, in the Financial Control group.
- **Michael Russell**, MCT, previously Group Planning and Treasury Manager at Christian Salvesen, has joined Lombard Corporate Asset Finance as Business Development Director.
- **Barbara Shortall**, AMCT, previously Resource Accountant for Northern Ireland Court Service, has joined Northern Ireland Water as Treasury Accountant.
- **David Stunell**, MCT, has been appointed Head of Corporate Treasury at Anglo Irish Banking Corporation. Previously he was Director of Treasury and Credit Risk for Portman Building Society.

MEMBERS' DIRECTORY

Members' contact details are updated regularly at **www.treasurers.org**. *Email changes to Holly Ashby:* **hashby@treasurers.org**

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Speculative-grade default rates rising

Moody's Investors Service has reported an increase in the European speculative-grade default rate from 2.2% at the end of the second quarter of 2007 to 2.8% at the end of third quarter of 2007.

The European trend contrasts with the global issuer-weighted global speculative-grade default rate which, despite recent turmoil in the credit markets, finished at 1.3% in the third quarter of 2007, down from 1.4% in the preceding quarter.

Over the 12-month horizon, Moody's default rate forecast model predicts that the European speculative-grade default rate will be 2.6% at the end of Q3 2008, unchanged compared with the levels recorded for Q3 2007.

Although the current global default rate is at its lowest level since March 1995 (when it stood at 1.1%), the forecast model estimates it will rise to 3.5% by the end of Q3 2008, and increase to 3.8% by Q3 2009.

This month's forecasts are lower than those projected a month ago primarily due to declines in actual and forecasted levels of the high-yield bond spread and a small forecast reduction due to re-estimation of a model parameter.

Andrea Zazzarelli, Associate Director of Corporate Default Research in Moody's London-based credit policy team, said: "Global default rates remain extremely resilient in the face of recent market events. This is not a surprise given the time-lag necessary for wider spreads and increased investors' risk aversion to translate into actual defaults."

Notwithstanding Moody's prediction of a moderate pick-up in global defaults, the agency noted that these rates were well below the historical average of approximately 5% over the past 20 years.

International bond issues slump

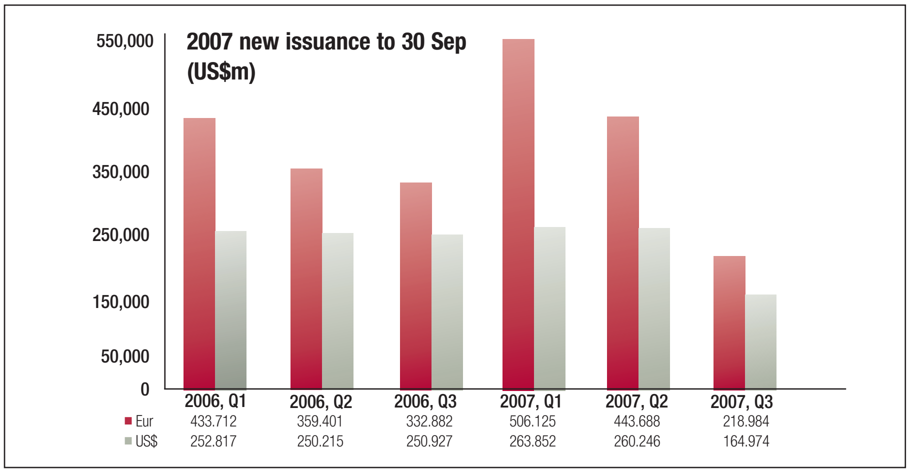
New issuance on the international bond markets fell by over 40% in the third quarter of 2007, compared with the previous year.

According to the International Capital Market Association (ICMA), the total value of new issuance for the third quarter was $503bn – a 43% decrease in the value of new issuance compared with the figure of $878bn for the previous quarter of 2007.

The value of new issuance in Q3 2007 was also significantly down on the same period last year, falling by 28% from $706bn in 2006.

The slowdown in issuance due to market conditions was reflected across most major issuing currencies, with exception of the sterling and Swiss franc sectors, where new issues were actually up on the same quarter last year.

The chart shows the breakdown of new issuance by currency. The figures incorporate all internationally issued debt with a life greater than one year, including asset-backed international issues and government issues. Domestic debt is excluded. ■



ACT teams up with Citi on FX survey

The ACT is delighted to be working with Citi on its annual corporate foreign exchange risk management survey for the first time.

The survey has been running since 2005 and is a key benchmark for hedging activities for corporates around the world.

We would encourage all ACT members to respond to the survey, a copy of which is enclosed with this issue of *The Treasurer*.

Alternatively, you can complete the survey online by going to **www.treasurers.org/goto/fxsurvey** where you can also access last year's results.

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